

Investment Stewardship

2024 Annual Report

Annual Report | 2024

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Introduction

An introduction from our CEO



Salim Ramji

Vanguard Chief Executive Officer

Each year, Vanguard's Investment Stewardship team casts tens of thousands of proxy votes with a clear mandate—to safeguard and promote long-term shareholder returns on behalf of Vanguard-advised funds and their investors.¹ As stewards of passively managed funds, Investment Stewardship seeks to support the long-term investment success of Vanguard-advised funds and their investors by supporting good corporate governance practices at individual portfolio companies, and not by seeking to influence or control these companies.

As more and more of our clients have expressed interest in aligning their personal preferences and views on corporate governance matters with how their shares in equity index funds are voted, we have taken action to empower our U.S. investors in certain funds to participate more directly in the proxy voting process through Vanguard Investor Choice. We have long been the pioneer in democratizing investing, and we will continue to lead the way in providing interested investors with the ability to express preferences related to proxy voting at the companies they own through Vanguard index funds.

We are pleased to present Vanguard's 2024 Investment Stewardship Annual Report, and we thank you for investing with Vanguard.

Sincerely,

A handwritten signature in black ink that reads "Salim Ramji". The signature is fluid and cursive, with the first name "Salim" and last name "Ramji" clearly distinguishable.

Salim Ramji

Vanguard Chief Executive Officer

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" refers to Vanguard's Investment Stewardship program and "the funds" refers to Vanguard-advised funds.

Our role as stewards of passively managed funds



John Galloway
Investment Stewardship Officer

We are proud to share this report highlighting the work carried out by Vanguard's Investment Stewardship program on behalf of Vanguard-advised funds and their investors for the 12 months ended December 31, 2024.

Vanguard's Investment Stewardship program is responsible for conducting proxy voting and engagement activities on behalf of Vanguard-advised funds. More than 99% of the equity assets under management in Vanguard-advised funds are invested in index funds. These funds are designed to track specific benchmark indexes and adhere to tightly prescribed, clearly disclosed investment strategies. Vanguard's Investment Stewardship program operates in that context, seeking to understand how the corporate governance practices of the funds' portfolio companies support the maximization of shareholder returns at each company over the long term. As stewards of passively managed funds, we do not seek to influence or dictate portfolio company strategy or operations. Rather, we believe that a well-composed board of directors overseeing a properly incentivized management team is best positioned to determine the appropriate tactics for long-term shareholder return maximization at a given portfolio company.

Our approach to investment stewardship is grounded in the funds' proxy voting policies, which are reviewed on an ongoing basis, approved annually by the funds' boards, and available on Vanguard's website. The policies guide our analysis of proxy ballot items and inform our engagements with portfolio company leaders. The funds' policies are organized around four pillars of good corporate governance: board composition and effectiveness, board oversight of strategy and risk, executive pay, and shareholder rights. These four pillars also provide the structure for this report and its contents.

In 2024, the Vanguard-advised funds voted at more than 21,000 company meetings and voted on more than 180,000 proposals. On behalf of the funds, members of the Investment Stewardship program engaged with more than 1,600 portfolio companies. We spoke with corporate directors and executives, regulators, policymakers, shareholder proponents, and other stakeholders to share our perspectives on corporate governance practices associated with long-term shareholder returns and inform our proxy voting decisions on behalf of the funds.

In 2024, regionally focused teams of corporate governance specialists and leaders engaged with portfolio company leaders across the Americas; Europe, Middle East, and Africa (EMEA); and Asia-Pacific (APAC) regions, further enhancing our understanding of corporate governance practices and trends in each region.

In the **U.S.**, we observed another year with a high level of environmental and social shareholder proposals put forward at public company shareholder meetings (401 shareholder proposals in 2024, compared to 362 such proposals in 2023). Our approach to analyzing shareholder proposals has remained constant over time. In line with the funds' proxy voting policies, we analyze shareholder proposals on a case-by-case basis, taking into account the specific facts and circumstances at each company in question. Utilizing this approach, the funds did not support any environmental or social shareholder proposals in 2024. The lack of support for the specific environmental or social proposals that appeared on company proxy ballots (compared to the funds' support of certain proposals in prior years) does not reflect a change in our application of the funds' voting policies. Rather, it can be attributed to our assessment that, in each of the cases this year, the proposal was either overly prescriptive in its requests for company action or did not address financially material risks to shareholders at the companies in question. Separately, there were several high-profile contested director elections at U.S. public companies. We evaluated each situation on its merits, assessing the case for change, the quality of the company's governance practices, and the quality of the director nominees.

In **Europe**, we prioritized engagement with leaders at portfolio companies where we had questions about board and key committee independence to encourage increased independence or relevant disclosure where appropriate. As part of a holistic assessment of board composition and effectiveness, we sought to understand how boards had adapted, or planned to adapt, to evolving market regulation related to board member diversity. In those engagements, we shared that we look for companies to establish appropriate director nomination procedures and provide robust disclosure outlining board composition strategy, inclusive of diversity considerations, to be in line with local market requirements. Executive pay remained a key topic of discussion, as a number of U.K. and European companies with global footprints and talent pools expressed the need to increase the total magnitude of pay to attract and retain C-suite executives. With companies listed in Continental Europe, we had many conversations about improving disclosure of basic structural features of incentive plans to better demonstrate linkage between executive pay and company performance. We also participated in a regulatory review of rules regarding dual-class share structures in the U.K. We shared our view that where shareholders' voting rights are not proportionate to their economic interest in a given portfolio company, companies should consider additional governance features to protect the interests of minority shareholders.

In the **Asia-Pacific** regions, we increased our number of engagements, due in part to our team's expanded footprint in Vanguard's Melbourne, Australia office. Director independence remained a key topic in our engagements with Japanese portfolio companies. We prioritized engagements with leaders of Japanese portfolio companies where we identified questions concerning board and committee independence; specifically, we sought to understand boards' processes for evaluating outside directors' independence and encouraged increased disclosure of such processes where we noted opportunity for enhancement. We also noted a continued heightened level of investor activism at Japanese portfolio companies and evaluated a number of contested director elections at Japanese portfolio companies. In each case, we evaluated the situation using the framework articulated in the funds' proxy voting policies, assessing the case for change, the quality of the company's governance, and the quality of the director nominees in the context of the specific facts and circumstances at each company.

In **Australia**, executive pay continued to be a key topic in our discussions with companies. The focus on pay was influenced by relatively lower shareholder support rates for remuneration reports in 2023, which led us to engage with portfolio companies to reiterate the funds' proxy voting policies and encourage improved disclosure. We also noted an increasing number of boards referencing emerging artificial intelligence (AI)-related risks in the context of boards' oversight role. We expect engagement on this topic will continue as we monitor corporate governance practices and understand how board composition evolves to oversee emerging risks. We also discussed with Australian portfolio company boards their preparedness for new Australian government-mandated climate-related financial disclosures being phased in from 2025.

In addition to continuing to faithfully execute our Investment Stewardship program in keeping with the funds' policies, in 2024 we took additional steps to expand Vanguard Investor Choice, giving individual investors the ability to express their perspective on shareholder matters at the companies held in their equity index funds. Our 2024 Investor Choice pilot program enabled investors in five U.S. equity index funds to choose a proxy voting policy option aligned to their preferences. For investors who chose to participate, their selection directed how their proportionate share of portfolio company holdings was voted at the shareholder meetings included in the pilot. In 2025, we are building upon our learnings from our previous pilots and expanding the offer to investors in eight of Vanguard's U.S. equity index funds, while providing additional policy options for investors to select from. Providing expanded proxy voting choices reflects Vanguard's ongoing commitment to helping individuals make informed decisions that align their investment portfolios with their preferences.

Thank you for your interest in the work Vanguard's Investment Stewardship program conducts on behalf of Vanguard-advised funds and their investors.

Sincerely,

A handwritten signature in black ink, appearing to read "John Galloway", with a large, stylized loop at the end.

John Galloway
Vanguard Investment Stewardship Officer
May 2025

Vanguard's Investment Stewardship program

Vanguard's Investment Stewardship program has a clear mandate to safeguard and promote long-term shareholder returns on behalf of the Vanguard-advised funds and their investors. We carry out this mandate by promoting corporate governance practices associated with long-term shareholder returns at the companies in which the funds invest, without directing the strategy and operations or influencing the control of those companies. When portfolio companies held by the funds generate shareholder returns over the long term, the funds generate positive returns for their investors.



The Vanguard-advised funds

Vanguard-advised funds are primarily index funds managed by Vanguard's Equity Index Group.² Vanguard-advised equity index funds are designed to track specific benchmark indexes (constructed by independent, third-party index providers), follow tightly prescribed investment strategies, and adhere to well-articulated and publicly disclosed policies. The managers of Vanguard's equity index funds do not make active decisions about where to allocate investors' capital. In other words, instead of hand selecting the stocks in which an equity index fund invests,

managers of these funds buy and hold all (or a representative sample) of the stocks in a fund's benchmark index.³

An equity index fund will generally hold stock in a company for as long as that company is included in the fund's benchmark index. As a result, Vanguard's equity index funds are long-term investors in public companies around the world. A small portion of the funds are managed by Vanguard's Quantitative Equity Group using proprietary quantitative models to select a broadly diversified portfolio of securities aligned with a fund's investment objective.⁴

- ² For the 12 months ended December 31, 2024, equity index portfolios advised by Vanguard represented 99% of the Vanguard-advised equity funds' total assets under management.
- ³ Vanguard-advised equity index funds are constructed using either a full replication or sampling approach. Under a full replication approach, a fund buys and holds the securities in the fund's benchmark index in proportion to each security's weighting in the fund's benchmark index. Under a sampling approach, a fund buys and holds a representative sample of securities in the index that approximates the full index in terms of key characteristics.
- ⁴ In aggregate, as of December 31, 2024, the funds managed in whole or in part by Vanguard's Quantitative Equity Group represented approximately 1% of the Vanguard-advised funds' equity assets under management.

Our approach

All aspects of Vanguard's Investment Stewardship program are focused on safeguarding and promoting long-term shareholder returns with the goal of giving investors in Vanguard-advised funds the best chance for investment success. The funds' portfolio construction process is inherently passive—the equity index funds seek to track benchmarks determined by unaffiliated, third-party index providers. Our execution of proxy voting and engagement with portfolio companies operates in that context.

Accordingly, with respect to portfolio companies held by the funds, we do not seek to influence or dictate portfolio company strategy or operations, nor do we submit shareholder proposals or nominate board members. We believe that a well-composed board of directors that oversees a properly incentivized management team is best positioned to determine the strategies and tactics for maximizing long-term investment returns at an individual portfolio company. Similarly, Vanguard does not use investment stewardship activities to pursue public policy objectives. Setting public policy, including policy on environmental and social matters, is appropriately the responsibility of elected officials.

On behalf of the funds, Vanguard's Investment Stewardship team seeks to understand how boards of directors ensure effective governance of the companies in which the funds invest. In keeping with the funds' proxy voting policies, we examine how each board is composed to provide for the long-term success of their company, how it consults with management on strategy and oversees material risks, how it aligns executive financial incentives with shareholder returns, and how it safeguards the rights of shareholders. We do this by:



Engaging

with portfolio company directors and executives to learn about each company's corporate governance practices and to share our perspectives on corporate governance practices to inform the funds' votes associated with long-term shareholder returns



Voting

proxies at portfolio company shareholder meetings based on each fund's proxy voting policies



Promoting

corporate governance practices associated with long-term shareholder returns through our published materials and participation in industry events

Our four pillars

Our analysis of companies' corporate governance practices is centered on four pillars of good corporate governance. These four pillars guide our efforts when we engage, vote, and share our

perspectives on corporate governance practices. These pillars are the foundation of the funds' proxy voting policies, and each pillar links back to our focus on long-term shareholder returns.



Board composition and effectiveness

Good governance begins with a company's board of directors. We seek to understand to what extent board members, who are elected to represent the interests of all shareholders, are suitably independent, capable, and experienced to carry out their duties. We also aim to understand how boards assess and enhance their own effectiveness over time.



Board oversight of strategy and risk

Boards should be meaningfully involved in the formation, evolution, and ongoing oversight of strategy. Similarly, boards should have ongoing oversight of material risks to their company and establish plans to mitigate those risks. We work to understand how boards of directors are involved in strategy formation and evolution, oversee company strategy, and identify, govern, and disclose material risks to shareholders' long-term returns.



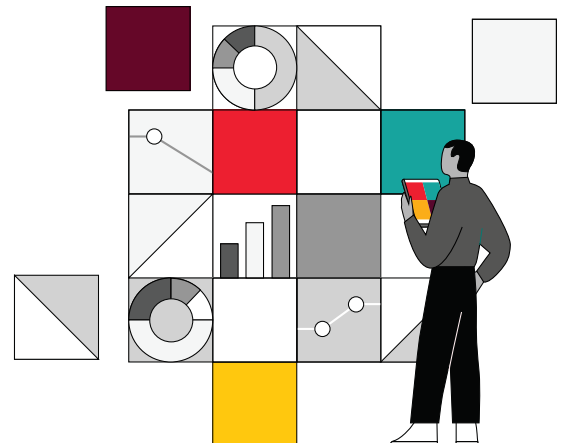
Executive pay

Sound pay policies and practices linked to long-term relative company performance can drive long-term shareholder returns. We look for companies to provide clear disclosure about their compensation policies and practices, the board's oversight of these matters, and how the policies and practices are aligned with shareholders' long-term returns.



Shareholder rights

Shareholders have fundamental rights as company owners. We believe that a well-functioning capital markets system requires that companies have in place governance practices and structures that enable shareholders to exercise those rights.



Investment Stewardship activity at a glance

In 2024, Investment Stewardship held nearly 2,000 engagements with or related to over 1,600 companies, representing 66% of the Vanguard-advised funds' total assets under management (AUM). In addition, the funds voted on over 180,000 proposals at nearly 13,500 companies.



1,931

total engagements with
or related to portfolio
companies



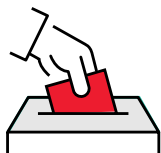
1,603

companies
engaged



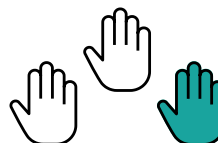
\$4.5T AUM

equity AUM
engaged



182,241

proposals
voted on



13,433

companies where a
proposal was voted on

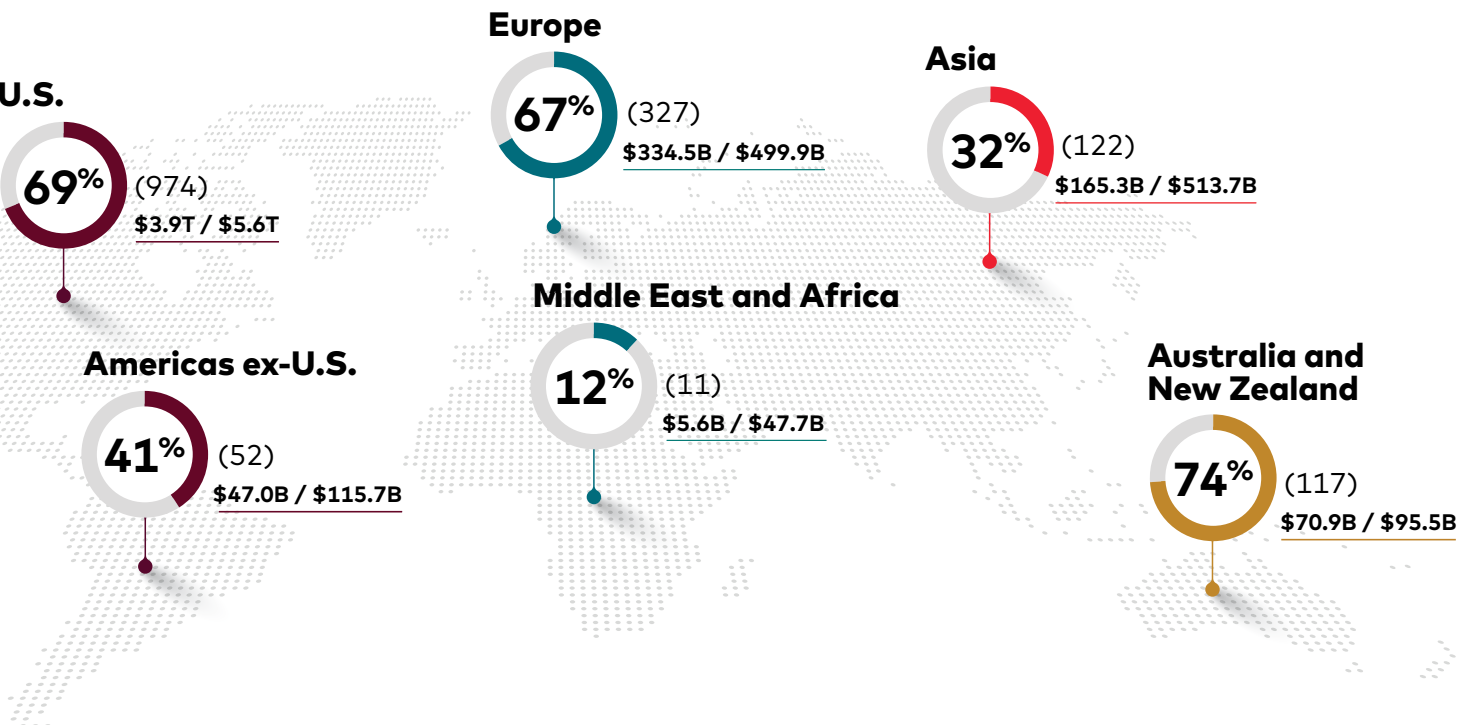
Regional roundup

In this section, we highlight notable corporate governance topics and trends Vanguard's Investment Stewardship team observed in various regions around the world in 2024.

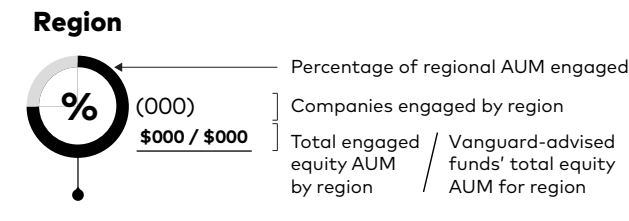
We provide this report, as well as other publications, to give investors in Vanguard-advised funds and other interested parties an understanding of our engagements and proxy voting on behalf of Vanguard-advised funds.

Regional company engagement figures for 2024

The following figures represent the Vanguard Investment Stewardship team's global engagement activities on behalf of the Vanguard-advised funds in 2024.⁵



Key



⁵ Data presented are for the 12 months ended December 31, 2024. Numbers and percentages reflect rounding.

U.S.

In the U.S., our investment stewardship activities continued to reflect the consistency of our approach—defined by the funds' passive investment strategies and anchored by a focus on long-term shareholder returns—in the face of complex and dynamic market developments. We engaged with company leaders to understand their approach to board and committee composition; their oversight of company management, strategy, and material risks; and their executive compensation practices. Overall, we engaged with 974 companies across the U.S. on a range of governance and risk oversight topics, and the funds voted on over 36,500 proposals at more than 4,000 portfolio companies in the region.

Board composition and effectiveness

In our engagements with leaders of U.S. companies, we frequently discussed topics related to board composition and effectiveness, including director education, disclosure of director skill sets, and how boards oversee executive succession planning.

We observed that many issuers reported a focus on director education in areas such as AI and technology development broadly to ensure their directors are positioned to carry out their oversight duties. We noted that companies are taking different approaches to incorporating AI and evolving technology risk oversight into their governance and committee structure and responsibilities. Board member skill and experience, and how companies provide disclosure of the ways in which their boards' collective skill sets link to their articulated business strategy, were frequently discussed. We used those discussions to understand how the skills and experiences in the boardroom and in their refreshment approach aligned with each company's business and needs. We also discussed

with several companies their boards' approaches to navigating leadership transitions in light of market volatility. We have observed a number of high-profile cases where companies have faced pressure for management changes from vocal, activist shareholders, and we have seen an increase in CEO resignations across S&P 500 issuers in recent years. Engagements on this topic reinforced the critical role boards play in ensuring long-term shareholder returns creation through intentional succession planning.

Board oversight of strategy and risk

In 2024, companies continued to focus on disclosure and discussions of board oversight of material risk areas. Companies touched on common risk areas such as cybersecurity, emerging technologies, and human capital, as well as more idiosyncratic risks specific to their industry or business strategy. Boards frequently noted the quickly evolving nature of these risks—and related business opportunities—in the context of board oversight and governance structures.



54%

The percentage of shareholder proposals voted on at the top 200 largest U.S. companies.



3%

The funds' shareholder proposal support rate at the 200 largest U.S. companies.



13%

The funds' shareholder proposal support rate at the remaining U.S. portfolio companies.

Over the course of the year, the funds evaluated 401 shareholder proposals that requested actions from U.S. portfolio companies related to risk oversight practices that were focused, to one degree or another, on environmental or social matters. After our case-by-case application of the funds' voting policies, the funds did not support any of these proposals. We assessed that many of these proposals sought overly prescriptive actions that were not aligned with the relevant company's stated strategies or did not appear justified based on the financial materiality of the topic in question at the company. In other cases, we observed that proposals sought action on matters already addressed by the company.

Executive pay

The funds voted on over 5,000 executive pay-related proposals at U.S. portfolio companies during 2024. In evaluating these proposals, we remained focused on how a company's executive pay program aligned pay outcomes with company (and shareholder) performance outcomes relative to a relevant set of industry peers. We looked to disclosures of the board's oversight and explanation of the plan structure to provide context for how the board believed pay decisions and plan design would lead to alignment between executive rewards and shareholder return outcomes. In cases where pay plans focused more heavily on absolute metrics

(that is, targets that are measured against future company performance), we looked for disclosure about the rigor of the target-setting process and demonstrated sensitivity of pay to performance outcomes. As in previous years, we continued to observe the use of one-time awards by certain U.S. companies as a part of their compensation program. Boards frequently cited retention and recruitment of top executive talent in a competitive market as the rationale for such awards.

Shareholder rights

In 2024, we analyzed various management proposals that included requests to amend companies' governing documents to remove supermajority vote standards, adopt officer exculpation provisions through shareholder approval, and separate chair and CEO roles. We evaluated each proposal based on the specifics of the requested change, the company's existing provisions or practices, and the impact these changes would have on shareholder rights. In many instances, we engaged with the companies in question to understand their rationales for putting forth the proposed changes.

We continue to believe in the importance of governance practices that safeguard shareholder rights, as we view such practices as being associated with long-term shareholder returns.

Europe, Middle East, and Africa

In 2024, Vanguard's Investment Stewardship team continued to engage with companies in EMEA. Overall, we engaged with 338 companies across the region on a range of governance and risk oversight topics, and the funds voted on nearly 43,000 proposals at over 2,300 portfolio companies in the region.

Some of the broad corporate governance themes observed during the year were common across the region, such as a boards' oversight of material risks related to geopolitics, climate change, and technology. Other trends were more country- or sector-specific, such as matters relating to the transatlantic pay debate or the evolving regulatory environment in the U.K. and Europe. Across all topics, on behalf of the funds, we maintained a focus on corporate governance practices associated with long-term shareholder returns.

Board composition and effectiveness

We prioritized engagement with leaders at portfolio companies where we had questions about board and committee independence. At companies where we identified concerns regarding the level of board independence, we encouraged robust disclosure of how the board's composition aligned with market best practice, as established by local corporate governance codes or regulation, and for companies to increase board and committee independence over time. Consistent with prior years, board independence and related concerns regarding disclosure were the source of the majority of the funds' votes against directors in EMEA.

Most European countries in which the funds invested had either already adopted or were in the process of adopting recommendations

(corporate governance codes) or regulation (listing rules or corporate law) related to gender diversity on boards, some of which would take effect after 2024.⁶ In 2024, we engaged with company directors and executives to understand how they complied, or planned to comply, with evolving market recommendations or regulations related to gender diversity on boards. Similarly, in the U.K., we discussed with board members how their companies were considering the gender and ethnic diversity requirements stated in the U.K. Listing Rules and factoring these requirements into their director recruitment and succession planning processes. On behalf of the funds, we look for companies to establish appropriate director nomination procedures accompanied by robust disclosure outlining board composition strategy, inclusive of diversity considerations when applicable to local market standards. We encouraged this disclosure as we believe it enables investors to understand how a board's chosen composition is best suited to safeguard and promote long-term shareholder returns.

We observed an increasing number of boards in the U.K. and Europe using internal and external board evaluations and skills matrices to assess board functionality and composition. Across multiple sectors, many boards mentioned that they were considering director candidates with experience in digital transformation, change management, or global leadership as companies seek to navigate an increasingly complex set of macroeconomic, geopolitical, supply-chain, and competitive risks.

In addition, we continued to see a theme of directors being potentially overcommitted in terms of their professional obligations to different organizations (also known as

⁶ In accordance with Directive (EU) 2022/2381 of the European Parliament and of the Council of 23 November 2022 on improving the gender balance among directors of listed companies and related measures, all E.U. member states are required to adopt a legal provision for 40% of nonexecutive director positions or 33% of executive and nonexecutive director positions to be held by "the underrepresented sex" at certain publicly listed companies by 2026.

overboarding) and continued to engage and encourage disclosure of board policies and processes for assessing director capacity.

Board oversight of strategy and risk

We engaged with companies across EMEA on a variety of topics to better understand their boards' oversight roles related to company strategy—and any material risks to that strategy—and related company disclosures. Prominent material risks highlighted by company boards included geopolitical conflicts and uncertainty, climate-related risks, and technology, including cybersecurity and the emerging risks and opportunities associated with AI.

We continued dialogue with certain companies regarding how boards were navigating risks related to the war in Ukraine and any ongoing business operations in Russia. The conflict in the Middle East similarly caused boards to consider a range of potential risks, particularly at companies with a significant geographical footprint in the region. Major elections in 2024, including in the U.S, U.K., and France, were also top of mind for many companies listed in EMEA given the potential shifts in regulatory priorities that could affect company operations.

We continued to engage with U.K. and European companies that chose to seek shareholder approval of their climate transition plans via "Say on Climate" votes. Notably, we observed the concept of management-proposed "Say on ..." proposals expanding to cover additional topics such as biodiversity. Our approach to assessing these proposals remained focused on questions of financial materiality, the board's oversight role, and the quality of company disclosures rather than our assessment of the company's climate strategy, as we believe that company strategy is more appropriately determined by a company management team and board, rather than shareholders.

While oversight of cybersecurity risk remained a key topic for boards of companies across EMEA, we observed a number of companies

highlighting the rising risks and opportunities presented by generative AI. We heard from boards conceptualizing ways to upskill directors and senior leaders on how to effectively capitalize on AI-related opportunities while ensuring that appropriate frameworks are in place to oversee both AI and cybersecurity risks.

Executive pay

Continuing a trend that emerged in 2023, we observed companies with global footprints seeking to attract and retain executives by increasing the total pay magnitude or adopting remuneration structures more commonly seen in the U.S. In such cases, we encouraged companies to disclose information regarding the board's process for benchmarking executive pay to the company's self-identified peer group and clear rationale for any changes made. We observed that many companies provided such disclosures and often included an assessment of overall pay increases and/or pay opportunity for employees across the organization in their accompanying rationale.

As in prior years, we noted an increase in the adoption or expansion of environmental, social, and governance (ESG) metrics into companies' variable pay plan designs. In some cases, such ESG metrics accounted for more than 20% of an executive's annual bonus and/or long-term incentive plan. We maintained our approach of not having a prescriptive view regarding the choice of variable pay metrics in general and of not having an overarching view on the inclusion (or exclusion) of ESG metrics in executive pay plans. Regardless of whether a company chose to use financial metrics or ESG metrics, we encouraged companies to set and disclose targets that were most closely aligned to their corporate strategy and supported long-term shareholder returns.

Overall, executive pay remained a contentious voting topic in EMEA but with considerable variation across the region. In Italy, for example, the funds' support for remuneration proposals in

2024 remained low (53%), which was consistent with prior years and substantially lower than in other European countries.

In the U.K., notwithstanding the funds' aggregate high support for remuneration proposals (97%) across all companies, executive pay remains an important engagement topic, particularly in specific sectors. For example, the decision by U.K. regulators to remove the cap on bankers' variable pay became a prominent topic of conversation during the second half of 2024, with potential implications for the 2025 proxy season. Additionally, an ongoing remuneration benchmarking debate has led companies across U.K. sectors to broaden to a more global set of peers, and for certain companies—particularly some within the technology and health care sectors—to consider structural pay plan changes more similar to those of comparable U.S. peers.

Shareholder rights

In Europe, the regulatory environment typically includes strong protections for shareholder rights, which have been reinforced and standardized in recent years through the E.U.'s Shareholder Rights Directive (the Directive). Following regulatory consultations in 2022 and 2023, the Directive may be subject to further revision in the near term. The one-share-one-vote principle, which has long prevailed in most of Europe, is shifting with the adoption of new regulations intended to facilitate the growth of capital markets.⁷ When engaging with companies that chose to adopt multiple-class share structures, we encouraged company

leaders to consider implementing sunset clauses or other mechanisms that safeguard minority shareholders' interests over the long term.

A nuance of proxy voting at European portfolio companies is shareblocking, a practice where shares are temporarily blocked from trading after being voted. In our view, shareblocking can be detrimental to shareholder rights as shareholders may choose not to vote at shareholder meetings to retain liquidity. While the Directive has revoked shareblocking in the E.U., the practice has endured in some European countries. In 2024, we observed a reduction in shareblocking in Norway and Switzerland, where several market participants worked to remove potential barriers to shareholder voting rights.

In the U.K. and Europe, we saw continued debate among issuers, investors, and policymakers regarding the competitiveness of the market. Within this context, a restructuring of the U.K. Listing Rules was announced, taking effect at the end of July 2024. Material changes included removing the need for shareholder approval for significant transactions and large related party transactions, a more permissive approach to dual-class share structures, and the combination of the Standard and Premium listing segments into a single category with one combined set of governance regulations. We saw legislative changes in Italy that allowed companies to hold closed-door shareholder meetings and increase the ratio of voting rights to shares under multiple-class share structures. We will continue to monitor these reforms and their impact on shareholder rights and evaluate any related proposals on a case-by-case basis.

⁷ In April 2024, the European Parliament adopted amendments to Directive 2014/65/EU to make public capital markets in the E.U. more attractive for companies and to facilitate access to capital for small and medium-sized enterprises. Among other requirements, the Directive will require all E.U. member states to allow multiple-class share structures for IPOs.

In 2024, we observed that many companies in Asia were focused on navigating an evolving corporate governance environment due to regulatory reforms. Through engagement and voting activities across the region, we explored how boards were navigating changing corporate governance requirements and other corporate governance matters, including board composition and effectiveness. Overall, we engaged with 122 companies and the funds voted on over 92,000 proposals at over 6,100 portfolio companies in the region.

Board composition and effectiveness

Our engagements with Asian companies largely focused on board composition and effectiveness. Many companies in the region have fewer independent directors than is typical in other regions. While the rationale for this difference varies across companies, sectors, and countries, capital and ownership structures are typically factors that contribute to the lower levels of board independence throughout Asia. Given the funds' belief in the importance of board independence, where we identified boards that were majority non-independent, we utilized engagements to better understand boards' processes for appointing independent directors, how boards evaluate the independence of directors, which skills they look for in prospective board members, and how boards enable independent directors to provide an outside perspective.

In Japan, we continued to engage with company leaders on the topic of director and board independence given the continued presence of extensive professional affiliations across board members. We encouraged increased disclosure of board processes and/or details behind certain directors' professional relationships, transactions, or other affiliations to enable shareholders to make informed decisions regarding each

director's independence when voting. In 2024, the funds voted against 636 director nominees at Japanese companies in response to board independence level concerns. We observed, through company disclosures, that many of these directors were affiliated with companies that appeared to compromise their independence, which led to a lower level of overall board independence. We will continue to encourage Japanese companies to increase their level of board independence in line with the principles outlined in the Japanese Corporate Governance Code. We engaged with representatives from Japan's Tokyo Stock Exchange (TSE) to discuss the ongoing efforts in response to the Japanese Financial Services Agency's Action Program for Accelerating Corporate Governance Reform 2024: Principles into Practice. We shared our perspectives on the importance of director independence as well as the benefits of having independent members of the board engage directly with shareholders.

In Japan, we observed that companies continued to experience proxy contests and receive proposals related to environmental risks and capital allocation. In the case of proxy contests, we engaged with the targeted companies and the shareholder proponents to better understand their varying perspectives on topics such as board oversight of company strategy, company performance relative to peers, and governance practices. In each case, to determine the funds' votes, we evaluated the case for change put forward by the proponent, the company's approach to governance, and the quality of the director nominees.

Our engagements with issuers in South Korea, India, and other countries in Asia were also largely focused on board composition and effectiveness; director and board independence featured as a prominent topic in those discussions.

Board oversight of strategy and risk

In 2023, the TSE launched its Action to Implement Management that is Conscious of Cost of Capital and Stock Price. As a result, there was an increase in the number of shareholder proposals filed, ranging from requests for increased disclosures on a company's plans to improve capital allocation to proposals on specific dividend distributions or share repurchase amounts in excess of what management had proposed. In 2024, we found that the capital allocation proposals had become more nuanced and sophisticated, and the high number of proposals seen in 2023 (as compared to prior years) was sustained. We engaged with company leaders on these proposals, and they were keen to explain their approach to implementing the TSE's requested actions.

Following Japan's action, Korea's Financial Services Commission (FSC) launched its Corporate Value-Up Program (CVP), which was top of companies' agendas in 2024. The CVP was launched in February 2024 and sought to tackle the "Korea discount," which refers to how South Korean stocks, bonds, and companies trade at lower valuations compared to their global peers. Through engagement we sought to understand how boards were overseeing company plans to meet the FSC's guidelines and what role boards had in independently preparing and monitoring companies' value-up plans.

In addition, we continued to engage with company leaders regarding board oversight of material risks related to technology and AI, climate matters, and internal control oversight failures.

Executive pay

Voting on remuneration proposals varies by country in Asia. In some countries, such as Japan, executive pay is not subject to a shareholder vote. In other countries, such as India, executive pay may be subject to a binding shareholder vote and is typically bundled with director elections. As such, when we discuss executive pay with leaders of companies listed in Asia, we often share our observations of global best practices related to executive pay, including having it serve as a standalone resolution and providing fulsome disclosure of executive pay plans to shareholders.

Shareholder rights

While shareholder engagement with independent directors is common in some regions, it is not typically the norm for companies listed in Asia. Given that independent directors are responsible for overseeing management and ensuring that a company is run in the best interests of shareholders, we believe that it is appropriate for independent directors to engage with company shareholders to understand their perspectives.

In 2024, we sought engagement opportunities with independent board directors in addition to, and in some cases rather than, company executives, to discuss shareholder rights and other corporate governance topics. In our experience, engagements with Asian companies are often with company executives. While these engagements can help us understand the company's stated business strategy and how a management team interacts with the board, we value discussions with independent directors to understand and assess the board's oversight of management, their approach to overseeing company strategy and material risks, and the effectiveness of corporate governance practices.

We have observed that more companies in Asia are providing English language disclosures, as many companies are aware that international investors are becoming more common on their share registers. In addition, some regulators have started to require English-language versions of certain company disclosures. For example,

beginning in April 2025, companies listed on the Prime Market segment of the TSE will be required to provide timely disclosures in both English and Japanese; in Taiwan, certain companies are required to provide some disclosures in English, including their annual meeting notice and annual report.

Australia and New Zealand

In 2024, navigating an increasingly complex geopolitical environment and the impacts of higher interest rates and continued cost of living pressures were front of mind for companies domiciled in Australia and New Zealand. Throughout our engagements, we observed boards' increased focus on the adoption and regulation of AI, workplace safety, and the implementation of government-mandated sustainability reporting frameworks. Overall, we engaged with 117 companies across the region, and the funds voted on over 2,000 proposals at nearly 350 portfolio companies.

Board composition and effectiveness

Board composition and effectiveness continued to be a central topic in most of our engagements. In 2024, the prevailing reason the funds did not support the election or reelection of directors was a lack of board or committee independence. There was also an uptick in compensation- and oversight failure-related matters that we found warranted withholding support from relevant members of the board. We also observed that many companies met or were taking steps to meet gender diversity targets with respect to the composition of their board of directors, in line with the Australia Securities Exchange Corporate Governance Principles and Recommendations.

Board oversight of strategy and risk

New technologies, including AI, were a frequent topic of discussion, with many companies exploring how AI can improve customer experiences and create operational efficiencies, such as reducing workplace hazards and incidents. We heard from many boards that they were increasingly mindful of the need to manage emerging AI-related risks in light of expected future government regulations. We will continue to monitor governance practices in this area and how companies evolve their boards' skill sets to oversee related risks.

Mitigating sustainability-related risks remained a focus for boards across Australia, both in terms of physical risks to business operations and the work required to meet new Australian Government mandatory climate-related financial disclosures being phased in from 2025. We observed that, in the majority of our engagements where sustainability-reporting was discussed, boards demonstrated preparedness for the forthcoming reporting changes and the requirement of directors to oversee such risks and obligations.

Executive pay

Executive pay continued to be a topic of discussion in our engagements in 2024, particularly during proxy season when companies put their remuneration report to a shareholder vote. The focus on pay was compounded by lower shareholder support rates for remuneration reports in 2023, which resulted in a significant number of companies receiving a first strike (an against vote of 25% or more on a remuneration report) and a possible board spill resolution in 2024. (A second strike requires shareholders to vote at the same annual general meeting to determine whether the directors will need to stand for reelection within 90 days, referred to as a "board spill resolution.") We noted that the majority of these companies proactively engaged shareholders, including the Vanguard-advised funds, throughout the year to understand shareholders' perspectives regarding remuneration practices ahead of their annual meeting. The funds did not support any spill resolutions in 2024.

We also engaged with a number of companies to express our concerns that shareholder rights were potentially being diminished in relation to voting on equity awards for executives. We observed that shareholders were being presented with a "false choice," with the board stating that if the award was not approved, it would instead

be awarded in cash. We view cash awards as less attractive than equity grants as they typically do not align executive pay with shareholder returns. In cases where companies presented what we viewed as a false choice, we shared our perspective on good governance structures and the importance of enabling shareholders to effectively exercise their rights and the value of having pay practices aligned with shareholders' long-term returns.

In instances where the funds voted against a remuneration report, the key reasons typically included a lack of clear disclosure that made assessment of the robustness and appropriateness of the plans challenging or the use of metrics that were not quantifiable or deemed to be insufficiently rigorous. We also observed an increasing number of companies with global operations or secondary listings citing significant remuneration packages as necessary for attracting and retaining key management

personnel in regions where pay practices differ from Australia (for example, in the U.S.). We assessed these remuneration plans on a case-by-case basis; in each instance the funds voted to support such plans upon determining that the quantum of pay appeared to be in the best interests of shareholders and that adequate information and measurable targets were disclosed.

Shareholder rights

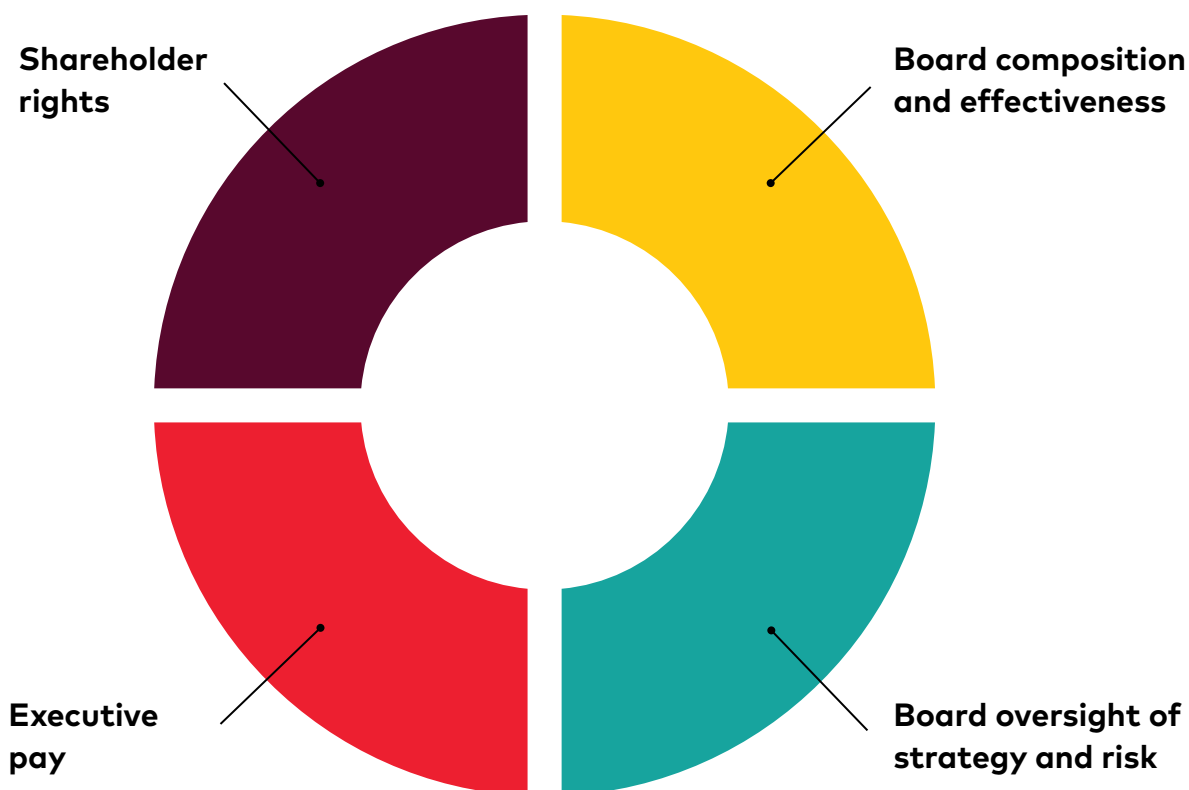
We were encouraged by the high level of engagement from the funds' portfolio companies and the desire by many to seek and incorporate investor feedback on relevant corporate governance matters. In the majority of our engagements conducted across Australia and New Zealand, there was at least one independent director present. We also observed that most annual general meetings were held in a hybrid format, which enabled investors to join both in person and virtually.

Case studies and insights

The case studies that follow are representative of the 1,931 engagements Investment Stewardship conducted across 35 countries in 2024.

These discussions, which were initiated by both portfolio companies and our team, enabled us to gain insights into how the funds' portfolio companies are governed, informed the funds' voting on a wide range of proposals, and gave us the opportunity to share our perspectives on the funds' proxy voting policies and corporate governance practices that can drive long-term shareholder returns.

We strive to provide timely disclosure of the activities conducted by the Investment Stewardship team to fund investors, portfolio companies, and other stakeholders. Over the past year, we published numerous Insights to share our perspectives on important governance topics and the rationale behind certain notable proxy votes. In addition to Insights, we provided quarterly reports detailing our engagement activity and rationale for key votes. These publications are available on Vanguard's website.





Board composition and effectiveness

Good governance begins with a company's board of directors. We seek to understand to what extent board members, who are elected to represent the interests of all shareholders, are suitably independent, capable, and experienced to carry out their duties. We also aim to understand how boards assess and enhance their own effectiveness over time.

■ Board composition and independence at Toray Industries Inc.

Toray Industries Inc. (Toray) is a Japan-listed multinational chemicals company. In 2024, we engaged with company leaders to discuss the composition of the company's board of directors and the board's effectiveness. This meeting followed engagements in prior years that included discussion of board member independence and board composition more generally.

In our latest engagement, with respect to board composition, Toray leaders discussed the Japanese regulatory requirement that women hold at least 30% of board positions by 2030. While Toray appointed its first woman director in 2023, Toray leaders shared that the company was actively formulating its strategy for achieving gender diversity on its board and was holding regular discussions within the Governance Committee.

Company leaders shared that Toray faces industry-specific challenges related to talent recruitment and retention, and that the promotion of internal female talent to management and executive positions remains an important part of their stated strategy. They also noted that the company's workforce gender diversity efforts may require further adjustment to align with its stated ambition of having women hold 30% of the officer positions by 2030, in line with the TSE's requirement for prime-listed companies like Toray.

Another topic of discussion during the engagement was board independence. In our 2023 analysis, we found that less than one-third of Toray's board was comprised of independent, outside directors. However, at the 2024 annual meeting, the company reduced its board size after an inside director stepped down. These changes increased the overall board independence to one-third, aligning with the funds' voting policy in Japan. Company leaders relayed that this change was an intentional response to shareholder feedback related to board independence.

As a result of the engagement, we gained a better understanding of the company's approach to board composition, including board diversity in the context of regulatory expectations and the independence of board members.

■ Board composition and independence at Tencent Holdings Limited

Tencent Holdings Limited (Tencent) is a Hong Kong-listed multinational technology conglomerate and one of the largest multimedia companies globally. In 2024, we engaged with company leaders to better understand the board's approach to board composition.

In preparing for the engagement, we noted that Tencent did not disclose a board skills matrix. However, during our engagement with company executives, we learned that the board used an internal matrix to evaluate the board's composition and identify suitable candidates for

board appointments. Company leaders shared the board's focus on appointing directors with expertise in internet, information technology, health science, and social policy to enhance the board's diversity of industry knowledge. We shared our perspectives on global best practices we have observed regarding board skills matrix disclosures and how such information can help investors understand the skills that individual directors contribute to the board.

During our engagement, company leaders also elaborated on the company's leadership structure, under which Tencent's founder and CEO also serves as board chair; company leaders explained that this arrangement is a deliberate choice to ensure the company's evolution is guided by the CEO's business insight and experience. Company leaders shared their perspective that the company's board structure is sufficiently independent, with independent directors having access to both the founder CEO and senior management to oversee critical developments in the business. While the funds do not require the appointment of a lead independent director, we look for boards to be independent in form and substance to provide sufficient oversight of management. We also look for boards to abide by their market-specific governance frameworks.

Our engagement with Tencent leaders provided valuable insights into the company's approach to board composition and independent leadership.

■ **Board composition at Tata Consultancy Services Ltd.**

In 2024, we engaged for the first time with company executives from **Tata Consultancy Services Ltd. (Tata)**, an India-listed multinational technology company that provides information technology services and consulting.

During our engagement, we discussed the composition of the company's board of directors with company executives. In preparing for the engagement, we noted that Tata did not disclose a formal director skills matrix; instead, the company disclosed each director's educational,

occupational, and board-based experience to highlight the skills, perspectives, and experiences they brought to the board. Tata leaders shared that the board assesses board skills holistically to ensure the company's ethos and culture are represented at the board level. Company leaders also explained that a formal skills matrix is not required by corporate governance regulations in India; these regulations focus on mandatory principles rather than a comply-or-explain approach that is used in many other markets.

We valued the additional information regarding how the Tata board approaches board composition and related disclosures. We shared that we find disclosure of a board skills matrix to be helpful, as it aids our assessment of the overall composition of the board and how individual directors are positioned to provide oversight of the company's business strategy and material risks. Company executives acknowledged our perspective and explained that the disclosure of a board skills matrix had been recommended to the board in the past and remains under consideration.

■ **CEO succession at The Kraft Heinz Company**

The Kraft Heinz Company (Kraft Heinz) is an American multinational food and beverage manufacturing and marketing company. In 2024, we engaged with Kraft Heinz to discuss its recent CEO succession process.

During our engagement, Kraft Heinz leaders provided insight into the board's oversight and involvement in the CEO succession process and described the company's commitment to strong corporate governance practices. Company leaders conveyed that the prior CEO had hired his ultimate successor to serve in leadership roles responsible for North America in 2020. Over the course of several years, the two leaders worked closely to develop and refine the company's long-term strategy. In 2023, the board identified the leader responsible for North America as a strong internal candidate for CEO and ultimately selected him to be successor. The prior CEO

became the non-executive chair of the board and has continued to act as an advisor to the new CEO to foster continuity during the transition.

As a result of the engagement, we developed a better understanding of the board's role in and oversight of the CEO succession planning process.

■ **Executive succession planning at American Homes 4 Rent**

American Homes 4 Rent (AMH), a U.S.-based real estate investment trust that acquires, develops, manages, and leases rental properties, announced that the AMH board of directors appointed the company's chief operating officer (COO) to succeed the retiring CEO. The appointment took effect January 1, 2025.

Our most recent engagement with AMH focused on the composition of the board of directors and the CEO succession process. We spoke with the chair of the Nominating and Corporate Governance Committee, the retiring CEO, the incoming CEO, and other company leaders. We gained valuable insight into the AMH board's approach to executive succession planning. The chair of the Nominating and Corporate Governance Committee explained that the board had been intentional in starting preparations for the anticipated leadership transition well in advance.

We learned that over the five years leading up to the CEO transition, the board focused on its executive succession plan and took key actions in anticipation of the upcoming retirement of its then-current CEO. The board also focused on leadership training and advancement opportunities for senior executives, fostered stronger relationships with executives by providing opportunities for senior leaders to present to the board, held meetings with specific business groups, and received feedback from the executive team on emerging leaders.

The board also formed a special committee of trustees to focus on executive succession planning. It hired an external consultant to

provide guidance on the succession planning process and perform a talent evaluation of CEO candidates. Once the board narrowed the pool of candidates, it solicited candid feedback from management about the candidates. After the COO was appointed as the CEO's successor, the board took steps to mentor and provide him with guidance, offered additional leadership opportunities, and increased his exposure to various facets of the company.

Through our engagement with AMH, we gained valuable insights into the AMH board's preparations for the anticipated CEO retirement and the thoughtful execution of the executive succession plan. This intentional approach to executive succession planning ensured a smooth transition.

■ **Board chair succession at SAP SE**

At **SAP SE (SAP)**, a German business process management software provider, the chair designate of the supervisory board unexpectedly resigned ahead of the company's 2024 annual meeting. This resignation followed a lengthy succession planning process in preparation for the departure of the chair of the supervisory board, who was also company co-founder.

Following the company's announcement regarding the chair designate's resignation, we engaged with the lead independent director to discuss supervisory board governance, succession planning for the role of chair, and board effectiveness to inform the funds' proxy voting decisions. The lead independent director provided context about the supervisory board's oversight of the succession planning process for the role of chair and the chair designate's decision to resign, sharing that there was a difference in perspective on the appropriate role to be played by the SAP supervisory board chair. This information addressed our concerns regarding the chair succession planning process and helped us better understand the board's decision to nominate a former non-executive director to the supervisory board as the newly designated chair.

With consideration for the supervisory board's chair succession planning processes regarding the departure of the chair designate, the funds supported the proposal to elect a former non-executive director as a new member of the supervisory board at the company's 2024 annual meeting. The newly elected director was appointed as the new chair of the supervisory board after the meeting.

■ **External board evaluation at Croda International plc**

In 2024, we met with leaders of **Croda International plc (Croda)**, a British life sciences and consumer care company, and discussed, among other topics, the company's recent evaluation of its board to better inform our understanding of the board's composition and overall effectiveness. In line with U.K. market practice, Croda completed its three-year external board evaluation in 2023, the details of which were disclosed in the company's annual report. Public disclosures about the recent evaluation indicated that the board identified an opportunity for company executives to use more data-driven perspectives to enhance proposals presented to the board.

In the engagement, we noted the disclosure of the 2023 board evaluation and queried how Croda's board evaluated and acted on the recommendations. The chair explained the work underway to upgrade the company's systems to support more granular data insights, which would enhance the board's ability to challenge management decisions more meaningfully as part of the board's oversight role. The chair added that both the board and executive team were aligned on the need for more robust data to inform decisions and monitor performance.

Following the engagement, we had a better understanding of how the Croda board used board evaluations to objectively assess and improve the board's effectiveness. These insights gave us a better understanding of how the board carried out its responsibilities to oversee and advise management on behalf of shareholders. In addition, the board's disclosures regarding the

findings of the board evaluation demonstrated to us a commitment to transparency and enabled Croda shareholders to understand the board's development efforts and work to provide effective oversight of management.

■ **Board self-evaluation and director independence at Samsung Electronics Co. Ltd.**

In 2024, we engaged twice with **Samsung Electronics Co. Ltd. (Samsung Electronics)**, a South Korean appliance and consumer electronics company. The first engagement, which the company initiated and occurred in February 2024, focused on board evaluations, director independence assessments, and board culture in light of recent board refreshment. We also discussed the board's approach to shareholder engagement and requested the opportunity to meet in the future with an independent director to better understand how the board functions and how the independent directors oversee management, company strategy, and material risks.

In our experience, it is less common for shareholders to have the opportunity to interact with independent directors when engaging with South Korean companies compared with companies listed in other countries. We thus valued our subsequent engagement in June 2024 with one of Samsung Electronics' independent directors. The discussion focused on the functioning of the board and board committees as well as the board's oversight of the company's sustainability strategy.

The independent director provided insights on the board's culture and dynamics given the recent changes to the board's composition, including the dynamic of having an independent chair of the board. We also discussed the skills and experiences the board expected to prioritize in future director searches. We emphasized our perspective that the disclosure of director skills and experiences enables shareholders to better understand the evolution of a board's composition.

We also discussed the board's role in overseeing the company's execution against its stated sustainability strategy. The independent director described challenges the company had experienced, including those related to climate scenario analysis and measuring Scope 3 emissions, and explained the board's role in overseeing these risks amid evolving regulations in the environmental space.

Our engagement with an independent director provided us valuable insights into Samsung Electronics' board culture, the impact of recent board changes, and the company's approach to risk oversight, including oversight of material sustainability risks. It also highlighted the benefits of shareholder engagement with independent directors of South Korean companies, as such discussions provide a more independent and transparent perspective on corporate governance.

■ **Proposed company bylaw amendments at Standex International Corp.**

At the 2024 annual meeting of **Standex International Corp. (Standex)**, a U.S.-domiciled diversified industrial manufacturer of products and services that are used in diverse commercial and industrial markets, the funds supported a management proposal to approve an amendment to the company's bylaws to give the Standex board of directors the right to set the number of directors on the board within a prescribed range.

Ahead of the annual meeting, we engaged with company executives and an independent director to better understand the board's rationale for requesting the amendment to the company bylaws. Standex's existing bylaws only gave shareholders the authority to set the number of directors within a prescribed range, prohibiting the board from appointing additional directors prior to the departure of an existing director. During our engagement, company leaders described that this constraint created meaningful limitations in the recruitment and transitioning of new directors.

The company also provided perspective on its approach to board composition, as reflected in the company's public disclosures, to ensure that the mix of skills, experiences and characteristics of the board was appropriate to provide effective independent oversight of the company's strategy and material risks. The company's public disclosures, which included a skills matrix and a description of the annual board self-assessment process, in addition to the company's perspectives shared during the engagement, informed our understanding of the board's approach to ensuring its composition remained fit for purpose.

We analyze proposed changes to company bylaws on a case-by-case basis. Regarding proposals that seek to set the number of board members, or designate a reasonable range, we aim to balance the need for flexibility with the risk of potential erosion to shareholder rights, such as concerns related to anti-takeover tactics or the risk of entrenchment. Additionally, we consider the timeline for shareholder ratification in our analysis of these proposals.

In this case, we determined that the proposed amendment, which provided flexibility without any material alteration to existing shareholder rights, was aligned with the long-term interests of shareholders.

The funds supported the management proposal to grant Standex's board of directors the right to set the number of directors within a prescribed range. This support was based on the company's rationale that the current bylaw limiting this authority to shareholders created significant constraints in recruiting and transitioning new directors and our assessment that the proposal provided appropriate flexibility without eroding existing shareholder rights. The company also demonstrated a sound approach to board composition, including public disclosures outlining the board's skills matrix and annual board self-assessment process.

■ Contested director election at Masimo Corporation

Masimo Corporation (Masimo), a global medical technology company, faced a proxy contest at its 2024 annual meeting. For the second consecutive year, Politan Capital Management LP (Politan) nominated two director candidates to replace two Masimo directors, including the company's founder and CEO (who also served as board chair). The funds supported the reelection of the incumbent board chair and the election of one of Politan's director nominees.

After winning two board seats at Masimo's 2023 shareholder meeting, Politan sought the election of two additional directors at the company's 2024 meeting. After our evaluation of the 2024 proxy contest, we concluded that there was a case for additional change in the composition of the board due to poor company performance and apparent oversight failures and continued governance concerns. Our analysis revealed that the company had continued to underperform its peers over the one-, three-, and five-year periods. In addition, we identified that a lack of clarity regarding the company's plans to spin off its consumer business created substantial market volatility. The company's stock jumped 13% upon the initial announcement of a potential spin-off but dropped 14% three months later when more detailed plans were released.

While the company had taken steps to enhance its governance practices since its 2023 shareholder meeting, including initiating a transition from a classified board to the annual election of all directors beginning in 2026, it still maintained other limits on shareholder rights. For example, shareholders lacked the right to call a special meeting or to act by written consent, and the company required a supermajority vote to amend its governing documents. These constraints limited shareholders' ability to hold the board accountable for the company's underperformance. Furthermore, the CEO's compensation agreement included severance payments valued at more than \$350 million,

which could be triggered by events other than just his termination, potentially conflicting with shareholders' interests.

In addition to these structural governance concerns, our engagement with the Politan-nominated incumbent directors who joined the board in 2023 revealed that the board had become polarized, with significant friction between directors. This dysfunction was evident in numerous court cases and conflicting statements between Politan and Masimo over the course of 2024, as well as the formation and subsequent dissolution of a special committee to evaluate the separation of the company's consumer business. These concerns and previous actions raised questions for us about the board's ability to provide independent oversight in the best interests of all shareholders.

Leading up to the shareholder meeting, we engaged with Masimo's current leadership, legacy board members, and Masimo's 2024 nominees, as well as the Politan-nominated directors and Politan's 2024 nominees. These engagements confirmed the board's polarization and differing views on the company's path forward. While the funds do not seek to dictate a portfolio company's strategic direction or operating decisions, we do assess and seek to understand how a board's governance structures and practices support shareholder returns.

In line with the funds' proxy voting policies, our assessment of the company's prolonged underperformance and lingering governance concerns regarding the board's independence led us to conclude that additional board changes were in the interest of shareholders. At the same time, electing two additional Politan board nominees and removing the sitting CEO, as proposed in the 2024 proxy contest, was a step further than we believed appropriate. As a result, the funds voted for one dissident nominee whose skills and experience we believed would most benefit the board based on our analysis. The funds also supported the reelection of the incumbent board chair, who also served as the company's CEO, because we believed this board

composition would strike an appropriate balance of perspectives to best serve shareholders' interests.

■ Contested director election at The Walt Disney Company

As detailed in a published [Insights](#), **The Walt Disney Company (Disney)**, a U.S.-listed diversified worldwide entertainment company with operations in entertainment, sports, and experiences, faced a proxy contest at its 2024 annual meeting. Two activist investors—Blackwells Capital (Blackwells) and the Trian Group (Trian)—each nominated directors to the Disney's board. The funds voted in support of each of the Disney board's nominees and withheld support from Blackwells's and Trian's nominees.

Blackwells and Trian both asserted that Disney's board and management had made strategic missteps and sought to make the case that their nominees would be superior representatives of shareholders' interests. To inform the funds' voting decisions, we met with Disney executives and current board members, as well as leaders and the director nominees from Blackwells and Trian.

In articulating their case for change, Blackwells's leaders and their nominees expressed general support for Disney's current board and management while making the case that Blackwells's nominees could address critical skill gaps that exist on the current board. They identified three specific skill sets that they believed were lacking on the Disney board: media and content, real estate, and technology and AI. Blackwells nominated three candidates to the board without targeting specific incumbent board members.

Trian leaders and their nominees outlined a range of concerns at Disney, focusing their case for change on ineffective oversight of strategy by the board and lack of accountability within the board. They argued that Disney's board and executive

team had not been successful in setting and executing goals, as evidenced by the company's underperformance relative to its self-selected peer group. Trian leaders questioned the board's oversight of strategy, asserting that significant investments had not yet yielded significant returns for shareholders, and they questioned the pace at which the company's strategy adapted to industry disruption. They also noted Disney's failures in executing a successful CEO transition and ongoing succession-planning concerns. Trian nominated two candidates to replace two incumbent board members.

During our engagement, Disney leaders and board members acknowledged the areas of opportunity highlighted by the activists, noting that the company had begun to implement significant strategic and operational changes that had been met by positive market reaction. In addition to the implementation of enhancements across each dimension of Disney's strategy, the board highlighted their renewed efforts in CEO succession planning, an area in which they acknowledged they have struggled over the past several years.

Through our research, engagement, and analysis, we identified that the company and the activists generally aligned on the most critical areas where strategic change was needed, but there was divergence regarding the pace of some of those changes and the best slate of directors to oversee and support management through those changes.

An additional consideration in our analysis was the board's stated intent to identify a successor for Disney's current CEO by the end of 2026.⁸ Over the past decade, CEO succession planning has been a recurring topic in our engagements with Disney's board given the funds' board-centric approach and long-term focus. While the funds do not seek to dictate the timing or outcome of a CEO succession process, we seek to understand whether boards have a deliberate succession process in place that is disclosed to investors. Disney's track record on leadership

⁸ In October 2024, Disney announced that the board plans to name the company's next CEO in early 2026.

succession continued to raise concerns regarding the board's ability to effectively manage this critical process for the CEO and called into question how the board drove accountability for succession planning across Disney's executive roles.

The assertions by the activists, coupled with our independent findings through engagement and analysis, address the first two key elements of the funds' framework for evaluating the contest: the threshold issue of a case for change and opportunities in the company's existing approach to corporate governance. First, there appeared to be a case for change, one that even the company did not entirely dismiss. While Disney's relative performance had been on the rebound in recent quarters, it had substantial ground to cover to offset its extended underperformance. Second, there appeared to be demonstrable gaps in the company's governance practices, evidenced by its CEO succession difficulties and questions regarding optimal board composition.

The final prong of our contested election framework is to evaluate the competing slates of nominees and assess the subset that is best positioned to advise and oversee management. We assessed the nominees from each slate, grounding our assessment on how changes to the board's composition would affect its ability to oversee strategy and ultimately lead to outcomes in the best interest of long-term shareholders. Despite the individual accomplishments and credentials of the dissident nominees, we were unable to develop conviction that their addition to the Disney board would be constructive to the company's long-term prospects. As such, the funds voted in support of each of the Disney board's nominees and withheld support from Blackwells's and Trian's nominees.

■ Contested director election at Logitech International SA

Logitech International SA (Logitech), a designer of software-enabled hardware solutions dual-listed in Switzerland and the U.S., faced a contested director election (also known as a

proxy contest) at its 2024 annual meeting. The funds did not support the election of the dissident nominee to the position of board chair but did support the reelection of the dissident nominee to the board of directors.

In advance of Logitech's 2024 annual meeting, the former CEO and co-founder submitted a shareholder proposal nominating a current director as chair of the board in opposition to the incumbent board chair. (In Switzerland, regulation stipulates that shareholders elect the board chair as a separate ballot item.) The former CEO argued that the incumbent board chair lacked the technological background, experience, and leadership skills necessary to lead the company through a pivotal point in its history.

Following the nomination of the dissident nominee by the former CEO, the company disclosed that the incumbent chair would not stand for reelection in 2025. Notably, the dissident nominee expressed his support for the incumbent board chair's reelection and indicated that he planned to refuse his own nomination as chair should the proposal pass. We engaged with board directors of Logitech in advance of their meeting to inform the funds' voting decisions. During our engagement, independent Logitech board members highlighted the company's strong financial performance over the last five years.

While the former CEO asserted that poor revenue growth was demonstrative of poor chair leadership in his letter to shareholders, our analysis indicated that the company had outperformed its peer set, on a relative basis, over the one- and five-year periods. In our engagement, board members shared their process for evaluating the composition of the board, including the strength of the management team, board members' backgrounds and skill sets, and identified skill gaps. We were able to learn more about the board's process for evaluating its own effectiveness, including its use of internal and external feedback. Additionally, we gained insights into the board's chair succession planning process.

As a result of our engagement and review of public disclosures, we assessed that the board's succession planning process and general oversight of the company's stated strategy and risk were robust. Ultimately, the funds voted to support the incumbent board chair nominee because we determined that the dissident did

not demonstrate a compelling case for change. In addition, we were not able to identify significant gaps in board oversight, and we assessed through our engagement and review of public disclosures, that a vote for the dissident nominee would likely have been rejected by the nominee himself.



Board oversight of strategy and risk

Boards should be meaningfully involved in the formation, evolution, and ongoing oversight of strategy. Similarly, boards should have ongoing oversight of material risks to their company and establish plans to mitigate those risks. We work to understand how boards of directors are involved in strategy formation and evolution, oversee company strategy, and identify, govern, and disclose material risks to shareholders' long-term returns.

■ Board oversight of human capital risks at Wells Fargo & Company

In advance of the 2024 annual meeting of **Wells Fargo & Company (Wells Fargo)**, a U.S.-listed financial institution and diversified bank, we evaluated a shareholder proposal on workplace harassment and discrimination. The proposal requested that the board oversee an annual report describing and quantifying the effectiveness and outcomes of Wells Fargo's efforts to prevent harassment and discrimination against its protected classes of employees. We evaluated a substantially similar proposal at the company's 2023 annual meeting.

With regard to the 2023 shareholder proposal, we assessed that it raised a material risk to Wells Fargo, as we identified evidence of materialized risks at the company related to workplace harassment and discrimination (which included federal law enforcement and regulatory agencies' investigations). After analyzing the proposal and engaging with company leaders, we came to the view that while Wells Fargo provided some disclosures related to allegations of harassment and discrimination and board oversight of such matters, there was an opportunity for the company to disclose additional information requested by the proposal. This information would enable shareholders to better understand the magnitude of material risks that could impact long-term shareholder returns and the

board's oversight of such risks. As such, the funds supported the shareholder proposal at the 2023 annual meeting.

After evaluating the 2024 shareholder proposal and engaging with Wells Fargo leaders as part of our case-by-case assessment, we determined that, although the proposal continued to address material human capital, litigation, and reputational risks, Wells Fargo's current practices (particularly its responsiveness to shareholders over the past year) addressed the risks raised in the proposal. In the past year, Wells Fargo had employed measures to address the risks outlined in the proposal, including providing additional disclosures and taking additional oversight steps that were responsive to the proposal. As a result of our assessment, the funds voted against the shareholder proposal at the company's 2024 annual meeting.

■ Board oversight of patient care at HCA Healthcare Inc.

HCA Healthcare Inc. (HCA) is a U.S.-listed health care services company that owns and operates hospitals and related health care facilities. At the company's 2024 annual meeting, the funds voted against a shareholder proposal to report on patient feedback regarding quality of care.

In reviewing the company's public disclosures, we found that much of the information requested in the proposal was already made publicly available by HCA. The company disclosed how the board

oversaw patient feedback and care quality and related processes. To inform our analysis, we met with members of HCA's management team and the company's lead independent director to discuss and better understand the materiality of the matters raised in the proposal, including the board's response to media attention related to patient care and employee working conditions. In our engagement, HCA leaders described quality of patient care and overall patient experience as a core part of HCA's business and therefore a material risk for the company. HCA leaders discussed that the board's Patient Safety and Quality of Care Committee oversees the company's policies and procedures relating to the delivery of quality medical care to patients while the board's Compensation Committee oversees the company's human capital management policies and strategies. We learned that patient experience results were already publicly disclosed in detail, and patient experience is part of incentive compensation plans for executives and staff throughout the organization.

After engaging with members of the board and leadership team, we assessed that the board demonstrated sufficient oversight of patient care and associated risks to long-term shareholder returns. Given our assessment that the information requested by the proposal was largely already publicly available and the board had sufficient practices in place to oversee risks related to patient feedback and quality of care, which was also thoroughly disclosed to the market, the funds did not support the shareholder proposal.

■ **Human capital risks at Nine Entertainment Co. Holdings Ltd.**

At the 2024 annual meeting of **Nine Entertainment Co. Holdings Ltd. (Nine)**, an Australia-listed media company, the funds did not support the election of the chair of the board given concerns related to materialized human capital risks.

Following the departure of a senior Nine executive due to allegations of misconduct, the board disclosed that it had initiated an

independent review of Nine's workplace practices and culture by a third-party organizational culture firm, Intersection Pty Ltd. (Intersection). In a publicly released report, Intersection stated that it found that abuse of power, harassment, discrimination, and bullying were prevalent across Nine. The report also discussed Intersection's finding that the workplace culture at Nine exhibited a lack of leadership accountability, power imbalances, gender inequality, a lack of diversity, and significant distrust in leaders at all levels of the business. The investigation occurred during the departure of key executives, including the previous board chair, and resulted in substantial negative coverage across business and mainstream media.

In light of these recent controversies, we requested an engagement with the independent chair of Nine to discuss the board's oversight of company culture and related workplace risks. During the engagement, the chair, who was put forward for reelection by the board, acknowledged the oversight failure and explained that it was predominantly due to a lack of employee reporting, which was attributed to the power structures in place and the abuse of authority by former executives that resulted in a lack of trust in the process. The chair shared that the board believed existing conduct reporting and complaints processes were ineffective, resulting in the failure of information flow that the board needed to adequately identify and oversee human capital matters. To address the workplace culture matters going forward, the board tasked management with forming a plan to implement the recommendations included in Intersection's report.

Following the engagement, we continued to have concerns as to whether the board fully understood its role in developing and maintaining an effective organizational culture. We also had concerns about how the board's actions influence company culture and employee conduct at all levels within the business. Therefore, we determined it was appropriate for the funds not to support the election of the chair at the 2024 annual meeting.

■ Board oversight of employee health and safety risks at Olam Group Limited

Olam Group Limited (Olam) is a Singaporean food and agribusiness involved in the sourcing, processing, manufacturing, and distribution of agricultural products worldwide. We engaged with Olam leaders in 2024 to discuss the board's oversight of material risks, including material risks related to employee health and safety.

In our review of the company's disclosures, we observed a year-over-year increase in the number of employee fatalities recorded, with 14 fatalities in fiscal year 2021, 15 fatalities in fiscal year 2022, and 16 fatalities in fiscal year 2023.⁹ In our engagement, consistent with our focus on understanding how boards oversee material risks, we sought to understand the board's oversight of risks related to employee health and safety and how the company was responding to the increase in the number of fatalities.

In our engagement with company leaders in 2024, they explained that the main cause of fatalities was road safety compliance and vehicle accidents in frontier markets where the company operated. Company leaders shared that the company had taken steps to enhance its efforts to improve vehicle safety and partnered with local market experts to monitor and enhance compliance with safety measures and best practices. For other fatalities resulting from agricultural equipment and on-site safety procedures, Olam leaders shared that the company had invested in equipment updates and started investigations into related matters and ways to improve on-site safety procedures. The company also enhanced training for employees and contractors, focusing on ensuring that safety procedures are implemented by those working on-site. Olam leaders expressed that the company was committed to reducing the number of employee fatalities to zero. They also highlighted that, despite the increase in the absolute number of fatalities, the company had achieved a year-over-year decrease in a key

risk metric that represented a decrease in the number of employee safety incidents resulting in time away from work. Company leaders discussed the challenges the company had faced in overseeing their operations in frontier markets and confirmed that employee health and safety was being monitored at the board level by the Sustainability Committee.

In the engagement, we explained our perspective that shareholders would benefit from more robust disclosure about the board's level of oversight and approach to monitoring material risks related to employee health and safety. Company leaders indicated that they would take our feedback into consideration when developing subsequent disclosures. As a result of the engagement, we developed a better understanding of the company's approach to overseeing material risks related to employee health and safety and the company's efforts to reduce such risks.

■ Board oversight of health and safety risks at ArcelorMittal SA

ArcelorMittal SA (ArcelorMittal) is an integrated steel and mining company incorporated in Luxembourg. At the company's 2024 annual meeting, the funds did not support two proposals, one regarding the discharge of directors and one regarding the election of the chair of the Sustainability Committee. The funds did not support the two proposals due to concerns regarding materialized worker health and safety risks.

Prior to the 2024 annual meeting, we engaged with company executives and the lead director to inform the funds' votes on matters on the ballot. In the engagement, we discussed the board's oversight of workplace safety and the steps being taken by the board and management to address and mitigate workplace injuries and fatalities. This was discussed in the context of an October 2023 accident reported by the company that resulted in 46 fatalities at one of its Kazakhstan

⁹ Information regarding Olam employee fatalities in each year was disclosed in the company's 2021, 2022, and 2023 annual reports.

sites. During our engagement, the company noted steps it had taken related to these matters, including the commissioning of a third-party company-wide health and safety audit.

Following the engagement, we continued to have concerns regarding the board's ability to effectively identify, monitor, and oversee material risks related to health and safety. For this reason, the funds voted against the discharge of directors at ArcelorMittal's 2024 annual meeting. In addition, as the incident in Kazakhstan represented to us a materialized risk related to worker health and safety, and because the company disclosed that the board's Sustainability Committee had responsibility for oversight of health and safety matters, the funds did not support the election of the director who served as chair of the Sustainability Committee.

In the second half of 2024, at the company's request, we had another engagement with members of ArcelorMittal's board. In the engagement, we sought to understand the board's oversight role in implementing the publicly disclosed findings of the health and safety audit. ArcelorMittal directors shared additional information regarding the external audit and the public commitments made by ArcelorMittal and its board to implement enduring reforms following the incident in Kazakhstan.

■ **Board oversight of human-rights-related risks at PT Astra Agro Lestari Tbk.**

In May 2024, we engaged with leaders of **PT Astra Agro Lestari Tbk. (Astra Agro)**, a palm oil plantation and refinery company based in Indonesia, to discuss board oversight of material risks, including material risks related to human rights. For several years, the company had faced accusations from non-governmental organizations (NGO) of involvement in human-rights-related risks on its palm oil plantations in Indonesia. As such, we sought to understand the company's response to the allegations and learn more about the board's oversight of material human-rights-related risks. During

the engagement, Astra Agro leaders shared how the company's operations are monitored by their board of directors. The company strongly rebutted the claims regarding human rights violations on its palm oil plantations and highlighted compliance with applicable laws and regulations. Astra Agro leaders also described how the company partners with an NGO to assess certain allegations made by third parties and review the plantations in question. Additionally, we discussed the board's processes to oversee material human-rights-related risks as well as the company's response to accusations related to the same.

We highlighted our view on the importance of companies providing clear disclosures of material risks that could impact long-term shareholder returns, including disclosures regarding their board's role in overseeing such risks. Company leaders expressed the company's ongoing commitment to continued efforts in this area, including enhancing corporate disclosures in the future.

■ **Political contributions shareholder proposal at DexCom Inc.**

DexCom Inc. (DexCom) is a U.S.-listed medical device company focused primarily on the design, development, and commercialization of continuous glucose monitoring and systems for the management of diabetes. At the company's 2024 annual meeting, the funds voted against a shareholder proposal requesting the company provide a report on its political contributions. Based on our analysis, the board demonstrated oversight of the company's political activity and there was no evidence of the materialization of risk resulting from the company's participation in the political process.

In reviewing the proposal and the company's disclosures related to corporate political activity, we identified that the company disclosed that it believed that it was in shareholders' best interests for the company to effectively participate in the political process. However, based on our review of DexCom's public

disclosures, we were unable to discern how the board oversaw the company's political spending and activities.

To inform our analysis, we engaged with members of the DexCom management team and the lead independent director to better understand the materiality of corporate political activity to the company and the board's oversight role. During the engagement, company leaders described how the Nominating and Governance Committee and full board oversee the company's corporate political activity. Company leaders shared that the executive steering committee for the company's political action committee (PAC) historically had primary oversight of the PAC's activity, but that going forward the board would be reviewing the process with management, with a focus on monitoring risk related to the process. They also noted that DexCom's political participation had been minimal over the previous several years, with little to no utilization of the company's PAC.

Given that the company demonstrated appropriate board oversight of corporate political activity and that there was no evidence that a risk had manifested from such activity, the funds voted against the proposal.

■ **Shareholder proposal requesting disclosure of Scope 3 emissions at Enbridge Inc.**

At the 2024 annual meeting of **Enbridge Inc. (Enbridge)**, a Canadian diversified energy company, the funds did not support a shareholder proposal requesting annual disclosure of all material Scope 3 greenhouse gas (GHG) emissions (as reported in our published [Insights](#)).

Our research found that Enbridge provided disclosure of certain categories of their Scope 3 emissions. We engaged with the proponent ahead of the 2024 annual meeting to better understand their concerns with Enbridge's existing disclosures. During this conversation, and in their supporting statement for the proposal, the proponent identified "incomplete"

reporting of downstream emissions from the use of sold products transported by the company (Scope 3 Category 11 emissions). The proponent expressed their perspective that Scope 3 Category 11 emissions could be seen as an indicator of the company's direction concerning the climate transition. For example, the proponent noted that while the company disclosed certain Scope 3 Category 11 emissions related to its utility business, it did not disclose such emissions associated with the midstream transportation business, in which other companies' GHG-intensive products are transported through Enbridge's pipeline network.

In Enbridge's 2024 management information circular, the company indicated a belief that Scope 3 emissions were not a material risk for the company. We engaged with members of the Enbridge management team to better understand how the board determined the materiality of risks and the company's approach to preparing for potential changes to climate-related regulations and disclosure standards. In this engagement, company leaders noted the difficulty associated with establishing a credible, decision-useful methodology for determining Scope 3 emissions, given the potential double counting of upstream producers' and midstream companies' emissions.

Our review of Enbridge's disclosures found them to be consistent with those of its peers. Additionally, in the 2024 management information circular, the company provided disclosure and commentary on its assessment of all 15 categories of Scope 3 emissions, describing the applicability of each category to its business, outlining its plans for reporting in each category, and articulating its ongoing efforts to enhance data availability and quality over time.

Ultimately, given our analysis of the company's disclosures and the board's explanation of its perspective, the funds did not support the shareholder proposal requesting annual disclosure of all material Scope 3 GHG emissions data.

■ Shareholder proposal requesting Scopes 1 and 2 emissions targets at Kinder Morgan Inc.

At the 2024 annual meeting of **Kinder Morgan Inc. (Kinder Morgan)**, a U.S.-listed energy infrastructure company, the funds did not support a shareholder proposal requesting the company set an emissions reduction target covering Scopes 1 and 2 GHG emissions, as reported in our published [Insights](#).

Ahead of Kinder Morgan's 2024 annual meeting, we engaged with members of the company's management team to discuss the shareholder proposal to inform the funds' voting decisions. We sought to understand the board's approach to oversight of material climate-related risks, as well as its approach to mitigating such risks. Kinder Morgan leaders shared their perspective that setting Scopes 1 and 2 reduction targets, as the proposal requested, would require a change to the company's strategy and result in unnecessary costs and risks to shareholders.

We noted prior to the engagement that the company provided disclosures related to its stated emissions reduction strategies, including for a portion of its methane emissions, and described future expectations for those strategies. For example, the company noted that 16% of its Scopes 1 and 2 emissions came from vented and fugitive methane emissions, and that it had a 2025 methane intensity target in place for these emissions. In our engagement, company leaders stated that the company had set targets that are within its control and noted that GHG reduction strategies must be compatible with the company's business purpose in a manner that creates returns for shareholders. The company believed it would not be consistent with management's philosophy to set Scopes 1 and 2 GHG reduction targets that could not reasonably be achieved through actions within its own control.

Through our analysis, we determined that, while the proposal related to a material financial risk for the company, the requested action would necessitate a change in company strategy. We also recognized that Kinder Morgan had already set targets that the board deemed appropriate

for its business, along with disclosures that provided investors with insight into the company's strategy and risks to that strategy. While we support the disclosure of both material risks and progress made toward stated strategies, the funds do not seek to direct company strategy, inclusive of climate-related strategies. Therefore, the funds did not support the shareholder proposal.

■ Advisory vote on ESG matters at Gestamp Automoción SA

Gestamp Automoción SA (Gestamp) is a Spanish multinational automotive engineering company listed on the Madrid Stock Exchange. At the company's 2024 annual meeting, the funds voted to abstain on a management proposal that sought shareholder approval of the company's progress on its ESG 2025 Strategic Plan (the Plan).

In keeping with the funds' proxy voting policies, we analyze all proposals on a case-by-case basis, with a focus on the company's disclosures. A company's board has responsibility for effective oversight of strategy and risk management. The funds do not seek to opine on company strategy or operations. We do support clear disclosure of material risks and opportunities related to a company's strategy that can impact the pricing of securities and the board's oversight of such risks.

After reviewing the company's public disclosures, questions remained regarding the board's objectives in seeking shareholder input on the Plan. It was also unclear to us, based on the company's public disclosures, to what extent the outcome of the vote might affect the board's responsibility for oversight of the Plan. We also identified a lack of disclosure of the ESG risks that the company deemed to be financially material within the Plan as well as a lack of detailed disclosure of the company's progress against targets the Plan set forth. This lack of disclosure raised questions for us as to how shareholders could effectively evaluate progress against the Plan. Ultimately, the funds abstained from voting on the proposal, as we determined

that we did not have sufficient information for the funds to support or vote against the proposal.

Following the 2024 meeting, we engaged with Gestamp's leaders, including members of the executive team and investor relations. We sought to better understand the company's rationale behind putting forward the advisory proposal related to the Plan. We shared our perspective that it would be helpful for the company to provide additional disclosure regarding the board's objective in putting the proposal forward; how the board intended to act on shareholder votes on the Plan; what ESG matters in the Plan the board and management assessed to be financially material to the company; and the company's execution against its own Plan goals. Gestamp leaders noted our concerns and feedback. Company leaders also shared additional information regarding the rationale for putting the proposal forward. The company viewed the Plan as relevant for shareholders and wanted to broaden the opportunity for shareholders to have a discussion on these topics, similar to how shareholders can discuss financial statements at shareholder meetings.

As a result of the engagement, we were able to share our perspectives with company leaders regarding what type of disclosure would be helpful to effectively evaluate the proposal.

■ Merger transaction at Hess Corporation

Hess Corporation (Hess) is a U.S.-based global energy company focused on the exploration and production of crude oil and natural gas. In October 2023, Hess entered into a merger agreement with Chevron. Under this agreement, Hess would merge into Chevron in an all-stock transaction, with Chevron remaining as the surviving entity. The merger required the approval by a majority of Hess's outstanding common stockholders; Chevron stockholders did not need to approve the merger. At Hess' 2024 special meeting, the funds supported the merger.

When evaluating merger and acquisition transactions, in keeping with the funds' proxy voting policies, we focus on four main areas: board oversight of the deal process, valuation, rationale, and the surviving entity's governance profile. The funds look for boards to demonstrate a comprehensive and independent review process, mitigate any potential conflicts of interest, and ensure an appropriate valuation of the transaction to provide for a financial result that is in the best interests of shareholders. We also evaluate the combined entity's financial outlook and governance profile.

We determined that support of the transaction was warranted based on our analysis of public disclosures and discussions with Hess's board and senior leaders. We assessed that the valuation of Hess was reasonable based on Hess's share price valuation at the time of the announcement, which represented a premium over the unaffected Hess closing price over 1-day, 1-month, and 1-year periods. The proposed all-stock deal provided Hess shareholders with the opportunity to participate in the potential future growth of the combined company and would allow for a tax-free transaction. Hess also received a fairness opinion from a financial advisor, indicating that the merger consideration was fair to Hess shareholders from a financial point of view.

In addition, we determined that the combined company would offer Hess shareholders access to greater scale, a stronger balance sheet, and enhanced capital returns through increased dividends and a share repurchase program. While Hess negotiated exclusively with Chevron, Hess disclosed that there were a limited number of counterparties who could have acquired it, and that this factor was considered by the board in agreeing to merge with Chevron. We also determined that Hess shareholders would gain enhanced shareholder rights because of the transaction, as Chevron had stronger shareholder protections in place than Hess.

Based on our analysis of the factors described, we determined that the merger was in the best interests of shareholders. Therefore, the funds voted in support of the transaction.



Executive pay

Sound pay policies and practices linked to long-term relative company performance can drive long-term shareholder returns. We look for companies to provide clear disclosure about their compensation policies and practices, the board's oversight of these matters, and how the policies and practices are aligned with shareholders' long-term returns.

■ Say on Pay at Anywhere Real Estate Inc.

Anywhere Real Estate Inc. (Anywhere) is a U.S.-based real estate investment trust (REIT) specializing in integrated residential real estate services. At Anywhere's 2024 annual meeting, the funds voted against an advisory vote on executive compensation ("Say on Pay") due to concerns with cash awards and changes to the pay plan.

In our initial review of the company's compensation plan, we noted multiple cash awards and a structural change to performance equity and its associated measurement period. Specifically, there were two cash awards totaling \$15 million in payments and grants, of which \$5 million was discretionary; the remaining \$10 million grant was subject to metrics that were either undisclosed or about which we had questions regarding their rigor.

While we are not opposed to the use of discretion when accompanied by appropriate rationale and disclosure, we carefully analyze outsized cash awards as they can lead to pay-for-performance misalignment and result in executive compensation outcomes that do not reflect the shareholder experience. In addition, changes to the long-term incentive plan reduced performance equity from 60% to 40% of the CEO's total equity grants. The performance period was also shortened from a three-year period to an average of three one-year periods. Due to these concerns, we engaged with

Anywhere leaders prior to the company's annual meeting to obtain additional information and perspective.

During the engagement, members of the company's Compensation Committee and company executives described the board's rationale for both matters that we had identified as potentially concerning. Regarding the cash awards, they shared that the CEO had navigated a tough interest rate environment, settled an anti-trust lawsuit, and reduced the cost of the firm's debt, resulting in substantial savings to shareholders. In response to our concerns about the equity plan, they said that the business environment and changing priorities in real estate had previously resulted in formulaic payouts that did not accurately reflect the CEO's performance. They noted that one-year performance periods would better capture the cyclicity of real estate and align CEO pay with business performance. Anywhere leaders also relayed that competition for executive talent and the need to retain the CEO influenced these changes.

Following the engagement, we still had concerns about the cash awards and structural changes to the equity plan. While we understood the board's desire to retain a high-performing CEO, we generally look for pay to be earned primarily through the long-term incentive plan. Handling the current business environment, overseeing litigation, and managing debt are matters that we assess to generally be within the scope of a CEO's responsibilities. In addition, shorter performance periods, while potentially

appropriate for a REIT to account for multiple stages of property development, combined with the decrease in performance equity and the increased cash payments, could lead to short-term decision-making. We take the view that pay plan design should be long-term in nature and should be based on well-disclosed, rigorous performance metrics that align executive pay outcomes with long-term shareholder returns. Because of these concerns, the funds voted against Say on Pay at Anywhere's 2024 annual meeting.

■ Say on Pay at Broadcom Inc.

As detailed in the published [Insights](#), at the 2024 annual meeting of **Broadcom Inc. (Broadcom)**, a U.S.-listed global semiconductor and infrastructure software solutions company, the funds supported an advisory management proposal requesting that shareholders approve the company's executive compensation plan (Say on Pay).

In reviewing Broadcom's 2024 proxy statement, we noted that Broadcom's CEO and another named executive officer (NEO) were granted equity awards for the fiscal year 2023 valued at \$160 million for the CEO and \$48 million for the NEO. These were designed to retain and motivate these executives over the next five years. Given the front-loaded nature of these awards, neither executive was eligible to receive annual cash incentive payouts during the five-year period. The equity grants would be fully earned only after achieving three stock price hurdles (ranging from 75% to 139% stock price appreciation) and only vest—if earned—in October 2027. At the time of our analysis, Broadcom's stock had already surpassed the highest hurdle, valuing the awards at \$1.1 billion for the CEO and \$337 million for the NEO. Given the structure and terms of the grants, this price level would still need to be sustained through at least 20 days during the earning period (between November 2025 and October 2027).

Upon initial review of the company's executive compensation plan, our questions included the rigor of the performance thresholds (given how quickly the targets had been exceeded and their linkage to absolute, as opposed to relative, stock performance) and the long-term alignment of executive and shareholder interests (if executives were to lock in significant value while shareholders were exposed to longer-term underperformance).

Prior to the company's 2024 annual meeting, we engaged with the chair of Broadcom's Compensation Committee and gained additional insight into the committee's rationale for granting these awards. The director shared the committee's philosophy surrounding executive compensation and its desire to align compensation with long-term shareholder returns. The director highlighted that while the top stock price hurdle—which would represent an annualized rate of return of nearly 20% over five years—was surpassed in less than two years, the board believes that the company's strong fundamentals should result in sustainable, long-term growth in the stock, mitigating concerns that executives' and shareholders' interests may become misaligned over time.

Ultimately, we concluded that the board's governance of the compensation program and the company's stock price performance mitigated our concerns regarding the plan's structure. We noted that the company's stock appreciated more than 139% between the grant date and when the highest hurdle was hit (and remained above 180% as of April 30, 2024). The shares granted to the CEO and NEO through the equity awards represented less than 0.5% of the company's outstanding shares and nonemployee shareholders stand to gain the vast majority of the appreciation if the highest stock price hurdle is maintained throughout the earning and vesting period. This alignment of executive pay with the shareholder experience, coupled with the Compensation Committee's governance of Broadcom's compensation program, resulted in the funds' support of Say on Pay at the company's 2024 annual meeting.

■ Say on Pay at Netflix Inc.

As detailed in the published [Insights](#), at the 2024 annual meeting of **Netflix Inc.**, an entertainment services company, the funds supported an advisory vote to approve the compensation of the company's executives (Say on Pay).

From 2019 to 2023, the funds did not support Say on Pay at Netflix. In those years, the compensation plan enabled executives to freely allocate their total compensation between cash and equity (in the form of stock options). In addition, none of the awards under the plan were contingent upon long-term performance goals linked to the company's stated strategy. This resulted in executives' compensation exceeding industry peers while lacking structural alignment with the company's relative performance in some years. In our engagements with directors and company leaders during that time period, we encouraged them to consider how to more fully align pay outcomes with relative company performance in both good and poor markets.

In analyzing Netflix's 2024 Say on Pay vote, we observed the implementation of changes to the compensation plan that the company had previously announced. We also noted additional enhancements to the company's compensation plan that the company planned to make in the following fiscal year. These changes included eliminating executives' ability to freely allocate compensation between cash and option grants, introducing a long-term incentive plan with time-restricted and performance-conditioned equity, integrating a relative performance metric within the long-term equity plan, and adopting stock ownership guidelines. These collective structural changes, in our assessment, would increase the proportion of at-risk pay and improve the degree of plan alignment with relative company performance.

After considering pay and performance alignment for the year in review, the company's implemented and planned structural changes, and the governance demonstrated by the Compensation Committee, the funds supported Say on Pay at Netflix's 2024 annual meeting.

■ Say on Pay at Equitrans Midstream Corporation

In July 2024, **Equitrans Midstream Corporation (Equitrans Midstream)** was acquired by EQT Corp., a U.S.-listed natural gas production company. At the 2024 annual meeting, the funds did not support the advisory vote on executive compensation (Say on Pay) because of concerns with the compensation program structure, a lack of alignment between executive pay and company performance, and questions about compensation governance.

Upon initial review of the compensation plan, we identified that the outgoing CEO was granted a cash bonus for achievement of a short-term project milestone, which we assessed as being part of the normal course of his duties as CEO. Additional revisions to the compensation program eliminated an expiration date for previously awarded performance stock units. In the context of a federal mandate requiring the company to complete a project milestone, a large proportion of performance-based compensation was effectively converted to guaranteed pay. These changes to the program structure, coupled with the company's consistent financial underperformance compared to peers, resulted in a misalignment between executive pay and company performance. We look for executive pay to be aligned with shareholder returns so that executives are incentivized to make decisions that are aligned with shareholders' interests and ultimately make decisions that drive long-term shareholder returns.

We engaged with the chair of the company's Human Capital and Compensation Committee to discuss the committee's revisions to the executive compensation program. During the engagement, we shared our case-by-case approach to assessing executive compensation, which focuses on pay and performance alignment, compensation plan structure, and compensation plan governance. We emphasized that we look for one-time awards falling outside of the regular plan structure to be performance-based and to drive long-term shareholder returns.

The chair of the Human Capital and Compensation Committee shared the committee's desire to reward the former CEO for navigating a difficult legal and regulatory environment to get a major project approved. As navigating such uncertainties was, in our assessment, an expected and foreseeable part of a CEO's duties in this sector, we did not find this explanation sufficiently compelling. The chair also expressed concerns that the original expiration date of the former CEO's performance stock units could be cited by project opponents as a distraction from a focus on safety and environmental compliance.

While the committee identified these potential compliance concerns with the existing compensation plan structure, we assessed that project delays and public opposition were reasonably foreseeable factors at the time of the grant. Following project completion, the chair of the Human Capital and Compensation Committee stated that the committee expected the compensation plan structure to align more closely with sector peers through the implementation of new long-term performance goals.

Given our remaining questions regarding the rationale for the CEO's one-time award, the changes made to the compensation program structure, and board governance of the compensation plan, the funds voted against the Say on Pay proposal at Equitrans Midstream.

■ **Say on Pay at AMC Entertainment Holdings Inc.**

At the 2024 annual meeting of **AMC Entertainment Holdings Inc. (AMC)**, a U.S.-based global company that engages in the theatrical exhibition business through its subsidiaries, the funds voted against the advisory vote on executive compensation (Say on Pay) due to concerns about pay-for-performance alignment and plan governance.

In advance of the meeting, we engaged with AMC executives and the chair of the company's Compensation Committee to inform our analysis

of the company's Say on Pay ballot item. In our review of AMC's executive compensation plan, we noted that the board made discretionary adjustments to lower the financial performance goals within the long-term incentive plan (LTIP) at the end of the performance period. As a result, the fiscal year 2023 performance stock units would vest at maximum levels. We also observed that the CEO's annual incentive was earned at the maximum level for the fourth consecutive year, which caused us to have concerns about the rigor of the metrics that were set. Additionally, the plan had some structural components that had the potential to lead to a misalignment of executive pay outcomes and shareholder returns in the future. These components included overlapping metrics in both the short-term and long-term incentive plans and the absence of a relative performance metric in the LTIP.

During the engagement, the chair of the Compensation Committee provided additional context about the board's consideration of certain elements of the plan structure, including the overlap of metrics between the short-term and long-term incentive plans and the absence of relative performance metrics in the LTIP. The chair of the Compensation Committee described industry impediments outside of the company's control, such as strikes by the Writers Guild of America and the Screen Actors Guild-American Federation of Television and Radio Artists, which drove the Compensation Committee's decision to lower LTIP performance goals. They said that this resulted in the achievement of metrics at maximum levels instead of below target. We encouraged the board to consider enhancing disclosures to help shareholders better understand their process for determining performance goal adjustments, particularly at the end of a performance period and in periods where the company financially underperforms its peers. Following our engagement, we continued to have concerns about the magnitude of the discretionary adjustments, given the limited disclosure regarding the board's decision-making process. As a result, the funds voted against Say on Pay at the company's 2024 annual meeting.

We recognize that external events outside of a company's control may require a board to use discretion in adjusting elements of an executive compensation plan. However, we support and will continue to look for clear disclosure of a board's process for determining their rationale and the magnitude for plan adjustments including how these adjustments align with company performance relative to the company's disclosed peer set and shareholder returns.

■ Equity compensation plans with evergreen features

During the 2024 proxy season, we evaluated multiple proposals within the health care sector where company compensation plans contained an automatic share replenishment ("evergreen") feature by which additional shares are automatically granted without requiring the board to return to shareholders for a vote. An evergreen feature has the potential to significantly dilute current investors' ownership without requiring the board to return to shareholders for a vote on a periodic basis. Additionally, an evergreen feature could lead to an undue concentration of shares with a small group of company insiders.

The funds vote case by case on compensation plan proposals. A proposed compensation plan is evaluated in the context of several factors to determine whether it balances the interests of employees and the company's other shareholders. At the 2024 annual meetings of two companies—**Atara Biotherapeutics Inc.** and **Lisata Therapeutics Inc.**—the funds evaluated equity incentive plan proposals requesting the approval of an evergreen feature. The evaluation of the facts and circumstances at each company is detailed below.

Atara Biotherapeutics is a U.S.-listed immunotherapy company. At the company's 2024 annual meeting, we closely assessed two proposals on the ballot: one to approve a new equity incentive plan and another to add an evergreen feature to the plan. Our analysis suggested that the initial share request was supportable but raised questions about the

potentially dilutive impact of the evergreen feature. During our engagement with the company, an independent director and company leaders explained that the prior incentive plan had expired and the company needed more shares to attract and retain talent due to a change in the company's strategy. Given that the board had separated the two proposals, enabling shareholders to vote on the new equity incentive plan and the evergreen feature, the funds supported the first proposal but did not support the second proposal due to concerns related to the potential for significant dilutive impact on shareholders' ownership interests.

Lisata Therapeutics is a U.S.-listed clinical-stage pharmaceutical company. At the company's 2024 annual meeting, two proposals were put forward to amend the equity incentive plan: one to increase the shares available for issuance in the equity incentive plan and another to add an evergreen feature to the plan. Our initial analysis raised concerns about potential dilution from the evergreen feature. During our engagement, an independent director and company leaders shared that the company was entering a transitional growth period and needed more equity to attract and retain talent. Additionally, the evergreen feature was structured to expire with the compensation plan in three years, limiting the maximum potential dilution. Given our understanding of the intent underlying the plan, the funds supported both amendments to the equity incentive plan.

Generally, an evergreen feature has the potential to have a significantly dilutive impact on shareholders' ownership interests. If evergreen features are added to a plan, we look for boards to put in place structural protections that can help limit the maximum potential dilution, such as a sunset provision or expiration date. Further, evergreen features with a limited aggregate share request (considering both the auto-replenishment and any additional share request) are less likely to result in excessive dilution. We assess evergreen feature proposals on a case-by-case basis.

■ Remuneration report at Australian Clinical Labs Limited

At the 2024 annual meeting of **Australian Clinical Labs Limited (ACL)**, a provider of pathology services in Australia, the funds did not approve the remuneration report due to the introduction of last-minute changes to executive pay by the board without a sufficiently robust rationale. The funds also did not support the reelection of the chair of the board.

Upon reviewing the company's 2024 annual meeting materials, in particular the Australian Securities Exchange announcement, "Amendments to Chief Executive Officer's and Managing Director's Employment Contract," published close to ACL's annual meeting, we identified several remuneration concerns. These included a change from a long-term incentive to a cash-only award, a change from performance hurdles to service-based criteria with a shorter vesting period, and a significant increase of the overall quantum of remuneration, including the fixed portion of pay. In addition, the meeting agenda initially included a proposal to approve a grant of performance rights to the CEO, but this resolution was withdrawn ahead of the meeting. In our research, we found that the company did not disclose a clear or sufficiently compelling rationale for these changes. We contacted ACL to discuss these concerns.

The company did not respond to our request to engage, and absent a clearly disclosed rationale for the changes to ACL executives' remuneration, the funds voted against the chair of the board as well as the remuneration report to reflect our concerns regarding executive remuneration.

■ Remuneration report at IDP Education Limited

IDP Education Limited (IDP) is an Australia-listed education services provider with global operations. Following our analysis of IDP's remuneration plans and subsequent engagement with the company chair, the funds voted against the company's fiscal year 2024 remuneration report and the grant of performance rights

and share rights to the CEO. The funds did not support the report because we assessed that executive pay was not sufficiently aligned with company performance and shareholder returns, and the metrics in the long-term incentive plan (LTIP) were not sufficiently rigorous.

Our primary concerns centered on the grant of an "alignment award" to the CEO, which was equivalent to the CEO's fiscal year 2025 fixed pay of \$1.4 million AUD. We had concerns that this equity award served as a retention bonus with no performance hurdles, and we deemed it excessive given IDP's poor financial performance.

During our engagement with the company, the board chair explained that the CEO had joined at a time when IDP was facing significant headwinds due to changing government regulations regarding student visas. The board chair shared that the alignment award was required to ensure the CEO remained at the company for the next two years to execute the company's strategy, particularly because the CEO's LTIPs were not expected to vest due to unforeseen regulatory changes affecting market conditions. We shared our view that a company's remuneration program should be structured to appropriately incentivize executives without the addition of one-off awards, as one-off awards can be used to circumvent established remuneration policies and can lead to executive pay outcomes that are not aligned to a company's financial performance.

We were also concerned about the significant decrease in the earnings per share (EPS) growth hurdle within the LTIP, especially given the fact that the CEO's fixed pay was going to be increased by approximately 22% in fiscal year 2025, which would in turn increase the CEO's incentive outcomes. The chair explained that the rationale for the decrease in the hurdle was to keep key management personnel incentivized given the difficult external environment, and they believed the new targets were still sufficiently challenging. While we noted that the decrease in the EPS growth hurdle may be temporary, we assessed that materially reducing the EPS growth hurdle (required for the LTIP to vest) from

a range of 14%–18% to 1%–9% did not align with shareholders' best interests. As a result of our concerns regarding the alignment award and structural changes to the plan, the funds did not support the fiscal year 2024 remuneration report.

■ **Remuneration report at Piraeus Financial Holdings SA**

At the 2024 annual meeting of **Piraeus Financial Holdings SA (Piraeus)**, a Greece-headquartered holding company that provides banking, financing, and other financial services, the funds supported the remuneration report and remuneration policy. In advance of the meeting, we engaged with the board chair and company leaders to discuss executive-remuneration-related topics to help inform the funds' voting decisions at the company's annual meeting.

On behalf of the funds, we sought to better understand the proposed award of a one-off retention bonus and the proposed changes to Piraeus's executive remuneration policy. During the engagement, we shared our perspective that we do not believe in a one-size-fits all approach to executive remuneration. That said, when a board identifies the need to amend executive pay, we look for boards to prioritize the alignment of executive incentives with long-term shareholder returns in their decision-making processes and to provide clear disclosures of the board's rationale for key decisions and structural changes in executive pay and any use of discretion, particularly relating to one-off awards. The board chair shared that remuneration-related amendments were made against the backdrop of a regulatory transition in Greece. The board chair explained that in 2023, the Greek government lifted the senior executive salary cap and bonus ban for Greek systemic banks, which included Piraeus. Around the same time, the Greek government also announced its intention to divest its stakes in Greek systemic banks, which were held through the country's Hellenic Financial Stability Fund. Both measures had been implemented by the Greek government in 2010 following the Greek sovereign-debt crisis.

Due to the changing regulatory landscape and the increased battle for executive talent in Greece, the Piraeus board had proposed to grant a one-off retention award to all executive board members. In our engagement, the board chair noted that this award would be a one-time measure.

The board also provided further context about its proposal to reintroduce an LTIP—which had been deemed incompatible with the government's now-lifted bonus ban—to further motivate company executives and to bring the company's executive remuneration structure more in line with international practices. The board chair highlighted that the LTIP was structured to align executive pay with long-term company performance and the shareholder experience and would continue to be assessed over time. We shared our concerns about the absence of clear disclosure of performance metrics, targets, and weightings under the LTIP. We also shared that the absence of such disclosure can make it difficult for shareholders to understand how the plan aligned executive pay with company financial performance and shareholder returns. Piraeus leaders confirmed that they would take this feedback into account when evaluating disclosure of the plan components in the future.

We concluded that the board provided a clear background and compelling rationale for the one-time award in the context of regulatory change. Further, through our analysis and engagement, we came to understand that the intention of the LTIP was to further align executive pay with long-term shareholder returns. The funds subsequently supported the proposals to approve the remuneration report and remuneration policy at the 2024 annual meeting of Piraeus.

■ **CEO moonshot award at Prosus NV**

At the 2024 annual meeting of **Prosus NV (Prosus)**, a global consumer internet group and technology investor and operator that is incorporated and listed in the Netherlands and has a secondary listing in South Africa, the funds voted against several remuneration-related proposals. These included the advisory vote on

the remuneration report, the binding vote on the remuneration policy, as well as the reelection of two nonexecutive directors who served on the Remuneration Committee.

Ahead of the annual meeting, Prosus hosted an investor call where the chair of the Remuneration Committee and the head of investor relations provided an update and overview of the remuneration-related proposals. The proposed remuneration policy included an exceptional one-off "moonshot" award with a value of \$100 million USD to the incoming CEO, which Prosus described as being designed to incentivize meaningful outperformance versus comparable peers and significant growth in enterprise value. Prosus shared additional information about the board's remuneration-related decisions within the context of succession planning and recruiting talent as a global technology company. The company highlighted that the performance conditions of the award were largely quantitative and required the company's market capitalization doubling and outperforming a peer group in shareholder returns over a period of four years. We considered the rationale and disclosure of the moonshot award as part of our broader assessment of Prosus's remuneration policy and implementation. For several years, we have had some concerns regarding Prosus's executive compensation structures, particularly the link between pay and performance outcomes. This included concerns regarding the remuneration plan structure, which were compounded by the company's proposal to remove shareholding guidelines for executives while retaining discretion to grant additional one-time long-term incentive awards.

While we noted that Prosus had made some changes to the remuneration plan structure, we maintained our concern that the lack of performance conditions and short vesting periods in the long-term incentive plan could create a disconnect between pay and performance outcomes over the long-term. We also had concerns about the governance of decisions related to the remuneration of the former CEO, noting a lack of a sufficiently compelling rationale provided by the board

for why the departing CEO's short-term incentives were paid out in full and long-term incentives continued to vest after his resignation. Ultimately, these considerations drove our decision not to support the proposals to approve the remuneration policy and the remuneration report.

In addition, the funds did not support the election of the Human Resources and Remuneration Committee chair and the Human Resources and Remuneration Committee member up for reelection due to our concerns over the ongoing pay-for-performance disconnect and concerning components of the company's remuneration plan structure and governance. The funds had expressed these concerns through consistent votes against proposals to approve remuneration reports and remuneration policies at Prosus's prior annual meetings.

■ Executive pay trends at U.K.-listed companies

The dynamics and trends of executive pay in the U.K. continued to evolve in 2024. We observed more U.K.-listed companies, especially those with significant international operations, reevaluating and adapting their executive remuneration packages in response to global competition for talent. This trend drew attention from a range of stakeholders due to the potential impact that globally oriented benchmarking could have on total pay awards and the overall structure of executive remuneration plans, including the alignment between executive pay outcomes and long-term shareholder returns.

Given these factors, we focused our analysis on evaluating companies' respective benchmarking processes and the relevance of their identified peer groups. Our engagements with portfolio companies and analysis of their remuneration proposals in 2024 enabled us to identify examples of global benchmarking exercises that, in our assessment, provided effective rationale for proposed changes to the design and total award opportunities of their executive remuneration plans. Two examples of firms that provided substantial disclosures and a compelling rationale

for change were **AstraZeneca plc (AstraZeneca)** and the **London Stock Exchange Group plc (LSEG)**.

At AstraZeneca's 2024 annual meeting, the company proposed changes to its remuneration policy that included increasing the CEO's maximum annual bonus from 250% to 300% of base pay, increasing the CEO's maximum performance share plan award from 650% to 850% of base pay, and increasing the percent of company shares granted (that the CEO was required to retain) from 650% to 1,150% of base pay.

In explaining the remuneration plan, AstraZeneca disclosed that 40% of its revenues were derived from the U.S. and 40% of its senior executives resided there. The company's significant footprint outside of the U.K. highlighted the relevance of its peer benchmarking processes and considerations around talent attraction and retention in the face of U.S.-based competition. During our engagement and through their public disclosures, company leaders demonstrated how AstraZeneca's market capitalization and revenues compared with a curated set of peer firms with similar global footprints. The company also detailed how the proposed changes would position its CEO pay, in terms of target total direct compensation, at the lower end of that peer group.

Similarly, at LSEG's 2024 annual meeting, the company proposed increasing the CEO's maximum annual bonus from 225% to 300% of base pay and increasing the CEO's maximum opportunity under the long-term incentive plan from 300% to 550% of base pay. In addition, the CEO base salary increased by 37.5%, with the newly appointed CFO receiving a salary considered 13% higher than his predecessor.

LSEG provided what we assessed to be robust and detailed disclosures of its global benchmarking process and the quantitative and qualitative analysis the board used to determine the proposed remuneration award increases. From our perspective, an important and valuable part of this disclosure was the description of the board's assessment of the suitability

and relevance of its chosen peer group, which included companies operating across financial market infrastructures and exchanges, data and analytics providers, and several large U.S.-based competitors. Despite the material differences in the size and market presence of many of these companies as reflected in their respective executive remuneration packages, LSEG provided a compelling rationale for their inclusion in its peer set. The company's disclosures provided context regarding LSEG's specific circumstances, its increasingly complex and diverse services and operations, and its growing global footprint.

Although we do not take a prescriptive approach to remuneration proposals, we recognized that the proposals at AstraZeneca and LSEG significantly deviated from market expectations and their U.K.-listed peers. We sought to fully understand each company's rationale for the proposed increases and the relevance of their global peer groups.

To achieve this, we analyzed remuneration policies and other public disclosures at both companies and engaged with their boards. In our assessments, each company's approach to global benchmarking was reasonable and proportionate, given their size, operations, and where they compete for talent. In addition, the remuneration committees at both companies disclosed and communicated robust governance processes for their remuneration programs. As such, the funds supported both companies' remuneration proposals at each company's respective annual meeting.

■ Remuneration policy at Wise plc

At the 2024 annual meeting of **Wise plc (Wise)**, a U.K.-listed financial technology company, the funds did not support the updated remuneration policy for Wise's executive directors. The company disclosed that the updated policy sought to enhance the company's ability to attract and retain internationally mobile talent in a competitive global landscape. Through our analysis, we identified several areas of concern: the resulting degree of "at risk," or variable, pay; a disconnect in the rationale underpinning

concerns about executive retention; and a lack of informative disclosure about international peer benchmarking.

In analyzing the proposed changes to the remuneration policy, with regard to the executive directors' variable pay, we observed that the proposed introduction of restricted shares (RSUs) to the LTIP would result in a material reduction in the proportion of the LTIP, and by extension total remuneration, being at risk and subject to measurable performance-based conditions. We also noted that the proposed introduction of RSUs would not be accompanied by a corresponding reduction in the overall quantum potential of the LTIP award.

The funds do not have prescriptive standards regarding remuneration structures and recognize that the use of "hybrid" LTIPs (that is, the use of both restricted shares and performance-based awards in the same incentive plan) is commonplace in many jurisdictions around the world. However, we have observed that, in the U.K., reductions in LTIP quantum potential are typically considered market best practice in such circumstances where restricted shares are introduced to performance-based pay plans, in recognition of the reduction in at risk pay. Our assessment of Wise's revised plan was complicated by a lack of clear disclosure of what the LTIP's overall performance-based threshold would be and how it would apply to the RSU proportion of future awards.

Our research identified a meaningful disconnect between the rationale behind the proposed changes as outlined in the Annual Meeting Notice and the specific circumstances of the current

executive directors. For instance, the CEO had previously abstained from receiving variable pay awards over the terms of the existing remuneration policy and disclosed that this abstention will similarly extend to the new policy. The board's Remuneration Committee also took the decision to reduce the CFO's LTIP award level for 2025 shortly after he joined Wise to reflect his limited tenure. It therefore proved challenging to reconcile these actions with the board's rationale that the proposed revisions were necessary for executive talent attraction and retention over the coming three-year policy cycle.

Given the explicit references made to global competitive pressure on talent attraction and pay (including from U.S.-listed peers) in the Annual Meeting notice and in our exchanges with the company, we sought to better understand the peer benchmarking process the company used to help determine the proposed remuneration policy changes. We initiated a dialogue with company representatives. They provided us with further insight into the Remuneration Committee's considerations and approach but did not provide us with sufficiently detailed or compelling information to address the concerns we identified during our research and analysis. Without clear disclosure of the company's peer groups or the underlying methodologies utilized to identify those peer groups, we were unable to effectively determine their relevance.

Given our concerns and inability to effectively assess the overall appropriateness of the remuneration policy proposal, the funds did not support the new remuneration policy at the 2024 annual meeting.



Shareholder rights

Shareholders have fundamental rights as company owners. We believe that a well-functioning capital markets system requires that companies have in place governance practices and structures that enable shareholders to exercise those rights.

■ The right to call a special meeting at MarketAxess Holdings Inc.

MarketAxess Holdings Inc. (MarketAxess) is a U.S.-listed electronic trading platform company. At the company's 2024 annual meeting, MarketAxess had two proposals on the ballot seeking to establish the right to call a special meeting. The first was a shareholder proposal seeking to amend the company's governing documents to give shareholders with a combined 10% of outstanding common stock the right to call a special meeting. The company simultaneously put forward an alternative proposal that would confer the same right to shareholders who continuously hold for at least one year a minimum of 25% of the company's outstanding shares of common stock.

Prior to these proposals, MarketAxess's governing documents did not include the right for shareholders to call a special meeting. In its 2024 proxy statement, the company disclosed that the 25% stock ownership threshold reflected in the management proposal was consistent with the thresholds used by a majority of MarketAxess's peer S&P 500 firms. The company's proxy statement also detailed that MarketAxess sought shareholder feedback on the right to call a special meeting in the course of its engagements with shareholders. Based on shareholder feedback, the company believed that its shareholders generally supported the right to call a special meeting at a 25% threshold.

After reviewing the details of each proposal, we determined that management's 25% ownership threshold better aligned with the long-term

financial interests of shareholders. We assessed that the 25% threshold would provide owners who hold a meaningful proportion of shares the ability to convene a special meeting while preventing smaller shareholders from acting without ample support. In addition, we did not find the holding requirement of one year, which the company included in its proposal, a meaningful obstacle to shareholders' ability to exercise this right. As a result, the funds supported the management proposal and voted against the shareholder proposal.

■ Recapitalization plan at News Corporation

Prior to the 2024 annual meeting of **News Corporation (News Corp.)**, a global diversified media and information services company, we analyzed a shareholder proposal on the ballot that called for the adoption of a recapitalization plan that would eliminate News Corp.'s dual-class capital structure and provide each outstanding share of common stock with one voting right at company shareholder meetings. Approximately 40% of News Corp.'s Class B common stock shares are owned by the Murdoch Family Trust (MFT), creating a significant hurdle for investors to enact change.

As is articulated in the funds' proxy voting policies, we believe that alignment of voting and economic interests is a foundation of good governance. While we are philosophically aligned to a "one-share, one-vote" approach to capital structure, we evaluate proposals relating to the elimination of dual-class share structures with

differential voting rights on a case-by-case basis, with consideration for the extent of limitations posed on minority shareholders and the presence of sunset provisions, among other factors.

As part of our analysis, we engaged with members of the News Corp. board and management team to understand the company's view of how the company's existing dual-class structure aligns with the interests of all shareholders. News Corp. leaders shared their perspective that the dual-class structure shields the company from short-term market pressures and enables it to focus on the company's long-term strategy and long-term shareholder returns. Company leaders highlighted certain features of the company's dual-class structure that, in their view, mitigated the limitation to shareholder rights, including the ability for Class A shareholders to vote on certain binding and transformational matters such as merger or consolidation agreements. Additionally, they reiterated that limitations exist to prevent the majority ownership of Class B shares from being attained by the MFT.

While we considered the mitigating factors that distinguished the dual-class structure at News Corp. from other companies, we continued to have concerns about limitations to shareholder rights. Specifically, the presence of the dual-class structure created a practically insurmountable hurdle for minority Class B shareholders to enact certain changes, as it would require a near unanimous vote. In addition, News Corp.'s dual-class structure was not subject to a sunset clause. Consequently, the funds voted in support of the shareholder proposal.

■ Takeover defense measures at Nisshin Seifun Group Inc.

At the 2024 annual meeting of **Nisshin Seifun Group Inc. (Nisshin Seifun)**, a Japan-listed food manufacturing company primarily engaged in the production and sale of wheat flour, the funds did not support the renewal of the company's takeover defense measures (commonly known as a "poison pill"). Nisshin Seifun first introduced its

poison pill in 2006. Like other poison pills we have observed at Japanese companies, the poison pill was effectively rolling, with the company seeking shareholder approval to renew the poison pill every three years. The company's rolling poison pill was last approved by shareholders at the 2021 annual meeting. Nisshin Seifun sought shareholder approval for renewal of an additional three years at the company's 2024 annual meeting.

We reviewed the company's disclosures and found that the company clearly disclosed the poison pill trigger terms, set a threshold of 20% of shares outstanding to trigger the poison pill, and appeared to ensure appropriate independence levels on both the overall board and the special committee responsible for evaluating transactions subject to the poison pill. Consistent with the funds' proxy voting policies, we look for a clear and compelling rationale to support takeover defense measures that are subject to renewal because we believe they can inhibit shareholder rights by substantially limiting opportunities for transactions that are in the best interests of shareholders and by reducing management accountability.

During our engagement, Nisshin Seifun leaders explained that the company's takeover defense measures were not intended to undermine shareholder rights or protect management. Rather, Nisshin Seifun leaders shared that they aimed to enhance transparency for shareholders by requiring potential acquirers to disclose accurate and sufficient information, in line with Japan's Ministry of Economy, Trade and Industry's transparency principles for corporate takeovers.

Despite the company's explanation, we continued to have questions about the rationale for continuing the plan, as Nisshin Seifun did not disclose any company-specific circumstances that, in our view, would necessitate the plan's continuation. Given our outstanding questions regarding the plan's rationale, the funds did not support the renewal of Nisshin Seifun's takeover defense measures at the 2024 annual meeting.

■ Shareholder rights at Italian-listed companies

In February 2024, the Italian Parliament approved a capital markets reform law (DDL Capitali) that aims to make listing on the Italian stock exchange more attractive to companies. One of the provisions in DDL Capitali allows listed companies to offer up to 10 voting rights for each share for long-term shareholders, defined as shareholders that have invested in the company for at least 24 months. Several companies sought to introduce such differentiated voting rights in 2024 through amendments to company bylaws. In our view, these provisions could weaken companies' corporate governance practices through an adverse impact on shareholder rights, which could, in turn, raise concerns regarding the financial interests of long-term shareholders.

One company that introduced the provision in question was **Amplifon SpA**, an Italian retail hearing-care provider. The funds did not support the company's proposal to increase the ratio of voting rights for certain shareholders based on what we determined to be a lack of sufficient justification for deviating further from a one-share-one-vote structure. Furthermore, we assessed that the proposed changes could likely increase the decision-making power of a controlling shareholder, which generally does not serve minority shareholders' interests.

The DDL Capitali also allows companies to permanently adopt the use of a closed-door shareholder meeting format, in which company shareholder meetings are convened and held with only a company-designated shareholder representative present. Under the closed-door shareholder meeting format, this representative receives voting proxies from shareholders,

therefore shareholders do not have the opportunity to participate directly in company shareholder meetings. This format is a practice that was initially adopted during the COVID-19 pandemic on a temporary basis in response to companies' inability to hold shareholder meetings in person. While some companies put the adoption of a closed-door shareholder meeting format to a shareholder vote in the form of amendments to company bylaws, other companies held a closed-door meeting to permanently adopt this meeting format without putting the matter up for shareholder vote.

Throughout 2024, we engaged with companies considering the adoption of the closed-door shareholder meeting format on an indefinite basis. In our engagements with companies on this topic, we encouraged the robust disclosure of procedures to safeguard shareholder rights to assure, for example, that shareholder questions and perspectives would be appropriately considered at shareholder meetings. At companies where shareholders were asked to approve bylaw amendments to implement closed-door shareholder meetings on an indefinite basis, the funds did not support several such proposals. We evaluated each proposal on a case-by-case basis and determined that the companies did not provide sufficient disclosure of how or whether they would maintain the equivalent rights for shareholders who would normally attend shareholder meetings.

We continue to stay abreast of the evolving regulatory and corporate governance landscape in Italy, communicating our perspectives about the importance of protecting shareholder rights in order to safeguard long-term shareholder returns.

Proxy voting summary tables

Global summary of proxy votes cast by Vanguard-advised funds in the 12 months ended December 31, 2024.

U.S.

Alignment with our pillars	Proposal type	Management		Shareholder	
		Number of proposals	% for	Number of proposals	% for
Board composition and effectiveness	Elect directors	24,134	94%	54	7%
	Other board-related	451	97%	75	0%
Board oversight of strategy and risk	Approve auditors	3,951	100%	—	—
	Environmental and social	—	—	401	0%
Executive pay	Management Say on Pay	3,098	98%	—	—
	Other pay-related	1,907	82%	26	0%
Shareholder rights	Governance-related	373	92%	142	37%
Other proposals	Adjourn/other business	626	87%	—	—
	Capitalization	1,028	93%	—	—
	Mergers and acquisitions	241	99%	—	—
	Other	—	—	8	0%

Americas ex-U.S.

Alignment with our pillars	Proposal type	Management		Shareholder	
		Number of proposals	% for	Number of proposals	% for
Board composition and effectiveness	Elect directors	3,918	79%	195	64%
	Other board-related	1,255	63%	7	14%
Board oversight of strategy and risk	Approve auditors	425	100%	—	—
	Environmental and social	2	100%	39	0%
Executive pay	Management Say on Pay	196	99%	—	—
	Other pay-related	437	78%	11	0%
Shareholder rights	Governance-related	536	87%	17	12%
Other proposals	Adjourn/other business	672	93%	—	—
	Capitalization	421	94%	—	—
	Mergers and acquisitions	148	94%	—	—
	Other	—	—	36	11%

U.K.

Alignment with our pillars	Proposal type	Management		Shareholder	
		Number of proposals	% for	Number of proposals	% for
Board composition and effectiveness	Elect directors	4,380	99%	7	0%
	Other board-related	28	100%	6	0%
Board oversight of strategy and risk	Approve auditors	1,173	100%	—	—
	Environmental and social	10	90%	2	0%
Executive pay	Management Say on Pay	778	97%	—	—
	Other pay-related	224	95%	—	—
Shareholder rights	Governance-related	536	100%	—	—
Other proposals	Adjourn/other business	841	100%	—	—
	Capitalization	2,807	100%	—	—
	Mergers and acquisitions	133	92%	—	—
	Other	—	—	2	0%

Europe*

Alignment with our pillars	Proposal type	Management		Shareholder	
		Number of proposals	% for	Number of proposals	% for
Board composition and effectiveness	Elect directors	8,816	92%	268	49%
	Other board-related	5,257	96%	176	69%
Board oversight of strategy and risk	Approve auditors	2,316	99%	—	—
	Environmental and social	24	83%	21	10%
Executive pay	Management Say on Pay	3,075	78%	—	—
	Other pay-related	1,992	93%	4	0%
Shareholder rights	Governance-related	1,416	96%	15	33%
Other proposals	Adjourn/other business	3,814	94%	—	—
	Capitalization	5,974	98%	—	—
	Mergers and acquisitions	257	91%	—	—
	Other	—	—	98	34%

* The Europe proxy voting table includes figures also represented in the U.K. proxy voting summary table.

Middle East and Africa

Alignment with our pillars	Proposal type	Management		Shareholder	
		Number of proposals	% for	Number of proposals	% for
Board composition and effectiveness	Elect directors	2,181	50%	8	25%
	Other board-related	1,239	95%	7	14%
Board oversight of strategy and risk	Approve auditors	538	86%	—	—
	Environmental and social	2	100%	—	—
Executive pay	Management Say on Pay	296	86%	—	—
	Other pay-related	890	82%	—	—
Shareholder rights	Governance-related	1,259	59%	1	0%
Other proposals	Adjourn/other business	1,451	90%	—	—
	Capitalization	820	93%	—	—
	Mergers and acquisitions	772	91%	—	—
	Other	—	—	—	—

Asia

Alignment with our pillars	Proposal type	Management		Shareholder	
		Number of proposals	% for	Number of proposals	% for
Board composition and effectiveness	Elect directors	25,553	96%	3,430	95%
	Other board-related	6,946	62%	129	22%
Board oversight of strategy and risk	Approve auditors	4,030	99%	—	—
	Environmental and social	—	—	48	0%
Executive pay	Management Say on Pay	2	100%	—	—
	Other pay-related	7,059	90%	93	52%
Shareholder rights	Governance-related	8,577	70%	63	68%
Other proposals	Adjourn/other business	14,692	92%	—	—
	Capitalization	15,739	95%	—	—
	Mergers and acquisitions	5,262	97%	—	—
	Other	—	—	751	73%

Australia and New Zealand

Alignment with our pillars	Proposal type	Management		Shareholder	
		Number of proposals	% for	Number of proposals	% for
Board composition and effectiveness	Elect directors	773	95%	6	0%
	Other board-related	49	16%	—	—
Board oversight of strategy and risk	Approve auditors	64	100%	—	—
	Environmental and social	2	100%	8	0%
Executive pay	Management Say on Pay	301	94%	—	—
	Other pay-related	619	91%	—	—
Shareholder rights	Governance-related	79	99%	7	0%
Other proposals	Adjourn/other business	4	100%	—	—
	Capitalization	103	98%	—	—
	Mergers and acquisitions	35	100%	—	—
	Other	—	—	—	—

Global

Alignment with our pillars	Proposal type	Management		Shareholder	
		Number of proposals	% for	Number of proposals	% for
Board composition and effectiveness	Elect directors	65,375	92%	3,961	89%
	Other board-related	15,197	78%	394	39%
Board oversight of strategy and risk	Approve auditors	11,324	99%	—	—
	Environmental and social	30	87%	517	0%
Executive pay	Management Say on Pay	6,968	89%	—	—
	Other pay-related	12,904	88%	134	36%
Shareholder rights	Governance-related	12,240	74%	245	42%
Other proposals	Adjourn/other business	21,259	92%	—	—
	Capitalization	24,085	96%	—	—
	Mergers and acquisitions	6,715	96%	—	—
	Other	—	—	893	66%

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