Vanguard Investment Stewardship Insights

Voting insight: Executive compensation and disclosures on lobbying and diversity at FedEx

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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: FedEx Corporation (FedEx)

Meeting date: September 27, 2021

Proposal: Advisory Vote to Ratify Named Executive Officers' Compensation; Item 5—Report on Alignment Between Company Values and Electioneering Contributions; Item 6—Report on Lobbying Payments and Policy; Item 7—Report on Racism in Corporate Culture

How the funds voted

At the annual meeting for FedEx, the U.S.-based package logistics company, the Vanguard funds supported a nonbinding management proposal seeking approval for the compensation of named executive officers and a shareholder proposal requesting that the board report on the company's lobbying-related oversight, policies, and expenditures.

The Vanguard funds considered, but did not support, two shareholder proposals that requested reports on the alignment between the company's values and its political contributions and on how the company's policies may reinforce racism within its corporate culture.

Finally, the funds supported a shareholder proposal that requested shareholder approval of severance agreements but did not support a shareholder proposal that required an independent board chair.

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 thoughtful, 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), 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.

Boards are responsible for oversight of a company's long-term strategy and material risks. To conduct this oversight effectively, a board of directors must understand the company's strategy and play a meaningful role in identifying, mitigating, and disclosing material risks. Investors benefit from clear, decision-useful disclosure of material risks, which may include a company's political spending and its diversity and inclusion efforts. The Investment Stewardship team evaluates the materiality and oversight of these various risks on a case-by-case basis. If there are gaps in the company's current disclosures or disconnects with long-term strategy, the funds may vote in favor of shareholder proposals that seek enhanced reporting of the company's approach to oversight and strategy alignment.

Analysis and voting rationale

Vanguard has regularly engaged with FedEx's board and company leaders over many years. Our recent discussion focused on the company's approach to executive compensation, risk oversight, strategy alignment, and disclosure of potential risks associated with corporate political activity and diversity and inclusion efforts. Our engagement and our subsequent research and analysis ultimately informed how we voted, which is outlined below.

Ratify named executive officers' compensation. Our review of the company's executive compensation plan revealed strong pay-for-performance alignment on a relative basis. In our engagement with FedEx leaders, they described their rationale of increasing their focus on employees and recognizing strong company performance as driving their decision to reinstate an annual incentive plan. They initially had opted for a one-time equity award. Company leaders were receptive to our feedback on better disclosing their rationale when making mid-year adjustments to short-term plans. We determined that the plan appropriately represented shareholders' interests and incentivized executives to think about the company's long-term success. The funds therefore supported this year's executive compensation plan.

Report on alignment of company values with electioneering contributions. Our review of the company's reporting of corporate political activity (CPA) revealed gaps in disclosure of the company's policy priorities and processes to ensure alignment with strategy and values. During our engagement, FedEx leaders described their policies and processes to ensure alignment with long-term company strategy. The company was receptive to our feedback that shareholders would benefit from additional disclosure on the board's approach to ensuring strategy alignment and addressing potential misalignment. While this remains an area for improvement, we believe the additional lobbying disclosure requested in the shareholder proposal discussed in the next paragraph presents a more immediate opportunity for FedEx. The funds did not support the shareholder proposal seeking a report.

Report on lobbying payments and policies. Our review of the company's lobbying-related reporting revealed gaps in disclosure of its oversight processes and spending. FedEx's disclosures also lagged those of industry peers that regularly publish reports of their lobbying policies, expenditures, and trade association memberships.

This year, Vanguard updated our views on shareholder proposals regarding CPA to account for the growing potential scope of risks emerging from lobbying. (See "How we evaluate corporate political activity shareholder proposals.") Where material, Vanguard expects companies to disclose their board oversight policies, CPA expenditures, and memberships in a manner consistent with industry peers and market norms. Given FedEx's role as one of the world's largest logistics and delivery companies, its past lobbying expenditures, and its participation in industry groups, shareholders could benefit from sufficient disclosures that show the alignment between strategy and the potential risks stemming from CPA that affect long-term shareholder value.

In our engagement with FedEx, company leaders described their efforts to strengthen board oversight practices of corporate political activity to ensure alignment with long-term strategy in support of shareholder value. We believe FedEx can better share this information by enhancing its current lobbying-related disclosure to meet evolving market norms. The funds therefore supported this proposal.

Report on racism in its corporate culture. Diversity, equity, and inclusion are critical to FedEx's success as a global company. We are encouraged to see the company's strong commitment to continually improving its diversity-related disclosures through its annual ESG report and its standard EEO-1 reports. Company leaders were receptive to feedback that investors would benefit from additional disclosure on the board's assessment of the effectiveness of its diversity-related efforts. We look forward to seeing how this reporting continues to evolve. The funds did not support this shareholder proposal because we believe the company has provided extensive disclosure of its diversity, equity, and inclusion efforts and the board remains committed to improving this reporting.

Require independent board chair. The funds did not support this shareholder proposal to require an independent board chair because we generally believe the decision to have an independent chair should be within the board's purview in the absence of significant concerns regarding the independence or effectiveness of FedEx's board.

Submit severance agreement to shareholder vote. The funds supported this shareholder proposal requesting that the board seek shareholder approval of any new or renewed severance agreements.

What we expect from companies on these matters

Vanguard has called on companies and their boards to enhance disclosure on oversight and management of a company's material risks. Market norms, regulations, and investor expectations are moving toward greater disclosure in the governance industry, and you can expect Vanguard, through our engagements, proxy voting, and public advocacy, to continue to seek relevant, decision-useful information on material risks.

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