

2026 Recommendations for Pension Stewardship

Created by the Sierra Club

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Introduction

Pensions have a fiduciary duty to protect their members' hard-earned savings. Unfortunately, far too many are failing in that duty, as they fail to utilize their proxy voting practices to mitigate systemic climate risks.

To protect members' savings, maximize returns, and mitigate climate- and sustainability-related financial risks, the pensions analyzed in this report must update and strengthen their proxy voting guidelines and use those guidelines to direct their voting practices at corporations' annual shareholder meetings in 2026 and beyond.

Recommendation #1: Strengthen proxy voting guidelines to better protect portfolios from sustainability risks

The pensions featured in this report should update their proxy voting guidelines in the following ways in order to adopt stewardship practices that work to mitigate climate risks to their beneficiaries' portfolios:

- Adopt a universal owner and/or systemic risk framework for guiding proxy voting. Guidelines should enable pensions to vote for measures that mitigate both company-specific and systemic risks that threaten the overall performance of the pension's portfolios.
- Align proxy voting principles with internationally recognized frameworks on climate, biodiversity, and human rights, such as the Paris Agreement, the Global Biodiversity Framework, and the UN Declaration on the Rights of Indigenous Peoples.
- Amend guidelines to support resolutions calling for increased disclosure by companies on sustainability, human rights, political activity, and community impacts.
- Ensure guidelines enable pensions to vote for resolutions calling for the adoption of best practices at companies on sustainability issues, including the adoption of policies or strategies that mitigate negative impacts and/or redress harms on matters related to climate, nature, biodiversity, human and Indigenous Peoples' rights, and vulnerable communities.
- Amend guidelines to enable votes against board members and auditors at high-emitting and high-impact¹ companies that have failed to adopt strategies that align with global climate goals, global nature and biodiversity goals, and the principles of a just transition.

¹ High-impact companies are those whose operations, products, or services drive high-emission activities, even if their own direct emissions footprint is relatively small. Key examples of such companies include banks, insurance providers, and other financial institutions, which play a significant role in financing and supporting carbon-intensive industries.

Develop escalatory strategies

- Incorporate escalation into stewardship efforts, including coordinating proxy voting with portfolio management to address a company’s continual misalignment with relevant expectations. For example, shareholders could delineate a time-bound escalation horizon, after which they could phase out holdings (debt and/or equity), suspend investments in new primary market issuances, vote against the entire board, and other actions if the company refuses or is unable to meet the defined expectations (e.g., lacks a credible decarbonization strategy, or is not following one).

To ensure transparency and ongoing engagement on these issues, pensions should:

- Update their guidelines to reflect emerging best practices at least biennially and publicly disclose the updates once they are finalized by the pension boards.
- Publish their proxy votes for the most recent voting season by October 1 of each year and maintain a historical record that is publicly available.
- Amend practices to allow pre-declaration and publishing of rationales for key votes, among other means of amplification.

For more information on these recommendations, please see the model proxy voting guidelines.

Recommendation #2: Engage asset managers and proxy policy advisors to align on sustainability

For asset owners, it is critical that the strategies adopted to protect their long-term interests are echoed by their asset managers. Asset managers and other service providers are well-positioned to conduct complementary engagements at scale and can support risk management efforts through selected proxy voting and investment policies.

Conversely, misaligned manager engagement and voting undermine an asset owner’s own efforts. For asset managers and proxy advisors to serve pension funds and other clients’ best interests, they must also adopt a consistent, transparent, and outcomes-oriented engagement strategy on the issues highlighted in this report. To advance this alignment and protect long-term portfolio value, pensions should do the following:

Engagements with asset managers and service providers

- Urge asset managers and proxy advisors to amend their benchmark proxy voting strategies to include provisions to mitigate systemic risks, like climate change, and to support measures calling for the adoption of policies, targets or strategies that mitigate

negative impacts on climate, nature, biodiversity, human and Indigenous Peoples' rights, and vulnerable communities.

- Where managers or service providers have specialty or thematic policies, advocate for the incorporation of systemic risk mitigation strategies, including prioritizing real-world decarbonization outcomes. Encourage the development of these alternative policies where they do not exist.
- Set clear expectations for progress on these matters through regular updates and through the development of internal processes and training to ensure these new policies are consistently applied.

Contracts with external parties

- Require new and current asset managers to have a public plan for achieving net-zero emissions across entire portfolios, including specified near-term steps to reach science-based targets and regularly report on Scope 3 emissions (i.e., financed emissions).
- Require new and current asset managers to have a clear escalation framework for high-risk and high-impact companies. A thorough assessment should include an analysis of proxy voting and engagement records.
- Seek alternative asset managers or proxy advisors if current ones fail to meet risk management principles or fail to provide a decision-useful analysis of relevant risks.

Recommendation #3: Support public policy and legislative reforms to mitigate sustainability risks that impact portfolios

Pension fund staff and trustees, including public financial officers (such as state treasurers, comptrollers, and auditors), should support public policy reforms at the local, state, and federal levels to improve corporate disclosures of and mitigation of climate-, environment-, and human rights-related financial risks to beneficiaries and taxpayer funds.

Recommendation #4: Join asset owner initiatives working to address sustainability risks

In order to maximize their effectiveness and learn best practices from other pensions and large asset owners, the pensions analyzed in this report should join existing networks and investor initiatives (e.g. Ceres Investor Network, IIGCC, Climate Action 100+, ICCR, Net Zero Asset Owners Alliance, Investors and Indigenous Peoples Working Group) that engage on and share best practices among investors on relevant issues for managing and mitigating sustainability risks to investment portfolios.