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Vanguard Announcements Highlight Significant Shifts Relating to Environmental Proposals, Board Diversity and CEO-Led Engagement

On August 31, Vanguard released its annual Investment Stewardship Report, greatly expanded from prior years' reports, along with an open letter to directors of public companies from Chairman and CEO Bill McNabb. These two documents are an important window into the priorities and philosophy of one of the world's largest investment management companies and provide insight into the firm's views on effective corporate governance and long-term value creation.

This past year was a watershed for Vanguard, which made a historic decision to vote in support of two climate-related shareholder proposals, voiced its growing support for gender diversity on boards, and continued to expand both its investment stewardship team and the number of engagements it held with companies. Issuers should closely review both publications as Vanguard's governance practices and priorities are closely watched and emulated by investors around the globe.

2017 Investment Stewardship Annual Report

Vanguard's annual report on its investment stewardship activities outlines its approach to effective corporate governance and describes several illustrative engagements to show how it translates policies into practices. The firm's four foundational pillars for long-term investment success center on high-performing boards, governance structures that empower shareholders, compensation plans overseen by boards that appropriately incentivize sustained outperformance, and a defined framework for overseeing and managing significant risks.

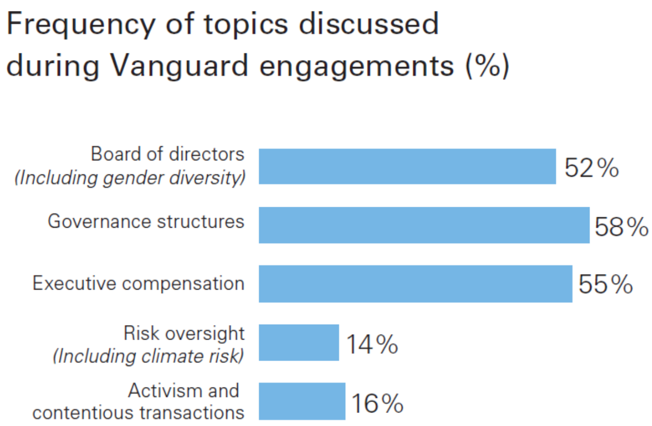
Similar to many of its peers, Vanguard's investment stewardship team, which has grown to over 20 members, engages in an iterative process focused on advocating for policies that will enhance long-term sustainable value, engaging with portfolio companies to provide feedback and learn about corporate practices, and thoughtfully exercising its substantial voting rights consistent with what they believe to be the long-term interest of shareholders.

This year's report discloses a significant uptick in company engagements, up nearly 40 percent in the past 2 years.

	2015 proxy season	2016 proxy season	2017 proxy season
Company engagements	685	817	954
Companies voted	10,560	11,564	12,974
Meetings voted	12,785	16,740	18,905
Proposals voted	124,230	157,506	171,385
Countries voted in°	70	70	68

° The number of countries can vary each year. In certain markets, some companies do not hold shareholder meetings annually.
Note: The annual proxy season is from July 1 to June 30.

Engagement topics disclosed in this year's report highlight Vanguard's traditional focus on the board, governance, and executive compensation, but also specifically note engagement on gender diversity and climate risk within these broader topics. In addition, Vanguard disclosed over 150 engagements related to activism and contentious transactions.



Takeaways for Issuers

Vanguard's historic pivot to support climate-related shareholder proposals is "anchored in long-term economic value – not ideology" according to an interview with Glenn Booraem, Vanguard's Investment Stewardship Officer, published in the annual report. Mr. Booraem emphasized that Vanguard engaged with more companies than ever on the topic this past year and voted against companies when disclosure practices did not match market expectations. Vanguard's focus moving forward will be on evaluating the materiality of corporate disclosure of climate risk and management oversight of that risk. This will require renewed and careful effort by companies to message and engage constructively with investors around these issues, including shareholder proposals, and raises the strong possibility that more climate-related proposals will pass in the coming year.

Vanguard's increased engagement efforts around gender diversity are based on its belief that strong boards benefit from having a range of perspectives to make complex, fully considered decisions. Vanguard emphasized that companies should be taking action now to incorporate diversity in their board composition and noted that it expected to see "meaningful progress" on the topic moving forward.

Moreover, with a recent Bank of Merrill Lynch research report showing that Vanguard holds approximately 7 percent of the S&P 500 and stakes of more than 10 percent in over 80 S&P 500 stocks, its importance in activism and contentious transactions cannot be overstated. Vanguard and similarly-situated large index fund managers now represent the critical swing vote that can determine success or failure in a proxy fight.

Companies should be prepared to engage with all governance-focused investors on these and other topics discussed in the report, including executive compensation, governance structure, and risk oversight. Vanguard's continued expansion of its engagement efforts raises the stakes for companies seeking to meet with the firm to build and maintain relationships and to gain their support for ballot items. Planning and execution of engagement meetings should take into account the priorities of the investment stewardship team as well as their evolving evaluation techniques and selectiveness in taking meetings.

2017 Open Letter to Directors of Public Companies Worldwide

On August 31, Vanguard also released an open letter to directors of public companies from Chairman and CEO Bill McNabb, who is retiring at the end of 2017. While the majority of the letter is dedicated to topics covered in the investment stewardship annual report, several points toward the end of the note deserve highlighting:

> Engagement is a process, not an event, whose value only grows over time. A CEO we engaged with once said, "You can't wait to build a relationship until you need it," and that couldn't be more true.
>
> The opportunity to articulate our perspectives and understand a board's thinking on a range of topics—anchored at the intersection of the firm's strategy and its enabling governance practices—is a crucial part of

our stewardship obligations. Although ballot items are reduced to a series of binary choices—yes or no, for or against—engagement beyond the ballot enables us to deal in nuance and in dialogue that drives meaningful progress over time.

There is a growing role for independent directors in engagement, both on issues over which they hold exclusive purview (such as CEO compensation and board composition/succession) and on deepening investors' understanding of the alignment between a company's strategy and governance practices. Our interest in engaging with directors is by no means intended to interfere with management's ownership of the message on corporate strategy and performance. Rather, we believe it's appropriate for directors to periodically hear directly from and be heard by the shareowners on whose behalf they serve.

Takeaways for Issuers

The increasing role of independent directors in engagement has been a topic of considerable discussion in recent years. Many companies have begun to encourage the participation of those directors in engagement meetings, usually to the benefit of all parties. Issuers should take note, however, of Mr. McNabb's specific mention of CEO-level engagement and his statement regarding "management's ownership of the message on corporate strategy and performance."

While the practice of CEOs joining engagement meetings is not as widely-discussed as director-led engagement with institutional investor stewardship teams, it is noticeably on the rise. There are several reasons why companies would want to bring the CEO into these discussions in the current environment, including the increasing ownership of public companies by passive holders, the growing importance of senior-level dialogue on topics related to governance, sustainability and long-term value creation as well as the rising incidence of direct activist challenges to CEOs. Companies should be aware of the potential risks and benefits of such meetings and ensure the engagement team is well-prepared to discuss the full range of issues on which shareholders may probe.

Vanguard's highlighting of its long-term outlook, careful description of the tectonic shifts in its voting practices and increased engagement are reminders that it views these issues not as "fleeting priorities" but as a deliberate "manifestation of Vanguard's core purpose." As investor corporate governance perspectives continue to be integrated into all aspects of investment management, understanding the nuances and expectations of how to constructively engage with corporate governance-focused constituencies will only increase in importance.

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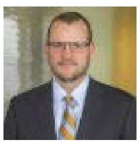

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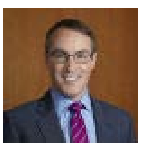

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CamberView Partners is the leading provider of investor-led advice to public companies on engagement and shareholder relations, activism and contested situations, sustainability and complex corporate governance matters. CamberView helps its clients succeed by providing unique insight into investors' perspectives on long-term value creation, interpreting the evolving governance landscape and creating proactive strategies to stay ahead of investor challenges.

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