Vanguard

Vanguard Investment Stewardship Voting Insights

Say on Pay proposal at Raymond James

April 2024

Company: Raymond James Financial Inc. (Raymond James)

Meeting date: February 22, 2024

Proposal: Advisory Vote to Ratify Named Executive Officers' Compensation

How the funds voted

At the 2024 annual meeting of Raymond James Financial Inc. (Raymond James), a U.S.-listed diversified financial services company, the Vanguard-advised funds supported an advisory vote to approve the executive compensation plan (i.e., Say on Pay).[1]

The funds' proxy voting policies

As articulated in the funds' proxy voting policies, the Vanguard-advised funds evaluate compensation plans on a case-by-case basis, taking into consideration the facts and circumstances at the company in question. Compensation policies linked to long-term relative performance are fundamental drivers of sustainable, long-term returns for a company's investors. Providing effective disclosure of compensation policies, their alignment with company performance, and their outcomes is crucial to giving shareholders confidence in the link between executives' incentives and rewards and the creation of long-term returns for shareholders. We do not believe there is a one-size-fits-all approach to executive compensation, as the norms and expectations for executive compensation vary by industry type, company size, company maturity, and region.

The Vanguard-advised funds are more likely to support compensation plans in which a majority of executive compensation remains variable, or "at risk," with rigorous performance targets set well beyond the next quarter. Some of the key considerations that we evaluate when reviewing executive compensation include:

Alignment of pay and performance. The funds look for evidence of clear alignment between pay outcomes and company performance. This is mainly assessed through alignment of incentive targets with corporate strategy and analysis of three-year total shareholder return and realized pay over the same period vs. a relevant set of peer companies. If there are concerns that pay and performance are not aligned, a fund may vote against a pay-related proposal.

1 Vanguard's Investment Stewardship program is responsible for proxy voting and engagement on behalf of the quantitative and index equity portfolios advised by Vanguard (together, "Vanguard-advised funds"). Vanguard's externally managed portfolios are managed by unaffiliated third-party investment advisors, and proxy voting and engagement for those portfolios are conducted by their respective advisors. As such, throughout this document, "we" and "the funds" are used to refer to Vanguard's Investment Stewardship program and Vanguard-advised funds, respectively.

Compensation plan structure. Plan structures should be aligned with the company's stated long-term strategy and should support pay-for-performance alignment. Where a plan includes structural issues that the funds determine have led to, or could in the future lead to, pay-for-performance misalignment, a fund may vote against a pay-related proposal. For compensation structures that are not typical of a market, the Vanguard-advised funds look for specific disclosure demonstrating how the structure supports long-term value creation for shareholders.

Governance of compensation plans. The funds look for boards to have a clear strategy and philosophy on executive pay, utilize robust processes to evaluate and evolve executive pay plans, and implement executive pay plans responsive to shareholder feedback over time. The funds also look for boards to explain these matters to shareholders via company disclosures. Where pay-related proposals consistently receive low support, the funds look for boards to demonstrate responsiveness to shareholder concerns.

Analysis and voting rationale

Following a review of Raymond James' executive compensation program, the Vanguard-advised funds supported the advisory vote on executive compensation ("Say on Pay" vote) at the company's 2024 annual shareholder meeting. While upon initial review we had questions related to a one-time award, plan structure, and quantum (total magnitude of pay) relative to peers, we ultimately determined that support of the proposal was warranted after reviewing the disclosure the company provided regarding the pay plan.

In reviewing the company's proxy statement, we noted that in 2023, Raymond James' CEO received a special one-time equity retention award of $15 million to incentivize his continued execution of the board's CEO succession plan—a responsibility that we typically view as an intrinsic part of a CEO's role. We also observed that the executive compensation package included a short-term incentive plan (STIP) that was entirely discretionary, with the payout determined following a review by the Compensation Committee of several factors that were not subject to predetermined goals. The use of discretion could result in pay outcomes that are not aligned to performance. Both elements contributed to a high quantum of pay relative to the company's peer group. Both the one-time equity retention award and the use of discretion in the STIP gave us pause upon initial analysis.

We found, though, that the company provided extensive disclosure in its proxy statement that detailed its thoughtful process regarding both its STIP and its long-term incentive plan (LTIP). The disclosure described how each part of the Raymond James pay plan aligns with company strategy and then listed both quantitative and qualitative achievements for each executive that tied into the company's strategic priorities. As was detailed in the company's disclosure, despite the STIP being discretionary, the LTIP was paid primarily on performance-conditioned equity that incorporated relative performance.

Regarding the special award, the company articulated clear rationale for the need to retain the CEO to ensure a steady leadership transition and referenced the company's strong growth and performance during his tenure, in which the company's market cap rose at a 17% compound annual growth rate while outperforming the peer-group average total shareholder return by 336%. In addition, the one-time equity award was structured to be 60% performance-conditioned—in part on relative metrics—and 40% time-conditioned, subject to continued service through December 2025.

Although the pay plan initially appeared outsized relative to peers, the additional context provided through the company's proxy statement clearly explained the rationale of the pay plan and the decision to grant the special award. As a result, the Vanguard-advised funds supported Raymond James' Say on Pay proposal.

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 effort to provide useful disclosure of Vanguard's investment stewardship voting and engagement activities. We aim to provide clarity on Vanguard's stance on governance matters beyond what a policy document or a single vote can provide. 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.

Vanguard®

RaymondJames 042024