

# Vanguard Investment Stewardship Insights

## How we evaluate corporate political activity shareholder proposals



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*Vanguard publishes Investment Stewardship Insights to promote good corporate governance practices and to provide public companies with our perspectives on important governance topics and issues that come up for shareholder votes.*



The engagements we conduct each year with portfolio companies give Vanguard perspective on how company executives and boards manage their respective businesses. The knowledge we glean from these discussions helps us weigh important management decisions in the context of board oversight of strategy and risk mitigation. That includes evaluating how companies approach their corporate political activity.<sup>1</sup>

Corporate political activity has become an important engagement topic in certain markets. Investors are seeking clarity on companies' rationale for and oversight of contributions and lobbying, particularly for firms with operations that raise questions about their commitments to managing other risks, such as worker safety and climate risk.

Recent events in the U.S. corporate and political landscape have enhanced the risk profile of corporate political activity. On behalf of Vanguard funds, Vanguard Investment Stewardship evaluates the magnitude and oversight of these risks in our case-by-case analysis of relevant shareholder proposals.

We anticipate an increase in the number of U.S. shareholder proposals focused on this topic in 2021.

### The material risks to long-term shareholders

Corporate political activity shareholder proposals typically ask boards to publish reports that disclose political contributions, lobbying, or both. Proposals that focus on lobbying can request information on a company's corporate political activity policy, direct lobbying (the hiring of lobbyists to influence legislation), and grassroots or indirect lobbying, which focuses on swaying public opinion through support of third-party organizations.

Political-contribution proposals often seek similar disclosure of applicable company policies and can request information on candidates, parties, committees, and tax-exempt organizations that receive contributions from the company.

Although the absolute amount of a company's political spending may not be considered a material capital expenditure, there can be material risks related to this giving. Poor governance of corporate political activity, coupled with misalignment to a company's stated strategy or a lack of transparency about the activity, can manifest into financial, legal, and reputational risks that can affect long-term value for Vanguard funds. In addition, a disconnect between corporate political activity and corporate values can pose risks related to employee engagement and retention, recruitment of top talent, and consumer preferences. Some of those concerns were at issue when the Vanguard funds supported a corporate lobbying proposal at Tyson Foods earlier this year. (See "Oversight of health and safety risks and Tyson.")

### A board's oversight of political spending

Vanguard expects boards of directors to oversee corporate political activity across their enterprise and to communicate the firm's philosophy and policies to investors. Through engagement with company boards, Vanguard Investment Stewardship encourages thorough and effective oversight of any political spending and lobbying activity.

As we analyze a shareholder proposal, there are a number of questions we might pose to members of a company's board:

- Which committee of the board is responsible for oversight of corporate political activity?

<sup>1</sup> Vanguard does not make contributions to political campaigns. Our firm does have a political action committee, The Vanguard Committee for Responsible Government, which is funded solely through voluntary contributions from Vanguard officers.

- Can you explain the board’s process for overseeing corporate political activity? How often does the board review this topic? Who within the management team is responsible for corporate political activity?
- What is the company’s philosophy about corporate political activity? How does the company’s political spending strategy align with the company’s stated long-term business strategy?
- If corporate political activity and company strategy do not appear to be aligned, why not? And how does the board manage related risks, such as reputational risk?

### How we analyze these proposals

As an investment manager, Vanguard stewards the assets of 30 million clients around the world with a wide range of personal beliefs. What they all have in common is that they have entrusted Vanguard to safeguard their investments and help them grow. Vanguard—and the Vanguard funds—do not hold or espouse a particular political point of view.

We evaluate corporate political activity shareholder proposals through a lens of financial materiality, grounding our analysis in an assessment of potential risks associated with these expenditures and how those risks could affect long-term performance.

We study a company’s existing disclosures in relation to its peers’ disclosures, along with industry practices, to determine whether investors would benefit from greater clarity of the company’s political activities. We encourage boards to disclose the company’s political spending policies and the recipients of the contributions. As a baseline, we expect companies to publish or provide links to filings they submit to comply with federal regulations.

If a company’s corporate political activity disclosure significantly lags that of its peers, it may indicate an opportunity for enhanced disclosures that will enable all investors to make more informed decisions. When gaps in disclosure or disconnects with long-term strategy are found, Vanguard funds may vote in favor of proposals calling for greater disclosure and oversight.