

# 2018

Investment Stewardship

---

In focus: Australia &  
New Zealand



**Vanguard**<sup>®</sup>

# In focus: Australia & New Zealand

Vanguard funds own shares in nearly 13,000 public companies around the world, including 267 in Australia and 40 in New Zealand. In 2018, we voted 1,876 proposals at 374 meetings for Australia and New Zealand-based companies across every sector. In addition, we expanded our engagement efforts in this region and directly engaged with 33 companies in 2018, representing 52% of the equity in these markets.

Our approach is globally consistent while recognising local and regional market variations. Vanguard supports effective corporate governance practices in three main ways to ensure that the actions and values of public companies are aligned to create long-term value for fund shareholders.



**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 characterise our approach as deliberate, constructive and results-oriented.



**Voting:** Our team votes proxies at public company shareholder meetings for 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.

## 2018 highlights

33

Companies  
directly engaged

52%

Of Australia and New Zealand  
equity AUM engaged

55%

Of engagements with  
independent directors

## Regional trend: Governance failings





In the past year we have seen increasing evidence of governance failure, specifically in the Australian financial services industry. We were surprised and highly disappointed to find that a number of leading companies in this industry, some of the largest companies in the Australian market, have engaged in misconduct. The Royal Commission into Misconduct in the Banking, Superannuation and Financial Services Industry has uncovered alarming problems that resulted from a lack of proper procedures, poor management and inadequate board oversight.

As we await the outcome of the Royal Commission's investigation and its ultimate recommendations, we have proactively sought engagement with companies in the financial sector to better understand what led to misbehaviour or how a company maintains a culture of effective oversight. We met with financial institutions across the market spectrum, including the largest Australian banks. In some cases these engagements led directly to voting decisions; others gave us a deeper understanding of strengths and weaknesses.

The misconduct we saw this year was not limited to the Australian financial services industry. Investors have carried the burden of a number of governance failings globally and in various sectors. We appreciate that the Australian Securities Exchange (ASX) has acknowledged governance issues and has taken action to support improved governance through the update of its core principles. We provided our perspective on these matters to the ASX for consideration, and we are supportive of the enhanced principles. We are optimistic that companies will adopt the suggested best practices in an effort to prevent governance failings in the future.

Summary of proxy votes cast by Vanguard funds  
for companies in Australia and New Zealand  
(1 July 2017–30 June 2018)

2% of equity AUM  
374 meetings

| Alignment with our pillars  | Proposal type                | 2016–2017           |       | 2017–2018           |       |
|---|------------------------------|---------------------|-------|---------------------|-------|
|   |                              | Number of proposals | % for | Number of proposals | % for |
|  Board composition       | <b>Management proposals</b>  |                     |       |                     |       |
|   | Elect directors              | 823                 | 89%   | 822                 | 91%   |
|   | Other board-related          | 18                  | 17%   | 21                  | 43%   |
|   | <b>Shareholder proposals</b> |                     |       |                     |       |
|   | Board-related                | 9                   | 0%    | 7                   | 0%    |
|  Executive remuneration  | <b>Management proposals</b>  |                     |       |                     |       |
|   | Executive remuneration       | 299                 | 98%   | 296                 | 97%   |
|   | Other remuneration-related   | 481                 | 98%   | 439                 | 97%   |
|   | <b>Shareholder proposals</b> |                     |       |                     |       |
|   | Remuneration-related         | 0                   | NA    | 0                   | NA    |
|  Risk oversight         | <b>Management proposals</b>  |                     |       |                     |       |
|   | Approve auditors             | 62                  | 98%   | 59                  | 100%  |
|   | <b>Shareholder proposals</b> |                     |       |                     |       |
|   | Environmental/social         | 1                   | 0%    | 10                  | 0%    |
|  Governance structures | <b>Management proposals</b>  |                     |       |                     |       |
|   | Governance-related           | 75                  | 96%   | 65                  | 100%  |
|   | <b>Shareholder proposals</b> |                     |       |                     |       |
|   | Governance-related           | 1                   | 0%    | 6                   | 0%    |
| Other proposals   | <b>Management proposals</b>  |                     |       |                     |       |
|   | Capitalisation               | 105                 | 91%   | 92                  | 99%   |
|   | Mergers and acquisitions     | 48                  | 100%  | 48                  | 100%  |
|   | Adjourn/other business       | 5                   | 100%  | 6                   | 100%  |
|   | <b>Shareholder proposals</b> |                     |       |                     |       |
|   | Other                        | 2                   | 0%    | 5                   | 0%    |
| <b>Total</b>  |                              | <b>1,929</b>        |       | <b>1,876</b>        |       |



Board composition

Our primary interest is to ensure that the individuals who represent the interests of all shareholders are independent, committed, capable and appropriately experienced.



Executive remuneration

We believe that remuneration policies that incentivise long-term outperformance versus peers can drive sustainable, long-term value for a company's investors.



Oversight of risk & strategy

Boards are responsible for effective oversight of material risks most relevant to each company and governance of the company's long-term strategy.



Governance structures

We believe in the importance of governance structures that empower shareholders and ensure accountability of the board and management.



**Connect with Vanguard®** > [vanguard.com.au](http://vanguard.com.au)

Vanguard Investments Australia Ltd (ABN 72 072 881 086 / AFS Licence 227263 ) is the product issuer. We have not taken your circumstances into account when preparing the above information so it may not be applicable to your circumstances. You should consider your circumstances and our Product Disclosure Statement (PDS) before making any investment decision. You can access our PDS on our website or by calling us. This information was prepared in good faith and we accept no liability for any errors or omissions. Past performance is not an indication of future performance.

© 2018 The Vanguard Group, Inc.  
All rights reserved.  
ISEWV\_AU 092018