Vanguard

# VANGUARD'S ENGAGEMENT POLICY (THE "POLICY")

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## Overview

Each UK and Irish-domiciled fund advised by Vanguard (the **"funds"**) has retained the authority to vote proxies with respect to the shares of equity securities held in the portfolio advised by Vanguard. Vanguard is tasked with administering the day-to-day operations of proxy voting for the funds and takes a global approach to investment stewardship and engagement on behalf of each fund. This policy generally describes how the Investment Stewardship team engages with issuers with respect to proxy voting and governance across the globe.

## 1.Our Principles

Our approach to investment stewardship is supported by four principles that we consider foundational to effective corporate governance (our **"Principles"**). As stewards of long-term value creation by Vanguard fund portfolio companies, these Principles are reflected in our engagement activity and voting record.

- **Board composition:** Good governance begins with a great board of directors. Boards represent the interests of their shareholders and make critical decisions about a company's leadership, its strategy, and the risks that could create obstacles to its long-term success.

  Our primary interest is to ensure that boards represent the interests of all shareholders. Directors should be independent in mindset and free from conflicts of interest. Boards should also be appropriately diverse both in personal characteristics—such as gender, race, ethnicity, national origin, and age—and in skills and experience. If a company has a well-composed, high-functioning board, good results are more likely to follow.

- **Oversight of strategy and risk:** Boards are responsible for governance of a company's strategy and oversight of risk. Strategy and risk can be viewed as two sides of the same coin: Every strategy involves risk, and every risk presents strategic opportunity.

  As a long-term investor, Vanguard wants to know how companies think beyond the next quarter and next year. We look to the board to articulate why a company exists and how it will be relevant over decades. Importantly, we do not seek to influence company strategy. A board that truly understands a company's long-term strategy serves as an assurance to investors that the company is less likely to veer off course.

  We engage with boards regarding the oversight of material risks that have the potential to affect shareholder value over the long term—from business and operational risks to environmental and social risks. Companies should disclose material risks to shareholders, explain why those risks are material to their business, and disclose their approach to risk oversight. We have a responsibility to understand how business activities pose a material risk to the long-term value of our funds.

- **Executive compensation:** We believe that performance-linked compensation (or remuneration) policies and practices are fundamental drivers of sustainable, long-term value for a company's investors. The board plays a central role in determining appropriate executive pay that incentivizes outperformance relative to a company's peers and competitors.

  Providing effective disclosure of these practices, their alignment with company performance, and their outcomes is crucial to giving shareholders confidence in the link between incentives and rewards and the creation of value over the long term.

- **Governance structures:** We believe in the importance of governance structures that empower shareholders and ensure accountability of the board and management. Therefore, we examine various aspects, such as capital structures, voting rights and the frequency of the election of directors, to ensure that long-term shareholder interests are reflected and that there are appropriate shareholder rights in place.

  We believe that directors should stand for election by shareholders annually and secure a majority of the votes in order to join or remain on the board. If a board appears resistant to shareholder input, we also support the rights of shareholders, at an appropriate level of ownership, to call special meetings or to place director nominees on the company's ballot. Shareholders should be able to hold directors accountable as needed and provide feedback through their voice and their vote.

## 2.Our Approach

We believe well-governed companies will perform better over the long term. Our board-centric view is the foundation of Vanguard's approach to investment stewardship. It guides our discussions with company directors and management, as well as our voting of proxies on the funds' behalf at shareholder meetings around the globe. We believe that effective corporate governance is an important ingredient for the long term success of companies and their investors. And when portfolio companies perform well, so do our clients' investments.

The majority of Vanguard's investments are held in passive index funds. The selection of securities in these funds is based on the components of a fund's underlying benchmark index. More broadly, the goal of Vanguard's Investment Stewardship program is not to influence the day-to-day investment decisions of the funds. Our shareholders expect the funds in which they invest to meet the specific objective set forth for that fund. We have a fiduciary obligation to act in our clients' best interests and we will continue to adhere to these strategies to help our clients reach their financial goals. This gives us a unique, long-term approach to corporate governance matters.

We apply both a sector and a regional lens to analysis, engagement, and voting to companies. Our sector expertise informs our approach to relevant topics by industry, including board composition, oversight of strategy and risk, executive compensation, and governance structures (in line with our Principles, as articulated above). Our regional perspective takes into consideration local corporate governance, engagement, and voting practices.

Vanguard cares about enabling the voice and vote of each Vanguard fund and its shareholders and we do so in three key ways:

- **Advocate:** We advocate for sustainable long-term value creation on behalf of Vanguard fund investors by championing the highest standards of corporate governance. We do this by supporting governance-focused organizations, speaking at conferences, publicly championing governance codes and standards, and sharing our perspectives through the media and our own published materials.

- **Engage:** We engage company executives and directors in open dialogue to promote governance principles that support long-term value for our shareholders. In these engagements, we aim to understand a company's corporate governance practices and provide our viewpoint. We characterize our approach as deliberate, constructive, and results-oriented.

- **Vote:** We vote proxies on behalf of each of our funds at public company shareholder meetings across the globe. Our voting is based on specific guidelines and on detailed company research carried out by our team of analysts

## 3.Engagement

Engagement is the foundation of our Investment Stewardship program. Because our index funds are often long-term owners of portfolio companies, we aim in our engagements to build a strong understanding of how companies govern their long-term strategy. Importantly, we do not seek to influence company strategy. We participate in the full arc of engagement—from understanding high-level strategy to asking targeted questions on specific voting matters. This process unfolds over the course of many individual meetings with independent board directors and company executives. This enables us to understand a company's corporate governance practices and long-term strategy and to monitor progress over time.

Our team evaluates a range of factors when considering whether we need to engage with a portfolio company and what timing makes sense. We thoughtfully evaluate each engagement request, and our decision whether to engage is deliberate and research-driven. The purpose, impact, and timeliness of a discussion are all factors that our team takes into consideration. When we decline an engagement request, we may still seek to engage with a company sometime in the future, particularly when company corporate governance circumstances change. We conduct significant research and analysis to prepare for our discussions with companies. Although such discussions can vary widely by company, sector, and region, our engagements tend to fall into three broad categories:

- **Strategic engagements:** Strategic engagements are meetings in which we learn about a company's long term strategy. These enable us to understand the board's approach to overseeing and aligning governance practices with the company's long-term goals.

- **Event-driven engagements:** Event-driven engagements focus on specific ballot items—often contentious—or a leadership change or company crisis. In these instances, such as a proxy contest, we want to hear all relevant perspectives before our funds vote.

- **Topic-driven engagements:** Topic-driven engagements are held to discuss matters that we believe can materially affect a company's long-term value. These discussions are usually conducted with companies that have a record of underperformance and/or gaps in corporate governance practices.

Our engagements generally take place via teleconference, videoconference, and in-person meetings. Occasionally, engagements can be conducted via substantive written exchange between Vanguard and a portfolio company. Typically, engagement takes place directly between the company and our dedicated team of analysts.

From time to time, Vanguard's Investment Stewardship team may also engage in collaborative engagements with other investors on thematic governance issues, including sustainability, in order to supplement Vanguard's individual efforts.

Additionally, we engage in collaboration with other institutions and listed companies to enhance industry standards for corporate governance, company disclosure practices, and investor stewardship.

## 4.Proxy Voting

One of the most visible signs of Vanguard's engaged ownership is our funds' proxy voting at company shareholder meetings. The relevant board in respect of each Vanguard fund (each a **"Board"**) annually adopts proxy voting procedures and guidelines to govern proxy voting by the fund (the "Guidelines"). The Guidelines are designed to promote long-term shareholder value by supporting good corporate governance practices. They frame the analysis of each proxy proposal, providing a basis for decision-making.

Vanguard's Investment Stewardship team evaluates issues presented to shareholders for each fund's holdings in accordance with the funds' instructions set forth in the Guidelines as well as local market standards and best practices. In evaluating proposals, the team may consider information from many sources, including a company's independent board directors and executives, various research and data resources, or other publicly available information. We periodically review our research and data providers, as well as our workflow and processes, to identify possible ways to enhance the inputs into proxy voting.

A wide variety of third-party research providers—including proxy advisors—are consulted based on their analysis of issues that bear on long term shareholder value. These issues are then analyzed in conjunction with the funds' proxy voting guidelines and other relevant data, including insights from company engagements, to reach independent decisions on behalf of each

Vanguard fund. The Investment Stewardship team does not vote in lockstep with recommendations from proxy advisors (such as Institutional Shareholder Services (ISS) or Glass Lewis) when voting on behalf of the funds. Data from proxy advisors serve as one of many inputs into our research process. Even when a fund's vote happens to be consistent with a proxy advisor's recommendation, that decision is made independently. For some proxy proposals (which predominantly relate to corporate governance) the evaluation could result in overlapping voting outcomes.

A fund may abstain from a vote on a particular issue if the economic value of casting the fund's votes negatively affects the financial interests of fund shareholders. These circumstances may arise, for example, if the expected cost of voting exceeds the expected benefits of voting, if exercising the vote would result in the imposition of trading or other restrictions, or if a fund (or all the funds in the aggregate) were to own more than the permissible maximum percentage of a company's stock (as determined by the company's governing documents or by applicable law, regulation, or regulatory agreement). In some markets, voting proxies will result in a fund being prohibited from selling the shares for a period of time due to requirements known as "share-blocking" or reregistration. Generally, the value of voting is unlikely to outweigh the loss of liquidity imposed by these requirements on the funds. In such instances, the funds will generally abstain from voting.

## 5.Oversight of Investment Stewardship

Each fund has delegated oversight of proxy voting to the Investment Stewardship Oversight Committee (the **"Committee"**), made up of senior officers of Vanguard and subject to the Guidelines. Vanguard is subject to these Guidelines to the extent that they call for Vanguard to administer the voting process and for these purposes the Guidelines have also been approved by each fund (as referred to above).

The Committee does not include anyone whose primary duties include external client relationship management or sales. This clear separation between the proxy voting and client relationship functions is intended to eliminate any potential conflict of interest in the proxy voting process. In the unlikely event that a member of the Committee believes he or she might have a conflict of interest regarding a proxy vote, that member must recuse himself or herself from the Committee meeting at which the matter is addressed and not participate in the voting decision.

The Committee works with Investment Stewardship to prepare reports and other guidance regarding proxy voting by the funds. The Committee has an obligation to conduct its meetings and exercise its decision-making authority subject to the fiduciary standards of good faith, fairness, and Vanguard's Code of Ethics. The Committee shall authorize proxy votes that the Committee determines, at its sole discretion, to be in the best interests of each fund's shareholders. In determining how to apply the guidelines to a particular factual situation, the Committee may not take into account any interest that would conflict with the interest of fund shareholders in maximizing the value of their investments.

## 6.Escalation

Vanguard's Investment Stewardship team has the ability to escalate particular company matters on a case-by-case basis to the Committee. In determining an approach for escalation, the team considers the materiality of the issue at hand, the receptivity and responsiveness exhibited by the company, and an assessment of whether such escalation measures are in the best interests of Vanguard fund shareholders.

Escalation measures can include engaging in direct discussion with company board members. In select situations, when we believe that company directors or executives have not been appropriately responsive to Vanguard fund or investor feedback, the funds may reflect concern by voting against specific proposals (e.g., a remuneration policy or report, in the instance of remuneration concerns), and/or specific directors or committee members as appropriate and based on their responsibility on the board (e.g., a member of the remuneration committee, in the instance of escalated remuneration concerns).

Investment Stewardship also has a process for elevating select voting decisions internally to the Committee.

## 7.Securities Lending

There may be occasions where Vanguard needs to restrict lending of and/or recall securities that are out on loan in order to vote in a shareholder meeting. 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 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 the topic is potentially 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 our fund shareholders, evaluating whether we believe the benefits of voting a company's shares would outweigh the benefits of stock lending revenues in a particular instance

## 8.Conflicts of Interest

Vanguard has an established an 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.

The funds invest in thousands of publicly listed companies worldwide. Those companies may include clients, potential clients, vendors, or competitors. Some companies may employ Vanguard trustees, former Vanguard executives, or family members of Vanguard personnel who have direct involvement in Vanguard's Investment Stewardship program.

Vanguard's approach to mitigating conflicts of interest begins with the funds' proxy voting procedures. The procedures require that voting personnel act as fiduciaries, and they must conduct their activities at all times in accordance with the following standards: (i) fund shareholders' interests come first; (ii) conflicts of interest must be avoided; and (iii) compromising situations must be avoided.

We maintain an important separation between Vanguard's Investment Stewardship team and other groups within Vanguard that are responsible for sales, marketing, client service, and vendor/partner relationships. Proxy voting personnel are required to disclose potential conflicts of interest, and they must recuse themselves from all voting decisions and engagement activities in such instances. In certain circumstances, Vanguard may refrain from voting shares of a company, or may engage an independent third-party fiduciary to vote proxies.

## 9.Reporting and Disclosure

Vanguard Investment Stewardship regularly reports on its activities through annual reports, semi-annual updates, and the Principles for Responsible Investment's Annual Transparency Report. Each fund's voting history is also disclosed annually on our websites.

Vanguard shall review this Policy on an annual basis and update it, as necessary.

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