



OFFICE OF THE ILLINOIS STATE TREASURER  
**MICHAEL W. FRERICHS**

January 17, 2020

By mail and email: [proxyinquiries@vanguard.com](mailto:proxyinquiries@vanguard.com)

Mr. Mortimer Buckley  
Chairman and Chief Executive Officer  
The Vanguard Group  
P.O. Box 2600  
Valley Forge, PA 19482

RE: Proxy Voting Record and Guiding Criteria on Climate Risk

Dear Mr. Buckley,

In my capacity as Treasurer for the State of Illinois and Trustee of the Bright Start College Savings Trust (the "Trust"), I write to request a dialogue regarding Vanguard's proxy voting record and guiding criteria concerning climate-related shareholder proposals. Accordingly, I give notice that pursuant to the 2017 proxy statement of the Vanguard Total Stock Market Index Fund (the "Fund"), the Trust intends to present the attached proposal (the "Proposal") at the next annual meeting of shareholders (the "Annual Meeting") as co-filer with Boston Trust Walden.

Our office, which manages \$31 billion on behalf of the people of Illinois, has a longstanding relationship with Vanguard. Vanguard manages nearly \$5 billion on our behalf, largely in our 529 College Savings Plans, Bright Start and Bright Directions. Our partnership is highly valued, and we have had steadfast confidence in selecting Vanguard Funds and ETFs for our beneficiaries.

While we have great respect for Vanguard's service offerings, we are concerned about Vanguard's proxy voting record on environmental, social, and governance issues, specifically on climate change. Vanguard clearly and openly recognizes the risks posed by climate change, yet Vanguard notes in its 2019 Investment Stewardship Report that it only supported 7% of all environmental and social shareholder proposals in the U.S. Third parties reiterate this fact as well, with Ceres reporting that Vanguard supported just seven of 55 climate-critical shareholder resolutions in 2019, and Majority Action reporting that Vanguard only supported four of 41 relevant resolutions.

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You and I understand that proxy voting is a critically important use of shareholder rights to influence good governance and protect and drive long-term growth. Given the risks posed to investors by climate change, we believe that managers have a responsibility to revisit their proxy voting policies to ensure alignment with the evolving marketplace, the urgent risks associated with climate change, as well as stated ESG commitments.

The Trust requests that the Fund include the Proposal in the Fund's proxy statement for the Annual Meeting.

A letter from the Trust's custodian documenting the Trust's continuous ownership of the requisite amount of the Fund's stock for at least one year prior to the date of this letter will be sent under a separate cover. The Trust also intends to continue its ownership of at least the minimum number of shares required by the SEC regulations through the date of the Annual Meeting.

I represent that the Trust or its agent intends to appear in person or by proxy at the Annual Meeting to present the attached Proposal. I declare the Trust has no "material interest" other than that believed to be shared by stockholders of the Fund generally.

Again, we sincerely value our partnership, and we look forward to having a robust discussion on the proposal at hand and potential routes for collaboration. To that end, please contact Rekha Vaitla, Deputy Director of Corporate Governance & Sustainable Investment, at (312) 814-8979 or [RVaitla@illinoistreasurer.gov](mailto:RVaitla@illinoistreasurer.gov) to schedule a meeting at your earliest convenience.

Many thanks for your time and support.

Sincerely,



Michael Frerichs  
Illinois State Treasurer

Cc: Anne E. Robinson

We believe The Vanguard Group (Vanguard) should better align its proxy voting with both its client's financial interests and its stated ESG commitments.

Vanguard is a member of the Principles for Responsible Investment (PRI), a global network of investors and asset owners representing more than \$89 trillion in assets. One of the Principles encourages investors to incorporate ESG considerations into proxy voting.

Vanguard's stewardship unit votes proxies and has actively supported numerous governance reforms proposed by shareholders, stating it is guided by clients' economic interests and believes corporate governance practices are one driver of investment performance. We believe issues like climate change can also have a profound impact on shareholder value.

Vanguard's 2019 Investment Stewardship Report noted that climate risk is becoming a growing focus for the firm's engagement strategy, evidenced by discussions regarding long-term climate-related risks with 258 companies in carbon intensive industries. In its report, Vanguard states "material risks such as climate...can damage a company's long-term value. If a company's practices, organizational culture, or products put people's health, safety, or dignity at risk, they can pose a financial risk to investors too."

The firm's 2018 Investment Stewardship Report features a case study of three climate-related shareholder proposals the firm supported, selected as evidence of Vanguard's approach to climate risk oversight and strategy. A 2019 Semiannual Engagement Update document highlighted two separate climate-related proposals Vanguard supported.

Vanguard seems concerned about the risks of climate change and the need for urgent action by companies.

Yet its 2019 proxy voting record reveals votes against the majority of climate related resolutions (voting in favor of only 6 of 52 such resolutions), including requests for enhanced disclosure or adoption of greenhouse gas reduction goals, even when independent experts advance a strong business and economic case for support.

In contrast funds managed by investment firms such as Alliance Bernstein, Allianz, Eaton Vance, Legg Mason, MFS, Nuveen, PIMCO, and Wells Fargo supported the majority of climate-related resolutions.

Vanguard's voting practices appear inconsistent with its statements about the risks to companies posed by climate change and ways business can identify solutions. This contradiction poses reputational risk for the company with both clients and investors. Moreover, such proxy voting practices seem to ignore significant company-specific and economy-wide risks associated with negative impacts of climate change that can have direct impact on shareholder value.

We believe it is Vanguard's fiduciary responsibility to review how climate change quantitatively affects portfolio companies, evaluate how specific shareholder resolutions on climate relate to shareholder value, and vote accordingly. Thus we request this review of Vanguard's 2019 proxy voting record.

**Resolved:** Shareowners request that the Board of Directors initiate a review assessing Vanguard's 2019 proxy voting record and evaluate the Company's proxy voting policies and guiding criteria related to climate change, including any recommended future changes. A summary report on this review and its findings shall be made available to shareholders and be prepared at reasonable cost, omitting proprietary information.