Vanguard

Vanguard Investment Stewardship Insights

Stock plan proposal at Moelis & Company

August 2024

Company: Moelis & Company (Moelis)

Meeting date: June 6, 2024

Proposal: Item 4: Approval of the 2024 Moelis Omnibus Incentive Plan

How the funds voted

At the 2024 annual meeting of Moelis, a U.S.-listed global independent investment bank that provides strategic and financial advice, the Vanguard-advised funds supported an equity compensation plan proposed by management.[1]

The funds' proxy voting policies

Appropriately designed stock-based compensation plans, administered by an independent board committee and approved by shareholders, can be an effective way to align the interests of management, employees, and directors with the interests of long-term shareholders. The funds will vote case by case on compensation plan proposals. A proposed plan will be evaluated in the context of several factors to determine whether it balances the interests of employees and the company's other shareholders. These factors include the industry in which a company operates, market capitalization, and competitors for talent.

Analysis and voting rationale

In advance of Moelis's 2024 annual meeting, our initial review of the company's proposed stock plan and practices identified several possible concerns, including an above-average annual grant rate and potentially significant cumulative dilution of other shareholders' interests. These factors can negatively impact long-term shareholders by eroding their relative ownership of the company's shares (and their participation in shareholder returns).

Upon further analysis and engagement with Moelis's leaders, we identified a number of mitigants to our initial concerns. First, we observed the company's historical (and disclosed intended future) use of strategic stock buybacks to offset the dilution caused by equity grants under the plan, which helps protect existing shareholders from the inherently dilutive effect of equity compensation plans. During our engagement, members of the Moelis board also noted the CEO's significant ownership stake, reinforcing his alignment with the interests of long-term shareholders, including his awareness of, and sensitivity to, the potential dilutive impact of additional shares being granted.

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.

Second, we observed the relatively broad-based nature of the plan, in which nonexecutives appeared to receive a larger percentage of the total awards (relative to top executives) than we typically see across the industry. While the broader pool of plan participants may result in a higher grant rate than we observe in other sectors, it appears to incentivize a larger segment of the workforce to generate returns that accrue to the benefit of all shareholders and is directionally consistent with Moelis's industry peers. Company leaders noted that these equity plans help to retain employed bankers' client networks and provide incentives while keeping more cash reserves for the company. Given that bankers' primary cash compensation is commission-based, our perspective was that the proposal more broadly aligns their interests with those of shareholders.

While our initial assessment of the proposed equity plan was negative, the insights we gathered through research and engagement reassured us regarding the board's robust oversight of the company's stock plan and its directional alignment with the interests of company shareholders. As a result, the Vanguard-advised funds supported the omnibus incentive plan proposal at the company's 2024 annual meeting.

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.

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