Vanguard

Vanguard-advised funds

Proxy voting policy for European and U.K. portfolio companies

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Contents

Introduction 3

Pillar I: Board composition and effectiveness 4

Pillar II: Board oversight of strategy and risk 12

Pillar III: Executive pay (remuneration) 16

Pillar IV: Shareholder rights 21

Country-specific guidelines: U.K., Ireland, the Isle of Man, Jersey, and Guernsey 24

Country-specific guidelines: Germany 27

Country-specific guidelines: France 29

Country-specific guidelines: Italy 30

Country-specific guidelines: The Netherlands 32

Country-specific guidelines: Nordic markets 33

Introduction

The information below, organized according to Vanguard Investment Stewardship's four pillars of corporate governance, is the voting policy adopted by the Boards of Trustees of the Vanguard-advised funds (the "Funds' Boards") and describes the general positions of the funds on proxy proposals that may be subject to a shareholder vote at portfolio companies domiciled in the U.K. or Europe; this includes those companies domiciled in the European Economic Area, Switzerland, Russia, the U.K., and the Crown Dependencies (the Isle of Man, Jersey, and Guernsey).[1]

It is important to note that proposals often require a facts-and-circumstances analysis based on an expansive set of factors. Proposals are voted case by case, under the supervision of the Investment Stewardship Oversight Committee and at the direction of the relevant Fund's Boards. The following policies are applied over an extended period of time; as such, if a company's board is not responsive to voting results on certain matters, the funds may withhold support for those and other matters in the future. As such, nonresponsiveness to voting results by company boards may result in future lack of support for matters which would otherwise be viewed positively by the funds. Regardless of whether proposals are submitted by company management or by other shareholders, they are voted in accordance with these policies and as determined to be in the best interests of each fund, consistent with its investment objective.

This document describes general voting guidelines that apply to companies domiciled in Europe ("Europe Guidelines"), followed by country-specific guidelines for the U.K., Ireland, the Crown Dependencies (the Isle of Man, Jersey, and Guernsey), Germany, France, Italy, the Netherlands, and Nordic markets. The Vanguard-advised funds look for companies to abide by the relevant local laws and regulations of the market in which they are listed and follow any applicable local corporate governance codes. These local corporate governance codes form the basis of the funds' country-specific guidelines. However, the funds' guidelines may differ from and in some cases look for practices that differ from, the local corporate governance code. The funds' country-specific guidelines outline any deviations from the Europe Guidelines that will apply to the local market.

Comply or explain. Local standards in many European markets permit companies to deviate from corporate governance practices recommended by the relevant corporate governance code as long as a company provides an explanation for the deviation. The funds support the underlying principle of European corporate governance best practices. Companies should "explain" any deviations from the relevant corporate governance code's recommended governance practices, including providing an explanation of what they do instead of the recommended practice and why their alternative approach is in the best interests of shareholders.

Multijurisdictional companies. When a company is listed on multiple exchanges or incorporated in a country different from where it is listed, the company should follow the applicable laws and listing rules of the markets in which it has its primary listing and apply any local corporate governance codes. If a company deviates from any market standards or local corporate governance codes, it should explain the reasons for such deviations.

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.

Europe guidelines

Pillar I: Board composition and effectiveness

In the interest of maximizing the long-term return of their investment in each company, the funds seek to ensure that the individuals who serve as board directors to represent the interests of all shareholders are appropriately independent, experienced, committed, capable, and diverse. Diversity of thought, background, and experience, as well as personal characteristics (such as gender, race, ethnicity, and age), meaningfully contributes to the ability of boards to serve as effective, engaged stewards of shareholders' interests.

In order to appropriately represent shareholder interests in the oversight of company management, a majority of directors should be independent, as should a majority of the members of the board's key committees (audit, remuneration, and nominating/governance or their equivalents).[2] While the funds generally rely upon the relevant exchange listing or regulatory requirements in establishing a director's independence, there may be instances (such as former CEOs) in which directors who may be "technically independent" are considered otherwise after engagement and/or research.[3]

As detailed below, if a board's or committee's composition is inconsistent with these independence standards, a fund may not support (a) the nonindependent nominees on the board/committee and (b) members of the nominating/governance committee on the ballot.

Board independence

A fund will generally vote against the nominating committee and all nonindependent, nonexecutive board members of a company if that company does not maintain a majority independent board.

A fund will generally vote against the nominating committee and nonindependent, nonexecutive directors if the board of a controlled company is not composed of at least one-third independent directors.[4]

In addition, when analyzing the overall level of board independence, only board members who are elected by shareholders will be taken into account. Any directly appointed government and/or employee representatives on the board will be excluded from the independence analysis.

Outlined below are common factors that can impact independence:

- *Current and former employees.* Directors who are current or former employees (other than CEO) may be considered independent five years after they terminate their employment relationship.
- *Former CEOs.* Former CEOs will generally never be considered independent, unless they only held an "interim" CEO position for less than 18 months. An interim CEO who held the temporary position for less than 18 months may be considered independent three years after leaving the interim CEO position.

2 Certain exchange-listing standards and regulatory provisions may apply more limited (or no) independence requirements to the boards of controlled companies (that is, those in which a majority voting interest is held by company insiders or affiliates). While the funds will relax their majority independence expectation with respect to the entire board in these cases, the funds still look for the majority of key committee members to be independent.

3 For example, a fund will generally consider former CEOs of the company—other than those who may have served in an interim capacity for less than 18 months—as permanently nonindependent members of their board. In addition, CEOs who serve on one another's boards (so-called interlocking directorships) may also be considered nonindependent.

4 A controlled company is a company in which 50% or more of the equity or voting power is held by a single person, entity, or group. A fund may also apply this policy to nonwidely held companies, which are those companies for which 20% or more of the equity or voting power is held by a single person, entity, or group.

- *Cross-directorships and CEO interlocks.* Any directors who hold cross-directorships or have significant links with other directors through involvement in other companies or bodies will generally not be considered independent. In addition, CEOs who sit on one another's boards will generally not be considered independent.
- *Shareholder representatives.* Representatives of shareholders will generally not be considered independent.
- *Business connections.* Any director nominee who has had within the last year a material business relationship with the company—either directly or as a partner, shareholder, director, or senior employee of a body that has such a relationship with the company—will generally not be considered independent.
- *Familial relationship and other personal relationships*. Any director who has close family ties with any of the company's advisers, directors, or senior employees will generally not be considered independent.
- *Performance-related pay*. Any director who participates in a significant performance-related pay scheme will generally not be considered independent.
- *Tenure.* Excessive tenure of a director (that is, tenure that exceeds local market best practices, where applicable) can potentially impact independence, especially in a scenario where a board is not majority independent. However, excessive tenure may not result in a director being considered nonindependent, unless the company considers a director nonindependent for this reason or the funds identify other factors indicating that the directors' independence has been compromised. The funds look for evidence of regular board refreshment when evaluating tenure.
- *Other factors.* If it is determined, through engagement or research, that director independence has been compromised, that director may not be considered independent.

Key committee independence

The funds look for key committees to be chaired by independent directors. The funds also look for companies to maintain 100% nonexecutive, majority independent key committees.

A fund will generally vote against nonindependent directors that serve on the following key committees (or their equivalents) if the majority of the committee is not independent:

- Audit committee
- Remuneration committee
- Nomination committee

Shareholder agreements, which include board and/or committee representation for the shareholder representatives that are party to this agreement, will be taken into consideration.

Independent board leadership

In addition to the importance of board independence generally, the funds believe that shareholders' interests are best served by board leadership that is independent of company management. While this may take the form of an independent chair of the board or a lead independent director (with sufficiently robust authority and responsibilities), the funds generally believe that determining the appropriate independent board leadership structure should be within the purview of the board. Where market practice and/or local governance codes call for it, the funds look for boards to be chaired by independent directors. Generally, a fund will vote for management proposals to create an independent chair position or to otherwise separate the CEO and chair positions.

In evaluating shareholder proposals calling for the separation of CEO and chair, certain factors are considered:

- *Presence of a robust lead/senior independent director role.* A strong lead/senior independent director may provide sufficient independent perspective to balance against a nonindependent chair. Consistent with this perspective, structures that do not provide a strong counter voice to insider leadership warrant independent oversight.
- *Board accessibility.* Shareholders' ability to communicate directly with independent board members, including a lead/senior independent director or committee chairs, is an important means by which they can share their perspectives. Restricting access to independent directors may prevent the board from receiving and understanding feedback from shareholders. It may also contribute to a culture of management entrenchment by controlling the messages the board receives.
- *Overall board independence.* High affiliated representation on the board may outweigh independent voices and further entrench the insider leadership. Enhancing the role of independent directors may offer a counterweight to the nonindependent voices on the board.
- *Governance structural flaws.* Certain governance practices and corporate structures may make entrenchment by management and other nonindependent directors more likely. For example, multiple share classes with different voting rights can limit the voice of shareholders, and key committees that are not fully independent restrict a board's role in management oversight.
- *Responsiveness to shareholders.* A pattern of being unresponsive to shareholders (e.g., a failure to act on shareholder votes or decision to impair shareholder rights) may indicate that a board is entrenched.
- *Oversight failings.* Governance crises may indicate management entrenchment or that the board is not receiving sufficient information from management to appropriately fulfill its oversight role. Evidence of failure to provide appropriate governance oversight, and/or evidence of failure to oversee material or manifested risks, including those that may be considered "social" or "environmental," will be taken into account.

Board composition

The funds look for boards to be "fit for purpose" by reflecting appropriate diversity of skill, experience, perspective, and personal characteristics (such as gender, age, nationality, and ethnicity) resulting in cognitive diversity that enables effective, independent oversight on behalf of all shareholders. The funds believe that the appropriate mix of skills, experience, and characteristics is unique to each board and should reflect expertise related to the company's strategy and material risks from a variety of vantage points.

The funds look for companies to disclose their perspectives on the appropriate board structure and composition for their company and how these elements support the company's strategy, long-term performance, and shareholder returns. Disclosure of how the board's composition evolves over time enables shareholders to better understand how the board is positioned to serve as effective, engaged stewards of shareholders' interests.

The funds expect disclosure of tenure, skills, and experience at the director level (sometimes referred to as a "skills matrix"). To this end, the funds may support requests for disclosure of the company's approach to board composition, inclusive of board diversity. The funds ask European and U.K. companies to meet local market standards intended to support gender and ethnic diversity, and at a minimum to demonstrate progress toward at least 30% gender diversity at board level (to be read in conjunction with country-specific guidelines below) and, where necessary, disclose plans to align with any current or upcoming local requirements.

To evaluate board composition in relation to this policy, factors for the fund to consider include applicable market regulations and expectations, along with additional company-specific context.

- Boards should reflect diversity of attributes including tenure, skills, and experience.
- A board should also, at a minimum, represent diversity of personal characteristics, inclusive of at least diversity in gender, race, and ethnicity on the board.
- Boards should take action to reflect a board composition that is appropriately representative, relative to their markets and to the needs of their long-term strategies.
- Disclosure of directors' personal characteristics (such as gender, ethnicity, or nationality) should occur on a self-identified basis and may occur on an aggregate level or individual director level. Disclosure of skills and experience at the director level is preferred.
- Companies should provide disclosure regarding their process for evaluating the composition and effectiveness of their board on a regular basis, the identification of gaps and opportunities to be addressed through board refreshment and evolution, and a robust nomination (and renomination) process to ensure the right mix of skills, experience, perspective, and personal characteristics into the future.

Director capacity and commitments

Directors' responsibilities are complex and time-consuming. Therefore, the funds seek to understand whether the number of directorship positions held by a director makes it challenging to dedicate the requisite time and attention to effectively fulfill their responsibilities at each company (sometimes referred to as being "overboarded"). While no two boards are identical and time commitments may vary, the funds believe the limitations on the number of board positions held by individual directors are appropriate, absent compelling evidence to the contrary.

A fund will generally vote against any director who holds an executive role of any public company and serves on two or more additional outside public company boards. In this instance, the fund will typically vote against the nominee at each company where they serve as a nonexecutive director, but not at the company where they serve as an executive.

A fund will also generally vote against any director who serves on more than four public company boards. In that instance, the fund will typically vote against the director at each of these companies except the one where they serve as board chair or lead independent director.

In certain instances, a fund will consider voting for a director who would otherwise be considered overboarded under the standards above if:

- A director has committed to stepping down from any directorships necessary to fall within the thresholds listed above by the following year's annual meeting;
- A director becomes overboarded as a result of becoming an interim executive officer or has become an executive officer within the last 12 months; or
- The company provides specific, verifiable information confirming that (i) the director devotes significantly less than an average amount of time to one or more of the boards on which they sit and (ii) that the reduced workload is appropriate based on the nature of the company's board (e.g., the company's business model or governance structure) and the relevant director continues to fulfill their obligations to that company, irrespective of their diminished hours of service. Certain investment vehicles, including but not limited to special purpose acquisition companies and investment trusts, are generally excluded from consideration. The funds look for portfolio companies to provide

comprehensive disclosure of how the board assesses director commitments. Such disclosure may include a discussion of what a company's policy is (e.g., what limits are in place), board oversight of that policy and, if a nominee for director is in conflict with that policy, any considerations and rationale for their nomination.

Director attendance

A fund will generally vote against directors who attended less than 75% of board or committee meetings (in the aggregate) in the previous year unless an acceptable extenuating circumstance is disclosed or they have served on the board for less than one year.

Discharge of directors

A fund will generally vote for proposals to discharge the board and/or individual directors, which typically represent a nonbinding vote of confidence in the board's actions, unless there is:

- Evidence that there may be concerns in relation to audit failures, egregious pay practices, limits to shareholder rights, and/or generally egregious practices;
- Evidence that directors may have breached their fiduciary duty;
- A lack of disclosure of audited financial statements for the prior year or director nominees for the current year; and/or
- A serious legal issue (either civil or criminal) that may be materially damaging to shareholder value.

A fund may also vote against the discharge of the board if the fund's ability to take part in future legal action against the company and/or its directors could be hindered by supporting such a proposal.

A fund may also use the discharge vote to express general governance and oversight concerns, especially where there is no ability to vote on the particular governance and/or oversight issue on the general meeting agenda, where directors are not up for election and the funds would otherwise escalate an accountability vote or where the board has failed to respond to shareholders' concerns repeatedly.

Election of directors as a slate

It is a best practice that directors are elected annually on an individual basis, rather than as a slate. Individual director elections allow for shareholders to support directors on an individual basis, whereas slate elections do not allow for this and may unintentionally result in the entire board being held accountable for a particular committee or director-specific issue. However, a fund will generally vote for a slate of directors, as long as the board meets other key independence criteria described above.

A fund will generally vote against proposals to adopt a slate election system.

Director liability and indemnification

A fund will vote case by case for management proposals to limit directors' liability and to expand indemnity provisions.

In general, a fund will vote for proposals to indemnify directors for breach of fiduciary duty of care as long as the director is found to have acted in good faith and will vote against proposals to indemnify directors for activity involving willful breach of fiduciary duties, other criminal activity, or gross negligence.

Directors' names and biographies

The funds consider the timely disclosure of directors' names and biographies critical to provide investors with a base level of information to assess individual roles and overall board composition.

A fund will generally vote against any director whose name and biographical details have not been disclosed sufficiently in advance of the general meeting.

Escalation process: Director and committee accountability

Directors are elected by shareholders to represent their interests. If there are instances in which the board has failed to respond to actions approved by a majority of shareholders, unilaterally taken action against shareholder interests, or, in the fund's view, failed in its oversight role, the fund may withhold support from those directors deemed responsible (generally based on their functional or committee-level responsibilities). A fund will generally not apply such a vote against a director who has served less than one year on the board and/or applicable committee but in such instances may apply it to another relevant director in their place. Matters that spur such votes may include:

- *Lack of board independence*. A fund will generally vote against nomination committee members of a widely held, noncontrolled company if the board is not majority independent and will vote against nomination committee members of a controlled company if the board is not composed of at least one-third independent directors. A fund may vote against the chair and/or lead independent director, or any other relevant director, if insufficient board independence remains a concern over multiple years.
- *Lack of key committee independence.* A fund will generally vote against nonindependent key committee directors if a company does not maintain majority independent key committees (audit, remuneration, and nomination committees). A fund may vote against nomination committee members, the chair and/or lead independent director, or any other relevant director, if insufficient key committee independence remains a concern over multiple years.
- *Lack of board disclosure.* A fund may vote against nomination committee members when biographies for new director nominees do not provide sufficient information for shareholders to evaluate the nominees' independence.
- *Audit failures.* A fund will generally vote against audit committee members when nonaudit fees exceed audit-related fees without sufficient disclosure or when the fund votes against an audit-related management proposal. A fund will generally vote against audit committee members in instances of a material misstatement or concerns about the integrity of the accounts.
- *Remuneration-related situations*
  - A fund may vote against remuneration committee members when the fund votes against a pay proposal for two consecutive years, unless meaningful improvements have been made.
  - A fund may vote against remuneration committee members when a company exhibits egregious pay practices. If it is not possible to vote against directors because they are not up for election, a fund may consider a vote against the discharge of the board, if such a resolution is on the general meeting's agenda.
- *Oversight failure.* A fund will generally vote against directors who have failed to effectively identify, monitor, and manage material risks and business practices that fall under their purview based on committee responsibilities. These risks may include material social and environmental risks, inclusive of climate change. To assess climate risk oversight failures, factors the funds will consider include:
  - The materiality of the risk;

- The effectiveness of disclosures to enable the market to price the risk;
- Whether the company has disclosed business strategies, including reasonable risk mitigation plans in the context of the anticipated regulatory requirements and changes in market activity in line with the Paris Agreement or subsequent agreements; and
- Consideration for company-specific context, market regulations, and expectations.

- The funds will also consider the board's overall governance and effective independent oversight of climate risk. When a specific risk does not fall under the purview of a specific committee, a fund will generally vote against the chair and/or lead independent director. If it is not possible to vote against directors because they are not up for election, a fund may vote against the discharge of the board, if such a resolution is on the general meeting's agenda. See Pillar II for more detail on the considerations for risk oversight failures.
- *Board composition concerns.* Absent a compelling reason, a fund will generally vote against the nominating and/or governance committee chair, or another relevant board member if the nominating and/or governance committee chair is not up for reelection, if a company's board is not taking action to achieve board composition that is appropriately representative relative to market norms, local regulatory or listing standards, and the needs of the company's long-term strategies.
- *Limited shareholder rights.* A fund may vote against the chair, lead independent director, and/or any other relevant directors if the company has abused minority shareholder rights and/or somehow meaningfully limited shareholder rights.
- *Lack of board responsiveness.* A fund will generally vote against the chair, lead independent director, and/or members of the relevant committee for failure to adequately respond to proposals (management or shareholder) that received the support of a majority of shares, based on votes cast (including the fund's), at a prior year's shareholder meeting. This vote should not apply when a fund did not support the initial vote.

Generally, a fund will vote for new directors who would otherwise fail under any of the preceding circumstances regarding committee accountability, but have served for less than a year, unless a given director fails to carry out the basic responsibilities that would be expected even for a new director.

Contested director elections

A fund will vote on shareholder nominees case by case in contested director elections. The analysis of proxy contests focuses on three key areas:

- *The economic and strategic case for change at the target company*
  - How has the company performed relative to its peers?
  - Has the current board's oversight of company strategy or execution been deficient?
  - Is the dissident focused on strengthening the target company's long-term strategy and shareholder returns?
- *The quality of company governance*
  - Did the board engage in productive dialogue with the dissident?
  - Is there evidence of effective, shareholder-friendly governance practices at the company?
  - Has the board actively engaged with shareholders in the past?

- *The quality of the company's and dissident's board nominees*
  - — Are there concerns with the independence, engagement, or effectiveness of the incumbent board?
  - — Has the board delivered strong oversight processes with long-term shareholders' interests in focus?
  - — Are the directors proposed by the dissident (whether the full slate or a subset) well-suited to address the company's needs, and is this a stronger alternative to the current board?

Pillar II: Board oversight of strategy and risk

Boards are responsible for effective oversight and governance of their companies' most relevant and material risks and for governance of their companies' long-term strategy. Boards should take a thorough, integrated, thoughtful approach to identifying, quantifying, mitigating, and disclosing risks that have the potential to affect shareholder value over the long term. Boards should communicate their approach to risk oversight to shareholders through their normal course of business.

Capital structures

- *Dividends.* A fund will generally vote for proposals to allocate income and for proposals to allow a stock (scrip) dividend unless the proposal does not allow for a cash option or is not in line with market standards.
- *Share issuance requests.* The total dilution to existing shareholders and the company's history of issuing capital will be considered.
- A fund will generally vote for routine capital issuance requests with preemptive rights up to a maximum of 50% of the current issued share capital, provided that the issuance authorities' periods are clearly disclosed and in line with market practice.
- A fund will generally vote for routine capital issuance requests without preemptive rights up to a maximum of 20% of the current issued share capital, provided that the issuance authorities' periods are clearly disclosed and in line with market practice.

For requests that exceed these thresholds, a fund will vote case by case, taking into account any disclosed rationale for the proposal.

- *Private placements.* A fund will generally vote for a private placement proposal if the dilution does not exceed 20% or is within a reasonable range of this threshold.
- *Contingent convertible securities.* A fund will generally vote for proposals to issue contingent convertible securities as long as the company explains that these are to be used to meet capital adequacy requirements for financial institutions set by regulators.
- *Debt issuance.* A fund will vote case by case on proposals to issue debt and/or restructure debt, taking into account:
  - — Any convertible features and the potential effect on dilution;
  - — The company's financial position; and
  - — The company's ability to take on the proposed debt.
- *Share repurchase.* A fund will typically vote for routine authorities to repurchase shares up to 20% of the current issued share capital, as long as the terms of the repurchase appear to be in the best interests of shareholders, there is no history of abuse of such authorizations, and the pricing premium is equal to or less than 20% of fair market price.
- *Stock split or reverse stock split.* A fund will typically vote for a (reverse) split of outstanding shares if the number of shares authorized is proportionately changed. A fund will generally vote for a reverse split if it is necessary for the company to remain listed on its current exchange.
- *Preferred stock.* A fund will typically vote case by case on proposals to create/amend/issue preferred stock, taking into account the reason for the issuance, the ownership profile of the company, any historical abuses of share issuances, and the company's general approach to shareholder rights.

Mergers, acquisitions and financial transactions

The funds seek to assess the likelihood that a transaction preserves or will create long-term value for shareholders. A fund will vote case by case on all mergers, acquisitions, and financial transactions based on a governance-centric evaluation focused on four key areas:

- Valuation
- Strategic rationale
- Board oversight of the deal process
- The surviving entity's governance profile

In evaluating board oversight, the funds will consider independence, potential conflicts of interest, and management incentives.

Related-party transactions

In general, companies should refrain from entering into related-party transactions with nonexecutive directors, executive directors, and shareholders because of the potential conflicts of interest that can arise. If a company does decide to enter into such a transaction, then the funds will look for the company to comply with the relevant corporate law in its jurisdiction and/or the listing rules on the exchange on which it is listed.

When evaluating related-party transactions, considerations include:

- Whether it is part of the normal course of business;
- Clear disclosure of the details of the transaction, including who is involved, the price, and any financial conditions and the board's justification of the transaction;
- Whether there has been independent verification of the transaction, either by a third party (e.g., an auditor) or an independent board committee; and/or
- The length of the approval process of the transaction (preferring annual approval).

A fund may vote against a related-party transaction if:

- It is a substantial transaction with a nonexecutive director (especially when the company classifies such director as independent) and there are concerns about the level of independence on the board;
- The disclosure provided by the company is incomplete or is lacking detail;
- The approval length for the transaction is excessive;
- There are serious concerns about the independent verification and/or pricing of the transaction; and/or
- The transaction may not be in the interest of minority shareholders and/or it diminishes shareholder rights.

Independent auditors

Maintaining the independence and objectivity of auditors when carrying out their primary function of auditing financial statements is fundamental to safeguarding shareholder value.

Auditor appointment and auditor's fees. A fund will generally vote against the appointment of the auditor and the auditor's fees where tax and all other fees exceed the audit and audit-related fees without a reasonable justification such as an event that was transactional and one-off.

A fund will vote case by case on the auditor's appointment/reappointment when there is a material misstatement of financials or other significant concern regarding the integrity of the company's financial statements. The funds believe that firms should consider rotating the independent auditor in line with local best practice recommendations and regulations.

Auditor indemnification. A fund will generally vote against proposals to indemnify external auditors.

A fund will generally vote case by case on proposals to limit external auditors' liability, considering the explanation provided by the company for such liability limitation.

Environmental/social proposals

Each proposal will be evaluated on its merits and in the context that a company's board has ultimate responsibility for providing effective oversight of strategy and risk management. This oversight includes material sector- and company-specific sustainability risks and opportunities that have the potential to affect long-term shareholder value.

While each proposal will be assessed on its merits and in the context of a company's current practices and public disclosures, vote analysis will also consider these proposals relative to market norms or widely accepted frameworks endorsed or already referenced by Vanguard's Investment Stewardship program. Input from the board, management, and proponents may also be taken into consideration.

A fund may support a shareholder proposal that:

- Addresses a shortcoming in the company's current disclosure relative to market norms or to widely accepted frameworks endorsed or referenced by Vanguard's Investment Stewardship program (e.g., the International Sustainability Standards Board (ISSB));
- Reflects an industry-specific, materiality-driven approach; and
- Is not overly prescriptive in dictating company strategy or day-to-day operations, or about time frame, cost, or other matters.

If the above criteria are met, a fund may support the following types of proposals:

Specific to an environmental proposal (not exhaustive):

- Requests disclosure related to the company's Scope 1 and Scope 2 emissions data, and Scope 3 emissions data in categories where climate-related risks are deemed material by the board.
- Requests an assessment of a changing climate's impact on the company, disclosing appropriate scenario analysis and related impacts to strategic planning.

Specific to a social risk proposal (not exhaustive):

- Requests disclosure of workforce demographics inclusive of gender and racial/ethnic categories, considering other widely accepted industry standards, and if appropriate under applicable laws and regulations.

- Requests disclosure of the board's role in overseeing material diversity, equity and inclusion (DEI) risks or other material social risks.
- Requests disclosure of the company's approach to board composition, inclusive of board diversity, and/or adoption of targets or goals related to board diversity (without prescribing what such targets should be, unless otherwise specified by applicable laws and regulatory requirements, or listing standards).

Disclosure proposals

A fund will vote case by case on disclosure-related management and shareholder proposals based on the materiality of environmental and social risks to a company.

Clear, comparable, consistent, and accurate disclosure enables shareholders to understand the strength of a board's risk oversight. Because sustainability disclosure is an evolving and complex topic, a fund's analysis of related proposals aims to strike a balance in avoiding prescriptiveness and providing a long-term perspective.

Targets, policies, and practices proposals

A fund will vote case by case on management and shareholder proposals that request adoption of specific targets or goals and on proposals that request adoption of environmental or social policies and practices.

Shareholders typically do not have sufficient information about specific business strategies to propose specific targets or environmental or social policies for a company, which is a responsibility that resides with management and the board. As a result, shareholder proposals that are more prescriptive in nature will generally not be supported by a fund.

Say on Climate proposals

A fund will vote case by case on all "Say on Climate" proposals, typically including advisory votes on a company's climate report.

When a company's management chooses to hold a Say on Climate vote, the funds look for the board to provide clear disclosure of the rationale for the vote, to articulate the oversight mechanisms and governance implications of the vote, and to produce robust reporting in line with the ISSB framework. Vanguard does not seek to direct company strategy. The funds view Say on Climate votes as a signal on the coherence and comprehensiveness of the reporting and disclosures a company provides to explain its climate plan to the market, rather than an endorsement of, or an expression of lack of confidence in, the plan itself. Generally, the funds look for a coherent value proposition for shareholders, consistent with prudent risk management and mitigation; alignment with the Paris Agreement goals and related country-level targets and international agreements; and mitigation of reputational and legal risks.

A fund may abstain from voting on a proposal when the vote is not clearly framed as a vote on relevant reporting and disclosures, rather than on strategy, and/or where the governance implications of the vote are unclear.

The funds evaluate Say on Climate proposals submitted by shareholders through a lens of materiality and consider several criteria in our analysis, including the reasonableness of the request, whether the proposal addresses a gap in existing company's disclosures, and its alignment with industry standards.

Pillar III: Executive pay (remuneration)

Remuneration policies linked to long-term relative performance are fundamental drivers of sustainable, long-term value for a company's investors. Providing effective disclosure of remuneration policies, their alignment with company performance and their outcomes is crucial to giving shareholders confidence in the link between executives' incentives and rewards and the creation of long-term value.

Advisory and binding votes on executive remuneration

Most companies in the U.K. and Europe are required to have a forward-looking vote on executive remuneration (remuneration policy) at least every three years and a backward-looking vote on executive remuneration (remuneration report) annually.

Because norms and expectations vary by industry type, company size, company age and geographic location, the following guidelines are intended to represent preferences for executive remuneration and are not a "one-size-fits-all" tool.

For that reason, a fund will vote case by case on executive remuneration proposals and will support those that enhance long-term shareholder value. It may also vote for remuneration policies that reflect improvements in practices, even if the proposals are not perfectly aligned with all these guidelines but are clearly in the interests of long-term shareholder value.

Our general considerations for a vote on the remuneration policy or report fall into three broad categories:

- *Alignment of pay and performance.* The funds look for evidence of clear alignment between pay outcomes and company performance. This is mainly assessed through alignment of incentive targets with corporate strategy and analysis of three-year total shareholder return and realized pay over the same period vs. a relevant set of peer companies. If there are concerns that pay and performance are not aligned, a fund may vote against a pay-related proposal.
- *Remuneration plan structure.* Plan structures should be aligned with the company's stated long-term strategy and should support pay-for-performance alignment. Where a plan includes structural issues that the funds determine have led to, or could in the future lead to, pay-for-performance misalignment, a fund may vote against a pay-related proposal. For remuneration structures that are not typical of a market, the Vanguard-advised funds look for specific disclosure demonstrating how the structure supports long-term value creation for shareholders.
- *Governance of remuneration plans.* The funds look for boards to have a clear strategy and philosophy on executive remuneration, utilize robust processes to evaluate and evolve executive pay plans, and implement executive pay plans according to the policy approved by shareholders. The funds also look for boards to explain these matters to shareholders via company disclosures. Where remuneration-related proposals consistently receive low support, the funds look for boards to demonstrate responsiveness to shareholder concerns.

Remuneration policies

In forward-looking remuneration policies, the funds look for evidence of a strong pay-for-performance link and structural safeguards to strengthen alignment with shareholder interests. Our key considerations include the following:

- *Disclosure.* Shareholders should be able to easily understand pay expectations and outcomes. Therefore, a company should clearly articulate the remuneration plan's structure and the remuneration committee's processes for determining how that structure is likely to enhance long-term shareholder value. Effective disclosure should include award limits for incentive plans and other structural safeguards to prevent reward for failure and/or excessive payments.
- *Fixed pay.* The funds look for salary to be reasonably set based on the role scope, the industry, and the region, as well as benchmarked against an appropriate peer group (based on company size and complexity). If fixed pay is to be significantly increased, a compelling rationale should be disclosed.
- *Variable pay.*
  - *Long-term focus.* Plans should generally be weighted toward long-term outcomes rather than short-term outcomes; therefore, long-term plans should make up the majority of variable remuneration. Long-term plans should generally have performance measured over multiple years, ideally for a period of three years or more.
  - *Metrics.* Remuneration plans should incorporate rigorous metrics aligned with corporate strategy and long-term company performance. Since pay should ultimately align with relative performance, incorporating relative metrics (particularly relative total shareholder return) into plans is preferred. Where possible, the funds look for prospective performance metric disclosure, including targets and weightings, to allow shareholders to assess the rigor of the plan. The funds do not believe there is a one-size-fits-all approach to executive remuneration. The funds believe all metrics—financial and nonfinancial—within an executive remuneration plan should be rigorously designed, thoroughly disclosed and tied to long-term performance goals related to strategic objectives or material risks. A fund does not look for nonfinancial metrics (such as environmental, social, and governance [ESG] metrics) to be a standard component of all remuneration plans. When remuneration committees choose to include nonfinancial metrics, the funds look for the same qualities the funds do with financial metrics, including that they are measurable, reportable, rigorous, and clearly linked to a company's strategy and risk mitigation efforts.
  - *Structure.* While a fund will not be prescriptive as to exact structure of a remuneration plan, it will seek structures and processes that can reasonably be expected to align pay and performance over time. Such structures typically include a meaningful portion of equity vesting on performance criteria, strategically aligned performance metrics set to rigorous goals and clear disclosure of the program and outcomes enabling shareholders to understand the connection to long-term shareholder value, among other factors.
- *Malus and clawback.* Such provisions should be adopted and detailed in a company's incentive plans. When necessary, malus and clawback provisions should be exercised by the remuneration committee.
- *Benchmarking.* The funds look for pay packages to be benchmarked against an appropriate peer group based on company size, complexity, strategy, and geographic footprint. Companies should provide disclosure on the benchmark used and the rationale for that benchmark.
- *Severance.* The funds look for such arrangements to be set in line with market best practices. Generally, severance arrangements should not be more than two years of fixed pay, taking into account any specific market best practices or nuances.
- *Change of control.* Where a policy permits accelerated vesting on a change of control, the funds look for those arrangements to operate on a double-trigger basis in that the director's appointment is terminated with the change in control. Generally, the funds look for unvested awards to vest on a pro rata basis for time and performance.

- *Responsiveness to shareholders*. If pay proposals receive low support or shareholder feedback, especially year over year, the board and remuneration committee should demonstrate responsiveness to shareholder concerns.

Factors that raise a high level of concern when evaluating a company's remuneration policies include:

- A lack of disclosure of performance metrics, or performance metrics which are not clearly defined in incentive plans;
- A long-term plan that has a performance period of less than three years, without a specific justification aligned to a company's strategy;
- Incentive plans that do not have clearly disclosed target payouts or limits; and
- Performance targets for incentive plans that may be reset, retested, or are not rigorous;

Factors that raise warning signs, or a moderate level of concern when evaluating a company's remuneration policies, include:

- A long-term plan that makes up less than 50% of total pay and/or an annual bonus that accounts for the majority of executives' variable pay, without a compelling rationale;
- A peer group used to benchmark pay that is not completely aligned with the company in size, geographic footprint, or strategy;
- The introduction or increased weighting of ESG or other nonfinancial metrics that are not clearly aligned to company strategy and shareholder value creation;
- Plans that allow for compensatory effects between metrics, thereby reducing the incentive for executives to outperform across all criteria;
- Incentive plans that use absolute performance metrics only;
- Long-term plans that do not have an additional holding period once the performance period ends;
- A lack of malus and/or clawback provisions;
- Pension, benefits or severance arrangements that are excessive or out of line with established market best practices; and
- A lack of a shareholding requirement for executives or one that is out of line with peers or market practice.

Where these warning signs exist, elements of strong compensation governance, such as board responsiveness and disclosure that includes data, rationale, and alternatives considered, can sometimes act to mitigate these concerns.

Remuneration reports

In backward-looking remuneration reports the funds look for a history of payouts linked to company performance and aligned to shareholder interests. Following are our key considerations:

- *Disclosure*. Shareholders should be able to easily understand pay expectations and outcomes. Therefore, a company should clearly articulate the remuneration plan's structure and the remuneration committee's processes for determining outcomes. The funds generally look for companies to retrospectively disclose performance achievements. Effective disclosure may include:
  - The weightings of each metric in an incentive plan;
  - The performance metrics and targets used to evaluate performance in an incentive plan (ideally including actual performance and where that sits in relation to the minimum, the maximum and target performance for each metric); and
  - A clear description of any qualitative metrics used in an incentive plan and how the remuneration committee evaluated whether they were met.
- *Fixed pay*. The funds look for salary to be reasonably set based on the role scope, the industry and the region, as well as benchmarked against an appropriate peer group (based on company size and complexity). Where fixed pay has been significantly increased, a compelling rationale should be disclosed. Ideally, this rationale should include an assessment of broader employee pay and the relevant organisational context.
- *One-off awards*. Payments that occur in addition to the regular incentive plans may indicate that the current remuneration structures may not be working as designed. The funds look for one-off awards to be granted in exceptional circumstances only. If a one-off award is granted, the funds look for disclosure of a compelling rationale, which will be scrutinized.
- *Discretion*. The remuneration committee should feel empowered to exercise discretion when formulaic pay outcomes do not align with company and share-price performance or shareholders' experience. A remuneration committee should provide enhanced disclosure when exercising discretion, clearly explaining the rationale for such discretion and how the committee arrived at this decision.
- *Responsiveness to shareholders*. If pay proposals receive low support or shareholder feedback, especially year over year, the board and remuneration committee should demonstrate responsiveness to shareholder concerns.

Factors that raise a high level of concern when evaluating a company's remuneration reports include:

- Pay outcomes that are consistently higher than those of peers, but total shareholder return that is lower than those of peers;
- Performance targets for incentive plans that have been reset or retested, or which are not rigorous;
- A lack of retrospective disclosure of performance metrics, targets and actual pay outcomes;
- Payment of one-off awards without a compelling rationale for their use; and
- A remuneration committee that shows a lack of responsiveness to significant shareholder dissent in relation to pay and where the funds have concerns that have not been sufficiently addressed.

Factors that raise warning signs, or a moderate level of concern when evaluating a company's remuneration reports, include:

- Significant increases in pay opportunity that are not appropriately benchmarked against peers or justified by organisational changes;

- An ongoing lack of structural safeguards in the remuneration policy, as outlined above;
- The remuneration committee's use of discretion to override structural safeguards in the remuneration policy; and
- The remuneration committee's use only of positive discretion to determine pay outcomes.

Where these warning signs exist, elements of strong compensation governance, such as board responsiveness and disclosure that includes data, rationale, and alternatives considered, can sometimes act to mitigate these concerns.

Equity remuneration plans

A fund will vote case by case on equity remuneration plans for employees.

In general, a fund supports companies adopting equity-based remuneration plans for employees, as long as the plan or plans align with long-term shareholder interests and value. When evaluating equity remuneration plans, four main factors are considered:

- Dilution to shareholders;
- The company's grant history;
- Where plans are specifically targeted to executives, alignment between executive participants, and long-term shareholder value creation through the use of appropriate metrics and vesting periods; and
- Alignment with market practice.

Nonexecutive director remuneration

In general, a fund will vote for nonexecutive director fees that seem reasonable, are in line with peers, and take into account the amount of time required of the nonexecutive directors to fulfill their roles.

A fund will generally vote against the approval of any nonexecutive director fees where nonexecutive directors receive performance-related remuneration as part of their remuneration package. A fund will generally not oppose nonperformance-based equity awards to nonexecutive directors. Any such awards should be separate and distinct from executive incentive plans to minimize potential conflicts of interest. A fund will generally vote against retirement benefits for nonexecutive directors.

Pillar IV: Shareholder rights

The funds believe that effective corporate governance includes shareholders having the ability—in proportion to their economic ownership of a company's shares—to effect and approve changes in corporate governance practices and the composition of the board. The funds look for companies to adopt governance practices that support board and management service in the interest of the shareholders they represent. Such governance practices safeguard and support foundational rights for shareholders. Proposals on many of the following matters may be submitted by either company management or shareholders; a fund may generally support proposals—irrespective of the proponent—that seek approval for governance structures that safeguard shareholder rights (and oppose those that do not) as described below.

Annual report and accounts

Generally, a fund will vote for the annual report and accounts.

A fund may consider voting against the annual report and accounts if:

- There are concerns about the integrity of the financial statements and/or the external auditors;
- There has been a financial misstatement; and/or
- The auditor elected not to provide an audit opinion, provided a qualified audit opinion, or highlighted an emphasis of a matter that was particularly concerning.

Board structure and director elections

- *Term lengths.* The funds generally believe in annual director elections, which can help to safeguard shareholder rights. However, the funds acknowledge that director term lengths may vary according to local market practice and therefore the funds do not prescribe an upper limit beyond that which is provided by legislation and/or local corporate governance code recommendations.

A fund will generally support a management or shareholder proposal seeking to limit or reduce director term lengths.

- *Term limits.* A fund will generally vote for management proposals to limit terms of directors and generally vote against shareholder proposals to limit such terms.
- *Cumulative voting.* A fund will generally vote for management proposals to eliminate cumulative voting and vote against management or shareholder proposals to adopt cumulative voting.
- *Majority and supermajority voting.* A fund will generally vote for management proposals to implement majority voting for director elections and will vote case by case on related shareholder proposals.

A fund will generally vote against any proposal to extend supermajority voting requirements to decisions that are not stipulated by law and/or not in the best interest of minority shareholder rights. It will vote case by case on shareholder proposals asking to remove supermajority voting requirements where not required by law.

Additional share classes

The funds' approach to companies issuing, or proposing to issue, more than one class of stock with different classes carrying different voting rights remains philosophically aligned to "one share, one vote." To that end, alignment of voting and economic interests is a foundation of good governance.

However, pragmatically, the funds remain mindful of the need not to hinder public capital formation in the equity markets. The approach supports the idea of a newly public, dual-class company adopting a sunset provision that would move the company toward a one-share, one-vote structure over time.

A fund will vote case by case on related proposals, including those to eliminate dual-class share structures with differential voting rights and those moving toward a one-share, one-vote structure over time.

Caps on voting rights

A fund will vote for proposals to remove or increase any cap on voting rights and vote against proposals to introduce a cap or lower any existing cap on voting rights.

Ownership reporting requirements

A fund will typically vote against a proposal to reduce the share ownership reporting requirements for shareholders to lower than the legal mandate, unless there is a specific reason and/or there are extraordinary circumstances.

Amendments to articles of association

A fund will generally vote for minor amendments that include any administrative or housekeeping updates and corrections. When evaluating all other amendments to the articles of association, the following will be considered:

- Any changes to corporate law and/or listing rules that may require an amendment to the articles of association;
- Whether the amendments may result in corporate governance structures and/or processes that are not best practices or are a regression from what the company already does (taking into account any explanation provided by the company for the change); and/or
- Whether the amendments are detrimental to shareholder rights generally.

Reincorporation/change of domicile

A fund will vote case by case on proposals to reincorporate to another country and/or proposals for companies to change their primary listing.

A fund will consider the reasons for the relocation, including the company's history, the company's strategy, and the company's shareholder base, along with any differences in regulation, governance, and shareholder rights.

Shareholder proposals

A fund will vote case by case on all shareholder proposals, taking into account the requests of the proposal, the level of prescription, the supporting rationale from the proponent, and the company's

response, and whether the board has already adequately addressed the issue or taken steps to address the issue outlined in the proposal.

Shareholder meeting rules and procedures

- *Quorum requirements.* A fund will generally vote against proposals that would decrease quorum requirements for shareholder meetings below a majority of the shares outstanding, unless there are compelling arguments to support such a decrease.
- *Other such matters that may come before the meeting.* A fund will generally vote against proposals to approve "other such matters that may come before the meeting".
- *Adjournment of meeting to solicit more votes.* In general, a fund will vote for the adjournment if the fund supports the proposal in question and against the adjournment if the fund does not support the proposal.
- *"Bundled" proposals.* A fund will vote case by case on all bundled management proposals.
- *Change of date, time, or location of annual general meeting.* A fund will typically vote for management proposals to change the date, time or location of the annual meeting if the proposed changes are considered reasonable and do not impede shareholder rights.
- *Hybrid/virtual meetings.* A fund will generally support proposals seeking to conduct "hybrid" meetings (in which shareholders can attend a physical meeting of the company in person or elect to participate online). A fund may vote for proposals to conduct "virtual-only" meetings (held entirely through online participation with no corresponding in-person meeting). Virtual meetings should not curtail shareholder rights—e.g., by limiting the ability for shareholders to ask questions.

A fund will consider support if:

- Meeting procedures and requirements are disclosed ahead of a meeting;
- A formal process is in place to allow shareholders to submit questions to the board;
- Real-time video footage is available and attendees can call into the meeting or send a prerecorded message;
- Shareholder rights are not unreasonably curtailed; and/or
- Applicable laws and regulations provide relevant safeguards to shareholder rights, and the company complies with these provisions.

Country-specific guidelines: U.K., Ireland, the Isle of Man, Jersey, and Guernsey

These country-specific guidelines supplement, and should be read in conjunction with, the Europe Guidelines (pages 4–24). To the extent that there is any conflict between these country-specific guidelines and the Europe Guidelines, these guidelines shall prevail.

Pillar I: Board composition and effectiveness

Board independence

- A fund will generally vote against nonindependent, nonexecutive directors when the board is not at least 50% independent, excluding the chair.
- For investment funds and trusts, a fund will generally vote against nonindependent directors if a majority of the board is not independent.
- For Irish collective investment schemes and management companies, a fund will generally vote against nonindependent directors when the board does not have at least one independent director.

The same criteria will be applied to evaluate the independence of directors as outlined in the Board Independence section of the Europe Guidelines. The exceptions are as follows:

- *Business connections.* Any director nominee who has had within the last three years a material business relationship with the company—either directly or as a partner, shareholder, director, or senior employee of a body that has such a relationship with the company—will generally not be considered independent.

For investment funds and trusts, two additional aspects will be considered when evaluating board members' independence:

- Any board member who has a close family relationship with the manager of the fund/trust generally will not be considered independent; and
- Directors who sit on the boards of more than one company managed by the same manager generally will not be considered independent.

Key committee independence

Typically, a fund will vote against nonindependent directors who serve on the audit and remuneration committees (or their equivalent).

A fund will generally vote against the board chair if they are a member of the remuneration committee and are not an independent appointment. A fund will generally vote against the board chair if they chair the remuneration committee, regardless of independence on appointment.

A fund will generally vote against the board chair if they are a member of the audit committee regardless of independence on appointment.

If a company does not maintain 100% independent audit and remuneration committees, a fund generally will also vote against the nomination committee chair in addition to the nonindependent directors serving on the committees. In the second year, the fund may vote against the entire nomination committee as well.

Chair tenure

Pursuant to the 2018 UK Corporate Governance Code, a company should provide rationale as to why a chair should remain in the post beyond nine years from the date of the person's first appointment to the board.

A fund will vote case by case on the reelection of any chair who has served on the board for more than nine years and will consider:

- The independence of the chair upon appointment to the board and as chair;
- Whether the chair is an executive chair and whether there is a compelling business rationale for that structure to remain; and/or
- The succession planning process.

Diversity and qualifications disclosure

In support of current regulation, recognizing the progress in increasing gender diversity at the board level in the U.K.'s largest companies, for FTSE 350 companies, a fund will generally vote against the nominating committee chair, or another relevant board member, if there is less than 33% of either gender serving on the board of directors.[5,6] For all other U.K. companies, a fund will generally vote against the nominating committee chair, or another relevant board member, if both genders are not represented on the board of directors.

Additionally, the Parker Review, which aims to increase the ethnic diversity of U.K. boards, recommends that each FTSE 100 company board should have at least one director of color, and each FTSE 250 company board should have at least one director of color by 2024. In line with the direction of the Parker Review, for FTSE 100 companies, a fund will generally vote against the nominating committee chair, or another relevant board member, where there is no ethnic diversity on the board of directors or disclosure of how the board is assessing progress. For companies in the FTSE 250, the funds look for an assessment and disclosure of how they plan to meet the Parker Review targets.

Pillar II: Board oversight of strategy and risk

Authorize the issue of equity with and without preemptive rights

- *With preemptive rights.* A fund will typically vote for proposals to increase issued share capital with preemptive rights up to 50% of a company's issued share capital, and an additional 50%, provided that it is applied fully to a preemptive rights issue and that the authority is for 15 months or less.
- *Without preemptive rights.* A fund will typically vote for proposals to increase issued share capital without preemptive rights up to 10% of a company's issued share capital, or 20%, provided that the additional 10% is applied to acquisitions or other specified capital investments only and that the authority is for 15 months or less.

5 Listing rules CP 21/24 "Diversity and Inclusion on Company Boards and Executive Committees"—setting a target of at least 40% of the board to be women, including at least one senior board position, with at least one board member from an ethnic minority back- ground—requiring them to make disclosures in their annual reports for financial years starting on or after 1 April 2022. The funds look for in-scope companies to remain aware of the upcoming listing rules and will look for appropriate justification and disclosure.

6 See https://ftsewomenleaders.com.

Share repurchase

A fund will generally vote for proposals to allow a company to buy back up to 15% of its shares in any given year, provided that the maximum price paid is not more than 5% above the average trading price and that the authority is for 15 months or less.

Political donations and expenditure

A fund will typically vote against proposals seeking approval by the company to make political donations if political donations were paid during the year under review.

Mandatory offer waivers

A fund will generally vote for proposals to waive requirements for a mandatory takeover offer, unless there is a particularly compelling reason not to support management's proposal.

Pillar IV: Shareholder rights

Authorize the company to call a general meeting with two weeks' notice.

A fund will generally vote for proposals to allow a company to call a general meeting on at least 14 clear days' notice.

Country-specific guidelines: Germany

These country-specific guidelines supplement, and should be read in conjunction with, the Europe Guidelines (pages 4–24). To the extent that there is any conflict between these country-specific guidelines and the Europe Guidelines, these guidelines shall prevail.

Pillar I: Board composition and effectiveness

Board independence

Taking into account general market practice and criteria for independence, a fund will generally vote in line with the policy outlined in the Board Independence section of the Europe Guidelines.

A fund will generally vote against nonindependent directors if the supervisory board of a controlled company with more than six members does not have at least two independent directors.

A fund will generally vote against nonindependent directors if the supervisory board of a controlled company with six members or fewer does not have at least one independent director.

Key committee independence

Taking into account general market practice and criteria for independence, a fund will generally vote in line with the policy outlined in the Key Committee Independence section of the Europe Guidelines.

In addition to looking for a remuneration committee that is majority independent, a fund will generally vote against the remuneration committee chair if the chair is not independent from the company and/or management board.

In addition to looking for a remuneration committee that is majority independent, a fund will generally vote against the nomination committee chair if the nomination committee includes any individuals who are not shareholder-elected members of the supervisory board.

Pillar II: Oversight of strategy and risk

Authorized and conditional capital

A fund will generally vote for proposals for authorized and conditional capital pools, as long as:

- The aggregate capital pool does not exceed 50% of the company's issued share capital, as prescribed under German law;
- The capital pool is valid for a maximum of five years, as prescribed under German law; and
- No more than 20% of the capital pool can be issued without preemptive rights.

Share repurchases

A fund will generally vote for proposals to provide companies with the authority to repurchase shares, as long as the authority:

- Allows for no more than 10% of the share capital to be repurchased.
- Is valid for a maximum of five years; and
- Sets the maximum repurchase price at 110% of market price.

Pillar IV: Shareholder rights

Exemption from remuneration reporting regulations

A fund will generally vote against proposals to amend a company's articles of association so that the company does not have to disclose its individual management board's remuneration separately.

Shareholder countermotions

A fund will vote case by case on all shareholder countermotions.

Country-specific guidelines: France

These country-specific guidelines supplement, and should be read in conjunction with, the Europe Guidelines (pages 4–24). To the extent that there is any conflict between these country-specific guidelines and the Europe Guidelines, these guidelines shall prevail.

Pillar I: Board composition and effectiveness

Combined CEO/chair roles

While a separation between the roles of CEO and chair is not specifically prescribed by the funds, where a company's board has chosen to combine these two roles, a fund may vote against the nomination committee chair if the board has failed to appoint a lead independent director in alignment with local best practice recommendations.

Director term length

A fund may vote against a director election if the director's term length exceeds four years.

Censors

A fund will support proposals to elect a censor for a short-term/transitional period (with a maximum duration of one year) provided that the proposal is supported by compelling strategic rationale.

A fund may vote against proposals to elect a censor if the proposed term exceeds one year or if insufficient disclosures are provided to explain the appointment.

A fund will generally vote for proposals for authorized and conditional capital pools, as long as:

- The aggregate amount of capital authorizations with preemptive rights does not exceed, or is limited via a global or partial cap, to 50% of the company's issued share capital.
- The aggregate amount of capital authorizations without preemptive rights does not exceed, or is limited via a global or partial cap, to 20% of the company's issued share capital.

Where a company's proposals deviate from best practice recommendations in France, a fund will review the company's rationale on a case-by-case basis.

Country-specific guidelines: Italy

These country-specific guidelines supplement, and should be read in conjunction with, the Europe Guidelines (pages 4–24). To the extent that there is any conflict between these country-specific guidelines and the Europe Guidelines, these guidelines shall prevail.

Pillar I: Board composition and effectiveness

Election of the board of directors and board of statutory auditors

A distinctive feature of Italian corporate governance is the "voto di lista" ("list voting" or "slate voting") system, under which shareholders with a minimum stake can nominate a list of candidates. Pursuant to Italian law, at least one director must be elected from the minority shareholder-presented list that obtains the highest number of votes.

A fund will vote case by case on all proposals related to the appointment of board members.

Where more than one list is presented, a fund will support the list deemed to result in a board composition most suited to add long-term shareholder value, ensure effective independent oversight and supervision of management, and represent the long-term interest of minority shareholders without directing company strategy and operations.

For widely held companies, the funds look for a majority of the board of directors to be composed of independent directors. For nonwidely held or controlled companies, the funds look for at least one-third of the board to be composed of independent members. Key committees should maintain at least majority independence. The funds look for a board of statutory auditors that is fully independent.

Other considerations include the mix of skills, competencies, qualifications, experiences, as well as a diversity of personal characteristics which ensures compliance with applicable requirements and with a company's own diversity policy, if present. The funds will also consider any concerns, governance failings, or unaddressed issues, such as those outlined under the section "Escalation Process: Director and Committee Accountability."

As part of Italian corporate governance practices, shareholders are often invited by the board to submit ancillary proposals in lieu of management.

These resolutions typically address board size, term length, election of the board chair, and directors' and statutory auditors' remuneration. A fund will generally support these routine resolutions, provided that relevant details have been disclosed and no concerns have been identified.

If a separate proposal has been submitted for the election of the chair of the board of statutory auditors, a fund will generally vote in a way that reinforces the likelihood of the chair being appointed from the minority list. This is to account for the potential voting outcome at the meeting due to the technical aspects and provisions of the Italian voting system.

Pillar IV: Shareholder rights

Deliberations on possible legal action against directors if it is initiated by shareholders

Pursuant to Italian law, shareholders have the right to initiate legal actions against board directors, such as to seek remuneration for specific damages caused by fraudulent actions. Shareholders participating in a meeting may propose that a company initiates a derivative legal or liability action against sitting directors within five years of the termination of their office and may ask for other shareholders to authorize the company to pursue such action.

A fund will generally vote against such proposals where insufficient disclosure is provided in advance of the meeting on the specific proposed actions.

A fund will vote case by case on proposals that present a specific case for shareholders' consideration, taking into account the merits of the proposal and whether it is considered in the best interests of the fund's investors.

Authorization of competing activities

Pursuant to Italian law, board members may not engage in activities that compete with the company, unless authorized by shareholders.

A board resolution seeking such authorization must state the reasons why the transaction is in the company's best interest. The funds believe that companies should have the ability to appoint directors whose qualifications can best serve shareholders' interests, which in some cases may include directors who hold positions at competing companies. In these situations, the funds look for the board to articulate the rationale for a certain appointment, or for seeking a waiver to the noncompetition clause, as well as to disclose the processes to manage conflicts of interest.

Absent disclosure of a compelling rationale and safeguarding of shareholders' interests, a fund will vote against granting such authorization for directors to enter into a situation that may raise a conflict of interest.

Country-specific guidelines: The Netherlands

These country-specific guidelines supplement, and should be read in conjunction with, the Europe Guidelines (pages 4–24). To the extent that there is any conflict between these country-specific guidelines and the Europe Guidelines, these guidelines shall prevail.

Pillar I: Board composition and effectiveness

One-tier versus two-tier governance structure

In the Netherlands, corporate law allows for two types of company board structures:

- One-tier boards consist of executive and nonexecutive directors.
- Two-tier boards are more common and consist of a management board performing executive duties and, optionally, a supervisory board overseeing the management board.

The funds believe that the board is generally best positioned to choose which type of board structure is best suited to the company. A fund will vote on any proposal to change the board structure on a case-by-case basis.

A fund will generally vote against the nominating committee and all nonindependent, nonexecutive board members of a company if that company does not maintain a majority independent board. For two-tier boards, a fund will generally look for supervisory boards to contain not more than one nonindependent director in line with market best practices; however, a fund will vote case by case, taking into account any disclosed rationale for the board's composition.

Pillar IV: Shareholder rights

Antitakeover provisions

Under Dutch law, companies may establish antitakeover provisions, including the creation of a class of protective preference shares. Antitakeover measures reduce board and company accountability and limit shareholder rights.

The funds do not typically support such measures. Companies that choose to adopt an antitakeover device should explain why this is in the best interests of shareholders. A fund will vote case by case but is unlikely to support antitakeover provisions including proposals to establish or renew preference shares, or to use them to deter a hostile takeover bid.

Country-specific guidelines: Nordic markets

These country-specific guidelines supplement, and should be read in conjunction with, the Europe Guidelines (pages 4–24). To the extent that there is any conflict between these country-specific guidelines and the Europe Guidelines, these guidelines shall prevail.

Pillar I: Board composition and effectiveness

Board committees

It is common market practice in Sweden and Finland for nomination committees not to be a subcommittee of the board of directors, but to be composed of three to five of the representative companies' largest shareholders. In Norway, the nomination committee is composed of shareholder representatives who are elected directly to the committee by shareholders at the annual meeting, while in Denmark, a shareholders committee can be elected at the annual meeting, which is then responsible for electing members to the board, usually from its own committee.

The committee is responsible for nominating directors and auditors and contributing to remuneration decisions for board and committee members. The funds will generally support the election of nomination committee members that demonstrate a sufficient level of independence from the company or major shareholders in line with local best practice recommendations.

Pillar III: Executive pay (remuneration)

In the Nordic markets, it is not uncommon for disclosure around remuneration plans to be limited, especially in comparison to other European markets.

Companies in the Nordics frequently pay lower quantum and reward executives with long-term pay less frequently than is common in other European markets. Moreover, when they do operate long-term incentive plans, performance periods may be shorter than three years. The funds take into account these market practices when analyzing remuneration proposals in the Nordic markets.

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