

# Vanguard Investment Stewardship

## Vanguard funds plan to grant proxy voting responsibilities to external managers



The boards of trustees of Vanguard's externally managed funds plan to approve a measure that is expected to grant full proxy voting privileges to those funds' external managers. The transitions should be completed by the end of 2019.

"We believe proxy voting is a great way to integrate investment stewardship responsibilities with investment management practices," Vanguard Chairman and Chief Executive Officer Tim Buckley said. "Our external managers are well-positioned to take on proxy voting responsibilities in a manner that supports shareholder value creation over the long term."

Vanguard's Investment Stewardship team currently administers proxy votes on behalf of each Vanguard fund, including those managed externally. Corporate governance standards, however, have matured over the years, and as part of a periodic review of proxy voting practices and procedures, the fund boards believe the time is right to transition proxy voting responsibilities to our external managers on behalf of the Vanguard funds they oversee.

As of February 2019, Vanguard's 25 external managers collectively managed more than \$471 billion in equity assets across portions of 27 Vanguard funds.

"All of Vanguard's external managers have proxy voting policies, guidelines, and operations for investment strategies they manage for clients outside of Vanguard," said Matthew Brancato, head of Vanguard's Portfolio Review Group. "Proxy voting is fundamental to their work."

The goal of each external management firm's investment stewardship activities is to support decisions that the firm believes will maximize the long-term value of the companies it invests in on behalf of the Vanguard fund, Mr. Brancato said. Upon implementation, by year's end, a summary of each

external manager's proxy voting policy will be disclosed publicly—for example, in the Statement of Additional Information for each U.S. fund in question.

Vanguard's Investment Stewardship team, following the policies and guidelines adopted by the fund boards, will continue to administer proxy votes and engage with companies on behalf of the Vanguard funds managed internally, including Vanguard index funds and ETFs and the fund assets managed by Vanguard Quantitative Equity Group.

"Crucially, Vanguard's philosophy on proxy voting is unchanged," said Glenn Booraem, Vanguard Investment Stewardship Officer. "We continue to focus on the principles of good governance that drive long-term value, including board composition and effectiveness; executive compensation that incentivizes long-term outperformance relative to peers; board oversight of risk and strategies; and governance structures that protect shareholder rights. This philosophy carries through to each vote on behalf of each fund and is consistent even when the resulting vote is different from fund to fund."

Although each external management firm follows its own policies and guidelines that govern proxy voting decisions, Vanguard has carefully selected managers whose principles and processes align with the objectives of the funds they manage.

"In addition to evaluating each external manager on their investment strategies, Vanguard reviews their voting capabilities and is confident in their ability to discharge their voting responsibilities consistent with their fiduciary duty to the Vanguard funds," Mr. Brancato said.

Vanguard will work with its external managers and other service providers over the rest of 2019 to transition the funds' proxy voting responsibilities.

