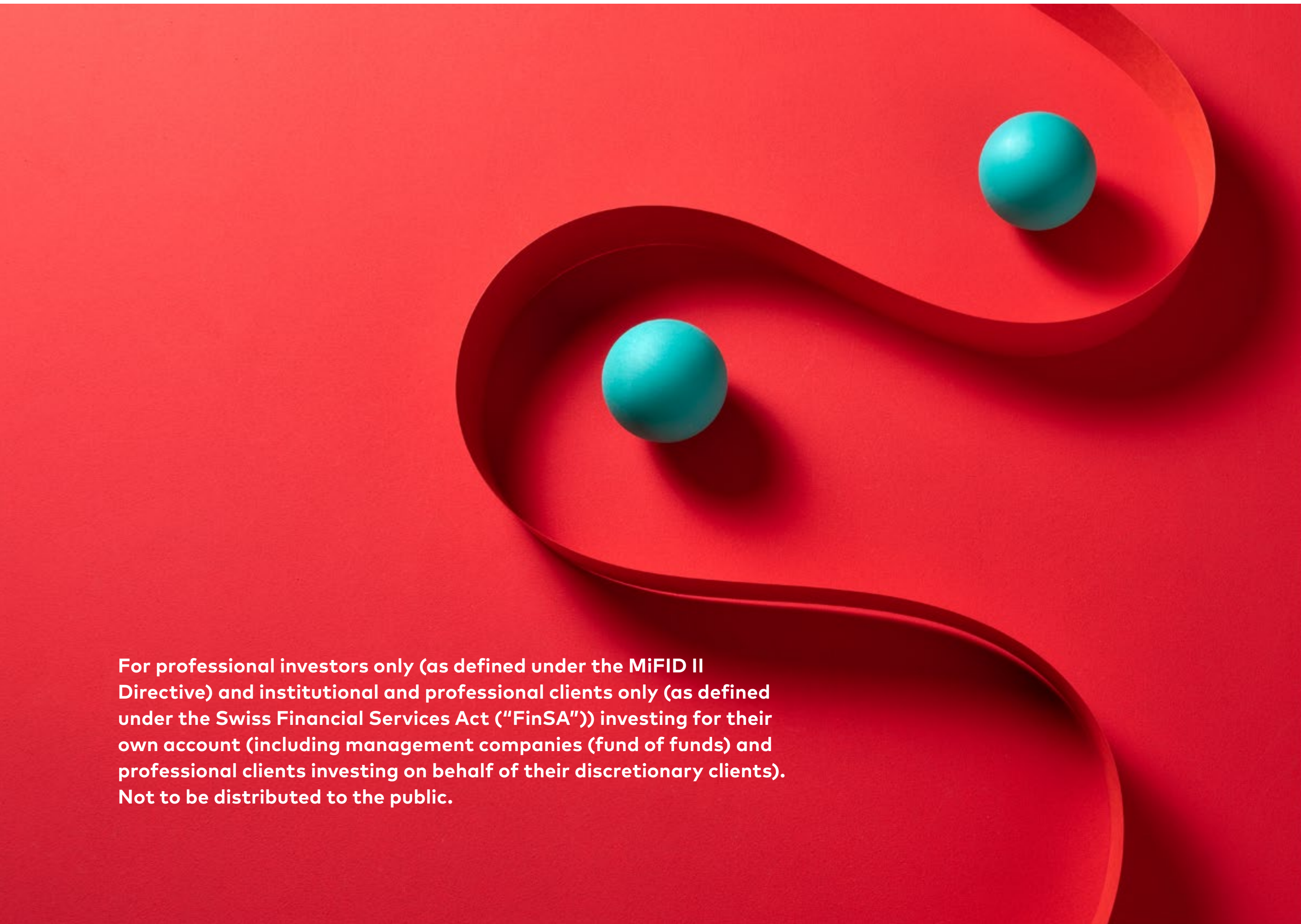
Vanguard

Investment Stewardship

About our programme

November 2021



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Contents

About our programme outlines Vanguard's approach to investment stewardship. In it, we discuss our global principles, processes, and policies that help to drive our programme mandate: to serve as a voice for our investors and promote long-term value creation at the companies in which our funds invest.

We created this overview to provide investors, portfolio companies, and other stakeholders greater insight into our stewardship programme.

I. Introduction

Vanguard stewards the assets of more than 30 million investors worldwide. We invest these assets and have a responsibility to monitor material risks that can impact long-term value creation in portfolio companies. In doing so, we are guided by Vanguard's core purpose: *To take a stand for all investors, to treat them fairly, and to give them the best chance for investment success.*

Vanguard's Investment Stewardship team operates at the intersection of corporate governance, environmental risk and social risk, working to promote and safeguard long-term shareholder value in boardrooms around the world.

Vanguard index funds are practically permanent investors of the companies in which they invest, holding a stock forever—or as long as it is included in the underlying benchmark. This long-term perspective informs every aspect of our Investment Stewardship programme. Our team is driven by a clear, consistent and compelling mandate: to serve as a voice for our investors and promote long-term value creation at the companies in which our funds invest. We employ a principles-based approach to stewardship and follow proven best practices in corporate governance.

We apply environmental, social, and governance (ESG) oversight to our funds' portfolio companies through three types of activities: proxy voting, engagement and public advocacy. These activities are informed by our global principles of good governance: well-composed, diverse boards that effectively oversee company strategy and govern risk; appropriate performance-linked executive compensation (remuneration); and policies that give a voice and vote to shareholders.

We constantly evolve our programme to reflect new data, developing market dynamics, investor expectations and regulatory requirements. Over the past 20 years, our investment stewardship efforts have expanded from a small group focused on guideline-driven voting to a global team of more than 40 multidisciplinary analysts, located in the US and the UK. Yet our approach to investment stewardship remains constant as we serve as a voice for our investors.

Evolution of our programme

2001
Proxy Voting Group established. It has a staff of two.

2002
CEO Jack Brennan writes frst governance letter to hundreds of portfolio companies.

2008
Vanguard formalises its investment stewardship principles.

2010
Formal engagement programme launches.

2016
Team is renamed Investment Stewardship. It has a staff of 12.

2017
First annual report is published.

2018
Team establishes London-based presence in Europe. Entire team now has a staff of 30.

2019
Vanguard funds grant full proxy voting responsibilites of externally managed active funds to those funds' managers.

2020
Proxy voting responsibility for all companies in Europe, the Middle East, Africa (EMEA), Asia, Australia, and New Zealand transitions to London-based EMEA team.

II. People

Our team and structure

Vanguard's Investment Stewardship programme is carried out by a dedicated global team of experienced governance professionals. The team is responsible for portfolio company engagements, along with the day-to-day operations of the funds' proxy voting process, for Vanguard's internally managed global equity holdings. John Galloway, a Vanguard principal, leads the global investment stewardship programme.

Vanguard's Investment Stewardship team employs a regionally focused model. All engagement, company research, analysis, and voting activities are overseen by senior leaders responsible for particular regions and markets. These leaders, and a dedicated team of analysts who are further aligned by sector, maintain responsibility for their respective coverage areas. Investment Stewardship also has groups focused on policy and research, communications and data operations and risk control.

Team members collaborate every day, sharing ideas and making continuous improvements in policies and processes. This allows us to balance the need for global consistency with regional relevance by developing in-depth knowledge on pertinent issues across our funds' portfolios, growing our presence in local markets, and identifying industry, regional and country-specific trends.

The team also collaborates with groups across the company. For example, we have regular meetings with colleagues from our fixed income group to discuss the latest developments and approaches to climate risk, and we also meet frequently with product and investment management teams to collaborate on ESG matters, new research and thought leadership. Our programme additionally benefits from the expertise of a dedicated legal counsel.

While our team is supported by professionals across Vanguard, investment stewardship and investment management are independent functions. Investment Stewardship is not used as an active input to inform trade-related decisions for our funds.

Oversight of Investment Stewardship

The Board of Trustees (the Board) of each Vanguard fund is responsible for fiduciary oversight of the fund, fund corporate governance, proxy votes and adopting proxy voting policies. For this purpose, the Board has tasked the Investment Stewardship Oversight Committee (the Committee) with oversight of the proxy voting and stewardship function for the firm's internally managed global equity funds, and it has tasked the Investment Stewardship team with the day-to-day operations of these funds' proxy voting process at its direction. In 2019, the Board delegated full proxy voting responsibility for Vanguard's externally managed funds to the external managers of those funds. This created a greater alignment of investment management and investment stewardship on a fund-by-fund basis.

The Committee comprises a senior management group led by Vanguard Chairman and CEO Tim Buckley. The group includes senior executives from investment management, global risk, legal, compliance, investment products, finance, communications, the head of Vanguard's UK and European businesses, and Investment Stewardship, including John Galloway as the investment stewardship officer. The Committee is accountable to the Board.

The Committee is deliberately structured to be a multidisciplinary team—one that reflects diversity of gender, ethnicity, skill and experience—so that it can make better decisions around policy, strategy and risk oversight. It does not include anyone whose primary duties include external client relationship management or sales. This clear separation between oversight of proxy voting and client relationship functions is intended to eliminate any potential conflict of interest in the proxy voting process.

The Committee meets at least quarterly and provides ongoing oversight, guidance and strategic vision both by approving governance policy to be presented to the Board and by advising the Investment Stewardship team on proxy voting decisions for complex, high-impact and/or controversial matters.

Building an effective stewardship programme through people and technology

The wide range of experience and skillsets of our global team brings a breadth of knowledge to our programme. Our leadership team and analysts come from diverse backgrounds and offer deep expertise in areas such as credit research, corporate governance policy and structures, public policy and regulatory affairs, research and academia, and risk management.

In keeping with Vanguard's culture of knowledge sharing and talent development, members of our Investment Stewardship leadership team have held a variety of leadership positions across the company. For example, our head of Investment Stewardship Policy and Research was previously head of Credit Research in Vanguard Fixed Income Group, and his investment and research expertise add new dimensions to our programme.

As we continue to globalise the programme and increasingly engage with a broader set of companies in markets around the world, we have expanded our London-based team's responsibilities and added new resources with regional expertise. This team is now responsible for proxy voting and engagement for portfolio companies domiciled in Europe, the Middle East, Africa (EMEA), Asia, Australia and New Zealand. We have also grown the team in recent years, hiring talented people with expertise in ESG data, risk and governance, and regulatory matters.

We value diversity of thought and experience and encourage our team members to focus on professional development. Many of them hold or are pursuing advanced professional degrees and designations including Ph.D., J.D., M.B.A., CFA, and CPA. Members deepen their expertise through internal and external trainings and conferences, and by pursuing specific technical certifications—for example, the Fundamentals of Sustainability Accounting (FSA) credential offered by the Value Reporting Foundation (previously the Sustainability Accounting Standards Board, or SASB). These unique perspectives and areas of expertise, collectively, allow us to maximise the impact of our advocacy, engagement and voting activities on behalf of the Vanguard funds and our investors.

We use data and technology as tools to determine how to prioritise the engagement, voting and advocacy activities that will have the greatest impact on long-term shareholder value. In addition to our own internal proprietary databases, we consult a wide variety of third-party research providers, such as Institutional Shareholder Services, Glass Lewis and Equilar. These efforts help ensure that we are having the right conversations with the right companies at the right time.

Investment Stewardship conducts a robust supplier evaluation process that continues through the life cycle of the relationship. Each year, we evaluate every supplier for quality of service, industry reputation, financial stability and data security. We leverage a performance-evaluation framework in managing our supplier relationships and we monitor key performance indicators to determine the ongoing suitability of the relationship. Each prospective supplier is evaluated against our existing relationships for fit in our research process and their ability to drive value for the programme.

III. Principles and processes

Our governance principles

Vanguard's investment stewardship approach is framed around four principles of good governance: board composition and effectiveness, oversight of strategy and risk, executive compensation (remuneration), and shareholder rights.

Board composition and effectiveness

Good governance starts with a company's board of directors. We want to ensure that the people who represent the interests of all shareholders are independent, committed, capable and appropriately experienced. An effective board should be independent and reflect both diversity of personal characteristics (such as gender, race and ethnicity) and diversity of skill, experience and opinion.

We believe—and research shows—that diverse groups can make better decisions, and better decisions can lead to better results for shareholders over the long term.[1] Diverse boards can help companies to innovate, seek out new customers and enter new markets. If a company's board is capable, diverse and experienced, good results are more likely to follow.

Oversight of strategy and risk

A company's board is responsible for oversight of that company's long-term strategy and any material risks, such as climate and social risks. It is the job of the board to be highly engaged in the oversight of both strategy and risk, so we look for a constant exchange of information between a company's board and its management. We expect directors to be fully knowledgeable about the risks and opportunities that stem from a company's strategy, and we know that directors can provide valuable counsel to company leaders who are executing it. We look for progress by the board in aligning strong risk oversight and disclosure with long-term shareholder value, as such reporting can lead to a more accurate valuation of the company.

Executive compensation (remuneration)

Performance-linked remuneration policies and practices are fundamental drivers of sustainable, long-term value. A company's board plays a central role in structuring executive pay that incentivises outperformance versus industry peers over the long term and emphasises the importance of incorporating relative-performance metrics—especially relative total shareholder return—into those plans. Providing effective disclosure of these practices, their alignment with company performance, and their outcomes gives shareholders confidence in the link between incentives and rewards and the creation of long-term value.

Shareholder rights

Shareholders should have the power to use their voice and vote to ensure the accountability of a company's board and management. We expect companies to adopt governance structures, such as annual director elections that require securing a majority of votes, to ensure that boards and management serve in the best interest of the shareholders they represent. We believe such governance structures can serve as a safety net to safeguard and support foundational rights for shareholders.

Vanguard's approach to investment stewardship

We steward the Vanguard funds' global equity index holdings by voting proxies, engaging with company directors and executives, and advocating for market-wide adoption of governance best practices.

Proxy voting

One of the most visible signs of Vanguard's engaged ownership is our funds' proxy voting at company shareholder meetings. We vote on a fund-by-fund basis and in the best long-term interest of each internally managed Vanguard fund, based on our research and analysis and consistent with our published voting

1 Hewlett, Sylvia Ann, Melinda Marshall, and Laura Sherbin, December 2013. How Diversity Can Drive Innovation. *Harvard Business Review*.

policies. Should a company not make progress in how they manage environmental-, social-, or governance-related matters, proxy voting is one tool we can use to effect positive change on behalf of the long-term interests of our investors.

Our experienced team of investment stewardship analysts evaluates proxy ballot items presented to shareholders and casts the funds' votes in accordance with the instructions set forth in the funds' proxy voting procedures and guidelines. These items include proposals that focus on environmental and social issues. As the focus of these proposals are nuanced and each company's risks and opportunities are different, our voting guidelines require case-by-case analysis of each proposal to determine whether support is in the best interests of each fund.

We make every attempt to vote at all meetings where the Vanguard funds are eligible to vote. A fund may abstain from voting on a particular issue if casting the fund's votes would negatively affect the financial interests of fund shareholders. These circumstances may arise for several reasons, including blocked shares, late ballots or materials, cost constraints or other administrative impediments.

As stated earlier, proxy voting responsibilities for Vanguard's externally managed active funds are performed by those funds' external advisors. These managers follow proxy voting guidelines designed to ensure that their votes are consistent with their fiduciary obligations. Each manager has their own policies and guidelines that govern their voting decisions. The external managers are carefully selected to ensure their investment principles and processes align with the interests of the fund they manage. The externally managed funds hold their portfolio managers to high standards of investment management and compliance, and Vanguard is confident that the managers will act in the best interest of the funds.

Proxy voting procedures and policies

The voting guidelines frame our analysis of each proxy proposal, providing a basis for decision-making, and are grounded in Vanguard's role as a fiduciary—we act in the long-term interests of our investors and are responsible for evaluating each proposal based on its merits and the facts and circumstances presented.

Vanguard's proxy voting procedures and policies are designed and executed to support good corporate governance and maximise the value of shareholder interests in each fund (as directed by the Board) over the long term. The Board periodically reviews and approves each fund's proxy voting policies to ensure that they incorporate current governance standards and address relevant risks to long-term shareholder value.

Vanguard's proxy voting policies for its internally managed funds are adopted by the Board and detail the general positions of each fund on recurring proxy proposals at public companies. We employ region-specific voting policies to address differences in market structure and governance practices; for some key markets, we use country-specific guidelines. Proposals for which specific guidelines are not defined are voted on a case-by-case basis, in the best interests of each fund, and in keeping with both the principles articulated in our proxy voting guidelines and with the investment objective of the relevant fund.

Inputs to our research process

The Investment Stewardship team uses various inputs to inform the funds' decisions on every vote. Vanguard consults a wide variety of third-party research providers—including proxy advisors—for their analysis of issues that bear on long-term shareholder value. We then consider that analysis in conjunction with other inputs to reach independent decisions on behalf of each Vanguard fund. These include proxy voting guidelines, other relevant data such as disclosures by the company and regulatory filings, and insights from company engagements. We have established risk oversight processes and proprietary systems to monitor our shares and voting rights and manage this process.

How Vanguard evaluates shareholder proposals

Shareholder proposals serve as an important tool for investors to voice their perspectives and seek change at public companies. Many shareholder proposals address environmental or social matters such as climate risk, human rights, diversity, political spending and data privacy. Others suggest changes to governance practices or shareholder rights.

Vanguard evaluates each shareholder proposal case by case and with great care. We focus our analysis of each individual proposal on its relevance to the particular company that has received it, its practicality and expected impact on the issue in question, and whether it safeguards the long-term interests of our investors. Other questions that we consider include:

- Does the proposal address a material issue relevant to the company?
- Does the proposal suggest a change that advances long-term shareholder interests?
- Does the proposal address gaps in the company's current practices or stated intentions?

To read more about our key considerations for shareholder proposal analysis, visit our Investment Stewardship website.

Engagement

Vanguard was an early pioneer of engaging with portfolio companies in order to have direct and fruitful conversations with their boards and leaders about improving governance practices. While proxy voting is an important component of our stewardship programme, we have strong conviction that candid dialogue during engagements can be more productive than our vote alone—particularly when it comes to environmental and social issues.

Direct company engagement is the foundation of our Investment Stewardship programme. Engagement drives meaningful outcomes, and it helps us understand how boards and management are overseeing material risks to long-term investors and what steps they are taking to manage those risks. We use engagements to understand how companies govern their long-term strategy and how they are setting themselves up to stay relevant today, tomorrow, and well into the future. We do not seek to dictate company strategy or operations, but we raise concerns with relevant parties when we feel the economic interests of our shareholders may be at risk.

Types of engagements

The Investment Stewardship team conducts significant research and analysis to prepare for discussions with company leaders and board members. Although such discussions vary by company, sector and region, our engagements tend to fall into one of three broad categories:

Strategic engagements are wide-ranging discussions with directors and executives in which we develop a thorough understanding of how a company's strategy and long-term objectives align with its approach to governance. These cover most of our investment stewardship principles and provide us with the opportunity to articulate our perspectives on governance best practices, offer feedback on a company's key ESG and sustainability matters, and discuss industry dynamics.

Ballot item engagements focus on specific proxy voting ballot proposals that are often contentious, such as leadership changes, proxy contests, shareholder proposals, or a company crisis. In such cases, we want to hear all relevant perspectives to inform how the funds vote, and we may hold discussions with company boards, management teams, and shareholder proposal proponents.

Thematic engagements target a universe of companies where we have identified a concentration of high potential risk around a specific theme, such as climate change or diversity. These engagements are used to convey our expectations of boards, gain insights into how boards are overseeing material opportunities and risks, and identify both leading and lagging practices. The information gleaned from these conversations informs our future engagements and approach to holding companies accountable for progress.

How we prioritise engagements

We evaluate a range of factors when considering whether we need to engage with a portfolio company. These factors include the purpose, impact and timeliness of a discussion. We evaluate engagement requests carefully and thoroughly and our decision on whether to engage is deliberate and research-driven. When we decline an engagement request, we may still want to engage in the future, particularly if company circumstances change.

When setting an engagement's priority, we consider, among other details, the materiality of the topic, Vanguard funds' exposure to the company, serious governance matters and whether we are following up on an earlier voting decision. Our analysts meet with, and listen to, all stakeholders to inform our voting decisions or deepen our knowledge on a topic.

In most engagements, we meet with members of the executive leadership team, board directors (preferably independent members), corporate secretaries, company executives, general counsels, or investor relations officers. We may also meet with stakeholders, such as activist investors or nongovernmental organisations, to determine a course of action that is in the best interests of Vanguard fund shareholders.

Engagement topics are oriented around our principles of corporate governance. These principles provide us with a lens through which we view key engagement topics such as climate change, boardroom and workforce diversity (and other human capital management matters) and human rights.

For each engagement, we develop specific objectives based on the individual circumstances of the company. We may focus on understanding a company's governance processes and structures, discussing proposals to execute a vote at a company's general meeting, or engaging on a thematic topic (climate risk, for example, or board and workforce diversity). Depending on the complexity of the issue, an engagement on a single objective can span a year or more. We also revisit objectives as necessary. We track our engagement activity and progress in a proprietary database and may set milestones and timelines for engagements. If a particular action is requested and the company commits to changing a practice or policy, or if we have expressed concerns on a specific governance matter, we will monitor the company for progress and change implementation.

Public advocacy

Vanguard believes that we can promote long-term shareholder value by clearly communicating our long-term perspectives on stewardship and corporate governance matters to portfolio companies, clients, policymakers, industry groups, academics and other market participants. In addition to company engagement, we do this through public advocacy. We support governance-focused organisations, speak at conferences, advocate for—and, in some cases, provide consultation on—governance codes and standards. We also share our perspectives through the media and our published materials.

We participate in several industry initiatives. In 2020, for example, we participated in the US Commodities Futures Trading Commission's Climate-Related Market Risk Subcommittee, which included representatives from the business and investor community, the public-policy sector, and academia. The subcommittee's report, *Managing Climate Risk* in the *U.S. Financial System*, was released in September 2020. It presented findings and recommendations to mitigate the risk that climate change poses to US financial markets.

Outside of the US, we have senior-level representation on several committees and working groups in the UK Investment Association (IA) and membership in the European Fund and Asset Management Association. These industry bodies cover a broad range of capital markets issues that promote liquidity, transparency, investor protection and the development of common standards. Through these organisations, we work with other firms to help ensure that the market functions effectively.

We have also participated in the UK's Asset Management Taskforce and provided input to its Investment Stewardship Working Group. Vanguard's head of Investment Stewardship for Europe, the Middle East, Africa, Asia, Australia, and New Zealand is a member of the IA's Stewardship Committee.

Further, Vanguard engages with regulators and policymakers and, with other market stakeholders, actively contributes to the development of regulatory policy to create and advocate for enhanced industry standards for corporate governance, company disclosure practices and stewardship.

Alignment with external organisations and initiatives

We have a strategic framework in place to evaluate our alignment to external organisations and initiatives. For each organisation or initiative, we evaluate whether joining would be in the best interests of our investors and whether there is alignment to the Vanguard mission and vision.

The following table shows the collaborative initiatives we take part in that are focused on governance and long-term value creation.

INITIATIVE/ ORGANISATION	YEAR JOINED	DESCRIPTION	INVOLVEMENT
CECP (CEO Force for Good) Strategic Investor Initiative	2013	A group that encourages companies to share their long-term strategic stories and focus more of their disclosure and reporting on sustainable long-term value creation.	**Member.** Former Vanguard CEO Bill McNabb and Vanguard principal Glenn Booraem currently sit on the advisory board.
UN Principles for Responsible Investment (PRI)	2014	An organisation that encourages investors to use responsible investment to enhance returns and better manage risks. The PRI promotes six voluntary principles designed to support long-term investment value and a more sustainable global financial system. It also offers guidance to firms about how to incorporate ESG objectives.	**Signatory.** Vanguard is committed to adopting and implementing the six principles and reporting our progress in an annual transparency report. A copy of Vanguard's latest transparency report can be found on the PRI website
Commonsense Corporate Governance Principles	2016	A set of principles endorsed as a basic governance framework for public companies, their boards and their shareholders.	**Founding signatory.** Former Vanguard CEO Bill McNabb helped prepare this position paper.
Value Reporting Foundation (previously SASB)	2016	A global nonprofit organisation, formed through the merger of the International Integrated Reporting Council (IIRC) and the Sustainability Accounting Standards Boards (SASB), that offers a comprehensive suite of resources designed to help businesses and investors develop a shared understanding of enterprise value—how it is created, and how it is preserved or eroded over time. These resources include the Integrated Thinking Principles, the Integrated Reporting Frameworks, and SASB Standards.	**Member.** Vanguard serves on the SASB Standards Investor Advisory Group and is a member of the Standards Advisory Group for the infrastructure sector.
Investor Stewardship Group	2017	A group that has established a framework of basic investment stewardship and corporate governance principles in the US.	**Founding signatory.** Vanguard representatives serve on the group's board of directors, nominating committee, Governance Advisory Council, and Marketing and Communications Advisory Council.
30% Club	2017	A global organisation that advocates for greater representation of women in boardrooms and leadership roles.	**Member.** A Vanguard representative sits on the club's US Steering Committee.
Council of Institutional Investors	2017	A nonprofit, nonpartisan association of corporate, public and union employee benefit funds and endowments with a mission to be the leading voice for effective corporate governance practices for US companies and strong shareowner rights and protections.	**Member.**
International Corporate Governance Network	2019	An investor-led organisation with a mission to promote effective standards of corporate governance and investor stewardship to advance efficient markets and sustainable economies worldwide.	**Member.**
Business Roundtable's Statement *On the Purpose of a Corporation*	2019	A statement signed by more than 100 CEOs who have committed to lead their companies for the benefit of all stakeholders—customers, employees, suppliers, communities and shareholders.	**Signatory.**
Asian Corporate Governance Association	2021	An independent, nonprofit membership organisation dedicated to working with investors, companies and regulators in the implementation of effective corporate governance practices throughout Asia.	**Member.**

Vanguard is also aligned with a number of climate-focused collaborative initiatives. These are presented in the table below.

INITIATIVE/ ORGANISATION	YEAR JOINED	DESCRIPTION	INVOLVEMENT
Task Force on Climate-related Financial Disclosures (TCFD)	2017	An organisation that developed guidelines for voluntary climate-centered financial disclosures for all industries.	**Supporter.** Vanguard publicly supports the TCFD and encourages portfolio companies to disclose climate-related risks in line with the framework.
CDP	2018	A not-for-profit charity that runs the global disclosure system for investors, companies, cities, states, and regions to manage their environmental impacts.	**Signatory.** Vanguard is a signatory to CDP Climate Change, CDP Forests and CDP Water.
The *Energy Transition and Care for Our Common Home* statement on climate risk	2019	The Vatican's participant statement on climate risk disclosures, which calls on companies to be transparent about climate-related matters and disclose them to investors.	**Signatory.** Vanguard participated in an executive-level, cross-industry dialogue about the potential long-term financial impacts of climate change and energy transition.
Net Zero Asset Managers initiative	2021	A group of global asset managers committed to supporting the goal of net-zero greenhouse gas emissions, in line with efforts to limit global warming to 1.5 degrees Celsius, and to supporting investing aligned with net-zero emissions, both by 2050 or sooner.	**Signatory.**
Ceres	2021	A nonprofit organisation with a mission to transform the economy to build a just and sustainable future for people and the planet.	**Member.** Vanguard is a member of the Ceres Investor Network on Climate Risk and Sustainability.

Vanguard has provided insight and open consultation for the following:

- Task Force on Climate-related Financial Disclosures
- European Sustainable Finance Package
- German Corporate Governance Code
- UK Stewardship Code 2020

IV. Perspectives and policies

Vanguard's perspective on specific topics is never static. We continuously review our policies and practices, conducting fresh analysis each year as we examine new data, consider evolving market norms, assess investor and regulatory landscapes and consumer expectations, and incorporate our own views of matters that are material to long-term investors. The Investment Stewardship team has dedicated analysts focused on advancing our positions on strategic policy topics (such as environmental and social matters) and conducting in-depth research to further develop our global perspectives on policy, regulations, and risk analysis.

Perspectives on key governance topics

Climate risk

Climate change presents a profound risk to companies and their long-term investors. Few, if any, companies will be exempt from its far-reaching implications. As a fiduciary, Vanguard views climate risk through the lens of materiality, seeking to determine if climate-related factors pose a meaningful threat to long-term shareholder value. We support comprehensive and effective emissions disclosures and climate-related metrics and mitigation targets, such as those aligned with the goals of the Paris Agreement.

We invest time and resources in monitoring climate-related risks in our funds' portfolio companies. Each company is evaluated across our own climate-risk disclosure framework, which incorporates common disclosure topics, including the SASB Standards. We also explicitly ask public companies for climate disclosure that is in line with the framework created by the TCFD. Vanguard expects boards to effectively oversee climate risks and become more transparent about their decision-making process. Additionally, boards should be fully aware of climate risks and opportunities as part of a foundation for making the most sustainable long-term decisions. We look for companies to exhibit sound climate change risk management, including:

Climate competence. A climate-competent board that can foster healthy debate on climate topics, challenge management assumptions, and make thoughtful and informed decisions regarding these risks.

Risk oversight and mitigation. Robust risk-oversight and mitigation measures, including setting targets aligned with the Paris Agreement and integrating climate-risk considerations into strategic business planning and capital allocation decisions.

Effective disclosure. Effective and comprehensive disclosures, both qualitative and quantitative, to show progress over time, preferably written in accordance with the TCFD frameworks.

Diversity

Board diversity

Vanguard has long advocated for diversity of experience, personal background and expertise in the boardroom. As noted earlier, we believe—and research shows—that diverse groups can make better decisions, and better decisions can lead to better results for shareholders over the long term. In many markets, we have observed increasing reputational and strategic risks associated with company boards that lack diversity and do not act to reduce unconscious biases or other limitations in their director appointment processes. We encourage boards to publish their perspectives on diversity, to disclose board diversity measures, and to cultivate diverse pools of candidates for open director seats. The Vanguard funds may vote against certain directors at companies when we see a lack of progress in this area.

For boards looking to make progress on their diversity strategy, we encourage them to engage in:

- Short-term action and long-term planning and commitment.
- New director searches that look beyond the corner office.
- Strategic, deliberate increases to board size.
- A board culture that fosters difference and debate.

Our expectations on board diversity

In 2019, Vanguard called for boards to achieve greater diversity. In 2020, we provided further clarity for boards to make progress as the funds' expectations in the area continue to evolve.

2019

Publish your perspectives on board diversity.

Here's what we ask companies: Does your board share its policies or perspectives on diversity? How do you approach board evolution? What steps do you take to get the widest range of perspectives and avoid groupthink? Vanguard and other investors want to know.

Disclose your board diversity measures.

We want companies to disclose the diversity makeup of their boards on dimensions such as gender, age, race, ethnicity and national origin, at least on an aggregate basis.

Broaden your search for director candidates.

We encourage boards to look beyond traditional candidate pools—those with CEO-level experience—and purposely consider candidates who bring diverse perspectives into the boardroom.

Make progress on this front.

Vanguard expects companies to make significant progress on boardroom diversity across multiple dimensions and to prioritise adding diverse voices to their boards in the next few years.

2020

Step up board diversity efforts.

We expect boards to publish their perspectives on board diversity, disclose their diversity measures, interview diverse pools of director candidates and reflect a range of diversity.

Invest in a prospective-director pipeline.

We expect boards to identify director candidates now. To avoid disruption, boards should develop relationships with executives who lead finance, technology, human resources, marketing, accounting, audit, and investment functions. When the time comes, these executives can bring valuable subject matter expertise to boards.

Make progress and show outcomes.

We expect tangible outcomes such as formerly homogeneous boards becoming increasingly diverse and better reflecting the employee and customer composition of the companies they help lead. We may vote against certain directors when we see a lack of progress.

Workforce diversity

Vanguard's views on diversity extend beyond the boardroom to leadership teams and workforces. Companies that embrace diversity, equity, and inclusion (DEI) as an integral part of their talent strategy can drive better long-term business results. Companies that fail to develop appropriate diversity strategies can expose themselves to material financial, reputational, competitive, regulatory, legal and employee engagement risks.

We encourage companies looking to make progress on their workforce diversity strategy to strengthen their oversight of diversity-related risks and strategies, including those related to equity and inclusion; to be accountable for progress; and to provide meaningful disclosure on management and workforce diversity.

Our workforce diversity expectations of public companies

Strengthen oversight of diversity-related strategy and risks. We look for companies to publish policies on employee recruitment, retention and inclusion. We expect them to outline the steps the board is taking to ensure that employees feel they can succeed.

Disclose diversity measures beyond the boardroom. We seek disclosure of workforce diversity measures (gender, race, and ethnicity) at the executive, non-executive, and overall workforce levels. Globally, companies should reflect these and other categories appropriate to their local jurisdictions, industries, and company-specific needs.

DEI issues can also span the entire range of a company's operations, as these issues may impact employees, customers, and the communities in which it operates. Through strong, independent leadership, boards can cultivate a culture that supports diversity, equity and inclusion throughout an organisation and manage the reputational, regulatory, legal and strategic risks related to potential discriminatory business practices. Where DEI-related risks are financially material to a company, it is important for companies and their boards to take proactive steps to mitigate these risks and provide greater disclosure to investors.

Executive pay

Performance-linked remuneration policies and practices are fundamental drivers of sustainable, long-term value. Vanguard expects executive pay to reflect the level of shareholder value. When shareholders do well, so should executives. When companies underperform, however, executives' pay should move in the same direction. We also look for compensation policies that incentivise a company's long-term outperformance compared with peers and drive sustainable value for its investors.

If a board makes changes to its executive compensation plan, we expect the company to provide robust disclosure so that shareholders and stakeholders can understand the board's rationale. We look for clear, detailed and meaningful disclosure that provides appropriate context and enables peer comparison.

Our perspective on executive pay

Pay structure

A company's executive compensation plan should be designed to incentivise long-term shareholder value and should incorporate relative performance metrics, such as relative total shareholder return.

Pay for performance

Overall executive pay should be aligned with company performance and comparable to a relevant peer group.

Total pay

The magnitude of overall executive pay should be reasonable compared with a relevant peer group.

Corporate political activity

Corporate political activity has become an important engagement topic in certain markets. Investors are seeking clarity on companies' rationale for and oversight of contributions and lobbying, particularly for firms with operations that raise questions about their commitments to managing other risks, such as worker safety and climate risk. Poor governance of corporate political activity, coupled with misalignment to a company's stated strategy or a lack of disclosure about the activity, can manifest as financial, legal and reputational risks that can affect long-term value for Vanguard funds. A disconnect between corporate political activity and corporate values can also pose risks related to employee engagement and retention, recruitment of top talent, and consumer preferences.

On behalf of the Vanguard funds, and as part of our case-by-case analysis of relevant shareholder proposals, the Investment Stewardship team evaluates the magnitude and oversight of corporate political activity risks. Through engagements, we encourage thorough and effective oversight of any political spending and lobbying activity, with careful consideration of alignment with stated business strategy and the long-term risks such activities may present. We also continue to employ a materiality-based approach to shareholder proposals that seek enhanced disclosure of political contributions and/or lobbying.

Questions we may ask a company's board about corporate political activity

- Which committee of the board is responsible for oversight of corporate political activity?
- Can you explain your board's process for overseeing corporate political activity? How often does the board review this topic? Who within the management team is responsible for corporate political activity?
- What is the company's philosophy about corporate political activity? How does the company's political spending strategy align with the company's stated long-term business strategy?
- If your corporate political activity and company strategy do not appear to be aligned, why not? And how does the board manage related risks, such as reputational risk?

Societal risk

As a fiduciary for more than 30 million investors, Vanguard has a responsibility to understand how a company's business activities that pose a risk to society may also pose a material risk to the long-term value of our funds. We recognise that over the long term, the interests of investors and those of the greater social good will often converge. If a company's business practices or products put people's health, safety or dignity at risk, they may present long-term financial risks to investors, too.

Our Investment Stewardship team regularly meets with company leaders to learn about their company's strategy, risk oversight and long-term goals. We seek assurance that boards are fully engaged and knowledgeable about monitoring and governing these risks and that they take appropriate measures to mitigate them and disclose them to the market. Vanguard expects companies and their boards to have effective risk oversight strategies in place so that established planning, policies and practices—and not crises—identify material risks.

To read more about our perspectives on these and other governance topics, visit our Investment Stewardship website.

Policies

A global policy team within Investment Stewardship drafts, reviews, and maintains voting policies for the funds as well as other departmental guidelines and practices. Our policies are reviewed at least annually. We update them as appropriate and disclose any amendments on our Investment Stewardship website and other relevant channels.

Proxy voting policies

Vanguard's proxy voting policies for its internally managed funds are adopted by the Board and detail the general positions of each fund on recurring proxy proposals at public companies. In some cases, country-specific policies for key markets are applied. As discussed earlier (see pages 6 and 7), Vanguard has published proxy voting policies for US-, UK-, European-, Australian-, and New Zealand-domiciled portfolio companies, all of which can be found on our Investment Stewardship website. We continue to evaluate and formalise additional region-specific voting policies.

Human rights policy

Vanguard condemns crimes against humanity and egregious abuses of human rights. The US Vanguard funds have an established procedure to identify and monitor portfolio companies whose involvement in crimes against humanity or activities rise to a level of egregious abuses of human rights that may warrant actions on behalf of the funds. We believe our approach effectively integrates our commitment to our fiduciary obligations.

The Investment Stewardship team is responsible for identifying and monitoring human rights practices of the Vanguard funds' portfolio companies. The team's approach begins with analysis of third-party research based on the United Nations Global Compact. We use both proprietary research and external data sources to identify human rights risks within our portfolio companies. From this starting point, we assess the severity of the impacts of a company's operations on human rights, including whether the alleged violations were intentional or if the company actively disregarded risks that led to the allegations.

As we perform this analysis on behalf of the internally managed Vanguard funds, we may seek to engage in discussion with company directors or management, so that we can understand their perspectives. Engagement may provide an opportunity for a company to share demonstrable changes to their human rights oversight process; in such cases, we continue to monitor the company going forward.

The Investment Stewardship team looks for progress by a portfolio company if we have expressed our concerns on a specific governance matter. Failure to respond to shareholder feedback on material risks or continued poor governance practices may result in escalation of the matter to Vanguard's Investment Stewardship Oversight Committee and the funds' Board of Trustees for further guidance. If improvements are not made, the funds' Board of Trustees will take appropriate actions that are in the best interests of each Vanguard fund, with appropriate input from Vanguard's Investment Management group and/or relevant external managers.

Our escalation approach enables adequate flexibility to take actions relevant for each specific situation, such as direct company engagement; voting in support of a relevant shareholder resolution; withholding support for relevant directors **and/or voting against the board of directors; outreach from the** Investment Stewardship officer; public advocacy of our perspective on the topic; or recommending board action to have some or all Vanguard funds restrict purchases of, or divest from, a company's security.

While these and other actions are available to the Vanguard funds, the Investment Stewardship Oversight Committee and the funds' Board of Trustees assess each potential human rights violation case by case and implement the measure or measures that they believe are appropriate to each situation.

Securities lending policy

Securities lending, a common portfolio management activity among asset managers, is the practice of loaning securities to a borrower (usually a broker-dealer or bank) in exchange for collateral (such as cash), which is reinvested in a money market fund to earn income for the fund. Vanguard views securities lending as a way to generate incremental revenue for funds, and thus for the investors in those funds, and as a valuable tool if executed in a prudent, investor-focused manner. There may be occasions when Vanguard needs to restrict lending of and/or recall securities that are out on loan in order to vote in a shareholder meeting. The Investment Stewardship team has established processes to monitor securities on loan and to evaluate any circumstances that may require us to restrict and/or recall the stock. In making this decision, we consider:

- 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 their shares would affect the shareholder meeting outcome; and
- The long-term impact to fund shareholders, and whether the benefits of voting a company's shares in this instance would outweigh the benefits of stock-lending revenues.

Conflicts of Interest Policy

Vanguard has an established Investment Stewardship Conflicts of Interest Policy to manage any actual and potential conflicts of interest relating to our advocacy, engagement or voting activities on behalf of the funds.

In accordance with this policy, a conflict of interest, either actual or potential, may be present when:

- Vanguard clients are issuers of securities held in Vanguard portfolios or are proponents of shareholder resolutions.
- Vanguard business partners or third-party vendors are issuers of securities held in Vanguard portfolios or are proponents of shareholder resolutions.
- Vanguard trustees, employees or former executives sit on the boards of public companies held in Vanguard portfolios.
- Voting personnel 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 approach to mitigate conflicts of interests. We expect that the high standards of these guidelines and approach will result in a process that is in the best interest of each fund, consistent with the objective of long-term shareholder value and free from conflicts of interest.

The Investment Stewardship Conflicts of Interest Policy provides additional measures to mitigate and manage any potential or actual conflicts of interest with respect to proxy voting. These measures include but are not limited to:

- **Separation between external client, prospect and vendor relationship 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.

- **Conflict reporting and recusal process.** All persons involved in the proxy voting and oversight process are subject to Vanguard's Code of Ethics. They are required to disclose potential conflicts of interests involving Vanguard business interests or immediate family employment arrangements that may present the potential for a conflict of interest with Vanguard's business or interests of Vanguard clients. Individual proxy voting analysts must recuse themselves from all voting decisions and engagement activities when a conflict of interest exists. Nonetheless, the Investment Stewardship team will continue to maintain appropriate coverage to engage with portfolio companies and vote shares on behalf of the funds. The Investment Stewardship leadership team regularly receives a report of self-disclosed potential conflicts for each team member. Any violation of the policy, such as nonrecusal of a vote in which a conflict of interest exists, is reported to the Investment Stewardship Oversight Committee.

- **Refraining from voting.** In certain circumstances, Vanguard may refrain from voting shares of a company when voting would present a potential conflict of interest. Situations may also arise in which we would engage an independent third-party fiduciary to vote proxies as a further safeguard to avoid potential conflicts of interest or as otherwise required by applicable law. Thus far, and likely as a result of our ongoing mitigation measures, we have never determined that there was a need to either refrain from voting or engage a third-party fiduciary to vote our proxies for reasons related to possible conflicts of interest.

- **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 for and against such matters on behalf of the owner funds will be dealt with in accordance with local applicable regulations.

Vanguard 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 Ethics sets forth fiduciary standards that apply to all personnel, incorporates an insider trading policy, and governs outside employment and receipt of gifts. Moreover, proxy voting is separated, in both execution and oversight, from client-facing functions; documented guidelines eliminate potential conflicts in the proxy voting process.

Our funds' proxy voting procedures require our voting personnel to act as fiduciaries, and conduct their activities at all times in accordance with the following standards: fund shareholders' interests come first, conflicts of interest must be avoided, and compromising situations must be avoided.

V. Communicating our stewardship activities

Vanguard index funds are essentially permanent investors of their underlying securities; in theory, an index fund holds a company's stock forever—or as long as the company is included in that fund's target index. We focus on how companies are setting themselves up to stay relevant now and well into the future. We believe well-governed companies will generally perform better over the long term as sound risk governance accrues value to investors. Therefore, it is important that we regularly clarify our expectations of companies and disclose our investment stewardship activities to help portfolio companies, investors, and other stakeholders understand our philosophy and approach.

Reports and *Insights*

Our Investment Stewardship website is the primary source for information about our programme. Here, we publish comprehensive communication pieces about our global advocacy, engagement, and voting activities on behalf of our funds in the form of reports, insights and proxy voting policies. Our communication pieces are developed for Vanguard's various stakeholders, including Vanguard investors and clients, public companies and the market more broadly. We are committed to providing materials that are clear and informative. A few examples include:

Annual reports. These reports outline our global investment stewardship efforts and outcomes for the calendar year. An annual report includes summaries of key governance developments by region, engagement case studies, a comprehensive list of companies engaged, our voting rationales and aggregate regional voting outcomes.

Semiannual reports. These reports give a midyear update on investment stewardship voting and engagement activities. Detailed engagement case studies included in semiannual (and annual) reports represent a wide range of governance topics, regions and sectors, and demonstrate the outcomes of our engagements—both successes and cases where there is room for improvement.

Vanguard Investment Stewardship *Insights*.
We began publishing *Insights* in 2020 to provide timely explanations of Vanguard's perspectives on important governance matters and the rationale behind certain proxy votes.

Proxy voting disclosure

We disclose the proxy votes cast by the Vanguard funds through an online tool found on our Investment Stewardship website. This online tool provides the proxy voting records for Vanguard's global fund lineup for the most recent proxy year.[2] Voting records are disclosed on a quarterly basis for funds managed solely by Vanguard.

A global summary of proxy votes cast by the funds is included in the annual and semiannual Investment Stewardship reports. These reports include case studies detailing specific company engagement examples and articulate our rationale for a given proxy vote decision. We also publish *Voting Insights* to share our perspectives on important votes on a timely basis. Our most recent reports and *Voting Insights* can be found on our Investment Stewardship website.

Lastly, to fulfill the requirements of the European Union Shareholder Rights Directive II, we publish our significant votes disclosure and rationale on Vanguard's global website.[3]

2 The proxy year is measured from July 1 through June 30.

3 https://global.vanguard.com/portal/site/home. Click on Reports and policy documents, then click on Significant votes.

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Important risk information

The value of investments, and the income from them, may fall or rise and investors may get back less than they invested.

Important information

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