Vanguard Investment Stewardship

U.K. Regional Brief

This Regional Brief reports on the corporate governance topics and trends Vanguard's Investment Stewardship team observed across portfolio companies domiciled in the United Kingdom during the 2024 proxy year; it includes data on the proxy votes cast by the Vanguard-advised funds during the period.[1] We provide this brief, and other publications and reports, to provide Vanguard fund investors and other market participants an understanding of the engagement and proxy voting activities we conduct on behalf of Vanguard-advised funds.

Vanguard's Investment Stewardship team conducts proxy voting and engagement on behalf of the Vanguard-advised funds. Our approach to evaluating portfolio companies' corporate governance practices is centered on four pillars of good corporate governance, which are used to organize this brief: board composition and effectiveness, board oversight of strategy and risk, executive pay, and shareholder rights.

During the 2024 proxy year (July 1, 2023, through June 30, 2024), the team conducted 150 engagements related to 117 companies in the United Kingdom, representing $96 billion in equity assets under management (AUM) of the $137 billion in Vanguard-advised funds' total equity AUM in the region. The funds voted on 11,131 proposals across 636 companies in the region.

At a glance

117 companies engaged

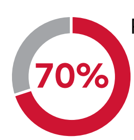
150 total engagements

636 companies where a proposal was voted on

11,131 proposals voted on

$96B equity assets under management engaged

Regional AUM engaged



Percentage of regional AUM engaged

150 Total engagements in the region

$96B Total engaged equity AUM in the region

$137B Vanguard-advised funds' total equity AUM in the region

1 Vanguard's Investment Stewardship program is responsible for proxy voting and engagement on behalf of the quantitative and index equity portfolios advised by Vanguard (together, "Vanguard-advised funds"). Vanguard's externally managed portfolios are managed by unaffiliated third-party investment advisors, and proxy voting and engagement for those portfolios are conducted by their respective advisors. As such, throughout this document, "we" and "the funds" are used to refer to Vanguard's Investment Stewardship program and Vanguard-advised funds, respectively.

Board composition and effectiveness

Good governance begins with a company's board of directors. Our primary focus when evaluating a company's corporate governance profile is on understanding to what extent the individuals who serve as board members are appropriately independent, capable, experienced, and equipped to represent the interests of all shareholders.

Director and executive succession planning

We observed a continued trend related to board refreshment and executive succession planning among U.K. companies from the proxy year 2023 into the 2024 proxy year. In many instances, boards' considerations of these matters were linked to the U.K. Corporate Governance Code's recommendation that board chair tenure not exceed nine years, although we also saw a handful of scenarios which required short- and longer-term planning to enable smooth transitions for new executive leadership. We heard from many U.K. boards that they continued to leverage internal and external evaluations and board skills matrices to assess gaps in board skills, experiences, and personal characteristics, and to identify potential board candidates. Across sectors, many boards mentioned giving additional thought to candidates that brought experience in digital transformation, change management, or global leadership, as boards of U.K.-listed companies sought to navigate an increasingly complex set of macroeconomic, geopolitical, supply-chain, and competitive risks.

On the executive front, we saw several boards employing longer-term strategies for succession planning that came to fruition. Companies well-positioned for these transitions demonstrated a robust process for evaluating a mix of internal and external talent, a thoughtful and comprehensive approach to onboarding, and, where possible, an appropriate overlap of time-in-seat with a predecessor to enable effective knowledge sharing prior to an official handover of responsibilities.

Board diversity

A significant consideration for companies during board refreshment and executive succession planning processes was the overall gender and ethnic diversity of the board. The U.K. Listing Rules released in April 2022 require that listed companies adhere to a "comply or explain" rule mandating adherence to diversity rules. Among these rules are stipulations that the board be composed of at least 40% women, at least one ethnically diverse director, and at least one senior female board member. Through frequent engagement on board composition and effectiveness, we discussed with board directors and executives how companies considered gender and ethnic diversity on the board and within senior leadership positions, as well as how the U.K. Listing Rules requirements factored into their recruitment and succession planning processes. In the 2024 proxy year, the Vanguard-advised funds did not cast any votes against directors based on the diversity rules outlined in the U.K. Listing Rules. We will continue to seek to identify how companies, particularly those in the FTSE 250 and FTSE 350, are preparing to meet the increasing expectations related to board diversity. Looking ahead to 2025, these expectations most notably involve aligning with the U.K. Listing Rules, the Parker Review, and the FTSE Women Leaders Review.

Board and key committee independence

While the great majority of U.K. boards met or exceeded the standards related to board independence and key committee independence in the 2024 proxy year, the Vanguard-advised funds did vote against directors at certain companies across sectors in the U.K. that failed to meet these standards without disclosing mitigating rationale. We noted that in several instances, companies did not disclose the composition of key committees because of the more informal nature of how these groups come together in practice. The lack of disclosure on committee composition presented difficulties for shareholders looking to assess independence levels and leadership of those committees. As these practices endure without enhancements to disclosure, the Vanguard-advised funds may continue to vote against nonindependent directors sitting on key committees, and potentially escalate votes against full committees and/or chairs, as appropriate.

Notable votes from the 2024 proxy year include:

At the 2024 annual meeting of **Jardine Matheson Holdings Limited**, a multinational conglomerate with a primary listing on the London Stock Exchange, the Vanguard-advised funds voted against a nonindependent member of the board based on the absence of official remuneration or nomination committees.[2] In addition, we noted a lack of disclosures robust enough to both sufficiently address potential concerns regarding committee independence and meet the expectations outlined within the Vanguard-advised funds' proxy voting policies. The absence of formal independent key committees meant that we could not determine if there were appropriate levels of independence for matters pertaining to executive remuneration and board appointments. It also meant that we could not determine if the board's existing levels of independence would be within the requirements articulated in the Vanguard-advised funds' proxy voting policies.

Similarly, the Vanguard-advised funds voted against two directors at **Mitchells & Butlers plc**, a U.K.-listed operator of managed restaurants and pubs, at that company's 2024 annual meeting because of a lack of independence on the Remuneration Committee. The funds cast votes against the nonindependent member of the Remuneration Committee as well as the chair of the Nomination Committee, as this matter was a concern in consecutive years.

2 Jardine Matheson Holdings had secondary listings on the Singapore Exchange and the Bermuda Stock Exchange.

Board oversight of strategy and risk

Boards should be meaningfully involved in the formation and oversight of strategy and have ongoing oversight of material risks to their company. We work to understand how boards of directors are involved in strategy formation, oversee company strategy, and identify and govern material risks to long-term shareholder returns.

During the 2024 proxy year, we engaged with U.K.-listed companies on a wide variety of material risks. Frequent engagement topics included evolving geopolitical uncertainty, climate-related risks, and technological risks, which included both the continued risks posed by cybersecurity and the emerging risks and opportunities associated with artificial intelligence (AI).

Geopolitical uncertainty

As was the case in the 2023 proxy year, through the 2024 proxy year we continued dialogue with companies related to the war in Ukraine and how companies were navigating any ongoing business operations in Russia. While our engagements in 2023 with U.K.-listed companies focused on energy market dynamics and supply-chain disruptions, our engagements in the 2024 proxy year focused on how companies were navigating reputational risks associated with longstanding operations in Russia, where many companies had either exited the region completely or were in the process of handing over operations to an established local presence. The Israeli-Palestinian conflict in late 2023 similarly caused boards and companies to navigate both reputational and operational risks, particularly for those with a more significant geographical footprint in the region. Elections in countries around the world were top of mind for companies listed in the U.K., where the country recently witnessed a shift to new party leadership in the third quarter of 2024.

Climate-related risks

The U.K.'s alignment with the Task Force on Climate-Related Financial Disclosures (TCFD) continued to buoy the U.K.'s reputation for having companies with higher-quality, clear reporting on climate-related risks. In addition to ongoing engagement with U.K. companies where the physical and transition risks and opportunities related to climate change are considered material, we also continued to see a handful of management and shareholder proposals on this topic. We saw a similar number of management Say on Climate proposals in the 2024 proxy year as we had in the 2023 proxy year. The Vanguard-advised funds supported all but one of these resolutions.

Technology risks and opportunities

In recent years, engagements related to cybersecurity have increased in number across a range of sectors within the U.K. market, as companies have a heightened awareness for the potential negative consequences that can occur as a result of materialized cybersecurity risks. While companies continued to focus on director education related to cybersecurity and board preparedness exercises on the topic, in the 2024 proxy year we observed more companies turn attention to the rising risks and opportunities presented by generative AI. We observed boards thinking similarly about ways to upskill directors and senior leadership on how to both effectively capitalize on these opportunities and also ensure appropriate frameworks for the oversight of cybersecurity risks going forward.

Notable votes from the 2024 proxy year include:

Shell plc (Shell), a U.K.-listed global group of energy and petrochemical companies, received a similar proposal to one it received in 2023 asking the company to align its medium-term emissions reduction targets for its Scope 3 greenhouse gas emissions with the goals of the Paris Agreement. Similar to our analysis in 2023, we determined that while the proposal did address an area of material risk for the company, the 2024 proposal would have implicitly required a change in company strategy to implement, and at Shell's 2024 annual meeting the Vanguard-advised funds voted against the proposal. As passive investors, the Vanguard-advised funds do not seek to dictate portfolio company strategy, and we believe company executives, overseen by a well-composed board, are best positioned to determine the specific strategy and operating decisions that maximize shareholder returns.

The Vanguard-advised funds voted in favor of management Say on Climate proposals at a handful of U.K. companies in the 2024 proxy year, including proposals made at the 2024 annual general meetings of **SSE plc, Pennon Group plc, Ninety One plc, Aviva plc, Shell plc, Essentra plc**, and **Glencore plc**. We assessed each of these proposals on a case-by-case, company-specific basis, and determined that supporting each proposal was appropriate in conveying our understanding of the relevant material disclosures related to the company's climate strategy and the board's oversight thereof.

The Vanguard-advised funds abstained from a Say on ESG proposal at the 2024 annual meeting of **Empiric Student Property plc (Empiric Student Property)**, a British real estate investment trust providing student accommodation, where in our assessment the company's efforts to implement a broad-reaching environmental, social, and governance (ESG) strategy did not effectively link each ESG topic and target back to financially material risks or opportunities for the company. We provided the company with feedback that disclosure of a materiality assessment would be particularly helpful for shareholders as they evaluate the components of Empiric Student Property's ESG strategy, and that without this disclosure we found it challenging to appropriately evaluate the proposed strategy.

Executive pay

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

Global pay benchmarking

Continuing a trend that emerged in 2023, the 2024 proxy season in the U.K. saw companies with a more global footprint and talent pool seeking to attract and retain C-suite executives by increasing the total magnitude of pay or by replicating pay structures more commonly used in U.S. markets. As in 2023, we heard similar feedback from company representatives in engagements this year: that global companies are under pressure to keep high-performing executives at their U.K.-listed entities as the threat of losing these executives to their higher-paying U.S. peer firms is on the rise. Also as in 2023, shareholders appeared to have mixed opinions at the prospect of pay packages for executives at U.K.-listed companies becoming more in line with their U.S. competitors. Several of these remuneration votes did ultimately pass, including at **AstraZeneca PLC** and **London Stock Exchange Group plc**.

Some companies—particularly in the health care and technology sectors—introduced hybrid plans of performance share plans and restricted stock plans. These pay structures sought to mirror the practices of comparable companies with similar risk profiles and business models in the U.S., where hybrid pay structures are both more commonly implemented by companies and more commonly accepted by shareholders. An example of such a structural change took place at the annual meeting of medical equipment manufacturer **Smith & Nephew plc**, where the Vanguard-advised funds supported a remuneration policy proposal that passed with a high level of shareholder dissent. Similarly, we found that **PureTech Health plc**, a biotherapeutics company focused on developing medicines to treat diseases, provided a compelling strategic rationale for changing its executives' pay structure to be more aligned with U.S. market practice, given its significant U.S. exposure and operations. As a result, the Vanguard-advised funds supported the company's remuneration policy.

ESG metrics

We continued discussions with companies in the U.K. market to better understand their use of ESG metrics in remuneration plans. These conversations focused on ensuring that companies were choosing metrics that were integral to the company's strategy, centered on financially material risks and opportunities, and were appropriately challenging in nature.

Removal of bankers' bonus caps

An emerging topic this year related to the joint decision of the Financial Conduct Authority (FCA) and the Prudential Regulation Authority (PRA) to remove the cap on bankers' bonuses for banks operating in the U.K. market that had been introduced in 2014 in conjunction with EU pay reforms. The recent modification to the rule enabled PRA-regulated firms to implement changes to remuneration policies as early as October 31, 2023. This proxy season, we did not see U.K.-listed companies act as first movers in this regard, ceding these early steps to their American counterparts with operations in the U.K. Heading into the 2025 proxy year, we will continue remuneration consultations with large U.K. banks, as some of these firms may follow suit in removing these bonus caps for eligible U.K. employees on a case-by-case basis.

Notable votes from the 2024 proxy year include:

The Vanguard-advised funds supported the remuneration policy and associated pay amendments at **AstraZeneca PLC**, where the company proposed changes that sought to bring executive pay packages in line with those of global pharmaceutical peer firms. While we noted that the proposed changes would result in a higher overall quantum opportunity, we understood the company's justification for the changes, which included evidence of its global footprint, an increase in the scope and complexity of its operations, and the unique ability of particular executives to execute on the company's in-flight strategic plans. We noted the detailed remuneration benchmarking exercise conducted by the board, which leveraged peer data across regions, and further noted the company's focus on at-risk pay as a way of ensuring pay increases are tied to increases in long-term shareholder value.

We evaluated a broad range of remuneration policy proposals across the U.K. market this proxy season, and where we could not determine that a company had provided compelling rationale or sufficient disclosures related to key changes, the funds exercised a vote against these proposals. At **Ocado Group plc (Ocado)**, an online grocery retailer and logistics solutions provider, the funds voted against the remuneration policy and a related amendment after considerable engagement with company leaders. Ocado leaders outlined the company's shift toward a performance share plan for executives as well as its move to simplify a complicated pay structure. Upon completion of our analysis, however, we still had questions regarding the company's rationale for and disclosures related to the proposed enhanced multiplier for the CEO, which centered on meeting an absolute share price target in several years' time. In this situation, we would look for more rigorous performance conditions alongside additional assurance that these conditions would not be overly subject to discretion in coming years. In absence of such assurance, the Vanguard-advised funds did not support the policy as proposed at the company's 2024 annual meeting.

Shareholder rights

We believe that governance structures should allow shareholders to effectively exercise their foundational rights. We look for companies to give shareholders the ability to use their voice and their vote—in proportion to their economic ownership of a company's shares—to effect and approve changes in corporate governance practices.

Throughout the 2024 proxy season there was significant debate and discussion among issuers, investors, and policymakers surrounding the competitiveness of the U.K. market. This came as the U.K. Listing Review reported that the number of U.K.-listed companies fell by approximately 40% from its peak in 2008, and that between 2015 and 2020 the U.K. only accounted for 5% of Initial Public Offerings (IPOs) globally. Issuers that contemplated changing their primary listings to markets other than the U.K. cited concerns around gaps in both executive pay and valuations between the U.K. and the U.S. listings, as well as a belief that the U.S. listing regime would provide more flexible access to capital without the burden of required adherence to either the U.K. Listing Rules or the U.K. Corporate Governance Code.

In addition to the concerns we heard from issuers, we continued to observe market trends related to global pay considerations and pay compression for senior talent (as detailed in the executive pay section of this brief), consolidation or acquisition activity in certain sectors (mainly health care and information technology), and a trend of companies either staying private for longer or opting for privatization over continued access to the public markets. A prominent example in the 2024 proxy year which contributed to the debate on U.K. competitiveness was the September 2023 IPO of British semiconductor and software design company **Arm Holdings plc**, which chose to list on Nasdaq rather than the London Stock Exchange. Additionally, the Irish building materials company **CRH plc** completed the transfer of its primary listing from London to New York in September 2023 following shareholder approval of this move at its 2023 annual meeting, and its subsequent shift in valuation seemed to validate—at least in the short term—the listing strategy in the eyes of the market.

With the debate regarding the competitiveness of the U.K. market front and center this year, issuers and investors were anticipating reforms to the U.K. Listing Rules. Following the height of proxy season and U.K. elections, the FCA announced a restructure to the U.K. Listing Rules which took effect at the end of July 2024. One area that was a focus of debate was the removal of the need for shareholder approval for significant transactions and for large related-party transactions, which could have an impact on listed company merger and acquisition activity going forward. However, these changes result in reduced shareholder rights, as shareholders will no longer have the ability to weigh in on these transactions through voting. Another key change was a more permissive approach to dual share class structures, where the investment community's guidance to include a sunset provision in instances where companies adopt dual share classes was ultimately not taken on board.

In addition, the new Listing Rules will replace the Premium and Standard listing categories with a single category for equity shares to simplify the regime overall. The new U.K. Listing Rules maintain the status quo on corporate governance for this new single listing category for the equity shares in all commercial companies; as such, these companies will be required to report against the U.K. Corporate Governance Code on a comply-or-explain basis, and TCFD and diversity and inclusion disclosures will also be required on a comply-or-explain basis. The Financial Reporting Council (FRC)'s approach to these latest revisions to the code have similarly sought to increase transparency and accountability of U.K.-listed companies while supporting the growth, attractiveness, and competitiveness of the U.K. market as a place to list and invest.

We will continue to monitor the landscape for upcoming regulations or guidance that impact the practices and disclosure of U.K.-listed entities. We plan to engage with companies to understand how they are adhering to both the revised U.K. Listing Rules as well as the U.K. Governance Code. Where a company chooses to alter its listing, we will continue to engage on the governance practices and board involvement in the oversight of strategy related to these changes on a company-specific, case-by-case basis.

Similarly, we will continue to monitor proposed revisions to the U.K. Stewardship Code, to which Vanguard is a signatory. In July 2024, the FRC announced plans to focus on prioritized themes in an upcoming revision to the Code, which the FRC says will seek to simplify reporting for stewardship teams while maintaining a focus on driving better stewardship outcomes and supporting the health of the U.K. capital markets.

Notable votes from the 2024 proxy year include:

At the 2024 annual meeting of **Flutter Entertainment plc (Flutter Entertainment)**, a global sports betting and iGaming provider, the Vanguard-advised funds supported two proposals to enable the company's transition of its primary listing from the London Stock Exchange to the New York Stock Exchange. The first proposal sought to transfer Flutter Entertainment's listing category from a premium listing to a standard listing on the London Stock Exchange, and it was expected that Flutter Entertainment would retain a secondary listing in the U.K. The second proposal sought to amend the Articles of Association connected with this listing transfer to the U.S. Based on the company's stated strategic plans and related disclosures, and our engagement with the company in which we discussed the governance practices and processes in place surrounding this transfer, we determined that it was in the funds' interests to support both proposals.

Proxy voting data

As in 2023, the Vanguard-advised funds supported the vast majority of management proposals in the U.K. during the 2024 proxy year. This high level of support was driven by the alignment of the funds' proxy voting policies with expectations of company practices and disclosures as set out by the U.K. Listing Rules and U.K. Corporate Governance Code. During the 2024 proxy year, we observed a noticeable decrease in shareholder activism in the U.K., with very few contested director elections and governance-related proposals. Consistent with the prior year, the volume of management and shareholder proposals related to environmental and social topics was low in the U.K. market. An increase in mergers and acquisitions can be partly explained by U.K. market dynamics, where various sectors saw consolidation or were taken private at a higher rate than in 2023.

U.K.

		Management		Shareholder	
Alignment with our pillars	**Proposal type**	**Number of proposals**	**% for**	**Number of proposals**	**% for**
Board composition and effectiveness	Elect directors	4,478	99%	5	0%
	Other board-related	25	100%	6	0%
Board oversight of strategy and risk	Approve auditors	1,194	100%	—	—
	Environmental and social	9	89%	2	0%
Executive pay	Management Say on Pay	840	97%	—	—
	Other pay-related	213	96%	—	—
Shareholder rights	Governance-related	513	100%	—	—
Other proposals	Adjourn/other business	851	100%	—	—
	Capitalization	2,865	100%	—	—
	Mergers and acquisitions	128	93%	—	—
	Other	—	—	2	0%

Note: Data are for the proxy year ended June 30, 2024.

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