ITALY

QUORUM

The *Cura Italia* Decree, published in March 2020, included measures to help Italian public companies deal with the impact of Covid-19 during the 2020 AGM season, in particular:

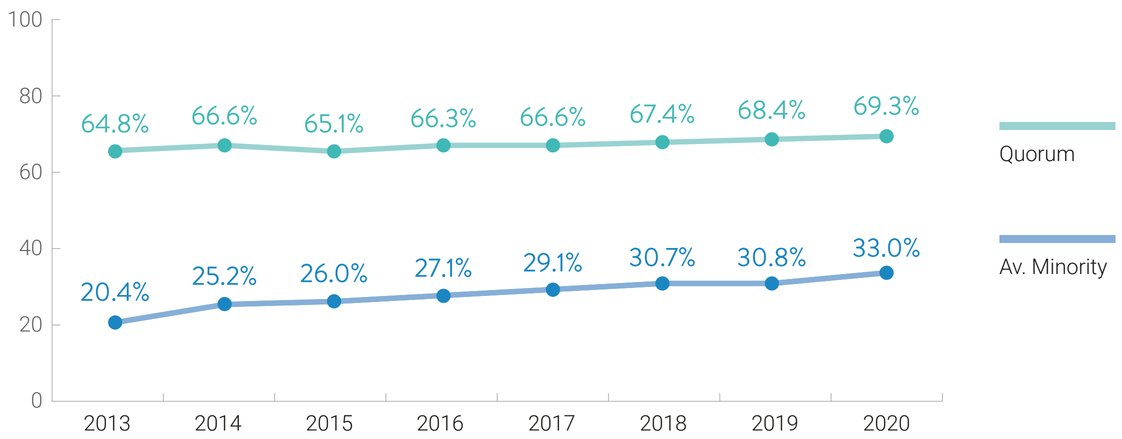
- Companies were allowed to convene their AGMs to approve the financial statements within 180 days of the end of the financial year;
- But the right to attend the Shareholders' Meeting and to exercise voting rights could only take place through the Designated Representative.

As expected, AGMs without physical participation of share-holders did not have an impact on the quorum which shows the growth in the participation of minority shareholders (**+2.2%** in 2020), continuing the trend of previous seasons.

The slight increase of overall quorum (**69.3%**, **+0.9%** in 2020) reveals an increasing weight of the minority shareholders in the ownership structures of FTSE MIB companies.

In fact, the differential in ownership between reference shareholders and minority shareholders has drastically reduced in 2020, with minorities accounting for approximately **48%** at FTSE MIB AGMs, on average.

AVERAGE AGM QUORUM AND MINORITY INVESTOR PARTICIPATION



REMUNERATION

The first year of SRDII application (binding Policy vote - advisory Report vote) took place in a particular context, which led companies to move unevenly and with great difficulty considering:

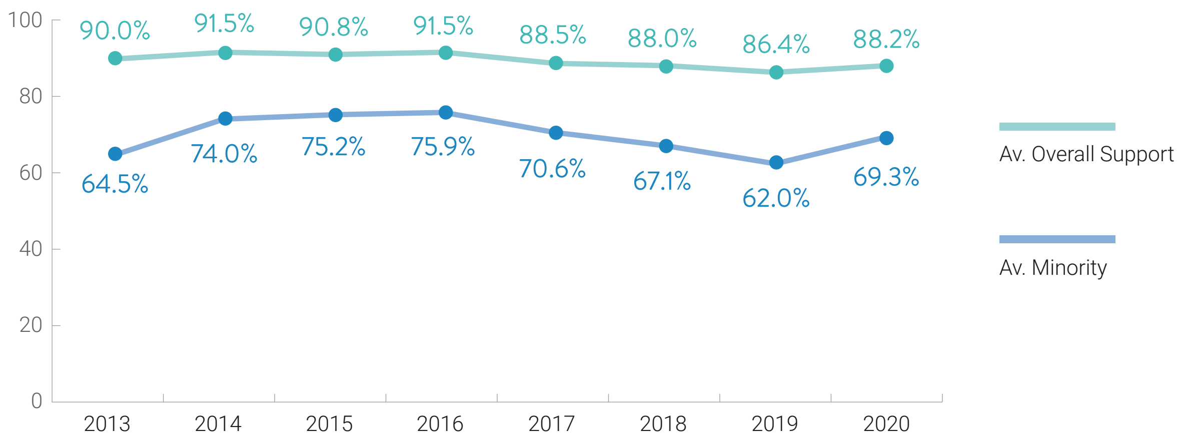
- The Covid-19 emergency;
- The absence of secondary legislation on remuneration reporting; and
- The absence of a final European Commission standard on the remuneration report.

8 cases

companies received a majority of minority investor votes against the remuneration policy and the remuneration report simultaneously.

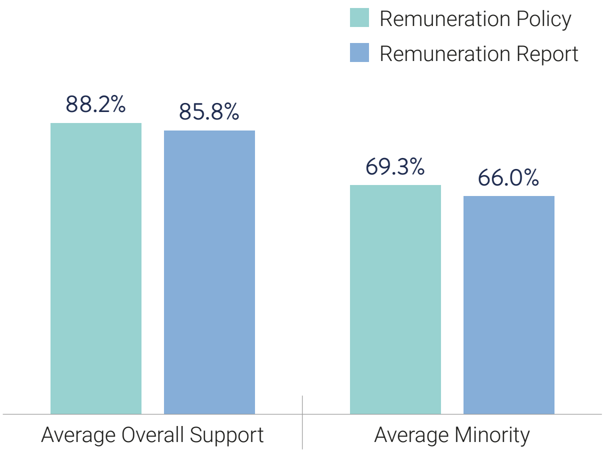
The overall and minority approval on remuneration policies has increased in 2020 (**+7%**) in contrast to the trend of recent years, reaching the support level of 2017.

AVERAGE APPROVAL OF REMUNERATION POLICY PROPOSALS



The rationale for the change in last year's trend should be read as an improvement in the remuneration practices of Italian companies, but at the same time as a greater focus on the remuneration reports that were submitted to the shareholders' vote for the first time. In fact, an analysis of the remuneration report vote reveals a lower level of approval than the remuneration policy.

AVERAGE APPROVAL BY TYPE OF REMUNERATION ITEM



Additionally, 9 companies' remuneration policies and 12 companies' remuneration reports obtained less than **50%** support from their minority shareholders – a result that, in the absence of a reference shareholder, would have led to the rejection of the remuneration policy or report.

Apart from a few cases, these companies are characterized by the presence of a significant majority shareholder (with **45.8%** SC on average) and are less inclined to engage with the market.

Interestingly, in 8 cases, companies received a majority of minority investor votes against the remuneration policy and the remuneration report simultaneously.

The pressure from institutional investors has manifested itself where significant salary increases have been observed in the current year, with a multiplier effect on the overall bonus opportunity. Other main issues leading to shareholder dissent include:

- Discretionary bonus
  (entry bonus, guaranteed bonus, one-off payments etc.)
- Excessive severance payments
- Potential excessive pay-out
- Lack of an adequate disclosure
- Missing disclosure on long-term incentive plan (LTIP) targets

The number of negative proxy advisor recommendations on remuneration issues is slightly lower than in 2019, due to the significant increase in the number of items and the simultaneous interlocutory approach of proxy advisors with issuer companies given the first year of SRDII application.

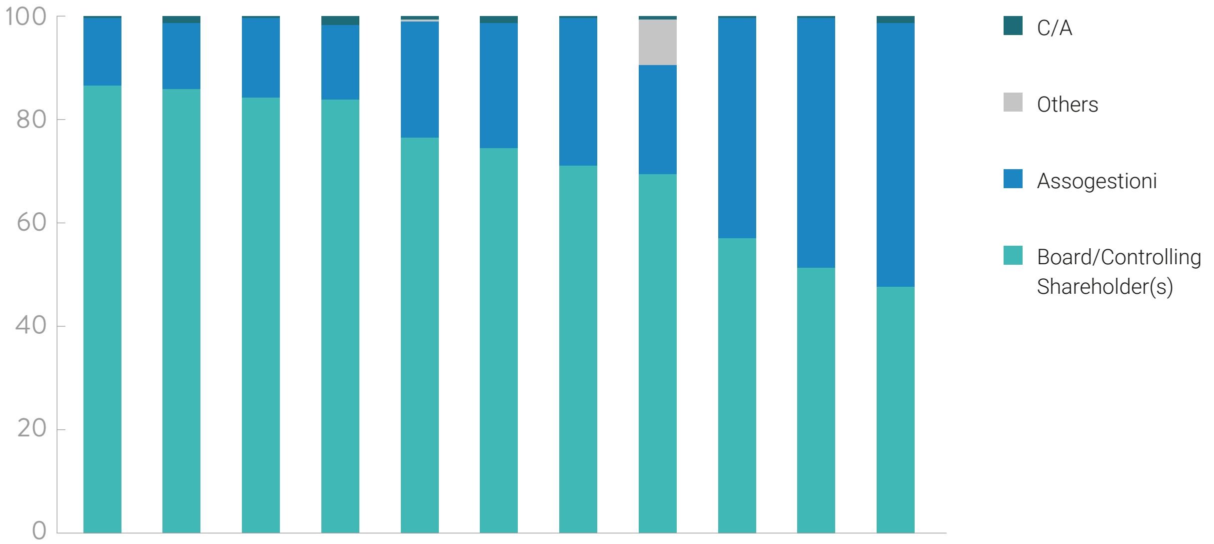
BOARD

11 FTSE MIB issuers renewed their Board of Directors during the 2020 proxy season and in two cases the outgoing Board of Directors had presented its own list.

The companies which presented lists of the outgoing Board are characterized by the absence of a reference shareholder, a structured selection process, and availability for engagement with minority shareholders which has been widely recognized by receiving support from investors and favourable recommendations from proxy advisors.

In a single case, the list submitted by the reference shareholder was second to Assogestioni for votes received at the AGM.

BOARD ELECTIONS 2020



OUTLOOK 2021

In consideration of the impact of Covid-19, board decisions on potential compensation plan adjustments will be analysed and addressed by shareholders in 2021. Therefore Boards will be encouraged to provide disclosure to shareholders of their activities and their respective rationale.

In discussion with investors we noticed an increased interest in social issues, emerging also through the use of remuneration related measures such as the pay ratio and a growing focus on pay quantum.

When considering discretionary compensation Boards should be aware of the potential negative perception by the financial community, especially for those companies that have suffered a significant impact from the pandemic crisis and consequently had to reduce their workforce.

Next year will also be characterized by significant Board renewals under the new Corporate Governance Code, that will be applied for the first time with a significant impact on:

- **Board of Directors slate,** and
- **Chairman independence**

AGMs 2020: INVESTOR INSIGHTS Q&A

Livio Gentilucci,
Head of Investments Stewardship,
Generali Insurance Asset Management SGR

Do you consider that companies, overall, have made an effort to improve their transparency? What were the most critical elements you noticed?

Yes, I do. During the last proxy season I've noticed that global issuers have made a continuous effort to improve the disclosure on different topics. Above all, thanks to the pressure from institutional investors and the implementation of SRD II in European Countries, investee companies have reached a higher degree of transparency on executive compensation frameworks and practices. However, I still see a lot of work has to be done. Particularly in regard of the disclosure of long-term incentives KPIs, which are still in many cases opaque. I believe next year we will have a better picture on top executive remuneration, as many important European markets were this year at their first vote on say-on-pay and on policy. Issuers from these countries, as well as others, have done an incredible effort, but their disclosure and policy have still to fully appreciate the magnitude and importance of best practice principles.

Do you think Directors' performance should be assessed using both financial and non-financial performance criteria, including, where appropriate, environmental, social and governance factors?

Absolutely, Generali Investments has been evaluating positively the presence of ESG metrics in executive compensation for many years now. I believe the raising of these KPIs in remuneration practices to be an expected and needed development. Investee companies have been committing themselves to reduce gas emission, enhance employees safety and fight climate change for years, but without a direct link to performance criteria these are most likely to be downgraded to "minor level" priorities in the business strategy. Executives that are evaluated on ESG criteria have their "skin in the game" and they will make ESG matters a top priority.

As a responsible investor, Generali Investments is deeply committed to promoting sustainability in investee issuers through proxy voting and engagement. What are the most significant engagement trends that have emerged during the last years?

With the rise of the climate change challenge, we have seen engagement being promoted as one major lever to fight against climate change. Indeed, to appear "good" the temptation is to simply exclude carbon intensive companies from our portfolio, but addressing climate change is much more than that. Climate change is systemic. This is why, as investor in the real economy, it is our responsibility to engage companies in our portfolio. We want really to impact companies we invest in. In addition, biodiversity is gaining traction as a consequence of the pandemic, and we see the same "institutions" being created for this topic like for climate (IPCC, TCFD, SBT...) which is a very good sign.

What are your principles when performing engagement?

- **Focus:** we focus on "risky companies" we have a significant exposure on and a real probability to influence. Our engagement committee makes the final decision in terms of selection and escalation.
- **Coordination:** for each strategic engagement, we onboard all internal stakeholders: ESG analysts, Voting, Credit analysts, Portfolio managers.
- **Expertise:** this approach enables us to gather the right level of expertise, to prepare detailed engagement case and realistic expectations.
- **Partnership:** all the above enables us to create a true partnership with our engaged investees, fostering a trust relationship where we can help each other in a win-win deal.

What are your engagement priorities for next year?

Unsurprisingly, climate change represents half of our engagement effort, and it will remain, maybe even increase in the future. In addition, we are committed to engage companies on social issues as this topic is quickly increasing awareness among the market operators. Governance (including the minority lists in Italy), corruption and other environmental issues including biodiversity will be also themes to touch.

AGMs 2020: INVESTOR INSIGHTS Q&A

Cristina Ungureanu,
Head of Corporate Governance,
Eurizon Capital SGR

Do you consider that the companies, overall, have made an effort to improve their transparency? What were the most critical elements you noticed?

The principles of accountability, transparency and engagement have always applied to best practices for good corporate governance. Transparency is fast becoming the new paradigm for conducting business.

On a positive note, what has changed in the last couple of years is that there is a greater emphasis on good corporate governance than ever before, including on its oversight of Sustainability issues. Particularly large Italian companies provide greater understanding of board's reasoning in how they make decisions and oversee management, with a longer-term perspective in mind, resulting in a robust corporate governance that promotes stronger oversight.

There is a trend towards Integrated Reporting, which highlights the growing understanding of ESG's financial materiality on the part of companies, enabling investors to make better decisions by increasing market efficiency. We have noticed that better integrated reporting has also helped companies align their business strategy with their sustainability objectives. Through improved reporting, companies can also understand, communicate, and better manage their contributions to the SDGs.

As investors we increasingly seek decision-useful, comparable and reliable information about sustainability performance in corporate disclosures, to better understand how non-financial metrics can impact business and profitability. Our expectations are towards better clarity of the financial impact of ESG risks, such as climate change or social risks. We need to see an increasingly clear correlation between economic and financial performance – and meeting the SDG's established by the UN.

Has your voting approach changed in the past years, given the rapid developments in the Corporate Governance area?

Our voting strategy has been evolving. We have had well-defined criteria for shareholder meeting participation, such as meeting certain numerical holding thresholds and participating at meetings in order to support minority shareholder rights. Our recent approach has been oriented towards a case-by-case approach, in order to ensure meeting participation at companies that are relevant for our portfolio in line with our long-term investment strategy.

Specifically regarding Italian companies, the evolution of the Italian Corporate Governance Code in the last year has been a point of reference for our active investment in order to grasp companies' approach to innovative issues such as the independence of the board, the role of Sustainability in their business and governance strategy, and companies' diversity policies.

Over the past year we have been deepening our engagement with Italian and foreign companies on a range of topics, holding them to the highest standards of corporate governance and sustainability. Our voting strategy focus is increasingly aligned with the engagement topics that are considered material for the respective company and hence impacting on our investment portfolio.

Several companies, particularly large ones, are communicating a materiality matrix to inform shareholders and key stakeholders about the risks and opportunities within the business strategy that mostly impact their financial performance as well as their external framework. Disclosure of the most important non-financial drivers of value within the business and how these are monitored are becoming extremely important for our voting decisions that regard companies' capital allocation or remuneration policies.

How have your considerations towards executive remuneration policies evolved? Do you think Directors' performance should be assessed using both financial and non-financial performance criteria, including, where appropriate, environmental, social and governance factors?
Our remuneration policy has also developed, becoming more nuanced and considering a tailored approach towards individual companies.

We do not want to see dramatic changes in remuneration policies. It is important to see continuity with previous remuneration plans, reflecting the performance appraisal, the value that executives have created during the reference period, the right mix of short- and long- term incentives and the right alignment with shareholder interest.

We continue to monitor discretionary payments very carefully, flag them as potential issues where unreasonable or misaligned with the pay-performance philosophy. Nevertheless, not all policies that adopt an element of discretion warrant a negative vote, as we assume that boards do a good job in overseeing the appropriate implementation of the remuneration policies.

We expect a company's executive remuneration policy to help promote the appropriate balance between the pursuit of short-term targets and the achievement of long-term value generation. Therefore the choice of KPIs is important, not only regarding financial metrics but also qualitative factors, linked to company's ESG performance objectives. We may revert to the materiality matrix also for assessing and understanding company's priorities in terms of performance, as an expression of the remuneration metrics chosen.

We are also aware that the longer-term nature of performance objectives, for example considering the link with climate change strategy (this being included also in the companies' industrial plans) will be challenging. Other challenges will emerge as well, and I'm thinking of the increased importance of social factors, such as the attention to human capital. All companies will need to rethink their strategy and purpose in these directions, aligning their remuneration policies with such important goals.

The analysis of investor voting behaviour and voting recommendations of proxy advisors do not seem to show different significant trends in the 2020 season. Do you expect Board should address the consequences of the Covid-19 pandemic (if so, what are you looking for in particular)?
Every major crisis has shown that companies need to be better prepared for rapid crisis responses.

Despite the uncertainties of the current environment, the Covid-19 crisis might prove to be a watershed moment in a number of contexts - including in the re-orientation of corporate governance priorities towards addressing social impact and the interests of a wider group of stakeholders.

I think that companies that didn't really understand the impact and the importance of ESG prior to this health crisis have probably learned a lot from this exercise. Some of the aspects that we were already focusing on are going to be more emphasized as a result of this crisis; one relevant example is the 'S' in ESG, which represents social issues. Covid-19 has highlighted the importance of communicating to employees and the broader stakeholder group about how they are taking care of employee's health and wellbeing.

Stakeholders are increasingly holding companies to a higher social standard, demanding a real commitment to responding to health issues, diversity, inequality, and social unrest.

For us, companies' stakeholder engagement will be another important metric for companies' measurement of overall behavior and performance.

Today's directors should therefore become increasingly aware of the importance of ESG to investors, employees, consumers, and the company's bottom line. Companies will need to re-think their sustainability approach for a post-Covid world, focus on the substance of their impact, set out a strategy of future action and involve all their stakeholders.