AGM Trends 2020

Welcome to AGM Trends 2020, the annual review of trends and developments during the 2020 annual general meeting (AGM) season compiled by Equiniti's Registration Services and Prism Cosec teams.

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Foreword

Equiniti's annual review of trends during the 2020 AGM season

We welcome you to AGM Trends 2020, our annual review of trends and developments during the 2020 annual general meeting (AGM) season.

This year we cannot escape the background of the coronavirus pandemic. Who could have predicted at the beginning of the year that companies would be actively preventing their shareholders from attending AGMs, sometimes holding meetings in car parks or at the company secretary's home address?

Themes and messages high on the list of investors last year have taken more of a back seat whilst companies have battled through the coronavirus pandemic sometimes for their very survival. That is not to say that concerns over executive remuneration and stakeholder matters have been forgotten. Businesses have faced pressure to support their workforces and ensure that directors take their share of the financial impact during the pandemic.

What will be interesting to see is whether the changes to the format of AGMs due to the coronavirus pandemic will remain in the longer-term. It is our prediction that the physical AGM will return but that there will be a move to holding hybrid AGMs or at the very least for companies to provide some means of participating remotely such as the use of webcasts and this may see smaller physical meetings. There may now also be momentum gathering for the wholesale reform of the AGM to bring it into the 21st Century and make it a more useful vehicle for shareholder engagement.

It is also likely that social issues and climate change will feature strongly in the list of future shareholder concerns. Societies may wish to see a different model of business emerging from the rebuilding of global economies following the coronavirus pandemic.

Investors will not have forgotten that, as matters currently stand, the UK has until 31 December 2020 in which to negotiate a deal with the European Union. Shareholders will expect companies to have considered and disclosed the risks and opportunities of Brexit and preparations in the event of a no deal.

Our articles this year cover a review by Korn Ferry about current investor concerns over executive remuneration, reflections by the Investment Association on an unusual AGM season and tips on how to effectively communicate ESG matters by Emperor. In addition, our proxy governance business, Boudicca, will look at proxy adviser engagement during the 2020 AGM season.

Key to statistics

1. Unless otherwise indicated, 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 2020 statistics are for the 2019/20 year ended on 31 July 2020.
2. Statistics based on Equiniti clients only.

AGM Logistics

The AGM Format in 2020

Companies have had to find creative ways in which to hold their AGMs due to the restrictions imposed as a result of the coronavirus pandemic. Plans to hold AGMs in hotels and conference centres have been replaced by the registered office or even the company secretary's home address. Closed meetings have become the norm with formal business and voting by proxy only. Only a small number of companies have opted for a true hybrid AGM due to the difficulties and cost of putting in place the necessary technology at a time when restrictions were in place.

Our analysis shows that the key features of the vast majority of AGMs held between the end of March to the end of July 2020 were:

- A closed meeting with no attendance by shareholders permitted
- The quorum was provided by board members and the company secretary
- Shareholder engagement was via Q&As submitted electronically
- Voting was by proxy only

Other actions frequently taken by companies included restricting business at the meeting to formal business only and changing locations to the company's registered or head office.

Out of the FTSE 350 a small minority of companies postponed their AGM to later in the year but this was very much the exception. For public companies with corporate authorities that expire with a long stop date of 15 months after the resolution was passed, postponement was not always an option.

This reality was helped by the passing of the Corporate Insolvency and Governance Act in June 2020 (the CIG Act) which meant that AGMs could be held remotely, with restricted shareholder entry and no particular location regardless of the provisions in a company's Articles. In addition, companies were allowed to postpone their AGMs until 30 September 2020. The legislation was backdated to cover AGMs from 26 March 2020 so that companies who had to take unusual measures did so legally, and lasted until 30 September 2020. It is very likely that the government will extend the legislation to cover AGMs into 2021.

Equiniti's Advice

When the first government restrictions were implemented in March 2020, we initially received a large number of queries from companies wishing to hold hybrid or virtual AGMs, which allow for live, remote participation by shareholders at the meeting. However, the inability of IT and other support staff to travel or make preparations together with uncertainty over what would happen if key personnel became ill was a major factor in curtailing these ambitions. Instead we advised clients to keep it simple. With so much uncertainty around whether further restrictions would be imposed companies needed to focus on safely getting the legal business of the company passed. This could be achieved by holding a closed meeting at a set location with the minimum number of attendees to achieve a quorum. Shareholders were not permitted to attend but were strongly encouraged to vote by proxy. In order to involve and inform shareholders a variety of approaches were taken to allow the submission of questions.

When it was clear that companies would have to run closed meetings due to COVID-19 restrictions, one of the biggest concerns was how shareholders would be able to participate in order to ask questions and hold company directors to account.

In the end the vast majority of companies took the route of holding a closed meeting and asked for shareholders to submit questions in advance via the company's website or by email, sometimes directed to the company secretary. Other arrangements put in place in order to encourage shareholder participation included:

- A dial in facility provided for shareholders to ask questions at the meeting
- A live AGM broadcast provided
- Pre-recorded business presentation available on the website on the day of the AGM
- Shareholder events planned for later in the year
- Questions answered by live audio webcast before the meeting
- Live audio feed available either one or two way

FUTURE TREND
The rise of the hybrid AGM

Many companies already have a provision in their Articles enabling them to hold hybrid AGMs so that shareholders may participate either physically or electronically. Despite this very few companies have chosen to do so in the past for a variety of reasons. We predict that this year's events may provide the catalyst for many more companies to opt for hybrid AGMs. It is possible that we may still be living with the shadow of coronavirus into next year and companies will want to prepare for this and give their shareholders every opportunity to participate meaningfully at the AGM. This may reinvigorate shareholders and companies to engage by allowing those shareholders who are unable to attend in person to take part thereby increasing shareholder numbers.

What is true is that virtual only AGMs, where there is no AGM location and no physical attendance by shareholders, are not supported by the vast majority of investor relation bodies and only a small proportion of companies have in their Articles the ability to hold virtual only AGMs. Campaign groups, such as Share Action, will be watching closely to ensure that the physical AGM, and therefore the ability of shareholders to question directors in person, makes a comeback.

AGM Logistics continued

The AGM Format in 2020 continued

AGM venue facts

69%

of FTSE 100, **63%** of FTSE 250 and **56%** of smaller companies held their meeting before midday

47%

of FTSE 100, **75%** of FTSE 250 and **86%** of smaller company AGM locations in London were held at company or advisors' offices, perhaps not surprisingly, a large increase over last year

54%

of all companies held their AGMs in London, a decrease from 62% last year

AGM voting facts

75.65%

of FTSE 100 share capital is voted. This figure is **70.49%** for FTSE 250 companies but only **53.91%** for smaller companies

97%

of FTSE 100 companies use polls with a large increase in their use for FTSE 250 companies from 64% to **74%** and for smaller companies from 26% to **47%**

100%

of FTSE 100 companies, **99%** of FTSE 250 companies and **87%** of smaller companies offer voting by CREST

96%

of FTSE 100 companies, **88%** of FTSE 250 companies and **49%** of smaller companies offer voting by electronic proxy appointment, all seeing increases over 2019

88%

of FTSE 100 and **93%** of FTSE 250 shares voted are via CREST with a large increase for smaller companies from 66% to **72%**

39%

of voters at FTSE 100 companies, **30%** of FTSE 250 voters and **47%** of smaller company voters use paper voting forms, a sharp decline on last year

AGM Logistics continued

M&S
EST. 1884

Case Study: M&S Digital AGM 2020

M&S Experience

Having successfully run a hybrid meeting in 2019, M&S was well positioned to run its 2020 AGM as its first fully digital shareholder meeting. Widely acknowledged to be one of the most interactive meetings of the season, the digital AGM was attended by three times as many M&S shareholders as previous years, who all had the opportunity to engage with the M&S Board live from the comfort of their own homes, and has been watched more than 15,000 times on their corporate website since.

Drivers and Key Considerations

There were several key drivers in the decision to hold a digital AGM, namely M&S's commitments to improving efficiency, stakeholder engagement and becoming a 'Digital First' retailer. These factors were key priorities before the pandemic hit, and the successful hybrid trial the year before was a key milestone in progress. However, stay-at-home measures relating to COVID-19 were undoubtedly a catalyst for the digital engagement agenda and impacted the key considerations for the meeting.

Careful consideration was given to technical procedures and compliance with the Companies Act and the Company's Articles, such as establishing a quorum with no physical attendance permitted, opening and closing the meeting, question submissions, proxy appointment and voting.

Lessons learned

The success of the M&S digital AGM involved some valuable lessons learned. Notably, preparation for digital only meetings often involves stakeholders with more diverse expertise and perspectives, making effective communication more vital than ever. Additionally, digital only meetings require considerable forward planning, and development work in technology can be time consuming.

While such forward planning can require more time of the teams running the AGM, the time required of the Board is reduced. Further, striking the balance between 'live' and pre-submitted or pre-recorded elements of the AGM is key for leadership time management, smooth running of the meeting, and engaging shareholders.

Achievements

Although many FTSE companies chose to hold closed-door AGMs, or allowed questions to be submitted in advance only, M&S saw the opportunity to increase participation, improve efficiency and build trust. Private shareholder engagement near trebled by comparison with the 2019 meeting; 1,511 individual shareholders engaged with the digital platform and 86 questions were submitted (compared to 28 last year). A balance of in advance and live questions were answered during the webcast, and every question submitted received a personalised written response. The 'as live' recording was replayed more than 4,200 times in the first three days alone, by comparison with 496 views of the 2019 recording.

Shareholder questions

Our research shows that shareholders have been using the online facilities provided for asking questions and many companies have published a list of the questions received on their websites. Those companies in sensitive sectors, such as mining or petrochemicals and those companies seen to be contributing to climate change and the production of fossil fuels along with banks which are seen to support them, are often the focus of campaign groups and receive many more questions about their activities. Climate change protests will only intensify and companies need to consider their impact on the climate and make adjustments in order to avoid adverse publicity at AGMs.

Typical issues raised this year by shareholders include:

Financial performance and strategy
Impact of COVID-19 on results and future performance, restructuring and strategy in light of COVID-19

Shareholder matters
Dividend cancellations, share price, AGM arrangements

Executive Remuneration
Executive pay, bonuses and targets particularly in light of COVID-19 and dividend cancellations

Governance
Board composition

Environment, climate change and social issues
The living wage and employee pay, climate risk, net zero emissions targets, gender pay gap, impact of activities on communities, working conditions

FUTURE TREND
Stakeholder Engagement

There are several reasons why companies can expect to see a rise in interest about how they engage with their shareholders and other stakeholders. The introduction of legislation and provisions in the UK Corporate Governance Code around reporting on how boards have taken into account their stakeholders, such as the workforce, suppliers and customers, is generating scrutiny by investors.

The Companies (Shareholders' Rights to Voting Confirmations) Regulations passed in July 2020 give shareholders rights to confirm that their votes have been taken into account. There is now an obligation on traded companies to provide confirmation of a receipt of votes which are cast electronically and a right of shareholders to request information to enable them to determine that their vote has been validly recorded and counted.

At Equiniti we already have solutions in place to provide vote receipts and vote confirmations to shareholders.

BOUDICCA: Proxy Adviser Engagement over an extraordinary AGM season

Sheryl Cuisia from Boudicca considers the actions of proxy advisers during the difficult 2020 AGM season

BOUDICCA FROM EQUINITI

Proxy adviser engagement

Over the 2020 AGM season, which coincided with the coronavirus pandemic, the Boudicca team has provided regular updates on our findings of the shareholder engagement landscape. This includes our assessment of the actions of proxy advisers, namely ISS, Glass Lewis, the Investment Association (IVIS) and PIRC. Despite our initial 'grim' forecasts, overall, we have deemed investors and proxy advisers to have applied a high level of sensible reasoning and understanding of companies' individual extraordinary circumstances. Nevertheless, we have noted a reduction in the level of engagement undertaken by proxy advisers over this AGM season.

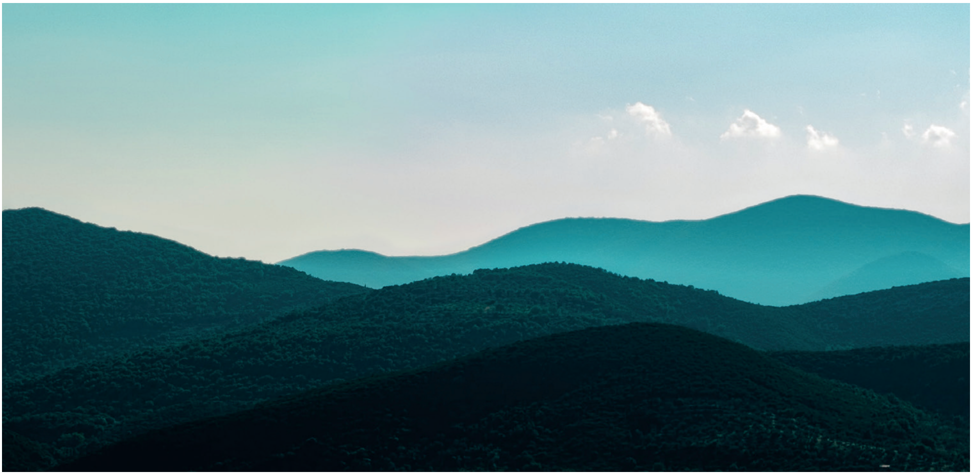
As an example: Over the period of 1 February to 7 June, we offered proxy advisers meetings with our corporate clients on 92 separate cases. Of these, proxy advisers accepted a meeting (or call) on only four occasions – while specific questions may have been asked and answered on a more frequent basis via electronic means. In contrast, over the same period over the 2019 AGM season, we offered proxy advisers meetings with our corporate clients on 108 separate cases. Of these, proxy advisers accepted a meeting/call on at least 13 occasions. However, it should be kept in mind that, more fulsome engagement takes place in the months of October to January ahead of the busy voting season.

When coupled with statistical observations, i.e. average percentage of votes FOR being higher over the 2020 AGM season as compared to 2019, and the policies of the proxy advisers having been updated specifically in response to COVID-19, key observations of their actions over the proxy season are:

1. Whilst proxy advisers generally maintained their service level agreements in relation to the delivery of their vote recommendation reports, they were seen to have minimised the level of engagement they undertake with issuers, so as to reserve their human resources for fulfilling core service.

2. In place of engagement with companies, proxy advisers depended heavily on a) their own 'independent' research, b) the broad-brush policy updates that they provided shortly after enforcement of the lockdown, and c) the reactive responses received from companies as their reports become available.

3. Statistically and ostensibly, proxy advisers (and investors) have been much more understanding over this AGM season, which is evidenced by the increased average percentage FOR and fewer AGAINST voting recommendations from ISS. This is not all attributed to altruism, but has plenty to do with companies generally being responsible corporate citizens and making palatable adjustments to key matters such as remuneration and dividends, to which proxy advisers and investors are reacting equally sensibly.



High-level Assumptions for Q3 and Q4

The question now is, how will the proxy advisers and institutional investors behave as the 2020 AGM season continues? Given protections and further guidance from regulatory bodies such as the FRC, and industry bodies such as the Chartered Governance Institute, Boudicca's view is that we are likely to see the trends experienced to date carry over until the end of the year.

However, as we come out of the pandemic, we can expect further evolutions to occur in relation to corporate governance, and for proxy advisers and institutional investors to again adjust their policies.

We expect that the 2021 AGM season will be quite different to what we are experiencing at the moment and will combine:

- Investor expectation of a return to physical AGMs;
- Improved levels of engagement from proxy advisers as staffing levels normalise; and
- Increased scrutiny, less leniency from proxy advisers and investors as a new 'business-as-usual' emerges and proxy advisers and institutional investors closely review the company promises made in 2020 against their actions ahead of the 2021 season.

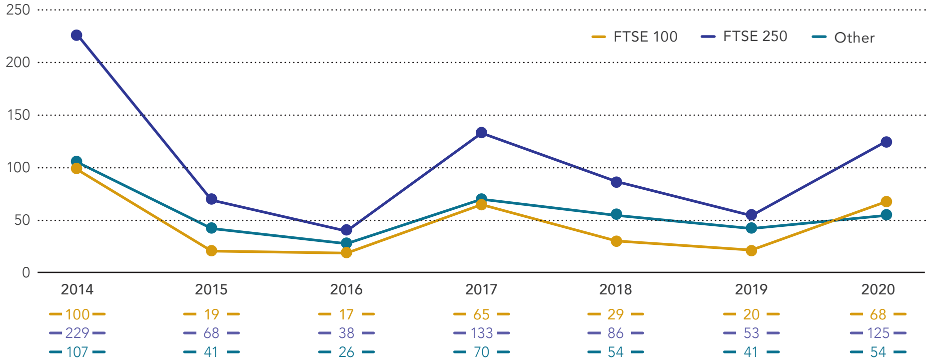
In the meantime, we are forecasting the following for the remainder of 2020:

- Completion of the 2020 AGM season within the framework that has been collectively structured by the regulators, industry bodies, institutional investors, proxy advisers and issuing companies;
- A continuation of the same or similar for AGMs to come in Q3 and Q4, but with potentially increased scrutiny from proxy advisers and investors and hopefully more normalised levels of engagement;
- General meetings in relation to recapitalisations and shareholder activism are likely to increase, as may placings that do not require prior shareholder approval; and
- Green shoots of M&A and corporate actions starting to emerge.

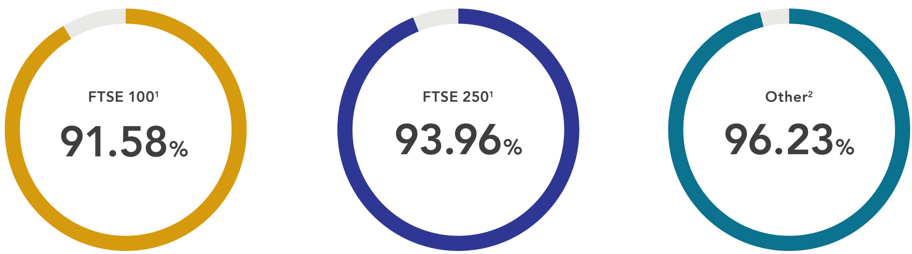
AGM Resolutions

Remuneration

Number of companies putting forward a remuneration policy resolution



Remuneration policy – average vote in favour



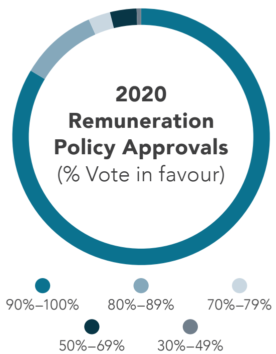
Voting – remuneration policy

Executive remuneration remains a key focus for investors. Generally, there has been improved engagement between companies and shareholders when preparing remuneration policies. Listed companies in particular have largely incorporated into their remuneration policies recommendations of the UK Corporate Governance Code on issues such as use of discretion, malus and clawback provisions, vesting periods and remuneration committee disclosures. The remuneration policy resolution, however, continues to receive the lowest votes for a resolution for a large number of companies.

Remuneration continued

Remuneration Policy Approvals

	2020		2019		2018	
% Vote in favour	No. of companies	% of companies	No. of companies	% of companies	No. of companies	% of companies
<30%	0	0.00%	0	0.00%	0	0.00%
30%–49%	2	0.81%	0	0.00%	1	0.59%
50%–69%	8	3.24%	5	4.39%	5	2.96%
70%–79%	7	2.83%	3	2.63%	6	3.55%
80%–89%	24	9.72%	14	12.28%	17	10.06%
90%–100%	206	83.40%	92	80.70%	140	82.84%



93% of the companies surveyed received 80% or more of votes in favour of the remuneration policy resolution.

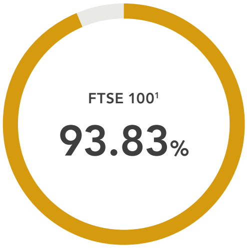
Voting – Annual Report on Remuneration

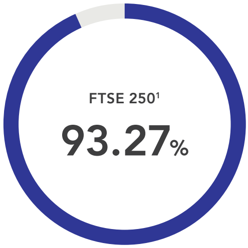
It was predicted at the start of the season that the successful passage of remuneration policies and remuneration reports would be unlikely to get easier. The Investment Association stated that IVIS would ‘red top’ remuneration policies that did not state new directors will have their pension contributions 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 and other investor relation bodies 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. It looks as though many companies have heeded these warnings with an improvement overall in voting in 2020 for remuneration reports over 2019, with 83.08% of companies surveyed receiving 90% or more of votes in favour compared to 77.71% in 2019.

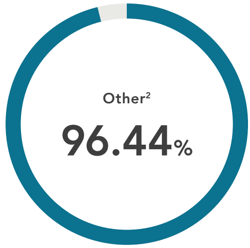
AGM Resolutions continued

Remuneration continued

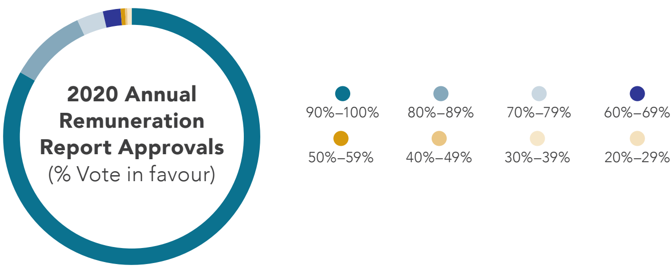
Average percentage of votes in favour of annual report on remuneration







Votes in favour of the Remuneration Report	2020		2019		2018	
	No. of companies	% of companies	No. of companies	% of companies	No. of companies	% of companies
<20%	0	0.00%	1	0.21%	0	0.00%
20%–29%	0	0.00%	1	0.21%	1	0.21%
30%–39%	3	0.64%	3	0.64%	0	0.00%
40%–49%	2	0.43%	1	0.21%	2	0.42%
50%–59%	2	0.43%	8	1.70%	5	1.06%
60%–69%	11	2.36%	11	2.34%	10	2.11%
70%–79%	15	3.21%	23	4.88%	18	3.81%
80%–89%	46	9.85%	57	12.10%	48	10.15%
90%–100%	388	83.08%	366	77.71%	389	82.24%
Total	467		471		473	



Remuneration continued

Average vote in favour of the remuneration report

Average votes in favour for remuneration reports has remained fairly constant for FTSE 100 and FTSE 250 companies at over 93%. There has been a recovery for smaller companies which saw a rise from just under 93% in favour to just over 96% in 2020.

Year	FTSE 100	FTSE 250	Other
2018	91.33%	93.96%	96.66%
2019	92.72%	93.20%	92.89%
2020	93.83%	93.27%	96.44%

FUTURE TREND
Executive Remuneration and COVID-19

Investor relation agencies, such as the Pensions and Lifetime Savings Association and the Investment Association have stressed the importance of remuneration committees taking into account the impact of COVID-19 when deciding on executive pay and bonuses. Investors will be examining how companies have acted towards their workforce and their approach to the remuneration of directors at a time when many companies have cancelled dividend payments.

Average votes in favour for remuneration reports has remained fairly constant for FTSE 100 and FTSE 250 companies at over 93%. There has been an increase in votes in favour for smaller companies, from 93% to 96%.

AGM Resolutions continued

Korn Ferry: Remuneration – Investors' Concerns

Chris Niland, from Korn Ferry's Executive Pay & Governance Practice, considers the key issues investors reacted to in their review of executive pay

KORN FERRY

The 2020 AGM season was always going to be busy given it was a year in which many companies would be tabling new remuneration policies on their three-year cycle. The background to these new policies included updated pay guidance in the 2018 Corporate Governance Code and then an additional dimension with the onset of COVID-19 impacting company AGMs. The key issues raised by institutional investors and the proxy agencies included:

- **Pensions:** perhaps the key area of investor focus at 2020 AGMs given the updated Investment Association guidance in September 2019 that reflected the views of an increasing cohort of investors requiring alignment between director and employee pensions by the end of 2022. Where companies have elected not to comply, especially following ISS toughening its stance on this issue, investors voted against new policies.
- **New pay models:** whilst restricted share schemes can now be successfully implemented with a clear commercial rationale and the adoption of standard design principles (for example, lower quantum versus a performance share plan), if these factors are not present to the satisfaction of investors these plans can remain contentious.
- **Quantum:** higher packages for new joiners versus predecessors and/or increases to future incentive opportunities remain contentious where not adequately justified.
- **Discretion:** the overall relationship between performance and reward continues to attract scrutiny. Remuneration committees are expected to use their discretion to achieve this alignment and where they were not considered to have done so to investors' satisfaction, this resulted in some high profile opposition with resolutions to approve remuneration reports being defeated in at least two instances where performance conditions were adjusted.
- **Disclosure:** investors continue to push for full retrospective disclosure of annual bonus targets and where not satisfactorily provided this continues to attract investor opposition.
- **Leaver terms:** there continues to be close scrutiny of leaver terms, with investors remaining critical where arrangements appear more generous than a reading of the company's policy would suggest (for example paying incentives to good leavers without a reduction proportionate to their period of employment).

Korn Ferry: Remuneration – Investors' Concerns continued

With regards to COVID-19, a range of investors have published new guidance with the general focus that remuneration should be aligned with employee and shareholder experiences. This has included detailed guidance from some, (for example that bonuses should not be paid where furlough schemes have been used) and more principled guidance in other cases (for example that incentive plan targets should not be adjusted for COVID-19 and remuneration committees need to protect against windfall gains).

The central recurring theme is that investors expect remuneration committees to act responsibly to ensure that remuneration outcomes are proportionate and take account of wider stakeholder experiences. Looking ahead, what is clear is that navigating 2021 AGMs will be no less challenging than was the case in 2020.

AGM Resolutions continued

The Board

Resolutions to appoint/ re-appoint directors

The last few years have seen a growing and significant trend for shareholders to highlight concerns by voting against individual directors. This can either be in protest about a director's time commitments, length of tenure on the board or perceived lack of independence. In addition the Chair of the company or one of the committees may be a target if a company's policy in a particular area is of concern. Premium listed companies with a controlling shareholder frequently receive the lowest votes for the election or re-election of an independent director as the Listing Rules require the approval by all shareholders and also by just the independent shareholders of the company.

Pressure on individual directors is set to continue as investor relation bodies see this as a very effective tool. The Pensions and Lifetime Savings Association (PLSA), for example, put out a position statement during the height of the coronavirus pandemic asking investors to hold directors to account for the decisions they made during the pandemic. The PLSA requested shareholders to consider voting against directors who they thought were not acting appropriately towards their workforce. On the other hand, Institutional Shareholder Services (ISS) issued guidance during the pandemic that indicated they would take a more flexible approach towards overboarding and independence issues in the short term to ensure that companies can continue with suitable management if affected by COVID-19.

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

Voting for the Chair of the Company

The votes in favour of the Chair have improved over the last two years. Our analysis shows that the main reasons for a high number of votes against the Chair are either if they are appointed as an executive Chair, concerns over time commitments or length of tenure. Sometimes there are also internal circumstances specific to that particular company.

	2020		2019		2018	
Chair* Percentage of votes in favour	**%**	**Number of companies**	**%**	**Number of companies**	**%**	**Number of companies**
95–100%	78.61	272	68.61	223	69.86	241
90–95%	11.27	39	20.32	66	20.00	69
<90%	10.12	35	11.07	36	10.14	35
		346		325		345

The Board continued

Voting for the Remuneration Committee Chair

A high number of votes against the remuneration policy or remuneration report resolutions, not surprisingly, nearly always translates into high votes against the Remuneration Committee Chair and this was certainly the case in 2020 – a sign of investors exerting maximum pressure on a company to change its remuneration practices.

Remuneration Committee Chair*	**2020**		**2019**		**2018**	
Percentage of votes in favour	**%**	**Number of companies**	**%**	**Number of companies**	**%**	**Number of companies**
95 –100%	83.33	255	83.17	247	82.80	255
90–95%	11.43	35	9.43	28	9.74	30
<90%	5.24	16	7.40	22	7.46	23
		306		297		308

Voting for the Audit Committee Chair

Support for the Chair of the Audit Committee is usually high. This year, where a high level of votes against the Audit Committee Chair have been received, this is usually because of overboarding concerns, independence or general disquiet around company performance.

Audit Committee Chair*	**2020**		**2019**		**2018**	
Percentage of votes in favour	**%**	**Number of companies**	**%**	**Number of companies**	**%**	**Number of companies**
95 –100%	88.34	303	87.66	284	84.66	287
90 –95%	7.00	24	8.02	26	8.26	28
<90%	4.66	16	4.32	14	7.08	24
		343		324		339

* 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.

AGM Resolutions continued

The Board continued

Voting for the Nomination Committee Chair

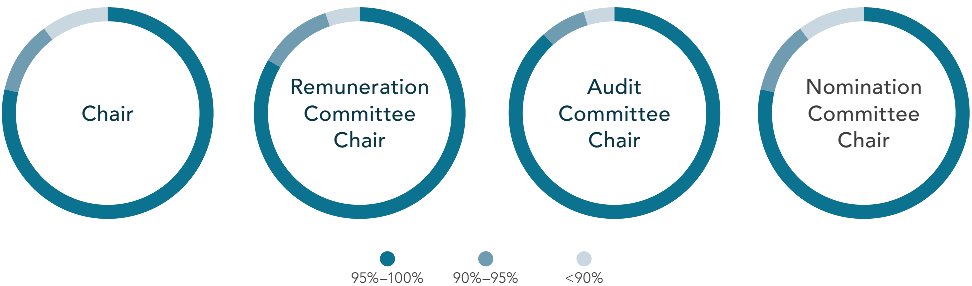
The Chair of the company is often also the Chair of the Nomination Committee and this can translate into a higher number of votes against than for the other committee chairs. Identified reasons for high votes against the Nomination Committee Chair include overboarding and length of tenure.

	2020		2019	
Nomination Committee Chair*† Percentage of votes in favour	**%**	**Number of companies**	**%**	**Number of companies**
95 –100%	78.68	262	69.87	211
90 –95%	11.11	37	19.87	60
<90%	10.21	34	10.26	31
		333		302

* 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.

† Only two years of data available.

Percentage of votes in favour of the Chair and Committee Chairs



The Board continued

Percentage of male and female Chairs

For the first time we have looked at the proportion of male to female Company and Committee Chairs. It will come as no surprise, given the representation of women on boards in general, that 90% of Company Chairs are men. Women do hold over half of the Remuneration Committee Chair positions which could be due to remuneration being seen as linked to the human resources profession where the representation of women is high. Nearly 30% of Audit Committee Chairs are also women. It is the pipeline of talent that will prove important in achieving a greater number of female Chairs perhaps reflecting the drive in the accountancy profession to promote female talent. Could it also be that the low percentage of female Nomination Committee Chairs perpetuates the status quo? Companies should seriously consider this in their succession plans and we expect the number of female Company and Committee Chairs to increase over the next few years.

2020*							
Chair		Remuneration Committee Chair		Audit Committee Chair		Nomination Committee Chair	
M	F	M	F	M	F	M	F
90%	10%	43%	57%	72%	28%	86%	14%

* Only one year of data available

FUTURE TREND
Board Diversity

There has been a concerted drive and some progress made towards having greater diversity on company boards in recent times. Gender diversity has been at the forefront of this but there is recognition that companies have a long way to go to ensure diversity in all its forms including race. The latest report from the Parker Review, published in February 2020, indicated that only slow progress was being made to increasing ethnic diversity on company boards. This will no doubt be a major focus for campaigners, particularly in light of the Black Lives Matter campaign. Nomination Committees need to reach the widest selection of candidates possible when recruiting and actively seek to promote diversity on the board as part of their diversity policies so that companies can benefit from having the highest quality management.

AGM Resolutions continued

The Auditors

Auditor's re-appointment and remuneration

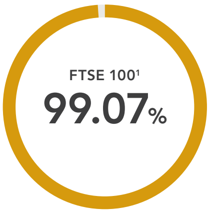
This year in particular showed very high levels of support for resolutions re-appointing the auditor and approval of arrangements for the auditor's remuneration. Across the board this was in excess of 99% of votes in favour for both resolutions, slightly higher than last year. In addition, the number of companies for which the auditors' resolutions received the lowest number of votes out of all the resolutions fell from 20 to 11. This may reflect the fact that companies have taken on board concerns over the length of tenure of the auditor and have been appointing new auditors. It also may be a consequence of investors, this year, focusing on more pressing matters during the coronavirus outbreak.

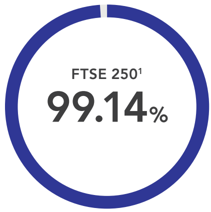
However, concerns over audit quality, the audit market and auditor independence have been very high on the agenda for investors and the government in recent times. The Brydon review, into the quality and effectiveness of audit, the review by Sir John Kingman into the Financial Reporting Council, the Competition and Markets Authority's review of the audit market and the BEIS Committee report into the collapse of Thomas Cook all make numerous recommendations on the reform of the audit process and market. The transformation of the Financial Reporting Council into the Audit, Reporting and Governance Authority is already underway and the government has promised that legislation on audit reform is coming. There may have been a lull this year but companies should be under no illusions that this will lead to greater scrutiny of auditor appointments, fees and the performance of Audit Committees.

The Auditors continued

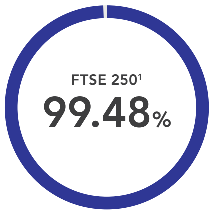
Average percentage of votes in favour

To appoint/re-appoint the auditor



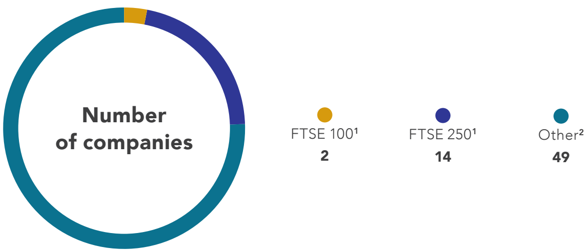


Auditor's Remuneration



A very small number of companies put forward a combined resolution asking for approval for both the auditor's re-appointment and for directors to approve their remuneration and this has fallen further over the previous year.

Number of companies with combined auditor resolution



AGM Resolutions continued

The Annual Report

Votes in favour of the annual report and accounts resolution remains very high with 98% of the companies surveyed receiving votes of 95% or more in favour.

Dividends

The impact of COVID-19 on company finances meant that many companies had to re-consider payment of dividends to shareholders. This resulted in 44 dividend resolutions being withdrawn in 2020. The percentage of companies putting forward a dividend resolution fell from 72% to 48%. In addition, very unusually, one resolution to approve payment of a final dividend was defeated by shareholders. Apart from this one company however, support for payment of a dividend remained very high with all companies receiving over 97% of votes in favour.

The cancellation of the dividend resolution often provoked questioning from shareholders particularly asking companies to confirm that directors would also receive pay or bonus cuts. The Investment Association issued a statement in relation to dividends and executive remuneration in April 2020* which asked companies to take decisions on their dividends based on what was best for the company in the longer term. It stated that the dividend should not be reduced unnecessarily but if dividends were reduced or cancelled then companies needed to consider how this impacts on executive pay.

* Investment Association: Corporate Governance COVID-19 update 1 April 2020

Articles of association

The Corporate Insolvency and Governance Act (the CIG Act) passed in June 2020 included measures to address problems companies were encountering in holding AGMs and general meetings due to government restrictions. The CIG Act gave companies temporary flexibility in how they hold their AGMs overriding the Articles where necessary.

The Financial Reporting Council's Guidance on AGMs during the coronavirus pandemic crisis recommended that companies should review their Articles to determine whether additional flexibility is necessary going forward to allow for the fact that the relaxation of certain requirements by the government will be temporary. However, it is still very likely that shareholders will resist changes to Articles that allow for virtual AGMs rather than hybrid. Indeed one company lost its resolution to amend its Articles due to the inclusion of an amendment to allow for virtual only AGMs.

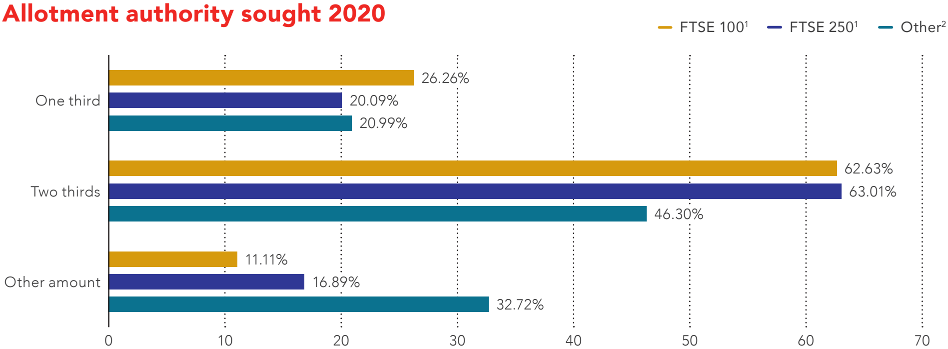
Of the 518 companies surveyed, 87 companies put forward a resolution to make amendments to their Articles of Association. This was quite a large increase from 45 companies last year. A substantial number of proposed amendments included allowing the company to hold hybrid AGMs with a smaller number putting forward amendments to allow both hybrid and virtual AGMs. Other frequent amendments were to directors' fees, provisions relating to untraced shareholders and general updates.

Authority to allot shares

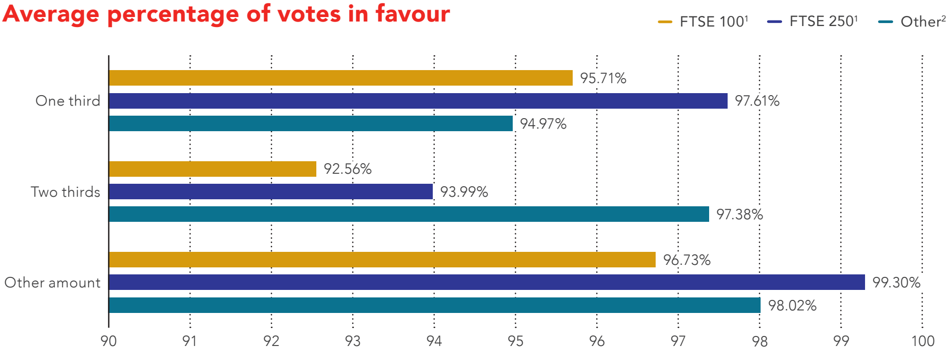
A resolution giving authority to the directors to allot shares is a standard resolution. 98% of FTSE 100, 90% of FTSE 250 and 93% of smaller companies did so in the 2019/2020 AGM season. The majority of companies ask for authority to allot up to two thirds of issued share capital.

Generally, allotment authority resolutions receive a high level of support from shareholders. However, there were four lost resolutions this year and a number of companies where this resolution received the lowest number of votes in favour. This is often the case where the shareholder base is outside of the UK in jurisdictions that have different institutional guidelines. If this is the case the company needs to engage with these shareholders and explain fully in the AGM Notice the guidelines that are being followed and when and how the authority is likely to be used. In the UK companies should ensure that they follow the Investment Association's Share Capital Management Guidelines.

Allotment authority sought 2020



Average percentage of votes in favour



AGM Resolutions continued

Authority to allot shares on a non-pre-emptive basis

The resolution to allot shares on a non-pre-emptive basis is often the resolution that receives the lowest support from shareholders and this was certainly the case in 2020. There were 13 lost resolutions and 57 companies where this resolution received the lowest votes in favour out of all their resolutions. The majority of companies of all sizes ask for authority to allot up to 10% of share capital without pre-emption rights.

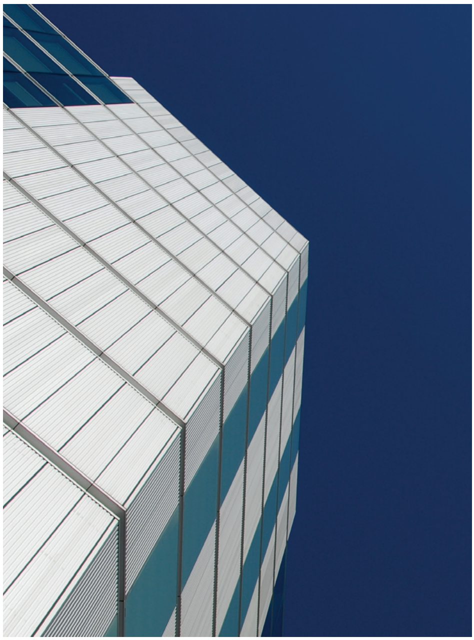
In order to ensure maximum support from shareholders, companies should comply with the Pre-Emption Group's Statement of Principles (the Statement of Principles) and also use the Group's two template resolutions to propose separate resolutions to:

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

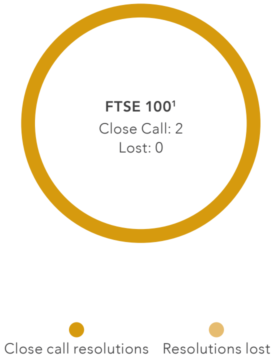
If authority for the additional 5% is sought the AGM Notice should be very clear about the circumstances in which this will be used.

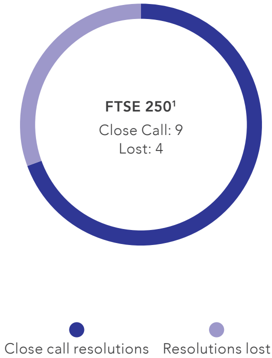
One FTSE 100 company, 46 FTSE 250 and 54 other companies sought a 10% authority with a single resolution despite the Investment Association stating that it would 'red top' any companies not using two resolutions. A large number of the companies using a single resolution were investment trusts.

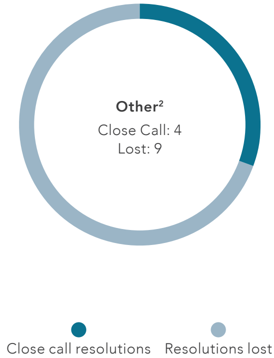
Unusual times call for unusual measures. In April 2020, the Pre-emption Group (PEG) relaxed its Statement of Principles recognising the importance of companies being able to access capital easily during the time of the pandemic in order to maintain solvency. PEG has asked investors to consider, on a case by case basis, resolutions giving authority to issue up to 20% of issued share capital rather than the normal 5% for general purposes and an additional 5% for specific acquisitions or investments as set out in the Statement of Principles. The approach of PEG was supported by the Financial Conduct Authority who also announced a series of measures to assist companies to raise new share capital. PEG extended these measures to 30 November 2020 and has called for a review of capital raising mechanisms generally.



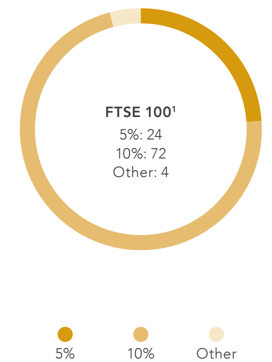
Disapplication of pre-emption rights number of resolutions – votes lost and close call votes

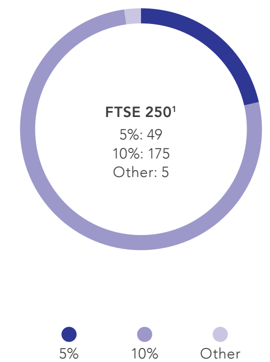


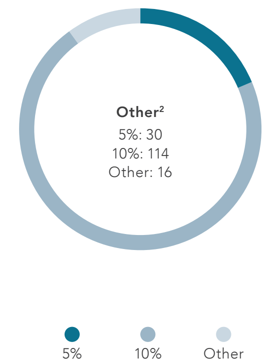




Disapplication of pre-emption rights – number of companies proposing resolutions



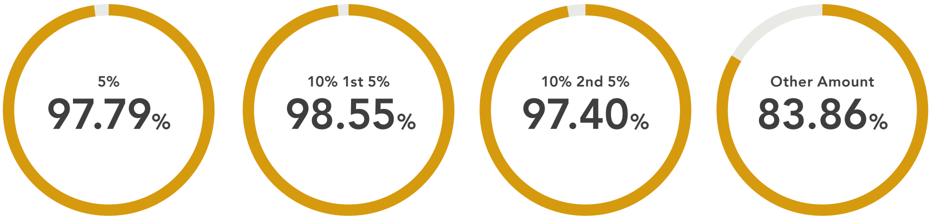




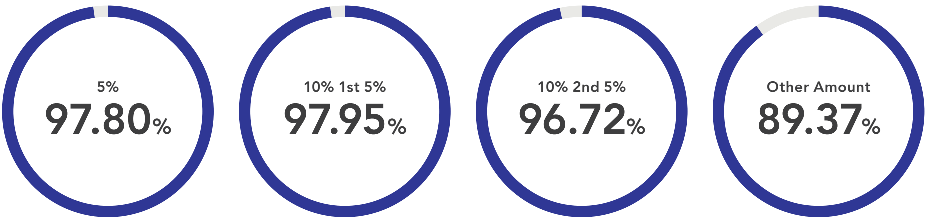
AGM Resolutions continued

Disapplication of pre-emption rights – average percentage of votes in favour

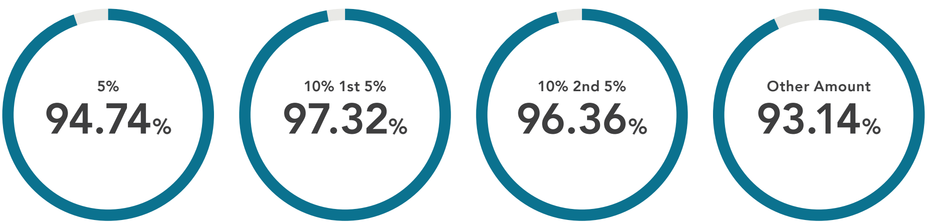
FTSE 100[1]



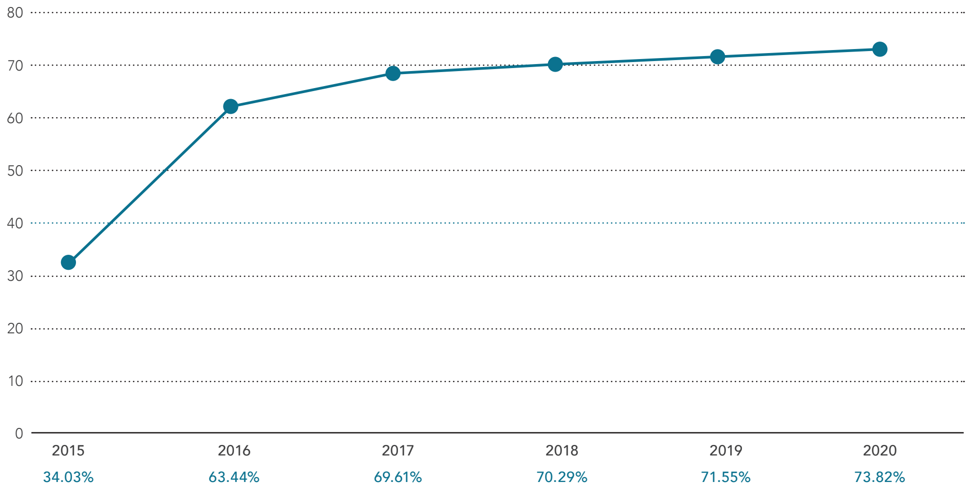
FTSE 250[1]



Other[2]



Percentage of companies requesting a 10% disapplication of pre-emption rights authority



Share buyback authority

Of the 518 companies surveyed, 88% put forward a share buyback resolution with 97% of these companies receiving votes in favour of more than 95%.

AGM Resolutions continued

Notice period for general meetings

Not all companies choose to put forward a resolution to allow holding general meetings on not less than 14 days' clear notice. It is often a contentious resolution with investors concerned that the authority does not give shareholders enough time to effectively respond to proposals put forward at a general meeting. A large minority of companies, 37% in 2020, do not put forward such a resolution. Of those including a resolution, 76% received votes in favour of 95% or more, a low proportion when compared to other resolutions. In addition, nearly 5% of companies received less than 90% of votes in favour. There were also two lost resolutions. Where a resolution is included, therefore, the AGM Notice should be very clear about why the authority is needed and the circumstances in which it may be used.

Political donations

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. Due to sensitivities around donating to political causes by companies, it is another resolution that can receive a high number of votes against.

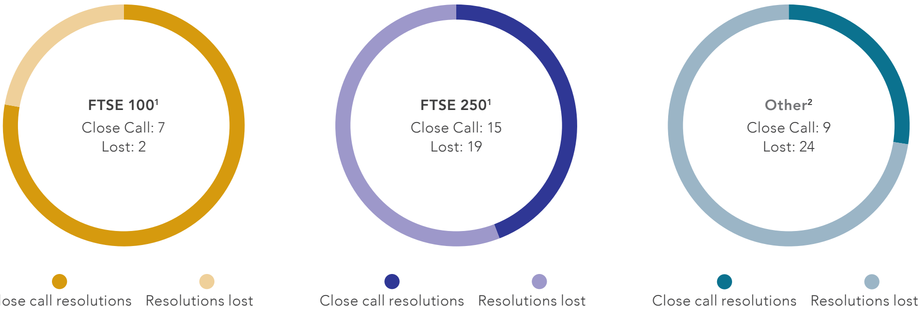
The number of companies putting forward a resolution this season to approve political donations has remained static for FTSE 100 companies but has fallen slightly for FTSE 250 and other companies.

	FTSE 100[1]	Percentage of companies	FTSE 250[1]	Percentage of companies	Other[2]	Percentage of companies
Political donation resolution proposed	63	62.38%	78	32.10%	27	15.52%

Lost and Contentious Resolutions

The types of resolutions that receive the largest number of votes against have remained fairly constant. They include resolutions on executive remuneration, authority to allot shares pre-emptively and the election of directors. In particular shareholders and investor relation bodies have seen the power of using protest votes against individual directors. Reasons for voting against directors are usually time commitment concerns or length of tenure.

Number of lost resolutions/close call votes*



	FTSE 100[1]			FTSE 250[1]			Other[2]		
	2020	2019	2018	2020	2019	2018	2020	2019	2018
Lost resolutions	2	1	1	19	5	9	24	18	9
Close call*	7	6	3	15	19	26	9	30	18

* Vote is within 10% of required majority.

Lost and Contentious Resolutions continued

Number of lost resolutions/close call votes*

	Number of companies			
Resolution	**Lost resolution**	**Up or Down on last year**	**Close call resolution***	**Up or Down on last year**
Authority to allot on non-pre-emptive basis	13	▲	15	▼
Election or re-election of directors	11[†]	▲	3	◀▶
Remuneration policy or remuneration report	7	▲	4	▼
LTIP or share plan	4	▲	–	◀▶
Authority to allot shares	4	▲	1	▼
14 days' notice of general meetings	2	◀▶	3	▼
Purchase of own shares	2	▲	1	▼
Political donations	–	◀▶	1	▼
Amendments to Articles of Association	1	▲	3	▲
Dividend	1	▲	–	◀▶
Auditors re-appointment/remuneration	–	▼	–	▼

* Vote is within 10% of required majority.

† Seven of these resolutions were at one company and three at another where particular circumstances at these companies led to this result.

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'**	**Up or Down on last year**
Election or re-election of directors	168	▲
Remuneration policy, remuneration report or share plan	134	▲
Authority to allot on non-pre-emptive basis	57	▼
Authority to allot shares	49	▲
14 days' notice of general meetings	38	▼
Other	29	▲
Auditors re-appointment or remuneration	11	▼
Political donations	15	▲
Annual Report	2	▼
Amendment of Articles	8	▲
Approval of dividend	1	▲

Investor reflections on a unique AGM Season

Laith Cahill from the Investment Association considers this unusual AGM season from an investor's perspective

2020 promised to be an interesting year for shareholder engagement, with the majority of FTSE companies due to put their remuneration policy to a shareholder vote, and a particular focus on aligning executive pensions with the majority of the workforce.

Just as the AGM season kicked off, the coronavirus pandemic forced the country into lockdown, creating a totally different environment for shareholder engagement and company survival overnight. Early in the pandemic, IA members committed to supporting boards and management to focus on the most business-critical issues to ensure their long-term sustainable future, encouraging them to focus on supporting their employees, customers and suppliers, to ensure they have a long-term future.

The spotlight on executive remuneration hasn't diminished, with heightened scrutiny from the public and media on companies' approach to pay, especially where they had participated in the furlough scheme, sought additional capital from shareholders, made adjustments to workforce pay, or sought additional government support. IA members continued to expect executive pay to be linked to long-term company performance and account for the shareholder experience. Between 1 January and 31 July 2020, 61 pay-related resolutions received significant opposition from shareholders (>20% votes against) compared to 60 over the same period in 2019. As set out in the IA's Shareholder Expectations for Executive Remuneration during the pandemic, investors welcomed Remuneration Committees balancing incentivising executive performance while ensuring the executive experience was commensurate with that of shareholders, employees and other stakeholders.

The impact of the pandemic on cashflows resulted in many companies reassessing the sustainability of their proposed dividends. Between 1 January and 31 July, 45 companies appeared on the IA's Public Register for withdrawn dividend resolutions. Not one company had withdrawn this resolution in 2019. Investors supported companies that took a prudent approach to determining the sustainability of dividends in light of market conditions and business needs. But for those that could afford to pay, dividends remain a crucial part of the wider economy as an important income stream for retail and institutional investors including charities, pension funds, insurers and local governments.

With physical AGMs suddenly unviable, companies had to hold closed or vote only meetings and make use of virtual platforms to allow shareholders to participate. Physical meetings present an invaluable opportunity for investors, institutional and retail, to meet company directors and engage on difficult questions in a public forum in a manner that is difficult to recreate in virtual-only AGMs. While shareholders don't support virtual-only in normal circumstances they supported the flexibility in these exceptional circumstances and have been encouraged by company innovations to engage shareholders in lieu of physical meetings.

Investor expectations, from AGMs to executive remuneration, will continue to evolve as companies and investors adjust to the new normal. Going forward, investors hope that the companies emerge from the pandemic with new tools for shareholder engagement, making the most of both physical meetings and virtual facilities for widening access, and that hybrid AGMs become the new normal.

Laith Cahill
Policy Adviser for Stewardship and Corporate Governance – Investment Association

ESG: The concept of responsible business

Claire Fraser, Head of Stakeholder reporting at Emperor, considers the growing importance of ESG issues

emperor

Environmental, social and governance (ESG) factors have become a mainstream concern for businesses, as attitudes shift, new legislation is introduced, and the pressure on companies to respond continues to increase.

Where once environmental and social factors were the central tenets of sustainability, the scrutiny of the financial markets has led to the convergence of ESG. Macro environmental and societal issues are themselves seen as being part of the way a business is governed.

Amid all the clamour, however, what are the key issues for companies?

COVID-19 has sharpened the focus on specific topics like climate change, diversity and workforce engagement:

Climate risk

In response to growing social pressure and stakeholder activism, there is a growing focus on climate-related disclosures. Investors have stated that they will continue to engage and apply pressure on companies to adopt the TCFD (Task Force on Climate-related Financial Disclosures) recommendations, and BlackRock took action against 53 companies this year, voting against directors over climate issues, and warning 191 companies that they "risk voting action in 2021 if they do not make substantial progress".

Diversity

The conversation around culture, diversity and inclusion has gained traction in recent years since the introduction of gender pay reporting, non-financial reporting, and the 2018 UK Corporate Governance Code. However, ethnic diversity has come to the fore this year following the global Black Lives Matter protests and focus on racial equality. The challenge for companies is to look beyond the numbers and consider how data can be used to support business decision-making and meaningful action, to drive greater diversity through succession planning and talent management.

Workforce engagement

People and culture now sit firmly at the heart of ESG. In the past few months, with lockdown radically changing the way businesses operate, many companies have reshaped their communications, reviewing values, and rethinking what their culture needs to be for the future. Companies who have been fair in relation to furlough and executive pay are being recognised.

Accelerating through the turn

While the focus on ESG existed before COVID-19, ultimately the pandemic has shone a light on business behaviour and accelerated some of the developments we started to see last year.

If you take a responsible attitude to governance, this should translate to a responsible attitude to business. ESG is not simply about compliance, form-filling and box ticking. It needs to be embedded in the culture of an organisation.

But what does this look like in practice? We've put together our top five tips for ESG and delivering authentic communications:

1. ESG is integral to business strategy and companies cannot discuss this meaningfully unless it is truly embedded within business decision-making, strategy, risk management, board oversight and incentives.

2. Think about financial and non-financial performance, profits and social impact, success and sustainability as intrinsic to one another. As one company recently put it, "we don't have a sustainability strategy, we have a business strategy to be sustainable, a key part of which is our people, our social contract and managing our external impact".

3. With the impending move towards mandatory disclosure by 2022, it's becoming a business imperative for companies to report on climate-related risks and opportunities in line with the TCFD recommendations.

4. The concept of new and emerging risk is not about filling space under principal risk disclosures. It's about providing proper insight into the things that are driving your organisation. COVID-19 highlighted that risk registers didn't adequately address challenges in supply chains. This is an area which needs serious and considered thought.

5. Take the learnings from COVID-19 and apply them to the future thinking of your company. Stakeholders want to know what you're doing to ensure the long-term sustainability of your business model. Understand that attitudes have changed and values have shifted.

At its best, ESG shows the internalisation of sustainability, social and good governance values. Companies that have good practice when it comes to ESG are helping to safeguard their long-term value creation.

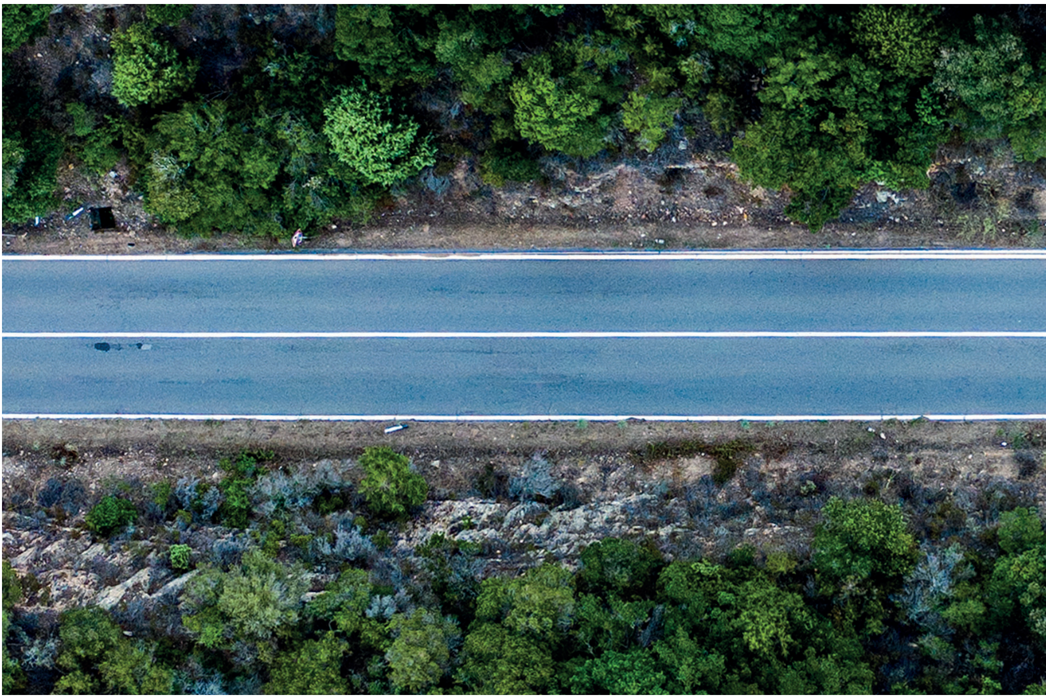
FUTURE TREND
Climate change risk reporting

Companies should be under no illusion about how much attention their approach to and reporting on climate change will get in the next few years. This is not just about their impact on climate change, which may be considerable or minimal depending upon which sector they operate in, but also the risk all businesses face from climate change. This should already be high on company agendas but if it isn't, it needs to be. If nothing else the impact of the coronavirus pandemic has hopefully taught us the value of looking ahead and being prepared.

Future Trends Summary

Future Trends

- **The rise of the hybrid AGM:** we anticipate that companies will want to build on their experiences this year and encourage remote shareholder participation alongside physical attendance.
- **Stakeholder engagement:** reporting on how a company engages with and takes into account its key stakeholders will be an area of focus for investors.
- **Executive Remuneration and COVID-19:** how Remuneration Committees addressed executive remuneration during the year of the pandemic particularly where furlough and other government schemes were used, will be a hot topic.
- **Board diversity and director elections:** investors will want to see progress in increasing diversity in all its forms on company boards.
- **Climate change risk reporting:** how companies are dealing with and reporting on climate change risks will be a top priority.



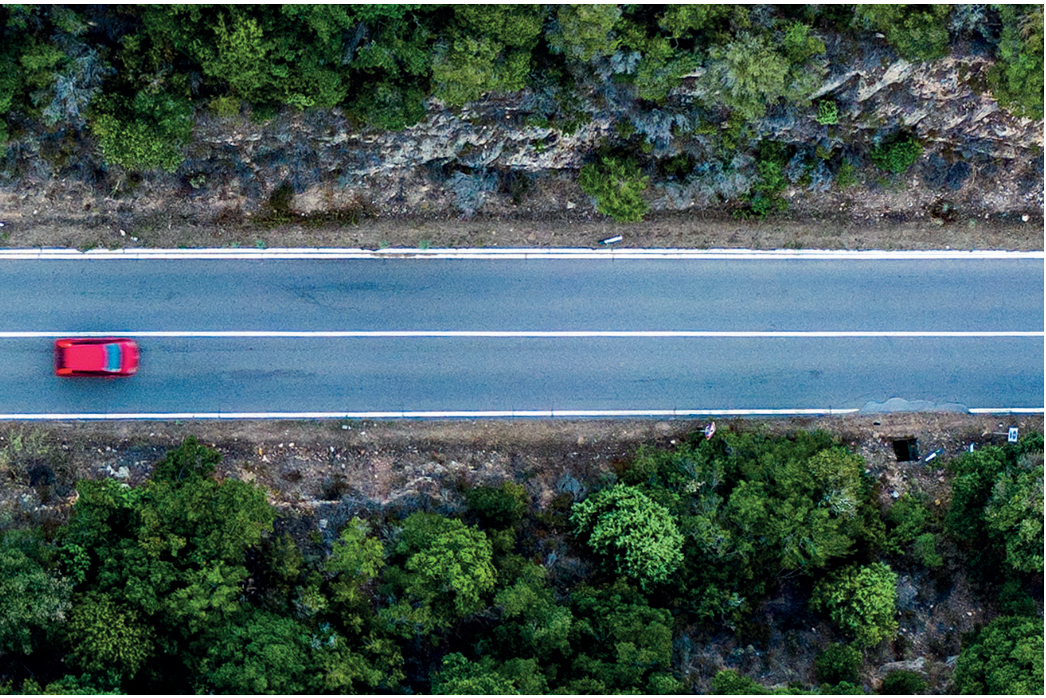
About Us

Equiniti is an international technology-led services and payments specialist. This booklet has been compiled by the Registration Services and Prism Cosec teams within our EQ Boardroom business.

Equiniti's Registration Services provide total shareholder services support from managing meetings, keeping shareholders and investors engaged and distributing dividends. We manage over 80 million shareholder records and send £90 billion in payments each year. We act for businesses of all sizes, from AIM through to the FTSE 100.

Prism Cosec is a company secretarial and corporate governance practice formed of a team of highly experienced governance professionals with a reputation for a proactive and ethical service. We help UK and international companies establish and maintain best practice governance policies and systems and provide company secretarial services to companies of all sizes and types from the FTSE 100 to private groups.

Boudicca is the UK's leading provider of progressive proxy solicitation and corporate governance advisory services supporting clients to achieve the highest levels of shareholder approval.



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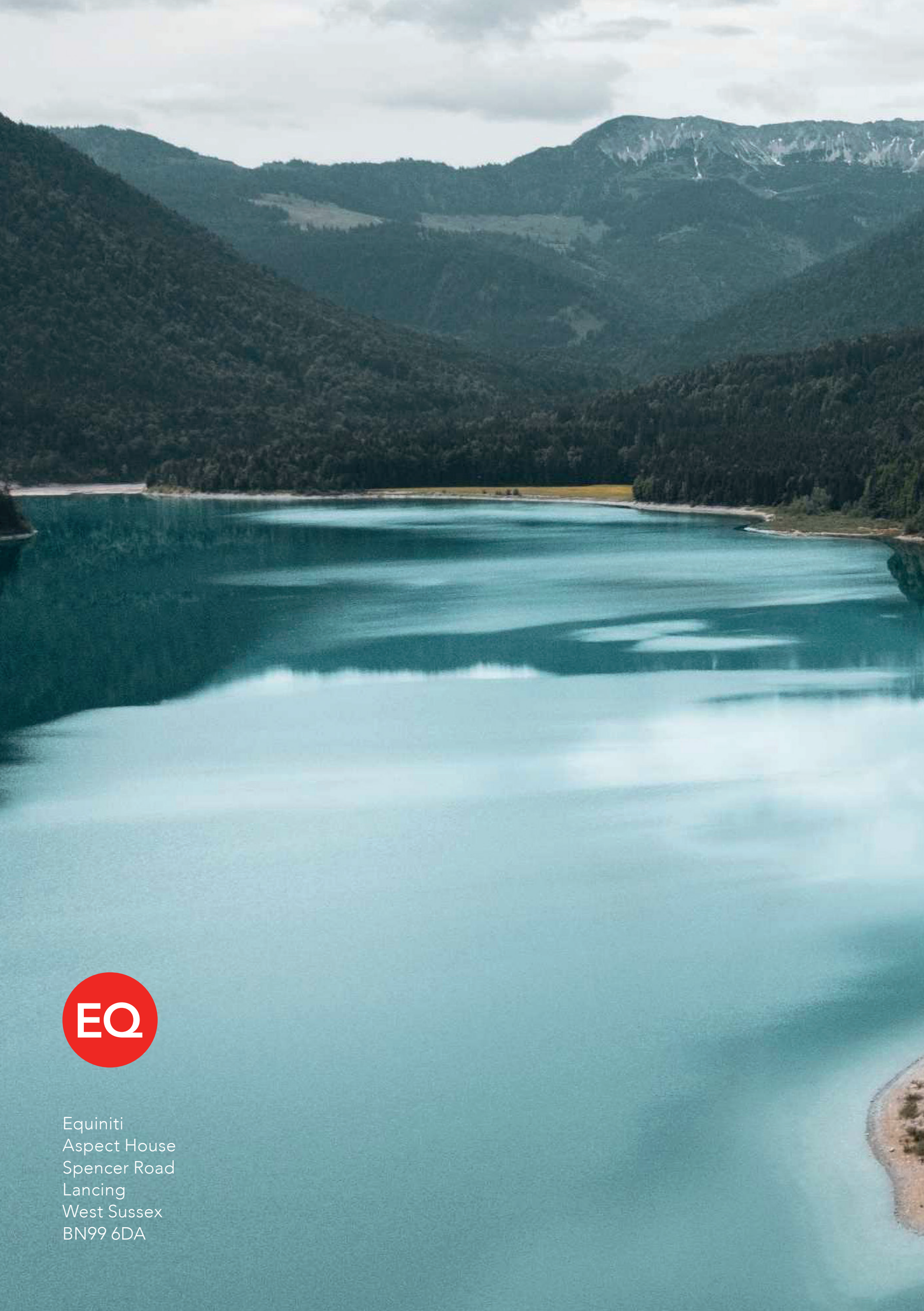

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