2021

SEASON FORECAST

SUCCESSFUL ANNUAL MEETINGS IN THE PANDEMIC AND BEYOND

CONTENTS

Introduction

THE GRACE PERIOD IS OVER

With the impacts of COVID-19 hitting just as the season took off, "fraught" was the watchword of 2020's annual meetings. Understanding that these were challenging times, proxy advisers and activist investors, while not mute, were more lenient than they might otherwise have been.

Be aware: that will not be the case this year. Whether your company suffered or succeeded in the pandemic, investors will want to get into the nuts and bolts of your long-term sustainability strategy, compensation practices, and their expectations on non-financial reporting will be increased. This is due not just to recent and upcoming regulatory changes but also high-profile environmental and social campaigning. We expect a sharpened focus on risk management, emerging risks, and social responsibilities even before we clearly emerge from the pandemic.

To help you prepare for 2021, the key themes we focus on in this report are:

- **Annual meeting logistics:** What is best practice for running annual meetings this year? What can be learned from last year's approach and how have expectations changed a year into the pandemic?
- **Engagement:** How does the pandemic affect how to engage with investors and proxy advisers?
- **Regulatory changes:** What's new in 2021 and how should companies prepare?
- **Environmental and social governance:** COVID-19 wasn't the only issue to turn the business world on its head this year. What social developments will shareholders be asking questions about this year?
- **Executive compensation:** Many companies face a conundrum – should they reward good performance for top executives or refrain from doing so considering the current climate?
- **Conclusion**: All these changes mean that we're seeing the development of the "integrated annual meeting." Find out what we mean by this term.

The report outlines the situation in the US and the UK and provides advice on steps to take to help your annual meeting run as smoothly as possible. We hope you find it useful as you navigate the road ahead.

Todd May, CEO, EQ US

Annual meeting logistics

WHAT WAS LEARNED FROM LAST YEAR, AND WHAT IS BEST PRACTICE FOR THE 2021 ANNUAL MEETING SEASON?

US Reflections

Nearly every company focused on running virtual annual meetings in 2020, and the bulk will continue to do so this year as COVID-19 concerns continue. However, the expectations for how those online meetings are run are much higher in 2021. A number of investors, as well as ISS and Glass Lewis, found it problematic that in 2020 companies did not enable shareholders to reach out, ask questions, and take part in discussions in the way they could at an in-person meeting. They are expecting to see robust disclosure in the proxy statement about the way the annual meeting will be run, step-by-step instructions on how to take part, and what to do if there are any technical difficulties.

Issuers should consider the type of annual meeting that best suits their needs and desires and make such a decision with an understanding of their shareholder profiles. For some, the ideal scenario may be a hybrid meeting, but some companies in the US should look to go fully virtual or physical. For instance, an issuer with limited retail ownership may save significant costs and effort by reverting to a physical meeting, while also minimizing the potential for disruption at the annual meeting. A low-cost solution could be to provide a call-in number, thereby allowing participation, but not dedicating significant resources, when the significant majority of shareholder base will not attend, regardless. With the geography of the US as it is, virtual meetings increase participation from across the country, by avoiding the costs associated with travel. In some instances, last year's arrangements may have been last-minute adaptations to the constraints imposed by the pandemic. But, this year, companies can look at best practices from last year and plan their meetings accordingly.

UK Reflections

Last year, most companies used the temporary measures enabled through The Corporate Insolvency and Governance Act 2020 (CIGA) to allow closed shareholder meetings, regardless of the provisions in a company's articles of association.

With lockdown and social distancing measures in place, many companies adopted closed-door meetings for simplicity and safety while others opted to run a hybrid annual meeting.

The measures contained with the CIGA are due to expire on March 30, 2021, and we are aware that there are no current plans for these to be extended. Companies will, subject to government restrictions, have to make arrangements for a physical meeting. Consequently, we have researched government guidance and measures relating to public health and are pleased to share below our top practical tips to run a meeting in these uncertain times.

Balance safety with engagement

When organizing a meeting this year, balancing safety with engagement is key. There is no one-size-fits-all; here is what you need to consider:

- **Provide clear direction in your proxy materials, while retaining flexibility.**

  For example: "We recommend you do not attend the meeting for your safety. However, we encourage you to vote by proxy and participate in the meeting via electronic means."

- **Be ready to react to changes.**

  You will benefit from a flexible approach to your meeting's communication and planning, allowing you to react to current and future government legislation and guidance (before making any decisions, review the parameters of current articles of association).

- **If appropriate, contemplate amending your articles to allow for greater engagement and flexibility for future meetings.**

- **Consider your shareholder engagement plan carefully.**

PRACTICAL CHECKLIST

1. Meeting Arrangements: Information in your Notice of Meeting

- [ ] Be aware of how you are required to communicate any changes to meeting arrangements with shareholders.
- [ ] What powers does the Chair have to refuse entry either over capacity or health & safety concerns?
- [ ] Will shareholders have the opportunity to ask questions before having to make an informed voting decision?
- [ ] Check your articles specifically to consider if audio is required for shareholder participation.
- [ ] Decide if face coverings will always be required or needed.

2. Attendance

- [ ] Should all board members and key personnel attend in person? Consider the risk of infection and transmission.
- [ ] Limit the attendance of employees, guests, and third-party contractors.
- [ ] Consider COVID-19 testing and/or temperature checks of all attendees.
- [ ] How will you enforce the use of face coverings?

3. Travel and accommodation

- [ ] Reduce the use of public transport and consider a car service with COVID-19 secure procedures in place.
- [ ] If required, what accommodation is available or open in the area closest to the venue, and what is their COVID policy?

4. Venue

- [ ] Carry out a risk assessment of the venue to ensure COVID-19 secure procedures are in place.
- [ ] What are the maximum attendance numbers for each area allowing for social distancing?
- [ ] What are the plans for:
    - **Cleaning:** How will chairs and shared equipment be sanitized? Are there hand washing facilitates at the entrance and throughout?
    - **Movement:** Are there clear markings on the floor? Is there a one-way system for stairwells and corridors? How will the escalators and elevators be managed? How many people can use the restrooms and kitchen facilities at any one time?
    - **Queue management and security:** Ensure proper placement and spacing of such individuals.
    - **Registration:** Are there barrier screens in place?
    - **Reduce touch points wherever possible:** Reduce the use of documents, refreshments, and exhibitions.
    - **Polling:** Place poll boxes to limit contact, rather than collecting ballots directly from shareholders.
    - **Limitation:** Remove customer information/shareholder inquiry desks.

How to engage with top investors and proxy advisers

Sheryl Cuisia, Managing Director, Boudicca, believes: **"A thorough plan to engage institutional investors and large shareholders throughout the year is absolutely vital, especially with so many people continuing to work from home."** She advises:

- **Prepare a shareholder engagement strategy that covers institutional investors and proxy advisers.** Engage with top shareholders and offer meetings with people from your board, including your chairman.
- **Continue to focus not just on profit, but also purpose.** Tell a coherent story aligned to your values and show how the company has considered stakeholders in decision making. Give examples. Include keywords that institutional investors and proxy advisers may search for.
- **Use your annual report as a key tool for communicating complex explanations.** If you're not fully compliant, strongly explain why.
- **Ask an external party to review the annual report and accounts** and see if it tells investors what they need to know about viability, risk, and how the company is approaching societal matters.
- **Engage with your shareholders to understand their views and gain support** ahead of putting a new policy to shareholders for approval. What is the new 'norm'? What factors need to be considered?
- **Be ready to defend compensation** for executives with a clear rationale for the decisions made, within the context of COVID-19.
- **Keep a close eye on policy or sentiment changes** from the proxy advisers and institutional investors.
- **If you see an issue looming around proxy voting,** engage with proxy advisers and corporate governance managers of institutional investors early.
- **Send a one-pager with the key points** highlighted to the proxy advisers and institutional investors.
- **Extend your defense planning to shareholder activism.** Undertake risk assessments, particularly around your corporate governance structure, to spot gaps an activist investor could exploit. Look at your performance compared to your peers, as activists will be looking for outliers. Track share movement, looking at who's buying and who's selling.

Regulatory changes

WHAT'S NEW IN 2021?

US Reflections

The big change this year is the new S-K regulation which came into effect in November 2020. It details the reporting requirements for SEC filings beyond financials, such as risk factors and human capital management data. As a principles-based approach, it's up to each company to interpret the rules for their current situation. This is about thoroughly and succinctly disclosing the information investors need to understand the business and to make informed decisions.

Top US tips

- Get started early. You'll need time to identify and find all the data you need and then to communicate it clearly.
- Get to the point. If your risk factors are more than 15 pages long, you'll need to outline the key points into a two-page summary.

UK Reflections

We have become accustomed to constantly preparing for the next big regulation change on the horizon. A year since Section 172 of the Companies Act was introduced, statements are evolving based on best practice from last year. But, perhaps unsurprisingly in such a tumultuous year, the government has not introduced any further regulation changes that companies need to be aware of.

In a year where ESG issues are so prominent (see the next section for more), another area to review carefully is the LR9.6.6(8) TCFD disclosure requirements as some investors have indicated that they expect early adoption of these.

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In 2020, companies were adapting to the Corporate Governance Code and Section 172 statements. Those are now embedded, and this year is all about fine tuning based on learnings from last year. In 2021, there are no huge changes from a regulation perspective other than how to ensure virtual annual meetings meet the requirements of the Corporate Insolvency and Governance Act (CIGA).

Kathy Cong, Managing Director, Prism CoSec

Environmental and social governance

THE YEAR EVERYTHING CHANGED

COVID-19 was not the only momentous event in 2020. Increased social activism, environmental campaigning, and the Black Lives Matter movement are creating a genuine sea change in the way the world works. So, what should companies focus on addressing this year?

US Reflections

Margaret M. O'Keefe, Managing Director, EQ Proxy believes diversity is the hottest 2021 topic for boards, CEOs, and executive teams: "In light of the Black Lives Matter movement, many CEOs pledged to support racial justice and push for more diversity. Now investors want to see if they have genuinely taken action and put their money where their mouth is."

Public pension funds are looking for increases in diversity and disclosure throughout the workforce, including through EEO-1 reports. Influential NYC Pensions sent out 67 letters to as many public companies over the summer requesting disclosure of diversity information. The 24 companies that did not respond now face shareholder proposals. Several institutions are looking for board diversity through matrix disclosure. Inaction is not an option.

ISS and Glass Lewis continue their push for greater gender diversity and are pointing out issues to investors so that boards will improve. In 2021, they are likely to conclude that not enough progress has occurred at numerous issuers, and they will recommend withholding on directors or voting against directors at companies that have yet to change. In addition, some public pension funds and mutual funds will be withholding on directors or voting against directors at public companies that are lagging this year, making gender and other diversity-related issues an area where companies need to make progress quickly. In fact, some of the largest institutional investors have already adopted policies spelling out their stance on this issue within their proxy voting guidelines. It is essential for issuers to understand who owns their shares and how such shareholders plan to address this issue. Over boarding also remains a topic of concern, as the proxy advisory firms and institutional investors are continually evaluating their stance on this issue and reducing the number of acceptable directorships for individuals.

In addition, some investors are not satisfied with progress on environmental and sustainability issues. Given the high level of publicity that these issues generate, there will likely be more shareholder proposals - for instance, requesting standardized disclosure on sustainability metrics or using Sustainability Accounting Standards Board guidelines for disclosure. The 2021 BlackRock letter to CEOs has a bolder focus on climate-related matters, encouraging companies to focus on expanded disclosure of their plans to achieve the goal of net zero greenhouse gas emissions by 2050. In addition, BlackRock stated in December 2020 that it plans greater support for shareholder proposals on climate-related topics.

Companies should be prepared to face a variety of shareholder proposals depending on the type and state of the business – from diversity to opioid disclosure, governance matters, political spending and the environment. Facilitating discussions will be pivotal in helping to prevent proxy advisers recommending against on directors.

UK Reflections

Our expectation is that there will be a requirement for better disclosure and enhanced discussion of how the board oversees COVID-19 impacts, climate change, sustainability, diversity and inclusion, and executive remuneration. Linked to this we expect enhanced stakeholder engagement reporting, often combined with the section 172 statement.

COVID-19 has caused a correction to the stock market and during this volatility, asset managers are actively picking stocks as opposed to just indices. The amount of cash going into equities has continued to rise, in particular those dedicated to climate change and ESG funds. 82% of investors are systematically integrating material ESG factors into their investment analysis. 25% of global investment is now linked to ESG performance[1]. Investors are reacting to a change in market sentiment and client appetites, driven often by millennials who see the environment, gender, and other social concerns as reputational issues.

Top tips for the US and UK

- **Set your own high standard**. Think about how ESG fits within your corporate strategy and what your business needs to achieve in the short, medium, and long-term. Commit to achieving unambiguous, specific targets. Encourage greater disclosure from employees to ensure your data is as accurate and as meaningful as possible.
- **Be balanced and transparent**. Telling only good stories will appear disingenuous.
- **Track progress and performance each year**. Consider how executive remuneration links to ESG issues, especially those most associated with your business and industry.
- **Provide disclosures in your annual report on your strategy for diversity and inclusion**. In your proxy statement, outline your succession plans and how you will expand the level of diversity on the board. Include charts and graphs showing the current mix very clearly and what you intend to do in the next year. Even if improvements have been made on gender at the board level, consider if there is now more of a gap at the executive level.
- **Be active**. In addition to corporate governance roadshows and capital markets days, undertake an ESG roadshow to address concerns directly with investors. Find more information here.

1. Global Sustainable Investment Alliance (GSIA)

Executive compensation

THE COVID-19 CONUNDRUM: TO REWARD OR REFRAIN?

Rather than distract, the pandemic is serving to shine an even brighter light on the issue of executive compensation. Investors are looking to strike a careful balance between rewarding good performance and appearing insensitive during a pandemic. So, what should companies consider?

US Reflections

We expect pay-for-performance considerations to continue to play a major part in "Say-on-Pay" voting decisions. In normal years, the most important factor in such votes is the amount of total executive compensation that is associated with performance, including performance targets, metrics, payouts, and type of compensation (such as restricted stock and stock options). Given the COVID-19 impact on some companies, proxy advisory firms and institutional investors will look closely at executive compensation disclosure and may allow exceptions for payments they would not ordinarily support, particularly one-time special payments. But they still want to see the bulk of pay tied to performance.

In light of the broader market's stellar performance since the COVID-19 crash, many issuers may exceed share price targets for compensation plans, resulting in significant pay for executives. Issuers should reflect on the compensation decisions that have been made to ensure this will not draw the ire of their shareholder base. Some shareholders may focus more so on the CEO Pay Ratio disclosure than in previous years, to determine if the economic gap has grown.

UK Reflections

2020 was a significant year for executive compensation with 68 of the FTSE 100 and half the FTSE 250 putting forward a remuneration policy resolution[2]. While 2021 will see fewer such votes, remuneration will still be one of the top agenda items, particularly through the lens of the pandemic.

Company fortunes have varied greatly but even those who have performed strongly, such as in the pharmaceutical industry, are unlikely to apply high ratios to remuneration policies, reading the mood of the market, the public and investors and showing they are serious about protecting the long-term health of their company.

This is a year of accountability, so companies are preparing to answer serious questions about their organization's future strategy – regardless of whether their industry has performed well or struggled due to COVID-19.

Stakeholders do understand that to achieve stability and growth, companies need to hold on to their top talent, and that incentives like discretionary share plans have a role to play. Companies need to balance rewarding outstanding performance and leadership, with investors examining the approach to discretionary plan remuneration at a time when many have canceled dividend payments.

Every company will need to consider how best to address this conundrum. What is vital is recognizing how COVID-19 has impacted each business and its long-term sustainability. Investor relation agencies, including the Investment Association, expect remuneration committees to consider the effect of the pandemic on the general market, company share price and dividend payments. Use of the furlough scheme, planned redundancy programs, reduced hours, and pay cuts also need to be considered. Another key consideration is how pay decisions could be read by the workforce, risking their good will and engagement at a difficult time (see here for more on workforce engagement).

Sheryl Cuisia, Managing Director, Boudicca believes that: "Enough time has passed for activist investors to actually agitate without seeming insensitive". With share prices continuing to be depressed, we're already seeing overt shareholder activism, with a number of investors becoming impatient about company performance and planning to requisition resolutions at annual meetings. It's difficult to track but there are also "closed door" situations taking place where investors are pressuring boards to reconsider strategy and change management.

Top tips for the US and UK

- Engage with stakeholders to explain your rationale and any changes to previous years.
- Robust disclosure in the proxy statement and the rationale for changes, whether it's a bonus or there's been a reduction in base pay, is key to gaining shareholder support.
- Consider if a higher proportion of bonus payments should be deferred into shares.
- Ensure grant sizes and ongoing performance conditions are appropriate to the current market environment and shareholder alignment.

2. Equiniti analysis, as reported in annual meeting Trends 2020

Conclusion

THE INTEGRATED ANNUAL MEETING

It’s tough in the eye of the storm and, of course, a two-year downside is not good. But if we look historically, it's likely a blip, not a rupture.

Richard Davies, Managing Director, RD:IR

The stage is set for a lively annual meeting season. Shareholders understand that this is not a business-as-usual period, but they also know that this is no time to pause and take the pressure off because doing so could lead to failure. With limited new regulation to contend with and a practice run for virtual meetings having taken place in 2020, expectations are high that companies will be able to thoroughly address the topics close to shareholders’ hearts.

While they are battling COVID-19, seismic changes are required in many companies to increase diversity, improve employee engagement, and become more environmentally conscious. This is not about tweaking annual meeting communications. It is about creating genuine change and showing how performance and remuneration match to the purpose and future focus of the company.

To ensure success on the day itself, annual meetings need to be an integrated part of an ongoing process to ensure shareholders know how businesses are working every single day to become more sustainable and inclusive. As new generations become shareholders, that direction of travel will not abate. With or without a pandemic, the world has changed.

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[Find out more or get in touch]

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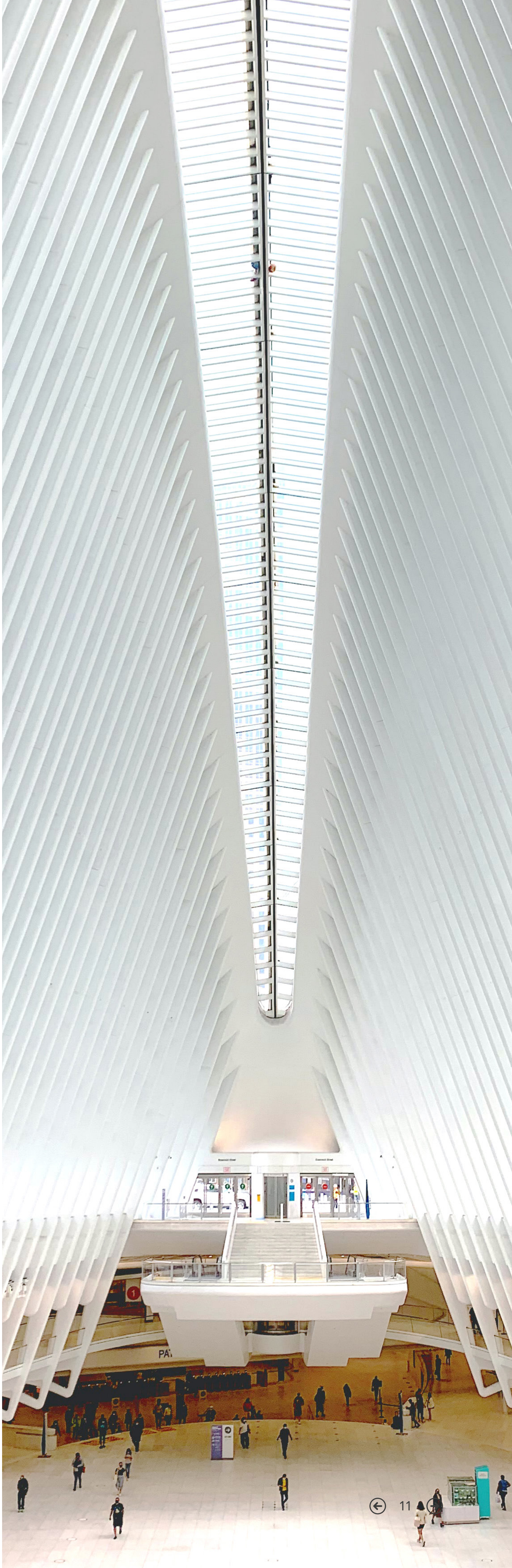

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