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Review of the 2018 AGM season

Final review
January 2019

Contents

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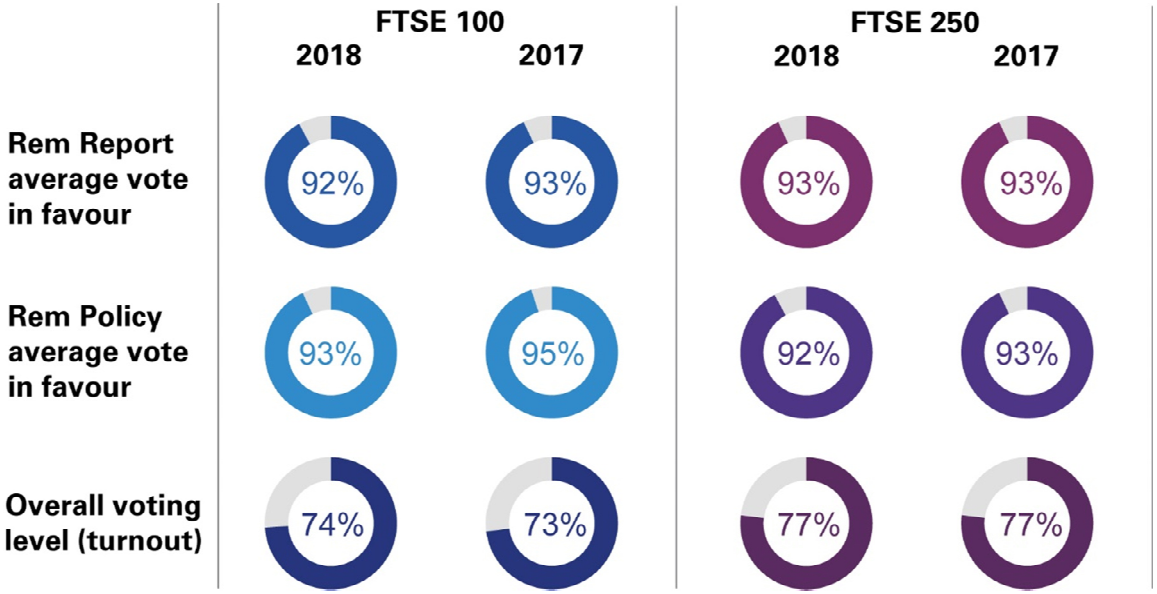
Introduction

This review considers the AGM voting results for FTSE 100 and FTSE 250 companies in 2018 (excluding Investment Trusts).

The average vote in favour for the Directors' Remuneration Report in the 2018 AGM season was 92% for FTSE 100 and 93% for FTSE 250 companies. This is broadly unchanged from 2017 where the level of support was 93% for both FTSE 100 and FTSE 250 companies.

There has been a similar level of support for the Remuneration Policy whenever it has been voted on, with on average 93% support within the FTSE 100 and 92% support in the FTSE 250 in 2018 compared to 2017 levels of 95% and 93% respectively.

The overall voting level or turnout has also been consistent between 2018 and 2017. The FTSE 100 average voting level marginally higher at 74% with the more UK focused and concentrated ownership of FTSE 250 companies leading to an average vote of 77% in 2018, which is consistent with the average voting level in 2017.



The analysis considers votes in favour of each resolution as a proportion of votes for and against. Shareholders that dissent on a particular resolution by abstention or a vote withheld is not a vote in law and thus not counted in the calculation of votes in favour.

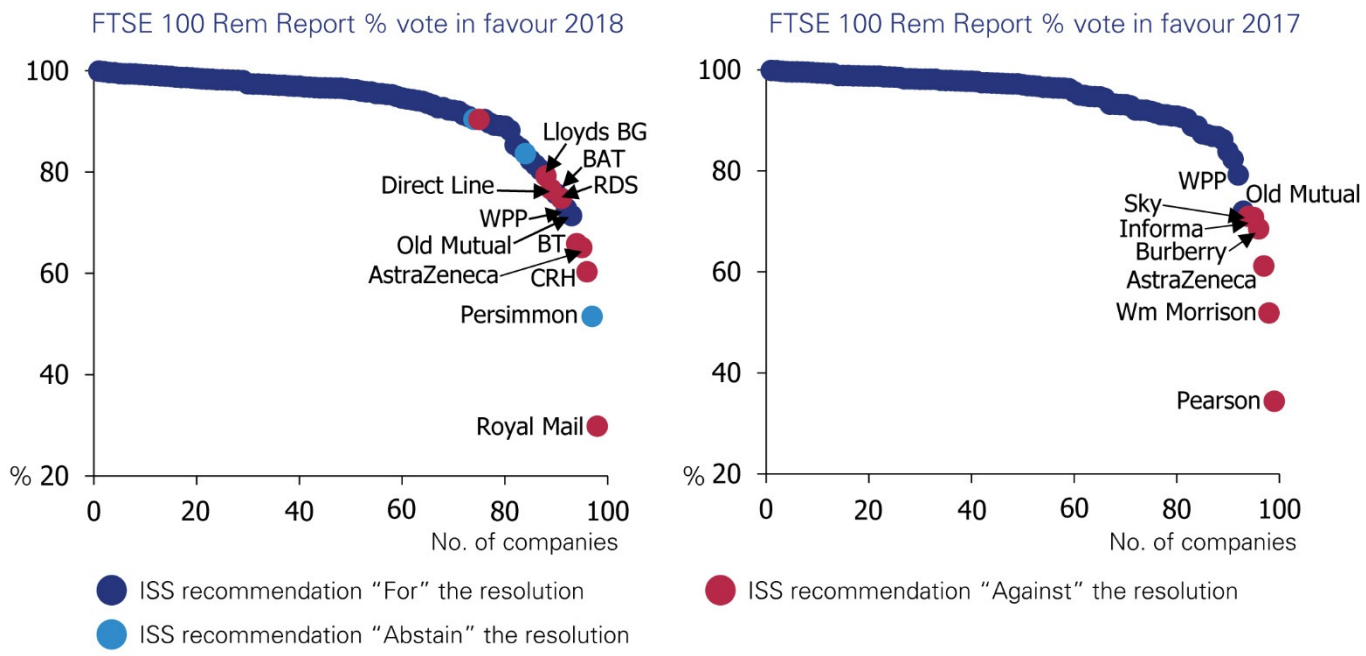
The UK Corporate Governance Code states that "When 20 per cent or more of votes have been cast against the board recommendation for a resolution, the company should explain, when announcing voting results, what actions it intends to take to consult shareholders in order to understand the reasons behind the result. An update on the views received from shareholders and actions taken should be published no later than six months after the shareholder meeting. The board should then provide a final summary in the annual report and, if applicable, in the explanatory notes to resolutions at the next shareholder meeting, on what impact the feedback has had on the decisions the board has taken and any actions or resolutions now proposed."

Less than 80% support for a particular resolution would typically constitute a significant level of shareholder dissent and this is the threshold used by the Investment Association in its Public Register and is also applied in this review.

FTSE 100 Rem Report

The charts to the right plot the level of support at FTSE 100 companies on the Directors' Remuneration Report resolution for 2018 and 2017. Each dot represents the voting at a particular FTSE 100 company.

The chart distinguishes companies that received a positive voting recommendation from Institutional Shareholder Service (ISS) – blue dot, an ISS recommendation that shareholders vote against the DRR resolution – red dot and those where ISS recommended that shareholders abstain – light blue dot. ISS remains by far the most influential of the proxy advisory firms.



Source: KPMG Makinson Cowell analysis, ISS

- Royal Mail was the only FTSE 100 company where the Directors' Remuneration Report (DRR) resolution was defeated in 2018. More than two-thirds of the shares cast were voted against the Royal Mail DRR, with shareholder concerns over the outgoing and incoming CEO's pay.
- Another ten FTSE 100 companies received less than 80% support for the DRR. The DRR at Persimmon was narrowly approved following concerns over excessive pay, including vesting in relation to its 2012 LTIP. There were concerns at CRH around salary increases and an increased LTIP grant from 200% to 225% of salary for the FD after shareholders had opposed a similar rise at previous AGMs. The principal issue at AstraZeneca was again related to its LTIP and concern over levels of disclosure and whether targets were challenging enough, whilst at BT bonus payments for the CEO and FD were not considered in line with company performance.
- The charts above show that 11 companies encountered significant shareholder dissent in 2018 compared to eight in 2017. Eight companies this year have received an ISS vote recommendation for shareholders to vote against the DRR, a further three with ISS vote recommendations to abstain. This compares to six companies receiving an ISS vote recommendation for shareholders to vote against in 2017.
- Finally, the charts highlight that for most FTSE 100 companies, the DRR is overwhelmingly approved by shareholders.

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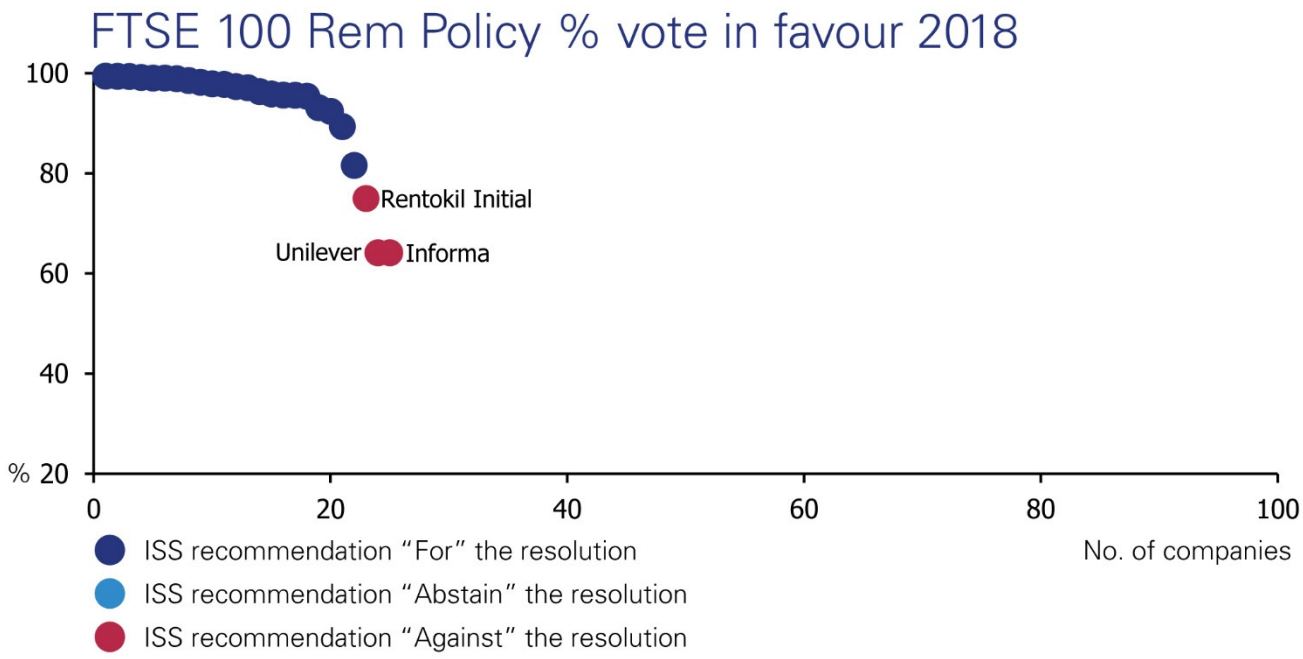
FTSE 100 Rem Policy

The requirement for a binding vote on a company's Remuneration Policy first came into effect in 2014 and any approved policy can stay in place for three years before being voted on again by shareholders.

In 2018 around one-quarter of FTSE 100 companies have put their Remuneration Policy to a vote, compared to around two-thirds in 2017, which was the third anniversary of the initial binding vote on the Remuneration Policy.



Source: KPMG Makinson Cowell analysis, ISS

- All FTSE 100 Remuneration Policy resolutions were approved by shareholders in 2018, with just three companies receiving less than 80% support from shareholders.
- Informa and Unilever each received the lowest vote with just 64% support for their proposed new policies. Shareholders at Informa opposed a bonus limit increase from 150% to 175% of salary and LTIP limit increase from 200% to 325%, whilst some of Unilever's shareholders opposed the move to a consolidated 'fixed pay' structure. There was also a significant dissenting vote against amendments to the 2014 Long-term incentive plan at Informa.
- The low vote at Rentokil Initial was due to an increase in the bonus limits from 120% to 180% of salary and the CEO's LTIP potential award being increased from 200% to 250% of salary.
- ISS recommended that shareholders vote against the Remuneration Policy at Informa, Unilever and Rentokil Initial. All other companies to put their Remuneration Policy to vote in 2018 received an ISS recommendation to vote in favour.
- The above voting result shows that any proposed new Remuneration Policy that increases maximum potential pay will be scrutinised carefully by investors, regardless of the rationale.

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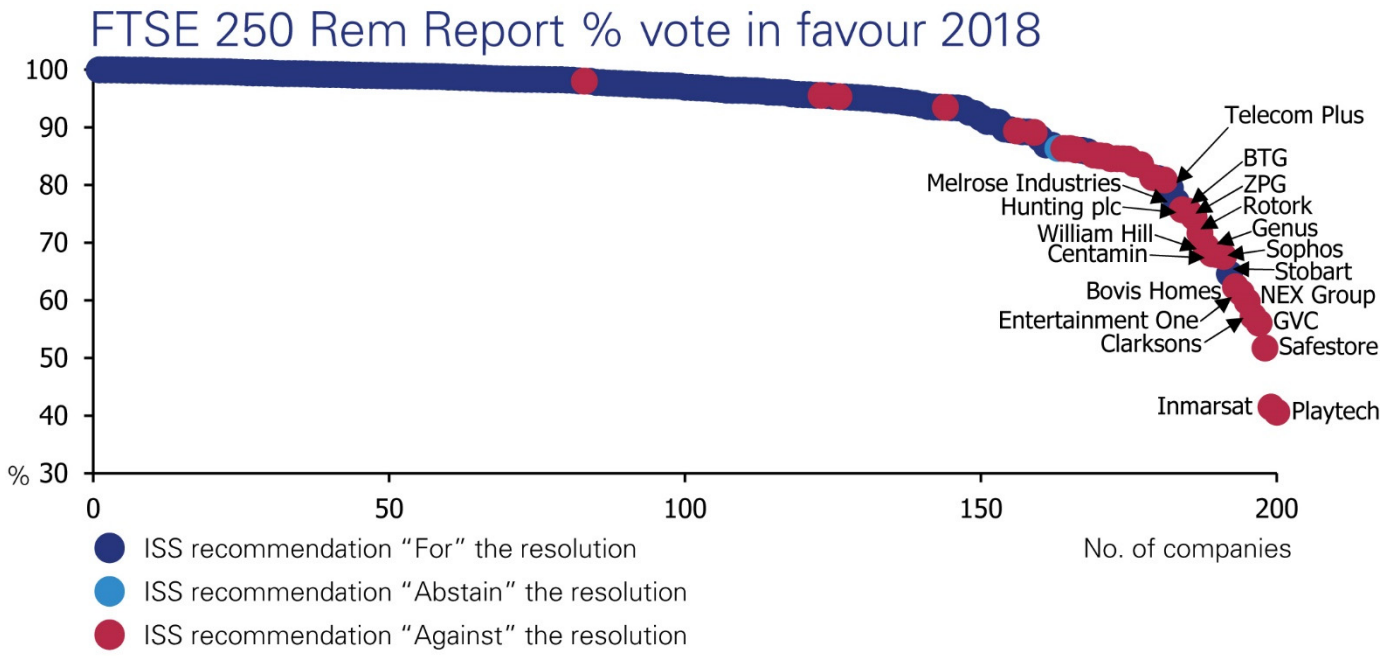
FTSE 250 Rem Report

The chart to the right plots the level of support at FTSE 250 companies, excluding Investment Trusts, on the Directors' Remuneration Report resolution for 2018. Each dot represents the voting at a particular FTSE 250 company.

The chart distinguishes companies that received a positive voting recommendation from Institutional Shareholder Service (ISS) – blue dot, an ISS recommendation that shareholders vote against DRR resolution – red dot and those where ISS recommended that shareholders abstain – light blue dot.



Source: KPMG Makinson Cowell analysis, ISS

- The DRR resolution was defeated at the Playtech AGM, with 59% of shareholders voting against. Shareholders were concerned with the CEO's salary increase and perceived excessive awards when viewed against company performance. Two members of the Playtech Remuneration Committee also received less than 80% shareholder support on their re-election to the board.
- The DRR resolution at Inmarsat was also defeated with 58% of shareholders voting against with concerns on disclosure of performance targets and bonus awards, which some shareholders thought were not consistent with company performance.
- Shareholders narrowly approved the DRR at Safestore with just 52% of shareholders voting in favour of the resolution. Focus at Safestore was centred around restricted shares awarded to the CEO and FD totalling £14m. All four members of the Remuneration Committee received less than 80% of shareholder support with Remuneration Committee chair Claire Balmforth narrowly re-elected with 52% support.
- The 19 FTSE 250 companies to receive less than 80% support for the DRR in 2018 is a decrease from 28 such instances in 2017. This reduction in the level of dissent on the DRR for FTSE 250 companies this year is in contrast to the FTSE 100 situation, where we have seen more dissention in 2018 compared to 2017 on the DRR.

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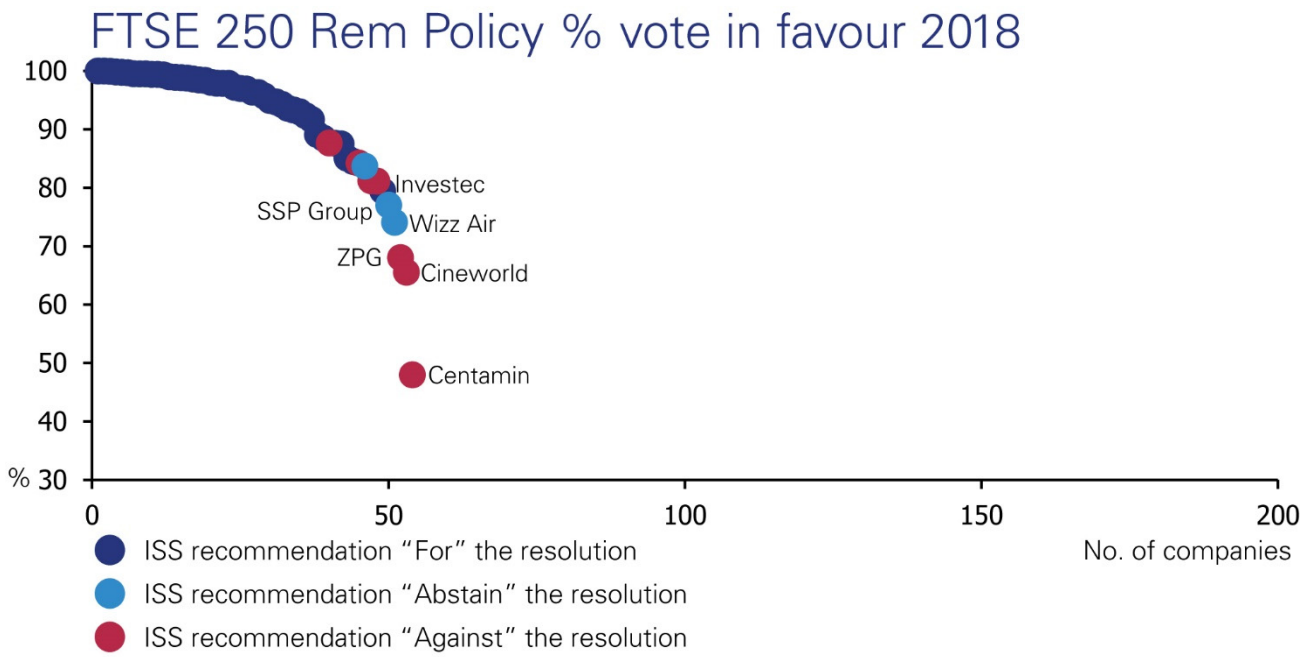
FTSE 250 Rem Policy

Of the 200 FTSE 250 companies (ex-Investment Trusts) to hold their AGM in 2018 and publish the voting out come, 54 also put their Remuneration Policy to a vote.

Once again, the chart distinguishes companies that received a positive voting recommendation from Institutional Shareholder Service (ISS) – blue dot, an ISS recommendation that shareholders vote against DRR resolution – red dot and those where ISS recommended that shareholders abstain – light blue dot.



Source: KPMG Makinson Cowell analysis, ISS

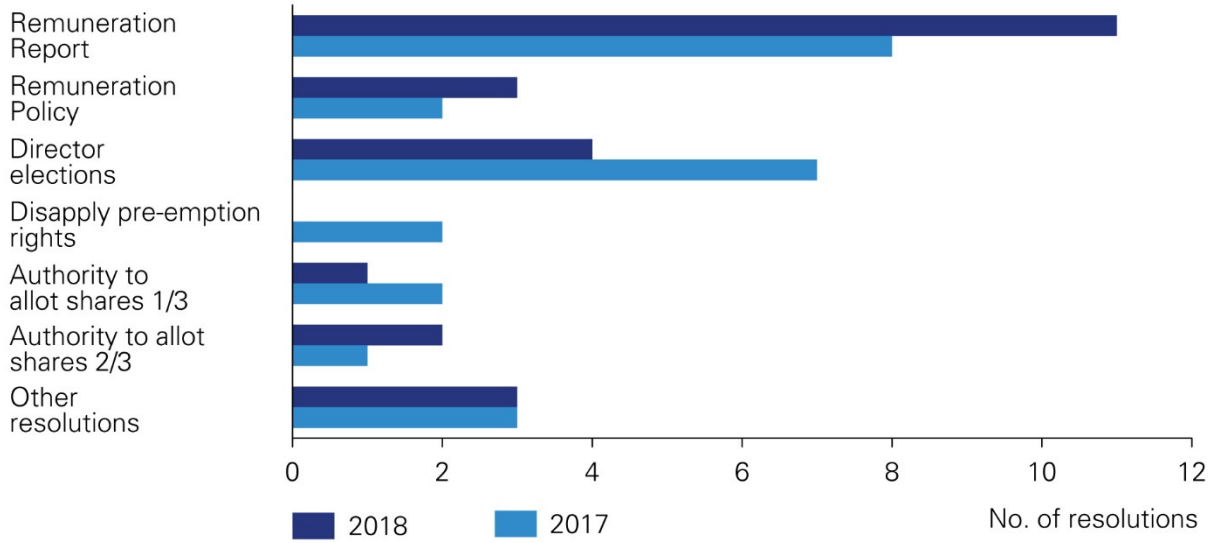
- Of the 54 FTSE 250 companies to have put their Remuneration Policy to the vote in 2018, six have received less than 80% support from shareholders.
- Centamin is the only company in the FTSE 250 to have had its Remuneration Policy defeated after just 48% of shareholders voted in favour of the new policy with a number of issues being raised. These included concerns around the increase in the potential bonus payment for target performance, the overall executive shareholding requirement, and the lack of deferral of awards.
- At Cineworld only 66% of shareholders voted in favour of the new policy, which included increases to the maximum potential remuneration.
- The proposed ZPG Remuneration Policy was approved with 68% shareholder support with concerns around the extension of the CEO's Value Creation Plan (VCP) where the performance metric is growth in absolute TSR and the CEO had already banked £13m over a two year period.
- The Wizz Air Remumeration Policy received 74% of votes in favour with the main item causing concern being the lack of any mandatory variable pay deferral.
- At SSP Group shareholders supported the Remuneration Policy with 77% of votes in favour with ISS recommending shareholders to abstain. Concerns were focused around the absence of both deferral of annual bonuses and any post vesting holding period for long term awards.

FTSE 100 resolutions

The next two pages consider the 2018 and 2017 AGM seasons in terms of the number of resolutions receiving less than 80% support and not just remuneration related matters.

As with all the data in this review, the analysis considers votes in favour of each resolution as a proportion of votes for and against. Shareholders that dissent on a particular resolution by abstention or a vote withheld is not a vote in law and thus not counted in the calculation of votes in favour.

FTSE 100 resolutions <80% support 2017 & 2018



Source: KPMG Makinson Cowell analysis

- As previously highlighted, 11 FTSE 100 companies in 2018 received less than 80% on the DRR and three FTSE 100 companies received less than 80% support for the Rem Policy vote.
- As to resolutions to re-appoint directors we have seen four directors receiving less than 80% support in 2018, a reduction compared to seven such instances in 2017. In addition two director elections were withdrawn ahead of their respective AGM's.
- Shareholders continue to look closely at the number of appointments that a director holds and whether the director could be "overboarded". This was the case for all four FTSE 100 directors receiving less than 80% in 2018; Marion Helmes at BAT, Peter Long at Royal Mail, Adrian Li at Berkeley Group and Marcus Wallenberg at AstraZeneca, who were re-elected with 59%, 66%, 69% and 77% support respectively.
- The technical resolutions relating to the authority to allot shares continue to illicit some shareholder dissent. In particular Capital Group, M&G and Baillie Gifford routinely vote against the authority to allot an additional 5% of the share capital on a non pre-emptive basis in the event of an acquisition or specified capital investment.
- Other resolutions includes two pay linked resolutions where plans to increase awards at Informa and Rentokil Initial received shareholder support of only 69% and 75% respectively.

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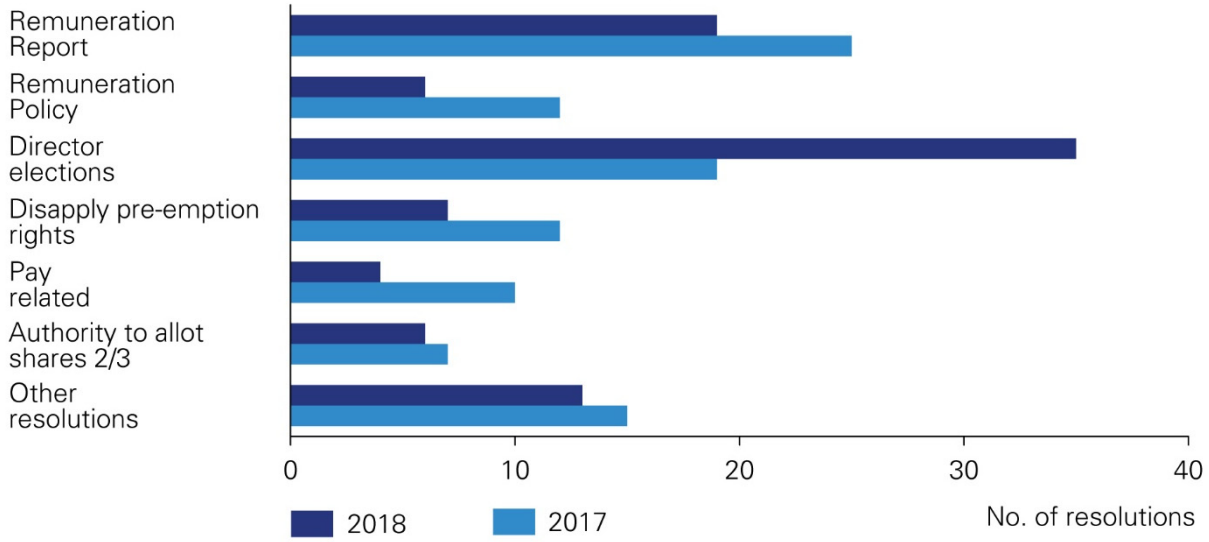
FTSE 250 resolutions

This final slide considers the number of AGM resolutions receiving less than 80% support at FTSE 250 companies in 2018 and 2017 and in particular highlights the rise in the level of opposition to individual director re-election, which was highlighted by the Investment Association as a key theme in the 2018 AGM season.

FTSE 250 resolutions <80% support 2017 & 2018



Source: KPMG Makinson Cowell analysis

- In addition to Playtech and Inmarsat, where the DRR resolutions were defeated, a further 17 FTSE 250 companies received less than 80% support for the DRR and six companies received less than 80% support for the approval of the Remuneration Policy.
- 35 director re-election resolutions received less than 80% support which accounted for 2% of all director elections. This was almost double the overall total of 19 in 2017. In addition seven director elections were withdrawn ahead of their respective AGM's.
- Eight companies had multiple directors receiving less than 80% shareholder support. As previously noted, all four members of the Remuneration Committee at Safestore received less than 80% of shareholder support with Claire Balmforth narrowly re-elected with 52%. At Stobart Group, four directors received just 50-60% support from shareholders after past director and shareholder Andrew Tinkler was joined by some investors in voting against their re-elections. Iain Ferguson, Chairman, narrowly retaining his place with 51% votes in favour. At Mitchells and Butlers, four directors received less than 80% support with concerns of them not being sufficiently independent. Centamin, who's Remuneration Policy was defeated, received less than 80% shareholder support for three directors from their Remuneration Committee, whist Playtech who's Remuneration Report was defeated received less than 80% shareholder support for two directors from their Remuneration Committee. Two directors at Rightmove received under 80% support with concerns of overboarding.
- Other resolutions includes the resolution to re-appoint the auditors at SIG which received only 22% votes in favour after a number of accounting irregularities were identified in early 2018.

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Conclusions

The advisory vote on the Directors' Remuneration Report remains the AGM resolution most likely to see significant shareholder dissent. The DRR resolution received less than 80% support at 11 FTSE 100 companies, including Royal Mail where the resolution was defeated by a margin of two-to-one. Amongst FTSE 250 companies the DRR resolution was defeated at two AGMs and received less than 80% support at a further 17 shareholder meetings.

Shareholder dissent on remuneration matters arose from a number of different issues, rather than a single theme. Any of the following circumstances could lead to a significant vote against the DRR:

- Pay not aligned with company performance
- Salary increases above the level received by the general workforce or a higher salary being awarded to a new director compared to the predecessor in the role
- An increase in the potential pay, such as due to an increased maximum LTIP award

Looking forward the scrutiny on pay is likely to increase further and any company that steps outside the norm will continue to be heavily scrutinised by shareholders.

Outside remuneration matters the 2018 AGM season saw some pushback on a small number of director elections. In particular shareholders are increasingly looking at the number of appointments held by a director and may vote against the re-election of those directors considered to be "overboarded". Four FTSE 100 directors received less than 80% support for their re-election during the 2018 AGM season due to overboarding and a further ten FTSE 250 directors had a similar experience. An increasing number of institutional shareholders are adopting specific policies on overboarding and the updated UK Corporate Governance Code, that came into effect for accounting periods commencing on or after 1 January, 2019, makes specific reference to the time commitment of directors and states that companies should take into account other demands on directors' time when making new appointments. Hence the issue of overboarding is likely to be an area where we will see greater shareholder dissent in the coming years.

Under the revised UK Corporate Governance Code, when 20 per cent or more of the votes have been cast against a resolution the company should explain when announcing the result of the AGM vote what action it intends to take and provide further updates on the issue within six months and in the annual report. The company will also be included in the Investment Association Public Register of companies that receive a high vote against an AGM resolution. Therefore the implication for any company that receives less than 80% support for a particular AGM resolution is that there will be on-going scrutiny of the company concerned.

In summary, dialogue with institutional shareholders on governance and remuneration matters continues to be very important. Such shareholder engagement on governance and remuneration matters should include both the passive index/quant investors that have grown in importance at the top of the share registers of UK companies, as well as the active investors seen by companies as part of the normal investor relations activity. KPMG Makinson Cowell remains well placed to provide advice to companies on all aspects of the shareholder engagement process.

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