Vanguard Investment Stewardship Insights

Voting insight: Shareholder proposals regarding human capital management, climate, and an independent board chair at Berkshire Hathaway

May 2022

Vanguard publishes Investment Stewardship Insights to promote good governance practices and to provide investors and public companies with our perspectives on important governance topics and issues that come up for shareholder votes. 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 funds, including Vanguard index funds. Investment stewardship activities, including proxy voting, for Vanguard's externally managed active funds are supported by those funds' external advisors.

Company: Berkshire Hathaway, Inc. (Berkshire)

Meeting date: April 30, 2022

Proposal: Item 2—Require an independent board chair; Item 3—Report on climate-related risks and opportunities; Item 4—Report on greenhouse gas (GHG) emissions reduction targets; Item 5—Report on effectiveness of diversity, equity, and inclusion (DEI) efforts and metrics.

How the funds voted

At the annual meeting for Berkshire Hathaway, a U.S. diversified holding company, the Vanguard funds considered four proposals on the ballot requesting that the board:

- Appoint an independent chair
- Publish a report on climate-related risks and opportunities
- Publish a report on GHG emissions targets
- Publish a report on the effectiveness of DEI efforts and metrics

The Vanguard funds supported the three proposals related to disclosure of climate and human capital risks. The funds considered but did not support the proposal regarding an independent board chair. This slate of proposals follows two proposals at Berkshire's 2021 annual meeting, which the Vanguard funds supported, that also focused on climate and human capital risks.

Vanguard's principles and policies

Good governance starts with a company's board of directors. Boards serve as an independent body to oversee material risks to shareholder value. On behalf of the Vanguard funds, our Investment Stewardship team regularly assesses the extent to which company boards identify, mitigate, and disclose material risks, including those related to climate and diversity. Clear, decision-useful disclosure of material risks can encourage sound governance practices and help both companies and investors make better decisions to safeguard long-term shareholder value.

Analysis and voting rationale

In advance of Berkshire's 2022 annual meeting, members of Vanguard's Investment Stewardship team engaged with a Berkshire executive. The engagement provided insight on Berkshire's efforts around data collection and best-practice sharing across operating businesses. It was difficult, however, to assess how effectively the board was carrying out its oversight responsibilities on behalf of shareholders, as the executive was not able to speak to board-level oversight and an independent director was not part of the conversation.

Two of this year's shareholder proposals called for increased reporting on climate-related risks. The first proposal sought a report that would be in alignment with the Task Force on Climate-Related Financial Disclosures (TCFD) frameworks. This proposal would address how Berkshire manages physical and transition risks and opportunities as well as disclosure of the board's oversight of climate-related risks and opportunities. The second proposal requested a report addressing if and how Berkshire intends to measure, disclose, and reduce GHG emissions associated with Berkshire's underwriting, insurance, and investment activities in line with the Paris Agreement.

We recognize Berkshire's board has taken steps to improve disclosure in the past year. In its most recent annual report, the company published enhanced climate-related disclosures related to two carbon-intensive operating companies. Certain of Berkshire's operating companies have also made net GHG emissions commitments. Berkshire disclosed, and our engagement highlighted, the Sustainability Leadership Council that Berkshire has established to help share best practices and facilitate data collection across operating companies. While our engagement affirmed the efforts in place, company disclosures and our engagement—which did not include members of the board—provided only limited insight into the board's assessment and oversight of these matters.

We believe investors would benefit from further disclosure of the materiality of climate risk to Berkshire's business as well as disclosure of board oversight of material risks. We recognize the decentralized, conglomerate nature of Berkshire's business and that the company's corporate structure can make it challenging for investors to determine the materiality of climate risk to Berkshire's business. As with all potential risks, we look to boards to disclose how they assess the materiality of risks across their business and provide appropriate oversight. Berkshire's existing disclosures provide limited insights detailing how the board assesses the materiality of climate risk.

After our engagement and analysis, we determined that the two climate-related proposals were reasonable and provided sufficient flexibility for the board to determine how to address the requests for increased disclosure. In particular, we noted that the second proposal asked Berkshire to describe "if and how" the company plans to address GHG emissions; it did not specify a particular target or goal. As a result, the Vanguard funds supported the two proposals, consistent with their support of a similar proposal at Berkshire's 2021 annual meeting.

Another shareholder proposal at Berkshire sought a report on the outcomes of Berkshire's DEI efforts that would publish data on its workforce composition and rates of recruitment, retention, and promotion. Human capital management risks related to DEI are financially material to many companies. The Vanguard funds supported this proposal due to Berkshire's lack of disclosure of DEI statistics and program effectiveness at the enterprise and operating company levels, as well as the lack of transparency into board oversight of DEI risks. The funds' support of this proposal is consistent with their support of a similar 2021 shareholder proposal and reflects our conviction that additional disclosure on human capital issues from Berkshire, including disclosure of how the board oversees and monitors DEI matters, would be beneficial for long-term shareholder value.

We believe that the disclosures suggested in these three shareholder proposals would provide decision-useful information to investors and provide transparency into the board's oversight of risks to long-term shareholder value.

Berkshire also had a proposal on the ballot to adopt a policy that the chair of the board of directors be an independent member of the board. Based on our assessment of Berkshire's disclosures regarding board governance, the Vanguard funds did not support this proposal. The Vanguard funds will consider supporting proposals seeking an independent chair if we believe such proposals will enhance the company's board leadership and benefit shareholders.

What we look for from companies on this matter

On behalf of the Vanguard funds, we advocate for boards to make independent, thoughtful decisions about a company's strategy and provide effective oversight of risks to long-term value creation. Where climate change is a material risk to a company's business strategy, we advocate for the board to independently oversee its company's risks and strategy related to climate matters. We encourage companies to disclose material risks, including climate-related risks, and their mitigation strategies. As we have previously communicated, where the risks are material, robust climate risk mitigation measures include setting targets aligned with the goals of the Paris Agreement, or applicable subsequent agreements, and disclosing how the company will deliver shareholder value in the context of climate risk.

Human capital management risks related to DEI are financially material to companies across many industries, and thus boards should provide effective oversight of this key topic. Boards should also disclose relevant processes, programs, and metrics used to measure a company's DEI programs over time. Such quantitative metrics demonstrate intentionality and enable investors to measure progress in addressing human capital risks.

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