

Vanguard Investment Stewardship Insights

Voting insight: Shareholder proposal on severance agreements at AbbVie

May 2022



Company: AbbVie Inc. (AbbVie)

Meeting date: May 6, 2022

Proposal: Item 6—Submit severance agreement (change in control) to shareholder vote

How the funds voted

At the annual meeting for AbbVie Inc., a U.S.-based biopharmaceutical company, the Vanguard funds did not support a shareholder proposal requesting that the board seek shareholder approval on any senior manager's new or renewed severance or termination agreement with an estimated value exceeding 2.99 times the sum of the executive's base salary plus short-term target bonus.

Vanguard's principles and policies

Performance-linked executive compensation policies and practices are fundamental drivers of sustainable long-term value creation. Our analysis of a company's executive compensation plan—including components such as severance agreements—is done case by case. We look at a company's current policies and practices and whether a severance agreement is excessive or unreasonable.

The Vanguard funds will generally not support severance agreements that award more than three times base salary plus bonus or agreements that have a single trigger. In calculating three times salary plus bonus, we are primarily concerned with cash severance. We also prefer that companies allow shareholders an opportunity to provide feedback on severance agreements by allowing a vote on the policies after the fact. At the time of our engagements with AbbVie, the company did not have a publicly available policy on severance agreements.

Analysis and voting rationale

We had several engagements with AbbVie company leaders earlier this year to discuss the shareholder proposal and explain how we evaluate severance agreements. We also discussed AbbVie's severance agreements with its company leaders.

We subsequently noted that the company amended its proxy statement to include information on an internal policy that states the company does not and will not in future instances allow for cash lump sum payments in excess of three times base salary plus bonus in severance or change in control agreements.

Given our determination that AbbVie had complied with the spirit of the proposal's request, the Vanguard funds did not support the shareholder proposal.

What we look for from companies on this matter

A well-tailored executive compensation package, inclusive of a severance agreement, if warranted, allows a compensation committee to align management's interests with those of shareholders by attracting and retaining top talent. Vanguard advocates for severance packages that neither discourage nor improperly incentivize an executive's exploration of strategic alternatives such as mergers or acquisitions. In general, we prefer severance agreements that limit cash and equity payouts to no more than three times the amount of an executive's base salary and annual bonus, with severance payments occurring only after a double-trigger event—that is, a change in control and termination of employment.

However, in certain situations we understand it may be necessary to exceed three times base and bonus—for example, in order to secure top talent in efforts to complete a transaction. While we are not prescriptive in the amount itself, given our general preference for the three-times threshold, we advocate for the opportunity to analyze and ratify the severance agreement in situations where the base salary and bonus threshold is exceeded. Absent an opportunity to ratify severance agreements that allow for payout in excess of three times, Vanguard advocates for robust disclosure around any internal policies a company considers to limit the cash opportunity of severance agreements.

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.