Vanguard

Vanguard Investment Stewardship Voting Insights

Shareholder proposal regarding disclosure of methane emissions at Coterra Energy Inc.

October 2023

Company: Coterra Energy Inc. (Coterra)

Meeting date: May 4, 2023

Proposal: Item 6 (shareholder proposal)—A shareholder proposal regarding a report on reliability of methane emission disclosures

How the funds voted

At the annual meeting of Coterra, a U.S.-based oil and gas producer, the Vanguard-advised funds voted in support of a shareholder proposal requesting that the board produce a report analyzing the reliability of its methane emission disclosures.[1]

Vanguard's principles and policies

On behalf of the Vanguard-advised funds, we look for portfolio company boards to effectively oversee material risks and to disclose their approaches to oversight of these risks to shareholders. This allows stock prices to reflect the risks and opportunities associated with the company's strategy. We believe that boards have a responsibility to be aware of material risks and opportunities (including those associated with climate change) as they make informed, long-term decisions on behalf of company shareholders.

We believe that boards that are most effective in safeguarding long-term investment returns from material climate-related risks demonstrate:

Relevant risk competence

Where climate matters are material to a company, we look for boards to be competent in relevant risks so that they can foster healthy debate, challenge management assumptions, and make informed decisions.

Robust oversight and mitigation of material climate risks

We look to understand boards' processes for overseeing and mitigating material risks on behalf of shareholders. Highly engaged and effective boards are well positioned to ensure that material issues, including material climate risks and opportunities, are considered in both short- and long-term planning.

Effective disclosure of material climate risks and attendant oversight practices

We look for companies to disclose to the market how their board oversees material climate risks and related climate strategies in alignment with accepted investor-oriented disclosure frameworks such as the Task Force on Climate-

1 Vanguard's Investment Stewardship program is responsible for proxy voting and engagement on behalf of the quantitative and index equity portfolios advised by Vanguard (together, "Vanguard-advised funds"). Vanguard's externally managed portfolios are managed by unaffiliated third-party investment advisors, and proxy voting and engagement for those portfolios are conducted by their respective advisors. As such, throughout this document, "we" and "the funds" are used to refer to Vanguard's Investment Stewardship program and Vanguard-advised funds, respectively.

related Financial Disclosures and its successor framework.

At companies where climate matters present material risks, the funds may support shareholder proposals that seek reasonable and effective disclosure of Scopes 1 and 2 emissions data and relevant categories of Scope 3 data. The funds may also support proposals that ask companies to pursue and disclose climate risk mitigation targets when material to a company's stated long-term strategy.

Analysis and voting rationale

At the 2023 annual meeting, Coterra received a shareholder proposal requesting that the board analyze the reliability of the company's methane emission disclosures, explain whether there is likely to be a material difference between direct measurement results and the company's reported methane emissions, and assess the degree to which any differences would alter estimates of the company's Scope 1 emissions. We assessed the proposal as reasonable and relevant to a material risk for the company given its operations as an oil and gas producer, the financial materiality of methane emissions to the company, and the company's settlement of criminal charges last year related to water contamination resulting from methane leakages by Coterra's corporate predecessor.

The proposal further requested that the company conduct the direct measurement using a recognized framework and suggested Oil and Gas Methane Partnership (OGMP) as a possible framework. However, the proposal was not prescriptive as to which framework should be used. Coterra disclosed methane emissions as a percentage of natural gas produced using an interpretation of Environmental Protection Agency (EPA) methodology that some critics consider outdated. We also observed that the company provides less disclosure of its emissions than its peers.

During our engagement with Coterra leaders, they acknowledged the importance of disclosure and described issues with the company's testing of direct measurements of methane emissions. Coterra leaders acknowledged gaps in the current EPA methodology and expressed that they perceived value in projects such as OGMP. They explained that their direct-measurement sampling results showed inconsistencies which they perceived to be the result of limitations in the available direct measurement technologies. Coterra leaders described their desire to see consistency in the company's testing results before disclosing an updated emissions inventory and would not commit to a timeline for disclosure.

In our assessment, the proposal granted the board sufficient flexibility to disclose the company's methane impacts through multiple calculation methodologies. The example framework suggested by the proponent provided guidance and flexibility (on both timing and calculation methods).

Risks associated with climate change are material for energy companies, and we observed that climate-related risks had materialized at Coterra as evidenced by its recent legal settlement. A misalignment between company and peer disclosure practices hinders the market's ability to accurately price the risks (and opportunities) associated with the company's strategy. As a result, the Vanguard-advised funds voted in support of the proposal, which passed with majority support.

The funds did not support a separate shareholder proposal asking for a report on whether and how Coterra's lobbying activities and political influence aligned with the goals of the Paris Agreement.[2] We found the proposal to be overly prescriptive and not germane to the company considering that Coterra had not expressed any position on the Paris Agreement. The proposal failed to receive majority support.

What we look for from companies on this matter

We look for boards to have appropriate competencies to oversee material risks, including material climate risks, and to adopt robust risk management and mitigation practices, including thoroughly explaining their approach to setting emissions reduction targets. Where climate change presents a material risk to long-term shareholder value, companies should provide effective, coherent, and comprehensive disclosures to the market on their climate-related strategies. We look for companies to provide quantitative disclosure of their performance metrics and progress against the company's own established strategies and targets; we also look for qualitative disclosures of governance and risk management processes.

On behalf of the Vanguard-advised funds, we analyze and vote all shareholder proposals on a case-by-case basis. When evaluating proposals, we weigh whether a specific risk is material to the company in question, whether the proposal addresses a governance decision or encroaches on operational or strategic actions, and whether the proposal addresses a meaningful gap in the company's practices. We look to see a clear link between the proposal's enactment and the company's long-term value. Given our case-by-case approach, the Vanguard-advised funds may support a proposal at one company but not a similar proposal at another company based on differing facts and circumstances.

2 The Paris Agreement sets a goal of holding the increase in global average temperature to well below 2°C above pre-industrial levels and pursuing efforts to limit the temperature increase to 1.5°C above pre-industrial levels. It does not prescribe a single pathway to reach those goals. Rather, it is a binding international treaty that requires all countries to commit to, communicate, and maintain national-level greenhouse gas budgets to achieve the global temperature goal. The Vanguard-advised funds do not dictate company strategy. As shareholders, the Vanguard-advised funds seek to understand whether and how companies and their boards are planning for resiliency against the backdrop of this stated policymaker goal. We believe that boards are responsible for determining risk mitigation approaches to maximize shareholder value in their companies and planning for an uncertain future. Where there are legally binding or government-designated budgets for different industry sectors associated with the agreement, we believe companies should disclose how their targets and strategies are appropriate in the context of those factors.

Vanguard publishes Investment Stewardship Policy and Voting Insights to promote good corporate governance practices and to provide public companies and investors 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. Insights should be viewed in conjunction with the most recent region- and country-specific voting policies.

The funds for which Vanguard acts as investment advisor (Vanguard-advised funds) retain the authority to vote proxies that the funds receive. To facilitate the funds' proxy voting, the boards of the Vanguard-advised funds have adopted Proxy Voting Procedures and Policies that reflect the fund boards' instructions governing proxy voting. The boards of the funds that are advised by managers not affiliated with Vanguard (external managers) have delegated the authority to vote proxies related to the funds' portfolio securities to their respective investment advisor(s). Each external manager votes such proxies in accordance with its own proxy voting policies and procedures, which are reviewed and approved by the fund board annually.

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