# Vanguard Investment Stewardship Insights

**Voting insight:** Merger, Say on Climate vote and other resolutions at Woodside

**June 2022**

**Company:** Woodside Petroleum Limited (Woodside)

**Meeting date:** 19 May 2022

**Proposal:** Item 2—Approve BHP Petroleum merger; Item 9—Approve climate report; Items 10b through 10d—Approve resolutions on capital protection, climate-related lobbying and decommissioning.

### How the funds voted

At the annual meeting of Woodside, Australia's largest oil and gas producer, the Vanguard funds supported the merger announced in September 2021 between the company and the petroleum assets of BHP Group Limited. (The company will be renamed Woodside Energy Group.)[1]

The funds did not support a management Say on Climate proposal. They also did not support shareholder proposals that asked 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 and the Intergovernmental Panel on Climate Change 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 an audit of 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 affect long-term shareholder value. Climate change is one such risk to our investors' portfolios.

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

**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 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 proposals as votes on the coherence and comprehensiveness of the reporting and disclosures that a company provides to explain its climate plan to the market, rather than as an endorsement of, or an expression of lack of confidence in, the plan itself.

**Analysis and voting rationale**

Over the last several years, environmental groups in Australia have focused on getting its largest energy companies to develop and disclose plans for decreasing emissions. Because Woodside is a large fossil fuel company, it has been subject to scrutiny on its climate change risk management and received climate-related shareholder proposals. As discussed in our previous Voting Insights, we supported Woodside's commitment last year to adopt an advisory vote on its climate report at this year's meeting.

In our ongoing discussions with Woodside's leaders before the 2022 annual meeting, we discussed the proposed merger between the company and the petroleum assets of BHP. We understood the strategic rationale for the transaction, which would benefit from synergies between the businesses and create an entity with increased scale and a more diverse portfolio of assets across geographies, better positioned to manage the risks and opportunities of the energy transition while ensuring value creation for shareholders. We deemed board oversight to be appropriate and the transaction to be in the best interest of shareholders.

In those conversations, the company outlined its operational emissions reduction targets and aspiration to achieve net zero by 2050, the changes in design and processes and the role of offsets to deliver on these commitments, its approach to Scope 3 emissions and the capital allocation framework, scenario analysis, and the growing role of gas as a transition fuel.

Through this dialogue, we encouraged the board to improve its disclosures to communicate its strategy on all these aspects, and we asked for robust and detailed reporting on the assessment of the company's alignment with the Paris Agreement goals.

We sought to better understand Woodside's approach to managing the risks and opportunities of the energy transition and its reasons for not setting reduction targets on its Scope 3 greenhouse gas emissions, which account for about 90% of its total emissions and appear to be a significant area of material risk exposure for the company.

The board chair and the executive responsible for climate matters noted the progress made on setting out the capital allocation framework, providing a clear link between the company's business strategy and its management of climate change. They focused on the plans to deploy $5 billion in capital by 2030 to build a new low-carbon energy business, including hydrogen and carbon capture and storage, as a way to address the shift in demand for energy products and give customers options for reducing their emissions, which are Woodside's Scope 3 emissions. Woodside's leaders regarded this as a meaningful target. They noted the challenges in developing these projects due to nascent market demand and limitations in methodologies to forecast the evolution of these technologies and to quantify Scope 3 emissions. Woodside's board maintained that the company was not in a position to set Scope 3 emissions reduction targets until it is more certain how those new products and projects will evolve.

In reviewing the company's published climate transition plan and reflecting on our engagement, we noted that supporting evidence was insufficient to back the company's claims of alignment with the Paris Agreement goals. We considered Woodside's disclosure regarding its approach to Scope 3 emissions as inadequate and incomplete.

There has been no apparent substantial change in Woodside's approach to Scope 3 emissions since it committed to a Say on Climate vote last year. The lack of disclosed targets on a material risk area limits shareholders' ability to contextualise the details of the plan and to understand and price the risk appropriately. While recognising Woodside's initiatives to address Scope 3 emissions and the challenges 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 climate report at this time. We determined that it was not in the best interest of our funds' investors to approve disclosures that failed to comprehensively address the company's most significant area of material climate risk in a meaningful way. We encouraged Woodside to strengthen its risk mitigation practices on material risks, supported by an initial Scope 3 emissions target, and to improve the quality of its disclosures to the market. The proposal drew just 55% support, and the significant dissent showed the level of shareholder concern. We will continue to constructively engage with Woodside's leaders on this important topic.

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 on and concerns about the resolutions' requests, given the disclosures currently available. We deemed the requests to be overly prescriptive. The Vanguard funds did not support the proposals, which drew just 12% to 14% shareholder support.

**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 analyse and vote on 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.

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