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**An open letter to directors of public companies worldwide**

Thank you for your role in overseeing the Vanguard funds' sizable investment in your company. We depend on you to represent our funds' ownership interests on behalf of our more than 20 million investors worldwide. Our investors depend on Vanguard to be a responsible steward of their assets, and we promote principles of corporate governance that we believe will enhance the long-term value of their investments.

At Vanguard, a long-term perspective informs every aspect of our investment approach, from the way we manage our funds to the advice we give our investors. Our index funds are *structurally* long-term, holding their investments almost indefinitely. And our active equity managers—who invest nearly $500 billion on our clients' behalf—are *behaviorally* long-term, with most holding their positions longer than peer averages. The typical dollar invested with Vanguard stays for more than ten years.

A long-term perspective also underpins our Investment Stewardship program. We believe that well-governed companies are more likely to perform well over the long run. To this end, we consider four pillars when we evaluate corporate governance practices:

(1) *The board:* A high-functioning, well-composed, independent, diverse, and experienced board with effective ongoing evaluation practices.

(2) *Governance structures:* Provisions and structures that empower shareholders and protect their rights.

(3) *Appropriate compensation:* Pay that incentivizes relative outperformance over the long term.

(4) *Risk oversight*: Effective, integrated, and ongoing oversight of relevant industry- and company-specific risks.

These pillars guide our proxy voting and engagement activity, and we hope that by sharing this framework with you, you'll have a better perspective on our approach to stewardship.

I'd like to highlight a few key themes that are increasingly important in our stewardship efforts:

**Good governance starts with a great board.**

We believe that when a company has a great board of directors, good results are more likely to follow.

We view the board as one of a company's most critical strategic assets. When the board contributes the right mix of skill, expertise, thought, tenure, and personal characteristics, sustainable economic value becomes much easier to achieve. A thoughtfully composed, diverse board more objectively oversees how management navigates challenges and opportunities critical to shareholders' interests. And a company's strategic needs for the future inform effectively planned evolution of the board.

Gender diversity is one element of board composition that we will continue to focus on over the coming years. We expect boards to focus on it as well, and their demonstration of meaningful progress over time will inform our engagement and voting going forward. There is compelling evidence that boards with a critical mass of women have outperformed those that are less diverse. Diverse boards also more effectively demonstrate governance best practices that we believe lead to long-term shareholder value. Our stance on this issue is therefore an economic imperative, not an ideological choice. This is among the reasons why we recently joined the 30% Club, a global organization that advocates for greater representation of women in boardrooms and leadership roles. The club's mission to enhance opportunities for women from "schoolroom to boardroom" is one that we think bodes well for broadening the pipeline of great directors.

**Directors are shareholders' eyes and ears on risk.**

Risk and opportunity shape every business. Shareholders rely on a strong board to oversee the strategy for realizing opportunities and mitigating risks. Thorough disclosure of relevant and material risks—a key board responsibility—enables share prices to fully reflect all significant known (and reasonably foreseeable) risks and opportunities. Given our extensive indexed investments, which rely on the price-setting mechanism of the market, that market efficiency is critical to Vanguard and our clients.

Climate risk is an example of a slowly developing and highly uncertain risk—the kind that tests the strength of a board's oversight and risk governance. Our evolving position on climate risk (much like our stance on gender diversity) is based on the economic bottom line for Vanguard investors. As significant long-term owners of many companies in industries vulnerable to climate risk, Vanguard investors have substantial value at stake.

Although there is no one-size-fits-all approach, market solutions to climate risk and other evolving disclosure practices can be valuable when they reflect the shared priorities of issuers and investors. Our participation in the Investor Advisory Group to the Sustainability Accounting Standards Board (SASB) reflects our belief that materiality-driven, sector-specific disclosures will better illuminate risks in a way that aids market efficiency and price discovery. We believe it is incumbent on all market participants—investors, boards, and management alike—to embrace the disclosure of sustainability risks that bear on a company's long-term value creation prospects.

**Engagement builds mutual understanding and a basis for progress.**

Timely and substantive dialogue with companies is core to our investment stewardship approach. We see engagement as mutually beneficial: We convey Vanguard's views and we hear companies' perspectives, which adds context to our analysis.

Our funds' votes on ballot measures—171,000 discrete items in the past year alone—are an outcome of this process, not the starting point. As we analyze ballot items, particularly controversial ones, we often invite direct and open-ended dialogue with the company. We seek management's and the board's perspectives on the issues at hand, and we evaluate them against our principles and leading practices. To understand the full picture, we often also engage with other investors, including activists and shareholder proponents. Our goal is that a fund's ultimate voting decision does not come as a surprise. Our ability to make informed decisions depends on maintaining an ongoing exchange of ideas in a setting in which we can cover the intention and strategy behind the issues.

Yet our engagement activities are not solely focused on the ballot. Because our funds will hold most of their portfolio companies practically permanently, it's important for us to build relationships with boards and management teams that transcend a transactional focus on any specific issue or vote. 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.

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Our focus on corporate governance and investment stewardship has been and will continue to be a deliberate manifestation of Vanguard's core purpose: "To take a stand for all investors, to treat them fairly, and to give them the best chance for investment success." Our four pillars and our increased focus on climate risk and gender diversity are not fleeting priorities for Vanguard. As essentially permanent owners of the companies you lead, we have a special obligation to be engaged stewards actively focused on the long term. Our Investment Stewardship team—available at InvestmentStewardship@vanguard.com—stands ready to engage with you and your leadership teams on matters of mutual importance to our respective stakeholders. Thank you for valuing our perspective and being our partner in stewardship.

Sincerely,

F. William McNabb III
Chairman and Chief Executive Officer
The Vanguard Group, Inc.