

Vanguard Investment Stewardship Insights

Voting insight: Human capital management and compensation proposals at Amazon

July 2022



Company: Amazon.com, Inc. (Amazon)

Meeting date: May 25, 2022

Proposal: Item 3—Vote to ratify named executive officers' compensation; Item 9—Report on worker health and safety disparities; Item 13—Report on protecting the rights of freedom of association and collective bargaining; Item 16—Commission a third-party audit on working conditions; Item 17—Report on median gender/racial pay gap

How the funds voted

At the annual meeting for Amazon, the U.S.-based internet retailer and technology company, the Vanguard funds¹ engaged on and analyzed, but did not support, proposals that focused on a range of human capital management (HCM) topics. None of the proposals received majority support. The funds also did not support management's Say on Pay proposal.

Vanguard's principles and policies

Ineffective HCM oversight can introduce risks to shareholder value. HCM can include topics such as diversity, equity, and inclusion (DEI); worker rights; and workplace safety. More specifically, companies, consumers, regulators, investors, and employees have increasingly focused on HCM-related risks related to racial and ethnic discrimination, pay disparity, and the treatment of workers, particularly worker health and safety amid the COVID-19 pandemic.

Boards are responsible for oversight of companies' long-term strategies and material risks. On behalf of the Vanguard funds, our Investment Stewardship team regularly assesses the board's role in identifying, mitigating, and disclosing risks, including HCM-related risks. Clear, decision-useful disclosure of material risks can encourage sound governance practices and help investors and companies make better decisions.

Vanguard looks for companies to continue to evaluate and appropriately refine their disclosures to reflect evolving market, industry, and competitive norms. Vanguard's Investment Stewardship program advocates for progress on disclosure and oversight of material HCM matters through our public advocacy and communications, direct company engagements, and relevant votes. Vanguard also advocates for an industry- and company-specific approach, where boards consider and disclose on the specific needs and risks associated with their company's business practices.

Our team evaluates the materiality and oversight of HCM risks case by case. If there are gaps in a company's current disclosures, the funds may support shareholder proposals that seek enhanced reporting of the company's approach to oversight of these risks.

¹ 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 holdings, including Vanguard index funds. Investment stewardship activities, including proxy voting, for Vanguard's externally managed active funds are supported by those funds' external advisors. See the back page for additional context. The Vanguard funds abstained from voting where we perceived a potential conflict of interest related to Item 5—Shareholder resolution requesting a report on retirement plan options.

Analysis and voting rationale

Vanguard has had regular engagement over many years with Amazon's board and company leaders. Our recent discussions in advance of the 2022 annual meeting covered a range of issues, with an emphasis on HCM matters.

Our independent research and analysis of the proposals on the ballot included engagements with several proponents, including representatives of the American Federation of Labor and Congress of Industrial Organizations (AFL-CIO) and the Office of the New York City Comptroller. The AFL-CIO's representatives discussed concerns about Amazon's perceived anti-union practices and U.S. worker safety policies, and the board's oversight of these risks. Their points echoed those of several shareholder proposals and supporting statements outlined in Amazon's proxy. Engagement with the Office of the New York City Comptroller raised similar points.

Vanguard views many of the topics addressed by the human capital-related shareholder proposals—workplace and worker safety, non-competitive wage practices, and freedom of association—as material risks to Amazon. In our research, we found that Amazon addresses each of these matters in existing disclosures. The disclosures describe how the board oversees these risks and identifies an appropriate set of peers for comparison. Given these disclosures, we did not see evidence to support the proposals.

HCM risks could have an adverse effect on long-term shareholder value. Therefore, the Investment Stewardship team will continue to monitor these areas and engage with Amazon to understand its ongoing risk mitigation plans.

In addition to the HCM-related proposals, the Vanguard funds considered, but did not support, shareholder proposals that covered human rights, plastic use, and political lobbying and charitable contributions. Our lack of support was based on our assessment that the company is making sufficient progress on these fronts and/or its existing disclosures on these matters.

The Vanguard funds also supported all the directors up for election. However, the funds did not support this year's Say on Pay proposal. The funds' analysis of executive compensation looks for, among other things, alignment of relative pay and relative performance compared with a reasonable set of peers, structures, and processes that can be expected to drive that alignment over time. We believe that it is important for our due diligence to remain flexible and evaluate companies case by case. As such, we take into consideration all other decisions that were made during the period, including those involving discretionary and special awards. We look at the circumstances surrounding those decisions and lean on disclosures and engagement conversations to gain a better understanding.

In our review, we determined that the incoming CEO's equity grant appeared to be outsized relative to total compensation levels for comparable companies in the industry, vesting solely on the passage of time. The funds' preference for equity awards is that they are in part performance-conditioned and driven by rigorous goals, using relative metrics where appropriate. Additionally, our concern that there may be potential for other payments to be granted in addition to this outsized award was not alleviated through engagement. Amazon confirmed that the special grant would make up the majority of the CEO's award, but there was no confirmation of a limit or threshold. Therefore, the Vanguard funds did not support the proposal.

What we look for from companies on these matters

Vanguard expects companies and their boards to provide clear, decision-useful disclosure on oversight and management of a company's material risks, including DEI and other HCM risks. Market norms, regulations, and employee, consumer, and investor expectations are moving toward greater disclosure in the governance industry, and Vanguard—through our engagements, proxy voting, and public advocacy—will continue to seek relevant, decision-useful information on material risks.

Vanguard focuses primarily on whether DEI risks are financially material; how reasonable, and prescriptive, a proposal's request is compared with what the company has done to date; and how appropriate it is to expect the board or company in question to respond to DEI risks.

Although median gender and racial pay gap reports may have merit, such as in cases where they are focused on previously materialized risks and are supported by the board, we consider whether a shareholder-requested report is in the best interest of long-term shareholders. Companies may already be focusing on the risks associated with fair pay and have solid action plans in place.

On behalf of the investors in the Vanguard funds, we firmly believe that companies should focus on issues that are most relevant to their business and long-term value. We want boards to have a clear sense of the specific problem they need to solve regarding the social risks that affect the companies they oversee, those companies' employees, and the communities and clients they serve.

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.