# Vanguard Investment Stewardship Insights

**Voting insight:** Shareholder proposal on lending for fossil fuel development at Goldman Sachs

**May 2022**

**Company:** The Goldman Sachs Group, Inc. (Goldman Sachs)

**Meeting date:** April 28, 2022

**Proposal:** Item 6—Adopt a policy that prohibits underwriting and lending for new fossil fuel development.

### How the funds voted

At the annual meeting for Goldman Sachs, the U.S.-based financial services company, the Vanguard funds did not support a shareholder proposal to adopt a policy that would proactively ensure that Goldman Sachs' underwriting and lending did not contribute to new fossil fuel development. The proposal failed with 11.2% support.[1]

### 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 change. Investors benefit from clear, decision-useful disclosure of material risks, which may include a company's strategy for addressing climate change and its plans for maintaining a resilient business model in the context of the expected transition to a low-carbon economy.

Vanguard looks for companies and their boards to exhibit three key elements of sound climate risk governance:

**Oversight:** A climate-competent board that demonstrates awareness of climate risks and fosters healthy debate on climate topics, challenges management assumptions, and makes thoughtful and informed decisions regarding these risks.

**Mitigation:** Robust risk oversight and mitigation measures, including setting targets aligned with the goals of the Paris Agreement and an expected net zero transition and integrating climate risk considerations into strategic business planning and capital allocation decisions.[2]

**Disclosure:** Effective and comprehensive disclosures, both qualitative and quantitative, to show progress in risk mitigation over time, preferably written in accordance with the framework of the Task Force on Climate-related Financial Disclosures (TCFD).

**Analysis and voting rationale**

In advance of Goldman Sachs' 2022 annual meeting, members of Vanguard's Investment Stewardship team engaged with two of the company's independent directors and members of the company's management team. During the engagement, we discussed the board's oversight of climate-related risk. In our assessment, the directors demonstrated their grasp of climate matters and spoke credibly to their oversight of climate-related risks and opportunities, principally through the board's Public Responsibilities Committee and Risk Committee.

This year, a shareholder proposal asked that the company adopt a policy that would prohibit Goldman Sachs from financing new fossil fuel development, citing the United Nations Environment Program Finance Initiative and the International Energy Agency's Net Zero Emissions by 2050 scenario. The shareholder proponent noted that the IEA scenario specifically states that "no fossil fuel exploration is required and no new oil and natural gas fields are required" to meet the agency's targets for net zero emissions by 2050.

Early in 2021, Goldman Sachs publicly committed to align to a net zero by 2050 pathway in support of the goals of the Paris Agreement. With this commitment, the company has agreed to offer more disclosure about certain financed emissions and emissions targets for higher-impact sectors. Later in 2021, Goldman Sachs joined the industry-led, U.N.-convened Net-Zero Banking Alliance. Ultimately, the company's board of directors has oversight of this commitment.

In its December 2021 TCFD report, the company outlined a prioritized set of targets for 2030. The report detailed the company's oversight of climate-related risk, including a detailed explanation of its governance framework, and ambitions to closely partner with clients aiming to decarbonize.

These disclosures effectively show shareholders how Goldman Sachs has chosen to mitigate climate risk. The company has also disclosed that it has dedicated sustainability councils, embedded in each of the company's business areas, with a mandate to provide clients with solutions to climate transition challenges.

Our research and analysis, combined with our engagement, and the company's strong disclosures led us to determine that Goldman Sachs was actively assessing climate risk and that the board's oversight model appeared effective. We also assessed the proposal's request to be overly prescriptive in dictating company strategy. The Vanguard funds did not support the proposal.

**What we look for from companies on this matter**

As stewards of our clients' investments, we look for boards to represent the interests of all shareholders while prioritizing oversight of financially material risks. We expect boards to create long-term shareholder value through effective and informed oversight of company strategy and risks.

We further expect boards to challenge management and regularly re-evaluate risk mitigation practices while seeking diverse opinions and perspectives to appropriately oversee company strategy and risks.

When GHG emissions are a material risk to a company's performance and strategy, we look for boards' climate literacy to enable independent oversight of the energy transition, company strategy, and material risks. We encourage public disclosure that explains all the aforementioned areas. In evaluating shareholder proposals, we believe that boards should have appropriate latitude to determine which risk mitigation strategies maximize long-term shareholder value; the Vanguard funds do not look to prescribe strategy or operations. We acknowledge that the energy transition pathway may not be linear and expect boards to effectively oversee this dynamic transition.

**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.

**2** The Paris Agreement sets a goal of holding the increase in global average temperature to well below 2°C above pre-industrial levels and pursuing efforts to limit the temperature increase to 1.5°C above pre-industrial levels. It does not prescribe a single pathway to reach those goals. Rather, it is a binding international treaty that requires all countries to commit to, communicate, and maintain national-level greenhouse gas budgets to achieve the global temperature goal. The Vanguard funds do not dictate company strategy. As shareholders, the Vanguard funds seek to understand whether and how companies and their boards are planning for resiliency against the backdrop of this stated policymaker goal. We believe that boards are responsible for determining risk mitigation approaches to maximize shareholder value in their companies and planning for an uncertain future. Where there are legally binding or government-designated budgets for different industry sectors associated with the agreement, we believe companies should disclose how their targets and strategies are appropriate in the context of those factors.

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.

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