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Vanguard Focuses on Engagement in Letters to Companies

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The CEO of Vanguard has issued **letters** regarding shareholder engagement to the independent chair or lead director of approximately 500 of Vanguard's largest holdings. The letter is published on Vanguard's website, and discusses the importance of effective engagement for both shareholders and boards, with the "best boards" working to seek feedback and perspectives independent of management, and engagement functioning as a dialogue with both parties listening to and informing each other.

The letter emphasizes that there is no assumed optimal structure for engagement and no one-size-fits-all engagement program, but rather, boards should create a process that meets their needs and the needs of their shareholders. However, it does advocate that "having an established channel or process for shareholder interaction works better than handling engagement requests in an ad hoc or reactive manner," while noting that how a board chooses to engage is less important than the fact that they do engage. When engagement occurs, Vanguard expects that boards will be responsive to the variety of perspectives that may be expressed by different investors, with engagement allowing an opportunity for "boards to gather unfiltered shareholder perspectives."

In their **update** on proxy voting and engagement efforts during the past 12 months, Vanguard noted that they have spoken with the management or directors of nearly 600 companies encompassing approximately $800 billion in Vanguard fund assets. They link to two initiatives to provide a framework for companies and investors to consider as they evaluate engagement: the **Shareholder Director Exchange (SDX)** and the **Conference Board's Guidelines for Investor Engagement**.

In the past 12 months, Vanguard supported 92% of director nominees, voting against directors where they were concerned about candidates' independence, attendance, or actions taken by a committee on which they served. With respect to compensation, they supported 94% of say on pay proposals, 86% of equity compensation plans and voted against nearly 400 directors who served on compensation committees.

We discussed Vanguard's letter to companies on governance that they issued last year with Glenn Booraem **here**.

If you have any questions regarding the matters covered in this publication, please reach out to any of the lawyers listed below or your usual Davis Polk contact.

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