Vanguard

Vanguard Investment Stewardship Voting Insights

Executive compensation and shareholder rights at W&T Offshore

December 2023

Company: W&T Offshore Inc. (W&T Offshore)

Meeting date: June 16, 2023

Proposal: Item 3—Advisory vote on executive compensation; Item 6—Articles of Incorporation to eliminate supermajority voting requirements; Item 7—Articles of Incorporation to provide shareholders the ability to amend bylaws; Item 8—Articles of Incorporation to lower the ownership threshold required for shareholders to call a special shareholder meeting; Item 9—Articles of Incorporation to provide shareholders the ability to act via written consent.

How the funds voted

W&T Offshore is a U.S. oil and natural gas producer that is active in the acquisition, exploration, and development of oil and natural gas properties. At the company's annual meeting, the Vanguard-advised funds voted in support of the advisory vote on executive compensation ("Say on Pay"), which marked the first time the funds supported Say on Pay at W&T Offshore since 2014. The funds also supported four proposals related to shareholder rights: to eliminate supermajority voting, to grant shareholders the right to amend bylaws, to lower the ownership threshold for shareholders to call a special meeting to 25%, and to grant shareholders the right to act by written consent.[1]

The funds' proxy voting policies

Say on Pay: We believe that performance-linked executive compensation policies and practices are fundamental drivers of sustainable, long-term company performance and financial returns for shareholders.

Shareholder rights: We believe that governance structures should empower shareholders and ensure accountability of the board and management to all shareholders. In cases where a company has plurality voting, the funds will

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.

typically vote for shareholder proposals that require a majority vote for election of directors.[2] When companies do not have the right for shareholders to call a special meeting, the funds will generally support management proposals to establish that right where the ownership threshold is not below 10% of current shares outstanding. The funds generally support management proposals granting shareholders the ability to amend bylaws. The funds will also typically vote for management proposals to establish the right to act by majority written consent. As companies grow and mature, we look for a company's governance profile to evolve to align the interests of management with the interests of shareholders.

Analysis and voting rationale

The Vanguard Investment Stewardship team has engaged with W&T Offshore for a number of years on Say on Pay and governance practices. At the company's 2021 annual meeting, Say on Pay received 71% shareholder support. The company then solicited feedback from its largest shareholders. We engaged with company executives and an independent director to discuss the board's perspective on its executive compensation structure. During the engagement, we shared our perspective on performance-linked executive compensation policies and practices that we believe to be fundamental drivers of long-term investment returns. We also sought clarification of the board's oversight of the environmental and safety risks that the company outlined in its environmental, social, and governance (ESG) report, which was published for the first time in 2021.

In that engagement, we also encouraged the board to consider the benefits of adopting more shareholder-friendly governance practices, including a majority vote standard and shareholders' right to amend bylaws. W&T Offshore outlined plans to incorporate shareholder feedback into board discussions while improving the quality of the company's disclosures to investors. However, in its 2022 proxy statement, W&T Offshore did not disclose the process surrounding their shareholder outreach or the result of that outreach. The Vanguard-advised funds voted against Say on Pay in 2022 due to pay and performance misalignment, along with the use of discretionary, fully vested one-time retention awards without thorough explanation.

Following a high level of shareholder dissent on its 2022 Say on Pay vote (which received 56% shareholder support), W&T Offshore solicited feedback from shareholders on its executive compensation program and related matters. During our subsequent engagement with company leaders on the matter, we reinforced how we evaluate executive compensation and emphasized the importance of disclosures, which underpin our analysis and help shareholders understand the compensation committee's process and the rigor of the pay program. We expressed concerns about the company CEO's high base salary compared with that of peers, the Compensation Committee's emphasis on guaranteed short-term pay instead of incentive-driven long-term pay, and benchmarking practices that we believed might not drive long-term returns for the company's shareholders. W&T Offshore leaders expressed a desire to refine the compensation structure to better align management incentives with long-term returns for shareholders. Specifically, company leaders shared plans to transition their Long-Term Incentive Plan performance measurement criteria from a one-year relative total shareholder return (TSR) metric to a three-year relative TSR metric, and to include a safety metric in the compensation program that would tie executive pay to a key material risk.

At the request of W&T Offshore board members, we also provided our perspectives on the company's existing governance practices and changes that could open new channels of

2 The plurality vote standard allows for directors to be elected by receiving a minimum of a single vote in favor, irrespective of the opposition, since votes not in favor are "withheld." A growing number of companies that use the plurality vote standard have introduced a "director resignation policy." This mechanism provides that, if a director fails to receive support by the majority of votes cast, they are required to submit their resignation to the board, and the board can decide whether to accept or reject the resignation. Source: Harvard Law School Forum on Corporate Governance communication between the board and the shareholders they represent. We discussed the potential benefits of adopting a majority vote standard, granting shareholders the right to amend bylaws, and lowering the ownership threshold for shareholders to call a special meeting to 25%. W&T Offshore agreed to take these and other shareholder perspectives into account when discussing proposed changes to the company's governance practices and the compensation program, while continuing to provide more thorough disclosures of the board's approach to addressing shareholders' concerns.

In our review of the company's 2023 proxy filing, we noted several changes to the executive compensation plan. These changes included a three-year performance measurement period for the long-term equity incentive plan and the reduction in short-term incentives as a percentage of overall compensation. The Compensation Committee also removed single-trigger change in control payments (when cash severance payments are triggered solely by the occurrence of a change in control) and single trigger vesting of equity awards in connection with a change of control. These changes addressed items of concern we had discussed with W&T Offshore leaders in our previous engagement. The company also provided disclosure in their 2023 proxy filing, stating that changes were in response to shareholder feedback. In an engagement before the 2023 annual meeting and in the company's proxy filing, W&T Offshore leaders shared plans to further drive the alignment between executive incentives and long-term returns for shareholders. Planned changes for 2024 included a greater reduction in the proportion of short-term incentives as a percentage of overall compensation and a better alignment of pay and performance through revised benchmarking practices.

In its 2023 proxy statement, W&T Offshore also disclosed the board's intent to support the adoption of a variety of governance provisions they found to be in the best long-term interests of shareholders. In our engagement prior to W&T Offshore's 2023 annual meeting, we provided feedback in support of the governance changes recommended by the board, which included the elimination of supermajority voting, the addition of the shareholders' right to amend bylaws, a 25% ownership threshold for shareholders to call a special meeting, and the addition of the shareholders' right to act by written consent. W&T Offshore leaders stated that these changes were being adopted in direct response to shareholder feedback. W&T Offshore also included disclosures in the proxy filing that outlined the board's process for deliberating and recommending changes to the company's governance and pay practices, which included the incorporation of aggregate investor feedback resulting from the board's shareholder outreach program.

On the 2023 voting ballot, the funds supported management proposals on Say on Pay as well as the four shareholder-rights-related governance amendments. In our review of Say on Pay, we found that the board continues to have an opportunity to better align executive pay with long-term shareholder returns and enhance disclosures surrounding responsiveness to shareholders. However, in our assessment, the board showed appropriate responsiveness to shareholder perspectives and a commitment to further improving the alignment between shareholder returns and executive compensation over time.

What we look for from companies on this matter

In evaluating executive pay programs, we look for the compensation committee to consider pay-for-performance alignment, long-term focus, and a structure that promotes rigor and outperformance versus a competitive peer set of companies. One-year performance measurement periods, even when they have a multiyear vesting period, suggest a short-term focus instead of long-term investment returns. That said, we believe that boards that act as stewards of the best interests of the company and shareholders are best positioned to decide which long-term-oriented metrics are best suited for motivating their executives while avoiding material risks and driving long-term strategy.

Shareholder rights give shareholders the ability to ensure the accountability of a company's board. Shareholders should be able to hold directors accountable through governance provisions, including annual elections that require securing a majority of votes. In instances where a board appears resistant to shareholder input, the funds support the right of an appropriate proportion of shareholders to call special meetings and to place director nominees on the company's ballot. We believe that companies should have governance structures in place that safeguard and support foundational rights for shareholders.

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.

Vanguard®

3281055_122023