2018

Investment Stewardship Annual Report

Investment Stewardship 2018 Annual Report

An introduction from our CEO

Tim Buckley
Chief Executive Officer

Over my 27 years at Vanguard, I've come to appreciate the value of tuning out the noise and focusing on long-term wealth creation. A long-term perspective informs every aspect of Vanguard's approach, from hiring and retaining top talent to investing our clients' money. A long-term focus also underpins the work of our Investment Stewardship team, which advocates, engages, and votes on behalf of each of our funds' investors.

I've been encouraged by the growing number of conversations in recent years about "long-termism." This means looking far beyond the next few quarters or the next few years and focusing instead on the creation of value aligned with our clients' ultimate goals of retirement, education, a home, or financial security. The fact that this idea is resonating with a wider range of stakeholders means that the voices of long-term investors are being heard more than ever before.

In response to our voice and others', more and more companies are adopting a long-term focus. Although pockets of poor governance remain, overwhelmingly we've seen companies adopt governance best practices shown to support long-term returns, and companies have increased disclosure about key risks to their business that may undermine long-term value creation. Corporate boards around the world are also spending more time communicating with their longest-term investors, with whom their interests are so closely aligned.

I am pleased to present this Annual Report, which outlines our Investment Stewardship activities over the past year. These pages describe the structure and philosophy of our Investment Stewardship team, the topics on which we are engaging with companies, and the regions of the world we are reaching.

Thank you for investing with Vanguard and trusting us to do the right thing.

A letter to our fund shareholders

Dear Shareholders,

This report outlines the activities of Vanguard's Investment Stewardship team for the 12 months ended June 30, 2018.

Our team had a productive year on behalf of Vanguard's more than 20 million clients worldwide. We voted your funds' proxies at nearly 20,000 meetings and engaged directly with more than 700 portfolio companies. We also shared our perspectives through our advocacy efforts with corporate director audiences, other investors, regulators and policymakers, and other stakeholders. We expanded the breadth and depth of our analysis on a range of governance topics, and we established our European Investment Stewardship team.

At the same time, our sector-based approach to analysis, engagement, and voting has enabled us to have richer conversations with portfolio company directors and executives. This approach, which remains grounded in our four pillars of good governance, has served us well in fostering more robust dialogue with portfolio company executives and directors about their board composition, executive compensation, oversight of risk and strategy, and governance structures.

In April 2018, after years of supporting our global investment stewardship activities from our headquarters in Valley Forge, Pa., we established our European team, which will serve as a natural extension of our advocacy, engagement, and voting program. Based in London, the team will ultimately be responsible for oversight of the funds' European equity holdings, and they will deepen our participation in local advocacy. We continue to evaluate opportunities to broaden our scale to support the rest of our funds' global exposure.

In our engagements over the past year, it has been clear that more companies have a greater understanding and appreciation of their longest-term investors. We saw that companies and other market participants are coalescing around this way of thinking. And we observed that many themes continue to mature in the industry, with a stronger focus on long-termism, sustainability, and risk oversight.

Our funds can hold stocks for decades, and we were pleased to see long-termism come to the fore and be a key part of many industry discussions. For many years, we have advocated for companies to focus on delivering sustainable long-term value for shareholders. We were gratified this past year to see more and more companies make strides to incorporate sustainability into their strategy, risk planning, and disclosure, with this objective in mind.

At the same time, we saw no shortage of governance failings this year; numerous companies faced controversies ranging from cybersecurity breaches to unfair systemic business practices. Our perspectives on these topics and others are explained by members of our senior team in more detail throughout this report.

Central to our approach to these topics is our unwavering commitment to the long-term economic value of your funds' investments. While we recognize that our shareholders have a wide range of ideological perspectives, our decisions on these matters are grounded in long-term economic value. I invite you to read more about all we're doing on behalf of your fund investments.

Thank you for trusting Vanguard to steward your assets.

Sincerely,

Glenn Booraem
Investment Stewardship Officer
August 15, 2018

Our four pillars

Board composition

Good governance begins with a great board of directors. Our primary interest is to ensure that the individuals who represent the interests of all shareholders are independent, capable, and appropriately experienced. We also believe that diversity of thought, background, and experience, as well as of personal characteristics (such as gender, race, and age), meaningfully contributes to a board's ability to serve as effective, engaged stewards of shareholders' interests. If a company has a well-composed, high-functioning board, good results are more likely to follow.

Executive compensation

We believe that performance-linked compensation policies and practices are fundamental drivers of sustainable, long-term value. The board plays a central role in determining appropriate executive pay that incentivizes performance relative to peers and competitors. Providing effective disclosure of these practices, their alignment with company performance, and their outcomes is crucial to giving shareholders confidence in the link between incentives and rewards and the creation of value over the long term.

Oversight of risk & strategy

Boards are responsible for effective oversight and governance of the risks most relevant and material to each company and for governance of the company's long-term strategy. We believe that boards should take a thorough, integrated, and thoughtful approach to identifying, quantifying, mitigating, and disclosing risks that have the potential to affect shareholder value over the long term. Boards are also responsible for consulting on and overseeing the company's strategic direction and progress toward its objectives, to which directors should be keenly attuned. Importantly, boards should communicate their approach to risk oversight to shareholders through their normal course of business.

Governance structures

We believe in the importance of governance structures that empower shareholders through their voice and their vote and ensure accountability of the board and management. We believe that shareholders should be able to hold directors accountable as needed through certain governance provisions, such as annual elections that require a majority of the votes to join or remain on the board. In instances where the board appears resistant to shareholder input, we also support the right of shareholders to call special meetings and to place director nominees on the company's ballot.

Our structure and approach

Vanguard's Investment Stewardship program is executed by an experienced group of senior strategists and analysts who are aligned by sector or region and by topical area of responsibility. This structure enables us to develop breadth and depth on relevant issues across our funds' portfolios, as well as those unique to certain industries, regions, and countries. Our senior leaders, who are responsible for broad-based sector teams and/or regional teams, oversee all engagement, company research, analysis, and voting for the companies in their areas, in partnership with their focused teams of analysts.

Our research and communications group is active in communicating Vanguard's views, policies, and thought leadership in partnership with subject matter experts from across the broader Investment Stewardship team. And our technology and operations group enables every aspect of our program's research, analysis, and execution.

Our team represents Vanguard fund shareholders' interests through industry advocacy, company engagement, and proxy voting.

Advocacy: We are tireless advocates for the sustainable, long-term value of our shareholders' investments. We promote a long-term view in both corporate governance and investment practices through public forums and published materials.

Engagement: We meet with portfolio company executives and directors to share our long-term orientation and principled approach and to learn about companies' corporate governance practices. We characterize our approach as deliberate, constructive, and results-oriented.

Voting: Our team votes proxies at public company shareholder meetings across each of our funds. Because of our advocacy and engagement efforts, companies should be aware of our priorities and governance principles by the time we cast our funds' votes.

One global step for fund investors

Adrienne Monley, Head of Investment Stewardship, Europe, speaking at a forum in June 2018.

We took an important step this year in accelerating our global approach. While our U.S.-based team has always overseen our funds' holdings around the world, we began an expansion of Vanguard's Investment Stewardship program by establishing a team in Europe. This in-region presence complements the global scope of our program, applying a more local perspective to our core activities of advocacy, engagement, and voting.

"Europe was the logical next region for Vanguard to base a full-time team; it has an active engagement landscape and many companies eager to support long-term value creation," said Adrienne Monley, who leads the new team. "We have already observed a wide diversity of thought on stewardship, corporate governance, and sustainability and a range of approaches by investors and public companies. There is much we can bring to the table—and learn—here in Europe."

Before starting the European team, Ms. Monley held leadership roles on the U.S.-based Investment Stewardship team and served as chief of staff to Vanguard's global general counsel.

Based in Vanguard's London office, our European team collaborates daily with its U.S.-based counterparts, supporting both global advancement and regional appreciation of Vanguard's views and applying our sector-oriented perspectives where relevant.

"Over more than a decade, engagement has evolved as an important and impactful supplement to our funds' proxy voting activities," Vanguard Investment Stewardship Officer Glenn Booraem said. "Today, we view engagement and public advocacy as key drivers of improvement to corporate governance and, ultimately, long-term value."

"The team will deepen our European engagement agenda and participation in industry dialogue to advance the interests of our fund investors," Ms. Monley said.

"As we look ahead," Mr. Booraem added, "we'll continue to explore opportunities to enhance our local perspective in other regions around the world."

Investment Stewardship at a glance

During the 2018 proxy year, we deepened our expertise and continued to engage and vote on a range of governance matters. The details below illustrate our advocacy, engagement, and voting on topics including board composition, executive compensation, and sustainability risks.

50+
industry speaking engagements

721
companies engaged

168,786
proposals voted on

- Discussed board composition in more than **50%** of our engagements, consistent with the 2017 proxy year.
- Saw fewer total proposals about gender diversity on boards as more companies make progress; voted in favor of **4** out of **9** gender diversity proposals.

- Discussed compensation in more than **50%** of our engagements.
- Voted against **318** members of company board compensation committees for failing to act in response to shareholder feedback.

- Engaged with **over 200** companies in carbon-intensive industries. Supported **11** out of **76** environmental disclosure proposals, compared with **2** out of **92** in 2017.
- Engaged with **3** publicly owned gun manufacturers and supported **1** shareholder proposal calling for greater risk disclosure. Also engaged with **8** drug manufacturers, drug distributors, and pharmaceutical companies about the opioid epidemic and its impact on their business.

>$1.6T
Equity assets under management engaged in the last year†

24
Countries represented in our engagements

40%
Share of engagements that included independent directors

† Dollar figure represents the market value of Vanguard fund equity investments in companies with which we engaged over the 12 months ended June 30, 2018. AUM calculated as of that date.

Engagement and voting at a glance

Our global reach

Our funds own stocks around the world. Our engagement efforts mirror the distribution of those assets: 76% of our equity fund assets under management are invested in the U.S., and 86% of the assets with which we engaged were U.S.-based.

Our voting trends

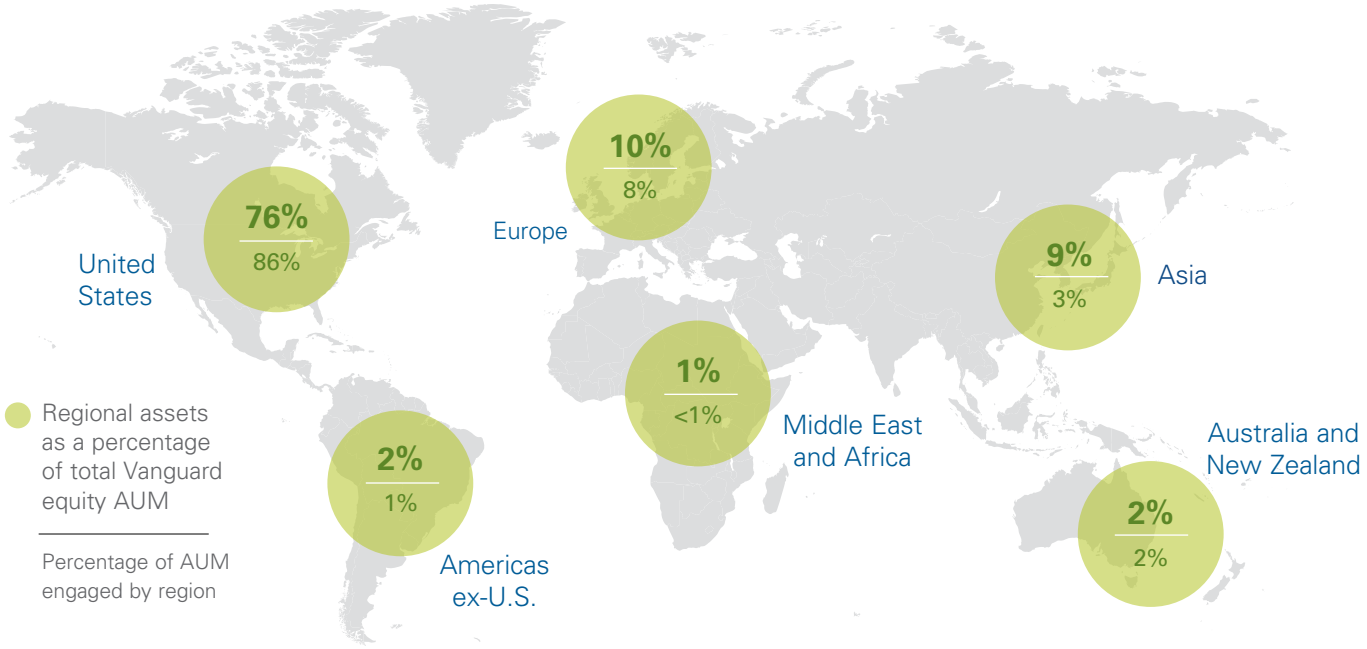
In the 2018 proxy year, the Vanguard funds voted on 168,786 proposals at 19,357 company meetings across every major world region. These meetings took place at 12,724 portfolio companies, representing every major sector of the market.

Evolution of our engagements

We engaged with 721 companies, a 63% increase from 2014. We expect that our engaged assets under management will increase as we conduct more strategic engagements with companies around the world.

Our global reach

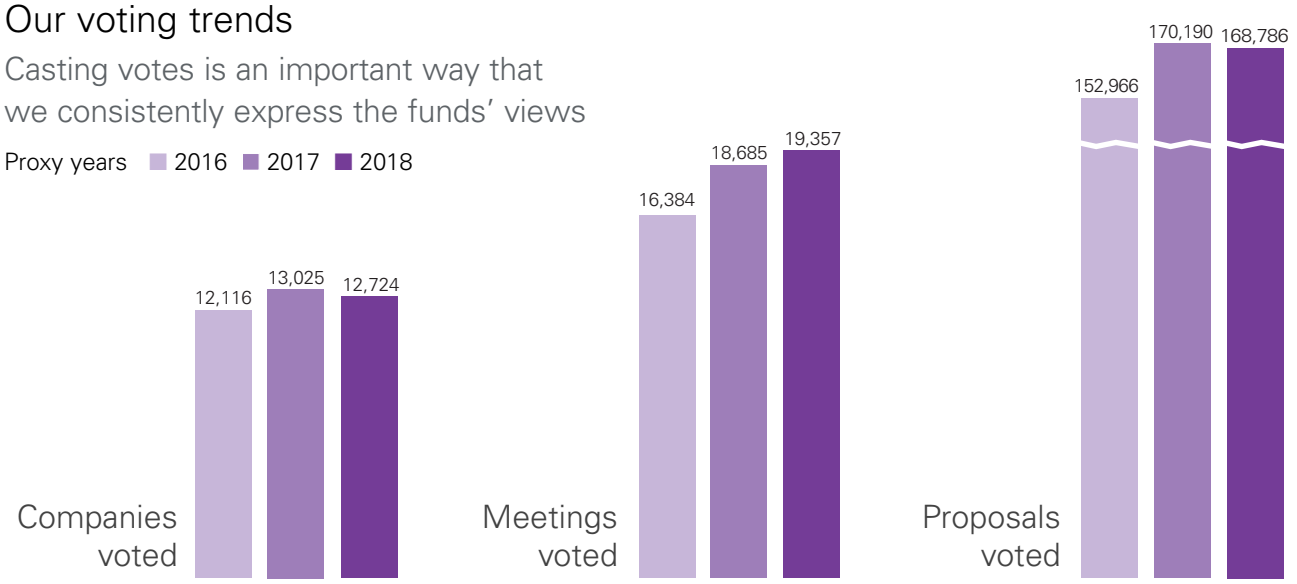
Our engagement activity is proportional to the geographical distribution of our assets



Notes: Data pertain to the 2018 proxy year. Assets under management are calculated as of June 30, 2018. The percentage of AUM engaged by region is calculated by dividing the AUM represented by our engagements in each region by the AUM represented by our total global engagements. As of June 30, 2018, the AUM represented by our total global engagements was $1.6 trillion. Differences in the two percentages shown in each circle reflect engagements with companies of various market capitalizations.

Our voting trends

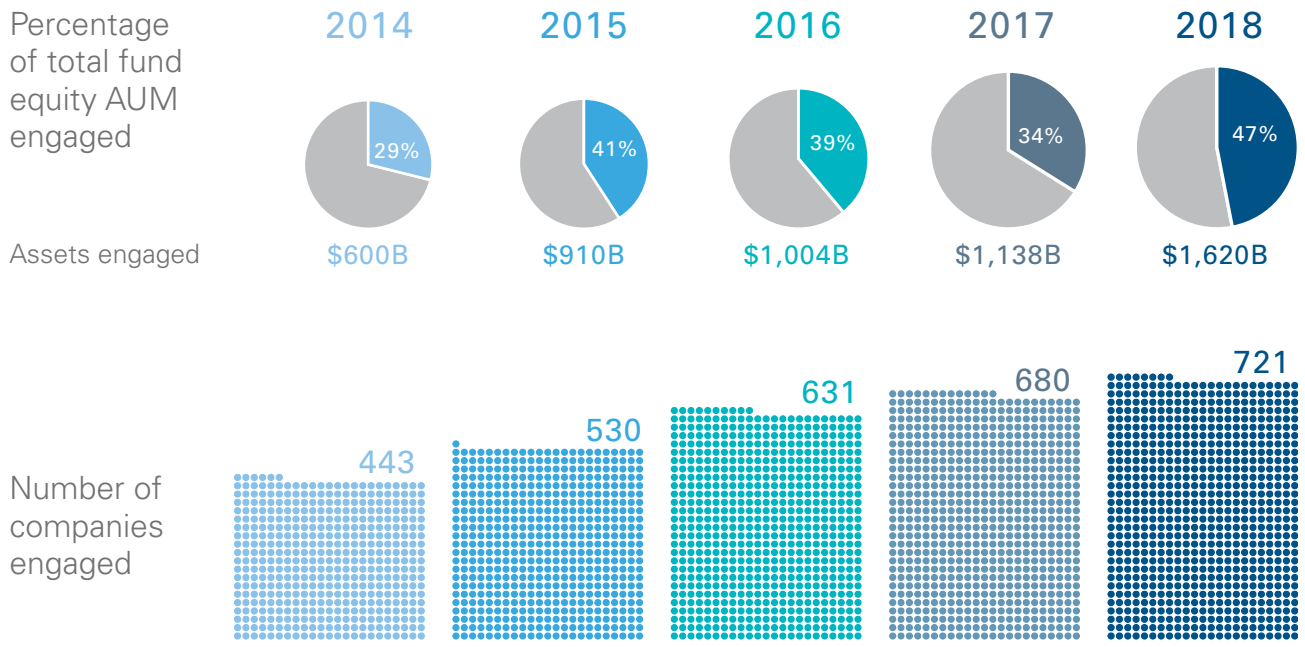
Casting votes is an important way that we consistently express the funds' views



Note: The proxy year is measured from July 1 through June 30. Numbers may vary slightly from past reporting because of data methodology.

Evolution of our engagements

We focus on topics and companies that have the greatest impact on our funds



Notes: Dollar figures represent the market value of Vanguard fund equity investments in companies with which we engaged in each proxy year shown. Percentages of equity assets under management reflect the AUM of the companies Vanguard engaged with relative to Vanguard funds' total equity AUM.

The full arc of engagement

W. Robert Main III, CFA
Head of Portfolio Company Engagement, Analysis, and Voting

Engagement is the foundation of our Investment Stewardship program. Because our index funds are practically permanent owners of portfolio companies, we aim in our engagements to build a strong understanding of how companies govern their long-term strategy. Importantly, we do not seek to influence company strategy. We participate in the full arc of engagement—from understanding high-level strategy to asking targeted questions on specific voting matters. This process unfolds over the course of many individual meetings with directors and executives. This enables us to understand a company's corporate governance practices and long-term strategy and to monitor progress over time.

Engagement has improved substantially over the last decade. It started as discussions with company leaders regarding matters on the ballot at an upcoming shareholder meeting. Over time, it has evolved into a broader and deeper discussion with both directors and management on principle-based matters that go well beyond the year's ballot. This has made engagement a year-round process—not just a proxy season phenomenon—and has expanded its reach globally. Over the past year, we engaged with 721 companies, representing $1.6 trillion, or 47%, of our total fund equity assets under management.

The structure of our Investment Stewardship sector teams enables us to build deep expertise on important industry issues. Each team specializes in certain sectors and is led by a senior strategist. These strategists have relevant industry experience and work closely with analysts on all engagement, analysis, and voting.

We conduct significant research and analysis to prepare for our engagements. At the highest level, we have three general types of engagements:

1. **Event-driven:** These are typically discussions about a ballot item or contentious vote. In these instances, we want to hear all relevant perspectives. These engagements might also be prompted by a company crisis.
2. **Topic-driven:** Such meetings are held to discuss matters within the board's purview that may, in our view, materially affect a company's long-term value. These are most likely to target companies with a record of longer-term underperformance coupled with gaps in corporate governance (for example, limited gender diversity or lack of responsiveness).
3. **Strategic:** Given many of the funds' practically permanent ownership, understanding a company's long-term strategy—and the alignment of its governance practices with that strategy—is valued more and more. This enables us to put the periodic "bumps in the road" in the context of the company's long-term goal.

In the pages that follow, we share summaries of select engagements from the past year. Companies' names have been purposely omitted, as we have found that keeping the specifics of our discussions private engenders a greater level of candor, directness, and productivity. These examples are intended to illustrate our principles in practice and the types of conversations we have on behalf of Vanguard fund investors.

W. Robert Main III has been Head of Portfolio Company Engagement, Analysis, and Voting since 2015. He previously held senior leadership roles in Vanguard's investment manager due diligence, product development, and product implementation functions. Mr. Main joined Vanguard in 1997.

Board composition

A board serves on behalf of all shareholders and is critical to ensuring the health of a company over time. We believe that having a thoughtfully composed board with the appropriate skills and experience to oversee the company's strategy of today—and, importantly, tomorrow—will help sustain value for shareholders over the long term.

This board-centric view is central to our approach to investment stewardship.

More than half our engagements over the past year included discussions about board composition along a number of dimensions, including director independence, tenure, skills, and diversity.

Board composition

New directors are first step in a governance overhaul

We conducted multiple engagements about appropriate board composition with a U.S. consumer discretionary company whose CEO had been forced out over sexual harassment allegations. An activist shareholder later entered the dialogue, intent on improving the company's governance practices. With both parties, we discussed our concerns about the material risks associated with the allegations, as well as board composition and the company's compensation structure.

In the wake of the CEO's departure, the board made a number of positive changes, including adding several qualified women as directors. Despite this progress, the funds voted against an advisory proposal on executive compensation and against the lead director, given our concerns. We will monitor developments in the sexual harassment investigations and the board's evolution more broadly.

Japanese company embraces more board independence and diversity

We met in previous years with a Japanese materials company to discuss the expansion of its board to include an additional independent director. This year, in a follow-up conversation, we talked about its changes to board composition, independence, and director education. In response to collective feedback from a number of shareholders, the company has added more independent directors than Japanese regulations require, and its proportion of independent directors has meaningfully surpassed those of its peers. It has also taken steps to strengthen the board's oversight of strategy and risk.

We appreciate the company's commitment to incorporating more independence and board diversity, in both gender and expertise, and we thanked its directors for sharing their approach to these topics with us. We encouraged the board to continue serving as an example to other companies in Japan as that market continues to improve its corporate governance standards.

A strategic engagement with an Australian telecom company

Strategic engagements help us understand companies' long-term strategies and governance principles. That perspective is especially valuable to us when firms encounter issues. As a follow-up to a targeted engagement several months prior, our team engaged in person with an Australian telecommunications company. Rather than focusing on one specific subject, we used this time to continue building a deeper understanding of the company's strategy and its perspectives on various governance topics.

The engagement revealed that Vanguard and the company had a shared view on board evolution, one focused on diversifying the board's skill sets in areas most aligned with the company's long-term strategy. We also supported the company's efforts to improve its board assessment process. As we move forward, we intend to build upon other governance topics that we discussed with the company, including sustainability disclosure and the board's role in oversight of risk.

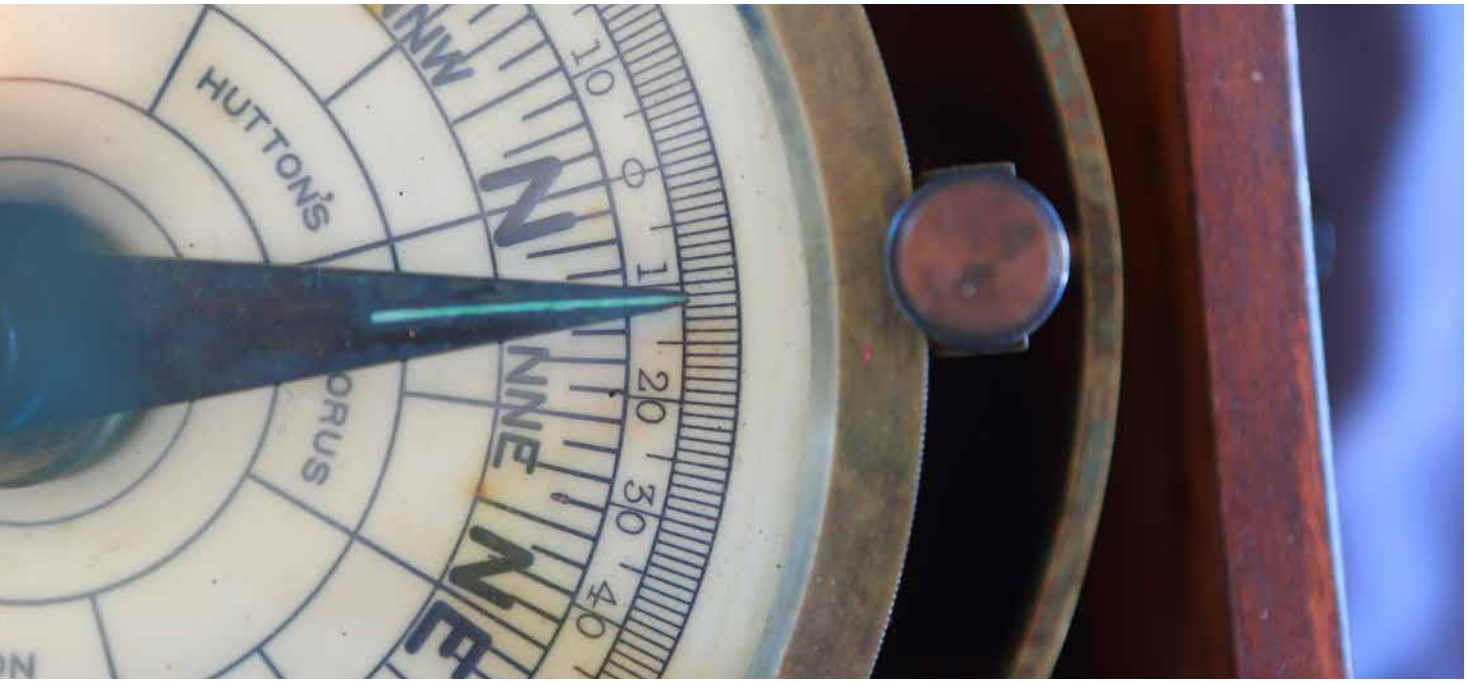
Japanese consumer discretionary firm improves governance practices

During Japan's proxy season, we engaged with a consumer discretionary company after it adopted new governance practices in line with recent changes to Japan's Stewardship Code. We had a constructive strategic engagement about the company's approach to board composition, director evaluation, and executive compensation. We gained a deeper appreciation for the company's approach to these topics as governance practices in Japan continue to evolve.

We commended the company and thanked its directors for engaging in dialogue with us.

A proactive approach to stewardship in Hong Kong

We interacted with the senior leadership of a Hong Kong-based industrials firm to better understand its approach to board composition and other governance topics. We were pleased to learn that the company was taking steps to improve disclosure of director evaluation. We also learned that the board had a thoughtful strategy to bring in external perspectives to educate its directors on key strategic issues that affect the business—a point we routinely promote with boards. Management also shared that it was actively exploring how to incorporate industry reporting frameworks around climate risk into public reporting and sought to be a disclosure leader on the topic. We expressed our appreciation for the company's willingness to engage with us and its thoughtful approach to disclosure and board education.



Gender diversity on boards: Progress has been mixed

Our 2017 annual report highlighted the evidence-based, mainstream principle that greater gender diversity on boards can lead to better company performance over time. Diversity on multiple dimensions, including gender, remains a standing topic of discussion for us with any board that has not demonstrated progress on this front. Some firms have made genuine commitments to gender diversity; others maintain surprising resistance to the idea.

One U.S. real estate company with no women on its board received a gender-related shareholder proposal. Company leaders told us they were actively seeking a woman to add to the board, but they opposed the gender proposal because of its reporting requirement. We preferred to see more disclosure of their process and supported the proposal, which drew a vast majority of shareholder support. In response, the company published a report addressing its commitment to diversity and its approach to reviewing board composition and hiring. The board recently added its first woman to the board. We were pleased with this addition but expect to see further progress in the near future.

We engaged with two U.S. information technology companies facing gender-related shareholder proposals at their annual meetings. The first company told us that trying to identify diverse candidates limited the candidate pool. The second company said it did not believe that gender diversity would enrich the board. The funds voted in favor of the gender-related proposals at each company. Although only one of the proposals passed, both companies acknowledged the strong shareholder support for board diversity, and each has since appointed a woman to its board. Both companies have also published plans to incorporate diversity into their board search process. In each case, we intend to push for additional board diversity so that boards can better unlock the benefits of having a wide range of perspectives.

Executive compensation

We advocate for executive pay arrangements that are constructed to incentivize relative outperformance over the long term. When shareholders do well, so should executives, and when shareholders don't do well, executives' pay should move in the same direction.

Performance-linked policies should motivate management to focus on long-term value creation instead of short-term goals. The board should ensure that the company's policies are appropriate compared with those of peers and the company's industry, and the details of any pay plan should be clearly disclosed to shareholders.

During this past proxy season, we discussed executive compensation in about half our engagements. The alignment of pay with relative performance and the magnitude of total compensation were prominent themes in our discussions on this topic.

Series of engagements leads to sensible compensation policy

Our team decided to engage with a U.S. health care company when an activist investor raised legitimate concerns about the company's corporate governance practices. Having engaged with the company for several years, we had supported other shareholders' requests for constructive change. After discussing compensation and governance structures with several independent directors, we felt optimistic that our concerns would be addressed and that the board was engaging with the activist investor to come to a mutually beneficial agreement.

The company changed its compensation practices and several bylaws to improve shareholder rights. In light of this significant progress, the Vanguard funds voted in support of management on all ballot items at the company's 2018 annual meeting.

Compensation program undergoes constructive changes

Over 18 months, we engaged with a Swiss financial services company to discuss board composition, corporate structure, and compensation. Before its annual meeting in 2016, the company faced criticism for its compensation plan. Although we had historically been supportive of executive compensation, we offered feedback on how to improve the plan to further provide accountability for long-term performance.

After repeated engagements, we were pleased to see the company adopt several program features that aligned with our feedback, including enhanced compensation disclosure and linking a portion of pay to relative total shareholder return. The board's responsiveness demonstrated its commitment to progress.

Excessive pay lacks strong link to shareholder returns

We engaged with a U.S. consumer discretionary company to address our concerns about an extraordinary retention award to the CEO. We were concerned with the level of compensation relative to peers and the lack of a compelling link to shareholder returns compared with the firm's competitors.

Although we had historically been supportive of the CEO's pay, and he had created substantial value over his tenure, the magnitude of this package was excessive given its lack of linkage to outperformance over time. As a result, the Vanguard funds—and a majority of other shareholders—voted against the package, and it failed to pass.

We will continue to engage with the board to steer the compensation committee in the right direction.

Vanguard funds vote against outsized pay package

Shareholders were presented with an unprecedented compensation package for the CEO of a U.S. consumer discretionary company, so we engaged extensively with the board to understand the rationale. Board members explained that because they considered the CEO to be critical to the company's growth and success, he was more than deserving of the extraordinary pay package. Although we appreciated that the package included aggressive long-term goals with the potential to benefit shareholders, we believed that supporting the package could set a worrying precedent in acceptable CEO pay. Such a significant investment in a single person also raised questions for us about the strength of the company's succession plans.

Although the Vanguard funds did not support the compensation plan, it ultimately won shareholder approval.

Engagement on pay with Dutch energy firm is productive

We have had productive strategic engagements for a number of years with a Dutch energy company. The topics have included oversight of long-term strategy and key risks, and these engagements have given us helpful context when evaluating shareholder proposals.

In the past year, we engaged with the firm's remuneration committee chair and had a discussion focused on changes to the company's compensation plan, including amended performance measures and an increase in base salary. We emphasized our expectation that executive pay and relative shareholder performance should be closely aligned to support long-term value creation. The company's response was consistent with our views and further aligned the remuneration program with risks to long-term shareholder value. We will continue to hold strategic engagements with the company on topics that affect long-term shareholder value.

An outsized pay plan focused on short-term goals

We engaged with a midsize U.S. financial services company whose CEO was paid significantly more than peers. Although the company's short- and medium-term performance was strong, the Vanguard funds voted against the compensation proposal at the annual meeting. Our analysis found that the company's pay structure was more in line with that of much larger financial companies and was overly weighted toward its short-term incentive program at the expense of the long-term program.

We encouraged the company to take a longer-term focus in its compensation structure and to be more transparent about the program design. We will continue to monitor the situation for progress.

Dialogue leads to improvement in a company's pay practices

Recently, we engaged with the chair of the compensation committee of a large U.S. energy company to discuss the company's compensation plan structure and pay-for-performance alignment. In 2017, we had expressed concern to the company about pay-for-performance misalignment, its high total pay compared with relevant peers, and an overly complex incentive plan that used duplicative measures in both its short- and long-term programs. Beyond the plan's complexity, we felt that the company lacked clear disclosure of how the incentives were awarded. For these reasons, the Vanguard funds voted against the advisory proposal on executive compensation in 2017.

We felt, however, that our conversations were productive. From our ongoing dialogue, we learned about the company's compensation philosophy and shared our perspectives on how the committee could improve its compensation plan. Not only did the company make positive changes to the plan in response to shareholder feedback, but we also saw improved pay-for-performance alignment this year. Given these developments, the Vanguard funds supported the advisory proposal on executive compensation this year and look forward to maintaining a strong relationship with the company.

Oversight of risk and strategy

A board is responsible for oversight of a company's material risks and governance of the company's long-term strategy. Risk and strategy can be viewed as two sides of the same coin: Every strategy involves risk, and every risk can present strategic opportunity.

On behalf of the Vanguard funds, we look for board members to be meaningfully involved in strategy formation. We expect directors to be knowledgeable about the risks and opportunities that stem from a company's strategy, how the company creates value, and how it will remain relevant over the coming decades. Directors should also be able to outline which risks have the potential to affect shareholder value over the long term.

A board that is thoughtfully engaged in long-term strategy and risk management serves as a set of guardrails, ensuring that the company will not veer off course.

The number of conversations we had on the oversight of risk and strategy nearly doubled in the past year. As boards continue to play a role in the oversight of risk and strategy, we expect that this topic will remain important in our engagements.

Risks to society, risks to investors

At Vanguard, we believe that companies that continually place people's health, safety, or well-being in jeopardy can also put their investors' assets at risk over the long term. As stewards of our clients' investments, we must understand the risks that companies pose, including gun and opioid manufacturers and distributors.

Examining the opioid distribution chain

During the 2018 proxy season, we continued to engage with companies across the health care sector to discuss their role in the opioid crisis. Although pharmaceutical distributors were the primary targets of shareholders' concern on this issue, we also engaged with drug manufacturers and retailers to better understand how their boards monitor and mitigate risks associated with the opioid epidemic.

We carefully analyzed all shareholder proposals that requested additional disclosure about board governance and oversight of opioid-related risks. Based on our engagements with company directors, we believe there is an opportunity for some companies to provide more transparency about their oversight of these significant risks. Importantly, our support for these types of proposals seeks to deepen the market's understanding of how each of these companies is proactively managing these risks.

Assessing gun companies' risk management and responsiveness

Gun violence has drawn significant attention from investors, lawmakers, and the public. This proxy year, we held meetings with the leaders of U.S. gun manufacturers and distributors. We discussed risk oversight, as well as how each company plans to remain relevant in the long term. On behalf of our investors, we wanted to know:

- How do they think about and mitigate the risks that their products may pose?
- How do they react when the most worrisome risks come to fruition?
- How is their business sustainable in the long run? Are they risking their entire business for a smaller product line?

We will continue to monitor and engage with these companies about the ways that their business practices may pose a risk to their investors. In every engagement, we will ask thoughtful questions and advocate for the shared interests of long-term investors.

As in our engagement in other industries, our objective is not to change what business a company is in or what product it produces, but rather to ensure that the risks of these choices are understood by the market and reflected in the company's long-term value to investors.

Sustainability: A commitment to long-term value creation

Insights from Senior Strategist Marc Lindsay, J.D.

Our philosophy on sustainability is grounded in long-term value creation. We aren't alone in this thinking. A consensus is growing in the investment community that certain environmental, social, and governance (ESG) matters can significantly affect a public company's long-term financial value.

Given this potential impact, Vanguard believes it is essential that company boards and senior management teams appropriately oversee these sustainability risks—and opportunities—as they would other material issues. It is equally important that companies be transparent about sustainability matters and disclose them to investors. As a practically permanent owner on our fund investors' behalf, Vanguard needs the market to efficiently value stocks based on all material risks.

When evaluating sustainability practices, we primarily focus on two areas: risk oversight and disclosure.

1. **Risk oversight:** We look for competent boards that are educating themselves on sustainability issues, even if these issues weren't historically part of their focus. We also encourage boards to seek out third-party perspectives and information instead of relying solely on the opinions of management. Most important, we expect boards to be actively evaluating these issues and integrating sustainability risks—and the related business opportunities—into their strategic decision-making.

2. **Disclosure:** We encourage companies to provide consistent, comparable, decision-useful disclosure on sustainability risks. This includes both historical data and forward-looking information so that the market has context for what companies have done, what they plan to do, and how their governance structures enable the right decisions. We are not looking for more disclosure for disclosure's sake; rather, we hope to see companies, investors, and other stakeholders partner together to identify what information is truly relevant and material.

Evaluating shareholder proposals

Headlines involving ESG concerns often focus on individual shareholder proposals, and shareholder support for these proposals continues to grow. We look case by case at such proposals and the votes associated with them. No two companies—not even peers in a given sector—are the same, so certain issues can affect their businesses differently.

When evaluating shareholder proposals, we ask questions such as:

- Does the proposal ask for disclosure that is material and relevant to the company's long-term value?
- Does the company already have sufficient practices and disclosures in place?
- Which option better reflects a long-term perspective—the company's public commitments or the proposal's request?

Only after we explore these questions do we decide how to vote on behalf of the Vanguard funds. That said, shareholder proposals, and our related voting, are only one piece of the puzzle. More important, our Investment Stewardship team is committed to engaging with boards and senior management teams on relevant sustainability issues and how sensible policies and practices can improve outcomes over the long term for both companies and investors.

Marc Lindsay leads the Investment Stewardship sector team that covers energy, utilities, industrials, materials, and telecommunications companies. Mr. Lindsay, who worked as a corporate attorney before joining Vanguard in 2013, has also served as senior legal counsel at Vanguard.

Three companies, three approaches to climate risk disclosure

Our engagements with three companies that received climate-related shareholder proposals reflect meaningful differences in how companies approach shareholder proposals as well as emerging issues of strategic risk:

1. We evaluated a proposal put forth at a Canadian energy company requesting disclosure of how climate-related demand and regulatory changes might affect its business and portfolio. This type of proposal has received growing shareholder support and is in line with several widely supported disclosure frameworks. In a rare occurrence in the world of corporate governance, the energy company encouraged shareholders to support the proposal; it acknowledged the resolution's relevance to the company and reaffirmed its commitment to improving disclosure. Our engagement focused on a productive discussion of which disclosure elements are most important to investors, as well as a broader emphasis on how the board oversees climate risk. The proposal passed overwhelmingly.

2. We analyzed a similar shareholder proposal put forth at a U.S. energy company that closely competes with the Canadian company. In contrast to the Canadian firm, the U.S. company recommended that shareholders vote against the proposal because it was concerned that the requested disclosure would be too speculative. In our engagement, we acknowledged the uncertainties of climate risk but explained our perspective that robust disclosure informs investors about the resilience of the company's strategy in uncertain future scenarios. Regardless, the company affirmed that it would not provide this disclosure unless the proposal won majority support. We ultimately supported the proposal, as did a majority of the company's shareholders. In a follow-up engagement after the vote, the company discussed its plans to provide this disclosure, and we shared our thoughts on which frameworks include the most relevant disclosure elements.

3. We closely assessed a shareholder proposal put forth at a U.S. industrials company asking that the company set and disclose targets for greenhouse gas emissions. These types of proposals had been relatively uncommon in the company's sector. Rather than rush to support or oppose the proposal, the board made no voting recommendation and instead used the vote as a referendum on shareholders' views. Our engagement brought to light the company's plan to set companywide targets regardless of the vote's outcome, and we discussed what related disclosure would help investors understand the company's risks associated with this topic. The Vanguard funds ultimately supported the proposal, as did a majority of the company's shareholders.

Two firms take different stances on sustainability reporting

We engaged with two U.S. consumer companies that received similar shareholder proposals for enhanced sustainability reporting. The first company was disappointingly dismissive of the proposal, seeing no reason to offer investors more disclosure. The second company, though, gave the proposal thoughtful consideration. The first company's sustainability disclosure was limited, while the second company consistently demonstrated, and reported on, its commitment to increasing sustainability practices that contribute over time to business success.

Ultimately, the Vanguard funds voted in support of the shareholder proposal at the first company. But they voted against the proposal at the second company, believing that it was misdirected given the company's leading sustainability disclosures and approach.

In Spain, sustainability and shareholder interests converge

A Spanish utilities company contacted us to discuss the board's role in climate risk oversight. In our engagements, we were pleased to learn the extensive process through which the board and executive team integrate climate risk considerations into the company's long-term strategic planning. The company also shared its plans to produce a report in line with recommendations from the Task Force on Climate-related Financial Disclosures, which Vanguard supports. Given our focus not just on industry laggards but also on industry leaders, our team looks forward to future engagements with this company to encourage the continued development of global best practices.

Reflections on a year of governance failures

A Q&A with Senior Strategist Brian Denney, CPA

Corporate governance has improved on many fronts, but the past year also featured some large-scale failures of governance. What happened?

Mr. Denney: Across the globe and a range of industries, we witnessed many companies engulfed in controversy—from cybersecurity breaches to systemic business practices that treated customers unfairly to sexual harassment and other forms of gender discrimination.

In all cases, shareholders paid the price for these failings. Although some of the *explicit* costs have been in the hundreds of millions of dollars' worth of fines, fees, and reparations, the *implicit* costs borne by shareholders through these companies' decreased market value are in the billions. That's why when these failings occur, shareholders often hold boards accountable, given that it is the board's responsibility to oversee risk. And boards, in turn, have begun to evaluate their own practices to ensure they are comprehensive and proactive in their approach to risk oversight and corporate culture and conduct.

What happens when a crisis erupts?

Mr. Denney: Most important, we want to see the company respond in a timely and transparent manner. We want to see the board actively engaged in ongoing communications with shareholders as the situation unfolds. Specifically, we want to understand what the board knew and when, how it is responding to the crisis, and what gaps have been identified in its internal board practices that it intends to address. A company's response to a crisis often determines how shareholders vote in the wake of an incident.

How can companies promote a culture of risk oversight?

Mr. Denney: Promoting a culture of effective risk planning and oversight happens when there is no crisis at hand, and that's when we like to meet with boards to discuss their risk oversight practices. We want to know what reasonable steps the board has taken to review and improve its practices, to challenge management in a constructive manner, and ultimately to hold management accountable for business results consistent with the board's risk tolerance and values. We believe that a board that works this way will identify and act on "red flags" and minimize the likelihood of the next headline-making governance failure.

How does Vanguard talk with companies about risk oversight?

Mr. Denney: We ask directors and executives a range of questions about it. These questions are not perfunctory. Risk oversight is arguably one of the most important topics that we discuss with companies and a reason for time-intensive discussions during engagements. Company boards can expect us to ask questions such as:

- How do management and the board oversee risk? How frequently do risk conversations take place, and who participates?
- What type of risk reporting does the board receive? How often?
- How does the board ensure it is hearing independent external perspectives, especially ones that may differ from the views of management?
- How does the board identify red flags that alert it to potential areas of concern? How does the board ensure that these matters are elevated to the board just as swiftly as positive news?
- Given that a board meets only periodically through the year, and often only with management, what specific steps does the board take to understand the company's business culture and ensure that it reflects the company's espoused values?

We believe that boards that are able to describe a robust and evolving risk framework will be better positioned to prevent these types of governance failures. Such boards are also more likely to respond appropriately if a failure occurs and are more likely to be supported by shareholders in the aftermath of a crisis.

Our Investment Stewardship team will continue to engage with companies on risk oversight and to advocate for boards to improve their practices where we believe they fall short. The topic is too important and the costs are too great to ignore.

Brian Denney leads the Investment Stewardship sector team that covers financial firms, real estate companies, and technology companies. Mr. Denney is a Certified Public Accountant with a background in taxation, audit, and risk. He joined Vanguard in 2007.

After a data breach, industrials firm improves its oversight

Following news of a significant data breach, we engaged with a U.S. industrials company to understand how it planned to mitigate the impact and reduce the likelihood of future breaches. The company was receptive to our feedback, acknowledged past missteps, and communicated a detailed plan. It committed to forming a special independent board committee to investigate the incident, engaging a broad group of outside experts, and seeking additional board and executive leadership.

Over the ensuing months, we engaged with the company a number of times to monitor its progress and to keep providing feedback. We learned that the company had established a new technology committee that was working to improve the reporting and evaluation of risks, and we were pleased to hear about the depth and frequency of the committee's work. In addition, the company shared that our previous engagement had helped the board target the skills and qualities it sought in new board members. We supported these and other improvements, and at the next annual meeting, the Vanguard funds voted to re-elect the entire board based on its proactive approach since the breach. We continue to encourage further improvements to the company's oversight of risk.

After failings and turmoil, resignations from a board

After numerous governance failings and a public investigation at an Australian financial services company, we engaged with the board to understand its perspective on the firm's business practices and organizational culture, and specifically on how the board would ensure a rigorous oversight process moving forward. Our engagement occurred during a time of great turmoil among the board and executive ranks.

We challenged the board on its awareness of and responsiveness to these matters. Given the severity of the situation, we concluded that the board lacked sufficient oversight of and accountability for management.

The company's classified board structure—which staggers director elections—meant that only a subset of directors were up for re-election every year. As such, we needed to determine which board members should be held accountable. In the days following our engagement, we were not surprised to learn that two of the directors up for re-election had resigned. Our team will continue to closely monitor the board's oversight.

Governance structures

Boards of directors and management teams should be held accountable for the performance of the companies they lead. That includes implementing certain governance and bylaw provisions that give shareholders a channel through which they can express their views.

Among the governance provisions we favor are those that require annual elections for directors and require that a director secure a majority of the votes in order to join or remain on the board. When we encounter governance structures that are unfriendly to investors, we advocate for structural changes that strengthen shareholder rights.

We discussed governance structures in about one-quarter of our engagements over the past year.

Taking steps to restore shareholder rights

We engaged with a U.S. financial services company that several years ago implemented unfriendly shareholder governance structures in response to an unsuccessful hostile takeover bid. This past year, the company sought shareholder input to improve its governance practices. During our engagement, we shared why we believe it is important for shareholders to elect directors annually and to be allowed to amend governing documents with a simple majority vote.

Following our engagement, we were pleased to see the company put forward proposals at its 2018 annual meeting to declassify the board (which would have all directors come up for election at the same time), eliminate its supermajority-vote requirement to amend governing documents, and allow shareholders to amend company bylaws. We were encouraged that the company took the initiative to improve its governance practices.

Limiting shareholders' voice and vote

We engaged with a U.S. real estate company after identifying a number of structural governance concerns that were exacerbated by certain governance decisions the board made during the year. The company did not have proxy access or the right for shareholders to amend bylaws—the latter being an increasingly uncommon practice among real estate companies. Also, the company's threshold to call a special meeting or act by written consent was quite high. Of greatest concern to us, though, was the board's decision to eliminate annual elections without shareholder approval.

To better understand that decision and to advocate more broadly for governance improvements, we requested an engagement with the company. During that engagement, the company expressed general concern with rising activism in its sector and explained that it had classified the board to protect its directors' positions. As a result of the board's actions, the Vanguard funds voted against governance committee members who were up for election at the 2018 annual meeting.

We remain concerned with boards that reverse good governance provisions, but we are optimistic that boards will keep evolving to align themselves with governance best practices. We continue to monitor the situation at this company and will provide feedback as necessary.

Activism

No company is immune from activist attention. Activists are no longer constrained by a company's geographic location, market capitalization, or reputation when choosing which company to target. A company's good name or a board filled with reputable directors no longer guarantees a shield from activist involvement. And this past year, we've seen activists launch more campaigns than ever before and increasingly earn board representation.

We take a balanced approach to evaluating activist situations. We assess each set of circumstances case by case with the goal of achieving the best long-term outcome for shareholders. We look to engage with both the activist and the company in an open dialogue, and we evaluate each side's position on its merits.

Activists can raise legitimate questions and can create a sense of urgency at a company, and sometimes that can be a healthy impetus for change. To earn our support, activists must make a strong strategic case for the changes they seek *and* back up their recommendations with capable director nominees. Our assessment must also determine whether such change is needed and whether a company's board is taking the necessary steps to improve its circumstances without activist intervention.

The Vanguard funds supported activist investors in five out of 13 proxy contests that went to a vote in the U.S. in the past year.

Activist investor presses for board changes at an Italian telecom

An activist investor initiated a proxy contest at an Italian telecommunications company. The activist raised concerns about the company's poor performance and numerous governance failings, including potential conflicts of interest with the majority shareholder. We engaged with both sides to evaluate the activist's concerns and the company's response. Although the company's management team acknowledged the poor performance and shared a thoughtful plan for long-term value creation, the activist made a convincing case that the board had not been thorough in its oversight. We ultimately supported the activist in its successful bid for board representation, and we are optimistic that an independent, collaborative board will drive progress.

Hearing perspectives from both sides of a proxy battle

A U.S. consumer staples company was the subject of a high-profile proxy contest. The activist raised legitimate concerns about the board's effectiveness by pointing to the company's weak relative performance, declining market share, and stagnant growth. Vanguard engaged extensively with both sides of the proxy contest and consulted industry experts to inform our decision. Through our engagements, we gained further context about the company's efforts to revitalize its strategy. We heard strong conviction from the board that its new strategic direction would address many of the activist's concerns, assuring us that the company's interests were directly aligned with those of shareholders.

We concluded that the board had taken steps to improve the company's leadership of the long-term strategy. The funds ultimately voted in support of management.

Persistent activist gains a seat on a board

For the second consecutive year, an activist investor launched a proxy contest based on continuing concerns about a U.S. real estate company's governance practices and business strategy. We shared some of those concerns, including the board's failure to address deficiencies in governance and oversight. After the company's continued underperformance and two years of engagements with both sides, we felt that a board change was warranted. These decisions are difficult and the potential for tension in the boardroom is real. Based on our experience with these directors, however, we expect each side to work toward the common goal of enhancing long-term shareholder value.

An activist investor agitates for change

An activist investor initiated a "vote no" campaign against a U.S. real estate company, asking shareholders to vote against the CEO and the compensation committee chair. The activist was concerned about the company's persistently poor governance and compensation practices, believing that those led to underperformance. We shared the activist's concerns about the rationale for, and amount and structure of, the compensation plan. We also wanted to see the company enhance certain governance practices and improve the board. We had a constructive dialogue with the company about our concerns, and we feel confident that the board will work toward governance improvements. The funds ultimately voted against the compensation plan but supported the directors based on our engagement. We'll continue to engage and hold the board accountable for responsiveness to shareholder feedback.

Taking a stand for investors

The state of corporate governance is never static. Every day brings steps forward and steps back. But over decades, governance has improved a great deal, and that's a credit to investors and corporate directors who have pushed for progress.

We at Vanguard have a responsibility to be a voice for better governance practices. We do this by supporting governance-focused organizations, speaking at dozens of conferences each year, publicly supporting—and in some cases crafting—governance codes and standards, and sharing our perspectives through the media and our own published materials.

Here are some key areas in which Vanguard works to advance the conversation.

"The Long-Term Value Chain"

In June 2018, Vanguard partnered with the U.K.-based investment firm and longtime Vanguard subadvisor Baillie Gifford to host a forum at the New York Stock Exchange titled "The Long-Term Value Chain." The event, which featured panels with corporate and investment leaders, explored the challenges and opportunities involved in promoting a longer-term focus for issuers and investors.

Chairman Bill McNabb and Lady Lynn Forester de Rothschild (photo at left), founder and chief executive of the Coalition for Inclusive Capitalism, speaking at the Vanguard-sponsored forum on the current market environment and the future of long-termism. Also at the forum, General Counsel Anne Robinson (photo at right) moderated a panel discussion on promoting a long-term focus.

"Long-termism"

Many Vanguard funds own stock in companies that they have no plans to ever sell. Such an extremely long-term outlook can be difficult for publicly traded companies to maintain and communicate when they are beholden to quarterly earnings forecasts, daily news cycles, and intraday share-price swings.

We're helping to drive efforts such as the **Coalition for Inclusive Capitalism** and its **Embankment Project**, a collaborative effort among global investors, issuers, and other stakeholders to transform how businesses measure and report on the value they create.

We've also been active with the **CECP (The CEO Force for Good) Strategic Investor Initiative**. Co-chaired by Vanguard Chairman Bill McNabb, it encourages companies to share their long-term strategic stories and focus more of their disclosure and reporting on sustainable long-term value creation.

The role of the board

The job of a corporate director is more demanding today than ever before, and that's a good thing for investors. Directors are being held to higher standards than they were even five or ten years ago. As the role of the board progresses, we're sharing our own evolving expectations. We are encouraged to see corporate boards' oversight of risk and strategy increasing. We want to see boards focus that strategic lens on their own composition as well. We've also been more vocal about boards having the right mix of experience, expertise, and diverse personal and professional backgrounds. In the past year, we've advocated for greater gender diversity on boards, and in 2017 we joined the **30% Club**, a driving force on this issue. We've seen pockets of progress, but there is still much opportunity for improvement.

Setting sustainability standards

All companies face risk. If a company's business practices can potentially harm its communities, its workforce, the environment, or the health and well-being of society more broadly, we expect it to disclose risks that may be material to investors. Through our support of such organizations as the **Sustainability Accounting Standards Board**, the **Task Force on Climate-related Financial Disclosures**, and the **Principles for Responsible Investment**, we hope to see issuers and investors coalesce around a standard set of reporting frameworks that meet the needs of all parties.

Proxy voting history

Global summary of proxy votes cast by Vanguard funds

(July 1, 2017–June 30, 2018)

- Vanguard funds cast nearly 169,000 individual votes in the 2018 proxy year, down slightly from our 2017 total of approximately 170,000
- Board member elections, compensation, and capitalization issues continued to account for the majority of ballot items
- Total shareholder proposals in 2018 numbered 5,305, down 15% from 2017
- The number of proxy contests going to a vote has trended downward as more companies settle with activists

		2017		2018	
Alignment with our pillars	Proposal type	Number of proposals*	% for	Number of proposals	% for
Board composition	**Management proposals**				
	Elect directors	61,127	94%	61,041	93%
	Other board-related	10,531	96%	11,460	90%
	Shareholder proposals				
	Board-related	4,114	82%	3,551	80%
Executive compensation	**Management proposals**				
	Executive compensation	5,797	97%	5,768	93%
	Other compensation-related	12,409	92%	10,800	91%
	Shareholder proposals				
	Compensation-related	148	45%	118	47%
Risk oversight	**Management proposals**				
	Approve auditors	10,434	98%	10,739	99%
	Shareholder proposals				
	Environmental/social**	385	1%	244	5%
Governance structures	**Management proposals**				
	Governance-related	10,844	86%	10,761	84%
	Shareholder proposals				
	Governance-related	333	46%	341	40%
Other proposals	**Management proposals**				
	Capitalization	26,482	98%	27,306	98%
	Mergers and acquisitions	8,710	95%	7,927	95%
	Adjourn/other business	17,587	95%	17,680	96%
	Shareholder proposals				
	Other	1,289	75%	1,050	85%
Total		**170,190**		**168,786**	

* The total number of proposals differs from previously published tallies because of changes in voting data.

** We saw many proposals withdrawn as companies and shareholders worked together to find a compromise on certain issues.

Summary of proxy votes cast by Vanguard funds **for companies in the United States**

(July 1, 2017–June 30, 2018)

76% of equity AUM | 3,857 meetings

Alignment with our pillars	Proposal type	2017 Number of proposals	2017 % for	2018 Number of proposals	2018 % for
Board composition	**Management proposals**				
	Elect directors	21,193	96%	20,962	95%
	Other board-related	43	88%	51	92%
	Shareholder proposals				
	Board-related	111	45%	85	14%
Executive compensation	**Management proposals**				
	Executive compensation	2,816	96%	2,601	95%
	Other compensation-related	3,509	86%	1,808	80%
	Shareholder proposals				
	Compensation-related	36	0%	37	0%
Risk oversight	**Management proposals**				
	Approve auditors	3,445	99.8%	3,404	99.9%
	Shareholder proposals				
	Environmental/social	213	1%	162	7%
Governance structures	**Management proposals**				
	Governance-related	375	90%	419	90%
	Shareholder proposals				
	Governance-related	174	40%	209	24%
Other proposals	**Management proposals**				
	Capitalization	433	86%	482	83%
	Mergers and acquisitions	297	99.7%	247	99%
	Adjourn/other business	388	80%	387	78%
	Shareholder proposals				
	Other	6	0%	9	11%
Total		**33,039**		**30,863**	

Summary of proxy votes cast by Vanguard funds **for companies in Europe**

(July 1, 2017–June 30, 2018)

10% of equity AUM | 2,439 meetings

Alignment with our pillars	Proposal type	2017 Number of proposals	2017 % for	2018 Number of proposals	2018 % for
Board composition	**Management proposals**				
	Elect directors	9,372	91%	9,976	89%
	Other board-related	4,155	97%	4,247	96%
	Shareholder proposals				
	Board-related	392	46%	289	53%
Executive compensation	**Management proposals**				
	Executive compensation	2,232	97%	2,384	91%
	Other compensation-related	2,030	95%	2,129	94%
	Shareholder proposals				
	Compensation-related	32	16%	4	0%
Risk oversight	**Management proposals**				
	Approve auditors	2,442	98%	2,492	98%
	Shareholder proposals				
	Environmental/social	117	0%	13	0%
Governance structures	**Management proposals**				
	Governance-related	1,173	95%	1,186	95%
	Shareholder proposals				
	Governance-related	67	27%	20	40%
Other proposals	**Management proposals**				
	Capitalization	6,473	98%	6,624	97%
	Mergers and acquisitions	323	97%	325	96%
	Adjourn/other business	4,144	96%	4,139	96%
	Shareholder proposals				
	Other	199	8%	49	14%
Total		**33,151**		**33,877**	

Summary of proxy votes cast by Vanguard funds **for companies in Australia and New Zealand**

(July 1, 2017–June 30, 2018)

2% of equity AUM | 374 meetings

Alignment with our pillars	Proposal type	2017 Number of proposals	2017 % for	2018 Number of proposals	2018 % for
Board composition	**Management proposals**				
	Elect directors	823	89%	822	91%
	Other board-related	18	17%	21	43%
	Shareholder proposals				
	Board-related	9	0%	7	0%
Executive compensation	**Management proposals**				
	Executive compensation	299	98%	296	97%
	Other compensation-related	481	98%	439	97%
	Shareholder proposals				
	Compensation-related	0	NA	0	NA
Risk oversight	**Management proposals**				
	Approve auditors	62	98%	59	100%
	Shareholder proposals				
	Environmental/social	1	0%	10	0%
Governance structures	**Management proposals**				
	Governance-related	75	96%	65	100%
	Shareholder proposals				
	Governance-related	1	0%	6	0%
Other proposals	**Management proposals**				
	Capitalization	105	91%	92	99%
	Mergers and acquisitions	48	100%	48	100%
	Adjourn/other business	5	100%	6	100%
	Shareholder proposals				
	Other	2	0%	5	0%
Total		**1,929**		**1,876**	

Summary of proxy votes cast by Vanguard funds **for companies in Asia**

(July 1, 2017–June 30, 2018)

9% of equity AUM | 10,507 meetings

Alignment with our pillars	Proposal type	2017 Number of proposals	2017 % for	2018 Number of proposals	2018 % for
Board composition	**Management proposals**				
	Elect directors	22,748	96%	21,832	96%
	Other board-related	4,824	96%	5,270	89%
	Shareholder proposals				
	Board-related	3,381	89%	2,944	87%
Executive compensation	**Management proposals**				
	Executive compensation	5	100%	6	67%
	Other compensation-related	4,607	93%	4,670	93%
	Shareholder proposals				
	Compensation-related	69	88%	63	89%
Risk oversight	**Management proposals**				
	Approve auditors	3,153	99%	3,424	99%
	Shareholder proposals				
	Environmental/social	49	0%	49	0%
Governance structures	**Management proposals**				
	Governance-related	7,749	88%	7,699	85%
	Shareholder proposals				
	Governance-related	80	79%	75	79%
Other proposals	**Management proposals**				
	Capitalization	17,018	98%	17,566	98%
	Mergers and acquisitions	7,538	95%	6,764	95%
	Adjourn/other business	11,334	96%	11,271	97%
	Shareholder proposals				
	Other	1,054	90%	976	90%
Total		**83,609**		**82,609**	

Summary of proxy votes cast by Vanguard funds **for companies in the Americas (ex-U.S.)**

(July 1, 2017–June 30, 2018)

2% of equity AUM | 1,704 meetings

Alignment with our pillars	Proposal type	2017 Number of proposals	2017 % for	2018 Number of proposals	2018 % for
Board composition	**Management proposals**				
	Elect directors	5,799	89%	6,287	79%
	Other board-related	655	88%	1,032	66%
	Shareholder proposals				
	Board-related	216	53%	202	56%
Executive compensation	**Management proposals**				
	Executive compensation	239	97%	243	96%
	Other compensation-related	1,082	94%	1,058	87%
	Shareholder proposals				
	Compensation-related	11	0%	14	0%
Risk oversight	**Management proposals**				
	Approve auditors	977	97%	1,001	98%
	Shareholder proposals				
	Environmental/social	5	0%	10	20%
Governance structures	**Management proposals**				
	Governance-related	638	90%	700	88%
	Shareholder proposals				
	Governance-related	9	22%	31	65%
Other proposals	**Management proposals**				
	Capitalization	1,975	99%	2,018	99%
	Mergers and acquisitions	415	99%	437	93%
	Adjourn/other business	1,116	94%	1,244	94%
	Shareholder proposals				
	Other	27	0%	10	70%
Total		**13,164**		**14,287**	

Summary of proxy votes cast by Vanguard funds **for companies in the Middle East and Africa**

(July 1, 2017–June 30, 2018)

1% of equity AUM | 476 meetings

Alignment with our pillars	Proposal type	2017 Number of proposals	2017 % for	2018 Number of proposals	2018 % for
Board composition	**Management proposals**				
	Elect directors	1,192	93%	1,162	89%
	Other board-related	836	98%	839	98%
	Shareholder proposals				
	Board-related	5	20%	24	25%
Executive compensation	**Management proposals**				
	Executive compensation	206	95%	238	88%
	Other compensation-related	700	96%	696	94%
	Shareholder proposals				
	Compensation-related	0	NA	0	NA
Risk oversight	**Management proposals**				
	Approve auditors	355	88%	359	86%
	Shareholder proposals				
	Environmental/social	0	NA	0	NA
Governance structures	**Management proposals**				
	Governance-related	834	51%	692	48%
	Shareholder proposals				
	Governance-related	2	0%	0	NA
Other proposals	**Management proposals**				
	Capitalization	478	96%	524	96%
	Mergers and acquisitions	89	97%	106	95%
	Adjourn/other business	600	90%	633	87%
	Shareholder proposals				
	Other	1	0%	1	0%
Total		**5,298**		**5,274**	

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