



# Response to ESG Questionnaire Vanguard

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## Introduction

The issue of defining ESG and how individual companies express their specific values is now at the forefront of many of our clients' minds. We have researched SRI funds for many years now and have a separate rating category, but we acknowledge that this is now a mainstream strategy for an increasing number of investors and ESG issues are impacting all funds, not just those designated responsible or SRI.

In order to understand each company's stance on ESG factors at the corporate level, and how this is built into the investment managers' research and process we ask all our rated fund managers four questions:

- Please provide an overview of any Responsible Ownership/Stewardship strategy that your business follows.
- Please provide an overview of how ESG is integrated into your business.
- Does your business have a policy of excluding any companies or sectors from all strategies managed? If yes, please provide further details.
- What improvements (if any) have been made over the past 12 months within your business to the points highlighted in the previous questions?

The responses given by Vanguard are shown here.

### **1. Please provide an overview of any Responsible Ownership/Stewardship strategy that your business follows.**

ESG stands for environmental, social and governance. These are criteria that can be considered in the investment process.

- **Environmental** criteria indicate how a company performs as a steward of the natural environment.
- **Social** criteria examine how a company manages relationships with its employees, suppliers, clients and communities.
- **Governance** criteria consider a company's board and leadership, executive pay, financial and other controls and shareholder rights.

### **Vanguard's approach to ESG investing**

At Vanguard, we take a straightforward approach to ESG that enables investors to create portfolios that reflect their preferences while giving them the best chance for investment success. Our approach starts with the basic belief that environmental, social and governance (ESG) factors can positively or negatively affect a company's performance over the long term.

Most Vanguard products consider ESG factors to some extent – even those that aren't built with specific environmental or social goals. We use engagement and integration to factor ESG into what we offer.

## **Engagement**

Various teams engage directly with the companies held in Vanguard's funds to discuss how they are managing material ESG risks. This includes Vanguard's own global Investment Stewardship teams that represent our investors' interests in Vanguard's internally managed equity funds and ETFs. The Investment Stewardship teams engage with companies on an ongoing basis, and when concerns arise, the teams address them through continued engagement and proxy voting.

## **2. Please provide an overview of how ESG is integrated into your business.**

### **Integration**

Our active fund investment managers work to integrate ESG considerations into their investment process, alongside other financially material considerations. This careful analysis gives managers a more complete picture of a security's risks and opportunities.

### **ESG considerations in our non-ESG funds**

#### **Equity funds**

The majority of Vanguard's active equity funds are managed by external firms. This approach provides us with diversity of thought and broader access to top talent. Each firm has its own philosophy and process, and many consider ESG factors when selecting securities.

Vanguard's Oversight and Manager Search team (O&MS) within the Portfolio Review Department (PRD) regularly engages with existing and prospective managers to assess how each manager integrates ESG considerations into their research and investment processes. These assessments include aspects such as how ESG information is gathered, whether the manager employs dedicated analyst teams and how those teams interact with portfolio managers, the extent to which both qualitative and quantitative factors are considered in the analysis, and how the manager votes proxies.

Vanguard's index equity funds can provide broadly diversified access to the global markets at a very low cost, but broad market diversification by necessity means exposure to certain environmental, social and governance (ESG) risks. Vanguard's investment stewardship activities are one way in which we review and assess material risks, including ESG risks, on behalf of these funds' investors.

Our Investment Stewardship program engages directly with portfolio company executives and board members to better understand how boards disclose and oversee material risks. In 2022, the program engaged with 1,304 companies representing \$3.1 trillion in equity assets under management (Investment Stewardship Annual Report 2022). Investment Stewardship takes a case-by-case approach to evaluating portfolio companies and executing proxy voting.

{Note: For Vanguard's externally managed active funds, investment stewardship activities are carried out by the funds' respective managers. By voting their own proxies and directly engaging with companies on material risks, our outside active managers can fully integrate their stewardship principles with their own investment processes. Each fund's board has oversight of those activities.}

#### **Fixed income funds**

All of Vanguard's fixed income index funds and the majority of its actively managed fixed income funds are managed by Vanguard Fixed Income Group (FIG). FIG has a formal integration process to incorporate ESG risk factors into investment decisions, to varying degrees across fixed income products. These factors may range from macroeconomic considerations to issuer specific challenges. FIG assesses the financial materiality of ESG risks to complement standard credit assessment. FIG's credit research analysts also regularly meet with issuers to discuss key credit risk topics and, where applicable, raise ESG concerns.

**3. Does your business have a policy of excluding any companies or sectors from all strategies managed? If yes, please provide further details.**

No, please refer to the answer directly above.

**4. What improvements (if any) have been made over the past 12 months within your business to the points highlighted in the previous questions?**

No improvements/changes have been made over the past 12 months.

**Important Notice**

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