Vanguard Investment Stewardship Insights

Voting insight: Director accountability at Discovery, Inc., for executive compensation practices

April 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. Vanguard's Investment Stewardship team is responsible for engagement with portfolio companies and proxy voting at the direction of the boards of our internally managed global equity funds, including Vanguard index funds. Investment stewardship activities, including proxy voting, for Vanguard's externally managed active funds are supported by those funds' external advisors.

Company: Discovery, Inc. (Discovery)

Meeting date: April 8, 2022

Proposal: Item 1.1–1.3—Election of directors

How the funds voted

At the annual meeting for U.S.-based media company Discovery, Inc., the Vanguard funds withheld support for directors on the compensation committee.

Vanguard's principles and policies

Performance-linked executive 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 executive 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.

The funds generally expect companies to present executive pay proposals to shareholders at every annual meeting. Where support for executive pay is low, boards should consider their shareholders' views and be responsive to input, though shareholder feedback should not be the sole factor in initiating a review of an executive pay plan structure.

Analysis and voting rationale

Vanguard has a long history of engagements with company leaders of Discovery, at which, among other governance topics, executive compensation has consistently been discussed. The funds have voted against the triennial Say on Pay proposal since 2011. They have also withheld support from Discovery compensation committee members up for election in subsequent years to express concerns about the company's pay practices, including the level of CEO compensation relative to peers, pay-for-performance misalignment, and lack of change in response to low levels of support. The most recent Say on Pay proposal in 2020 drew 61% support.

Ahead of Discovery's 2022 annual meeting, our review of the executive compensation plan identified elements that are not in the best interest of shareholders and long-term value creation, including outsized option grants for the CEO as part of its merger with WarnerMedia. The executive compensation package increased total pay sixfold from 2020.

Vanguard engaged with company leaders to discuss the package. In our assessment, they did not offer a sufficiently compelling rationale for the significant pay increase. We still have concerns about the lack of historical alignment between pay and total shareholder returns as well as about large equity grants, special awards, and low shareholder support in previous Say on Pay votes.

Given pay-for-performance misalignment and continued concerns over Discovery's pay practices, the Vanguard funds withheld support for compensation committee members who were on the ballot.

Because the company did not include Say on Pay on the ballot, and pay practices remained an issue for long-term shareholders, the funds' executive compensation concerns were reflected in the withholding of support from those committee members.

What we expect from boards on this matter

The funds generally expect companies to give shareholders a voice by presenting executive pay proposals to shareholders at every annual meeting and responding to previous low levels of shareholder support for pay plans.

In evaluating plans, we look for the compensation committee to consider pay-for-performance alignment, long-term focus, and a structure that promotes rigor and outperformance. Special awards or large short-term incentives may emphasize a short-term focus over long-term value creation.

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