Investment Stewardship
2017 Annual Report

Vanguard®

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An introduction from our chairman and CEO

F. William McNabb III

Vanguard Chairman and Chief Executive Officer

Much of our work here at Vanguard is readily apparent to clients: We manage the funds, we offer investment perspectives, and we assist with questions and transactions. But we also work on behalf of our clients in less apparent yet equally meaningful ways.

Our Investment Stewardship team, for example, is charged with analyzing and advocating for responsible corporate governance practices at companies around the world. We believe that great governance can help create and sustain long-term value for our funds' shareholders. In the past year, our Investment Stewardship team voted proxies on behalf of our funds at nearly 19,000 shareholder meetings and held more than 950 engagements with company leaders and directors as part of our continuing efforts to give our clients the best chance for investment success.

We are pleased to present this report on our investment stewardship activities. As you read it, we encourage you to look beyond the numbers. Look at the topics on which we are engaging with companies, the areas of the world we are reaching, and the way Vanguard's voice is being heard.

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

A letter to shareholders

Dear Shareholders,

This report summarizes the activities of Vanguard's Investment Stewardship team for the 12 months ended June 30, 2017. It was a busy year for us and an important time in the evolution of our program. We cast more than 171,000 individual votes on behalf of our funds, engaged with company directors and leaders from around the world, and advocated for governance practices that support the best economic interests of long-term investors.

Over this time, Vanguard continued to strengthen our commitment to investment stewardship. Our team has doubled in size since 2015, and we now stand at more than 20 analysts, researchers, and operations team members. Our sector-based approach to analysis, engagement, and voting enables us to tackle an expanding array of governance matters that bear on long-term shareholder value. And beyond our team, we're able to inform our perspectives on issues at the company, sector, and market level through our access to deep investment talent in Vanguard's Investment Management Group, as well as at many of the nearly 30 other investment firms that manage Vanguard's active portfolios.

Our approach is supported by four pillars that we consider foundational to effective corporate governance. We believe that investors stand a better chance for long-term investment success when companies have (1) high-performing boards that are fit for purpose, (2) governance structures that empower shareholders, (3) compensation plans that appropriately incentivize sustained outperformance, and (4) a framework for overseeing and managing significant risks. As enablers of long-term value creation, these pillars are reflected in our engagement activity and voting record, and you'll find them as recurrent themes in this report.

What should investors in Vanguard funds—and the companies those funds invest in—expect from Vanguard's Investment Stewardship program in the years ahead? We will continue to serve as a voice for investors, and we will work to align the interests of companies and investors to create value for all shareholders over the long term.

You can expect us to speak out when we detect threats to our shareholders' economic interests. For example, you will see us address traditional governance issues such as misaligned executive compensation packages, unequal shareholder voting rights, and ineffective boards. Increasingly, you will also see us take more public positions on select governance topics such as climate risk disclosure and gender diversity on boards.

We take positions on these matters not because they are inherently good or noble, but because they are tied to the long-term economic value of your funds' investments. We express our views in our meetings with individual companies, in our public advocacy, and ultimately in the way we vote proxies on behalf of Vanguard funds. I invite you to read more about the progress and perspectives of Vanguard's Investment Stewardship program.

Thank you for trusting Vanguard to steward your assets.

Glenn Booraem
Vanguard Investment Stewardship Officer
August 31, 2017

Our values and beliefs

"To take a stand for all investors, to treat them fairly, and to give them the best chance for investment success."

—Vanguard's core purpose

Vanguard's core values of focus, integrity, and stewardship are reflected every day in the way that we engage with our clients, our crew (what we call our employees), and our community. We view our Investment Stewardship program as a natural extension of these values and of Vanguard's core purpose. Our clients depend on us to be good stewards of their assets, and we depend on corporate boards to prudently oversee the companies in which our funds invest. That is why we believe we have a unique mission *to advocate for a world in which the actions and values of public companies and of investors are aligned to create value for Vanguard fund shareholders over the long term.*

We believe well-governed companies will perform better over the long term.

Effective corporate governance is more than the collection of a company's formal provisions and bylaws. A board of directors serves on behalf of all shareholders and is critical in establishing trust and transparency and ensuring the health of a company—and of the capital markets—over time. **This board-centric view is the foundation of Vanguard's approach to investment stewardship.** It guides our discussions with company directors and management, as well as our voting of proxies on the funds' behalf at shareholder meetings around the globe. Great governance starts with a board of directors that is capable of selecting the right management team, holding that team accountable through appropriate incentives, and overseeing relevant risks that are material to the business. We believe that effective corporate governance is an important ingredient for the long-term success of companies and their investors. And when portfolio companies perform well, so do our clients' investments.

We value long-term progress over short-term gain.

Because our funds typically own the stock of companies for long periods (and, in the case of index funds, are structurally permanent holders of companies), **our emphasis on investment outcomes over the long term is unwavering.** That's why we deliberately focus on enduring themes and topics that drive long-term value, rather than solely short-term results. We believe that companies and boards should similarly be focused on long-term shareholder value—both through the sustainability of their strategy and operations, and by managing the risks most material to their long-term success.

Our approach

Vanguard's Investment Stewardship team comprises an experienced group of senior leaders and analysts who are responsible for representing Vanguard shareholders' interests through industry advocacy, company engagement, and proxy voting on behalf of the Vanguard funds. The team also houses an internal research and communications function that is active in developing Vanguard's views, policies, and ongoing approach to investment stewardship. Our data and technology group supports every aspect of our Investment Stewardship program.

We take a thoughtful and deliberate approach to investment stewardship.

Our team supports effective corporate governance practices in three ways:

Advocating for policies that we believe will enhance the sustainable, long-term value of our clients' investments. We promote good corporate governance and responsible investment through thoughtful participation in industry events and discussions where we can expand our advocacy and enhance our understanding of investment issues.

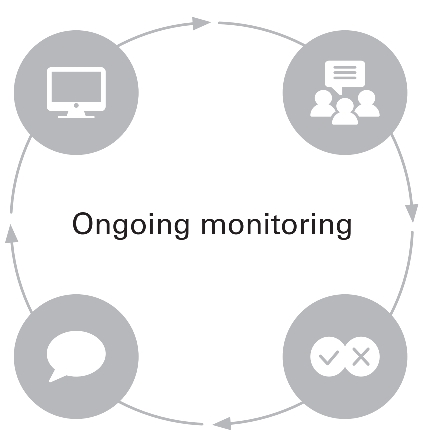
Engaging with portfolio company executives and directors to share our corporate governance principles and learn about portfolio companies' corporate governance practices. We characterize our approach as "quiet diplomacy focused on results"—providing constructive input that will, in our view, better position companies to deliver sustainable value over the long term for all investors.

Voting proxies at company shareholder meetings across each of our portfolios and around the globe. Because of our ongoing advocacy and engagement efforts, companies should be aware of our governance principles and positions by the time we cast our funds' votes.

Our process is iterative and ongoing

Research and analyze company performance, governance practices, and ballot proposals.

Engage with companies and other stakeholders to inform our perspective on issues. Consult with our fund managers, where appropriate, to gain additional context.



Vote on proposals at shareholder meetings in the best long-term interests of each portfolio.

Communicate key activities (e.g., engagement activities and voting results) to clients, regulators, and other stakeholders.

Our four pillars

Board

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 (both in mindset and freedom from conflicts), capable (across the range of relevant skills for the company and industry), and appropriately experienced (so as to bring valuable perspective to their roles). 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 the 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.

Structure

We believe in the importance of governance structures that empower shareholders and ensure accountability of the board and management. We believe that shareholders should be able to hold directors accountable as needed through certain governance and bylaw provisions. Among these preferred provisions are that directors must stand for election by shareholders annually and must secure a majority of the votes in order 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.

Compensation

We believe that performance-linked compensation policies and practices are fundamental drivers of the sustainable, long-term value for a company's investors. 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.

Risk

Boards are responsible for effective oversight and governance of the risks most relevant and material to each company in the context of its industry and region. We believe that boards should take a thorough, integrated, and thoughtful approach to identifying, understanding, quantifying, overseeing, and—where appropriate—disclosing risks that have the potential to affect shareholder value over the long term. Importantly, boards should communicate their approach to risk oversight to shareholders through their normal course of business.

By the numbers: Voting and engagement

Engagement and voting trends

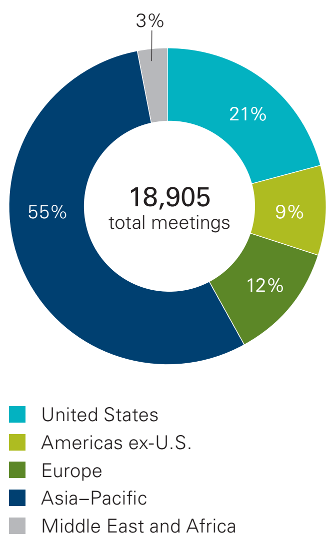
	2015 proxy season	2016 proxy season	2017 proxy season
Company engagements	685	817	954
Companies voted	10,560	11,564	12,974
Meetings voted	12,785	16,740	18,905
Proposals voted	124,230	157,506	171,385
Countries voted inº	70	70	68

º 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.

Our voting

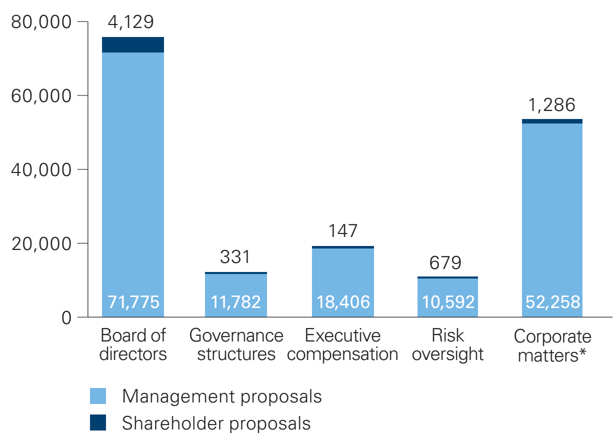
Proxy voting reflects our governance pillars worldwide.

Meetings voted by region



Note: Data pertains to voting activity from July 1, 2016, through June 30, 2017.

Global voting activity



* Includes more than 26,000 proposals related to capitalization; 8,000 proposals related to mergers and acquisitions; 16,000 routine business proposals; and 1,000 other shareholder proposals.

Note: Data pertains to voting activity from July 1, 2016, through June 30, 2017.

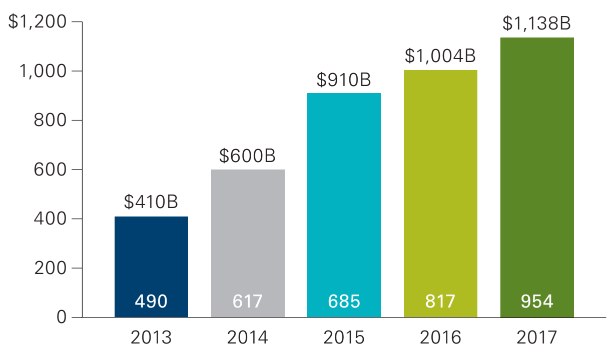
Our engagement

We engage with companies of all sizes.

Market capitalization	% of 2017 proxy season engagements
Under $1 billion	19%
$1 billion–under $10 billion	44%
$10 billion–under $50 billion	24%
$50 billion and over	13%

Our engagement with portfolio companies has grown significantly over time.

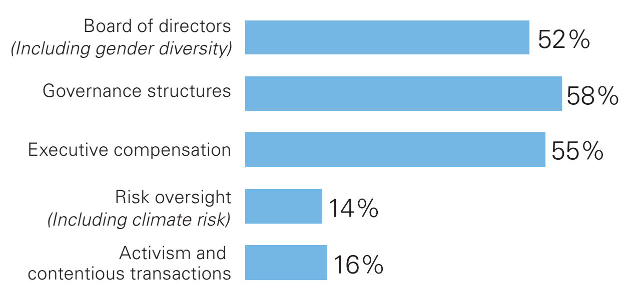
Number of engagements and assets represented



Note: Dollar figures represent the market value of Vanguard fund investments in companies with which we engaged as of June 30, 2017.

We engage on a range of topics aligned with our four pillars.

Frequency of topics discussed during Vanguard engagements (%)



Note: Figures do not total 100%, as individual engagements often span multiple topics.

Boards in focus: Vanguard’s view on gender diversity

One of our most fundamental governance beliefs is that good governance begins with a great board of directors. We believe that diversity among directors—along dimensions such as gender, experience, race, background, age, and tenure—can strengthen a board’s range of perspectives and its capacity to make complex, fully considered decisions.

While we have long discussed board composition and diversity with portfolio companies, gender diversity has emerged as one dimension on which there is compelling support for positive effects on shareholder value. In recent years, a growing body of research has demonstrated that greater gender diversity on boards can lead to better company performance and governance.

Companies should be prepared to discuss—in both their public disclosures and their engagement with investors—their plans to incorporate appropriate diversity over time in their board composition. While we believe that board evolution is a process, not an event, the demonstration of meaningful progress over time will inform our engagement and voting going forward.

Engagement case studies

Gender diversity on boards was an important topic of engagement for us during the 12 months ended June 30, 2017. Below are summary examples of discussions we had on the subject.

High-impact engagement on gender diversity

Over several interactions with a U.S. industrial company, our team shared Vanguard's perspective on board composition and evaluation. The company had undergone recent leadership transitions and was open to amending elements of its governance structure to align with best practices. We expressed particular support for meaningful gender diversity and expressed concern that the board previously had only one female director in its recent history.

Right after this year's annual general meeting, the company announced it was adding four new directors with diverse experience, including two women. This outcome is the best-case scenario: The board welcomed shareholder input, we shared our view on best corporate governance practices, and the board ultimately incorporated our perspective into its board evolution process.

A denial of diversity's value

A Canadian materials company that had consistently underperformed was governed by an entrenched, all-male board with seemingly nominal independence from the CEO. A 2017 shareholder resolution asked the company to adopt and publish a policy governing gender diversity on the board. Before voting, Vanguard engaged with the company to learn about its board evolution process, including its perspective on gender diversity. The engagement revealed that the company understood neither the value of gender diversity nor the importance of being responsive to shareholders' concerns. Despite verbally endorsing gender diversity, the company resisted specifying a strategy or making a commitment to achieve it. The board, when seeking new members, relied solely on recommendations from current directors, a practice that can entrench the current board's perspective and limit diversity. Our funds voted in support of the shareholder resolution, and we will continue to engage and hold the board accountable for meaningful progress over time.

Mixed results from an ongoing engagement

A U.S. consumer discretionary company had no women on its board, a problem magnified by its medium-term underperformance relative to peers, a classified board structure, and a lengthy average director tenure. We engaged with management twice between the 2016 and 2017 annual meetings to share our perspective on the importance of gender diversity and recommend that they make it a priority for future board evolution and director searches.

In its 2017 proxy, the company described board diversity as critical to the firm's sustainable value and named gender as an element of diversity to be considered during the director search and nomination process. The company has since added a non-independent woman to the board. Although this move is directionally correct, it does not fully address our concerns; we will continue to encourage the company to add gender diversity to its ranks of independent directors.

Risk in focus: Vanguard’s view on climate risk

As the steward of long-term shareholder value for more than 20 million investors, Vanguard closely monitors how our portfolio companies identify, manage, and mitigate risks—including climate risk. Our approach to climate risk is evolving as the world’s and business community’s understanding of the topic matures.

This year, for the first time, our funds supported a number of climate-related shareholder resolutions opposed by company management. We are also discussing climate risk with company management and boards more than ever before. Our Investment Stewardship team is committed to engaging with a range of stakeholders to inform our perspective on these issues, and to share our thinking with the market, our portfolio companies, and our investors.

A Q&A with Glenn Booraem, Vanguard's Investment Stewardship Officer

Vanguard is an investment management company. Why should Vanguard fund investors be concerned about climate risk?

Mr. Booraem: Climate risk has the potential to be a significant long-term risk for companies in many industries. As stewards of our clients' long-term investments, we must be finely attuned to this risk. We acknowledge that our clients' views on climate risk span the ideological spectrum. But our position on climate risk is anchored in long-term economic value—not ideology. Regardless of one's perspective on climate, there's no doubt that changes in global regulation, energy consumption, and consumer preferences will have a significant economic impact on companies, particularly in the energy, industrial, and utilities sectors.

Why the shift in Vanguard's assessment of climate risk, and why now?

Mr. Booraem: We've been discussing climate risk with portfolio companies for several years. It has been, and will remain, one of our engagement priorities for the foreseeable future. This past year, we engaged with more companies on this issue than ever before, and for the first time our funds supported two climate-related shareholder resolutions in cases where we believed that companies' disclosure practices weren't on par with emerging expectations in the market. As with other issues, our point of view has evolved as the topic has matured and, importantly, as its link to shareholder value has become more clear.

What is your top concern when you learn that a company in which a Vanguard portfolio invests does not have a rigorous strategy to evaluate and mitigate climate risk?

Mr. Booraem: Our concern is fundamentally that in the absence of clear disclosure and informed board oversight, the market lacks insight into the material risks of investing in that firm. It's of paramount importance to us that the market is able to reflect risk and opportunity in stock prices, particularly for our index funds, which don't get to select the stocks they own. When we're not confident that companies have an appropriate level of board oversight or disclosure, we're concerned that the market may not accurately reflect the value of the investment. Because we represent primarily long-term investors, this bias is particularly problematic when underweighting long-term risks inflates a company's value.

Now that Vanguard has articulated a clear stance on climate risk, what can portfolio companies expect?

Mr. Booraem: First, companies should expect that we're going to focus on their public disclosures, both about the risk itself and about their board's and management's oversight of that risk. Thorough disclosure is the foundation for the market's understanding of the issue. Second, companies should expect that we'll evaluate their disclosures in the context of both their leading peers and evolving market standards, such as those articulated by the Sustainability Accounting Standards Board (SASB). Third, they should expect that we'll listen to their perspective on these and other matters. And finally, they should see our funds' proxy voting as an extension of our engagement. When we consider a shareholder resolution on climate risk, we give companies a fair hearing on the merits of the proposal and consider their past commitments and the strength of their governance structure.

Engagement case studies

In the 12 months ended June 30, 2017, the topic of climate risk disclosure grew in frequency and prominence in our engagements with companies, particularly those in the energy, industrial, and utilities sectors, where climate risk was addressed in nearly every conversation we had. Below are examples of our engagements on climate risk.

Two companies' commitments to enhanced disclosure

Our team led similar engagements with two U.S. energy companies facing shareholder resolutions on climate risk. One resolution requested that the first company publish an annual report on climate risk impacts and strategy. At the second company, a resolution requested disclosure of the company's strategy and targets for transitioning to a low-carbon economy. In both cases, when we engaged with the companies, their management teams committed to improving their climate risk disclosure. Given the companies' demonstrated responsiveness to shareholder feedback and commitment to improving, our funds did not support either shareholder proposal. Our team will continue to track and evaluate the companies' progress toward their commitments as we consider our votes in future years.

A vote against a risk and governance outlier

For years we engaged with a U.S. energy company that lagged its peers on climate risk disclosure and board accessibility. This year, a shareholder proposal requesting that the company produce a climate risk assessment report demonstrated a compelling link between the requested disclosures and long-term shareholder value. Because the board serves on behalf of shareholders and plays a critical role in risk oversight, we believed it was appropriate to seek a direct dialogue with independent directors about climate risk. Management resisted connecting the independent directors with shareholders, making the company a significant industry outlier in good governance practice. Without the confidence that the board understood or represented our view that climate risk poses a material risk in the energy sector, our team viewed the climate risk and governance issues as intertwined. Ultimately, our funds voted for the shareholder proposal and withheld votes on relevant independent directors for failing to engage with shareholders.

A vote for greater climate risk disclosure

A shareholder proposal at a U.S. energy company asked for an annual report with climate risk disclosure, including scenario planning. Through extensive research and engagements with the company's management, its independent directors, and other industry stakeholders, our team identified governance shortfalls and a clear connection to long-term shareholder value. The company lagged its peers in disclosure, risk planning, and board oversight and responsiveness to shareholder concerns. Crucially, although the company's public filings identified climate risk as a material issue, it failed to articulate plans for mitigation or adaptation. A similar proposal last year garnered significant support, but the company made no meaningful changes in response. Engagement had limited effect, so our funds voted for the shareholder proposal.

Engaging with companies and their boards

Engagements are a critical part of our approach to stewardship. During the 12 months ended June 30, 2017, we held 954 engagements with 680 companies. Some engagements were issue-related or event-driven, while others focused on gaining a deeper understanding of a board's role in a company's overall strategy.

Just as our approach to investing is long-term, so too is our approach to engagement. As a long-term investor (our index funds are essentially permanent investors in companies), we want to build an understanding of a company's long-term strategy and its approach to governance. We also want portfolio companies to firmly understand Vanguard's stewardship principles and, when appropriate, improve their behaviors around governance, risk mitigation, and strategic long-term value creation. Ultimately, neither side should be surprised by the other's actions on governance and stewardship.

In the pages that follow, we provide summary case studies of select engagements from the past year to illustrate the types of conversations we have on behalf of Vanguard fund investors.

Board composition

Having a well-composed board is a precondition for good corporate governance and supports long-term economic growth.

We believe that a high-functioning, independent, diverse, and experienced board will be able to serve as effective, engaged stewards of shareholders' interests.

In about half of our engagements this past year, we talked about board composition in some form. Board independence, tenure, and diversity—including gender diversity (see pages 8–9)—were prominent themes.

Taking steps toward greater independence

We engaged with a Japanese industrial company on various topics, including board independence, board oversight of material risks, and compensation. We shared positive feedback on its current level of board independence as well as its proactive adoption of a board committee structure. Compared with its Japanese peers, the company stands out in its board structure, diversity, and independence. We encouraged the company to continue moving toward a majority independent board with fully independent committees.

One board's thoughtful evolution

In 2016, we began engaging with a U.S. consumer discretionary company. At the time, its board lacked diversity of age, gender, and tenure—all elements that we see as relevant drivers of effective board oversight. Through discussion with the company, we learned of board evolution plans that included a new mandatory retirement age that would lead to the retirement of several long-tenured directors. We used our ongoing engagement as an opportunity to provide input to the board about the skills and expertise of future directors that we believed would enhance long-term shareholder value. We were pleased that the newly open board seats were filled with independent directors of diverse skills, background, and gender, ultimately resulting in a freshly constituted board with a range of relevant expertise to see the company through the next phase of its strategic priorities.

A disappointing level of response

Over several years of engagements with a U.S. financial company, we have raised concerns about poor governance practices and a lack of board responsiveness. The board did not implement or respond to majority-approved shareholder proposals calling for changes in the board's governance mechanisms. The company also did not take action when one board member failed to receive majority support at the previous annual meeting; we would have expected the board member to resign or the company to acknowledge the lack of support and provide a compelling rationale for retaining the board member.

In our engagement with the company, we shared our concerns about the board's continual lack of responsiveness to shareholders. The board, however, was not receptive to our feedback. Our funds subsequently voted against two directors, holding them accountable for the board's lack of response to shareholders and shareholder proposals. The company has since said it expects to implement changes later in 2017. We will continue to engage and hold the board accountable for responsiveness to shareholder feedback.

Governance structure

We believe that a company’s governance structure should empower shareholders and ensure the accountability of the board and management for long-term results.

Although we do not invest or engage with the expectation of managing corporate or board affairs, we do believe that the board’s accountability to shareholders, through engagement and ultimately through annual elections, serves as a fundamental check to align their interests with those of the company’s owners.

Governance structure was a leading topic of conversation in our engagements. Multiclass-share structures with disproportionate voting rights were a particular area of focus.

One share, one vote: A recurring topic

One of the most foundational principles in corporate governance is the alignment of voting rights with economic interests. Vanguard strongly believes that one share should equal one vote. In the past year, we have engaged with companies across a wide range of industries to discuss our concerns with multiple-share-class structures that create disproportionate voting for certain shareholders. Our funds voted in support of shareholder proposals to remove such arrangements at all 12 companies where they were presented this year.

We have engaged on this topic directly with a number of firms—ranging from the consumer to the industrial and technology sectors. At many of these firms, founders or insiders control a class of shares that gives them voting influence well in excess of their economic interests, in one case more than 150 times their economic exposure. Nonetheless, the companies assert that the dual share class promotes stability and protects them from the influence of outside investors with a shorter time horizon. Unfortunately, it can also serve to insulate the board and management from accountability to their public shareholders, who have often contributed the vast majority of the company's capital.

We were heartened that a real estate company that had long maintained a dual class arrangement—in which the founding family held less than a 10% economic interest but controlled more than 40% of the votes—eliminated that structure in the past year. Despite paying a premium to the family for the elimination of its excess voting rights, holders of the company's "regular" shares enjoyed substantial appreciation of their holdings as the capital structure was normalized.

Long-term engagement leads to structural improvements

We have had productive engagements over many years with a U.S. financial company. We have been impressed by its thoughtful board recruitment process, which led to a well-composed, diverse board even as industry peers struggled to find highly qualified candidates. Although the company has not demonstrated significant governance deficiencies, in years past we have identified several areas in which its structure could be improved. When we engaged with members of management before the 2017 annual meeting, they attributed several positive recent changes in governance structure to our discussions. The company expanded and clarified the role of the lead independent director, enhanced the board evaluation process, adopted proxy access, and improved the overall level of disclosure in its proxy.

Executive compensation

We believe that performance-linked compensation policies are fundamental drivers of sustainable, long-term value for a company's investors. Executive compensation should incentivize long-term outperformance versus a company's peers and competitors. Companies' disclosures should clearly articulate the alignment between pay and performance over time in the context of their long-term strategy.

We discussed compensation topics in more than half of our engagements this past year. The alignment of compensation with performance was a significant area of discussion.

Enhanced disclosure and better alignment

During the 2016 proxy season, our funds voted against the compensation report of a British energy company, joining a significant portion of shareholders in expressing disapproval of the company's failure to reduce executive bonuses despite poor performance. We met with the company several times after the vote to discuss our specific concerns, following up on similar discussions of previous years. This past proxy season, we spoke to the chair of the compensation committee and learned of several changes made in response to shareholder concerns. Reflecting better alignment of pay, strategy, and performance, the long-term incentive plan added a relative performance measure, making the maximum bonus more challenging to achieve. Finally, the company committed to disclosing more details of the compensation policy and simplifying its structure. We recognized the company's progress on significant issues, and our funds voted to approve the 2017 compensation report and policy.

Action on widespread shareholder feedback

In 2017, we engaged with an Australian energy company to follow up on a failed vote on its compensation report the prior year. The failed vote indicated that a large portion of shareholders expressed disapproval of the company's compensation. We spoke to the chair of the compensation committee regarding the CEO's pay and issues with the level of disclosure in the plan. In response to shareholder feedback, the company lowered the overall level of pay and committed to providing greater transparency about target-setting within its disclosure. Shareholder support increased in 2017 based on the improvements to the company's executive pay structure.

A move in the wrong direction

Our team identified numerous concerns with the size and structure of the compensation program at a Dutch health care company. We took issue with the compensation committee's decision to award outsized pay packages to multiple executives during a period when the company was the subject of numerous legal investigations and its stock significantly underperformed peers. We engaged with the company several times and were told that the executive compensation program would be more in line with that of peers going forward. We were surprised when the 2017 proxy described executive compensation outcomes that continued the trend of large awards misaligned with performance. Our funds voted against the company's compensation proposal, and we communicated our significant concerns to the compensation committee chair.

One-time grants misaligned with relative performance at two firms

We engaged with both a U.S. technology company and a U.S. media company regarding supplemental equity grant awards they made after periods of poor relative performance. In each case, the substantial equity grants lacked rigorous links to relative company performance. Although we are fundamentally skeptical of one-off awards, what was most troubling in these cases was the extent to which these awards resulted in significant realizable value to executives, despite the disappointing relative performance. When the design of awards results in structural alignment between relative pay and relative performance, we are open to discussing the rationale for unique compensation approaches. When this alignment breaks down, however, we struggle to see how long-term investors' interests are well-served. In each of these cases, our funds voted against the company's advisory vote on executive compensation, and we will continue to engage with the relevant board committees.

Risk oversight

Boards are responsible for effective oversight and governance of relevant and material risks. We believe that boards should have a thorough, integrated, and thoughtful approach to identifying, overseeing, and—where appropriate—disclosing risks that have the potential to affect shareholder value over the long term.

We focused on risk oversight in roughly one of every seven engagements. Risk disclosure and climate risk disclosure (see pages 10–12) were notable topics of discussion.

Accountability following a deadly disaster

Our team reached out to an Australian materials company to learn more about a fatal environmental disaster, its environmental and social impacts, and plans for preventing future accidents. Over multiple conversations, we were heartened to learn that the board's compensation and sustainability committees held management accountable for the disaster by giving the CEO a zero on the health and safety measure of his short-term incentive scorecard and increasing the weight of that measure for future years' evaluations. In the wake of the accident, the board also created a subcommittee to provide oversight on labor and safety risks. We continue to engage with company leadership to learn about the company's progress toward improved governance of long-term risks and responsibilities, including environmental safety and human rights.

Holding board members accountable

We engaged with directors of a U.S. financial company that was fined for fraud, expressing our concerns about the board's responsibility in preventing and responding to the matter. We questioned a key committee's ability to fulfill its obligations to implement an effective risk oversight structure. Based on our engagement, we concluded that certain directors had fallen short of their responsibility to understand the risks and culture of the company and to challenge management when necessary, and our funds voted against their reelection. All directors were reelected, though several by a slim margin. Given the strong rebuke by shareholders, the company has since announced a series of changes at the board level that are responsive to many concerns expressed by shareholders. Although we are directionally supportive of the changes implemented by the board and its plans for future evolution, we will continue to engage to ensure ongoing progress.

Activism

We evaluate activist situations case by case and study the individual merits of each circumstance with the goal of achieving the best long-term outcome for shareholders. Although activists may often raise legitimate questions and can create a sense of urgency at companies, they must also make a strong strategic case for the changes they seek and back it up with capable director nominees to earn our support.

Proxy contests and contentious transactions were a prominent issue in the past year and were discussed at 16% of our engagements.

Thoughtful engagement with battling stakeholders

A high-profile proxy contest at a U.S. industrial company pitted an activist investor against management and the board. The company had a challenging performance record but was in the midst of a strategic transformation. Furthermore, the activist highlighted a number of legacy corporate governance issues, including a classified board. We engaged multiple times with both the activist and its director nominees, as well as the company's board and management. At various stages of the proxy fight, both the company and the activist presented board slates that included new directors. We evaluated each slate and concluded that a number of nominees from each side had skills and backgrounds that would enhance the board. Ultimately, the activist and the company settled on replacing a few incumbent directors with activist-proposed candidates. The board further agreed to take action to address certain legacy governance issues. We will continue to engage with the company's board to track progress.

A commitment to better governance

A U.S. real estate company was the subject of a proxy contest initiated by an activist investor. The activist sought change in light of deficient corporate governance practices and concerns about the company's business strategy. We engaged with the activist, shared several of the same concerns, and advocated for governance changes at the company. As a result of our (and others') engagement with the company, it publicly committed to improving its governance practices and to accelerating changes in board composition by adding new independent directors. Because of those commitments, we were optimistic that a rigorous director search process would yield an independent and diverse slate of director candidates with relevant experience to support the company's long-term strategy. For this reason, our funds ultimately voted in favor of the company's director nominees, all of whom were reelected. Following the shareholder meeting, we continued to engage with the board regarding its implementation of the promised governance and board changes. The board further committed to accelerate the agreed-upon changes.

An activist push for change in strategy and oversight

We engaged with a U.S. consumer discretionary company that had delivered poor stock performance and was the subject of activist involvement. Even before the activist's investment, we had concerns with the board's composition and effectiveness. In evaluating the merits of the activist's concerns and suggestions, we engaged on numerous occasions with both the activist and the company's management and board. We researched the activist's proposed strategy and the various board nominees. After feedback from a range of shareholders, the company conducted an internal review of the activist's proposals. We supported the activist in its successful bid for board representation, and the company ultimately made changes in senior management and engaged consultants to continue to evaluate the appropriate strategic direction. While we are optimistic, we will continue to engage with the reconstituted board and management team to evaluate their progress over time.

Vanguard's strategic partnerships

Although a significant portion of our stewardship work is conducted directly with the funds' portfolio companies, we continue to participate in industry organizations and other forums to advance the state of corporate governance and stewardship activities globally. Within the past year, our most significant efforts included those below:

Investor Stewardship Group (ISG)

Vanguard was among the founding members in early 2017 of the ISG, a collective of some of the largest U.S.-based institutional investors and their global counterparts. The group comprises 38 organizations that, in aggregate, invest more than $20 trillion in the U.S. equity markets. The ISG's goal was to establish a framework of basic standards of investment stewardship and corporate governance for U.S. institutional investor and boardroom conduct. The resulting Framework for U.S. Stewardship and Governance consists of a set of stewardship principles for institutional investors and a corresponding set of corporate governance principles for listed companies. We believe that the ISG framework effectively articulates baseline expectations in stewardship and governance that will set the behavioral standard for both investors and listed companies.

For more on the ISG Framework, visit **isgframework.org**.

30% Club

In May 2017, Vanguard joined the 30% Club, a global organization that advocates for greater representation of women in boardrooms and leadership roles. The club draws its name from the initial aspiration for women to hold 30% of public company board seats—first in the United Kingdom and now in major markets around the world. And while the club's members—CEOs and chairs of major global companies—continue the drive toward 30%, they have set their sights more broadly on "bettering the gender balance at each stage of the journey from the schoolroom to the boardroom." As we expand our concerted engagement on board gender diversity, we anticipate deepening our involvement with the 30% Club's investor working groups in a number of the markets in which we have significant ownership and business presence (including the United States, United Kingdom, Australia, and Hong Kong).

For more on the 30% Club, visit **30percentclub.org**.

In addition to our strategic partnerships, members of our Investment Stewardship team are frequent speakers or panelists at events that cater to corporate directors, company secretaries, investor relations professionals, and other investors. These events provide opportunities for us to share our perspectives on important governance and stewardship matters and to stay abreast of emerging developments that may bear on our stewardship responsibilities.

Sustainability Accounting Standards Board (SASB)

The mission of SASB is "to maintain sustainability accounting standards that help public corporations disclose material, decision-useful information to investors in SEC filings. That mission is accomplished through a rigorous process that includes evidence-based research and broad, balanced stakeholder participation." Vanguard joined SASB's Investor Advisory Group in late 2016 to partner with other market participants in promoting the development of standards for consistently comparable disclosure of material sustainability information to investors. We believe that shareholders will benefit from more visibility into significant sustainability factors that affect long-term investment value.

For more on SASB, visit **sasb.org**.

Signatory of:

PRI Principles for Responsible Investment

Principles for Responsible Investment (PRI)

Vanguard has been a signatory since 2014 to the United Nations-supported PRI, and 2016 was the first year for which we were required to submit our public Transparency Report; we filed it in March 2017, and it was made public in July of this year. The Transparency Report gives PRI signatories the opportunity to disclose, in a prescribed format, significant elements of their responsible investment program to interested stakeholders. Vanguard's Transparency Report demonstrates how we advocate, vote, and act in support of responsible investment.

For more on the PRI, visit **unpri.org**.

Proxy voting history

This section details our voting activity during the 2017 proxy season. For the 12 months ended June 30, 2017, our funds voted at approximately 18,900 shareholder meetings covering more than 171,000 individual ballot items across 68 countries.

Voting at companies' shareholder meetings enables us to fulfill our role as a fiduciary acting in the long-term interests of Vanguard fund investors. Our team of analysts evaluates proxy proposals in the context of our voting guidelines, which reflect our long-standing views of governance structures that appropriately balance the rights and responsibilities of owners, managers, and directors.

The tables on this and the following pages summarize the funds' global voting activity.

Summary of proxy votes cast by Vanguard funds by region (July 1, 2016–June 30, 2017)[1]

United States (76% of equity AUM, 3,946 meetings)

Proposal type	Number of proposals	For	2016 % for
Board of directors			
Management proposals			
Elect directors	21,241	96%	95%
Other board-related	43	88%	97%
Shareholder proposals			
Board-related	119	47%	17%
Compensation-related			
Management proposals			
Management Say on Pay	2,820	96%	96%
Other compensation-related	3,513	86%	83%
Shareholder proposals			
Compensation-related	36	—	—
Governance structures			
Management proposals			
Governance-related	383	90%	91%
Shareholder proposals			
Governance-related	174	40%	41%

Summary of proxy votes cast by Vanguard funds by region (July 1, 2016–June 30, 2017)[1]

United States (76% of equity AUM, 3,946 meetings)

Proposal type	Number of proposals	For	2016 % for
Risk oversight			
Management proposals			
Approve auditors	3,454	100%	100%
Shareholder proposals			
Environmental/social	353	1%	1%
Other proposals			
Management proposals			
Capitalization	440	86%	81%
Mergers and acquisitions	297	100%	98%
Adjourn/other business	389	80%	58%
Shareholder proposals			
Other	6	—	—

Summary of proxy votes cast by Vanguard funds by region (July 1, 2016–June 30, 2017)[1]

Europe (11% of equity AUM, 2,307 meetings)

Proposal type	Number of proposals	For	2016 % for
Board of directors			
Management proposals			
Elect directors	9,037	91%	90%
Other board-related	4,083	97%	96%
Shareholder proposals			
Board-related	401	45%	55%
Compensation-related			
Management proposals			
Management Say on Pay	2,199	97%	96%
Other compensation-related	1,984	94%	94%
Shareholder proposals			
Compensation-related	31	16%	44%
Governance structures			
Management proposals			
Governance-related	1,145	95%	96%
Shareholder proposals			
Governance-related	65	28%	38%
Risk oversight			
Management proposals			
Approve auditors	2,395	98%	97%
Shareholder proposals			
Environmental/social	214	—	7%
Other proposals			
Management proposals			
Capitalization	6,367	97%	96%
Mergers and acquisitions	321	97%	97%
Adjourn/other business	4,050	96%	95%
Shareholder proposals			
Other	191	8%	8%

Summary of proxy votes cast by Vanguard funds by region (July 1, 2016–June 30, 2017)[1]

Asia-Pacific (10% of equity AUM, 10,443 meetings)

Proposal type	Number of proposals	For	2016 % for
Board of directors			
Management proposals			
Elect directors	23,904	96%	96%
Other board-related	4,912	95%	93%
Shareholder proposals			
Board-related	3,399	89%	83%
Compensation-related			
Management proposals			
Management Say on Pay	304	98%	96%
Other compensation-related	5,310	93%	90%
Shareholder proposals			
Compensation-related	69	88%	84%
Governance structures			
Management proposals			
Governance-related	7,898	88%	90%
Shareholder proposals			
Governance-related	82	78%	78%
Risk oversight			
Management proposals			
Approve auditors	3,391	99%	98%
Shareholder proposals			
Environmental/social	100	—	1%
Other proposals			
Management proposals			
Capitalization	17,323	98%	98%
Mergers and acquisitions	7,617	95%	96%
Adjourn/other business	11,521	96%	93%
Shareholder proposals			
Other	1,054	90%	88%

Summary of proxy votes cast by Vanguard funds by region (July 1, 2016–June 30, 2017)[1]

Americas Ex-U.S. (2% of equity AUM, 1,713 meetings)

Proposal type	Number of proposals	For	2016 % for
Board of directors			
Management proposals			
Elect directors	5,864	89%	90%
Other board-related	626	89%	87%
Shareholder proposals			
Board-related	205	52%	25%
Compensation-related			
Management proposals			
Management Say on Pay	239	97%	89%
Other compensation-related	1,124	90%	88%
Shareholder proposals			
Compensation-related	11	—	—
Governance structures			
Management proposals			
Governance-related	608	90%	89%
Shareholder proposals			
Governance-related	9	22%	27%
Risk oversight			
Management proposals			
Approve auditors	995	97%	98%
Shareholder proposals			
Environmental/social	10	—	40%
Other proposals			
Management proposals			
Capitalization	2,076	99%	98%
Mergers and acquisitions	417	99%	96%
Adjourn/other business	1,165	94%	93%
Shareholder proposals			
Other	27	—	—

Summary of proxy votes cast by Vanguard funds by region (July 1, 2016–June 30, 2017)[1]

Middle East and Africa (1% of equity AUM, 496 meetings)

Proposal type	Number of proposals	For	2016 % for
Board of directors			
Management proposals			
Elect directors	1,213	92%	94%
Other board-related	852	98%	98%
Shareholder proposals			
Board-related	5	20%	20%
Compensation-related			
Management proposals			
Management Say on Pay	208	95%	93%
Other compensation-related	705	96%	98%
Governance structures			
Management proposals			
Governance-related	839	51%	48%
Shareholder proposals			
Governance-related	2	—	100%
Risk oversight			
Management proposals			
Approve auditors	359	88%	91%
Other proposals			
Management proposals			
Capitalization	482	95%	97%
Mergers and acquisitions	89	97%	93%
Adjourn/other business	619	90%	91%
Shareholder proposals			
Other	1	—	NA

1 Percentage of AUM figures calculated as of June 30, 2017.

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For more on Vanguard Investment Stewardship, visit **about.vanguard.com/investment-stewardship**.

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