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

Effective January 2026

Vanguard Portfolio Management, LLC

Vanguard Fiduciary Trust Company

Vanguard Global Advisors, LLC

Contents

Introduction

This proxy voting policy (the Policy) describes general positions on proxy proposals that may be subject to a shareholder vote at companies domiciled in 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)—and is aligned with governance practices believed to support long-term shareholder returns. The Policy has been adopted by the boards (or relevant governing bodies) of funds and portfolios managed by certain Vanguard-affiliated entities including U.S.-domiciled mutual funds and ETFs advised by Vanguard Portfolio Management, LLC (VPM), as well as the boards of Vanguard Fiduciary Trust Company and Vanguard Global Advisors, LLC in connection with their management of certain equity index and quantitative equity funds and portfolios (together with the U.S.-domiciled mutual funds and ETFs advised by VPM, the "Funds"). The adoption of this Policy is anchored in the belief that effective corporate governance practices support long-term investment returns.

It is important to note that proposals—whether submitted by company management or other shareholders—often require a facts-and-circumstances analysis based on an expansive set of factors. While the Policy may recommend a particular voting decision, all proposals are voted case by case as determined in the best interests of each Fund consistent with its investment objective. The Policy is applied over an extended period of time; as such, if a company's board is not responsive to voting results on certain matters, support may be withheld for those and other matters in the future.

This document describes general voting policies that apply to companies domiciled in Europe ("Europe Policy"), followed by country-specific policies for the U.K., Ireland, the Crown Dependencies (the Isle of Man, Jersey, and Guernsey), Germany, France, Italy, the Netherlands, and Nordic markets. As a baseline, the Policy looks for companies to abide by the relevant governance frameworks (e.g., listing standards, governance codes, laws, regulations, etc.) of the market(s) in which they are listed. While the Policy is informed by such frameworks, final voting decisions may differ from the application of those frameworks due to the investment stewardship team's independent research, analysis, and engagement. In addition, this Policy and its application to specific voting matters are predicated on the relevant Funds' acquisition and ownership of securities in the ordinary course of business, without the intent of influencing company strategy or changing the control of the issuer. These Funds will not nominate directors, solicit or participate in the solicitation of proxies, or submit shareholder proposals at portfolio companies. The application of this Policy to specific voting matters will also adhere to any passivity requirements to which the Funds and/or The Vanguard Group, Inc., and any of its subsidiaries (collectively, Vanguard) may be subject.

Comply or explain. Local standards in many European markets permit companies to deviate from corporate governance practices recommended by the relevant corporate governance codes, regulations, or market norms as long as a company provides an explanation for the deviation. Companies should explain any deviations from recommended governance practices, including providing an explanation of what they do instead of the recommended practices and why their alternative systems and/or processes are 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 market(s) 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, the company should explain the reasons for such deviations.

Pillar I: Board composition and effectiveness

The Funds believe that in order to maximize the long-term return of shareholders' investments in each company, the individuals who serve as board directors to represent the interests of all shareholders should be appropriately independent, experienced, committed, capable, and diverse. Diversity of thought, background, and experiences meaningfully contribute to the ability of boards to serve as effective, engaged stewards of shareholders' interests. The evaluation of portfolio company boards will be informed by relevant market-specific governance frameworks (e.g., listing standards, governance codes, laws, regulations, etc.).

Board and key committee independence

In order to appropriately represent shareholder interests in the oversight of company management, a majority of directors of a noncontrolled company should be independent, as should a majority of the members of the board's key committees (audit, remuneration, and nominating/governance, or their equivalents).[1]

A director's independence will generally be determined based on a company's disclosure in the context of relevant market-specific governance frameworks (e.g., listing standards, governance codes, laws, regulations, etc.) supplemented by independent research and/or engagement.[2]

In cases where a noncontrolled company does not maintain a majority independent board, votes against members of the nominating committee and all nonindependent, nonexecutive members of that board may be recommended. In cases where a controlled company does not maintain a board that is at least one-third independent, votes may be recommended against the nominating committee and nonindependent, nonexecutive directors of that board.[3] If a board does not meet these independence criteria over multiple years, votes against the chair and/or lead independent director (or any other relevant director) may be recommended.

In cases where any of the key committees are not majority independent,[4] votes will generally be recommended against the nonindependent members of that committee. If a board does not maintain majority independent key committees over multiple years, votes may be recommended against members of the board's nominating committee, the chair and/or lead independent director, or any other relevant director.

1 All committees should comprise solely nonexecutive directors. Shareholder agreements with significant shareholders that include board and/or committee representation will be taken into consideration in evaluating sufficient independence.

2 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. Directors whose independence status may be considered impaired under local governance frameworks and market norms may include, among others, former employees/executives of the company; those with close familial/personal and/or significant business relationships with the company, its employees, or other directors; incumbents with significant tenure on the board; direct representatives of significant shareholders; or those subject to significant performance-related pay schemes.

3 A controlled company is a company in which more than 50% of the equity or voting power is held by a single person, entity, or group. This policy may also be applied 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. Shareholder agreements with significant shareholders which include board and/or committee representation will be taken into consideration in evaluating sufficient independence.

4 Shareholder agreements with significant shareholders that include board and/or committee representation will be taken into consideration in evaluating sufficient independence.

Independent board leadership

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. Certain shareholder proposals seek to require that companies do not permit the same person to serve as both CEO and chair of the board of directors. Proponents believe that separation of these duties will create a more independent board.

Given the Funds' belief that this matter should be within the purview of a company's board, votes will generally be recommended against shareholder proposals to separate the CEO and chair roles. Votes for such proposals may be recommended if there are significant concerns regarding the independence or effectiveness of the board at the company in question.

Board composition

The Funds believe that boards should be fit for purpose by reflecting sufficient breadth of skills, experiences, and perspectives resulting in cognitive diversity that enables effective, independent oversight on behalf of all shareholders. The appropriate mix of skills, experiences, and perspectives is unique to each board and should reflect expertise related to the company's strategy and material risks from a variety of vantage points.

To this end, the Funds believe that companies should produce fulsome disclosure of a board's process for building, assessing, and maintaining an effective board well suited to supporting the company's strategy, long-term performance, and shareholder returns. Such fulsome disclosure may include the range of skills, background, and experiences that each board member provides and their alignment with the company's strategy (often presented as a skills matrix). Such disclosure may also cover the board's 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, experiences, and perspectives into the future.

A board's composition should comply with requirements set by relevant market-specific governance frameworks (e.g., listing standards, governance codes, laws, regulations, etc.) and be consistent with market norms in the markets in which the company is listed. To the extent that a board's composition is inconsistent with such requirements or differs from prevailing market norms, the board's rationale for such differences (and any anticipated actions) should be explained in the company's public disclosures.

Votes against the nomination/governance committee chair may be recommended if, based on research and/or engagement, a company's board composition and/or related disclosure is inconsistent with relevant market-specific governance frameworks or market norms.

Director capacity and commitments

Directors' responsibilities are complex and time-consuming. Therefore, shareholders seek to understand whether the number of directorship positions held by a director makes it challenging for that director 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 for directorships may vary, the Funds believe that limitations on the number of board positions held by individual directors may be appropriate, absent compelling evidence to the contrary.

Votes may generally be recommended against any director who is a public company executive and sits on more than two public company boards. In this instance, votes will typically be recommended against the nominee at each company where they serve as a nonexecutive director, but not at the company where they serve as an executive.

Similarly, votes may also generally be recommended against any director who serves on more than four public company boards. In such cases, votes will typically be recommended against the director at each company except the one (if any) where they serve as board chair or lead independent director.

In certain instances, support will be considered for a director who would otherwise be considered overboarded under the standards above, taking into account relevant market-specific governance frameworks or company-specific facts and circumstances.

The Funds believe that portfolio companies should adopt good governance practices regarding director commitments, including a policy regarding director capacity and commitments and disclosure of the board's oversight of the implementation of that policy. Helpful disclosure includes a discussion of the company's policy (e.g., what limits are in place) and, if a nominee for director exceeds the policy, any considerations and rationale for the director's nomination. Additionally, it is good practice to include disclosure of how the board developed its policy and how frequently it is reviewed to ensure it remains appropriate.

Director attendance

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

Discharge of directors

Votes will generally be recommended 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 returns.

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

Votes may also be recommended against the discharge of the board 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 accountability votes would otherwise be recommended, or where the board has failed to respond to shareholders' concerns repeatedly.

Election of directors as a slate

The Funds believe that directors should be 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, votes will generally be recommended for a slate of directors, as long as the board meets other key independence criteria described above.

Votes will generally be recommended against proposals to adopt a slate election system.

Director liability and indemnification

Management proposals to limit directors' liability and to expand indemnity provisions will be evaluated case by case.

Votes will generally be recommended 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

Timely disclosure of directors' names and biographies is critical to provide investors with a base level of information to assess individual roles and overall board composition.

Votes will generally be recommended against any director whose name and biographical details have not been disclosed sufficiently in advance of the general meeting.

Director accountability

Directors are elected by shareholders to represent their interests. If there are instances in which the board has failed to adequately consider actions approved by a majority of shareholders, unilaterally taken action against shareholder interests, or, based on independent analysis, failed in its oversight role, votes against those directors deemed responsible (generally based on their functional or committee-level responsibilities) may be recommended. Such conditions will generally not apply to a director who has served less than one year on the board and/or applicable committee but in such instances may apply to another relevant director in their place.

Contested director elections

Contested director elections will be analyzed case by case. The analysis of proxy contests focuses on three key areas:

- *The case for change at the target company.*
  - How has the company performed relative to its peers?
  - How effectively has the current board overseen the company's strategy and execution?
  - How does the dissident's case strengthen the target company's long-term shareholder returns?

- *The quality of company governance.*
  - — How effectively has the company's governance structure supported shareholder rights consistent with market norms?
  - — Has the board been sufficiently accessible and responsive to shareholder input in the past?
- *The quality of the company's and dissident's board nominees.*
  - — Is the incumbent board (and/or the company's nominees) sufficiently independent, capable, and effective to serve long-term shareholder interests?
  - — Having made a compelling case for change, do the dissident's nominees appear better aligned with long-term shareholder interests relative to the company's nominees?

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 returns over the long term. Boards should communicate their approach to risk oversight to shareholders through their normal course of business.

Capital structures

- *Dividends.* Votes will generally be recommended 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.
  - Votes will generally be recommended 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.
  - Votes will generally be recommended 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.

Requests that exceed these thresholds will be evaluated case by case, taking into account any disclosed rationale for the proposal.

- *Private placements.* Votes will generally be recommended for a private placement proposal if the dilution does not exceed 20% or is within a reasonable range of this threshold.
- *Contingent convertible securities.* Votes will generally be recommended 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.* Proposals to issue debt and/or restructure debt will be evaluated case by case, 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.* Votes will typically be recommended 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.* Votes will typically be recommended for a (reverse) split of outstanding shares if the number of shares authorized is proportionately changed. Votes will generally be recommended for a reverse split if it is necessary for the company to remain listed on its current exchange.
- *Preferred stock.* Proposals to create/amend/issue preferred stock will be evaluated case by case, 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

Transactions are assessed based on the likelihood that they will preserve or create long-term returns for shareholders. All mergers, acquisitions, and financial transactions will be considered case by case based on a governance-centric evaluation focused on four key areas:

- *Valuation*
  - Does the consideration provided in the transaction appear consistent with other similar transactions (adjusting for size, sector, scope, etc.)?
- *Rationale*
  - Has the board sufficiently articulated how this transaction is aligned with the company's long-term shareholder returns?
- *Board oversight of the deal process*
  - Has the board provided sufficient evidence of the rigor of the evaluation process? This could include disclosures such as an independent valuation report or fairness opinion, a discussion of the board's process for evaluating alternative opportunities, management incentives, or other relevant disclosures.
  - How did the board manage any potential conflicts of interest among the parties to the transaction?
- *The surviving entity's governance profile*
  - Are shareholders' interests sufficiently protected in any surviving entities (in noncash transactions)?

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, the company should 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, 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).

Votes may be recommended 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 returns.

Auditor appointment and auditor's fees. Votes will generally be recommended 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.

An auditor's appointment/reappointment will be evaluated case by case when there is a material misstatement of financials or other significant concern regarding the integrity of the company's financial statements. Companies should consider rotating the independent auditor in line with local best practice recommendations and regulations.

Auditor indemnification. Votes will generally be recommended against proposals to indemnify external auditors.

Auditor liability. Proposals to limit external auditors' liability will be evaluated case by case, 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 responsibility for providing effective oversight of strategy and risk management. This oversight includes material sector- and company-specific risks and opportunities that have the potential to affect long-term shareholder returns.

While each proposal will be assessed on its merits and in the context of a company's public disclosures, vote analysis will also consider these proposals relative to market norms or widely accepted frameworks.

Support may be recommended for a shareholder proposal that:

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

Each of the Funds adopting this policy is a passive investor whose role is not to dictate company strategy or interfere with a company's day-to-day management. Fulsome disclosure of material risks to long-term shareholder returns by companies is beneficial to the public markets to inform the company's valuation. Clear, comparable, consistent, and accurate disclosure enables shareholders to understand the strength of a board's risk oversight. Furthermore, shareholders typically do not have sufficient information about specific business strategies to propose specific operational targets or environmental or social policies for a company, which is a responsibility that resides with management and the board. As such, support is more likely for proposals seeking disclosure of such risks where material and/or the company's policies and practices to manage them over time.

Say on Climate proposals

Abstention from voting will generally be recommended on advisory management proposals seeking shareholder approval of specific components of a company's strategy.[5] Many of these proposals may focus on the approval of elements of a company's strategy to mitigate climate risks, including the adoption of emissions targets or transition plans. In other cases, the strategies on which approval is sought may include other environmental, social, and governance (ESG) metrics and targets covering risks associated with biodiversity, human capital management, or other risks identified by company management.

Shareholder proposals seeking disclosure of a company's plans to mitigate risks, including climate-related risks, will be evaluated case by case. Such proposals are evaluated through a lens of materiality and consider several criteria, including the reasonableness of the request, whether the proposal addresses a gap in existing company disclosures, and the alignment of the proposed disclosures with industry standards. Abstention from voting may also be recommended in instances when a company may be subject to regulation of its disclosure or its risk mitigation plan.

5 Supportive votes will generally be recommended for proposals required by market-specific governance frameworks seeking shareholder approval of reporting on ESG metrics or other nonfinancial reporting matters that meet regulatory requirements. Where a proposal seeks shareholder approval of reporting on strategic matters that are not required by market-specific governance frameworks, abstention from voting will generally be recommended.

Pillar III: Executive pay

Remuneration policies linked to long-term relative performance are fundamental drivers of sustainable, long-term returns 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 returns for shareholders.

A vote against remuneration-related proposals may be recommended to signal when a company could enhance its pay-related disclosures to help shareholders evaluate how executive pay is aligned with long-term shareholder returns.

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 policies are intended to represent preferences for executive remuneration and are not a one-size-fits-all tool.

For that reason, executive remuneration proposals will be evaluated case by case. Votes will be recommended for those that enhance long-term shareholder returns. Votes may also be recommended for remuneration policies that reflect improvements in practices, even if the proposals are not perfectly aligned with all these policies but are clearly in the interests of long-term shareholder returns.

Considerations for a vote on the remuneration policy or report fall into three broad categories:

- *Alignment of pay and performance.* Company disclosure should include evidence of clear alignment between pay outcomes and company performance. This is mainly assessed through alignment of incentive targets with strategy set by the company and analysis of three-year total shareholder return and realized pay over the same period versus a relevant set of peer companies. If there are concerns that pay and performance are not aligned, votes against a pay-related proposal may be considered.
- *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 have led to, or could in the future lead to, pay-for-performance misalignment, votes against a pay-related proposal may be considered. For remuneration structures that are not typical of a market, companies should consider specific disclosure demonstrating how the structure supports long-term returns for shareholders.
- *Governance of remuneration plans.* Boards should articulate a clear philosophy on executive pay, utilize robust processes to evaluate and evolve executive pay plans, and implement executive pay plans responsive to shareholder feedback over time. Boards should also explain these matters to shareholders via company disclosures. Where pay-related proposals consistently receive low support, boards should demonstrate consideration of shareholder concerns.

Remuneration policies

In forward-looking remuneration policies, companies should demonstrate evidence of a strong pay-for-performance link and structural safeguards to strengthen alignment with shareholder interests. 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 returns. Effective disclosure should include award limits for incentive plans and other structural safeguards to prevent reward for failure and/or excessive payments.
- *Fixed pay.* Salary should 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, companies should provide prospective performance metric disclosure, including targets and weightings, to allow shareholders to assess the rigor of the plan. There is not a one-size-fits-all approach to executive remuneration. 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. When boards choose to include nonfinancial metrics (such as ESG metrics), they should have the same rigor, disclosure, and alignment with key strategic goals, material risks, and shareholder returns as other metrics.
  - *Structure.* Without being prescriptive as to the exact structure of a remuneration plan, structures and processes that can reasonably be expected to align pay and performance over time are more likely to be supported. Such structures may 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 returns, 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.* Pay packages should 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.* Such arrangements should 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, those arrangements should operate on a double-trigger basis in that the director's appointment is terminated with the change in control. Generally, unvested awards should 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 consideration of 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 or 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 company's disclosed peer group used to benchmark pay that is not completely aligned with the company in size, geographic footprint, or sector;
- The introduction or increased weighting of ESG or other nonfinancial metrics that are not clearly aligned to company strategy and shareholder returns;
- 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 remuneration governance, such as board responsiveness and disclosure that includes data, rationale, and alternatives considered, can sometimes act to mitigate these concerns.

Remuneration reports

Support is more likely for backward-looking remuneration reports with a history of payouts linked to company performance and aligned to shareholder interests. The following are 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. Companies should 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 the 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.* Salary should 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 organizational 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. One-off awards should be granted in exceptional circumstances only. If a one-off award is granted, it should be accompanied by 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 the decision.
- *Responsiveness to shareholders.* If pay proposals receive low support or shareholder feedback, especially year over year, the board and remuneration committee should demonstrate adequate consideration of 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 while total shareholder return 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 consideration of 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 organizational 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 remuneration governance, such as board responsiveness and disclosure that includes data, rationale, and alternatives considered, can sometimes act to mitigate these concerns.

Equity remuneration plans

Equity remuneration plans for employees will be evaluated case by case.

Companies adopting equity-based remuneration plans for employees should align the plans with long-term shareholder interests and returns. 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 returns through the use of appropriate metrics and vesting periods; and
- Alignment with market practice.

Nonexecutive director remuneration

Votes will generally be recommended 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.

Votes will generally be recommended against the approval of any nonexecutive director fees where nonexecutive directors receive performance-related remuneration as part of their remuneration package. Votes on the approval of nonexecutive director fees will generally not be influenced by non-performance-based equity awards to nonexecutive directors, though any such awards should be separate and distinct from executive incentive plans to minimize potential conflicts of interest. Votes will generally be recommended against retirement benefits for nonexecutive directors.

Pillar IV: Shareholder rights

The Funds believe that companies should adopt governance practices to ensure that boards and management serve in the best interests 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; proposals—irrespective of the proponent—that seek approval for governance structures that safeguard shareholder rights will generally be supported (and those that do not will generally be opposed) as described below.

Annual report and accounts

Votes will generally be recommended for the annual report and accounts.

Votes may be recommended 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 believe that directors should be elected on an annual basis, which can help to safeguard shareholder rights. However, director term lengths may vary according to local market practice, and therefore no upper limit is prescribed beyond that which is provided by legislation and/or local corporate governance code recommendations. Votes will generally be recommended for management or shareholder proposals seeking to limit or reduce director term lengths.
- *Term limits.* Votes will generally be recommended for management proposals to limit terms of directors and against shareholder proposals to limit such terms.
- *Cumulative voting.* Votes will generally be recommended for management proposals to eliminate cumulative voting and against management or shareholder proposals to adopt cumulative voting.
- *Majority and supermajority voting.* Votes will generally be recommended for management proposals to implement majority voting for director elections. Related shareholder proposals will be evaluated case by case. Votes will generally be recommended 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. Shareholder proposals asking to remove supermajority voting requirements where not required by law will be evaluated case by case.

Additional share classes

The Funds believe that the alignment of voting and economic interests is a foundation of good governance. As such, companies issuing, or proposing to issue, more than one class of stock with different classes carrying different voting rights should bear in mind many investors' "one-share, one-vote" philosophy, while not hindering public capital formation in the equity markets. Furthermore, a newly public, dual-class company should consider adopting a sunset provision that would move the company toward a one-share, one-vote structure over time.

Proposals relating to the introduction of additional share classes with differential voting rights and proposals relating to the elimination of dual-class share structures with differential voting rights will be evaluated case by case.

Caps on voting rights

Votes will generally be recommended for proposals to remove or increase any cap on voting rights and against proposals to introduce a cap or lower any existing cap on voting rights.

Ownership reporting requirements

Votes will generally be recommended 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

Votes will generally be recommended 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

Management proposals to reincorporate to another domicile and/or proposals for companies to change their primary listing will be evaluated case by case based on the relative costs and benefits to both the company and shareholders. Considerations include the reasons for the relocation and the differences in regulation, governance, shareholder rights, and potential benefits.

Votes will generally be recommended against shareholder proposals to reincorporate from one domicile to another.

Shareholder proposals

All shareholder proposals will be evaluated case by case, 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. Votes will generally be recommended 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. Votes will generally be recommended against proposals to approve other such matters that may come before the meeting.

Adjournment of a meeting to solicit more votes. In general, votes will be recommended for proposals to adjourn the meeting if the proposals in question are being supported and against such proposals if they are being opposed.

Bundled proposals. Bundled management proposals will be evaluated case by case.

Change of date, time, or location of annual general meeting. Votes will generally be recommended for management proposals to change the date, time, or location of the annual meeting if the proposed changes are reasonable.

Hybrid/virtual meetings. Votes will generally be recommended for proposals seeking permission to conduct "hybrid" meetings (in which shareholders can attend a meeting of the company in person or elect to participate online). Proposals to conduct "virtual-only" meetings (held entirely through online participation with no corresponding in-person meeting) may be supported. Virtual meetings should be designed by a company so as not to curtail shareholder rights—e.g., by limiting the ability for shareholders to ask questions.

Country-specific policy: U.K.[6] and Ireland

This country-specific policy supplement should be read in conjunction with the U.K. and European Policy (articulated on pages 4–21 of this document). To the extent that there is any conflict between the information in this policy supplement and the U.K. and European Policy, the information in the policy supplement shall prevail.

Pillar I: Board composition and effectiveness

Board independence

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

Key committee independence

Votes will generally be recommended against nonindependent directors who serve on the audit and remuneration committees (or their equivalent).

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

Votes will generally be recommended 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, votes will also generally be recommended against the nomination committee chair in addition to the nonindependent directors serving on the committees. In the second year, votes may be recommended against the entire nomination committee as well.

Chair tenure

Pursuant to the U.K. 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.

The reelection of any chair who has served on the board for more than nine years will be evaluated case by case. Considerations include:

- 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.

6 Including the Crown Dependencies (i.e., Guernsey, Jersey, and the Isle of Man).

Board composition

Each board's composition should generally comply with requirements imposed by the U.K. Listing Rules and U.K. Corporate Governance Code. To the extent a board's composition is inconsistent with such requirements or differs from prevailing market norms, the company's disclosure should address such differences and any anticipated actions.

Pillar II: Board oversight of strategy and risk

Authorization of the issue of equity with and without preemptive rights

- *With preemptive rights.* Votes will generally be recommended 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.* Votes will generally be recommended 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.

Share repurchase

Votes will generally be recommended 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

Votes will generally be recommended against proposals seeking approval by the company to make political donations if political donations were paid during the year under review.

Mandatory offer waivers

Votes will generally be recommended 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

Authorization of the company to call a general meeting with two weeks' notice

Votes will generally be recommended for proposals to allow a company to call a general meeting on at least 14 clear days' notice.

Country-specific policy: France

This country-specific policy supplement should be read in conjunction with the U.K. and European Policy (articulated on pages 4–21 of this document). To the extent that there is any conflict between the information in this policy supplement and the U.K. and European Policy, the information in the policy supplement 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, where a company's board has chosen to combine these two roles, votes may be recommended 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

Votes may be recommended against a director election if the director's term length exceeds four years.

Censors

Votes will generally be recommended for 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 a compelling rationale.

Votes may be recommended against proposals to elect a censor if the proposed term exceeds one year or if insufficient disclosures are provided to explain the appointment.

Pillar II: Board oversight of strategy and risk

Capital structures

Votes will generally be recommended 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; and
- 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, the company's rationale will be evaluated case by case.

Country-specific policy: Germany

This country-specific policy supplement should be read in conjunction with the U.K. and European Policy (articulated on pages 4–21 of this document). To the extent that there is any conflict between the information in this policy supplement and the U.K. and European Policy, the information in the policy supplement shall prevail.

Pillar I: Board composition and effectiveness

Board independence

Taking into account general market practice and criteria for independence, votes will generally be recommended in line with the policy outlined in the Board Independence section of the Europe Policy.

Key committee independence

Taking into account general market practice and criteria for independence, votes will generally be recommended in line with the policy outlined in the key committee independence section of the Europe Policy.

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

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

Pillar II: Board oversight of strategy and risk

Authorized and conditional capital

Votes will generally be recommended 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;
- 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

Votes will generally be recommended 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

Votes will generally be recommended 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

All shareholder countermotions will be evaluated case by case.

Country-specific policy: Italy

This country-specific policy supplement should be read in conjunction with the U.K. and European Policy (articulated on pages 4–21 of this document). To the extent that there is any conflict between the information in this policy supplement and the U.K. and European Policy, the information in the policy supplement 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.

All proposals related to the appointment of board members will be evaluated case by case.

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

In evaluating such slates, considerations include the factors described in the "Board and Key Committee Independence" and "Board Composition and Effectiveness" sections in the U.K. and European Policy above. The board of statutory auditors should be fully independent.

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

These resolutions typically address board size, term length, election of the board chair, and directors' and statutory auditors' remuneration. Votes will generally be recommended for 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, votes will generally be recommended 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 seeking 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.

Votes will generally be recommended against such proposals where insufficient disclosure is provided in advance of the meeting on the specific proposed actions.

Proposals that present a specific case for shareholders' consideration will be evaluated case by case, 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. 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 board should 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 measures of safeguarding of shareholders' interests, votes will be recommended against granting such authorization for directors to enter into a situation that may raise a conflict of interest.

Country-specific policy: The Netherlands

This country-specific policy supplement should be read in conjunction with the U.K. and European Policy (articulated on pages 4–21 of this document). To the extent that there is any conflict between the information in this policy supplement and the U.K. and European Policy, the information in the policy supplement 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, which consist of executive and nonexecutive directors; and
- Two-tier boards, which are more common and consist of a management board performing executive duties and, optionally, a supervisory board overseeing the management board.

The board is generally best positioned to choose which type of board structure is best suited to the company. Any proposal to change the board structure will be evaluated case by case.

Votes will generally be recommended 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, supervisory boards generally should not contain more than one nonindependent director in line with market best practices; votes will be evaluated case by case, taking into account any disclosed rationale for the board's composition.

Pillar IV: Shareholder rights

Anti-takeover provisions

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

Companies that choose to adopt an anti-takeover device should explain why this is in the best interests of shareholders. Each situation will be evaluated case by case, but votes will generally be recommended against anti-takeover provisions, including proposals to establish or renew preference shares or to use preference shares to deter a hostile takeover bid.

Country-specific policy: Nordic markets

This country-specific policy supplement should be read in conjunction with the U.K. and European Policy (articulated on pages 4–21 of this document). To the extent that there is any conflict between the information in this policy supplement and the U.K. and European Policy, the information in the policy supplement 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 shareholder committee can be elected at the annual meeting, and this committee is then responsible for electing members to the board, usually from among its own committee members.

The committee is responsible for nominating directors and auditors and contributing to remuneration decisions for board and committee members. Votes will generally be recommended for 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

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 Nordic markets 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. Market practices will be taken into account when analyzing remuneration proposals in the Nordic markets.

Country-specific policy: Switzerland

This country-specific policy supplement should be read in conjunction with the U.K. and European Policy (articulated on pages 4–21 of this document). To the extent that there is any conflict between the information in this policy supplement and the U.K. and European Policy, the information in the policy supplement shall prevail.

Pillar I: Board composition and effectiveness

Key committee independence

Votes will generally be recommended against nonindependent directors who serve on the audit and remuneration committees (or their equivalent).

Votes will generally be recommended against the board chair if they chair the audit committee, regardless of independence on appointment.

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, votes will generally be recommended against the nomination committee chair if the board has failed to appoint a lead independent director in alignment with local best practice recommendations.

Pillar III: Executive pay

Remuneration report

In Switzerland, companies may opt to hold an advisory vote on executive remuneration practices in addition to mandatory binding votes on pay amounts for executives. Offering a separate advisory vote on the remuneration report is generally in the best interests of shareholders as such a vote is better suited for shareholders to express any concerns regarding the overall remuneration system, practices, and policies due to the advisory nature of the vote and the comprehensive assessment of the pay and performance link.

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