

Vanguard Investment Stewardship Insights

Voting Insights: Independent chair proposal and lobbying disclosure at Dominion Energy



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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: Dominion Energy Inc. (Dominion)

Meeting date: May 5, 2021

Proposals: Item 4—Report on Lobbying Payments and Policy; Item 5—Require Independent Board Chair



How the funds voted

At the annual meeting for Dominion Energy, a U.S.-based utility company, the Vanguard funds voted against two shareholder proposals. The first proposal requested that the board annually publish a report outlining its oversight of political lobbying activities and the company's lobbying expenditures. The second proposal requested that the board adopt a policy that an independent director serve as board chair.

Vanguard's principles and policies

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

A company's political lobbying activity is one of the many potential material risks that an independent board must oversee. Vanguard believes that poor governance of lobbying activity, coupled with misalignment to a company's stated strategy or a lack of transparency about the activity, could manifest into financial, legal, and reputational risks that can affect long-term value for Vanguard funds.

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

Analysis and voting rationale

Vanguard has held meaningful engagements with members of Dominion's board over many years, including several discussions this past year that covered oversight of climate-related strategy and risks. In our latest engagement, board members provided details on several recent enhancements to the governance process, namely:

- Separation of the nomination and governance committee from the compensation and talent management committee
- Transition of the audit chair responsibilities away from the lead independent director so that person can focus on oversight responsibilities
- Succession planning in the wake of the company's recent leadership announcements

We appreciated that the board was receptive to shareholder feedback in implementing these changes. In particular, we were encouraged by the clarity in board committee and role structures, the additional attention paid to succession planning, and the strengthened role of the lead independent director. In light of the company's recent changes, the Vanguard funds did not support the shareholder proposal seeking an independent chair, as we do not believe it is warranted at this time.

Dominion also received a proposal seeking more comprehensive disclosure of its lobbying activities, both direct (hiring lobbyists to influence legislation) and indirect (informing public opinion by supporting third-party organizations).

We evaluated Dominion's disclosures relative to its peers and industry standards; our analysis showed that its disclosures were comparable and that, directionally, Dominion continues to make progress in improving its approach. We gave the board feedback that the company could further enhance its disclosures

by more clearly demonstrating how its federal and state lobbying expenditures and trade association memberships align with the company's climate-related positions, strategy, and ambitions.

Before the shareholder meeting, Dominion filed a revised policy document regarding its political contributions and lobbying; the document demonstrated directional consistency with the shareholder proposal's requests and sufficiently addressed Vanguard's feedback. Because of this update, and because of the board's responsiveness to shareholder feedback, the Vanguard funds did not support the shareholder proposal this year. Vanguard will continue to monitor Dominion's progress consistent with industry standards and expectations.

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 company's philosophy and policies to investors. We look for companies to disclose the oversight policies and structures they have in place to ensure the political activity's alignment with the company's philosophy and long-term strategy.