

Vanguard funds

Proxy voting policy for U.S. portfolio companies



Effective March 1, 2022

Primary updates and clarifications to the Vanguard funds' voting policies

The Investment Stewardship Oversight Committee approved several updates and clarifications to the Vanguard funds' U.S. voting policies. The primary updates include:

- **Key committee independence:** Policy language clarifies a fund's support for when (i) only independent directors should participate in either phase of the nomination process, and (ii) when a controlled company compensation and/or nominating committee is majority independent and no employees, former employees, or persons affiliated with the controlling shareholder (if the CEO is a party to the controlling shareholder) serve on the committee (see page 5).
- **Director capacity and commitments:**
 - *Current named executive officers.* The policy language clarifies that a fund will generally not support the reelection of any director who is a named executive officer (NEO) and sits on more than two public boards. The two boards could comprise either the NEO's "home board" plus one outside board or two outside boards if the NEO does not serve on their home board. As most CEOs sit on their home boards, functionally this results in no change. With regard to other NEOs, most do not sit on their home boards, and therefore their limit will be increased by one board commitment (see page 5).
 - *Oversight of director commitments.* The current policy describes when the funds consider a director as "overboarded" and will likely not support the election of a nominee. For 2022, the Vanguard funds will also look for portfolio companies to adopt good governance practices regarding director commitments, including the adoption of an overboarding policy and disclosure of how the board oversees policy implementation.
- **Diversity and qualifications disclosure:** Policy language clarifies policies related to board diversity. Primary updates include policy positions related to board diversity disclosure and board diversity accountability votes (see page 8).
- **Oversight failings.** Consistent with current policy, the Vanguard funds will consider an accountability vote against a director or committee for governance or material risk oversight failures. The following clarifies considerations regarding climate risk oversight (see page 7):
 - the materiality of the risk;
 - the effectiveness of disclosures to enable the market to price the risk;
 - whether the company has disclosed business strategies, including reasonable risk mitigation plans in the context of the anticipated regulatory requirements and changes in market activity in line with the Paris Agreement or subsequent agreements; and
 - company-specific context, market regulations, and expectations.
- **Hybrid/virtual meetings.** The funds will generally support the use of a virtual meeting as long as shareholder rights are not curtailed (see page 18).

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Introduction

The information below, organized according to Vanguard Investment Stewardship's four principles, is the voting policy adopted by the Board of Trustees for the funds (the "Fund Board")¹ and describes the general positions of the funds on recurring proxy proposals for U.S.-domiciled companies.

It is important to note that proposals often require a facts-and-circumstances analysis based on an expansive set of factors. Proposals are voted case by case, under the supervision of the Investment Stewardship Oversight Committee and at the direction of the relevant Funds' Board. In all cases, proposals are voted as determined in the best interests of each fund consistent with its investment objective.

¹ This voting policy details the general positions of the funds for each portfolio advised by Vanguard, including Vanguard index funds and ETFs and the fund assets managed by Vanguard Quantitative Equity Group ("Vanguard-advised funds"), on recurring proxy proposals for U.S.-domiciled companies. Each of the U.S. mutual funds advised by Vanguard retains proxy voting authority and this voting policy reflects the U.S. Fund Board's instructions governing proxy voting by the Vanguard-advised funds.

Principle I: Board composition and effectiveness

A fund's primary interest is to ensure that the individuals who represent the interests of all shareholders are independent, committed, capable, diverse, and appropriately experienced. Diversity of thought, background, and experience, as well as of personal characteristics (such as gender, race, and age), meaningfully contributes to the ability of boards to serve as effective, engaged stewards of shareholders' interests.

Majority board independence²

A fund will generally vote against the nominating committee and all nonindependent board members of a company if that company does not maintain a majority independent board. In the second year that a board is not majority independent, the fund may vote against the entire board. Independence is generally defined in accordance with the relevant exchange listing standards, with the following exceptions:

- *Former CEOs.* Former CEOs will not be considered independent unless they held only an "interim" CEO position for less than 18 months. An interim CEO who held that temporary position for less than 18 months will be considered independent three years after leaving the position.
- *CEO interlocks.* CEOs who sit on one another's boards will not be considered independent.
- *Other factors.* If it is determined, through engagement or research, that a director's independence has been compromised, that director may not be considered independent regardless of technical compliance with the exchange listing standards. Likewise, certain circumstances could lead to the determination that a director is independent, regardless of compliance with listing standards.

Key committee independence

A fund will typically vote against nonindependent directors who serve on the following key committees (or their equivalent):

- audit committee
- compensation committee
- nominating and governance committee

In addition to voting against nonindependent committee members, the fund will generally vote against the nominating committee chair if any of the committees noted above is not 100% independent. In the second year of a nonindependent committee, the fund may vote against the entire nominating committee, regardless of the independent status of any committee members. If a board has no nominating and governance committee and instead acts as its own nominating committee, a fund will generally also vote against all directors, except where only the board's independent directors nominate directors and/or make the final appointment decision.

For a controlled company's compensation committee and nominating and governance committee, a fund will generally support a nonindependent director on that committee, so long as this nonindependence is not due to the director's status as an employee or former employee (within the past three years) of the company or affiliation with the controlling shareholder (if the CEO is a party to the controlling shareholder) and the relevant committee is majority independent.

Director capacity and commitments

Directors' responsibilities are complex and time-consuming. Therefore, a director may be considered "overboarded" if the number of directorship positions that they have accepted makes it challenging to dedicate the requisite time and attention to effectively fulfill their responsibilities at each company. While no two boards are identical and time commitments may vary, the funds believe that the limitations below are appropriate, absent compelling evidence to the contrary.

A fund will generally vote against any director who is a named executive officer (NEO) and sits on more than two public boards. The two boards could comprise either the NEO's "home board" plus one outside board or two outside boards if the NEO does not serve on their home board. If an NEO sits on more than two public boards, a fund will typically vote against the nominee at each company where they serve as a nonexecutive director, but not at the company where they serve as an NEO.

² The relevant exchange listing standards provide an exception to the majority board independence requirement for controlled companies (companies in which more than 50% of the voting securities are controlled by a shareholder or group of affiliated shareholders). Accordingly, this guideline applies only to noncontrolled companies. A noncontrolled company is a company in which 50% or less of the voting power for the election of its directors is held by a single person, entity, or group.

A fund will also generally vote against any director who serves on five or more public company boards. In that instance, the fund will typically vote against the director at each of these companies except the one where they serve as board chair or lead independent director.

In certain instances, a fund will consider voting for a director who would otherwise be considered overboarded under the standards above because of company-specific facts and circumstances. This includes indications that the director will have sufficient capacity to fulfill their responsibilities and/or a review of the full board's skill and diversity composition. In addition, a fund may vote for an overboarded director if the director has publicly committed to stepping down from the other directorship(s) necessary to fall within the thresholds listed above.

Looking ahead, the Vanguard funds will look for portfolio companies to adopt good governance practices regarding director commitments, including an overboarding policy and disclosure of the board's oversight of the implementation of that policy.

Escalation process: Director and committee accountability

In certain instances, a fund will vote against a director because of governance failings or as a means to escalate other issues that remain unaddressed by a company. A fund will generally not apply an accountability vote against a director who has served less than one year on the board and/or applicable committee, but may apply it to another relevant director in their place. Issues that could spur escalation may include:

- *Lack of majority board and key committee independence.* A fund will generally vote against a director in order to raise concerns when a company lacks majority board independence or key committee independence.
- *"Zombie" directors.* A fund will typically vote against the chair of the nominating committee if management proposes the reappointment of a director or directors who failed to receive majority shareholder support and the board has not resolved the underlying issue driving the lack of shareholder support. This vote should not apply when a fund withheld initial support for a director.

- *Limiting shareholder rights.* A fund will generally vote against the independent chair or lead director and members of a governance committee in response to unilateral board actions that meaningfully limit shareholder rights (including, but not limited to, the unilateral adoption of exclusive forum provisions). This vote is based on a holistic review of the company's governance structures and is applied only when there is concern that shareholders are unable to exercise their voice.
- *Compensation-related situations.*
 - A fund will generally vote against compensation committee members when it votes against the company's Say on Pay proposal in consecutive years unless meaningful improvements have been made to executive compensation practices since the prior year.
 - If egregious pay practices are identified, a fund will generally vote against the compensation committee chair and, if the issues persist, a fund may vote against the full compensation committee in subsequent years if Say on Pay is not on the ballot.
 - A fund will generally also vote against compensation committee members when the fund votes against an equity compensation plan that includes significantly problematic features (e.g., "repricing," "evergreen," "reload," or similar features) or other egregious pay practices.
- *Nonresponsiveness to proposals.* A fund will generally vote against the independent chair or lead independent director and members of the relevant committee for failure to adequately respond to proposals (management or shareholder) that received the support of a majority of shares, based on votes cast (including the fund's), at a prior year's shareholder meeting.
- *Oversight failure.* If a situation arises in which the board has failed to effectively identify, monitor, and ensure management of material risks and business practices under its purview based on committee responsibilities, a fund will generally vote against the relevant committee chair. These risks may include material social and environmental risks, inclusive of climate change.

- **Climate risk oversight failure.** To assess a climate risk oversight failure, factors for the fund to consider include: the materiality of the risk; the effectiveness of disclosures to enable the market to understand and price the risk; whether the company has disclosed business strategies including reasonable risk mitigation plans in the context of the anticipated regulatory requirements and changes in market activity in line with the Paris Agreement or subsequent agreements; and consideration for company-specific context, market regulations, and expectations. The fund will also consider the board's overall governance of and effective independent oversight of climate risk.
- When a specific risk does not fall under the purview of a board committee, a fund will generally vote against the lead independent director and chair.
- *Lack of board diversity.* A fund will generally vote against the nominating and/or governance committee chair (or other director if needed) if a company's board is making insufficient progress in its diversity composition and/or in addressing its board diversity-related disclosures.
 - To determine progress on enhanced board diversity and related disclosure, in relation to this policy, factors for the fund to consider include applicable market regulations and expectations, along with additional company-specific context.
 - A board should, at a minimum, represent diversity of personal characteristics, inclusive of at least diversity in gender, race, and ethnicity on the board. In addition, boards should reflect diversity of other attributes including tenure, skills, and experience.
 - Boards should take action to reflect a board composition that is appropriately representative, relative to their markets and to the needs of their long-term strategies. Given that many boards still have an opportunity to increase diversity across different dimensions, such boards should demonstrate how they intend to continue making progress.
- Disclosure of directors' personal characteristics (such as self-identified race and ethnicity) should occur on a self-identified basis and may occur on an aggregate level or individual director level. Disclosure of skills and experience at the director level is expected. See policy on "Diversity and qualifications disclosure" for more information on diversity disclosure.

- *Audit failures.*
 - A fund will generally vote against audit committee members when nonaudit fees exceed audit-related fees without sufficient disclosure or when the fund votes against an audit-related management proposal.
 - A fund will generally vote against audit committee members in instances of a material misstatement or material weakness in multiple years without sufficient remedy.

Contested director elections

- A fund will vote on shareholder nominees case by case in contested director elections. The analysis of proxy contests focuses on three key areas:
- *The case for change at the target company*
 - How has the company performed relative to its peers?
 - Has the current board's oversight of company strategy or execution been deficient?
 - Is the dissident focused on strengthening the target company's long-term strategy and shareholder returns?
- *The quality of the company and of dissident board nominees*
 - Is there reason to question the independence, engagement, or effectiveness of the incumbent board?
 - Has the board delivered strong oversight processes with long-term shareholders' interests in focus?
 - Are the directors proposed by the dissident (whether the full slate or a subset) well-suited to address the company's needs, and is this a stronger alternative to the current board?
- *The quality of company governance*
 - Did the board engage in productive dialogue with the dissident?
 - Is there evidence of effective, shareholder-friendly governance practices at the company?
 - Has the board actively engaged with shareholders in the past?

Director attendance

A fund will generally vote against directors who attended less than 75% of board or committee meetings (in the aggregate) in the previous year unless an acceptable extenuating circumstance is disclosed.

Diversity and qualifications disclosure

Many corporate boards lack diversity (including gender, ethnic, and racial diversity). Shareholders are using the proxy ballot to ask corporations to provide details on a board's diversity and additional diversification plans.

Boards can inform shareholders of the board's current composition and related strategy by disclosing at least the following:

- statements from the nominating committee (or other relevant directors) on the board's intended composition strategy, including expectations for year-over-year progress
- policies related to promoting progress toward increased board diversity
- current attributes of the board's composition

Board diversity disclosure should at least include the genders, races, ethnicities, tenures, skills, and experience that are represented on the board. Disclosure of personal characteristics (such as race and ethnicity) should be on a self-identified basis and may occur at an aggregate level or at the director level. Disclosure of tenure, skills, and experience at the director level is expected (see details on "skills matrix" formats below).

In addition, proposals that call for a skills matrix seek to give shareholders a big-picture view of directors' attributes and how they fit together. Shareholders can then assess how well-suited director nominees are in light of the company's evolving business strategy and risks and the overall mix of director skills and experience. Shareholders will thus be able to make better-informed proxy voting decisions. While the funds generally support these types of disclosure and would typically support these proposals, companies may already have sufficient disclosure, procedures, or policies in place.

A fund will generally vote for a shareholder proposal if:

- The proposal seeks disclosure about directors' diversity of personal characteristics (including gender, race,

ethnicity, and national origin) or skills and qualifications, and this information is not already disclosed.

- The proposal asks companies to adopt policies designed to ensure appropriate diversity on boards, and appropriate policies do not already exist.
- The proposal is not overly prescriptive about what skills should be included or how this information must be presented.

Independent chair of the board

Many proposals seek to require that companies not permit the same person to serve as both CEO and chair of the board of directors. Proponents believe that separation of these duties will create a more independent board. These proposals are most often submitted by shareholders.

The funds believe this matter should be within the purview of a company's board. Therefore, a fund will generally vote against shareholder proposals to separate CEO and chair, absent significant concerns regarding the independence or effectiveness of the board.

When independence or effectiveness concerns suggest that an exception may be appropriate, the following factors, among others, are considered:

- *Lack of a lead independent director role.* A strong lead independent director generally provides sufficient independent perspective to balance the perspective of a nonindependent chair. Structures that do not provide a strong counterweight to insider leadership warrant requiring independent oversight.
- *Lack of board accessibility.* Communicating directly with independent board members, including a lead independent director or committee chairs, is an important way for shareholders to exchange perspectives. Restricting access to independent board members through policy or practice may prevent the board from receiving comprehensive feedback from shareholders to incorporate into corporate practices. It may also contribute to a culture of management entrenchment by controlling the messages the board receives.
- *Low overall board independence.* High affiliated representation on the board may outweigh independent voices and further entrench insider leadership. Enhancing the role of independent directors may offer a counterweight to the nonindependent voices on the board. As noted

by the guidelines for director independence, issues beyond exchange standards for technical independence may be considered in determining overall board independence.

- *Governance structural flaws.* Certain governance practices and corporate structures may create an environment more favorable to potential entrenchment of management and other insider board members. For example, multiple share classes with different voting rights limit shareholders' voices, and key committees that are not fully independent restrict a board's role in management oversight.
- *Lack of responsiveness.* A pattern of being unresponsive to shareholders (e.g., a failure to act or slow action on shareholder votes) may indicate that a board is entrenched. A stronger independent leadership role may be necessary to remedy this.
- *Oversight failings.* Governance crises may indicate entrenchment or that the board is not receiving sufficient information from management to appropriately fulfill its oversight role. Evidence of failure to provide appropriate governance oversight and/or evidence of failure to oversee material or manifested risks, including those that may be considered "social" or "environmental," will be taken into account. In addition, board decisions that impair shareholder rights (e.g., unilaterally classifying the board) may indicate that a board does not properly value shareholder rights.

Principle II: Oversight of strategy and risk

Boards are responsible for effective oversight and governance of their companies' most relevant and material risks and for governance of their companies' long-term strategy. Boards should take a thorough, integrated, thoughtful approach to identifying, quantifying, mitigating, and disclosing risks that have the potential to affect shareholder value over the long term. Boards should communicate their approach to risk oversight to shareholders through their normal course of business.

Capitalization

- *Increase in authorized common stock.* A fund will generally vote for a proposal to increase authorized common stock if the proposed increase represents potential dilution less than or equal to 100%. It may vote for an increase resulting in more than 100% dilution if the increase is to be used for a stock split. A fund may also support an increase in authorized common stock for mergers, acquisitions, and other financial transactions that result in more than 100% dilution if the fund supports the transaction.
- *Reverse stock split.* A fund will typically vote for a reverse split of outstanding shares if the number of shares authorized is proportionately reduced and the difference in reduction results in dilution equal to or less than 100%. Regardless of the level of dilution, it will generally vote for a reverse split if it is necessary for the company to remain listed on its current exchange.
- *Decrease in outstanding shares to reduce costs.* A fund will generally vote for a proposal to reduce outstanding shares to reduce costs if the level at which affected investors are cashed out is not material.
- *Amendment of authorized common stock/preferred stock.* A fund will generally vote for proposals to create, amend, or issue common or preferred stock unless the rights of the issuance are materially different from the rights of current shareholders (i.e., differential voting rights) or include a blank-check provision. It will generally vote against proposals to create such stock if the accompanying disclosure does not include a statement affirming that the new issuance will not be used for anti-takeover purposes.

- *Tracking stock.* A fund will generally vote for the issuance of tracking stock as a dividend to current shareholders. It will vote case by case on proposals to offer tracking stock through an initial public offering based on the proposed use of the proceeds, as well as on proposals calling for the elimination of tracking stock.

Mergers, acquisitions, and financial transactions

A fund will vote case by case on all mergers, acquisitions, and financial transactions. The strategic, operational, and financial benefits (and drawbacks) of each transaction are evaluated based on criteria including:

- board and management oversight of the deal process
- valuation
- prospects for long-term enterprise value under a stand-alone/alternate scenario
- market reaction
- the surviving entity's governance profile
- fairness opinions from independent financial advisors
- effect on stakeholders, if relevant to long-term value

In evaluating board oversight, the funds will consider independence, potential conflicts of interest, and management incentives.

Bankruptcy proceedings

A fund will vote case by case on all proposals related to bankruptcy proceedings. When evaluating proposals to restructure or liquidate a firm, a fund will consider factors such as the financial prospects of the firm, alternative options, and management incentives.

Environmental/social proposals

Disclosure proposals

A fund will vote case by case on disclosure-related management and shareholder proposals based on environmental and social risks to a company.

Clear, comparable, consistent, and accurate disclosure enables shareholders to understand the strength of a board's risk oversight. Because sustainability disclosure is an evolving and complex topic, a fund's analysis of related

proposals aims to strike a balance in avoiding prescriptiveness and providing a long-term perspective.

Targets, policies, and practices proposals

Similarly, a fund will vote case by case on management and shareholder proposals that request adoption of specific targets or goals and on proposals that prescribe adoption of environmental or social policies and practices.

Shareholders typically lack sufficient information about specific business strategies to propose specific targets or environmental or social policies for a company, which is a responsibility that resides with management and the board. As a result, shareholder proposals that are more prescriptive in nature will generally not be supported by a fund. Other proposals, such as requests for the company to set goals that further articulate the path to implementing a disclosed company priority, are more likely to receive support from a fund.

Considerations for environmental and social proposals

Each proposal will be evaluated on its merits and in the context that a company's board has ultimate responsibility for providing effective oversight of strategy and risk management. This oversight includes material sector- and company-specific sustainability risks and opportunities that have the potential to affect long-term shareholder value.

While each proposal will be assessed on its merits and in the context of a company's current practices and public disclosures, vote analysis will also consider these proposals relative to market norms or widely accepted frameworks endorsed or already referenced by Vanguard's Investment Stewardship program. Input from the board, management, and proponents will also be taken into consideration. To assist companies in understanding relevant principles, research, or past voting decisions, Vanguard will publish perspectives on notable issues, best practices, and guidance for companies to consider on specific environmental or social matters.

A fund is likely to support shareholder proposals that:

- address a shortcoming in the company's current disclosure relative to market norms or to widely

accepted frameworks endorsed or referenced by Vanguard's Investment Stewardship program (e.g., the Sustainability Accounting Standards Board, the Task Force on Climate-related Financial Disclosures);

- reflect an industry-specific, materiality-driven approach; and
- are not overly prescriptive about time frame, cost, or other matters.

If the above criteria are met, a fund is likely to support the following types of proposals:

Specific to environmental proposals (not exhaustive):

- Request for disclosure related to companies' Scope 1 and Scope 2 emissions data, and Scope 3 where climate-related risks are material
- Assessment of the climate's impact on the company, disclosing appropriate scenario analysis and related impacts on strategic planning
- Goals or target-setting for relevant greenhouse gas emissions

Social risk proposals (not exhaustive):

- Request for disclosure on workforce demographics inclusive of gender and racial and ethnic categories, considering other widely accepted industry standards, and if appropriate under applicable laws and regulations. This could include publishing EEO-1 reports.
- Request for disclosure on the board's role in overseeing material diversity, equity, and inclusion (DEI) risks or other material social risks.
- Request for adoption of targets or goals related to board diversity (without prescribing what such targets should be, unless otherwise specified by applicable laws and regulatory requirements).
- Request for inclusion of sexual orientation, gender identity, minority status, or protected classes, as appropriate under applicable laws and regulations, in a company's employment and diversity policies when the company has not already formally established such protections. A fund will generally not support proposals asking companies to exclude references to sexual orientation and/or gender identity, interests, or activities in their employment and diversity policies.

Additional considerations:

Corporate political activity proposals:

- A fund will vote case by case on all shareholder proposals that request greater disclosure of a company's political spending and/or lobbying activities, policies, or practices.
- Factors for consideration include, but are not limited to, applicable laws and regulations regarding political spending and/or lobbying; the prevalence of corporate political activity within a company's industry; the company's current disclosure and level of board oversight of current corporate political activity; disclosure regarding trade associations or other groups that a company supports, or is a member of, that engage in lobbying activities; and recent controversies, litigation, fines, or other manifested risks associated with the company's corporate political activity.

Independent auditors

- *Ratification of management's proposed independent auditor.* A fund will vote case by case on the ratification of independent auditors when there is a material misstatement of financials or other significant concern about the integrity of the company's financial statements. The fund may vote against ratification when tax and all other fees exceed the audit and audit-related fees, unless the company's disclosure makes clear that the non-audit fees are for services that do not impair independence.
- *Rotations of auditing firms.* A fund will vote case by case on proposals mandating auditor rotation.
- *Requirement for a shareholder vote.* A fund will generally vote for shareholder proposals that require companies to submit ratification of auditors to a shareholder vote.

Principle III: Compensation

Compensation policies linked to long-term relative performance are fundamental drivers of sustainable, long-term value for a company's investors. Providing effective disclosure of these practices, their alignment with company performance, and their outcomes is crucial to giving shareholders confidence in the link between incentives and rewards and the creation of long-term value.

Advisory votes on executive compensation (Say on Pay)

Because norms and expectations vary by industry type, company size, company age, and geographic location, the following guidelines are intended to represent preferences for executive compensation and are not a "one-size-fits-all" tool.

Considerations fall into three broad categories:

- alignment of pay and performance
- compensation plan structure
- other considerations

In general, a fund will vote case by case on executive compensation proposals (including Say on Pay, compensation reports, and compensation policies) and will support those that enhance long-term shareholder value. It may also vote for compensation proposals that reflect improvements in compensation practices if the proposals are not perfectly aligned with all these guidelines but are clearly in the interests of long-term shareholder value.

The following situations are among those that raise "red flags" in a compensation plan:

- Pay outcomes are significantly higher than those of peers, but total shareholder return is well below that of peers.
- The long-term plan makes up less than 50% of total pay.
- The long-term plan has a performance period of less than three years.
- Plan targets are reset or retested, or are not rigorous.
- The target for total pay is set above the peer-group median.

The following situations are among those that raise warning signs, or "yellow flags":

- The peer group used to benchmark pay is not comparably aligned with the company in size or strategy.
- The plan uses absolute metrics only.
- The plan allows for positive discretion only.
- The company uses one-time (e.g., retention) awards.
- The disclosure related to plan structure or payout is limited.

Say on Pay frequency

A fund will typically vote for management proposals to put Say on Pay to an annual vote as opposed to a two- or three-year vote.

Additional executive pay matters

- *Severance packages/golden parachutes.* A fund will typically vote for proposals to approve golden parachutes unless they are excessive or unreasonable (e.g., severance payments that total more than three times salary plus bonus, and/or are "single trigger"). It may also vote for proposals to approve Say on Severance unless they are excessive or unreasonable (e.g., severance payments that total more than three times salary plus bonus or that have a single-trigger change in control payment).

A fund will generally support shareholder proposals requiring that future golden parachutes be put to a vote, provided that ratification after the fact is permitted.

- *Shareholder proposals on pay for superior performance.* A fund will generally vote against shareholder proposals that call for companies to set standards that require pay for superior performance, particularly when the proposal calls for specific performance standards.
- *Annual or long-term bonus plans.* A fund will typically vote against bonus plans that are excessive or unreasonable, and will use criteria similar to that used in the fund's Say on Pay analysis.

A fund will vote case by case on all other proposals but will look for the following red flags:

- plans that cannot be reasonably deciphered
- plans in which the maximum dollar payout per participant is not disclosed (bonus caps as a percentage of salary or another financial metric—e.g., total income—are acceptable as long as the amounts are not unreasonable)
- broad discretion to set performance criteria, or too many performance criteria
- lack of correlation between performance and compensation

Adopting, amending, and/or adding shares to equity compensation plans

Appropriately designed stock-based compensation plans, administered by an independent board committee and approved by shareholders, can be an effective way to align the interests of long-term shareholders with the interests of management, employees, and directors.

A fund will vote case by case on compensation plan proposals. A plan or proposal will be evaluated in the context of several factors to determine whether it balances the perspectives of employees and the company's other shareholders.

These factors include the industry in which a company operates, market capitalization, and competitors for talent. A fund is likely to vote for a proposal in circumstances that include the following:

- Senior executives must hold a minimum amount of company stock (frequently expressed as a multiple of salary).
- Stock acquired through equity awards must be held for a certain period.
- The program includes performance-vesting awards, indexed options, or other performance-linked grants.
- Concentration of equity grants to senior executives is limited.
- Stock-based compensation is clearly used as a substitute for cash in delivering market-competitive total pay.

A fund is likely to vote against a proposal in circumstances that include the following:

- Total potential dilution (including all-stock-based plans) exceeds 20% of shares outstanding.
- Annual equity grants have exceeded 4% of shares outstanding.
- The plan permits repricing or replacement of options without shareholder approval.
- The plan provides for the issuance of "reload" options.
- The plan contains an automatic share replenishment ("evergreen") feature.

Additional employee compensation matters

- *Repricing or replacing underwater options.* A fund will generally vote for proposals to reprice or exchange stock options that meet the following three considerations:
 - *Value-neutrality.* An exchange/repricing proposal should be value-neutral.
 - *Exclusion of executive and director participation.* Executives and directors should not participate in an exchange or repricing. If they do, the board should clearly state why the program is necessary to retain and provide incentives to executives and directors for the benefit of long-term shareholder value.
 - *Additional vesting requirements.* New shares granted in an exchange should vest no earlier than the vesting date of the shares for which they were exchanged, and preferably later.
- *Granting stock options.* A fund will generally vote against management proposals to grant one-time stock options if dilution limits are exceeded. It will vote case by case on other proposals.
- *Adopting deferred compensation plan.* A fund will generally vote for proposals to adopt a deferred compensation plan unless the plan includes discounts.
- *Adopting or adding shares to an employee stock purchase plan.* A fund will typically vote against proposals to adopt or add shares to employee stock purchase plans if they allow employees to purchase shares at a price less than 85% of fair market value.
- *Amending a 401(k) plan to allow excess benefits.* A fund will generally vote for a proposal to amend a 401(k) plan to allow for excess benefits.

Nonemployee director compensation

A fund will vote case by case on proposals to adopt or amend nonexecutive director equity compensation plans, including stock award plans. Considerations include potential dilution, the size of the plan relative to employee equity compensation plans, annual grants made to nonemployee directors, and total director compensation relative to market.

A fund will generally vote against nonemployee director equity compensation plans that allow for repricing, as well as those that contain an evergreen feature. It may also vote against nonemployee director pensions.

A fund will vote case by case on all other proposals for nonemployee direct compensation.

Principle IV: Shareholder rights

Governance structures empower shareholders and ensure accountability of the board and management. Shareholders should be able to hold directors accountable as needed through certain governance provisions.

Board structure and director elections

- *Classified ("staggered") boards.* A fund will generally vote for proposals to declassify a current board and vote against management or shareholder proposals to create a classified board.
- *Cumulative voting.* A fund will generally vote for management proposals to eliminate cumulative voting and vote against management or shareholder proposals to adopt cumulative voting.
- *Majority voting.* If the company has plurality voting, a fund will typically vote for shareholder proposals that require a majority vote for election of directors. A fund may also vote for management proposals to implement majority voting for election of directors. A fund will generally vote against shareholder proposals that require a majority vote for election of directors if the company has a director resignation policy under which a nominee who fails to get a majority of votes is required to resign.
- *Approval to fill board vacancies without shareholder approval.* A fund will generally vote for management proposals to allow the directors to fill vacancies on the board if the company requires a majority vote for the election of directors and the board is not classified. It will generally vote against management proposals to allow directors to fill vacancies on a classified board.
- *Board authority to set board size.* Normally, a fund will support management proposals to set the board at a specific size. However, it will consider the anti- takeover effects of the proposal, particularly in the context of a hostile takeover offer or board contest. It will generally vote against management proposals to give the board the authority to set the size of the board without shareholder approval at a future time.
- *Term limits for outside directors.* A fund will generally vote for management proposals to limit terms of outside directors and generally vote against shareholder proposals to limit such terms.

Shareholder access

A fund will vote case by case on management and shareholder proposals to adopt proxy access. Generally, it will vote for proposals permitting a shareholder or a group of up to 20 *shareholders* representing ownership and holdings thresholds of *at least 3%* of a company's outstanding shares for *three years* to nominate up to *20% of the seats* on the board.

A fund will consider supporting shareholder proposals that have differing thresholds if the company has not adopted any proxy access provision and does not intend to do so.

Dual-class stock

This guideline applies when a company issues more than one class of stock, with different classes carrying different voting rights. The Vanguard Investment Stewardship approach to this issue is principled yet practical. It remains philosophically aligned to "one-share, one-vote" but mindful of the need not to hinder public capital formation in the equity markets. Alignment of voting and economic interests is a foundation of good governance. Vanguard supports the idea of a newly public, dual-share-class company adopting a sunset provision that would move the company toward a one-share, one-vote structure over time.

A fund will vote case by case on proposals to eliminate dual-class share structures with differential voting rights.

Defensive structures

- *Shareholder rights plan/"poison pills."* A fund will generally vote against adoption of poison pill proposals and for shareholder proposals to rescind poison pills, unless company-specific circumstances require that the board and management be provided reasonable time and protection in order to guide the company's strategy without excessive short-term distractions. This analysis would typically require engagements with both the company and the acquirer/activist.
- A fund will generally vote for "net operating loss" (NOL) poison pills and for proposals to amend securities transfer restrictions that are intended to preserve net operating losses that would be lost as a result of a change in control, as long as the NOLs exist and the provision sets forth a five-year sunset provision.

- A fund may also vote for shareholder proposals to subject a shareholder rights plan to a shareholder vote within a year of being adopted by the board of directors.
- *Consideration of other stakeholder interests.* A fund will vote case by case on management proposals to expand or clarify the authority of the board of directors to consider factors outside the interests of shareholders in assessing a takeover bid.
- *Other anti-takeover provisions.* In general, a fund will vote for proposals to create anti- greenmail provisions and against "fair price" provisions. It will generally vote for shareholder proposals to opt out of anti-takeover provisions in state corporation laws where that is allowed (e.g., Pennsylvania).

Voting requirements

- *Supermajority voting.* A fund will generally vote against proposals to adopt supermajority vote requirements and for proposals to reduce or eliminate them.
- *Confidential voting.* A fund will generally vote for a shareholder proposal to adopt confidential voting.
- *Time-phased voting.* A fund will vote typically against proposals to implement time- phased voting.

Special meetings and written consent

If a company does not have a right to call a special meeting, a fund will generally vote for management proposals to establish that right. It may also vote for shareholder proposals to establish this right, as long as the ownership threshold is not below 10% of current shares outstanding.

If a company already has the right to call a special meeting at a threshold of 25% or lower, a fund will generally vote:

- Against management proposals to increase the ownership threshold above 25%.
- Against shareholder proposals to lower the ownership threshold below the current threshold.

A fund will typically vote for management proposals to establish the right to act by majority written consent. It will generally support shareholder proposals to adopt this right if shareholders do not have the right to call a special meeting.

Advance notice of shareholder proposals

A fund will generally vote for management proposals to adopt advance notice requirements if the provision provides for notice of a minimum of 30 days and a maximum of 120 days before the meeting date and a submission window of at least 30 days prior to the deadline.

Bylaws amendment procedures

A fund will generally vote against management proposals that give the board the exclusive authority to amend the bylaws.

Change of company name

A fund will generally vote for proposals to change the corporate name unless evidence shows that the change would hurt shareholder value.

Reincorporation

A fund will vote case by case on management proposals to reincorporate to another domicile. Considerations include the reasons for the relocation and the differences in regulation, governance, or shareholder rights. A fund will vote case by case on management proposals to reincorporate outside the United States. Considerations include the reasons for the relocation, including differences in regulation, governance, shareholder rights, and potential tax benefits. Potential benefits (e.g., higher earnings/ stock price) will be weighed against reduced shareholder rights, potential for increased shareholder tax liability, and potential for other material, long-term risks to the company.

A fund will generally vote against shareholder proposals to reincorporate from one state to another.

Exclusive forum/exclusive jurisdiction

A fund will vote case by case on management proposals to adopt an exclusive forum provision. Considerations include the reasons for the proposal, regulations, governance and shareholder rights available in the applicable jurisdiction, and the breadth of the application of the bylaw.

Shareholder meeting rules and procedures

- *Quorum requirements.* A fund will generally vote against proposals that would decrease quorum requirements for shareholder meetings below a majority of the shares outstanding unless there are compelling arguments to support such a decrease.
- *Other such matters that may come before the meeting.* A fund will generally vote against proposals to approve "other such matters that may come before the meeting."
- *Adjournment of meeting to solicit more votes.* In general, a fund will generally vote for the adjournment if the fund supports the proposal in question and against the adjournment if the fund does not support the proposal.
- *"Bundled" proposals.* A fund will vote case by case on all bundled management proposals.
- *Change in date, time, or location of annual general meeting.* A fund will typically vote for management proposals to change the date, time, or location of the annual meeting if the proposed changes are reasonable.
- *Hybrid/virtual meetings.* A fund will generally support proposals seeking to conduct "hybrid" meetings (in which shareholders can attend a meeting of the company in person or elect to participate online). A fund may vote for proposals to conduct "virtual-only" meetings (held entirely through online participation with no corresponding physical meeting). To date, data show that virtual meetings can be an effective way to increase shareholder participation and reduce costs. Virtual meetings should not curtail rights—e.g., by limiting the ability for shareholders to ask questions. A fund will consider support if:
 - meeting procedures and requirements are disclosed ahead of a meeting;
 - a formal process is in place to allow shareholders to submit questions to the board;
 - real-time video footage is available and attendees can call into the meeting or send a recorded message; and
 - shareholder rights are not unreasonably curtailed.

