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Vanguard Investments Australia Ltd: Proxy Voting Policy

Vanguard votes proxies in companies where its managed investment schemes ('Funds') have a significant economic interest. This covers the vast majority of holdings by value. Votes are effective both at wholesale and retail levels. Clients operating separate accounts may make arrangements for Vanguard to vote proxies for those portfolios, in line with their own guidelines.

The Vanguard Funds exercise a voice on behalf of their unitholders in matters of corporate governance through the proxy voting process. At Vanguard, we take our ownership responsibilities very seriously and believe the right to vote proxies for our Fund holdings is a significant asset of the Funds. We exercise the Funds' votes with the goal of maximizing the value of our Funds' and our unitholders' investments.

Vanguard has established a Proxy Oversight Group, to administer voting policies and voting decisions for Australian equities held by the Funds. The group performs its responsibilities in accordance with proxy voting principles established and approved by our board of directors, to ensure that our voting decisions reflect a thorough analysis of the issues and their potential impact on unitholder value.

These principles frame our analysis of each proxy issue and provide a basis for decision-making. In evaluating issues, the Proxy Oversight Group may consider information from many sources, including the management of a company presenting a proposal, shareholder groups, and independent proxy research services. IFSA Guidance Note 2.00 (*Corporate Governance: A Guide for Investment Managers and Corporations*) will generally be followed. Vanguard will periodically review its policy to take into account further developments in corporate governance standards or guidelines. Where the Proxy Oversight Group determines that expert advice is needed, an independent specialist will be consulted.

Vanguard's policy is to also vote for international shares held by the Funds, to the extent that it is practicable. Generally, votes will be cast in accordance with determinations made by the Proxy Oversight Committee of The Vanguard Group, Inc, whose proxy voting policy is posted on its website.

Our proxy voting principles for Australian equities are summarised below, with specific examples of voting decisions for the types of proposals that are most frequently presented.

Election of the board of directors

We believe that good governance starts with an independent board. In addition, key board Committees should be entirely independent.

1. We will generally support the election of directors that result in a board made up of a majority of independent directors, subject to the skills and experience that particular candidates bring to the board.
2. The definition of 'independent' director to be applied is that contained in IFSA Guidance Note No 2.00.
3. A non executive director who is not 'independent' for the purposes of IFSA Guidance Note No 2.00 will be defined as 'affiliated'.
4. We believe that the chairperson should be an independent director.
5. We believe that the role of chairperson and chief executive should be split.
6. We believe that members of audit, remuneration, nomination and corporate governance committees should be independent directors.
7. We will generally vote against executive or affiliated directors who are members of those committees, and against the chairperson of that committee where the committee is not constituted of independent directors.
8. We will hold directors accountable for the actions of the committees on which they serve. For example, we will withhold votes for nominees who serve on the remuneration committee if they approve excessive remuneration arrangements or propose equity-based compensation plans that unduly dilute the ownership interests of shareholders.
9. We will generally vote against the chair of the audit committee if company expenditure on non-audit fees with the audit provider, has been greater than expenditure on audit fees. A minimum ratio of 1:1 is appropriate.
10. When deciding on the re-election of directors we will consider their attendance record at board meetings and committee meetings.
11. When deciding on the re-election of directors we will consider the number of other positions they hold, in the context of whether they are able to make the time commitment required.

Approval of independent auditors

We support the findings of the Ramsay report on auditor independence. We believe that the relationship between the company and its auditors should be limited primarily to the audit engagement, although it may include certain closely related activities that do not, in the aggregate, raise any appearance of impaired independence.

We will evaluate on a case-by-case basis instances in which the audit firm has a substantial non-audit relationship with the company (regardless of its size relative to the audit fee) to determine whether we believe independence has been or may be compromised.

Remuneration

There should be full disclosure of directors' remuneration, including share options, fringe benefits and retirement benefits. The chairperson of the remuneration committee should provide reasons to shareholders for the level of directors' remuneration.

The membership of the remuneration committee should be publicly available, and that committee should be comprised of independent directors.

Remuneration packages, particularly options packages, should not be excessive and should be in line with accepted practice. Reputable industry research will be taken into consideration when assessing whether remuneration is excessive.

Equity-based compensation plans

We believe that appropriately designed equity-based compensation plans, approved by shareholders, and with appropriate performance targets, can be an effective way to align the interests of long-term shareholders and the interests of management, employees, and directors. Conversely, we are opposed to plans that substantially dilute our investors and Funds' ownership interest in the company, provide participants with excessive awards, or that we consider to have inherently objectionable structural features.

Corporate structure and shareholder rights

We believe that shareholders should have voting power equal to their equity interest in the company.

- We will support motions that shareholder votes be by poll.
- We will vote against proposals for a separate class of securities with disparate voting rights.

Social policy issues

Vanguard will typically abstain from voting on proposals concerning social policy issues as the Funds' primary concern is shareholder value. However, Vanguard may decide to vote on such issues on a case-by-case basis recognising that social responsibility issues sometimes do impact the value of a shareholder's investments.

The logo for Vanguard Investments, featuring the word "Vanguard" in a bold, red, sans-serif font, followed by "INVESTMENTS" in a smaller, red, all-caps, sans-serif font.

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http://www.vanguard.com.au/About_Vanguard/Proxy_Voting_Policy/index.asp