Vanguard Investment Stewardship

Europe Regional Brief

This Regional Brief reports on the corporate governance topics and trends Vanguard's Investment Stewardship team observed across Europe (ex-U.K.) during the 2023 proxy year; it includes data on the proxy votes cast by the Vanguard-advised funds during the period.[1] We provide this brief, and other publications and reports, to give Vanguard fund investors and other market participants an understanding of the engagement and proxy voting activities we conduct on behalf of the Vanguard-advised funds.

Vanguard's Investment Stewardship team conducts proxy voting and engagement on behalf of the Vanguard-advised funds. Our approach to evaluating portfolio companies' corporate governance practices is centered on four pillars of good corporate governance, which are used to organize this brief: board composition and effectiveness, oversight of strategy and risk, executive compensation/remuneration, and shareholder rights.

During the past proxy year (July 1, 2022, through June 30, 2023), the team conducted 215 engagements with 159 companies across Europe, representing $145.4 billion in equity assets under management (AUM) engaged in the region. The funds voted on 23,087 proposals at 1,197 companies in the region.

At a glance

159 companies engaged

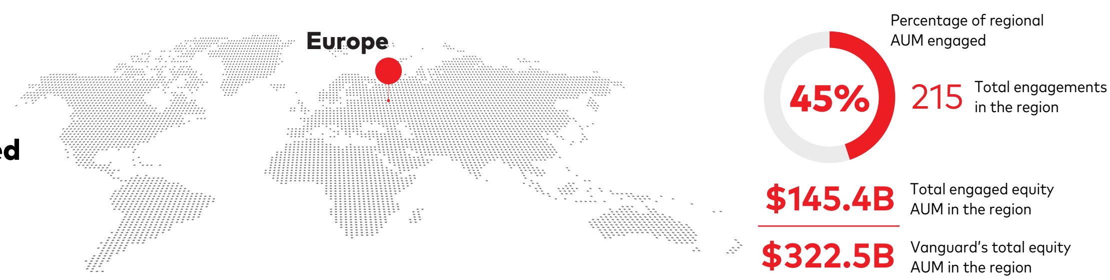
215 total engagements

1,197 companies where a proposal was voted on

23,087 proposals voted on

$145.4B equity assets under management engaged

Regional AUM engaged



1 Vanguard's Investment Stewardship program is responsible for proxy voting and engagement on behalf of the quantitative and index equity portfolios advised by Vanguard (together, "Vanguard-advised funds"). Vanguard's externally managed portfolios are managed by unaffiliated third-party investment advisors, and proxy voting and engagement for those portfolios are conducted by their respective advisors. As such, throughout this document, "we" and "the funds" are used to refer to Vanguard's Investment Stewardship program and Vanguard-advised funds, respectively.

Board composition and effectiveness

Our primary interest when evaluating a company's corporate governance profile is ensuring that the board of directors has the appropriate level of independence and mix of backgrounds, skills, experience, and diversity of personal characteristics to effectively provide independent oversight of management, company strategy, and material risks.

Director election practices. A variety of board election practices are prevalent across Europe. Directors may be elected individually or as a single slate of candidates; board elections may be annual or staggered, with term lengths of up to six years; and boards may be elected by majority, plurality, or cumulative vote standards. While recognizing different regulations and practices across the region, the Vanguard-advised funds look for board structures and practices that are aligned with shareholders' long-term interests. We believe that those interests are best served when directors are elected annually and on an individual basis, rather than as a slate.

Board independence. In the 2023 proxy year, we engaged with leaders at European companies where we had questions about board and key committee independence, and we encouraged increased independence in certain cases. In general, we look for boards to be majority independent, with key committees (that is, the nomination committee, the remuneration committee, and the audit committee) composed of independent directors only. In markets where majority independence is not the norm, we look for companies to increase the level of board independence over time.

Board diversity. Given the increased attention by European regulators and policymakers on board gender diversity, we engaged with company directors and executives to understand how they plan to adapt to new market regulation on this topic. Where regulation or market best practices dictate, we look for companies to establish appropriate director nomination procedures accompanied by robust disclosure outlining board composition strategy inclusive of gender diversity considerations. We encourage this disclosure so as to understand how a board's chosen composition is best suited to safeguard and promote the interests of long-term shareholders. We observed companies responding to changing market expectations by increasing disclosure of board skills matrices, diversity policies, and board effectiveness assessments.

Here are some country-specific highlights related to board composition and effectiveness:

In the **Netherlands**, we noted many companies taking action to meet gender diversity requirements in Dutch legislation that took effect in 2022. This legislation specifies that, with limited exceptions, any director appointment that does not result in a gender balance ratio on the supervisory board of at least one-third will be annulled. The new law also outlines an expectation that all companies define clear diversity targets for the board and management team, outline their diversity policies, and provide meaningful information on how the board intends to increase female representation on the supervisory board or in management, where relevant.

In **France**, we continued to promote board structures and processes, including appropriate levels of independence, associated with long-term investment returns. During the 2023 proxy year, the Vanguard-advised funds voted against the election of censors at several French companies where censor appointments were proposed for a period longer than one year and presented to shareholders without a supporting rationale.[2] The funds also voted against nominating committee chairs in instances where the chief executive officer and chair roles were combined but the board had no lead independent director.

In **Italy**, we observed a renewed focus on the country's distinct practice of slate voting for the election of directors. Under this practice, shareholders can vote for or against a bundled director slate and cannot support individual director candidates. Italy's use of slate voting reflects market-specific factors, including the historical predominance of controlling shareholders. Slate voting can increase independent board oversight given its role in safeguarding the rights of minority shareholders, who are able to propose a slate for election and achieve board representation even at companies with concentrated ownership. This system presents some challenges for institutional investors when evaluating individual director candidates. These challenges were illustrated in, for example, the contested director elections at **Leonardo SpA** and **Enel SpA**. As we detailed in an **Insights piece** published earlier this year, in those contests, the funds supported the director slates that we determined were better positioned to represent the interests of long-term shareholders and ensure independent oversight of company management.

In **Spain**, we have observed an evolution in the separation of the chair and CEO roles, with appointment of a lead independent director being increasingly common in cases in which the roles are combined. Recently, more companies—including **Iberdrola SA**, **Indra Sistemas SA**, and **Sacyr SA**—split the chair and CEO roles even where a lead independent director was already in place. In line with the funds' proxy voting guidelines, the Vanguard-advised funds evaluated on a case-by-case basis all management proposals in Spain that called for the separation of the chair and CEO. Ultimately, the funds supported all such proposals.

Notable votes from the 2023 proxy year include:

As detailed in an **Insights piece** published earlier this year, at **SCOR SE**, a French reinsurance company, the funds voted against re-election of the vice chair because of governance concerns, including poor succession planning for the role of chief executive officer. The resolution passed but with high levels of shareholder dissent.

2 Censors are nonvoting board members who act in an advisory capacity. Their use is common in France, but best practice is to appoint censors for short-term transitional periods only.

Oversight of strategy and risk

On behalf of the funds, we evaluate board oversight and disclosure of material risks case by case, in accordance with each company's unique profile, taking into account the board's assessment of material risks and regional and sector-specific context.

Sustainability-related risks. In recent years, European directors and company leaders have shared with us that they have had significant stakeholder interest in how boards are managing material sustainability-related risks, including climate-related risks. Directors have shared that boards continue to focus on meeting increasingly rigorous regulatory requirements to report on sustainability-related risks and opportunities; they have also shared that they anticipate new and evolving sustainability reporting requirements, such as those of the European Union's Corporate Sustainability Reporting Directive, which takes effect in 2024. We observed that many boards are continuing to define and refine material sustainability metrics and targets against which to measure and assess company performance on sustainability-related strategies.

Say on Climate. In the 2023 proxy year, the number of management-proposed Say on Climate proposals at company meetings decreased. We continued to engage with companies that chose to seek shareholder input on climate transition plans to share our perspectives on Say on Climate proposals, as well as to inform our case-by-case analysis of those plans. Despite the decrease in Say on Climate proposals, learnings from our engagements on the topic—as well as emerging regulatory requirements in Europe—indicate that more companies may put forth such proposals in future years.

War in Ukraine. We continued seeking to understand boards' long-term approaches to identifying and overseeing key risks, including the ongoing response to the war in Ukraine and the resulting uncertainty in energy markets. We continued to encourage board oversight of long-term material financial risks and appropriate disclosure of those risks, in addition to the understandable attention being paid to current acute economic and political risks. Notably, energy market dynamics and supply-chain disruptions affected many companies across Europe. We noted that at energy and utility firms, these evolving dynamics in some instances led companies to revise short-term emissions reduction targets. In those cases, we sought to understand how boards viewed those changes in the context of each company's long-term climate-related commitments and targets.

Here are some country-specific highlights related to oversight of strategy and risk:

In **France**, regulators continue to emphasize sustainability-related matters and how companies should integrate them within the business strategy. In its December 2022 release, the French corporate governance code (Afep-MEDEF) added provisions encouraging more structure around board-level oversight of sustainability matters.[3] French companies have also continued to put forward many management Say on Climate proposals, perhaps in anticipation of a potential requirement that public companies offer shareholders a vote on plans at regular intervals. Consistent with our

3 The Afep-MEDEF Code is the primary corporate governance code referenced by listed companies in France. It is published by two French business groups, the Association Française des Entreprises Privées and the Mouvement des Entreprises de France.

approach in other markets, we assess Say on Climate proposals in France case by case through the lens of oversight and disclosure of material risk. When evaluating Say on Climate proposals, we look for company boards to articulate the oversight mechanisms and governance implications of the vote and to produce robust climate-related reporting. When a proposal is not clearly framed as a vote on disclosure and risk but rather seeks shareholder input on company operations or strategy, or when the governance mechanisms of a vote are ambiguous, the funds may abstain on the matter, as they did at the 2023 annual meeting of the French company **Carrefour**.

Notable votes from the 2023 proxy year include:

Following a series of corporate scandals and a finding of material weakness over its financial reporting, **Credit Suisse** collapsed in March 2023 and was purchased by UBS. As detailed in an **Insights piece** published earlier this year, at Credit Suisse's 2023 annual meeting, the Vanguard-advised funds voted against the discharge of the board and management and against key directors who were responsible for risk oversight.

Executive remuneration

When reviewing executive remuneration, we assess how remuneration policies and practices are linked to long-term investment returns.

Companies domiciled in Europe must submit their remuneration reports, which explain their approach to executive remuneration in the prior year, to an annual shareholder vote. They also must submit a remuneration policy—the framework for how executives and key employees will be incentivized—for shareholder approval at least every three years. During the 2023 proxy year, we held focused engagements with companies that were significantly changing their remuneration policies; we also engaged with many companies where we identified concerns about the level of relevant public disclosure provided about remuneration or the connection between pay and performance outcomes.

ESG metrics. During the 2023 proxy year, we saw a significant increase in companies incorporating environmental, social, and governance (ESG) metrics into their incentive plans. In some cases, the weighting of ESG metrics was increased substantially to form a significant (over 20%) portion of bonus or long-term incentive plans. We observed various practices regarding ESG metrics, with some very thoughtfully presented and based on material risks or opportunities, with transparent metrics and targets. Other metrics, in our view, were vague, not linked to material risks or opportunities, or not clearly disclosed. We encouraged companies to consider using metrics that align with their corporate strategy and long-term investment returns and to disclose ESG metrics and targets to ensure that pay remains aligned to performance outcomes.

Here are some country-specific highlights related to executive remuneration:

In **France**, the latest release of the country's corporate governance code has increased the requirements for public companies' use of environmental and social (E&S) metrics within executive remuneration plans. Many French companies have already integrated such measures into their executive pay structures. We do not look for E&S metrics to be a standard component of remuneration plans, but where they are included, we will seek to understand how those metrics are linked to company strategy and long-term investment returns. We will further scrutinize company disclosures as we assess all metrics, including those related to a company's E&S objectives, for rigor and measurability.

In **Switzerland**, updates to the Swiss Code of Obligations for 2023 included changes affecting remuneration and shareholder rights. These provisions affect corporate governance matters, such as a new requirement to put remuneration reports up for an advisory vote accompanied by prospective binding votes on executive variable remuneration.[4]

In the **Netherlands** during proxy year 2023, we engaged with directors of Dutch-domiciled companies and shared our perspective on the importance of aligning executive incentives with long-term investment returns. We also encouraged companies to disclose incentive plans' performance targets to help investors understand how their incentive plans drive alignment between relative pay and performance.

We continue to see companies in the **Nordic markets (Denmark, Sweden, Finland, and Norway)** provide limited disclosure about executive pay, namely performance metrics, targets, and retrospective achievement. This relative lack of disclosure is partly attributable to Nordic companies publishing remuneration reports for only the first or second time since 2020, when that level of disclosure became a regulatory requirement. Following engagements with companies in the region, we have seen commitments to improving disclosure in line with regulatory requirements. During the 2023 proxy year, we evaluated pay plans mindful of the limited disclosure coupled with relatively low quantum (the total magnitude of pay) and sought to understand how executive pay plans were aligning pay outcomes with shareholders' experiences and company financial performance. The Vanguard-advised funds' support for management Say on Pay proposals in the region rose from 81% to 86% from proxy year 2022 to proxy year 2023, after many companies improved their disclosure about the pay-for-performance link.

4 As per the European Corporate Governance Institute (ECGI): "The statutory corporate law set out in the Swiss Code of Obligations (CO) is the main source of Swiss corporate governance regulation. The CO applies to private and public companies."

Notable votes from the 2023 proxy year include:

At the 2023 annual meeting of **Accor SA**, a French hotels and hospitality company, the Vanguard-advised funds voted against proposals to approve 2022 financial year renumeration for the chair and the CEO, as well as the policy governing their remuneration. For each proposal, we had concerns about the remuneration plan's structure, company disclosures, and the potential for pay-for-performance misalignment. The Vanguard-advised funds had voted against remuneration-related proposals at Accor at each of the prior five annual meetings. In 2022, the funds' concerns were escalated through a vote against remuneration committee members. We engaged with company leaders and directors ahead of Accor's 2023 annual meeting to discuss our concerns and provide feedback. Subsequently, the funds did not vote against committee members in 2023 but voted against binding remuneration proposals.

Shareholder rights

We assess structures that boards put in place to allow shareholders to effectively exercise their foundational rights.

Multiple share class structures. The presence of multiple classes of voting shares continues to impede shareholder rights in parts of Europe. We believe this will be a growing issue, with regulatory changes in Europe likely to further facilitate unequal voting structures. We recognize that multiple share class structures can encourage companies to list and create greater access to capital for investors, but we have encouraged market participants to consider implementing sunset clauses or other mechanisms to safeguard long-term shareholder interests.

Here are some country-specific highlights related to shareholder rights:

In the **Nordic markets**, shareholders are expected to play an active role in corporate governance, with many companies' share registers topped by a few large shareholders in the region. Moreover, dual share class structures, particularly in Sweden, have been prevalent in Nordic companies for close to 100 years and are still used by companies representing nearly three-fourths of market capitalization for Nasdaq Stockholm. We will continue to analyze proposals related to multiple share class structures case by case. We promote the use of single share class structures that enable equal voting rights at companies. Nonetheless, we are mindful of the historically stable share ownership structure in Sweden.

European regulation has technically revoked shareblocking, a practice in which shares are temporarily blocked from trading when they are voted. However, certain market participants, particularly in Norway, continue to practice shareblocking. The practice has a detrimental effect on shareholder rights, as it limits one of the key mechanisms for shareholders to voice their perspectives or concerns. Based on evolving market practices and the perceived impact on shareholder rights, our team is committed to working with the funds' custodians and sub-custodians to vote shares to the extent possible, while ensuring minimal risk to trading.

In **France**, influenced by market trends and the regulatory environment, many public companies are seeking to formally establish their raison d'être more concretely to align with a range of stakeholders. From a corporate governance perspective, the implications of such an exercise may not be straightforward. This is because instituting a corporate purpose—perhaps to include an organization's sustainability-related responsibilities—can raise questions about shareholder interests and rights, particularly when such an exercise involves changing company bylaws. Within the context of this debate, our focus remains on safeguarding shareholder rights and promoting corporate governance practices associated with long-term investment returns..

In **Italy**, we continued to see more engagement and dialogue between companies' boards and investors. There was also debate among market participants on topics related to multiple share class structures and modes of participation at annual meetings as a result of the increased use of virtual meetings and representation by proxies. We continue to engage with key stakeholders in the market to understand how shareholder rights can be reasonably safeguarded in light of these changing market dynamics.

In **Switzerland**, the updated Code of Obligations encouraged companies to amend their articles of association to embed more flexibility in seeking shareholder approval of capital increases, set provisions on conducting virtual shareholder meetings, and lower the thresholds for shareholders to call shareholder meetings and submit proposals.

Notable votes from the 2023 proxy year include:

At **Veolia Environment SA**, a French utilities company, a resolution to amend the bylaws to reference the existence of a corporate purpose was withdrawn from the 2023 annual meeting agenda. The Vanguard-advised funds planned to support the proposal given the absence of shareholder-rights concerns as well as the company's clear articulation of oversight mechanisms (the formulation and monitoring of corporate purpose would remain the board's responsibility). Veolia's leaders and directors explained that the proposal did not resonate with all investors and that further work was needed on it to meet expectations.

Proxy voting data

The types and volume of proposals voted on across Continental Europe remained relatively consistent year over year. Notably, we saw an increase in directors put forth by shareholders in the 2023 proxy year. Many of those nominees were nominated through uncontested processes and supported by management, because of different norms for nominating directors in some European markets. But we also observed a small increase in the number of contested director elections, with some driven by greater shareholder scrutiny of company performance and governance practices.

In **France**, the funds' voting trends remained consistent compared with the 2022 proxy year, though there were fewer governance-related proposals because of a decrease in company bylaw amendments required to reflect legal and regulatory changes.

In **Italy**, overall support by the Vanguard-advised funds for remuneration proposals decreased slightly from the 2022 proxy year. Although the funds approved the majority of remuneration policies and reports, the funds opposed a greater percentage of Say on Pay proposals in Italy than in most other European markets. Key concerns for withholding support involved the structure of incentives and awards, the clarity of disclosures, and the alignment between executive pay outcomes and company performance.

In **Germany**, we saw a larger number of proposals to elect supervisory board members and other related proposals compared with the 2022 proxy year; this was largely attributable to the typical director election cycle in which most supervisory board members are elected for five-year terms.

In the **Netherlands**, for the second year in a row, no shareholder proposals were filed at companies held by the Vanguard-advised funds. The funds' general support for management proposals remained consistent, at approximately 94%, though the funds supported fewer proposals that sought to amend bylaws or other governance provisions, because of the proposals' negative implications for shareholder rights.

In **Switzerland**, we saw a small increase in Say on Pay proposals after new legal requirements took effect, and the funds supported a lower percentage of proposals because of a lack of demonstrable pay-for-performance alignment.

Europe

		Management		Shareholder	
Alignment with our pillars	**Proposal type**	**Number of proposals**	**% for**	**Number of proposals**	**% for**
Board composition and effectiveness	Elect directors	4,544	85%	216	45%
	Other board-related	5,420	95%	149	66%
Oversight of strategy and risk	Approve auditors	1,160	99%	—	—
	Environmental and social	15	87%	19	5%
Executive remuneration	Management Say on Pay	2,265	74%	—	—
	Other remuneration-related	1,742	92%	8	13%
Shareholder rights	Governance-related	736	96%	14	29%
Other proposals	Adjourn/other business	3,153	93%	—	—
	Capitalization	3,449	94%	—	—
	Mergers and acquisitions	144	94%	—	—
	Other	—	—	53	26%

Country-specific data

France

Alignment with our pillars	Proposal type	Management: Number of proposals	Management: % for	Shareholder: Number of proposals	Shareholder: % for
Board composition and effectiveness	Elect directors	488	92%	1	100%
	Other board-related	67	99%	5	0%
Oversight of strategy and risk	Approve auditors	56	93%	—	—
	Environmental and social	9	78%	2	0%
Executive remuneration	Management Say on Pay	945	82%	—	—
	Other remuneration-related	315	93%	5	0%
Shareholder rights	Governance-related	30	83%	—	—
Other proposals	Adjourn/other business	554	97%	—	—
	Capitalization	993	87%	—	—
	Mergers and acquisitions	62	89%	—	—

Germany

Alignment with our pillars	Proposal type	Management: Number of proposals	Management: % for	Shareholder: Number of proposals	Shareholder: % for
Board composition and effectiveness	Elect directors	385	83%	4	25%
	Other board-related	1,045	97%	—	—
Oversight of strategy and risk	Approve auditors	173	99%	—	—
Executive remuneration	Management Say on Pay	206	68%	—	—
	Other remuneration-related	53	98%	1	100%
Shareholder rights	Governance-related	74	99%	—	—
Other proposals	Adjourn/other business	175	97%	—	—
	Capitalization	310	96%	—	—
	Mergers and acquisitions	2	100%	—	—
	Other	—	—	5	80%

Switzerland

Alignment with our pillars	Proposal type	Management: Number of proposals	Management: % for	Shareholder: Number of proposals	Shareholder: % for
Board composition and effectiveness	Elect directors	933	83%	2	0%
	Other board-related	534	81%	2	0%
Oversight of strategy and risk	Approve auditors	116	100%	—	—
	Environmental and social	2	100%	—	—
Executive remuneration	Management Say on Pay	101	66%	—	—
	Other remuneration-related	324	91%	—	—
Shareholder rights	Governance-related	299	99%	—	—
Other proposals	Adjourn/other business	418	68%	—	—
	Capitalization	218	99%	—	—
	Mergers and acquisitions	3	100%	—	—

The Netherlands

Alignment with our pillars	Proposal type	Management: Number of proposals	Management: % for	Shareholder: Number of proposals	Shareholder: % for
Board composition and effectiveness	Elect directors	221	87%	—	—
	Other board-related	210	99%	—	—
Oversight of strategy and risk	Approve auditors	72	100%	—	—
Executive remuneration	Management Say on Pay	95	74%	—	—
	Other remuneration-related	34	91%	—	—
Shareholder rights	Governance-related	24	75%	—	—
Other proposals	Adjourn/other business	80	100%	—	—
	Capitalization	298	98%	—	—
	Mergers and acquisitions	12	100%	—	—

The Nordic markets: Denmark, Sweden, Finland, and Norway

		Management		Shareholder	
Alignment with our pillars	**Proposal type**	**Number of proposals**	**% for**	**Number of proposals**	**% for**
Board composition and effectiveness	Elect directors	1,652	84%	3	0%
	Other board-related	2,123	100%	3	0%
Oversight of strategy and risk	Approve auditors	491	99%	—	—
	Environmental and social	—	—	17	6%
Executive remuneration	Management Say on Pay	377	83%	—	—
	Other remuneration-related	593	84%	1	0%
Shareholder rights	Governance-related	75	87%	6	17%
Other proposals	Adjourn/other business	1,068	98%	—	—
	Capitalization	801	95%	—	—
	Mergers and acquisitions	16	100%	—	—
	Other	—	—	14	0%

Italy

		Management		Shareholder	
Alignment with our pillars	**Proposal type**	**Number of proposals**	**% for**	**Number of proposals**	**% for**
Board composition and effectiveness	Elect directors	24	79%	172	50%
	Other board-related	107	27%	106	92%
Oversight of strategy and risk	Approve auditors	33	91%	—	—
	Environmental and social	180	56%	—	—
Executive remuneration	Management Say on Pay	118	83%	—	—
	Other remuneration-related	20	80%	2	100%
Shareholder rights	Governance-related	103	99%	—	—
Other proposals	Adjourn/other business	182	99%	—	—
	Capitalization	1	100%	—	—
	Mergers and acquisitions	—	—	3	33%
	Other	—	—	53	26%

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