

Vanguard's approach to shareholder proposals related to worker health and safety

December 2023

How the funds voted

This proxy season, the Vanguard-advised funds voted on separate shareholder proposals at four companies (Amazon.com Inc., Dollar General Corporation, Walmart Inc., and Uber Technologies Inc.) related to requests for audits of workplace safety practices.¹ Following a case-by-case assessment of each proposal in the context of the relevant company, the funds did not support any of the four proposals.

The funds' proxy voting policies

A company's board of directors plays a critical role in the oversight of their company's long-term strategy and material risks to shareholders' long-term investment returns. In addition to gaining insight on how boards are composed to appropriately oversee strategy and material risks, Vanguard's Investment Stewardship team seeks to understand how boards take action when there is evidence that a particular risk has materialized at a given company. We look for boards to stay apprised of emerging risks that may impact a company's financial outcomes and to adjust the company's oversight processes, structures, and disclosures as appropriate.

As we evaluate shareholder proposals appearing on the ballot at a portfolio company, we analyze

the materiality of the risk that a proposal seeks to address, the company's existing practices to mitigate that risk, and both the reasonableness and the prescriptiveness of the requested actions.

If there are gaps in the company's existing disclosures, the funds may support a shareholder proposal that seeks enhanced reporting of the company's approach to addressing a material risk. The funds do not support shareholder proposals that dictate specific company strategy or operating actions, as we believe that a company's board and its executives are better positioned to determine what is appropriate for their company in that regard.

Analysis and voting rationale

In assessing and evaluating each of these worker health and safety shareholder proposals, we determined that the risks identified in the proposals included human capital management risks, operational risks, and reputational risks, and that these risks were material to each of the portfolio companies that had received a proposal. In some instances, we observed that worker health and safety risks had manifested at the company in question. For example, we considered patterns of repeated workplace safety violations reported by relevant U.S. enforcement agencies,

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.

such as the Occupational Safety and Health Administration (OSHA), as well as associated media coverage, as credible evidence that risks had materialized.

We observed that, in most cases, the worker health and safety shareholder proposal requested that an independent third party conduct an audit of the company's safety policies and practices. Generally, we view shareholder proposals that require third-party involvement with some concern, as we believe it is important to provide a company's board with sufficient latitude to determine the specifics of implementation. Unless we find evidence that the board has not demonstrated the ability to independently oversee risk, the funds look to the board to maintain discretion on the appropriate way to act on any proposal's request to mitigate or report on a risk.

At each of the four companies mentioned above, we reviewed disclosure regarding the board's oversight of worker health and safety risks, including committee ownership of the risk. We also reviewed each company's disclosures related to their existing actions to improve health and safety practices, including the enhancement of safety policies, employee training, practices for soliciting employee feedback, and board and management oversight. We observed that some of the companies provided quantitative disclosures regarding accident and injury rates. While this reporting goes beyond current industry standard, we view such disclosures as potentially helpful for companies seeking to provide additional context to investors.

We also engaged with company leaders and directors to further understand each board's approach to overseeing and mitigating worker health and safety risk. Through these engagements, we found that some of the companies were in the process of enhancing the board's oversight, including increasing the scope or frequency of relevant reporting and deepening engagement with management to implement near-term mitigation strategies.

Although we assessed worker health and safety as a material risk at each of the four companies, the funds did not support any

of the shareholder proposals. Each voting decision was made individually, based on the relevant company's facts and circumstances. In each case, we determined that the existing disclosures, oversight, and/or mitigation actions demonstrated that the board was taking appropriate steps to address the materialized risk at the company.

Vanguard's Investment Stewardship team plans to continue to engage with these companies' leaders and directors regarding the ongoing risk oversight and mitigation of worker health and safety risk. We will also continue to monitor the regulatory environment, as the Securities and Exchange Commission has indicated that new requirements for human capital disclosure may be released in the coming months.

What we look for from companies on this matter

On behalf of the investors in Vanguard-advised funds, we believe that companies should focus on issues that are material to their business. We look for boards to have the appropriate skills and expertise to identify and oversee material risks, to understand how risks could affect shareholder value creation at the companies they oversee, and to provide clear, decision-useful disclosure on oversight and management of the company's material risks.

Portfolio companies should adhere to applicable labor laws and, where material, maintain oversight of workplace health and safety risks. We further look for boards to appropriately challenge management and regularly reevaluate risk-mitigation practices if the degree of financial materiality or the manifestation of a specific risk changes over time. In engagements with portfolio companies, we seek to understand how boards oversee material risks, including those that relate to human capital management. Although the Vanguard-advised funds do not seek to dictate company strategy or day-to-day operations, we continue to engage boards on how they define materiality related to human capital risks, their oversight process for mitigating material risks, and how they disclose material risks to investors.

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).



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