

Another Large Equity Fund Sharpens its Focus on Climate Risk Disclosures

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Today The Vanguard Group, the Nation's second largest fund group with over \$4 trillion in assets under management, issued three publications — a press release, an open letter by Vanguard's CEO, and its 2017 Investment Stewardship Annual Report — highlighting Vanguard's evolving view that responsible disclosure and management of climate risk is an essential governance responsibility for corporate boards and managements to drive long-term shareholder value. With these announcements Vanguard has joined the Nation's first and third largest funds groups, BlackRock and State Street, that as noted in [our March 27, 2017 post](#) previously announced policies demanding greater boardroom attention to climate risks.

The Investment Stewardship Annual Report summarizes the board and corporate governance oversight and engagement activities of Vanguard's Investment Stewardship team for the 12 months ended June 30, 2017, including voting proxies at nearly 19,000 shareholder meetings and direct engagements with more than 950 company leaders and directors. The report asserts that the stewardship team's core purpose and mission is "to advocate for a world in which the actions and values of public companies and of investors are aligned to create value for Vanguard fund shareholders over the long term."

Through this long term value lens, the report includes a three-page section captioned "Risk in Focus: Vanguard's view on climate risk." This section of the report asserts:

"[o]ur approach to climate risk is evolving as the world's and business community's understanding of the topic matures. This year, for the first time, our funds supported a number of climate-related shareholder resolutions opposed by company management. We are also discussing climate risk with company management and boards more than ever before. Our Investment Stewardship team is committed to engaging with a range of stakeholders to inform our perspective on these issues, and to share our thinking with the market, our portfolio companies, and our investors."

The report also narrates three engagement case studies with boards about climate risk and includes a Q&A with Chief Investment Stewardship Officer, Glenn Booraem explaining:

- why Vanguard investors should be concerned about climate risk,
- why Vanguard has shifted its assessment of climate risk, and why now,
- what most concerns Vanguard when learning that a portfolio company does not have a rigorous strategy to evaluate and mitigate climate risk, and
- what portfolio companies can expect from Vanguard on this subject now that Vanguard has articulated a clear stance on climate risk.

There is much to commend in Mr. Booraem's clear-eyed answers to these questions as he acknowledges that the views of Vanguard's clients on climate risk span the ideological spectrum, but that "our position on climate risk is anchored in long-term economic value—not ideology."

The open letter from Vanguard's CEO, F. William McNabb, highlights the importance of good governance and board-driven risk management to promote long-term value. In that context Mr. McNabb notes:

"[c]limate risk is an example of a slowly developing and highly uncertain risk—the kind that tests the strength of a board's oversight and risk governance. Our evolving position on climate risk (much like our stance on gender diversity) is based on the economic bottom line for Vanguard investors. As significant long-term owners of many companies in industries vulnerable to climate risk, Vanguard investors have substantial value at stake."

The press release also includes this from Mr. Booraem:

"You can expect us to speak out when we detect threats to our shareholders' economic interests. Increasingly, you'll also see us take more public positions on select governance topics such as climate risk disclosure and gender diversity on boards. Our team and our views have continued to evolve, but our focus on the long-term interests of Vanguard shareholders remains unwavering."

With the stances of the Nation's three largest equity funds essentially aligned on the importance of responsible disclosure and management of climate risks, public companies must be attentive to these issues.

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