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Vanguard Explains Updates to Its Voting Policies on Environmental and Social Proposals

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Vanguard has updated its **proxy voting guidelines**. Previously, the policy for how the investor will vote on environmental and social proposals indicated that, absent a compelling economic impact on shareholder value, the fund will typically abstain from voting on these proposals. This reflected the belief that these decisions should be the province of company management unless they have a significant, tangible impact on the value of a fund's investment and management is not responsive to the matter.

The revised guidelines state that the fund will evaluate each proposal on its merits and may support those where the investor believes there is a "logically demonstrable linkage" between the proposal and long-term shareholder value. Vanguard reiterates its view that the board has ultimate responsibility for providing effective ongoing oversight of relevant risks, including those related to environmental and social matters. The factors it will consider when deciding how to vote will include the materiality of the issue, the quality of current disclosures/business practices, and any progress by the company toward the adoption of best practices and/or industry norms.

As Glenn Booraem, the Investment Stewardship Officer at Vanguard, explained, this change reflects a clarification of when Vanguard may be inclined to support these environmental and social proposals. The focus will be on the resolution, and not the general topic of the proposal. According to Glenn:

"The updates to our voting guidelines on environmental and social issues are intended to better articulate the types of proposals we will consider supporting. To be clear, our standard for support is still based on a clear linkage between implementation of the proposal itself and the long-term value of the company. In instances where the proposal doesn't clear our hurdle for support, we will still engage directly with the company if we believe the broader topic has the potential for impact on long-term value."

"For a number of years, we have abstained on most of the environmental and social proposals that we didn't support, though we'd vote against proposals in places where abstentions weren't counted in the vote results. To simplify our process while effecting the same voting outcomes, we've decided to eliminate our use of abstentions for this purpose. Going forward, we will simply vote either 'for' or 'against' each proposal based on our guidelines."

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.

Ning Chiu
+1 212 450 4908
ning.chiu@davispolk.com
