

M O R R O W  
S O D A L I

# The 2023 european proxy season review

ITALY



# Italy

This article analyzes the Annual General Meetings (AGMs) of Italian issuers listed in the FTSE MIB index as of July 31<sup>st</sup>, 2023, for a total of 32 meetings. The sample does not include index constituents that are incorporated abroad and one company, Mediobanca, which is holding its Annual General Meeting later in the year.

## Meeting attendance and quorum

### Attendance format

The 2023 Annual General Meeting season was characterized by a further extension of the special provisions for holding listed shareholders' meetings. These provisions were originally introduced by the "Cura Italia" decree in 2020 in response to the restrictions imposed by the COVID-19 pandemic.

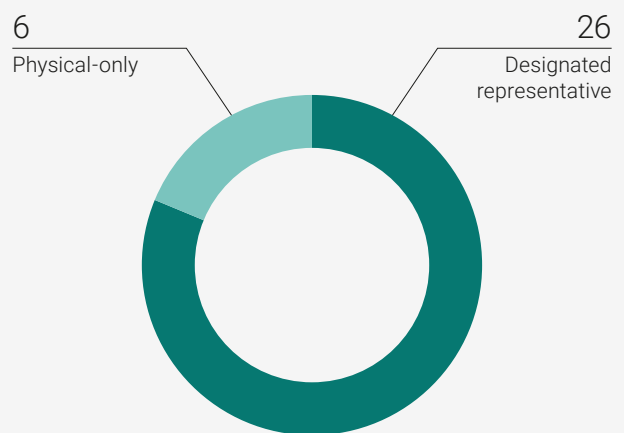
The decree permitted meetings to be held behind closed doors by utilizing remote participation tools, such as electronic voting, postal voting, telecommunication methods, and exclusive recourse to the designated representative. These measures deviated from the statutory provisions to facilitate shareholder participation and voting without the necessity of their physical presence. This regime was extended until July 31<sup>st</sup>, 2023, and was consistently adopted during the voting season.

In fact, the number of companies adopting the special regime in 2023 remained significantly high. Only six FTSE MIB issuers held their AGMs under the ordinary regime, which required physical presence and provided for proxy voting. The remaining portion held closed-door AGMs, where shareholders were required to cast their votes in advance exclusively through the designated representative.

Some shareholders, often including proxy advisors, raised concerns about exclusive participation via the designated representative. Their underlying rationale stems from two key points. First, it limits shareholders' ability to cast their votes only before the meeting potentially restricting their ability to respond to developments during the meeting. Second, it curtails access to shareholder rights beyond voting which are typically exercisable at the shareholders' meeting, such as the presentation of new resolution proposals.

Nonetheless, in light of the recommendations formulated in the past by the supervisory authority on shareholder rights, companies have adopted measures to ensure shareholders make an informed vote, particularly through timely disclosure of the resolutions on the agenda and anticipation of the deadlines for Q&A.

### AGM ATTENDANCE FORMAT FOR FTSE MIB ISSUERS



*Most issuers opted for holding the AGM under the emergency regime, which had been extended until the end of July 2023. This regime allowed shareholder participation exclusively through designated representatives, requiring shareholders to cast their votes solely by proxy prior to the AGM.*

## Quorum

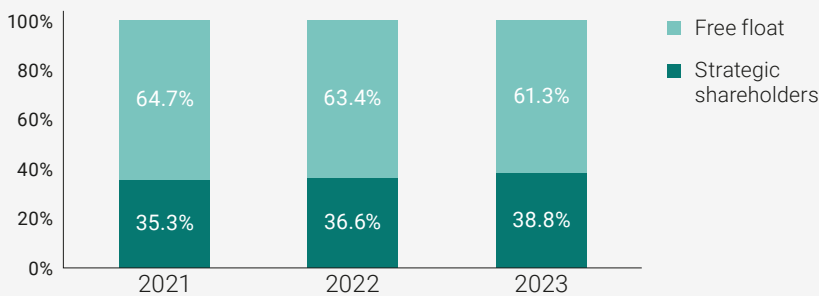
By observing the changes in the share capital structure of FTSE MIB issuers during the three-year period from 2021 to 2023, we have noted a steady increase in the average stake held by strategic shareholders, reaching nearly **39%** of the share capital, on average. We consider these strategic shareholders to hold a significant stake in the company due to their active involvement in corporate bodies and their consistent voting at AGMs. Examples of such strategic shareholders include company founders, executives, state-controlled entities, or other shareholders with board representation.

Our study of the ownership structure also reveals an average decrease in the free float among FTSE MIB companies.

However, when we examine the evolution of quorum, we find that the average free float participation, in terms of share capital, has remained steady at nearly **34%**. This has led to an overall increase in voter turnout of almost 4 p.p. over the last three years.

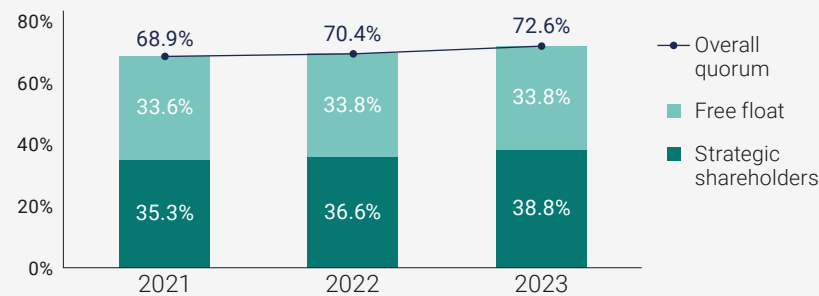
Another noteworthy finding relates to the participation of the free float component in AGM voting. Over the past three years, on average, the free float, primarily represented by institutional shareholders and retail investors, has increased its active participation. The average percentage of free float voting at the AGMs stood at approximately **55%**, compared to **52%** in 2021.

### SHARE CAPITAL STRUCTURE OF FTSE MIB ISSUERS



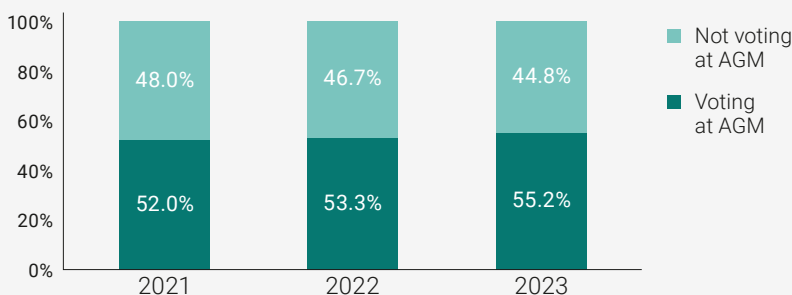
*Strategic shareholders, on average, have increased their share capital holdings, with the average stake rising from 35.3% in 2021 to 38.8% in 2023. This increase has resulted in a proportional decrease in the free float component.*

### QUORUM EVOLUTION AND BREAKDOWN IN FTSE MIB ISSUERS' AGMS



*The overall quorum of AGMs for FTSE MIB issuers has increased during the 2021-2023 period. This increase can be attributed to a larger stake in the share capital held by strategic shareholders and a consistent level of participation from the free float.*

### FREE FLOAT AGM PARTICIPATION IN FTSE MIB ISSUERS



*Despite a decrease in terms of share capital, the free float has, on average, increased its participation through votes at the Italian FTSE MIB issuers, rising from 52.0% to 55.2%.*



## Board elections

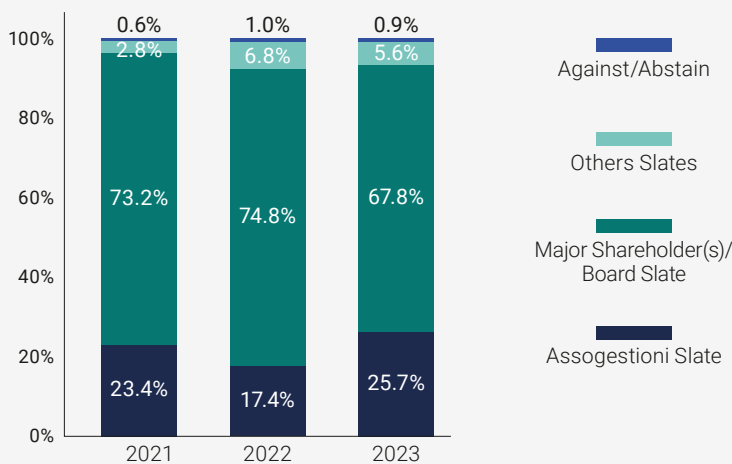
Italian board elections occur every three years as a market practice, defining the term of the board of directors' mandate. Italian listed companies conduct these elections using a unique system called "voto di lista", or slate election mechanism. Under this system, shareholders holding a certain threshold of share capital are entitled to present slates of candidates that compete with each other. Typically, these slates are put forth by the main shareholder and Assogestioni, an association of institutional investors. Some company bylaws also allow the outgoing board to present a slate, particularly in cases where there are no controlling shareholders and the share capital is dispersed.

In 2023, 12 companies conducted board renewals through the voto di lista system. This year, slates presented by institutional investors through Assogestioni received significantly more support compared to 2021, increasing from **17%** to **26%** of the votes cast at the AGM, on average. In 2022, in three out of 12 board renewals, only a slate from the majority shareholder was presented, without other competing slates available for vote. In those cases,

substantial support was garnered for the major shareholder/ board slate, ultimately impacting the average results of the overall category. This can be further observed when examining the second graph, which illustrates the voting preferences of the free float. In 2022, the major shareholder/ board slate received, on average, more than half of the free float votes. However, in 2023, Assogestioni slates obtained substantially more support.

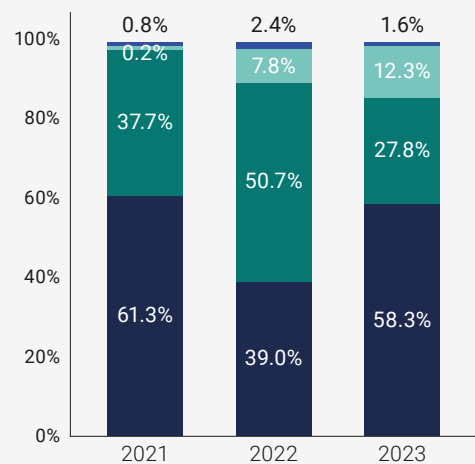
Notably, in both 2023 and 2022, an average of **6%** and **7%** of votes, respectively, were cast in favor of a third slate that did not fall within the two aforementioned categories. The level of support for third slates is even more significant when looking at the free float category. While in 2021, third slates were put forth without much success, especially from the free float, the increased support in 2022 and 2023 for these slates demonstrates the ability of shareholder proponents to communicate with the market and, through activism, gain the favor of a significant stake in the market. The final chapter will shed more light on recent activism in the Italian market.

SLATES' AVERAGE OVERALL SUPPORT



In 2023, the slates presented by the major shareholder or the outgoing board remained the most voted ones, although there was a year-on-year decrease in the average support, declining from **75%** to **68%**. Assogestioni slates experienced a significant increase in support, rising by nearly 10 p.p.

SLATES AVERAGE FREE FLOAT SUPPORT



Among the free float voters in 2023, the majority favored Assogestioni slates. Taking into account the increased support for third slates (averaging **12%** in 2023), the major shareholder/board slates received fewer votes, dropping from being the majority in 2022 to accounting for "only" **28%** of the votes in 2023.



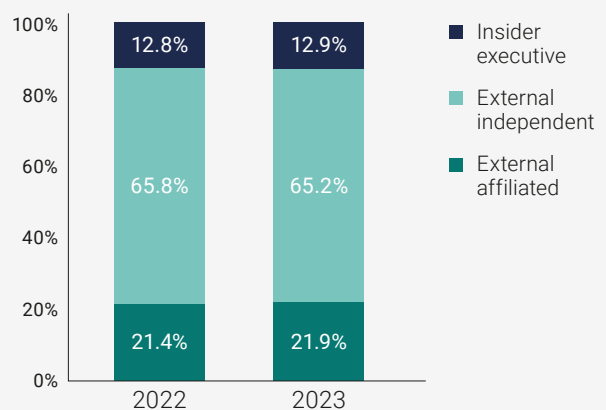
## Post-AGM boards

### Board composition

Following the 2023 board renewals, the average composition of the boards of directors of Italian blue-chip companies at the end of the 2023 voting season remains largely unchanged compared to 2022. External independent directors now account for **65.2%** of the total, a slight decrease from the **65.8%** observed in 2022. Meanwhile, both external affiliated (or non-independent non-executive) and insider executive directors have slightly increased when compared to their 2022 numbers.

Overall, the average level of independence remains satisfactory, aligning with the recommendations of the local Corporate Governance Code, which sets the minimum threshold for independence at non-controlled companies at **50%**. Out of the 32 issuers, only four companies have a minority-independent board of directors, all of which are characterized by the presence of a controlling shareholder. Additionally, lead independent directors have been appointed in nearly **38%** of issuers included in the sample.

### POST-AGM BOARD COMPOSITION FOR FTSE MIB ISSUERS



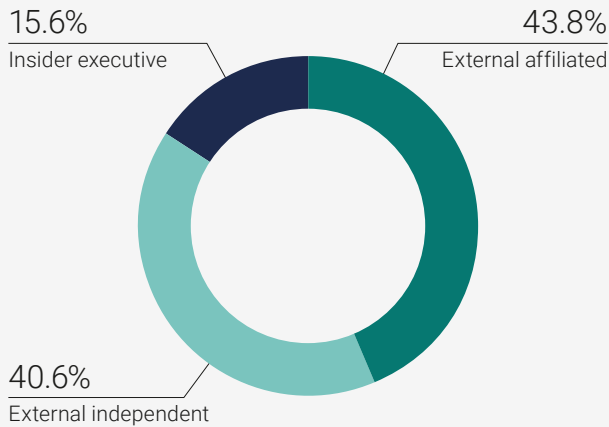
*In 2023, following the director elections of 12 companies, there was a decrease in the average level of independence. However, it's important to note that boards of directors are still primarily composed of external independent directors, accounting for nearly **66%** on average.*



### Board chairperson

The analysis of board chairs at Italian FSTE MIB companies indicates that the majority of boards are chaired by non-independent directors. Specifically, only **40.6%** of boards have independent chairs, while the remaining portion is divided between external affiliated chairs (**43.8%**) and insider executives (**15.6%**).

#### CLASSIFICATION OF BOARD CHAIRPERSON IN FTSE MIB ISSUERS



The majority of chairs in Italian FTSE MIB are non-independent, with **43.8%** being affiliated and **15.6%** being executives. In the latter case, only one company has a chair holding the CEO role in a combined manner, while all other chairs have executive powers which differ from the CEO position.

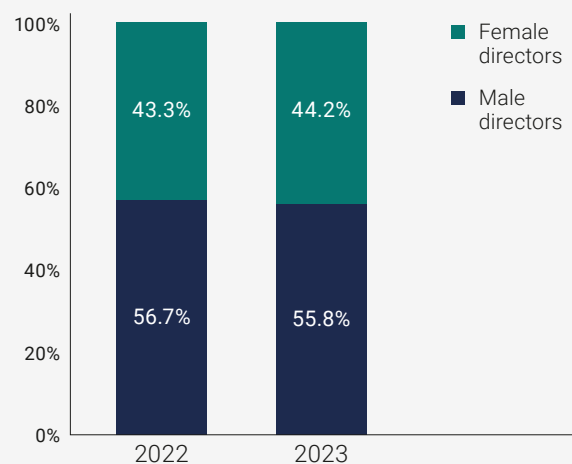
### Board gender diversity

Thanks to a dedicated legal framework, the level of gender diversity at Italian main index companies has steadily increased and remained fairly balanced in 2023. According to the applicable regulation, issuers are required to compose their main corporate bodies, including the board of directors and the board of internal statutory auditors, with at least **40%** of the less represented gender.

Consistent with the previous year, in 2023, the less represented gender continued to be female, typically representing **44%** of the board, an increase from the **43%** observed in 2022.

To date, only seven boards are chaired by a chairwoman, which represents nearly **22%** of the sample. This represents a decrease compared to 2022 when the number of companies with chairwomen was nine.

#### BOARD GENDER DIVERSITY IN FTSE MIB ISSUERS



On average, FTSE MIB boards exceed the mandatory two-fifth gender diversity threshold. Currently, only one company has a board of directors which does not meet the required level of gender diversity.

## Remuneration

### Approval of the Remuneration Policy

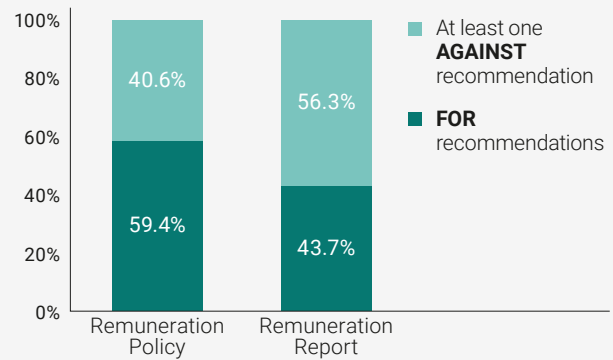
Say-on-pay at Italian issuers takes a form similar to that of other European markets, involving the approval of Sections 1 and 2 of the Remuneration Report. This report provides details on the remuneration of top management and the main governing bodies, including the board of directors and the board of internal statutory auditors. Section 1 represents the remuneration policy, which must be approved ex-ante by shareholders through a binding vote at least every three years. Section 2, on the other hand, is voted on by shareholders annually, allowing them to accept the fees and other remuneration paid in the previous fiscal year on an ex-post basis.

Similar to previous years, the resolutions concerning executive remuneration remain the most contested topic during the 2023 Italian voting season. The level of shareholder dissent at the 2023 Italian AGMs has been remarkably high, averaging around **15%** in both the approvals of the Remuneration Policy (Section 1) and Report (Section 2).

This heightened scrutiny can partly be attributed to the more stringent approach taken by the most influential proxy advisor. This advisor has nearly doubled the number of negative recommendations for both the Policy and the Report compared to 2022.

The second-most influential proxy advisor in the Italian market, while more consistent with its previous approach, continues to issue a higher number of negative recommendations, particularly regarding the second section of the Remuneration Report. In total, proxy advisors have approved **59%** of the Remuneration Policies but only **44%** of the Remuneration Reports submitted to vote in 2023.

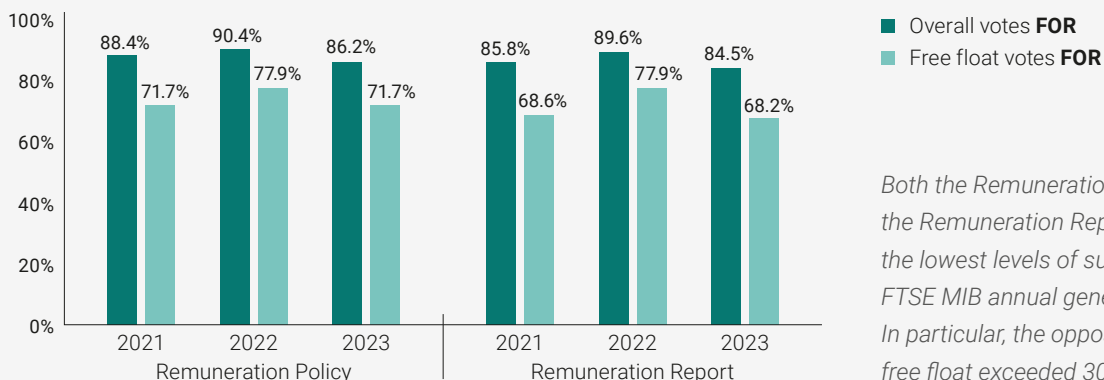
### ISS AND GL VOTING RECOMMENDATIONS IN FTSE MIB REMUNERATION ITEMS



Among the primary concerns raised by proxy advisors during the 2023 season, we highlight excessive severance agreements, vague derogation powers, excessive or poorly justified increases in CEO pay and other forms of discretionary powers, such as one-off bonuses.

The analysis of vote results highlights the heightened scrutiny by investors in 2023. While in 2022, vote results on the main remuneration items had reached satisfactory levels, in 2023 shareholders, particularly institutional investors, adopted stricter voting approaches regarding remuneration. The total average support level decreased from **90.4%** to **86.2%** y.o.y. for the approval of the Remuneration Policy and from **89.6%** to **84.5%** y.o.y. for the approval of the Remuneration Report. More significantly, the average level of support from institutional investors decreased by 6.2 p.p. for the Remuneration Policy approval and by 9.7 p.p. for the Remuneration Report.

### APPROVAL OF THE REMUNERATION POLICY AND THE REMUNERATION REPORT



Both the Remuneration Policy and the Remuneration Report garnered the lowest levels of support at the FTSE MIB annual general meetings. In particular, the opposition from the free float exceeded 30%, on average.

It should be noted that each company has different practices, and there is no shortage of positive experiences. However, international investors, in particular, tend to perceive Italian companies as excessively relying on discretion. They would highly value comprehensive disclosure concerning all elements of pay and the decisions made by the board in its assessments. Moving forward, it will be paramount for issuers to establish effective engagement channels with shareholders to help narrow the gap between expectations and outcomes.

### ESG metrics in executive pay

Notably, the Italian Corporate Governance Code recommends that the Remuneration Policy for executive directors and top management should outline predefined performance objectives that are measurable and significantly linked to a long-term horizon. These objectives should also align with the company's strategic objectives and be geared towards fostering its sustainable success. In cases where relevant, non-financial parameters should also be considered.

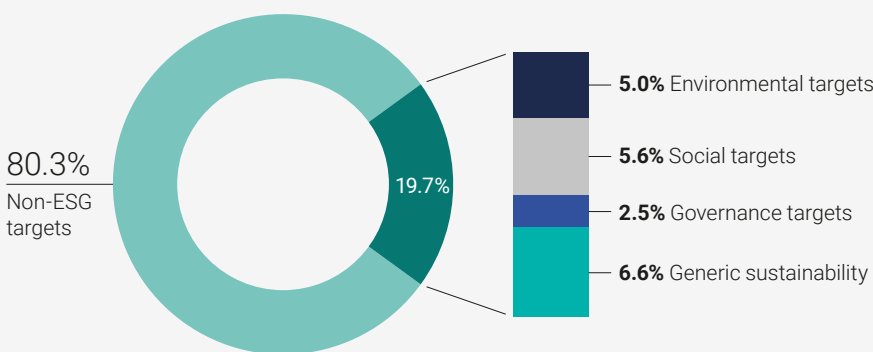
The inclusion of non-financial ESG targets in executives' variable pay has been growing in recent times. Among FTSE

MIB issuers, it has become market practice to incorporate ESG targets into remuneration schemes to guide executive performance, albeit in various forms.

With reference to annual bonuses, nearly all FTSE MIB issuers (**97%** of the sample) include ESG targets, with these objectives typically accounting for **20%** of the overall bonus scorecard, on average. When categorizing ESG goals, general sustainability targets (such as undisclosed sustainability goals, general sustainability targets, or the achievement of certain ratings and rankings in sustainability indexes) make up **7%**, while dedicated environmental targets account for **5%**, social targets for **6%**, and governance for **3%**.

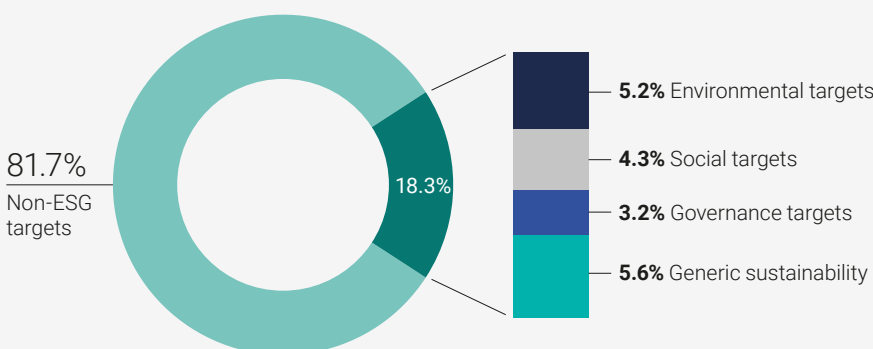
However, in the case of long-term compensation, a smaller percentage of issuers incorporate ESG targets, with only **76%** of FTSE MIB companies reporting their use in long-term plans. Similarly, the weight of ESG targets is lower compared to annual bonuses, constituting **18%**. Within this category, environmental, social and governance objectives carry weights of **5%**, **4%** and **3%**, respectively, while generic sustainability criteria have an average weight of **6%**.

### USE OF ESG TARGETS IN THE ANNUAL BONUS



*All FTSE MIB companies, with the exception of one, disclose the inclusion of ESG targets in the annual bonus component of executive compensation (97% of companies in the sample).*

### USE OF ESG TARGETS IN LONG-TERM COMPENSATION



*The use of ESG metrics in long-term incentives is less common among FTSE MIB issuers but still comprises the majority (76% of the issuers). In this context, ESG criteria account for 18% of the scorecard, with environmental targets being the most prevalent.*



## Activism in the Italian market

The 2023 Italian voting season has witnessed an unprecedented wave of shareholder activism. In recent years, there was typically only one AGM in the FTSE MIB per voting season targeted by shareholder activists. However, in 2023, this number doubled, with two blue chip companies experiencing proxy fights during their respective board elections. These companies were state-backed issuers Enel and Leonardo.

In April, the London-based investment fund Covalis Capital submitted a list of candidates for the board of Italy's largest utility company, Enel. This move challenged the list presented by the Ministry of Finance, which included a newly proposed CEO and Chair. It is worth noting that the Italian government is the largest shareholder in Enel, holding approximately **24%** of the company's share capital, given the company's strategic importance to national interests and its susceptibility to golden powers.

While Covalis Capital's list of candidates did not garner sufficient support from shareholders, resulting in a resounding

victory for the Italian Treasury, a parallel effort by another investment firm, American-based Greenwood Investors, managed to achieve sufficient support from institutional shareholders during Leonardo's board elections. Leonardo, formerly Finmeccanica, is Italy's largest entity operating in the Aerospace, Defence and Security sector.

Despite facing similar circumstances, namely the renewal of the board of a highly strategic listed company "controlled" by the Italian State with circa **30%** of the share capital, Greenwood adopted a different strategy to secure consensus and place its candidates on the board. Instead of presenting a long list of candidates to compete against the State's nominees, Greenwood focused on a select few candidates to secure seats designated for minority shareholders under Italian legislation. These seats are typically put forth by Assogestioni, the Italian association of institutional investors. By employing this strategy, Greenwood managed to gain the support of the main proxy advisors and a significant stake of institutional shareholders, ultimately securing the appointment of four out of 12 board members.



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## ABOUT MORROW SODALI

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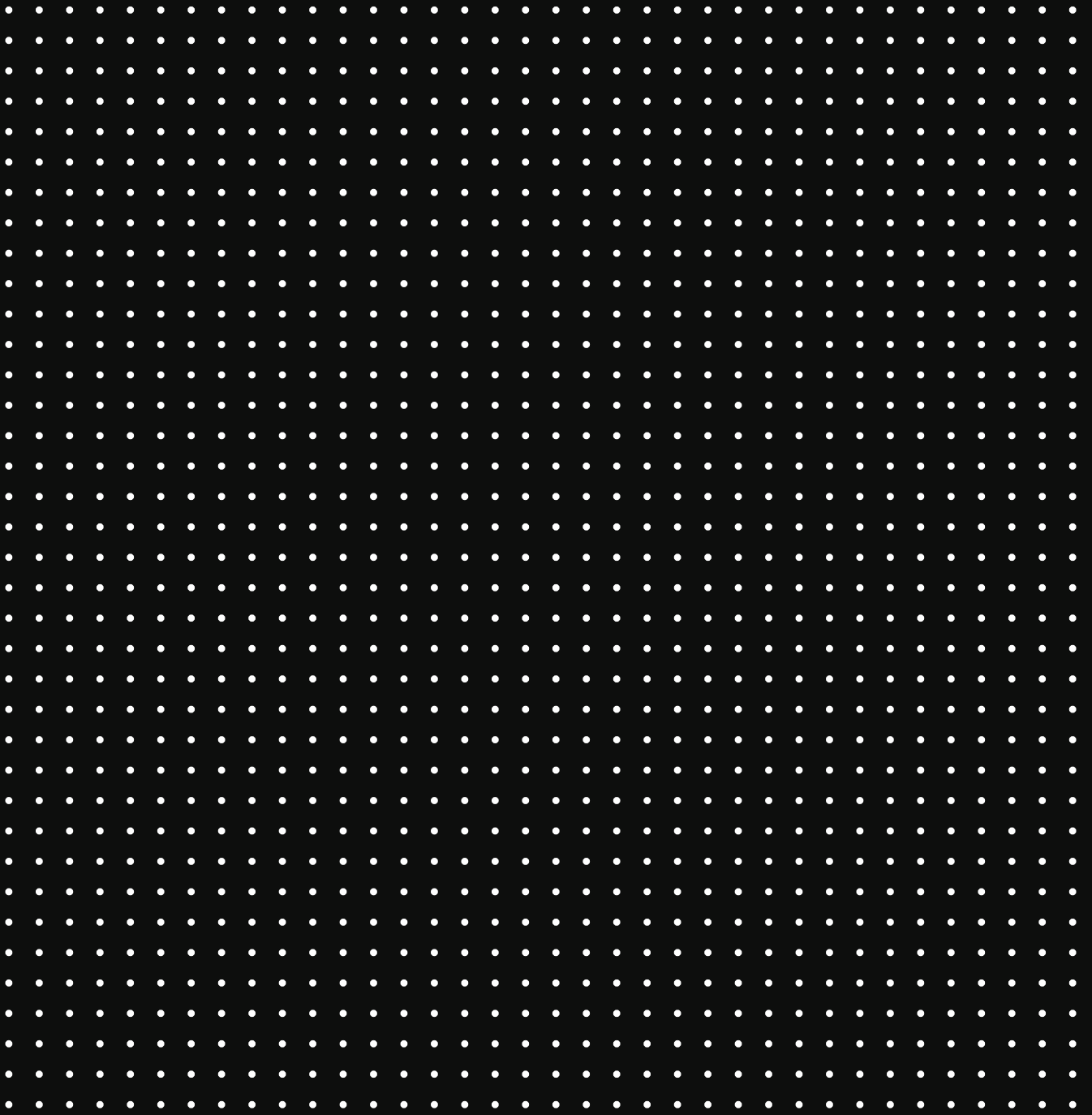
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