Vanguard Investment Stewardship Insights

Votes on selected climate-related shareholder proposals

June 2020

Vanguard publishes Investment Stewardship Insights to promote good corporate governance practices and to provide public companies with our perspectives on important governance topics and key votes. This is part of our growing effort to enhance disclosure of Vanguard's investment stewardship voting and engagement activities. We aim to provide additional clarity on Vanguard's stance on governance matters beyond what a policy document or a single vote can do.

Vanguard works hard to safeguard our clients' assets against a full range of short- and long-term risks. Climate change represents profound, fundamental risk to investors' long-term success. That's why the topic is a stewardship priority for Vanguard.

Below is a discussion of how the Vanguard funds voted on several climate-related shareholder proposals through early June 2020. These votes exemplify our analysis of climate proposals we have seen this proxy season among carbon consumers and carbon producers as well as at financial services firms whose funding activities extend to companies at the center of industry dialogue on climate change.

A word on our approach

Climate change most often comes to a vote through shareholder proposals that seek a company's disclosure or mitigation of climate risks. When evaluating these proposals, we weigh whether a topic is material to the company, whether it addresses a governance decision or encroaches on operational or strategic actions, and whether the company already meets the request. We want to see a direct link between the proposal's enactment and the company's long-term value.

We analyze all shareholder proposals case by case. The Vanguard funds may support a proposal at one company but not a similar proposal at another company with different circumstances. In general, though, at companies where climate matters present material risks, Vanguard expects boards to appreciate, manage, and disclose those risks. The funds are likely to support shareholder proposals that seek reasonable and effective disclosure of greenhouse gas (GHG) emissions or other climate-related metrics. The funds may also support proposals that ask companies to pursue climate risk mitigation targets, such as those aligned to the goals of the Paris Agreement. The funds are unlikely to support proposals that require companies to make specific operational changes, such as phasing out a business or product; we generally view such proposals as overly prescriptive. We also consider market regulations, such as whether a shareholder proposal is binding or advisory. Binding proposals must meet a higher threshold to gain the support of the Vanguard funds.

The climate conversation continues to expand to other areas of the proxy ballot, such as shareholder proposals involving executive compensation, political lobbying, creation of an independent chair, and election of specific directors. Although these topics can potentially affect climate change risk mitigation, this commentary focuses specifically on shareholder proposals related to climate risk disclosures.

Carbon consumers

UPS, J.B. Hunt, and Union Pacific

Proposals: These individual shareholder proposals, while differing in some specifics, asked each board to issue a report describing whether and how the company plans to reduce its contributions to climate change and align its operations to the Paris Agreement goal of limiting the global temperature increase to well below 2 degrees Celsius.

How the funds voted: Supported shareholder proposals at UPS and J.B. Hunt

Vanguard expects boards to produce disclosures that enable meaningful analysis, productive dialogue, and accurate security pricing. We ultimately felt that more disclosure was needed at both UPS and J.B. Hunt, though the two companies are at different places in their climate risk disclosure journeys. Both identify climate change as a material risk, but their current reporting falls short of our expectations for companies in the transportation sector.

Through our research and engagements, we appreciated that UPS had published sustainability disclosures for quite some time. It already measures key performance indicators across the business, including on several environmental issues, and the company sets selected GHG targets. But its current disclosure fails to address how the company will reduce airline fuel emissions, the largest portion of UPS's carbon footprint. Notably, current disclosure does not comment on company progress toward the goals in the Paris Agreement. The company recently hired a successor to its chief sustainability officer; we look forward to further engagement as UPS's sustainability efforts continue to evolve under this new leadership.

We view J.B. Hunt's existing climate disclosure as limited but improving. It, too, does not reference the Paris Agreement goals nor set multiyear targets to reduce emissions.

J.B. Hunt recognizes the importance of the business case for sustainability, acknowledging that operating as efficiently as possible is in its economic best interest. In both our engagement and the board's rebuttal to the shareholder proposal, company leaders said adopting the proposal would duplicate efforts now under way. We disagreed.

In our engagements with the leadership of both UPS and J.B. Hunt, we explained that enacting these proposals would improve disclosure of key risks to shareholders and make more visible how each board oversees sustainability issues as an element of corporate strategy.

How the funds voted: Opposed shareholder proposal at Union Pacific

We voted against a similar proposal at Union Pacific because the company's disclosure already met our expectations. Union Pacific has a long history of supporting corporate sustainability initiatives and provides useful environmental disclosure to the market. It has published a sustainability report for more than a decade, and its current reporting provides details on board oversight of material risks and Scope 1, 2, and 3 emissions.[1] Recently, Union Pacific publicly committed to setting science-based GHG emissions targets in line with the Paris Agreement; that will soon meet the shareholder proposal's key request. This commitment, along with the company's sustainability efforts and several years of positive engagements with our Investment Stewardship team, gave us confidence that the board thoughtfully considers climate-related risks and is making appropriate progress.

Dollar Tree, Inc.

Proposal: Dollar Tree's board was asked to issue a report describing how it aligns its long-term business strategy with the risks posed by climate change and to disclose its long-term goals for managing GHG emissions.

How the funds voted: Supported shareholder proposal

Our discussions on climate extend beyond obvious sectors such as energy and transportation. When we engage with boards in consumer-related industries, we expect them to disclose details of their oversight of GHG emissions derived from their operation of stores and their product distribution and delivery.

We viewed the proposal as a reasonable request for more disclosure, allowing the company flexibility in reporting on its management of GHG emissions. In our engagement, Dollar Tree's board emphasized that it takes its oversight of environmental risks seriously and considers energy management a material financial risk, and it noted its progress in this area. We are pleased that Dollar Tree has been taking meaningful steps on its sustainability report and has publicly committed to producing a report that will disclose its GHG emissions and long-term goals by next year's annual general meeting. This enhanced reporting would be in line with what the shareholder proposal requested.

Given our encouragement of increased sustainability disclosure and Dollar Tree's commitment to producing a GHG emissions management report, the funds voted for the shareholder proposal. Our vote reiterated the funds' view that these actions demonstrate valuable progress in aligning strong risk oversight and disclosure with long-term shareholder value.

1 Scope 1 emissions are direct emissions from owned or controlled sources. Scope 2 emissions are indirect emissions from the use of energy sources such as electricity. Scope 3 emissions are indirect emissions that occur in a company's value chain.

Carbon producers

Ovintiv

Proposal: Ovintiv's board was asked to disclose targets that address medium- and long-term climate-related risks and opportunities that are aligned with the Paris Agreement and to report annually on its progress on meeting those targets.

How the funds voted: Supported shareholder proposal

Carbon producers have largely been at the forefront of the climate discussion. In our dialogues with the boards of these companies, we expect to learn about their oversight processes for managing and mitigating climate risks. We also expect them to pursue climate risk mitigation targets such as those in the Paris Agreement and to report on their short- and long-term progress toward meeting those goals.

Ovintiv has been making progress toward effective climate-related disclosure, but it did not yet meet the specific request outlined in the shareholder proposal. We voted for the proposal to underscore that we expect meaningful progress on disclosure over time and expect the company to pursue targets aligned to the Paris Agreement goal of limiting the rise in global temperature.

In our engagements with company management, we were encouraged to hear about Ovintiv's progress in recent years on reducing GHG emissions and increasing disclosure in line with recommendations by the Task Force on Climate-related Financial Disclosures (TCFD). Among other sustainability initiatives, Ovintiv conducts an annual assessment to identify and disclose ESG risks, with regular reviews by the board.

During our conversation, we shared how other companies set targets that promote risk management and demonstrate resilience. Although Ovintiv publicly discloses sustainability data, its current disclosure fails to set Paris Agreement-aligned targets. Effective disclosure of targets enables investors to understand how the board oversees and incorporates climate scenarios into long-term company strategy. Although the company generally agreed with the spirit of the shareholder proposal, it believes its current approach is the best path forward. Because we agreed with the proposal's spirit, we voted for it.

Santos Limited and Woodside Petroleum

Proposals: Each board received proposals seeking targets for reduction in Scope 1, 2, and 3 emissions in alignment with the Paris Agreement goals, details on aligning capital spending with those goals, and details on how the company's remuneration policy incentivizes management to meet climate-related targets.

How the funds voted: Opposed shareholder proposals at both companies

These two Australian energy companies are among the region's largest producers and marketers of natural gas.

Although both companies have room for improvement—a point we raised in our engagements—each has made significant progress and commitments on disclosure, primarily regarding Scope 1 and 2 emissions. Santos, for example, has embraced carbon capture technology and aligned its reporting with the TCFD's framework. Both companies have also committed to being carbon neutral by 2050. Disclosure about Scope 3 emissions, which are indirect to a company and focus on its customers' carbon footprint, is more nascent and, we believe, needs more time to mature before being mandated as the proposal outlined.

We viewed as too prescriptive the request to disclose details of the companies' exploration and capital expenditures. Disclosing proprietary details of a company's acquisition or development of reserves could give its competitors an advantage.

Financial services firms

J.P. Morgan

Proposal: J.P. Morgan's board was asked to issue a report outlining how it would reduce its lending-activity-related GHG emissions in alignment with the Paris Agreement.

How the funds voted: Opposed shareholder proposal

This shareholder proposal, and similar ones at other financial services companies, focused on a relatively nascent area of disclosure. For firms like J.P. Morgan to report on the GHG emissions of their portfolio and lending activity, they must be able to determine the emissions for a wide range of industries that may be at varying stages of disclosing such information.

Our analysis showed that J.P. Morgan's current disclosure practices align with peers' reporting and meet some of the requests in the shareholder proposal. For example, the firm discloses goals related to green financing; it has committed to restrict financing for projects in the Arctic and to stop lending to companies that derive a majority of their revenues from coal extraction. (J.P. Morgan has pledged to phase out all credit exposure to coal by 2024.) The firm also has an enhanced due-diligence process for reviewing environmentally sensitive lending.

The financing of emissions is an emerging area of disclosure for boards of financial services firms to pursue. The TCFD assumes a five-year trajectory for broad adoption of climate risk disclosure in this sector. In our engagements with J.P. Morgan, we encouraged its board to continue to increase its climate-related disclosures.

Although we did not support the proposal given J.P. Morgan's existing disclosures and the evolving nature of disclosure frameworks in this sector, we emphasize that financial services firms should not delay their climate reporting. We expect that industry efforts will drive consensus on appropriate reporting for this sector in the near term.

Barclays Plc

Shareholder proposal: The board was asked to report annually on targets to phase out financial activities in the energy and utilities sectors—including lending, project financing, corporate finance, and underwriting—that are not aligned with the Paris Agreement.

Management proposal: In response to the shareholder proposal, Barclays filed a proposal outlining plans to address climate risk mitigation and disclosure.

How the funds voted: Supported management proposal, opposed shareholder proposal

Under the funds' voting policy, shareholder proposals to phase out business lines are typically viewed as too prescriptive. In this case, before we made a decision, we analyzed the shareholder's argument and engaged with company leaders to determine which approach best aligned with the interests of long-term investors.

Through several discussions, Barclays' board chair and company leaders explained that the company thought the spirit of the shareholder request—to do more on climate—was reasonable. But they expressed concern about specific language and implementation aspects in the proposal. They also outlined Barclays' engagement with the proponent and how the company planned to proceed.

We were pleased to hear the board chair provide a candid assessment of Barclay's approach to climate change and how the company intended to improve and even in some cases go beyond what peers were doing on this topic. Our discussions made clear that the chair was well-informed and committed to meaningful progress on both addressing climate-related issues and providing disclosure on how Barclays is meeting targets that align with the Paris Agreement. To that end, the company had decided to put forth its own climate-related proposal, which set ambitious goals to become net zero on all GHG emissions by 2050 in alignment with the Paris Agreement, to disclose targets and strategy, and to report annually on progress.

Although both the shareholder and management proposals focused on a similar topic, they required different approaches to implementation. It was important to consider those different approaches, as each proposal was binding if it drew enough support. In our view, the management proposal, while ambitious, presented a workable transition over a sensible time frame and the opportunity for enhanced disclosure. We determined that management's approach was in the best interest of long-term shareholders.

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