EQUINITI

AGM TRENDS 2019

PRISM COSEC

BOUDICCA FROM EQUINITI

Contents

Foreword

EQUINITI'S ANNUAL REVIEW OF TRENDS DURING THE 2019 AGM SEASON

Welcome to AGM Trends 2019, the annual review of trends and developments during the 2019 annual general meeting (AGM) season compiled by Equiniti's Registration Services and Company Secretarial teams.

This year we include articles from Boudicca on the growth of shareholder activism, Korn Ferry on investors' remuneration concerns, an update from the Investment Association on the Public Register and Emperor on how to make the most of your Annual Report.

Corporate governance has continued to be high on the business agenda during the past year. Companies have been reviewing and implementing the provisions of the new UK Corporate Governance Code and new remuneration reporting requirements. The importance of engaging meaningfully with employees, shareholders and the wider community has been recognised and climate change has emerged as perhaps the key challenge for business and government in the foreseeable future.

In addition, companies continue to face uncertainty surrounding the outcome of Brexit. It will be of no surprise to learn that shareholders were looking for sensible executive remuneration outcomes and directors with the time and ability to devote to the company at 2018 and 2019 AGMs during this time of change.

The main themes that have been highlighted by investors at AGMs in the last year, either through voting activity or shareholder activism, are a continuation of concerns that have been coming to the fore over the last few years. These are:

- Executive remuneration.
- Board composition and ensuring directors have the time and commitment for their roles.
- Protecting shareholder rights and concern over possible dilution of shareholdings.
- The rise of environmental, social and community issues.

Key to statistics

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/smaller). All 2019 statistics are for the 2018/19 year ended on 31 July 2019.
2. Statistics based on Equiniti clients only.

Top AGM Facts

AGM Venue Facts

01

62%
of all companies hold their AGMs in London

02

In London
65%
of FTSE 250 and 79% of smaller companies prefer to hold their AGMs at their own offices or the offices of lawyers or advisors

03

In London
51%
of FTSE 100 companies hold their AGMs in conference centres or hotels compared to 9% of FTSE 250 companies

AGM voting facts

01

The percentage of share capital voted at AGMs is
74.53%
for FTSE 100 and 70.92% for FTSE 250 companies but only 52.93% for smaller companies

02

The use of polls is increasing gradually year-on-year and is
95%
for FTSE 100 companies, 64% for FTSE 250 companies and 26% for smaller companies

03

100%
of FTSE 100 companies, 99% of FTSE 250 companies and 83% of smaller companies offer voting by CREST

04

Outside of London conference centres and hotels remain popular with FTSE 100 companies accounting for

40%

of AGM locations

05

Outside of London AGM locations are split mainly between company offices and hotels for FTSE 250 companies, accounting for

35% and **34%**

of locations respectively, whereas for smaller companies 53% chose to hold their AGM at their own offices

06

72%

of FTSE 100 companies,

64%

of FTSE 250 companies and 52% of smaller companies hold their AGM before midday with just over a third of all companies holding their AGM at the hour of 11am

04

95%

of FTSE 100 companies, 83% of FTSE 250 companies and 45% of smaller companies offer voting by electronic proxy appointment, the FTSE 250 and smaller companies seeing increases over 2018

05

90%

of FTSE 100 and **92%** of FTSE 250 shares voted are via CREST compared to 66% for smaller companies

06

Use of paper voting forms remains high in terms of the number of voters but is declining, the number of voters using paper being

43%

for FTSE 100 companies, 36% for FTSE 250 companies and 55% for smaller companies

Shareholder Questions

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

THE MAIN TOPICS RAISED BY SHAREHOLDERS:

PERFORMANCE, STRATEGY, REPORT AND ACCOUNTS

Share price, dividend payments, company debt, tax and specific questions on the annual report

EXECUTIVE REMUNERATION

Remuneration is particularly raised by shareholders where company and share price performance is poor

ENVIRONMENTAL, SOCIAL CONCERNS AND THE WORKFORCE

ShareAction, Climate 100+ and ShareSoc continue to be active and send representatives to FTSE 100 and FTSE 250 AGMs

BREXIT

Company preparations for and possible impact of Brexit on performance

THE BOARD AND GOVERNANCE

Board composition and diversity, directors' time and directors' shareholdings

It remains the case that the larger the company and its shareholder base, the more questions are asked by shareholders at the AGM.

Companies who are performing badly in terms of share price or performance or those in sensitive sectors, such as mining or pharmaceuticals, inevitably receive a greater number of questions, often on the same topic. It may seem obvious, but in order to deal effectively with the queries of shareholders, preparation is key.

Ensure that questions raised from last year's AGM are reviewed and have been addressed. Know which topics are of concern to your investors such as executive remuneration and the environmental and climate change impacts of the company's operations. **Be aware of pressure groups** that may attend such as ShareAction and Climate 100+ and consider engaging with them before the AGM. Prepare a list of tough questions that may be raised and rehearse the arguments to ensure the company's case is thought out and clear. **Ensure your directors are on top of the facts.**

NOTE FOR 2020 AGMs

The AGM is **often the event that investors and activists use if they have serious concerns** over the impact of a company's activities on the environment by asking questions and sometimes even disrupting the meeting. It is possible that investors may **increasingly use protest votes against the annual report** resolution if disclosures in relation to climate change, the environment and related risks are considered to be inadequate. It is an area that companies ignore at their peril and may suffer reputational damage and damage to their businesses through investor and consumer action if they do. All companies need to consider not only the impact of their activities on the environment but what risks their business may be subject to through climate change and **ensure these are properly reported on in the annual report**. We recommend that companies should review their reporting in this area and review available guidance, such as that published by the European Commission in 2019 (EC: Guidelines on reporting climate-related information).

All companies need to consider not only the impact of their activities on the environment but what risks their business may be subject to through climate change.

BOUDICCA: Shareholder Activism

Sheryl Cuisia from Boudicca talks about the rise of shareholder activism over recent years.

BOUDICCA
FROM EQUINITI

25 2018

11 2017

Research by equity adviser, Lazard, showed that there were 25 activist campaigns in 2018 compared to just 11 in 2017.

Shareholder activism in the UK during 2018 set records for the number of campaigns launched and for the success of these initiatives. Research by equity adviser, Lazard, showed that there were 25 activist campaigns in 2018 compared to just 11 in 2017.

Our own experience suggests that this level of activity has been maintained, at least. In 2019, Boudicca has already worked on UK activist campaigns in relation to Barclays, Gulf Marine Services, Northgate, Provident Financial, Stock Spirits, SuperDry, and FirstGroup. Of those campaigns for which there have been voting results, we have witnessed that investors are getting 'gutsier' and can get results. Both Northgate and SuperDry, for example, acceded to director change. That said, levels of success are variable, and they can just as easily fail as they did at Barclays, to get a board change implemented.

- While these campaigns are directed at the removal of current Board members and the replacement of them with the shareholder nominees, the underlying aim is to engineer change to an issuer's strategy.
- Boudicca believes that this continued high level of activism has its roots in The Stewardship Code, which requires institutional investors to actively engage with their investee companies. Activists in the UK can rely increasingly on institutional investors' support for a change in an issuer's strategy where this is required.

- Specifically, Principles 4 and 5 of The Stewardship Code require institutional investors to establish clear guidelines on when and how they will escalate their stewardship activities and that they will be willing to act collectively with other investors where appropriate. In short, these Principles actively encourage institutional investors to agitate for change, potentially with other investors.

Although a non-UK case-study, **we have seen the success of a non-traditional activist** – a constructivist – looking to rescue their investment in Spanish retail through strategic requisitioning at an AGM. UK-based LetterOne Retail achieved a unique precedent in winning resolutions at the AGM of DIA to establish Board presence and, subsequently, launched a successful Voluntary Tender Offer with a view to turning the ailing company around in the long term. This shows that there can be winning support for demonstrably sound strategy and good governance change. Conversely, at Barclays, Ed Bramson could not demonstrate adequate planning and strategy to get adequate support for his requisitioned resolution.

ENGAGEMENT

Engagement, consultation and responsiveness are key to mitigating dissent and the threat of activism. As with GVC and Sage, we have seen vote recommendations and outcomes turned around based on concessions to shareholders and Proxy Advisers that have resulted from engagement mid-campaign. If practices can be amended and improved much earlier in the time-horizon ahead of any AGM, last-minute fire-fighting can be avoided. ISS changed their final published vote recommendations in response to new feedback from the issuers.

If practices can be amended and improved much earlier in the time-horizon ahead of any AGM, last-minute fire-fighting can be avoided.

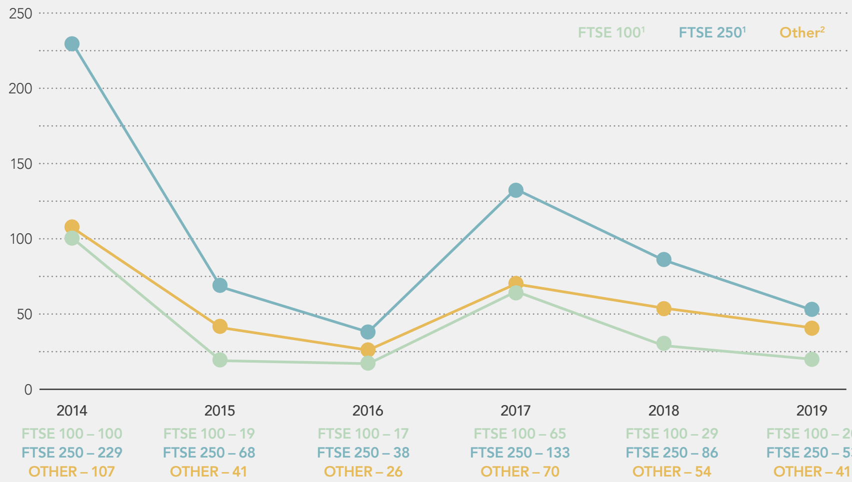
AGM Resolutions

Remuneration

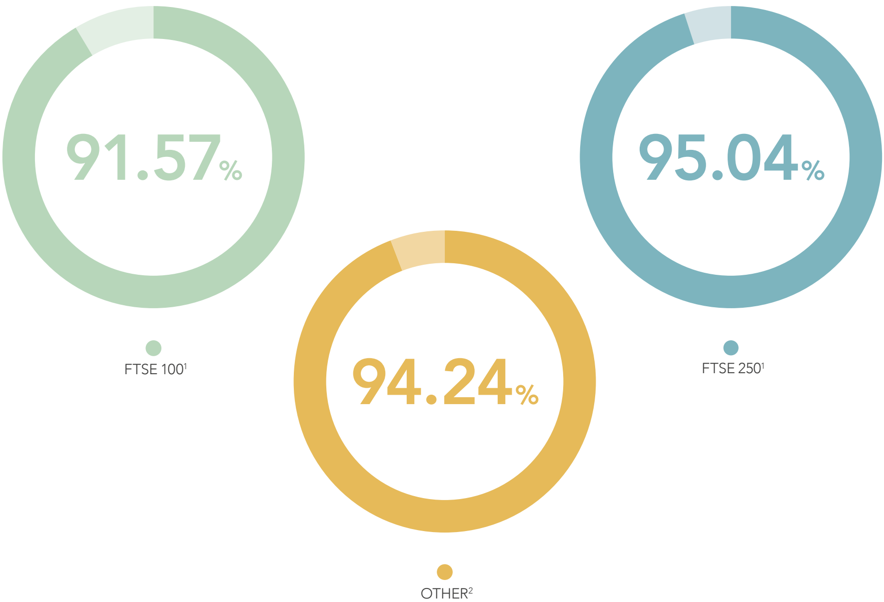
Number of remuneration policy resolutions

It is a requirement for the executive remuneration policy to be put to a binding shareholders' vote at least once every three years. A large number of companies sought shareholder approval for their remuneration policies in 2014 and 2017. This number fell to 169 in 2017/2018 and was 114 in the 2018/2019 AGM season. We expect to see another spike in remuneration policy resolutions in 2020.

Number of companies putting forward a remuneration policy resolution:



REMUNERATION POLICY – AVERAGE VOTE IN FAVOUR



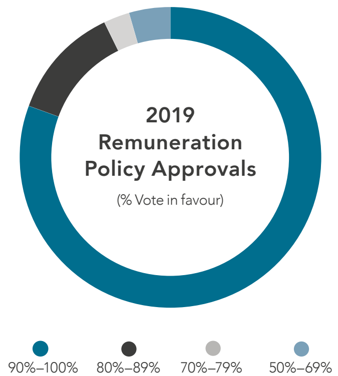
Voting – remuneration policy

We have seen the level of concern over remuneration policies increase over recent years despite adverse publicity and push back from investors. It seems that whilst the level of engagement over remuneration has improved between companies and shareholders, this still has to translate into a larger number of companies receiving improvements in votes in favour of remuneration policies. Resolutions on remuneration continue to be high on the list of lost or close call resolutions. That said, 92% of the companies surveyed received 80% or more of votes in favour of the remuneration policy resolution.

AGM Resolutions continued

Remuneration Policy Approvals

	2019		2018		2017	
% Vote in favour	No. of companies	% of companies	No. of companies	% of companies	No. of companies	% of companies
<20%	0	0.00%	0	0.00%	1	0.37%
20%–29%	0	0.00%	0	0.00%	0	0.00%
30%–49%	0	0.00%	1	0.59%	0	0.00%
50%–69%	5	4.39%	5	2.96%	6	2.24%
70%–79%	3	2.63%	6	3.55%	12	4.48%
80%–89%	14	12.28%	17	10.06%	17	6.34%
90%–100%	92	80.70%	140	82.84%	232	86.57%

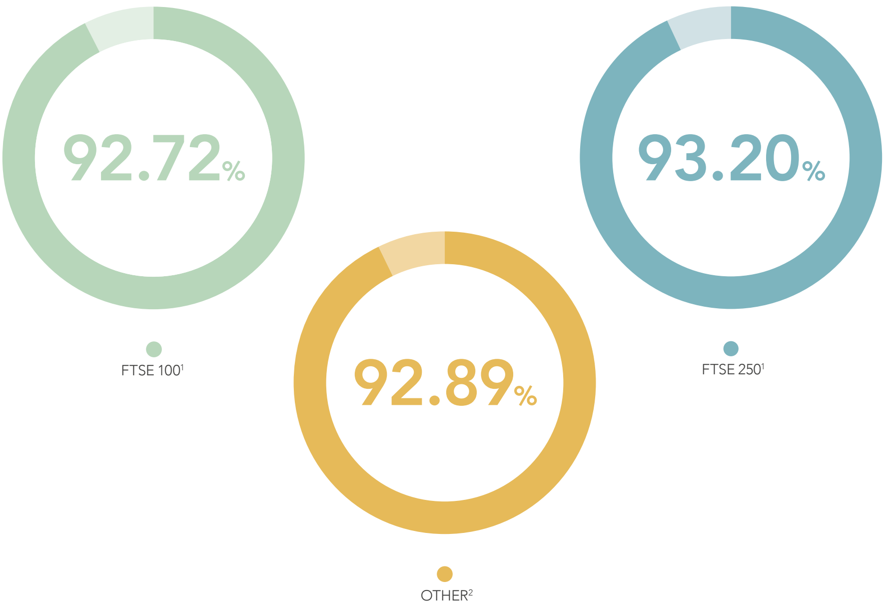


92% of the companies surveyed received 80% or more of votes in favour of the remuneration policy resolution.

Voting – Annual Report on Remuneration

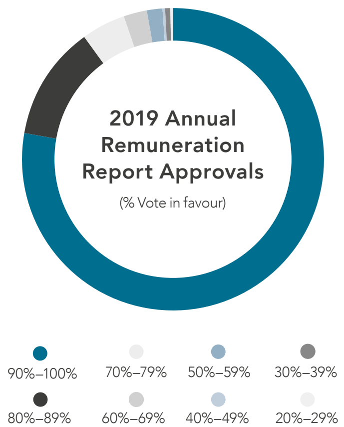
As with voting on remuneration policies, the average vote in favour of the remuneration report has remained fairly constant for FTSE 100 and FTSE 250 companies at over 92% and 93% respectively. Where there does seem to be a change is in voting for the remuneration reports of smaller companies where there has been a noticeable decline in votes in favour from nearly 97% to 93%. This may be due to investors demanding a higher level of transparency and standard of reporting that is sometimes lacking from smaller company reports. Also noticeable is the decline in the number of companies receiving 90% or more votes in favour of their remuneration report. In 2015 this stood at 87%, falling to 82% in 2018 and 77% in 2019.

AVERAGE PERCENTAGE OF VOTES IN FAVOUR OF ANNUAL REPORT ON REMUNERATION



	2019		2018		2017	
Votes in favour of the Remuneration Report	**No of companies**	**% of companies**	**No of companies**	**% of companies**	**No of companies**	**% of companies**
<20%	1	0.21%	0	0.00%	0	0.00%
20–29%	1	0.21%	1	0.21%	0	0.00%
30–39%	3	0.64%	0	0.00%	1	0.21%
40–49%	1	0.21%	2	0.42%	1	0.21%
50–59%	8	1.70%	5	1.06%	5	1.06%
60–69%	11	2.34%	10	2.11%	7	1.48%
70–79%	23	4.88%	18	3.81%	21	4.44%
80–89%	57	12.10%	48	10.15%	39	8.25%
90–100%	366	77.71%	389	82.24%	399	84.35%
Total	471		473		473	

AGM Resolutions continued



As with voting on remuneration policies, average votes in favour for remuneration reports has remained fairly constant for FTSE 100 and FTSE 250 companies at over 92% and 93% respectively.

NOTE FOR 2020 AGMs

The successful passage of remuneration policies and remuneration reports is unlikely to get any easier in the foreseeable future. The Investment Association has stated that IVIS will 'red top' remuneration policies that do not state new directors will have their pension contributions set in line with the majority of the workforce and will 'amber top' a remuneration policy where an existing director will receive a pension contribution of 25% or more of salary. The Investment Association's letter to Remuneration Committee Chairs at the end of 2018 made it clear that investors were losing patience with companies not responding to shareholder concerns on remuneration particularly the use of 'exceptional circumstances' to justify large remuneration outcomes and also not consulting with shareholders in any meaningful way on remuneration. Remuneration Committees need to heed these warnings to avoid future difficulties in getting remuneration policies and remuneration reports approved.

Korn Ferry: Remuneration – Investors' Concerns

Rob Burdett from Korn Ferry's Executive Pay & Governance Practice, considers the concerns of investors and difficulties for Remuneration Committees.

KORN FERRY

Companies approached the 2019 AGM season in relation to voting on remuneration-related resolutions with a fair degree of uncertainty…

Companies approached the 2019 AGM season in relation to voting on remuneration-related resolutions with a fair degree of uncertainty and, as a result, trepidation. The overall macro-economic uncertainty – whether driven by Brexit or not – made it ever harder for Remuneration Committees to set long-term targets under their traditional long-term incentive plans (LTIPs). This lead to continued debate around the use of restricted shares which have no long term targets (other than certain performance underpins). However, very few companies tabled resolutions seeking approval for such plans, no doubt largely as a result of the very mixed investor reception that can greet these arrangements.

Investors are also urging Remuneration Committees to exercise discretion to avoid inappropriate bonus outturns or LTIP vestings, and to reduce LTIP award levels if the share price has fallen. But there is much uncertainty within Remuneration Committees as to what actually is an inappropriate outturn and what adjustment should be made? Similarly, if the share price has crashed, there is uncertainty as to by how much should LTIP award levels be reduced? However, companies that have not been deemed to have exercised discretion sufficiently (or at all) have attracted significant votes against their pay resolutions.

Indeed, this issue reflects some investors' continued overriding twin concerns that (i) pay levels are just too high and (ii) the link between pay and performance is not as strong as it should be. Therefore, any material increases in pay quantum and/or bonus/LTIP outturns that did not reflect underlying performance and the "shareholder experience" resulted in high votes against in a number of instances.

AGM Resolutions continued

The other main lightning rod to investor opposition in 2019 from a pay perspective related to disclosure of bonus targets. While prospective disclosure of the targets to be used in the forthcoming year remains very rare, **investors now expect companies to provide granular detail on the targets used to determine the bonus** outturn in the prior year. This applies to both the financial and non-financial (e.g. personal/strategic) element of the bonus. If shareholders do not believe that they are being provided with sufficient information to determine whether the bonus targets were robust, again they may well vote against the relevant resolution.

In terms of other voting trends, perhaps the most noticeable is the "repeat offender" factor. If investors do not feel that a company has taken sufficient account of concerns previously raised, they will "up the ante" by not only voting against the pay resolution again, but also possibly voting against the re-election of the Remuneration Committee chair (and, in extreme cases, the re-election of the Company chair).

Finally, returning to this issue of uncertainty, **Remuneration Committees are now beginning to wrestle with precisely how they are expected to adhere to the new requirements** relating to (i) aligning executive pensions with those of the workforce and (ii) post cessation shareholding guidelines (as recommended by the new UK Corporate Governance Code), both of which may be areas of particular shareholder focus in 2020 and beyond.

If investors do not feel that a company has taken sufficient account of concerns previously raised, they will "up the ante"…

Auditors

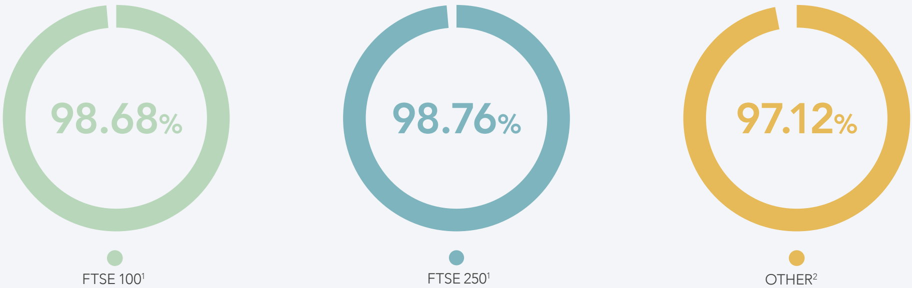
Votes in favour of the auditor's re-appointment and approval of remuneration remain very high...

AUDITOR'S RE-APPOINTMENT/REMUNERATION

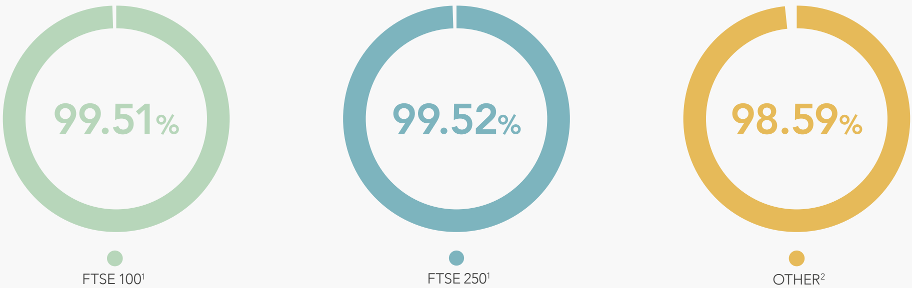
Votes in favour of the auditor's re-appointment and approval of remuneration remain very high across all sectors. However, our analysis showed that for 20 of the companies surveyed, even though the resolution was passed, the resolution that received the lowest number of votes in favour was the resolution to re-appoint the auditor perhaps indicating concerns over length of tenure of the auditor.

AVERAGE PERCENTAGE OF VOTES IN FAVOUR

To appoint/re-appoint the auditor



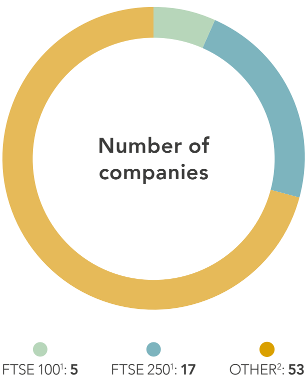
Auditor's remuneration



AGM Resolutions continued

A very small number of companies still put forward a combined resolution asking for approval for both the auditor's re-appointment and for directors to approve their remuneration.

Number of companies with combined auditor resolution



NOTE FOR 2020 AGMs

Whilst support for resolutions related to the auditor's re-appointment and their remuneration remain high, companies should not be complacent. A number of reviews into the audit sector have been carried out in 2018 and 2019 arising from concerns over lack of competition, auditor independence and audit quality. These include the Kingman Review[3], Brydon Review[4], Competition and Markets Authority review[5] and a BEIS Select Committee report[6]. It is likely that as a result major changes will be coming to the way auditors are appointed and regulated including possible mandatory joint audits for the largest companies, fixed term audit contracts and greater oversight of how the auditor is appointed. One of the recommendations made is that auditors should be required to make a presentation to the AGM on their findings and how they have challenged management. Until any reforms have been implemented it is likely that investors will increasingly focus on the length of tenure of the auditor, any concerns around independence and audit quality when considering their voting position.

3. Sir John Kingman: Independent Review of the Financial Reporting Council, December 2018.
4. Sir Donald Brydon: Independent Review into the quality and effectiveness of audit.
5. Competition and Markets Authority: Statutory audit services market study, April 2019.
6. BEIS Select Committee Report: The Future of Audit, April 2019.

The Board

RESOLUTIONS TO APPOINT/RE-APPOINT DIRECTORS

Back in 2010, the UK Corporate Governance Code incorporated for the first time the requirement for directors of FTSE 350 companies to stand for re-election at every annual general meeting. Prior to this most companies simply put up a third of their directors every year for re-election in accordance with their Articles. **This change has allowed a gradual and, more recently, a sharp increase in shareholders using their votes to protest against individual directors, the Chair of the company or the committee Chairs.** This is a trend that looks set to continue. Amongst the companies surveyed votes against directors' resolutions accounted for four lost resolution and three close call resolutions in the last AGM season. In addition, for 163 of the 523 companies surveyed, the lowest vote in favour for any of their resolutions was for a resolution to approve the re-election of a director. Those premium listed companies with a controlling shareholder are often the companies that receive the lowest votes for a directors' resolution as the Listing Rules require the election or re-election of an independent director to be approved not only by all shareholders but also just the independent shareholders of the company.

In the 2018/2019 season, the number of companies receiving over 95% of votes in favour of the company Chair has decreased from 70% to 69% whilst those receiving less than 80% of votes in favour has increased from 10% to 11%. The reasons given for significant votes against the Chair are mostly for **concerns over the Chair's time and/or length of tenure.** General concerns over company performance or governance also attract negative votes for the Chair of the company.

NOTE FOR 2020 AGMs

What has also been noticeable in the last year is the large number of directors standing down and new director elections. Possible reasons for this are pressures from investors against directors who have served on a board for a long period of time and also companies wishing to address board composition and diversity issues.

In the 2018/2019 season the number of companies receiving over 95% of votes in favour of the company Chair has decreased from 70% to 69%…

AGM Resolutions continued

	2019		2018		2017	
Chair* **Percentage of votes in favour**	**%**	**Number of companies**	**%**	**Number of companies**	**%**	**Number of companies**
95–100%	68.61	223	69.86	241	81.06	274
90–95%	20.32	66	20.00	69	11.84	40
<90%	11.07	36	10.14	35	7.10	24
		325		345		338

A high number of votes against the Remuneration Committee Chair is nearly always in respect of investor concerns over aspects of remuneration policy and this was certainly true for the last year.

	2019		2018		2017	
Remuneration Committee Chair* **Percentage of votes in favour**	**%**	**Number of companies**	**%**	**Number of companies**	**%**	**Number of companies**
95 –100%	83.17	247	82.80	255	88.14	275
90–95%	9.43	28	9.74	30	5.78	18
<90%	7.40	22	7.46	23	6.08	19
		297		308		312

Overall support for Audit Committee Chairs is higher than for the Remuneration Committee Chair but high levels of votes against have been received this year where the company is performing badly or there are concerns about over boarding.

	2019		2018		2017	
Audit Committee Chair* **Percentage of votes in favour**	**%**	**Number of companies**	**%**	**Number of companies**	**%**	**Number of companies**
95 –100%	87.66	284	84.66	287	91.15	319
90 –95%	8.02	26	8.26	28	3.54	12
<90%	4.32	14	7.08	24	5.31	18
		324		339		349

* 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 has been made after the AGM or where a company does not have a separate audit, remuneration or nomination committee.

Statistics in these tables were compiled by Prism Cosec from FTSE 100 and FTSE 250 AGM results.

This year for the first time we have included results of voting for the Nomination Committee Chair. It is noticeable that votes against the Nomination Committee Chair are greater than for either the Remuneration or Audit Committee Chairs. This is usually due to concerns over lack of diversity, board composition and succession planning. The Nomination Committee Chair is also often the Chair of the company and can therefore attract adverse votes against due to more general concerns over company performance.

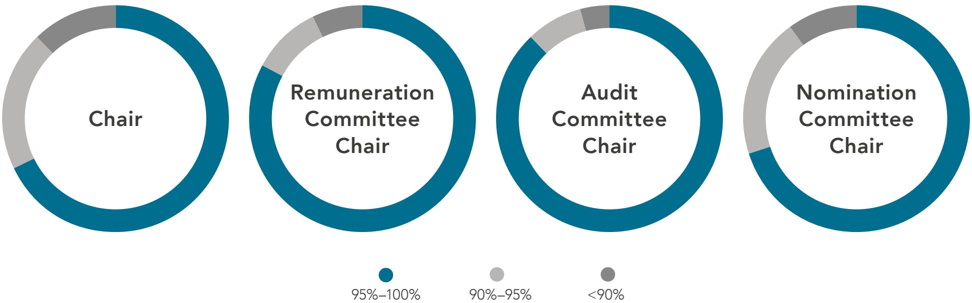
	2019	
Nomination Committee Chair*† **Percentage of votes in favour**	**%**	**Number of companies**
95 –100%	69.87	211
90 –95%	19.87	60
<90%	10.26	31
		302

† Only one year of data available.

* 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 has been made after the AGM or where a company does not have a separate audit, remuneration or nomination committee.

Statistics in these tables were compiled by Prism Cosec from FTSE 100 and FTSE 250 AGM results.

PERCENTAGE OF VOTES IN FAVOUR OF THE CHAIR AND COMMITTEE CHAIRS



Companies should address concerns investors may have about the length of tenure of directors, and therefore their perceived independence, and the time commitments of directors. This may require sensitive handling with the director in question but if the Board has confidence in the director then they should consider setting out why a director can manage a seemingly heavy portfolio or are viewed as independent after a long period of service in the annual report or AGM Notice.

AGM Resolutions continued

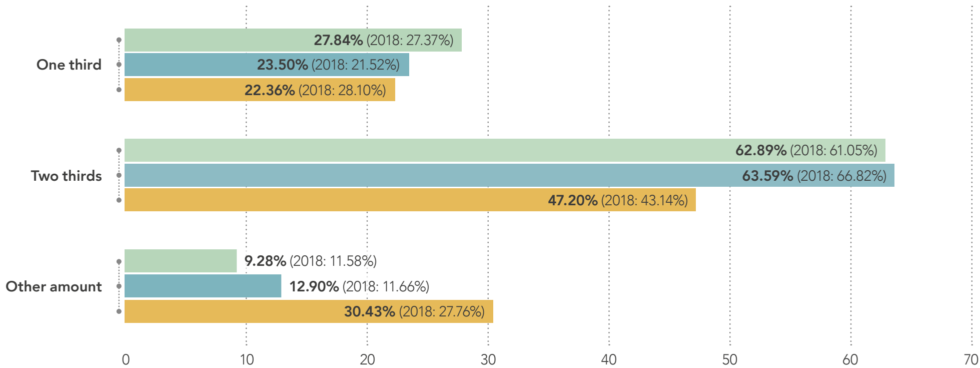
Share Capital Resolutions

AUTHORITY TO ALLOT SHARES

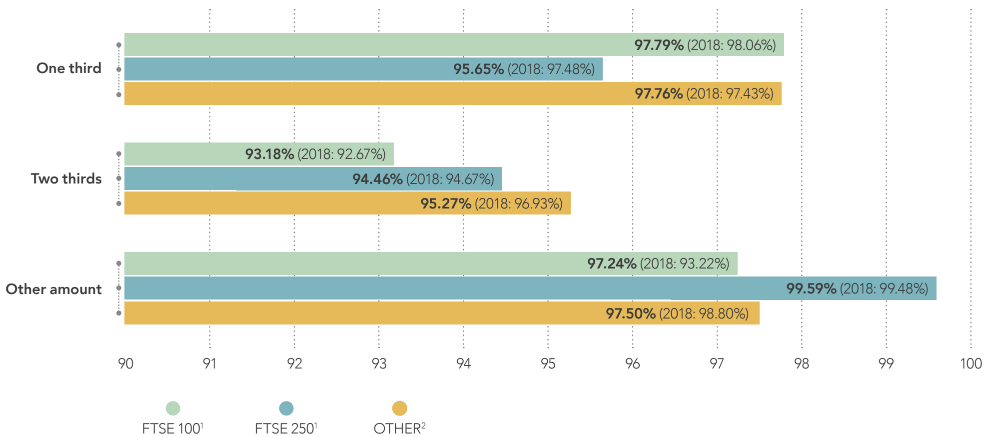
The vast majority of companies put forward a resolution seeking approval for the directors to allot shares. 96% of the FTSE 100, 90% of the FTSE 250 and 89% of smaller companies surveyed did so in the 2018/2019 AGM season. There is a mixed picture in terms of the number of companies putting forward one third, two thirds or other amounts of issued share capital for approval. For FTSE 100 and smaller companies the percentage of companies asking for two thirds allotment authority increased whereas there was a decrease for FTSE 250 companies asking for a two thirds authority.

ALLOTMENT AUTHORITY SOUGHT 2019

Percentage of companies proposing



Average percentage of votes in favour



Although we can see that the allotment authority resolution consistently receives a high number of votes in favour, to maintain support companies should ensure that the resolution is in line with the Investment Association's Share Capital Management Guidelines. There may also be issues where the shareholder base is outside of the UK in jurisdictions that have different institutional guidelines. In these instances it is important to ensure that the AGM Notice includes information on the guidelines that have been adhered to and when and how the authority is likely to be used.

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

It is now common practice for companies of all sizes to seek to allot up to 10% of share capital without pre-emption rights. However, these resolutions remain controversial and regularly receive a negative response from investors concerned about possible misuse and dilution of their holdings. Support for the first 5% is generally high at average of 98% in favour but lower for the second 5% where the average vote is 96% in favour. Of the 523 companies surveyed, 78 companies received the lowest votes of all their resolutions for this resolution.

Our advice in order to maximise votes for the resolution to allot shares without pre-emption rights is for companies to comply fully with the Pre-Emption Group's Statement of Principles[7] (the Statement of Principles) and also use the Group's two template resolutions to propose separate resolutions 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 Board should consider carefully the reasons for asking for the additional 5% authority which may seem like a routine matter for the company but does cause concern for some investors. If it is decided to ask for the additional 5% authority the AGM Notice should be very clear about in what circumstances this will be used.

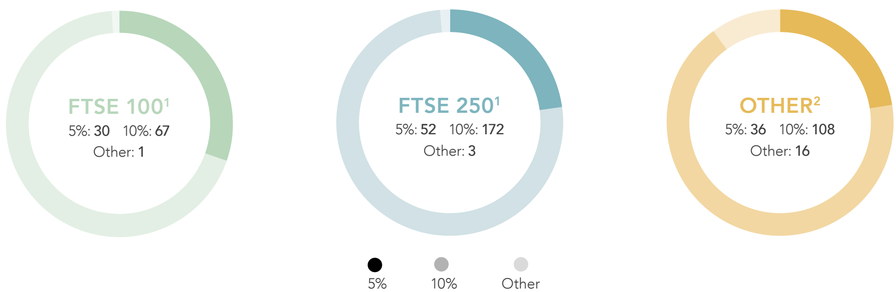
In August 2017 the Investment Association stated that it would 'red top' any companies not using two resolutions. No FTSE 100 company used a single resolution but surprisingly there were 91 FTSE 250 and other smaller companies that did. A large number of these companies were investment trusts.

7. The Pre-Emption Group's Statement of Principles 2015.

AGM Resolutions continued

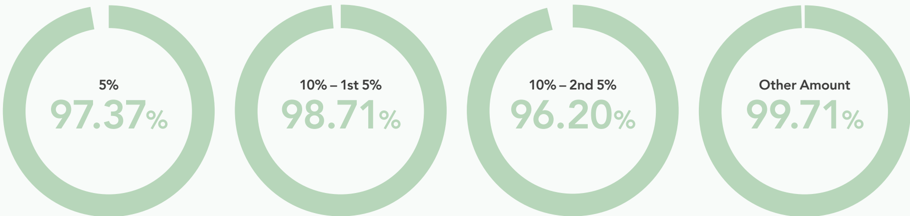
DISAPPLICATION OF PRE-EMPTION RIGHTS NUMBER OF RESOLUTIONS – VOTES LOST AND CLOSE CALL VOTES

DISAPPLICATION OF PRE-EMPTION RIGHTS – NUMBER OF COMPANIES PROPOSING RESOLUTIONS

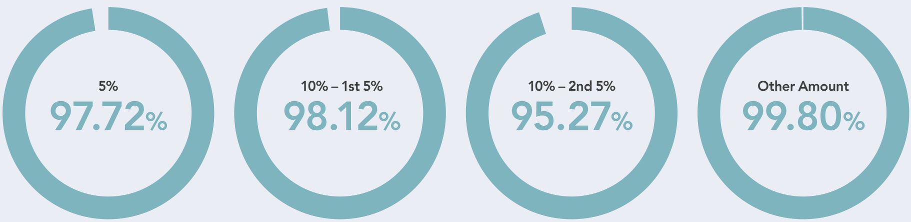


DISAPPLICATION OF PRE-EMPTION RIGHTS – AVERAGE PERCENTAGE OF VOTES IN FAVOUR

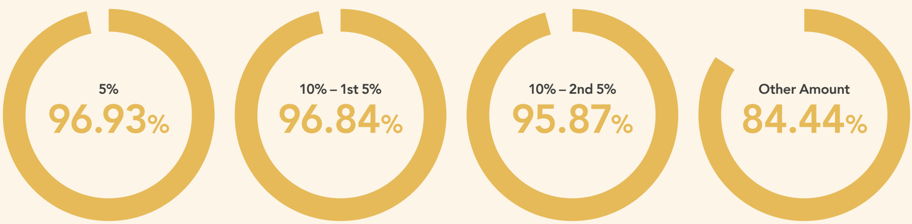
FTSE 100[1]



FTSE 250[1]

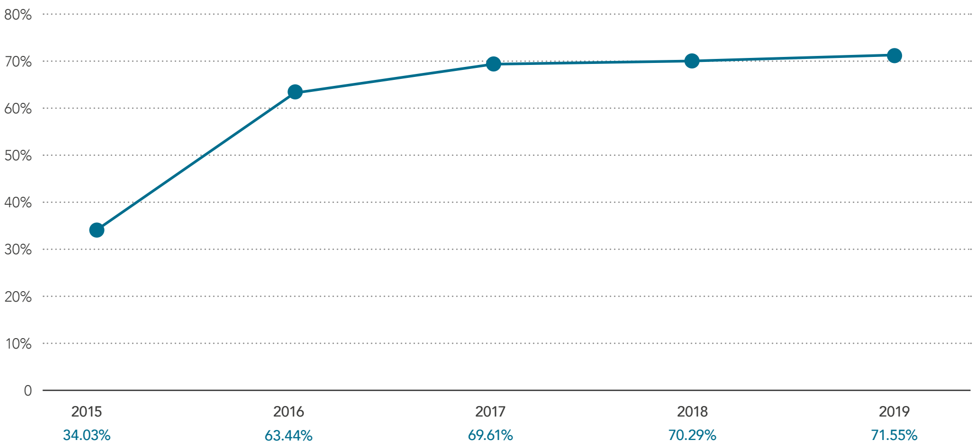


OTHER[2]



AGM Resolutions continued

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



SHARE BUYBACK AUTHORITY

The high level of support for share buybacks continued in the 2018/2019 AGM season. During this period 88% of the companies surveyed put forward a share buyback resolution with 96% of these companies receiving a vote in favour of more than 95%.

It is now common practice for companies of all sizes to seek to allot up to 10% of share capital without pre-emption rights.

Other Resolutions

APPROVAL OF THE REPORT AND ACCOUNTS

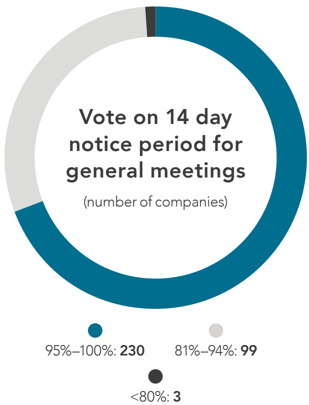
Votes in favour of the annual accounts resolution remains static. 97% of companies surveyed received votes of 95% or more in favour.

APPROVAL OF PAYMENT OF A DIVIDEND

Support for payment of a dividend remains very high. Only three companies received a vote of less than 95% in favour. Of the 523 companies surveyed, approximately 28% did not put forward a dividend resolution for approval.

NOTICE PERIOD FOR GENERAL MEETINGS

The resolution asking for authority to call general meetings on not less than 14 days' clear notice remains sensitive. The resolution was defeated at two companies and five companies received a significant number of votes against. 64% of the 523 companies surveyed put forward this resolution for approval. For 44 companies this was the resolution that received the least number of votes in favour.



The relatively high number of votes against the 14 days' notice period resolution is a result of investors' fears that the company may use the authority to prevent effective shareholder reaction to proposals put forward at general meetings. The AGM Notice needs to set out clearly an explanation for including the resolution and the limited circumstances in which the authority will be used in order to avoid protest votes against.

The resolution asking for authority to call general meetings on not less than 14 days' clear notice remains sensitive.

AGM Resolutions continued

…larger companies in particular include the resolution to avoid inadvertently breaching the legislation due to the very wide definition of 'donation' in the legislation.

POLITICAL DONATIONS

The number of companies putting forward a resolution to approve political donations has remained relatively static over the last year with 62% of the FTSE 100, 34% of the FTSE 250 and 17% of smaller companies putting forward a resolution. It is another resolution that can receive a high number of votes against and accounted for two close call resolutions.

Very few companies donate money to political parties in the UK but larger companies in particular include the resolution to avoid inadvertently breaching the legislation due to the very wide definition of 'donation' in the legislation. The reason for including the resolution therefore needs to be clearly set out in the AGM Notice and it is also worth stating whether there is any intention to use the authority and if it has ever been used by the company in the past.

ARTICLES OF ASSOCIATION

Of the 523 companies surveyed, 45 companies, (58 companies in the 2017/2018 year), put forward a resolution to make amendments to their Articles of Association or to adopt new articles. Changes in relation to hybrid AGMs and aggregate directors' fees were the two main reasons for amendments along with general updates.

Contentious Resolutions

Certain resolutions put forward for approval at the AGM remain vulnerable to investor protest votes including executive remuneration and granting authority to issue shares on a non-pre-emptive basis. Also at the top of the list is the allotment authority resolution itself and seeking approval to hold general meetings on not less than 14 days' notice. However, a new trend is the number of resolutions to re-appoint directors that have received a large proportion of votes against. Four directors' resolutions were lost and a further three were a close call. In addition, for 31% of the companies surveyed directors' resolutions received the lowest votes in favour out of all the resolutions put to the meeting. This indicates that **there is a clear willingness to hold the Board and its directors to account** and to ensure that they have the time and commitment to carry out their duties. Voting against the re-election of directors or against the chair or committee chairs is being used increasingly as an effective tool by shareholders to get the Board's attention.

What is also apparent is the **significant increase in the number of close call resolutions** (where the vote is within 10% of the required majority). This can be attributed to the increasing influence of proxy voting advisers and shareholder activism with a greater number of larger shareholders willing to actively engage and challenge the status quo.

Certain resolutions put forward for approval at the AGM remain vulnerable to investor protest votes.

Number of lost resolutions/ close call votes*

	FTSE 100[1]			FTSE 250[1]			Other[2]		
	2019	2018	2017	2019	2018	2017	2019	2018	2017
Lost resolutions	1	1	2	5	9	6	18	9	16
Close call*	6	3	4	19	26	25	30	18	11

* Vote is within 10% of required majority.

AGM Resolutions continued

Number of lost resolutions/close call votes*

	Number of companies	
Resolution	**Lost resolution**	**Close call resolution***
Authority to allot on non-pre-emptive basis	8	24
Remuneration policy or remuneration report	6	11
Election or re-election of directors	4	3
14 days' notice of general meetings	2	8
Auditors re-appointment or remuneration	2	1
Authority to allot shares	1	2
Political donations	–	2
Purchase of own shares	–	2

* Vote is within 10% of required majority

Resolutions that receive the lowest number of votes in support

Resolution	**Number of companies for which the resolution received the lowest number of votes 'for'**
Election or re-election of directors	163
Remuneration policy or remuneration report	111
Authority to allot on non-pre-emptive basis	78
Authority to allot shares	48
14 days' notice of general meetings	44
Other	24
Auditors re-appointment or remuneration	20
Political donations	11
Annual Report	7
Sale of treasury shares	4
Amendment of Articles	2

The Investment Association's Public Register

The Investment Association's (IA) Public Register covers all of the FTSE All-Share companies and tracks those who have received 20% or more against a resolution, or withdrew a resolution prior to the shareholder vote.

We are seeing the first year of the requirement under the 2018 UK Corporate Governance Code (UK Code) for companies to explain what actions they will take to understand the reasons for a resolution that receives 20% or more of the votes against. Companies must now also provide an update on the views received from shareholders and actions taken no later than six months after the meeting with a final summary in the annual report.

The Public Register provides a link to the company's AGM results announcement, and states whether the company has provided a commitment to take any further action as a result of the vote. Finally, it also links to any further statement the company has made in the months following the AGM. As this is the first full year of the UK Code requirement it will be interesting to see how the company statements develop. Currently many companies provide a holding first statement with their AGM results announcement merely stating that they will engage further with shareholders to understand the reasons for the significant votes against. We are now seeing some more expansive and detailed follow up statements from some companies – 86% of companies are now producing an initial statement addressing the dissent at the time of the AGM. This is up from 57% in 2017.

The latest figures from the Public Register were published in August 2019 and cover the period 1 January 2019 to 31 July 2019. They show that overall there was a 5% increase in dissent in 2019 compared to the same period in 2018, with 126 companies and 251 resolutions appearing on the Public Register this year, compared with 120 companies and 237 resolutions in 2018. Director re-election and pay were again the largest source of shareholder rebellions.

- 86 resolutions on director re-elections (34% of all resolutions on the Public Register) are on the Public Register so far this year compared to 80 (34%) in 2018 and 38 (20%) in 2017.
- 60 remuneration resolutions are on the Public Register (24% of resolutions) compared with 61 (26%) in 2018 and 68 (36%) in 2017.

"…the spotlight the Public Register has put on companies is driving change in company behaviour and holding them to account."

Chris Cummings

Chief Executive of the Investment Association

Making the most of your Annual Report

Jenni Fulton of Emperor talks through maximising the potential of the annual report as a channel for investor engagement.

The annual report is a fundamental part of shareholder – and wider stakeholder – engagement. A huge amount of time, thought and creative work goes into producing a quality report, with regulatory and compliance considerations set alongside the desire to compellingly tell the company story.

The annual report also has an important role within the annual general meeting, as the report and accounts are presented to shareholders. Maximising the potential of the annual report as a shareholder relations tool, presenting core business strategies, policies and decisions in a clear and articulate way, and considering it as an engagement driver beyond just its initial publication, can all deliver real benefit to a company.

GET THE CONTENT RIGHT

The starting point with an annual report is of course to ensure the content is right. This begins with the compliance aspect – there are a huge number of regulatory and legislative requirements that need to be met and a lot of change in this area as well; from the updated UK Corporate Governance Code, to the Companies (Miscellaneous Reporting) Regulations 2018, and new requirements for private companies and AIM-listed firms.

But getting the content right goes beyond just compliance. It is about telling the company's story, something that is more important than ever given the changing landscape of investor engagement, brought about in part by the likes of MiFID II, putting more onus on companies to take the lead and clearly tell their business narrative. This will include key areas such as the business model, strategy, investor proposition, and impact on different stakeholders.

This will certainly have an impact on the AGM. The better explained complex business propositions, risks, market opportunities, and contentious issues are in the report, the clearer shareholders will be about the decision making and rationale behind them, and the less likely they are to resort to hard-line questioning at the Q&A. Let the annual report do some of the heavy lifting in your shareholder engagement.

LOOK BEYOND PUBLICATION

The moment the printed copies of the annual report land on desks and the PDF goes live on the website, a collective sigh of relief goes up around the company: 'done for another year'. Given the level of effort and thought put into producing the document, this is understandable; however, to truly get the most from your report, publishing should be the start of your engagement programme, not the end.

There are a number of creative outlets through which report content can be repurposed to drive engagement. A dynamic online report, broken down into sections and highlighting key parts is a standard tool for many companies. Beyond that, developing a comprehensive investor section, which includes core elements such as the business model, strategy and company purpose, is valuable as a company's website increasingly becomes the first port of call for information.

Lots of organisations also create targeted stakeholder documents, such as concise factsheets, corporate brochures (telling the story without the regulatory information) and employee summaries.

By repurposing the content into stakeholder-specific formats, you are not only maximising the reach of the annual report but improving the quality of engagement.

UTILISE THE CREATIVE ASSETS

A large number of excellent creative assets are produced for the annual report. Rather than letting them languish unused, think about how they can be repurposed and add value to other communications.

Often we help clients build asset banks – comprising the infographics, charts and bespoke imagery from the report – for reuse on the website, in external stakeholder presentations (such as investor decks) and social media. A case studies hub on the website is also useful, which can be added to over time, creating a rich repository of information.

Speaking of social media, this is a hugely powerful avenue to further the reach of your message. Businesses are increasingly looking to create concise and high-impact messaging and imagery for dissemination via different social channels. The key here is making the content right for the social media platform – whether Instagram, Facebook, LinkedIn, YouTube or otherwise. Different platforms have different audiences, who engage with content in different ways. Building a social media strategy and activity calendar will ensure this is done as effectively as possible.

Beyond existing assets created for a printed report, multimedia such as video and animation can be a valuable addition and inject some life into things. Where in the report there would be a written statement by the CEO and Chair, adding a short summary interview video on the website will add a level of personality and accountability to the messaging. For intricate business models or organisational structures, a creative animation can help audiences to better understand the complexities and nuance.

One key area could be the AGM presentation. Rather than the usual drab PowerPoint slideshow cobbled together to support board presentations, look to harness your report's creative content to bring life and energy to the meeting. Emperor has a dedicated presentations team who do this for clients on a daily basis.

A NEW WAY OF THINKING

To make the most of the annual report, the trick is thinking beyond the traditional remit of the document. No longer just a regulatory compliance exercise, set aside when it's been printed, the annual report can be a creative incubator, a source of dynamic and inspiring content to take stakeholder engagement to a higher level, both at the AGM and throughout the year.

Future Trends?

NOTE FOR 2020 AGMs

The matters identified during the year as important to shareholders are those that we believe will continue to be of concern into 2020. These are:

- Targeting individual directors over independence, time commitment or board composition concerns.
- Executive remuneration re-balancing particularly in relation to pensions.
- Environmental and social concerns including impact of business activities on climate change.
- Focus on length of tenure and independence of the auditor.

EQUINITI

FOR MORE INFORMATION PLEASE CONTACT US:

Lisa Graham
Equiniti
+44 (0)7720 069192
lisa.graham@equiniti.com

equiniti.com

Chris Stamp
Prism Cosec
+44 (0)7785 265335
chris.stamp@prismcosec.com

prismcosec.com

Sheryl Cuisia
Boudicca
+44 (0)7533 706630
sheryl.cuisia@boudiccaproxy.com

boudiccaproxy.com