Vanguard

Vanguard funds

Proxy voting policy for European and UK portfolio companies

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Introduction

The information below, organised according to Vanguard Investment Stewardship's four principles, is the voting policy for "European-domiciled companies" and details the general positions of the Vanguard-advised funds (the "Funds' Boards")[1] on proxy proposals presented for shareholders to vote on. For the purposes of this summary, "European-domiciled companies" includes those companies domiciled in the European Economic Area, Switzerland, Russia, the UK and the Crown Dependencies (Jersey, Guernsey and the Isle of Man).

It is important to note that proposals often require a facts-and-circumstances analysis based on an expansive set of factors. Proposals are voted on case by case, under the supervision of the Investment Stewardship Oversight Committee and at the direction of the relevant Funds' board. In all cases, proposals are voted as determined in the best interests of each fund consistent with its investment objective.

This document describes general guidelines that apply to all European-domiciled companies ("EU Guidelines"), followed by country-specific guidelines for the UK, Ireland, the Crown Dependencies (Jersey, Guernsey and the Isle of Man), and Germany. The Vanguard 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 and best practices. These local corporate governance codes form the basis of the funds' country-specific guidelines. However, the funds' guidelines may differ and, in some cases, look for a higher level of governance best practice than the local corporate governance code.

The funds' country-specific guidelines outline any deviations from the EU Guidelines that will apply to the local market.

Comply or explain. Local standards in many European markets permit companies to deviate from recommended corporate governance practices so long as they provide an explanation for the deviation. Vanguard supports the underlying principle of European corporate governance best practices. Companies should "explain" any deviations from 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 market(s) in which it has its primary listing, as well as 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 This voting policy details the general positions of the Funds for each portfolio advised by Vanguard, including Vanguard index funds and ETFs and the fund assets managed by Vanguard Quantitative Equity Group, on recurring proxy proposals for European-domiciled companies. Each of the US mutual funds advised by Vanguard retains proxy voting authority.

Europe and UK guidelines

Principle I: Board composition and effectiveness

The fund's primary interest is to ensure that the individuals who represent the interests of all shareholders are independent, committed, capable, diverse and appropriately experienced. Diversity of thought, background and experience, as well as of personal characteristics (such as gender, ethnicity and age), meaningfully contribute to a board's ability to serve as effective, engaged stewards of shareholders' interests.

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 "non-widely held company" and/or a "controlled company" is not composed of at least one-third independent directors.

In addition, when analysing 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 which can impact independence:

- *Current and former employees*. Directors who are current or former employees (other than chief executive officer) 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.
- *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 performance-related pay scheme will generally not be considered independent.
- *Tenure*. Excessive tenure of a director (i.e., tenure that exceeds local market best practice, 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 we 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 Vanguard funds look for key committees to be chaired by independent directors and for companies to maintain 100% independent key committees where market practice and/or local corporate governance codes call for such composition. 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.

Board chair independence

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 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 countervoice 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.

Diversity and qualifications

Well-composed boards, in addition to having appropriate independence, should have skills and perspectives that are informed by a range of backgrounds, experience and personal characteristics.

Vanguard looks for regular board effectiveness reviews and subsequent refreshment of board composition to suit the company's long-term strategy, business model and market environment. Considerations should include independence, skills/experience gaps, and diversity of the board.

Diversity

We have long recognised the importance of diversity in the boardroom. Diverse individuals both personally and professionally bring unique experiences and perspectives that help challenge, debate and meaningfully contribute to a board's ability to serve as effective, engaged stewards of shareholders' interests within the boardroom.

We ask European and UK companies to meet local market standards intended to support gender and ethnic diversity, and at a minimum to demonstrate progress towards 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 upcoming local requirements.

Disclosure

We ask that companies disclose a "skills matrix" to allow shareholders to assess the overall board composition, and how well-suited individual director nominees are to support and oversee the company's evolving business strategy and risks.

We look for boards to consider and disclose, in accordance with local law and best practice guidance, the diversity of existing board members and proposed nominees on factors such as background, skills, gender, age, race, ethnicity and national origin, at least on an aggregate basis. Companies that do not have diverse boards should:

- demonstrate a commitment to achieving board diversity through robust nomination processes;
- provide insights on progress against internal targets, policies and practices; and
- prioritise adding diverse voices to their boards.

We may vote against the nomination committee chair, or another relevant board member, in cases where boards fall short of local best practice or legal standards without appropriate justification and disclosure.

Director capacity and commitment

Directors' responsibilities are complex and time-consuming. As a result, a director may be considered "overboarded" when the number of director positions they have accepted makes it challenging to dedicate the requisite time and attention to effectively fulfill their responsibilities at each company. While no two boards are identical and time commitments may vary, the funds believe the limitations below are appropriate absent compelling evidence to the contrary. The funds will take into account the scope of external commitments when evaluating a director's capacity on a case-by-case basis.

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 a/the directorship(s) necessary to fall within the thresholds listed above by the following year's annual general 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; and/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 Vanguard Funds look for portfolio companies to provide comprehensive disclosure of how the board assesses director commitments.

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 represents 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) which 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 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, so 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 so 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

We 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

In certain instances, a fund may vote against a director as a means to express concerns regarding governance failings or other issues that remain unaddressed by a company.

- *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 nonwidely held and/or 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 committee). 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 non- audit 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 fund 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.
- A fund 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 page 14 for more detail on the considerations for risk oversight failures.
- *Lack of board diversity*. Absent a compelling reason, a fund may vote against members of the nomination committee, or another relevant nonexecutive director if the members of the nomination committee are not up for re-election, if there is less than 30% of either gender serving on the board of directors. In assessing progress on board level gender diversity, relevant company disclosures may be taken into account. See page 8 for more detail on the considerations for diversity.
- *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 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 case by case on shareholder nominees in contested director elections. 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?
  - 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 the company and dissident board nominees*
  - Is there reason to question 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 do they present a stronger alternative to the current board?
- *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?

Principle II: Oversight of strategy and risk

Boards are responsible for effective oversight and governance of the risks most relevant and material to each company and for governance of the company's long-term strategy.

They should take a thorough, integrated and 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 to 20% of the current issued share capital, provided that the issuance authorities' periods are clearly disclosed and in line with market practice.
- *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 so 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, so long as the terms of the repurchase appear to be in the best interests of shareholders, there is no history of abuse of such authorisations, 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 authorised is proportionately changed. The funds 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

A fund will vote case by case on all mergers, acquisitions and financial transactions.

A fund seeks to assess the likelihood that a transaction preserves or will create long-term value for shareholders. A fund's evaluation of each transaction is governance-centric and focuses on four key areas:

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

In evaluating board oversight, the fund 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 Vanguard 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 auditors' 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

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

Similarly, 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.

Considerations for environmental and 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. To assist companies in understanding relevant principles, research or past voting decisions, Vanguard will from time to time publish perspectives on notable issues and best practices for companies to consider on specific environmental or social matters.

A fund may support shareholder proposals that:

- address 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 Sustainability Accounting Standards Board, the Task Force on Climate-related Financial Disclosures);
- reflect an industry-specific, materiality-driven approach; and
- are 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 environmental proposals (not exhaustive):

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

Specific to social risk proposals (not exhaustive):

- Request disclosure on workforce demographics inclusive of gender and racial/ethnic categories, considering other widely accepted industry standards, and if appropriate under applicable laws and regulations. This could include publishing EEO-1 reports.
- Request disclosure on the board's role in overseeing material diversity, equity and inclusion (DEI) risks or other material social risks.
- Request the 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).
- Request inclusion of sexual orientation, gender identity, minority status or protected classes, as appropriate under applicable laws and regulations, in a company's employment and diversity policies when the company has not already formally established such protections. A fund will generally not support proposals asking companies to exclude references to sexual orientation and/or gender identity, interests or activities in their employment and diversity policies.

Say on Climate proposals

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

When a company's management chooses to hold a Say on Climate vote, the Vanguard 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 Task Force on Climate-related Financial Disclosures (TCFD) framework. Vanguard does not seek to direct company strategy. We 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, we 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.

We 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.

Principle III: 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 these practices, their alignment with company performance and their outcomes is crucial to giving shareholders confidence in the link between incentives and rewards and the creation of long- term value. Well-designed remuneration policies help attract, retain and motivate talented executives to drive sustainable, long-term value creation.

Advisory and binding votes on executive remuneration

Most companies in the UK 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 two broad categories:

- *Pay for performance.* We 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 realised pay over the same period. If there are concerns that pay and performance are not aligned, a fund may vote against a pay-related proposal.
- *Structure.* Plan structures should be aligned with the company's long-term strategy and should support pay-for-performance alignment. Where a plan includes a number of structural issues which could lead to pay-for-performance misalignment, a fund may vote against a pay-related proposal. For remuneration structures which are not typical of a market, Vanguard looks for specific disclosure demonstrating how the structure supports long-term value creation for shareholders.

Remuneration policies

In forward-looking remuneration policies, we look for evidence of a strong pay-for-performance link and structural safeguards to strengthen alignment with 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 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 Vanguard 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 towards 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, we look for prospective performance metric disclosure, including targets and weightings, to allow shareholders to assess the rigor of the plan. Vanguard does not believe there is a one-size-fits-all approach to executive

remuneration. We 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.

  - 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. A fund does not look for nonfinancial metrics (such as ESG metrics) to be a standard component of all remuneration plans. When remuneration committees choose to include nonfinancial metrics, we look for the same qualities we do with financial metrics, including that they are measurable, reportable, rigorous and clearly linked to a company's strategy and risk mitigation efforts.

- *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 Vanguard 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 Vanguard funds look for such arrangements to be set in line with market best practice. Generally, severance arrangements should not be more than two years of fixed pay, taking into account any specific market best practice or nuances.
- *Change of control.* Where a policy permits accelerated vesting on a change of control, we 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 considered "red flags" 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 considered "yellow flags" may 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;
- 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 practice; and
- a lack of a shareholding requirement for executives or one that is out of line with peers or market practice.

Remuneration reports

In backward-looking remuneration reports we 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. We 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 Vanguard 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 plan(s) may indicate that the current remuneration structures may not be working as designed. We look for one-off awards to be granted in exceptional circumstances only. If a one-off award is granted, we look for disclosure of a compelling rationale, which will be scrutinised.

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 considered "red flags" 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 we have concerns that have not been sufficiently addressed.

Factors considered "yellow flags" may 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.

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, so 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 which 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 non-performance-based equity awards to non-executive directors. Any such awards should be separate and distinct from executive incentive plans to minimise potential conflicts of interest. A fund will generally vote against retirement benefits for nonexecutive directors.

Principle IV: Shareholder rights

Governance structures empower shareholders and ensure accountability of the board and management. Shareholders should be able to hold directors accountable as needed through certain governance provisions.

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 matter that was particularly concerning.

Board structure and director elections

Term lengths. Vanguard generally believes in annual director elections, which can help to safeguard shareholder rights. However, we acknowledge that director term lengths may vary according to local market practice and therefore we 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 Vanguard Investment Stewardship 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, we 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 towards 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 towards 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 which may require an amendment to the articles of association;
- whether the amendments may result in corporate governance structures and/processes

that are not best practice or are 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.
- *Approve "other such matters that may come before the meeting" or "any other business."* A fund will generally vote against a proposal to approve "other such matters that may come before the meeting" as these may limit the rights of shareholders who vote by proxy.
- *Adjourn 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.
- *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 physical meeting taking place). Virtual meetings should not curtail shareholder rights, for example by limiting the ability for shareholders to ask questions. A fund will generally 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: UK, Ireland, Isle of Man, Jersey and Guernsey

These country-specific guidelines supplement, and should be read in conjunction with, the *EU Guidelines* (pages 4–19). To the extent that there is any conflict between these country-specific guidelines and the *EU Guidelines*, these guidelines shall prevail.

Principle 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 EU Guidelines* outlined on page 4 of this document. The one exception is:

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 upcoming regulation[2] and best practice guidance[3], recognising the progress in increasing gender diversity at board level in the UK'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. For all other UK 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 UK 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, we look for an assessment and disclosure of how they plan to meet the Parker Review targets.

Principle II: Oversight of strategy and risk

Authorise 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 33% of a company's issued share capital, and an additional 33%, 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 5% of a company's issued share capital, or 10%, provided that the additional 5% is applied to acquisitions or other specified capital investments only and that the authority is for 15 months or less.

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.

Principle IV: Shareholder rights

Authorise 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.

2 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, at least one to be a senior board position and at least one to be 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. We look for in-scope companies to remain aware of the upcoming listing rules and will look for appropriate justification and disclosure.

3 **https://ftsewomenleaders.com/**

Country-specific guidelines: Germany

These country-specific guidelines supplement, and should be read in conjunction with, the *EU Guidelines* (pages 4–19). To the extent that there is any conflict between these country-specific guidelines and the *EU Guidelines*, these guidelines shall prevail.

Principle 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 EU Guidelines outlined on page 4 of this document.

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 fewer than six members 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 *EU Guidelines* outlined on page 4 of this document.

In addition to looking for a remuneration committee that is majority independent, a fund will generally vote against the remuneration committee chair if they are 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.

Principle II: Oversight of strategy and risk

Authorised and conditional capital

A fund will generally vote for proposals for authorised and conditional capital pools, so 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.

Principle IV: Shareholder rights

Exemption from remuneration reporting regulations

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

Shareholder counter-motions

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 *EU Guidelines* (pages 4–19). To the extent that there is any conflict between these country-specific guidelines and the *EU Guidelines*, these guidelines shall prevail.

Principle I: Board composition and effectiveness

Combined CEO/chair roles

While a separation between the roles of chief executive officer 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 (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 authorised and conditional capital pools, so long as:

- the aggregate amount of capital authorisations 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 authorisations 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 *EU Guidelines* (pages 4–19). To the extent that there is any conflict between these country-specific guidelines and the *EU Guidelines*, these guidelines shall prevail.

Principle 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 so-called "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, we look for a majority of the board of directors to be composed of independent directors. For non-widely held or controlled companies, we look for at least one-third of the board to be composed of independent members. Key committees should maintain at least majority independence. We look for a board of statutory auditors that is fully independent.

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

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 addressing 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.

Principle IV: Shareholder rights

Deliberations on possible legal action against directors if presented 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 authorise 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.

Authorisation of competing activities

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

The board resolution seeking for such authorisation 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, we look for the board to articulate the rationale for a certain appointment, or for seeking a waiver to the non-competition 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 authorisation for directors to enter into a situation that may raise a conflict of interest.

Country-specific guidelines: Netherlands

These country-specific guidelines supplement, and should be read in conjunction with, the *EU Guidelines* (pages 4–9). To the extent that there is any conflict between these country-specific guidelines and the *EU Guidelines*, these guidelines shall prevail.

Principle I: Board composition and effectiveness

One- versus two-tier governance structure

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

- One-tier board consists of executive and non-executive directors.
- Two-tier boards are more common and consist of a management board performing executive duties and (optional) supervisory board overseeing the management board.

The funds believe 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 comprise not more than one nonindependent director in line with market best practice; however, the funds will vote case by case, taking into account any disclosed rationale for the board's composition.

Principle 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. Vanguard does not typically support such measures. Companies that choose to adopt an anti-takeover device should explain why this is in the best interests of shareholders. A fund will vote case by case but is unlikely to support anti-takeover 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 *EU Guidelines* (pages 4–9). To the extent that there is any conflict between these country-specific guidelines and the *EU Guidelines*, these guidelines shall prevail.

Principle 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 representatives from three to five of companies' largest shareholders. Similarly, in Norway, the nomination committee is composed of shareholder representatives who are elected directly to the committee by shareholders at the annual general meeting, while in Denmark, a Shareholders Committee can be elected at the annual general 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.

Principle III: 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. We take into account these market practices when analysing remuneration proposals in the Nordic markets.

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