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Vanguard Investment Stewardship Voting Insights

Contested director election at The Walt Disney Company

April 2024

Company: The Walt Disney Company (Disney)

Meeting date: April 3, 2024

Proposal(s): Items 1A–1Q—Election of 12 directors (out of 17 nominees) named in proxy statement

How the funds voted

Disney, a diversified worldwide entertainment company with operations in entertainment, sports, and experiences, faced a proxy contest at its 2024 annual meeting. Two activist investors—Blackwells Capital (Blackwells) and Trian Fund Management (Trian)—nominated directors to the company's board. The Vanguard-advised funds voted in support of each of the Disney board's nominees, and withheld support from each of Blackwells' and Trian's nominees.[1]

The funds' proxy voting policies

As articulated in the funds' proxy voting policies, the Vanguard-advised funds evaluate contested director elections on a case-by-case basis, taking into consideration the facts and circumstances at the company in question, and with an assessment of what is in the best interests of each fund's shareholders. On behalf of the funds, our process for evaluating contested director elections focuses on three key areas:

Strategic case for change. Does the dissident make a compelling case that a change in the target company's strategy and board composition is likely to increase long-term economic returns for company shareholders, versus the status quo? When engaging with a dissident, we seek to understand the dissident's perspective on the company's current state and future trajectory, as well as the recommended changes the dissident believes would benefit the company and be in the best interests of shareholders.

Company's approach to governance. What is the quality of the company's corporate governance practices? By reviewing a company's public reporting and disclosures, and through discussions with company leaders, we assess its board's corporate governance practices and to what extent they support long-term shareholder returns.

Quality of directors. Do the company's nominated directors appear to bring the necessary capabilities to the company's board? Assessing a board's composition starts with understanding a company's strategy and how board members' skills (collectively and individually) align with that

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.

strategy and position the board to appropriately oversee and advise management. In a contested director election, we assess all director nominees—both nominees put forward by the board of the portfolio company in question as well as nominees put forward by the dissident—to understand how their skills align with the company's strategy and/or the dissident's strategic case for change. We seek to understand the qualifications and perspectives of all director nominees so that we can make informed judgments about which nominees are best positioned to provide for the company's long-term success.

Analysis and voting rationale

In advance of Disney's 2024 annual meeting, two activist investors—Blackwells and Trian—undertook a proxy contest and nominated directors to the company's board. Both Blackwells and Trian asserted strategic missteps by Disney's board and management and sought to make the case that their nominees would be superior representatives of shareholders' interests versus the incumbent board's nominees. To inform the funds' voting decisions, we met with Disney executives and current board members as well as leaders and the director nominees from both Blackwells and Trian.

In articulating their case for change, Blackwells' leaders and their nominees expressed general support for Disney's current board and management while making the case that Blackwells' nominees could address critical skill gaps that exist on the current board. They identified three specific skill sets that they believed were lacking on the Disney board: i) *Media and content experience:* They noted that while Disney is a preeminent global media company, its board—until recently—has lacked meaningful media expertise; ii) *Real estate:* They noted Disney's expansive real estate portfolio and advocated for a director who could support exploration of strategic possibilities for these assets; iii) *Technology and artificial intelligence:* They argued for greater board focus on technological shifts underpinning consumer behavior and interaction. Blackwells nominated three candidates to the board and did not target any individual incumbent members of the Disney board.

Trian leaders and their nominees outlined a range of concerns, focusing predominately on ineffective strategic oversight and the lack of accountability within the board. They argued that Disney's board and executive team had not been successful in setting and executing clear company goals, as evidenced by the company's underperformance relative to its self-selected peer group. Trian leaders questioned the board's oversight of strategy, asserting that significant investments have not yet yielded significant returns for shareholders, and they questioned the pace at which the company's strategy adapted to industry disruption. They also noted Disney's previous failures in executing a successful CEO transition and ongoing succession-planning concerns. Trian nominated two candidates to the board and suggested they replace two incumbent members of Disney's board.

During our engagement, Disney leaders and board members acknowledged several of the areas of opportunity called out by the activists, while asserting that the company had begun to implement significant strategic and operational changes that had been met by positive market reaction. In addition to the implementation of enhancements across each dimension of their strategy, members of the board highlighted their renewed efforts on CEO succession planning, an area in which they acknowledged they have struggled over the past several years and on which we have engaged with the Disney board many times.

Through our research, engagement, and analysis, we identified that the company and the activists generally aligned on the most critical areas where change was needed to deliver on Disney's strategy; these included reinvigorating Disney's creative engine, rationalizing the company's content strategy amid a shift from linear networks to "direct to consumer" and streaming, and investing in "experiences" (parks and resorts). However, there was divergence regarding the pace of some of those changes coupled with the determination of which slate of directors would be best positioned to oversee and support management through those changes.

An additional consideration in our analysis was the board's need to identify a successor for Disney's current CEO by the end of 2026. Over the past decade, CEO succession planning has been a recurring topic in our engagements with Disney's board given the Vanguard-advised funds' board-centric approach and long-term focus. While the Vanguard-advised funds do not seek to dictate the timing or outcome of the CEO succession process, we look for boards to have a deliberate process in place that is clearly disclosed to investors. Disney's track record on leadership succession continues to raise concerns regarding the board's ability to effectively manage this critical process for the CEO and calls into question how the board drives accountability for succession planning across Disney's executive roles.

The assertions by the activists, coupled with our independent findings through engagement and analysis, address the first two key elements of the Vanguard-advised funds' framework for evaluating the contest: the threshold issue of a case for change and opportunities in the company's current approach to governance. First, there does appear to be a well-established strategic case for change—one that even the company doesn't entirely dismiss; while Disney's relative performance has been on the rebound in recent quarters, it has substantial ground to cover to offset its extended underperformance. Second, there appear to be demonstrable gaps in the company's governance practices, evidenced through its CEO succession difficulties and questions regarding optimal board composition.

The final prong of our contested election framework is to evaluate the competing slates of nominees and assess the subset that would be most additive to the company's long-term prospects. Despite our concerns regarding certain gaps in the incumbent board's skill sets and the outcomes board members have delivered thus far, we were unable to determine that the dissident nominees represented the optimal remedy. To reach that conclusion, we assessed the individual nominees from each slate, grounding our assessment on how any changes to the board's composition would affect its ability to oversee strategy and ultimately lead to outcomes in the best interest of long-term shareholders. Despite the individual accomplishments and credentials of the dissident nominees, we were unable to develop conviction that their addition to the Disney board at this time would be constructive to the company's long-term prospects. Blackwells articulated the relevance of its candidates' skill sets to Disney's strategy, but, in our assessment, did not demonstrate how they would drive accountability in the boardroom and influence meaningful change on behalf of shareholders. While Trian's nominees made a strong argument on the case for change, we did not gain sufficient confidence in how they would bring their experiences to bear in addressing the issues they identified. As such, the Vanguard-advised funds voted in support of each of the Disney board's nominees and withheld support from each of Blackwells' and Trian's nominees.

While the funds supported the company's nominees, we continue to have concerns regarding the effectiveness of board governance at Disney. While the company's near-term performance has shown improvement, we look for strong performance to be sustained over the long term. Therefore, we will continue to seek to understand how the board is ensuring strong strategic oversight and that it has the appropriate composition of skills and experiences to support Disney's strategic direction. We will also continue to look for the board to address concerns regarding the successful identification and integration of a successor for Disney's current CEO in the midst of the strategic headwinds the company is navigating. We will continue to engage with Disney leaders and directors to understand their progress on behalf of shareholders in the Vanguard-advised funds.

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 effort to provide useful disclosure of Vanguard's investment stewardship voting and engagement activities. We aim to provide clarity on Vanguard's stance on governance matters beyond what a policy document or a single vote can provide. 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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