



Investment Stewardship: Engagement Statement

This statement sets out our approach to investment stewardship and, in particular, our engagement activities.

We are currently developing a formal engagement policy (our “**Engagement Policy**”), which will be published in due course.

Our Principles

Our approach to investment stewardship is supported by four principles that we consider foundational to effective corporate governance (our “**Principles**”). As enablers of long-term value creation by Vanguard fund portfolio companies, these Principles are reflected in our engagement activity and voting record.

- **Board composition:** Good governance begins with a great board of directors. Boards represent the interests of their shareholders and make critical decisions about a company's leadership, its strategy, and the risks that could create obstacles to its long-term success.

Our primary interest is to ensure that boards represent the interests of all shareholders. Directors should be independent in mindset and free from conflicts of interest. Boards should also be appropriately diverse both in personal characteristics—such as gender, race, ethnicity, national origin, and age—and in skills and experience. If a company has a well-composed, high-functioning board, good results are more likely to follow.

- **Oversight of strategy and risk:** Boards are responsible for governance of a company's strategy and oversight of risk. Strategy and risk can be viewed as two sides of the same coin: Every strategy involves risk, and every risk presents strategic opportunity.

As a long-term investor, Vanguard wants to know how companies think beyond the next quarter and next year. We look to the board to articulate why a company exists and how it will be relevant over decades. Importantly, we do not seek to influence company strategy. A board that truly understands a company's long-term strategy serves as an assurance to investors that the company is less likely to veer off course.

We engage with boards regarding the oversight of material risks that have the potential to affect shareholder value over the long term—from business and operational risks to environmental and social risks. Boards should disclose material risks to shareholders, explain why those risks are material to their business, and disclose their approach to risk oversight.

- **Executive compensation:** We believe that performance-linked compensation (or remuneration) policies and practices are fundamental drivers of sustainable, long-term value for a company's investors. The board plays a central role in determining appropriate executive pay that incentivizes outperformance relative to a company's peers and competitors.

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 value over the long term.

- **Governance structures:** We believe in the importance of governance structures that empower shareholders and ensure accountability of the board and management. Therefore, we examine various aspects, such as capital structures, voting rights and the frequency of the election of directors, to ensure that long-term shareholder interests are reflected and that there are appropriate shareholder rights in place.



We believe that directors should stand for election by shareholders annually and secure a majority of the votes in order to join or remain on the board. If a board appears resistant to shareholder input, we also support the rights of shareholders, at an appropriate level of ownership, to call special meetings or to place director nominees on the company's ballot. Shareholders should be able to hold directors accountable as needed and provide feedback through their voice and their vote.

Our Approach

We believe well-governed companies will perform better over the long term. Our board-centric view is the foundation of Vanguard's approach to investment stewardship. It guides our discussions with company directors and management, as well as our voting of proxies on the funds' behalf at shareholder meetings around the globe. We believe that effective corporate governance is an important ingredient for the long term success of companies and their investors. And when portfolio companies perform well, so do our clients' investments.

The selection of securities in any Vanguard index fund is based on the components of a fund's underlying benchmark index. Vanguard's Investment Stewardship program does not influence the investment decisions of Vanguard funds. Our shareholders expect the funds in which they invest to meet the specific objective set forth for that fund. We have a fiduciary obligation to act in our clients' best interests and we will continue to adhere to these strategies to help our clients reach their financial goals. This gives us a unique, long-term approach to corporate governance matters.

We apply both a sector and a regional lens to analysis, engagement, and voting to companies. Our sector expertise informs our approach to relevant topics by industry, including board composition, oversight of strategy and risk, executive compensation, and governance structures (in line with our Principles, as articulated above). Our regional perspective takes into consideration local corporate governance, engagement, and voting practices.

Vanguard cares about using our voice and our vote on behalf of each Vanguard fund and its shareholders and we do so in three key ways:

- **Advocate:** We advocate for sustainable long-term value creation on behalf of Vanguard fund investors by championing the highest standards of corporate governance. We do this by supporting governance-focused organizations, speaking at conferences, publicly championing governance codes and standards, and sharing our perspectives through the media and our own published materials.
- **Engage:** We engage company executives and directors in open dialogue to promote governance principles that support long-term value for our shareholders. In these engagements, we aim to understand a company's corporate governance practices and provide our viewpoint. We characterize our approach as deliberate, constructive, and results-oriented.
- **Vote:** We vote proxies on behalf of each of our funds at public company shareholder meetings across the globe. Our voting is based on Vanguard's specific guidelines and on detailed company research carried out by our team of analysts.

Engagement

Engagement is the foundation of our investment stewardship program. Because our index funds are practically permanent owners of portfolio companies, we aim in our engagements to build a strong understanding of how companies govern their long-term strategy. Importantly, we do not seek to influence company strategy. We participate in the full arc of engagement—from understanding high-level strategy to asking targeted questions on specific voting matters. This process unfolds over the course of many individual meetings with independent board directors and company executives. This enables us to



understand a company's corporate governance practices and long-term strategy and to monitor progress over time.

Our team evaluates a range of factors when considering whether we need to engage with a portfolio company and what timing makes sense. We thoughtfully evaluate each engagement request, and our decision whether to engage is deliberate and research-driven. The purpose, impact, and timeliness of a discussion are all factors that our team takes into consideration. When we decline an engagement request, we may still seek to engage with a company sometime in the future, particularly when company corporate governance circumstances change. We conduct significant research and analysis to prepare for our discussions with companies. Although such discussions can vary widely by company, sector, and region, our engagements tend to fall into three broad categories:

- **Strategic engagements:** Strategic engagements are meetings in which we learn about a company's long term strategy. These enable us to understand the board's approach to overseeing and aligning governance practices with the company's long-term goals.
- **Event-driven engagements:** Event-driven engagements focus on specific ballot items—often contentious—or a leadership change or company crisis. In these instances, such as a proxy contest, we want to hear all relevant perspectives before our funds vote.
- **Topic-driven engagements:** Topic-driven engagements are held to discuss matters that we believe can materially affect a company's long-term value. These discussions are usually conducted with companies that have a record of underperformance and/or gaps in corporate governance practices.

Our engagements generally take place via teleconference, videoconference, and in-person meetings. Occasionally, engagements can be conducted via substantive written exchange between Vanguard and a portfolio company. Typically, engagement takes place directly between the company and our dedicated team of analysts.

From time to time, Vanguard's Investment Stewardship team will also engage in collaborative engagements with other investors on thematic governance issues, including sustainability, in order to supplement Vanguard's individual efforts.

Additionally, we engage in collaboration with other institutions and listed companies to enhance industry standards for corporate governance, company disclosure practices, or investor stewardship.