

Ms. Anne Robinson
General Counsel
Vanguard
P.O.Box 2600
Valley Forge, PA 19482

Dear Ms. Robinson:

As a Vanguard investor, I am writing to express serious concerns about how the long-term risk of climate change affects my portfolio value – and Vanguard’s failure to sufficiently manage these risks.

A recent Vanguard study notes the potential for serious negative economic impacts of climate change,^[1] and Vanguard has promised its investors: “Climate change represents a profound, fundamental risk to investors’ long-term success, and we approach climate risk from a fiduciary perspective.”^[2]

I expect Vanguard, as my fiduciary, to exercise its duties of loyalty and care in its decisions. Unfortunately, Vanguard is currently insufficiently managing the risk to my investment from climate change, which potentially violates both of these fiduciary duties.

Vanguard is violating its duty of care. As you know, Vanguard’s duty of care requires the firm to act toward my investment “with the care, skill, prudence, and diligence under the circumstances then prevailing that a prudent [person] acting in a like capacity and familiar with such matter would use.”^[4] But Vanguard has fallen far behind other prudent investors acting in a like capacity.

For example, Vanguard’s peers, BlackRock and State Street, annually use their voices to forcefully set expectations for boards as they enter into a net-zero transition, but Vanguard remains silent. BlackRock and State Street enter into coalitions such as Climate Action 100+ to amplify their influence. Vanguard has never joined this coalition, and recently removed itself from the Net Zero Asset Managers Initiative. Despite claiming that the “most visible sign of Vanguard’s engaged ownership is our funds’ proxy voting at portfolio company shareholder meetings,”^[5] Vanguard has one of the [worst records of voting for shareholder climate resolutions](#) of any firm in the industry.

Vanguard states about the index funds it manages as my fiduciary: “Vanguard index funds are practically permanent investors of the companies in which they invest, holding a stock indefinitely—or as long as it is included in the benchmark index.”^[3] If this is indeed the case, stewardship through proxy voting and other forms of engagement is a key method Vanguard can use to mitigate admitted portfolio risks from climate change. In this regard Vanguard, through its lack of attention to prudent proxy voting, may be placing my portfolio at undue risk, breaching its duty of care.

Vanguard is violating its duty of loyalty. In recent months, Vanguard has opaquely placed the firm's own financial interests ahead of those of its investors'. Vanguard recently pulled out of the Net Zero Asset Managers Initiative, an initiative "committed to supporting the goal of net zero greenhouse gas emissions by 2050 or sooner, in line with global efforts to limit warming to 1.5 degrees Celsius."^[6] This withdrawal from the initiative seems to have been a purely political move by Vanguard in response to the demands of Republican political actors seeking to undermine environmental, social, and governance (ESG) standards. It is troubling that Vanguard acquiesced to this political pressure at the cost of reducing its ability to mitigate the climate risks in its clients' portfolios. This is a clear potential breach of Vanguard's duty of loyalty to its investors like myself.

Due to its egregious neglect of the portfolio risk of climate change relative to its peers, Vanguard is now the subject of negative publicity^[8] and could also fall victim to litigation for its neglect of climate risks (similar to a precedential fiduciary suit that was recently settled in Australia^[10]). These distractions could result in additional performance issues over time.

I demand that Vanguard, as my fiduciary, diminish the risk to my investment from climate change. Vanguard, currently lagging behind its industry peers, should seek not only to meet industry standards but to exceed them. Vanguard must release a comprehensive plan outlining concrete steps the company will take to address climate risk. At minimum, such a plan must include the following steps:

1. Escalate engagement and improve proxy voting:
 - a. Adopt investment stewardship guidelines that prioritize decarbonization in line with a 1.5°C pathway, including disclosing climate risk, as well as supporting activities which address and mitigate climate-related business risks.
 - b. Communicate the best-in-class industry standards by which portfolio companies have been and will be assessed, how those standards are consistent with limiting warming to 1.5°C, and the proxy voting consequences for companies that fail to meet them.
2. Shift investment policies:
 - a. Adopt and apply rigorous climate risk criteria and analysis across its entire portfolio. Expand offerings that are 1.5°C-aligned and provide investment products that are on a zero emissions pathway

I expect that Vanguard, as my fiduciary, will take my concerns seriously, reaffirm its commitment to the duties of loyalty and care, and take immediate action to manage and mitigate the climate risks in its portfolio. I look forward to your response.

Sincerely,

^[1] “In all scenarios, climate change will have a negative estimated net impact on the global economy. We calculate a drag of between 2% and 4% of GDP by 2050 for small temperature rises. However, costs escalate thereafter, estimated at closer to 10% of GDP for temperature increases above 3 degrees Celsius.”

<https://institutional.vanguard.com/content/dam/inst/iig-transformation/insights/pdf/the-economics-of-climate-change.pdf>

^[2] https://about.vanguard.com/investment-stewardship/perspectives-and-commentary/ISCLRG_062020.pdf

^[3] https://corporate.vanguard.com/content/dam/corp/research/pdf/Global%20investment%20stewardship%20principles_final_112021.pdf

^[4] ERISA §404(a)(1)(B), 29 U.S.C. §1104(a)(1)(B)

^[5] https://corporate.vanguard.com/content/dam/corp/research/pdf/Global%20investment%20stewardship%20principles_final_112021.pdf

^[6] <https://www.netzeroassetmanagers.org/>

^[7] <https://attorneygeneral.utah.gov/vanguard-backs-off-esg-effort-after-reyes-leads-multistate-motion/>

^[8]

<https://www.bizjournals.com/philadelphia/news/2022/12/09/gore-blasts-vanguard-for-leaving-of-coalition.html>;

<https://twitter.com/bradlander>

^[9] Alastair Marsh, Climate Activist Who Took On BlackRock Now Takes Aim at Vanguard. Bloomberg, March 3rd, 2021.

^[10] <https://equitygenerationlawyers.com/wp/wp-content/uploads/2020/11/Statement-from-Rest-2-November-2020.pdf>