Vanguard

Vanguard-advised funds

Proxy voting policy for Australian and New Zealand portfolio companies

Effective September 2024

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Introduction

The information below, organized according to Vanguard Investment Stewardship's four pillars of corporate governance, is the voting policy adopted by the Boards of Trustees of the Vanguard-advised funds (the "Funds' Boards") and describes the general positions of the funds on proxy proposals that may be subject to a shareholder vote at companies domiciled in Australia or New Zealand.[1]

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 Fund's Board. In all cases, proposals are voted as determined in the best interests of each fund consistent with its investment objective.

The following policies are applied over an extended period of time; as such, if a company's board is not responsive to voting results on certain matters, a fund may withhold support for those and other matters in the future. Regardless of whether proposals are submitted by company management or by other shareholders, they are voted in accordance with these policies and as determined to be in the best interests of each fund, consistent with its investment objective.

"If not, why not?" in Australia, and "comply or explain" in New Zealand. Local standards in Australia and New Zealand permit companies to deviate from corporate governance practices recommended by the relevant corporate governance codes and listing standards as long as a company provides an explanation for the deviation. The funds support this underlying principle. Companies should explain any deviations from the relevant corporate governance code's recommended governance practices, including providing an explanation of what they do instead of the recommended practice and why their alternative approach is in the best interests of shareholders.

Multijurisdictional companies. When a company is listed on multiple exchanges or incorporated in a country different from where it is listed, the company should follow the applicable laws and listing rules of the market(s) in which it has its primary listing, as well as apply any local corporate governance codes. If a company deviates from any market standards or local corporate governance codes, it should explain the reasons for such deviations.

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.

Pillar I: Board composition and effectiveness

In the interest of maximizing the long-term return of their investment in a given company, the funds seek to ensure that the individuals who serve as board directors to represent the interests of all shareholders are appropriately independent, experienced, committed, capable, and diverse. Diversity of thought, background, and experience, as well as of personal characteristics (such as gender, race, ethnicity, and age), meaningfully contribute to a board's ability to serve as effective, engaged stewards of shareholders' interests.

Board independence

A fund will generally vote against the nomination committee and all nonindependent, nonexecutive board members of a company if that company does not maintain a majority independent board.

A fund will generally vote against the nomination committee and nonindependent, nonexecutive directors if the board of a nonwidely held company and/or a controlled company does not maintain a level of board independence proportionate to, and reflective of, the ownership structure.

In addition, when analyzing the overall level of board independence, only board members who are elected by shareholders will be taken into account.

Outlined below are common factors that can impact independence:

- *Current and former employees.* Directors who are current or former employees (other than the chief executive officer) may be considered independent five years after they terminate their employment relationship.
- *Former CEOs.* Former CEOs will generally never be considered independent, unless they held only an "interim" CEO position for less than 18 months. An "interim" CEO who held the temporary position for 18 months or less may be considered independent three years after leaving the interim CEO position.
- *Cross-directorships and CEO interlocks.* Any directors who hold cross-directorships or have significant links with other directors through involvement in other companies or bodies will generally not be considered independent. In addition, CEOs who sit on one another's boards will generally not be considered independent.
- *Shareholder representatives.* Representatives of shareholders will generally not be considered independent.
- *Business connections.* Any director nominee who has had within the last year a material business relationship with the company—either directly or as a partner, shareholder, director, or senior employee of a body that has such a relationship with the company—will generally not be considered independent.
- *Familial relationship and other personal relationships.* Any director who has close family ties with any of the company's advisers, directors, or senior employees will generally not be considered independent.
- *Performance-related pay.* Any director who participates in a performance-related pay scheme will generally not be considered independent.
- *Tenure.* Excessive tenure of a director (i.e. tenure that exceeds local market best practice, where applicable) can potentially impact independence, especially in a scenario where a board is not majority independent. However, excessive tenure exclusively may not result in a director being considered nonindependent.

- *Other factors*. If it is determined, through engagement or research, that director independence has been compromised, that director may not be considered independent.

Key committee independence

The funds look for key committees to be chaired by independent directors and for companies to maintain 100% independent key committees where market practice and/or local corporate governance codes call for such composition.

A fund will generally vote against nonindependent directors that serve on the following key committees (or their equivalent) if the majority of the committee is not independent:

- Audit committee
- Remuneration committee
- Nomination committee

Independent board leadership

Generally, a fund will vote for management proposals to create an independent chair position or to otherwise separate the CEO and chair positions.

In evaluating shareholder proposals calling for the creation of an independent chair or for the separation of CEO and chair, certain factors are considered:

- *Presence of a lead/senior independent director role.* A strong lead/senior independent director may provide sufficient independent perspective to balance against a nonindependent chair. Consistent with this perspective, structures that do not provide a strong countervoice to insider leadership warrant independent oversight.
- *Board accessibility.* Shareholders' ability to communicate directly with independent board members, including a lead/senior independent director or committee chairs, is an important means by which they can share perspectives. Restrictions on access to independent board members may prevent the board from receiving comprehensive feedback from shareholders to incorporate into corporate practices. Such restrictions may also contribute to a culture of management entrenchment by controlling the messages the board receives.
- *Overall board independence.* High affiliated representation on the board may outweigh independent voices and further entrench the insider leadership. Enhancing the role of independent directors may offer a counterweight to the nonindependent voices on the board.
- *Governance structural flaws.* Certain governance practices and corporate structures may create an environment that is more conducive to potential entrenchment of management and other board members. For example, multiple share classes with different voting rights limit shareholders' voices, and key committees that are not fully independent may limit a board's ability to oversee management.
- *Responsiveness to shareholders.* A pattern of being nonresponsive to shareholder feedback (e.g. a failure to act on shareholder votes or a decision to impair shareholder rights) may indicate that a board is entrenched. A stronger independent role may be necessary to remedy this.
- *Oversight failings.* Governance crises may indicate management 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 material risks that may be considered "social" or "environmental," will be taken into account.

Board composition

The funds look for boards to be "fit for purpose" by reflecting appropriate diversity of skill, experience, perspective, and personal characteristics (such as gender, age, nationality, and ethnicity) resulting in cognitive diversity that enables effective, independent oversight on behalf of all shareholders. The funds believe that the appropriate mix of skills, experience, and characteristics is unique to each board and should reflect expertise related to the company's strategy and material risks from a variety of vantage points.

The funds look for companies to disclose their perspectives on the appropriate board structure and composition for their company and how these 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 effective, engaged stewards of shareholders' interests.

The funds look for disclosure of tenure, skills, and experience at the director level (sometimes referred to as a "skills matrix"). To this end, the funds may support requests for disclosure of the company's approach to board composition, inclusive of board diversity. The funds ask Australian and New Zealand companies to meet local market standards intended to support gender diversity, and to have both genders represented on the board. For ASX 300 companies, the funds look for no less than 30% of either gender serving on the board of directors, consistent with the ASX Corporate Governance Council Principles and Recommendations (4th Edition).

To evaluate board composition in relation to this policy, factors for the funds to consider include applicable market regulations and expectations, along with additional company-specific context.

- Boards should reflect diversity of attributes including tenure, skills, and experience.
- A board should also, at a minimum, represent diversity of personal characteristics, inclusive of at least diversity in gender, race, and ethnicity on the board.
- 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.
- Disclosure of directors' personal characteristics (such as gender, ethnicity, or nationality) 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 preferred.
- Companies should provide disclosure regarding their process for evaluating the composition and effectiveness of their board on a regular basis, the identification of gaps and opportunities to be addressed through board refreshment and evolution, and a robust nomination (and renomination) process to ensure the right mix of skills, experience, perspective, and personal characteristics into the future.

Director capacity and commitment

Directors' responsibilities are complex and time-consuming. Therefore, the funds seek to understand whether the number of directorship positions held by a director makes it challenging to dedicate the requisite time and attention to effectively fulfill their responsibilities at a given company (sometimes referred to as being "overboarded"). While no two boards are identical and time commitments may vary, the funds believe the limitations on the number of board positions held by individual directors are appropriate, absent compelling evidence to the contrary.

A fund will generally vote against any director who holds an executive role at any public company and serves on two or more additional outside public company boards. In this instance, the fund will typically vote against the nominee at a given company where they serve as a nonexecutive director, but not at the company where they serve as an executive.

A fund will also generally vote against any director who serves on more than four 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 if:

- A director has committed to stepping down from any directorships necessary to fall within the thresholds listed above by the following year's annual general meeting;
- A director becomes overboarded as a result of becoming an interim executive officer or has become an executive officer within the last 12 months; or
- The company provides specific, verifiable information confirming that (i) the director devotes significantly less than an average amount of time to one or more of the boards on which they sit and (ii) that the reduced workload is appropriate based on the nature of the company's board (e.g. the company's business model or governance structure) and the relevant director continues to fulfill their obligations to that company, irrespective of their diminished hours of service.

The funds 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. Helpful disclosure includes a discussion of the company's policy (e.g., what limits are in place) and, if a nominee for director exceeds its policy, any considerations and rationale for their nomination. Additionally, it is good practice to include disclosure of how the board developed its policy and how frequently it is reviewed to ensure it remains appropriate.

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 acceptable, extenuating circumstances are disclosed or they have served on the board for less than one year.

Directors' names and biographies

The funds consider the timely disclosure of directors' names and biographies critical to providing investors with a base level of information to assess individual roles and overall board composition.

A fund will generally vote against any director whose name and biographical details have not been disclosed sufficiently in advance of the general meeting.

Escalation process: Director and committee accountability

Directors are elected by shareholders to represent their interests. If there are instances in which the board has failed to respond to actions approved by a majority of shareholders, unilaterally taken action against shareholder interests, or, in the fund's view, failed in its oversight role, the fund may withhold support from those directors deemed responsible (generally based on their functional or committee level responsibilities). A fund will generally not apply such a vote against a director who has served less than one year on the board and/or applicable committee but in such instances may apply it to another relevant director in their place. Matters that spur such votes may include:

- *Lack of board independence.* A fund will generally vote against nomination committee members of a widely held, noncontrolled company if the board is not majority independent and will vote against nomination committee members of a non widely held and/or controlled company if it does not maintain a level of board independence proportionate to, and reflective of, the ownership structure. A fund may vote against the chair and/or lead independent director, or any other relevant director, if insufficient board independence remains a concern over multiple years.
- *Lack of key committee independence.* A fund will generally vote against nonindependent key committee directors if a company does not maintain majority independent key committees (audit, remuneration, and nominations committee). A fund may vote against nomination committee members, the chair and/or lead independent director, or any other relevant director, if insufficient key committee independence remains a concern over multiple years.
- *Audit failures.* A fund will generally vote against audit committee members when non-audit 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 concerns about the integrity of the accounts. In both instances, if audit committee members are not up for election in a given year, a fund may vote against another relevant board member.
- *Remuneration-related situations*
  - A fund will generally vote against remuneration committee members when the fund votes against a pay proposal for two consecutive years, unless meaningful improvements have been made.
  - In the case of a board spill resolution for Australian companies, a fund will generally vote against the resolution unless egregious pay practices persist. A fund will instead vote against remuneration committee members or other individual directors.
- *Oversight failure.* A fund will generally vote against directors who have failed to effectively identify, monitor, and manage material risks and business practices that fall under their purview based on committee responsibilities. These risks may include material social and environmental risks, inclusive of climate-related risks. To assess climate risk oversight failures, factors the funds will consider include:
  - 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
  - Consideration for company-specific context, market regulations, and expectations.

  The funds will also consider the board's overall governance and effective independent oversight of climate risk. When a specific risk does not fall under the purview of a specific committee, a fund will generally vote against the chair and/or lead independent director.
- *Board composition.* Absent a compelling reason, a fund will generally vote against the nomination committee chair, or another relevant board member, if the nomination committee chair is not up for reelection, if a company's board is not taking action to achieve board composition that is appropriately representative relative to market norms, local regulatory or listing standards, and the needs of the company's long-term strategies.

- *Limited shareholder rights.* A fund may vote against the chair, lead/senior independent director and/or any other relevant directors if the company has abused minority shareholder rights and/or somehow meaningfully limited shareholder rights.

Generally, a fund will vote for new directors who would otherwise fail under any of the preceding circumstances regarding committee accountability, but have served for less than a year, unless a given director fails to carry out the basic responsibilities that would be expected for even a new director.

Contested director elections

A fund will vote on a case-by-case basis on shareholder nominees 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 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?
- *The quality of the company's and dissident's board nominees*
  - Are there concerns with 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?

Pillar II: Board 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, and 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.

Capital structures

- *Dividends.* A fund will generally vote for proposals to allocate income and for proposals to allow a stock (scrip) dividend, unless the proposal does not allow for a cash option or is not in line with market standards.
- *Share issuance requests.* The total dilution to existing shareholders and the company's history of issuing capital will be considered.
  - A fund will generally vote for routine ratifications of past issuance of shares without preemptive rights up to a maximum of 15% of the current issued share capital, provided that the issuance occurred within the 12-month period and in line with market practice.
  - A fund will generally vote for routine capital issuance requests without preemptive rights up to a maximum to 15% of the current issued share capital, provided that the issuance authorities' periods are clearly disclosed and in line with market practice.
  - A fund will generally vote for routine capital issuance requests with preemptive rights up to a maximum of 50% of the current issued share capital, provided that the issuance authorities' periods are clearly disclosed and in line with market practice.
- *Debt issuance.* A fund will vote on a case-by-case basis on proposals to issue debt and/or restructure debt, taking into account:
  - Any convertible features and the potential effect on dilution;
  - The company's financial position; and
  - The company's ability to take on the proposed debt.
- *Share repurchase*
  - For Australia, a fund will typically vote for routine authorities to repurchase additional shares up to 10% of the current issued share capital (20% in total, including the 10% in a 12-month period allowed under the Corporations Act 2001), as long as the terms of the repurchase appear to be in the best interests of shareholders, there is no history of abuse of such authorizations, and the pricing premium is equal to or less than 5% of fair market price.
  - For New Zealand, a fund will typically vote for routine authorities to repurchase additional shares up to 5% of the current issued share capital (20% in total, including the 15% in a 12-month period allowed under the New Zealand's Exchange Listing Rules), as long as the terms of the repurchase appear to be in the best interests of shareholders, there is no history of abuse of such authorizations, and the pricing premium is equal to or less than 20% of fair market price.
- *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.

- *Preferred stock*. A fund will typically vote on a case-by-case basis on proposals to create/amend/issue preferred stock, taking into account the reason for the issuance, the ownership profile of the company, any historical abuses of share issuances, and the company's general approach to shareholder rights.

Mergers, acquisitions, and financial transactions

The funds seek to assess the likelihood that a transaction preserves or will create long-term value for shareholders. A fund will vote case by case on all mergers, acquisitions, and financial transactions based on a governance-centric evaluation focused on four key areas:

- Valuation
- Strategic rationale
- Board oversight of the deal process
- The surviving entity's governance profile

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

Related-party transactions

In general, companies should refrain from entering into related-party transactions with nonexecutive directors, executive directors, and shareholders because of the potential conflicts of interest that can arise. If a company does decide to enter into such a transaction, the funds will look for the company to comply with the relevant corporate law in its jurisdiction and/or the listing rules on the exchange on which it is listed.

When evaluating related-party transactions, considerations include:

- Whether it is part of the normal course of business;
- Clear disclosure of the details of the transaction, including who is involved, the price and any financial conditions, and the board's justification of the transaction;
- Whether there has been independent verification of the transaction, either by a third party (e.g. an auditor) or an independent board committee; and/or
- The length of the approval process of the transaction (preferring annual approval).

A fund may vote against a related-party transaction if:

- It is a substantial transaction with a nonexecutive director (especially when the company classifies such director as independent) and there are concerns about the level of independence on the board;
- The disclosure provided by the company is incomplete or is lacking detail;
- The approval length for the transaction is excessive;
- There are serious concerns about the independent verification and/or pricing of the transaction; and/or
- The transaction may not be in the interest of minority shareholders and/or it diminishes shareholder rights.

Independent auditors

Maintaining the independence and objectivity of auditors when they are carrying out their primary function of auditing financial statements is fundamental to safeguarding shareholder value.

Auditor appointment and auditor's fees. A fund will generally vote against the appointment of the auditor and setting the auditor's fees where tax and all other fees exceed the audit and audit-related fees and/or a reasonable amount, unless the company's disclosure makes it clear that the non-audit fees are for services that do not impair independence and/or the imbalance was due to an event that was transactional and one-off.

A fund will vote case by case on the auditor's appointment/reappointment when there is a material misstatement of financials or other significant concern regarding the integrity of the company's financial statements.

A fund will generally vote for the appointment of a new auditor unless there is a compelling reason why the new auditor selected by the board should not be endorsed.

Environmental/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 may also be taken into consideration.

A fund may support a shareholder proposal that:

- Addresses 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 International Sustainability Standards Board (ISSB));
- Reflects an industry-specific, materiality-driven approach; and
- Is not overly prescriptive in dictating company strategy or day-to-day operations, or about time frame, cost, or other matters.

If the above criteria are met, a fund may support the following types of proposals:

Specific to an environmental proposal (not exhaustive):

- Requests disclosure related to the company's Scope 1 and Scope 2 emissions data, and Scope 3 emissions data in categories where climate-related risks are deemed material by the board.
- Requests an assessment of a changing climate's impact on the company, disclosing appropriate scenario analysis and related impacts to strategic planning.

Specific to a social risk proposal (not exhaustive):

- Requests disclosure of workforce demographics inclusive of gender and racial/ethnic categories, considering other widely accepted industry standards, and if appropriate under applicable laws and regulations.
- Requests disclosure of the board's role in overseeing material diversity, equity, and inclusion (DEI) risks or other material social risks.
- Requests disclosure of the company's approach to board composition, inclusive of board diversity, and/or 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, or listing standards).

Disclosure proposals

A fund will vote case by case on disclosure-related management and shareholder proposals based on the materiality of 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

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

Shareholders typically do not have 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.

Say on Climate proposals

A fund will vote case by case on "Say on Climate" proposals, typically including advisory votes on a company's climate report.

When a company's management chooses to hold a Say on Climate vote, the funds look for the board to provide clear disclosure of the rationale for the vote, to articulate the oversight mechanisms and governance implications of the vote, and to produce robust reporting in line with the frameworks that support the disclosure of clear, comparable, and decision-useful information (e.g., ISSB frameworks). The funds will not seek to direct company strategy. The funds view Say on Climate votes as a signal on the coherence and comprehensiveness of the reporting and disclosures a company provides to explain its climate plan to the market, rather than an endorsement of, or an expression of lack of confidence in, the plan itself. Generally, the funds look for a coherent value proposition for shareholders, consistent with prudent risk management and mitigation; alignment with the Paris Agreement and related country-level goals and international agreements; and mitigation of reputational and legal risks.

A fund may abstain from voting on a proposal when the vote is not clearly framed as a vote on relevant reporting and disclosures, rather than on strategy, and/or where the governance implications of the vote are unclear.

The funds evaluate Say on Climate proposals submitted by shareholders through a lens of materiality and consider several criteria in our analysis, including the reasonableness of the request, whether the proposal addresses a gap in existing company's disclosures, and its alignment with industry standards.

Pillar III: Executive pay (remuneration)

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

Advisory votes on executive pay

Because norms and expectations, and geographic location, the following guidelines are intended to represent preferences for executive remuneration and are not a "one-size-fits-all" tool.

For that reason, a fund will vote on a case-by-case basis on the approval of the remuneration report and will support those that enhance long-term shareholder value. It may also vote for remuneration proposals that reflect improvements in practices, even if the proposals are not perfectly aligned with all these guidelines but are clearly in the interests of long-term shareholder value.

Our general considerations when evaluating remuneration fall into three broad categories:

- *Alignment of pay and performance.* The funds look for evidence of clear alignment between pay outcomes and company performance. This is mainly assessed through alignment of incentive targets with corporate strategy and analysis of three-year total shareholder return and realized pay over the same period vs. a relevant set of peer companies. If there are concerns that pay and performance are not aligned, a fund may vote against a pay-related proposal.
- *Remuneration plan structure.* Plan structures should be aligned with the company's stated long-term strategy and should support pay-for-performance alignment. Where a plan includes structural issues that the funds determine have led to, or could in the future lead to, pay-for-performance misalignment, a fund may vote against a pay-related proposal. For remuneration structures that are not typical of a market, the funds look for specific disclosure demonstrating how the structure supports long-term value creation for shareholders.
- *Governance of remuneration plans.* The funds look for boards to have a clear strategy and philosophy on executive pay, utilize robust processes to evaluate and evolve executive pay plans, and implement executive pay plans responsive to shareholder feedback over time. The funds also look for boards to explain these matters to shareholders via company disclosures. Where remuneration-related proposals consistently receive low support, the funds look for boards to demonstrate responsiveness to shareholder concerns.

Additional executive pay matters include:

- *Fixed pay.* The funds look for salary to be reasonably set based on the role scope, the industry, and the region, as well as benchmarked against an appropriate peer group (based on company size and complexity). If fixed pay is significantly increased, a compelling rationale should be disclosed.
- *Variable pay*
  - *Long-term focus.* Plans should generally be weighted towards long-term outcomes rather than short-term outcomes; therefore, long-term plans should make up the majority of variable remuneration. Long-term plans should generally have performance measured over multiple years, ideally for a period of three years or more.
  - *Metrics.* Remuneration plans should incorporate rigorous metrics aligned with corporate strategy and long-term company performance. Since pay should ultimately align with relative performance, incorporating relative metrics (particularly relative total shareholder return) into plans is preferred.

Where possible, the funds look for prospective performance metric disclosure, including targets and weightings, to allow shareholders to assess the rigor of the plan. The funds do not believe there is a one-size-fits-all approach to executive remuneration. The funds believe all metrics—financial and nonfinancial—within an executive remuneration plan should be rigorously designed, thoroughly disclosed, and tied to long-term performance goals related to strategic objectives or material risks. A fund does not look for nonfinancial metrics (such as environmental, social, and governance [ESG] metrics) to be a standard component of all remuneration plans, unless otherwise required by regulation. When remuneration committees choose to include nonfinancial metrics, the funds look for the same qualities the funds do with financial metrics, including that they are measurable, reportable, rigorous, and clearly linked to a company's strategy and risk mitigation efforts.

- *One-off awards.* Payments that occur in addition to the regular incentive plan(s) could indicate that the current remuneration structures may not be working as designed. The funds would look for one-off awards to only be granted in exceptional circumstances. If a one-off award is granted, the company should provide disclosure of a compelling rationale, which will be scrutinized.

- *Disclosure.* Shareholders should be able to easily understand pay expectations and outcomes. Therefore, a company should clearly articulate the remuneration plan's structure and the remuneration committee's processes for determining how that structure is likely to enhance long-term shareholder value. The funds generally look for retrospective disclosure for performance achievements. Effective disclosure may include:

  — Award limits for an incentive plan;

  — The weightings of each metric in an incentive plan;

  — The performance metrics and targets used to evaluate performance in an incentive plan (ideally including the minimum, the maximum, and the target performance for each metric); and

  — A clear description of any qualitative metrics used in an incentive plan and how the remuneration committee evaluated whether they were met.

- *Malus and clawback.* Such provisions should be adopted and detailed in a company's incentive plans. When necessary, malus and clawback provisions should be exercised by the remuneration committee.

- *Severance.* The funds look for such arrangements to be set in line with market best practice and to be double-trigger. Generally, severance arrangements should not be more than one year's base salary, taking into account any specific market best practice or nuances.

- *Discretion.* The remuneration committee should feel empowered to exercise discretion when formulaic pay outcomes do not align with company and share-price performance or shareholders' experience. A remuneration committee should provide enhanced disclosure when exercising discretion, clearly explaining the rationale for such discretion and how the committee arrived at this decision.

- *Responsiveness to shareholders.* If pay proposals receive low support or shareholder feedback, especially year over year, the board and remuneration committee should demonstrate responsiveness to shareholder concerns.

The following situations are among those that raise a higher level of concern related to a compensation plan:

- Pay outcomes that are higher than those of peers, but total shareholder return that is lower than those of peers;

- A target for total pay that is set above the peer-group median;

- A long-term plan that makes up less than 50% of total pay and/or an annual bonus that accounts for the majority of executives' variable pay;
- Incentive plans that do not have clearly disclosed limits;
- A long-term plan that has a performance period of less than three years;
- Performance targets for incentive plans that are reset, retested, or not rigorous;
- A lack of malus and/or clawback provisions;
- One-off awards where there is unclear disclosure or a lack of compelling rationale for their use; and
- A remuneration committee that shows a lack of responsiveness to shareholder dissent in relation to pay.

Factors that raise a moderate level of concern when evaluating a company's remuneration policies may include:

- A peer group used to benchmark pay that is not completely aligned with the company in size or strategy;
- Incentive plans that use absolute performance metrics only;
- Long-term plans that do not have an additional holding period once the performance period ends;
- A lack of disclosure of performance metrics, targets, and actual pay outcomes, particularly in retrospective situations;
- A lack of a shareholding requirement for executives or one that is out of line with peers or market practice;
- Severance arrangements that are excessive or out of line with market best practice; and
- The remuneration committee's use only of positive discretion and/or holding of excessive authority to use discretion to determine pay outcomes.

Where these concerns exist, elements of strong remuneration governance, such as board responsiveness and disclosure that includes data, rationale, and alternatives considered, can sometimes act to mitigate these concerns.

A fund will generally vote against remuneration committee members when voting against the remuneration report in two consecutive years unless meaningful improvements have been made. If no remuneration committee members are up for election, a vote against the board chair may be considered. A fund will generally vote against a board spill resolution, unless egregious practices persist or there are other exceptional circumstances.

Equity remuneration plans

A fund will vote on a case-by-case basis on equity remuneration plans for employees.

In general, a fund supports companies adopting equity-based remuneration plans for employees, as long as the plan or plans align with long-term shareholder interests and value. When evaluating equity remuneration plans, four main factors are considered:

- Dilution to shareholders;
- The company's grant history;

- Where plans are specifically targeted to executives, alignment between executive participants, and long-term shareholder value creation through the use of appropriate metrics and vesting periods; and
- Alignment with market practice.

Nonexecutive director remuneration

In general, a fund will vote for nonexecutive director fees that seem reasonable, are in line with peers, and take into account the amount of time required of the nonexecutive directors to fulfill their roles.

A fund will generally vote against the approval of any nonexecutive director fees where nonexecutive directors receive performance-related remuneration as part of their remuneration package. A fund will generally not oppose nonperformance-based equity awards to nonexecutive directors. Any such awards should be separate and distinct from executive incentive plans to minimize potential conflicts of interest. A fund will also generally vote against retirement benefits for nonexecutive directors.

Termination payments

A fund will vote on a case-by-case basis on termination benefits.

In general, a fund may vote against termination benefits in Australia if:

- The termination benefits beyond the 12-month cap have not been fully explained and justified to shareholders;
- They are paid out in instances of inadequate performance or voluntary departure without valid justification to shareholders; or
- Unvested variable incentives are allowed to vest without respect to time elapsed or performance achieved.

Pillar IV: Shareholder rights

The funds believe that effective corporate governance includes shareholders having the ability—in proportion to their economic ownership of a company's shares—to effect and approve changes in corporate governance practices and the composition of the board. The funds look for companies to adopt governance practices that support board and management service in the interest of the shareholders they represent. Such governance practices safeguard and support foundational rights for shareholders. Proposals on many of the following matters may be submitted by either company management or shareholders; a fund may generally support proposals—irrespective of the proponent—that seek approval for governance structures that safeguard shareholder rights (and oppose those that do not) as described below.

Board size

A fund will generally vote against proposals to limit the number of directors on the board or declare a "no vacancy."

Supermajority voting

A fund will generally vote against any proposal to extend supermajority voting requirements to decisions that are not stipulated by law and/or not in the best interest of minority shareholder rights. A fund will vote on a case-by-case basis on shareholder proposals asking to remove supermajority voting requirements where not required by law.

Additional share classes

The funds' approach to companies issuing, or proposing to issue, more than one class of stock with different classes carrying different voting rights remains philosophically aligned to "one share, one vote." To that end, alignment of voting and economic interests is a foundation of good governance.

However, pragmatically, the funds remain mindful of the need to not hinder public capital formation in the equity markets. The approach supports the idea of a newly public, dual-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 related proposals, including those to eliminate dual-class share structures with differential voting rights and those moving toward a one-share, one-vote structure over time.

Amendments to articles of association

A fund will generally vote for minor amendments that include any administrative or housekeeping updates and corrections. When evaluating all other amendments to the articles of association, the following will be considered:

- Any changes to corporate law and/or listing rules which may require an amendment to the articles of association;
- Whether the amendments may result in corporate governance structures and/processes that are not best practice or represents regression from what the company already does (taking into account any explanation provided by the company for the change); and/or
- Whether the amendments are detrimental to shareholder rights generally.

In Australia, a fund is likely to vote against shareholder proposals submitted to amend the company's constitution to facilitate the submission of non-binding shareholder resolutions. This process should, in general, be addressed through regulatory changes that could establish a common framework and safeguards, rather than through private ordering and modifications of the company's constitution.

Reincorporation/change of domicile

A fund will vote on a case-by-case basis on proposals to reincorporate to another country and/or proposals for companies to change their primary listing.

A fund will consider the reasons for the relocation, including the company's history, the company's strategy, and the company's shareholder base, along with any differences in regulation, governance, and shareholder rights.

Shareholder meeting rules and procedures

Approve "other such matters that may come before the meeting" or "any other business." A fund will generally vote against a proposal to approve "other such matters that may come before the meeting."

Adjournment of meeting to solicit more votes. In general, a fund will 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 on a case-by-case basis on all bundled management proposals.

Change of 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 considered reasonable and do not impede shareholder rights.

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 in-person meeting). Virtual meetings should not curtail rights, e.g., by limiting the ability for shareholders to ask questions.

A fund will generally 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 pre-recorded message;
- Shareholder rights are not unreasonably curtailed; and
- Applicable laws and regulations provide relevant safeguards to shareholder rights, and the company complies with these provisions.

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