

Shareholder proposal regarding director climate-related competencies at Mitsubishi UFJ Financial Group, Inc.

November 2024

Company: Mitsubishi UFJ Financial Group, Inc. (Mitsubishi UFJ)

Meeting date: June 27, 2024

Proposal(s): Item 3: Amend Articles to Add Provision on Director Competencies to Manage Climate-Related Business Risks and Opportunities

How the funds voted

At the 2024 annual meeting of Mitsubishi UFJ, a Japanese financial services group and holding company for MUFG Bank, the Vanguard-advised funds voted against a shareholder proposal requesting that Mitsubishi UFJ amend its articles of incorporation to add a provision requiring the group to disclose information for shareholders to ensure the group board has the competence required to properly oversee climate-related risks and opportunities.¹

The funds' proxy voting policies

As articulated in the funds' proxy voting policies, the Vanguard-advised funds evaluate all shareholder proposals on a case-by-case

basis, taking into consideration the facts and circumstances at the company in question.

Specifically, when evaluating shareholder proposals, we analyze the materiality of the risk the proposal seeks to address, the company's current practices and disclosure related to the risk, the board's oversight of the risk, and the reasonableness and prescriptiveness of the proposal. If we identify gaps in the company's disclosures, the funds may support a shareholder proposal that seeks enhanced reporting of the company's approach to addressing a material risk.

Regarding board composition, the funds look for companies to disclose their perspectives on the appropriate board structure and composition for their company and how those elements support the company's strategy, long-term performance, and shareholder returns. Disclosure of how the board's composition evolves over time enables shareholders to better understand how the board is positioned to serve as an effective, engaged steward of shareholders' interests. The funds also look for disclosure of director tenure, skills, and experience at the individual director level (sometimes referred to as a "skills matrix").

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.

We believe boards of directors should understand their company's material risks. Where climate matters are material to a company, we look for boards to be competent in relevant risks so that they can foster healthy debate on climate topics, challenge management assumptions, and make informed decisions. We have observed that effective climate-competent boards often seek multiple perspectives from internal and external stakeholders to inform the board's perspectives on material climate-related risks. We have also observed that climate-competent boards often look to enhance their collective expertise by appointing directors with relevant experience, seeking diverse perspectives, and participating in ongoing education.

The funds do not support shareholder proposals that seek to influence or dictate specific company strategy or operations, as we believe that a well-composed board, together with properly overseen and incentivized company executives, are better positioned to determine the appropriate approach to addressing risks and generating shareholder value for any given portfolio company. Additionally, the funds do not support shareholder proposals that seek actions that are duplicative of existing company practices or otherwise introduce undue costs and/or risks to shareholders.

Analysis and voting rationale

At Mitsubishi UFJ's 2024 annual meeting, the company received a shareholder proposal requesting an amendment to the articles of incorporation to require disclosure of information necessary for shareholders to evaluate the board's ability to effectively manage climate-related business risks and opportunities and to nominate directors with relevant skills to do so. In analyzing the proposal, we found the nature of the requested amendments to be overly prescriptive, as the inclusion of the amendments may impede the board's ability to construct its board to respond to future needs of the company.

We did, however, find value in analyzing Mitsubishi UFJ's existing disclosure and approach toward board composition to better understand how the board determines whether it has the

appropriate competence to tackle material climate-related risks and opportunities.

We reviewed Mitsubishi UFJ's annual report and other publicly available materials to understand how the board measures director competency. We observed that Mitsubishi UFJ disclosed a skills matrix of all directors. The matrix contained a "sustainability" category that indicated whether directors had sustainability-based work experience or education. We also noted that the board discussed sustainability topics during the director education process, which included external advisors with climate-based expertise. We found that the level of disclosure presented by Mitsubishi UFJ was comprehensive relative to peer firms in the Japanese market. The disclosure gave us an adequate understanding of which directors possessed sustainability-related experience and/or expertise as well as how climate-related topics were included in the director onboarding process.

Ahead of the annual meeting, we engaged with leaders of Mitsubishi UFJ to discuss the shareholder proposal and other topics relevant to the voting agenda. We shared our perspectives on the importance of having a board with a relevant skill set to oversee company strategy and material risks and to enable healthy deliberation between the board and management regarding various topics, including material climate-related matters. During the engagement, Mitsubishi UFJ leaders highlighted that, to ensure thoughtful and robust discussions on climate-related matters, it had established a board structure that included a sustainability committee that sits under the executive committee. Furthermore, each of the three key board committees held specific responsibilities over climate-related matters: the Nomination Committee was responsible for nominating suitable candidates with appropriate climate competencies; the Audit Committee was responsible for monitoring disclosure of sustainability information, including climate-related topics; and the Risk Committee was responsible for facilitating the company's climate change response and assessing long-term challenges and opportunities. Mitsubishi UFJ leaders also emphasized during the engagement that an annual board effectiveness assessment

is carried out internally as well as by external consultants, the findings of which are disclosed annually to shareholders.

Ultimately, given the prescriptive nature of the proposal in requiring a change in the company's articles, the funds did not support the proposal. Additionally, our analysis illustrated that the company had in place what we determined to be sound practices to support board competence and board governance of climate-related topics. We plan to continue to engage with leaders of Mitsubishi UFJ regarding the board's composition and its oversight of material risks and opportunities.

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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