

Vanguard Investment Stewardship Insights

Voting insight: Dual share class proposal and a director election at Alphabet

July 2022



Company: Alphabet, Inc. (Alphabet)

Meeting date: June 1, 2022

Proposal: Item 1h—Elect director Ann Mather; Item 11—Approve recapitalization plan for all stock to have one vote per share.

How the funds voted

At the annual meeting for Alphabet, the U.S.-based holding company for Google, the Vanguard funds¹ supported a shareholder proposal that requested the company eliminate its multi-share class structure in favor of one that allows for outstanding stock to have one vote per share. The funds also supported the reelection of director Ann Mather.

The Vanguard funds considered, but did not support, 16 other shareholder proposals that focused on a range of matters, including data privacy and security risks, political lobbying, human capital management, and climate and environmental risks. Each shareholder proposal was evaluated case by case; this analysis included researching materiality of the risk raised in the proposal to long-term shareholder value, the company's existing disclosures, and other criteria. Our research determined that the proposals were too prescriptive, redundant, or were not directly linked to long-term shareholder value.

Vanguard's principles and policies

Shareholders should have the power to make their voices heard and hold a company's board and management accountable by casting the vote tied to each of their shares. At companies that issue more than one class of stock, with different classes carrying different voting rights, the Vanguard funds will assess case by case whether to support proposals to eliminate that multi-class structure. The funds also generally support sunset provisions that would move the company toward a one-share, one-vote structure over time.

Boards represent the interests of shareholders by making critical decisions about a company's leadership, overseeing strategy, and managing material risks to the business.

In analyzing a company's board, Vanguard evaluates several factors, including its composition and independence. Another important consideration is director capacity and commitment. Directors' responsibilities are complex and time-consuming, and therefore we look to ensure directors have appropriate workloads so they can focus on their director roles and deliver value for shareholders. This is especially important during times of crisis, when the demands placed on directors increase.

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

Vanguard's Investment Stewardship team evaluates director commitments case by case. In general, we define an overboarded director as:

- Any director who holds an executive role at any public company and serves on three or more additional outside public company boards.
- Any director who serves on five or more public company boards.

Analysis and voting rationale

Vanguard has regularly engaged with Alphabet's board and company leaders over many years. Our recent discussion focused on a range of proposals the company received. Our engagement and our subsequent research and analysis ultimately informed how we voted, which is outlined below.

Recapitalization plan for outstanding stock. Alphabet utilizes a multi-class voting structure, where Class B shares have 10 times the voting rights as Class A shares. As a result, Alphabet's co-founders control over 51% of the voting power while owning less than 12% of the company.

The Vanguard funds will generally support proposals that are aligned to "one share, one vote." But our case-by-case assessment allows for flexibility when considering these proposals at growing companies that recently went public. Our analysis found that Alphabet, which has been publicly listed since 2004, did not meet any of our commonly applied policy exceptions, such as being an early stage founder-led company, adopting a sunset provision, or exhibiting broad-based employee ownership. While we appreciate the intention of the company's cofounders to promote long-term stability with Alphabet's voting structure, our research determined that there was a misalignment of voting and economic interests. The Vanguard funds supported the proposal to recapitalize the company's voting structure.

Director commitments. Ann Mather is an independent director on Alphabet's board and serves as chair of the audit committee. She has served on Alphabet's board since 2005.

In 2021, Vanguard identified Mather as a potentially overboarded director. At the time of the 2021 Alphabet annual meeting, she served on six public company boards, including her commitment at Alphabet. After engaging with company leaders and discussing Mather's capacity and commitments, the Vanguard funds supported her at that meeting.

Since then, Mather has reduced her commitments from six to five public boards. While we viewed the decrease in her commitments as a positive, she was still considered an overboarded director as outlined in the Vanguard funds' proxy voting policy.

In our 2022 engagement with Alphabet company leaders, they shared an update to the board policy on director commitments. In July 2021, the board implemented an amendment to the Alphabet Corporate Governance Guidelines to reduce the maximum number of public company boards Alphabet directors can serve on from five to four, effective July 15, 2022.

Our analysis determined that compliance with Alphabet's policy will sufficiently address our concerns regarding Mather's commitments. Because of that, the Vanguard funds supported her nomination at this year's annual meeting and will continue to monitor her commitments over time.

What we look for from companies on this matter

We encourage companies to adopt governance structures that ensure that boards and management serve in the best interest of the shareholders they represent. We believe that such governance structures can serve as a safety net to safeguard and support foundational rights for shareholders. With that, we look to companies to establish voting structures that align voting power and economic interests, ensuring that the voice of every shareholder is heard. When a company has a multi-class voting structure where one share does not equal one vote, we look to companies to adopt a sunset provision that is time-based and less than 10 years or that is tied to a change in position of the person holding the different class of stock.

The funds look to boards of directors as the representatives of all shareholders. As such, directors have key responsibilities that are critical to a company's success. Directors are also responsible for ensuring that they are accessible and responsive to both routine and unexpected board matters. With that, we look to directors to maintain sufficient capacity to effectively carry out their responsibilities to shareholders by limiting their board and other commitments. In addition, we look to companies to establish policies that address the additional commitments of their directors.

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.