Vanguard

A guide to engaging with Vanguard

Why?

Why do we conduct engagements?

Vanguard's Investment Stewardship program has a clear mandate to safeguard and promote long-term investment returns on behalf of Vanguard-advised funds and their investors.[1]

We carry out this mandate by promoting governance practices that are associated with long-term investment returns at the companies in which the funds invest. When portfolio companies held by the funds generate shareholder returns over the long term, the Vanguard-advised funds generate returns for their investors.

With respect to portfolio companies held by Vanguard-advised funds, we do not seek to dictate strategy or operations, nor do the Vanguard-advised funds submit shareholder proposals or nominate board members. We believe that the precise strategies and tactics for maximizing long-term investment returns should be decided by a company's board of directors and management. Similarly, Vanguard does not use investment stewardship activities to pursue any public policy objectives. We believe that public policy, including public policy related to environmental and social matters, is appropriately the responsibility of elected officials.

Engagement is an important tool that enables us to hear directly from company directors and executives about a board's oversight of strategy, risk, and governance matters. In turn, company leaders can gain a deeper understanding of what matters to Vanguard-advised funds.

Who?

Who attends company engagements?

Vanguard's Investment Stewardship program is carried out by a team of over 60 experienced professionals, based in Vanguard's offices in the U.S., Europe, and Australia. Our regionally focused teams specialize by country and/or industry sector. Our senior leaders and analysts have deep expertise in areas including corporate governance, investment management, risk management, law, accounting, public policy and regulatory affairs, academia, and corporate strategy. Typically, we prefer to engage with independent directors, as they are elected by shareholders to represent shareholders' interests overseeing management, company strategy, and

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.

material risks. Senior leaders of the funds' portfolio companies, including investor relations professionals or corporate secretaries, also frequently attend engagements.

Some engagement topics are best addressed by particular board members based on their role or experience. For example, for discussions about board composition, a member of the nomination committee would be the most appropriate attendee. For an engagement focused on executive pay, a member of the compensation or remuneration committee would be most appropriate. In general, when discussing executive pay or succession planning, we prefer to not engage with executives who might be directly impacted by those decisions due to inherent conflicts of interest that may arise.

Please note that Vanguard's Investment Stewardship team prefers to engage directly with company representatives only; we ask that third-party representatives (e.g., proxy solicitors or consultants) not attend engagements.

When?

When do we engage?

Because the Vanguard-advised funds are long-term investors in public companies (i.e., an index fund will hold stock in a company for as long as that company is in the benchmark index), we approach engagements as ongoing conversations that can span multiple years. This long-term approach enables us to understand a company's corporate governance practices and the evolution of those practices over time.

Engagements tend to fall into one of two broad categories and often span both:

- **Strategic engagements.** These are discussions that help us gain a thorough understanding of how a company's approach to governance aligns with its strategy and long-term objectives. These meetings generally cover how Vanguard's investment stewardship activities are grounded in four pillars of corporate governance and provide us with an opportunity to share our perspectives on governance practices associated with long-term shareholder returns.
- **Vote-related engagements.** These are discussions focused on matters on the ballot for a shareholder vote, such as director elections, executive pay, or shareholder proposals. During proxy voting season for a given market, we generally prioritize vote-related engagements.

If you are seeking to engage regarding an upcoming shareholder meeting, we recommend contacting our team at least one calendar month before the date of the shareholder meeting. When evaluating an engagement request, we consider, among other factors, the company's proposed agenda items, the clarity of the disclosures regarding matters on the ballot, whether we have any governance concerns, and whether follow-up on a previous proxy voting decision is appropriate. If we decline an engagement request, it is typically because we do not have any questions related to the matters on the ballot or we do not have concerns or uncertainty regarding the company's governance practices based on the company's current disclosures and/or our previous engagement with company leaders. We also commonly share our perspectives and engage with portfolio companies by email, particularly during proxy seasons. In cases where we decline engagement, we may look to engage with company leaders in the future, particularly if company circumstances change.

We request that materials, including relevant background materials and documents, be sent to our team **at least three business days before** an engagement. This ensures that our analysts have sufficient time to prepare for the conversation. Please send meeting materials to our centralized email inbox, **investmentstewardship@vanguard.com**.

How?

How do we engage?

The majority of our engagements take place via videoconference. If logistics allow, an in-person meeting is an option but is in no way preferred. To schedule an engagement, please email our centralized email inbox, **investmentstewardship@vanguard.com**, including a proposed agenda and attendees.

If you have previously engaged with a member of our team, we ask that you contact the team through our centralized inbox (and email us at **investmentstewardship@vanguard.com**). Please also copy your primary contact on the email.

Please be aware, Vanguard uses Microsoft Teams as its videoconferencing software. We are not able to engage via other platforms.

Vanguard's Investment Stewardship team will also commonly seek or share perspectives over email directly with company representatives as part of our ongoing long-term dialogue with portfolio companies.

What?

What is discussed in engagements?

We meet with portfolio company directors and executives to learn about companies' corporate governance practices and to share our perspectives on corporate governance practices associated with long-term shareholder returns. We focus discussions around our four pillars of good corporate governance: board composition and effectiveness, board oversight of strategy and risk, executive pay, and shareholder rights. In our engagements, we do not seek to dictate portfolio company strategy or operations.

Typically, if we request the engagement, we will provide a list of high-level agenda topics that we would like to discuss in the engagement. Examples of the types of questions we ask during engagements can be found in this document. Portfolio company representatives should also share any topics they would like to prioritize in the discussion.

During our engagements with company leaders, we seek to discuss **only publicly available information** and avoid anything that could be considered material non-public information (MNPI).

FAQs

FAQ Sample questions

The following are examples of questions that we may ask company leaders during engagements to learn about the governance practices of the portfolio companies in which the funds invest.

Board composition and effectiveness

- Based on your company's strategy, what skills and experience are most critical for board members, now and in the future?
- How does the board plan for evolution and future director selection (that is, for strategic board evolution)?
- How does the board assess director, committee, and board effectiveness over time?
- How does the board ensure effective independent oversight through the composition of the board and selection of board and committee leaders?

Board oversight of strategy and risk

- What is the company's long-term strategy, and how might the company's value proposition evolve over time?
- What role does the board play in setting your company strategy?
- How do the board and management team track and measure performance of the strategy?
- What are the primary long-term risks to your company? What processes/systems are in place to mitigate risk?
- How is the board involved in the oversight of material risks to the company?
- How are risks identified and elevated within the company? How is the board involved in that process?

Executive pay

- What is the company's compensation philosophy and how do the measures the board has chosen for executive pay programs align with long-term company strategy and the creation of investment returns.
- How does the relevant board committee set goals for those measures? How does it determine that the goals are set at rigorous performance levels?
- How does the relevant board committee seek to align executive pay with the company's performance relative to peers and the market?
- What is the process for selecting your company's peer group for compensation benchmarking purposes, and what factors in the selection process are most important?

Shareholder rights

- How does your company ensure that shareholders have a voice and a vote on governance matters?
- Do the company's shareholders have basic foundational rights (such as annual election of directors and majority vote standard)?

Vanguard publishes information regarding its voting and engagement activities, including the funds' proxy voting policies, Insights, and quarterly reports, 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 activities. We aim to provide clarity on Vanguard's positions on governance matters beyond what a policy document or a single vote can provide.

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