PENSIONS AND LIFETIME SAVINGS ASSOCIATION

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PLSA AGM VOTING REVIEW

PENSIONS AND
LIFETIME SAVINGS
ASSOCIATION

INTRODUCTION

We're The Pensions and Lifetime Savings Association is the national association with a ninety year history of helping pension professionals run better pension schemes. With the support of over 1,300 pension schemes with over 20 million members and £1tn in assets, and over 400 supporting businesses. They make us the leading voice for pensions and lifetime savings in Westminster, Whitehall and Brussels.

Our purpose is simple: to help everyone achieve a better income in retirement.

BACKGROUND

UK pension funds are responsible for about 61 per cent of the UK's institutional investment market.[1] This equates to £2.2 trillion invested on behalf of over 20 million savers throughout the UK.

The PLSA annual survey suggests that DB schemes have roughly a quarter of their assets invested in listed equities, with over 25% of this invested in UK listed companies.[2] For DC default funds, respondents to our survey suggest that 68 per cent of assets are invested in equities during the fund's growth phase.

Therefore, the money needed to deliver a secure and sufficient income in retirement for pension savers is dependent on the success of UK companies. As such, the PLSA is concerned with the strategy, governance and culture of these companies. Shareholder votes at company AGMs are a useful indicator in this respect. Significant numbers of shareholders withholding their support for management is often suggestive of problems.

Conversely, unanimous support for every resolution at every AGM would also be worrying. Where there is significant public interest in a governance issue, a lack of dissent might indicate a lack of shareholder engagement. For example a large number of stakeholders and commentators have suggested that executive pay awards are excessive and disproportionate, so there is considerable interest in whether investment managers are holding companies to account on this matter.

For these reasons, the PLSA has published an annual review of the AGM voting results at UK companies since 2013. In 2017, following the publication of the Government's response to the Corporate Governance Reform Green Paper, the Investment Association (IA) published a database of all the AGM resolutions across the FTSE All-Share Index attracting levels of dissent of 20 per cent or above. The new database means that much of the information that we have presented in previous AGM reviews is now available in a publicly accessible and user-friendly format.

This is a welcome development with the potential to raise the profile of corporate governance and investor stewardship. However, the data will still depend on the media, think-tanks/academia, policymakers, civil society and industry for context and analysis. We hope that the AGM review will continue to be of value in this respect.

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[1] Investment Association, *Asset Management in the UK 2016-17: the Investment Association Survey* via https://www.theinvestmentassociation.org/assets/files/research/2017/20170914-ams2017.pdf

[2] PLSA, *Annual Survey*, 2017

METHODOLOGY

For this research, the PLSA examined AGM results for FTSE All Share Index in 2017, highlighting resolutions that attracted 'significant' levels of dissent. We have taken dissent levels of over 20 per cent to be 'significant' in line with guidance from the GC100 and Investor Group and the threshold for publication on the new database.

We have classified companies as being in the FTSE 100 or FTSE 250 if they were classified as part of the index on the date of their AGM during this period.

All data was provided by Manifest, the proxy voting agency. The PLSA is very grateful for their support of this report.

FINDINGS

OVERALL DISSENT

Our analysis of companies found that across the FTSE 350, there were 117 AGM resolutions that attracted dissent levels of over 20% at 73 different companies in 2017.

Table 1: Significant dissent at FTSE 350 AGMs 2015-2017

	2015		2016		2017	
	Number of resolutions attracting significant dissent	Number of companies affected	Number of resolutions attracting significant dissent	Number of companies affected	Number of resolutions attracting significant dissent	Number of companies affected
FTSE 250	73	47	66	46	91	56
FTSE 100	38	15	20	18	26	17

Significant dissent was more common across the FTSE 250 than the FTSE 100 index of Britain's biggest companies, but in both cases roughly one fifth of companies experienced significant dissent over at least one resolution at their AGM.

Longer-term trends

The figures have remained reasonably consistent for the past two years, with slightly greater variation over the past decade.

Table 2: Significant dissent at FTSE 350 AGMs since 2008

	Number of resolutions attracting significant dissent	**Number of companies affected**
2008	99	60
2009	156	81
2010	121	74
2011	141	83
2012	193	84
2013	187	75
2014	128	70
2015	111	62
2016	86	64
2017	117	73

There was a notable jump in levels of shareholder dissent in 2009, perhaps a response to the immediate aftermath of the global financial crisis and the focus on governance that it initiated. Overall dissent levels have subsequently fallen a little since 2011-13.

EXECUTIVE REMUNERATION

In recent years, executive pay awards have been the most controversial aspect of corporate governance. There has been significant societal anger at the increase in average FTSE 100 Chief Executive pay awards. Data from the High Pay Centre and Chartered Institute for Personnel Development suggests that average pay for a FTSE 100 CEO has increased from around 40 or 50 times the average UK worker in the mid-1990s to roughly 129 times today.[3]

A 2017 study by Lancaster University found negligible relationship between CEO pay and performance, suggesting that median pay for a FTSE 100 CEO increased by 82 per cent in the years 2003-14 while economic return on invested capital was less than 1% per year.[4]

As such, a number of commentators from business, academia and civil society have questioned whether current pay practices reflect good governance or a proportionate reward or incentive. The Government has introduced two initiatives to try and increase accountability over pay, firstly in 2013 giving shareholders a binding tri-annual vote on the company's remuneration policy and in 2017 publishing plans to require companies to disclose the ratio between their CEO's total pay and the median pay across their organisation as a whole.

Table 3: Dissent on remuneration-related votes

	2014		2015		2016		2017	
	Number of resolutions attracting significant dissent	Number of companies affected	Number of resolutions attracting significant dissent	Number of companies affected	Number of resolutions attracting significant dissent	Number of companies affected	Number of resolutions attracting significant dissent	Number of companies affected
FTSE 250	36	29	32	26	25	20	41	27
FTSE 100	23	18	10	10	13	11	8	7

The figures from 2015-2017 are consistent with previous years. There is a slight drop from levels in 2014, probably attributable to the fact that the Enterprise and Regulatory Reform Act came into force in late 2013, compelling companies to hold a vote on their pay policy at least once every three years. The first of these votes were due in 2014, so there was a particularly high number of votes on remuneration policies, as well as the annual advisory votes on remuneration reports, that year. However, looking only at remuneration reports across the FTSE 350, the number resulting in significant levels of dissent also fell slightly over the same period from 35 in 2014 to 32 in 2015, 28 in 2016 and 29 last year.

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[3] High Pay Centre/Chartered Institute for Personnel Development, *Executive Pay: review of FTSE 100 executive pay packages* (2017)

[4] Lancaster University Management School, *Back to newsStudy finds 'negligible' link between CEO pay and good company performance* (2017) via http://www.lancaster.ac.uk/lums/news/study-finds-negligible-link-between-ceo-pay-and-good-company-performance/

It is interesting to note that seven remuneration-related resolutions at five different companies across the FTSE 350 (Aggreko, Aveva, Hunting, Imperial Brands and Safestore) were withdrawn on the basis that they were unlikely to gain sufficient support.

Another shareholder spring?

Given that remuneration-related resolutions are the most common source of dissent, it is unsurprising that patterns of remuneration-related dissent mirror patterns of dissent overall.

Table 4: Significant remuneration-related dissent at FTSE 350 AGMs since 2008

	Number of resolutions attracting significant dissent	Number of companies affected	Number of resolutions defeated
2008	28	27	0
2009	59	47	5
2010	45	44	2
2011	58	55	4
2012	49	45	4
2013	42	40	1
2014	59	46	2
2015	42	36	1
2016	38	31	4
2017	49	34	4

Again, there is a sharp increase in 2009. This is perhaps a result of the issue of very high executive pay becoming increasingly vexatious in the aftermath of the financial crisis. Despite the introduction of the remuneration policy vote in 2014, meaning companies have more resolutions to navigate, there has been a small drop in dissent levels in recent years.

It is also interesting to observe that though the 2012 AGM season was described in the media as ‘the shareholder spring’ on account of the prominent defeats for remuneration-related resolutions at four AGMs, the levels of dissent and the number of resolutions defeated does not particularly differ from prior or subsequent years. In general, the proportion of resolutions defeated is very low. However, it would be a mistake to treat this as an endorsement of existing practices – it is also arguable that this in part results from some shareholders failing to recognise the concerns of stakeholder groups including some of their own clients.

Pension fund views

In 2016, the PLSA surveyed pension fund members’ views on executive pay and found very high levels of concern about the size of pay awards. 87% of respondents said pay was too high and 85% said they were concerned or very concerned by pay gaps between executives and the wider workforce. By two to one, those who said they were concerned with pay gaps felt that they were too large across the board, rather than being concerned by specific instances of 'pay for failure.'

Table 4: Pension funds views on executive pay

How concerned, if at all, are you by the extent of the pay gap in listed companies between executives and their wider work force?	
	%
NET CONCERNED	**85%**
Very concerned	48%
Fairly concerned	37%
NET NOT CONCERNED	**13%**
Not very concerned	10%
Not concerned at all	3%
Don't know	2%

Table 5: Why is remuneration too high?

If you had to choose, which of the following statements best reflects your opinion on executive pay levels	
	%
Large pay packages for under-performing executives are particularly inappropriate, but executive pay is disproportionately high across the board	63%
There is nothing wrong with large pay packages for successful executives, but they are too often awarded regardless of performance	37%

Individual accountability

In response to the survey, the PLSA amended our AGM voting guidelines to reiterate the importance of disproportionate pay awards. The guidelines also recommended that shareholders vote against the re-election of remuneration committee chairs responsible for pay practices when voting against their remuneration policy or report, in order to introduce greater individual accountability over pay.

Overall, the average level of dissent on remuneration-related resolutions at FTSE 100 companies has remained relatively constant over the past four years. However, in 2017, the average vote against remuneration committee chairs increased by nearly 50%.

Table 6: Average dissent on FTSE 100 remuneration votes

Year	Remuneration Policy	Remuneration Report	Re-election of Remuneration Committee Chair
2013		8.49%	2.41%
2014	8.35%	10.06%	2.48%
2015	6.12%	8.63%	2.20%
2016	9.30%	9.69%	2.30%
2017	6.00%	8.40%	3.37%

The findings suggest that the PLSA recommendation to introduce more accountability has had some impact, at least in respect of remuneration policies. The average dissent over the re-election of the committee chair is still small, but it is now much closer to the average dissent over the proposed policy. The one FTSE Company to experience significant dissent over their remuneration policy, Pearson, also experienced significant dissent over the re-election of the Chair of their Remuneration Committee. This was not the case in 2016 where dissent over remuneration policies did not result in significant votes against the Remuneration Committee Chair at any FTSE 350 companies.

Our findings suggest that voting against the committee chair when voting against the policy or report has become more commonplace. This is a welcome trend that we hope will gather further momentum. However, the increase in 2017 is from a low base versus previous years, with considerable scope remaining for greater individual accountability over pay. None of the Chairs of Remuneration Committees at any of the ten FTSE 250 companies with significant dissent over remuneration policies experienced significant dissent over the re-election of their remuneration committee chair.

Repeated dissent

There are also a number of companies who have experienced repeated dissent on remuneration-resolutions in recent years. Ladbrokes, Man Group, Telecom Plus and Sole Realisation Company (subsequently liquidated) each experienced significant dissent in 2015, 2016 and 2017. Ladbrokes, Man Group and Telecom Plus appointed new remuneration committee chairs in 2016, perhaps in response to repeated issues.

Carillion, Clarkson, Kier Group, NMC Health, RPC Group, Sophos Group and Thomas Cook experienced significant dissent in 2016 and 2017. Balfour Beatty, Inmarsat, Investec and Wm Morrison experienced significant dissent in 2015 and 2017. Other than Kier and Morrison, the Chairs of the remuneration committees at each of these companies had been serving as board members for at least one year at the time of the AGM but were not subject to significant dissent when proposed for re-election as directors. This is surprising given there is clearly a perception of repeatedly flawed remuneration practices at these companies.

The recurrence of significant dissent should also have prompted a response from the companies. Even when a remuneration vote passes, significant dissent levels suggest concerns on part of a large minority of (often the most engaged) shareholders that needs to be addressed. When companies are encountering repeated opposition from year-to-year, it suggests they may be failing to address these concerns.

CEO Pay levels

In 2016/17 the average FTSE 100 CEO pay award fell to £4.5 million from £5.4 million the previous year.[5] This reduction in pay levels may be linked to the fall in dissent levels over remuneration policies and reports at AGMs.

As with the increase in personal accountability for executive pay practices this is a positive development, in accordance with the objectives of pension fund investors set out in our AGM voting guidelines and member survey on executive pay. However, a reduction from £5million to £4 million is unlikely to address the concerns that our members and many others have about the proportionality of pay awards.

Prominent individual executive pay awards have also led to criticism of shareholder scrutiny. The Chair of Persimmon resigned in December 2017 ahead of the vesting of the Chief Executive's five year Long-Term Incentive Plan (LTIP), which expected to pay-out in excess of £100 million.[6] Though the LTIP was awarded in 2012, before the introduction of a binding vote on pay policy, the advisory vote only attracted dissent of 15%. In subsequent years, the report detailing the value of the LTIP only attracted significant dissent once, in 2016.

After the insolvency of Carillion in January 2018, it emerged that the Chief Executive would be able to keep bonuses awarded in previous years, in absence of clawback or deferral conditions rendering the awards dependent on the company's ongoing sustainability. As with Persimmon, the votes on the Carillion pay policy in 2014 and 2017 did not attract significant dissent (although the remuneration report did attract dissent levels of 46% and 21% in 2016 and 2017 respectively).

The cases of Persimmon and Carillion both suggest that shareholders still need to do more to gain stakeholder trust in corporate pay practices. It is only when incidences such as these have been eliminated and the trend of reductions in CEO pay has been sustained over a period of years will it be possible to say that governance and stewardship issues in this area have been addressed.

DIRECTORS' ELECTIONS

Alongside remuneration related-resolutions, the election and re-election of directors are the resolutions most likely to attract shareholder dissent at AGMs.

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[5] HPC/CIPD, *Executive Pay: review of FTSE 100 executive pay packages*
[6] Independent, *Persimmon chairman resigns after executive pay dispute*, 15 December 2017

Table 7: Dissent over Directors' elections

	2014		2015		2016		2017	
	Number of resolutions attracting significant dissent	Number of companies affected	Number of resolutions attracting significant dissent	Number of companies affected	Number of resolutions attracting significant dissent	Number of companies affected	Number of resolutions attracting significant dissent	Number of companies affected
FTSE All-Share	64	31	60	29	74	34	71	48
FTSE 250	22	12	15	6	21	15	25	19
FTSE 100	14	3	12	4	4	4	9	8

Again, the frequency of significant dissent is relatively consistent with previous years, although figures for 2016 and 2017 represent slight increases on previous years.

Where there is not a specific resolution relating to a governance issue – for example executive remuneration or the appointment of the auditor – the vote on the directors' election affords shareholders a useful outlet for voicing particular concerns about the company in question and a potential sanction where engagement has failed to deliver the necessary improvements.

Sustainability

The PLSA published guidance last year highlighting the potential threat from climate change and the need to mitigate this threat given the business models of a wide range of companies.[7] The guidance highlighted examples of a number of industry-leading pension funds and other investors who have implemented policies for mitigating climate-related risk in their investment portfolios. These typically involved degrees of escalation, including voting against company Chairs when the company has failed to undertake an appropriate a risk assessment in relation to climate change or communicated how its strategy is compatible with international climate change mitigation efforts (for example the HSBC Bank UK Pension Scheme DC equity default investment allocation to the 'Future World Fund' managed by Legal and General Investment Management).

We also undertook an analysis in 2017 of reporting of employment models and working practices across the FTSE 100 finding highly varied levels of reporting.[8] For example:

- Only 4% of companies provide a breakdown of workforce by full-time and part-time workers. In addition, only 7% provide data or policies on their use of agency workers;
- Only 18% of companies provided any figures on staff turnover – a clear indication of a company's stability - and just 3% provided figures disaggregated by group;

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[7] PLSA, *More Light, Less Heat: A framework for pension fund action on climate change* (2017) via https://www.plsa.co.uk/Policy-and-Research-Document-library-More-light-less-heat

[8] PLSA, *Hidden Talent: What do companies annual reports tell us about their workforce? An analysis of the FTSE 100* (2017) via https://www.plsa.co.uk/Policy-and-Research-Document-library-More-light-less-heat

- Just 21% provide concrete data in relation to their investment in staff training and development or of numbers of staff trained.

Again, we are recommending that investors should be more active stewards of companies that fail to communicate the link between their employment models and their wider strategy and purpose.

In addition to the growing investor recognition of the long-term importance of sustainable working practices to company performance, it is also an obvious area of interest to policymakers and regulators. The Financial Reporting Council published a report into corporate culture and the role of boards in shaping it in 2016.[9] In 2017, the Government announced plans to introduce new vehicles for stakeholder voice into corporate governance, such as worker-directors, stakeholder committees or non-executive directors with designated responsibility for stakeholders.[10]

There is therefore a clear expectation that board activities and reporting will reflect the importance of good stakeholder relations. We will continue to monitor reporting of material social and environmental considerations and, where engagement with companies on these issues fails to bring about improvements, we would advise investors to use their vote on directors' re-elections to hasten progress.

[9] Financial Reporting Council, *Corporate Culture and the role of boards*, 2016
[10] Depart for Business, Energy and Industrial Strategy, *Corporate Governance Reform: the Government's response to the Green Paper*, 2017

CONCLUSIONS

The findings in this report demonstrate relatively steady levels of shareholder dissent at company AGMs.

Roughly a fifth of companies experienced significant dissent over at least one resolution at their AGM. It is difficult to judge the 'correct' level of overall dissent; each individual resolution should be judged on its own merit. The fact that fewer resolutions and fewer companies are experiencing dissent than in the immediate aftermath of the financial crisis is probably a positive sign that governance standards have improved.

However, as we mention in the opening section of this report, near unanimous backing for resolutions would not be healthy either. While there has been welcome progress on individual accountability for flawed executive pay practices, for example, there is much more to be done. Our research shows that companies are failing to effectively explain their employment models and working practices to shareholders and should also be held to account over this.

These findings will inform the update to the PLSA's corporate governance policy and voting guidelines, due in early 2018. The new guidelines will set out voting practices that pension funds can integrate into their own stewardship policies or stipulate to their asset managers in order to maintain the positive developments highlighted in this report and bring about the necessary improvements that the report identifies.