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Vanguard's 2021 Voting Policy Updates

Author: Rajeev Kumar, CFA

Vanguard recently announced updates to its proxy voting guidelines. The updated policy guidelines became effective as of April 1, 2021. The most significant policy updates relate to the issues of board diversity, board oversight failings and environmental/social disclosure. Key policy updates are summarized below.

Board diversity and board diversity disclosure

Consistent with its December 2020 guidance addressing board diversity, Vanguard has adopted a policy to generally vote against a company's nominating and/or governance committee chair (or any other director if needed) if the company's board has made insufficient progress on board diversity or board diversity-related disclosure. In its case-by-case voting determination, Vanguard will consider, among other factors, market regulations and expectations along with company-specific context. While Vanguard has not specified any minimum diversity requirements, it has indicated that the greatest board diversity risks to the portfolio in 2021 will be companies with no disclosed board gender diversity, no disclosed board racial or ethnic diversity, or a lack of a disclosed board diversity policy. A comparison of Vanguard's diversity-related policies to those of other large institutional investors and proxy advisors is included as an Appendix hereto.

Director capacity and commitments

Under its existing overboarded director policy, Vanguard may consider supporting an overboarded director in certain instances based on company-specific facts and circumstances. It has now added a provision, likely to allow itself flexibility in the case of a diverse director, to also consider a board's skills and diversity composition in determining whether it would vote in favor of the (re)election of an overboarded director.

Independent chair of the board

Vanguard considers board leadership structure to be a board matter and will therefore continue its policy of generally voting against shareholder proposals seeking to separate the roles of chair and CEO, unless there are significant independence or board effectiveness concerns at the company in question. In its specified list of factors that may raise such independence or effectiveness concerns, Vanguard has updated its guidelines relating to potential governance failings – now renamed oversight failings – to indicate that failure to manage material or manifested risks, including environmental or social risks, will be considered, particularly if such failure negatively impacted shareholder value. Vanguard has similarly updated its current policy to generally vote against responsible directors in cases of oversight failures by explicitly enumerating environmental and social risks as factors to be considered in assessing such failures.

Environmental/social disclosure

Vanguard will continue to vote shareholder proposals addressing environmental and social matters on a case-by-case basis. Its existing policy to generally support proposals seeking to improve disclosure to be in line with market norms remains. It has revised its guidelines to indicate that it will evaluate these proposals in the context of whether the topic at issue presents a material sector- or company-specific risk or opportunity that has the potential to affect long-term shareholder value. Previously its guidelines referenced a higher threshold of a “demonstrable link” to long-term shareholder value in order to support such proposals. In addition, updates also provide that Vanguard is likely to support proposals addressing shortcomings in a company’s ESG disclosure relative to widely accepted frameworks endorsed or referenced by Vanguard’s Investment Stewardship program. Vanguard specifically references the Sustainability Accounting Standards Board and the Task Force on Climate-related Financial Disclosures as being two such examples of stewardship-endorsed frameworks or standards.

As updated, Vanguard’s guidelines now include “additional considerations” on common proposal types as summarized below.

Climate-related disclosure

Vanguard is likely to support climate proposals that (1) request disclosure on how climate change risks are incorporated into strategy and capital allocation decisions, or (2) ask for an assessment of climate impact on business (including scenario analysis) or feasibility analysis for environmental disclosure.

Workforce diversity disclosure

Vanguard has updated its guidance applicable to proposals addressing workforce diversity to provide it is likely to support proposals that request “reasonable” disclosure on workforce demographics, including gender and racial/ethnic categories. Reasonableness will take into consideration “widely accepted industry standards, current company practices, and applicable laws and regulations.” Vanguard otherwise will continue its case-by-case approach to voting on proposals that seek enhanced disclosure on employee workforce demographics or compensation statistics, or inclusion of sexual orientation, gender identity, minority status, or protected classes in a company’s employment or diversity policies to the extent a company has not formally established such protections.

Corporate political activity disclosure

Vanguard has added new guidance indicating it will vote on a case-by-case basis on proposals that request greater disclosure of a company’s political spending and/or lobbying activities, policies, or practices. In its evaluation, Vanguard will consider applicable laws and regulations, prevalence of corporate political activity within a company’s industry, the company’s current disclosure and level of board oversight of corporate political activity, disclosure regarding trade associations, and any recent controversies or risks related to company’s corporate political activity, among other factors.

Environmental/social policy and practices

Vanguard provided additional guidance to its existing case-by-case approach on proposals that prescribe adoption of environmental and social goals or shareholder proposals that prescribe adoption of policies and practices. Vanguard has indicated that while each proposal will be evaluated based on its merits and a company's current practices and disclosure, it will also consider these proposals relative to market norms or widely accepted frameworks endorsed or already referenced by Vanguard's Investment Stewardship program. It has also revised these guidelines to indicate it will be more likely to consider proposals that remain within a "governance scope," such as those that request goal-setting that further articulates the path to implementation of a disclosed company priority, as compared to those that cross into management territory, which generally will not be supported.

Bankruptcy proceedings

Vanguard has added a section on bankruptcy proceedings wherein it would evaluate on a case-by-case basis proposals to liquidate or restructure a firm based on consideration of factors such as available alternatives, financial prospects of the firm and management incentives.

Conclusion

Historically Vanguard has been one of the least supportive investors with respect to ESG-related proposals generally, and climate change-related proposals in particular. These policy updates signal a likely shift in Vanguard's voting behavior as the 2021 proxy season gets underway. Companies will be wise to take stock of how their ESG disclosures and practices compare to peer practices and market norms to avoid negative voting consequences going forward.

If you have questions or comments, please email info@georgeson.com or call 212 440 9800.

Appendix

The following table represents a high level summary of select significant investors' and proxy advisors' policies with respect to board and workforce diversity. It does not include all relevant guidance published by such institutions on these topics. Please contact your regular Georgeson representative for specific questions regarding your investors' diversity practices and policies.

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<tr><th></th><th>Board Gender Diversity</th><th>Board Racial/Ethnic Diversity</th><th>Workforce Diversity</th></tr>
<tr><td rowspan="2">ISS</td><td>Generally recommends against or withhold from the chair of the nominating committee (or other directors on a case-by-case basis) at companies* where there are no women on the company's board</td><td>For 2021, highlight boards with no apparent racial or ethnic diversity. Effective for meetings on or after Feb. 1, 2022, generally vote against or withhold from the chair of the nominating committee (or other directors on a case-by-case basis) where the board* has no apparent racially or ethnically diverse members</td><td rowspan="2">Generally recommends for proposals requesting disclosure of diversity policies, initiatives, or comprehensive workforce diversity data, including EEO-1 data</td></tr>
<tr><td colspan="2">Generally recommends for proposals requesting reporting on a company's efforts to diversify the board; case-by-case on proposals asking a company to increase the gender and racial minority representation on the board</td></tr>
<tr><td>Glass Lewis (GL)</td><td>Generally recommends against the nominating committee chair of a board that has no female members

Effective for meetings held after Jan. 1, 2022 at boards with greater than six members, will generally recommend against the nominating committee chair of a board with fewer than two female directors</td><td>Beginning with 2021, GL reports for companies in the S&P 500 index will include an assessment of company disclosure in the proxy statement relating to board diversity including the board's current percentage of racial/ethnic diversity. Such ratings may be a contributing factor in GL's voting recommendations when additional board-related concerns have been identified</td><td>N/A</td></tr>
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<tr><td rowspan="2">BlackRock</td><td colspan="2">May vote against directors on the nominating

committee (or equivalent) for an apparent lack of commitment to fostering board effectiveness if there is insufficient progress on enhancing board diversity within a reasonable timeframe.

When considering a company’s commitment to diversity, BlackRock looks at factors such as market norms, the addition of a diverse director within the previous year, the existence of time-bound board diversity targets, average board tenure, and public statements that focus on efforts to advance diversity, equity, and inclusion in the boardroom</td><td rowspan="2">Expects disclosure of workforce demographics, such as gender, race and ethnicity, in line with the EEO-1 Survey, alongside steps being taken to advance diversity, equity and inclusion. Where disclosure or practice falls short relative to market or peer norms, may vote against members of the appropriate committee or support relevant shareholder proposals</td></tr>
<tr><td>Encourages companies to have at least two women on their boards</td><td>Encourages disclosure of demographics related to board diversity, including but not limited to gender, ethnicity, race, age and geographic location, in addition to measurable milestones to achieve racial, ethnic and gender diversity</td></tr>
<tr><td>State Street Global Advisors (SSGA)</td><td>SSGA may vote against the Chair of the board’s nominating committee at Russell 3000 companies that do not have at least one female board member; may vote against all incumbent nominating committee members where a company has had no gender diversity for three consecutive years</td><td>SSGA will vote against the Chair of the Nominating & Governance Committee at S&P 500 companies that
In 2021, do not disclose the racial and ethnic compositions of their boards
In 2022, do not have at least one director from an underrepresented community on their boards</td><td>In 2022, will vote against the compensation committee chairs at S&P 500 companies that do not disclose their EEO-1 survey responses</td></tr>
<tr><td>Goldman Sachs Asset Management</td><td>Will vote against the full board if there is not at least one woman director on the board.

Will generally vote for proposals requesting reports on a company’s efforts to diversify the board</td><td>Will vote against nominating committee members if there is not at least one woman director and one other diverse director on the board</td><td>Expects disclosure of a company’s diversity policy</td></tr>
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Invesco	Will vote against nominating committee chairs at companies where women constitute less than two board members or 25% of the board, whichever is lower, for two or more consecutive years, absent incremental improvement	Will vote against nominating committee chairs where multiple concerns exist with respect to board diversity broadly speaking, including ethnic diversity among other factors	N/A
Capital Group	Expects companies to have diversity on the board consistent with local market best practice		Expects companies to make public EEO-1 data or other equivalent information for US employees, and where feasible, to disclose similar information for other segments of the workforce
JP Morgan Asset Management	Will generally vote against the nominating committee chair where a company does not disclose the gender or racial or ethnic composition of the board, and where the company lacks any gender or any racial/ethnic diversity absent mitigating factors		Generally supports shareholder proposals seeking disclosure of workforce diversity demographic data, and release of EEO-1 or comparable data
Vanguard	Has not specified any minimum diversity requirements, but has indicated that the greatest board diversity risks to its portfolio in 2021 will be companies with no disclosed board gender diversity, no disclosed board racial or ethnic diversity, or a lack of a disclosed board diversity policy		Likely to support proposals that request "reasonable" disclosure on workforce demographics, including gender and racial/ethnic categories. Case-by-case approach to other workforce diversity-related proposals

*The policy applies to companies in the Russell 3000 or S&P 1500 indices