Vanguard Investment Stewardship Insights

Why climate change matters to long-term investors

June 2020

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

The earth's climate is changing in unprecedented ways, with far-reaching implications for individuals, society, companies, and the global economy. As a steward of lifetime savings for more than 30 million people around the world, and as a practically permanent investor in more than 10,000 companies, Vanguard cares deeply about the long-term impact of climate risk. In the coming decades, most companies will affect or be affected by the changing climate.

As a fiduciary, Vanguard views climate change as a material risk to long-term investors. Most Vanguard investors are saving for long-term goals such as retirement, which can take decades to achieve. In addition, Vanguard funds are built for the long term. When a Vanguard index fund invests in a public company, it could theoretically hold that stock forever—or as long as the company is listed in the underlying benchmark. With this indefinite horizon, our funds must focus on how companies are setting themselves up to stay relevant today, tomorrow, and well into the future.

The role of investment stewardship

While Vanguard does not tell companies how to run their businesses, it's our role and responsibility to ensure that companies are properly governed by their elected boards of directors. Good corporate governance can create and preserve value over the long term. On behalf of Vanguard funds, our Investment Stewardship team votes proxies and meets (or "engages") with company boards to advocate for good governance practices and strong risk oversight. Over the years, the market's expectations on climate risk have evolved, and Vanguard's have too. Vanguard is rarely the loudest voice in public climate debates, but we have been among the most actively engaged. We are motivated to protect the value of our clients' assets.

We meet regularly with many of the largest carbon-emitters. During the 2019 proxy year, we spoke with more than 250 companies in carbon-intensive industries and discussed how their boards oversee climate change risks, including those related to regulation, reputation, technological disruption, litigation, shifts in supply and demand, and physical risks such as rising sea levels and extreme weather events. And even outside of industries such as energy, utilities, transportation, materials, and agriculture, few companies will be entirely insulated from the impacts of climate risk. We continue to press for progress across our portfolio.

We recognize that when Vanguard funds vote on climate matters, it can send an important message to a company and to the rest of the market about what Vanguard believes to be in the best interest of investors. We take this responsibility seriously.

We carefully analyze every climate-related proposal. At companies where climate matters present material risks, the funds are likely to support shareholder proposals that seek reasonable and effective disclosure of greenhouse gas emissions or other climate-related metrics. The funds may also support proposals that ask companies to pursue climate risk mitigation targets, such as those aligned to the goals of the Paris Agreement. The funds are unlikely to support proposals requiring companies to make specific operational changes, such as phasing out a business or product; we generally view such proposals as overly prescriptive.

The role of a corporate board

We advocate that public companies be aware of their role in the changing climate. Whether a carbon producer or a carbon consumer, every company factors into the climate equation. For companies where climate risk is a direct material risk, we have the following expectations on behalf of the Vanguard funds:

Climate-competent boards. Boards need to get smart on climate risk. This means having directors with relevant expertise, participating in ongoing climate education, and maintaining perspectives that are independent of management. We expect active, independent monitoring of climate issues and integration of climate risks into strategic and financial planning.

Effective disclosure. Our interest is in transparency; when the market has relevant information, a company's stock price will more accurately reflect climate-related risk and opportunity. Climate-related disclosures should be aligned to investor-oriented frameworks such as those set forth by the Task Force on Climate-related Financial Disclosures, so that they may be compared over time and across peers.

Risk mitigation. Since 2015, the goals set forth in the Paris Agreement have become a widely accepted standard for countries and companies aiming to address climate change. Where climate change is a material risk, Vanguard encourages companies to set targets that align with these goals and to disclose them clearly.

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