

Vanguard's Voting Guidelines: 5 Things to Know

On the heels of [policy updates from State Street](#), we now have these [policy updates from Vanguard](#). Here are five things to know: **1. A new emphasis on climate risk oversight** (pages 6-7) - To assess a climate risk oversight failure, Vanguard will consider these factors: - Materiality of the risk - 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 - Consideration for the company-specific context, market regulations, and expectations, including the board's overall governance of and effective independent oversight of climate risk. **2. Expectations for diversity and qualifications disclosure (and voting against directors due to "insufficient progress")** (pages 7 and 8) - Vanguard has some updates related to board diversity expectations. For example, Vanguard expects disclosure of at least the following: - Statements from the nominating committee (or other relevant directors) on the board's intended composition strategy, including expectations for year-over-year progress - Policies related to promoting progress toward increased board diversity - Current attributes of the board's composition Consistent with [prior guidance](#) from Vanguard, it expects companies to disclose the diversity makeup of the board. As clarified in the updated policy, diversity disclosure should include gender, race, ethnicity, tenure, skills, and experience. Disclosure of personal characteristics (such as race and ethnicity) should be on a self-identified basis and may occur at an aggregate level or at the director level. Disclosure of tenure, skills, and experience at the director level is also expected, although Vanguard does not require this to be in a "matrix" format and may not vote in favor of shareholder proposal seeking disclosure, procedure or policy changes if the proposal is overly prescriptive about what skills should be included or how the information must be presented. Vanguard's updated policy also specifies that it will vote against the nominating and/or governance committee chair (or maybe even another director) if a board is making "insufficient progress" in its diversity composition or with its diversity disclosures. Vanguard will consider applicable market regulations and expectations and company-specific context, and believes that boards should reflect a composition that is appropriately representative given their markets and strategies. **3. Having an "overboarding" policy (and disclosing it)** (pages 5-6) - Vanguard's policy on "overboarding" continues to reflect a two public board limit for named executive officers (NEOs), and four board limit for other directors. This year's updates made two clarifications: - Vanguard is looking to companies to adopt good governance practices regarding director commitments, including the adoption of an overboarding policy and disclosing how the board oversees policy implementation. - For an NEO that does not sit on his or her "home" company board (often, NEOs other than the CEO), Vanguard has clarified that the executive will not be considered overboarded if he or she serves on two outside boards. **4. Expectations for board committee independence** (page 5) - This year's updates clarify certain aspects of Vanguard's policy to vote against nonindependent directors who serve on key committees, and against nominating committee chair (in the first year) and all committee members (in the second year) where non-independent directors serve on such committees. - The updated policy provides that if there is not a nominating and governance committee, Vanguard will vote against all directors, unless only independent directors nominate directors and/or make appointment decisions. - The policy updates also clarify that, for controlled companies, Vanguard will not vote against directors due to nonindependent director service on the compensation or nominating committee as long as those committees are majority independent and no employees, former employees, or persons affiliated with the controlling shareholder serve on the committee. **5. Evaluation of shareholder proposals about hybrid/virtual shareholder meetings** (page 18) - Prior to this update, Vanguard generally voted against proposals to conduct virtual-only meetings but may vote for proposals to conduct hybrid meetings. Under the updated policy, Vanguard may vote for proposals to conduct "virtual-

only" meetings, with a focus on ensuring that the virtual format will not curtail shareholder rights. Vanguard 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 recorded message; and - Shareholder rights are not unreasonably curtailed.

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