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Vanguard Investment Stewardship Insights

Say on Pay at The Carlyle Group Inc.

October 2024

Company: The Carlyle Group Inc. (Carlyle)

Meeting date: May 29, 2024

Proposal(s): Item 5: Advisory Vote to Ratify Named Executive Officers' Compensation

How the funds voted

At the 2024 annual meeting of Carlyle, a global investment management firm, the Vanguard-advised funds supported an advisory management proposal requesting that shareholders approve the company's compensation of its executive officers ("Say on Pay").[1]

The funds' proxy voting policies

As articulated in the funds' proxy voting policies, the Vanguard-advised funds evaluate compensation plans on a case-by-case basis, taking into consideration the facts and circumstances at the company in question. Compensation policies linked to long-term relative performance are fundamental drivers of sustainable, long-term returns for a company's investors. Providing effective disclosure of compensation policies, their alignment with company performance, and their outcomes is crucial to giving shareholders confidence in the link between executives' incentives and rewards and the creation of long-term returns for shareholders. We do not believe there is a one-size-fits-all approach to executive compensation, as the norms and practices for executive compensation vary by industry type, company size, company maturity, and region.

The Vanguard-advised funds are more likely to support compensation plans in which a majority of executive compensation remains variable, or "at risk," with rigorous performance targets set well beyond the next quarter. Some of the key considerations that we evaluate when reviewing executive compensation include:

Alignment of pay and performance. The funds look for evidence of clear alignment between pay outcomes and company performance. This is mainly assessed through alignment of incentive targets with corporate strategy and analysis of three-year total shareholder return and realized pay over the same period versus a relevant set of peer companies. If there are concerns that pay and performance are not aligned, a fund may vote against a pay-related proposal.

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.

Pay plan structure. Plan structures should be aligned with the company's stated long-term strategy and should support pay-for-performance alignment. Where the funds have determined that a plan's structure has led to, or could in the future lead to, pay-for-performance misalignment, a fund may vote against a pay-related proposal. For compensation structures that are not typical of a market, the Vanguard-advised funds look for specific disclosure demonstrating how the structure supports long-term returns for shareholders.

Governance of pay plans. The funds look for boards to have a clear strategy and philosophy on executive pay, utilize robust processes to evaluate and evolve executive pay plans, and implement executive pay plans responsive to shareholder feedback over time. The funds also look for boards to explain these matters to shareholders via company disclosures. Where pay-related proposals consistently receive low support, the funds look for boards to demonstrate responsiveness to shareholder concerns.

Analysis and voting rationale

The Vanguard-advised funds supported the Say on Pay proposal at Carlyle's 2024 annual meeting despite initial concerns regarding executives' total pay relative to peers and questions about the company's approach to governing compensation practices.

At the company's 2023 annual meeting, the funds voted against Carlyle's Say on Pay proposal due to concerns related to the board's governance of executive pay. This vote reflected our concerns with multiple discretionary equity awards to the company's then-CEO. During a 2023 engagement, company leaders did not sufficiently explain the board's rationale for the discretionary awards; these considerations informed our initial analysis of the 2024 proposal.

In our initial review of the 2024 Say on Pay proposal, we observed (in the company's summary compensation table) that reported compensation for the incoming CEO was valued at more than $186 million. The pay appeared to be more significant than that reported for the company's prior CEO, and it was much larger than that of peer firm CEOs. However, based on our analysis of the company's disclosure, the CEO's equity grants—valued at nearly $180 million—reported in 2024 were intended to cover the next five years of equity awards. We found that 70% of the award value was subject to increasingly rigorous performance metrics, contingent upon both absolute stock price hurdles and performance relative to peers (for 40% of the performance-based shares). This context began to mitigate some of the pay-governance concerns we had in prior years.

We also identified through our research that Carlyle made additional equity grants to the new CEO in early 2024 valued at $30 million. (Although these grants were disclosed in the company's 2024 proxy, they will not appear in the summary compensation table until the company's 2025 proxy because of their timing.) This incremental award renewed our concerns regarding the board's exercise of discretion and the governance of executive pay.

Because of these concerns, we engaged with Carlyle executives and board members before the company's 2024 annual meeting. During the engagement, company leaders provided context for changes in the overall executive compensation program to address challenges in executive talent attraction and retention in the finance sector. Additionally, Carlyle leaders shared that the supplemental grant to the new CEO was intended to further align his equity compensation and stock-price targets with other senior leaders at Carlyle. The Compensation Committee confirmed that additional equity grants would not be awarded to the CEO before 2028, which is the end of the term for the CEO's initial performance-based equity grants.

Although the CEO's pay relative to industry peers and Carlyle's compensation plan governance initially raised some concerns, our analysis of the company's public disclosures, coupled with context from our engagement with company leaders, resulted in the Vanguard-advised funds supporting the Say on Pay proposal at the 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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