Vanguard Investment Stewardship Insights

Voting insights: Executive compensation at AmerisourceBergen

March 2021

Vanguard publishes Investment Stewardship Insights to promote good corporate governance practices and to provide public companies with our perspectives on important governance topics and issues that come up for shareholder votes.

Company: AmerisourceBergen Corp. (AmerisourceBergen)

Meeting date: March 11, 2021

Proposals: Item 3—Advisory Vote to Ratify the Named Executive Officers' Compensation

Item 4 (shareholder proposal)—Require Independent Board Chairman

How the funds voted

A coalition of investors launched a campaign to vote against the Say on Pay executive compensation proposal at the 2021 annual meeting of AmerisourceBergen, a U.S. drug wholesale and specialty distribution company. The group raised concerns about a $6.6 billion charge related to opioid litigation that was excluded from the company's performance results when it determined incentive-plan payouts. Following extensive research and analysis by Vanguard's Investment Stewardship team, the Vanguard funds voted to support management's nonbinding proposal to approve executive compensation. The funds also voted against a shareholder proposal to require an independent board chairman. The executive compensation proposal and the shareholder proposal requiring an independent board chairman drew 51.6% and 32.1% support from shareholders, respectively.

Vanguard's principles and policies

Vanguard believes that compensation policies and practices tied to performance are fundamental drivers of sustainable, long-term value creation. Our Investment Stewardship team, on behalf of the Vanguard funds, employs a thoughtful, structured, case-by-case approach when evaluating executive compensation proposals. We focus on pay-for-performance alignment (supported by relative performance metrics, such as relative total shareholder return), compensation structures that incentivize long-term outperformance of peers and promote sustainable value for a company's investors, and reasonable magnitude of total pay compared with a relevant peer group.

Analysis and voting rationale

Vanguard takes seriously the oversight of social risks, including opioid-related risks. Because the opioid-related settlement was significant in magnitude, our Investment Stewardship team engaged with a member of the board's compensation and succession planning committee to understand the committee's approach to the settlement charge. Specifically, the company discussed how the board handled the litigation settlement and compensation decisions independent of each other, with an eye toward what was best for long-term shareholders in each context.

We also engaged with Investors for Opioid and Pharmaceutical Accountability (IOPA), the investor coalition group behind the "Vote No" campaign against the Say on Pay proposal. IOPA members expressed their views that company compensation committees dealing with opioid-related settlements should hold executives accountable and provide enhanced disclosure detailing how settlements and other related expenses are reflected in the committee's processes and outcomes.

Our analysis considered the context of the settlement charge and the way the charge was reflected in compensation-related disclosure. We observed continued reasonable alignment between pay and performance, as measured by relative total shareholder return metrics over a multiyear period. We also concluded that overall pay magnitude compared fairly with peers and that the compensation plan structure supports long-term alignment of pay and performance. The funds supported management's proposal.

The company's ballot also contained a shareholder proposal requiring an independent board chairman. We look for strong independent board leadership to drive accountability and challenge management. In our discussion with AmerisourceBergen, the company clearly defined and disclosed responsibilities for its lead independent director. Also, the company has previously committed to implementing a policy requiring an independent board chairman at the next CEO transition. The company has been receptive to feedback from Vanguard and other shareholders on the matter of independent board leadership, and the funds voted against the shareholder proposal.

What we expect from companies on this matter

Vanguard expects companies and their boards to prioritize strong pay-for-performance alignment. We look for robust disclosure that provides appropriate context, particularly when grappling with extraordinary items, such as one-time litigation charges. This disclosure is crucial in giving shareholders confidence that the board is looking out for their best interests. We also look for executive pay that is structured to incentivize company outperformance of its peers over the long term. Vanguard also expects strong, independent board leadership to ensure that key risks are properly overseen. Such leadership can take the form of an independent chairman or a lead independent director with sufficient independent perspective to balance against the non-independent chair.

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