

Investment Stewardship

A voice for investors

Kate Jalbert
Investment Stewardship Director – EMEA/APAC

Prepared for: Alliance Advisors
May 2022



Vanguard

Agenda

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2021 proxy year trends

Our views on key environmental, social, and governance issues

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Good governance matters

Vanguard's Investment Stewardship team advocates for good governance in boardrooms around the world. Core to our mission is our fiduciary duty to maximize long-term investment returns for our fund shareholders. We believe governance considerations, including those related to environmental and social matters, can affect the ability of the companies in which our funds invest to create long-term value.

About our program

Our principles

Board composition and effectiveness

Our primary focus is to ensure that the individuals who represent the interests of all shareholders are independent, committed, capable, and appropriately experienced. An effective board should also reflect both diversity of personal characteristics (such as gender, race, and ethnicity) and diversity of skill, experience, and opinion.

Oversight of strategy and risk

Boards are responsible for effective oversight of a company's long-term strategy and any relevant and material risks, including environmental and social risks.

Executive compensation

Performance-linked compensation (or remuneration) policies and practices are fundamental drivers of sustainable, long-term value.

Shareholder rights

Shareholders should have the power to use their voice and vote to ensure the accountability of a company's board.



About our program

What we do

We promote effective corporate governance practices to drive long-term value creation at the companies in which our funds invest. We represent our fund shareholders' interests in three key ways:

Proxy voting

- 1 We cast proxy votes at shareholder meetings on behalf of our internally managed equity index funds.

Engagement

- 2 We conduct ongoing dialogues with portfolio companies to understand their long-term strategy and to inspire the adoption of good governance practices.

Public advocacy

- 3 We advocate for the highest corporate governance standards worldwide that enhance the long-term value of shareholders' investments.

About our program

Types of engagements

Regardless of engagement type, we do not seek to influence company strategy.

Strategic

- 1 Wide-ranging discussions in which we develop an understanding of how a company's long-term strategy aligns with its approach to governance.

Ballot-item

- 2 These discussions focus on specific proxy voting ballot proposals that are often contentious. We want to hear all relevant perspectives to inform how the funds vote.

Thematic

- 3 These discussions target a universe of companies where we have identified high potential risk in a specific theme, such as climate change or diversity.

We take part in collaborative initiatives that focus on good governance practices and long-term value creation

Initiative/Organization*	Involvement
Value Reporting Foundation	We are a member of two groups of the Sustainability Accounting Standards Board (SASB): the Investor Advisory Group and the Standards Advisory Group for the infrastructure sector. Along with other members, we promote the development of standards for consistently comparable disclosure of material sustainability information to investors.
Principles for Responsible Investment	We have been a signatory of the Principles for Responsible Investment (PRI) since 2014. As a signatory, we affirm ESG integration into our portfolio company engagements and investment practices to support long-term value creation, enhance returns, and better manage risks.
Investor Stewardship Group	We are a founding member. The group works to establish a framework of basic standards of investment stewardship and corporate governance for U.S. institutional investor and boardroom conduct.
30% Club	We are member of the 30% Club, a global organization that advocates for more women in boardrooms and leadership roles. A Vanguard representative sits on the U.S. steering committee.
Asian Corporate Governance Association	We joined in 2021. The association is dedicated to working with investors, companies, and regulators to implement effective corporate governance practices throughout Asia.
Net Zero Asset Managers Initiative	We are a signatory. The initiative is a group of global asset managers committed to supporting the goal of net-zero greenhouse gas emissions.
Ceres	Vanguard is a member of the Ceres Investor Network on Climate Risk and Sustainability.

*We also provided insight and open consultation for the following: Task Force on Climate-related Financial Disclosures (TCFD); European Sustainable Finance Package; German Corporate Governance Code; UK Stewardship Code 2020.

About our program

Communicating our stewardship activities and viewpoints

Reports



Insights



Proxy season trends

Key themes from 2021

All data are for the six-month period ended December 31, 2021

Board composition

- Discussed board composition in 65% of our engagements
- Conducted outreach campaign that focused on nearly 200 companies that lacked gender, race, or ethnic diversity on their boards

Executive compensation

- Discussed compensation in 37% of our engagements

Oversight of strategy and risk

- Engaged with 370 companies in carbon-intensive industries, or 35% of all companies engaged
- Took part in engagements that together represented \$759 billion in equity assets under management

1,074

companies engaged

1,447

engagements with directors and other stakeholders

29

markets represented in our engagements

177,307

proposals voted on

12,937

companies where a proposal was voted on

\$3.5T

equity assets under management engaged



Our views on climate change

- Climate change presents a profound risk to companies and their long-term investors. Few, if any, companies will be exempt from its far-reaching implications.
- As a fiduciary, Vanguard views climate risk through the lens of materiality, seeking to determine whether climate-related factors pose a meaningful threat to long-term shareholder value.
- We support comprehensive and effective emissions disclosures and climate-related metrics and mitigation targets, such as those aligned with the goals of the Paris Agreement.

Our climate risk expectations of public companies

Oversight. A climate-competent board that demonstrates awareness of climate risks and fosters healthy debate on climate topics, challenges management assumptions, and makes thoughtful and informed decisions regarding these risks.

Mitigation. Robust risk oversight and mitigation measures, including setting targets aligned with the Paris Agreement goals and integrating climate risk considerations into strategic business planning and capital allocation decisions.

Disclosure. Effective and comprehensive disclosures, both qualitative and quantitative, to show progress over time, preferably written in accordance with the framework of the Task Force on Climate-related Financial Disclosures (TCFD).

ESG issues

Our views on diversity, equity, and inclusion

We have long advocated for inclusive board diversity disclosure, policies, and recruitment best practices. Our views on DEI extend to workforce diversity.

In 2021, we strengthened our board diversity advocacy and engaged with a number of companies whose boards lacked gender, racial, or ethnic diversity.

Our board and workforce diversity expectations of public companies

Structure boards so they are diverse in gender and in racial or ethnic representation. We assess board composition in the context of applicable country-specific policies and recommendations and local market listing standards.

Publish your perspectives on board diversity, disclose board diversity measures, and communicate progress on any DEI goals.

Invest in a prospective-director pipeline that includes candidates beyond those with CEO experience, such as candidates who lead finance, technology, human resources, marketing, accounting, audit, or investment functions.

Strengthen oversight of diversity-related strategy and risk to include board and workforce diversity matters.

Disclose diversity measures beyond the boardroom and publish policies on employee recruitment, retention, and inclusion. Companies should disclose measures appropriate to their local jurisdictions.

ESG issues

Our views on executive compensation

Structure

Is the plan designed to incentivize long-term shareholder value, and does it incorporate relative metrics?

Pay for performance

Is overall pay aligned with company performance and comparable to a relevant peer group?

Total pay

Is the magnitude of overall pay reasonable compared with a relevant peer group?

We ask the following questions about executive compensation plans when engaging:

- Describe your company's compensation philosophy. How do the measures align with long-term company strategy and shareholder value?
- How does the compensation committee set goals for those measures? How does it determine that the goals are rigorous?
- How does the compensation committee seek to align executive pay with the company's performance relative to peers and the market?
- What is the process for selecting your company's peer group, and what factors are most important?

Contacting Us



- To engage with Vanguard, email all requests to investmentstewardship@vanguard.com
- For more information, see [*Engaging with Vanguard: A guide for company boards and management teams*](#)

Investment risk



The value of investments, and the income from them, may fall or rise and investors may get back less than they invested.

Important information

This document is issued for Alliance Advisors in its professional capacity as representative of listed companies and for use at two events in Taiwan on 4 and 12 May 2022 called *International Twin Summit: Premier Dialogue with Global Leaders of Passive & Pension Funds, and Market Best Practices*. This material must not be copied, published, reproduced, distributed or disclosed in whole or in part for any other purpose.

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