

Vanguard Investment Stewardship Insights

Voting insight: Corporate political activity shareholder proposal at Flowers Foods

July 2022



Company: Flowers Foods, Inc. (Flowers Foods)

Meeting date: May 26, 2022

Proposal: Item 4—Report on political contributions and expenditures

How the funds voted

At the annual meeting for Flowers Foods, the U.S.-based packaged foods company, the Vanguard funds¹ supported a shareholder proposal requesting a report on the company's political contributions and expenditures.

Vanguard's principles and policies

Boards are responsible for oversight of a company's long-term strategy and material risks. To conduct this oversight effectively, a board of directors must understand the company's strategy and play a meaningful role in identifying, mitigating, and disclosing material risks. Investors benefit from clear, decision-useful disclosure of material risks, which may include a company's political spending.

The Investment Stewardship team evaluates the materiality and oversight of these various risks case by case. If there are gaps in the company's current disclosures or disconnects with long-term strategy, the funds may vote in favor of shareholder proposals that seek enhanced reporting of the company's approach to oversight and strategy.

Corporate political activity (CPA) shareholder proposals typically ask boards to publish reports that disclose political contributions, lobbying, or both. Proposals that focus on lobbying can request information on a company's CPA policy, direct lobbying (the hiring of lobbyists to influence legislation), and grassroots or indirect lobbying, which focuses on swaying public opinion through support of third-party organizations. Political-contribution proposals often seek similar disclosure of applicable company policies and can request information on candidates, parties, committees, and tax-exempt organizations that receive contributions from the company.

Although the absolute amount of a company's political spending may not be considered a material capital expenditure, there can be other material risks related to this giving. Poor governance of CPA, coupled with misalignment to a company's stated strategy or a lack of transparency about the activity, can manifest into financial, legal, and reputational risks that can affect long-term value for shareholders. In addition, a disconnect between CPA and corporate values can pose risks related to employee engagement and retention, recruitment of top talent, and consumer preferences.

¹ Vanguard's Investment Stewardship team is responsible for engagement with portfolio companies and proxy voting at the direction of the boards of our internally managed global equity holdings, including Vanguard index funds. Investment stewardship activities, including proxy voting, for Vanguard's externally managed active funds are supported by those funds' external advisors. See the back page for additional context.

Analysis and voting rationale

This is the second straight year Flowers Foods has received a shareholder proposal focused on political contribution disclosure.

In 2021, the Vanguard funds did not support the proposal, which received just over 38% shareholder support. Our research showed that political activity posed a relatively lower risk for consumer companies than for those in other sectors. But in our engagement with company leaders, we encouraged them to provide more clarity on their policy in this area in future disclosures that could help shareholders better assess board oversight of any associated risks.

Leading up to this year's annual meeting, we reevaluated the company's disclosures in the context of the resubmitted proposal. It does not appear that Flowers Foods made any enhancements or changes to CPA disclosure over the last year. In our engagement with company leaders, they did not provide details about how the board currently oversees political contributions or any policies or procedures that are in place. While the company did commit to including political contributions as a topic on an upcoming materiality assessment, it is unclear how specifically this assessment will explore this topic.

Company leaders acknowledged that CPA is an important part of their strategy, and therefore we would expect to see clear disclosure of board oversight as well as policies and procedures surrounding this activity.

The company currently does not disclose processes for explicit board oversight of political activities and is significantly lagging peers in policy, disclosure, and oversight of CPA. Board oversight is required to ensure that contributions align with company strategy and are in the best interests of shareholder value. Given those concerns, the Vanguard funds supported the proposal requesting enhanced disclosures of political giving.

What we expect from companies on this matter

The Vanguard funds look for boards of directors to oversee CPA across their enterprise and to communicate the firm's philosophy and policies to investors. Through engagement with company boards, Vanguard Investment Stewardship encourages thorough and effective oversight of any political spending and lobbying activity.

Generally, if a company is engaging in the political process, those actions may be material to its long-term financial results. Therefore, a company should disclose a CPA policy, including responsible parties within management, as well as the board oversight of CPA risk.

If a company's CPA disclosure significantly lags that of its peers, it may indicate an opportunity for enhanced disclosures that will enable all investors to make more informed decisions.

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. The Vanguard Group, Inc., has not been delegated proxy voting authority on behalf of the Vanguard-advised funds.