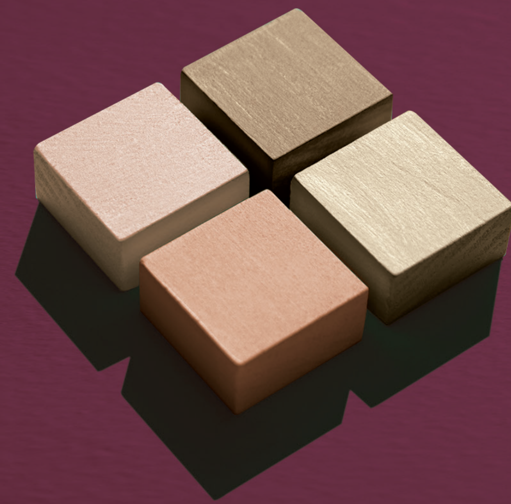
Vanguard Investment Stewardship Policy Insights



Our perspective on contested elections

January 2023

Executive summary

- New rules requiring the use of a universal proxy card in contested director elections at U.S. public companies are expected to alter the dynamics under which contested director elections are conducted.
- Vanguard's internally managed funds' approach to evaluating contested director elections remains the same with the adoption of a universal proxy card.[1] In contested director elections, the funds assess the strategic case for change, evaluate the company's approach to governance, and review the skills and qualifications of both the management and dissident director nominees.
- We believe that companies should continue to proactively engage with shareholders, making independent directors available for such conversations; provide adequate disclosure of board composition that explains how the board's collective and individual talents and skills align with the current and future needs of the company; and communicate steps the board is taking to measure and enhance its effectiveness, including how it conducts board assessments and ongoing director education and training.

1 Vanguard's Investment Stewardship team is responsible for engagement with portfolio companies and proxy voting at the direction of the boards of Vanguard's internally managed equity funds, including Vanguard index funds. Investment stewardship activities, including proxy voting, for Vanguard's externally managed equity funds are administered by those funds' external advisors. See the back page for additional context.

Vanguard's internally managed funds' principles and policies

Good corporate governance starts with a company's board of directors, and an effective board should be both independent and diverse in terms of skills, experience, personal characteristics, and opinions. Company boards that are appropriately capable, experienced, and diverse are equipped to make better decisions on behalf of all shareholders, and good results are more likely to follow for company shareholders. Each company faces a unique set of opportunities and risks, and therefore Vanguard's internally managed funds do not have a one-size-fits-all approach to board composition. We take a case-by-case approach to analyzing company directors up for election, including in contested director elections. The funds believe that the board, typically in the form of the nominating and governance committee, is generally in the best position to determine the best mix of directors—in aggregate and individually—to serve on the board.

Developments in contested director elections

In September 2022, new U.S. Securities and Exchange Commission rules took effect requiring the use of universal proxy cards in all contested director elections at U.S. public companies. Universal proxy cards, which list all director nominees regardless of whether nominated by management or a dissident shareholder, allow shareholders to vote through the proxy process in the same manner as they would by voting in person at a shareholder meeting. Previously, shareholders voting by proxy in contested director elections were unable to vote for a combination of director nominees from competing director slates. Under the new rules, shareholders voting by proxy can vote for any combination of candidates.

How Vanguard's internally managed funds approach contested director elections

Vanguard's internally managed funds' principles and policies regarding contested director elections remain the same with the adoption of a universal proxy card. The funds evaluate contested director elections on a case-by-case basis, with an assessment of what is in the interest of shareholders' long-term value as the driver of the funds' vote.

When evaluating proxy contests, the funds apply a governance-centric approach that takes into consideration inputs from various sources, such as company engagements, discussions with dissident shareholders and/or the nominees put forward by the dissident, third-party research, public materials, and, in select cases, other Vanguard investment professionals.

The internally managed funds' evaluation of proxy contests 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 in its board composition is likely to create value for long-term shareholders? When engaging with the dissident, we seek to understand their perspective on the company's current state and future trajectory and what recommended changes they believe would benefit the company and be in the best interest of long-term shareholder value.
- **Company's approach to governance.** Has the company demonstrated good governance practices? By reviewing a company's public reporting and disclosures, and through engagements, the funds seek to understand how the board of directors serves as an engaged, effective steward of shareholders' capital through independent oversight of company management, strategy, and material risks.
- **Quality of directors.** Do current directors appear to bring the necessary capabilities to the company's board? Assessing a board's composition starts with understanding the company's strategy and how the board's skills (collectively and individually) align with that strategy and allow the board to provide effective oversight on behalf of all shareholders. Vanguard's Investment Stewardship team also assesses dissident nominees 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 both sets of nominees so we can make an informed decision about which nominees are best positioned to represent the interests of long-term shareholders.

What we look for from companies on this matter

Boards of directors are elected to represent the interests of shareholders. Investors depend on directors to serve as the voice of shareholders in the boardroom, advising and overseeing company management. Boards of directors hire chief executives, serve as strategic advisors to company management, consult on the strategic direction of the company, and provide independent oversight of management to ensure that management's decisions are in the best interests of company shareholders. As a result, Vanguard's internally managed funds have a strong focus in their voting policies, and in engagements, on board composition and effectiveness.

Many companies have evaluated their current disclosures to ensure appropriate disclosure of director skills, experience, and qualifications to provide investors with the ability to evaluate board composition. Though company engagements may allow shareholders to better understand a company's approach to board composition and why the company is confident in its slate of director nominees, we encourage companies to provide these details in public reporting and disclosures to enable all shareholders to understand how the board thinks about its composition.

We have observed that disclosures can provide a helpful view into how the board's talent and skills, both individually and in the aggregate, align to the needs of the company. Such disclosures can allow shareholders to better assess the qualifications of each director and can lead to better decision-making abilities in the instances of contested director elections. Disclosures related to steps the board takes to enhance its effectiveness, including board assessments and ongoing director education and training, are also helpful.

Companies should be cautious when adopting article or bylaw provisions or other mechanisms that may make it more difficult for a dissident shareholder to nominate director candidates by imposing onerous nomination deadline and disclosure requirements. In such instances, Vanguard's internally managed funds would look to understand how such amendments to a company's governance structures continue to empower shareholders to hold directors accountable as needed.

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 growing effort to enhance disclosure of Vanguard's investment stewardship voting and engagement activities. We aim to provide additional clarity on Vanguard's stance on governance matters beyond what a policy document or a single vote can do. 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. The Vanguard Group, Inc., has not been delegated proxy voting authority on behalf of the Vanguard-advised funds.

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