PENSIONS AND LIFETIME SAVINGS ASSOCIATION

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PLSA AGM VOTING REVIEW

PENSIONS AND
LIFETIME SAVINGS
ASSOCIATION

ABOUT THE PENSIONS AND LIFETIME SAVINGS ASSOCIATION

The Pensions and Lifetime Savings Association brings together the pensions industry and other parties to raise standards, share best practice, and support our members. We represent over 1,300 pension schemes with just over £1 trillion in assets under management and over 400 supporting businesses, including asset managers, investment consultants and other service providers. Our mission is to help everyone achieve a better income in retirement.

BACKGROUND

UK pension funds have an estimated £2.2tn of assets under management in the UK, comprising about 63% of the UK's institutional market[1] and invested on behalf of over 20 million UK savers.

The PLSA annual survey suggests that DB schemes invest roughly 23% of their assets in listed equities and that 61% of DB schemes invest in UK equities[2]. For DC default funds, respondents to our survey said that 68% of their assets are invested in equities during the fund's growth phase.

There is a growing body of evidence to show that companies with clear strategies, strong governance and inclusive cultures are more successful[3]. The money needed to ensure UK savers have a secure income in retirement therefore relies on companies doing well on all of these indicators.

Investors have a key role to play in wielding their influence as owners to promote the long-term success of the companies they invest in. Pension schemes and their investment managers devote significant time and resource to assessing and reviewing company fundamentals, digging through annual reports and disclosures and engaging with senior company management to better understand an organisation's strengths, issues and attitude. There are a number of things which can be done with this information, but one approach is for investors to exercise their ownership rights by expressing concerns through shareholder votes at Annual General Meetings (AGMs). Significant numbers of shareholders withholding their support for management on resolutions is often suggestive of problems. Unanimous support for every resolution at every AGM may also be a concern; where there is significant public interest in a governance issue, a lack of dissent might indicate a lack of shareholder engagement.

The last year has also seen growing levels of public dissatisfaction with what companies are doing on climate change while the recent Competition and Markets Authority (CMA) study into the statutory audit market highlighted some concerns around how well the market is functioning, meaning there is growing interest from policymakers and pension schemes as to whether investment managers are holding companies to account on these issues. This is why the PLSA has published an annual review of the AGM voting results at UK companies since 2013. We continue to be joined by a growing number of organisations publishing data on AGM resolutions, which we consider a welcome development with the potential to raise the profile of corporate governance and investor stewardship at a time of growing public interest in a UK PLC which acts transparently and with integrity.

We hope that our AGM review will continue to be of value and provide useful insights to pension schemes, their advisers and managers as we enter the 2019 AGM season. This document is intended to be read alongside our *Corporate Governance Policy and Voting*

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[1] Investment Association, *Asset Management in the UK 2017-18: the Investment Association Survey* via www.theinvestmentassociation.org//assets/files/research/2018/20180913-fullsummary.pdf.pdf

[2] PLSA, *Annual Survey 2017*

[3] See, for instance, *ESG Investing: does it make you feel good, or is it actually good for your portfolio?* (Hermes Investment, 2014) or *Corporate Sustainability: First Evidence on Materiality* (Khan, Serafeim and Yoon, 2015)

Guidelines 2019, which builds upon the findings of this Review and offers a practical guide for investors considering how to exercise their votes at this year's AGMs.

METHODOLOGY

For this research, the PLSA examined AGM results for the FTSE All Share Index in 2018, 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 Investment Association 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 Minerva Analytics, the proxy voting agency. The PLSA is very grateful for their support of this report and would like in particular to express thanks to Sarah Wilson and Thomas Bolger.

The report covers the following areas:

- Overall dissent
- Executive remuneration
- Board-related dissent
- The role of auditors
- Key environmental and social issues

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FINDINGS

OVERALL DISSENT

Our analysis of companies found that across the FTSE 350, there were 147 AGM resolutions that attracted dissent levels of over 20% at 82 different companies in 2018. This is an increase from 2017, with 117 AGM resolutions attracting significant dissent at 73 different companies.

Table 1: Significant dissent at FTSE 350 AGMs 2015-2018

	2015		2016		**2017**		**2018**	
	No. of resolutions	No. of companies affected	No. of resolutions	No. of companies affected	No. of resolutions	No. of companies affected	**No. of resolutions**	**No. of companies affected**
FTSE 250	73	47	66	46	91	56	**115**	**58**
FTSE 100	38	15	20	18	26	17	**33**	**24**

In both the FTSE 250 and FTSE 100, roughly one quarter of companies experienced significant dissent over at least one resolution at their AGM in 2018.

Longer-term trends

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
2018	**148**	**82**

There was a notable jump in levels of shareholder dissent in 2009, perhaps in response to the immediate aftermath of the global financial crisis and the focus on governance that it initiated. Overall dissent levels had subsequently fallen a little but in 2018 are now at a five year high. As explored later, the increase in board-related dissent is also worthwhile noting as a possible sign of investor frustration.

EXECUTIVE REMUNERATION

Executive pay remains one of the most controversial and high-profile aspects of corporate governance. There has been significant media and political attention focused on the average levels of 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 133 times today[4] against a backdrop of stagnating wage growth for the rest of the workforce.

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 a number of initiatives to try and increase accountability over remuneration. In 2013 it gave shareholders a binding tri-annual vote on the company's remuneration policy and in January 2019 new regulations came into effect 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		**2018**	
	No. of resolutions	No. of companies affected	No. of resolutions	No. of companies affected	No. of resolutions	No. of companies affected	No. of resolutions	No. of companies affected	**No. of resolutions**	**No. of companies affected**
FTSE 250	36	29	32	26	25	20	41	27	**33**	**28**
FTSE 100	23	18	10	10	13	11	8	7	**22**	**19**

Remuneration-related voting dissent was particularly high in 2014, owing to the coming into force of the Enterprise and Regulatory Reform Act in late 2013 which compelled companies to hold a vote on their pay policy at least once every three years. While the figures in 2018 for the FTSE 250 remain broadly consistent with those from 2015-2017, the level of significant dissent on FTSE 100 remuneration-related votes in 2018 versus 2017 has risen by nearly 300%**.** This indicates that investors remain frustrated at action on levels of executive pay at the very biggest companies. These results should also be examined alongside the sharp jump in significant dissent on directors' elections – which can also be an indicator of investor dissatisfaction with progress or activity on issues such as executive remuneration.

It should be noted that, in contrast to the seven remuneration-related resolutions at five different companies across the FTSE 350 in 2017 (Aggreko, Aveva, Hunting, Imperial Brands

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[4] High Pay Centre/Chartered Institute for Personnel Development, *Executive Pay: review of FTSE 100 executive pay packages* (2018)

and Safestore) which were withdrawn, only one such resolution was withdrawn this year (Bank of Georgia).

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
2018	**55**	**47**	**4**

Table 4 shows a sharp increase in 2009, perhaps as a result of the issue of very high executive pay becoming increasingly vexatious in the aftermath of the financial crisis.

The 2012 AGM season was described in the media as 'the shareholder spring' on account of the particularly prominent defeats for remuneration-related resolutions at four AGMs, although the levels of dissent and the number of resolutions defeated did 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 could be that some shareholders fail to recognise the concerns of some of their own clients. It is also the case that

Pension fund views

In January 2019, the PLSA surveyed pension schemes for views[5] on executive pay and found high levels of concern about the size of pay awards. 74% of respondents said executive pay levels for UK listed companies was too high and 81% said they were very or fairly concerned by the extent of the pay gap between company executives and the wider workforce.

Pension schemes are also concerned about whether pay levels in the asset management sector have an impact on asset managers' ability to scrutinise executive pay, with 71% of the

[5] The survey of PLSA pension fund members ran from 4th to 18th January 2019. Base size: 31 respondents.

January 2019 survey respondents saying this would have impact to a great or moderate extent.

Table 4: Pension funds views on executive pay (January 2019)

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	**81%**
Very concerned	45%
Fairly concerned	35%
NET NOT CONCERNED	**16%**
Not very concerned	10%
Not concerned at all	6%
Don't know	3%

Individual accountability

The PLSA's corporate governance and voting guidelines emphasise the importance of considering executive remuneration and whether or not it appears to be disproportionate to company performance. The guidelines recommend 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 six years, including in 2018.

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%
2018	**5.89%**	**9.53%**	**3.17%**

The average dissent over the re-election of the committee chair is only 3% and remains at a different level to dissent for the policy and report[6]. On the other remuneration resolutions, in

[6] This could be because many investors consider voting against the Remuneration Committee Chair as a measure of last resort, after engagement and votes on other remuneration-related resolutions.

2017 only one FTSE 100 company experienced significant dissent over their remuneration policy (Pearson) whereas in 2018 five companies did (Informa PLC, Unilever, Rentokil Initial, Smiths Group and Old Mutual). However, none of these were accompanied by significant dissent in votes against Remuneration Committee Chairs.

Our findings suggest that voting against the committee chair when voting against the policy or report remains uncommon. Although this should be assessed alongside the increase in the number of individual directors receiving a significant level of dissent on the resolutions regarding their elections, there remains considerable scope for greater individual accountability over pay specifically. With investors expressing views that Remuneration Committees have paid insufficient consideration to ongoing concerns about pay, it is important that schemes and their managers use every tool available to them to ensure their voices are heard.

Repeated dissent

There remain a number of companies which have experienced repeated dissent on remuneration resolutions in recent years. Telecom Plus has experienced significant dissent in 2015, 2016, 2017 and in 2018, despite the appointment of a new remuneration committee chair in 2016.

Clarkson and Sophos Group have experienced significant dissent for three years in a row. Balfour Beatty, Inmarsat, Investec and Wm Morrison experienced significant (or very near significant) dissent in 2015, 2017 and again in 2018. There is clearly a perception of repeatedly flawed remuneration practices at these companies which should prompt a meaningful response. Even when a vote on remuneration passes, companies should act to address concerns of what is a large minority of (often the most engaged) shareholders. If companies are encountering repeated opposition from year to year, it suggests they may be failing to address investor concerns.

CEO Pay levels

The most recent figures for median FTSE 100 CEO pay award stood at £3.93m per year between 2016 and 2017, up from £3.53m the previous year[7]. This is despite continued investor dissent over remuneration policies and reports at AGMs, as well as greater policymaker scrutiny.

This is likely to cause many of the PLSA's members continued concerns about the proportionality of pay awards, particularly as current wages for the average UK worker continue to stagnate and there are fears for future wage growth given current financial market and geopolitical uncertainties. It may also continue to provoke criticism of the effectiveness of shareholder scrutiny.

The 2018 AGM season brought some high-profile instances of investors seeking to influence executive pay awards. In 2018, Persimmon continued to attract attention over its remuneration policies and, following significant criticism – including a 64% dissenting vote

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[7] CIPD/High Pay Centre, *Executive Pay 2018: Review of FTSE 100 executive pay packages*, August 2018

on their remuneration report by investors in 2018[8] – over the vesting of his five year Long-Term Incentive Plan (LTIP), its Chief Executive Jeff Fairburn left the company "by mutual consent" in later 2018.

Shareholders also expressed discontent on remuneration at Royal Mail, in a vote which attracted 72% dissent on the remuneration report resolution. This reflected investors' concern over the contractual entitlements of both its retiring and incoming chief executives. Although the vote was not binding, it is hoped that Royal Mail will indeed, as the company said in the AGM's aftermath, "reflect very carefully on [investors'] main concerns" when considering the future structure of executive pay.

There remains considerable scope for shareholders to do much more before we can say that governance and stewardship concerns in this area have been addressed.

DIRECTORS' ELECTIONS

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

Table 7: Dissent over Directors' elections

	2015		2016		2017		2018	
	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	60	29	74	34	71	48	**140**	77
FTSE 250	15	6	21	15	25	19	**47**	**26**
FTSE 100	12	4	4	4	9	8	7	7

Although the frequency of dissent on FTSE 100 directors' elections is consistent with previous years, the frequency of significant dissent for the FTSE All-Share represents a significant increase – almost double.

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[9]. The 2018 AGM season saw shareholders become more vocal regarding their concerns about issues such as the "over-boarding" of directors – specific examples include Martin Gilbert (Co-Chief Executive, Aberdeen Standard Investments) and

[8] It should also be noted that in previous years the report detailing the value of the LTIP only attracted significant dissent once, in 2016. Further, although the LTIP had been awarded in 2012, before the introduction of a binding vote on pay policy, the advisory vote only attracted dissent of 15%.

[9] Investors should seek to clarify and explain the reasons for their vote with companies beforehand.

Peter Long, (Chairman, Royal Mail)– so this may have been an additional factor which explains the increase in significant dissent.

THE ROLE OF AUDITORS

Investors have traditionally paid less attention to audit issues, so analysis here needs to apply a different threshold for significant dissent on audit-related resolutions in order to capture relevant cases. As audit and reporting resolutions typically pass with near anonymity, a 5% threshold for significant dissent can be considered to indicate real concerns among the investor community.

2018 saw a slight increase in the number of companies affected by resolutions which achieved above 5% dissent on audit and reporting resolutions but otherwise figures remain fairly consistent with years going back to 2015. The higher 2013 figure could have been caused by the high-profile and significant 2012 policy movements on audit tenders, including the 2012-13 Competition Commission investigation into the provision of statutory audit services in the UK which proposed a series of remedies such as requiring FTSE 350 companies to put their audit out to tender every ten years (this was later superseded by the EU Audit Directive).

However, average dissent remained low in 2018, though it should also be noted that 2018 saw the first ever defeat in an audit related vote at SIG plc on the resolution to re-appoint Deloitte LLP as their auditors. The defeat came after SIG had announced earlier in the year that its profits had been overstated by £6.6million over previous years and that in some instances, profits had been exaggerated intentionally. After the defeat, SIG appointed EY as its auditors. It is also worth noting that Victrex, a FTSE 250 company, withdrew its resolution seeking the re-election of Andrew Dougal – who had chaired Carillion's audit committee for six years before its collapse into liquidation – in the face of severe investor concerns about Dougal's continued involvement in the company.

Table 8: FTSE 350 dissent over Audit and Reporting

	Number of resolutions attracting more than 5% dissent	Number of companies affected	Number of resolutions defeated
2013	70	46	0
2014	82	51	0
2015	49	32	0
2016	46	34	0
2017	48	31	0
2018	**48**	**39**	**1**

Table 9: FTSE 350 Average dissent on Audit and Reporting

Year	Remuneration Policy
2013	1.97%
2014	1.90%
2015	1.36%
2016	1.28%
2017	1.28%
2018	**1.17%**

Pension schemes as investors need to trust that audits represent a true and fair view of a company's financial position and performance when making assessments and investment decisions. Defined Benefit (DB) pension schemes have an additional interest in a well-functioning audit market. In an era where many DB schemes face significant underfunding challenges, many have relied upon high levels of Deficit Repair Contributions (DRCs) from sponsors to close the funding gap. The level of DRCs will often be the result of active dialogue between the trustees and employers and to support these discussions, trustees must be able to rely on information provided in financial statements about their sponsor's financial health and performance.

The recent high-profile collapses of Carillion (2018) and BHS (2016) have led to calls for greater scrutiny of the audit market by policymakers. 2018 saw the Kingman Review of the Financial Reporting Council (FRC)– including how well it regulates the audit sector – a CMA investigation into the statutory audit market and 2019 brings the Brydon Review into the future of the UK audit profession as well as the Business, Enterprise and Industrial Strategy Parliamentary Select Committee inquiry into the issue.

KEY ENVIRONMENTAL AND SOCIAL ISSUES

Climate Change

In 2017, the PLSA published guidance[10] highlighting the potential threat from climate change and the need to mitigate this threat given the impact it has on many companies' business models. Our guidance gave an overview of international policy developments in this area and highlighted examples from industry-leading pension funds who have implemented policies for mitigating climate-related risk in their investment portfolios.

Such examples usually involved degrees of escalation, such as voting against company Chairs when the company has failed to undertake an appropriate climate risk assessment or failed to communicate 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. Both our 2018 and 2019 Corporate Governance and Voting guidelines also highlight climate and environmental issues as a key consideration for pension schemes when deciding how to cast their vote on related resolutions at AGMs.

[10] *More Light, Less Heat: A framework for pension action on climate change* (2017).

In 2018, both policymakers and the industry have stepped up their attempts to encourage companies[11] and investors[12] to consider climate risks and opportunities, and better disclose their approach. In terms of AGM resolutions, climate or environmental resolutions get tabled less frequently but 2018 saw the first ever tabling of special resolutions[13] on climate filed by Follow This, a Dutch shareholder group, to BP and Royal Dutch Shell on setting reduction targets for carbon emissions. 2018 also saw significant activity on climate change at company AGMs in the form of retail and institutional shareholder questions on what companies were doing in terms of their climate change assessment and mitigation efforts.

The PLSA recommends that pension schemes seek to work with their managers and advisers to judge the impact of climate risk on their portfolio and act accordingly. Alongside assessing whether companies and directors take an engaged, long-term approach to climate risk and opportunity when considering how to vote at AGMs, there are a number of other things schemes can do. This includes direct engagement with investee companies – where schemes invest directly– and setting out clear expectations for asset managers when they invest on their behalf, as well as collaborative engagement with other investors.

Employment models and practices

In 2017 and 2018 the PLSA has also undertaken analysis[14] of how well the FTSE 100 report on their employment models and working practices, finding highly varied levels of reporting. For example:

- Only 4% of companies provided a breakdown of workforce by full-time and part-time workers. In addition, only 7% provided 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;
- Just 21% provided concrete data in relation to their investment in staff training and development or of numbers of staff trained.

The PLSA continues to recommend that investors should be more active stewards of companies that fail to communicate the link between their employment models and practices, and their wider strategy and purpose.

2018 continued to see policymakers and regulators take an increasing interest in fair working practices. In the wake of reports by the FRC into corporate culture[15] and the Conservative Party's 2017 manifesto commitments to deliver more rights for workers and

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[11] Recent industry initiatives include 'Aiming for A', 'Climate Action 100' and the Global Investor Coalition on Climate Change.
[12] See, for instance, the Department for Work and Pensions (DWP)'s 2018 amendment to the *Occupational Pensions Investment Regulations 2005* which clarified that trustees should state in their Statement of Investment Principles how they take account of financially material environmental, social and governance risks, including climate change.
[13] Requiring a 75% majority to pass.
[14] *Hidden Talent: What do companies' annual reports tell us about their works? An analysis of the FTSE 100* (2018).
[15] *Corporate Culture and the Role of Boards: Report of Observations* (2016).

improve corporate governance, 2018 saw the publication of the new UK Corporate Governance Code with a new Provision to enable greater board engagement with the workforce to understand their views and new, clearer emphasis on the need to consider workforce remuneration when setting director remuneration.

There is therefore a clearer than ever expectation that board activities and reporting will reflect the importance of good stakeholder relations. The PLSA will continue to monitor reporting of employment models and practices, with updated research to be published later in 2019. 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.

CONCLUSIONS

The findings in this report demonstrate increased levels of shareholder dissent at company AGMs in 2018.

Nearly one in four companies experienced significant dissent on at least one resolution at their 2018 AGM. It remains tricky to ascertain what the 'correct' level of overall dissent might be and each individual resolution should be judged on its own merit. More resolutions and more companies experiencing dissent seems to indicate investor frustration at the slow pace of improvement on key issues.

Given the level of policy and regulatory activity on everything from audit to climate disclosure and executive remuneration over the last few years, how investors behave in the 2019 AGM season could significantly shape both perceptions of the industry and future policy initiatives. We would encourage schemes to take action where issues cause concern.

Our findings in this guide inform the update to our Corporate Governance policy and Voting guidelines, which have been published alongside this paper. The Guidelines set out voting practices which pension funds can either integrate into their own stewardship policies or stipulate to their asset managers to support positive progress on the issues highlighted in this report.