Vanguard funds

# Proxy voting policy for Mexican portfolio companies

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## Introduction

The information below, organized according to Vanguard Investment Stewardship's four principles, is the voting policy adopted by the Boards of Trustees of the Vanguard-advised funds (the "Funds' Boards")[1] and describes the general positions of the funds on proxy proposals presented for shareholders to vote on by Mexico-domiciled companies.

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

Companies should abide by the relevant local laws and regulations of the market in which they are listed and follow any applicable local corporate governance codes and best practices. These local corporate governance codes form the basis of the funds' country-specific guidelines. However, they may differ and, in some cases, require a higher level of governance best practice than the local corporate governance code.

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

## Principle I: Board composition and effectiveness

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

### *Board independence*

Independence is defined in accordance with local regulations and best practice standards, and therefore, a fund will generally defer to these standards in assessing director independence (including the boards' affirmative determination of a director's independence under those standards). The exception to this rule is that former CEOs will never be considered independent unless they only held an "interim" CEO position for less than 18 months. An "interim" CEO who held their temporary position for 18 months or less will be considered independent three years after leaving the interim CEO position.

A fund will generally vote against the nonindependent board members of a company, or the proposed slate of directors (if directors are elected as a slate) of a company, that does not maintain a board that is composed of at least one-fourth (25%) independent directors. In addition, a fund will generally vote against directors, or a proposed slate of directors (if directors are elected as a slate), whose names and biographical details have not been publicly disclosed sufficiently in advance of the company's general meeting.

The funds will look for boards of widely held, noncontrolled companies to make progress toward having a majority independent board in alignment with global best practice standards, or at least to maintain a level of board independence proportionate to, and reflective of, the company's ownership structure.

### *Key committee independence*

A fund will typically vote against nonindependent directors who serve on the audit committee or on the corporate governance committee at noncontrolled companies, and nonindependent directors who serve on the corporate governance committee at controlled companies when such committee is not composed of a majority of independent directors.

The funds look for boards to make progress toward having key committees (i.e., audit, remuneration, and nomination committees) that are composed entirely of independent directors in alignment with global best practice standards.

### *Director attendance*

A fund will generally vote against directors who attended less than 70% of board or committee meetings (in the aggregate) in the previous year unless acceptable, extenuating circumstances are disclosed or they have served on the board for less than one year.

### *Director capacity and commitment*

Directors' responsibilities are complex and time-consuming. As no two boards are identical and time commitments may vary, a fund will vote case by case on director elections when the number of directorship positions a person has accepted makes it challenging to dedicate the requisite time and attention to effectively fulfill their responsibilities at each company.

Looking forward, the Vanguard funds will look for portfolio companies to adopt good governance practices regarding director commitments, including adopting an overboarding policy and disclosure of the board's oversight of the implementation of that policy. Such disclosure should include, at a minimum, a discussion of what a company's policy is (e.g., what limits are in place) and, if a nominee for director exceeds its policy, any considerations and rationale for their nomination. Additionally, it is good practice to include disclosure of how the board settled on its policy and how frequently it is reviewed to ensure it remains appropriate.

### *Diversity and qualifications disclosure*

Well-composed boards have perspectives that are informed by a range of backgrounds, skills, and experiences. Public company boards should consider board diversity and disclose the diversity of their boards on factors such as gender, age, race, ethnicity, and national origin, at least on an aggregate basis. Companies that do not have diverse boards should demonstrate a commitment to achieving board diversity and provide insights on progress across multiple factors and prioritize adding diverse voices to their boards.

Absent a compelling reason, a fund will vote case by case on the nomination committee chair (or any other relevant director) if the company does not disclose evidence of a board composition strategy that appropriately considers - and reflects - diversity, with diversity defined as relevant to the company's market and company strategy.

### *Contested director elections*

A fund will vote case by case on shareholder nominees in contested director elections. The analysis of proxy contests focuses on three key areas:

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

### *Discharge of directors and/or management*

Generally, a fund will vote for proposals to discharge the board, individual directors, and/or management in the absence of concerns regarding a lack of oversight, legal proceedings, or other egregious governance issues.

## Principle II: Oversight of strategy and risk

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

### *Capital structures*

- *Dividends.* A fund will generally vote for proposals to allow a dividend equal to 5% of a company's net income from the previous fiscal year for preferred shareholders.
- *Share issuance requests.*
  - A fund will generally vote for share issuance requests with preemptive rights up to 100% of currently issued capital.
  - A fund will generally vote for share issuance requests without preemptive rights up to 20% of currently issued capital.
  - A fund will generally vote case by case on proposals to create/amend/issue preferred stock, taking into account the reason for the issuance, the ownership profile of the company, any historical abuses of share issuances, and the company's general approach to shareholder rights.
- *Debt issuance.* A fund will vote case by case on proposals to issue debt and/or restructure debt, taking into account:
  - Any convertible features and the potential effect on dilution;
  - The company's financial position; and
  - The company's ability to take on the proposed debt.
- *Share repurchase.* A fund will vote for proposals to provide companies the authority to repurchase shares so long as the repurchase complies with Mexican law.
- *Reduction of capital/cancellation of shares.* A fund will typically vote for proposals to reduce the outstanding share capital or cancel treasury shares, so long as the terms are in the best interests of shareholders.

### *Independent auditors*

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

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

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

A fund will generally vote against proposals to indemnify auditors, and case by case on any proposal to limit an external auditor's liability, taking into account the explanation provided by the company for such liability limitation.

### *Mergers, acquisitions, and financial transactions*

A fund will vote case by case on all mergers, acquisitions, and financial transactions.

A fund seeks to assess the likelihood that a transaction preserves or will create long-term value for shareholders. A fund's evaluation of each transaction is governance-centric and focuses on four key areas:

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

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

### *Shareholder proposals*

A fund will vote case by case on all shareholder proposals, including proposals that focus on environmental and social issues, such as requests of disclosures, setting of targets or goals, adoption of policies and practices.

Clear, comparable, consistent, and accurate disclosure enables shareholders to understand the strength of a board's risk oversight. Recognizing that sustainability disclosure is an evolving and complex topic, in considering related proposals, a fund's analysis aims to strike a balance between avoiding prescriptiveness and providing a long-term perspective. Engagements with the company and/or the shareholder proponent may be necessary to determine each fund's vote.

Each proposal will be evaluated on its merits, with particular attention to the wording of the proposal, and in the context that a company's board has ultimate responsibility for providing effective ongoing oversight of strategy. This includes sector- and company-specific sustainability risks and opportunities that have a demonstrable link to long-term shareholder value.

A fund is likely to support proposals that:

- Address a shortcoming in the company's current disclosure relative to market norms;
- Reflect an industry-specific, materiality-driven approach; and
- Are not overly prescriptive about time frame, cost, or other matters.

## Principle III: Remuneration

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

### *Advisory votes on executive remuneration*

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

Considerations fall into three broad categories:

- Evidence of alignment of executive pay and performance
- Compensation plan structure for executives
- Other considerations

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

A fund will generally vote against remuneration proposals when the details of a company's remuneration policy are not disclosed to shareholders.

### *Equity remuneration plans*

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

In general, a fund will support the adoption of equity-based remuneration plans if the potential dilution (from all plans) is 5% or below of issued capital for a mature company, and 10% or below of issued capital for a growth company.

In general, a fund will vote against the approval of plans if:

- The potential dilution exceeds 5% of issued share capital for a mature company or 10% of a growth company;
- The plan allows for options to be issued at a discount to fair market value; or
- The information disclosed is not sufficient to determine the two above points.

### *Nonexecutive director remuneration*

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

A fund will generally vote against the approval of any nonexecutive director fees in the absence of sufficient disclosure to determine the reasonableness of such remuneration.

## Principle IV: Shareholder rights

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

### *Annual reports and accounts*

A fund will generally vote for the approval of annual reports and accounts unless there is evidence of a particularly egregious reason not to support management's proposal or there are concerns about the integrity of the financial statements.

A fund will generally vote against the approval of annual reports and accounts if the audited financial statements have not been made available in a timely manner in advance of the voting deadline.

### *Board structure*

A fund will vote for management and case by case on shareholder proposals to declassify the board, and against proposals to classify the board.

### *Additional share classes*

This policy applies when a company issues more than one class of stock, with different classes carrying different voting rights. The Vanguard funds' approach to this issue is principled yet practical. It remains philosophically aligned to "one-share, one-vote" but also is mindful of the need not to hinder public capital formation in the equity markets. To that end, alignment of voting and economic interests is a foundation of good governance. The approach supports the idea of a newly public, dual-class company adopting a sunset provision that would move the company toward a one-share, one-vote structure over time. A fund will vote case by case on proposals relating to the introduction of additional share classes with differential voting rights.

### *Reincorporation/change of domicile*

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

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

### *Amendments to articles of association*

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

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

### *Change of company name*

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

### *Shareholder meeting rules and procedures*

- *Quorum requirements*. A fund will generally vote against proposals that would decrease quorum requirements for shareholder meetings below a majority of the shares outstanding, unless there are compelling arguments to support such a decrease.
- *Approve "other such matters that may come before the meeting" or "any other business."* A fund will generally vote against a proposal to approve "other such matters that may come before the meeting."
- *Adjourn meeting to solicit more votes*. In general, a fund will vote for the adjournment if the fund supports the proposal in question and against the adjournment if the fund does not support the proposal.
- *Bundled proposals*. A fund will vote case by case on all bundled management proposals.
- *Change of date, time, or location of annual general meeting*. A fund will typically vote for

management proposals to change the date, time, or location of the annual meeting if the proposed changes are reasonable.

- *Virtual meetings.* A fund will generally support proposals seeking to conduct "hybrid" meetings (in which shareholders can attend a physical meeting of the company in person or elect to participate online). A fund may vote for proposals to conduct "virtual-only" meetings (held entirely through online participation with no corresponding physical meeting taking place). To date, data show that virtual meetings can be an effective way to increase shareholder participation and reduce cost. Virtual meetings should not curtail shareholder rights (e.g., by limiting the ability for shareholders to ask questions). A fund will consider support if:
  - Meeting procedures and requirements are disclosed ahead of a meeting;
  - A formal process is in place to allow shareholders to submit questions to the board;
  - Real-time video is available, and attendees can call into the meeting or send a pre-recorded message; and
  - Shareholder rights are not unreasonably curtailed.