

Vanguard Investment Stewardship Insights

Voting insight: Say on Climate vote and other resolutions at Santos Limited

May 2022



Company: Santos Limited (Santos)

Meeting date: 3 May 2022

Proposal: Item 4—Advisory vote on climate change; Item 8b through 8d—Approve capital protection, climate-related lobbying and decommissioning.

How the funds voted

At the annual meeting of Santos Limited, Australia's second-largest oil and gas producer, the Vanguard funds did not support a management Say on Climate proposal.¹

The funds also did not support three shareholder proposals asking the company to:

- Disclose information about how it would facilitate the efficient managing down of oil and gas operations and assets.
- Cease all lobbying activities that contradict the conclusions of the International Energy Agency (IEA) and the Intergovernmental Panel on Climate Change (IPCC) on 1.5 degree Celsius alignment, including advocacy relating to the development of new oil and gas fields.
- Disclose analysis of the useful life of all assets using various climate scenarios, and audited provisions for decommissioning on an asset-by-asset basis.

Vanguard's principles and policies

Boards are responsible for overseeing a company's long-term strategy and any material risks to shareholder value. As part of our Investment Stewardship team's activities, we regularly assess how well a board of directors understands the company's strategy and the board's own role in identifying, mitigating and disclosing material risks that may impact long-term shareholder value. Climate change is one such risk to our investors' portfolios.

Where material, we look for companies to demonstrate three key elements of sound climate change risk management:

- **Oversight:** A climate-competent board that can foster healthy debate on climate topics, challenge management assumptions and make thoughtful and informed decisions regarding these risks.
- **Mitigation:** Robust risk oversight and mitigation measures, including setting targets aligned with the Paris Agreement and integrating climate risk considerations into strategic business planning and capital allocation decisions.²
- **Disclosure:** Effective and comprehensive disclosure, both qualitative and quantitative, to show progress over time, preferably written in accordance with the framework of the Task Force on Climate-related Financial Disclosures.

As detailed in our [Policy Insights](#), Vanguard does not seek to direct company strategy. We view "Say on Climate" votes as a signal on the coherence and comprehensiveness of the reporting and disclosures a company provides to explain its climate plan to the market, rather than an endorsement of, or an expression of lack of confidence in, the plan itself.

Analysis and vote rationale

Because of its position as one of the largest fossil fuel companies in Australia, Santos has long been subject to scrutiny on its climate change risk management by activist groups and shareholder proponents. As discussed in our [previous Voting Insights](#), we supported Santos' commitment last year to adopt an advisory vote on its climate report at this year's meeting.

In our ongoing discussions with Santos' board prior to the 2022 annual meeting, the board outlined the company's emissions targets, road map to net zero operational emissions by 2040, reliance on carbon capture and storage, approach to Scope 3 emissions, and carbon pricing and scenario analysis, and the evolution of executive remuneration to reflect the company's strategy.

In those conversations, we encouraged the board to make progress on communicating its strategy on all fronts and asked for robust and detailed disclosures on the assessment of the company's alignment to the goals of the Paris Agreement.

In our discussions with the board, we sought to better understand the company's approach to managing the energy transition and its reasons for not setting reduction targets on its Scope 3 greenhouse gas emissions, which account for almost 90% of its total emissions and appear to represent a significant area of material risk exposure for the company.

The board chair noted the progress the company had made in solidifying its strategic approach to its energy transition, especially on the reduction of operational emissions. The company expressed confidence in its ability to develop a commercially viable business around carbon capture and storage, hydrogen, nature-based offsets and direct air capture—all of which would eventually reduce its Scope 3 emissions. Santos

further expressed confidence in the viability of these technologies, while acknowledging the challenges and uncertainties involved in execution at scale. The board chair explained the company's reluctance to set Scope 3 emissions reduction targets given the needed development and evolution of technologies to facilitate the transition.

In reviewing the company's published climate transition plan as well as our engagement, we noted an inconsistent narrative and insufficient supporting evidence to back the company's claims of alignment with the Paris Agreement goals. We remained unconvinced by Santos' rationale for continuing to decline to set and disclose Scope 3 emissions targets. We note that some of the company's peers have reversed course on similar stances in recent years.

There has been no apparent substantial change in Santos' approach to Scope 3 emissions targets since the company committed to a Say on Climate vote last year. The lack of targets limits shareholders' ability to contextualise the details of the plan and to understand and price the risk appropriately. The lack of targets also calls into question the company's resilience through the transition in the context of expected constraints on the oil and gas industry.

While recognizing the challenges the company faces in setting targets that account for developing technologies, we questioned whether the company's disclosed risk mitigation approach was adequate to underpin a request for shareholder support of the transition plan at this time. We determined that it was not in the best interest of our funds' investors to approve a report that failed to comprehensively address the most significant area of material climate risk to the company in a meaningful way. We encouraged the company to further develop its transition approach, including setting an initial Scope 3 emissions target.

We also sought to gather the board's views on the climate-related resolutions put forward by the shareholder proponents. We understood the company's positions and concerns with the resolutions' requests, given the disclosures currently available. We deemed the requests to be overly prescriptive. The Vanguard funds did not support the proposals.

What Vanguard looks for from companies on this matter

We advocate for boards to have appropriate competencies to oversee climate-related risks and, where material risks exist, to adopt robust risk management and mitigation practices, including thoroughly explaining their approach to setting emissions reduction targets. Where climate change is a material risk, we also advocate for companies to provide effective, coherent and comprehensive disclosures to the market on their climate-related strategies, particularly when asking for shareholder support through a Say on Climate vote.

We analyze and vote all shareholder proposals case by case. When evaluating these proposals, we weigh whether a topic is material to the company, whether it addresses a governance decision or encroaches on operational or strategic actions, and whether the company already meets the request. We want to see a direct link between the proposal's enactment and the company's long-term value. The Vanguard funds may support a proposal at one company but not a similar proposal at another company with different circumstances.

- 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.