

# 2019 AGM Season Forecast: **What have we seen so far?**

Presented by **Boudicca from Equiniti**  
Presentation and Full Transcript

# 2019 AGM Season Forecast

What have we seen so far?

March 2019

1 | Equiniti Group plc 2019 | Confidential.

Thank you for joining the 2019 AGM Season Forecast webinar presented by Boudicca from Equiniti.

I'm Sheryl Cuisia, Managing Director and Founder of Boudicca, and I, with a couple of my Boudicca colleagues, will be taking you through this webinar.

2018 saw an eventful proxy season with key themes including the perennial favourite, director remuneration, as well as board diversity, time commitments and sustainability.

“

**We sense that the gap between what investors want and what boards are prepared to do is narrowing... and at a faster pace than ever**

*Boudicca Proxy Consultants*

2 | Equiniti Group plc 2019 | Confidential.

Especially with a plethora of new Codes and guidelines being released in late 2018, namely the Quoted Companies Alliance update to help AIM companies meet their new Rule 26 reporting requirements, the updated Investment Association's Principle of Remuneration; and importantly, the 25th anniversary edition of the UK Corporate Governance Code, issuing companies have had to adjust to more rigorous guidelines and the resulting increased scrutiny from investors.

Like any long-term relationship, shareholders and the boards of the companies they own will not see eye-to-eye always. This was certainly true during 2018, but we sense that the gap between what investors want and what boards are prepared to do is narrowing, and at a faster pace than ever.

To an extent, this relates to the high-profile nature of certain issues last year, but it also reflects the work conducted by buy-side engagement teams in raising their own profile within UK board rooms.

### 2019 so far

- AGM Overview
- Close call resolutions
- Contentious issues

### Proxy Advisers

- What are Co-Secs asking Boudicca?
- What are Issuers struggling with?
- Solutions for managing the impact of proxy advisers

## Agenda

### Expectations for the rest of the year

- ESG
- Board Accountability
- Activism
- Remuneration

### What can you do about it?

- Quick fixes
- Long-term, year round solutions

3 | Equiniti Group plc 2019 | Confidential.

With the lessons of 2018 still fresh in our minds, over the next ten minutes, we will be looking ahead at the 2019 AGM season.

Whilst the busiest month of the AGM season, May, is yet to come, we can look at the experiences of January and February to see if there any conclusions we can draw from the year so far.

Given their ever increasing reach and influence, we will be looking at the best ways of engaging with and managing the proxy advisers, particularly ISS, Glass Lewis, IVIS and PIRC.

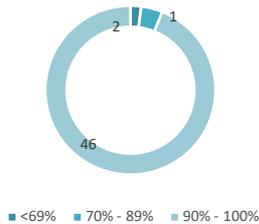
We'll also look what to expect from the rest of 2019, and importantly, some tips that may help you to prepare, and succeed, in your corporate governance engagement.

## WHAT HAS HAPPENED IN 2019 SO FAR...

# 51 AGMS

(AS AT 28-02-19)

### APPOINTMENT OF AUDITORS



## 9

COMPANIES WITH DIRECTOR VOTES <80%

### LOST RESOLUTIONS

## 2

TO DATE

REMUNERATION POLICIES

## 12

PUT FORWARD TO DATE

## 12,881,188,097

VOTES CAST

4 | Equiniti Group plc 2019 | Confidential.

Boudicca believes that corporate governance engagement is a year-round effort. Although AGMs are concentrated in the second quarter, 51 UK companies have already held meetings in January and February alone, receiving almost 13 billion shareholder votes.

The early focus has been on the election of directors. Nine companies putting forward directors for election or re-election have received less than 80% approval from shareholders for these resolutions while two such resolutions have been voted down. We believe that this trend may continue through the remainder of 2019 as shareholders increase their scrutiny of board members' availability and skill sets.

Auditors' appointments may also be a focal point for 2019. Although the experience so far this year is relatively benign, there have been three meetings where this resolution received less than 90% shareholder approval. The current debate around the dominance of a small group of audit providers is likely to raise further questions during 2019. Specifically, the performance of the auditor and the lead audit partner with other companies, the tenure of the auditor at the company and the general behaviour of the firm.

This may also focus shareholders' minds on the leadership of audit committees and their ability to independently assess the quality of the audit provision.

Boudicca's take

- The Shareholder Spring
- New Codes and Guidelines mean investors are looking into their own policies
- Shift towards out of calendar NED engagement
- 'Hot' themes of remuneration, board quality, diversity, time commitments and accountability
- AGM shareholder activism



Leading investors welcome BP backing of shareholder resolution on climate change

London: Leading shareholders have proposed a resolution requesting that BP sets out its business strategy consistent with the goals of the Paris Agreement on climate change. EP's board plans to support the resolution at their Annual General Meeting this year.

This resolution builds on collective engagement under the 'Living for All' initiative, where shareholders overwhelmingly passed a motion in 2015, requesting the company to improve corporate reporting and transparency on climate change-related risks and opportunities.

Legal & General targets climate change laggards



Legal and General Investment Management (LGIM) has said it will take action against companies that are not addressing the risks of climate change.

Fund managers to turn up pressure on director remuneration

The fund governing the FIC's 100 ESG and non-environmental factors is expected to pressure on companies to disclose climate-related risks and to align with the Paris Agreement on climate change.

The Investment Committee (IC) has resolved to include a new resolution on director remuneration, and ahead of this year's annual general meeting (AGM) asked for it to be included in the agenda for the next AGM.

Other resolutions include a resolution on director remuneration, and a resolution on director remuneration, and a resolution on director remuneration.

Aside from the now usual focus on executive remuneration, shareholders of all stripes sought to broaden their examination of corporate structures. Gender diversity on boards, the independence of non-executive directors (NEDs) and the time commitments of key NEDs all came under the microscope.

There will be a lot of investors giving their own voting policies a 'spring clean' so to speak. Invariably this means a toughening up on the reporting and governance expectations of the companies they own.

Boudicca's own research, conducted at the end of 2018, revealed a larger internal role for engagement teams at institutions. Often, they were conducting out-of-calendar programs, meeting key NEDs to understand how their advice to executive teams was driving shareholder value. We found that engagement specialists are now very much part of the ongoing stewardship role of the investment manager, providing insight and advice on a wide range of issues. Our conclusion, the basis for our 2019 Season Forecast, is that the "Shareholder Spring" will continue and, indeed, accelerate. Critically, it is not just a Season, it now appears to be a year-round feature.

We expect similar key issues of remuneration, board diversity, time commitments (relating to both tenure and over boarding) and accountability at the board committee and individual basis will be recurring themes.

Expect to also see resolutions to be tabled at AGMs by professional activist investors, such as Sherborne Investors, or management resolutions being proactively opposed by activist shareholders, such as Western Gate at Stock Spirits' AGM in February. Also expect opposition on key resolutions, like remuneration and director re-elections, from traditional long-only institutions, such as Blackrock and Legal & General, who do not consider themselves activists, but who do take an active stance on voting and can be expected to vote against resolutions if these fall outside the scope of their policies.

## Engagement with Proxy Advisers

- The 'big four' of ISS, Glass Lewis, IVIS and PIRC continue to dominate
- Correlation between actual votes against and negative recommendations from ISS and Glass Lewis
- Varying levels of inclination for engagement experienced from each of the 'big four'
- Some reports of issuers' requests for AGM engagement with ISS being declined due to time issues
- Glass Lewis' engagement team being more accommodating of issuers' requests for AGM engagement prior to release of the Notice of AGM
- IVIS handling AGM engagement requests on a case-by-case basis
- PIRC accepting engagement increasingly only via email, and not over the telephone or in person

6 | Equiniti Group plc 2019 | Confidential.

In the UK, the 'big four' proxy advisers of ISS, Glass Lewis, IVIS and PIRC, continue to wield the most influence amongst investors and the media.

Given the high correlation between the negative recommendations from the proxy advisers, particularly from ISS and Glass Lewis, and actual votes against that are cast at AGMs, we strongly recommend active engagement with and management of these proxy advisers.

Boudicca advise issuing companies to engage off proxy season of July to February, as well as in the weeks running up to their AGMs. However, we have seen varying levels of inclination to engage from the 'big four' proxy advisers, with some issuers reporting that their requests for engagement on AGM matters having been declined by ISS due to a lack of time at ISS. This is particularly disappointing when ISS issues a negative vote recommendation founded on misunderstandings that could have been avoided with engagement. Key here is to continue to stay in close contact with ISS – informing them of the release of your Notice of AGM, sending them explanatory letter(s) regarding complex issues, accessing their draft report of your AGM and thoroughly reviewing and commenting on this.

Despite Glass Lewis appearing to gain market share and issuers expecting them to be as busy as ISS, Glass Lewis have been much more amenable to requests for engagement with issuing companies. Glass Lewis has a dedicated Engagement Manager, whose key responsibility is to meet with issuers on standard AGM and corporate governance matters. Do bear in mind that Glass Lewis has a 'moratorium' on engagement between the release of your notice of AGM and your AGM, so ensure you meet with them prior to the release of your notice of meeting.

IVIS, or the Institutional Voting Information Service, is part of the Investment Association. Whilst they have less reach than ISS and Glass Lewis, arguably, they have significant influence in the UK due to the Investment Association's management of the Public Register. Boudicca therefore recommends engaging with IVIS, who tend to be open to engagement with the FTSE all-share companies that they cover.

PIRC has the smallest investor, estimated to average less than 5% of a company's issued share capital. They service mostly local authority pension funds, who often fully outsource their proxy voting decision to PIRC. Due to this and PIRC's activeness in the media, we recommend offering engagement with PIRC. With that said, our observation is that PIRC increasingly only wish to engage over email, as opposed to over the phone or face to face. Given that they do provide the draft of their reports to companies, we believe the best way to keep them in tow is by ensuring that you obtain their draft report and review this closely and comment on this prior to publication.

**ESG**

- Expected improvement on sustainability reporting
- European rules on fund managers will force them to look closer into these topics
- Investors are aware of clients increasing interest in ESG issues

**Board Accountability**

- Examination of skillset across the board expected
- Focus on detailed succession planning
- Shareholders will look to hold specific committee Chairs to account

**Activism**

- Active voting stances from traditional institutional shareholders
- Activist groups
- Activist shareholders

**Remuneration**

- Focus extended to LTIPs and pensions
- The "Persimmon Effect"
- Non-executive Directors to play a role in wider Rem communications



7 | Equiniti Group plc 2019 | Confidential.

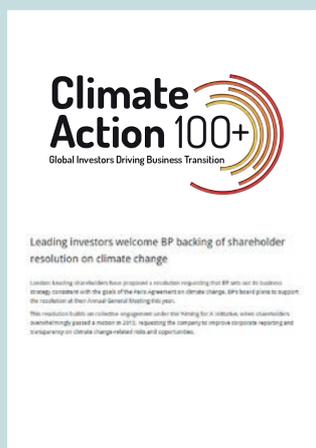
Fund managers are under increasing pressure to question and, therefore, understand the environmental, social and governance performance of companies within their portfolios. This comes not only from regulators but from their ultimate clients; from pension fund trustees to individual savers and investors. This pressure has been growing for some time but there are signs that 2019 will see more demands on companies to provide analysis of their performance and KPIs for the future. Boudicca believes that corporate performance in this regard is improving to meet these demands but there is still a lot of work to do.

Shareholders are also likely to ask more questions of boards on the subjects of skills and succession. Where specific non-executive directors join individual sub-committees, shareholders may ask what qualifications they have for this role and for proof of a track-record. Wider, they may also ask companies to provide succession plans, not just for key personnel such as Chair of board or committees but for all significant personnel on the board. Finally, they are likely to hold committee chairs to account for their various areas of responsibility; not just for remuneration but for all sub-committees.

Activism has long been a feature of UK corporate governance but we detect that it is evolving. Under the increasing demands for stewardship rather than simple ownership, shareholders are likely to be more active in their engagement with companies. Traditional, long-only institutions may seek to take more active stances on key resolutions or policies. Groups of shareholders can and may act together to put pressure on boards to alter behaviour. In short, while not all shareholders are activist, most are now intent on being more active.

2018 saw shareholders broaden their examination of executive remuneration, encompassing the detail of long-term incentive plans as well as annual pay. High profile cases such as the benefits of Persimmon's LTIP produced engagement from all stakeholders placing considerable pressure on shareholders to be seen to doing something. This pressure has not abated in 2019. Indeed, it is likely that political and media audiences will raise the stakes for shareholders to act where remuneration appears excessive. Furthermore, the definition of remuneration is likely to include pension provision; a complicated area with the potential to raise concerns. Non-executive directors are likely to be asked to referee these debates and to ensure that shareholders and executive teams are aligned without the need for conflict at AGMs.

## Activism



8 | Equiniti Group plc 2019 | Confidential.

Historically, fund managers have typically focused on corporate fundamentals such as remuneration and board structures. However, the rise of environmental and social awareness within their client bases and the focus placed on these topics by regulators could see this change. As fund managers have to account for their choice of investment as well as its performance, they will ask more questions of the companies in which they buy shares.

This may focus on environmental performance and impact but the scrutiny could be wider. Supply chain composition, policies on cyber-security and intellectual property rights together with employee conditions and attitudes to diversity may all come under the microscope.

Non-shareholder activists are likely to play a part, as they have done over pay and diversity in 2018. The ubiquity of social media and its use by NGOs is already a feature within political debate. It has also played a role in corporate performance within housing, defence, natural resources and contracting. The ability to organise large audiences around single topics has grown exponentially and is likely to play a role in AGMs throughout 2019.

## Four milestones for year-round best practice shareholder engagement



9 | Equiniti Group plc 2019 | Confidential.

If 2018 taught us anything it is that the stakes are rising for companies in terms of shareholder engagement. Fund managers are no longer rewarded for voting with their feet. They are being mandated as stewards of their ultimate clients' ownership. They must be seen to have tried to change corporate behaviour for the better rather than simply sell the shares.

Boudicca believes that this sea-change can be addressed by companies undertaking four key milestones.

First, boards should be aware of the risks posed by their current policies and performance across a range of issues, set against the changing behaviour of their shareholders in this regards. Proxy and corporate governance risk assessments are no longer a luxury and, in our view, are as important as a financial audit.

Secondly, non-executive directors, particularly the Chairs of key committees, should be meeting shareholders continuously. Fund management groups have invested heavily in shareholder engagement teams and they are increasingly playing a key role in investment decisions. Early engagement during the year will allow boards and shareholders to identify issues ahead of time and seek resolution without incurring damaging reputational issues.

Thirdly, the annual report must be seen as a comprehensive document, explaining the company's policies and performance on as many key sensitivities as possible. Financial performance is no longer the only benchmark. Transparency in and planning for a variety of challenges and risks will be rewarded.

Finally, companies should campaign for shareholders' votes. No resolution can be said to be going through on the nod. All voting results will be scrutinised, not just by the media but by shareholders and, critically, potential investors.

Today, it is not just good to talk; it is imperative.

BOUDICCA  
FROM EQUINITI

- Rally Support
  - Proxy Solicitation
  - Corporate Governance Road Show
  - Investor Surveys
  - Information Agent and Shareholder Helpline
- Steer Your Strategy
  - Analysis
  - Risk Assessment
  - AGM Support
- Understand Your Shareholders
  - Shareholder Analysis
  - Tracking
  - Vote Reconciliation

PRISM  
COSEC

- Governance
- IPOs and Projects
- Prism Boardroom
  - Board Evaluation
  - Directors Training
  - Co-Sec mentoring
  - Co-Sec department reviews
- Co-Sec Processes

Boudicca and PRISM are part of the Equiniti Group of companies. We are leaders in our respective fields.

Boudicca has worked on over 400 proxy solicitation campaigns in the UK, Europe, North America and cross-border. We are an acknowledged expert in the developing arena of shareholder engagement; delivering a high rate of success for clients in even the most complex proxy voting and corporate transaction cases. Our experience, and growing expertise, allows Boudicca to support clients throughout the engagement process. From corporate governance risk assessments, through share register analysis and investor targeting to proxy solicitation, Boudicca offers senior counsel and execution.

PRISM is a leading company secretarial and corporate governance adviser. It advises both UK and international companies seeking to establish and maintain best practice corporate governance policies and systems. Its senior team is made up of chartered secretaries all of whom have strong in-house experience with FTSE 350-listed companies. This extensive level of expertise allows PRISM to advice across a range of situations including IPOs, transactions and specific board evaluation and construction.

Together, Boudicca and PRISM offer companies a complete solution to the growing demands of corporate governance and shareholder engagement.

## More resources you may find useful

### 2019 Season Forecast

<https://equiniti.com/uk/news-and-views/eq-views/2019-agm-season-forecast/>

### Preparing for your AGM

<https://equiniti.com/uk/services/eq-boardroom/preparing-for-your-agm>

### Our monthly EQ Bulletin

<https://equiniti.com/uk/news-and-views/eq-bulletin/>

11 | Equiniti Group plc 2019 | Confidential.

Before closing, I would like to share some Equiniti resources which you may find useful.

The first is the report on which this webinar is based.

<https://equiniti.com/uk/news-and-views/eq-views/2019-agm-season-forecast/>

The second is a detailed guide for company preparation ahead of an AGM.

<https://equiniti.com/uk/services/eq-boardroom/preparing-for-your-agm>

Finally, there is Equiniti's monthly bulletin which provides regular updates on the themes and trends emerging within shareholder communications in addition to information about Equiniti's wider service offering.

<https://equiniti.com/uk/news-and-views/eq-bulletin/>

## Boudicca & Prism Contacts



### Sheryl Cuisia

Managing Director

D. +44 (0) 207 183 5138

M. +44 (0) 7533 706630

E. [sheryl.cuisia@boudiccaproxy.com](mailto:sheryl.cuisia@boudiccaproxy.com)



### Jonathan Harker

Director of Stewardship

D. +44 (0) 203 475 3417

M. +44 (0) 78548 37077

E. [Jonathan.harker@boudiccaproxy.com](mailto:Jonathan.harker@boudiccaproxy.com)



### Simon Maynard

Assistant Director

M. +44 (0) 7584 212632

E. [simon.maynard@prismcosec.com](mailto:simon.maynard@prismcosec.com)

12 | Equiniti Group plc 2019 | Confidential.

I hope that you have found this webinar useful. If you would like to know more about Boudicca and PRISM, our contact details are shown here.

### Sheryl Cuisia

Managing Director

D. +44 (0) 207 183 5138

M. +44 (0) 7533 706630

E. [sheryl.cuisia@boudiccaproxy.com](mailto:sheryl.cuisia@boudiccaproxy.com)

### Jonathan Harker

Director of Stewardship

D. +44 (0) 203 475 3417

M. +44 (0) 78548 37077

E. [Jonathan.harker@boudiccaproxy.com](mailto:Jonathan.harker@boudiccaproxy.com)

### Simon Maynard

Assistant Director

M. +44 (0) 7584 212632

E. [simon.maynard@prismcosec.com](mailto:simon.maynard@prismcosec.com)

We look forward to hearing from you.

For more information please contact us:

W: [www.boudiccaproxy.com](http://www.boudiccaproxy.com)

T: +44 (0) 207 099 2075

E: [bd@boudiccaproxy.com](mailto:bd@boudiccaproxy.com)