Vanguard Investment Stewardship Insights

Voting insight: Shareholder proposal regarding executive compensation at AmerisourceBergen

March 2022

Vanguard publishes Investment Stewardship Insights to promote good governance practices and to provide investors and public companies with our perspectives on important governance topics and issues that come up for shareholder votes.

Company: AmerisourceBergen Corporation (AmerisourceBergen)

Meeting date: March 10, 2022

Proposal: Item 5—Prohibit adjusting compensation metrics to exclude legal and compliance costs

How the funds voted

At the annual meeting for AmerisourceBergen, the U.S.-based pharmaceutical wholesaler, the Vanguard funds did not support a shareholder proposal requesting that the board adopt a policy that no financial metric used to determine executive compensation be adjusted to exclude legal or compliance costs.

Vanguard's principles and policies

Performance-linked compensation policies and practices are fundamental drivers of sustainable, long-term value creation. On behalf of the Vanguard funds, the Investment Stewardship team employs a structured, case-by-case approach to evaluating compensation plans. We focus on pay-for-performance alignment (supported by relative performance metrics, such as relative total shareholder return compared with an appropriate peer group or index), reasonable total pay relative to a relevant peer group, and compensation structures that incentivize long-term outperformance of peers and promote sustainable value for a company's shareholders. When shareholders do well, so should executives. When companies underperform, however, executives' pay should move in the same direction.

Vanguard expects companies and their boards to prioritize strong pay-for-performance alignment. We look for robust disclosure that provides appropriate context, particularly when grappling with extraordinary items, such as one-time litigation charges. This disclosure is crucial for giving shareholders confidence that the board is looking out for their best interests.

Analysis and voting rationale

Vanguard has engaged over many years with AmerisourceBergen's board and company leaders. Our discussions last year and leading up to this year's meeting covered executive compensation and board oversight, among other topics. Our most recent engagements focused heavily on the board's response to the results of the 2021 Say on Pay vote, which passed but with low shareholder support, in part because the compensation committee excluded opioid-related litigation settlement charges when calculating executive pay. The proposal in question came in response to that decision and the low support shown in the 2021 vote results.

Our analysis and engagements found that in response to that low support, the compensation committee demonstrated significant responsiveness to shareholder feedback. In particular, the committee elected to use negative discretion in determining final compensation values for executive officers, so as to drive alignment between compensation and shareholder experience. The committee also improved the disclosure and transparency surrounding its decision-making processes and potential use of discretion.

Our research and analysis, combined with the company's improved disclosure, determined that the compensation committee is clearly articulating the process for its quarterly reviews of the potential adjustments to financial results that would affect executive compensation.

We believe it is appropriate for a compensation committee to have discretion in establishing pay practices, so long as that discretion supports aligning pay with performance and includes adequate disclosure of the committee's practices, policies, and decision-making. We also expect compensation committees to respond to shareholder feedback when support for executive compensation votes is low.

We concluded that the changes the board had already undertaken had addressed the proposal's underlying concerns, and that those changes demonstrated adequate responsiveness to shareholder feedback. Therefore, the Vanguard funds did not support the proposal.

What we expect from boards on this matter

Vanguard expects compensation committees to emphasize long-term pay-for-performance alignment through a rigorous compensation plan structure. Any significant decisions regarding compensation programs should be paired with substantial disclosure of the compensation committee's rationale, alongside any alternatives considered, to ensure that investors understand the process behind the decisions.

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