

Shareholder proposal requesting a third-party assessment of workers' rights commitments at Starbucks

April 2023

Company: Starbucks Corporation (Starbucks)

Meeting date: March 23, 2023

Proposal: Item 8 – Shareholder proposal regarding assessment of workers' rights commitments

How the funds voted

At the annual meeting of Starbucks, a multinational specialty coffee roaster, marketer, and retailer, the Vanguard-advised¹ funds evaluated but did not support a shareholder proposal requesting a third-party assessment of the company's commitment to freedom of association and collective bargaining rights.

Vanguard-advised funds' principles and policies

Boards of directors play a critical role in the oversight of a company's long-term strategy and material risks to shareholder value. In addition to working to understand how boards are composed to appropriately oversee strategy and material risks, Vanguard's Investment Stewardship program seeks to understand how boards engage in constructive debate with, and oversight of, management for the benefit of long-term shareholder value. We look for boards to stay apprised of emerging risks that may impact financial outcomes and adjust their oversight structures and processes as appropriate.

As we evaluate shareholder proposals on behalf of the funds, we analyze the materiality of the risk the

proposal seeks to address, the company's current practices to address the risk, and the reasonableness and prescriptiveness of the proposal.

If there are gaps in the company's current disclosures, the funds may support a shareholder proposal that seeks enhanced reporting of the company's approach to addressing a material risk. The funds are unlikely to support shareholder proposals that dictate specific company strategy or operating actions, as boards and company executives are better positioned to determine the appropriate approach for a particular company.

Analysis and voting rationale

With respect to the shareholder proposal requesting a third-party assessment of Starbucks's commitment to freedom of association and collective bargaining rights, our independent research and analysis included an assessment of the materiality and the manifestation of the risk highlighted in the proposal. As part of our research, we engaged with a subset of the proposal's proponents to inform our perspective. The proponents shared concerns regarding erosion of shareholder value and the emergence of reputational and legal risks. In reviewing Starbucks's public disclosures and statements, as well as the proponents' arguments and public news coverage, we confirmed that the treatment of workers' legally protected rights could pose material legal and reputational risks. We consulted with legal experts to contextualize reports stating that Starbucks had violated federal labor laws, including recent rulings

¹ Vanguard's Investment Stewardship program is responsible for proxy voting and engagement on behalf of the quantitative and index equity portfolios advised by Vanguard (together, "Vanguard-advised funds"). Vanguard's externally managed portfolios are managed by unaffiliated third-party investment advisors, and proxy voting and engagement for those portfolios are conducted by their respective advisors. As such, throughout this document, "we" and "the funds" are used to refer to Vanguard's Investment Stewardship program and Vanguard-advised funds, respectively.

by the National Labor Relations Board. We concluded that even though these rulings—and the company actions they referenced—were specific to a small number of U.S. Starbucks locations, they represented evidence of materialized legal risks.

During our engagement, members of the Starbucks board and company management detailed mitigation steps they had taken to oversee risks related to workers' rights, including increasing the board's exposure to frontline worker conditions and experiences. These actions indicated to us that the board and executive leadership team had taken steps to adjust their risk-mitigation approach to meet and address emerging risks.

We discussed with Starbucks leaders the company's supplemental proxy filing that committed the company to engaging independent third parties to conduct a human rights impact assessment across its value chain, including a review of the principles of freedom of association and the right to collective bargaining. We sought to understand the company's plans for addressing the root causes of employee concerns, as well as the company's practices related to unionization efforts.

Although we assess workers' rights as a material risk at Starbucks, the funds ultimately did not support the shareholder proposal because of the company's commitment to engage independent third parties to conduct a human rights impact assessment, inclusive of workers' rights. That fact, combined with our assessment that the board appeared to be taking appropriate steps to remediate and address the risks, gave us comfort that the board was appropriately acting upon the issues identified by the shareholder proposal. In circumstances such as this, where a company has committed to substantially address the actions requested by a shareholder proposal, we look to the board and company management team to determine and execute the appropriate methods for that particular company to address a material risk. The proposal received 52% support from shareholders.

In the coming months, we will continue to engage with the company to understand how the board is composed and positioned to oversee the risks inherent in a retail environment, including related to the specific legal and reputational risks associated with workers' rights. We also look forward to the completion of Starbucks's human rights impact assessment and the action taken to support further risk mitigation.

What we look for from companies on this matter

On behalf of the investors in Vanguard-advised funds, we firmly believe that companies should focus on issues that are material to their business. We look for boards to have the appropriate skills and expertise to identify and oversee material risks, to understand how risks could affect shareholder value creation at the companies they oversee, and to provide clear, decision-useful disclosure on oversight and management of the company's material risks.

Portfolio companies should adhere to applicable labor laws and ensure that protected workers' rights are recognized and upheld. We further look for boards to appropriately challenge management and regularly reevaluate risk mitigation practices if the degree of financial materiality or manifestation of a specific risk changes over time.

In engagements with portfolio companies, we seek to understand how boards oversee material risks, including those that relate to human capital management. As labor shortages are expected to continue within the retail consumer sector, we expect that many portfolio companies may face challenges in anticipating and addressing employee concerns. While Vanguard does not seek to dictate company strategy or day-to-day operations, we continue to engage boards on how they define materiality related to human capital risks, their oversight process for mitigating material risks, and how they disclose material risks to investors.

Investment Stewardship Policy and Voting Insights to promote good corporate governance practices and to provide public companies and investors with our perspectives on important governance topics and key votes. This is part of our growing effort to enhance disclosure of Vanguard's investment stewardship voting and engagement activities. We aim to provide additional clarity on Vanguard's stance on governance matters beyond what a policy document or a single vote can do. Insights should be viewed in conjunction with the most recent region- and country-specific voting policies.

The funds for which Vanguard acts as investment advisor (Vanguard-advised funds) retain the authority to vote proxies that the funds receive. To facilitate the funds' proxy voting, the boards of the Vanguard-advised funds have adopted Proxy Voting Procedures and Policies that reflect the fund boards' instructions governing proxy voting. The boards of the funds that are advised by managers not affiliated with Vanguard (external managers) have delegated the authority to vote proxies related to the funds' portfolio securities to their respective investment advisor(s). Each external manager votes such proxies in accordance with its own proxy voting policies and procedures, which are reviewed and approved by the fund board annually. The Vanguard Group, Inc., has not been delegated proxy voting authority on behalf of the Vanguard-advised funds.

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