

Controversies and executive remuneration at Qantas

November 2023

Company: Qantas Airways Limited (Qantas)

Meeting date: November 3, 2023

Proposal: Items 2a–2e—Elect directors; Item 4—Approve remuneration report

How the funds voted

At the annual meeting of Qantas, Australia's largest domestic and international airline, the Vanguard-advised funds supported all management proposals, including the company's remuneration report.¹

The funds' proxy voting policies

Boards are elected to carry out important responsibilities on behalf of company shareholders. These responsibilities include the oversight of management and material risks to long-term investment returns.

As outlined in the funds' Australian proxy voting policies, when we identify that material governance failures have occurred at a specific company, we endeavor to engage with company

directors and executives to understand what, if any, actions the board and company are taking to address the underlying issues that may present risks to long-term shareholders.² One method that boards may use to address governance failures or underlying issues is adjustment of executive remuneration. Depending on the facts and circumstances, the funds may express concerns by withholding support for the election of directors.

When evaluating remuneration reports, we look for performance-linked executive pay policies that incentivize executives to create long-term investment returns. Companies should provide clear disclosure about their compensation practices and how they are linked to performance and the company's stated strategy. We also look for structural safeguards that prevent reward for underperformance and/or governance failures that materially impact investment returns.

Analysis and voting rationale

Qantas has been navigating a series of public controversies which, combined with the retirement of its long-term CEO, have fueled shareholder concern and wide media scrutiny.

- 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.
- ² Refer to the Vanguard-advised funds' Australia policy for more details: [Proxy voting policy for Australia and New Zealand companies \(vanguard.com\)](https://www.vanguard.com/proxy-voting-policy-for-australia-and-new-zealand-companies)

In August 2023, the Australian Competition and Consumer Commission (ACCC) began proceedings against Qantas for alleged breaches of consumer law.³ Separately, in September 2023, the High Court of Australia upheld findings that Qantas had breached the Fair Work Act by illegally firing flight ground crew during the COVID-19 pandemic.

Over the last three years, we have held regular, constructive engagements with Qantas's independent directors and executives. The company's share price fell significantly in the weeks following the announcement of the ACCC proceedings, and there was significant market discussion about damages to Qantas's brand and reputation. Given these facts and the number of controversies at the company, we sought to engage with Qantas leaders again in advance of the company's November 2023 annual meeting to understand how the Qantas board of directors was planning to respond to the oversight failures, including through decisions about executive remuneration.

In October 2023, we engaged with the chair of the board and the chair of the Remuneration Committee. Our discussion focused on the structural changes and outcome adjustments to executive remuneration that the board made in response to the controversies. One of the key decisions made by the board was to apply downward discretion to the customer metric in the Short-Term Incentive Plan (STIP) scorecard; it was assessed at zero, and a further 20% negative adjustment was applied across the entire STIP for all executives. The Remuneration Committee chair explained that delivery of the STIP had been delayed and would be subject to the outcomes of the ACCC proceedings. For the Long-Term Incentive Plan (LTIP), the 2021–2023 award vested in full based on the achievement of Qantas's relative total shareholder return metrics. In our engagement, Qantas directors shared that the board could extend the LTIP award's holding period beyond the set date of August 2024 and the clawback mechanism could also be used, if deemed appropriate. The Remuneration Committee chair also shared that

the board decided to increase the weighting of the 2023–2024 STIP customer metric and to introduce a reputation-based component into the 2024–2026 LTIP in response to the controversies. We viewed the structural changes to the executive remuneration plan as an appropriate initial step in aligning Qantas's executive compensation with the board's overall plan to address the reputational issues the company was facing.

Shortly after our engagement in October, Qantas announced board renewal plans in recognition of the recent controversies: The chair will retire prior to the company's next annual meeting, and two other independent directors, including the chair of the Remuneration Committee, will retire in February 2024.

In light of the governance failings, we focused on the election of directors and the remuneration report when contemplating our potential votes for the ballot items. We viewed the staggered stepping-down of three board members, including the board chair, as an appropriate response to recent events. In addition to these three directors, another nonexecutive director and Qantas's CEO were due to retire following Qantas's 2023 annual meeting. These actions will result in a substantial refreshment of the Qantas board over the next year. In our view, it is important that Qantas maintain a degree of stability on the board during this volatile period. Therefore, we did not consider it necessary or appropriate to withhold support from additional directors up for reelection.

During our evaluation of the remuneration report, we determined that it was important that the board retain discretion on remuneration vesting outcomes given the uncertainty surrounding the ongoing controversies. Therefore, we viewed the remuneration committee's decision to defer the STIP delivery and the option to extend the LTIP holding period as appropriate. We had questions about the Recovery Retention Plan (RRP), which had already vested in full and had no clawback feature; however, a subsequent engagement with the chair of the Remuneration Committee

³ Australian Competition and Consumer Commission press release, August 31, 2023. [ACCC takes court action alleging Qantas advertised flights it had already cancelled | ACCC](#)

underscored the fact that the award was put in place during the COVID-19 pandemic to coincide with Qantas's three-year Recovery Plan. When the RRP was put in place, it had what we assessed to be rigorous stretch targets; these targets were met, so the award was paid out in full. Company leaders highlighted the fact that the outcomes of the RRP had been decided on and paid out before the ACCC proceedings came to light. Despite the lack of a clawback on the RRP, we assessed that a significant portion of pay remained at risk given the clawback available on both the STIP and the LTIP. We are also cognizant of the uncertain and unprecedented COVID-19 environment during which the RRP was created.

We also examined the payouts given to the departing CEO. The awards included a clawback mechanism that the board will be able to exercise if needed. We will monitor whether the board gives appropriate consideration to applying the mechanism.

Based on the actions taken by Qantas in response to the controversies and the remuneration measures described above, the Vanguard-advised funds supported all management proposals, including the election of all directors and the remuneration report. We plan to monitor the developing situation at Qantas and pay particular attention to the remuneration outcomes that have been deferred.

What we look for from companies on this matter

Directors are elected to represent the interests of all shareholders and have important responsibilities, including oversight of management and material risks. Well-composed, effective boards can enable long-term value creation for shareholders.

When we discuss risk management with portfolio companies, we assess how well the board of directors understands the company's strategy and how effectively it is involved in identifying and governing material risks. We look for directors to bring a wealth of experience and diverse perspectives to the boardroom and to provide counsel to company leaders. We also look for directors to have appropriate mechanisms in place to oversee management and material risks to long-term investment returns. Ultimately, boards should work to prevent risks from becoming governance failures. The funds look for companies to give shareholders a voice by presenting executive pay proposals to shareholders at every annual meeting. In evaluating plans, we look for the compensation committee to consider pay-for-performance alignment, long-term focus, and a structure that promotes rigor and outperformance. We look for boards to include appropriate clawback mechanisms to support accountability of management to shareholders.

Vanguard publishes Investment Stewardship Policy and Voting Insights 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 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. Insights should be viewed in conjunction with the most recent region- and country-specific voting policies.

The funds for which Vanguard acts as investment advisor (Vanguard-advised funds) retain the authority to vote proxies that the funds receive. To facilitate the funds' proxy voting, the boards of the Vanguard-advised funds have adopted Proxy Voting Procedures and Policies that reflect the fund boards' instructions governing proxy voting. The boards of the funds that are advised by managers not affiliated with Vanguard (external managers) have delegated the authority to vote proxies related to the funds' portfolio securities to their respective investment advisor(s).



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