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Vanguard Investment Stewardship Voting Insights

Shareholder proposals regarding a racial equity audit at Home Depot

November 2023

Company: The Home Depot Inc. (Home Depot)

Meeting date: May 18, 2023

Proposal: Item 8 - Rescind 2022 Racial Equity Audit Proposal

How the funds voted

At the 2023 annual meeting of Home Depot, a U.S.-based home improvement retailer, the Vanguard-advised funds voted against a shareholder proposal requesting shareholders rescind their support of a racial equity audit.[1] The racial equity audit was the subject of a shareholder proposal at Home Depot in 2022 that passed with roughly 63% support. The 2023 proposal did not receive majority support from shareholders.

The funds' proxy voting policies

We believe that boards of directors play a critical role in the oversight of a company's long-term strategy and material risks to shareholders' investment returns. On behalf of the Vanguard-advised funds, we seek to understand how boards have the appropriate composition of independence, skills, and experiences to oversee strategy and material risks, in addition to how boards engage in constructive debate with, and oversight of, management for the benefit of long-term investment returns. We look for boards to stay apprised of emerging risks that may affect financial outcomes and adjust their oversight structures and processes as appropriate.

As set forth by the Vanguard-advised funds' U.S. policy, when evaluating shareholder proposals, we analyze the materiality of the risk the proposal seeks to address, the company's current practices and disclosure related to the risk, the board's oversight of the risk, and the reasonableness and prescriptiveness of the proposal, among other factors.[2] If we identify gaps in the company's disclosures, the funds may support a shareholder proposal that seeks enhanced reporting of the company's approach to addressing a material risk. The funds do not support shareholder proposals that dictate company strategy or operating actions, as we believe that a well-composed board and properly overseen and incentivized company executives are

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.

2 Refer to the Vanguard-advised funds' U.S. policy for more details: Proxy voting policy for U.S. portfolio companies (vanguard.com)

better positioned to determine the appropriate approach for any particular company.

Analysis and voting rationale

Ahead of the 2023 annual meeting, we engaged with Home Depot's lead independent director and members of management to discuss a variety of shareholder proposals on the ballot, including the board's recommendation to vote against a proposal requesting that Home Depot shareholders rescind support of a racial equity audit that was the subject of a shareholder vote in 2022. The Vanguard-advised funds voted against the referenced 2022 proposal. However, given that the proposal had passed with roughly 63% support, we sought to understand how the board and company interpreted that feedback from shareholders and how they were considering responding to it.

During our engagement, Home Depot leaders explained that the company had decided to undertake an assessment that, in large part, addressed the request of the 2022 shareholder proposal. Home Depot leaders shared that they believed doing so was appropriate and in the best interest of the company, as it was responsive to shareholders, would validate the effectiveness of the company's existing efforts in this area, and would solicit recommendations for further improvement. During our engagement, Home Depot leaders affirmed the company's stated beliefs that continuing their racial equity assessment was in the best interests of Home Depot shareholders and stakeholders. Company leaders shared that they expected that the assessment could potentially lead to additional disclosure of customer and workforce demographics, which could be decision-useful information to investors. They also shared that even though the company was in the early stages of its assessment, they were encouraged by the efforts conducted to date as part of the assessment.

Ultimately, the funds voted against the 2023 shareholder proposal. Although the proposal, in our view, raised a topic that addressed potential material risk to Home Depot, we determined that the company was taking sufficient actions to mitigate human capital risks, inclusive of racial-equity-related risks, and that the board had sufficient oversight of the risk. We found that Home Depot had a clearly articulated approach to human capital management, which included Home Depot's approach to racial equity risks, and that the company was executing against that approach.

What we look for from companies on this matter

Third-party racial equity and civil rights audit proposals have gained prominence on U.S. public company ballots over the last few proxy seasons. Shareholder proponents filing these proposals ask that companies conduct a third-party audit of any direct or indirect impacts a company may have on communities of color. We evaluate each third-party racial equity audit proposal as we would any other proposal to audit a specific facet of a company's operations. We look for a clear link between the topic addressed by the proposal and the company's long-term investment returns, as well as a clear need for third-party involvement. For proposals that request an audit, we first assess whether the proposal addresses a gap in the company's existing practices or disclosures for financially material risks, then determine whether closing that gap is best addressed by an audit. If we determine that a gap exists in addressing or disclosing a financially material risk, we may also determine that additional disclosure or a request for third-party involvement is warranted.

Ultimately, it is the job of a company's board to seek diverse external perspectives, challenge management, and hold company executives accountable for addressing material risks to long-term investment returns. Through strong, independent leadership, boards can manage the reputational, regulatory, legal, and strategic risks related to potential discriminatory business practices. On behalf of Vanguard-advised funds and their investors, we firmly believe that companies should focus on matters 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.

Vanguard publishes 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.

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