

Vanguard Investment Stewardship Insights

How we evaluate Say on Climate proposals



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Vanguard publishes Investment Stewardship Insights to promote good corporate governance practices and to provide investors and 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.



"Say on Climate" proposals encourage companies to disclose climate-related risks, targets, and transition plans in line with the reporting framework created by the Task Force on Climate-related Financial

Disclosures (TCFD), a framework that Vanguard supports. By enabling shareholders to vote on these disclosures, companies gather important feedback on how their climate strategies relate to the goals of the Paris Agreement and meet shareholder expectations. While robust disclosure alone is not a guarantee of a credible transition plan, it is a key component that will enable investors to make informed decisions.

In recent months, we have seen an increase in the number of Say on Climate proposals presented to shareholders at company annual meetings. The specific form of these Say on Climate proposals varies by region and in specific details, but generally includes three requests:

- Annual disclosure of greenhouse gas emissions and progress on goals
- Disclosure of the company's strategic plan for reducing future emissions and managing climate-related risks, and
- The right for shareholders to cast recurring votes on the company's climate plan or report

Some companies have put forth Say on Climate votes as management proposals, while others have publicly opposed shareholder proposals on the topic. And in some cases, a company has come to an agreement with an activist group on future plans, which has led the group to withdraw the proposal.

Vanguard's approach to Say on Climate proposals

We believe shareholders should have a voice on material governance matters that have the potential to affect long-term shareholder value, and have the right to propose resolutions that

may challenge a company's approach when meaningful gaps in risk oversight or mitigation are identified. As with all shareholder proposals, we evaluate Say on Climate proposals on a company-by-company, case-by-case basis.

In our view, boards are responsible for representing the interests of shareholders by ensuring they are familiar with material climate change-related risks, fostering debate and challenging management assumptions, and shaping informed decisions about company strategy and risk oversight. As with "Say on Pay" shareholder votes, we generally view advisory proposals as one of several mechanisms for shareholders to provide feedback through their voice and vote, and to ensure accountability of company boards and management.

Though advisory votes can help companies gain insight into investors' perspectives on a topic, they should not be used to delegate strategic oversight responsibilities to shareholders, nor should they be used in place of meaningful disclosures to and communications with shareholders. Advisory votes on material climate topics, along with robust engagement, can be important tools that benefit both companies and shareholders. We expect boards to provide clear disclosure of the rationale for Say on Climate votes and the implications these votes may have on their corporate governance duties.

We do not consider a vote for a Say on Climate proposal to be a full endorsement of management strategy—or a vote against a proposal to show a lack of confidence in it. Rather, we view a vote as a signal of the direction of our thinking. The Vanguard funds are generally likely to support management Say on Climate proposals where the company has identified climate change risk as material to its business and is seeking shareholder input on its climate plan. The funds may also support shareholder proposals that request disclosure of material climate-related risks and opportunities that aids decision-making, or that addresses a gap in the company's current practices.

How we analyze these proposals

Climate change represents a profound, fundamental risk to investors' long-term success and has the potential to materially affect companies across many sectors. Our approach to evaluating climate-related proposals is grounded in our fiduciary duty to safeguard and grow our clients' assets. Vanguard expects boards to effectively oversee material climate-related risks, and to disclose those risks using widely recognized investor-oriented reporting frameworks. We support the framework created by TCFD for disclosing strategy, risk management, governance, metrics, and targets. Where climate change is a material risk for companies, we expect boards to disclose those risks along with the company's climate strategy and progress on goals. And we look for companies to make progress in response to shareholder feedback.

We evaluate Say on Climate proposals through a lens of materiality and consider a wide range of criteria in our analysis, including the reasonableness of the request, whether the proposal addresses a gap in disclosure, and its alignment with industry standards. In addition, we consider regional differences, such as the binding nature of shareholder votes in the U.K. or amendments to a company's constitution related to shareholder proposals in Australia.