

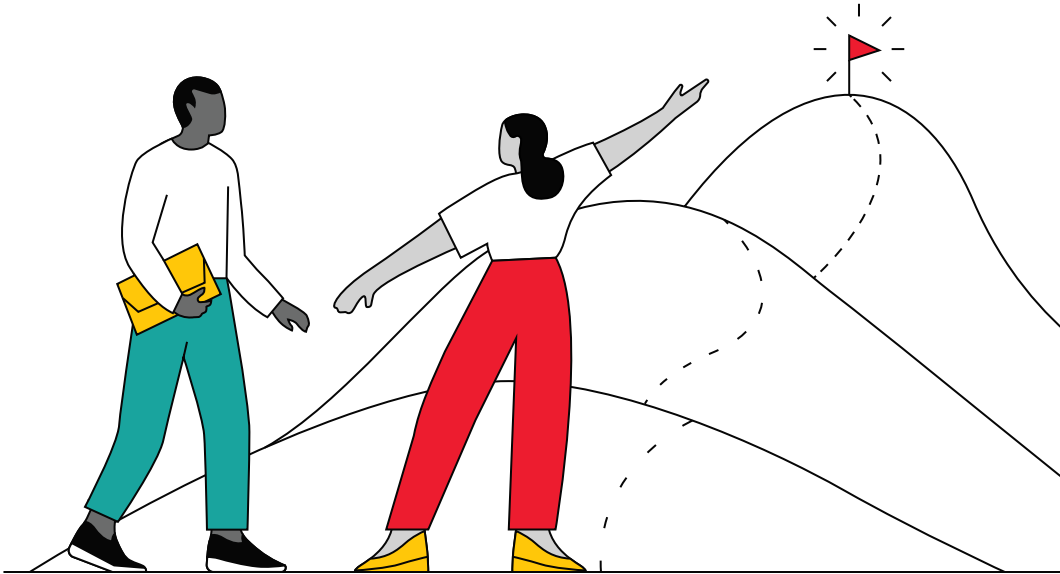
Vanguard®

Investment Stewardship

2023 Annual Report

Annual Report | 2023

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Introduction

An introduction from our chairman and CEO



Tim Buckley
*Vanguard Chairman and
Chief Executive Officer*

I am pleased to present Vanguard's 2023 Investment Stewardship Annual Report.

Good governance plays an important role in safeguarding and promoting long-term shareholder returns at the companies in which Vanguard-advised funds invest.¹ On behalf of the funds and their investors, our Investment Stewardship team engages with portfolio company leaders and casts proxy votes with a clear focus on supporting the funds' returns over the long term.

Thank you for investing with Vanguard.

Sincerely,

A handwritten signature in black ink, appearing to read "Tim Buckley". The signature is fluid and cursive, written over a white background.

Tim Buckley
Vanguard Chairman and
Chief Executive Officer

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.

An unwavering focus on shareholder returns



John Galloway
Investment Stewardship Officer

We are pleased to present this report on the work that Vanguard's Investment Stewardship team conducted on behalf of Vanguard-advised funds for the 12 months ended December 31, 2023. The funds' portfolio construction process is inherently passive, and more than 99% of the equity assets under management in Vanguard-advised funds are invested in index funds. The team's stewardship of the funds operates within that context.

Our approach

Vanguard's Investment Stewardship team aims to understand how the corporate governance practices of the funds' portfolio companies support the maximization of shareholder returns at that company over the long term. We do not dictate portfolio company strategy or operations, nor do we nominate board members or submit shareholder proposals. As stewards of passively managed funds, we believe that the precise strategies and tactics for maximizing long-term shareholder returns are best decided by a company's board of directors and management team. Similarly, we do not use investment stewardship activities to pursue public policy objectives. We believe that developing and setting public policy is appropriately the responsibility of elected officials.

Our approach to investment stewardship is grounded in the funds' four pillars of good corporate governance: board composition and effectiveness, board oversight of strategy and risk, executive pay, and shareholder rights. These four pillars frame the team's discussions with portfolio company leaders and analysis of proxy ballot items, and you will see them as recurrent themes throughout this report.

In the U.S., we continued to observe an increase in the number of environmental and social shareholder proposals put forward at public company shareholder meetings. We analyzed these proposals on a case-by-case basis—in accordance with the funds' proxy voting policies—to determine which voting decisions supported long-term shareholder returns. As we described in detail in the [U.S. Regional Brief](#) published in August 2023, while our approach to analyzing shareholder proposals has remained consistent year over year, the funds' aggregate level of support for environmental and social shareholder proposals decreased in 2023. We attribute this decline to changes in the nature of the proposals themselves as well as improved company disclosures on financially material risks.

Separately, we also saw many U.S. boards implement new or revised practices in response to the implementation of the universal proxy card, including enhanced disclosures on board composition and amended shareholder rights provisions.

In the U.K. and Europe, executive pay remained the most common contentious voting topic. We observed that many U.K. portfolio companies aimed to balance differing regional expectations related to the total magnitude of pay. We also saw a significant increase in the number of U.K. and European portfolio companies incorporating environmental, social, or governance (ESG) metrics into pay plans. We also observed that boards of U.K. and European companies continued to focus on board oversight and reporting of sustainability-related risks as they seek to comply with evolving regulatory requirements.

In the Asia-Pacific region, our engagements focused on the topic of board composition and effectiveness, particularly on director independence. We have found that capital and ownership structures typically contribute to lower levels of board independence in certain Asian countries. In our discussions with portfolio company leaders, we sought to understand how boards evaluate director independence and how boards enable independent directors to provide an outside perspective in the boardroom. In Australia, many companies reassessed executive pay in light of changing regulations and market expectations regarding the inclusion of ESG metrics in incentive plans.

This annual report is an important part of the disclosure that we provide to fund investors and other interested parties. Over the past year, we continued to enhance our communications, including the introduction of new quarterly reports on company engagements and significant votes, as well as regional briefs highlighting corporate governance practices in different markets. We will continue to look for ways to enhance the disclosure we provide to fund investors and other stakeholders.

An update on proxy voting choice

In recognition of the fact that an increasing number of fund investors are interested in having a greater voice in proxy voting, in 2023, Vanguard launched a voluntary pilot program to give investors in certain equity index funds the ability to select from a menu of policy options that direct how shares associated with their fund holdings should vote. Vanguard has expanded this proxy choice program by introducing proxy voting choices to investors in additional funds in early 2024. Expanding proxy voting choices is a continuation of Vanguard's effort to give individuals the information and options they need to help ensure that their investment portfolios reflect their investment goals and preferences.

Thank you for your interest in the work Vanguard's Investment Stewardship program conducts on behalf of Vanguard-advised funds and their investors.

Sincerely,

A handwritten signature in black ink, appearing to read "John Galloway", with a large, sweeping underline that loops back under the name.

John Galloway
Vanguard Investment Stewardship Officer
February 2024

Vanguard's Investment Stewardship program

Vanguard's Investment Stewardship program has a clear mandate to safeguard and promote long-term shareholder returns on behalf of the Vanguard-advised funds and their investors. We carry out this mandate by promoting governance practices that are associated with long-term investment returns at the companies in which the funds invest. When portfolio companies held by the funds generate shareholder returns over the long term, Vanguard-advised funds generate returns for their investors.



The Vanguard-advised funds

Vanguard-advised funds are primarily index funds managed by Vanguard's Equity Index Group; these funds track specific benchmark indexes constructed by independent third parties.² This structure means that managers of index funds do not make active decisions about where to allocate investors' capital. As a result, Vanguard-advised equity index funds are built to track specific benchmark indexes, follow tightly prescribed strategies, and adhere to well-articulated and publicly disclosed policies.³

Vanguard's equity index funds are long-term investors in numerous public companies around the world. A small portion of Vanguard-advised funds is managed by Vanguard's Quantitative Equity Group using proprietary quantitative models to select a broadly diversified portfolio of securities aligned with a fund's investment objective.⁴

- ² For the year ended December 31, 2023, index equity portfolios advised by Vanguard represented 99% of the Vanguard-advised equity funds' total assets under management.
- ³ Vanguard-advised equity index funds are constructed using either a full replication or sampling approach. Under a full replication approach, a fund buys and holds the securities in the fund's benchmark index in proportion to each security's weighting in the fund's benchmark index. Under a sampling approach, a fund buys and holds a representative sample of securities in the index that approximates the full index in terms of key characteristics.
- ⁴ In aggregate, as of December 31, 2023, the funds managed in whole or in part by Vanguard's Quantitative Equity Group represented approximately 1% of the Vanguard-advised funds' equity assets under management.

What we do

All aspects of Vanguard's Investment Stewardship program are focused on safeguarding and promoting long-term investment returns with the goal of giving investors in Vanguard-advised funds the best chance for investment success. We do this by:



Engaging

with portfolio company directors and executives to learn about each company's corporate governance practices and to share our perspectives on corporate governance practices associated with long-term investment returns.



Voting

proxies at portfolio company shareholder meetings based on each fund's proxy voting policies.



Promoting

governance practices associated with long-term investment returns through our published materials and participation in industry events.

On behalf of Vanguard-advised funds, we seek to understand how portfolio company boards—which are elected to serve on behalf of all shareholders, including Vanguard-advised funds—effectively carry out their responsibilities. We examine how each board is composed to provide for the long-term success of their company, how it consults with management on strategy and oversees material risks, how it aligns executive incentives with shareholder interests, and how it safeguards the rights of shareholders.

Our four pillars

The Vanguard-advised funds' portfolio construction process is inherently passive—the equity index funds seek to track benchmarks determined by unaffiliated index providers. Our approach to investment stewardship operates in that context. Accordingly, with respect to companies held by Vanguard-advised funds, we do not seek to dictate strategy or operations, nor do we submit shareholder proposals or nominate board members. We believe that the

precise strategies and tactics for maximizing long-term investment returns should be decided by a company's board of directors and management team. Similarly, Vanguard does not use investment stewardship activities to pursue public policy objectives. We believe that setting public policy, including policy on environmental and social matters, is appropriately the responsibility of elected officials.

Our analysis of companies' corporate governance practices is centered on four pillars of good corporate governance:



Board composition and effectiveness

Good governance begins with a company's board of directors. Our primary focus is on understanding to what extent the individuals who serve as board members are appropriately independent, capable, and experienced.



Board oversight of strategy and risk

Boards should be meaningfully involved in the formation and oversight of strategy and have ongoing oversight of material risks to their company. We work to understand how boards of directors are involved in strategy formation, oversee company strategy, and identify and govern material risks to shareholders' long-term returns.



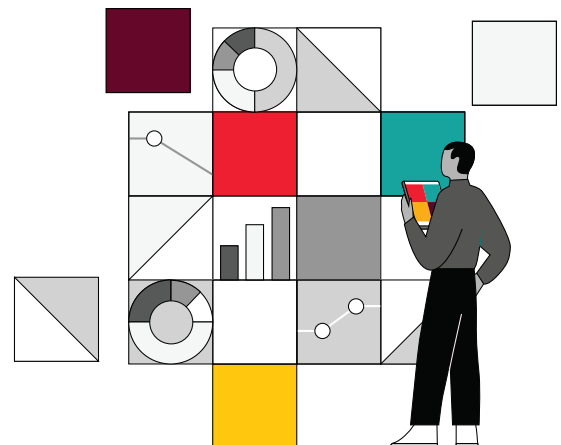
Executive pay (compensation or remuneration)

Sound pay programs linked to relative performance drive long-term shareholder returns. We look for companies to provide clear disclosure about their compensation practices, the board's oversight of those practices, and how the practices are aligned with shareholders' long-term returns.



Shareholder rights

We believe that governance structures should allow shareholders to effectively exercise their foundational rights. Shareholder rights enable a company's owners to use their voice and their vote—in proportion to their economic ownership of a company's shares—to effect and approve changes in corporate governance practices.



Investment Stewardship activity at a glance

In 2023, our team of more than 60 investment stewardship professionals engaged with 1,334 companies in 31 different markets representing 69% of the Vanguard-advised funds' total assets under management (AUM).



1,659

total company engagements



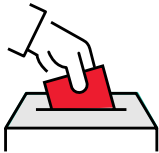
1,334

companies engaged



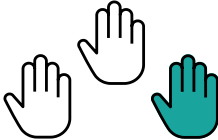
\$3.9T AUM

equity assets under management engaged



182,641

proposals voted on



13,490

companies where a proposal was voted on

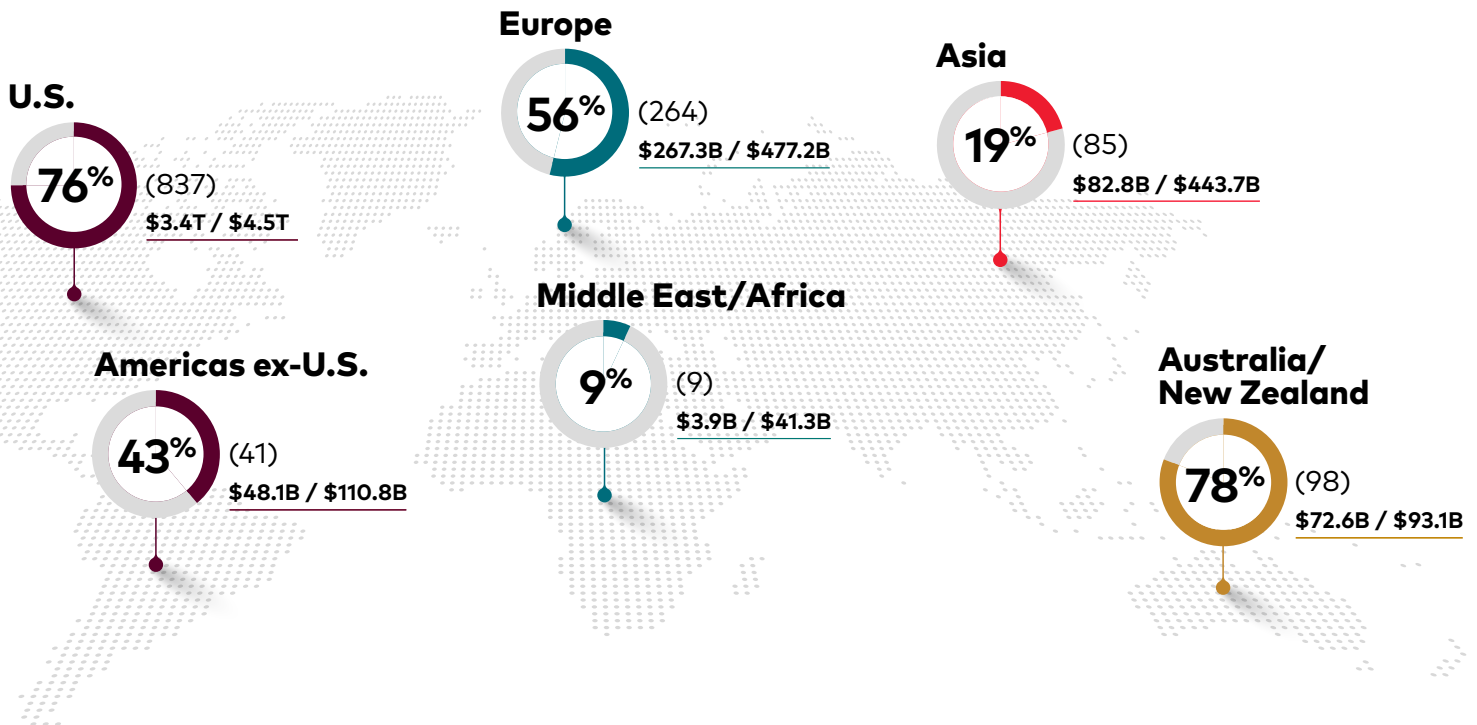
Regional roundup

In this section, we highlight notable corporate governance topics and trends Vanguard’s Investment Stewardship team observed in various regions around the world in 2023.

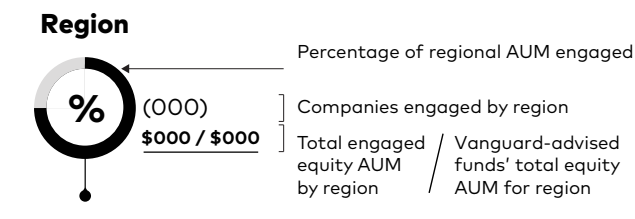
We provide this report, and other publications and briefs, to give investors in Vanguard-advised funds and other market participants an understanding of the engagement and proxy voting activities we conduct on behalf of Vanguard-advised funds.

Regional engagement figures for 2023

The following figures represent the Vanguard Investment Stewardship’s team global engagement activities on behalf of the Vanguard-advised funds, in 2023.⁵



Key



⁵ Data presented are for the 12-month period ended December 31, 2023. Numbers and percentages reflect rounding.

Americas

During the 2023 proxy year in the Americas (U.S., Canada, and Latin America), we engaged with portfolio company directors and executives on topics including board and committee leadership refreshment, their onboarding processes for new directors, and their oversight of material risks. We saw many U.S. boards implement new or revised practices in response to the universal proxy card, including, for example, increased disclosure of board skills matrices, director capacity and commitment policies, and board effectiveness assessments. Certain U.S. and Canadian shareholders continued to express interest in how boards are managing material environmental and social risks; this was reflected in the increased number of shareholder proposals submitted on environmental and social topics. In Latin America, many of our conversations were centered on issues of board independence, risk oversight, and disclosure.

In 2023, we engaged with 878 companies across the Americas on a range of governance and risk oversight topics, and the funds voted on over 47,000 proposals at nearly 4,800 portfolio companies across the region. In addition to direct company engagements, the Investment Stewardship team also regularly attended industry events across the U.S. to promote corporate governance practices associated with long-term investment returns and to share our perspectives and approach.

Board composition and effectiveness

In our engagements with leaders of U.S. and Canadian companies, we frequently discussed the evolution of boards' composition over time and boards' self-evaluation processes.

We saw many companies implement practices and enhance disclosure related to their board skills matrices, director capacity and commitment policies, and board effectiveness assessments. We shared with companies our perspective that these changes and their related disclosures give shareholders greater visibility into board operations and a better understanding of how boards fulfill their oversight role.

Across the Americas, independence was a primary factor in instances where the funds did not support a director's election. When we observe a lack of sufficient board independence and/or have concerns related to key committee independence, the funds may not support the election of certain directors.

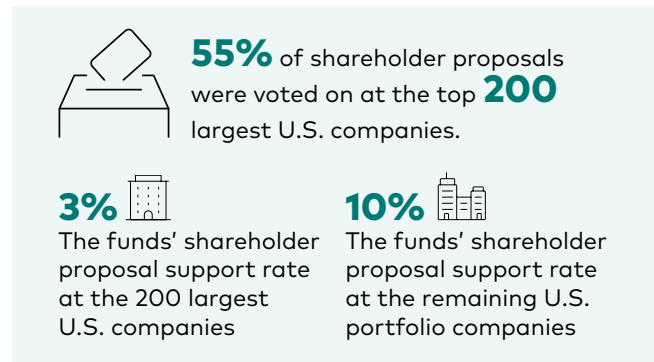
In addition, in the U.S. and Canada, the funds did not support compensation committee members in instances where issuers had not appropriately responded to significant concerns with executive compensation expressed through the prior year's Say on Pay vote. While we have seen U.S. and Canadian company disclosures on board composition improve in recent years, we observed continued opportunities for Latin American companies to enhance timely disclosure of director nominees and their backgrounds, especially with regard to independence. The funds voted against a number of directors in Latin American markets for this reason.

Board oversight of strategy and risk

At U.S. public companies, the number of shareholder proposals related to environmental and social matters rose by approximately 21% in 2023. This increase continued a trend attributable, in part, to changes the Securities and Exchange Commission made in 2022 to guidance regarding issuers' ability to exclude proposals from their ballots.⁶ As part of our process for evaluating shareholder proposals, we discussed with company directors how their respective boards undertake prioritization exercises to identify, define, and mitigate material risks to their companies, in areas such as cybersecurity, operations, human capital management, and the post-pandemic supply chain.

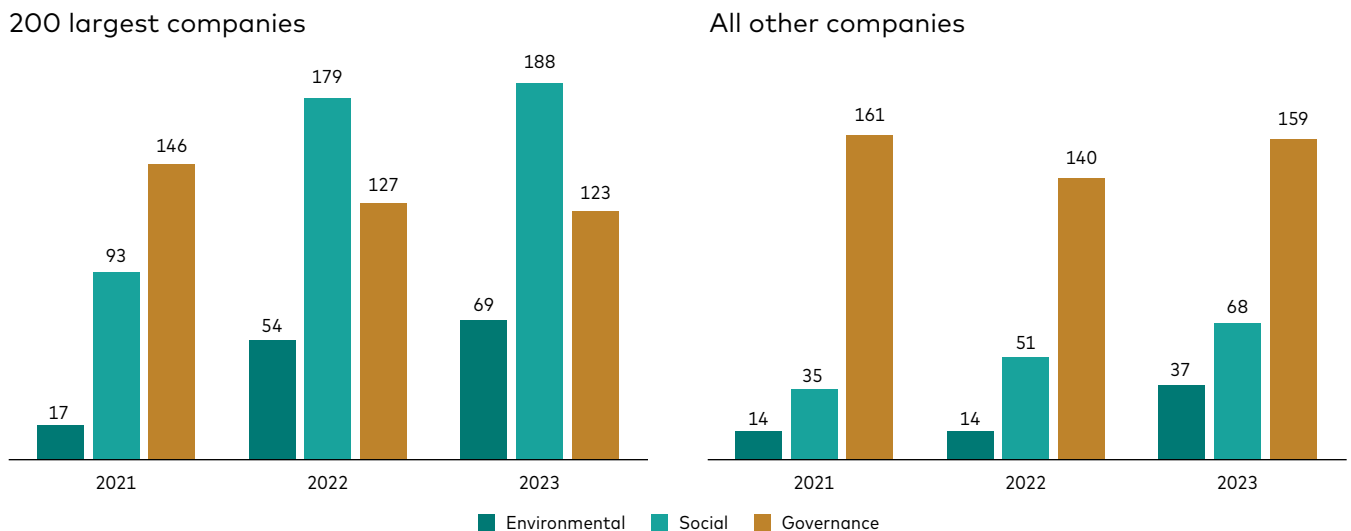
We observed that shareholder proposals are primarily submitted at the largest U.S. issuers, which generally have more developed governance

practices and greater resources dedicated to relevant disclosure than smaller issuers. Through our case-by-case analysis of each shareholder proposal, we observed, in many instances, evidence of appropriate risk oversight, board governance, and disclosures, which frequently led to the funds voting against the shareholder proposal in question.



U.S. shareholder proposals, by year

The number of shareholder proposals has risen, particularly at the largest U.S. companies



Notes: These charts illustrate the number of shareholder proposals voted on at U.S. portfolio companies in the Vanguard-advised funds over the last three years. The chart on the left depicts proposals voted on at the largest 200 U.S. companies by market capitalization and the chart on the right depicts the remaining U.S. companies in the Vanguard-advised funds' portfolios.

⁶ See www.sec.gov/corpfin/staff-legal-bulletin-14l-shareholder-proposals.

Executive pay (compensation)

We continued to observe the use of one-time awards by certain U.S. companies as a part of their compensation programs. This practice increased during the COVID-19 pandemic and has remained above pre-pandemic levels, even as the business environment has stabilized for many issuers. In many of our engagements related to this practice, directors cited retention concerns and recruitment challenges as their rationale.

The funds supported over 96% of advisory votes on executive compensation (Say on Pay) in the U.S. and Canada, primarily due to companies' ability to clearly articulate, through disclosure and/or engagement, the need for such awards, as well as the expected alignment of the awards with the long-term performance of the company.

Shareholder rights

We observed that many U.S. companies, in response to legal and regulatory changes, unilaterally amended company bylaw provisions to limit executives' liability, require specific jurisdictions for litigation, and/or adopt advance notice provisions impacting shareholders' ability to bring proposals and director nominations to votes at company meetings of shareholders. In these cases, we reviewed the impact these changes had on shareholder rights and engaged with companies to understand their rationale for adopting the provisions. In instances where we determined that the provisions were unduly onerous and/or otherwise alienated shareholder rights, the funds voted against relevant members of the board's governance committee to express concern.

Europe, Middle East, and Africa

In 2023, we observed that boards in Europe, the Middle East, and Africa (EMEA) had to navigate competing tensions, including ongoing inflationary pressure contributing to a cost-of-living crisis, continued geopolitical risk spurring energy market volatility, and increased mobility of employees up to the C-suite level, thus feeding an escalating battle for talent. Through our conversations with company leaders, we explored board oversight of these risks and challenges, and we shared the importance of governance practices that safeguard and promote long-term returns for company shareholders. Overall, we engaged with 273 companies across the region on a range of governance and risk oversight topics, and the funds voted on over 42,000 proposals at nearly 2,300 portfolio companies in the region.

We also continued to engage with a range of market participants to understand evolving corporate governance practices in different regional markets and to share our perspectives. In 2023, we attended governance-related events in person across the U.K., Ireland, Italy, Switzerland, and the Netherlands, and we shared our perspectives on key governance matters at several governance events and webinars. We also closely monitored regulatory developments affecting portfolio companies held in the Vanguard-advised funds and commented on key consultations seeking investor input on these matters, including a consultation on proposed revisions to the UK Corporate Governance Code.

Board composition and effectiveness

Director elections remained the most common voting proposal across EMEA in 2023 (accounting for 26% of total proposals voted on by the funds in the region). The funds supported a large majority of the uncontested director nominees. In aggregate, the funds had slightly higher levels of support for director nominees in the U.K. than in Continental Europe, the Middle East, and Africa, reflecting generally greater levels of board independence among U.K.-based companies.

In our engagements with company leaders across EMEA, we found many boards focused on director and CEO succession planning. Many were taking steps to align with local regulatory and market standards regarding board gender and/or ethnic diversity targets.⁷ We also saw boards enhancing their disclosure of board skills and self-evaluations. We shared our perspectives on the types of disclosures we find useful in understanding board composition, evolution, and effectiveness, including our observations on disclosures related to director recruitment processes, director pipelines, and board skills matrices. Additionally, we discussed with many boards the skill sets that we believe are most relevant to emerging risks and opportunities related to technology and sustainability.

⁷ The U.K. Listing Rules were amended in 2022 to require that company boards comprise at least 40% women and one director from an ethnic minority background, or explain why they do not meet this standard. In the E.U., a directive adopted in 2022 will require all boards of large listed companies to have at least 40% of non-executive director posts go to the under-represented sex. Several E.U. member states already adopted binding gender quotas for boards prior to this directive.

Board oversight of strategy and risk

We continued to engage with companies across EMEA to understand their approaches to evolving risks and challenges to their strategies, including geopolitical tensions, energy-market volatility, and increasing sustainability-related disclosure requirements.

Companies in the region continued to evolve their reporting on sustainability topics in line with increased regulatory requirements, such as new requirements for publicly listed U.K. companies to report in line with the recommendations of the Task Force on Climate-related Financial Disclosures (TCFD). We learned that companies were frequently challenged by new reporting requirements, including the E.U.'s Corporate Sustainability Reporting Directive, given the lack of historical data or clear accounting and assurance frameworks for sustainability-related data. We shared our perspective that companies should continue to disclose materiality assessments of risks and opportunities relevant to company long-term shareholder returns.

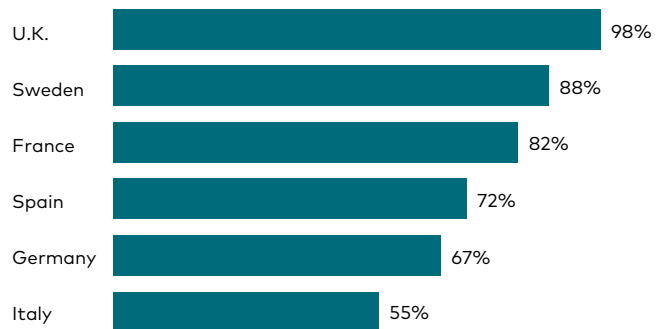
Despite increasing regulatory focus on climate-related topics in the U.K. and Europe, we observed a decrease in the number of proposals related to climate and environmental matters; this decrease was primarily driven by a reduction in management-proposed Say on Climate proposals (24 in 2023, compared with 38 in 2022). We continued to engage with companies that chose to seek shareholder input on climate transition plans to inform our case-by-case assessment of those proposals. Ultimately, we sought to understand if and how companies' evolving climate disclosures provide meaningful information to shareholders for their assessment of material climate-related risks and opportunities. We observed very few proposals from shareholders regarding environmental or social topics (22 shareholder proposals in 2023). Regardless of proposal volumes, we continue to engage with companies about boards' oversight

of sustainability-related risks. This is a part of our due diligence when engaging with portfolio companies on material risks to long-term shareholder value creation.

Executive pay (remuneration)

Executive pay remained the most commonly contested voting topic in the U.K. and Europe, as demonstrated by lower levels of shareholder support relative to other common proposals. While the funds supported most management-sponsored proposals related to executive remuneration, the funds' level of support varied notably by market. In Italy, for example, the Vanguard-advised funds supported only 55% of remuneration proposals, which reflected poor company disclosure of performance metrics and targets and/or plan structures that did not demonstrate strong alignment between pay and performance outcomes. On the other hand, in the U.K., the Vanguard-advised funds supported a much higher percentage (98%) of remuneration-related proposals because of generally robust disclosure and typically strong pay and performance alignment in pay structures.

Executive pay support levels vary greatly in the U.K. and Europe



Note: This chart illustrates the total percentage of executive pay-related proposals supported by the Vanguard-advised funds in the U.K. and Europe in 2023.

In many of our engagements, we discussed how boards were balancing different regional expectations regarding pay quantum (the total magnitude of pay), how and why ESG metrics were being incorporated into incentive plans, and best practices for disclosure that demonstrate alignment of pay and performance outcomes. For companies operating in multiple jurisdictions with different norms regarding executive pay, we shared our perspective that boards should prioritize the creation of long-term returns for company shareholders in their decision-making processes and provide reasonable disclosure of how the board benchmarks executive pay in the context of the company's areas of operations and talent pools. In response to the large number of companies seeking shareholder views on whether or how to incorporate ESG metrics in incentive plans, we published an *Insights* clarifying our observations of best practices for aligning metrics (including nonfinancial metrics) with the creation of long-term shareholder returns for company investors.

Shareholder rights

Multiple share-class structures are increasingly a topic of focus in the U.K. and Europe, given regulatory proposals to facilitate multiple share classes. We submitted comment letters to the U.K.'s Financial Conduct Authority and the European Commission on separate consultations involving proposals to increase multiple share classes.

Our comment letters highlighted our view on the need to balance incentivizing new listings and safeguarding long-term shareholder rights. We will continue to share our perspectives on this topic as we monitor the outcomes of these regulatory proposals. Additionally, in markets such as Sweden, Italy, and the Netherlands, where multiple share-class structures are already in place, we will continue to engage with company boards on this topic.

In 2023, many Asian companies were focused on navigating an inflationary environment, developing inroads in new markets, and managing geopolitical risk. Through our engagement and voting activities across the region, we explored how boards were overseeing these risks in addition to other corporate governance matters, such as board composition and effectiveness. We engaged with 85 companies across the region, including companies in India, Taiwan, China, Hong Kong, Malaysia, South Korea, and Japan. The funds voted on over 91,000 proposals at over 6,000 portfolio companies in the region.

Board composition and effectiveness

Our engagements in this region largely focused on board composition and effectiveness, particularly on questions regarding board independence, because many companies in the region have few independent directors. While the rationale for this varies across company, sector, and country, capital and ownership structures are typically factors that contribute to lower levels of board independence throughout the region. Many Asian companies are fully or partially state-owned or are founder- or family-led. In our engagements, we sought to better understand boards' processes for appointing independent directors, how boards evaluate the independence of directors, which skills they look for in prospective board members, and how boards enable independent directors to provide an outside perspective on boards that are majority non-independent.

In 2023, we revised the Vanguard-advised funds' Japan voting policy to align with the principles of the Japanese Corporate Governance Code, which effectively increased the level of independence

that the funds look for on Japanese boards. As a result, we engaged with a number of Japanese company leaders ahead of Japan's proxy voting season to discuss how boards evaluate director independence. The funds voted against 565 director nominees at Japanese companies in 2023 due to independence concerns; we observed, in those cases, that directors had relationships with the companies that could compromise their independence. We will continue to encourage Japanese companies to increase their level of board independence in line with the principles outlined in the governance code.

As a member of the Asian Corporate Governance Association (ACGA), we participated in its Japan and Korea Working Groups in 2023. In May 2023, we took part in a call with the Japanese Financial Services Agency (FSA) that was organized by the ACGA in order to discuss the FSA's *Action Program for Accelerating Corporate Governance Reform: From Form to Substance* opinion statement.⁸ We provided our perspective on board composition and effectiveness in Japan and suggested that more Japanese companies offer shareholders the chance to engage with independent directors.

Board oversight of strategy and risk

We continued to engage with Asian companies on material risks, in light of the continued economic volatility in the region and the need to navigate geopolitical tensions. Company leaders were also keen to explain their approach to managing environmental and social risks; they continue to adapt their reporting to meet new requirements throughout the region and provide investors with decision-useful disclosures on how they are mitigating such risks.

⁸ See <https://www.fsa.go.jp/en/news/2023/20230426.html>.

Shareholder rights

In addition to engagements on board independence, we also sought engagement opportunities with independent board directors, rather than management, in order to discuss shareholder rights. In our experience, if engagement is offered with an Asian company, it is often with a company executive. While these engagements can be helpful for understanding the strategy of the business and its execution, we value discussions with independent directors to understand how the board is involved in the oversight of strategy and risk and the effectiveness of a company's corporate governance structures and processes.

Corporate governance standards and shareholder engagement practices vary widely across Asian markets (including Japan, China, Hong Kong, South Korea, India, and Taiwan), similar to what we observe in other emerging

markets that also feature less mature corporate governance practices, government-controlled companies, and other characteristics. Governance-focused organizations such as the Asian Corporate Governance Association continue to encourage broader adoption of developed-market corporate governance practices associated with long-term shareholder returns, and we support those types of efforts.

In July 2023, we responded to a consultation from the Tokyo Stock Exchange about English disclosure by Japanese companies. We shared our perspective that we find that English disclosure often lags Japanese disclosure and does not always provide all of the information that is available in the Japanese disclosure. We continue to encourage Japanese companies to provide timely English disclosure to ensure that all investors have access to comparable information.

Australia and New Zealand

In 2023, Australia- and New Zealand-domiciled companies were affected by higher interest rates, rising inflation, and extreme weather that damaged infrastructure across the region. Cost-of-living pressures dampened spending in some sectors, while other sectors—such as tourism—continued to show recovery from pandemic-era difficulties. We engaged with 98 companies across the region, and the funds voted on over 2,100 proposals at approximately 360 portfolio companies in the region.

Board composition and effectiveness

We discussed board composition and effectiveness in the majority of our engagements. In cases where the Vanguard-advised funds did not support director reelections at Australia- and New Zealand-domiciled company annual meetings in 2023, it was primarily a result of the lack of board and/or key committee independence or a lack of gender diversity on the company's board in alignment with the guidelines introduced in the Australia Securities Exchange (ASX) Corporate Governance Principles and Recommendations.⁹ Generally, we have observed that many Australian-domiciled companies have added gender diversity to their boards. We will continue to have constructive conversations with companies on this topic.

Board oversight of strategy and risk

We observed a greater focus on environmental topics across the Australian market following the election of a Labour government toward the end of 2022. For example, in 2023, we saw the government introduce mandated climate reporting, which will begin as early as July 2024. This new requirement marks one of the biggest

changes to corporate reporting in Australia in recent years and is expected to present challenges to companies as they shift toward more regulated reporting. As a result of these impending changes, we have observed an increase in outreach from portfolio companies to discuss a range of sustainability-related topics and how those risks are identified and mitigated by their boards. With respect to sustainability-related reporting, we look for companies to provide consistent, comparable, and decision-useful disclosure on material sustainability-related risks to enable effective securities pricing. While we are not prescriptive on the reporting frameworks used by companies, we view the move to more consistent and standardized reporting as a positive step for investors.

Social matters remain a topic of discussion in our engagements with Australian company leaders. Indigenous rights and cultural heritage remained front of mind for many Australian companies and their leaders following the 2023 Indigenous Voice Referendum. We continued to engage with companies to understand how Australian boards identify and oversee material social risks across their businesses, how they foster and maintain an inclusive culture, and how they ensure that their company will retain their social license to operate within the Indigenous communities.

Other proposed legislation around equal pay may create some challenges for companies to contend with as they assess their hiring practices and operating costs. As the legislative consultation progresses, we will continue to engage with company leaders to understand how they are assessing these regulatory risks to their business and how these risks are being managed.

⁹ See www.asx.com.au/documents/asx-compliance/cgc-principles-and-recommendations-fourth-edn.pdf.

Executive pay (remuneration)

As in previous years, our engagements with company executives and directors remained focused on executive remuneration. Executive remuneration was a prominent topic both during the proxy season, when most engagements are vote-related, and when companies reviewed and reassessed their executive remuneration plans. Amendments to plan structures and metrics were largely driven by regulations such as Prudential Standard CPS 511 and the market desire to include more ESG-related metrics.¹⁰ In general, the level of disclosure within remuneration reports is mixed across the Australian market; lack of disclosure has made it difficult for shareholders to assess the robustness and appropriateness of remuneration plans. This lack of disclosure is often exacerbated when companies use ad hoc or retention awards for executives, which have persisted in the

Australian market. These types of awards were used following the COVID-19 pandemic to retain key personnel in challenging market conditions. We heard from company directors that, as COVID-19-related challenges eased, a tight labor market and increased globalization brought new challenges in attracting talent to Australian companies, requiring more significant incentives. Remuneration issues also brought to light concerns regarding executive- and board-level succession planning. A number of companies that we engaged with were unable to identify or attract suitable successors and thus used ad hoc awards to retain key executives beyond their planned retirement dates. We continue to engage with company leaders on these important topics to share our perspectives on the importance of plan disclosure and other related corporate governance matters.

¹⁰ The objective of Prudential Standard CPS 511 is to ensure that Australian Prudential Regulation Authority (APRA)-regulated entities maintain remuneration arrangements that appropriately incentivize individuals to prudently manage the risks they are responsible for, and that there are appropriate consequences for poor risk outcomes.

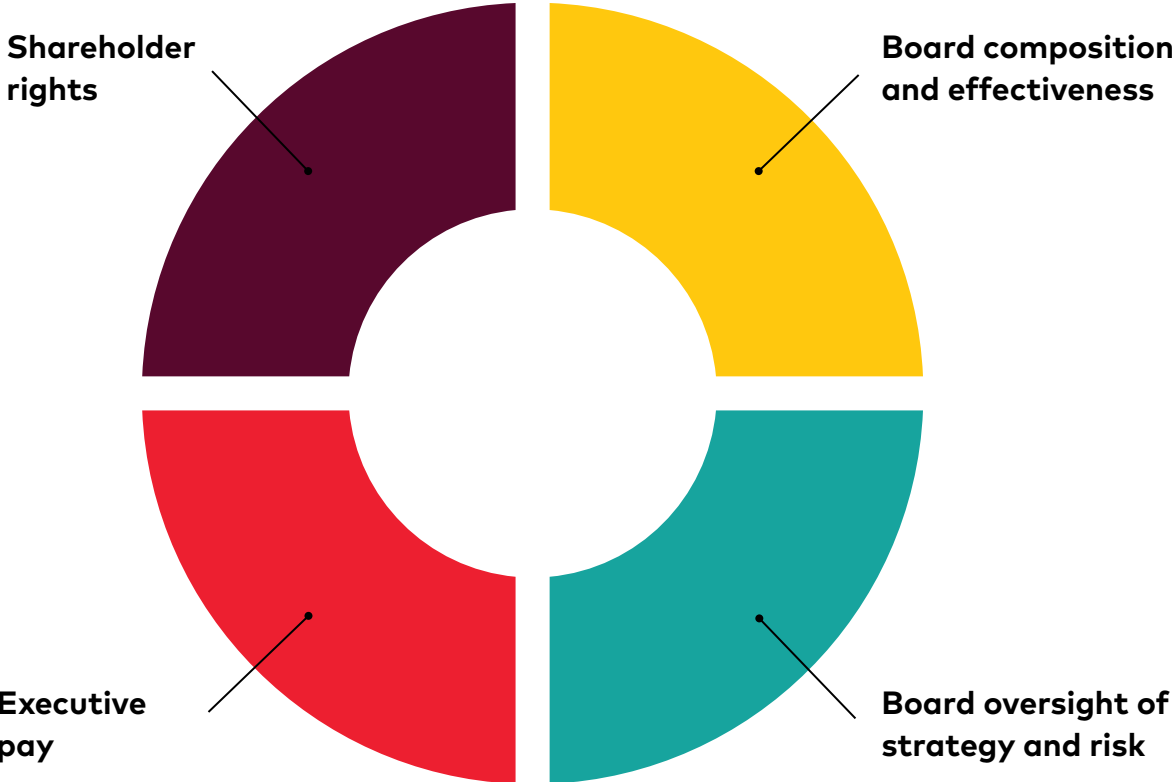
Case studies and insights

The case studies that follow are representative of the 1,659 engagements we conducted in 2023.

These discussions informed our voting on a wide range of proposals from both management and shareholders, allowed us to gain insight into how portfolio companies are governed, and gave us the opportunity to share our perspectives on corporate governance policies and practices that can drive long-term returns for investors in the Vanguard-advised funds.

We strive to provide timely disclosure of the activities conducted by our Investment

Stewardship team to Vanguard-advised fund investors, portfolio companies, and other stakeholders. Over the past year, we published numerous Investment Stewardship *Insights* to share our perspectives on important governance topics and the rationale behind certain notable and/or contentious proxy votes. In addition to our *Insights*, we provided quarterly reports detailing our engagement activity and rationale for key votes. Excerpts from previously published *Insights* are included throughout the report. Investment Stewardship *Insights* and other reports are available on Vanguard's corporate website.





Board composition and effectiveness

Good governance begins with a company's board of directors. Our primary focus is on understanding to what extent the individuals who serve as board members are appropriately independent, capable, and experienced.

■ Director vote at Carriage Services Inc.

Prior to its 2023 annual meeting, **Carriage Services Inc. (Carriage Services)**, a provider of funeral and cemetery services and merchandise in the U.S., faced shareholder scrutiny regarding a director who continued to serve on the board despite failing to receive majority shareholder support at the 2022 annual meeting (commonly referred to as a "zombie director"). The funds may consider withholding support from the full Nominating Committee if the board proposes the reappointment of a director who failed to receive majority shareholder support and if, in that case, the board has not resolved the underlying issue driving the lack of shareholder support.

In advance of Carriage Services' 2023 annual meeting, we reached out to the company to discuss the board's oversight of director elections and appointments and share our perspective on zombie director situations. During our engagement, company leaders informed us that the board was in the initial stages of a refreshment process and had plans to appoint new directors to the board in the near future. In light of the board's commitment to a forthcoming board refreshment process and the planned appointment of new directors, the funds voted in line with the board's recommendations on all ballot items, including the reelection of all Nominating Committee members.

■ Board and director independence in Japan

Board independence was a topic of focus in our discussions with Japanese companies in 2023. Boards in Japan have, historically, been composed of executive directors, also known in the Japanese market as "inside directors." In recent years, companies have increased the number of non-executive directors, known as "outside directors," on boards. Outside directors do not make up a majority of the board at most Japanese companies, and these directors are sometimes affiliated with the company in ways that could impact their independence.

Sumitomo Realty & Development Co. Ltd.

(Sumitomo Realty) is a Japanese real estate company that operates through leasing, sales, construction, and brokerages. At the company's 2023 annual meeting, the Vanguard-advised funds did not support the election of Sumitomo's chairman or president because of a lack of board independence. In our assessment, we observed that the board's composition fell below the funds' general threshold for board independence (one-third), because an outside director was acting as an honorary advisor of Sumitomo Metal Mining Co., a company with which Sumitomo Realty maintains a cross-shareholding relationship.¹¹

¹¹ In Japan, listed companies often own shares in other listed companies that they do business with and vice versa; this relationship is known as cross-shareholding.

However, at the same annual meeting, the funds supported the election of another director on the statutory audit board despite that director's relationship with the company as a former employee. Prior to the annual meeting, we engaged with executives at Sumitomo Realty and learned that the director had worked at the company more than 20 years earlier in a nonstrategic-decision-making capacity. Although we generally do not contemplate a "cooling off" period for former employees given employees' long tenures in the Japanese market, the additional context provided by the company during our engagement gave us confidence that the director's former role at the company would not compromise her ability to meaningfully contribute as an independent member of the statutory audit board.

Kyoto Financial Group Inc. (Kyoto Financial Group) is a Japanese company involved in the management and administration of banks. At the company's 2023 annual meeting, Vanguard's Investment Stewardship team evaluated a vote against two directors in response to a lack of board independence. In this case, the board composition fell below the funds' general threshold for board independence (one-third) due to the presence of an outside director who had a material business relationship with the company. The director had previously held an executive position at Nippon Telegraph & Telephone (NTT) Data Corp.—which Kyoto Financial Group identified as a related business operator—and still served as representative director and president of affiliates of NTT Data Corp. During our engagement with company executives prior to the 2023 annual meeting, we learned that transactions between the two companies amounted to less than 1% of the bank's consolidated gross business profit for the last fiscal year, though it was difficult to ascertain the materiality of the business transactions due to incomplete disclosures on the matter. We shared feedback with company leaders that although we do not define a quantitative threshold on materiality, we do look for clear disclosures that can help us determine whether a business relationship might impact a

director's independence. Based on the outcome of our independent evaluation, the funds voted against two directors due to a lack of board independence.

■ **Director skills matrix at Southern Co.**

Public company boards face many challenges as they seek to evolve to meet changing governance needs. In response to these challenges, we look for boards to provide clear disclosures on board composition, including director skills and demographic characteristics. In doing so, we look for boards to articulate their composition strategy, including how such composition reflects the experience, skills, backgrounds, and personal characteristics (including gender, race, and ethnicity) that will enable the board to safeguard and promote long-term shareholder returns.

A director skills matrix that includes this information is a helpful evaluation tool for shareholders that many boards now disclose. The use of a matrix format to report director skills and diversity information allows investors to easily interpret key details about individual directors and the board in aggregate. In addition to providing disclosure on director attributes, a skills matrix gives shareholders a broader view of how these attributes fit together, thereby enabling shareholders to assess what skills each individual director nominee brings to board service with the company's evolving business strategy and risks in mind.

Over the past few years, members of Vanguard's Investment Stewardship team have engaged with directors and executives at **Southern Co.**, a U.S. gas and electric utility company, on various topics, including board composition and effectiveness. In our conversations, we frequently discussed how the board considers its composition and its approach to board refreshment. The company's proxy statement included a detailed skills matrix that helped inform these conversations. Notably, the company's director skills matrix included demographic information such as tenure, age, gender, race, and ethnicity. These details

have added helpful context to discussions of board refreshment and ongoing director and board leadership succession planning.

While information on some skills matrices is presented on an aggregate basis, we believe disclosure of director attributes on an individual basis provides investors with more useful information. We believe it is appropriate for boards to consider which skills to include when preparing a skills matrix. They should also ensure that the appropriate level of skills assessment has been undertaken to avoid scenarios in which each director “checks all of the boxes” but has not actually undergone a useful level of assessment. We believe that boards should identify the key skills, backgrounds, and experiences necessary to oversee current and future strategies and risks when conducting director assessments. They should also assess the diversity of skills, contributions, and attributes of current directors. Such exercises can allow boards to identify gaps in skills, backgrounds, and experiences in order to shape future director searches and make better-informed decisions when nominating or renominating directors.

■ Our perspective on director attendance

The Vanguard-advised funds believe that directors should attend meetings of the boards and their respective committees to ensure that they are fully informed and engaged in the decision-making process. As a matter of policy, the funds will generally withhold support from directors who attend fewer than 75% of aggregate board and committee meetings unless an acceptable extenuating circumstance is disclosed. In 2023, we engaged with directors and leaders from multiple portfolio companies on director attendance. Each example highlighted below emphasizes the importance of accurate disclosures, proactive company outreach, and a case-by-case analysis for all votes.

Thoughtworks Holding Inc. (Thoughtworks), a U.S. technology consulting company, disclosed that an incumbent director had failed to attend

at least 75% of board and committee meetings without a specific reason for the absences. We reached out to company leaders via email to inquire whether there was any additional information regarding the director’s absences.

Thoughtworks leaders responded and did not provide any additional context regarding the absences. In the absence of any further context, in line with the funds’ proxy voting policy regarding director attendance, the funds did not support the director’s reelection due to insufficient attendance.

Surrozen Inc., a U.S. clinical stage biotechnology company, disclosed that each incumbent director had attended at least 70% of required meetings in the prior fiscal year. Because we were unable to assess if all directors had attended more or fewer than 75% of aggregate meetings, we engaged with company leaders to clarify the disclosures. Through the engagement, company leaders confirmed that the disclosures contained an error and that all directors had, in fact, attended at least 75% of the meetings. With the additional information, the funds supported the nomination of all directors on the ballot.

Dominari Holdings Inc. is a U.S. holding company that, through its various subsidiaries, is engaged in financial services, biotechnology, and pharmaceutical research and development. The company disclosed that each of the incumbent directors attended at least 75% of the board and committee meetings, except for a single director who had attended fewer than 75% of the Compensation Committee meetings. We engaged with company leaders to confirm the attendance record of the director and determine if there were any extenuating circumstances that prevented their attendance. Company leaders were able to disclose that the director did not attend specific Compensation Committee meetings in order to mitigate conflicts of interest; the director attended all other Compensation Committee meetings. With the added disclosure, the funds supported the election of this director.

■ Continued engagement with Shell plc

In 2023, we engaged twice with the chair of the board at **Shell plc (Shell)**, a British multinational energy company. We have held regular meetings with Shell leaders for many years. These engagements focused on topics ranging from executive remuneration to the board's oversight of climate-related risks. Our most recent engagement focused on board composition and effectiveness. Our objective during this meeting was to obtain a deeper understanding of the board's structures and processes for assessing its own performance.

The chair shared that there had been adjustments made to the board's meeting schedule and a simplification of the board's agenda, which allowed directors to focus their attention on key strategy and risk topics. The chair expressed that the simplified agenda enabled a more effective use of the board's committees, which helped to ensure that all relevant topics were being considered in an efficient manner, with the most significant issues discussed by the full board. For example, on environmental and social risks, Shell's Safety, Environment and Sustainability Committee discusses topics including nature-related risks, biodiversity, social matters, and human rights; however, all climate-related matters rest with the entire board. The chair further explained how the board ranks and considers the company's most significant material risks.

In our engagements, we explored how the board endeavors to balance its dual oversight and advisory responsibilities. The chair emphasized the importance of balance and shared that while it is crucial for directors to be appropriately informed on Shell's strategy to enable them to effectively challenge management, the board's view is that it should not be seeking to manage the business or infringe on the role of company executives through micromanagement. The chair explained that this balance extends beyond role definition; it is also a question of capacity, as a board directors' responsibilities are complex and time-consuming. He relayed that, through a continuous process of filtering, the Shell board

focuses the attention of directors on areas where they are able to provide insight, drawing on their core competencies and specialist experience. On this final point, we also discussed the board's current skills and director succession planning.

Through our engagements, we gained a stronger appreciation for the chair's approach to managing the board's processes and workload, as well as the logic underpinning the board's approach regarding these matters. The chair communicated clear lines of responsibility that appropriately reflect the relationship between the board and management. Moreover, the board's focus on process efficiency and continuous improvement demonstrated a level of sophistication that we look for at companies of Shell's size and maturity. We plan to continue to engage with Shell leaders to maintain and enhance our understanding of the board's governance processes and approach.

■ Director commitments at Compass Inc.

In 2023, members of Vanguard's Investment Stewardship team engaged with company leaders at **Compass Inc. (Compass)**, a provider of real estate brokerage services in the U.S., to discuss director commitments and capacity. During our engagement with Compass leaders, we raised concerns about a Compass director who served on five public company boards; the Vanguard-advised funds' proxy voting policy on director capacity (also known as "overboarding") states that the funds generally vote against non-executive directors who sit on more than four public company boards. When assessing director commitments, we look for companies to ensure that directors have sufficient capacity to effectively represent shareholders' interests in the boardroom. We encourage portfolio companies to adopt and disclose a director capacity policy of their own and disclose information about the board's implementation and oversight of that policy.

We reached out to Compass leaders to gain additional information on their approach to director commitments; in that engagement, they confirmed that the director served on five

public company boards and did not provide any additional context for the board's oversight of director capacity. As a result, the funds withheld support from the election of the director at the 2023 annual meeting.

■ **Director commitment disclosure at Burberry Group plc**

Over the past several years, members of Vanguard's Investment Stewardship team have engaged with board directors and company executives of **Burberry Group plc (Burberry)**, a U.K.-listed British luxury brand. Recent discussions have covered the board's approach to evaluating the commitments of a non-executive director who we had identified as holding a level of board seats that the funds' proxy voting policy on director capacity defines as a cause for concern.

At Burberry's 2022 annual meeting, the Vanguard-advised funds voted against the reelection of this director. This voting decision reflected the funds' European voting policy on director capacity and commitments, which states that the funds may not support a director who holds an executive role at a public company and serves on two or more additional public company boards. In addition to the directorship at Burberry, the director in question had recently taken on an executive position while staying on as non-executive director of another public company where he was formerly an executive. In an engagement with the Burberry board chair following the annual meeting, we shared our views on director capacity and commitments and encouraged the company to enhance disclosure of its evaluation of directors' capacity to fulfill their responsibilities.

For the 2023 annual meeting, we noted that the company had provided additional disclosure regarding the board's consideration of the director's commitments and potential impact on Burberry. However, we noted that the director's external commitments remained the same. An engagement with Burberry's board chair ahead of the annual meeting provided context for the director's contributions to strategy discussions and the company's evolving

sustainability agenda. The board chair also shared the director's ability to navigate his external commitments, evidenced by his perfect attendance record at board meetings.

Following our engagement, the funds supported the director's reelection. We subsequently engaged with this director for an in-depth discussion on Burberry's sustainability agenda and, given his external commitments, his capacity to contribute effectively. We plan to continue to evaluate the director's external commitments and encourage the board to continue to provide meaningful disclosure of how it evaluates the external commitments of directors.

■ **Board skills and experience at Mitsui & Co. Ltd.**

Over the past few years, we have conducted regular engagements with company leaders at **Mitsui & Co. Ltd. (Mitsui & Co.)**, a Japanese-listed global trading and investment company. In our most recent engagement with Mitsui & Co. leaders, we discussed a range of corporate governance topics that included board composition. We shared our perspective on the importance of independence and having an appropriate mix of skills, experiences, and expertise on the board to oversee company management, strategy, and material risks.

We observed that the skills matrix included in the company's disclosure provided limited, high-level information, which gave the appearance that all directors on the board possessed the same skills. When asked about the skills matrix during the engagement, Mitsui & Co. leaders were able to provide detailed and useful information on the specifics of their directors' expertise that, in our observation, were not clearly represented in the matrix. We provided this feedback to the company and explained our view on the importance of clear disclosures for shareholders, how we use the skills matrix in our research to assess overall board composition, and the matrix's role in identifying how well-suited individual directors are to supporting and overseeing the company's business strategy and material risks.

Following our engagement, company leaders informed us that the company decided to produce an enhanced skills matrix for board members. Alongside the skills matrix, a description of each board member was added to provide more information about their experience and track record. We shared our appreciation for the additional disclosure, which we believed would help all shareholders better understand the board's composition.

■ Gender diversity on Australian boards

Given market expectations, we reached out to more than 100 Australian-listed companies in 2022 to understand how their boards approached gender diversity at the board level. In 2023, we continued to engage with companies that fell short of the ASX Corporate Governance Principles' recommendation that no less than 30% of each gender be represented on boards of ASX300 companies. The funds did not support the election of certain directors at 11 ASX300 companies where we observed a lack of progress or responsiveness to market expectations related to board composition and gender diversity. Where we observed that commitments or progress toward the ASX Corporate Governance Principles' recommendation were not clear in the company's disclosures, we made efforts to engage with company leaders to inform voting decisions on behalf of the funds.

Aussie Broadband Limited (Aussie Broadband), an Australian telecommunications and technology company, was included in the initial 2022 outreach. Although the company's board lagged the ASX Corporate Governance Principles' recommended 30% threshold, the funds supported the reelection of directors in 2022 because the company had just been admitted to the ASX300 during that reporting period. Ahead of their 2023 annual meeting, we observed that the company was still not meeting the 30% target. We reached out to Aussie Broadband to try to better understand how the board was thinking about gender diversity, since it did not appear to have a formal diversity policy or any disclosed, measurable, or time-bound targets. We did not

receive a response from the company, and given the lack of additional information, the funds did not support the reelection of the Nomination Committee chair, who we assessed held responsibility for the composition of the board.

We engaged with representatives from **Silex Systems Ltd. (Silex)**, an Australian-listed technology commercialization company, for the first time in 2023. We discussed the composition of their board, including gender diversity, which fell short of the ASX Corporate Governance Principles' recommendation. We met with the chair of the board and the company's CFO. They expressed that given the size of the board—which in their view was appropriate based on the current size and phase of the business—it would not be an appropriate use of shareholder funds to expand the board solely to comply with the 30% target. In addition, Silex had just been readmitted to the ASX300 earlier in 2023, and Silex leaders shared that they had a number of women candidates in their CEO succession planning process. The CEO sits on the board as an executive director, so the appointment of any of these candidates would add to the balance of gender diversity on the board. Based on this additional information, the funds supported the director up for election, despite the company's not being in line with ASX-recommended practice at the time.

At **Austal Limited (Austal)**, an Australian global shipbuilder and defense contractor, the funds supported the reelection of the board chair despite the company's board falling below the ASX Corporate Governance Principles' 30% threshold. When evaluating Austal's board composition, we referred to its disclosures to inform the funds' decision. The company had a time-bound commitment to a board comprising at least 30% women, which was disclosed in its Corporate Governance Statement. We noted that Austal revised and extended its previous board diversity target, which had been set for June 2023. We appreciated the disclosure and insight into the board's process that was provided to shareholders.

■ Director independence at Chemung Financial Corp.

At the 2023 annual meeting for **Chemung Financial Corp. (Chemung)**, a U.S. holding company that provides banking, financing, fiduciary, and other financial services, the Vanguard-advised funds did not support the reelection of Chemung's former CEO as a director due to concerns about director independence.

Generally, we look for key board committees (such as the audit, compensation, and nominating and governance committees) of noncontrolled U.S. companies to maintain 100% independent membership in adherence with the relevant exchange listing standards. While the U.S. exchange listing standards consider former CEOs to be independent after a sufficient "cooling off" period, we generally consider former CEOs nonindependent given our view that their business connection and tenure could compromise their independent judgment when carrying out directorship responsibilities. Thus, in accordance with the funds' proxy voting policy, we determined that the Compensation Committee was not composed of 100% independent directors, because the company's former CEO served on this key committee. Given the board's classified structure, the funds voted against the only Nominating and Governance Committee member up for a vote.

■ CEO succession planning at AutoZone Inc.

Vanguard's Investment Stewardship team has regularly engaged over the last few years with company leaders at **AutoZone Inc. (AutoZone)**, an American retailer specializing in automotive parts and accessories. Our engagements have covered a number of topics, including board composition, oversight of material risks, and executive compensation.

In a recent engagement, we spoke with the company's outgoing CEO regarding the company's CEO succession planning strategy. AutoZone leaders outlined their succession planning process, which was initiated by the board in 2017 after the current CEO communicated his desire to step down by 2021. The directors began the process by defining the desired attributes for successor candidates and assessed internal candidates against those criteria. The board determined that, given the quality of internal talent, an external search for a potential successor was not necessary. A CEO Succession Committee was established, and a member of the Compensation Committee with experience in succession planning was designated as the chair. The chairs of the other board committees were also included as members of the CEO Succession Committee. Company leaders shared that each CEO candidate spent several days with a board member, underwent several reviews, and received executive coaching. During this evaluation process, the candidates made formal presentations to the full board; the outgoing CEO attended only portions of the presentations in order to allow for private interactions with the directors. After deliberation, the board announced the selection of the incoming CEO in June 2023.

During our engagement, we also inquired about succession planning at the board level, because two directors had been added to the board during the first quarter of 2022. Company leaders explained that, when seeking new director candidates, the board utilized personal and professional networks in addition to external search firms. AutoZone leaders emphasized that when evaluating board composition and succession planning, the company begins the process by prioritizing any needs identified by the board skills matrix, which had been revised to be more transparent to shareholders. Notably, six directors had CEO experience, which provided the board with deep expertise in governance and enterprise strategy.

Our engagement granted us valuable insights into the company's approach to succession planning at both the management and board levels. We look forward to discussing the board's perspectives on its composition and evolution in future engagements.

■ **"Vote No" campaign at Cano Health Inc.**

Cano Health Inc. (Cano), a U.S. health care delivery and population health management platform company, was the target of a "Vote No" campaign (a campaign seeking votes against certain directors without alternative nominees) that was organized by a group of three former directors. The former directors urged shareholders to withhold support from two incumbent director nominees standing for reelection at the 2023 annual meeting. The dissident shareholders cited concerns about the board's oversight of strategy and shared that, given the company's classified board structure, the only mechanism for shareholders to voice concerns about the board and management team was to withhold votes from the two incumbent director nominees.

To conduct our independent assessment of the campaign, we engaged with members of Cano's board and management team, in addition to one of the dissidents. The dissident outlined concerns regarding the company's acquisition strategy, capital allocation, and what they described as related-party transactions. The dissident also shared historical context regarding their former board membership, the past and current ownership structure of the company, and the relationship between the two parties. After engaging with company leaders and the dissident, we assessed that the dissident's campaign was largely based on a difference of opinion with regard to strategy and that the incumbent board was appropriately overseeing company strategy. The Vanguard-advised funds do not seek to dictate portfolio company strategy; rather, we focus on evaluating how boards carry out their duties to shareholders, which include oversight of company strategy. In

our analysis, the incumbent director candidates appeared to have appropriate experience and qualifications to continue to oversee the company strategy. Further, given the recency of Cano's initial public offering (June 2021), we were not able to identify a material economic and strategic case for change.

The funds ultimately supported the board's nominated directors at the 2023 annual meeting. We plan to continue to engage with Cano leaders regarding the board's oversight of strategy and other relevant governance matters.

■ **Contested slate elections in Italy**

Contested board elections at three Italian companies with significant shareholders—**Leonardo SpA (Leonardo)**, **Enel SpA (Enel)**, and **Mediobanca SpA (Mediobanca)**—were notable in 2023. The newly elected Italian government initiated a refresh of the boards of Leonardo and Enel, which included a replacement of the sitting chairs and CEOs. In response, minority shareholders at both companies put forward alternative slates. At Mediobanca, the largest shareholder proposed five directors as replacements on the 15-person board. These proposed directors were in competition with the outgoing board's proposed slate and a slate presented by Assogestioni, the Italian association of asset management companies.

At the annual meeting of Leonardo, a global aerospace and defense company that is 30% owned by the Italian government, the Vanguard-advised funds supported the board slate presented by Greenwood Investors, a dissident shareholder. At the annual meeting of Enel, a leading utility company that is 25% owned by the Italian government and is Italy's largest listed company, the funds supported the board slate presented by Assogestioni. At the 2023 annual meeting of Mediobanca, one of Italy's largest banks, the funds supported the board slate presented by the outgoing Mediobanca board in an election contested by the largest shareholder, Delfin, which owned 20% of the company's shares.

Slate elections in Italy

The Vanguard-advised funds vote on a case-by-case basis on all proposals related to the election of director slates in Italy. In assessing what is in the best interest of long-term shareholder returns, we consider the strategic case for change, the company's approach to governance, and the quality of director nominees.

The majority of Italian public companies are controlled, meaning that a significant portion of the company's share capital is held by founders, a group of investors under a shareholder agreement, or government-related entities. As a result of these ownership structures, a distinct corporate governance practice in Italy is slate voting, a system under which shareholders with a given minimum stake in a company can nominate a slate of candidates for the company's board of directors. This practice is designed to protect minority shareholders' interests, as it provides minority shareholders with a mechanism to increase independent oversight on the board. Under this practice, investors must vote on a bundled slate of directors and cannot vote on directors individually. At most Italian companies, the largest shareholders typically submit a list of nominees in order to appoint the majority of board members, including the board chair and CEO. Pursuant to Italian law, at least one board seat is reserved for a director elected from a minority list that is usually presented by minority shareholders. Shareholders can vote for only one director slate, and directors are selected from the competing slates in proportion to the votes they receive. Given this mechanism and system of representation, most board elections in Italy are not contested. Occasionally, however, contested elections do occur in the market.

Vanguard's Investment Stewardship team reviewed publicly available information and engaged with the parties involved in the contested director elections at each company to gather perspectives and inform the funds' votes. For further information and detailed analysis of how the Vanguard-advised funds voted at the annual meetings of Leonardo and Enel, please see this previously published [Insights](#).

At Mediobanca, Delfin, the company's largest shareholder, submitted a slate with five director candidates in opposition to the 15 directors presented by the outgoing board. During our engagement, Delfin leaders confirmed that they were not challenging the company's recently announced strategic plan; instead, they said, they had concerns about the chair's independence due to his long tenure at Mediobanca and the company's absolute share price performance during his time as CEO and later as chair. Delfin leaders also highlighted the skills and experiences of the proposed nominees and stated that all nominees were independent of the board.

Assogestioni also presented a minority slate of three directors, who were all considered independent.

In our discussion with Mediobanca leaders, the team articulated the comprehensive, formal process that was undertaken with the help of external advisors to identify nominees with the ability to carry out the company's 2023–2026 strategic plan. The slate that was proposed by the outgoing board had a balance of incumbent and new directors; over half of the proposed nominees were new to the board and would increase the board's levels of gender diversity and independence.

Mediobanca leaders shared that they had engaged with both Delfin and Assogestioni. According to the company's bylaws, the minority slate of directors with the least votes is guaranteed one board seat as long as it is supported by at least 2% of shares. As a result, the incumbent independent director on the Assogestioni slate was guaranteed a seat on the board with the support of the slate's proponents.

Mediobanca and Delfin were not able to come to an agreement on the slate composition before the shareholder vote.

While Delfin raised some relevant questions around the succession planning process for the chair, our analysis found that there was not a compelling strategic case for change made by the dissident. Mediobanca had relatively strong performance over the last few years, and its new three-year strategic plan was not contested. Moreover, it appeared that the board was well-composed to oversee Mediobanca's long-term strategy. The company had made various corporate governance improvements that included increased levels of independence, diversity, and shareholder representation on the board, in addition to the appointment of a lead independent director. The nominees proposed by the outgoing board had strong competencies in the banking sector, economics, law, and risk management.

Considering the historically relatively low levels of turnout at annual meetings in the Italian market, the likelihood of Delfin securing at least two board seats, and a guaranteed seat for a director from Assogestioni's slate, the funds ultimately supported the slate proposed by Mediobanca's outgoing board.

The director slate submitted by Mediobanca received 52.6% support from shares represented in the meeting, the director slate presented by Delfin received 41.7% support, and Assogestioni's director slate received 4.6% support. Of the 12 directors appointed by the board, two were Delfin-nominated directors and one was the independent incumbent director appointed by Assogestioni. We plan to continue engaging with Mediobanca on governance matters, including the succession planning process for the chair and the function of the lead independent director role under the new board.

We will also continue to engage with relevant market participants to refine our understanding of the unique dynamics in the Italian market and how the funds can best promote the interests of long-term investors, given the unique slate election system.

■ **Contested election at Seven & i Holdings Co. Ltd.**

Seven & I Holdings Co. Ltd. (Seven & i), a Japanese retail group known for the convenience store chain 7-Eleven, was the target of a proxy contest. The contest was launched by ValueAct, an activist investor, to remove two executive directors and three independent directors from the board, and to add three independent directors and a shareholder representative to the board. The campaign raised concerns about Seven & i's strategic direction and highlighted corporate governance concerns related to board effectiveness. In our evaluation of proxy contests, we seek to understand the economic and strategic case for change at the target company, the quality of the company's governance, and the caliber of company and dissident board nominees. Over an 18-month period, we held multiple engagements with independent and executive directors at Seven & i, and we met with ValueAct leaders ahead of the 2023 annual meeting. The dissident outlined what they perceived to be concerns with Seven & i's current strategy, the board's lack of focus on challenging the status quo, lack of independent oversight, and lack of responsiveness to shareholder concerns.

In our review of the case for change, we did not find a compelling argument given the company's actions to execute on a 2021 strategy update and its subsequent positive performance relative to peers and the broader benchmark. During our engagements with Seven & i leaders, we observed receptiveness to shareholder feedback, which helped inform our assessment of the quality of the company's governance. The board had taken steps to improve board effectiveness, including a transition to being majority independent and the installation of a Strategy Committee. This committee is composed of independent directors tasked with objectively reviewing company performance and strategy, with the goal of increasing independent oversight. Furthermore, the board shared that it conducted a strategic revaluation and committed to selling business units that were not aligned with the resulting strategy.

When assessing the caliber of the company and dissident nominees, we observed that the board recently added new independent directors in order to add expertise in the oversight of the company's strategy and risk. The dissident's nominees, also independent, similarly had relevant skills and expertise. However, it was not clear how the dissident's nominees would replace the board-nominated candidates, as some of the board nominees were executive directors, nor was it clear whether their skills and expertise were already covered by existing board members.

As a result of our assessment, the funds supported the incumbent board directors and voted against the dissident's candidates. We plan to continue to engage with Seven & i and monitor how the company delivers on its strategy.

■ **Contested election at Illumina Inc.**

Illumina Inc. (Illumina) is a U.S.-based biotechnology company that, in August 2021, completed an \$8 billion acquisition of GRAIL, one of its former subsidiaries. The company completed the acquisition without first obtaining regulatory approval. Ultimately, both the U.S. Federal Trade Commission and the European Commission sought to annul the transaction and ordered the company to divest GRAIL. The company pursued a variety of appeals that required that the company hold GRAIL as a separate entity. Ultimately, these appeals were unsuccessful and, in late 2023, Illumina announced that it would divest the GRAIL business. This regulatory uncertainty has resulted in stock price underperformance relative to peers. In advance of the company's annual shareholder meeting, Icahn Capital (Icahn), an investment management company, launched a proxy contest to replace three of Illumina's nine directors, citing concerns about the Illumina board's decision to close the GRAIL transaction without regulatory approval.

Ahead of Illumina's 2023 annual meeting, we engaged with Icahn's three director nominees, who all raised concerns regarding the GRAIL transaction in addition to Illumina's executive compensation and governance practices. The Icahn nominees' primary argument was that Illumina leaders should negotiate with regulators to end the GRAIL appeals process and obtain the best possible terms for an accelerated separation of the GRAIL business. We engaged separately with Illumina company leaders and met with several of the incumbent director nominees who, among other things, described the rationale and process behind the acquisition and how it was handled. These directors indicated that, at the time of the acquisition, the board was advised that there was a high degree of certainty that the GRAIL transaction would pass regulatory scrutiny.

After engaging with the company and with Icahn representatives, the Vanguard-advised funds supported one of the Icahn nominees and withheld support from the incumbent board chair. The funds supported the other eight incumbent nominees. Ultimately, we believed that the board's decision to close the transaction while still under regulatory review highlighted a potential gap in the board's oversight of risk and strategy that then manifested in stock price underperformance relative to peers. We noted that Illumina's current board chair was ultimately responsible for the decision because they served as independent chair when the decision to close the GRAIL transaction was made. We believed that strong independent board leadership will be necessary to navigate either the divestiture or further integration of the GRAIL business. In our view, the Icahn nominee that the funds supported can bring an outsider's perspective on approaches to critical regulatory issues—they had served on the board of other companies exposed to similar regulatory risks. We believe that this experience, combined with an independent eye toward shareholder investment returns, will serve shareholders well as the company moves forward.

At the annual meeting, the Icahn nominee that the funds supported was elected to the board by shareholders, and Illumina's board chair was not reelected. The other eight incumbent nominees were reelected. As part of the board's previously disclosed refreshment process, two new directors were appointed to the board after the annual meeting, and one of those new directors was

appointed as board chair. Several days after the annual meeting, the Illumina CEO stepped down as CEO and as director. The company subsequently appointed a new CEO. We have engaged with the company to understand how these new directors are integrating into the board and to gain insight into the board's approach to the recruitment of the new CEO.



Board oversight of strategy and risk

Boards should be meaningfully involved in the formation and oversight of strategy and have ongoing oversight of material risks to their company. We work to understand how boards of directors are involved in strategy formation, oversee company strategy, and identify and govern material risks to shareholders' long-term investment returns.

■ Contested M&A transaction at Global Net Lease Inc.

Global Net Lease Inc. (Global Net Lease) is a U.S.-based real estate investment trust (REIT) that owns a portfolio of office and industrial properties in the U.S. and Western Europe. In May 2023, Global Net Lease entered into an Agreement and Plan of Merger with The Necessity Retail REIT Inc. (Necessity Retail). Pursuant to this agreement, Necessity Retail entities would merge with and into Global Net Lease entities in an all-stock transaction, forming a new combined company. Orange Capital Ventures LP (Orange Capital), a New York-based investment firm and a shareholder of Global Net Lease, opposed the merger and published several public letters detailing the rationale for its opposition and encouraged other Global Net Lease shareholders to withhold support for the merger.

In cases such as these, Vanguard's Investment Stewardship team would typically look to engage with companies on both sides of the merger, in addition to the dissident shareholder opposing the transaction, to understand each party's perspective and to gather information that might inform the Vanguard-advised funds' vote. In this instance, however, the bylaws of both Global Net Lease and Necessity Retail contained an "acting in concert" provision that restricted communication among shareholders. Considering this provision, we did not engage any of the

parties. Thus, our analysis was solely based on public disclosures pertaining to the contested merger.

Based on those disclosures, Orange Capital's opposition to the transaction was a result of several concerns, including a management internalization fee that Global Net Lease would be required to pay to the combined company's external manager pursuant to the merger agreement, its assertion that blending the two companies' real estate portfolios would result in a weaker asset base, and other issues.

Based on our analysis of the proposed merger, we determined that support for the transaction was warranted. We assessed that the valuation of Global Net Lease was reasonable based on multiple independent fairness opinions and the market's reaction to the merger. We also reviewed the strategic rationale and risks associated with the transaction and found that the synergies that would likely result from the transaction, including significant annual savings realized from the internalization of the third-party manager and other cost efficiencies, were compelling. Additionally, we reviewed the board's process for overseeing the transaction as disclosed in the proxy statement and observed that the board seemed to have analyzed the merger with diligence. Specifically, the board formed a special committee to oversee and evaluate the transaction; this committee conducted several rounds of deal term negotiations to ensure that the agreement was beneficial to both Global Net Lease and

Necessity Retail's shareholders. We also analyzed the companies' board governance profiles and the commitments by Global Net Lease and Necessity Retail to make post-merger corporate governance enhancements that, in our view, would be beneficial to shareholders.

Based on our consideration of these factors, we determined that the merger was in the best interests of the Vanguard-advised fund shareholders, so the funds voted in support of the transaction. Ultimately, Orange Capital publicly withdrew its opposition and announced its intention to vote for the merger.

■ Navigating materialized social risks at Top Glove Corp. Bhd.

In April 2023, members of Vanguard's Investment Stewardship team met with company leaders of **Top Glove Corp. Bhd. (Top Glove)**, a Malaysian rubber glove manufacturer, to discuss how the company monitors material risks across its supply chain. These material risks were brought to light by allegations related to the use of forced labor and improper working conditions during the COVID-19 pandemic.

The company was subject to a U.S. import ban imposed by U.S. Customs and Border Protection from July 2020 to September 2021 in response to concerns about the use of forced labor in Top Glove's production processes. Moreover, in December 2020, thousands of the company's employees, mainly migrant workers, contracted COVID-19 while working at the company's plants. This allegedly occurred because of inadequate internal processes to manage the spread of disease. At Top Glove's 2021 annual meeting, the Vanguard-advised funds voted against members of the company's Risk Management Committee in light of the materialized risks associated with both incidents and a concern about lack of oversight of such risks.

In our most recent engagement with the company, we sought to understand how Top Glove addressed these materialized risks and what efforts had been made to avoid recurrence of these issues. During the engagement, Top

Glove leaders informed us of the steps taken to address these risks. The company paid over \$30 million in remediation to migrant workers and had taken steps to improve labor conditions at its facilities. Top Glove leaders acknowledged that following best international practices had been challenging at times, given widespread issues with forced labor in Malaysia generally, but noted that the company had been aiming to implement higher labor rights standards beyond those required under Malaysian regulations.

Top Glove leaders also spoke about the company's efforts to map its suppliers and shared that the company was retaining external consultants to help with managing a new workers' grievance channel. Company leaders also shared that the company had found industry initiatives to be helpful in navigating global labor requirements. We shared our views on the importance of board oversight of material risks, including labor-related risks, along with engagement between shareholders and independent directors.

■ Patent-related shareholder proposals at health care companies

During the 2023 proxy season, several proponents and co-filers submitted similar shareholder proposals across multiple health care companies. These proposals requested that companies establish and report on a process by which the impact of extended patent exclusivities on product access would be considered in deciding whether to apply for secondary and tertiary patents. Seven of those proposals went to a shareholder vote at the following companies: **AbbVie Inc., Eli Lilly and Co., Gilead Sciences Inc., Johnson & Johnson, Merck & Co. Inc., Pfizer Inc., and Regeneron Pharmaceuticals Inc.** We evaluated each of these proposals on a case-by-case basis, in the context of the specific facts and circumstances at each company.

Through research and analysis on the topic, we determined that patents and intellectual property relate to material risks at each of the pharmaceutical and biotechnology companies that put the proposal forward for a vote. The

use of the patent process allows pharmaceutical and biotechnology companies to protect significant investments that enable research and development into pharmaceutical products and to further innovate and drive their strategy. We observed that there had been recent regulatory and legislative activity regarding drug pricing and patent use at both the federal and state levels, including the 2022 Inflation Reduction Act and the Affordable Prescriptions for Patients Act of 2019. Both pieces of legislation posed a risk to the patenting models currently used by companies.

As part of our case-by-case assessments, we engaged with leaders at each named company. During our engagements, we sought to understand the nature of the company leaders' engagements with the proponents of the proposals, the boards' oversight of patent and intellectual property risks, the boards' perspectives on recent regulatory and legislative activity regarding patent law and pricing, and any company- or product-specific issues that had been cited by the proponents and in the media. In each engagement, company directors and executives were able to articulate their processes for managing and overseeing patent and intellectual property risks, inclusive of forward-looking perspectives based on the changing regulatory environment. They shared their processes and disclosures regarding transparency in product pricing, licensing, and access. In each case, our engagement helped us better understand how each respective board was overseeing patent and intellectual property risks.

As we assessed the companies' public disclosures, we found that each provided what we viewed as adequate disclosure of board and management oversight of factors that are considered when pursuing patents. Examples of this disclosure include Johnson & Johnson's publicly disclosed *Position on Intellectual Property*; its subsidiary Janssen's *U.S. Transparency* (an annual report that addresses access and pricing); and Eli Lilly and Co.'s Access & Affordability section of the company's ESG report and its website's pricing information section. After a case-by-case assessment of each shareholder proposal, the funds did not support any of the shareholder

proposals requesting reporting on the impact of extended patent exclusivities on product access at the seven targeted companies. However, our research and engagements on this topic enabled us to further evaluate an important material issue for pharmaceutical and biotechnology companies. We plan to continue engaging with portfolio company leaders on board oversight of this risk.

■ **Supply chain risk management at Hyundai Motor Co.**

In May 2023, members of Vanguard's Investment Stewardship team met with leaders of **Hyundai Motor Co. (Hyundai)**, a South Korean multinational automotive manufacturer, to discuss board oversight of material risks—including material risks related to supply chain management—because some of Hyundai's U.S. suppliers were accused of using child labor. In February 2023, Hyundai's president and CEO wrote a letter to shareholders in which he announced that the company was implementing new, more stringent workforce standards throughout its supply chain as a direct response to the investigation into suppliers accused of hiring underage workers in a U.S. plant.

The company publicly stated that, although internal investigations did not find any breaches of labor rights at Hyundai's U.S. direct suppliers, third-party staffing agencies were found to be providing false documentation to suppliers, and, consequently, relationships with those agencies had been terminated. Hyundai confirmed that its investigations into the alleged child labor instances were completed, and the company planned to focus on accelerating work on improving risk management, with special attention to human rights risks.

We sought to understand the company's plans to extend its review of labor standards across the supply chain outside of direct suppliers, and Hyundai leaders shared that there were challenges in monitoring the company's supply chain beyond the first tier, including limited influence over suppliers further down its supply chain. Hyundai leaders, however, confirmed

that the company aimed to expand supplier inspections going forward. The company initiated supply chain inspections at the local level and had plans to review global suppliers, because the board recognized the need for these assessments across global operations. At the time of our engagement, Hyundai had recently established a new procurement department to conduct these inspections, and the company was in the process of installing anonymous hotlines to enhance its whistleblowing system. We encouraged Hyundai leaders to enhance disclosure on how these planned actions would be implemented, along with their impact.

Hyundai leaders relayed that the Sustainability Management Committee, a standalone board committee, was responsible for overseeing the matter and that the board was regularly informed of the progress of the corrective steps taken. Hyundai leaders highlighted that they believed that the key allegations had been addressed and that the company's plans now focused on strengthening its supply chain risk management generally. We underscored the importance of disclosure and dialogue between shareholders and independent board members. Given that we are primarily interested in how the board is involved in the oversight of material risks, we look for such discussion to include an independent director.

We plan to continue to monitor Hyundai's management of supply chain-related risks and hope to engage with independent directors in the future.

■ **Say on Climate proposal at Woodside Energy Group Ltd.**

Woodside Energy Group Ltd. (Woodside), an Australian-listed global energy company, put forward a Say on Climate proposal at its 2022 annual meeting. The Vanguard-advised funds did not support the proposal. We engaged with Woodside leaders ahead of the 2023 annual meeting to discuss the company's approach to managing material climate risks, how the board oversees those risks, and the enhancements

made to the company's climate disclosures following high levels of shareholder dissent on the company's 2022 Say on Climate proposal.

During the engagement, Woodside leaders shared details about the process for improving the company's reporting—including hosting an investor roadshow to better understand investor feedback—and outlined the changes made. We provided feedback on the importance of decision-useful disclosure and the difficulties we had in identifying and understanding the main changes to Woodside's report. We suggested that a summary of changes may be helpful to shareholders. Woodside leaders also provided additional examples of areas where steps were being taken to address material climate risks that were not included in the report; we explained that this information would be helpful to disclose in order to give shareholders a more complete picture of enhancements made to Woodside's most recent climate report.

Woodside's initial Say on Climate proposal at its 2022 annual meeting was as an advisory vote; the plan was to allow shareholders to vote every three years on the report unless material changes were made. Although a vote was not required, given the high level of shareholders that did not support the report, we questioned why Woodside had elected not to put a Say on Climate proposal forward at the 2023 annual meeting, which would allow shareholders an opportunity to express their views on the updated report. We explained our view that such an action would demonstrate that shareholder input was being appropriately considered.

Following the engagement, and in advance of Woodside's 2023 annual meeting, we received communication from Woodside that provided a clear summary of the changes made to its most recent report; it highlighted the improvements made by directly comparing the 2022 disclosures with those published in the 2023 climate report. Woodside also announced that the next iteration of the climate report would be put up for shareholder vote at the 2024 annual meeting.

We were encouraged to see the board and management's responsiveness to shareholder feedback.

■ Lobbying proposal at Cenovus Energy

At the 2023 annual meeting for **Cenovus Energy Inc. (Cenovus)**, a Canada-based integrated energy company, the Vanguard-advised funds supported a shareholder proposal requesting a report on whether and how the company aligns its lobbying and public policy advocacy activities with its stated commitment to achieve net zero operational emissions by 2050.

In advance of Cenovus's 2023 annual meeting, we engaged with company leaders to discuss board composition and the board's role in overseeing material risks. With respect to the shareholder proposal, during our meeting, company leaders stated that they believed it was reasonable and in the interest of shareholders to understand whether the company's lobbying activities are consistent with its climate strategy.

Cenovus leaders agreed that the proposal was not prescriptive and did not seek to influence company strategy, which included a commitment to reach net zero operations by 2050, inclusive of Scopes 1 and 2 emissions, and support of Canada's Paris Agreement commitments.¹²

Company leaders shared that they had engaged with the proponent, and while they disagreed with certain points in the proponent's supporting statement, they acknowledged the benefits of the enhanced disclosure requested in the proposal. Cenovus leaders agreed that shareholders would benefit from understanding the company's lobbying principles, including how support of indirect lobbying was determined and the company's approach to instances

of misalignment between its strategy and third parties lobbying on its behalf. Company leaders also highlighted the board's role in overseeing these processes through the Safety, Sustainability and Reserves Committee. Cenovus leaders noted that additional clarity on its lobbying and public policy advocacy practices would provide shareholders with additional information needed to understand how the company's direct and indirect lobbying and public policy advocacy activities align with Cenovus's goal of reaching net zero by 2050.

Based on our analysis and engagement, as well as the Cenovus board's recommendation that shareholders would benefit from the requested disclosure, the Vanguard-advised funds supported the shareholder proposal.

■ Productive engagement with Thungela Resources Ltd.

We first engaged with **Thungela Resources Ltd. (Thungela)**, a South African thermal coal company, in 2022, and noted its stated confidence in the fundamentals of coal demand and recognition of the long-term implications of climate risk on its business. We encouraged the company to continue developing effective disclosures of board-level oversight of climate risks and opportunities and risk mitigation plans. Thungela committed to publishing its first TCFD report in early 2023.

In 2023, we engaged with board directors and company leaders to discuss the board's oversight of climate-related risks. In our conversation, we explored oversight of Thungela's climate change goals—greenhouse gas targets in particular—and strategy of pursuing geographic diversification of its coal assets. Thungela leaders were able

¹² The Paris Agreement sets a goal of holding the increase in global average temperature to well below 2°C above pre-industrial levels and pursuing efforts to limit the temperature increase to 1.5°C above pre-industrial levels. It does not prescribe a single pathway to reach those goals. Rather, it is a binding international treaty that requires all countries to commit to, communicate, and maintain national-level greenhouse gas budgets to achieve the global temperature goal. The Vanguard-advised funds do not dictate company strategy. As shareholders, the Vanguard-advised funds seek to understand whether and how companies and their boards are planning for resiliency against the backdrop of this stated policymaker goal. We believe that boards are responsible for determining risk mitigation approaches to maximize shareholder value in their companies and planning for an uncertain future. Where there are legally binding or government-designated budgets for different industry sectors associated with the agreement, we believe companies should disclose how their targets and strategies are appropriate in the context of those factors.

to provide helpful context for changes made to board composition that served to further strengthen the board's capabilities with respect to oversight of risk and strategy at the company.

Additionally, we discussed Thungela's response to an environmental incident in 2022. In part due to illegal mining activities, toxic water from a mine in the Mpumalanga province of South Africa spilled into nearby rivers, negatively impacting aquatic life in the region. Thungela leaders shared the company's remediation approach, which included efforts to restore the biodiversity of affected rivers at a cost to the business. We observed that Thungela provided effective disclosures in its annual report and was able to clearly articulate the board's role in overseeing the mitigation of this incident. We will continue to monitor the board's oversight and disclosures of climate-related risks and opportunities.

■ Report on "Just Transition" at Marathon Petroleum Corp.

Marathon Petroleum Corp. (Marathon) is a U.S.-based integrated downstream energy company. The Vanguard-advised funds evaluated but did not support a shareholder proposal requesting that Marathon prepare a report disclosing how the company is addressing the impact of its climate change strategy on key stakeholders—including the communities it serves and its workers—consistent with the "Just Transition" guidelines of the International Labor Organization.

Where material risks to shareholder returns are identified, we have ongoing conversations with portfolio company leaders to understand how their companies are addressing material risks—including material climate-related risks—particularly when these risks have been publicly identified by the company. These risks can be reflected in company share prices. We support effective disclosure of such material risks so that investors are equipped to make informed decisions. In our engagement with Marathon leaders, we discussed how specific material risks to the company's shareholders are addressed in

the company's *Creating Shared Value Through a Just and Responsible Transition* report. This report details how stakeholder engagement, human capital management, and community investment are maintained as key areas of focus for the company when addressing potential social impacts related to the transition to a lower carbon economy.

Through our analysis of the proposal and related company disclosures and our engagement with company leaders and the board's independent chair, we determined that the company's existing reporting and disclosure addressed the specific disclosures requested by the proposal. As a result, the Vanguard-advised funds did not support the proposal.

■ Reverse stock split at Graybug Vision

In 2023, we engaged with company leaders of **Graybug Vision (Graybug)**, a U.S. clinical-stage biopharmaceutical company focused on developing medicines for the treatment of ocular diseases, to discuss its reverse merger with CalciMedica Inc., a then-private clinical-stage biopharmaceutical company focused on developing therapies for inflammatory diseases.

Graybug submitted a proposal for a reverse merger and a series of bundled proposals—including a reverse stock split—for shareholder approval. Reverse mergers occur when a private company acquires a larger, publicly traded company, thus gaining public company status. Generally, the Vanguard-advised funds will vote against reverse stock splits that result in dilution greater than 100%. In this case, we observed that the reverse stock split would not decrease the number of shares of common stock in proportion to the number of outstanding shares and assessed that the resulting reverse stock split exceeded the funds' general tolerance for potential dilution.

We engaged with Graybug leaders to better understand why the merger was contingent on and bundled with the reverse split. Through engagement, we learned that the company was in noncompliance with NASDAQ's minimum bid

price requirement and that Graybug required the reverse split to increase the company's share price to remain listed. Additionally, we learned that the company was below NASDAQ's minimum bid price requirement for reverse mergers and that it required the reverse split to increase Graybug's share price in order to complete the transaction. We shared our general perspective that bundled proposals prevent shareholders from withholding support from specific proposals and thus inhibit shareholders' ability to vote case-by-case on individual matters.

Regardless of the level of dilution, a fund will generally vote for a reverse stock split if it is necessary for the company to remain listed on its current exchange. Moreover, through discussions with company leaders and our review of disclosures from the proxy statement (and despite our concerns with the dilutive effects of the transaction), the funds supported the reverse stock split, especially given the company's risk of being delisted and our assessment of the merger.

■ **Shareholder request for a tax transparency report at ConocoPhillips Co.**

At the annual meeting for **ConocoPhillips Co. (ConocoPhillips)**, a U.S.-based energy company, the Vanguard-advised funds voted against a shareholder proposal requesting that the company issue a tax transparency report prepared in accordance with the Global Reporting Initiative's (GRI) Tax Standard, including disclosure of payments to governments.

The proponent of the proposal argued that the GRI standards are the world's most utilized corporate reporting standards and require companies to disclose information about tax governance, control, risk management, stakeholder engagement, and country-by-country reporting of certain financial information, including tax payments to governments. The proponent believed that investors are increasingly sensitive to the concept of tax transparency and tax avoidance, and that by not making such disclosures, investors' ability to evaluate the risks associated with tax matters was limited.

In our engagement with company executives and directors, we discussed the company's current practices and disclosures, as well as the board's role in overseeing potential risks related to tax matters. Company leaders noted that ConocoPhillips discloses its global tax policy, which, in their opinion, met most of what the GRI Tax Standard seeks. According to company leaders, the company's tax policy objective was to maintain procedures and make decisions that are fully compliant with all applicable tax laws in the jurisdictions where the company operates. Company leaders further stated that the company complied with all applicable tax laws without publicly disclosing confidential information unless required. With regard to board oversight, company leaders discussed the Audit and Finance Committee's role in overseeing the company's tax position and significant tax matters.

In our own research, we determined that the GRI Tax Standard did not appear to be commonly used by many U.S. companies, including ConocoPhillips's U.S. peers. In this case, we determined that the potential risks posed by tax avoidance were real and widely known, including tax settlements and associated legal costs that were referenced in the proposal. While the shareholder proposal emphasized these risks, in our assessment, the company's global tax policy provided context for how these risks were overseen. Based on our analysis and engagement, the Vanguard-advised funds did not support the proposal because we did not believe that a tax transparency report would meaningfully contribute to shareholders' understanding of the risks the company faces or otherwise serve the interests of long-term shareholders.

■ **Climate risk shareholder proposals at Berkshire Hathaway Inc.**

At the annual meeting of **Berkshire Hathaway Inc. (Berkshire)**, an American multinational conglomerate holding company, the Vanguard-advised funds supported a shareholder proposal requesting a report on how the company manages physical and transitional climate risks and opportunities. The funds also supported a

shareholder proposal seeking annual disclosures on the company's oversight of climate risk. The funds did not support a shareholder proposal requesting a report on the company's efforts to measure, disclose, and reduce greenhouse gas (GHG) emissions in alignment with the Paris Agreement.

Members of Vanguard's Investment Stewardship team last engaged with executives from Berkshire in 2022. The company indicated in its 2023 proxy materials that its communication with shareholders would be limited to their group shareholder question-and-answer session prior to the company's annual shareholder meeting. We thus did not engage directly with company representatives ahead of Berkshire's 2023 annual meeting. As a result, we based our analysis of items on the ballot on company disclosures and publicly available information to inform the funds' votes.

Climate change poses a material financial risk to the long-term returns of many sectors and industries. As indicated in Berkshire's disclosures, some of Berkshire's businesses operate in sectors that have increased exposure to material climate risk (such as energy, transportation, and insurance). Our review of the company's climate risk disclosures revealed that the board's Audit Committee and the broader board had responsibility for overseeing climate-related risks. This disclosure was an improvement upon prior years' reporting. However, in comparison to peer companies, the company's disclosures do not provide fulsome information on how the board oversees climate-related risks. Absent this disclosure, investors had a limited ability to understand and assess board oversight of material climate-related risks. This lack of disclosure raised questions about the board's approach to climate risk oversight. To inform our perspective on these types of questions, we typically seek to engage with portfolio company board members to understand the board's perspective. Considering our assessment of the company's current disclosures in comparison with a relevant peer set, the funds supported two shareholder proposals requesting enhanced

disclosures on climate risk oversight that we believe will provide investors with useful information.

The first proposal sought a report in line with the Task Force on Climate-related Financial Disclosures framework on how the company managed physical and transitional risks associated with climate risks and opportunities. The proposal recommended that the report assess these risks and opportunities at the holding company and at the subsidiaries that the board believes could be materially affected by climate change. The Vanguard-advised funds supported similar proposals on the ballot at Berkshire's 2021 and 2022 annual meetings.

The second proposal that the funds supported in 2023 sought annual proxy statement disclosure of how the company manages climate risk, including how the Audit Committee oversees this risk, whether and how the company is testing the effects of climate-related risks on its business, and director competencies with regard to climate. This was the first year this proposal appeared on the company's ballot.

The funds' support of these two proposals was driven by the assessment that climate risk presented a material financial risk to the company, that additional information about the board's oversight of climate risk would be decision-useful for investors, and that the proposals provided the board and management with sufficient latitude in how to implement the proposals.

A shareholder proposal requesting a report on the company's efforts to measure, disclose, and reduce GHG emissions associated with its underwriting and investing activities in alignment with the Paris Agreement was also on the ballot. Although the funds voted to support a similar proposal at Berkshire's 2022 annual meeting, our analysis determined that the two proposals described above more effectively targeted the gaps we identified in the company's climate risk oversight disclosures and gave the board and management appropriate latitude in addressing the proposals' requests. As such, the funds did not support this proposal in 2023.

■ **Political lobbying proposal at Meta Platforms Inc.**

Meta Platforms Inc. (Meta) is a U.S.-based multinational technology conglomerate that owns and operates Facebook, Instagram, Threads, and WhatsApp, among other products and services. In 2023, we engaged with company executives on two occasions to discuss the board's oversight of strategy and risk. We have regularly engaged with Meta leaders over the years, and our discussions in advance of Meta's 2023 annual meeting covered a range of topics, including the company's approach to oversight and disclosure of potential risks associated with its corporate political activities. Where such activities present a material risk to a company, we look for the company to disclose relevant policies regarding political spending and lobbying as well as how the board oversees those policies and related activities. We also look for companies to disclose corporate political and lobbying expenditures and trade association memberships in a manner consistent with industry peers and market norms.

One of the shareholder proposals on the ballot at Meta's 2023 annual meeting sought additional disclosure of the company's lobbying payments and policies. The Vanguard-advised funds supported a similar proposal at Meta's 2022 annual meeting, because we determined that the shareholder proposal addressed key gaps in Meta's disclosure. At the time of the 2022 annual meeting, we found that Meta did not disclose information on board oversight of lobbying activities (we identified only disclosure indicating management-level oversight of the activities); we also found limited disclosure of lobbying-related activities and memberships.

In advance of the 2023 annual meeting, we engaged with Meta leaders and discussed political spending and lobbying, among other topics. We learned that the board regularly received legal, regulatory, and policy updates with respect to political spending and lobbying. Meta leaders also shared plans to enhance Meta's disclosures on this topic and that the company was considering how to enhance Meta's

disclosure of board oversight of the company's political activity and provide the appropriate level of disclosure concerning lobbying-related activities and trade association memberships. Because of these plans and our assessment that the board had sufficient oversight of Meta's political spending and lobbying activities, the funds ultimately did not support the proposal in 2023.

■ **Proposal for a Report on Workplace Harassment and Discrimination at Wells Fargo & Co.**

In 2023, **Wells Fargo & Co. (Wells Fargo)**, a diversified financial services company that provides banking and other services globally, received a shareholder proposal that requested the board oversee an annual report describing and quantifying the effectiveness and outcomes of Wells Fargo's efforts to prevent harassment and discrimination against its protected classes of employees.

In alignment with the Vanguard-advised funds' proxy voting policies, we evaluate such shareholder proposals on a case-by-case basis. When evaluating such proposals, we consider whether the proposal addresses a material risk to shareholders at the company in question and, if so, whether that risk has materialized; whether the board's oversight of the risk is satisfactory; and if there are gaps in the company's disclosures related to the risk.

Our analysis of the proposal at Wells Fargo found that risks related to employee harassment and discrimination had materialized at the company, as evidenced by federal law enforcement and regulatory agencies' investigations, the fact that the company had been ordered to pay damages in connection with claims by company employees, and negative media attention related to the topic. While Wells Fargo had provided some disclosures related to allegations of harassment and discrimination, we determined that there was an opportunity for the company to provide additional information to enable shareholders to fully understand the true magnitude of issues that could impact shareholder returns.

We engaged with Wells Fargo leaders and the company's lead independent director and gained insight into how the board was addressing oversight of human capital and other material risks; we also discussed shareholder proposals on the ballot, including the request for a report on discrimination and harassment. Following our engagement, we concluded that additional disclosures on the effectiveness and outcomes

of Wells Fargo's efforts to prevent discrimination and harassment at the company would provide shareholders with valuable information about a materialized risk. Importantly, in our view, the proposal was not prescriptive; its language provided the board with discretion to decide which specific information to disclose. As a result, the Vanguard-advised funds supported this shareholder proposal.



Executive pay (compensation and remuneration)

Sound, performance-linked pay programs drive long-term shareholder returns. We look for companies to provide clear disclosure about their compensation practices, the board's oversight of those practices, and how the practices are aligned with shareholders' long-term investment returns.

■ ESG metrics in compensation plans at Cummins Inc.

Cummins Inc. (Cummins), a U.S.-based global company known for its design, manufacturing, distribution, and servicing of diesel and natural gas engines, electric and hybrid powertrains, and related components, received a shareholder proposal for its 2023 annual meeting. The proposal called for the disclosure of a plan, at a reasonable cost, that would link executive compensation to the company's stated commitment to achieving a 1.5°C-aligned reduction in greenhouse gas emissions, including Scopes 1, 2, and 3 greenhouse gas emissions, throughout the company's value chain.

We do not believe there is a one-size-fits-all approach to executive compensation. We do, however, look for metrics within an executive compensation plan, whether financial or nonfinancial, to be rigorously designed, clearly disclosed, and tied to performance goals related to strategic objectives or material risks to shareholder value. We caution against the use of nonfinancial metrics (including ESG metrics) to signal a commitment to sustainability matters that are not directly tied to the company's strategy and financial performance. Although we understand the appeal of a test-and-learn approach to the inclusion of ESG metrics, we look for portfolio companies to map key ESG opportunities and material ESG risks to their business and to develop robust internal and external reporting before ESG metrics are included in executive compensation plans.

As part of our analysis of the shareholder proposal at Cummins, we reviewed the company's compensation plan and did not identify concerns with the plan's design or metrics. Additionally, we reviewed Cummins's stated strategy for addressing climate-related risks and the board's oversight of those climate-related risks. In our review, we found that Cummins had established science-based targets for reducing emissions in its operations and products. The company was also reporting its progress against its stated strategy related to emissions reduction, including a comprehensive "Destination Zero" strategy aimed at curbing greenhouse gas emissions and minimizing the environmental impact of its products. Consequently, the funds did not support the shareholder proposal because we determined that Cummins's existing compensation plan was reasonably designed in the context of the company's strategy.

■ Pay quantum and structure at InterContinental Hotels Group plc

Following engagement with board directors and company executives on executive remuneration and talent management, the Vanguard-advised funds supported the remuneration report and policy vote at the 2023 annual meeting of **InterContinental Hotels Group plc (IHG plc)**, a U.K.-listed global hospitality company

Members of Vanguard's Investment Stewardship team engaged with board directors of IHG plc ahead of the annual meeting to better understand how the board approached executive

recruitment and succession planning. During these engagements, IHG plc leaders explained changes to the remuneration policy that were made against a backdrop of a significant revenue base and talent pool weighted toward the U.S. The company also reflected on the challenges of setting competitive pay packages in the U.K. in an environment of heightened public scrutiny of quantum.

After early rounds of shareholder consultation, an initial proposal to introduce a hybrid performance share/restricted stock scheme designed to better compete with U.S.-based competitors was withdrawn. Exacerbating the challenge for IHG plc, a similar hybrid scheme was in place for executives below the board level whose packages were not subject to shareholder votes. The final proposals put forward for a shareholder vote at the annual meeting included increases in performance-linked incentive opportunities for company executives.

When navigating the need to set competitive executive pay in a complex global market, we encourage companies to prioritize alignment of executive incentives and long-term investment returns for company shareholders in their decision-making processes, and to provide reasonable disclosure of how they benchmark executive pay figures in the context of their operations and talent pools. We assessed that IHG plc positioned executives' quantum opportunities in a way that was appropriately linked to performance targets. This positioning incentivizes delivery of long-term shareholder returns while remaining sensitive to local market practice in the U.K. The Vanguard-advised funds thus supported IHG plc's remuneration policy.

■ Executive remuneration at Qantas

Over the last three years, we have held regular engagements with independent directors and executives at **Qantas Airways Limited (Qantas)**, an Australian-listed domestic and international airline. In 2023, Qantas was navigating a series of public controversies which, combined with the retirement of its long-term CEO, fueled shareholder concern and media scrutiny. In

October 2023, we engaged with Qantas leaders in advance of the company's November 2023 annual meeting to understand how the Qantas board of directors was planning to respond to the oversight failures.

As detailed in the related [Insights](#), in October 2023, we engaged with the chair of the board and the chair of the Remuneration Committee. Our discussion focused on the structural changes and outcome adjustments to executive remuneration that the board made in response to the controversies. One of the key decisions made by the board was to apply downward discretion to the customer metric in the Short-Term Incentive Plan (STIP) scorecard for all executives. The Remuneration Committee chair explained that delivery of the STIP had been delayed, subject to the outcomes of Australian Competition and Consumer Commission proceedings. For the Long-Term Incentive Plan (LTIP), the 2021–2023 award vested in full based on the achievement of Qantas's relative total shareholder return metrics. During our engagement, Qantas directors shared that the board could extend the LTIP award's holding period and that the clawback mechanism could also be used, if deemed appropriate. The Remuneration Committee chair also shared that the board decided to increase the weighting of the 2023–2024 STIP customer metric and to introduce a reputation-based component into the 2024–2026 LTIP in response to the controversies. We viewed the structural changes to the executive remuneration plan as an appropriate initial step in aligning Qantas's executive compensation with the board's overall plan to address the reputational issues the company was facing.

We determined that it was important that the board retain discretion on remuneration vesting outcomes given the uncertainty surrounding the ongoing controversies. The Recovery Retention Plan (RRP) had what we assessed to be rigorous stretch targets. These targets were met, so the award was paid out in full. Despite the lack of a clawback on the RRP, we assessed that a significant portion of pay remained at risk given the clawback available on both the STIP and LTIP. We are also cognizant of the uncertain and

unprecedented COVID-19 environment during which the RRP was created. We subsequently supported the remuneration report proposal.

Shortly after our engagement in October, Qantas announced board renewal plans in recognition of the recent controversies. The chair would retire prior to the company's next annual meeting, and two other independent directors, including the chair of the Remuneration Committee, would retire in February 2024. The departing CEO's awards included a clawback mechanism that the board would be able to exercise if needed. Therefore, we assessed the board renewal as an appropriate response to recent events. However, in our view, it was important that the Qantas board maintain a degree of stability during this volatile period. Therefore, we did not consider it necessary or appropriate to withhold support from additional directors up for reelection.

We plan to monitor the developing situation at Qantas and pay particular attention to remuneration outcomes that have been deferred.

■ Say on Pay at Open Text Corp.

In September 2023, we engaged with the chair of the Compensation Committee of **Open Text Corp. (Open Text)**, a Canadian software company that delivers a cloud-based platform of software solutions, to discuss the Compensation Committee's thought process behind an equity grant made to the CEO, in an effort to better inform the funds' votes at the company's annual meeting. Upon initial review of Open Text's executive compensation plan, we identified that the CEO was awarded a grant of performance stock options with a seven-year term. The grant was made after the announcement of a recent acquisition and, according to the board, was in recognition of the strategic importance of the deal.

During the engagement, we shared our view that acquisitions are generally within the normal scope of the role of CEO. The chair of the Compensation Committee shared that when the Compensation Committee was performing its annual review of the plan, the IT sector had

experienced significant pressure on stock prices that raised concerns regarding retention of key executives. This occurred at the same time the company was preparing to complete the largest acquisition in its history. The board decided to grant the stock options because it wanted to ensure that the CEO's pay would remain competitive given the change in size and scope of the company post acquisition and that the CEO's interests were aligned with those of shareholders. We shared the funds' general concerns about the use of one-time awards, especially when they are not contingent upon the company's outperformance relative to peers. Company leaders stated that shareholders should not expect any additional one-time grants in the near future.

Based on the explanation and rationale for the grant provided by the Compensation Committee chair, in conjunction with the significance of the acquisition, the funds supported the Say on Pay proposal at Open Text's annual meeting.

■ Executive remuneration in the Netherlands

Following implementation of the European Shareholder Rights Directive II (SRD II) in 2020, Dutch law requires that public companies listed in the Netherlands put forward annual advisory votes on the company's remuneration report and binding votes on the remuneration policy at least every three years. As market practice has developed, we have observed that while many Dutch companies' remuneration policies are well-aligned with company performance, other remuneration policies have significant room to improve policy disclosure and structural alignment with long-term shareholder returns. In 2022, we engaged with a number of Dutch portfolio companies to learn how boards were thinking about evolving remuneration structures and disclosure following three years of shareholder votes on remuneration reports and remuneration policies. We also shared our perspectives on best practices for aligning pay with long-term shareholder returns. We encouraged Dutch companies to disclose performance metrics, targets, and outcomes

included in incentive plans to help investors understand how boards maintain alignment between pay and performance outcomes.

Continuing a trend from prior years, remuneration-related votes were commonly the most contentious topic at Dutch annual meetings in 2023; they received lower shareholder support than other categories of proposals. In line with the funds' proxy voting policies, we employ a case-by-case approach when evaluating remuneration reports as well as remuneration policies.

In 2023, the Vanguard-advised funds supported approximately 75% of remuneration-related proposals in the Netherlands, including proposals at three companies (**Flow Traders NV, Shop Apotheke Europe NV, and Stellantis NV**) where more than 20% of shareholders voted against these proposals in 2022 and 2023. In each of these cases, the Vanguard-advised funds had also voted against the remuneration-related votes in 2022 and engaged with the companies to share our perspectives. We deemed that each company made changes to remuneration-related disclosure and/or practices that demonstrated stronger alignment to long-term investor returns, and the Vanguard-advised funds consequently supported the proposals in 2023. In 2023, we reached out to Dutch portfolio companies where more than 20% of shareholders voted against a remuneration-related proposal to better understand how those companies' boards were interpreting shareholder votes and any subsequent feedback. Where appropriate, we reiterated our support for the board's chosen approach or provided feedback on potential areas for improvement.

One of the unique features of Dutch remuneration reporting is a Dutch legal requirement for companies to disclose how they have considered the "social acceptance" of executive pay. The Netherlands also has a significant number of multijurisdictional companies with headquarters, listing, or significant operations in other countries. One of the recurring themes we heard from boards of Dutch companies was the challenge of demonstrating social acceptance when benchmarking against companies listed in regions where testing against social acceptance is not

required by law or market practice. Against such a backdrop, it is likely that remuneration votes will continue to be contentious in the Netherlands. Through engagement, we will continue to share our perspective on the importance of aligning executive incentives with long-term shareholder returns and providing clear disclosure regarding the board's process.

■ Share pledging at W.R. Berkley Corp.

Over the past several years, a significant number of shares have been pledged by a company leader at **W.R. Berkley Corp. (W.R. Berkley)**, an insurance holding company, representing a potentially material risk for shareholders. The concern is that the pledge could misalign the interests of the pledger with those of other shareholders.

When assessing risks associated with share pledging, we consider the size of the pledged position and potential amount of time to unwind the position, among other factors. We also review any publicly disclosed company policies related to the pledging of shares and look for robust disclosure of how the board oversees pledging activity and mitigates the risks of outstanding pledged positions. In instances where we determine that there is a material risk related to the pledging of shares that does not have adequate board oversight, the Vanguard-advised funds will generally not support the election of directors that sit on relevant committees.

In our analysis, we evaluated the total pledged position and the time to unwind as not significant. We also observed that the total pledged position had decreased year-over-year, indicating a reduction of risk. Moreover, we observed that the company's Compensation Committee had considerable oversight and disclosure related to the pledging of shares. In the company's disclosures, we noted that the Compensation Committee reviewed the pledging-related risks annually, described their oversight of pledging, and had an anti-pledging policy for shares satisfying any named executive officer's ownership requirement.

The Vanguard-advised funds subsequently supported the election of all directors on the ballot. In an engagement with company leaders and directors we shared our perspectives on disclosing the board's oversight of pledging-related risks, specifically citing the disclosure of the board's oversight of share pledging as a piece of disclosure that was clear and decision useful for investors.

■ **Retention-based cash bonus at Weis Markets Inc.**

Weis Markets Inc. (Weis Markets) is a food retailer that operates supermarkets in the Northeast region of the U.S. At the company's 2023 annual meeting, the Vanguard-advised funds voted against Say on Pay due to ongoing concerns with the company's executive compensation plan structure. The funds also voted against Say on Pay when it was last put forward for a shareholder vote in April 2020.

In our review of Weis Markets' executive compensation plan, we identified elements of the CEO Incentive Award Program that, in our assessment, did not sufficiently align compensation to long-term company performance. Specifically, per the employment agreement, the CEO was entitled to an annual cash incentive conditioned on both retention and achievement of preset performance metrics. We observed that a significant portion of the annual incentive was not subject to performance criteria but was instead contingent on the CEO remaining in his role over the fiscal year. While we recognize the importance of retaining key executives, we look for executive compensation to be tied to rigorous performance metrics, not only the passage of time. Although a portion of the annual incentive plan was performance-conditioned, we noted that all performance metrics were exclusively based on one-year time periods. We generally encourage companies to consider setting performance metrics aligned with longer-term company performance, ideally against a set of relevant peers. Going forward, we will continue to assess Weis Markets' executive compensation on a case-by-case basis, seeking relevant disclosure regarding the plan

and why the Compensation Committee believes the current plan design is in the best interests of shareholders.

■ **Ongoing executive pay concerns at Carrefour SA**

Carrefour SA (Carrefour) is a multinational retail and wholesale company headquartered in France that offers e-commerce and operates hypermarkets, supermarkets, convenience stores, and cash and carry stores. We have engaged with Carrefour leaders regularly for several years. In the past, the Vanguard-advised funds have expressed particular governance concerns by not supporting certain management proposals at Carrefour's annual meetings. These include remuneration-related proposals and director elections due to insufficient committee independence and concerns regarding director capacity and commitments.

While the company has taken steps to address some of these matters, a recurring area of concern has been executive pay. This has been reflected in persistently high shareholder dissent on remuneration-related resolutions over a multiyear period, including the Vanguard-advised funds' lack of support of remuneration proposals at each of Carrefour's last five annual meetings. The funds also voted against Remuneration Committee members at the company's 2021 and 2022 annual meetings.

We met with company leaders and an independent director ahead of Carrefour's May 2023 annual meeting. On the topic of executive remuneration, we queried the board's responsiveness to past shareholder dissent and sought to understand how the CEO's pay plan was structured to support Carrefour's strategy, align executive pay and company performance, and reflect the experience of company shareholders over the long term. While we acknowledged the steps the company had taken to enhance its executive pay practices, including in some areas of the remuneration policy and by providing enhanced disclosure, we shared our concerns about the overall design of the plan and its past implementation.

We do not believe there is a one-size-fits-all approach to executive remuneration. We look for metrics—financial and nonfinancial—within an executive remuneration plan to be rigorously designed, thoroughly disclosed, and tied to long-term performance goals related to strategic objectives or material risks. In Carrefour's case, we observed ongoing structural weaknesses that we determined to be inconsistent with these principles. While we understand that Carrefour was in a period of transition at the time of its 2023 annual meeting, the CEO's variable pay outcomes (consisting of an annual bonus and long-term incentive award) have not always reflected the company's performance relative to peers or shareholder returns. Although the funds supported the CEO's remuneration for the past fiscal year at the 2023 annual meeting, the funds voted against the forward-looking

remuneration policy. We observed adequate pay and performance alignment for the historical period under review; however, we continue to have concerns regarding the robustness of variable pay components, including the performance conditions applied and how these serve to link executive remuneration outcomes to the shareholder returns over the long term.

In November 2023, we met again with executives at Carrefour. They explained that the board was reviewing the company's executive remuneration policy and they were seeking an open dialogue with shareholders to gather perspectives. We were encouraged by Carrefour's willingness to engage and the company's receptiveness to our feedback. We look forward to contributing further to this discussion as the board's work progresses.



Shareholder rights

We believe that governance structures should allow shareholders to effectively exercise their foundational rights. Shareholder rights enable a company's owners to use their voice and their vote—in proportion to their economic ownership of a company's shares—to effect and approve changes in corporate governance practices.

■ Dual-class structures at Elekta AB

Members of the Vanguard Investment Stewardship team met with the board chair and investor relations team at **Elekta AB (Elekta)**, a Swedish medical technology company providing clinical solutions for treating cancer and brain disorders globally. Elekta had its IPO in 1994 and has had a dual-class voting structure in place for its nearly 30 years as a publicly listed company.

Members of Vanguard's Investment Stewardship team engaged with Elekta leaders for the first time ahead of the company's 2023 annual meeting to discuss a recurrent shareholder proposal.

The proposal requested that the company amend its articles of association to require that all share classes carry equal voting rights. The Vanguard-advised funds' proxy voting policies support "one-share, one-vote" structures that grant shareholders voting rights in proportion to their economic interests; as such, we assessed that the shareholder proposal highlighted a material governance risk at Elekta related to the protection of shareholder rights. Through engagement, we sought to better understand the board's perspective on why a dual-class structure was a more appropriate fit for Elekta and to better understand the risk at both a company-specific and market level, considering the prevalence of dual-class structures in Sweden.

We also sought to share our preference for a one-share, one-vote structure as a means for promoting shareholder rights.

Dual-class structures in Sweden

Swedish public companies are sometimes controlled by a shareholder through dual-class stock. The ratio of voting rights between different classes of shares is usually 10:1, whereby one class of shares holds 10 times as many votes as the other class. This has led to unusually stable ownership structures in Sweden, where core local shareholders play an active role in the management of the company, both through engagement and by serving as directors.

Company leaders shared the market nuance, historical context, and common practice of dual-class structures in Sweden. We shared feedback that some additional safeguards—such as sunset provisions to move to one-share, one-vote structures that protect minority shareholder rights—could be reassuring for minority shareholders. Our engagement with Elekta did not provide us with a sufficient level of assurance that the company had adopted appropriate provisions to align the company's practices more closely with corporate governance practices and protections that were in the interests of all shareholders. As a result, the Vanguard-advised funds supported the shareholder proposal.

Ultimately, the proposal was withdrawn and Elekta did not disclose vote results from the annual meeting. While it is common in Sweden to not disclose vote results, vote result disclosure is a corporate governance practice that enables shareholders to assess support levels for proposals and corresponding responsiveness from the board.

■ **Exclusive jurisdiction proposal at Employers Holdings Inc.**

In 2023, many U.S. companies unilaterally changed company bylaws to include an amendment to limit litigation activities to a specific legal jurisdiction. Although such limitations could potentially impair shareholder rights, most of the proposed choices of jurisdiction aligned with the location of a company's headquarters or state of incorporation, a practice that we generally determined to be reasonable. In our view, any such choice of a state court should be broad-based, rather than limited to a specific court within the state. Where a company unilaterally adopts a narrow exclusive jurisdiction provision in its bylaws, we look for the company's board to provide a reasonable rationale for the change, as it may intrude on shareholder rights.

Employers Holdings Inc. (Employers), a U.S.-based insurance company incorporated in Nevada, unilaterally adopted an exclusive jurisdiction provision with a choice of a specific court in the State of Nevada. Members of Vanguard's Investment Stewardship team engaged with the board chair and members of the executive team to understand the board's rationale for adopting the provision.

As a result of our discussion with Employers leaders, we gained an appreciation of the company's rationale for the adoption of a specific choice of jurisdiction that was narrowly tailored to a specific court. Company leaders explained that the primary drivers of the proposed changes were proximity to company operations and the fact that the court was one of two in the state that focuses on business-related disputes. In response to shareholder feedback, Employers

filed an amended proxy statement disclosing that it further amended the exclusive forum provision to broaden the choice of jurisdiction to any Nevada state court. Given the reasonable rationale for the originally adopted narrow choice of forum and the subsequent adoption of a broader choice of forum, the funds supported all directors on the ballot, including the Governance Committee members.

■ **Advance notice provision at LXP Industrial Trust**

In 2023, we observed that many U.S.-domiciled companies amended their bylaws in response to the adoption of universal proxy rules. Many also took the opportunity to update their advance notice provisions for director nominations and shareholder proposals to ensure compliance with the universal proxy rules and, in some instances, to add other requirements. In our assessment, most of those changes have been reasonable from a shareholder rights perspective, with only a small subset appearing to be potentially onerous and intrusive on shareholder rights. Overly onerous advance notice provisions could infringe on shareholder rights and serve to entrench boards and company management in a manner that could present a risk to long-term shareholder returns. Additionally, in our assessment, requiring detailed information from shareholders about past and future activist activity—such as a request to disclose all director nominees and/or shareholder proposals that a nominating shareholder has submitted in the past or intends to submit in the future at another issuer—does not provide investors with information that is material to a voting decision.

At **LXP Industrial Trust**, a U.S.-based industrial REIT, we met with members of the board and executive team to discuss the board's recent unilateral adoption of several advance notice bylaw provisions. The provisions in question required that a shareholder proponent provide a detailed description of any director nominees or shareholder proposals submitted at another issuer in the past three years or any that they intended to submit in the next year, as well as a requirement that the proponent disclose

information regarding limited partners. In our assessment, the advance notice provisions unilaterally adopted were overly onerous and would not provide investors with information that would be material to a vote decision.

While LXP Industrial Trust leaders initially considered the requested disclosure to be helpful information to shareholders in evaluating shareholder proposals, further engagement revealed shareholders' concerns about such requirements. After hearing that many shareholders considered these provisions unduly burdensome, the board repealed the bylaw provisions.

■ Shareholder responsiveness at Continental AG

Over the past 18 months, members of Vanguard's Investment Stewardship team have held several strategic engagements with leaders of **Continental AG (Continental)**, a German automotive parts company. In two separate engagements in August and September 2022, we met with company leaders to reintroduce Vanguard's Investment Stewardship program—it had been several years since we had last engaged—and to discuss Continental's executive remuneration practices. Earlier that year, the funds did not support the company's remuneration report at Continental's 2022 annual meeting because of concerns about pay-for-performance alignment and a lack of disclosure of the conditions underpinning severance payments made to former executives. Continental leaders expressed surprise at the level of shareholder dissent received on this resolution and were eager to gather our feedback. We shared our observations and certain pieces of feedback, to which the company leaders seemed receptive.

At that time, Continental was not running formal governance roadshows, a common practice in European markets where major public companies

often set time aside each year to meet with their largest shareholders for the purpose of discussing corporate governance matters. We shared our perspective regarding the value of these discussions to company shareholders.

In October 2022, we met with the chair of the supervisory board to cover a broader agenda. Conversation topics included board composition and effectiveness, as well as the board's oversight of risk in relation to a diesel emissions controversy, in which Continental had been implicated. The conversation with the board chair provided helpful insights regarding the board's process in responding to and navigating the controversy.

In July 2023, we were contacted again by executives at Continental, this time in relation to a formal governance roadshow they were planning. In the engagement that followed, a Continental executive explained that their productive engagements with Vanguard in 2022 had prompted them to meet with a wider group of shareholders via a more structured program of engagement. We were encouraged by this strengthening of shareholder communication and provided input on the types of issues that we would be interested in discussing during the forthcoming governance roadshow.

In November 2023, we met once more with the chair of the supervisory board at Continental, this time as part of the company's formal governance roadshow. The chair responded to our questions and provided updates about the governance changes being considered by the board, including an evolution of its executive remuneration policy and an enhancement of its supervisory board structures.

Throughout this process, we were reassured by Continental's responsiveness to shareholder feedback, the supervisory board's willingness to engage in open dialogue with shareholders, and the company's commitment to improving its governance.

■ **Officer exculpation at Dick's Sporting Goods Inc.**

At its 2023 annual meeting, **Dick's Sporting Goods Inc. (Dick's)**, a U.S.-based omnichannel retailer that serves athletes and outdoor enthusiasts, sought approval of a proposal to allow for the limitation of liability of certain company officers, known as officer exculpation. The company's proposal was one of many proposals submitted by U.S. companies related to this issue in 2023; these proposals were a direct result of the August 2022 changes to state corporate law in Delaware, where many public U.S. companies are incorporated. The changes enabled companies to include provisions in their corporate charters that limit company officers' liability, which, in our assessment, was a natural extension of the longstanding law allowing for the exculpation of company directors. Before the 2022 changes to Delaware corporate law, shareholders often bore the cost of litigation, settlement, and increased insurance premiums associated with protecting company executives.

In 2023, the Vanguard-advised funds supported company charter changes when the proposals focused on exculpation and did not try to expand

protections beyond the terms specified by Delaware General Corporation Law (for example, limiting liability for breach of loyalty, or for acts or omissions involving intentional misconduct or knowing violation of law). Upon review, we found that the proposal submitted by the Dick's board appropriately balanced shareholder rights with the need to limit officer liability; as such, the Vanguard-advised funds supported the proposal.

■ **Special meeting proposals at Zoetis Inc.**

At its 2023 annual meeting, **Zoetis Inc. (Zoetis)**, a U.S.-based animal health company, received a shareholder proposal to amend the relevant company governing documents to give the owners of a combined 10% of outstanding common stock the right to call a special shareholder meeting, regardless of the length of stock ownership. At the same meeting, the board submitted a proposal to amend the certificate of incorporation to create a special meeting right for shareholders with a 25% ownership threshold and a requirement that those shares be held for at least one continuous year.

Our perspective on the right to call a special meeting

The Vanguard-advised funds promote governance provisions that allow shareholders to effectively exercise their vote in proportion to their economic ownership of a company's shares. Governance structures, such as the right of shareholders to call a special meeting, can serve as a safety net to safeguard and support foundational rights for shareholders. If a company does not have a right to call a special meeting, the funds 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. When there are competing management and shareholder proposals, the funds will analyze each on a case-by-case basis, evaluating each to determine which is best aligned with the interests of the Vanguard-advised funds' shareholders over the long term. A 25% threshold provides owners of a meaningful proportion of the shares the ability to initiate action independent of the board, while preventing smaller shareholders from taking action without ample support.

In a previous engagement with directors and executives at Zoetis, we discussed shareholder rights, including the right to call a special meeting, which was not in place at Zoetis at the time. Zoetis disclosed in its 2023 proxy statement that the board recognized that providing shareholders the ability to request special meetings was viewed by some shareholders as a helpful additional governance mechanism. The board's proposal to establish shareholders' right to call a special meeting at a 25% threshold was aligned with the funds' preferred threshold. The holding requirement of one year, in our assessment, did not constitute a material restriction on this right and was a common market practice. Given that the management proposal indicated a level of board responsiveness to shareholder feedback and was aligned with the funds' voting policies, the funds supported management's proposal and did not support the shareholder proposal.

■ **Supermajority vote at AbbVie Inc.**

AbbVie Inc. (AbbVie) is an American research-based biopharmaceutical company with a product portfolio across immunology, oncology, aesthetics, neuroscience, and eye care. AbbVie's governing documents currently require more than majority support for certain changes to the company's charter or bylaws. As stated in the company's bylaws, the removal of the supermajority requirement requires an 80% vote of outstanding shares of stock. Every year since 2018, the AbbVie board put forward a proposal for a shareholder vote to reduce the vote requirement to a majority of outstanding shares. Despite the Vanguard-advised funds' votes in support of the proposal to eliminate the

supermajority vote requirement each year, the proposal had failed to garner enough support to pass given the high threshold.

In 2023, the board again put forward a proposal for a shareholder vote to eliminate the supermajority vote requirement. Additionally, a shareholder proponent submitted a similar proposal to take the necessary steps to adopt a simple majority vote requirement. The Vanguard-advised funds will generally vote for proposals to eliminate supermajority vote requirements. In the case of competing management and shareholder proposals on the ballot, the funds will vote on a case-by-case basis in the best interests of each fund.

In evaluating the shareholder proposal, we observed that the proponent requested that the company conduct an intensive campaign to obtain the necessary votes. From our engagement with company leaders and review of the company's public disclosures, we learned that the board had routinely assessed the cost to increase voter turnout at the company's annual meetings and would need to expend considerable resources to potentially surpass the threshold. Because of this burdensome expense, we determined that the shareholder proposal was overly prescriptive in dictating company operations. Separately, we determined that the company's board and management team had taken reasonable steps to attempt to remove the supermajority threshold. Consequently, the Vanguard-advised funds did not support the shareholder proposal. However, the funds did support the board's proposal to eliminate the supermajority vote requirement.

Proxy voting summaries

Global summary of proxy votes cast by Vanguard-advised funds in the 12 months ended December 31, 2023.

Americas

Alignment with our pillars	Proposal type	Management		Shareholder	
		Number of proposals	% for	Number of proposals	% for
Board composition and effectiveness	Elect directors	28,945	91%	205	67%
	Other board-related	1,595	69%	117	3%
Board oversight of strategy and risk	Approve auditors	4,576	100%	—	—
	Environmental and social	2	100%	399	2%
Executive compensation	Management Say on Pay	3,382	96%	—	—
	Other compensation-related	3,771	84%	30	0%
Shareholder rights	Governance-related	1,001	91%	137	18%
Other proposals	Adjourn/other business	1,232	90%	—	—
	Capitalization	1,441	92%	—	—
	Mergers and acquisitions	367	98%	—	—
	Other	—	—	19	5%

U.K.

Alignment with our pillars	Proposal type	Management		Shareholder	
		Number of proposals	% for	Number of proposals	% for
Board composition and effectiveness	Elect directors	4,505	99%	10	60%
	Other board-related	17	100%	8	88%
Board oversight of strategy and risk	Approve auditors	1,198	100%	—	—
	Environmental and social	7	100%	3	0%
Executive remuneration	Management Say on Pay	911	98%	—	—
	Other remuneration-related	241	99%	2	0%
Shareholder rights	Governance-related	505	100%	—	—
Other proposals	Adjourn/other business	849	100%	—	—
	Capitalization	2,822	100%	—	—
	Mergers and acquisitions	76	96%	—	—
	Other	—	—	1	0%

Europe*

Alignment with our pillars	Proposal type	Management		Shareholder	
		Number of proposals	% for	Number of proposals	% for
Board composition and effectiveness	Elect directors	8,905	92%	220	47%
	Other board-related	5,380	95%	145	72%
Board oversight of strategy and risk	Approve auditors	2,340	99%	—	—
	Environmental and social	22	91%	22	5%
Executive remuneration	Management Say on Pay	3,147	81%	—	—
	Other remuneration-related	1,962	93%	12	8%
Shareholder rights	Governance-related	1,235	97%	17	29%
Other proposals	Adjourn/other business	3,885	95%	—	—
	Capitalization	6,215	97%	—	—
	Mergers and acquisitions	221	95%	—	—
	Other	—	—	50	22%

* The Europe proxy voting table includes figures also represented in the U.K. proxy voting summary table.

Middle East and Africa

Alignment with our pillars	Proposal type	Management		Shareholder	
		Number of proposals	% for	Number of proposals	% for
Board composition and effectiveness	Elect directors	1,621	61%	17	18%
	Other board-related	1,120	94%	15	67%
Board oversight of strategy and risk	Approve auditors	497	86%	—	—
	Environmental and social	2	100%	—	—
Executive remuneration	Management Say on Pay	290	80%	—	—
	Other remuneration-related	887	81%	—	—
Shareholder rights	Governance-related	1,289	53%	—	—
Other proposals	Adjourn/other business	1,244	90%	—	—
	Capitalization	730	94%	—	—
	Mergers and acquisitions	714	94%	—	—
	Other	—	—	—	—

Asia

Alignment with our pillars	Proposal type	Management		Shareholder	
		Number of proposals	% for	Number of proposals	% for
Board composition and effectiveness	Elect directors	25,327	95%	3,092	95%
	Other board-related	6,637	71%	127	26%
Board oversight of strategy and risk	Approve auditors	3,908	99%	—	—
	Environmental and social	—	—	49	0%
Executive remuneration	Management Say on Pay	—	—	—	—
	Other remuneration-related	6,407	89%	98	52%
Shareholder rights	Governance-related	8,016	74%	36	58%
Other proposals	Adjourn/other business	14,196	93%	—	—
	Capitalization	16,809	98%	2	100%
	Mergers and acquisitions	5,630	97%	—	—
	Other	—	—	780	74%

Australia and New Zealand

Alignment with our pillars	Proposal type	Management		Shareholder	
		Number of proposals	% for	Number of proposals	% for
Board composition and effectiveness	Elect directors	816	96%	27	4%
	Other board-related	25	28%	7	0%
Board oversight of strategy and risk	Approve auditors	56	98%	—	—
	Environmental and social	3	100%	6	0%
Executive remuneration	Management Say on Pay	308	92%	—	—
	Other remuneration-related	588	97%	—	—
Shareholder rights	Governance-related	83	100%	6	0%
Other proposals	Adjourn/other business	4	100%	—	—
	Capitalization	130	100%	—	—
	Mergers and acquisitions	45	100%	—	—
	Other	—	—	1	0%

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