

VANGUARD'S EMPTY PROMISES

*How Vanguard Funds Harm
and Fuels Extractive Industry*



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The Action Center on Race & the Economy (ACRE) is a campaign hub for organizations working at the intersection of racial justice and Wall Street accountability. We provide research and communications infrastructure and strategic support for organizations working on campaigns to win structural change by directly taking on the financial elite that are responsible for pillaging communities of color, devastating working class communities, and harming our environment. We partner with local organizations from across the United States that are working on racial, economic, environmental, and educational justice campaigns and help them connect the dots between their issues and Wall Street so that each of the local efforts feeds into a broad national movement to hold the financial sector accountable. www.acrecampaigns.org

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EXECUTIVE SUMMARY

Pennsylvania based asset manager, [Vanguard](#), is the world's second largest asset manager, with over \$8 trillion in [assets under management](#) (AUM). Vanguard's enormous reach has led financial firms to question "What Happens When Vanguard Owns Everything?"¹ Vanguard is referred to as a "[universal owner](#)," with ownership stake in over 10,000 corporations.² The financial institution dominates market environments and consequently has the ability to set industry norms. Asset managers have largely ignored calls for divestment from extractive industries. Asset managers, like Vanguard, have failed to include a robust racial and environmental justice orientation in their business practices. In turn, they flood extractive industries with capital. Industries like the carceral and fossil fuel industries use those investments to extract from low-income and BIPOC communities. Despite Vanguard's public commitments, in the wake of a national uprising against racialized police violence and an ever present climate crisis, our analysis shows that Vanguard has not taken adequate steps to move the needle toward racial or environmental justice.

This report (1) critiques Vanguard's governance practices and charitable giving vehicles and (2) highlights how Vanguard's loose definitions of *social justice* and inadequate screening tools allow capital to be deployed to extractive industries via funds touted as both environmentally and socially responsible. Low income and BIPOC communities have called for divestment from extractive industries. Vanguard's investment vehicles, however, remain financial drivers of harmful industry.

While ESG funds are a nod toward the need for change, Vanguard's current ESG standards are insufficient. We propose a new set of rigorous standards that incorporate an intersectional analysis of high risk extractive industries that directly impact low-income and BIPOC communities. We have created three categories, based on type of industry, to assess sectors that pose a high risk for low-income and BIPOC communities: (1) dirty dollars, the financiers of extractive industries, (2) polluters and (3) carceral corporations. We refer to sectors and corporate entities as high risk when they are major sources of pollution, violence, or extraction in low-income and BIPOC communities. The research uses data from Vanguard's two largest U.S.-based equity ESG funds: [ESG U.S. Stock ETF \(ESGV\)](#) and [FTSE Social Index Fund Admiral Shares \(VFTAX\)](#).

Vanguard's ESG funds invest billions in sectors that pose a high risk for low-income and BIPOC communities. Nearly one third, or 32%, of the holdings in Vanguard's largest U.S.-based ESG funds are in high risk sectors. This amounts to a total of nearly \$6 billion in market value through these two ESG funds alone. From weapons manufacturers like [Axon Enterprise](#) to legacy polluters like [Dow Chemical](#), Vanguard's ESG funds are riddled with extractive industries. Furthermore, the limited, and often flawed, scope of Vanguard's charitable vehicles is not enough to counteract the harms of the corporations in its funds. As communities continue to resist extractive industries and investors seek out sound, socially responsible funds, Vanguard's ESG portfolio will not measure up if the asset manager does not shift its practices.

Key Findings

Vanguard's ESG funds hold billions of dollars in investments in sectors that pose a high risk for low-income and BIPOC communities.

Currently, Vanguard oversees nearly \$6 billion in investments in high risk sectors in the studied funds that perpetuate environmental and racial injustices.

Vanguard's U.S.-based equity ESG investments total:

- \$1.4 billion in the polluters category
- \$1.3 billion in the dirty dollars category and;
- \$3.3 billion in the carceral corporations category.

Vanguard's ESG screening tools lack the rigor necessary to filter out extractive industries.

ESG investing can take many forms and use a variety of tools to determine how investment decisions are made and structured. Vanguard's ESG funds track indices provided by a third party to inform what corporations are in its funds. This third party uses exclusionary screens to determine which sectors are kept out of its ESG indices and therefore out of Vanguard's ESG funds. These exclusionary tools fail to exclude corporations like [Dow Inc.](#), [Amazon](#), and [BlackRock](#) from the funds³, despite the well documented harms the corporations have caused in BIPOC communities in the United States and across the Global South.

Vanguard's tools focus on controversiality⁴ and potential issues, such as human rights, labor, environment and anti-corruption, drawn from the United Nations corporate sustainability principles.⁵

⁶ Because these tools do not center racial or

environmental justice, there are glaring missteps in the construction of Vanguard's ESG funds. The ESG tool labels alcohol, firearms, oil, coal and gas, and adult entertainment as controversial or potential issues, but does not screen other extractive and exploitative sectors, like chemicals, mining, defense, and surveillance software. And while it filters out firearms, weapons manufacturer Axon Enterprise remains in the ESG fund.

Vanguard's donor-advised funds channel money to hate groups.

[Vanguard Charitable's](#) most recent filing with the [Internal Revenue Service](#) (IRS) reports at least \$15.1 million to 34 groups⁷ belonging to what environmental sociologist Robert Brulle termed the "climate change counter-movement"⁸ and \$401,000 in donations to five organizations identified as hate groups by the [Southern Poverty Law Center](#) (SPLC) in the most recent fiscal year.⁹

¹⁰ Some donations include:

- \$2.3 million for the **Mercatus Center**, an influential [Koch](#)¹¹ and Big Oil¹² funded think tank at [George Mason University](#) that has advanced deregulation around climate and environmental policy;
- \$1.5 million for the **Atlas Network**, a global network of think tanks funded by Koch, Exxon, and other high profile funders of the climate denial movement;¹³
- The **David Horowitz Freedom Center**, an anti-Muslim group which received \$100,000.¹⁴ The Southern Poverty Law Center has labelled Horowitz "the godfather of the modern anti-Muslim movement;"¹⁵

Recommendations

As pressure to divest from extractive industries mounts amidst demands for safe and sustainable futures, asset managers can no longer conduct business as usual. Investors are becoming more responsive to climate, environmental, and social justice demands made by advocates. Directly impacted communities are holding extractive corporations accountable, such as those within the fossil fuel and carceral industries. Real change requires institutions to shift to meet the needs of impacted communities. We recommend regulators and asset managers take a three-pronged approach to begin shifting away from extractive economies: (1) disclose (2) divest and (3) repair. Below are key recommendations to transition toward a safe and sustainable future:

DISCLOSE

Strengthen SEC Regulation of ESG Investing

Because the Securities and Exchange Commission (SEC) is responsible for regulating capital markets and protecting investors,¹⁶ it must strengthen regulation and enforcement of ESG investing. The SEC's current disclosure rules on ESG investing fail to meet the needs of values-based investors and frontline communities. This poses serious material risk to Vanguard's investors.

DIVEST

Fully divest from carceral and fossil fuel industries, beginning with ESG portfolio investments

ESG investments should promote sustainable and safe investments. Currently, Vanguard's ESG portfolios are riddled with investments in extractive industries that could be misaligned with the values of a conscious investor. Instead of "woke-washing"¹⁷ their ESG investments, Vanguard must create tangible divestment plans

that phase out funds from carceral and fossil fuel industries, along with divestment strategies for the financiers that prop up these institutions. Vanguard also has the power to exclude these companies from its larger index funds and should advocate for index provider companies to enact stronger standards in its underlying benchmarks.

Strengthen Donor Advised Fund (DAFs) Standards and Disclosures

Asset managers and corporations have shoveled millions of dollars to groups that further systemic oppression by enabling wealthy individuals to use donor-advised funds (DAFs) to make anonymous donations to them.¹⁸ Vanguard should develop and implement standards and practices that align their donor agreements with hate-free and anti-discrimination policies.¹⁹ Standards should explicitly prohibit the use of DAFs to fund groups that further systemic oppression. Vanguard should discontinue any transmission of funds to groups whose statements or practices malign or attack entire classes of people because of their race, ethnicity, religion, national origin, gender identity, or sexual orientation.

Currently, oversight for DAFs rests within the IRS's jurisdiction, but its oversight of 501(c)(3) charities housing DAFs is lax at best. The IRS should strengthen its DAFs reporting requirements and develop accountability mechanisms so that donations to groups that further systemic oppression cannot fly under the radar and can be met with real consequences.

REPAIR

Make Reparations to Directly Harmed Communities

Vanguard must deliver reparations to communities directly harmed by their investments. There is a robust and centuries-

long history of calls for reparations that can inform these processes. The Movement for Black Lives says reparations involve “specific forms of repair to specific individuals, groups of people, or nations for specific harms they have experienced in violation of their human rights.”²⁰ In order to achieve repair four conditions must be met: (1) obligation to cease the harmful act and assurances the cessation will remain in effect (2) restitution and repatriation (3) compensation and (4) satisfaction from the impacted group.²¹ While these conditions inform how reparations are made, ultimately this should be defined by the communities who have been directly impacted by the harm.

Elect racial, economic and climate justice champions to Vanguard's board of directors

In order for Vanguard to move toward divestment and repair, Vanguard needs new leadership. New leaders should represent the communities directly impacted by Vanguard's investments and should be willing to drive processes to improve the firm's governance and investment practices.

Asset managers, like Vanguard, have played a significant role in financing pollution, violence, and harassment in Black, Brown, and Indigenous communities by pumping billions of dollars into these industries for years. To begin to repair the harm Vanguard has financed, it is critical that Vanguard elects racial, economic, and climate justice champions to its board of directors to ensure that the perspectives of frontline BIPOC communities and allies are represented at the highest level of Vanguard's decision making.



[Source: openDemocracy](#)

INTRODUCTION

The compounded crises of the past two years have forced big banks and global asset managers to make public promises and stake their claim as stewards of racial and environmental justice. After the murder of George Floyd in May 2020, communities took to the streets in a national uprising. Black and Brown activists and allies called for defunding the police and made demands to reimagine public safety. Shortly after, U.S.-based asset managers committed millions of dollars to racial equity and social justice funding.²² In June 2020, Vanguard stated that it would be taking “steps toward a future where our communities are safe”.²³ Vanguard made more than \$5 million in donations to racial and social justice organizations and launched corporate initiatives to “support historically black colleges and universities and civil rights organizations.”²⁴ Those millions are a drop in the bucket of Vanguard’s \$8 trillion in total assets under management (AUM).²⁵ Despite these commitments, Vanguard has remained silent on divestment pathways in extractive industries that harm low-income and BIPOC communities. Pennsylvania based asset manager, Vanguard, is the second largest asset manager in the world.²⁶ The financial institution dominates market environments and consequently has the ability to set industry norms.²⁷ The firm has not adopted a comprehensive racial or environmental justice orientation in their business practices. The firm pours money into and props up extractive industries like the carceral and fossil fuel industries that extract from low-income and BIPOC communities. Despite Vanguard’s public commitments in the wake of a national uprising and an ever present climate crisis, our analysis shows that Vanguard has not taken adequate steps to move the needle toward racial or environmental justice.



Source: Financial Times

This report (1) critiques Vanguard’s governance practices and charitable giving vehicles and (2) highlights how Vanguard’s loose definitions of *social justice* and inadequate screening tools allow capital to be deployed to extractive industries via funds touted as both environmentally and socially responsible. Vanguard’s current environmental, social and governance (ESG), or socially responsible, investing reveals that its investments directly conflict with the divestment paths necessary for low-income, BIPOC communities to achieve abolition from extractive industries. Our analysis shows that nearly \$6 billion of Vanguard’s ESG investments²⁸ are in sectors that pose a high risk for low-income and BIPOC communities.²⁹ Some of the direct risks include adverse, long-term health outcomes from pollutants, hyper surveillance from carceral industries and their allies, and deadly encounters with police via policing technology. As communities continue to resist extractive industries and consumers seek

out sound socially responsible funds, ESG portfolios, like Vanguard's U.S.-based equity funds, will remain subpar if the institution does not shift its business practices.

Vanguard's investments not only place communities at high risk, but also pose reputational and material risk to a financial institution that has made claims to support environmental and racial justice. Community organizers and activists, alongside media outlets, have criticized many of the corporations in Vanguard's ESG portfolio.^{30 31} In other instances, government entities have issued fines for environmental offenses, employment discrimination, workplace safety and more.³² These contentious investments are a material risk for traditional portfolios, but pose a greater risk in funds labeled *socially responsible* as investors, and even corporations, seek to limit their exposure to extractive industries.³³ As a result, Vanguard's business practices, as the second largest asset manager in the world, have fallen woefully short of institutional change.



VANGUARD'S INVESTMENTS NOT ONLY PLACE COMMUNITIES AT HIGH RISK, BUT ALSO POSE REPUTATIONAL AND MATERIAL RISK TO A FINANCIAL INSTITUTION THAT HAS MADE CLAIMS TO SUPPORT ENVIRONMENTAL AND RACIAL JUSTICE.



Source: Bucks County Courier Times

THE DEEPLY ROOTED INTERSECTION OF EXTRACTIVE INDUSTRIES

Environmental racism historically describes the immoral and often illegal dumping of toxic waste into BIPOC communities.³⁴ Expanded definitions by academics and activists include police and anti-Black violence.³⁵ The expansion challenges the narrow scope of what we consider to be “our environment” and intentionally includes incarceration- an isolated, carceral environment that must be mentioned on its own.³⁶ A comprehensive definition of environmental racism allows us to explore the ways that dirty industries and extractive economies rely on systemic racism and policing structures to create unsafe physical conditions for the communities in which they are located. With this, these industries uphold structures that prove difficult for the public to penetrate and democratically change without strategic, collective intervention.

The fossil fuel industry and systems of policing and incarceration have many points of intersection. Two examples of this are the coal to prison pipeline and violence against resistance to the fossil fuel industry. Both examples highlight the importance of carrying a comprehensive analysis of environmental justice that links the harms of the carceral and fossil fuel industries.

Coal to Prison Pipeline

The location strategy for the prison industry is similar to that of the fossil fuel industry: locate on lands in low-income communities and/or BIPOC communities.³⁷ Extractive industries, like the prison and the fossil fuel industries, often locate where they are most able to exploit the land and community. As the prison industry has shifted from urban to rural geographies, there has been a pattern of prisons being built on land

that was formerly coalfields.³⁸ Policy makers and corporate actors together enabled the transition from one extractive economy to the next; it is often referred to as the coal to prison (or mining to prison) pipeline. The coal to prison pipeline is one example of how stakeholders choose environmental degradation and profit over people and public health.³⁹



Source: Unsplash, Albert Hyseni

During the 1970s and 80s, mining companies began mountaintop removal mining.⁴⁰ Mining companies blew the tops off of over 500 Appalachian peaks⁴¹, destroying or severely damaging more than a million acres of forest and buried nearly 2,000 miles of streams.⁴² Under the [Surface Mining Control and Reclamation Act of 1977](#)⁴³, coal companies were required to restore the damaged land, but a loophole gave corporations a way out: if the land could be dedicated to an “equal or better use.”⁴⁴ Coal production was declining and prison development became the “equal or better use”. Between 1970 and 2000, the number of prisons in the United States ballooned from 511 to more than 1,600.⁴⁵



Source: Unsplash, Hedi Benyounes

Sociologist John Eason stated 70 percent of these facilities were built in rural areas.⁴⁶

This transition from coalfields to prison fields mirrors earlier movements of incarcerated people who worked in mines via “convict leasing”. In his article, “Linking Environmental and Criminal Injustice: The Mining to Prison Pipeline in Central Appalachia”,⁴⁷ Robert Todd Perdue states the following:

Convicts were “leased” to private entities who, unlike former slaveholders, had no vested capital in their workforce, freeing them to literally work many prisoners to death... Mine operators, especially in the South, used prisoners for the most dangerous and grueling work in the mines. According to historian Mary Ellen Curtin, *all* of Alabama’s able-bodied male prisoners had been leased to two coal companies by 1888.⁴⁸

A more recent connection between the legacy of the fossil fuel industry and the prison industry is the attempt to build a penitentiary in Kentucky on a former coalfield. In 2015, Congress earmarked \$444 million for the Bureau of Prisons to build the Letcher County Penitentiary and Federal

Prison Camp on a former coalfield. According to the Bureau of Prisons’ proposal⁴⁹, the plan would have taken 800 acres to construct and operate the correctional facility and would have housed more than 1,200 prisoners. Community members opposed the project and questioned the environmental impact and the rejected the economic impact of another toxic industry⁵⁰ being placed in a region that corporate interests have already extracted so much from. After a battle between decision makers and community activists, the community won and in June 2019, the Bureau of Prisons withdrew its decision to build the Letcher County prison.

Violence Against Resistance

Taking on extractive industries is no small feat. Government entities, at all levels, have supported dirty and carceral industries, whether tacitly or explicitly. When government and corporate actors work together, the fight for non-extractive economies becomes complicated and even dangerous. Corporate forces often employ policing as a force or tactic to suppress public dissent and activism against environmental harm, in the United States and abroad.



Source: Getty Images

For example, Indigenous water protectors and allies protested against the construction of Enbridge's Line 3 tar sands pipeline. Vanguard is an institutional holder of the fossil fuel corporation, with an ownership stake of nearly \$2.7 billion in Enbridge.⁵¹ Since 2000, Enbridge and its affiliates have been fined for various environmental-related offenses. Enbridge was fined \$61 million as part of an overall \$177 million settlement⁵² for a massive 2010 oil spill into Michigan's Kalamazoo River. The spill required years to clean up and highlighted the hazard of pumping heavy tar sands oil through pipelines.⁵³ These egregious violations informed the resistance to Enbridge's Line 3. The Indigenous organizers and activists have faced ongoing harassment and violence by Minnesota police, including being pepper sprayed, shot at with rubber bullets, frequent police raids, ongoing surveillance, and helicopter flybys.⁵⁴ Enbridge is paying the salaries of these police officers and has paid \$750,000 to Minnesota law enforcement for policing the construction of Line 3 as of April 2021.⁵⁵

Enbridge and other fossil fuel tycoons continue to extract from Indigenous lands, with Vanguard's financial backing. Vanguard is an institutional investors in Enbridge,⁵⁶ Hess Corp,⁵⁷ Continental Resources⁵⁸ and others, who have all flocked to the Bakken region during what is referred to as the Bakken oil boom. The Fort Berthold Reservation is located in the Bakken Formation and between 2006 and 2012, the population of counties on the reservation increased dramatically. Some counties saw growth of up to 70 percent.⁵⁹ In 2019, the Bureau of Justice Statistics in partnership with RTI International released a comprehensive report titled, Violent Victimization Known to Law Enforcement in the Bakken Oil-Producing Region of Montana and North Dakota, 2006-2012.⁶⁰ The report examines how the population increase was coupled with an increase in violent crime against Indigenous people, especially among Native women and children. It concludes that the reports of increased violence in the Bakken region coincided with the oil production boom beginning in 2008. The oil industry disrupted the fabric of the communities that existed before the boom. A drastic increase in population shifted resources inequitably and also introduced new levels of crime. More specifically, it introduced crimes that targeted Indigenous communities as their lands were being extracted from. Organizers in the region, like Fort Berthold Protectors of Water & Earth Rights, continue to fight back against oil corporations⁶¹



THESE EXAMPLES ARE EVIDENCE OF RACIAL CAPITALISM; THE SYSTEM WE CURRENTLY LIVE UNDER IN WHICH WEALTHY PEOPLE, WHO ARE OVERWHELMINGLY WHITE, EXTRACT PROFIT AND POWER FROM THE EXPLOITATION OF THE WORKING CLASS AND POOR PEOPLE OF COLOR.

and their resistance must be supported by structural changes at all levels, to see lasting changes in their communities.

These examples are evidence of racial capitalism; the system we currently live under in which wealthy people, who are overwhelmingly white, extract profit and power from the exploitation of the working class and poor people of color.⁶² Violence is an essential and defining characteristic of racial capitalism; it is the tool that allows corporate actors and allied policymakers to exert control over BIPOC communities. The fossil fuel industry has advocated for legislation that criminalizes climate activists. American Fuel & Petrochemical Manufacturers, a lobbying group that represents major oil and chemical companies, worked with American Legislative Exchange Council (ALEC) to disseminate sample language for a bill called the "Critical Infrastructure Protection Act" that criminalizes oil and gas pipeline protests. Versions of the bill have passed

in at least 9 states and have been introduced in at least 22 states.⁶³

The Critical Infrastructure Protection Act exemplifies how the carceral state and corporate power often join forces to strip BIPOC communities of self-determination over their land, health, and safety. Therefore, environmental justice fights and advocacy must challenge both police and corporate power. As a financier of these corporations, Vanguard should be held accountable for failing to align its investments, especially those labeled socially responsible, with its public commitments to environmental and racial justice. Furthermore, Vanguard's DAF has donated to the State Policy Network⁶⁴, a coalition of right-wing think tanks to which ALEC belongs.⁶⁵ Vanguard must also strengthen its standards for its DAF so that it does not continue to fund the climate change counter movement that is seeking to criminalize and incarcerate climate and environmental justice activists.

GOVERNANCE FAILURES ON CLIMATE AND RACIAL JUSTICE

Vanguard's founder is credited with the creation of index investing, a passive investment strategy that has become integral to the firm's offerings and the asset management industry at large.⁶⁶ The beguiling language of *passive investment* can paint the picture of a seemingly hands off approach. But asset managers, like Vanguard, can exercise shareholder rights on behalf of clients to vote on company policy issues. The passive investment strategy does not absolve Vanguard, as a custodian, of their responsibility to hold harmful and extractive portfolio corporations accountable. In January 2022, Vanguard quietly released a new policy through a Harvard Law School blog post that asks companies with significant coal exposure to disclose the climate competence of its boards and its climate change mitigation plans.⁶⁷ The details of the policy, however, are unclear from the release, along with Vanguard's position. Vanguard continues to prop up the fossil fuel industry through portfolio investments and has failed to take action in the following ways:

- Vanguard has failed to (1) create coal divestment plans and (2) comprehensively analyze the material and transition risks of climate change in its portfolio.⁶⁸
- Vanguard remains the one of the world's largest institutional investors in the coal industry with holdings of nearly \$86 billion.⁶⁹
- Vanguard has no Arctic restriction policy with over \$21 billion invested in top companies developing new oil and gas projects in the Arctic.⁷⁰
- Vanguard holds over \$9.6 billion in equities in oil companies operating in the Amazon rainforest.⁷¹
- Vanguard remains absent from the Climate

Action 100+ process, an investor-led initiative to decrease greenhouse gas emissions,⁷² and has made no commitments transitioning corporations in line with the Paris Agreement.⁷³

Vanguard did join the Net Zero Asset Managers Initiative (NZAMI) in 2021 but has not taken any steps towards the group's mandate to reach net zero emissions by 2050 or sooner.⁷⁴ The concept of "net zero emissions" is becoming an increasingly common climate "target" among financial institutions like Vanguard and among fossil fuel corporations. When these institutions are left to self-define what constitutes "net zero emissions," they tend to rely on false solutions such as carbon capture and storage, as well as other untested technological fixes rather than adopting strategies and plans that will actually reduce emissions and fossil fuel infrastructure expansion.⁷⁵ However, climate justice advocates know that this is a false solution to the climate crisis and are organizing for more robust and effective actions like decarbonization and aggressive transitions to renewable energy.⁷⁶

Vanguard's investments perpetuate harm in communities, especially low-income and BIPOC communities. For example, Vanguard has holdings in the Formosa Plastics Corp⁷⁷, which owns a subsidiary planning to build a massive 14-plant petrochemical complex on the banks of St. James, Louisiana—a majority Black community located in a region colloquially referred to as "Cancer Alley" due to its high concentration of industrial polluters that emit cancer-causing toxins.^{78 79} The planned \$9.4 billion facility would emit greenhouse gasses equivalent to three coal-fired power plants per year, which would make

the project one of the largest pollution-causing plastics facilities in the world.⁸⁰ Local Black-led environmental justice groups have campaigned tirelessly to block the project and won a temporary reprieve last May after successfully pressuring the Army Corps of Engineers to revoke the permit for construction until a full environmental impact statement is completed, an action that could delay the project for several years.⁸¹

Communities continue to call for divestment strategies from asset managers, but Vanguard has not taken action. As recently as October 2021, Vanguard told Responsible Investor that “our index funds do not divest from specific securities in their benchmarks, including those in fossil fuel intensive industries.”⁸² Based on The Sunrise Project's report, The Passives Problem: How Index Investing Trends Threaten Climate Action,⁸³ Vanguard's index investing model fuels a range of problems: (1) the funds artificially inflate the health of the fossil fuel companies (2) increase systemic financial risk and (3) limit shareholder and asset owner pressure for change. Furthermore, despite an upswell of shareholder activism, Vanguard's voting actions fail to address transitions needed to limit climate catastrophe, as Vanguard continues to vote for 98% of management sponsored

directors in oil and gas, utilities and major banks investments.⁸⁴

Similarly, Vanguard's investment decisions and proxy voting record reflect the firm's laissez faire approach to racial justice. Vanguard has supported 166 of the 178 S&P 500 companies that had no Black directors as of 2020 shareholder meetings;⁸⁵ the firm did not use their power to demand diversity and racial justice champions in leadership. Vanguard also largely voted against shareholder proposals that aimed to address more systemic racial justice issues than board diversity; such as labor issues, pay inequities and civil rights issues.⁸⁶ In the case of private prison operator GEO Group, Vanguard met with the REIT to discuss their human rights violations and disclosure practices. In their 2021 Investment Stewardship report, Vanguard suggested GEO Group improve its political and lobbying disclosures,⁸⁷ but offered no critique of GEO Group's inhumane business model^{88 89} and took no steps toward divestment or exclusion. Support for progressive shareholder proposals and diversity in leadership of S&P 500 companies are among the small actions that Vanguard could have taken, but it chose to not even take those steps.

VANGUARD ESG FUNDS ARE SOCIALLY IRRESPONSIBLE

Vanguard's indifference to racial justice proposals and practices also shows up in its ESG investing. ESG investing was designed to be a form of sustainable or socially responsible investing that rose to prominence at a 2005 United Nations conference.⁹⁰ Governments, asset managers, institutional investors and researchers agreed, theoretically, on the importance of ESG standards in long-term investment strategies. ESG investing has boomed in the last five years and continued growth is expected; projections estimate ESG assets will represent one-third of global assets under management (AUM) by 2025.⁹¹ In a survey conducted by industry-aligned law firm, [Dykema](#), that polled senior executives and advisors, respondents stated that ESG standards play a major role in their investment decisions. More than half (55 percent) reported working on a deal involving a target company or buyer screened for ESG risk within the last 12 months.^{92 93}

Despite the rapid global growth of ESG investing, Vanguard lags behind its peers on both ESG offerings and commitments to sustainable and responsible investing. Vanguard's first ESG offering, FTSE Social Index Fund Admiral, originally named the FTSE Social Index Fund Investor Shares (VFTSX), was created in 2000.⁹⁴ The fund was rebranded as the FTSE Social Index Fund Admiral Shares in 2019.⁹⁵ It wasn't until 2018 that Vanguard added additional ESG fund offerings⁹⁶ and eventually brought its total ESG fund offerings to five options by 2020.⁹⁷⁹⁸ In 2021, the asset manager increased ESG staffing, but did not make further commitments to increase ESG offerings at the time.⁹⁹ In 2022, Vanguard announced that it aims to introduce an actively managed global equity fund to its ESG offerings, the Vanguard Baillie Gifford Global Positive Impact Stock Fund. Currently, the fund uses a third party to determine what corporations are in the fund¹⁰⁰ and includes Tesla, an electric car company known for its workers' rights violations.¹⁰¹¹⁰² As Vanguard increases their ESG capacity, they should also reassess tools they use to construct their ESG funds. Similar to a portfolio rebalancing, Vanguard should realign its ESG funds with stronger standards for social responsibility than the standards they use currently and shift capital out of extractive industries.



**VANGUARD SHOULD
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SHIFT CAPITAL OUT OF
EXTRACTIVE INDUSTRIES.**

ESG investing can take many forms and use a variety of tools to determine how investment decisions are made and structured. Asset managers tend to rely on loose parameters to determine if an investment is or is not socially responsible. Vanguard uses exclusionary screening tools created by third party index providers to define what sectors are kept out of its ESG fund offerings.¹⁰³ The ESG funds analyzed in this report (ESGV and VFTAX) “seek to track” ESG indices created by FTSE Russell.^{104 105} FTSE Russell is an index provider whose indices and financial data are used by numerous asset managers to structure funds.¹⁰⁶ Both of the FTSE indices used by Vanguard employ exclusionary screens to determine which sectors are not fit for so-called socially responsible funds.^{107 108}

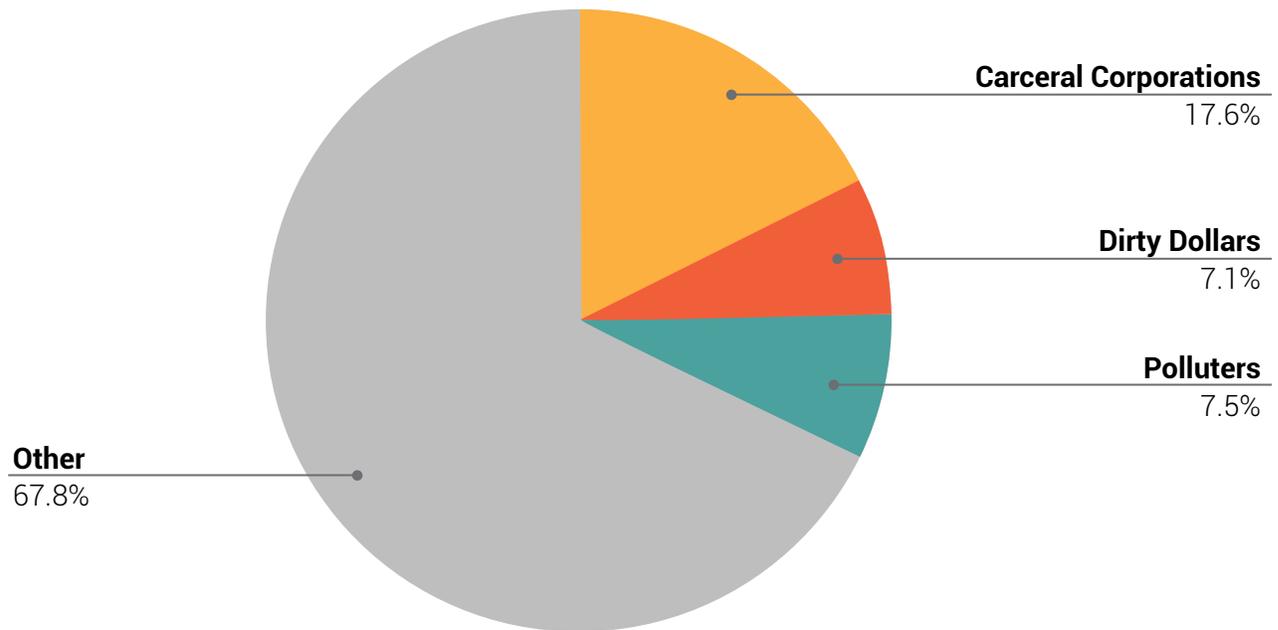
These tools fail to exclude harmful industries with disproportionate impacts in low-income and BIPOC communities. Instead, the tool casts a broad, yet ineffective, net on what are considered to be potential investment issues. These issues can include human rights, labor, environment and anti-corruption, drawn from the United Nations corporate sustainability principles.^{109 110} Because the tool focuses on controversiality, not racial or environmental justice, there are glaring missteps in the construction of Vanguard's ESG funds. For example, the tool labels alcohol, firearms, oil, coal and gas, and adult entertainment as controversial, but does not screen for other extractive and exploitative sectors - like chemicals, mining, defense, and surveillance software.^{111 112} Both U.S.-based equity ESG funds (ESGV and VFTAX) rely on this tool.^{113 114} But in order for asset managers to enact institutional changes and minimize material risk for clients, Vanguard must take responsibility and create a set of standards that prohibits a larger array of harmful and extractive industries than it currently does.

Redefining ESG Standards

This research presents a set of new standards to categorize the sectors that pose a high risk for low-income, BIPOC communities by using three key definitions; (1) dirty dollars (2) polluters and (3) carceral corporations. The research focuses on Vanguard's two largest U.S.-based equity ESG funds: ESGV and VFTAX. Our analysis classifies high-risk sectors within these funds as follows :¹¹⁵

- **Dirty Dollars.** The Dirty Dollars include the financial institutions—big banks, asset managers, private equity firms, and insurance companies—that prop up a host of fossil fuel corporations and carceral corporations.
 - » Vanguard's U.S. based equity ESG investments total \$1.3 billion in Dirty Dollars
- **Polluters.** Sectors that can be considered polluters primarily include fossil fuel corporations and other large corporations whose direct lines of business have a harmful impact on the environment and surrounding communities.
 - » Vanguard's U.S. based equity ESG investments total \$1.4 billion in Polluters
- **Carceral Corporations.** Sectors that can be considered carceral corporations primarily include those whose direct lines of business rely on the prison system or policing of low-income BIPOC communities like private prisons, weapon production, surveillance technologies and more.
 - » Vanguard's U.S. based equity ESG investments total \$3.3 billion in Carceral Corporations

High Risk Sectors in ESG Funds (ESGV, VFTAX)



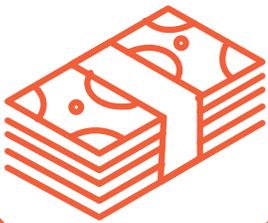
[Source: Data available in Vanguard's customizable investment reports and ACRE analysis.](#)

These classifications expand Vanguard's current criteria and provide a more exhaustive analysis of the high-risk extractive industries directly impacting low-income and BIPOC communities. Based on this analysis, high-risk sectors make up 32 percent of the holdings, or nearly \$6 billion in market value, in Vanguard's largest U.S.-based ESG funds. These funds reveal flaws in Vanguard's standards for ESG investing. ESG funds can be used to *woke-wash* investments, meaning asset managers like Vanguard rely on social justice language to draw investors in without aligning their funds with meaningful social justice standards. Vanguard has failed to deliver rigorous standards for ESG investing.

High-Risk Portfolio Corporations

In this section, we show examples from Vanguard's ESG funds of corporations that fall into the (1) Dirty Dollars (2) Polluters and (3) Carceral categories. Within these examples, we also use case studies to highlight the types of corporations from which advocates and activists have demanded asset managers divest. For ESG funds to meaningfully align with racial and environmental justice values, extractive industries must be filtered out of the funds that profit from the label of "social responsibility." ESG indices should be comprehensive, as a first step toward full divestment from extractive industries.

VANGUARD'S ESG INVESTMENT IN HIGH RISK SECTORS



DIRTY DOLLARS

The Dirty Dollars are the financial institutions—big banks, asset managers, private equity firms, and insurance companies—that prop up and finance extractive industries.

Investment Examples:
Citigroup, BlackRock, AIG

Total Investment in High-Risk Sectors:
Vanguard's U.S. based equity, ESG investments total \$1.4 billion in Polluters¹¹⁶



POLLUTERS

Polluters are fossil fuel corporations and other large corporations whose direct lines of business have a harmful impact on the environment and surrounding communities.

Investment Examples:
Dow Inc., Newmont Corporation, PPL Corporation, Covanta

Total Investment in High-Risk Sectors:
Vanguard's U.S. based equity, ESG investments total \$1.3 billion in Dirty Dollars¹¹⁷



CARCERAL CORPS

Carceral Corps are corporations whose direct lines of business rely on the prison system or policing of BIPOC communities like private prisons, weapon production, surveillance technologies and more.

Investment Examples:
Amazon, Axon, Microsoft, Motorola Solutions

Total Investment in High-Risk Sectors:
Vanguard's U.S. based equity, ESG investments total \$3.3 billion in Carceral Corporations¹¹⁸

DIRTY DOLLARS PROP UP HARM

A handful of financial institutions—big banks, asset managers, private equity firms, and insurance companies—prop up a host of oil, gas, and coal corporations and their drilling operations, pipelines, refineries, petrochemical facilities, and power plants.

- Asset managers like Vanguard, [BlackRock](#) and [State Street](#) have played a crucial role in financing climate and racial injustices, totaling a combined \$300 billion in fossil fuel investment portfolios.¹¹⁹ These firms bundle this money into hundreds of index funds and other investment vehicles. They buy up stakes in thousands of companies, making them among the top beneficial owners of virtually every publicly traded corporation in the United States.¹²⁰ They've expanded billion-dollar stakes in some of the most carbon-intensive companies four years after the United Nation's landmark [Paris Agreement](#) to accelerate the investments needed for a low carbon future.
- Big Banks issue project-based and general corporate credit facilities, underwrite corporate bonds, advise on mergers and acquisitions, buy oil and gas corporate stock through their asset manager arms, and provide other financial services to fossil fuel corporations. These services, in turn, allow fossil fuel companies to carry out and expand their operations. Between 2016 and 2019, 35 global banks provided \$2.749 trillion in fossil fuel financing to over 2,100 companies doing business across the fossil fuel life cycle, according to [Banking on Climate Change: Fossil Fuel Finance Report 2020](#).¹²¹
- Insurance corporations underwrite the fossil fuel industry's operations, including its expansion projects, insuring everything

from oil and gas pipelines that traverse tribal lands to power plants that pollute BIPOC communities. Many insurance corporations also invest billions in oil, gas, and coal companies.¹²²

Together, these financial institutions and fossil fuel corporations uphold a fossil-finance engine that drives the chain of carbon and chemical emissions, and has a disproportionately devastating impact on public health in low-income, BIPOC communities. Below are some examples of the dirty dollars found in Vanguard's socially responsible funds:

Citigroup

Headquarters: New York, New York

Sector: Banks

Citigroup, also referred to as Citi, is a financial services holding company that provides retail and investment banking services to individuals and institutions. According to [Banking on Climate Chaos: Fossil Fuel Finance Report 2021](#), Citi is the second largest financier of fossil fuels and the largest financier of fossil fuel expansion companies in the world, with \$237.48 B invested in the industry since the adoption of the Paris Agreement in 2015.¹²³ Citigroup's annual fossil fuel financing was actually higher in 2020 compared to 2016, a year after the Paris Agreement.¹²⁴ Vanguard invests nearly \$81 million in Citigroup through its two largest U.S. based ESG funds.

In addition to climate failures, Citi has also perpetuated racist banking practices. One of the largest fines recently levied against the company was in 2019, when the Office of the [Comptroller of the Currency](#) penalized [Citibank](#), a subsidiary of Citigroup, for \$25 million due to bank borrowers not equally receiving mortgage discounts and for being "adversely affected on the basis of their race, color, national origin, and/or sex."¹²⁵ Overall, Citigroup is also one of the most penalized parent

companies in the United States since 2000, ranking fifth with over \$25 billion in total penalties levied against the company.¹²⁶

BlackRock

Headquarters: New York, New York

Sector: Asset Managers and Custodians

BlackRock is the largest asset manager in the world, with \$10 trillion in assets under management (AUM).¹²⁷ Despite the COVID-19 pandemic, BlackRock's AUM grew by 30 percent from 2020 to 2021. Vanguard invests nearly \$70 million in BlackRock through its two largest U.S. based ESG funds. Vanguard's investment in BlackRock exemplifies the hyper-financialization and undue power of Wall Street in our economy. BlackRock fails on racial and climate justice in leadership and practice. Larry Fink, the CEO of BlackRock, has been a donor to the New York City Police Foundation and co-chair of their annual galas for multiple years.¹²⁸ BlackRock has opposed nearly all shareholder proposals aimed at systemic racial justice issues.¹²⁹ And BlackRock is one of the largest investors in the prison and border industry, with over \$680 million invested directly in private prison operators alone.¹³⁰ For example, BlackRock is the largest institutional owner of private prison operator CoreCivic, formerly known as the Corrections Corporation of America, with over 15 percent stock ownership as of March 2021.¹³¹

BlackRock remains a leading investor in extractive industries and continues to invest billions of dollars in fossil fuel companies despite public pledges to sustainability.¹³² In practice, the Lead Independent Director of BlackRock, Murry Gerber, has profited in the tens of millions from fossil fuel investments despite his fiduciary duties with BlackRock and claims to lead the institution into a future of "sustainable" investing.¹³³ Larry Fink

has also made a commitment to reaching net zero greenhouse gas emissions by 2050.¹³⁴ But climate justice advocates have exposed that the concept of net zero has been manipulated by corporations like BlackRock to include false solutions to the climate crisis in their net zero emissions accounting such as Carbon Capture and Storage. There are growing calls for the firm to stop relying on these false solutions and to aggressively decarbonize and transition its assets.¹³⁵

American International Group

Headquarters: New York, New York

Sector: Full Line Insurance

American International Group (AIG) is an international insurance company whose services include property casualty insurance, life insurance, retirement and other financial services. Vanguard invests over \$22 million in AIG through its two largest U.S. based ESG funds. AIG largely earns revenue through insurance premiums, policy fees and investment income, and earned a total of \$43.7 billion in revenue in 2020.¹³⁶ AIG is one of the top insurers for the oil and gas industry in the world and the largest insurer of coal outside of China. In stark contrast to the company's claims of sustainability and environmental stewardship,¹³⁷ the company publicly stated in 2021 that it will not reduce insurance access to clients that are heavy users or producers of fossil fuels.¹³⁸ In 2022, AIG released a "Net Zero Greenhouse Gas Emissions" statement that committed the corporation to no insurance or underwriting for new coal and oil sands projects.¹³⁹ It is unclear how this will affect AIG's insurance of the Trans Mountain Pipeline, a highly controversial tar sands project that violates Indigenous land rights in Canada.¹⁴⁰
¹⁴¹ The pipeline project crosses the territory of 15 First Nation communities in the Alberta and British Columbia provinces.¹⁴²

POLLUTERS FUEL CLIMATE CRISIS

Fossil fuel corporations profit from exploiting finite resources that pose irreparable harm to the environment.¹⁴³ All fossil fuels emit greenhouse gasses, such as carbon dioxide, methane, and nitrous oxide, among other harmful pollutants, when burned.¹⁴⁴ The use of fossil fuels is the primary source of carbon dioxide emitted into the air.¹⁴⁵ Carbon emissions trap heat in the Earth's atmosphere and, over time, cause climate change.¹⁴⁶ If the Earth experiences rises in global temperatures above 1.5 degrees Celsius, we will be facing a global climate catastrophe.¹⁴⁷ Scientists predict this modest increase in global temperatures will cause sea levels to rise, extreme weather, loss of biodiversity and species extinction, as well as food scarcity, severe threats to human health, and increases in global poverty.¹⁴⁸

Black, Brown, and Indigenous communities are disproportionately harmed by the fossil fuel industry in the United States and across the Global South. In the U.S., there is a historical legacy of race being the single greatest indicator of whether a person lives near a hazardous, toxic facility, such as oil refineries, coal-fired power plants, waste processing plants, and landfills.¹⁴⁹ Still today, Black people are 75 percent more likely to live near facilities that produce harmful emissions than other Americans.¹⁵⁰ Black people are hospitalized for asthma at three times the rate of white people and the death rate from asthma is also nearly three times higher for Black people than white people.¹⁵¹ Additionally, Black and Latinx people face higher risk of cancer from oil and gas facilities' toxic emissions. Indigenous communities are frequently extracted from for

resource-development projects on or adjacent to their lands.¹⁵² This includes oil and gas drilling or the building of fossil fuel pipelines. Indigenous leaders have asserted these types of



**BLACK, BROWN,
AND INDIGENOUS
COMMUNITIES ARE
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IN THE UNITED STATES
AND ACROSS THE
GLOBAL SOUTH.**



Source: Unsplash, Chris Leboutillier

projects have caused immense environmental degradation, exposed community members to serious adverse health risks, and destroyed sacred cultural sites¹⁵³.

Asset managers, like Vanguard, oversee hundreds of billions of dollars in fossil fuel investments.¹⁵⁴ In the two aforementioned Vanguard ESG funds, the asset manager holds investments in a number of high risk sectors including: Chemicals¹⁵⁵, Mining, Waste and Disposal Services and Utilities. These sectors are likely to include investments in toxic facilities that pollute BIPOC communities. Below are examples of polluters from Vanguard's U.S.-based ESG funds:

Newmont Corporation

Headquarters: Denver, Colorado

Sector: Gold Mining

Newmont, an exploitative, extractive mining corporation, is responsible for decades of environmental and human rights abuses across the globe.¹⁵⁶ In 2017, Peruvian residents deployed a variety of direct actions and legal strategies to halt the construction of a \$5 billion mine that would degrade the natural environment and violate the land rights of Peruvian farmers.¹⁵⁷ In Nevada, Indigenous peoples have protested against the company's destruction of sacred lands¹⁵⁸ and the company recently paid to settle water pollution claims that wound their way through legal procedures for years.¹⁵⁹ There were also years of resistance to the Ahafo Gold Mine project in Ghana on the grounds of human displacement, water pollution and habitat destruction, but the mine eventually started production in 2013.¹⁶⁰ This is only a small sampling of documented harms by the company, and yet again, it is still considered adequate for "socially responsible" investing by Vanguard, who invests over \$28 million dollars in the company through the "socially responsible" funds ESGV and VFTAX.

PPL Corporation

Headquarters: Allentown, Pennsylvania

Sector: Conventional Electricity

PPL Corporation was founded as the Pennsylvania Power & Light Company in 1920. Today, PPL Corporation delivers electricity to customers in Pennsylvania, Kentucky, and Virginia. The company's largest fuel source is coal, accounting for 64% of PPL Corporation's operating capacity from power plants in Kentucky.¹⁶¹ LG & E and Kentucky Utilities, PPL subsidiaries in Kentucky, are 80% coal-powered.¹⁶² Local residents who are concerned about the current and future impacts of climate change are at odds with the local business leaders who will not commit to retiring any coal capacity for the utility.¹⁶³ Coal is one of the highest polluting fossil fuels when burned, and much of the world is aggressively shifting away from it due to its negative environmental and health impacts.¹⁶⁴ In 2017, PPL Corporation shareholders successfully voted for the corporation to report on how climate change will impact business operations.¹⁶⁵ In 2021, PPL Corporation announced a net zero by 2050 plan, which would include retiring some, but not all, of its coal plants in the coming decades.¹⁶⁶ But this 'burn now, pay later' approach to the climate crisis is not aggressive enough to align with the temperature goal identified in the Paris Agreement as necessary to limit global warming enough to avert further climate catastrophe.¹⁶⁷ Vanguard invests over \$25 million in this coal-fired utility through the "socially responsible" funds ESGV and VFTAX.

Covanta

Headquarters: Morristown, New Jersey

Sector: Waste Management

Covanta Holding Corporation is a waste incineration company, with nearly 80 facilities throughout the U.S., Canada and Europe.¹⁶⁸ Covanta captures steam from the waste incineration process to generate electricity and

promotes itself as a sustainable company, claiming three-quarters of “Waste to Energy” processing in the U.S. However, Covanta actually earns the majority of its revenue through waste and service contracts.¹⁶⁹ In Chester, Pennsylvania, the community organization, Chester Residents Concerned for Quality Living, continues a thirty year long fight to shut down the Covanta incinerator in their city.¹⁷⁰ Chester, Pennsylvania is a low-income, predominantly Black community, located about 20 miles south of Vanguard’s headquarters. The facility lacks pollution controls that remove nitrogen oxides, toxins and other dioxins from the air, known as particle pollution.¹⁷¹ Particle pollution is associated with premature mortality, increased hospital admissions for heart or lung causes, acute and chronic bronchitis, asthma attacks and other respiratory problems.¹⁷² The adverse health outcomes in the city can be linked to pollutants from the Covanta plant.¹⁷³

Vanguard’s socially responsible funds invested over a quarter of a million dollars in Covanta despite the recorded harms to frontline communities. As of December 2021, Vanguard ESG funds no longer invested in the company, but not because Vanguard decided to divest from the corporation’s harmful activities.¹⁷⁴ Covanta shareholders voted to approve an acquisition of the corporation by an investment firm, thereby privatizing the company and making it ineligible for Vanguard funds.¹⁷⁵ Despite this change in ownership structure, frontline communities like Chester are left to deal with the environmental fallout of Vanguard’s investment decisions. While Covanta is no longer active in the ESG portfolio, Vanguard must still be held responsible for the role they’ve played in propping up primary drivers of environmental racism, like Covanta.



VANGUARD’S SOCIALLY RESPONSIBLE FUNDS INVESTED OVER A QUARTER OF A MILLION DOLLARS IN COVANTA DESPITE THE RECORDED HARMS TO FRONTLINE COMMUNITIES.

CAMDEN FOR CLEAN AIR

Energy Justice Network

In May 2020, [Energy Justice Network](#) helped Camden, NJ residents organize [Camden for Clean Air](#). We brought together a diverse local group of activists and residents to stop a plan to financially prop up the largest air polluter in all of Camden County, New Jersey: Covanta's trash incinerator in the City of Camden. This scheme would have had the incinerator power a proposed microgrid, enabling Covanta to roughly triple their electric sales revenues and stay open for more years. Public officials claimed it would not help keep the aging incinerator open, but then we found the same public officials signed off on a report stating that the microgrid would "preserve and extend the

[incinerator] plant's useful life."

Within 10 months of organizing, we won! In March 2021, local officials announced that the microgrid would instead be powered by solar, digester gas, and batteries. This victory was the result of solid research, outreach, exposing the lies of politicians and consultants, and relentless pressure we applied for most of a year on city, county, and state officials. Now, Energy Justice Network and Camden for Clean Air plan to take the next steps to close the incinerator for good.

Energy Justice Network is also leading the movement with [Chester Residents Concerned](#)

[for Quality Living](#) to close the nation's largest waste incinerator, in the small City of Chester, PA near Philadelphia. Philly is surrounded by the nation's worst cluster of trash incinerators. All five of them are among the region's top 10 air polluters, contributing to Philly's status as the worst big city for getting cancer and a top 10 asthma capital. Our strong movement against environmental racism in Chester is a regional fight to cut off the flow of waste to all of these burners. We're close to winning our campaign to end Delaware County's incineration contract, representing nearly 1/3rd of the waste feeding Covanta's Chester incinerator.

Source: Karen Yi, NJ Advance Media for NJ.com



DOW INC. (THE DOW CHEMICAL COMPANY)

Headquarters: Midland, Michigan

Sector: Chemicals: Diversified

Dow Inc. manufactures chemicals, plastics and coatings at 106 manufacturing sites in 31 countries across the globe. In 2020, the company earned \$38 billion in net sales, a decline from \$42 billion in 2019 and \$48 billion in 2018.¹⁷⁶ These declines are consistent with trends in the chemical industry, which has seen an overall decline in demand and return on investment even with the crutches of asset managers like Vanguard.¹⁷⁷ Dow has an expansive history and current reality of harmful industrial activity that directly harms the health of frontline communities and creates material risk for investors.

Since 1959, Dow Inc. has manufactured chemical products in an area known as "Cancer Alley," located in Louisiana along the Mississippi River, where petrochemical industrial plants and refineries harm the health of predominantly Black and low-income residents.¹⁷⁸ Dow is the largest petrochemical company in the state with six facilities.¹⁷⁹ And while air quality is improving in much of the United States, health threats in Cancer Alley are expected to worsen due to plans to construct additional

petrochemical facilities in the region.¹⁸⁰ In 2021, Dow reached a settlement with the U.S. Department of Justice to spend nearly \$300 million to reduce hazardous air pollution from four of the company's petrochemical manufacturing facilities in the area, which demonstrates the harm that local communities face due to the corporation's activities.¹⁸¹

Dow Inc.'s harmful activities also extend to California. From 1938 to 2019, Dow operated a high-polluting facility that burns hazardous, carcinogenic waste in Pittsburg, California; a majority people of color, low-income community.¹⁸² In 2019, environmental groups alleged that Dow and Corteva, the company that took over operations from Dow, violated hazardous waste law at the facility.¹⁸³ Dow was criticized for poor record keeping and pollution controls despite "substantial earnings."¹⁸⁴

Dow weaponizes the profit it makes from these harmful activities to influence government officials. Since 1988, Dow has spent millions of dollars every year on lobbying, peaking at \$14.4 million in 2014.¹⁸⁵ The company also

worked closely with the Trump Administration at the same time as when the EPA controversially ended a ban on chlorpyrifos, an insecticide produced by Dow.¹⁸⁶ After years of concern from the scientific and environmental justice community, the ban on chlorpyrifos was reinstated in 2021.¹⁸⁷

Although the ban was reinstated, there are still harms from the use of chlorpyrifos that must be repaired. In the 1960s, Dow commissioned a study in which incarcerated men were exposed to varying levels of chlorpyrifos. The study is unethical and yet again demonstrates the connection between polluting and carceral corporations. The people who were unfortunately a part of this study were found to have negative impacts to their "neuromuscular function" due to exposure to the chemical.¹⁸⁸ Scientists recently reviewed the data from the study again and found that in addition to the study being inhumane, there was no peer review and the analysis was flawed, stating that low levels of exposure were safe when in reality they were not.¹⁸⁹

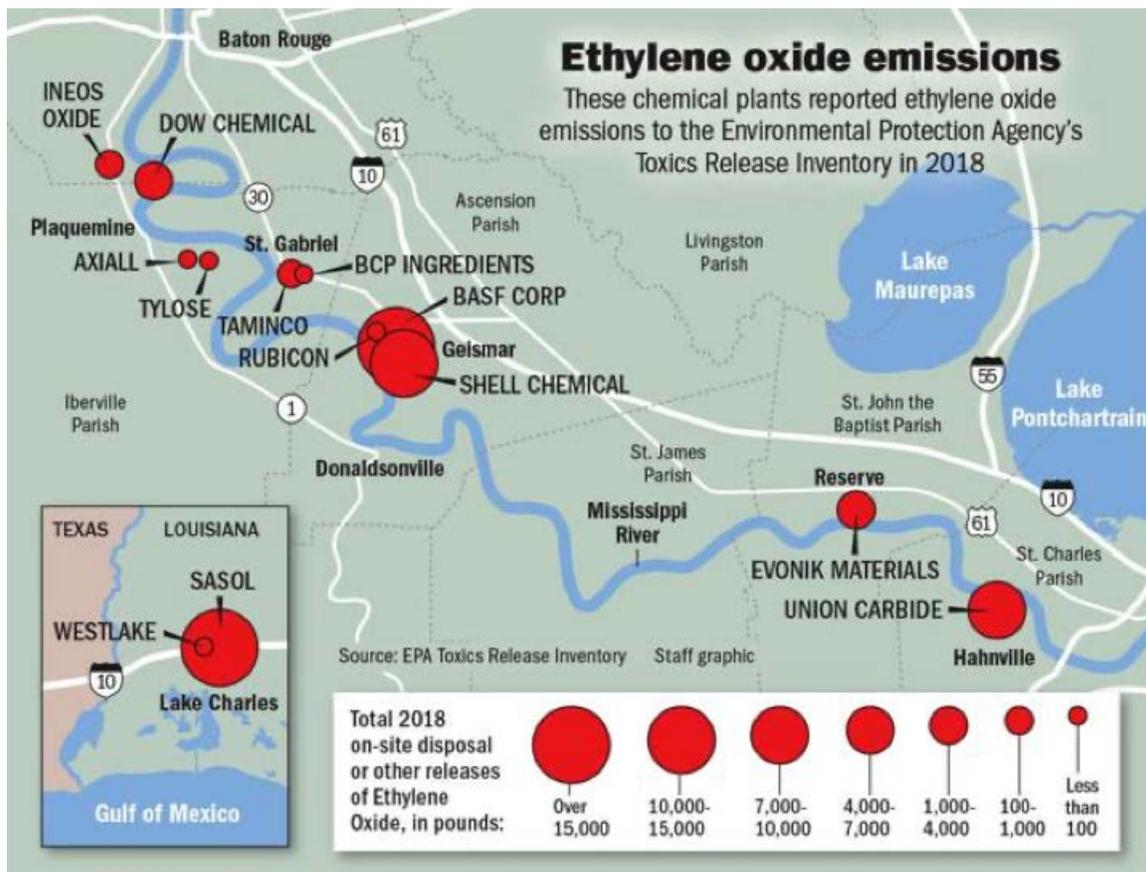
Today, the negative environmental and health impacts of chlorpyrifos continue

to be clear, particularly in Latinx farmworker communities and in children.¹⁹⁰ In California, Dow has also faced legal action for health damages allegedly linked to the use of the pesticide.¹⁹¹ Investors are also issuing material risk downgrades to the company due to reputational risk related to the chemical product.¹⁹²

Beyond these specific geographies and products, Dow Inc. has accumulated over \$250 million in environment related offenses at a national level since the year 2000.¹⁹³ Dow's track record of environmental racism is clear and creates a true material risk to investors who seek sustainable returns on

their investment as well. Despite all of this, Vanguard continues to invest over \$26 million in Dow Inc. through the "socially responsible" funds ESGV and VFTAX.

POLLUTANTS IN CANCER ALLEY



Source: The Times-Picayune via ProPublica (2018)

CORPORATIONS & CANCER ALLEY

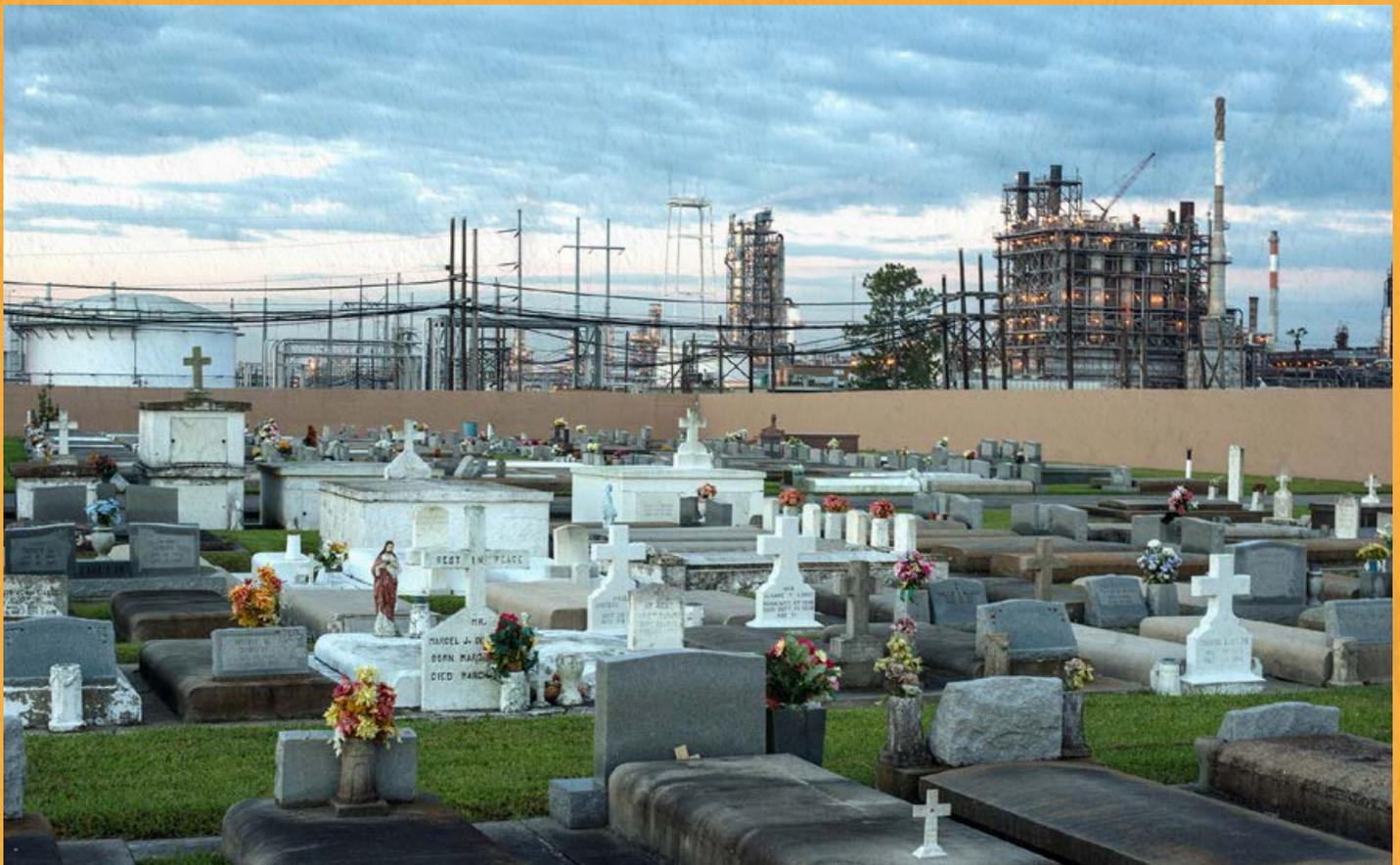
The Water Collaborative

Communities throughout Louisiana are situated along an 85-mile industrial corridor between Baton Rouge and New Orleans that houses over 150 petrochemical complexes, including Dow Chemical Company, the largest petrochemical company in our state. These industrial complexes were built along the Mississippi River, around dozens of small and rural communities already vulnerable to poor economic health. The effects of these industries

have had a detrimental impact on the lives of people in these communities and the public health. Petrochemical facilities frequently emit toxic pollutants and waste into the air, water, and soil. In Louisiana, industries produce over 3 billion pounds of toxic waste each year, and over a hundred million pounds emitted into the environment untreated and unaccounted for. Two of our states' largest cities have now been dubbed 'Cancer Alley,' as some of the highest rates of cancer in the

U.S. have been detected in the region. The connection between industry and health is painfully obvious. Meanwhile, our most vulnerable and under-resourced communities are up against Goliath-sized industrial titans with the money and power to do as they please. On the brink of extreme climate change, it's important that we all step up and help vulnerable communities fight back. Our communities deserve better!

Source: Getty Images



CARCERAL CORPORATIONS EXTRACT FROM BIPOC COMMUNITIES

Vanguard, along with other asset managers, play an undeniable role in the proliferation of carceral corporations. There are approximately 4,000 companies that profit from the prison industrial complex that range from electronic monitoring and bail bonds, to construction of facilities and certain services inside, to surveillance technology and data collection.¹⁹⁴ Asset managers like Vanguard help to solidify the industry's financial standing and prominence by deeming them sound investments.

In our analysis of Vanguard's U.S.-based equity ESG investments, Vanguard invests \$3.3 billion in Carceral Corporations. But this number is much higher when analyzing their total assets under management. Vanguard invests nearly \$900 billion in companies involved in private prison operators alone.¹⁹⁵ They are the largest institutional owner of GEO Group, a highly controversial private prison real estate investment trust.¹⁹⁶ Vanguard is also the second largest institutional owner of CoreCivic, formerly known as Corrections Corporation of America, another highly criticized private prison company.¹⁹⁷ A closer analysis of Vanguard's relationship with the carceral industries raises major concerns about the rigor of the standards used to construct Vanguard's socially responsible funds.

Microsoft Corporation

Headquarters: Redmond, Washington

Sector: Software

Microsoft Corporation is known for developing software and operating systems, designing devices like PCs and tablets, and providing services like cloud-based technology, consulting and online advertising.¹⁹⁸ Bill Gates co-founded the company in 1975 and has come to symbolize extreme wealth inequality with a net worth over \$130 billion.¹⁹⁹ Microsoft is yet another technology company that

has profited from the increasing power of the police state and the government's military spending, both of which harm communities of color in the U.S. and around the world. Microsoft directly profits from the pipeline of "juvenile delinquency" and policing to incarceration and probation.²⁰⁰ Its products Offender360 and its corrections management suite use big data analytics and cloud computing software to surveil and "risk-score" individuals in the prison-industrial complex in a disturbing Orwellian fashion. The company also provides products and services to police departments, such as the Domain Awareness System used in New York City to surveil communities with license plate readers, cameras and chemical and radiation meters.²⁰¹

Microsoft's carceral profits also stem from activities abroad. Since 2011, over 80 percent of Microsoft's federal contracts have been awarded by agencies key to the War on Terror, in which Muslim and BIPOC communities are surveiled and criminalized.²⁰² During the Trump Administration, Microsoft's number of defense contracts and subcontracts increased nearly six times over. In 2020, Microsoft contracted with the Department of Homeland Security (DHS) for \$230 million for cloud computing and information technology services, which is the company's largest contract yet with DHS. And Microsoft's federal defense contracts could continue to grow, as the company is a contender for upcoming billion dollar contracts with the Pentagon and the DHS. Additionally, Microsoft has been a donor to, and a partner and board member of, the Seattle Police Foundation.²⁰³ Police foundations are non-profit organizations that direct private donations into police budgets outside of the public view. Police departments nationwide use these donations to fund aggressive surveillance technology, high-tech weapons, crowd control devices, and SWAT equipment. Police foundation boards and donor lists are stacked with business representatives, reflecting the close ties between corporate America and police power.²⁰⁴ Vanguard

invests over \$1.1 billion in Microsoft through the “socially responsible” funds ESGV and VFTAX.

Amazon

Headquarters: Seattle, Washington

Sector: Diversified Retailers

Amazon's (Amazon.com Inc.) core business model relies on extraction; extraction of labor, data, wealth and resources in low-income communities and communities of color. Amazon's reach has spread beyond its online retail website.²⁰⁵ The corporation enables white supremacists and platforms hate, promoting anti-Muslim hate and racist propoganda.²⁰⁶ Its subsidiaries like Amazon Web Services and Ring LLC also drive hate by profiting from policing, incarceration and surveillance. Amazon continues to see windfall profits; the corporation earned \$21 billion in 2020, a nearly 80 percent increase from \$11.5 billion in 2019, despite the COVID-19 pandemic.²⁰⁷

Amazon Web Services contracts with Immigration and Customs Enforcement (ICE). ICE uses Amazon Web Services' databases and cloud-based storage systems to surveil and criminalize immigrant communities in the U.S. Amazon Web Services also provides software for U.S. prisons.²⁰⁸ Amazon's Ring, the doorbell, video recorder and security system, has become a tool of racial profiling. The company shares data collected through the product with over 1,700 police departments in the United States.²⁰⁹ In some instances Amazon intentionally delayed making their deal with law enforcement public, making it harder for communities to hold both law enforcement and the company accountable.²¹⁰

Amazon also profits from federal contracts that are central to the War on Terror, deeply harming Black, Brown and Muslim communities both nationally and globally. Since 2004, 86% of all of Amazon's government contracts and

subcontracts have been with agencies central to the War on Terror, such as the Department of Defense, the Department of Homeland Security, the State Department and the Department of Justice.²¹¹ In 2021, Amazon Web Services entered into a contract with the Israeli government to provide cloud services primarily for the Israeli Defense Forces, which represses, surveils and displaces Palestinians.²¹² Vanguard invests over \$826 million in Amazon through the “socially responsible” ESGV and VFTAX funds alone.

Motorola Solutions

Headquarters: Chicago, Illinois

Sector: Telecommunications Equipment

Motorola Solutions is a communications technology manufacturer and service provider that has a decades-long history and brand image of working with police departments and law enforcement agencies. The company's net sales were \$7.4 billion in 2020, down from \$7.9 billion in 2019.²¹³ Motorola Solutions profits from the defense industry by selling software and equipment like body cameras, license plate scanners and communication networks to police departments. Since 2018, the company has spent nearly \$2 billion to acquire at least five other companies that also create products and services for police.²¹⁴

Motorola Solutions is an active investor in the police technology industry. Motorola's current investments in police and surveillance technology companies include \$271 million in Watchguard, \$136 million in Avtec and \$974 million Avigilon.²¹⁵ Motorola Solutions former investments include ShotSpotter, a controversial company that uses gunshot detection technology and is largely placed in poor and BIPOC communities.^{216 217} While Motorola Solutions no longer invests in the company, it was an early investor that upheld and profited millions of dollars from Shotspotters harmful activities.²¹⁸

Motorola is also tied to at least ten police foundations, with representatives on the boards of the Seattle, Baltimore, Detroit, Philadelphia and Washington, D.C. foundations, making it one of the biggest corporate backers of police foundations.²¹⁹ The [Motorola Solutions Foundation](#) donated around \$1 million per year to policing between 2017 and 2019,²²⁰ and it was previously listed on the [Seattle Police Foundation's](#) page as a "\$25,000+" donor until the foundation scrapped its website.²²¹ ²²² Vanguard invests nearly \$20 million in Motorola Solutions through the "socially responsible" ESGV and VFTAX funds.

Source: Unsplash, Enrique Alarcon



AXON

Headquarters: Scottsdale, Arizona

Sector: Weapons, Policing Technology

Axon Enterprise is a weapons and surveillance corporation that partners with law enforcement agencies to sell electrical weapons- like tasers, body cameras and surveillance technology. Axon Enterprises develops, manufactures, and sells weapons and cloud-based surveillance tools designed for use by law enforcement, corrections, military forces, private security firms and individuals.²²³ Axon operates worldwide, but most of its revenue is generated in the United States.²²⁴

Much of the company's success can be attributed to the fear mongering that happened as a result of September 11th. Prior to September 11th, the corporation was headed into bankruptcy. After, the corporation found growing success because of United Airlines purchase of 1,300 tasers (the tasers replaced stun guns located in the United Airlines cockpits).²²⁵ This catapulted their transition from personal and private weapons and surveillance technologies into institutionalized policing and military technologies. In its SEC filings, Axon stated:

"We are materially dependent on acceptance of our products by law enforcement markets, both domestic and international. If law enforcement agencies do not continue to purchase and use our products, our revenues will be adversely affected."²²⁶ They also state, "we substantially depend on sales of our TASER CEDs, and if these products do not continue to be widely accepted, our growth prospects will be diminished."²²⁷

CEO Rick Smith created the technology after he witnessed a fatal road rage incident. The incident is used as an example of why the corporation developed what they claim to be an alternative to lethal policing technology.²²⁸ Although Axon has disputed many of the deaths attributed to their technology, tasers have proven to be fatal.

- In 2013, a Chicago police officer tased a pregnant woman three times (once in the stomach) when she pretended to use her phone to record police

towing her van. She miscarried her baby.²²⁹

- In 2017, Arlington, Texas, police officers shot a 39-year-old suicidal man with a taser, after he drenched himself in gasoline. The electrical currents from the taser set Gabriel Olivas on fire immediately, causing his home to burn down. He died days later.²³⁰
- In 2019, Louisiana state troopers tased 49-year-old Ronald Greene at least three times in 20 seconds, after being stopped for a traffic violation. Police initially told Greene's family he died from crash injuries, even though a medical report noted that his body had two Taser probes still lodged in his back from the encounter with police.²³¹

Policing technology, like Axon's TASERS, do not disrupt the frequency with which low-income, BIPOC community members interact with police. Police officers disproportionately exercise abusive behavior in communities of color. For example, numerous studies



Source: Unsplash, Lianhao Qu

have found racial bias in how police determine who to stop, and in whether a person who is stopped will be searched. A 2016 [Chicago Police Accountability Task Force](#) investigation found that “black and Hispanic drivers were searched approximately four times as often as white drivers, yet [the [Chicago Police Department’s](#)] own data show that contraband was found on white drivers twice as often as

black and Hispanic drivers.”²³² Less deadly policing technology, like TASERS, do not get to the root causes of violence and divestment in communities.

Police and police technology reinforce state violence, exacerbate violence and siphon money away from public goods and services - such as housing, mental and physical healthcare, jobs programs, and community-led violence

interruption. The choice to fund police and their toys increases the budget and power of carceral institutions and opens the door for law enforcement to monitor communities while private companies profit from sales and contracts. Vanguard’s investments are not only in a harmful technology, but one that will never deliver its intended results: “to protect life and accelerate justice.”²³³

TREATMENT NOT TRAUMA

Amistad Law Project

Tasers are a tacit acknowledgement that regardless of training, cops too frequently injure or kill those they are sworn to protect and serve. However, continued investment in Tasers or less-lethal weapons is learning the wrong lesson from this problem. In 2020, Philly city officials proposed a five-year contract deal with the Arizona-based Axon that would have cost \$13,860,000 and arm police with about 4,500 TASERS. Notwithstanding the fact that Tasers kill hundreds of people every year, we don't need to arm

police with different weapons and tech in the hopes that they kill fewer of us--we need to reduce interactions between police and vulnerable community members altogether. Rather than pouring more money into trying to fix policing, Philadelphia communities need resources directed to unarmed civilian first responders who can address crisis situations effectively and with compassion.

Whenever tragedy strikes and police wrongfully shoot or kill someone in our community,

the city's response is always the same--more training, more technology, more Tasers. In other words, more investment and entrenchment in a broken system, but almost never accountability. We don't know if Tasers would have saved Walter Wallace Jr.'s life, but a functional mobile crisis team and strong mental health infrastructure almost certainly would have. Instead of Tasers, we need fully-funded unarmed civilian first responders who can address crisis situations effectively and with compassion.



DONOR-ADVISED FUNDS FUNNEL HARM

Like many asset managers, Vanguard operates a donor-advised fund. These allow individual donors to deposit their money into accounts that the donor-advised fund then passes on to charities of the donor's choice under the fund's name over a period of time. This creates immediate tax benefits for donors with the added benefit of obscuring the donors' identities. Asset managers use donor-advised funds to tout their commitments to social justice and progressive causes, but DAFs are also vehicles that fund systemic oppression.²³⁴ Donor-advised funds have been used to channel enormous amounts of money to right-wing organizations fueling bigotry and denying climate change.

In a 2019 report, *Sludge* found that Vanguard Charitable, the donor-advised fund operated by Vanguard, contributed more than \$2.5 million to 11 organizations identified by the Southern Poverty Law Center (SPLC) as hate groups from the 2015 fiscal year to the 2017 fiscal year.²³⁵ Vanguard Charitable's most recent filing with the IRS reports at least \$15.1 million to 34 groups belonging to what environmental sociologist Robert Brulle termed the "climate change counter-movement"²³⁶ and just over \$400 thousand in donations to five organizations identified as hate groups by the SPLC in the most recent fiscal year.²³⁷

Some of the largest sums of money funneled through Vanguard Charitable²³⁸ in the climate change counter-movement in the 2019 fiscal year are highlighted below:

- \$4.8 million for the **State Policy Network** and 18 member organizations, including \$2.3 million for the Pennsylvania-based, right wing think tank **Commonwealth Foundation**

for Public Policy Alternatives, which has attacked climate scientists to discredit climate change science²³⁹ and continues to assert that carbon dioxide's role in increasing global temperatures is "highly disputed"²⁴⁰

- \$2.5 million for the **Cato Institute**, a libertarian think tank co-founded by Charles Koch that has played an important role in the climate denial echo chamber;²⁴¹
- \$2.3 million for the **Mercatus Center**, an influential Koch²⁴² and Big Oil²⁴³ funded think tank at George Mason University that has advanced deregulation around climate and environmental policy;
- \$1.5 million for the **Atlas Network**, a global network of think tanks funded by Koch, Exxon, and other high-profile funders of the climate denial movement;²⁴⁴
- \$1.2 million for the **FreedomWorks Foundation**, a conservative, libertarian organization that has promoted climate change denial and backed Donald Trump's former EPA head Scott Pruitt, who oversaw massive rollbacks in environmental regulation.²⁴⁵

SPLC-designated hate groups that received funding channeled through Vanguard Charitable in the 2019 fiscal year are detailed below:

- The **Federation for American Immigration Reform (FAIR)**, an anti-immigrant organization which received \$200,000.²⁴⁶ FAIR's founder, John Tanton, endorsed eugenics and operated in the white nationalist orbit (Tanton died in 2019);²⁴⁷
- The **David Horowitz Freedom Center**, an anti-Muslim group which received \$100,000.²⁴⁸ The Southern Poverty Law Center has labelled Horowitz "the godfather of the

modern anti-Muslim movement.”²⁴⁹

- The **Alliance Defending Freedom (ADF)**, an anti-LGBTQ organization which received \$76,000.²⁵⁰ The ADF has been at the forefront of major legal campaigns against gay rights.²⁵¹ The group's president and CEO helped advance the lawsuit filed by Republican state attorneys that sought to overturn the 2020 presidential election;²⁵²
- The **Immigration Reform Law Institute**, the “affiliated legal organization” of the anti-immigrant FAIR, which received \$25,000.²⁵³

The chief strategic planning officer at Vanguard Charitable told *Sludge* that the fund is “cause-neutral” and that Vanguard Charitable believes “philanthropy can best increase the public good when a variety of ideas, views and projects are supported by philanthropic dollars.”²⁵⁴ Indeed, Vanguard Charitable has also been used to

channel money to organizations working to combat climate change and racism, such as [350.org](#) and the [American Civil Liberties Union](#).²⁵⁵ But this does not erase the millions of donations funneling money to climate denial groups and organizations that cause harm and seed fear in marginalized communities.

Asset managers, including Vanguard, have fought off reporting requirements that would require them to disclose the full scope of their “cause-neutral” funds. Vanguard, along with [Fidelity Investments](#), [Charles Schwab Corp.](#) and other large financial firms argued that “new rules could unintentionally discourage charitable giving.”²⁵⁶ But as is, donor advised funds openly promote discrimination and oppression against marginalized groups and advance the climate crisis. Regulation and disclosure could shift the harmful scope of donor advised funds.²⁵⁷

CONCLUSION

Asset managers like Vanguard, BlackRock and State Street have played a crucial role in financing climate and racial injustices, totaling a combined \$300 billion in fossil fuel investment portfolios.²⁵⁸ They expanded billion-dollar stakes in some of the most carbon-intensive companies—four years after the United Nation's landmark Paris Agreement to accelerate the investments needed for a low carbon future. Together, these financial institutions and fossil fuel corporations uphold a fossil fuel finance engine that drives the chain of carbon and chemical emissions, with devastating impacts on public health in BIPOC communities. While much attention has been given to BlackRock, the top global asset manager, Vanguard's extractive business practices have often flown under the radar.

At this point, Vanguard has only taken superficial steps to advance racial and environmental justice. These steps often operate outside of its business model and are not reflected in how they structure their funds or indices, governance practices, or even charitable arms. As the second largest asset manager in the world that has built its business on peoples' retirement, Vanguard must use its outsized influence and power to cut off a major source of financing for toxic, polluting and carceral industries that are destroying our future and harming BIPOC communities. By aligning its investments with its publicly stated racial and climate justice commitments, Vanguard could play a critical role in ushering the transition to a safe and sustainable future. Otherwise, Vanguard will expose its clients to significant material risk from inevitable climate and economic shocks, while Vanguard's investments will exacerbate crises in frontline BIPOC communities that have been living on the frontlines of environmental racism and the climate crisis for generations. Vanguard has an imperative to take meaningful action on climate and racial justice for its clients and the communities that it has harmed through its investments.



AT THIS POINT, VANGUARD HAS ONLY TAKEN SUPERFICIAL STEPS TO ADVANCE RACIAL AND ENVIRONMENTAL JUSTICE. THESE STEPS OFTEN OPERATE OUTSIDE OF ITS BUSINESS MODEL AND ARE NOT REFLECTED IN HOW THEY STRUCTURE THEIR FUNDS OR INDICES, GOVERNANCE PRACTICES, OR EVEN CHARITABLE ARMS.



Source: AFP via Getty Images, Saul Loeb

RECOMMENDATIONS

Vanguard's investment decisions do not exist in a vacuum; they directly impact BIPOC communities, whether through traditional investment vehicles or ESG investing. If the intention of ESG investing is to generate long-term, sustainable returns by incorporating environmental, social and governance factors into investment decisions, Vanguard must shift its current practices. This can only happen if Vanguard acknowledges the outsized role asset managers play in propping up harmful industries like the carceral and fossil fuel industries. Charitable donations are not enough to repair systemic harms. Systemic harms require systemic solutions that center directly impacted, frontline communities. **The following are recommendations toward a safe and sustainable future:**

DISCLOSE

Strengthen SEC Regulation of ESG Investing

The Securities and Exchange Commission's (SEC) current disclosure rules on ESG investing fail to meet the needs of values-based investors and frontline communities. This poses serious material risk to investors - including but not limited to investors in Vanguard. Because the SEC is responsible for the regulation of capital markets and protecting investors,²⁵⁹ the regulator must strengthen regulation and enforcement of ESG investing. The SEC received support via the [House Financial Services Committee](#) also created the [ESG Disclosure Simplification Act of 2021](#).²⁶⁰ If passed through the Senate, the act would establish an advisory committee to assist the SEC on ESG regulation and enforcement.²⁶¹

The SEC's ESG rules have been in place since 2010, but are not measurable or enforced. The regulator allows firms to self-report and self-define ESG disclosures.²⁶² But the SEC has the authority to require ESG disclosures that would further its mission to protect investors and promote transparency for the public.²⁶³ Without this, there is a material risk for all investors because the climate crisis will have significant impacts and pose risk to tangible assets. In April of 2021, the SEC took a step to solicit public comments on climate change disclosures.²⁶⁴ A new set of rulemaking on climate change disclosures is also expected in the Spring of 2022, which will hopefully incorporate public input.

The new rules on climate change disclosure must be intersectional: this means regulation should include standards that incorporate racial, economic, climate and environmental justice. Investors want to be informed as they make investment decisions, cast proxy votes, file shareholder proposals, and broadly engage with issuers. This information is also vital for shareholders as they exercise their power to elect company directors. Disclosure will thus improve the overall sustainability of a company, the financial performance of an issuer, and mitigate the material risks they present to the financial system and investors as a whole. Extractive industries and their financiers should be required to disclose how they have contributed to environmental and climate injustice in the past and present, along with their efforts and strategy to redress decades of harm. Disclosure is a step in the right direction and lays the groundwork for asset managers, like Vanguard, to implement plans for an immediate phase out of fossil fuels and for regulators to mandate this phase out across the financial sector.

Strengthen Donor Advised Fund Standards and Disclosures

Asset managers and corporations have shoveled millions of dollars to groups that further systemic oppression by enabling wealthy individuals to use donor-advised funds (DAFs) to make anonymous donations to them.²⁶⁵ Vanguard should develop and implement standards and practices that align their donor agreements with hate-free and anti-discrimination policies.²⁶⁶ Standards should explicitly prohibit the use of DAFs to fund groups that further systemic oppression. Vanguard should discontinue any transmission of funds to groups whose statements or practices malign or attack entire classes of people because of their race, ethnicity, religion, national origin, gender identity, or sexual orientation. This sort of screening practice is a first step toward rooting out groups that facilitate harm from Vanguard's philanthropic arm and philanthropy, overall.

Currently, oversight for DAFs rests within the Internal Revenue Service's (IRS) jurisdiction. But, the IRS' oversight of 501(c)(3) charities housing DAFs is lax at best. DAFs are required to complete the annual filing Form 990 (an annual tax return for nonprofits). Absent that, DAFs function independently of any serious federal regulations.²⁶⁷ Not only should the IRS revisit its process for granting charitable status, the regulator should also strengthen its DAFs reporting requirements and develop accountability mechanisms that make donations to groups supporting systemic oppression more transparent and can be met with real consequences.

DIVEST

Full divestment from carceral and fossil fuel industries, beginning with ESG portfolio investments

The divestment movement has experienced notable growth over the years and has prompted over a thousand major investors, pension plans, and endowments to divest nearly \$40 trillion²⁶⁸ from the fossil fuel industry. Investors with long term mandates, like pension funds and others, have shown concern regarding climate change because it will have a real impact on long term returns for their investors.²⁶⁹ The process of sustaining the fossil fuel industry is an intensive one that requires constant capital. As climate change continues to impact fossil fuel corporations alongside frontline communities, costs of business rise, and more financiers shift capital away from the industry, the companies will see drops in their valuation.²⁷⁰ These factors could contribute to an increase in exposure to stranded assets²⁷¹, in what could have already been a clean portfolio via ESG investments.

As indices explore fossil-free funds, they should include a comprehensive approach to these new funds. Full divestment from the fossil fuel industry must include the financiers that prop up the industry. Investors have proven they are interested in values-based investing and the scope of those values is not limited to direct polluters, but their financiers and other harmful industries. Toxic investments like those in carceral systems and tools will follow a similar trend to the fossil fuel industry. In August of 2020, activists made calls to end police violence and to divest from policing. At the same time, corporations like [CoreCivic](#) dropped from the [S&P Midcap 400](#) index to the [S&P SmallCap 600](#)²⁷², indicating a drop in market value. While this corporation is not in Vanguard's ESG portfolio, it signifies the market's response to activists' energy and demands. As the carceral industry remains under scrutiny for its inhumane

practices, it too will be held under a microscope, investors will evaluate what it means to be a socially responsible investor and public opinion moves toward alternative forms of public safety.

ESG investments should be ones that promote a sustainable and safe future for all people. Currently, Vanguard's ESG portfolios are riddled with investments in extractive industries that could be misaligned with the values of a conscious investor. Instead of "woke-washing"²⁷³ their ESG investments, Vanguard must create tangible divestment plans that shift funds out of carceral and fossil fuel industries. Woke washing is especially easy to do with mutual fund products, like those offered by Vanguard, because the investments are bundled and easier to miss than individual investments.²⁷⁴

Beyond ESG funds, Vanguard also has the power to exclude these companies from its larger index funds. Asset managers are the largest customers of companies that provide indices. Vanguard should advocate for these index provider companies to enact stronger standards in its underlying benchmark to exclude corporations and sectors that pose a high-risk to low-income and BIPOC communities as well as a material risk to investors.

REPAIR

Reparations to Directly Harmed Communities

The [Movement for Black Lives](#) says reparations involve "specific forms of repair to specific groups of people for specific harms they have experienced in violation of their human rights."²⁷⁵ In order to achieve repair, four conditions must be met: (1) obligation to cease the harmful act and assurance the cessation will remain in effect (2) restitution and repatriation (3) compensation and (4) satisfaction from the impacted group.²⁷⁶ Communities directly harmed by Vanguard investments should have the power to define what

kind of reparations they seek from Vanguard's profit-making activities. There is a robust and centuries long history of calls for reparations that can inform these processes.

Common mechanisms for reparations throughout history include litigation and legislation.

Institutions like universities are also making reparative policy changes, independent of legal requirements that would come from legislation or litigation.²⁷⁷ Vanguard should deliver reparations to communities harmed by current investments as well as former investments, like Covanta. This could also include Vanguard exercising its power as a universal owner to demand that those companies provide reparations in frontline communities and tie their inaction to significant repercussions, like divestment. Because asset managers like Vanguard have such an outsized role in our financial system, they must be held responsible for delivering reparations to communities who have been directly harmed by their investments.

Elect racial, economic and climate justice champions to the board.

Vanguard's current board of directors severely lacks representation of leadership from frontline BIPOC communities—communities most impacted by Vanguard's harmful investments in carceral and polluting corporations. Out of twelve directors, the board only includes two Black directors and only one board member with a track record of being vocal on climate change and on the financial sector's role in fueling climate change.^{278 279}

In order for Vanguard to move toward divestment and repair, Vanguard needs new leadership. New leaders should represent the communities directly impacted by Vanguard's investments and should be willing to drive processes to improve the firm's governance and investment practices.

Asset managers, like Vanguard, have played a significant role in financing pollution, violence, and harassment in Black, Brown, and Indigenous communities by pumping billions of dollars into these industries for years. To begin to repair the harm Vanguard has financed, it is critical that Vanguard elect racial, economic, and climate justice champions to its board of directors to ensure that the perspectives of frontline BIPOC communities and allies are represented at the highest level of Vanguard's decision making. Vanguard does not have shareholders, and therefore, the board is the primary accountability mechanism that guides its investments. Board members should be proactively improving oversight of risks driven by systemic racism.

Racial, economic, and climate justice champions who are accountable to frontline communities are best equipped to assess how Vanguard's corporate behavior hurts frontline BIPOC communities. With this kind of leadership and expertise in house, Vanguard would be best positioned to develop robust plans for full phase out of investments in harmful industries that extract from BIPOC communities and to work with directly impacted communities to develop a plan for reparations.

Appendix: Axon Enterprise top 2021 Contracts

Contracting City/Company	Year	Notes	Source
British Columbia via PRIMECorp	2021	Axon Public Safety Canada, Inc., today announced PRIMECorp , will be deploying Axon's digital evidence management solution, Axon Evidence , to all supported police services in British Columbia. This groundbreaking modernization initiative will connect British Columbia justice sector partners and stakeholders, including the police and crown attorneys.	
Six Flags	2021	Six Flags Entertainment Corp., has equipped security staff across U.S. amusement park locations with body-worn cameras backed by Axon's digital evidence management solution, Axon Evidence . This order was received and shipped in Q2 of 2021.	https://investor.axon.com/2021-08-31-Six-Flags-Entertainment-Partners-With-Axon-To-Implement-Body-Worn-Cameras-At-All-U-S-Park-Locations
Orlando, FL	2021	Five year contract for \$1.29 MM TASERS, cloud evidence, bodycams	https://www.google.com/url?sa=t&rct=j&q=&esrc=s&source=web&cd=&ved=2a-hUKFwjFs97o-J31AhX-Jl-AKHdZ_DC8QFnoECAUQA-Q&url=https%3A%2F%2Fcms.cityoforlando.net%2F-Home%2FDownloadFile%3F-filePath%3DC%253A%255CHostingSpaces%255COrlando_cms%255Cfiles%255C106493.pdf%26filename%3DAX-on%2520BWC-CEW%2520Orlando%2520-%2520Agreement_2021-3-30.pdf&usg=AOvVaw1a0Z3z0KSo32S-mek_g2ds
Oklahoma City	2021	The Oklahoma City Police Department signed a five-year Officer Safety Plan 7+ Premium bundle in September to deploy TASER 7 devices, Axon Body 3 cameras with real-time situational software, Axon Respond and Axon Records. The Major Cities Chiefs Association member will also be implementing the next generation Axon Fleet 3 in-car video system with ALPR technology and Axon Air licenses.	https://filecache.investorroom.com/mr5ir_axon/263/AXON%20Q3%202021%20Shareholder%20Letter%20%281%29.pdf
Virginia Beach, VA	2021	The Virginia Beach Police Department, a Major Cities Chiefs Association member, signed a ten-year contract on the Officer Safety Plan 7+ Premium bundle, in July, and is adopting Axon Records.	https://filecache.investorroom.com/mr5ir_axon/263/AXON%20Q3%202021%20Shareholder%20Letter%20%281%29.pdf

Grand Prairie, TX	2021	The Grand Prairie Police Department in Texas signed a contract in August for 260 Officer Safety Plan 7+ Premium licenses, 210 Axon Fleet 3 in-car cameras, and is adopting Axon Records and Axon Dispatch.	https://filecache.investorroom.com/mr5ir_axon/263/AXON%20Q3%202021%20Shareholder%20Letter%20%281%29.pdf
MTA, New York City	2021	The Metropolitan Transportation Authority Police Department in New York, in September, signed 1,000 Officer Safety Plan 7+ Premium licenses with Axon Auto-Transcribe, which drives efficiency by transcribing body camera video.	https://filecache.investorroom.com/mr5ir_axon/263/AXON%20Q3%202021%20Shareholder%20Letter%20%281%29.pdf
Louisville, KY	2021	The Louisville Metro Police Department in Kentucky adopted 1,200 Officer Safety Plan 7+ licenses in September.	https://filecache.investorroom.com/mr5ir_axon/263/AXON%20Q3%202021%20Shareholder%20Letter%20%281%29.pdf
Minnesota State	2021	The Minnesota State Patrol signed 700 Officer Safety Plan 7+ Premium, Axon Respond, Axon Auto-Tagging, Axon Performance and 700 Axon Fleet 3 in-car cameras in September	https://filecache.investorroom.com/mr5ir_axon/263/AXON%20Q3%202021%20Shareholder%20Letter%20%281%29.pdf
Santa Fe, NM	2021	The Santa Fe Police Department signed 193 Officer Safety Plan 7+ Premium, 240 Fleet 3 in-car cameras, and four Axon Interview licenses in August.	https://filecache.investorroom.com/mr5ir_axon/263/AXON%20Q3%202021%20Shareholder%20Letter%20%281%29.pdf
Salt Lake City, UT	2021	The Salt Lake City Police Department signed 550 licenses for an Officer Safety Plan 7+ Premium upgrade in September.	https://filecache.investorroom.com/mr5ir_axon/263/AXON%20Q3%202021%20Shareholder%20Letter%20%281%29.pdf
Pima County, AZ	2021	The Pima County Sheriff's Office in Arizona signed 700 Officer Safety Plan 7+ Premium, Axon Auto-Transcribe, Axon Records, Axon Respond and Unlimited 7 Licensing in September.	https://filecache.investorroom.com/mr5ir_axon/263/AXON%20Q3%202021%20Shareholder%20Letter%20%281%29.pdf
Sacramento, CA	2021	The Sacramento Police Department signed 700 Officer Safety Plan 7+, 245 Unlimited 7 Licensing and 50 Axon Air licenses in September.	https://filecache.investorroom.com/mr5ir_axon/263/AXON%20Q3%202021%20Shareholder%20Letter%20%281%29.pdf
DEA	2021	Axon (Nasdaq: AXON) has been awarded a \$223,1 million contract to supply the Drug Enforcement Administration with an undisclosed number of body-worn cameras and a digital evidence management system designed to store case-related data	https://www.govconwire.com/2021/08/axon-secures-223m-to-provide-dea-body-worn-cameras-evidence-mgmt-platform/ https://sam.gov/opp/e4be9ec-27ccb4f269980e0a8ef97a209/view

METHODOLOGY

Vanguard has five ESG funds in total. This report focuses on two of Vanguard's U.S. based ESG funds: (1) U.S. Stock ETF (ESGV) and (2) FTSE Social Index Fund (VFTAX). Both funds are equity funds, as compared to Vanguard's other U.S based ESG offering, the ESG U.S. Corporate Bond ETF (VCEB).

Not only does this fund invest in bond holdings, the amount of assets in VCEB is much smaller than VFTAX and ESGV. This research focuses on Vanguard's ESG stock holdings, rather than the ESG corporate bond holdings. The other two ESG funds provided by Vanguard have international investments, which is out of the scope of our analysis.

Sources:

We used Vanguard's [Customizable Investment Reports](#) to download detailed holdings and sector data for the two funds investigated in this report (ESGV and VFTAX). The data we analyzed for this report is holdings as of June 30, 2021.

Note: Please refer to the endnotes for all sources on environmental and racial injustices perpetuated by Vanguard portfolio corporations.

How We Selected High-Risk Sectors:

Vanguard provides sector data detailing all holdings in its funds. We identified sectors as high-risk based on (1) evidence of harm from individual holdings within Vanguard's funds and (2) existing research on extractive industries and the harms they perpetuate in low-income, BIPOC communities.

Sectors were classified as high-risk for low-income and BIPOC communities if they met one or both of the following standards:

1. There is evidence of environmental and racial injustice for the majority of investments in a particular sector and/or;
2. The market value of a smaller number of individual holdings that have evidence of environmental and racial injustice is so large that they amount to a majority of the holdings within that sector.

We used online sources of information to collect evidence of the harms done by Vanguard portfolio corporations. This included legal, regulatory and news sources.

Below is a table of the high-risk categories created by ACRE, our category definitions, and the sectors we included in these categories based on our standards described above.

ACRE Category	Definition	Vanguard sectors included in analysis
Dirty Dollars	The Dirty Dollars are the financial institutions—big banks, asset managers, private equity firms, and insurance companies—that prop up and finance extractive industries.	Asset Managers and Custodians, Banks, Investment Services, Full Line Insurance, Property and Casualty Insurance
Polluters	Polluters are fossil fuel corporations and other large corporations whose direct lines of business have a harmful impact on the environment and surrounding communities.	Airlines, Automobiles, Chemicals: Diversified, Specialty Chemicals, Conventional Electricity, Diversified Industrials, Gas Distribution, General Mining, Gold Mining, Multi-Utilities, Paper, Personal Products, Soft Drinks, Trucking, Waste and Disposal Services, Water
Carceral Corps	Carceral Corps are corporations whose direct lines of business rely on the prison system or policing of BIPOC communities like private prisons, weapon production, surveillance technologies and more.	Defense, Diversified Retailers, Software, Telecommunications Equipment

How We Calculated High-Risk Investments:

Using Vanguard's investment data via the customizable investment reports, we defined high risk categories (as stated above) using Vanguard's sectoral/industry data. Note: Full data reports include market value, shares, sector and percentage of fund for individual holdings.

We aggregated the data from both funds (VFTAX and ESGV) and coded each sector based on our definition of High Risk Investments. We then calculated the overall market value and percentage of the total fund for each of our coded categories.

ENDNOTES

- 1 Rekenhaller, John. "What Happens When Vanguard Owns Everything?" Morningstar. 24 Mar 2015 <https://www.morningstar.com/articles/689998/what-happens-when-vanguard-owns-everything>
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