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Vanguard Investment Stewardship Insights

Amendments to voting rights at Veolia

June 2024

Company: Veolia Environnement SA (Veolia)

Meeting date: April 25, 2024

Proposal: Item 27—Amend Article 10 of Bylaws Re: Rights and Obligations Attached to Shares

How the funds voted

At the 2024 annual meeting of Veolia, a French multi-utility company, the Vanguard-advised funds voted against a binding management proposal seeking an amendment of the company's articles of association to (a) eliminate double voting rights on certain shares, and (b) limit the voting rights of any shareholder to 10% of the total shares.[1] (This was referred to by the company as a "double statutory mechanism.")

The funds' proxy voting policies

As articulated in the funds' proxy voting policies, the funds evaluate matters of shareholder rights on a case-by-case basis, taking into consideration the facts and circumstances at the company in question. This includes shareholder rights topics that relate to proposals to amend a company's articles of association.

A fund will generally vote for minor amendments that include appropriate 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 differ from market norms or are a regression from the company's existing governance practices (taking into account any explanation provided by the company for the change); and/or
- Whether the amendments are detrimental to shareholder rights generally.

Where amendments relate to changes in shareholders' voting rights, including those to eliminate dual-class share structures with differential voting rights, a fund will vote on a case-by-case basis.

With respect to limiting voting rights, a fund will generally vote for proposals to remove or increase a cap on voting rights and vote against proposals to introduce a cap or lower an existing cap on voting rights.

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.

Analysis and voting rationale

In March 2024, we engaged with Veolia management and board members to discuss the 2024 annual meeting agenda including (but not limited to) the proposed double statutory mechanism. During the engagement, company leaders described the underlying rationale for the resolution, which included (i) the abolition of double voting rights; and (ii) the automatic limitation to 10% of the voting rights of any shareholder who comes to hold, alone or in concert, a fraction of the capital exceeding 10%. They explained the board's intention to reduce the risk of a "creeping takeover" whereby a shareholder might gain control of Veolia without paying a takeover premium. In the board's opinion, the introduction of a cap on voting rights would therefore act as an incentive to launch a public takeover bid at a fair price.

Company leaders added that they were not seeking to implement an anti-takeover mechanism and that provisions would be in place to ensure that takeover offers were not discouraged. While there would be conditions under which the cap on voting rights would be lifted, these nonetheless would present a relatively high bar for investors to overcome. During and after our engagement with company leaders, we expressed our general preference for proportional voting rights, while explaining the funds' policy to generally not support the imposition of voting caps.

On analyzing the resolution further, we acknowledged the innovative concessions in Veolia's proposal to at least partly align its voting rights to long-term shareholders' perspectives. However, while we remain directionally supportive of a "one share, one vote" principle, and despite the additional provisions put in place to mitigate concerns around anti-takeover mechanisms, we concluded that the introduction of a voting cap may have negative consequences for long-term shareholder returns by limiting shareholder rights to effect change. While the funds are not prescriptive on such matters and remain open to a board's recommendations on provisions to protect shareholder rights, in this case, we were unable to understand what, if any, alternative tools had been considered by Veolia's board to limit the risk of creeping takeovers. As a result, the Vanguard-advised funds did not support the proposal to approve the amendment of the company's articles of association.

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