



BILL MCNABB, CEO and Chairman of Vanguard (left), and NIRI President & CEO Gary LaBranche held a wide-ranging discussion on issues facing the IR profession.

A CONVERSATION WITH BILL MCNABB, VANGUARD CEO AND CHAIRMAN

BY THERESA MOLLOY

In November 2017, William “Bill” McNabb, CEO and Chairman of Vanguard, joined NIRI President & CEO Gary LaBranche, for a “fireside chat” that was hosted by NIRI New York and the New York chapter of the Society for Corporate Governance. Affable and candid, McNabb shared his views about many issues impacting the investor relations and governance professions.

Vanguard’s assets have quadrupled since McNabb took the helm in 2008. Vanguard is the second largest asset manager in the world with \$4.8 trillion in assets under management.

Modestly, McNabb attributes much of Vanguard’s success to the growing popularity of low-cost index fund investing. Vanguard operates under a mutual ownership structure, mean-

ing the company is owned by its funds, which in turn is owned by the funds' shareholders – owners and investors are one.

The mutual ownership model drives Vanguard's strategy with a laser focus on cost management and improving shareholder returns, McNabb said. "If you want to predict our next move, think about what would benefit our funds' shareholders" he noted. Vanguard leverages its growth to reduce cost, enhance customer service, and invest in technology – leading to higher potential returns for its funds' investors.

A great deal of responsibility comes with Vanguard's success. Vanguard cast 171,000 proxy votes and hosted 1,000 board and management engagements with its funds' portfolio companies. A team of 25 manages the entire operation under Glenn Booraem, head of Vanguard's investment stewardship practice.

Shareholder and Corporate Engagement

McNabb reflected on the remarkable progress he has witnessed over the last five years regarding company responsiveness to shareholder engagement, which he attributed to many of the event's attendees. His annual letter – required reading for any IRO – highlights key themes of importance to Vanguard's stewardship efforts. McNabb shared that the early letters generated very few responses.

Today, not only have the number of corporate responses increased, the letters reflect a great deal of thought and consideration about the issues. Mostly, the meetings are an opportunity to establish a two-way dialogue, not in reaction to proxy issues.

McNabb sees this as a "healthy trend," and is optimistic that "we will look back on this period as a seminal time where the emphasis shifted back to longer term value creation from a period of excessive short-termism." McNabb sees engagement as a significant catalyst for the tide change.

Shareholder Activism

With \$3.2 trillion in equity funds, the Vanguard stewardship team is likely the first stop during any activist campaign. McNabb noted that when engaging with an activist, "we listen carefully." The team considers whether the activist's investment thesis is "constructive and long-term oriented." The activist should also be "transparent about how they engage with the target company." From the portfolio company, the team expects receptivity to the activist's ideas, and they look for a history of proactive engagement with long-only investors well before the activist is in the stock.

For Vanguard, it all goes back to viewing the world from a

long-term lens. McNabb pointed out that in Vanguard's 2017 annual report, the focus is on big governance principles. "We believe that companies that are better governed over the long run produce better results."

Director Engagement


Much has been debated about director engagement with shareholders. McNabb's expectation is that upon request, independent directors will meet with the Vanguard stewardship team. These are not discussions about the day-to-day corporate operations. As "near-permanent investors," the team is interested in hearing from the board about the company's capital allocation strategy, talent development, and the board's financial and risk oversight role.

Environmental and Social Issues

Vanguard's views about board diversity and climate risk were prominently featured in its 2017 annual report. McNabb noted board composition is an important theme for Vanguard, and explains that gender diversity has been shown to have a positive effect on shareholder value. Looking at board composition broadly, McNabb adds race, ethnicity, skills and experience as key barometers for diversity.

This year for the first time Vanguard supported several climate-related shareholder proposals. As an investor, Vanguard believes that for a number of its portfolio companies, climate change is a strategically important issue. Vanguard's decision to vote with the shareholder proponents was driven by the view that these companies' boards lacked adequate disclosure describing their assessment of climate change as a business risk, its impact on asset valuations and long-term shareholder value.

IR and Board Engagement

McNabb views directors as "shareholders in the boardroom." In this context, IR plays a critical role as the facilitator of the dialogue between directors and shareholders. Whether communicating with an active or index investor, IR understands their company's strategy, financial operations, and increasingly, their corporate governance profile. McNabb sees the IRO as integral to the active and open communication between investors, the board and the company. 

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