

Executive pay proposal at TreeHouse Foods

November 2023

Company: TreeHouse Foods, Inc.

Meeting date: April 27, 2023

Proposal: Item 2—Advisory Vote to Ratify Named Executive Officers' Compensation

How the funds voted

At the annual meeting of TreeHouse Foods, a U.S.-based private-label snacking and beverages manufacturer, the Vanguard-advised funds¹ supported the advisory vote to approve the company's executive compensation (i.e., Say on Pay).

The funds' proxy voting policies

We believe that performance-linked executive compensation policies and practices are fundamental drivers of sustainable, long-term investment returns for shareholders. We look for pay plans to incentivize outperformance versus industry peers over the long term.

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.

We evaluate executive compensation case by case and look for linkage between executive pay and company performance over the long term. 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:

Relative pay for performance

We look for compensation committees to implement plans that encourage and reward the creation of long-term investment returns for shareholders. We consider company performance in both relative and absolute terms but believe that compensation should be based on company performance compared with a relevant peer group. We note that use of an outsized peer group—or the inclusion of peers that are not comparable from a business or strategy perspective—could result in inflated executive compensation.

Long-term focus

We look to understand how compensation plans emphasize long-term investment returns and do

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.

not unduly reward short-term performance. We prefer to see incentive plans consider at least a three-year performance measurement period and set long-term holding periods for equity awards. In addition, we believe that, at a minimum, a plan's fixed pay should not exceed the portion of variable, or "at risk," pay.

Plan structure

Consistent with the funds' long-term focus, we believe that compensation or remuneration committees should consider incorporating performance metrics that align with long-term corporate strategy and performance. Because we believe pay should align with relative performance, we emphasize the importance of integrating relative metrics and benchmarking into compensation plans. When absolute metrics are included in a plan, we seek disclosure to help us understand how this pay design maintains alignment between relative pay and performance. We look for all metrics, whether relative or absolute, to be set with achievable yet rigorous objectives, and for total pay targets to be set at reasonable and competitive market levels.

Analysis and voting rationale

In our review of TreeHouse Foods' 2023 Say on Pay vote, we evaluated the alignment of executive pay and company performance, as well as the compensation plan structure. This included a review of the quantitative and qualitative disclosures in the company's proxy statement, and a subsequent filing provided by the board a few weeks prior to the annual meeting. As part of our review, we assessed a one-time equity grant featuring a sizeable payout opportunity for which the company's executive officers and CEO were eligible. Generally, we do not view the granting of awards outside of the long-term incentive program to be a good practice, as one-off awards may indicate that the compensation plan is not working as intended and may unnecessarily boost the total quantum of executive payouts. We have observed that companies used one-time awards more frequently during the 2023 proxy year than they had before the COVID-19 pandemic. We understand this to be due, in part, to performance goals established before the pandemic that did not account for significant

market events outside of management's control. When evaluating the grant at TreeHouse Foods, we looked to understand the underlying rationale for the awards.

In addition to reviewing the company's disclosures, we engaged with multiple independent directors and members of the executive team to further understand the Compensation Committee's approach and rationale for the grant. The directors provided context regarding the company's ongoing strategic transition and the criticality of managing risks related to executive turnover. They explained their judgment that retaining key executives was necessary to achieve the company's stated goals. Additionally, the directors articulated a thoughtful approach to aligning the award with long-term shareholder returns, including the inclusion of performance-conditioned equity, a relative total stock return metric, and an executive holding period.

Overall, we concluded that the company's rationale for the award was reasonable, that the structural components integrated into the award design sufficiently aligned with long-term investment returns, and that the quality of disclosures was appropriate. As a result, the Vanguard-advised funds supported the ratification of named executive officers' compensation at TreeHouse Foods' 2023 annual meeting.

What we expect from companies on this matter

We look to a company's board of directors and compensation committee to make decisions regarding executive compensation that are aligned with long-term investment returns for shareholders. Although we are cautious about supporting one-time special awards because they may overemphasize short-term performance, we assess compensation plans case by case. We look to company disclosures to explain the rationale for any one-time awards, as well as the methodology used by the board to grant the award. Where possible, we will engage with company directors to gain additional perspectives into the board's decision-making process.

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.



© 2023 The Vanguard Group, Inc.
All rights reserved.

3192072_112023