

Shareholder proposals to elect new directors at AGL Energy

June 2023

Company: AGL Energy Limited (AGL)

Meeting date: November 15, 2022

Proposal: Item 3—Approve Climate Transition Action Plan; Items 5a–d—Director elections

How the funds voted

At the annual meeting of AGL, Australia's largest utility company, the Vanguard-advised funds voted for the election of four directors nominated by Galipea Partnership, an entity associated with Grok Ventures and Mike Cannon-Brookes. AGL's board opposed the election of three of Galipea's nominees. The funds also supported the Climate Transition Action Plan put forward by management.

Vanguard's principles and policies

The Vanguard-advised funds evaluate contested board elections on a case-by-case basis, with an assessment of what is in the interest of shareholders' long-term value as the determinant of the funds' votes. In these situations, the funds apply a governance-centric approach that takes into consideration inputs from various sources, such as disclosures from the company and/or dissident, company engagements, discussions with dissident shareholders and/or the nominees put forward by the dissident, third-party research, public materials, and, in select cases, other Vanguard investment professionals.

Our evaluation of proxy contests focuses on three key areas:

Strategic case for change. Does the dissident make a compelling case that a change in the target company's strategy and board composition is likely

to create value for long-term shareholders? When engaging with the dissident, we seek to understand their perspective on the company's current state and future trajectory and what recommended changes they believe would benefit the company and be in the best interest of long-term shareholders.

Company's approach to governance. Has the company demonstrated good governance practices? By reviewing a company's public reporting and disclosures, and through engagements, we seek to understand how the board's directors serve as engaged, effective stewards of shareholders' capital through independent oversight of company management, strategy, and material risks.

Quality of directors. Do current directors appear to bring the necessary capabilities to the company's board? Assessing a board's composition starts with understanding the company's strategy and how the board's skills (collectively and individually) align with that strategy and allow the board to provide effective oversight on behalf of all shareholders. Vanguard's Investment Stewardship team also assesses dissident nominees to understand how their skills align with the company's strategy and/or the dissident's strategic case for change. We seek to understand the qualifications and perspectives of both sets of nominees so we can make informed decisions about which nominees are best positioned to represent the interests of long-term shareholders.

Analysis and voting rationale

AGL is the largest carbon emitter in Australia, primarily because the majority of its electricity generation comes from coal-fired power plants. Market expectations for companies to plan for an energy transition in Australia have become

increasingly salient given the current government's focus on climate change, as has the materiality of the related risks to shareholder value.

In 2021, we had significant concerns regarding the AGL board's oversight of and responsiveness to material climate-related risks; as a result, we voted against the only director up for reelection at the 2021 annual general meeting. To address the energy transition, AGL proposed demerging into two entities to better manage the transition and associated risks. The plan was subsequently withdrawn from the company's June 2022 extraordinary general meeting following vocal opposition from Grok Ventures, AGL's largest shareholder, with the board declaring insufficient shareholder support for the plan. As a result, AGL committed to undertake a strategic review of its operations. The company subsequently experienced significant turnover at the executive and board levels, including the departure of the board chair and CEO.

We closely monitored the situation and engaged with AGL's board and executive management team throughout 2022.

The outcomes of the strategy review were announced in September 2022 along with proposed changes to the renewal of the board and management. Because several directors departed after the failed demerger, the board stood at only five directors. In light of the failed demerger, poor stock performance, and executive- and board-level departures, we believed there was sufficient rationale to consider supporting one or more of the dissident nominees. We further believed it was in shareholders' interests for the board to rebuild to an appropriate size to successfully execute the newly announced strategy. We engaged with AGL board members to understand their plans for board renewal. We also asked how the board assessed the candidacy of Galipea's nominees and how it came to recommend that shareholders support one of Galipea's four nominees.

Our team also engaged with Galipea and each of its director nominees. As a result of our research and engagements with the candidates, we determined that the dissident nominees each brought experience, backgrounds, and skill sets that, in our view, would complement AGL's existing board members and would align with AGL's new strategic direction. And given that AGL intended to target a board size of eight directors, we believed that expanding that to

10 would enhance the skills and experience available to AGL to execute on its plan while remaining a manageable size.

Given our longstanding dialogue about governance and board strength at AGL—and our view that a stronger board with experienced, independent voices would be critical to improving governance and therefore support better outcomes for investors—the Vanguard-advised funds supported all four additional candidates. Expanding the board to 10 members could allow for fresh perspectives and added capacity to execute on AGL's new strategy. Given the challenges AGL was facing, we believed that shareholders would benefit from having additional experienced directors; the dissident nominees had experience—including leading large-scale business and cultural transformations as well as building robust working relationships with government and regulatory stakeholders—that, in our view, could be relevant to add to the board. The funds also voted to support the incumbent board members with the expectation that the board size would increase to 10.

At the conclusion of the annual meeting, the Climate Transition Action Plan was approved as 69% of shareholders backed the plan. All four dissident board nominees were elected, with the incumbent members also reelected with over 97% support.

What we look for from companies on this matter

On behalf of the Vanguard-advised funds, we look for boards to represent the interests of all shareholders and to make independent decisions about a company's leadership, strategy, and risks to long-term value. If a board lacks the appropriate composition to independently oversee areas of material risk and company strategy, then we expect the company to conduct a thorough search to identify qualified directors who will bring the necessary skill set into the boardroom.

Similarly, we look for boards to be climate-competent. Particularly for companies for which climate change is a material risk, boards should reflect the necessary skill set to independently oversee a company's risk and strategy related to the energy transition. We also look for boards to be effectively composed in such a way that independent directors can challenge management on areas related to climate strategy and climate risk mitigation in both the short and longer term.

Vanguard publishes Investment Stewardship Policy and Voting Insights to promote good corporate governance practices and to provide public companies and investors with our perspectives on important governance topics and key votes. This is part of our growing effort to enhance disclosure of Vanguard's investment stewardship voting and engagement activities. We aim to provide additional clarity on Vanguard's stance on governance matters beyond what a policy document or a single vote can do. Insights should be viewed in conjunction with the most recent region- and country-specific voting policies.

The funds for which Vanguard acts as investment advisor (Vanguard-advised funds) retain the authority to vote proxies that the funds receive. To facilitate the funds' proxy voting, the boards of the Vanguard-advised funds have adopted Proxy Voting Procedures and Policies that reflect the fund boards' instructions governing proxy voting. The boards of the funds that are advised by managers not affiliated with Vanguard (external managers) have delegated the authority to vote proxies related to the funds' portfolio securities to their respective investment advisor(s). Each external manager votes such proxies in accordance with its own proxy voting policies and procedures, which are reviewed and approved by the fund board annually. The Vanguard Group, Inc., has not been delegated proxy voting authority on behalf of the Vanguard-advised funds.

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