Universal Owner finds that Vanguard is contributing to the destruction of the future value of its own portfolio. It demonstrates that despite Vanguard’s recent climate commitments, including its entry into the Net Zero Asset Managers Initiative, it continues to invest its beneficiaries’ capital in the most damaging fossil fuels, while its ESG products have virtually no impact.

Sir Chris Hohn said: “Vanguard has joined the Net Zero Asset Managers Initiative, but is failing to take meaningful action on climate. Asset owners and regulators need to act on this greenwashing.”

Vanguard and Universal Ownership analyses how Vanguard approaches fossil fuel investments in the context of its status as a ‘universal owner’, boasting $7.2tn AUM spread across over 10,500 companies around the world.

Major findings:

- Vanguard faces enormous unhedgeable risk from climate change. Its US equity alone could lose $3tn from just 2C warming by the year 2050.

- Vanguard is doing little to shift capital from brown to green assets. Its ESG funds represent just 0.1% of its total AUM, with around 94% of new capital flowing into its conventional funds. Unlike BlackRock and LGIM, it has no policy to divest its discretionary funds from coal. Vanguard is using its passive funds as an excuse for inaction, yet it could tweak the indexes it tracks to screen against carbon-intensive companies.

- Vanguard’s stewardship team lacks a coherent climate strategy and is critically under-resourced. It has a budget equivalent to 0.16% of its gross asset management fees and only 1 ESG employee for every 300 companies in which it holds a stake, making effective climate stewardship untenable. Unlike LGIM’s activist Future World Funds, there is no evidence that Vanguard’s ESG funds are vehicles for assertive company engagement.

- Vanguard’s investments conflict with the values of many of its beneficiaries, such as the pension funds of leading American tech companies. Through Vanguard, tech employees effectively own assets responsible for the production of 10m barrels of Alberta tar sands oil a year and have provided over $15m to pure-play tar sands companies via the bond market.
Dr Ben Caldecott, Director of the Oxford Sustainable Finance Programme at the University of Oxford said:

“Vanguard, like many other asset managers, now needs to walk the talk on climate change. Given its size and scale, Vanguard has the opportunity to constructively shape emerging norms and practices. Clearly, for engagement and stewardship activities to actually make a difference and deliver for clients, new resources and strategies will need to be deployed. Financing polluting companies in primary markets when those companies don’t have credible Paris aligned transition plans also needs to be reconsidered urgently. There is no time to lose.”

Vanguard and Universal Ownership shows that this lackadaisical approach to climate change can be traced back to Vanguard’s misconstrual of its place in the market. Vanguard has an interest in the systemic health of the market because it owns a representative slice of the market. Yet it focuses upon individual company risk disclosure. This approach has two fatal flaws.

First, the risk that climate change poses to individuals firms is not the same as the risk those firms pose to the climate – or the market. A firm can reduce its risk of climate regulation by, for example, simply relocating.

Second, the risks that companies disclose are often vague, while the criteria investors use to price-in climate risk are wildly inconsistent. Even when the share price of risk exposed companies does fall, there is no evidence that this does anything to change its real-world emissions.

The future value of Vanguard’s portfolio depends on the health of the market as a whole. By failing to act on climate change, it is putting its own holdings at risk, at the expense of the beneficiaries who have placed their money in Vanguard’s trust.

Thomas O’Neill, Director, Universal Owner:

“The analysis shows that Vanguard is not representing beneficiaries’ best interests on climate. Vanguard fails to internalize the proposition that its portfolios’ future value is dependent on the stability of the biosphere and to implement a stewardship and fossil fuel financing policy commensurate with the threat.

The May 2021 IEA NZE report recommends ‘no new fossil fuel investment as from today.’ As part of its response and to align with the goals of the Paris Accord, Vanguard could signal it will no longer finance or support the refinancing of fossil fuel investments through debt capital markets. Such a move would be a major, tangible step in the transition of global finance away from high-carbon energy sources.”
Universal Owner is a London and Edinburgh-based think tank that aims to systemically transform the financial sector around climate change and biodiversity through data-driven analysis. It provides consultancy services to asset owners, asset managers, and philanthropic organizations.

All infographics, such as the below, can be found here

Tech employee tar sand production via Vanguard (barrels per year)