

# Board Gender Diversity and Climate Risk Inform Vanguard's Investor Stewardship

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Vanguard cast more than 171,000 individual votes at nearly 13,000 companies in 68 countries for the 12-month period ending June 30th, making the firm one of the most influential investors in public companies. Its recent Investor Stewardship Report and letter to CEOs highlights two key governance priorities.

Engagement is a vital component of Vanguard's approach, as it held 954 engagements with 680 companies. Companies should be aware when talking with Vanguard that the topics discussed more than half of those times include the composition of boards, governance structures and executive compensation. While board diversity has long been an important focus, the report states that companies should be prepared to discuss, in their public disclosure as well, their plans to incorporate diversity over time into their board composition.

Vanguard believes that gender diversity in particular has been shown to have positive effects on shareholder value, and it has joined the 30% Club, named for the group's original goal of having 30% women directors on boards, in advocating for more women in boardrooms and leadership roles. In its case studies, Vanguard indicated that it supported a shareholder proposal that asked an all-male board to adopt and publish policies on gender diversity after talking to the company. While the company verbally supported gender diversity, it lacked any particular strategy or commitment toward achieving it. In another case study, the investor discussed its concerns with a board that previously had only one female director in its recent history, and the company shortly thereafter added two women directors among four new directors who joined the board.

This year, for the first time, Vanguard supported a number of climate-related shareholder proposals opposed by management. The investor is talking about climate risk with companies more than ever before because it believes that there is a potential for climate risk, insofar as it relates to changes in regulation, energy consumption and consumer preferences, to significantly impact the long-term economic value of companies, especially those in the energy, industrial and utilities sectors. Vanguard is pushing companies to strengthen their public disclosure, especially relative to company peers and evolving market standards. In late 2016, Vanguard joined the Sustainability Accounting Standards Board (SASB), which takes an industry focus in advocating that sustainability information be included in SEC filings.

Vanguard noted in its case studies that it supported two energy companies where management committed to improving its climate risk disclosure, which Vanguard will continue to monitor. Of the two instances when the investor instead voted for shareholder proposals seeking climate-related reports, Vanguard stated that in one instance, the company did not articulate plans for mitigation or adaptation after identifying climate risk as a material issue in its public filings. Unlike governance-related shareholder proposals that Vanguard favored 41% of the time, the investor supported 1% of the 353 shareholder proposals on environmental and social issues.

If you have any questions regarding the matters covered in this publication, please reach out to any of the lawyers listed below or your usual Davis Polk contact.

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