

2018

Investment Stewardship

In focus: Asia



Vanguard[®]

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Vanguard funds own shares in nearly 13,000 public companies around the world, including more than 5,700 in Asia. In the 12 months ended 30 June 2018, the Vanguard funds voted 82,609 proposals at 10,507 meetings for Asia-based companies across 16 markets. Our approach is globally consistent while recognising local and regional market variations. Vanguard supports effective corporate governance practices in three main ways:



Advocacy: We are tireless advocates for the sustainable, long-term value of our shareholders' investments. We promote a long-term view in both corporate governance and investment practices through public forums and published materials.



Engagement: We meet with portfolio company executives and directors to share our long-term orientation and principled approach and to learn about companies' corporate governance practices. We characterise our approach as deliberate, constructive and results-oriented.



Voting: Our team votes proxies at public company shareholder meetings for each of our funds. Because of our advocacy and engagement efforts, companies should be aware of our priorities and governance principles by the time we cast our funds' votes.

2018
highlights

44

Companies engaged

15%

Of Asian equity
AUM engaged

57%

Of engagements
focused on boards

Regional trend: Asia's governance evolution

Many Asian markets, including China and Japan, appear to be at inflection points in their adoption of key governance principles. We see further opportunity for Asian public companies to embrace governance best practices and bolster the independent oversight of their businesses. In 2018, we devoted significant resources towards engaging on three such principles:

Board independence. We view director independence – in function, not just in form – as fundamental to protecting shareholders' interests. Independent board members bring a different and broader range of perspectives to a board than non-independent directors do, and thus help drive strategic innovation, risk mitigation and relative outperformance. We were pleased to see continued progress in many Asian markets and will advocate for further progress toward a majority of independent directors.

Board composition. Similarly, we believe that a well-composed board is crucial to good governance and, over the long term, a company's success. In 2018, we spent considerable time discussing the merits of an appropriately experienced and diverse board with companies in Asia. In particular, we advocated for adding more women in the boardroom. We also believe that increased international diversity for boards in Asia is crucial in a globalised world.

Oversight and disclosure of key risks. Companies and their boards should take a thorough, integrated and thoughtful approach to identifying, quantifying and disclosing risks that have the potential to affect shareholder value over the long term. These risks include climate and other sustainability risks. We were encouraged that many Asian boards are devoting considerable time to understanding regulatory and consumer demand changes being propelled by sustainability concerns, and integrating these considerations into their companies' strategic planning. We were also pleased to see that many Asian companies are looking for better ways to disclose these risks to the market.

We consulted on various regulatory reforms in Asia, including amendments to Japan's Corporate Governance Code, the China Securities Regulatory Commission's proposed changes to the Code of Corporate Governance for Listed Companies, and the Hong Kong Stock Exchange's consultation on weighted voting rights.

Our four pillars



Board composition

Our primary interest is to ensure that the individuals who represent the interests of all shareholders are independent, committed, capable and appropriately experienced.



Executive remuneration

We believe that remuneration policies that incentivise long-term outperformance versus peers can drive sustainable, long-term value for a company's investors.



Oversight of risk & strategy

Boards are responsible for effective oversight of material risks most relevant to each company and governance of the company's long-term strategy.



Governance structures

We believe in the importance of governance structures that empower shareholders and ensure accountability of the board and management.

Summary of proxy votes cast by Vanguard funds for companies in Asia

(1 July 2017–30 June 2018)

9% of equity AUM

10,507 meetings

Alignment with our pillars	Proposal type	2017		2018	
		Number of proposals	% for	Number of proposals	% for
	Management proposals				
	Elect directors	22,748	96%	21,832	96%
	Other board-related	4,824	96%	5,270	89%
	Shareholder proposals				
	Board-related	3,381	89%	2,944	87%
	Management proposals				
	Executive remuneration	5	100%	6	67%
	Other remuneration-related	4,607	93%	4,670	93%
	Shareholder proposals				
	Remuneration-related	69	88%	63	89%
	Management proposals				
	Approve auditors	3,153	99%	3,424	99%
	Shareholder proposals				
	Environmental/social	49	0%	49	0%
	Management proposals				
	Governance-related	7,749	88%	7,699	85%
	Shareholder proposals				
	Governance-related	80	79%	75	79%
Other proposals	Management proposals				
	Capitalisation	17,018	98%	17,566	98%
	Mergers and acquisitions	7,538	95%	6,764	95%
	Adjourn/other business	11,334	96%	11,271	97%
	Shareholder proposals				
	Other	1,054	90%	976	90%
Total		83,609		82,609	

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