

Vanguard Investment Stewardship Insights

Voting insights: Disclosures on lobbying, climate, and diversity and inclusion at UPS



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: United Parcel Service (UPS)

Meeting date: May 13, 2021

Shareholder proposals: Item 5—Report on Lobbying Activities; Item 6—One Vote per Share; Item 7—Report on Climate Change; Item 8—Transition to Public Benefit Corporation; Item 9—Report on Diversity and Inclusion



How the funds voted

At the annual meeting for UPS, a U.S.-based global shipping and logistics company, the Vanguard funds voted in favor of three shareholder proposals related to environmental and social risks. One of the proposals requested an annual report on the company's lobbying-related oversight, policies, and expenditures. The second proposal requested a report on the company's plan to reduce its total contribution to climate change and align its operations with Paris Agreement goals. The third proposal requested an annual report assessing UPS's diversity and inclusion efforts.

The funds also voted in favor of a shareholder proposal requesting one vote per share, and voted against a shareholder proposal to transition UPS to a public benefit corporation.

Vanguard's principles and policies

Boards are responsible for overseeing a company's long-term strategy and material risks. To do so effectively, a board of directors must understand the company's strategy and play a meaningful role in identifying, mitigating, and disclosing material risks. Clear, decision-useful disclosure of material risks can encourage sound governance practices and help investors and companies make better decisions.

On behalf of the Vanguard funds, our Investment Stewardship team evaluates the materiality and oversight of these risks case by case. If there are gaps in the company's current disclosures or apparent disconnects between those disclosures and long-term strategy, the funds may support shareholder proposals that seek enhanced reporting of the company's approach to oversight and strategy alignment.

Analysis and voting rationale

At its 2021 annual meeting, UPS received several shareholder proposals calling for enhanced disclosure of social and environmental risks. Vanguard engaged with company leaders ahead of the meeting to discuss UPS's approach to risk oversight, strategy alignment, and disclosure of potential risks associated with corporate political activity, climate change, and diversity and inclusion efforts. Through our research and engagement with the company, we assessed that these areas presented material risks to the business and that additional reporting would benefit investors. The Vanguard funds voted in favor of these three shareholder proposals:

- **Report on Lobbying Activities.** Our review of UPS's corporate political activity reporting found gaps in disclosure of the board's oversight policies and processes to ensure long-term strategy alignment. UPS's disclosures lag those of industry peers that provide easily accessible, consolidated reports of their lobbying activity and trade association memberships. Given that UPS is one of the world's largest shipping and logistics companies, a lack of disclosure of its policies, expenditures, and memberships may pose material legal or reputational risks that could affect long-term shareholder value.

- **Report on Climate Change.** Climate change is a material risk for UPS as a global logistics company reliant on multiple modes of transportation. Our review of its climate-related reporting found a gap in disclosure of its overarching climate strategy. UPS's current disclosures do not provide insight into its holistic approach to mitigating climate risks across all of its emissions-heavy business lines, including aviation. Its disclosures lag those of industry peers by not providing insight into the alignment between its climate-related goals and Paris Agreement goals.

We were encouraged by the company's disclosure of its emission reduction targets for global ground operations and its reporting aligned with the Sustainability Accounting Standards Board framework. We believe that UPS can improve its disclosures by reporting alignment of its climate strategy—including all of its emissions-heavy business lines within that strategy—with Paris Agreement goals.

- **Report on Diversity and Inclusion.** Diversity, equity, and inclusion are critical to UPS's success as a global company. We believe that this shareholder proposal provides an opportunity for UPS to improve its disclosure of board oversight and assessment of its diversity, equity, and inclusion strategy. We are encouraged to see UPS's strong commitment to diversity on its board and executive leadership team, as well as its recent commitment to incorporate the U.S. Equal Employment Opportunity Commission's EEO-1 workforce composition data in upcoming reports. Investors would benefit from more reporting on the company's enterprise-wide diversity and inclusion strategy, including qualitative board assessments and quantitative performance metrics.

UPS received two other shareholder proposals related to shareholder rights and company structure:

- **One Vote per Share.** Alignment of voting rights proportional to economic interests is a foundation of good governance. We believe the proposal's request that UPS ensure that all company shares equally have one vote per share would advance shareholders' ability to hold the board accountable. The funds have voted in favor of this shareholder proposal for several years and did so again at this annual meeting.

- **Transition to Public Benefit Corporation.** A company's board is best positioned to determine the company's structure and strategy to deliver the strongest long-term shareholder returns. The funds voted against this shareholder proposal.

What we expect from companies on this matter

Boards are responsible for effective oversight of a company's long-term strategy and material risks to the business.

Vanguard expects boards to represent the interests of all shareholders and make independent decisions on the company's leadership, structure, and strategy. We believe companies should have governance structures that enable shareholders to hold boards accountable and ensure that they make decisions in the best long-term interests of shareholders.

Vanguard has called on companies and their boards to improve disclosure related to oversight and management of a company's material risks, including corporate political activity and climate- and diversity-related risks. Market norms, regulations, and investor expectations are evolving toward greater levels of disclosure in the governance industry, and you can expect Vanguard—through our engagements, proxy voting, and public advocacy—to continue to seek relevant, decision-useful information related to material risks.