

Vanguard, a large asset management firm with \$7.6 T in global AUM (March 2023, Morningstar), engaged with \$3.1 T AUM equity in 2022. The Vanguard Funds published its 2022 Annual Report on April 14, 2023 outlining its engagement and voting overview for the year 2022. It also released insights on its recent vote at the Starbucks AGM.

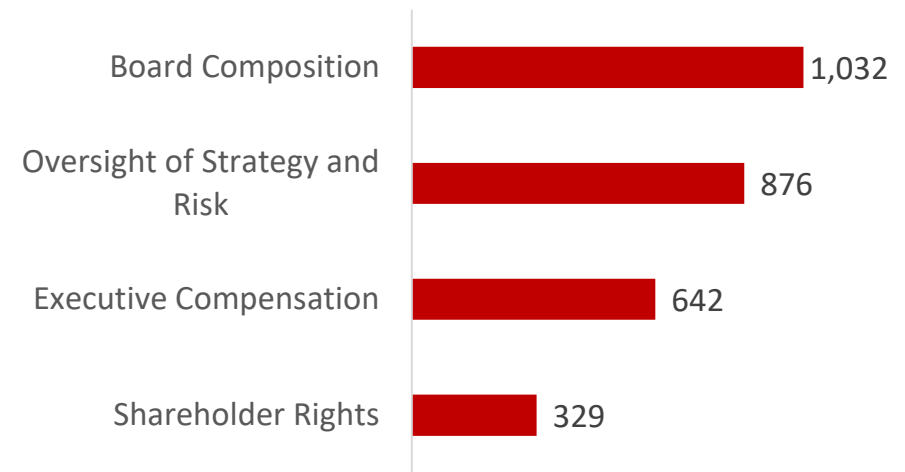
Engagement

Engagements with Vanguard generally take place via direct conversations held with board members and company executives through conference calls and in-person meetings. *The firm has recently begun to reemphasize the participation of independent board directors during engagement.* Vanguard conducted 1,802 engagements with 1,304 companies in the year 2022.

Vanguard's approach to engagement focusses on:

- **Board composition and effectiveness** - How boards select and appoint management, oversee company strategy, and seek to mitigate material financial risks
- **Oversight of strategy and risk** - How boards conduct refreshment and self-evaluate performance of directors
- **Executive Compensation plans** – How executive incentives are aligned with long-term shareholder returns
- **Shareholder rights** - How proactive is the board in implementing governance and bylaw provisions that allow shareholders to hold directors accountable (eg. annual election of directors, majority vote requirements for directors)

Fig 1. Number of Engagements in 2022 by Theme



(Pg 44-87, Vanguard Investment Stewardship 2022 Annual Report)

Engagement on Climate-Risk Governance

- For companies operating in certain sectors: How does the board approach managing Scope 1 and 2 greenhouse gas disclosures and significant exposure to thermal coal
- How does the board approach climate risk oversight, management, and disclosure

Voting Overview

The funds voted on 184,521 proposals at 13,490 companies in 2022. Fig 2 and 3 show the breakdown of votes cast by Vanguard for the Americas in 2022.

Fig 2. Votes In Opposition to Management Proposals

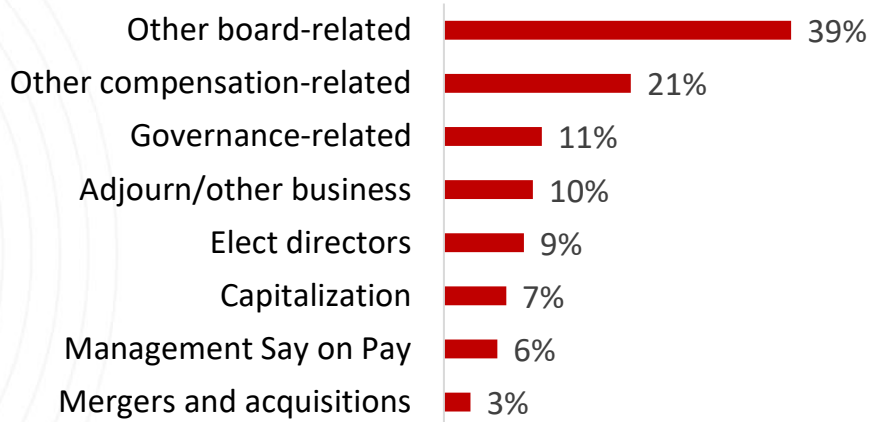
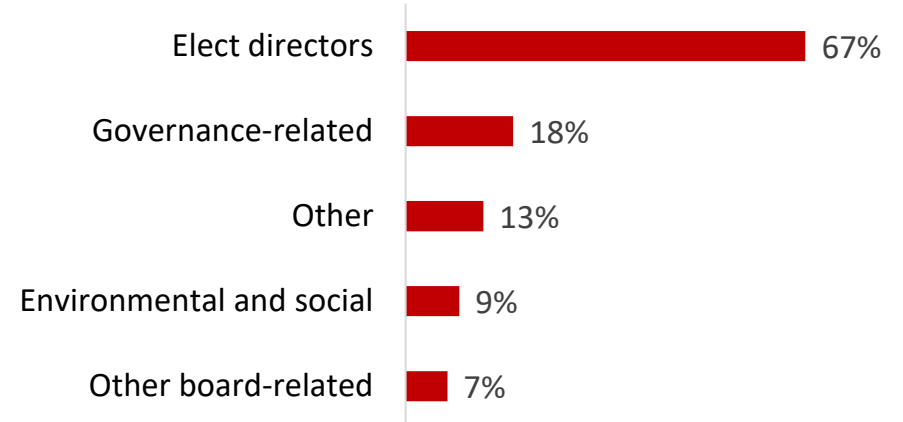


Fig 3. Votes In Support of Shareholder Proposals



(Pg 41, Vanguard Investment Stewardship 2022 Annual Report)

Case Study: Starbucks

Proposal: Shareholder Proposal requesting a third-party assessment of the company’s commitment to freedom of association and collective bargaining rights

Vanguard’s Vote: Vote **Against** the proposal

Engagement Process: Vanguard engaged with a subset of the proposals’ proponents, who shared concerns regarding erosion of shareholder value and the emergence of reputational and legal risks. Vanguard consulted with legal experts to contextualize reports stating that Starbucks had violated federal labor laws – but these were specific to only some U.S. Starbucks locations. Starbucks board and management detailed mitigation steps during engagement, and increased board’s exposure to frontline worker conditions and experiences.

Voting Rationale: Starbucks committed to engage independent third parties to conduct a human rights impact assessment, inclusive of workers’ rights and took appropriate steps to remediate and address the risks



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