

Vanguard Investment Stewardship Insights

Voting insight: Shareholder proposal at Sainsbury's requesting real living wage accreditation

July 2022



Company: J Sainsbury Plc (Sainsbury's)

Meeting date: 7 July 2022

Proposal: Item 21—Shareholder resolution on living wage accreditation

How the funds voted

At the annual meeting of Sainsbury's, the UK's second-largest retailer, the Vanguard funds¹ did not support a shareholder proposal directing the company to become accredited by the Living Wage Foundation, an organisation that sets out a framework for pay linked to a regional cost-of-living assessment. The proposal received 17% support from shareholders.

Vanguard's principles and policies

Risks to shareholder value associated with human capital management (HCM) issues remain engagement priorities for Vanguard. Increased focus—from companies, consumers, regulators, investors and employees—on pay disparity and the treatment of workers has heightened scrutiny of public companies' HCM-related risks and opportunities. These issues have been compounded by the COVID-19 pandemic and rising inflation that has put pressure on the cost of living in the UK.

Boards are responsible for oversight of companies' long-term strategies and material risks. On behalf of the Vanguard funds, the Investment Stewardship team regularly assesses the board's role in identifying, mitigating and disclosing risks, including HCM-related risks.

When the Investment Stewardship team evaluates shareholder proposals, it analyzes the materiality of the risk the proposal seeks to address, the company's current practices and progress to date in addressing the risks and the reasonableness and prescriptiveness of the shareholder proposal.

If there are gaps in the company's current disclosures, the funds may support shareholder proposals that seek enhanced reporting of the company's approach. The funds are unlikely to support proposals that dictate specific company actions where boards and company executives are better positioned to determine the appropriate approach.

Analysis and voting rationale

Vanguard has engaged over several years with the Sainsbury's board and executive management. Our recent discussions included the board's oversight of HCM and its role in navigating the cost-of-living crisis with respect to stakeholders, including its workforce and customers.

The proposal in question directed the company to be accredited as a Living Wage Employer by July 2023. The resolution further asked the company to conduct an analysis (also by July 2023) of third-party contractors that earn below the real Living Wage and to work with external partners to increase all subcontracted workers to the real Living Wage rate by 2026.

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 more context.

In assessing this shareholder proposal, Vanguard sought to understand the company's current practices, including its disclosure of the board's oversight framework for these issues. We observed that Sainsbury's pay practices met or were above the real Living Wage. In addition, a majority of its outsourced employees were paid a living wage. Beyond direct pay, Sainsbury's reviewed and improved other employee benefits. For example, the company extended its terms of employee discounts to provide additional assistance and support during the current economic challenges.

We reviewed the implications of signing up to an independent external pay benchmark when Sainsbury's has already made commitments involving wages that include factoring in the real Living Wage, the National Living Wage, and benchmarking pay competitively to peers annually. The company operates in a sector where margins are low and workforce pay is a key cost consideration.

We determined that the proposal's requests (which were binding) were too prescriptive and that the setting of wages should fall under the company's operational decisions, which are best left to the board and executive management. Additionally, through ongoing dialogue with the company, we did not conclude that the proposal addressed a material gap or failure of oversight by the board.

What we look for from companies on this matter

On behalf of the investors in the Vanguard funds, we firmly believe that companies should focus on issues that are material to their business. We expect boards to have a clear understanding of how risks could affect shareholder value creation at the companies they oversee.

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.

Retail sector post-pandemic and the cost-of-living crisis

In this macroeconomic environment, and as we emerge from the COVID-19 pandemic, certain sectors, including the consumer staples sector—in particular, the UK's leading supermarket retailers—have been subject to increased scrutiny over workforce pay and conditions as well as their offer to consumers. Vanguard's Investment Stewardship team has carried out engagements across the UK's listed supermarkets to better understand how they are navigating post-pandemic consumer trends coupled with the growing cost-of-living crisis. We wanted to understand how they were maintaining a resilient business model despite these pressures.

Companies remain focused on growing shareholder value and maintaining customer and employee loyalty. They cited a clear need to keep costs in check through efficiency, innovation and operational performance improvements as they seek to maintain living wages, invest in their businesses, including net zero carbon emissions commitments, and keep prices competitive for customers. We are committed to ongoing dialogue with our portfolio companies in this regard and will monitor the evolving risks and opportunities for this sector over time.

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.