Vanguard Investment Stewardship Insights

Voting Insights: Lobbying aligned to the Paris Agreement at Sempra Energy

May 2021

Vanguard publishes Investment Stewardship Insights to promote good governance practices and to provide investors and public companies with our perspectives on important governance topics and issues that come up for shareholder votes.

Company: Sempra Energy

Meeting date: May 14, 2021

Proposal: Proposal 5 – Report on Alignment of Lobbying Activities with the Paris Agreement

How the funds voted

At the annual meeting for Sempra Energy (Sempra), a U.S.-based utility, the Vanguard funds voted against a shareholder proposal requesting that the company issue a report describing how its lobbying activities align with the goals of the Paris Agreement, and how the company plans to mitigate risks that any misalignment presents.

Vanguard's principles and policies

Vanguard expects portfolio companies and their boards to be climate-competent, to implement appropriate risk oversight and mitigation practices, and to effectively disclose to the market how their boards oversee climate-related risk management.

Vanguard also believes that poor governance of lobbying activities, coupled with misalignment of activities with a company's stated climate strategy, could turn into financial, legal, and reputational risks that could affect long-term value for Vanguard funds. Therefore, we evaluate climate risk-related proposals, or those seeking to align lobbying activities with company-wide climate strategy, on a case-by-case basis.

Analysis and voting rationale

Vanguard has regularly engaged with members of Sempra's board and leadership team over the last four years, discussing climate change risk as well as general governance topics.

Through our engagements and through analysis of its publicly disclosed materials, we recognize that Sempra has historically practiced and disclosed strong risk mitigation practices about climate change risk. We recently engaged with Sempra leadership multiple times before the annual meeting.

We note that Sempra already has thorough disclosures about lobbying. It articulates the appropriate policies and procedures and communicates how its industry group memberships and expenditures align with both regulatory expectations and industry peers. We had some initial concerns about Southern California Gas (SoCalGas), a subsidiary of Sempra, as it faced legal issues throughout last year with the state of California on natural gas policies. During our engagement with Sempra, it shared several pieces of relevant information with us regarding this subsidiary:

- Misalignment between company strategy and the lobbying activities of SoCalGas in California took place between three and five years ago, and the climate risk advocacy landscape has dramatically changed since that time.
- The leadership team of SoCalGas has since turned over; the subsidiary understands the need to earn back the trust of the market, and the new team has relevant skills and experiences.
- The subsidiary has set a net zero goal by 2045, which includes Scope 1, 2, and 3 emissions.

The company proactively identified the concerns about the subsidiary's lobbying activities in our engagement, and we were encouraged by the news that the new team and climate strategy were headed in a positive direction.

In addition to the discussion about SoCalGas, we engaged with Sempra on climate-related lobbying disclosures. Sempra reported that it continued to seek out ways to drive real change within the industry, both through its own actions and through trade associations to which it belongs.

Sempra shared a near-term plan to seek a standard disclosure template from trade associations to better articulate its climate positions and related lobbying activities. This is a different approach from the one its peers use when communicating the views of various trade associations in climate-related lobbying reports. However, Sempra believes that its position as a vocal participant in trade associations could help the industry move forward on standardizing such reporting. In our assessment, this path forward could help investors understand how individual companies evaluate the alignment of their own climate positions with the specific lobbying activities undertaken by the trade associations.

We encouraged Sempra to share its plan more broadly in advance of its annual meeting, because we viewed it as a productive step forward for climate lobbying across the utilities sector. Prior to its meeting, Sempra shared a summary of its vision and an implementation timeline for its external work with trade associations on standardizing disclosure, as well as its internal work to continue to improve its own climate lobbying disclosures.

We are encouraged by the progress Sempra has made in this area and look forward to seeing continued progress over the next year. Because of our assessment of Sempra's current disclosures and approach to climate lobbying, the funds did not support the shareholder proposal on Paris Agreement-aligned lobbying.