

Vanguard Investment Stewardship Insights

Voting insight: Shareholder proposal on anticompetitive practices at Pfizer

May 2022



Company: Pfizer Inc. (Pfizer)

Meeting date: April 28, 2022

Proposal: Item 7 — Report on board oversight of risks related to anticompetitive practices

How the funds voted

At the annual meeting for Pfizer, the U.S.-based pharmaceutical and biotechnology corporation, the Vanguard funds did not support a shareholder proposal requesting that the board report to shareholders how it oversees risks related to anticompetitive practices. The proposal asked for details on whether the full board or a board committee has oversight responsibility, on whether and how consideration of such risks is incorporated into board deliberations regarding strategy, and on the board's role in Pfizer's public policy activities related to such risks.

Vanguard's principles and policies

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.

The Investment Stewardship team evaluates the materiality and oversight of risks case by case. There are two typical lenses through which we will assess a company's current disclosures: relative to that of peers in its industry and relative to its self-identified material risks and long-term strategy.

Vanguard expects companies to continually refine their disclosures to reflect evolving market, industry, regulatory, and competitive norms. Vanguard's Investment Stewardship program seeks progress on disclosure and oversight through our public advocacy and communications, direct company engagements, and relevant proxy votes.

Analysis and voting rationale

In the pharmaceutical industry, anticompetitive practices related to generic drugs have long been a topic of interest for investors. The topic has recently garnered increasing regulatory and media attention in light of legal settlements and the COVID-19 pandemic. On behalf of the Vanguard funds, the Investment Stewardship team engaged with Pfizer company leaders on this topic as well as other items on the ballot ahead of the annual meeting.

In both our engagement and the written board response in the proxy, Pfizer company leaders were able to provide robust details on where oversight of this risk resides and the structure of the program in place to help manage the risk. Pfizer's Enterprise Risk Management program oversees anticompetitive practices risk and other material risks at the company. It reports any findings directly to the board via the audit committee. In addition to this program, Pfizer described the role the Regulatory and Compliance Committee of the board plays in this process. Based on the existing controls and the legal risk disclosure in the company's annual report, the Vanguard funds did not support the proposal.

What we look for from companies on this matter

Market norms, regulations, and employee, consumer, and investor expectations are moving toward greater disclosure of governance matters. Companies and their boards should provide clear, decision-useful disclosure on oversight and management of material risks, including regulatory and legal risks. Vanguard does not dictate frameworks for disclosure, but for companies looking to proactively disclose more information on their management of anticompetitive risks, we encourage disclosure in line with the Global Reporting Initiative's standard 206. The GRI is an international independent standards organization that aims to help businesses communicate their impacts on certain issues.

Vanguard publishes Investment Stewardship Policy and Voting Insights 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 growing effort to enhance disclosure of Vanguard's investment stewardship voting and engagement activities. We aim to provide additional clarity on Vanguard's stance on governance matters beyond what a policy document or a single vote can do. Insights should be viewed in conjunction with the most recent region- and country-specific voting policies.

The funds for which Vanguard acts as investment advisor (Vanguard-advised funds) retain the authority to vote proxies that the funds receive. To facilitate the funds' proxy voting, the boards of the Vanguard-advised funds have adopted Proxy Voting Procedures and Policies that reflect the fund boards' instructions governing proxy voting. The boards of the funds that are advised by managers not affiliated with Vanguard (external managers) have delegated the authority to vote proxies related to the funds' portfolio securities to their respective investment advisor(s). Each external manager votes such proxies in accordance with its own proxy voting policies and procedures, which are reviewed and approved by the fund board annually. The Vanguard Group Inc. has not been delegated proxy voting authority on behalf of the Vanguard-advised funds.