SEI STOCKHOLM ENVIRONMENT INSTITUTE

U.S. Center

11 Curtis Ave., Somerville, MA 02144 USA • Tel: 617.627.3786 • www.sei-us.org

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Investment Stewardship Oversight Committee
Vanguard
P.O. Box 1101
Valley Forge, PA 19483-1101

To Whom It May Concern:

Our institution, Stockholm Environment Institute U.S., has placed our employees' retirement assets in investment options offered by Vanguard under a 403(b)7 plan (10149642). We chose Vanguard because of your low fee structure, which can be realized in large part due to your passive, index-based fund management style.

We write now to urge you to be less passive in one crucial arena: proxy, shareholder voting. In particular, we ask that you consider adopting a policy that supports substantially greater transparency about the financial risks posed by climate change to the core holdings of Vanguard funds and ETFs.

The financial risks posed by climate change, and by a transition to a low-carbon economy, have received increasing attention, including by the international Financial Stability Board (FSB). For example, Mark Carney, FSB's Chairman, noted that climate change may affect financial stability in one of three ways. A changing climate may pose direct, *physical risks* through increased severity and frequency of severe weather events; *liability risks* when parties damaged by climate change seek relief from those that have been responsible; and *transition risks* from the adjustment to the necessary low-carbon economy.

We understand that Vanguard may view climate risk disclosure as an environmental and a social factor, for which you have developed a framework to guide proxy voting decisions. Proposals concerning environmental and social factors will be guided by materiality of the issue; quality of the current disclosures / business practices; and progress by the company toward adoption of best practices and/or industry norms.

By these factors, climate *transition* risk poses a particular challenge. This is because a transition to a low-carbon economy (i.e., one consistent with limiting warming to 2 degrees C above pre-industrial levels) requires a rapid move away from fossil fuels at a scale that would materially challenge the business models of several of Vanguard's core holdings, including Exxon Mobil, Chevron, and ConocoPhilips, which rely on selling fossil fuels.

Yet, fossil fuel (and other) companies are not systematically disclosing the risks that a low-carbon transition would pose to them, nor are many of them sufficiently adapting their business models to be consistent with a climate-safe world. Indeed, at least one of these companies, Exxon Mobil, is under investigation for intentionally concealing climate risks. More broadly, the International Energy Agency has warned that oil and gas companies may "misread" the pace and scale of the low-carbon transition, an outcome that could lead to substantial oil market volatility, stranded assets, and "major losses".

Accordingly, we urge Vanguard and its Investment Stewardship Oversight Committee to adopt a policy that requires the companies in which you invest to annually disclose climate risks, especially *transition risks*, that help bring to light when a company's business model is materially put at risk by – and therefore at odds with – a climate-safe world.

Sincerely,

Peter Erickson, Senior Scientist, Climate program lead
Michael Lazarus, Center Director
Christopher Swartz, Plan Administrator and Financial Director