

Shareholder proposal requesting the removal of registration and voting rights restrictions at Baloise

July 2024

Company: Baloise Holding AG (Baloise)

Meeting date: April 26, 2024

Proposal(s): Item 6–Shareholder Proposals Submitted by zCapital AG (zCapital): Amendments to the Articles of Association; Item 6.1–Removal of Restrictions on Registration and Voting Rights; Item 6.2–Requirements on Nominees; Item 6.3–Qualified Majority for Adoption of Resolutions.

How the funds voted

Baloise Holding AG (Baloise) is a Swiss insurance company that provides insurance and banking solutions. At the company's 2024 annual meeting, the Vanguard-advised funds supported two shareholder proposals: one requesting the elimination of the restriction on voting rights of 2%, and one requesting the reduction of the supermajority voting requirement for certain proposals from three-quarters to two-thirds. The funds did not support a third shareholder proposal asking for a revision of the nominee clause in the company's articles of association.¹

The funds' proxy voting policies

As articulated in the funds' proxy voting policies, the Vanguard-advised funds evaluate all shareholder proposals on a case-by-case basis, taking into consideration the facts and circumstances at the company in question.

Specifically, when evaluating shareholder proposals, we analyze the materiality of the risk the proposal seeks to address, the company's current practices and disclosure related to the risk, the board's oversight of the risk, and the reasonableness and prescriptiveness of the proposal. The funds do not support shareholder proposals that seek to influence or dictate specific company strategy or operations, as we believe that a well-composed board and properly overseen and incentivized company executives are better positioned to determine the appropriate approach to addressing risks and generating shareholder value for any given portfolio company.

As further articulated in the funds' proxy voting policies, the Vanguard-advised funds evaluate matters of shareholder rights on a case-by-case basis, taking into consideration the facts and circumstances at the company in question. We believe that effective corporate governance includes shareholders having the ability—in proportion to their economic ownership of

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.

a company's shares—to effect and approve changes in corporate governance practices and the composition of the board. In that context, a fund will generally vote for proposals to remove or increase any cap on voting rights and vote against proposals to introduce a cap or lower any existing cap on voting rights.

Analysis and voting rationale

At the 2024 annual meeting of Baloise, investor zCapital put forward three shareholder proposals requesting changes to the company's articles of association to: (i) remove restrictions on registration and voting rights of 2%; (ii) introduce new requirements regarding a nominee clause for shareholders to register their shares, and; (iii) reduce the qualified voting majority of votes cast for certain proposals from three-quarters to two-thirds. In our review of Baloise's annual meeting materials, we assessed the requests of the shareholder proposals, the proponent's rationale, and the company's response, as well as whether the board had already taken steps to address the matter outlined in each proposal.

Baloise presented a thorough rationale in its meeting materials as to why it believed the three shareholder proposals were not in the long-term interest of the company and the majority of its shareholders. The company disclosed that the rationale for the company's existing registration and voting rights restrictions was to ensure that the company's governance framework supported the long-term interests of shareholders. In the company's view, the existing shareholder rights provisions reduced the risk that a few shareholders could dominate the company's shareholder meetings in favor of their own short-term interests at the expense of long-term value creation and company interests. The company disclosed that the existing shareholder rights provisions ensured that a high level of shareholder approval was required for important resolutions, thus supporting the independent, entrepreneurial path of the company. However—

contingent upon the shareholder proposals being rejected—the Baloise board of directors had committed to submit a proposal for the company to adapt its registration and voting rights restrictions at the company's 2025 annual meeting to address shareholder feedback.

zCapital's rationale in putting forward the three shareholder proposals centered on strengthening shareholder rights; zCapital also stated that the changes articulated in the proposals would make Baloise a more attractive investment to long-term investors.

The shareholder proposal that sought the removal of the 2% voting rights restriction aligned with the funds' proxy voting policy to generally vote for proposals to remove any cap on voting rights. The funds believe that the alignment of economic interests and voting interests is a foundation of good corporate governance, as it enables shareholders to have a say in company matters in proportion to their economic interests.

In reviewing the shareholder proposal that requested a reduction of the supermajority voting threshold from three-quarters to two-thirds, we assessed that this change would be beneficial for shareholder rights. Baloise's articles of association contained a provision requiring a three-quarters supermajority of the votes represented, and equaling at least one-third of the number of shares issued, in order to approve certain proposals relating to material company matters (such as voting and registration rights restrictions, a merger with or acquisition by another company, and board size and terms of director elections). Given the company's high free-float shareholder structure and absent a controlling shareholder, we determined that lowering the three-quarters supermajority requirement to two-thirds would enable shareholders to more easily weigh in on important company matters.

However, when we evaluated the shareholder proposal regarding the introduction of new requirements for the registration of nominees, we noted the lack of a compelling rationale from zCapital. The proponent did not clearly articulate how this change would benefit shareholders, clarify why the nominee registration threshold should be set at 5%, or evidence how the proposal would lead to increased shareholder participation at the company's annual meetings.

In our view, Baloise's commitment to offer an alternative solution in the future failed to address how shareholders' interests would be

better served by awaiting the counterproposal the board had promised to submit the following year instead of implementing the shareholder proposals at this year's annual meeting. As a result, the Vanguard-advised funds supported the shareholder proposals that requested the removal of the voting rights cap and the reduction of the qualified voting majority as we considered these changes to be beneficial for shareholder rights. However, the funds voted against the shareholder proposal seeking the introduction of new requirements regarding nominees as we did not believe that the request demonstrated a clear benefit to all shareholders.

Vanguard publishes information regarding its voting and engagement activities, including the funds' proxy voting policies, Insights, and quarterly reports, to promote good corporate governance practices and to provide public companies and investors with our perspectives on important governance topics and key votes. This is part of our effort to provide useful disclosure of Vanguard's investment stewardship activities. We aim to provide clarity on Vanguard's positions on governance matters beyond what a policy document or a single vote can provide.

Vanguard[®]

© 2024 The Vanguard Group, Inc.
All rights reserved.

3650504 072024