

Vanguard Investment Stewardship Insights

Voting insights: Climate-related proposal at Union Pacific



May 2021

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.

Company: Union Pacific Corporation (Union Pacific)

Meeting date: May 13, 2021

Proposal: Item 8 (shareholder proposal)—Annual Vote and Report on Climate Change



How the funds voted

At the annual meeting for Union Pacific, a large U.S. railroad company, the Vanguard funds did not support a shareholder proposal that requested that the company report annually on its greenhouse gas emissions and emissions reduction plan and that it produce the first report within 60 days of the annual meeting. The proposal also requested that the climate plan be put to an annual nonbinding advisory shareholder vote. This type of proposal is sometimes called a “say on climate” proposal.

Vanguard’s principles and policies

Boards are responsible for overseeing a company’s long-term strategy and any material risks. As part of our Investment Stewardship team’s activities, we regularly assess how well a board of directors oversees 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 material risk to our investors’ portfolios.

We look for companies to exhibit three key elements of sound climate-change risk management:

- A climate-competent board that can foster healthy debate on climate topics, challenge management assumptions, and make thoughtful and informed decisions regarding these risks.

- 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.
- Effective and comprehensive disclosures, both qualitative and quantitative, to show progress over time, preferably written in accordance with the Task Force on Climate-related Financial Disclosures (TCFD) frameworks.

Our previous Insights provide more details on our views for climate-competent boards, risk oversight and mitigation of climate risks, and key considerations for effective disclosure, as well as on how Vanguard evaluates climate-related shareholder proposals.

Analysis and voting rationale

Based on our research, we assess climate change as a material risk to Union Pacific’s business as a transportation company, and we analyzed the “say on climate” proposal through this lens.

Our team has engaged regularly over many years with Union Pacific board directors and company leaders. In our most recent discussion, we met with company executives and sought to understand the board’s perspective on the proposal.

The company explained that its opposition to the proposal was grounded in the belief that it placed a short-term focus on long-term goals and that a “say on climate” vote could inappropriately delegate strategy oversight responsibilities to shareholders.

Union Pacific discloses its approach to climate risks through an annual sustainability report. And through annual responses to the climate change questionnaire from the CDP (formerly the Carbon Disclosure Project), it discloses how climate change

could have material adverse effects on the company. During our meeting, we were encouraged to learn that the Science Based Targets initiative (SBTi) recently approved Union Pacific's science-based emissions reduction targets. Our analysis of the company's climate-related reporting, however, identified a gap in its disclosure of climate risk mitigation goals and identified the lack of an emissions reduction plan to achieve those goals.

Our evaluation of the proposal also included engaging with the shareholder proponent to gain insight into their underlying concerns. The proponent expressed concern about the company's lack of a plan to support its recently approved science-based emissions reduction targets, and they felt that Union Pacific's climate-related disclosures lagged those of its peers.

We generally agreed with the spirit of this shareholder proposal. Where climate change is a material risk for a company, we believe that robust, decision-useful disclosure of the company's climate strategy—along with a nonbinding advisory vote that can help the company gain insight into shareholders' view of that strategy—can benefit long-term shareholder interests.

Given, though, that Union Pacific has only recently received SBTi approval of its science-based emissions reduction targets and has yet to develop a full emissions reduction plan aligned with TCFD guidelines, we concluded that the proposal's request that the company produce its first report within 60 days of the 2021 annual meeting was an unreasonable time frame, and the Vanguard funds voted against the proposal.

What we expect from companies on this matter

Vanguard expects portfolio companies and their boards to be competent in managing relevant and material risks, such as climate-related risks. We expect them to adopt robust risk management and mitigation practices, including emissions reduction targets, and to provide effective and comprehensive disclosures to the market on their climate-related strategies.