Vanguard Investment Stewardship Insights

How Vanguard evaluates shareholder proposals

Vanguard publishes Investment Stewardship Insights to promote good corporate governance practices and to provide public companies with our perspectives on important governance topics and issues that come up for shareholder votes.

February 2021

Shareholder proposals serve as an important tool for investors to voice their perspectives and seek change at public companies. Vanguard index funds are practically permanent investors in approximately 13,000 public companies worldwide, and Vanguard hears from a wide range of stakeholders who want to understand our decision-making process for voting on shareholder proposals on behalf of Vanguard funds.

Many shareholder proposals address environmental or social matters such as climate risk, human rights, diversity, political spending, or data privacy. Others suggest changes to governance practices or shareholder rights. Not all shareholder proposals are created equal, though, and corporate governance is constantly evolving. The nature of shareholder proposals changes from year to year, as do the factors that inform our analysis of each one.

A framework for analysis

The funds' voting is governed by their board-approved proxy voting guidelines, and the Vanguard Investment Stewardship team uses various inputs to inform the funds' decisions on every shareholder proposal up for vote at a portfolio company. These inputs include disclosure by the company, third-party research, and direct engagements with the company as well as with the proposal's proponents.

We assess each proposal through a fiduciary lens. First we look for alignment with the Vanguard funds' corporate governance principles in the company's board composition, the board's oversight of strategy and risk, executive compensation, and shareholder rights. We then weigh additional considerations that include:

1. **Does the proposal address a material issue relevant to the company?** We look for a clear link between the topic(s) raised by the proposal and the risks or benefits to the company's long-term value. Our analysis considers sector, geographic, and jurisdictional factors. Our evaluation of the relevance and materiality of a given topic can change from year to year as the business and market environment changes for companies. If our materiality assessment fails to show a clear link to long-term value, the funds may withhold support from the proposal.
2. **Does the proposal suggest a change that advances long-term shareholder interests?** We believe that shareholder proposals should promote good governance and disclosure practices and not dictate a company's business practices or strategy. The funds may support proposals that improve governance and improve a company's approach to material risks, but that are not so narrow—or so sweeping—that they are impossible or impractical to enact. If we find a proposal to be overly prescriptive, the funds may withhold support.
3. **Does the proposal address gaps in the company's current practices or stated intentions?** We assess whether the company already has practices in place that sufficiently address the topic of shareholder concern. We also evaluate whether the company has made a credible, specific, public commitment to address the shareholder's request. If the company follows such practices or has credibly committed to act in a reasonable time frame, the funds may find the proposal to be misdirected and withhold support.

Vanguard evaluates each shareholder proposal individually, case by case and with great care. We view the funds' votes as being not "for" or "against" a company, but rather in the best long-term interest of the company's shareholders. We have found that our practice of discussing a shareholder proposal with both its proponents and the recipient company can lead to greater shared understanding and better outcomes for long-term investors, regardless of a vote's result.

INVSESP_022021

Vanguard®