AN FTI CONSULTING WHITE PAPER IN COLLABORATION WITH PROXY INSIGHT

UK AGM Season 2020 Review & Highlights

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Against a backdrop of uncertainty in the markets and the wider economy, investor opposition on key governance issues, and particularly remuneration, remained a constant at FTSE 350 companies during the first half of 2020. Indeed, the anecdotal evidence is that investors view governance as even more important in turbulent times, as it acts as a layer of protection against evolving crises.

Remuneration remains the issue, which draws greatest scrutiny while the level of nuance to Director voting has grown, as oversight of ESG rises up investors' agendas. While there will always be disagreements between companies and their investors, the growing instances of significant opposition points to an increase in the gap between company actions and shareholder expectations, some of which could be alleviated by stronger reporting and more effective engagement.

Peter Reilly
Senior Director, Corporate Governance

Proxy Insight is the world's leading source of information on global shareholder voting. The company was founded by investor relations and data business specialists Nick Dawson and Nick Arnott. While Proxy Insight is currently based in the UK and US, its operations are truly global in scope with clients spanning five continents. These clients are not only large investment managers, but also include small advisory firms, compensation consultants, bulge bracket investment banks and academic institutions.

The UK has seen some fairly dramatic annual meeting votes this year, particularly when it comes to executive pay. Some of this year's headline revolts were driven by very company-specific concerns, such as Tesco's changes to its peer group, while others fit into a broader governance push. The crackdown on executive pensions has been ongoing for some time, with many companies cutting contributions late last year or early this year. A lack of such change at Tesco's rival supermarket Morrisons was a key point of contention at this year's meeting.

At the same time, we are seeing a number of the UK's largest investors becoming more willing to hold individual directors to account through their voting than they were five years ago. While some shareholders regard voting against management resolutions to be a blunt tool when compared with behind-the-scenes engagement, there is clearly no shortage of investors that feel it is warranted in certain circumstances. Voting therefore remains both one of the most powerful drivers of change and one of the best gauges of a company's progress on governance in the eyes of its shareholders. This year's data, which Proxy Insight is very pleased to provide for this report, makes it clear which companies are perceived as laggards.

George Moody
Associate Director

Methodology

The following paper analyses proxy voting results in the UK for the period from 1 January to 30 June 2020, as well as the corresponding proxy voting outcomes in each of the previous four years. The results of Annual General Meetings are based on data from Proxy Insight obtained from the public disclosures of companies. We have separated vote results into two groups: excluding abstentions (legal basis) and including abstentions. The inclusion of abstentions as an abstain vote in certain circumstances reflects the fact that investors may use an abstain vote as a means of registering dissent without voting against a resolution.

The paper is based on the following number of proposals and companies in each year. For the purposes of comparison, we have used percentages for each year rather than the absolute number of companies or resolutions relevant to the period:

YEAR	PROPOSALS	COMPANIES
2016	3,384	183
2017	3,802	192
2018	3,877	198
2019	4,050	206
2020	4,147	210

Table (i): Proposals & Companies per year, 2016-2020

Source: Proxy Insight

The voting data for individual investors is sourced from public documents on each investor's website.

Executive Summary

As we approach the final quarter of 2020, there are many unanswered questions in relation to the direction governments and companies take. One certainty remains, however: institutional shareholders continue to place intense levels of scrutiny on the companies in which they invest; and remain willing to hold companies and Board members to account through voting. In addition to a backdrop of an overhauled regulatory regime for main market companies in the UK, COVID-19 was unable to stem the charge toward increased accountability to market participants and, particularly, governance teams at large institutions.

In times of uncertainty, the focus on governance arguably rises, as companies with a clear purpose, strong governance frameworks and high levels of accountability better positioned to navigate turbulence.

During the first half of 2020, UK and international shareholders pressed companies on similar issues as previous years, including diversity, time commitments, remuneration, Board composition and the strength of Board oversight. In terms of average support levels, there was not a marked difference between 2020 and any of the previous four years, with slight upticks in support levels seen this year; however, the proportion of companies failing to achieve 80% support on at least one resolution has increased year-on-year. While on one hand, there may have been an expectation of a COVID-19 reprieve of sorts, particularly in light of steps made to reduce remuneration, increased resources are being dedicated to governance and engagement at almost all investors, dictating that the bar has risen once again for public companies.

A growing number of investors have an increased ability to conduct robust evaluations of corporate governance practices and are willing to register dissent in instances where companies do not meet their expectations. Everywhere else, 2020 will be remembered as a year of tumultuous change. Proxy voting, however, has largely plowed ahead unfazed, reaffirming the inescapable truth that the ballot box remains a key facet of investors' strategies to hold Boards to account and spur higher standards of governance. In turn, the reputational risks of experiencing high levels of dissent have risen, as have those that may limit companies freedom to operate as they seek to engage with the market and their investors.

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Section 1: Voting Statistics

Over the past five years, there has been a clear increase in the scrutiny placed on public companies and, overall, the role business plays in society. This has had a knock-on effect on the level of engagement between asset managers and Boards of public companies, with the former feeling the need to challenge the latter to ensure that high standards of corporate governance are being maintained in investee companies. While average support levels have remained consistent over the past five years, as illustrated in Table 1, the percentage of resolutions and companies facing significant opposition (at least 20%) has increased markedly, as illustrated in Figure 1.

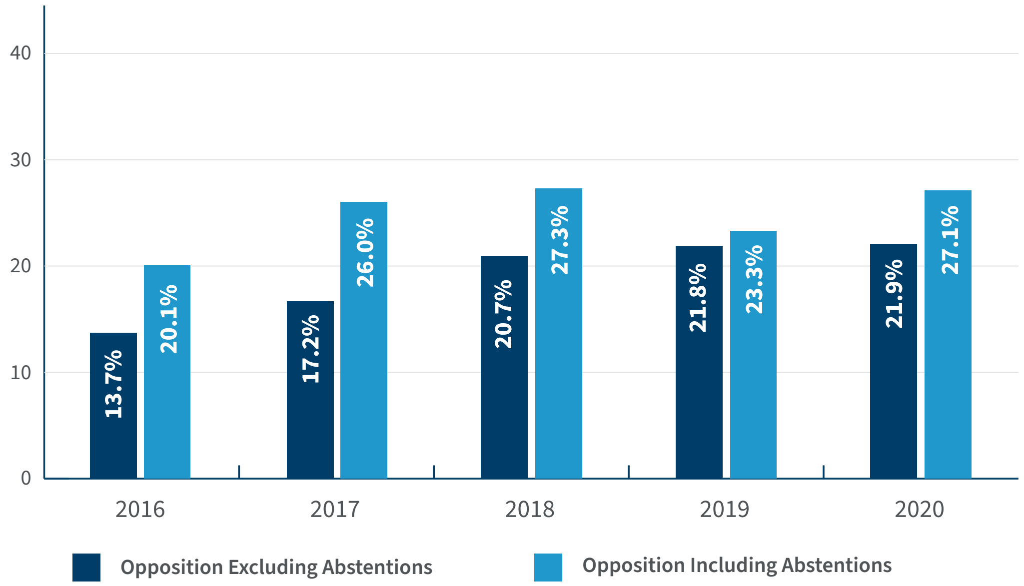
Average Support

YEAR	ELECTION OF DIRECTORS (%)	REMUNERATION REPORT (%)	REMUNERATION POLICY (%)	SHARE ISSUANCE
2016	98.6 (97.8)	93.6 (91.8)	91.5 (90.5)	95.8 (94.7)
2017	98.3 (97.6)	93.6 (91.9)	94.5 (93.4)	96.5 (95.7)
2018	97.8 (97.3)	92.9 (91.3)	92.6 (91.7)	96.4 (96.0)
2019	97.8 (97.3)	92.4 (91.5)	91.8 (90.9)	95.8 (95.6)
2020	**98.1 (97.3)**	**92.7 (91.1)**	**92.2 (90.9)**	**96.4 (96.0)**

Table 1: Average Support Levels
Figures in parentheses are voting outcomes where abstentions are included in the total voting calculations.

Source: Proxy Insight

Level of Opposition - Companies with 20% Against



Source: Proxy Insight

Figure 1: Levels of Opposition

Significant Opposition by Proposal

Despite the evolution of corporate governance regulation and shareholder expectations, the same issues consistently arise through proxy voting, with the hot button issues of Board elections and remuneration most likely to cause headaches for corporates. During the 2019 AGM season, a third front has opened up, with shareholders increasingly voting against the Board's authority to issue shares, both on a non-pre-emptive and pre-emptive basis. This progression of scrutiny is logical. In addition to scrutinising those that oversee and determine the direction of the company (the Board), and questioning how management is incentivised to deliver strategy (remuneration), shareholders are becoming more sceptical about providing management with blanket authorities to use capital on an annual basis.

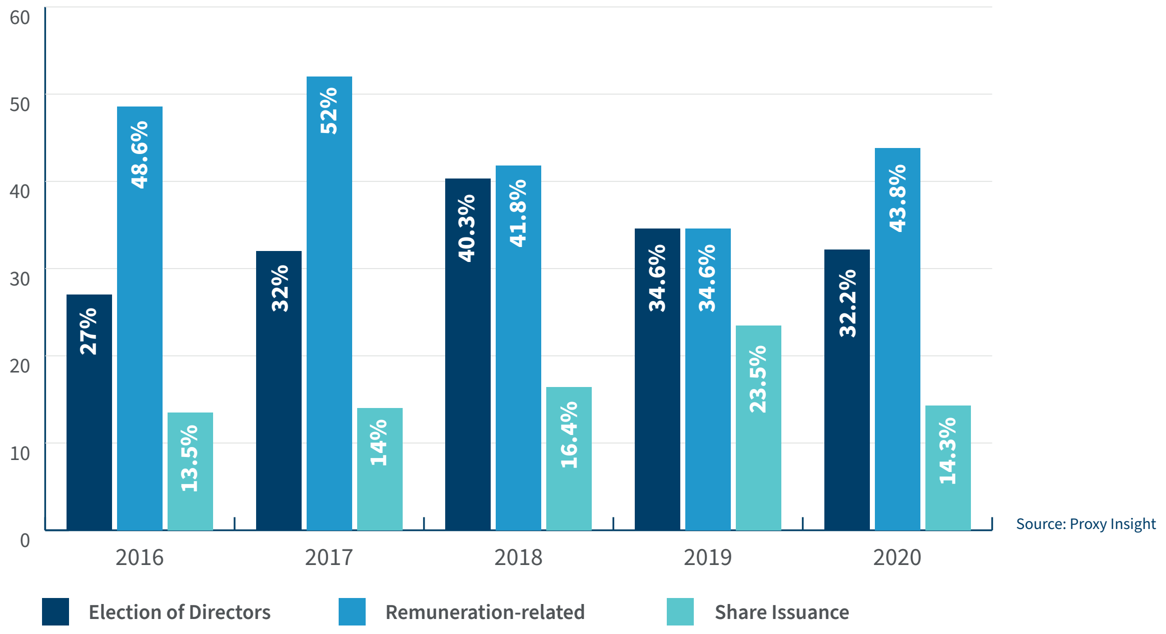


Figure 2: Significant Opposition by Proposal

While there may have been a view that COVID-19 would provide a respite to companies in terms of proxy voting, that has not been the case. Despite large numbers of companies implementing temporary pay cuts or freezes for executive directors, pressure continues to be placed on those companies the market views as laggards on remuneration. In fact, COVID-19 has arguably made remuneration an even more pressing issue for many shareholders, as wider social and economic upheaval potentially sharpens stakeholder focus on pay levels. Notably, opposition on share issuances dropped off significantly in 2020, potentially a recognition from the market that the authorities being voted on during 2020 may well be implemented in the near future, as economic uncertainty and squeezed balance sheets becoming a more material risk.

FTSE 250 vs. FTSE 100

Over the past number of years, there has been growing evidence that investors were increasingly targeting midcap issuers in an effort to ensure all companies in the FTSE 350 adhere to high standards of corporate governance. Historically, it may have been the case that the most pronounced pressure was reserved for the UK's largest companies, with the stretched resources of investors focused on the largest and most significant businesses. However, as governance has risen up the agenda, and investors have expanded their capabilities, there has been a growing acceptance that what is good practice for the largest companies is good practice at midcap companies.

Indeed, the UK Code has never delineated between the FTSE 100 and the FTSE 250, instead putting in different requirements for those within the FTSE 350 and those outside it. Since January 1, 2019, that all changed, with the exemptions for smaller main market companies removed from the 2018 UK Code.

Moreover, as investors have successfully forced change at those companies within the FTSE 100, they have now started to train their sights on their FTSE 250 counterparts. The following table sets out average support levels for certain proposals in the FTSE 100 and the FTSE 250, which indicates a notable drop in support for remuneration-related proposals:

	NUMBER OF COMPANIES	ALL RESOLUTIONS	REMUNERATION-RELATED	ELECTION OF DIRECTORS	SHARE ISSUANCES
FTSE 100	67	97.6 (97.3)	94.1 (93.3)	98.3 (98.1)	96.3 (96.1)
FTSE 250	139	97.5 (96.5)	92.6 (91)	97.9 (96.8)	96.4 (96)

Table 2: Support Levels by Index

Source: Proxy Insight

Note: Figures in parentheses are voting outcomes where abstentions are added to against votes.

In addition to the factors set out above – that of investors attempting to ensure strong practice across the market, not just at the top – there can be a chasm between the resources available to the FTSE 100's largest members, against those companies at the lower end of the FTSE 250. Having said this, while there are clearly examples of disagreements in principle when high levels of opposition occur, many others can be avoided without huge investment, with judicious focus on market expectations during Board decision-making, followed by proactive engagement and clear, coherent disclosure. Once again, for 2020, average support levels for the constituents of the FTSE 250 were lower than those in the FTSE 100, a fact replicated in the numbers experiencing "significant" levels of dissent:

<table>
<tr><th></th><th colspan="2">FTSE 100</th><th colspan="2">FTSE 250</th></tr>
<tr><th>SUPPORT LEVEL</th><th>NUMBER OF COMPANIES†</th><th>% OF COMPANIES</th><th>NUMBER OF COMPANIES†</th><th>% OF COMPANIES</th></tr>
<tr><td>Less than 80%</td><td>14</td><td>20.9%</td><td>33</td><td>23.7%</td></tr>
<tr><td>Less than 70%</td><td>10</td><td>14.9%</td><td>13</td><td>9.4%</td></tr>
<tr><td>Less than 60%</td><td>2</td><td>3%</td><td>5</td><td>3.6%</td></tr>
<tr><td>Failed Proposals</td><td colspan="2">2</td><td colspan="2">6</td></tr>
</table>

Table 3: Opposition Levels by Index

Source: Proxy Insight

†Companies where multiple resolutions fail to reach a certain threshold are only counted once.

As outlined, with a growing number of companies failing to achieve 80% support on at least one proposal, the Investment Association's public register will continue to grow in size and importance. Indeed, as was increasingly the case already, the six month deadline after AGM seasons is being transformed into engagement season, with more and more companies required to go out to shareholders and seek input. One may have expected that a growing prevalence of direct engagement between Boards and shareholders might dampen levels of opposition; however, it seems the outcomes of those engagements have either not been mutual beneficial, or have not been matched by subsequent actions and reporting. Companies should be aware that the days of going out to shareholders after a decision has been made is unlikely to be sufficient, with shareholders having greater expectations of consultation while simulatanouesly possessing greater resources to analyse final decisions.

Interestingly, while the number of FTSE 250 companies required to issue a response in line with the UK Code and the expectations of the Investment Association (i.e. respond where less than 80% support is received), a higher percentage of FTSE 100 companies failed to reach 70% support, with the trend restored by the 60% threshold. Of the eight resolutions that failed to secure the requisite (majority for normal resolutions and 75% for special resolutions) legal approval, six of them were at FTSE 250 companies.

2020 | Top 10 Most Contested Resolutions

COMPANY NAME	INDEX	PROPOSAL	VOTES FOR	VOTES AGAINST
Capital & Counties Properties	FTSE 250	Remuneration Report (Advisory)	32.2	67.8
Tesco	FTSE 100	Remuneration Report (Advisory)	32.7	67.3
Playtech	FTSE 250	Remuneration Report (Advisory)	36.3	63.7
TI Fluid Systems	FTSE 250	Final Dividend	42.7	57.3
Diploma	FTSE 250	Remuneration Report (Advisory)	55.8	44.2
Vistry Group	FTSE 250	Remuneration Report (Advisory)	56.3	43.7
Intertek Group	FTSE 250	Remuneration Policy (Binding)	57.1	42.9
Just Eat Takeaway.com	FTSE 100	Authority to issue shares without pre-emptive rights	60.0	40.0
British American Tobacco	FTSE 100	Remuneration Report (Advisory)	61.9	38.1
Standard Life Aberdeen	FTSE 100	Amend Articles of Association	62.6	37.4

Table 4: Most Contested Resolutions 2020

Source: Proxy Insight

While the table above might not look overly different to a table from other years, in addition to the typical level of discontent over remuneration, there is a distinct 2020 feel to it. In the only instance of a dividend proposal being defeated over the past five years (86% in favour being the second most contested), the outcome reflects the unique circumstances facing businesses during 2020, when investors themselves sought the withdrawal of dividend payments (in this case amicably). The other unusual constituent of the top 10 is the proposal to amend articles of association to allow for virtual meetings, with Standard Life Aberdeen failing to allay shareholder concerns relating to potential disenfranchisement due to a shift online.

Top 10 Most Contested Resolutions - Five Year Lookback

COMPANY NAME	INDEX	YEAR	PROPOSAL	VOTES FOR	VOTES AGAINST	ISS‡	GL
Weir Group	FTSE 250	2016	Remuneration Policy (Binding)	27.6	72.4	Against	Against
Capital & Counties Properties	FTSE 250	2020	Remuneration Report (Advisory)	32.2	67.8	Against	Against
Tesco	FTSE 100	2020	Remuneration Report (Advisory)	32.7	67.3	Against	Against
Pearson	FTSE 100	2017	Remuneration Report (Advisory)	34.4	65.6	Against	Against
Centamin	FTSE 250	2017	Elect Trevor Schultz	34.8	65.2	Against	Against
Playtech	FTSE 250	2020	Remuneration Report (Advisory)	36.3	63.7	Against	Against
Playtech	FTSE 250	2018	Remuneration Report (Advisory)	40.6	59.4	Against	Against
BP	FTSE 100	2016	Remuneration Report (Advisory)	40.7	59.3	Against	Against
Crest Nicholson	FTSE 250	2017	Remuneration Report (Advisory)	41.9	58.1	Against	For
TI Fluid Systems	FTSE 250	2020	Final Dividend	42.7	57.3	For	For
Smith & Nephew	FTSE 100	2016	Remuneration Report (Advisory)	47.0	53.0	Against	For
Centamin	FTSE 250	2018	Remuneration Policy (Advisory)	48.0	52.0	Against	For
Quilter	FTSE 250	2019	Authorise Issue of Equity	49.5	50.5	For	For
Micro Focus International	FTSE 250	2019	Remuneration Report (Advisory)	49.7	50.3	Against	Against
Persimmon	FTSE 250	2018	Remuneration Report (Advisory)	51.5	48.5	For	Against
Clarkson	FTSE 250	2019	Remuneration Report (Advisory)	51.5	48.5	Against	Against
Safestore Holdings	FTSE 250	2018	Remuneration Report (Advisory)	51.7	48.3	Against	Against
Wm Morrison	FTSE 100	2017	Remuneration Report (Advisory)	51.9	48.1	Against	Against
Safestore Holdings	FTSE 250	2018	Re-elect Claire Balmforth as Director	52.3	47.7	Against	Against
Persimmon	FTSE 100	2016	Elect Nigel Mills as Director	52.7	47.3	Against	For

Table 5: Most Contested Resolutions - Five Year Lookback

‡ISS recommendations are synthetic based on Proxy Insight's proprietary model.

Source: Proxy Insight

Section 2: Investor Approaches

In line with the disclosure expectations of UK listed companies, UK asset managers tend to disclose voting statistics and rationales relatively quickly following AGM season. The following sets out voting trends for eleven of the UK's largest asset managers for the past five years on remuneration reports.

COMPANY NAME	2020	2019	2018	2017	2016
M&G	68.3	93.9	96.9	95.9	94.2
Aviva	68.5	57.1	56.8	56.5	55.4
Legal & General	75	77.9	81.6	85.9	89
HSBC	78.9*	87.6	88.2	86.2	86.6
Schroders	82	80.8	87	86.4	80.9
Columbia Threadneedle	83.5	73.5	77	68.4	76.3
BMO	85.8	83.9	87	87.3	85.4
Aberdeen Standard	87.2	87.1	87.9	-	-
Baillie Gifford & Co	88.7	84.5	89	85.4	83.2
Janus Henderson	93.1	92.3	96.4	94.4	-
Fidelity	100*	93.9	87.2	91.2	54.6

Table 6: UK Investor Voting on FTSE 350 Remuneration Reports
*Figures of Q1 2020 as against H1 for all others.

Source: Proxy Insight

The UK's largest asset managers continue to regularly register concern over companies' approaches to pay, with only a single money manager support over 90% of remuneration reports in each of the past five years. While propensity to support management remuneration fluctuates, four of the asset managers continue to oppose more than 20% of remuneration reports they review. As a demonstration of how impactful an altered policy can be for an individual investor, M&G opposed over 30% of FTSE 350 remuneration reports in the first half of 2020, having supported all but 6% in 2019. One of the key changes to M&G's expectations was a concern that variable remuneration may have been excessive in light of cuts to dividends and market conditions.

Unsurprisingly, given that a number of Directors are put forward at each company AGM, the average frequency of opposition is lower than when viewed against remuneration voting.

COMPANY NAME	2020	2019	2018	2017	2016
Columbia Threadneedle	93.2	92.3	88.7	90.1	93.8
Aviva	94.9	91.4	93.2	92.7	93.1
Legal & General	95	93.7	90.6	96.3	98.1
BMO	95.9	95.7	94.3	96.4	96.7
HSBC	96.8*	98.3	98	97.6	97.5
Schroders	98.1	96.3	98.4	98.5	96.8
Aberdeen Standard	98.3	97	97.2	-	-
Janus Henderson	99.1	99.4	99.6	99.4	-
Baillie Gifford & Co	99.1	99.5	99.2	98.3	99.1
M&G	99.3	99.5	99.2	99.4	99.9
Fidelity	100*	99.7	98.6	97.3	99.7

Table 7: UK Investor Voting on FTSE 350 Director Elections
*Figures of Q1 2020 as against H1 for all others.

Source: Proxy Insight

Nonetheless, there is evidence that investors are becoming more aggressive in holding individual Board members to account. Even in those instances where the difference seems marginal in terms of percentages, this can translate into hundreds more votes against Board members. For LGIM, the UK's largest asset manager, a shift from support of 99.1% of Board elections to 95% would likely translate into significant uptick in opposition to Directors within the FTSE 350 Directors within the FTSE 350.

Section 3: Case Studies

CASE STUDY

TESCO

Use of discretion by the remuneration committee.

Tesco received significant opposition and the defeat of the resolution to approve its remuneration report at its 2020 AGM. The opposition was based on discretion used by the Remuneration Committee to alter a peer group used to assess relative TSR performance.

Prior to publishing its 2019 Annual Report, Tesco's Remuneration Committee determined that it would exercise discretion to exclude Ocado from the peer group for its relative TSR measure, citing a shift in strategy at Ocado that had essentially made it a technology business. The Committee took the view that:

> As Ocado has seen a significant shift away from being a retail-focused business towards a technology-focused business during the performance period, the Committee decided to remove Ocado from the TSR benchmark from 16 May 2018.

As a result of this exclusion, a bonus paid to the departing CEO Dave Lewis was inflated by approximately £800,000. The removal of Ocado from the TSR benchmark group resulted in Tesco outperforming the peer group by 3.3% a year on a total return basis over three years, as opposed to an underperformance of 4.2% compared to the original peer group which included Ocado. The Committee took the view that the sharp increase in Ocado's market capitalisation was as a result of its technology platform rather than its food business.

Shareholders voted decisively against the proposal with 67% opposing the remuneration report at the 2020 AGM. Acknowledging that the use of discretion in favour of management is always beset with challenges, all companies should caution against presenting 'surprises' to shareholders in their Annual Report. Further, while the decision appears to have been made some time previously (i.e. May 2018) a holistic evaluation and review of circumstances facing many of Tesco's stakeholders - and indeed wider society - in the first half of 2020 may have pointed the Committee in a different direction.

When the latest iteration of the UK Corporate Governance Code ("Code") was published in June 2018, the FRC sought to spur a renewed focus on the Principles in the Code and push for an outcome-based approach to corporate governance. One of the updated Principles under the Code was Principle R, which states:

> "Directors should exercise independent judgement and discretion when authorising remuneration outcomes, taking account of company and individual performance, and wider circumstances."

Underpinning this provision was the recognition that formulaic outturns under incentive schemes may not be appropriate in light of a holistic evaluation of the relevant performance period. For Tesco though, the most relevant element of the Principle should have been "and wider circumstances." With an economy reeling, wider considerations than simply share price performance and the strategy of peers should have been perhaps better reflected in Committee decision-making. Otherwise, shareholders may well view such a decision as simply swapping one formulaic process for another. This is particularly true during a time of crisis when levels of scrutiny are naturally even higher and shareholders are even more switched on.

CASE STUDY

PEARSON

Overboarding remains on the agenda

Over the past four years, the single biggest risk in terms of voting on Director re-elections has arguably been the number of seats a Board member holds. In addition to his role as a non-executive Director at Pearson, Michael Lynton also served as a Director of a number of other companies including at two companies who have stated intentions to list in the near-term.

The genesis of investor concerns regarding Director time commitments is largely the idea that if one of the Boards faces a crisis, that Director may not be able to dedicate sufficient time to each of their Board mandates. Indeed, investors may use 2020 as a reason to further tighten restrictions on Board mandates, arguing that if a shock hits stock markets and the global economy, those same crisis-related concerns would materialise at every single Board, stretching Directors past the level at which they can effectively contribute.

The outcome at Pearson was that they committed that Michael Lynton would not stand for re-election to the Pearson Board at the 2021 AGM should his "circumstances remain unchanged". In any indidvual case, it may be that a Director has and will be able to fully discharge their obligations to shareholders as has been the case at Pearson. However, pressure from investors and proxy advisors – right or wrong – is driven by a broad-based concern that Directors may be unable to fully discharge their obligation to shareholders at a time when they are needed most.

CASE STUDY

MORRISONS

High pensions for executives

At WM Morrisons' 2020 AGM, a remuneration policy was passed authorising significant pension contributions for the company's CEO and COO, with them receiving contributions of 24% and 23% of salary, respectively. The equivalent pension contribution for shop floor workers is currently 5%.

Over the past 18 months, and as flagged in FTI's preview of the AGM season, the hottest topic in UK executive remuneration has arguably been pension payments in excess of those paid to the workforce. The company suggested that adhering to the FCC 'would not be right' given the impending retirement of the executives. Nonetheless, by failing to address this clear development in market practice, Morrison's faced significant opposition from investors. While the two major proxy advisors were split on the policy, 35% of AGM votes were cast against the proposed remuneration policy at the AGM.

This opposition was not isolated to the remuneration policy resolution, with upticks in opposition also apparent in the re-election of Remuneration Committee Chair, which was opposed by over 20% of shareholders.

Over the past three years, a clear trend of shareholders being willing to oppose the Chair of the Remuneration Committee has developed and is likely to continue in the period ahead. Pension payments, which some investors have argued are effectively salary 'top-ups', are now another area that seem to represent a sure-fire path to shareholder dissent. Once again, the balancing of stakeholder interests has been a key part of the shareholders' attack and companies' defence, with the a range of companies failing to adequately justify the rationale for those on the highest salaries commanding the highest pension rates. As market practice moves, it might not pay to be the first to follow, but companies should try and avoid being the last and, in turn, attracting most scrutiny and pressure from investors, proxy advisors, and, in turn, media.

Wherever companies end up in the process here, approaches to shareholder engagement must go beyond simply existing and be able to demonstrate how various perspectives have been interpreted by gatekeepers and subsequently fed (or not) into outcomes.

CASE STUDY

PLAYTECH

Repeatedly failing to take into account shareholder views

Playtech shareholders voiced significant opposition to the remuneration report at the company's 2020 AGM. 64% of votes were cast against the remuneration report, representing the second time in three years that this proposal has been defeated and the third successive year in which the resolution has faced significant opposition. In 2018, 59% opposed the remuneration report while 43% opposed the election of the Remuneration Committee Chair and 35% opposed the Chair of the Board. In 2019, over 40% of shareholders opposed both the remuneration report and remuneration policy, with over 35% of shareholders also opposing the re-election of the Chairman.

While shareholder engagement has been at the top of the agenda for most UK Boards over the past number of years, the very least expected is for companies is to demonstrate responsiveness when there is clear opposition registered against proposals. Over a three year period, Playtech appears to have failed to meet those standards. While companies often express a commitment to engagement and an 'understanding' of shareholder views, it is often the case that companies believe that 'informing' shareholders of the basis for decisions made is sufficient to discharge the obligation to respond and consider the views of shareholders.

Equally, the growth in dedicated governance and stewardship teams at investors means that companies need to adopt a practice of Board level engagement with these teams over and above the traditional investor relations focused engagement by a company with buy-side analysts and portfolio managers.

Outlook

As outlined, the frequency with which companies are experiencing dissent of at least 20% continues on an upward trend, with investor capability and higher standards of corporate governance causing reputational and market-related headaches for a growing number of companies. As upheaval hit the world in the early part of 2020, murmurs that governance and ESG more broadly would take a backseat started to increase. However, and certainly in terms asset flows and proxy voting, the evidence is clear: corporate governance and Board accountability are not luxuries for the good times. In fact, many investors clearly feel they are even more important in times of crisis.

The challenges for companies will arguably become more pronounced in the coming 12 months. In many instances, there was likely an absence of flexibility in terms of decision-making in the first half of 2020, as decisions around preserving liquidity and reducing operational costs were relatively obvious choices. However, in advance of the 2020 reporting cycle and the 2021 AGM season, Boards may actually be presented with a greater suite of options in terms of corporate governance and executive remuneration. While the level of flexibility to operate will be welcome, it also leads to inherent risk, with investors and wider stakeholders expecting clear justification for companies taking a certain path – nowhere else will this be more obvious than in attempting the balance the need to motivate and reward executives while potentially continuing to operate against negative economic outlooks. With the role of wider stakeholders incrementally increasing globally, and specifically under the revised UK Code, it will be interesting to see what steps are taken to demonstrably include employees in Board discussions and decisions on pay; and, whether or not those that fail to do so fare worse in voting outcomes.

For Further Information

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