ES Votes that Matter

Discussion

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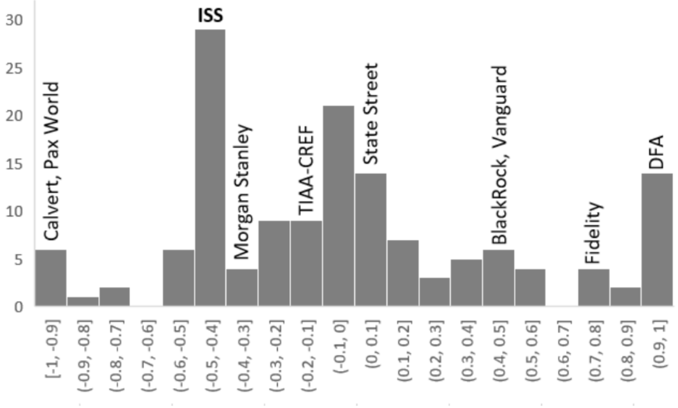
October 20, 2021

Empirical Approach

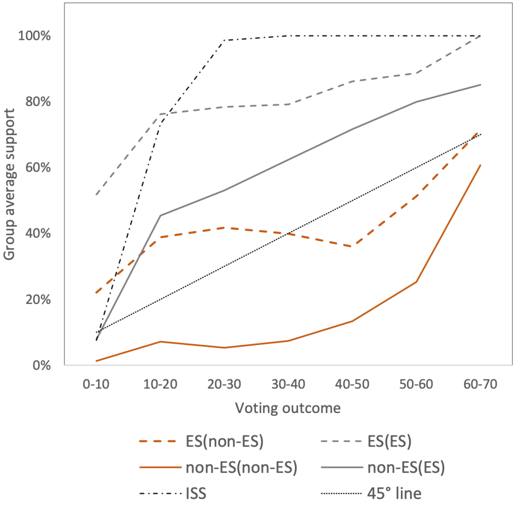
Categorize familes based on past voting



Panel A. Families' ideal points based on W-NOMINATE

Empirical Approach

Study voting patterns between ES and non-ES funds within a family



Empirical Approach

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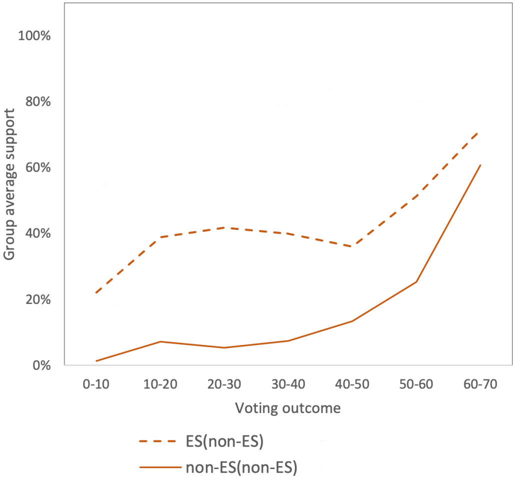


Summary of Results

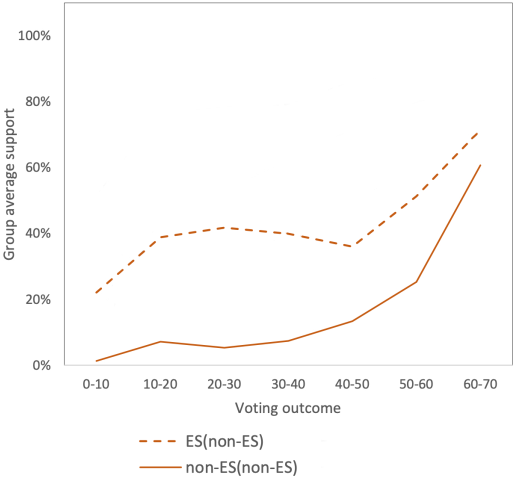
ES funds in non-ES families strategically withheld support for ES proposals that are contested

- Find a 9.4% lower support for ES proposals by ES-fund/Non-ES-family versus counterfactual
- This voting pattern is driven primarily by active funds
- Additional robustness test to rule out alternative hypotheses
  → Consider alternative counterfactual
- *Full disclosure, related working paper

***Interesting question** – My comments are on the interpretation of the results*

Comment 1

Why do we observe this voting pattern against ES proposals?



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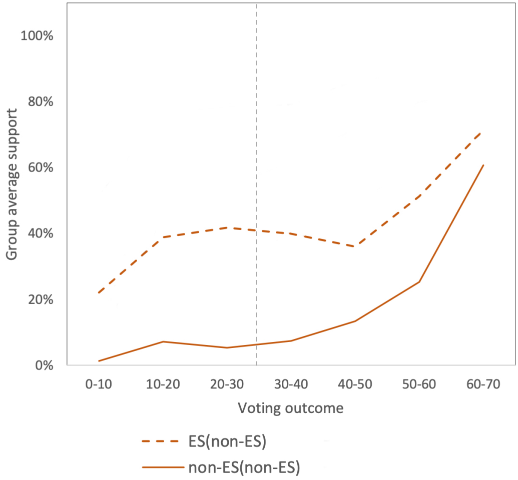


Comment 1

Why do we observe this voting pattern against ES proposals?

What is driving this voting behavior by ES-funds/non-ES families around the threshold? Key facts to account for:

1. Active funds – voting seems to be more for these funds
2. Low overall support – ES funds unconditionally support ES proposals 55% of the time, and only 23% by non-ES funds
3. This is against a backdrop of firms actively catering to sustainable investors

Paper suggests that this is driven by family ideology a proxy for preferences

Comment 1 (cont...)

Why do we observe this voting pattern against ES proposals?

Let's consider other possibilities

Alternative 1: Attention to Proposals that are Contested

1. The quality of proposals are poor, and if contested, funds evaluate and vote based on merit
2. For stewardship teams that are reviewing votes that matter, they would correctly updating the votes that

Alternative 2: Private Engagements

1. Prior research suggests that engagements play an important role in governing firms
2. Anecdotal evidence from discussions with stewardship teams
3. Suggestive evidence from voting guidelines

Alternative 3: ...

Comment 2

Fiduciary responsibility

Are their potential breaches of fiduciary duties of managers of ES funds in families that are relatively opposed to ES proposals (Lipton, 2017; Hirst, 2018)?

SECURITIES AND EXCHANGE COMMISSION
Washington, D.C. 20549

FORM N-1A
REGISTRATION STATEMENT
(NO. 2-56846)
UNDER THE SECURITIES ACT OF 1933 ☐
Pre-Effective Amendment No. ___ ☐
Post-Effective Amendment No. 172 and
REGISTRATION STATEMENT
(NO. 811-02652)
UNDER THE INVESTMENT COMPANY ACT OF 1940 ☒
Amendment No. 172 ☒

VANGUARD INDEX FUNDS
(Exact Name of Registrant as Specified in Declaration of Trust)

P.O. Box 2600, Valley Forge, PA 19482
(Address of Principal Executive Office)
Registrant's Telephone Number (610) 669-1000

Anne E. Robinson, Esquire
P.O. Box 876
Valley Forge, PA 19482

It is proposed that this filing will become effective (check appropriate box)

- ☐ immediately upon filing pursuant to paragraph (b)
- ☒ on April 29, 2021, pursuant to paragraph (b)
- ☐ 60 days after filing pursuant to paragraph (a)(1)
- ☐ on (date) pursuant to paragraph (a)(1)
- ☐ 75 days after filing pursuant to paragraph (a)(2)
- ☐ on (date) pursuant to paragraph (a)(2) of rule 485 If appropriate, check the following box:
- ☐ This post-effective amendment designates a new effective date for a previously filed post-effective amendment.

V. Environmental and Social Proposals

Proposals in this category, initiated primarily by shareholders, typically request that a company enhance its disclosure or amend certain business practices. The funds will evaluate these resolutions in the context of our view that a company's board has ultimate responsibility for providing effective ongoing oversight of relevant sector- and company-specific risks, including those related to environmental and social matters. The funds will evaluate each proposal on its merits and support those where we believe there is a logically demonstrable linkage between the specific proposal and long-term shareholder value of the company. Some of the factors considered when evaluating these proposals include the materiality of the issue, the quality of the current disclosures/business practices, and any progress by the company toward the adoption of best practices and/or industry norms.

Fund prospectus suggests they are evaluating the proposals on their *merit*

Comment 2 (cont...)

Fiduciary responsibility

Back Facebook, Inc.

Ticker	Meeting Date	Record Date	Security ID	Meeting Type	Country
FB	26-May-2021	01-Apr-2021	30303M102	Annual	USA

Item #	Proposal	Proponent	Mgmt Rec	Vote
1.1	Elect Director Peggy Alford	Management	For	For
1.2	Elect Director Marc L. Andreessen	Management	For	For
1.3	Elect Director Andrew W. Houston	Management	For	For
1.4	Elect Director Nancy Killefer	Management	For	For
1.5	Elect Director Robert M. Kimmitt	Management	For	For
1.6	Elect Director Sheryl K. Sandberg	Management	For	For
1.7	Elect Director Peter A. Thiel	Management	For	For
1.8	Elect Director Tracey T. Travis	Management	For	For
1.9	Elect Director Mark Zuckerberg	Management	For	For
2	Ratify Ernst & Young LLP as Auditors	Management	For	For
3	Amend Non-Employee Director Compensation Policy	Management	For	Against
4	Approve Recapitalization Plan for all Stock to Have One-vote per Share	Shareholder	Against	For
5	Require Independent Board Chair	Shareholder	Against	Against
6	Report on Online Child Sexual Exploitation	Shareholder	Against	Against
7	Require Independent Director Nominee with Human and/or Civil Rights Experience	Shareholder	Against	Against
8	Report on Platform Misuse	Shareholder	Against	Against
9	Amend Certificate of Incorporation to Become a Public Benefit Corporation	Shareholder	Against	Against

Comment 3

Implications of results

What are the portfolio firms?

Vanguard®

Vanguard FTSE Social Index Fund Prospectus

December 22, 2020

Admiral™ Shares

Vanguard FTSE Social Index Fund Admiral Shares (VFTAX)

See the inside front cover for important information about access to your fund's annual and semiannual shareholder reports.

This prospectus contains financial data for the Fund through the fiscal year ended August 31, 2020.

The Securities and Exchange Commission (SEC) has not approved or disapproved these securities or passed upon the adequacy of this prospectus. Any representation to the contrary is a criminal offense.

Principal Investment Strategies

The Fund employs an indexing investment approach designed to track the performance of the FTSE4Good US Select Index. The Index, which is market-capitalization weighted, is composed of large- and mid-cap stocks of companies that are screened for certain environmental, social, and corporate governance (ESG) criteria by the Index sponsor, which is independent of Vanguard. The FTSE4Good US Select Index excludes stocks of companies that FTSE Group (FTSE) determines engage in the following activities: (i) produce adult entertainment; (ii) produce alcoholic beverages; (iii) produce tobacco products; (iv) produce (or produce specific and critical parts or services for) nuclear weapon systems, chemical or biological weapons, cluster munitions, and anti-personnel mines; (v) produce other weapons for military use; (vi) produce firearms or ammunition for non-military use; (vii) own proved or probable reserves in coal, oil, or gas, or any company that FTSE determines has a primary business activity in: (a) the exploration and drilling for, as well as producing, refining, and supplying, oil and gas products, (b) the supply of equipment and services to oil fields and offshore platforms, (c) the operations of pipelines carrying oil, gas, or other forms of fuel, (d) integrated oil and gas companies that

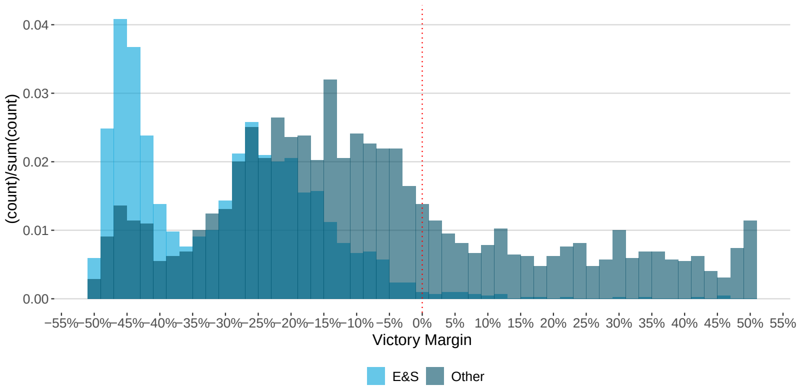
Comment 3 (cont...)

Implications of results

- What are the portfolio firms?
  - → Selection into ES portfolios, excludes firms in adult entertainment, alcohol, tobacco, weapons, carbon related, and so forth...
    - *Heath, Macciocci, Michaely, Ringgenberg (2021)* suggest that SRI funds invest in a portfolio consistent with the fund's objective, but they do not significantly improve corporate conduct
- Shareholder proposals can be not clear or regressive (see comment 2)

Comment 3 (cont...)

Implications of results



Interesting Question!

- Increasingly important to understand if and how investors are able to delegate their pro-ES preferences onto firms
- The empirical analysis is convincing that the pattern exists
- Thinking through the channel *why* do we observe these patterns, and if its related to their ideology?