



EQUINITI

AGM TRENDS 2018

PRISM
COSEC

 **BOUDICCA**



EQUINITI'S ANNUAL REVIEW OF TRENDS DURING THE 2018 AGM SEASON

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AGM Trends 2018

Welcome to AGM Trends 2018, the annual review of trends and developments during the 2018 AGM season compiled by Equiniti's Registration Services and Company Secretarial teams.



EQUINITI'S ANNUAL REVIEW OF TRENDS DURING THE 2018 AGM SEASON

The past year in reflection will be seen as the year of corporate governance reform. New legislation, new initiatives and a new UK Corporate Governance Code introduce a much wider agenda for companies to consider than just ensuring the long-term profitability of their businesses and this will impact into 2019 and beyond.

Activity at 2017 and 2018 AGMs has been one of continuing concern over executive pay, an increase in votes against individual directors and an increase in questions raised around environmental and social issues. It is likely that these trends will continue. Boards will need to demonstrate that they are implementing the new governance requirements including greater engagement with their employees and other stakeholders in a proactive way if they are to address shareholder concerns.

THOSE PLANNING THEIR COMPANY'S NEXT AGM SHOULD BE AWARE OF THE FOLLOWING ISSUES:

01

Continuing concern over executive remuneration

02

Possible increased voting against auditor appointments/re-appointments or auditor fee resolutions

03

Use of votes against the company Chair and/or audit, nomination and remuneration committee Chairs where there are concerns over governance issues

04

Voting against individual directors for perceived over-boarding or concerns over independence

05

Dissent against the pre-emption resolution if this does not comply with the Pre-emption Group Guidelines

06

Pressure on companies to explain and show how they are planning for Brexit

ONE THING IS CERTAIN - IT WILL BE ANOTHER VERY BUSY YEAR FOR COMPANY SECRETARIES AND THEIR TEAMS.

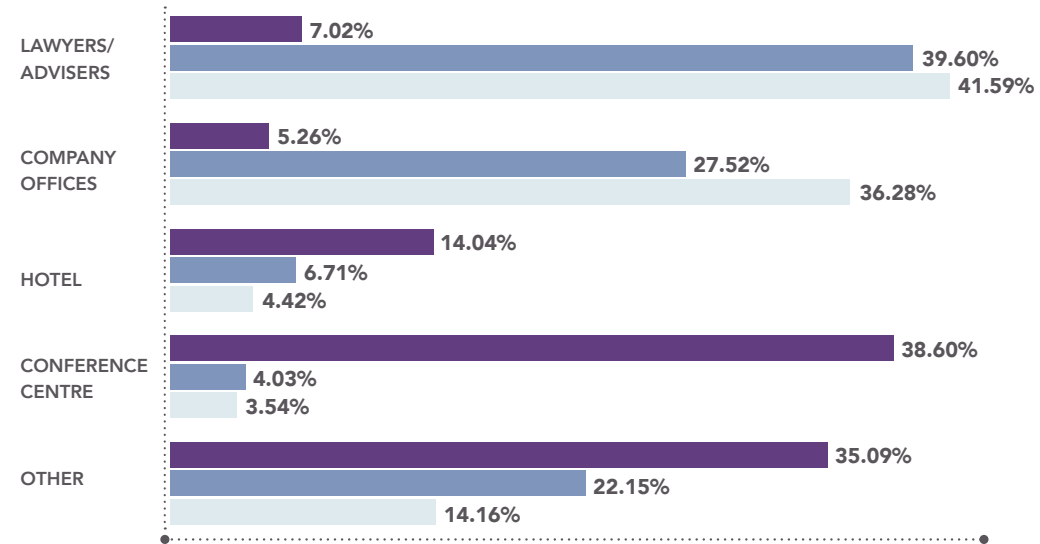
Key to tables

1. Unless otherwise indicated, all statistics quoted in this report are taken from research undertaken by Equiniti's AGM team. The statistics include all companies in the FTSE 100 and FTSE 250 indices as well as Equiniti clients outside of these indices (referred to as Other). All 2018 statistics are for the 2017/18 year as at 31 July 2018.
2. Statistics based on Equiniti clients only comprised of small/mid cap and AIM companies.

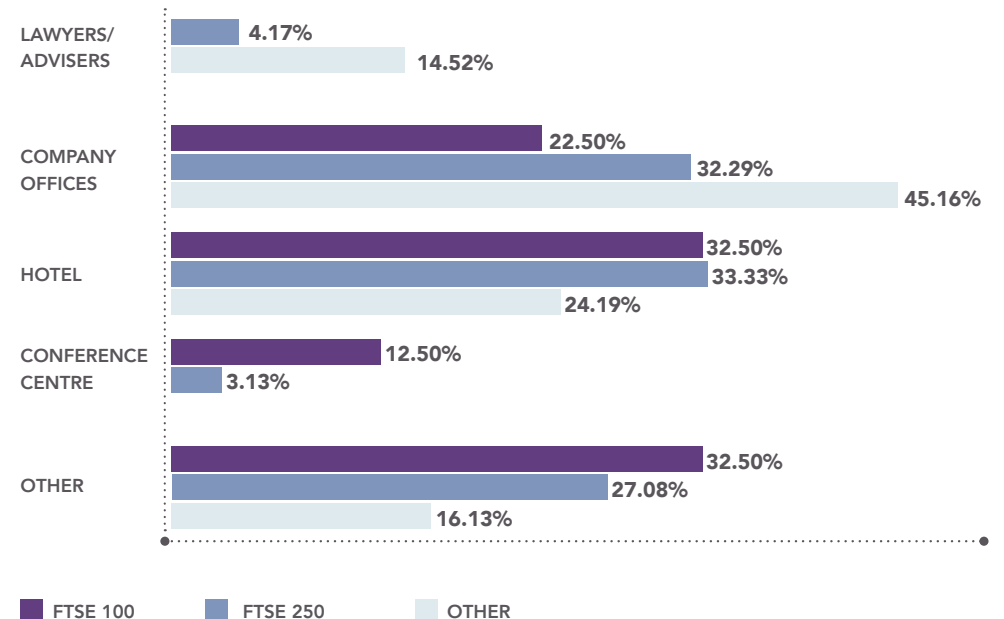
Venue

There has been little change to the locations used by companies for AGMs over previous years with hotels and conference centres being hired by larger companies and adviser or company offices being used by smaller companies. The large majority of companies continue to hold their AGM in London. FTSE 100 and FTSE 250 companies favour before midday for the time of their meeting whereas a majority of companies surveyed outside of these indices prefer an afternoon meeting. The hour of 11.00am is the most favoured time for the start of the AGM accounting for about a third of companies surveyed.

LONDON AGM VENUES - PERCENTAGE OF COMPANIES



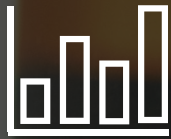
AGM VENUES OUTSIDE OF LONDON - PERCENTAGE OF COMPANIES



SHAREHOLDER QUESTIONS

A review of the types of questions asked at FTSE 350 AGMs reveals some interesting trends.

As in prior years the larger the company and its shareholder base the more questions are asked at the AGM. Companies operating in sensitive areas, such as mining or pharmaceuticals, and those who have had bad publicity during the year receive a greater number of questions. In the 2017/2018 season, the main themes were;



Performance,
strategy and
report and
accounts



Remuneration



Environment/
Social
Concerns



Board
composition
and governance



Brexit



Auditors

There has been a noticeable increase in questions about environmental concerns and climate change. Some of this increase is due to the presence at AGMs of representatives from Share Action and Climate Action 100+.

ShareAction (The Fairshare Educational Foundation) are still very active attending many FTSE 100 and FTSE 250 AGMs. Latest topics include climate change, living wage, fossil fuel, low carbon economy (targeting banks) and driving better working conditions (see shareaction.org for further information).

Climate Action 100+ is a five-year initiative led by investors to engage systemically important greenhouse gas emitters and other companies across the global economy that have significant opportunities to drive the clean energy transition and help achieve the goals of the Paris Agreement. Investors are calling on companies to improve governance on climate change, curb emissions and strengthen climate-related financial disclosures (see climateaction100.org for further information).

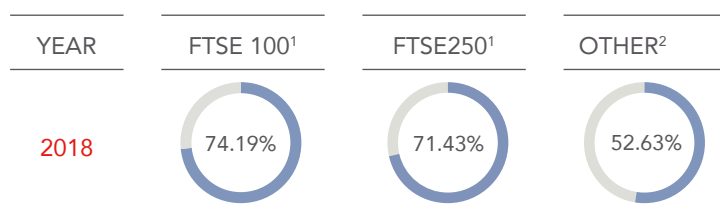
2018 has also seen an increase in attendance and engagement from ShareSoc (UK Individual Shareholder Society). One of their latest campaigns is in relation to the 'Shareholder Rights Directive (SRD)'. They are requesting that issuers support the implementation of the SRD and believe there is clear intent that the end investor should be on the company register. They understand this should include an email address, and that the end investor should be entitled to receive company information and annual reports, and to vote at company general meetings. Further information and details of other campaigns can be found at sharesoc.org.

VOTING METHODS

Percentage of issued share capital voted

The percentage of share capital voted at AGMs has consistently been around 70% for FTSE 100 and FTSE 250 companies over the past few years. This year there has been a small rise in the percentage of share capital voted for FTSE 100 companies. The percentage for mid/small cap companies is substantially less at around 52% of issued share capital voted although this has increased from 49% in the prior year.

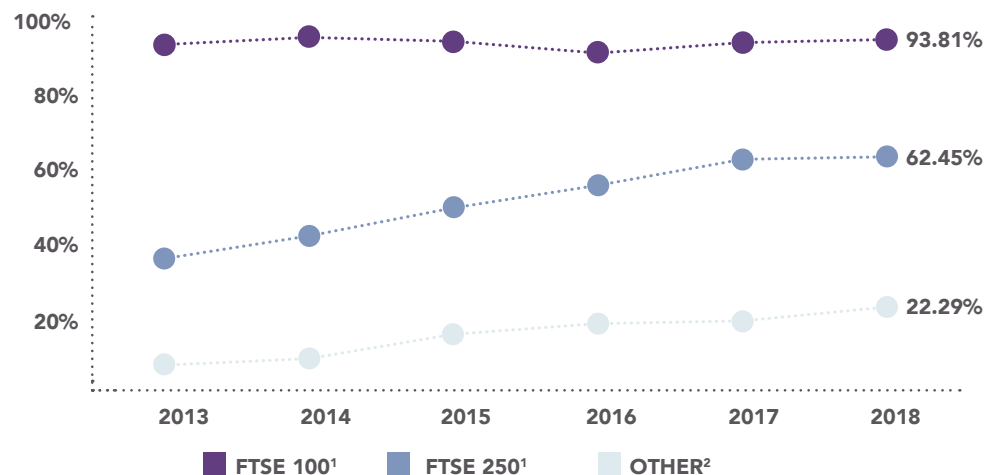
AVERAGE PERCENTAGE OF ISSUED SHARE CAPITAL VOTED



VOTING BY POLL

The vast majority of FTSE 100 companies conduct voting by poll at their AGMs and this number has remained fairly consistent over the last few years. The increase away from a show of hands towards poll voting amongst FTSE 250 companies has increased substantially with a smaller increase for mid/small cap companies. The move to poll voting can be attributed to the perceived fairness in counting all votes received rather than just those of shareholders who are able to attend on the day. In addition the logistics for poll voting are often less time consuming than having a show of hands at the meeting for each resolution.

PERCENTAGE OF COMPANIES SURVEYED VOTING BY POLL

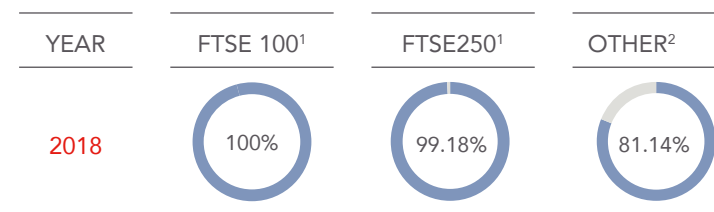


VOTING METHODS

CREST and Electronic Voting

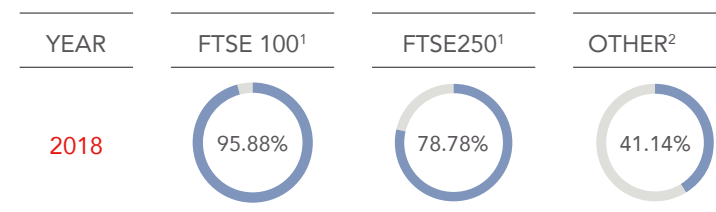
As in prior years 100% of FTSE 100 companies and over 99% of FTSE 250 companies offer CREST voting. For those outside of these indices there has been a small increase in 2018, however, overall averages have remained fairly static for the last few years.

PERCENTAGE OF COMPANIES SURVEYED OFFERING CREST VOTING



Nearly all FTSE 100 and the vast majority of FTSE 250 companies offer voting via electronic proxy appointments (EPA). The proportion of small companies offering electronic proxy voting has remained consistent over the past few years at around 41%.

PERCENTAGE OF COMPANIES SURVEYED OFFERING EPA



VOTING METHODS

Whilst paper still appears to be the preferred medium for retail shareholders we are seeing a small decline year on year. Companies who no longer send a hard copy proxy form to their web audience have seen the use of online voting far exceeding the FTSE averages.

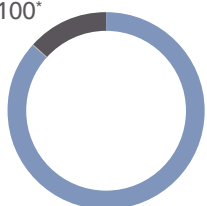
PERCENTAGE OF VOTES CAST BY MEDIUM

2018 FTSE 100*

88.70%

0.11%

11.19%



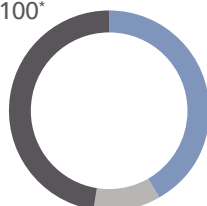
PERCENTAGE OF VOTERS BY MEDIUM

2018 FTSE 100*

41.78%

10.91%

47.31%

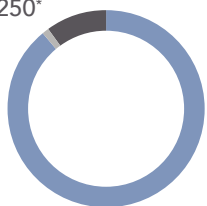


2018 FTSE 250*

90.52%

0.73%

8.75%

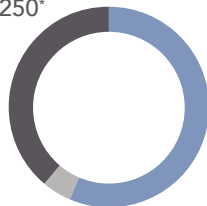


2018 FTSE 250*

56.57%

4.65%

38.78%



2018 OTHER*

64.47%

1.60%

33.93%



2018 OTHER*

37.59%

3.84%

58.57%



■ CREST

■ EPA

■ PAPER

* Equiniti clients only



BOUDICCA: MAKING SENSE OF THE PROXY VOTING CHAIN

The proxy voting chain is the complex flow of parties and processes involved in the execution of voting instructions. In the UK, this ecosystem is complex, opaque and even anachronistic. It comprises multiple intermediaries between company and investor, adding layers of complexity and presenting the potential for many mistakes. Shareholders, especially institutions, are today more compelled to exercise proxy voting rights than ever before, which means that issuers are under commensurate pressure to proactively manage the chain through which the votes are processed. The UK Stewardship Code (the "Code") is a voluntary code and, whilst not every institution takes up every aspect of it, investors increasingly recognise the need to engage with the management and directors of portfolio companies and do therefore exercise votes with a view to enhancing long-term investment values. Institutional investors have a fiduciary duty to make full use of their voting analysis and voting power. Put all this together with the rise of shareholder activism and there is an ever-increasing call for transparency and security of vote execution.

WHAT TO LOOK OUT FOR

Boudicca has prepared this article to highlight the predominant, intrinsic characteristics and pitfalls of the chain, but also to emphasise that there are opportunities to intervene should issues arise. Every year, companies and investors face the same reoccurring problems, including:

VISIBILITY OF VOTES

- Institutions will often wait until the last two weeks running up to a shareholder meeting to lodge their voting instructions, which is in line with the timing of the release of Proxy Advisers' reports. This 'delay' means we can expect an increase in vote submission during that period.
- Votes input by institutions are buffered by vote service providers until 24/48 hours prior to the registrar's own vote cut-off. This last-minute visibility gives companies little or no time to react to voting decisions made by shareholders.
- There is the possibility to ensure earlier tabulation if an investor can be persuaded to engage with their Client Service Representative and have the votes manually advanced through the systems.

CHANGES OF VOTES/ LAST-MINUTE VOTE SUBMISSIONS

- Owing to the many layers, the decision-time available to institutional investors is reduced by several days.
- If an investor has missed certain nuances of governance reporting or disclosure, they may vote unwittingly 'blind', either in accordance with Proxy Adviser recommendation or their in-house policy (e.g. 'customised voting templates'). Should shareholder engagement lead to a change in voting decision by an Institution, it will likely be close to the voting deadline.

BOUDICCA: MAKING SENSE OF THE PROXY VOTING CHAIN

MISSED DEADLINES

- The proxy voting cut-off is generally 48 business hours prior to the meeting date. Missing a cut-off needs to be pre-empted and picked up sooner by undertaking regular vote reconciliation and engagement with investors to ensure that promised votes materialise. If a deadline has seemingly been missed, there may yet be a chance for physical representation via the issuance of a Letter of Representation.

PROXY ADVISER RECOMMENDATIONS

The three main Proxy Advisers, ISS, Glass Lewis, and IVIS, are generally open to engagement about general policy proposals and shareholder expectations outside voting season (ideally November-January). PIRC seldom engages in detail, but is responsive to corrections.

- Glass Lewis has a 'moratorium' on engagement with companies from the time the Annual Report and Notice of AGM goes out, through to the AGM. They often publish their voting reports as early as 1-2 days after Notice of Meeting is issued and charge for these reports. **Contact prior to release of materials.** ISS, IVIS and PIRC publish between 21 and 10 days prior to the meeting depending on their workload. **Contact on release of materials.**

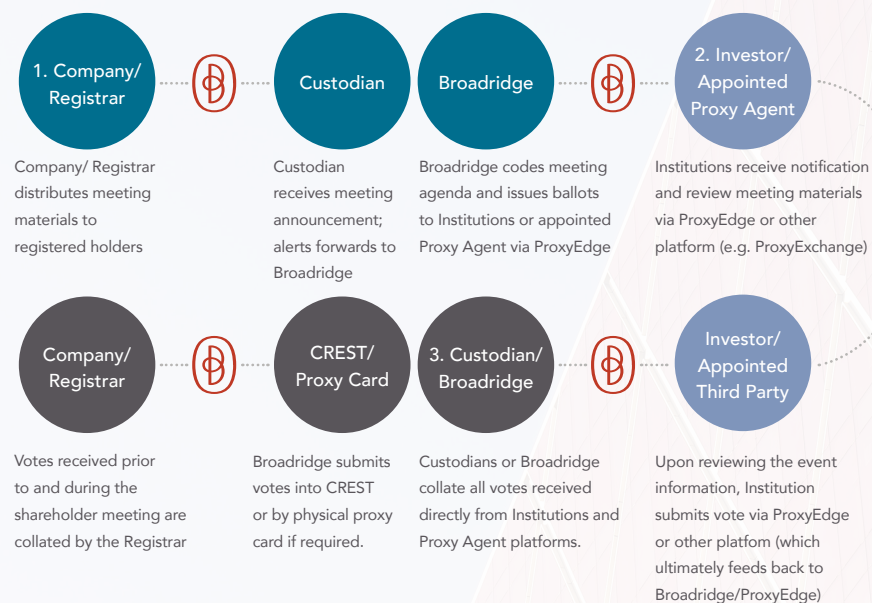
The prevailing point is that, although fraught with such dangers, in most instances proxy voting errors / issues can be turned around, provided that the chain is constantly actively monitored by a dedicated resource, such as a proxy solicitation consultant.




BOUDICCA: MAKING SENSE OF THE PROXY VOTING CHAIN

THE PROXY VOTING CHAIN

In this section, we lay down, step by step, the proxy voting process with key timings and milestones with a view to demystifying certain features of the voting system, including:



 The Boudicca logo in the above diagram illustrates the stages in the Proxy Voting Chain where a dedicated resource, such as Boudicca Proxy Consultants, can assist in mitigating risks and voting related issues.

Note: Broadridge is currently the largest outsourced Vote Service Provider used in the custodial chain. Their platform 'ProxyEdge', provides institutions with automated meeting announcements and vote execution directly to the Registrar or into CREST. Some Banks/Brokers not using Broadridge, will have their own mechanism for notifying underlying clients of proxy voting events.

BOUDICCA: MAKING SENSE OF THE PROXY VOTING CHAIN

1. MEETING ANNOUNCEMENT / NOTIFICATION

The first stage of the voting chain involves notifying the market and circulating event materials to all parties with an interest in the company, which includes:

Meeting Announcement: A company announces the meeting and publishes Notice of Meeting up to 60 days prior to the event. Meeting materials are mailed and distributed by the company or Registrar to directly registered shareholders. These include directly registered retail shareholders, nominee accounts within Custodian Banks and Private Client Brokers ('PCB') – identifiable on the Register of Members. These PCBs are not decision-makers and will not vote unless instructed. Typically, the layer of custody provides Broadridge with meeting materials in order to service these underlying clients via ProxyEdge. If PCBs form a significant part of the Register, **turnout can be low**, because they tend not to vote and because they may not inform underlying clients of the AGM.

2. DECISION MAKING

Once meeting materials are received, investment and corporate governance teams begin reviewing the meeting materials to come to a voting decision. Many of the largest investors will support their work with proxy adviser vote recommendation reports in the **two weeks before the AGM**.

3. VOTE SUBMISSION AND EXECUTION

Most vote instructions from investors, and Proxy Advisers are sent via ProxyEdge. Once collated, Broadridge submit vote instructions automatically into CREST or manually via proxy cards around 24-48 hours prior to the proxy voting deadline. Electronic votes or amendments can be submitted right up to the deadline. Smaller Custodians/Brokers not using Broadridge will leave it to the last minute to instruct.



BUSINESS OF THE MEETING

APPROVAL OF THE REPORT AND ACCOUNTS

The number of companies receiving votes in favour of the annual accounts resolution has remained static over the last few years with approximately 97% of companies surveyed receiving votes of 95% or more in favour. Although shareholders often ask questions relating to the annual report and company performance it is more usual for investors to vote against the Chair or directors of the company if they have concerns over company performance. Companies who received less than 90% of votes in favour are those with well-publicised mismanagement or accounting issues.

APPROVAL OF PAYMENT OF A DIVIDEND

Of the 517 companies surveyed approximately 30% did not put forward a dividend resolution for approval. Support from shareholders of companies who did pay a dividend unsurprisingly remains very high with only two companies receiving a vote of less than 96% in favour. Where a shareholder question is asked about a dividend it is usually about the level of dividend paid or why a dividend hasn't been received.

DIRECTORS' REMUNERATION POLICY AND ANNUAL REMUNERATION REPORT

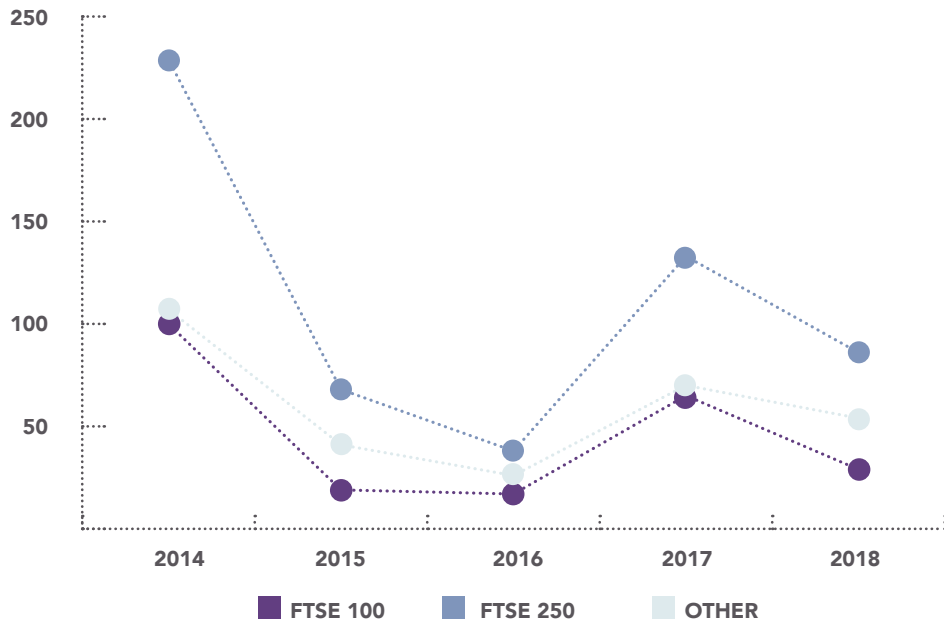
Number of remuneration policy resolutions

Remuneration legislation introduced in 2013 requires director remuneration policies to be put to a binding shareholders vote at least once every 3 years. Therefore, a large number of companies sought shareholder approval for their remuneration policy in 2014 and 2017. In 2018 this number fell but it can be seen that the 3 year peak in approvals is reducing as companies put forward policies after only one or two years depending on individual company circumstances.

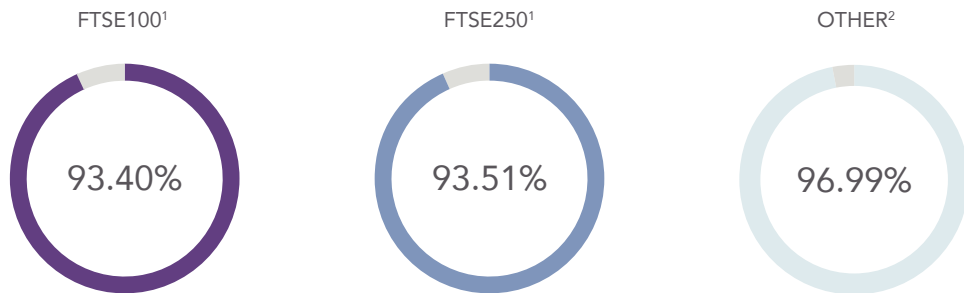


BUSINESS OF THE MEETING

NUMBER OF COMPANIES PUTTING FORWARD A REMUNERATION POLICY RESOLUTION



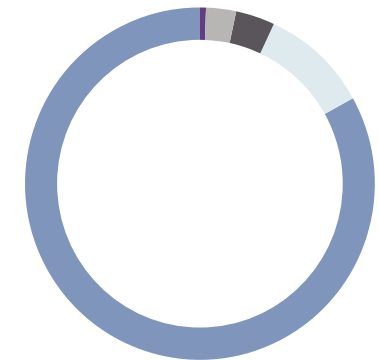
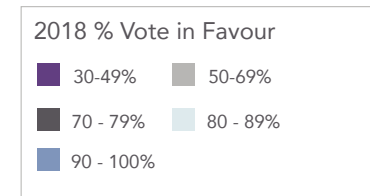
REMUNERATION POLICY RESOLUTION - AVERAGE VOTE IN FAVOUR



VOTING - REMUNERATION POLICY

There were fewer companies putting forward a remuneration policy for approval during the year as a significant number put forward policies in the previous year. Of the 517 companies surveyed, 169 companies put forward a resolution, 82.84% achieving a 90% or more vote in favour. This percentage has decreased slightly from 86.57% in the 2017 season.

2018 REMUNERATION POLICY APPROVALS

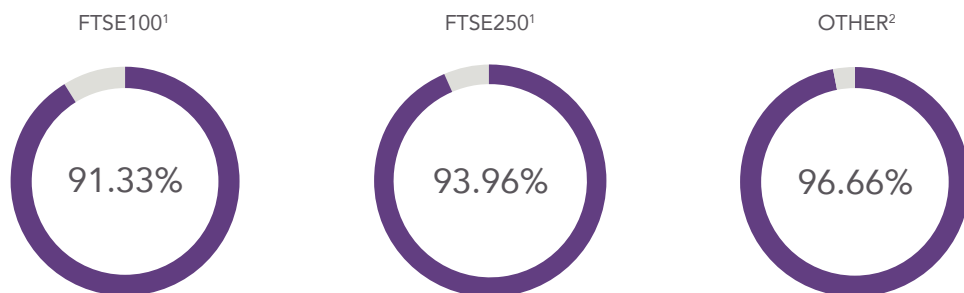


% Vote in Favour	2018		2017		2016	
	No. of Companies	% of Companies	No. of Companies	% of Companies	No. of Companies	% of Companies
<20%	0	0.00%	1	0.37%	0	0.00%
20-29%	0	0.00%	0	0.00%	1	1.23%
30-49%	1	0.59%	0	0.00%	1	1.23%
50-69%	5	2.96%	6	2.24%	2	2.46%
70-79%	6	3.55%	12	4.48%	1	1.24%
80-89%	17	10.06%	17	6.34%	11	13.59%
90-100%	140	82.84%	232	86.57%	65	80.25%

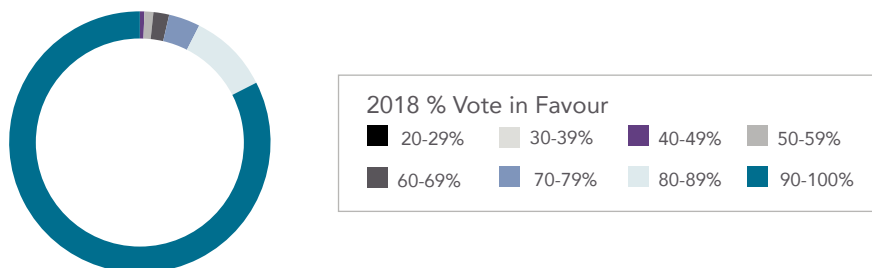
VOTING - ANNUAL REPORT ON REMUNERATION

Despite the bad publicity that is received over instances of excessive executive remuneration the number of resolutions on remuneration reports that have been defeated remains small. The average percentage of votes in favour has decreased slightly across the board but is still in excess of 90%. However, since 2015 there has been a downward trend in the number of companies achieving 90% or above in favour of their remuneration reports. The number of companies receiving 80-89% of votes in favour has nearly doubled since 2015 from 5.89% to just over 10% in 2018. In terms of voting at AGMs a vote below 90% for most other resolutions is unusual and indicates the strength of unease amongst investors over directors' remuneration.

AVERAGE PERCENTAGE OF VOTES IN FAVOUR OF ANNUAL REPORT ON REMUNERATION



ANNUAL REPORT ON REMUNERATION - PERCENTAGE VOTE IN FAVOUR



% Vote in Favour	2018		2017		2016	
	No. of Companies	% of Companies	No. of Companies	% of Companies	No. of Companies	% of Companies
20-29%	1	0.21%	0	0.00%	0	0.00%
30-39%	0	0.00%	1	0.21%	0	0.00%
40-49%	2	0.42%	1	0.21%	4	1.08%
50-59%	5	1.06%	5	1.06%	4	1.08%
60-69%	10	2.11%	7	1.48%	9	2.42%
70-79%	18	3.81%	21	4.44%	11	2.95%
80-89%	48	10.15%	39	8.25%	36	9.67%
90-100%	389	82.24%	399	84.35%	308	82.80%
Total	473		473		372	

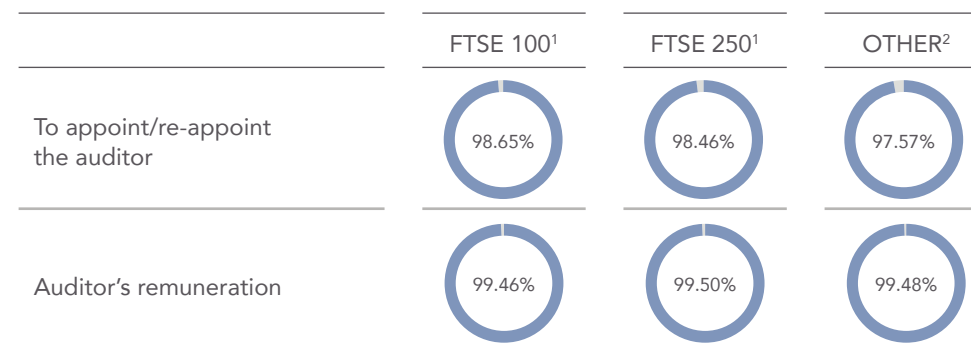
AUDITOR'S RE-APPOINTMENT AND REMUNERATION

Votes in favour of the appointment or re-appointment of the auditor remain very high being in general 98-99% of votes cast.

This is despite two or three high profile company failures where the actions of the auditors has been called into question. Investor relation bodies generally object to companies combining their resolutions to approve the appointment/re-appointment of the auditor and resolution to approve the auditor's fee hence the small number of companies who do this. The effect on the voting results for those companies who still put forward a combined resolution is variable and it is possible to achieve a very high level of support for a joint resolution.

	Number of companies 2018		
	FTSE 100 ¹	FTSE 250 ¹	OTHER ²
Combined auditor re-appointment and remuneration resolution	5	18	53

AVERAGE PERCENTAGE OF VOTES IN FAVOUR



RESOLUTIONS TO APPOINT/RE-APPOINT DIRECTORS

The vast majority of companies continue to receive healthy votes for the election of their directors.

However, the past year has seen a sharp increase in the number of director resolutions receiving a significant number of votes against. Further information and reasons for this are cited in the article by the Investment Association on page 28.

The company Chair will sometimes be the focus of shareholders protests for a variety of reasons but this includes concerns over the Chair's time and commitment. The Remuneration Committee Chair is likely to receive votes against for specific concerns over remuneration policy and its application. The Audit Committee Chair generally receives a high level of support unless there are specific accounting issues or over boarding concerns.

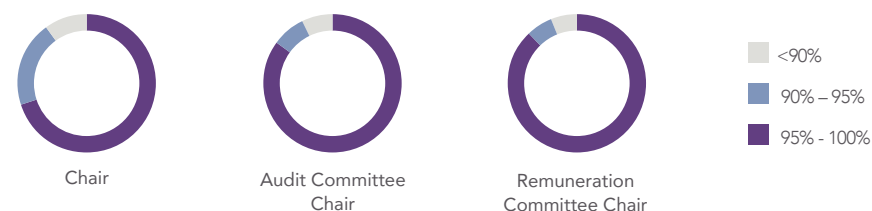


PERCENTAGE OF VOTES IN FAVOUR FOR THE CHAIR AND COMMITTEE CHAIRS

Chair					
		2018		2017	
Votes in favour	%	Number of companies	%	Number of companies	
95-100%	69.86%	241	81.06%	274	
90 – 95%	20.00%	69	11.84%	40	
<90%	10.14%	35	7.10%	24	
Total		345		338	

Audit Committee Chair					
		2018		2017	
Votes in favour	%	Number of companies	%	Number of companies	
95-100%	84.66%	287	91.15%	319	
90 – 95%	8.26%	28	3.54%	12	
<90%	7.08%	24	5.31%	18	
Total		345		338	

Remuneration Committee Chair					
		2018		2017	
Votes in favour	%	Number of companies	%	Number of companies	
95-100%	82.80%	255	88.14%	275	
90 – 95%	9.74%	30	5.78%	18	
<90%	7.46%	23	6.08%	19	
Total		308		312	



Unsurprisingly, those premium listed companies with a controlling shareholder often receive their lowest votes for a director's appointment/re-appointment resolution as the Listing Rules require the election or re-election of an independent director to be approved by all shareholders and also by just the independent shareholders of the company.

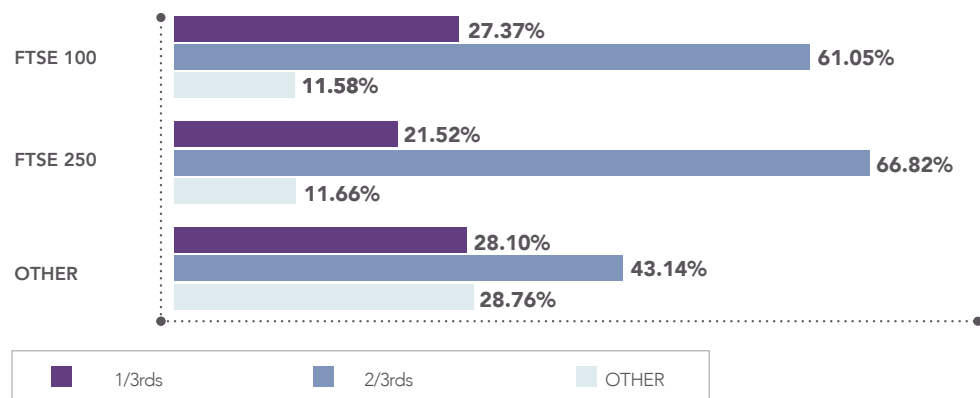
* The difference in total number of companies is caused by instances where the chair or chair of a committee has stood down at the AGM but the replacement had been made after the AGM or where a company does not have a separate audit or remuneration committee.

Statistics in this table were compiled by Prism Cossec.

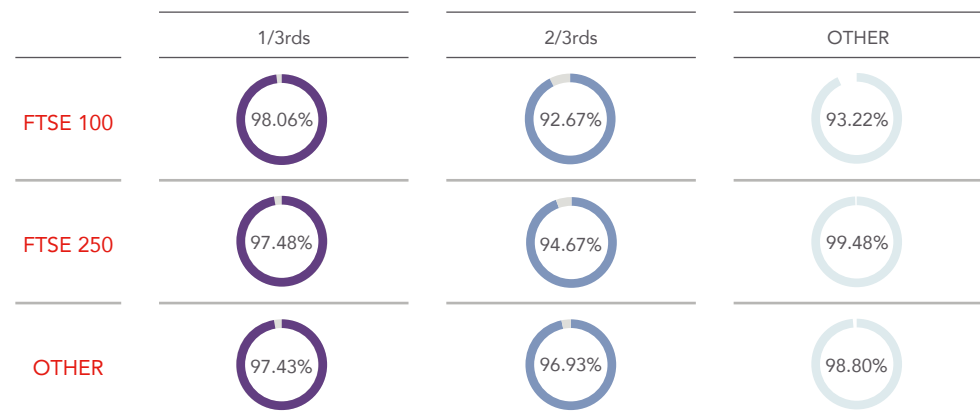
AUTHORITY TO ALLOT SHARES

The seeking of authority to allot shares is usually a non-controversial resolution proposed by a majority of FTSE 100 and 250 companies. The percentage of companies asking for 1/3rd, 2/3rds or another amount has remained consistent over the last two years. Voting in favour remains consistently high where companies ask for authority to allot up to one or two thirds of issued share capital in line with the Investment Association's Share Capital Management Guidelines 2016. There was one notable exception where a company received 48% of votes against a resolution to authorise the allotment of up to 1/3rd of issued share capital despite this being in line with the Investment Association's guidelines. This reflected the fact that the institutional guidelines in South Africa, where many of their shareholders are resident, differ from these generally applied in the UK.

2018 ALLOTMENT AUTHORITY SOUGHT - PERCENTAGE OF COMPANIES PROPOSING



2018 ALLOTMENT AUTHORITY - AVERAGE PERCENTAGE OF VOTES IN FAVOUR



AUTHORITY TO ALLOT SHARES ON A NON-PRE-EMPTIVE BASIS

Since 2015, when the Pre-Emption Group published its revised Statement of Principles for the disapplication of pre-emption rights, the majority of companies of all sizes seek authority to allot up to 10% of share capital on a non-pre-emptive basis. In 2016 the Pre-Emption Group published template resolutions to propose separate resolutions to authorise companies to:

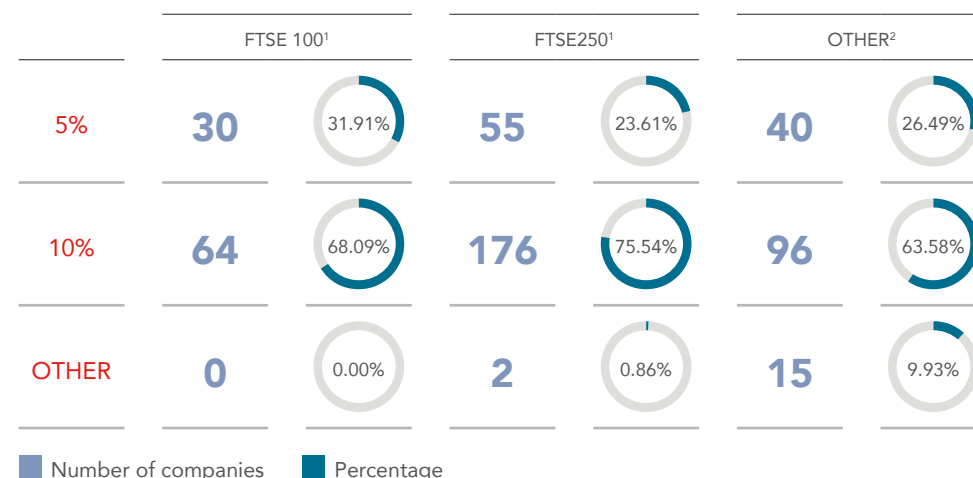
- Disapply pre-emption rights on up to 5% of issued share capital;
- Disapply pre-emption rights for an additional 5% of issued share capital for specific acquisitions or capital investment.

The Investment Association (IA) stated that it will 'red top' any companies who do not use two resolutions from August 2017. This has meant that the overwhelming majority of companies use two pre-emption resolutions. There was 1 FTSE 100 company, 34 FTSE 250 and 42 other companies who did not do so although this number has reduced from the previous year. Even where companies use two resolutions the disapplication of pre-emption rights has traditionally and still continues to cause investors concern over the dilution of their shareholdings. This is reflected in the relatively large number of close call and lost resolutions. Companies need to pay close attention to setting out why they are asking for this authority particularly if they are seeking authority for the additional 5%. Clear and specific explanations should be provided of any acquisitions or capital investment that it is proposed to use the authority for.

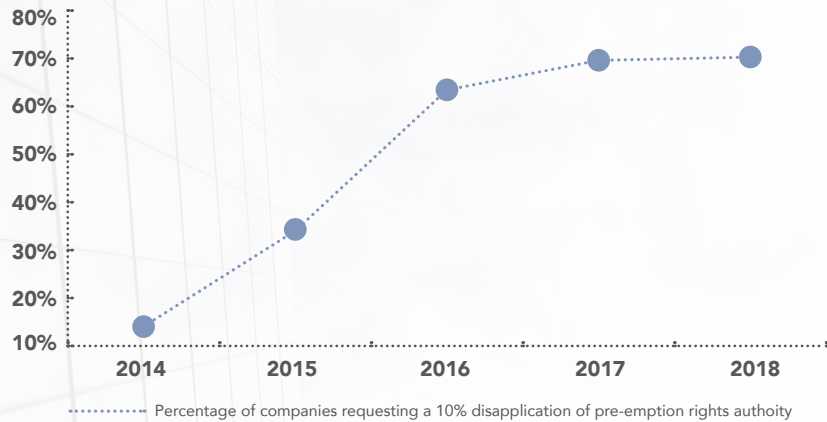
In some cases both the 1st 5% and 2nd 5% have received high levels of votes against even where two resolutions have been used. It may be these cases that investors have felt insufficient explanation has been given for either resolution.

In March 2018 the Pre-Emption Group issued a statement concerning its expectations for disapplication thresholds in light of the EU Prospectus Regulation which came into force in July 2017. The Pre-emption Group's statement makes it clear that there is no change to its Statement of Principles and continues to support an overall limit of 10% when seeking to disapply pre-emption rights.

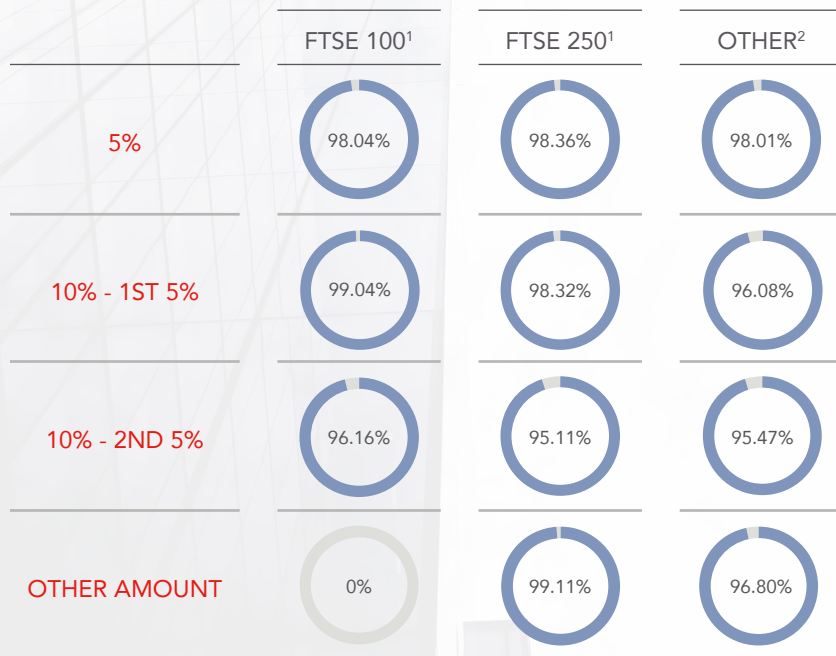
DISAPPLICATION OF PRE-EMPTION RIGHTS NUMBER OF COMPANIES PROPOSING RESOLUTIONS



PERCENTAGE OF COMPANIES REQUESTING A 10% DISAPPLICATION OF PRE-EMPTION RIGHTS AUTHORITY



DISAPPLICATION OF PRE-EMPTION RIGHTS AVERAGE PERCENTAGE OF VOTES IN FAVOUR



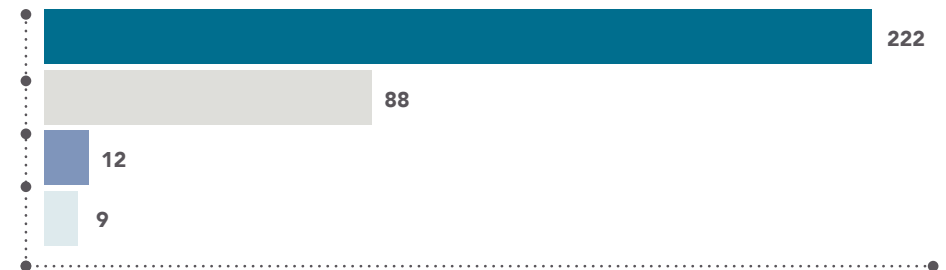
SHARE BUYBACK AUTHORITY

The levels of support for resolutions authorising companies to make market purchases of their own shares remain high. During the last year 88% of 517 companies surveyed put forward a share buyback resolution with 84% of these companies receiving a vote in favour of more than 97%.

NOTICE PERIOD FOR GENERAL MEETINGS

Of 517 companies surveyed, 331 companies put a resolution asking for authority to call general meetings on not less than 14 days' clear notice to their shareholders. Compared to other routine resolutions this resolution receives a high level of votes against although it is nearly always passed. This is due to the lack of support for such resolutions from some proxy voting agencies who fear that some companies will use the authority to limit shareholders ability to react to proposals put forward at general meetings. In order to avoid protest votes companies need to set out clearly in the AGM notice the circumstances under which the authority will be used. Of the 331 companies proposing a resolution two companies lost the resolution and a further six received a significant number of votes against.

NUMBER OF COMPANIES



TOTAL NUMBER OF COMPANIES: 331

AVERAGE PERCENTAGE OF VOTES IN FAVOUR



POLITICAL DONATIONS

Although very few companies actively donate money to political parties the broad wording of the definition of political donations by companies in UK legislation has resulted in many larger companies in particular seeking authority to do so in order to reduce the risk of inadvertently breaching the legislation. The number of FTSE 100 companies including a resolution to authorise political donations has decreased slightly on last year from 63 to 59 companies. FTSE 250 and other companies putting forward a resolution has remained fairly static at 85 and 31 companies respectively. Where a company seeks authority to make political donations the number of votes against is often high in relative terms. The explanation for putting forward such a resolution should therefore be very clear and state that there is no intention to make donations to political parties if this is the case.

Articles of Association

Of the 517 companies surveyed 58 companies made amendments to their Articles of Association or adopted new Articles. A number of the changes were to update the articles to allow for hybrid AGMs but also include changes to dividend payment methods, untraced shareholders, aggregate directors' fees and general updates.

CONTENTIOUS RESOLUTIONS

It is still very unusual for a resolution not to be passed at an AGM. Of the 517 companies surveyed only 19 resolutions were defeated. Because of this the publicity and reputational damage to a company may be significant when this does occur. This is also the case where a resolution is passed but receives a high number of votes against. The boards of companies should ensure that they are aware of sensitive areas and where they may run into difficulties. The resolutions that cause most concern to shareholders have remained the same for several years. These are resolutions to approve or authorise:

- **Disapplication of pre-emption rights;**
- **Remuneration policy or annual remuneration reports;**
- **The ability to call general meetings on not less than 14 days' notice.**

In addition this year has seen an increase in voting against the re-election of individual directors.

The 2016 UK Corporate Governance Code (Code) requires companies who receive a significant number of votes against a resolution to explain, when announcing the results of voting, what action it intends to take to understand the reasons behind a significant vote against result. Under the Code it is for the board to determine what constitutes a 'significant vote against' however with the inception of the Investment Association's Public Register listing companies who receive 20% or more votes against, 20% will be taken by many investors and companies to form a benchmark. The response to issuing such a statement has improved over the previous year with the vast majority of companies complying. There has also been some follow up from some companies publishing an additional later statement.

In the new 2018 UK Corporate Governance Code, which is effective for year ends beginning on or after 1 January 2019, 20% is specifically referred to when requiring companies to explain what actions they will take to understand reasons for the result. In addition it requires an update on the views received from shareholders and actions taken no later than six months after the shareholder meeting with a final summary in the annual report and, if applicable, in the explanatory notes to resolutions at the next shareholder meeting.

NUMBER OF LOST RESOLUTIONS/CLOSE CALL VOTES*

	Number of lost/close call* resolutions		
	FTSE 100 ¹	FTSE 250 ¹	OTHER ²
Lost resolutions	1	9	9
Close call	3	26	18

*Vote is within 10% of the required majority

Improving engagement between companies and investors

Sarah Woodfield of the Investment Association

Most companies are proactive about engaging with their shareholders but there are a minority of firms that aren't taking steps to understand shareholder views and address their concerns. For a number of years IA members have raised concerns with those companies that receive significant dissent at their AGM and fail to acknowledge this dissent and the underlying concerns of their shareholders. When companies receive high votes against resolutions at their AGM, this can be an indication that engagement wasn't sufficient to ensure shareholder support. In these cases, investors want greater follow up from companies to ensure that they fully understand the views of their shareholders and work constructively together in the future to promote the long-term success of the company.

To help facilitate this engagement the Investment Association suggested, as part of our response to BEIS' Green Paper on Corporate Governance reform, the creation of a Public Register which would track all FTSE All-Share companies who received votes of 20% or more against a resolution. The Government agreed with our proposal, and asked the IA to develop the Public Register accordingly. The Public Register brings together all these instances

in one central location for the first time. It also tracks any withdrawn resolutions, as that is often a sign of a company recognising they may well face significant dissent. It provides companies with the opportunity to make public statements at the time of and after the AGM, highlighting what steps they have taken to engage with their shareholders and address their concerns. These statements are now a requirement of the new UK Corporate Governance Code.

The Public Register outlines the key details of the resolution in question and provides the voting results. It then provides a link to the company's AGM results announcement, and states whether the company has provided a commitment to take any further actions as a result of the AGM vote. Finally, it links to any further statement the company has made in the months following the AGM, which should outline the actions taken since the vote, the views heard from shareholders on the reasons for the vote and changes in approach as a result.

Investors will be monitoring companies' appearance on the Public Register and the quality of the statements that they make, and this will inform engagement and voting behaviour at future meetings.

The IA has recently published further guidance on what investors expect to see in these statements. The key thing that investors are looking for is evidence that companies are engaging in a meaningful dialogue with their shareholders to understand their views, are demonstrating willingness to address them, and can describe how this translates into action. Statements should:

1. Be published as a standalone statement. The disclosure should not be adjunct to other regulatory news or announcements.
2. Describe the original resolution and the voting outcome.
3. Describe the engagement the company has undertaken since the vote to understand the views of their shareholders, and provide a summary of the views heard.
4. Describe any actions taken by the company as a result of views heard from their shareholders. Where the company has decided not to take any further action, they should outline why this is appropriate

in the company's circumstances.

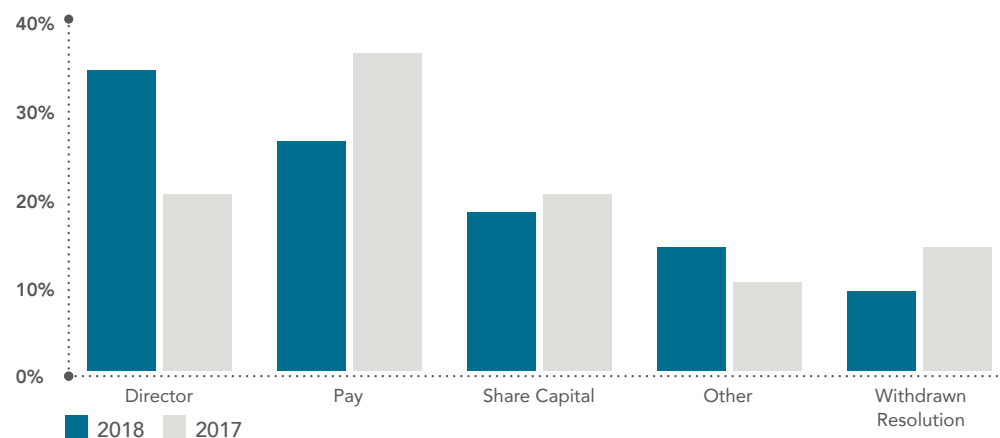
5. Describe any future actions the company intends to take, including further engagement with shareholders, and reference to the final update to be included in the annual report.
6. Where the company has appeared on the Public Register for the same resolution in consecutive years, the statement should acknowledge and set out actions to address this.

120 companies have been added to the Public Register in 2018 with 237 resolutions (by 31 July 2018). Over the same period last year 110 were added to the Public Register with 190 resolutions.

As well as illuminating company behaviour, the Public Register gives us a lens into the issues that investors are focussing on. This year, 34% of resolutions related to Director re-election; 26% of resolutions relate to pay; 18% relate to Share Capital; and 9% are withdrawn resolutions.

ISSUES CAUSING SIGNIFICANT SHAREHOLDER DISSENT

% of resolutions appearing on the IA's Public Register by Issue



INVESTMENT ASSOCIATION: THE PUBLIC REGISTER

This year we are seeing an increasing focus on director accountability with a significant increase in the number of directors receiving significant dissent against their re-elections.

- The number of individual director-related resolutions with more than 20% votes against rose from 38 in 2017 to 80 in 2018 (up until 31 July), an increase of 111%.

Investors are voting against director re-elections for a number of reasons:

- They have concerns over the number of positions an individual has and ensuring that the individual has time to contribute effectively to the Board.
- They are holding individuals to account for the decisions they have made, including as members of the nomination, remuneration or audit committee, including issues such as diversity.
- They have concerns over the independence of directors or that there is insufficient diversity on the Board.

Investors will pay close attention to those companies that appear on the register for consecutive years for the same resolution. 42% of all the companies added to the Public Register in 2018 also appeared on the Public Register in 2017 and with 35 instances of repeat offenders appearing on the Public Register in 2017 and 2018 for exactly the

same resolution. This demonstrates that some companies are not doing enough to engage with investors, who are beginning to consider this as an indicator of other governance concerns.

The Public Register is already changing company behaviour. 65% of companies added to the Public Register up until 31 July 2018 acknowledged shareholder dissent in their AGM results and spelled out actions they intend to take. Among companies added to the Public Register in the same period in 2017, just 51% acknowledged shareholder dissent in their AGM statement. Notably, a number of companies that have innovated by introducing new remuneration structures have conducted significant engagement prior to the AGM, and have not appeared on the Public Register. This is reassuring evidence of the quality engagement investors are looking for working in practice. Those companies that engage early with their shareholders and can demonstrate how new structures fit in with the company's wider strategy can get significant shareholder support. At the IA we will continue to develop the Public Register and encourage all companies appearing on the Public Register to provide statements at the time of their AGM and in the following months.

ABOUT THE INVESTMENT ASSOCIATION

The Investment Association is the trade body that represents UK investment managers, whose 240 members collectively manage over £6.9 trillion on behalf of clients.

FUTURE TRENDS?

CORPORATE GOVERNANCE REFORM

Concerns over how companies are run and their wider impact on society and the communities within which they operate has never been higher and is reflected in the political agenda. Corporate governance reform appeared in Theresa May's leadership speech in 2016 and then in the Conservative Party's 2017 Manifesto. In November 2016 a consultation on corporate governance reform was launched focusing on executive pay and how the input of employees and other stakeholders could be gathered. This has culminated in secondary legislation on company reporting and a new UK Corporate Governance Code both of which come into effect from 1 January 2019. It also resulted in the establishment of the Public Register maintained by the Investment Association and we are pleased to include a review by the IA into the operation of the register on pages 28 to 30.

HYBRID/ELECTRONIC AGMS

We have reported in previous years on the potential for holding electronic general meetings whereby the meeting is held entirely electronically via conference call, web or app access. Following the first electronic AGM held by Jimmy Choo plc in 2016 it was expected that others would follow suit and indeed our tracking of changes to articles of association indicated that many companies were at least considering this as an option in the future. However, following the publication of the Investment Association's position statement in December 2017 the direction of electronic AGMs has changed track. The Investment Association has come out in favour of the use of technology such as webcasting but does not support virtual only AGMs seeing them as restricting the ability of shareholders to hold companies to account. The Investment Association therefore expect to see any amendments to articles of association to confirm that an electronic meeting will be held alongside a physical meeting and will red top any company whose proposed article changes allow for an electronic only general meeting. This position is reflected in the 2018 ISS voting guidelines. It is very likely therefore that those companies wishing to extend the use of technology and therefore potential participation by shareholders will choose to hold a hybrid AGM, as did Equiniti Group plc for their 2018 AGM.

AUDITORS

Widely publicised business failings over the last two to three years have resulted in increased scrutiny of audit firms. In April 2018 the Financial Reporting Council (FRC) announced enhanced monitoring of the six largest firms in the areas of leadership, governance, values, business models and financial soundness, risk management and control and evidence on audit quality. The FRC are also carrying out a thematic review into the culture at audit firms to ensure that the culture and values of a firm supports the audit process. FRC investigations are currently underway into two of the largest audit firms for their audits of three companies that are in financial difficulties. This activity, guidelines of some proxy voting agencies on length of auditor tenure, such as those of the Pensions and Lifetime Savings Association, and continued concern over company failures may see resolutions re-appointing auditors receiving a greater level of votes against.

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