

Vanguard-advised funds

Proxy voting policy for U.S. portfolio companies

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Introduction

The information below, organized according to Vanguard Investment Stewardship's four pillars of corporate governance, is the voting policy adopted by the Boards of Trustees of the Vanguard-advised funds (the "Funds' Boards") and describes the general positions of the funds on proxy proposals that may be subject to a shareholder vote at U.S.-domiciled companies.¹ In all cases, proposals are voted as determined in the best interests of each fund consistent with its investment objective. It is important to note that proposals often require a facts-and-circumstances analysis based on an expansive set of factors. Proposals are voted case by case, under the supervision of Vanguard's Investment Stewardship Oversight Committee and at the direction of the relevant Fund's Board.

The following policies are applied over an extended period of time; as such, if a company's board is not responsive to voting results on certain matters, a fund may withhold support for those and other matters in the future. Regardless of whether proposals are submitted by company management or by other shareholders, they are voted in accordance with these policies and as determined to be in the best interests of each fund, consistent with its investment objective.

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.

Pillar I: Board composition and effectiveness

In the interest of maximizing the long-term return of their investment in each company, the funds seek to ensure that the individuals who serve as board directors to represent the interests of all shareholders are appropriately independent, experienced, committed, capable, and diverse. Diversity of thought, background, and experience, as well as personal characteristics (such as gender, race, ethnicity, and age), meaningfully contribute to the ability of boards to serve as effective, engaged stewards of shareholders' interests.

In order to appropriately represent shareholder interests in the oversight of company management, a majority of directors should be independent, as should all of the members of the board's key committees (audit, compensation, and nominating/governance or their equivalents).² While the funds generally rely upon the relevant exchange listing or regulatory requirements in establishing a director's independence, there may be instances (such as former CEOs) in which directors who may be "technically independent" are considered otherwise after engagement and/or research.³

As detailed below, if a board's or committee's composition is inconsistent with these independence standards, a fund may not support (a) the nonindependent nominees on the board/committee and (b) members of the nominating/governance committee on the ballot.

Majority board independence⁴

A fund will generally vote against the nominating committee and all nonindependent board members of a noncontrolled company if that company does not maintain a majority independent board. In the second year that a board is not majority independent, the fund may vote against the entire board. Independence is generally defined in accordance with the relevant exchange-listing standards, with the following exceptions:

- *Former CEOs.* Former CEOs will not be considered independent unless they held only an "interim" CEO position for less than 18 months. An interim CEO who held that temporary position for less than 18 months will be considered independent three years after leaving the position.
- *CEO interlocks.* CEOs who sit on one another's boards will not be considered independent.
- *Other factors.* If it is determined, through engagement or research, that a director's independence has been compromised, that director may not be considered independent regardless of technical compliance with the exchange listing standards. Likewise, certain circumstances could lead to the determination that a director is independent, regardless of compliance with listing standards.

- 2 Certain exchange-listing standards and regulatory provisions may apply more limited (or no) independence requirements to the boards of controlled companies (i.e., those in which a majority voting interest is held by company insiders or affiliates). While the funds will relax their majority independence expectation with respect to the entire board in these cases, we still look for the majority of key committee members to be independent.
- 3 For example, a fund will generally consider former CEOs of the company—other than those who may have served in an interim capacity for less than 18 months—as permanently nonindependent members of their board. In addition, CEOs who serve on one another's boards (so-called interlocking directorships) may also be considered nonindependent.
- 4 The relevant exchange-listing standards provide an exception to the majority board independence requirement for controlled companies (companies in which more than 50% of the voting securities are controlled by a shareholder or group of affiliated shareholders). Accordingly, this guideline applies only to noncontrolled companies. A noncontrolled company is a company in which 50% or less of the voting power for the election of its directors is held by a single person, entity, or group.

Key committee independence

At noncontrolled companies, a fund will typically vote against nonindependent directors who serve on the following key committees (or their equivalent):

- Audit committee
- Compensation committee
- Nominating and governance committee

In addition to voting against nonindependent committee members, a fund will generally vote against the entire nominating committee if any of the committees noted above is not 100% independent, regardless of the independent status of any committee members. If a board has no nominating and governance committee and instead acts as its own nominating committee, a fund will generally also vote against all directors, except where only the board's independent directors nominate directors and/or make the final appointment decision.

At controlled companies, a fund will generally support a nonindependent director on a compensation committee or a nominating and governance committee, so long as the relevant committee is majority independent.

In both instances, if nominating committee members are not up for election in a given year, a fund may vote against any other relevant board member(s).

Director capacity and commitments

Directors' responsibilities are complex and time-consuming. Therefore, the funds seek to understand whether the number of directorship positions held by a director makes it challenging to dedicate the requisite time and attention to effectively fulfill their responsibilities at each company (sometimes referred to as being "overboarded"). While no two boards are identical and time commitments may vary, the funds believe that limitations on the number of board positions held by individual directors are appropriate, absent compelling evidence to the contrary.

A fund will generally vote against any director who is a named executive officer (NEO) and sits on more than two public company boards. The two boards could comprise either the NEO's "home board" (i.e., a company where the NEO serves as an executive officer) plus one outside board, or two outside boards if the NEO does not serve on their home board. If an NEO sits on more than two public company boards, a fund will typically vote against the nominee at each company where they serve as a nonexecutive director, but not at the nominee's home board.

A fund will also generally vote against any director who serves on more than four public company boards. In that instance, the fund will typically vote against the director at each company except the one where they serve as board chair or lead independent director.

In certain instances, a fund will consider voting for a director who would otherwise be considered overboarded under the standards above because of company-specific facts and circumstances. This may include, but is not limited to, indications that the director will have sufficient capacity to fulfill their responsibilities and/or a review of the full board's skill and diversity composition. In addition, a fund may vote for an overboarded director if the director has publicly committed to stepping down from the directorship(s) necessary to fall within the thresholds listed above.

The Vanguard-advised funds look for portfolio companies to adopt good governance practices regarding director commitments, including an overboarding policy and disclosure of the board's oversight of the implementation of that policy. Helpful disclosure includes a discussion of the company's policy

(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 developed its policy and how frequently it is reviewed to ensure it remains appropriate.

Board composition

The funds look for boards to be “fit for purpose” by reflecting sufficient diversity of skills, experience, perspective, and personal characteristics (such as gender, age, race, and ethnicity) resulting in cognitive diversity that enables effective, independent oversight on behalf of all shareholders. The funds believe that the appropriate mix of skills, experience, and characteristics is unique to each board and should reflect expertise related to the company’s strategy and material risks from a variety of vantage points.

The funds look for companies to disclose their perspectives on the appropriate board structure and composition for their company and how those elements support the company’s strategy, long-term performance, and shareholder returns. Disclosure of how the board’s composition evolves over time enables shareholders to better understand how the board is positioned to serve as effective, engaged stewards of shareholders’ interests.

The funds expect disclosure of tenure, skills, and experience at the director level (sometimes referred to as a “skills matrix”). To this end, a fund may support requests for disclosure of the company’s approach to board composition, inclusive of board diversity.

To evaluate board composition in relation to this policy, factors for the funds to consider include applicable market regulations and expectations, along with additional company-specific context.

- Boards should reflect diversity of attributes including tenure, skills, and experience.
- A board should also, at a minimum, represent diversity of personal characteristics, inclusive of at least diversity in gender, race, and ethnicity on the board.
- Boards should take action to reflect a board composition that is appropriately representative, relative to their markets and to the needs of their long-term strategies.
- Disclosure of directors’ personal characteristics (such as race and ethnicity) should occur on a self-identified basis and may occur on an aggregate level or individual director level. Disclosure of skills and experience at the director level is expected.
- Companies should provide disclosure regarding their process for evaluating the composition and effectiveness of their board on a regular basis, the identification of gaps and opportunities to be addressed through board refreshment and evolution, and a robust nomination (and re-nomination) process to ensure the right mix of skills, experience, perspective, and personal characteristics into the future.

Escalation process: Director and committee accountability

Directors are generally nominated by boards and elected by shareholders to represent their interests. While a fund may generally support the board’s director nominees, if there are instances in which the board has failed to respond to actions approved by a majority of shareholders, unilaterally taken action against shareholder interests, or, in the fund’s view, failed in its oversight role, the fund may withhold support from those directors deemed responsible (generally based on their functional or committee-level responsibilities). A fund will generally not apply such a vote against a director who has served less than one year on the board and/or applicable committee but in such instances may apply it to another relevant director in their place. Issues that spur such votes may include:

- *Lack of majority board and key committee independence.* A fund will generally vote against relevant directors to raise concerns when a company lacks majority board independence or key committee independence.
- *"Zombie" directors.* A fund will typically vote against members of the nominating committee if management proposes the reappointment of a director or directors who failed to receive majority shareholder support and the board has not resolved the underlying issue driving the lack of shareholder support. This vote should apply only when a fund withheld initial support for a director. If nominating committee members are not on the ballot in any given year, a fund may vote against other relevant board members.
- *Limiting shareholder rights.* A fund will generally vote against members of a governance committee in response to unilateral board actions that meaningfully limit shareholder rights (including, but not limited to, the unilateral adoption of exclusive forum provisions that do not align with the fund's policy or changing bylaws to include overly onerous advance notice provisions). This vote is based on a holistic review of the company's governance structures and is applied only when there is concern that shareholders are unable to exercise their rights. If governance committee members are not on the ballot in any given year, a fund may vote against other relevant board members.
- *Compensation-related situations.*
 - A fund will generally vote against compensation committee members when it votes against the company's Say on Pay proposal in consecutive years unless meaningful improvements have been made to executive compensation practices since the prior year.
 - If egregious pay practices are identified, a fund will generally vote against compensation committee members if Say on Pay is not on the ballot.
 - A fund will generally also vote against compensation committee members when the fund votes against an equity compensation plan.
- *Nonresponsiveness to proposals.* A fund will generally vote against members of the relevant committee for failure to adequately respond to proposals (management or shareholder) that received sufficient support based on the applicable vote standard, including the support of the fund, based on votes cast at a prior year's shareholder meeting.
- *Oversight failure.* If a situation arises in which the board has failed to effectively identify, monitor, and ensure management of material risks and business practices under its purview based on committee responsibilities, a fund will generally vote against the relevant committee members and/or other relevant directors. These risks may include material social and environmental risks, inclusive of climate change.
 - For example, to assess a climate risk oversight failure, factors for the fund to consider include: the materiality of the risk; the effectiveness of disclosures to enable the market to understand and price the risk; whether the company has disclosed business strategies including reasonable risk mitigation plans in the context of the anticipated regulatory requirements and changes in market activity in line with the Paris Agreement or subsequent agreements; and consideration for company-specific context, market regulations, and expectations. The fund will also consider the board's overall governance of and effective independent oversight of climate risk.
 - When a specific risk does not fall under the purview of a board committee, a fund will generally vote against the lead independent director and/or chair, and/or any other relevant director(s).
- *Board composition.* Absent a compelling reason, a fund will generally vote against the nominating and/or governance committee chair, or another relevant board member if the nominating and/or

governance committee chair is not up for reelection, if a company's board is not taking action to achieve board composition that is appropriately representative, relative to their markets and the needs of their long term strategies.

- *Audit failures.*

- A fund will generally vote against audit committee members when nonaudit fees paid to the auditor exceed audit-related fees without sufficient disclosure or when the fund votes against an audit-related management proposal.
- A fund will generally vote against audit committee members in instances of a material misstatement or material weakness in multiple years without sufficient remedy.

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 economic and strategic 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 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?
- The quality of the company's and dissident's 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?

Director attendance

A fund will generally vote against directors who attended less than 75% of board or committee meetings (in the aggregate) in the previous year unless an acceptable extenuating circumstance is disclosed.

Independent board leadership

In addition to the importance of board independence generally, the funds believe that shareholders' interests are best served by board leadership that is independent of company management. While this may take the form of an independent chair of the board or a lead independent director (with sufficiently robust authority and responsibilities), the funds generally believe that determining the appropriate independent board leadership structure should be within the purview of the board. Certain shareholder

proposals seek to require that companies not permit the same person to serve as both CEO and chair of the board of directors. Proponents believe that separation of these duties will create a more independent board.

Given that the funds believe this matter should be within the purview of a company's board, a fund will generally vote against shareholder proposals to separate the CEO and chair roles, absent significant concerns regarding independence or effectiveness of the board at the company in question.

When independence or effectiveness concerns suggest that support for an independent chair may be appropriate the following factors, among others, are considered:

- *Lack of a robust lead independent director role.* A strong lead independent director generally provides sufficient independent perspective to balance the perspective of a nonindependent chair. Structures that do not provide a strong counterweight to insider leadership warrant requiring independent oversight.
- *Lack of board accessibility.* Communicating directly with independent board members, including a lead independent director or committee chairs, is an important way for shareholders to exchange perspectives. Restricting access to independent board members through policy or practice may prevent the board from receiving comprehensive feedback from shareholders to incorporate into corporate practices.
 - It may also contribute to a culture of management entrenchment by controlling the messages the board receives.
- *Low overall board independence.* High affiliated representation on the board may outweigh independent voices and serve to entrench insider leadership. Enhancing the role of independent directors may offer a counterweight to the nonindependent voices on the board. As noted by the guidelines for director independence, issues beyond exchange standards for technical independence may be considered in determining overall board independence.
- *Governance structural flaws.* Certain governance practices and corporate structures may create an environment more favorable to potential entrenchment of management and other insider board members. For example, multiple share classes with different voting rights limit shareholders' voices, and key committees that are not fully independent may limit a board's ability to oversee management.
- *Lack of responsiveness.* A pattern of being unresponsive to shareholders (e.g., a failure to act, or slow action, on shareholder votes) may indicate that a board is entrenched. A stronger independent leadership role may be necessary to remedy this.
- *Oversight failings.* Governance crises may indicate entrenchment or that the board is not receiving sufficient information from management to appropriately fulfill its oversight role. Evidence of failure to provide appropriate governance oversight and/or evidence of failure to oversee material or manifested risks, including those that may be considered "social" or "environmental," will be taken into account. In addition, board decisions that impair shareholder rights (e.g., unilaterally classifying the board) may indicate that a board does not properly value shareholder rights.

Pillar II: Board oversight of strategy and risk

Boards are responsible for effective oversight and governance of their companies' most relevant and material risks and for governance of their companies' long-term strategy. Boards should take a thorough, integrated, 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.

Capitalization

- *Increase in authorized common stock.* A fund will generally vote for a proposal to increase authorized common stock if the proposed increase represents potential dilution less than or equal to 100%. It may vote for an increase resulting in more than 100% dilution if the increase is to be used for a stock split.
- *Reverse stock split.* A fund will typically vote for a reverse split of outstanding shares if the number of shares authorized is proportionately reduced and the difference in reduction results in dilution equal to or less than 100%. Regardless of the level of dilution, it will generally vote for a reverse split if it is necessary for the company to remain listed on its current exchange.
- *Decrease in outstanding shares to reduce costs.* A fund will generally vote for a proposal to reduce outstanding shares to reduce costs if the level at which affected investors are cashed out is not material.
- *Amendment of authorized common stock/ preferred stock.* A fund will generally vote for proposals to create, amend, or issue common or preferred stock unless the rights of the issuance are materially different from the rights of current shareholders (i.e., differential voting rights) or include a blank-check provision. It will generally vote against proposals to create such stock if the accompanying disclosure does not include a statement affirming that the new issuance will not be used for anti-takeover purposes.
- *Tracking stock.* A fund will generally vote for the issuance of tracking stock as a dividend to current shareholders. It will vote case by case on proposals to offer tracking stock through an initial public offering based on the proposed use of the proceeds, as well as on proposals calling for the elimination of tracking stock.

Mergers, acquisitions, and financial transactions

The funds seek to assess the likelihood that a transaction preserves or will create long-term value for shareholders. A fund will vote case by case on all mergers, acquisitions, and financial transactions based on a governance-centric evaluation focused on four key areas:

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

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

Bankruptcy proceedings

A fund will vote case by case on all proposals related to bankruptcy proceedings. When evaluating proposals to restructure or liquidate a firm, a fund will consider factors such as the financial prospects of the firm, alternative options, and management incentives.

Environmental/social proposals

Each proposal will be evaluated on its merits and in the context that a company's board has ultimate responsibility for providing effective oversight of strategy and risk management. This oversight includes material sector- and company-specific sustainability risks and opportunities that have the potential to affect long-term shareholder value.

While each proposal will be assessed on its merits and in the context of a company's current practices and public disclosures, vote analysis will also consider these proposals relative to market norms or widely accepted frameworks endorsed or already referenced by Vanguard's Investment Stewardship program. Input from the board, management, and proponents may also be taken into consideration.

A fund may support a shareholder proposal that:

- Addresses a shortcoming in the company's current disclosure relative to market norms or to widely accepted investor-oriented frameworks endorsed or referenced by Vanguard's Investment Stewardship program (e.g., the International Sustainability Standards Board (ISSB));
- Reflects an industry-specific, materiality-driven approach; and
- Is not overly prescriptive in dictating company strategy or day-to-day operations, or about time frame, cost, or other matters.

If the above criteria are met, a fund is likely to support the following types of proposals:

Specific to an environmental proposal (not exhaustive):

- Requests disclosure related to the company's Scope 1 and Scope 2 emissions data, and Scope 3 emissions data in categories where climate-related risks are deemed material by the board.
- Requests an assessment of a changing climate's impact on the company, disclosing appropriate scenario analysis and related impacts on strategic planning.

Specific to a social risk proposal (not exhaustive):

- Requests disclosure of workforce demographics inclusive of gender, racial, and ethnic categories, considering other widely accepted industry standards, and if appropriate under applicable laws and regulations. This could include publishing EEO-1 reports.
- Requests disclosure of the board's role in overseeing material diversity, equity, and inclusion (DEI) risks or other material social risks.
- Requests disclosure of the company's approach to board composition, inclusive of board diversity, and/or adoption of targets or goals related to board diversity (without prescribing what such targets should be, unless otherwise specified by applicable laws, regulatory requirements, or listing standards).
- Requests inclusion of additional protected classes in a company's employment and diversity policies, as appropriate under applicable laws and regulations and consistent with a focus on risks and opportunities related to the company's long-term performance, when the company has not already formally established such protection. A fund will generally not support proposals asking for

the exclusion of certain characteristics from a company's employment and diversity policies unless appropriate under applicable laws and regulations.

Disclosure proposals

A fund will vote case by case on disclosure-related management and shareholder proposals based on the materiality of environmental and social risks to a company.

Clear, comparable, consistent, and accurate disclosure enables shareholders to understand the strength of a board's risk oversight. Because sustainability disclosure is an evolving and complex topic, a fund's analysis of related proposals aims to strike a balance in avoiding prescriptiveness and providing a long-term perspective.

Targets, policies, and practices proposals

A fund will vote case by case on management and shareholder proposals that request adoption of specific targets or goals and on proposals that request adoption of environmental or social policies and practices.

Shareholders typically do not have sufficient information about specific business strategies to propose specific targets or environmental or social policies for a company, which is a responsibility that resides with management and the board. As a result, shareholder proposals that are more prescriptive in nature will generally not be supported by a fund.

Corporate political activity proposals

- A fund will vote case by case on all shareholder proposals that request greater disclosure of a company's political spending and/or lobbying activities, policies, or practices.
- Factors for consideration include, but are not limited to, applicable laws and regulations regarding political spending and/or lobbying; the prevalence of corporate political activity within a company's industry; the company's current disclosure and level of board oversight of current corporate political activity; disclosure regarding trade associations or other groups that a company supports, or is a member of, that engage in lobbying activities; and recent controversies, litigation, fines, or other manifested risks associated with the company's corporate political activity.

Independent auditors

- *Ratification of management's proposed independent auditor.* The funds are generally supportive of the annual submission of auditor appointment for shareholder approval. A fund is likely to support an independent audit committee's auditor selection absent material misstatement of financials (or other significant concerns about the integrity of the company's financial statements) or the payment of excessive fees to the independent auditor beyond audit and audit-related services in prior years. A fund will vote case by case on the ratification of independent auditors when there is a material misstatement of financials or other significant concern about the integrity of the company's financial statements. The fund may vote against ratification when taxes and all other fees exceed the audit and audit-related fees, unless the company's disclosure makes clear that the non-audit fees are for services that do not impair independence.
- *Rotations of auditing firms.* A fund will vote case by case on proposals mandating auditor rotation.
- *Requirement for a shareholder vote.* A fund will generally vote for shareholder proposals that require companies to submit ratification of auditors to a shareholder vote.

Pillar III: Executive pay (compensation)

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

Advisory votes on executive compensation (Say on Pay)

Because norms and expectations vary by industry type, company size, company age, and geographic location, the following guidelines illustrate elements of effective executive compensation plans and are not a "one-size-fits-all" tool.

A fund's considerations when evaluating executive pay fall into three broad categories:

- *Alignment of pay and performance.* The funds look for evidence of clear alignment between pay outcomes and company performance. This is mainly assessed through alignment of incentive targets with corporate strategy and analysis of three-year total shareholder return and realized pay over the same period vs. a relevant set of peer companies. If there are concerns that pay and performance are not aligned, a fund may vote against a pay-related proposal.
- *Compensation plan structure.* Plan structures should be aligned with the company's stated long-term strategy and should support pay-for-performance alignment. Where a plan includes structural issues which the funds determine have led to, or could in the future lead to, pay-for-performance misalignment, a fund may vote against a pay-related proposal. For compensation structures which are not typical of a market, the Vanguard-advised funds look for specific disclosure demonstrating how the structure supports long-term value creation for shareholders.
- *Governance of compensation plans.* The funds look for boards to have a clear strategy and philosophy on executive pay, utilize robust processes to evaluate and evolve executive pay plans, and implement executive pay plans responsive to shareholder feedback over time. The funds also look for boards to explain these matters to shareholders via company disclosures. Where pay-related proposals consistently receive low support, the funds look for boards to demonstrate responsiveness to shareholder concerns.

A fund will vote case by case on executive compensation proposals (including Say on Pay, compensation reports, and compensation policies) and in general will support those that enhance long-term shareholder value. It may also vote for compensation proposals that reflect improvements in compensation practices in the interests of long-term shareholder value creation, even if the proposals are not perfectly aligned with all these guidelines.

While a fund will not be prescriptive as to exact structure of a compensation plan, it will seek structures and processes that can reasonably be expected to align pay and performance over time. Such structures may include a meaningful portion of equity vesting on performance criteria, strategically aligned performance metrics set to rigorous goals, and clear disclosure of the program and outcomes enabling shareholders to understand the connection to long-term shareholder value, among other factors. A fund does not look for nonfinancial metrics (such as environmental, social, and governance [ESG] metrics) to be a standard component of all compensation plans. When compensation committees choose to include nonfinancial metrics, the funds look for the same qualities the funds do with more traditional metrics, such as rigor, disclosure, and alignment with key strategic goals and/or material risks.

The following situations are among those that raise a higher level of concern related to a compensation plan:

- Pay outcomes are significantly higher than those of peers but total shareholder return is well below that of peers.
- The long-term plan makes up less than 50% of total pay.
- The long-term plan has a performance period of less than three years.
- Plan targets are reset or retested or are not rigorous.
- The target for total pay is set above the peer-group median.

The following situations are among those that raise warning signs, or a moderate level of concern:

- The peer group used to benchmark pay is not comparably aligned with the company in size or strategy.
- The plan uses absolute metrics only.
- The plan allows for positive discretion only.
- The company uses one-time (e.g., retention) awards.
- The disclosure related to plan structure or payout is limited.

Where these warning signs exist, elements of strong compensation governance, such as board responsiveness and disclosure that includes data, rationale, and alternatives considered, can sometimes serve to mitigate these concerns.

Say on Pay frequency

A fund will typically support management proposals to put Say on Pay to an annual vote as opposed to a vote every two years or three years.

Additional executive pay matters

Severance packages/golden parachutes. A fund will typically vote for proposals to approve severance packages (or "golden parachutes") unless they are "excessive or unreasonable" (i.e., cash severance payments that total more than 2.99 times salary plus targeted bonus and/or have single trigger cash or equity payments). The funds believe any new or renewed severance agreements that provide excessive or unreasonable severance should be submitted to shareholders for approval. If a company's current severance arrangements are deemed excessive or unreasonable, a fund may support shareholder proposals requiring that future golden parachutes be put to a vote, provided that ratification after the fact is permitted. A fund may also vote for proposals to approve Say on Severance unless they are excessive or unreasonable.

Shareholder proposals on pay for superior performance. A fund will generally vote against shareholder proposals that call for companies to set standards that require pay for superior performance, particularly when the proposal calls for specific performance standards.

Annual or long-term bonus plans. A fund will typically vote against bonus plans that are excessive or unreasonable and will use criteria similar to that used in the fund's Say on Pay analysis.

A fund will vote case by case on all other proposals with particular focus on situations that raise a higher level of concern, including:

- Plans that cannot be reasonably interpreted by investors
- Plans in which the maximum dollar payout per participant is not disclosed (bonus caps as a percentage of salary or another financial metric—e.g., total income is acceptable as long as the amounts are not unreasonable)
- Broad discretion to set performance criteria, or too many performance criteria
- Lack of correlation between performance and compensation

Adopting, amending, and/or adding shares to equity compensation plans

Appropriately designed stock-based compensation plans, administered by an independent board committee and approved by shareholders, can be an effective way to align the interests of long-term shareholders with the interests of management, employees, and directors.

A fund will vote case by case on compensation plan proposals. A plan or proposal will be evaluated in the context of several factors to determine whether it balances the interests of employees and the company's other shareholders.

These factors include the industry in which a company operates, market capitalization, and competitors for talent. A fund is likely to vote for a proposal in circumstances that include the following:

- Senior executives must hold a minimum amount of company stock (frequently expressed as a multiple of salary).
- Stock acquired through equity awards must be held for a certain period.
- The program includes performance-vesting awards, indexed options, or other performance-linked grants.
- Concentration of equity grants to senior executives is limited.
- Stock-based compensation is clearly used as a substitute for cash in delivering market-competitive total pay.

A fund is likely to vote against a proposal in circumstances that include the following:

- Total potential dilution (including all-stock-based plans) exceeds 20% of shares outstanding.
- Annual equity grants have exceeded 4% of shares outstanding.
- The plan permits repricing or replacement of options without shareholder approval.
- The plan provides for the issuance of "reload" options.
- The plan contains an automatic share replenishment ("evergreen") feature.

Additional employee compensation matters

Repricing or replacing underwater options. A fund will generally vote for proposals to reprice or exchange stock options that meet the following three considerations:

- *Value neutrality.* An exchange/repricing proposal should be value-neutral.

- *Exclusion of executive and director participation.* Executives and directors should not participate in an exchange or repricing. If they do, the board should clearly state why the program is necessary to retain and provide incentives to executives and directors for the benefit of long-term shareholder value.
- *Additional vesting requirements.* New shares granted in an exchange should vest no earlier than the vesting date of the shares for which they were exchanged, and preferably later.

Granting stock options. A fund will generally vote against management proposals to grant one-time stock options if dilution limits are exceeded. It will vote case by case on other proposals.

Adopting deferred compensation plan. A fund will generally vote for proposals to adopt a deferred compensation plan unless the plan includes discounts.

Adopting or adding shares to an employee stock purchase plan. A fund will typically vote against proposals to adopt or add shares to employee stock purchase plans if they allow employees to purchase shares at a price less than 85% of fair market value.

Amending a 401(k) plan to allow excess benefits. A fund will generally vote for a proposal to amend a 401(k) plan to allow for excess benefits.

Nonemployee director compensation

A fund will vote case by case on proposals to adopt or amend nonexecutive director equity compensation plans, including stock award plans. Considerations include potential dilution, the size of the plan relative to employee equity compensation plans, annual grants made to nonemployee directors, and total director compensation relative to market.

A fund will generally vote against nonemployee director equity compensation plans that allow for repricing, as well as those that contain an evergreen feature (automatic renewal). It may also vote against nonemployee director pensions.

A fund will vote case by case on all other proposals for nonemployee director compensation.

Pillar IV: Shareholder rights

The funds believe that effective corporate governance includes shareholders having the ability—in proportion to their economic ownership of a company's shares—to effect and approve changes in corporate governance practices and the composition of the board. The funds look for companies to adopt governance practices to ensure that boards and management serve as designed in the interest of the shareholders they represent. Such governance practices safeguard and support foundational rights for shareholders. Proposals on many of the following matters may be submitted by either company management or shareholders; a fund may generally support proposals—irrespective of the proponent—that seek approval for governance structures that safeguard shareholder rights (and oppose those that do not) as described below.

Board structure and director elections

The funds believe that a given company's board is generally best-positioned to fill director vacancies (subject to shareholder ratification at the next annual meeting) and to set the board's size, tenure, and other structural provisions, so long as any such provision does not serve as an anti-takeover measure.

Classified ("staggered") boards. A fund will generally vote for proposals to declassify a current board and vote against management or shareholder proposals to create a classified board.

Cumulative voting. A fund will generally vote for management proposals to eliminate cumulative voting and vote against management or shareholder proposals to adopt cumulative voting.

Majority voting. If the company has plurality voting, a fund will typically vote for shareholder proposals that require a majority vote for election of directors. A fund may also vote for management proposals to implement majority voting for election of directors. A fund will generally vote against shareholder proposals that require a majority vote for election of directors if the company has a director resignation policy under which a nominee who fails to get a majority of votes is required to resign.

Approval to fill board vacancies without shareholder approval. A fund will generally vote for management proposals to allow the directors to fill vacancies on the board if the company requires a majority vote for the election of directors and the board is not classified. It will generally vote against management proposals to allow directors to fill vacancies on a classified board.

Board authority to set board size. Generally, a fund will support management proposals to set the board at a specific size or designate a reasonable range to provide flexibility. However, it will consider the anti-takeover effects of the proposal, particularly in the context of a hostile takeover offer or board contest. It will generally vote against management proposals to give the board the authority to set the size of the board without shareholder approval at a future time.

Term limits for outside directors. A fund will generally vote for management proposals to limit terms of outside directors and will generally vote against shareholder proposals to limit such terms.

Shareholder access

A fund will vote case by case on management and shareholder proposals to adopt proxy access. Generally, it will vote for proposals permitting a shareholder or a group of shareholders (which should not be limited to fewer than 20) representing ownership and holdings thresholds of at least 3% of a company's outstanding shares for three years to nominate up to 20% of the seats on the board. Any cap on the number of shareholders that can aggregate to satisfy the 3% outstanding share threshold should not be lower than 20.

A fund will consider supporting shareholder proposals that have differing thresholds if the company has not adopted any proxy access provision and does not intend to do so.

Dual-class stock

This guideline applies when a company issues more than one class of stock, with different classes carrying different voting rights. The funds' approach to this issue is principled yet practical. It remains philosophically aligned to "one-share, one-vote" but mindful of the need not to hinder public capital formation in the equity markets.

Alignment of voting and economic interests is a foundation of good governance. The funds support the idea of a newly public company with multiple classes of shares 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 to eliminate dual-share-class structures with differential voting rights.

Defensive structures

All situations involving defensive structures are reviewed holistically and on a case-by-case basis as facts and circumstances vary widely across issuers and over time.

Shareholder rights plans/"poison pills." A fund will generally vote against adoption of poison pill proposals and for shareholder proposals to rescind poison pills, unless company-specific circumstances require that the board and management be provided reasonable time and protection in order to guide the company's strategy without excessive short-term distractions. This analysis would typically require engagements with both the company and the acquirer/activist.

- A fund will generally support structures and practices that are short-term in nature (typically terms of one year or less).
- A fund generally prefers that a plan be put to a shareholder ratification vote at the next practicable annual meeting and at each subsequent annual meeting while the plan is in place. In cases where this is not the practice, a fund may support a shareholder proposal to adopt such practice.
- A fund will generally vote for "net operating loss" (NOL) poison pills and for proposals to amend securities transfer restrictions that are intended to preserve net operating losses that would be lost as a result of a change in control, as long as the NOLs exist and the provision sets forth a five-year sunset provision.

Consideration of other stakeholder interests. A fund will vote case by case on management proposals to expand or clarify the authority of the board of directors to consider factors outside the interests of shareholders in assessing a takeover bid.

Other anti-takeover provisions. In general, a fund will vote for proposals to create anti-greenmail provisions and against "fair price" provisions. It will generally vote for shareholder proposals to opt out of anti-takeover provisions in state corporation laws where that is allowed (e.g., Pennsylvania).

Voting requirements

Supermajority voting. A fund will generally vote against proposals to adopt supermajority vote requirements and for proposals to reduce or eliminate them.

Confidential voting. A fund will generally vote for shareholder proposals to adopt confidential voting.

Time-phased voting. A fund will vote typically against proposals to implement time-phased voting.

Special meetings and written consent

If a company does not have a right to call a special meeting, a fund will generally vote for management proposals to establish that right. It may also vote for shareholder proposals to establish this right, as long as the ownership threshold is not below 10% of current shares outstanding.

If a company already has the right to call a special meeting at a threshold of 25% or lower, a fund will generally vote:

- Against management proposals to increase the ownership threshold above 25%.
- Against shareholder proposals to lower the ownership threshold below the current threshold.

A fund will typically vote for management proposals to establish the right to act by majority written consent. It will generally support shareholder proposals to adopt this right if shareholders do not have the right to call a special meeting.

Advance notice of shareholder proposals

A fund will generally vote for management proposals to adopt advance notice requirements if the provision provides for notice of a minimum of 30 days and a maximum of 120 days before the meeting date and a submission window of at least 30 days prior to the deadline, and reasonable disclosure and ownership requirements that are not overly restrictive or burdensome for shareholders.

Bylaws amendment procedures

A fund will generally vote against management proposals that give the board the exclusive authority to amend the bylaws.

Change of company name

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

Reincorporation

A fund will vote case by case on management proposals to reincorporate to another domicile. Considerations include the reasons for the relocation and the differences in regulation, governance, or shareholder rights.

A fund will vote case by case on management proposals to reincorporate outside the United States. Considerations include the reasons for the relocation, including differences in regulation, governance, shareholder rights, and potential tax benefits. Potential benefits (e.g., higher earnings/ stock price) will be weighed against reduced shareholder rights, potential for increased shareholder tax liability, and potential for other material, long-term risks to the company.

A fund will generally vote against shareholder proposals to reincorporate from one state to another.

Exclusive forum/exclusive jurisdiction

A fund will vote case by case on management proposals to adopt an exclusive forum provision. Considerations include the reasons for the proposal, regulations, governance and shareholder rights available in the applicable jurisdiction, and the breadth of the application of the bylaw.

A fund will generally give companies latitude on organizational matters and, with respect to state forum selection provisions, will generally support proposals to designate state courts in Delaware, or a company's state of incorporation or principal place of business. Any such choice of a state or federal court should be broad-based, rather than limited to a specific court within a state. The funds will consider withholding support from governance committee members when a company unilaterally adopts a provision that meaningfully limits shareholders' rights without a compelling rationale for the choice of forum.

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.

Other such matters that may come before the meeting. A fund will generally vote against proposals to approve "other such matters that may come before the meeting."

Adjournment of meeting to solicit more votes. In general, a fund will generally 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 in 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.

Hybrid/virtual meetings. A fund will generally support proposals seeking to conduct "hybrid" meetings (in which shareholders can attend a 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 in-person meeting). Virtual meetings should not curtail 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 footage is available and attendees can call into the meeting or send a prerecorded message; and
- Shareholder rights are not unreasonably curtailed.

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