Vanguard Investment Stewardship Insights

Voting Insights: Executive remuneration at UniCredit SpA

April 2021

Vanguard publishes Investment Stewardship Insights to promote good corporate governance practices and to provide public companies with our perspectives on important governance topics and key votes. This is part of our growing effort to enhance disclosure of Vanguard's investment stewardship voting and engagement activities. We aim to provide additional clarity on Vanguard's stance on governance matters beyond what a policy document or a single vote can do.

Proxy voting rationale: UniCredit SpA

Annual general meeting: 15 April 2021

Proposals: Item 12 – Approve Remuneration Policy; Item 13 – Approve Severance Payments Policy

How the funds voted

At the annual meeting for UniCredit, an Italian financial services company, the Vanguard funds voted against the remuneration policy and the severance agreement for its new chief executive officer.

Vanguard's principles and policies

Sound, performance-linked remuneration (compensation) policies and practices are fundamental to sustainable, long-term value. Compensation expectations and norms vary by industry, sector, company size and geographic location. The Vanguard Investment Stewardship team evaluates executive compensation proposals case by case, and we look for pay plans that incentivise long-term outperformance versus peers.

Variable compensation is meant to form an integral part of 'at-risk' pay to align management with shareholders' interests. The Vanguard funds may support plans in which variable compensation makes up most of the executives' total pay and is measured with a long-term focus.

Analysis and voting rationale

At the 2021 annual meeting, UniCredit's board asked shareholders to approve a remuneration policy for its new CEO, who was hired in April. The board proposed that the CEO be granted 200% of base salary in shares that had no performance conditions attached to them for 2021. One of the CEO's initial goals is to define a new company strategy. Given that responsibility, the board did not want to tie remuneration to existing strategic objectives.

Our due diligence identified elements of the remuneration plan that were not in the best long-term interests of Vanguard fund shareholders. We had concerns about lack of disclosure of the CEO's base salary and the structure of the variable pay award for 2021 given the lack of performance conditions, which can protect against potential pay-for-performance misalignment. The ambiguity regarding provisions to amend or recover the sums in the case of misconduct also influenced our decision.

The funds could not approve a remuneration policy that sets the terms of pay without disclosure of the base salary. This being a binding resolution, UniCredit would be bound to pay the incoming CEO and other members of management in line with the policy approved by shareholders. As a result, we were concerned that, without a clearly disclosed base salary, the funds could be approving a policy that effectively allowed a misaligned total salary that might not be in shareholders' best interests.

Finally, the guaranteed share award to the incoming CEO would not be subject to the company's normal provisions to amend or recover the sums in the case of misconduct (also known as a clawback or a recovery provision). Inclusion of a recovery provision is viewed as a best practice to prevent reward for failure and is especially relevant for financial institutions. When we discussed this with the board, it was unable to provide a compelling rationale for why the award would not be subject to UniCredit's existing recovery provisions.

The Vanguard funds also voted against the severance pay proposal because of the linkage to the undisclosed base salary and our concerns about the potential total pay package in the case of a CEO leaving the company, especially given the lack of recovery provisions for the incoming CEO's share award.

What Vanguard expects from companies on this matter

Vanguard expects to see robust disclosure that describes the rationale for compensation plans and to see a variable pay element directly linked to performance. Companies should provide clear disclosure about their compensation practices, with comprehensive rationale about the key elements of any new plans when asking for shareholder approval. This disclosure gives shareholders confidence that the board represents their best interests.

Voting outcome

Although the executive remuneration proposal drew 54% support, a high level of dissent indicated significant concerns about CEO pay (which, after we cast our votes, was reported to be as much as €7.5 million). We encourage the board to address shareholder concerns about this matter and we plan to engage on it in future discussions.

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