Vanguard

Vanguard Investment Stewardship Insights

Executive Pay Benchmarking at AstraZeneca

May 2024

Company: AstraZeneca PLC (AstraZeneca)

Meeting date: April 11, 2024

Proposal(s): Item 7—To approve the Directors' Remuneration Policy; Item 8—To approve amendments to the AstraZeneca Performance Share Plan 2020

How the funds voted

At the 2024 annual meeting of AstraZeneca PLC (AstraZeneca), a U.K.-listed global biopharmaceutical company, the Vanguard-advised funds supported a binding vote to approve the remuneration policy and a binding vote to approve a related amendment to the performance share plan.[1]

The funds' proxy voting policies

As articulated in the funds' proxy voting policies, the Vanguard-advised funds evaluate remuneration plans on a case-by-case basis, taking into consideration the facts and circumstances at the company in question. Remuneration linked to long-term relative performance is a fundamental driver of sustainable, long-term returns for a company's investors. Providing effective disclosure of remuneration plans, 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 remuneration, as the norms and practices for executive remuneration vary by industry type, company size, company maturity, and region.

The Vanguard-advised funds are more likely to support remuneration plans in which a majority of executive remuneration 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 remuneration 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 vs. 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 remuneration 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 remuneration, 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

At AstraZeneca's 2024 annual meeting, the company sought shareholder approval of its remuneration policy and an associated amendment to the performance share plan. The primary proposed changes to the policy included an increase in the maximum opportunity of the annual bonus from 250% to 300% of the CEO's base pay, an increase in the maximum opportunity of the Performance Share Plan from 650% to 850% of the CEO's base pay, and an increase in the shareholding requirement from 650% to 1,150% of the CEO's base pay.

We engaged with directors, including the chair of the Remuneration Committee, and company representatives from AstraZeneca as part of its triannual remuneration consultation process—first in late 2023, and again in the days leading up to the 2024 annual meeting—to better understand the rationale for the changes in the context of the company's strategy and global operational footprint. In engagements with AstraZeneca, we sought to understand how the proposed remuneration changes would ensure appropriate alignment of executive pay outcomes with long-term shareholder returns on a forward-looking basis.

When evaluating the two proposals, we reviewed AstraZeneca's Annual Report and multiple public disclosures, which described the company's competitive position as a large health care company in the global marketplace. This disclosure helped us evaluate whether the board's approach to remuneration-related benchmarking with global peers was reasonable in the context of the company's strategy and operations. We first observed that the company demonstrated meaningful outperformance in total shareholder return (TSR) relative to the FTSE 100 and meaningful outperformance in TSR relative to a global set of peers over a 10-year period. Since the last remuneration policy review in 2021, TSR and total revenues had increased by 40% and 72%, respectively. We determined that the scope and complexity of the business had increased in recent years, driven in part by an intentional expansion of M&A activity which better positioned AstraZeneca to navigate new areas of the health care and technology sectors, as well as new geographical regions. In particular, the company disclosed that 40% of its revenues were derived from the U.S. and 40% of its senior executives resided in the U.S., underscoring the magnitude of AstraZeneca's footprint outside of the U.K. Company leaders provided valuable context through our engagements and via public disclosures, which showed how AstraZeneca's market capitalization and revenues compared against a curated set of peer firms with global footprints similar to AstraZeneca's. The company further explained in detail how the proposed changes would position AstraZeneca's CEO pay—in terms of Target Total Direct Compensation—on the lower end of that peer set.

Lastly, the company shared its views on the established, global reputation of the CEO, his ability to drive and implement AstraZeneca's 2030 strategic plan, and how the proposed changes to his pay would ensure CEO retention throughout the execution of the strategic plan. AstraZeneca board members also helped us to better understand how these changes would help to alleviate pay compression for the talent pipeline under the CEO, which they believe has important implications for recruitment, retention, and succession planning for critical senior executive roles across AstraZeneca's global organization.

While the rationale for the changes to AstraZeneca's pay-related peer benchmarking was compelling, we recognized that the company's new policy might present a challenge given the potential for outsized aggregate levels of pay relative to the company's FTSE peers. Even though these changes would represent a meaningful deviation from the company's U.K.-listed peers, we found this divergence to be reasonable given the company's global market position and operations. Additionally, we observed that the company's proposed remuneration structure incentivized executives by placing a majority of pay at risk and that this was coupled with an increase in the shareholding requirement, which further served to reinforce the long-term alignment of pay and performance. In our assessment, AstraZeneca provided appropriate disclosure to shareholders about how the board had selected the remuneration plan's metrics, as well as how the board determined that the targets were sufficiently challenging. Furthermore, it was clear from our engagement with company leaders, and through the company's public disclosures, how the plan and the targets were aligned with execution of the company's long-term strategy. As a result, the Vanguard-advised funds supported the two remuneration-related proposals at the company's annual shareholder meeting.

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