

Investment Stewardship

# About our program



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*About Our Program* explains the work Vanguard Investment Stewardship performs on behalf of Vanguard-advised funds and their investors. We discuss the global pillars, processes, and policies that support our program's mandate to safeguard and promote long-term investment returns at the companies in which Vanguard-advised funds invest.<sup>1</sup>

<sup>1</sup> Vanguard's Investment Stewardship program is responsible for proxy voting and engagement on behalf of the index and quantitative 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.

# Vanguard's Investment Stewardship program: Overview

Vanguard's Investment Stewardship program has a clear mandate: to safeguard and promote long-term investment returns on behalf of Vanguard-advised funds and their investors. We carry out this mandate by promoting governance practices that are associated with long-term investment returns at the companies in which the funds invest because when the funds' portfolio companies generate value over the long term, Vanguard-advised funds generate value for their investors.

## Our funds

Vanguard-advised funds are primarily index funds managed by Vanguard's Equity Index Group; these funds track specific benchmark indexes constructed by independent third parties.<sup>2</sup> By design, managers of index funds do not make active decisions about where to allocate investors' capital. Accordingly, Vanguard-advised equity index funds are built to track specific benchmark indexes, follow tightly prescribed strategies, and adhere to well-articulated and publicly disclosed policies.<sup>3</sup> Vanguard's equity index funds are long-term investors in numerous public companies around the world. A small portion of Vanguard-advised funds is managed by Vanguard's Quantitative Equity Group using proprietary quantitative models to select a broadly diversified portfolio of securities aligned with a fund's investment objective.<sup>4</sup>

## Our program

All aspects of Vanguard's Investment Stewardship program are focused on safeguarding and promoting long-term investment returns with the goal of giving investors in Vanguard-advised funds the best chance for investment success. We do this by:

- *Engaging* with portfolio company directors and executives to learn about companies' corporate governance practices and to share our perspectives on corporate governance practices associated with long-term investment returns.
- *Voting* proxies at portfolio company shareholder meetings based on each fund's proxy voting policies and guidelines.
- *Promoting* corporate governance practices associated with long-term investment returns through our published materials and participation in industry events and initiatives.

On behalf of Vanguard-advised funds, we seek to understand how portfolio company boards—who are elected to serve on behalf of all shareholders, including Vanguard-advised funds—effectively carry out their responsibilities. We examine how boards are composed to provide for their companies' long-term success, how they consult with management on strategy and oversee material risks, how they align executives' incentives with shareholders' interests, and how they provide and safeguard shareholder rights.

<sup>2</sup> For the year ended December 31, 2022, index equity portfolios advised by Vanguard represented 99% of the Vanguard-advised equity funds' total assets under management.

<sup>3</sup> Vanguard-advised equity index funds are constructed using either a full replication or sampling approach. Under a full replication approach, a fund buys and holds the securities in the fund's benchmark index in proportion to each security's weighting in the fund's benchmark index. Under a sampling approach, a fund buys and holds a representative sample of securities in the index that approximates the full index in terms of key characteristics.

<sup>4</sup> In aggregate, as of December 31, 2022, the funds managed in whole or in part by Vanguard's Quantitative Equity Group represented approximately 1% of the Vanguard-advised funds' equity assets under management.

As described above, Vanguard-advised funds' portfolio construction process is inherently passive—the equity index funds seek to track benchmarks determined by unaffiliated index providers. Our approach to investment stewardship operates in that context. Accordingly, with respect to companies held by Vanguard-advised funds, we do not seek to dictate strategy or operations, nor do we submit shareholder proposals or nominate board members. We believe that the precise strategies and tactics for maximizing long-term investment returns should be decided by a company's board of directors and management team. Similarly, Vanguard does not use investment stewardship activities to pursue public policy objectives. We believe that setting public policy, including policy on environmental and social matters, is appropriately the responsibility of elected officials.

Our analysis of companies' corporate governance practices is centered on four pillars of good corporate governance:



### **Board composition and effectiveness**

Good governance begins with a company's board of directors. Our primary focus is on understanding to what extent the individuals who serve as board members are appropriately independent, capable, and experienced.



### **Board oversight of strategy and risk**

Boards should be meaningfully involved in the formation and oversight of strategy and have ongoing oversight of material risks to their company. We work to understand how boards of directors are involved in strategy formation, oversee company strategy, and identify and govern material risks to shareholders' long-term investment returns.



### **Executive pay (compensation or remuneration)**

Sound, performance-linked compensation programs drive long-term investment returns. We look for companies to provide clear disclosure about their compensation practices, the board's oversight of those practices, and how said practices are aligned with shareholders' long-term investment returns.



### **Shareholder rights**

We believe governance structures should allow shareholders to effectively exercise their foundational rights. Shareholder rights enable a company's owners to use their voice and their vote—ideally, consistent with their economic exposure—to effect and approve changes in corporate governance practices.

## Our global pillars of corporate governance

These four pillars of corporate governance guide our efforts when we engage, vote, and share our perspectives on corporate governance practices. They are the foundation of the funds' proxy voting policies,<sup>5</sup> and each pillar links back to our focus on long-term investment returns.

### Board composition and effectiveness

Company board members are elected to represent the interests of all shareholders, and they have responsibilities that are critical to creating value for their company's shareholders today, tomorrow, and into the future. These responsibilities include hiring and planning for the succession of company management, overseeing the company's strategy and material risks to that strategy, setting executive pay, establishing a strong foundation of corporate governance, and being responsive to shareholders. Such responsibilities affect the long-term financial interests of investors, including Vanguard-advised funds.

We believe that a well-composed board is in the best position to make effective decisions on behalf of all shareholders. For this reason, we take a board-centric approach to our investment stewardship efforts. Our primary focus is on understanding to what extent a company's board consists of individuals with an appropriate mix of independence, skills, experiences, and diversity of personal characteristics to enable independent, effective oversight on behalf of all shareholders.

### Board oversight of strategy and risk

Boards are responsible for effective oversight of a company's long-term strategy and any material risks that strategy creates for the company. We look for highly effective boards that evidence an ability to both support and challenge their management teams' direction of strategy and mitigation of risks.

For these reasons, we believe that boards should engage with management teams on strategy formation and that companies should maintain robust processes for their boards to evaluate and mitigate material risks to their company's long-term investment returns. We also believe that companies should disclose those risks—and strategies for mitigating them—to investors. In addition, we believe that information regarding the procedures used to facilitate the board's oversight of strategy and material risks should be publicly disclosed, and members of management and the board should discuss these topics with shareholders.

Public disclosure of material risks allows markets to effectively reflect those risks in each company's valuation and share price. Over time, accurate valuations are critical to ensuring that investors, including Vanguard-advised funds, are appropriately compensated for the investment risks they assume by investing in individual securities.

### Executive pay (compensation or remuneration)

Sound, performance-linked pay policies and practices that extend well beyond the next quarter or next year are fundamental to generating long-term investment returns. Norms regarding executive pay vary depending on factors that include a company's competitive position, industry sector, size, and geographic location. With that in mind, we do not take a one-size-fits-all approach to evaluating executive pay matters. In our engagements on this topic, we seek to understand the business environment in which pay-related decisions are made and how boards structure pay programs to incentivize outperformance relative to a company's peers over the long term. We look for companies to provide clear disclosure about the

<sup>5</sup> We articulate Vanguard Investment Stewardship's shareholder proposal evaluation approach in policies such as the "[Proxy voting policy for U.S. portfolio companies \(vanguard.com\)](#)" as well as in representative case studies available on Vanguard.com ([Our insights on Investment Stewardship | Vanguard](#)).

linkage between their stated strategy, company performance, and pay practices. This form of disclosure allows shareholders to understand the degree to which a company's executive pay practices are aligned with shareholders' long-term investment returns.

## **Shareholder rights**

Shareholder rights enable a company's owners to use their voice and their vote—ideally, consistent with their economic exposure—to effect and approve changes in corporate governance practices, starting with the election of board members. We look for companies to adopt governance provisions, such as annual director elections that require securing a majority of votes for approval, and seek to understand how boards and management serve the best interests of the shareholders they represent. While Vanguard-advised funds do not themselves put forward nominees for portfolio company boards, we support the right of an appropriate proportion of shareholders to call special meetings and/or to nominate directors for consideration by all shareholders. This enables shareholders to exercise their ownership rights in instances where a compelling case for change in a company's strategy is identified and/or when a board appears resistant to shareholder input. We believe a well-functioning capital markets system requires companies to have governance structures that safeguard and support foundational rights for shareholders.

## **The importance of effective disclosure**

Index funds buy, hold, or sell securities based on the composition of their designated benchmark index and capture the return that the relevant market provides. This contrasts with actively managed funds, whose managers choose the securities held by the fund through fundamental or technical analysis. Indexing relies on healthy, efficient, and fair capital markets to enable accurate securities pricing. Companies' disclosure of material risks is central to that market health because it enables the broad market of investors to appropriately evaluate and price those risks (and related opportunities). That is why the identification and disclosure of material risks is a priority for Vanguard-advised funds and their investors—it helps ensure that Vanguard-advised funds are appropriately compensated for the risks they bear when they invest in a particular security.

Material financial risks to a company's long-term returns may pertain to the macroeconomic context or industry in which a company operates to the impact of changes in the company's legal and/or regulatory ecosystem. These risks may also include the company's access to financing, human capital and/or other resources, the impact of climate change on a company's operations, or substantive changes in the demand for the company's products.

# Who we are, what we do, and how we do it

## Our team and structure

Vanguard's Investment Stewardship program is carried out by a team of experienced professionals. Team members are based in Vanguard's offices in the U.S., Europe, and Australia. The team operates on behalf of Vanguard-advised funds and is responsible for engaging with portfolio company leaders; researching, analyzing, and voting on matters at portfolio company shareholder meetings; and promoting governance practices associated with long-term investment returns. John Galloway, a Vanguard principal and the funds' investment stewardship officer, leads the global Investment Stewardship program.

We maintain three regionally focused teams responsible for portfolio companies domiciled in their regions: the Americas; Europe, the Middle East, and Africa (EMEA); and Asia-Pacific (APAC). These regional teams are supported by three global teams dedicated to (1) ongoing research of corporate governance practices and proxy voting policy developments; (2) communications and reporting; and (3) data, operations, and risk control.

All engagement, company research, and voting activities are overseen by senior leaders responsible for portfolio companies domiciled in specific geographic regions and markets. Investment Stewardship team leaders maintain responsibility for their coverage areas and are supported by teams of analysts that further specialize in a country and/or industry sector. This team structure enables us to balance the benefits of global consistency with regional relevance by developing in-depth knowledge of pertinent issues across the funds' portfolios in particular regions, countries, and industry sectors.

In addition to its direct staff, the Investment Stewardship team is supported by internal legal counsel and public policy teams, and it has access to expert resources on a cross-functional basis across the Vanguard enterprise. While the team is supported by professionals across Vanguard, Vanguard's investment stewardship and investment management functions operate independently. Investment stewardship is not used as an active input to inform portfolio management decisions for Vanguard-advised funds, because Vanguard-advised funds seek to track benchmark indexes or follow quantitative models.

## Effective stewardship

The individuals on our Investment Stewardship team have diverse professional and personal backgrounds and thus bring a wide range of experiences and skills to our work. Our senior leaders and analysts have deep expertise in areas including corporate governance, investment management, risk management, law, accounting, public policy and regulatory affairs, academia, and corporate strategy. Many team members hold or are pursuing advanced professional degrees and certificates including Ph.D., J.D., MBA, CFA®, and CPA.

Our Investment Stewardship team operates with a spirit of continuous improvement, which extends to the team's personal and professional development.

Every team member is encouraged to focus on professional development by pursuing advanced degrees or technical certifications, completing internal and/or external trainings, and participating in industry events, among other activities. New team members are provided expansive training materials and coached by a cohort of senior governance professionals. Robust internal trainings are regularly provided on each aspect of Vanguard's Investment Stewardship program.

## Vanguard's Investment Stewardship team

**60+**

Team members based in the U.S., Europe, and Australia

**10+**

Average years of industry experience

**45+**

Advanced degrees and professional certifications

Data as of November 30, 2023.



## Oversight of Investment Stewardship

For our U.S. Vanguard-advised funds, the Investment Stewardship Oversight Committee (the Committee), at the direction of the board of trustees of each U.S. Vanguard-advised fund, oversees the proxy voting and stewardship activity with respect to the equity securities held in the funds. For our non-U.S. Vanguard-advised funds, the Committee oversees the proxy voting and stewardship activity with respect to the equity securities held in the funds to the extent permitted by law.

The Committee typically meets at least quarterly and provides ongoing oversight and guidance of all aspects of the Investment Stewardship program. This includes providing the Investment Stewardship team with direction and input—in the context of policies approved by the relevant boards—on company engagements and proxy voting decisions on complex, novel, or controversial matters. The Committee members also regularly assess the funds' proxy voting policies and guidelines and make recommendations to the funds' boards of trustees regarding potential changes or improvements to those policies and guidelines.

The Committee includes fund officers and senior executives from relevant functions including investment management, risk, legal, compliance, investment products, finance, international, and investment stewardship. The Committee is a multidisciplinary team reflecting a diversity of experience, skills, perspectives, tenure, and personal characteristics, all of which enable the Committee to make informed decisions about policy, strategy, and risk oversight of the Investment Stewardship program.

Proxy voting responsibilities for externally managed Vanguard funds are conducted by the third-party investment advisors who manage those funds, allowing these firms to fully integrate their stewardship approaches with their unique investment processes. Each external investment advisor Vanguard partners with maintains its own policies and guidelines designed to meet its proxy voting obligations, which are reviewed and approved by each fund's board annually.

## Our approach to investment stewardship

On behalf of Vanguard-advised funds, Vanguard's Investment Stewardship team seeks to understand how boards of directors ensure effective governance of the companies in which the funds invest. Investment Stewardship does so by:

**Engaging.** The team meets with portfolio company directors and executives to learn about companies' corporate governance practices and to share our perspectives on corporate governance practices associated with long-term investment returns.

**Voting.** The team casts proxy votes at portfolio company shareholder meetings based on the policies and procedures of the Vanguard-advised funds.

**Promoting.** The team seeks to promote governance practices associated with long-term shareholder value creation. We do this by sharing our perspectives through published materials, participating in governance-focused organizations and industry events, and supporting practical and effective governance codes, standards, and regulatory frameworks.

## How we engage

Candid and constructive discussions with directors and executives of companies held in Vanguard-advised funds are a core part of our Investment Stewardship program. Over time, these dialogues have enabled us to deepen our understanding of, and share our perspectives on, a wide range of corporate governance topics associated with long-term investment returns. These include board composition and effectiveness, board oversight of strategy and risk, executive pay (compensation or remuneration), and shareholder rights. We believe that ongoing engagement with leaders of the Vanguard-advised funds' portfolio companies is a valuable supplement to voting at shareholder meetings and that engagement supports effective corporate governance at the companies in which the funds invest.

With respect to companies held by Vanguard-advised funds, we do not seek to dictate strategy or operations, nor do the Vanguard-advised funds submit shareholder proposals or nominate board members. We believe that the strategies and tactics for maximizing long-term investment returns should be decided by a company's management and board of directors. Similarly, Vanguard does not use investment stewardship activities to pursue any public policy objectives. We believe that public policy, including public policy on social and environmental matters, is appropriately the responsibility of elected officials.

## Types of engagements

Because Vanguard-advised funds are long-term investors in public companies (i.e., an index fund will hold stock in a company for as long as that company is in the benchmark index), the Investment Stewardship team approaches engagements as ongoing conversations with company leaders that can span multiple years. This long-term approach enables the team to understand a company's corporate governance practices and the evolution of those practices over time. The team conducts significant research and analysis to prepare for discussions with company leaders. Although such discussions vary widely by company, industry sector, and region, engagements tend to fall into one of two broad categories:

**Strategic engagements.** These are typically discussions with members of the board or executive team in which Vanguard's Investment Stewardship team develops a thorough understanding of how a company's approach to governance aligns with a company's strategy and long-term objectives. These meetings generally cover Investment Stewardship's governance pillars and provide the team an opportunity to share with portfolio company leaders the funds' perspectives on governance practices associated with long-term investment returns.

**Vote-related engagements.** These are typically discussions focused on particular issues, such as proxy contests, shareholder proposals, or other matters put forth for a shareholder vote on a company's proxy ballot. In such cases, we meet with relevant parties to inform the Vanguard-advised funds' votes. This may include discussions with company directors, executives, dissident shareholders, and/or shareholder proponents.

## How we prioritize portfolio company engagements

We evaluate engagement requests from portfolio companies thoroughly and carefully determine whether an engagement is warranted. We consider, among other factors, the company's proposed agenda items, the funds' exposure to the company, any governance concerns, and whether follow-up on a previous proxy voting decision is appropriate. When we decline an engagement request, it is typically because we do not see any concerns or uncertainty regarding the company's governance practices based on the company's current disclosures and/or our previous engagement with company leaders. We may look to engage with company leaders in the future, particularly if company circumstances change.

In most engagements, we meet with members of a company's board of directors (preferably independent directors) and/or executive management team, corporate secretaries, investor relations professionals, or general counsels, depending on the objective of the meeting or the topic being addressed. We may also meet separately with other stakeholders such as dissident shareholders or shareholder proponents to inform the funds' voting decisions.

For each engagement, Investment Stewardship develops meeting objectives based on the facts and circumstances of the company with which we engage. For example, the team may focus on understanding a company's risk oversight, governance processes, and structures; discuss ballot items to execute a vote at a company's shareholder meeting; or engage on a specific governance topic such as board independence. Depending on the complexity of a matter, engagement on a single topic can span multiple discussions, and meeting objectives are revisited as necessary. The team tracks engagement activity and developments at companies regarding any topics discussed during a prior engagement. If a company publicly commits to changing a governance practice or policy, the team will look at how the portfolio company follows through on those commitments.

### We do:

- Focus on matters that support long-term investment returns.
- Seek to engage with independent directors, because they serve as representatives of shareholders, including Vanguard-advised funds.
- Seek to understand the role the company's board plays in overseeing long-term strategy and material risks.
- Ask companies to provide appropriate disclosure of material risks to long-term investment returns.

### We don't:

- Seek to dictate portfolio company strategy or operations.
- Focus on short-term financial results.
- Advance any agenda other than long-term investment returns specific to individual portfolio companies.

## **The details of company engagements**

Engagement is an important tool that enables us to hear directly from company directors and executives about a board's oversight of strategy, risk, and governance matters. In turn, company leaders can gain a deeper understanding of what matters to their shareholders.

Direct conversations with company directors and executives are the primary form of engagement that we conduct on behalf of the funds. Such engagements typically involve video or conference calls with company directors (preferably independent directors) and executives.

Our engagements are focused on governance-related matters that support long-term investment returns. They are not used to dictate company strategy or operations, which are the responsibilities of company leaders.

The following are examples of questions we ask company leaders during engagements to learn about the governance practices of the portfolio companies in which the funds invest.

### **Board composition and effectiveness:**

- Based on your company's strategy, what skills and experiences do you view as being most critical to have on the board, now and in the future?
- How does the board plan for future director selection (that is, for board succession and evolution)?
- How does the board assess director, committee, and board effectiveness over time?
- How does your company ensure effective independent oversight of management, company strategy, and material risks through its composition of the board and selection of board and committee leaders?

### **Board oversight of strategy and risk:**

- What is the company's long-term strategy, and how might your value proposition evolve over time?
- What role does the board play in formulating and setting your company strategy?
- How do the board and management team track and measure performance of the strategy?
- What are the primary long-term risks to your company? What processes/systems are in place to mitigate those risks?
- How is the board involved in the oversight of material risks to the company?
- How are risks identified and elevated within the company? How is the board involved in that process?
- How are agendas set for different board committee meetings?

### **Executive pay (compensation or remuneration):**

- What is the company's compensation philosophy and how do the measures the board has chosen for executive pay programs align with long-term company strategy and the creation of investment returns?
- How does the relevant board committee set goals for those measures? How does it determine that the goals are set at rigorous performance levels?
- How does the relevant board committee seek to align executive pay with the company's performance relative to peers and the market?
- What is the process for selecting your company's peer group, and what factors in the selection process are most important?

## Shareholder rights:

- How does your company ensure that shareholders have a voice and a vote on governance matters?
- [Where relevant] Has the board considered adopting certain foundational shareholder rights provisions (such as the annual election of directors and majority vote standard)? If not, why?

## Disclosing engagement activities

We provide regular disclosure of our engagement activities to inform investors of the activities we conduct on behalf of Vanguard-advised funds. These disclosures include:

- An annual report<sup>6</sup> outlining engagement and voting activities conducted on behalf of the funds;
- "Insights"<sup>7</sup> published throughout the year that bring to life the application of the funds' proxy voting policies through our engagements and voting activities; and
- Quarterly reporting<sup>8</sup> of significant votes, noting the vote rationale, as well as the portfolio companies with which we have engaged, noting the primary topic of engagement.

<sup>6</sup> Our latest Investment Stewardship Annual Report is available on Vanguard.com ([Investment Stewardship reports and policies | Vanguard](#)).

<sup>7</sup> Vanguard Investment Stewardship Insights are available on Vanguard.com ([Our insights on Investment Stewardship | Vanguard](#)).

<sup>8</sup> Quarterly reports are available on Vanguard.com ([Investment Stewardship reports and policies | Vanguard](#)).

## How the funds vote

Vanguard's Investment Stewardship team independently administers proxy voting on behalf of Vanguard-advised funds. Our goal in the proxy voting process is to maximize each company's long-term investment returns. An experienced team of analysts evaluates proxy ballot items and bases the funds' votes on clear, publicly disclosed policies approved by the board of each Vanguard-advised fund. Complex, contentious, or novel voting matters are escalated to senior leaders, who provide oversight of the analysis and approve the ultimate vote decision; some of these votes are further escalated to the Investment Stewardship Oversight Committee for input and direction, as well as ultimate approval. As described earlier, the funds' proxy voting policies are based on pillars of strong corporate governance and an unwavering focus on long-term financial value creation for the funds and their investors.

The team applies the funds' policies by assessing each proposal on its merits and by making balanced, case-by-case assessments of the facts and circumstances at the company in question. Multiple inputs are used as part of the team's research and voting process; however, all voting decisions are made independently on behalf of each Vanguard-advised fund.

Vanguard's Investment Stewardship team intends to vote at all meetings where Vanguard-advised funds are eligible to vote. A fund may refrain from voting some or all of its shares on a particular matter if doing so is impracticable or would not be in the best interests of the fund and its investors. Such situations may arise if, for example, the expected cost of voting exceeds the expected benefits of voting. These circumstances may arise due to liquidity constraints imposed by voting; untimely ballots or materials; or limitations on voting as a result of a company's governing documents or applicable law, regulation, or agreements with state, federal, and non-U.S. regulators.

While increasing attention has been paid to shareholder proposals on environmental and social topics in recent years, the vast majority of the matters on which the Vanguard-advised funds vote concern routine corporate governance matters (such as the election of board directors, the ratification of auditors, and the approval of executive pay). For the three years ended December 31, 2022, less than one-half of 1% of proxy ballot items on which the Vanguard-advised funds have voted concerned environmental or social matters.<sup>9</sup> Whether evaluating routine matters proposed by management or proposals put forth by another shareholder, Vanguard's Investment Stewardship team is guided by a focus on maximizing long-term investment returns at each portfolio company in which the funds invest.

<sup>9</sup> Source: Vanguard Investment Stewardship, for the three years ended December 31, 2022.

### **We do:**

- Vote independently on a fund-by-fund, case-by-case basis in the best interest of each Vanguard-advised fund.
- Vote pursuant to the funds' published proxy voting policies, which are informed by our independent research and analysis.
- Support shareholder proposals that we assess as appropriately addressing material risks to long-term investment returns at the company in question.
- Clearly disclose how Vanguard-advised funds voted.

### **We don't:**

- Pursue any agenda other than Vanguard-advised funds' financial interests at the company in question.
- Submit shareholder proposals, nominate directors, or seek board seats.
- Support shareholder proposals that we assess as being overly prescriptive or otherwise dictating company strategy.
- Disclose in advance how the Vanguard-advised funds will vote on a particular ballot item or coordinate with other investors in determining a vote.

## **Proxy voting policies and procedures**

Each fund's proxy voting policies and procedures are designed to promote long-term investment returns by supporting effective corporate governance practices. The proxy voting policies for each of the Vanguard-advised funds detail the general positions of the fund on proxy proposals that appear frequently at public companies (for example, proposals to approve executive pay plans). The Vanguard-advised funds have also developed country- or region-specific policies for markets where the funds have significant portfolio company holdings. These regional policies reflect local market nuances on regulatory requirements and governance practices. When we encounter a ballot item for which specific policies are not defined in the funds' voting policies, the vote is determined on a case-by-case basis consistent with the principles articulated in the funds' proxy voting policies and each fund's investment objective.

We regularly review the funds' proxy voting policies and procedures, and, at least annually, submit them to the Investment Stewardship Oversight Committee and the relevant regional board, including any recommended changes, for consideration and approval. Recommendations to update the proxy voting policies—subject to the approval of each relevant board—take into account evolving market standards, the legislative and regulatory landscape, and emerging corporate practices. Any amendments to the funds' proxy voting policies are disclosed on Vanguard's Investment Stewardship website.

## How we evaluate shareholder proposals

While shareholder proposals represent approximately 3% of the ballot items on which the funds have voted over the past few years,<sup>10</sup> these proposals generate many questions regarding how we evaluate proposals on behalf of the funds. As with other types of proposals, when assessing a shareholder proposal, we assess each proposal on its merits and in the context of the facts and circumstances at the company in question. We consider factors such as:

- **Whether the proposal addresses a financially material risk at the company.** We look for a clear link between the topic(s) raised in the proposal and the risks or benefits to the company's long-term investment returns.
- **Whether the proposal provides the board and company management sufficient latitude in determining how to implement the request of the proposal.** We believe shareholder proposals should not be overly prescriptive or otherwise dictate companies' business practices and/or strategy; we believe those matters are the purview of company boards and management teams.
- **Whether the proposal addresses a gap in the company's current practices or stated intentions.** We assess whether the company already has practices in place that sufficiently address the shareholder concern raised in a proposal and whether the company complies with applicable regulations. In addition, we may consider the company's practices relative to market and industry norms. Where applicable, we also may evaluate whether the company has made a credible, specific, public commitment that is responsive to the shareholder's request.

Taking these factors into account, the funds will support proposals whose provisions, in our

assessment and on balance, serve the long-term financial interests of the funds and their investors. The funds will not support proposals that include elements that we view as dictating company strategy or operating decisions that, in our view, should be the purview of the company's board of directors and management teams. Additional information about our approach to evaluating shareholder proposals on behalf of the funds is articulated in the funds' proxy voting policies, which are available on Vanguard's website.<sup>11</sup>

## Inputs to our research process

To ensure sound, investor-aligned decision-making on proxy voting matters, we conduct independent analysis using data from multiple sources, starting with company disclosures and regulatory filings, and including engagements with company representatives. As part of this process, we use data aggregation and proxy voting platform services provided by several proxy advisory firms. The data from these third-party providers serve as only one of many inputs into our research and voting processes. Our use of data and perspectives from multiple entities to inform our decision-making process should not be conflated with reliance on any external parties' recommendations or agendas. We use proxy advisor resources with due diligence and care, and the funds' voting decisions are made independently, on the basis of the funds' proxy voting policies and procedures, and in investors' long-term interests. The team has established risk oversight processes and proprietary systems to monitor the funds' shares and voting rights and manage the proxy voting process.

<sup>10</sup> Source: Vanguard Investment Stewardship, for the three years ended December 31, 2022.

<sup>11</sup> [Investment stewardship and corporate governance | Vanguard](#)



## **Empowering everyday investors through proxy voting choice**

Vanguard recognizes that investors in each Vanguard fund have a wide range of personal priorities and preferences and may wish to make their voice heard directly through proxy voting associated with their investments. To that end, in addition to offering a wide range of investment options to our clients, Vanguard is committed to advancing investor choice, including in proxy voting. Vanguard announced at the end of 2022 that it would begin a proxy voting choice pilot for investors in three Vanguard equity index funds. This inaugural, voluntary pilot, which began in February 2023 and ran through the end of June 2023, allowed investors to make their voices heard in proportion to their ownership of the fund. Investors who chose to participate were able to select from a range of proxy voting policy options that directed how the funds voted their proportionate interest in the funds at certain portfolio company shareholder meetings. Participants were offered four options: casting votes consistent with the company board's recommendations, relying on recommendations from an independent third-party provider based on a disclosed policy, voting based on the Vanguard-advised fund's policy, and choosing not to vote.

We are committed to listening to the investors in our funds so we can best meet their needs. In late 2023, Vanguard announced plans to expand its proxy voting choice pilot program to several additional funds, and plans to continue to actively explore and test ways to empower investors to participate more directly in the proxy voting process.

## **How we promote effective governance practices**

Vanguard-advised funds own shares in more than 13,000 public companies worldwide on behalf of the investors in those funds. As part of our effort to help investors achieve investment success, we aim to communicate our perspectives on governance matters to investors, portfolio companies, policymakers, industry groups, and other market participants. We also promote governance practices that support long-term investment returns by publicly sharing our perspectives through published materials; speaking at industry events and conferences; supporting certain governance codes, standards, or regulatory frameworks; offering our perspectives to policymakers; and supporting select governance-focused organizations.

## **Involvement with third-party groups**

Vanguard may participate in external organizations and industry initiatives that align with Vanguard's mission and focus on long-term investment outcomes if we believe that doing so advances Vanguard's objective of helping investors achieve investment success. Importantly, Vanguard participates only in organizations whose goals align with Vanguard's business strategy and duties to its investors; we routinely assess participation in external organizations to ensure that involvement continues to align with Vanguard's mission and investment perspectives. Ultimately, Vanguard maintains its independence in company engagement activities and proxy voting decisions in accordance with the funds' voting policies and with the goal of promoting long-term shareholder returns. That includes Vanguard's involvement with any trade association, industry group, or initiative.

If we determine that the mandate of an organization with which Vanguard is involved has changed or that it no longer aligns with Vanguard's mission or investing perspectives, we will reassess our engagement with the organization. Regardless of Vanguard's relationship to any organization, our role as an investment manager is to uphold the stated investment objectives of each fund we offer to investors.

The table in Appendix B lists external organizations that Vanguard currently participates in that relate to investment stewardship activities. The table details our affiliation with these organizations to explain how each affiliation helps advance Vanguard's mission of helping investors achieve investment success and how it is consistent with our Investment Stewardship team's focus on maximizing long-term investment returns for Vanguard-advised funds and fund investors.

### **We do:**

- Communicate our perspectives as long-term investors on governance matters to fund investors, portfolio companies, policymakers, industry groups, and other market participants.
- Work with certain industry groups and initiatives to promote advancements in corporate governance standards.
- Participate in industry forums and dialogues that we believe advance Vanguard's objective of helping investors achieve investment success.

### **We don't:**

- Pursue any agenda other than maximizing long-term investment returns for the Vanguard-advised funds and their investors, consistent with each fund's objectives.
- Adopt third-party organizations' agendas or let others speak on behalf of the Vanguard funds.
- Make any commitments to third-party groups that supersede our duties to our investors.

## Communicating our investment stewardship activities

We believe it is important that we inform Vanguard-advised fund investors and other interested parties about the activities the Investment Stewardship team conducts on behalf of the funds. We also believe it is important that we clearly communicate our perspectives on governance topics so that portfolio companies understand our approach.

Resources on investment stewardship at Vanguard can be found on our website,<sup>12</sup> which serves as the primary source of information about our Investment Stewardship program. Vanguard's website contains the funds' proxy voting policies, annual reports, Insights articles that illustrate how our approach is applied in the context of particular topics and situations, quarterly reports on significant votes, and quarterly reports on the companies with which we have engaged and the topics discussed. Details of proxy votes cast by the funds for the current proxy year also are published on the website, with quarterly updates.

The team regularly engages with fund investors, portfolio companies, regulators, and other market participants to assess how we can best provide materials that are clear and informative regarding our approach.

### Ongoing reporting

**Proxy voting policies.** The funds' proxy voting policies are disclosed on Vanguard's website (see footnote 12) and are updated at least annually.

**Proxy voting.** The funds' proxy votes are disclosed so that fund investors can see how the funds' policies are applied and how the funds' votes are focused on long-term investment returns. We disclose the proxy voting records for Vanguard's global fund lineup through an online tool found on Vanguard's website. The tool provides details of proxy votes cast by all Vanguard equity funds for the most recent proxy year. The vote information for the current proxy year is published quarterly.

**Quarterly reporting.** On a quarterly basis, reports outlining and providing rationale for significant votes are published on Vanguard's website. Reports on company engagements, as well as the topics discussed in the engagement, are also published on our website.

**Annual investment stewardship reports.** These reports outline our global investment stewardship activities and outcomes for the prior calendar year. Each annual report includes summaries of key governance developments we observed in different regions, case studies of company engagements and/or voting decisions, a comprehensive list of companies engaged, and aggregate regional voting outcomes.

**Insights articles.** We produce Insights articles to provide timely explanations of our perspectives on important governance matters and the rationale behind certain notable, novel, and/or contentious proxy ballot votes. Vanguard Investment Stewardship Insights are published throughout the year.

<sup>12</sup> [Investment Stewardship and corporate governance | Vanguard](#)

## Appendix A

The policies and procedures outlined here and on the following pages direct Vanguard's Investment Stewardship activities on behalf of Vanguard-advised funds.

### **Third-party service provider oversight policy**

Vanguard Investment Stewardship's Data, Operations, and Risk Control team enables every aspect of the program's research, analysis, and risk controls through vendor oversight, platform management, and technology innovation. As part of its remit, this team continuously monitors existing supplier relationships, as well as potential suppliers whose offerings may help the Investment Stewardship team. Risk profile categorizations, based on Vanguard's third-party risk management policy, influence the specific oversight model that is in place for each supplier. We use a performance-evaluation framework in managing our supplier relationships, monitor key performance indicators to determine the ongoing suitability of the relationship, and have regular discussions with our vendors to provide feedback and address any performance-related matters. Each prospective supplier is evaluated against our current relationships for how it would fit in our research process and its ability to drive value for our program.

### **Securities lending policy**

Vanguard funds engage in securities lending activity to seek to generate incremental revenue for portfolios that can enhance returns for fund shareholders. There may be occasions when Vanguard needs to restrict lending of and/or recall securities that are on loan in order to vote in a shareholder meeting. For Vanguard-advised funds, Vanguard's Investment Stewardship team manages processes, in partnership with Vanguard's Securities Lending team, to monitor securities on loan and to evaluate any circumstances that may require us to restrict or recall the stock.

In making this decision, Vanguard considers:

- The subject of the vote and whether, based on our knowledge and experience, we believe this topic could be material to the corporate governance and/or long-term performance of the company;
- The funds' individual and/or aggregate equity investment in a company and whether we estimate that voting the funds' shares would affect the shareholder meeting outcome; and
- The long-term impact to fund shareholders, evaluating whether the benefits of voting a company's shares would outweigh the benefits of stock-lending revenues in a particular instance.

## Proxy voting conflicts of interest policy

Vanguard has a Proxy Voting Conflicts of Interest Policy to manage and mitigate any actual or potential conflicts of interest in our engagement or proxy voting activities or work in order to promote effective corporate governance practices on behalf of the funds. The Proxy Voting Conflicts of Interest Policy states that all voting personnel must conduct their activities in a manner such that: (1) fund shareholders' interests come first; (2) conflicts of interest must be mitigated to the extent possible; and (3) compromising situations must be avoided.

A conflict of interest, either actual or potential, may be present when:

- Vanguard clients are issuers of securities held in Vanguard portfolios or proponents of shareholder resolutions.
- Vanguard business partners or third-party vendors are issuers of securities held in Vanguard portfolios or proponents of shareholder resolutions.
- Current Vanguard directors or fund trustees or individuals who have been Vanguard directors or fund trustees within the last three years sit on the boards of public companies held in Vanguard portfolios.
- Vanguard Investment Stewardship personnel or members of the Investment Stewardship Oversight Committee have personal or familial conflicts with issuers of securities.
- Any other significant conflicts are brought to Vanguard's attention.

The funds' proxy voting guidelines serve as our primary mechanism for mitigating and resolving actual or potential conflicts of interest. When specific guidelines are not defined for a proxy proposal or additional evaluation of the facts and circumstances is required, Vanguard's Investment Stewardship team takes a case-by-case approach to mitigate the actual or potential conflict.

Further, the Investment Stewardship team records rationale for votes in cases such as: votes at companies with a potential board-level conflict, when explicit guidelines for a particular proposal are not in place, or when exceptions permitted under the funds' proxy voting policies were applied.

Our Proxy Voting Conflicts of Interest Policy provides additional measures to mitigate and manage potential or actual conflicts of interest in the funds' proxy voting. These measures include but are not limited to:

**Separation between Investment Stewardship and external client-facing roles.** We maintain an important separation between the Investment Stewardship team and other groups within Vanguard that are responsible for sales, marketing, client service, and vendor/partner relationships. Further, the policy prohibits Investment Stewardship team members and Investment Stewardship Oversight Committee members from sharing nonpublic information.

**Conflict reporting and recusal process.** All personnel involved in the proxy voting and oversight process are subject to Vanguard's Code of Ethical Conduct. They are required to disclose potential or actual conflicts of interest involving Vanguard business interests or immediate family employment arrangements in accordance with this Code. Individual proxy voting analysts must recuse themselves from all voting decisions and engagement activities when a personal or familial conflict exists.

Vanguard board members, members of a review or advisory committee associated with Vanguard, or former Vanguard C-suite executives within the last three years who sit on the board of a public company held in Vanguard portfolios are also required to recuse themselves from any engagements with Vanguard. Nonetheless, the Investment Stewardship team will continue to maintain appropriate coverage to engage with portfolio companies and vote shares on behalf of Vanguard-advised funds.

**Refraining from voting.** Vanguard Investment Stewardship may refrain from voting some or all shares of a portfolio company, or from voting on some or all proposals, when voting would present a potential conflict of interest that cannot be sufficiently mitigated.

**Using independent third parties.** Vanguard Investment Stewardship or the Investment Stewardship Oversight Committee may engage an independent third party to vote proxies on behalf of the Vanguard-advised funds as a safeguard to avoid potential conflicts of interest or as otherwise required by applicable law.

**Voting shares of other Vanguard funds.** Certain Vanguard funds (owner funds) may, from time to time, own shares of other Vanguard funds (underlying funds). If an underlying fund submits a matter to a vote of its shareholders, votes will be dealt with in accordance with local applicable regulations.

Vanguard identifies and manages potential conflicts between funds or with other types of accounts through its allocation policies and procedures, internal trading review processes, compliance department trading oversight, and oversight by directors, auditors, and regulators. Our Code of Ethical Conduct sets forth standards that apply to all personnel, incorporates an insider trading policy, and governs outside employment and receipt of gifts.

Employees are required to certify annually that they have read and understand this Code and have disclosed any potential conflicts of interest. Employees receive training each year to ensure that they will recognize the issues they need to be aware of and identify any conflict at an early stage. Vanguard's Compliance team reports unmitigated conflicts of interest to the funds' boards in the annual Code of Ethical Conduct report.

## **Procedures and guidelines for monitoring and reporting on portfolio company human rights practices**

Vanguard condemns crimes against humanity and abuses of human rights. The Vanguard-advised funds are committed to following relevant laws that may require specific investment restrictions in companies that are sanctioned, including for human rights abuses, and the Vanguard-advised funds' policies are informed by such laws.

The Vanguard-advised funds are primarily index funds that seek to track specific benchmark indexes constructed by independent third parties, and provide diversified exposure to broad, investable markets. By design, managers of index funds do not make active decisions about where to allocate capital.

As described in Vanguard-advised funds' proxy voting policies and in Vanguard Investment Stewardship's public reporting, the Vanguard-advised funds are long-term investors in public companies, and, accordingly, Investment Stewardship takes a long-term approach to company engagement and voting proxies on behalf of the funds. We work to understand how boards of directors oversee, identify, and govern material risks, including, but not limited to, material human-rights-related risks. Thus, where human rights matters are not addressed by applicable sanctions laws and regulations that restrict specific investments, Vanguard's Investment Stewardship team employs procedures to identify and monitor material human rights risks at portfolio companies held by

the Vanguard-advised funds and to understand how portfolio company boards oversee any such risks.

These procedures include the use of publicly available data and third-party research and serve to help monitor portfolio companies in which the Vanguard-advised funds invest for potential human-rights-related risks. As part of our ongoing review, we may seek to engage with company leaders, including company directors, to understand a board's oversight of alleged human-rights-related risks, and if and how the company has mitigated any identified risks.

More generally, Vanguard's Investment Stewardship team reviews how portfolio companies evolve their governance practices and public disclosures over time. In instances where we do not see progress in how a company addresses a given governance concern, we have the ability to escalate a matter in a manner appropriate for each situation, such as by directly engaging with company leaders, by voting in support of a relevant shareholder resolution, or by not supporting the elections of board members at a company's shareholder meeting. Such escalation steps would be made in consultation with the Investment Stewardship Oversight Committee based on a determination of what is in the best interest of each Vanguard-advised fund that is invested in the company in question.

## Appendix B

Vanguard Investment Stewardship participates in certain external organizations and initiatives to remain connected to regional developments in corporate governance disclosure. Our affiliations with these organizations provide us with access to information that supplements our own research and analysis to inform our investment stewardship activities and our aim of safeguarding and promoting long-term investment returns for Vanguard-advised funds and their investors.

Separately, Vanguard Investment Stewardship participates in several voluntary industry frameworks and information-sharing initiatives that promote useful disclosure to investors of material sustainability-related risks. As detailed in the table that follows, these disclosure-focused organizations include the Task Force on Climate-related Financial Disclosures, the International Sustainability Standards Board, the Principles for Responsible Investment, and CDP (formerly known as the Carbon Disclosure Project), as well as a number of regionally focused investor organizations. Companies' disclosure of material

risks is an important component of accurate security pricing and efficient and fair capital markets, which is why material risk identification and disclosure are critical priorities for Vanguard. We believe both investors and markets benefit when material risks—and strategies for mitigating them—are appropriately disclosed.

If we determine that an organization's mandate has changed or that it no longer aligns with Vanguard's mission or investing perspectives, or that there is credible risk of confusion about Vanguard's involvement or independence, we will reassess our engagement with the organization.

In addition to the organizations listed in the pages that follow, we participate in several industry trade groups through Vanguard's enterprise-wide membership, including the Investment Company Institute (ICI), the Securities Industry and Financial Markets Association (SIFMA), and the Investment Adviser Association (IAA). These industry bodies cover a broad range of capital markets issues including liquidity, transparency, and investor protection.



(As of December 2023)

Initiative/organization	Year joined	Description	Affiliation	Nature of affiliation
<b>Principles for Responsible Investment (PRI)</b>	2014	The PRI works for a sustainable global financial system by encouraging adoption of six voluntary principles; fostering good governance, integrity, and accountability; and addressing obstacles to a sustainable financial system within market practices, structures, and regulation.	Signatory.	Provides resources and education opportunities. Our commitment is to clear, effective disclosures in accordance with the PRI's reporting framework.
<b>Commonsense Corporate Governance Principles</b>	2016	A set of principles endorsed as a basic framework for sound, long-term-oriented governance for public companies, their boards of directors, and their shareholders.	Open letter founding signatory. Former Vanguard Chairman and CEO Bill McNabb helped prepare the principles.	Demonstrates our commitment to promoting sound corporate governance practices.
<b>International Financial Reporting Standards (IFRS) Sustainability Alliance (formerly the Sustainable Accounting Standards Board Investor Alliance)</b>	2016	A global membership program focused on keeping its members apprised of the changing landscape for sustainability-related data and integrated reporting. Alliance members share a belief in the benefits of a coherent and comprehensive system for corporate disclosure and a more integrated approach to the way organizations plan and disclose their approach to value creation.	Member.	Provides resources and is used as an input to our research. Also provides opportunities to share our perspectives on the standard-setting process for material sustainability risk disclosures.
<b>International Sustainability Standards Board (ISSB) Investor Advisory Group (IIAG) (formerly the SASB Investor Advisory Group)</b>	2016	An advisory body to the ISSB, the group comprises leading asset owners and asset managers that are committed to improving the quality and comparability of sustainability-related financial disclosures by providing strategic guidance on developing IFRS Sustainability Disclosure Standards and ensuring that the investor perspective is articulated clearly and is considered in the ISSB's standard-setting process.	Member.	Provides opportunities to learn from peers and to share our perspectives on the standard-setting process for material sustainability risk disclosures.

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<b>Initiative/organization</b>	<b>Year joined</b>	<b>Description</b>	<b>Affiliation</b>	<b>Nature of affiliation</b>
<b>The Investment Association</b>	2016	A trade body that represents more than 200 investment managers and investment management firms in the U.K.	Member. Managing director Sean Hagerty serves as deputy chair of the board.	Provides resources and education opportunities. Also provides opportunities to share our perspectives on investment stewardship topics.
<b>Investor Stewardship Group</b>	2017	A group with an established framework of basic stewardship and corporate governance standards for U.S. institutional investor and boardroom conduct.	Founding signatory. Vanguard representative serves on the board of directors and nominating committee.	Provides resources and education opportunities.
<b>Council of Institutional Investors (CII)</b>	2017	A nonprofit, nonpartisan association of U.S. public, corporate, and union employee benefit funds and institutional asset owners with a mission to be a leading voice for effective corporate governance practices, strong shareowner rights, and sensible financial regulations that foster fair, vibrant capital markets.	Member. Vanguard representative serves on the Corporate Governance Advisory Council.	Provides education opportunities and research on developments in corporate governance.
<b>Task Force on Climate-related Financial Disclosures (TCFD)</b>	2017	An organization that developed guidelines for voluntary climate-centered financial disclosures for all industries.	Supporter.	Provides resources and demonstrates our commitment to promoting effective disclosures of material climate risks and related climate strategies.
<b>CDP</b>	2018	CDP runs a global disclosure system for investors, companies, cities, states, and regions looking to understand or manage their environmental impacts.	Capital Markets signatory. Vanguard subscribes to data for CDP Climate Change, CDP Forests, and CDP Water.	Data provider. Research informs our assessment of portfolio companies' disclosure of climate-related risks and impacts.
<b>International Corporate Governance Network (ICGN)</b>	2019	An investor-led organization with a mission to promote effective standards of corporate governance and investor stewardship to advance efficient markets and sustainable economies worldwide.	Member.	Provides resources and education opportunities.

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<b>Initiative/organization</b>	<b>Year joined</b>	<b>Description</b>	<b>Affiliation</b>	<b>Nature of affiliation</b>
<b>Asian Corporate Governance Association (ACGA)</b>	2021	An independent, nonprofit membership organization dedicated to working with investors, companies, and regulators in the implementation of effective corporate governance practices throughout Asia.	Member.	Provides education opportunities. Research informs our stewardship activities in the Asia region.
<b>Institutional Investors Group on Climate Change (IIGCC)</b>	2021	A global membership body that aims to provide investors with frameworks, tools, and support related to the disclosure and understanding of climate-related risks and opportunities in their investment process.	Member.	Provides resources and education opportunities. Region-specific insights inform our investment stewardship activities.
<b>Investor Group on Climate Change (IGCC)</b>	2021	A leading network for Australian and New Zealand institutional investors that provides awareness of and resources for understanding and managing the risks and opportunities of climate change.	Member.	Provides resources and education opportunities. Region-specific insights inform our investment stewardship activities.
<b>Asia Investor Group on Climate Change (AIGCC)</b>	2021	A leading network for Asian institutional investors that provides awareness of and resources for understanding and managing the risks and opportunities of climate change.	Member.	Provides resources and education opportunities. Region-specific insights inform our investment stewardship activities.

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