Vanguard

Principal adverse sustainability impacts transition statement

Summary

In accordance with the discretion granted pursuant to Article 4 of the Sustainable Finance Disclosure Regulation (the "Regulation"), Vanguard Group Ireland Limited ("VGIL") does not currently consider the principal adverse impacts of investment decisions on sustainability factors.

VGIL has a transition plan in place to assess and implement as appropriate principal adverse sustainability impacts into the investment process and intends to implement this by 1 July 2022 (or such later date as the regulatory technical standards to be adopted by the European Commission pursuant to Article 4(6) of the Regulation become effective) and will keep this implementation date under review.

Vanguard Investments UK Limited and Vanguard Asset Management Limited are not subject to the EU Sustainable Finance Disclosure Regulation.

Sustainability related considerations are currently embedded, as appropriate, in investment decisions in respect of Vanguard's Irish and UK domiciled funds through the categorisation of investment products into the following three categories:

1. Investment products which do not promote environmental or social characteristics and do not take ESG characteristics into consideration in selecting portfolio holdings;
2. Investment products which do not promote environmental or social characteristics, but take ESG characteristics into consideration in selecting portfolio holdings;
3. Investment products with ESG investment strategies, which promote environmental and social characteristics and take ESG considerations into account when selecting portfolio holdings.

Note that as a financial market participant subject to the EU Sustainable Finance Disclosure Regulation ("EU SFDR") VGIL is required to disclosure information about its policies on the integration of sustainability risks in its investment decision making process. VAM and VIUK are not subject to the EU SFDR but the approach to integration of sustainability risks applies to the investment decision-making process across all three Vanguard entities identified above.

Summary of Vanguard's Engagement Policy (under Article 3g of Directive 2007/36/EC)

Vanguard's Investment Stewardship team (the "Investment Stewardship Team") serves as a voice for investors in its funds to promote long-term value creation at the companies in which the equity funds managed by Vanguard invest. When a Vanguard index fund invests in a public company, it could theoretically hold that stock forever or as long as the company is listed in the underlying benchmark. With this indefinite horizon, Vanguard and its funds must focus on how companies are setting themselves up to stay relevant today, tomorrow, and well into the future.

As a long-term investor, the Investment Stewardship Team stay keenly focused on areas such as risk, strategy, executive remuneration, diversity, environmental issues, shareholder rights, and health and safety issues. The Investment Stewardship Team stewards the global equity holdings of Vanguard managed funds in three key ways:

Public advocacy. The Investment Stewardship Team advocates for the highest standards of corporate governance worldwide and the sustainable, long-term value of Vanguard's shareholders' investments.

Engagement. The Investment Stewardship Team conducts ongoing dialogues with portfolio company executives and directors to share its long-term orientation and principled approach, and to understand a company's governance practices and long-term strategy.

Voting. The Investment Stewardship Team votes proxies at public company shareholder meetings on behalf of equity funds managed by Vanguard.

One of the key principles that Vanguard considers foundational to effective corporate governance is the oversight of strategy and risk. The Investment Stewardship Team engages with boards regarding the oversight of material risks that have the potential to affect shareholder value over the long term – from business and operational risks to environmental and social risks. Vanguard believes that companies should disclose material risks to shareholders, explain why those risks are material to their business, and disclose their approach to risk oversight. Vanguard has a responsibility to understand how business activities pose a material risk to the long-term value of its funds.

For example, Vanguard recognises that climate change represents a profound, fundamental risk to investors' long-term success. Vanguard supports climate risk mitigation, acknowledging that the goals in the Paris Agreement are widely accepted for countries and companies seeking to address climate change. Where it is a material risk, Vanguard encourages companies that it holds in its equity portfolios to set targets that align with the Paris Agreement and disclose them.

When the Investment Stewardship Team identifies a concern with how a company in its equity portfolios is overseeing a material risk, including ESG risks, it often seeks to engage with the company in order to enhance their disclosure on risk mitigation and/or encourage them to develop a more appropriate risk mitigation approach. This is all part of the effort to safeguard clients' assets against a full range of short- and long-term risks.

If a company is not receptive to the Investment Stewardship Team's requests, it can escalate this through Vanguard's proxy voting activity at that company's general meetings – either by voting against resolutions proposed by management or supporting shareholder proposals. As a near permanent owner with a long-term perspective, Vanguard is in a unique position to ensure that its investments are well placed to benefit from the sound oversight of ESG risks.

For more information about Vanguard's Investment Stewardship programme and how it engages with portfolio companies, please see Vanguard's Engagement Policy at:

https://global.vanguard.com/documents/Vanguard-Engagement-Statement.pdf.

Adherence to international standards

UN Principles for Responsible Investment Signatory

With the growing importance of ESG issues to investors, Vanguard affirmed its commitment to responsible investment by joining the UN Principles for Responsible Investment (PRI) in 2014. The six Principles for Responsible Investment are a voluntary and aspirational set of investment principles that offer a menu of possible actions for incorporating ESG issues into investment practice. The Principles were developed by investors, for investors. In implementing them, signatories such as Vanguard contribute to developing a more sustainable global financial system. They have attracted a global signatory base representing a majority of the world's professionally managed investments.

The PRI reviews transparency reports and produces assessment reports, which appraise how a signatory has progressed year-on-year and relative to peers. Unlike transparency reports, assessment reports are not available on the PRI website. It is up to individual signatories to share their assessment report to demonstrate their performance or keep it in-house as an internal learning and development tool. Vanguard has elected to share its assessment report with clients upon request.

The Paris Agreement

Please see the 'Summary of Engagement Policy' section above regarding how Vanguard addresses climate risk.