

Vanguard Investment Stewardship Insights

Voting Insights: Independent chair proposal and political contributions at Duke



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: Duke Energy Corporation (Duke)

Meeting date: May 6, 2021

Proposals: Item 5 – Require Independent Board Chair;
Item 6 – Report on Political Contributions and Expenditures



How the funds voted

At the annual meeting for Duke, a U.S.-based utility company, the Vanguard funds voted against two shareholder proposals. The first proposal requested that the board adopt a policy that its chair be an independent director. The second proposal requested that the board publish semiannually a report disclosing the company's policies and procedures for political contributions in addition to the amount of these expenditures made on behalf of candidates, parties, committees, and organizations.

Vanguard's principles and policies

A company's board should be independent, diverse, and capable of overseeing strategy and material risks.

Strong, independent leadership is a responsibility of the company's board of directors. The Vanguard funds will consider supporting proposals seeking an independent chairperson if we believe there has been a material failure in risk oversight and if that role will enhance a company's board leadership and benefit shareholders.

A company's corporate political activity is one of the many potential material risks that an independent board must oversee. Vanguard believes that poor governance of political expenditures, coupled with misalignment of the political activity with a

company's stated strategy or lack of transparency about the activity, could turn into financial, legal, and reputational risks that can affect long-term value for Vanguard funds.

Analysis and voting rationale

Vanguard has held constructive engagements with members of Duke's board over many years, including multiple discussions in each of the last two years that covered a range of climate change matters and oversight of political activity.

Our most recent engagement also focused on changes at the leadership and board level, including the departure of two directors in the past year. We acknowledged that some change has been brought on by planned retirements and directors' renewed focus on other professional commitments. We further recognized the board's focus on integrating industry expertise into its refreshment process.

We revisited the topic of the company's anticipated lead independent director transition, an expectation driven by the incumbent's age and tenure relative to company policy and informed further by engagement with the company last year. After additional engagement with the company, we understood the business case for the incumbent to remain in the role, and for the company's continued near-term plans for the board leadership transition.

We otherwise observed good governance policies and disclosures on the board's structure and the robustness of the lead independent director role at Duke. The Vanguard funds therefore did not support the proposal for an independent chair. We encouraged Duke to make progress on its board leadership succession planning and we will monitor anticipated developments in advance of the 2022 shareholder meeting.

Duke also received a proposal on political expenditures. We have seen Duke enhance disclosures on corporate political and lobbying activities over time. Duke's latest report on how its trade association memberships link to the company's positioning on climate risk is an example of an important step forward and is one we hope to see others in the industry pursue. We believe that, despite Duke's increased disclosure on this topic, there is room for additional information that would be helpful to investors. We encouraged Duke to consider additional disclosures, including:

- Lower thresholds for trade association disclosure linked to climate strategy in its latest report
- Increased transparency on how Duke mitigates the risk of misalignment between its political contributions strategy and the issues that the trade associations it supports are advocating for with government officials
- A more direct link between the company's stated climate position and its political expenditures

We will continue to monitor Duke's progress on corporate political activity disclosures and will encourage additional progress through direct engagement with the team throughout the year.

Given our analysis that Duke has improved disclosures in recent years in response to shareholder feedback and is appropriately addressing near-term gaps, the Vanguard funds did not support the political contributions proposal.

What we expect from companies on this matter

On behalf of Vanguard funds, we expect boards to represent the interests of all shareholders and to make independent decisions about a company's leadership, strategy, and risks to long-term value.

We also expect boards to oversee corporate political activity across their enterprise and to communicate the firm's philosophy and policies to investors. We look for companies to disclose the oversight policies and structures in place to ensure the political activity's alignment with the company's philosophy and long-term strategy.