

2015 AGM Season Report

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Contents

Executive summary	3
Introduction	4
2015: context	4
2015: not as quiet as it first appears	6
Listening and learning	8
2015: executive remuneration – highs and lows	11
The 2015 negatives	13
2015: Accountability of directors	16
Succession rises to the top	19
Looking ahead to 2016	21
Viability statements	21
Human capital reporting	22
NAPF keeping it topical	24
Conclusion	28

Executive summary

- This is the NAPF's third annual review of the preceding AGM season published in advance of updating its Corporate Governance Policy & Voting Guidelines for the subsequent year.
- Few regulatory changes, in conjunction with this being a general election year, resulted in a further year (in general terms) of pay restraint and limited shareholder rebellion headlines. The 2015 AGM season was, however, not quite as placid as it first appeared.
- This report identifies 12 companies (see page 9) within the FTSE 350 for whom a significant proportion of their shareholders have for a successive year expressed discontent with particular aspects of their governance arrangements. These twelve are:

AstraZeneca	BG Group	Carnival	ICAP PLC
Intermediate Capital Group	Investec	Jardine Lloyd Thompson Group	Lancashire Holdings
Ocado	Reckitt Benckiser	SVG Capital	Tullett Prebon

- The topic of executive pay remains a key focus for investors as well as for the media and wider stakeholders. The report highlights the top five FTSE 100 and top ten FTSE 250 shareholder rebellions (see pages 13 - 14) which includes two remuneration reports which failed to attract the support of a majority of shareholders - Intertek Group and Diploma (although in the case of Diploma the resolution did pass).
- The NAPF Corporate Governance policy places particular emphasis on the importance of individual responsibility, and in turn the role of shareholders in ultimately holding accountable those individuals they have elected to the board. This is especially important when voting on the re-election of directors. The report therefore draws particular attention to the 17 companies within the FTSE 350 where resolutions for the re-election of individual directors received in excess of 15% of dissent. While in part these illustrate instances whereby individual directors have been held accountable by shareholders for decisions made in-year, more commonly however, the incidents demonstrate that proxies will often likely continue to be used for assessing a directors' quality; these include his or her attendance at board meetings and assessments about their independence and impact on overall board composition.
- Looking ahead to 2016 the NAPF suggests that investors are eagerly awaiting the new viability statements. It is hoped these new disclosures will be both thoughtful and informative. In turn investors may form judgements about the quality of boards. Greater reassurance is likely to be gained from evaluations that are evidently open, transparent and company specific rather than ones which appear boiler-plated and heavily caveated.
- Finally, the NAPF indicates that, building on the publication of its June discussion paper "Where is the workforce in corporate reporting?" it is hoped that we will see a step-change in reporting in this area beginning over the next reporting cycle(s). To this end, the NAPF will, in conjunction with other interested parties, be engaging further with both issuers and investors on this agenda over the coming months. Our expectations will be incorporated within the upcoming revisions to the organisation's Corporate Governance Policy and Voting Guidelines.

Introduction

The NAPF is the voice of workplace pensions in the UK. We speak for over 1,300 pension schemes that provide pensions for over 17 million people and have more than £900 billion of assets. Our members are significant long-term owners (and creditors) of UK companies.

The NAPF, representing the interests of our pension fund members, has been involved in developing governance standards for over 25 years. We believe high standards of corporate governance lead to better-run companies, creating better outcomes for pension funds and ultimately their members and beneficiaries.

The NAPF's Corporate Governance Policy and Voting Guidelines aim to assist investors, and their proxy voting agents, in their interpretation of the provisions of the Corporate Governance Code and in forming judgements on the resolutions presented to shareholders at a company's AGM. The introduction to the Policy makes clear that a proactive and effective board should provide the framework for discussing, managing and driving the long-term sustainability of the company. Building a sustainable business model should be central to the business strategy and as such boards should explain to shareholders how they approach overseeing and managing the risks to their sustainability. In turn shareholders may well form judgments on the management of these issues which will inform their understanding of the effectiveness of the board oversight and so guide their approach to resolutions at the AGM.

The NAPF policy is also clear that while it is particularly focussed on what voting sanctions may be applied at a company meeting, a decision to vote against management should only be taken after proper consideration of the company's explanation for noncompliance, in light of the particular circumstances at that company and ideally after engagement. Indeed the NAPF recognises that investors themselves have a responsibility to act as responsible stewards of their investee companies. This responsibility extends to using their rights as shareholders to promote the long-term success of the companies in which they invest as well as ensuring that the board and management of these companies are held accountable to shareholders.

This report reflects upon the 2015 AGM season, highlighting positive developments as well as drawing to attention those instances where investors expressed their discontent with certain arrangements. The reflections in this report alongside other developments will be instructive when the NAPF updates its Corporate Governance Policy later in the year. As always the intention will be that the 2016 Policy will be directed at seeking improvements from both companies and investors in the best interests of our pension fund members and their members and beneficiaries.

We also hope that this report may prove helpful in providing some useful context for trustees' own discussions with their investment managers as they seek to understand how their managers engaged with investee companies and voted their shares in an effort to both enhance and protect the value of their fund.

2015: context

2014 was a year of significant change for UK listed companies. It was the first year of reporting under the new directors' remuneration reporting regime which also included the introduction of a binding vote on a company's remuneration policy at the AGM. Companies were also confronted last year with the introduction of a new strategic report replacing the previous business review and enhanced auditor and audit committee reporting.

Companies this year have had no fundamental changes to the reporting structure with which to deal with. As such it was understandably expected that this year's AGM season would likely be much quieter as companies have had time to settle into the new reporting framework and shareholder voting requirements.

Before looking at the 2015 season it is worth noting that the FRC reported in its October 2014 Corporate Reporting Review that, positively, overall corporate reporting has been good for larger public companies. In its January 2015 report on Developments in Corporate Governance and Stewardship the FRC did however, note issues with the quality of explanations of non-compliance with the Corporate Governance Code. Among other points the FRC report also highlighted:

- a need to improve disclosures around succession planning;
- the relatively low number of FTSE 250 companies considered to have published clear diversity policies;
- the need for companies to explain how individual directors seeking election or re-election contribute to the effectiveness of the board.

The above points were indeed also those which the NAPF emphasised within its 2014/15 Corporate Governance Policy and Voting Guidelines. In particular, given the importance of board effectiveness, the NAPF encourages companies to set out the contributions in the year of individual directors and to provide a fuller rationale for their election or re-election to the board.

Furthermore the NAPF has since published a discussion paper entitled: Where is the workforce in corporate reporting? The genesis of this report was an increasing recognition amongst many investors that presently there is very limited quantitative or qualitative reporting by companies on their approach to managing their workforce. In turn this means it is impossible to see a full picture of a company's operations and therefore to make comparisons and form a view as to how companies are maximising the productivity of their workforce.

Whilst there have been few regulatory changes for companies to grapple with this year there have been a few changes which are worth mentioning for awareness.

Listing rules

In May 2014, the Listing Rules were amended to insert provisions relating to controlling shareholders. At this year's AGMs the new rules meant that any company with a controlling shareholder needed to ensure that the election and re-election of any independent director was approved by both the independent shareholders of the company and all of the shareholders of the company. Companies are required to enter into relationship agreements with their controlling shareholders.

Pre-emption guidelines

In March, the Pre-Emption Group published a revised Statement of Principles for the disapplication of Pre-Emption Rights, providing guidance to companies and shareholders on the factors to take into account when considering whether to disapply pre-emption rights. Whilst no changes were made to the key thresholds for general disapplication of pre-emption rights the primary changes included:

- clarifying that the Principles apply to both UK and non-UK incorporated companies;

NAPF 2015 AGM season report

- clarifying that the Principles apply to all issues of equity securities undertaken to raise cash irrespective of the legal form of the transaction – e.g. including “cashbox” transactions;
- providing flexibility to undertake non-pre-emptive issuance of equity securities in connection with acquisitions and specified capital investments; and,
- Requesting greater transparency on the discount at which equity securities are issued non-pre-emptively.

2015: not as quiet as it first appears

Immediate reflections on the 2015 season suggest that it was a relatively quiet year. Few regulatory changes, and it being a general election year, resulted in a year of few headlines.

The heightened focus on issues of corporate governance however, remains here to stay. The Investment Association’s annual survey of Stewardship Code signatories suggests a continued increase in head count responsible for stewardship – increasing by 19% to 2,090. In addition, as also evidenced by the NAPF’s own annual Engagement Survey, there continues to be a significant increase in voting activity with 84% of respondents to the Investment Association survey voting all their shares in UK companies.

It is perhaps not surprising that with more investors giving more resource and attention to stewardship, and in turn voting more shares, that the 2015 AGM season was not quite as placid as it first appeared.

Overall voting levels

The headline figures certainly give an impression of calm with average voter turnout across the FTSE 350 remaining steady at 72.5% and overall average support across all resolutions rising to 97.5% - a slight increase on 96.9% in 2014¹. Similarly, on remuneration resolutions, as demonstrated below, the average dissent across the FTSE 350 was commonly down on last year².

FTSE 350 dissent – remuneration report	2014	8.9%
	2015	7.9%
FTSE 350 dissent – remuneration policy	2014	7.5%
	2015	6.9%
FTSE 350 dissent – share plans	2014	3.9%
	2015	3.4%

The macro figures do mask some subtle differences with larger companies attracting slightly higher levels of dissent on remuneration resolutions this year - FTSE 100 remuneration resolutions attracted 92% support as compared to the 94% across the FTSE 250 and for remuneration reports specifically the figures were 90% and 93% respectively³. As in past years however, the level of support for most resolutions was near unanimous with, for example, resolutions on director elections attracting 98% support across the FTSE 350⁴.

¹ Figures provided by Institutional Shareholder Services (covering the period from 1 January to 30 June)

² Figures provided by Institutional Shareholder Services (covering the period from 1 January to 30 June)

³ Figures provided by Manifest Information Services Ltd

⁴ Figures provided by Manifest Information Services Ltd

There have however, been many notable moments and a few ripples across the tranquil waters. For starters, there were three high-profile shareholder resolutions, not common occurrences in the UK, and strikingly two of these – at BP and Royal Dutch Shell - were endorsed by management and thus passed with near unanimous support. The other at National Express received much debate and approximately 15% support. Elsewhere, there were “significant” rebellions at approximately 20% of FTSE 100 and FTSE 250 companies.

BP/Shell shareholder resolutions – an escalation of engagement

Shareholder resolutions are rare in the UK, typically only seen in the context of proxy fights where an activist shareholder is seeking a change of management. Given this context, the shareholder resolutions tabled this year at BP and Royal Dutch Shell were particularly noteworthy and high profile. What made both of these resolutions even more of a rarity was that both companies subsequently accepted the resolutions, committed to additional reporting and recommended that shareholders vote in favour.

The resolutions were tabled by a group of investors known as the “Aiming for A” coalition, which includes the Local Authority Pension Fund Forum alongside a number of UK and international pension funds and church and faith investors. The resolutions requested that both companies expand their annual reporting to provide greater information about their approach to managing the impacts of climate change on their businesses including information about greenhouse gas emissions, research and development on low-carbon alternatives, and their executive incentives and public policy positions relating to climate change.

While these resolutions have been cited by many as game changers and a major victory for activists it can also be argued that the demands included within the resolutions are not in fact very stretching - BP’s Chairman Carl-Henric Svanberg noted that: “many of the requests made in the resolution are already provided through BP’s existing disclosure processes.”

The success of these resolutions will reside in whether management buy into the spirit as well as the letter of the text. Shareholders will no doubt continue to engage with both companies over the coming months to ensure that it is understood what additional information it is that they are seeking.

More broadly, with oil and gas prices perhaps the biggest risk to both businesses portfolios much attention will rightly be on the International Climate Conference being held later this year in Paris. Both companies and investors will be hoping that it may achieve a new international agreement with the aim of keeping global warming below 2°C and make significant progress towards agreeing a global price on CO₂.

In the meantime the idea of utilising shareholder resolutions may be revisited by more investors. We see this as a positive given that the NAPF’s 2015 Corporate Governance Policy & Voting Guidelines highlighted their use as an escalation mechanism. Time will tell whether this marks a bellwether for engagement practices amongst the more progressive asset owners and managers. What it does demonstrate however, is that there is ever greater recognition that climate change is a strategic issue that investors in turn expect company directors (especially those within energy intensive sectors) to address in a more satisfactory manner.

Listening and learning

A consistent conclusion reached by policy makers when deliberating over how to engender more long-termism within equity markets and promoting more sustainable and successful economies is the need to encourage shareholders to take on more responsibility for holding companies to account and act as engaged owners of those companies in which they are invested.

The UK Stewardship Code, first introduced in 2010, has now been replicated in many countries around the world, most notably in Japan last summer. With respect to the UK's Code, attention is now shifting from the quantity of signatories to the quality of, and commitment from current signatories. A similar parallel debate is also taking place in relation to the United Nations supported Principles for Responsible Investment.

We acknowledged in both the 2014 version of this report and evidenced by our later 2014 Engagement Survey that there were signs of better proactive engagement by companies and investors over the 2014 AGM season. Given that the Code's primary purpose is to foster a better quality of engagement between companies and investors, which will assist in delivering better company performance and thus better returns to investors this momentum is encouraging. That said, while there are indications that this engagement is covering a broader range of topics there is equally no doubt that remuneration remains by far and away the most engaged upon issue despite scheme members⁵, pension funds⁶ and fund managers⁷ all reporting that they consider it significantly less important than other issues.

In general terms, it has been notable this year that much engagement between companies and investors has been more purposeful and many concerns have been listened too. There remain however, a relatively small number of exceptions.

As in past years, the NAPF has looked at those companies which received more than 20% dissent last year (constituting votes against and active abstentions) and highlighted those which this year have again received more than 15% dissent. As before we accept that this is a very blunt approach. This filter does however, highlight companies at which it may be valid to question whether their engagement with shareholders has been effective as it is self-evident that the board has not managed to sufficiently address ongoing shareholder dissatisfaction.

Of the twelve companies which feature in this list, two – Ocado and SVG Capital – also featured in the 2014 list thus meaning that their particular issues now stretch back three years.

SVG Capital - a private equity investor - continues to have disagreements with its largest shareholder, Collier Capital, which owns in excess of 30% of the firm and remains dissatisfied with capital returns. Ocado in contrast has a reasonably dispersed shareholder register but continues to receive year-on-year dissent from its long-term owners in part largely due to the poor level of disclosure it provides with respect to its executive pay arrangements.

Encouragingly, many of those listed have indicated that they have heard the concerns of shareholders and will be endeavouring to listen and learn over the coming year. The NAPF is, as ever, happy to assist this process.

⁵ What do pension scheme members expect of how their savings are invested? NAPF, July 2014

⁶ Engagement Survey, NAPF, November 2014

⁷ Adherence to the FRC's Stewardship Code: At 30 September 2013; IMA; June 2014

Companies with successive years of dissent 2014 and 2015				
Company	Resolution	2014 dissent	2015 dissent	Issues of concern
AstraZeneca	Remuneration report	39.3%	17.1%	An above-target LTIP award for 2015 with no reduction in the amount vesting for threshold performance. In addition half of LTIP targets will only be disclosed retrospectively and a lack of a link was made to the Pfizer bid revenue targets
BG Group	Remuneration report	34.3%	19.6%	The recruitment award for Helge Lund was not performance-based and included no disclosure of LTIP targets.
Carnival	Remuneration report	41.6%	16.1%	The company (again) granted share awards without performance conditions. In addition, there was a lack of disclosure of targets for LTIP awards.
ICAP PLC	Remuneration policy	33.0%	33.8%	New remuneration structure was deemed excessive in comparison to peers and previous arrangements. In particular, the policy does not contain a limit to salary increases and absolute discretion is retained over recruitment.
Intermediate Capital Group	Remuneration report	36.8%	36.2%	Pay arrangements are very complicated (and generous).
Investec	Re-election of Bradley Fried	34.6%	17.9%	Non-independent having previously been CEO of Investec Bank. Did however, step down from remuneration committee in-year.
	Re-election of David Friedland	29.8%	27.0%	Independence questioned given prior role as partner of KPMG and chairs the Audit Committee.
	Re-election of Ian Robert Kantor	21.9%	16.9%	Non-independent as is brother of Investec Managing Director and is the founder and previous CEO. Has been on the Board since July 1980.
	Re-election of Peter Richard Suter Thomas	28.2%	25.4%	Independence questioned due to long tenure on the board but sits on many key committees. Has been on the Board since June 1981.
Jardine Lloyd Thompson Group	Re-election of Lord Leach	25.7%	15.8%	Lord Leach remains a member of important committees despite non-independence. The Board as a whole

NAPF 2015 AGM season report

				lacks independence without sufficient justification given.
Lancashire Holdings	Remuneration report	31.0%	34.0%	A continued use of discretion, allowing share awards of former executives to vest and not be pro-rated for time. In addition, limited disclosure with respect to performance against personal objectives.
Ocado	Remuneration report	20.0%	20.8%	A significant increase in fixed pay with poor disclosure around bonus targets.
Reckitt Benckiser	Remuneration report	42.8%	17.4%	High (uncapped) quantum without stretching performance targets including a high payout for threshold performance; plus a lack of independence on the Remuneration Committee.
SVG Capital	Remuneration report	35.6%	38.1%	CEO paid in accordance with Aberdeen Asset Management remuneration policy and not the company.
	Re-election of Andrew Sykes	32.8%	39.4%	A significant shareholder
	Re-election of Lynn Fordham	33.5%	31.9%	A significant shareholder
Tullett Prebon	Remuneration report	36.2%	43.7%	A discretionary bonus was awarded to the new CEO and concerns that payments were not aligned with the Company's performance.
<i>Dissent is calculated as composing both votes against management + active abstentions</i> <i>Voting figures provided by Georgeson</i>				

2015: executive remuneration – highs and lows

In this section, we summarise the recent developments, relevant issues and emerging trends in relation to executive pay.

The issue of executive pay continues to attract a lot of attention. While companies are not required, nor are they expected, to return to shareholders for approval of their remuneration policy every year the issue remains a lightning rod and proxy for wider governance concerns.

In 2014 most companies received a large majority of votes in favour of both their implementation report and their remuneration policy, and feedback from investors was on the whole positive about how the first AGM season progressed under the new regulations. That said, there were still a few high profile and some less high profile rebellions which we highlighted in our 2014 AGM season report - within the FTSE 350, 22 companies received 'no' votes of 20% or more against the implementation report and 13 companies received 'no' votes of 20% or more against the remuneration policy. There were also two instances where the implementation report was voted down altogether – Kentz Corporation and Burberry – prompting much reflection.

Burberry Chairman Sir John Peace acknowledged within the company's annual report that the Board had been reflecting carefully on the results of last year's Annual General Meeting, in particular the failure to achieve a majority of support for the Remuneration Report.

Together with the Chairman of the Remuneration Committee Sir John met with or spoke to the majority of the Group's largest 50 investors to better understand and respond to the areas of concern. In turn the Remuneration Committee invested considerable time during the year considering the outcome of these discussions and the Committee's report devotes considerable space to attempting to address the concerns which had been expressed with respect to the structure of the remuneration package for Christopher Bailey, and in particular, the generous share awards granted in 2013 and also in 2014 as part of his appointment to the CEO role.

BIS Review

In March 2015 the Department for Business, Innovation and Skills published its review of the success of the new regulations. BIS found that most companies complied with the majority of the requirements in the regulations. However, it was reported that there was a significant level of non-compliance with the requirement to specify clearly, in monetary terms or otherwise, the maximum future salary that may be paid under the remuneration policy. On this aspect it should be noted that investors and their representative bodies (including the NAPF) have been relaxed about the lack of firm caps for salary increases instead welcoming the more flexible approach adopted which avoids potential unintended consequences.

The BIS review also highlighted that in relation to the consideration of workforce pay when setting remuneration policies, a significant minority of companies provided insufficient detail for shareholders to judge how such consideration actually works in practice. With the SEC in the USA adopting a rule this summer requiring public companies to disclose the ratio of the pay of its CEO to the median pay of its employees it is likely that pressure will grow for companies to be mindful of internal disparities in pay and to communicate more clearly how these considerations inform their arrangements for executive management. The NAPF's own Remuneration Principles highlight that it is not always clear why historically some executive directors receive

pay increases that are greater than those awarded elsewhere in the organisation, and which feed through to the bonus and long term incentive plan (LTIP) to widen the pay differentials within the company, or enjoy preferential tax treatment or far more generous pension arrangements – or cash in lieu – than less senior colleagues. The NAPF is clear that remuneration committees should consider whether they are able credibly to justify any such differentials.

Code changes

Whilst not in force for this year's AGM season the recent changes to the UK Corporate Governance Code are instructive and many companies have been minded to take them into consideration – in particular the requirement to include clawback and malus provisions.

There was also a more a more fundamental change in emphasis which was the shift away from the previously often misinterpreted but repeated mantra of pay being designed to “attract, retain and motivate directors”. The Code now emphasises that Executive directors' remuneration should be designed to promote the long-term success of the company – a phrase with echoes of the NAPF's own “Remuneration principles for building and reinforcing long-term business success.”

Pay restraint continues

Pay of course continues to be seen by many investors as a litmus test for wider governance and inevitably it is an area that receives significant scrutiny both by investors and the media. Given the present environment, it is encouraging to note that pay restraint has (rightly) continued this year:

- A third of CEO salaries were frozen.
- Bonus opportunity and awards remained static.
- LTIP opportunity and awards increased only very slightly.

Best practice features have been more widely adopted:

- A majority of companies have now extended their LTIP schedule (combination of vesting and holding periods) to at least five years.
- Close to 100% of companies now use clawback or malus in their policies.

Given the above context it is no surprise that there was a decrease in “against” recommendations and “red tops” given with respect to remuneration report resolutions by both ISS and IVIS respectively.

The above is of course heavily influenced by the binding nature of three-year pay policies. Investors have been clear that they would like to see remuneration policies being designed and put to shareholders with the expectation that they will stand the test of time. As such remuneration policies should on the whole be put to a vote on a triennial rather than an annual basis. In this context, for most companies their pay opportunity levels remain fixed with only a relatively small number of companies asking shareholders to approve this year a new remuneration policy and mostly those that did signalled their intention in advance and also incorporated features now deemed by many investors to be best practice. While we expect that more companies will return to shareholders with a new Policy next year we do not expect this to be the norm and should be accompanied with a convincing rationale.

The 2015 negatives

In the chart below we highlight some of the bigger rebellions on remuneration issues at FTSE 100 and FTSE 250 companies.

This small sample is enough to demonstrate the two most common issues which are the cause for shareholder dissent, namely inadequate disclosure or issues relating to the recruitment or exiting of new/departing executives.

Disclosure

A year on from the first round of remuneration reports under the new regulations there was a clear view amongst many investors that the issue of disclosure of bonus performance targets was where progress was still most needed.

There has been clear pressure for at least retrospective disclosure of targets this year from the institutional investor community. This was reflected within the December 2014 updated guidance of the GC 100 and Investor Group which made clear that where a company relied on the "commercial sensitivity" opt-out in relation to disclosing performance targets, remuneration committees should be retrospectively disclosing the performance range of such targets and the actual performance in order to demonstrate the link between pay and performance.

As a result of this pressure, practices have been improving and in turn the scepticism towards those which continue to fail to be transparent in this area grows. We expect this to remain a focus of attention in 2016.

Top 2015 remuneration rebellions			
Company	Resolution	Dissent	Issues of concern
FTSE 100 – top 5			
Intertek Group	Remuneration report	52.1%	A guaranteed bonus for incoming chief executive.
Wm Morrison Supermarkets	Remuneration report	42.3%	Exit payments made to ex-CEO and forward looking performance targets under the Long Term Incentive Plan are not fully disclosed.
Centrica	Remuneration report	34.2%	Bonus payments excessive relative to performance and a "golden hello" awarded to the new CEO.
ARM Holdings	Remuneration report	33.4%	Buyout award for new CFO included 50% in cash and the remainder in shares without performance conditions.
HSBC	Remuneration report	29.2%	Lack of disclosure and unconvincing rationale for the award of the variable executive compensation during the year.

FTSE 250 – top 10			
Diploma	Remuneration report	50.4%	Discretionary payments had been made (an increase in the CEO's bonus).
BBA Aviation	Remuneration report	48.3%	The 2014 bonus for the new CFO was not pro-rated to reflect the fact he served for only six months of the year.
SVG Capital	Remuneration policy	44.1%	A significant shareholder plus concerns with LTIP quantum allowing grants of up to 800% salary for future executive directors.
	Remuneration report	38.1%	A significant shareholder plus concerns with respect to the level of disclosure offered in relation to the annual bonus plan.
Tate & Lyle	Remuneration report	44.1%	Only half of recruitment award for new CFO included performance conditions and were subsequently replaced with a £700k share award when it became apparent performance conditions would not be met.
Tullett Prebon	Remuneration report	43.7%	A discretionary bonus was awarded to the new CEO and payments not aligned with the Company's performance.
Man Group	Remuneration policy	43.5%	Significant increases in bonus and LTIP opportunity with fixed pay already upper quartile. In addition, the Committee retains discretion to adjust the size of awards based on benchmarking rather than performance.
Morgan Advanced Materials	Remuneration report	43.2%	Former CEO was treated as a "good leaver" for the purposes of his LTIP after announcing his resignation.
RPS Group	Remuneration report	41.8%	Significant increases in pay which are not well justified.
Ladbroke's	Remuneration report	39.9%	Exit award for former CEO and the level of disclosure around vested awards under the long-term incentives.
Dairy Crest Group	Remuneration report	36.6%	One-off retention award was made to the CEO. In addition, performance conditions are not disclosed for incentive schemes.
<i>Dissent is calculated as composing both votes against management + active abstentions</i> <i>Voting figures provided by Georgeson</i>			

Responding to “significant” votes

As has been noted, a number of changes to the UK Corporate Governance Code are due to come into force for the 2015 reporting year. That said, one provision which relates to general meetings is worth noting.

The Code now states that "when, in the opinion of the board, a significant proportion of votes have been cast against a resolution at any general meeting, the company should explain when announcing the results of voting what actions it intends to take to understand the reasons behind the vote result".

The FRC stated that this is about changing behaviours so that companies explain how they intend to engage with shareholders (rather than stating how they intend to respond to the particular concerns). The GC100 and Investor Group guidance explains that companies should use their judgement as to what they consider "significant", but as a guide companies "may wish to consider" 20% as being significant, although there may be reasons why, for some companies, a higher or lower level might be more appropriate. Whilst the FRC Guidance only relates to votes "against", it should be noted that the NAPF has been clear for some time that active abstentions should also be considered when assessing the level of dissent (although the NAPF Policy itself does not promote the use of abstentions).

Given this expectation that companies, ideally within the RNS announcing the voting results, provide a brief statement about how they intend to respond we have looked to see which of the companies listed in the "top rebellions" above provided such a statement.

Of the 15 companies included in the "top rebellions" list, nine did provide a statement within their RNS announcement. The statements ranged from acknowledging the particular concerns which were the underlying cause of the dissent and indicating actions already taken or to be taken; others explained that directors would be engaging with or writing to shareholders in an effort to understand the basis of the concerns.

The six companies which failed to provide such a statement were:

ARM Holdings	RPS Group
Centrica	SVG Capital
Diploma	Tullett Prebon

Now of course, a failure to provide such a statement does not in of itself mean that these companies are not responding to their shareholders' concerns. In certain cases the failure to provide a statement may have been because they had already engaged with a large proportion of their shareholder register before the AGM and/or already have plans in place to engage with their shareholders over the coming months. Alternatively, as is the case of SVG Capital the significant number of votes cast against may be largely attributed to an ongoing difference of views with one large shareholder.

Whilst it is helpful if a company does explain promptly how they intend to respond to concerns, what is most important is that boards reflect on the feedback they have received, engage or re-engage with their shareholders, and respond accordingly.

As in past years the NAPF is happy to help facilitate collective engagement for companies with those pension fund investors which are on its register.

2015: Accountability of directors

Corporate governance is fundamentally about ensuring that appropriate structures and individuals are in place in order to enable effective, entrepreneurial and prudent management, in turn delivering sustainable business success. As articulated within the Corporate Governance Code, corporate governance is in essence about what the board of a company does and how it sets the values of the company. An effective board is therefore crucial and should be composed of a diverse grouping of directors each of whom is committed to contributing to the governance of the company.

Great strides made in boardroom diversity

In 2011 the Davies report set out a strategy aimed at ensuring that more women were appointed to boardroom positions. Lord Davies asked all FTSE 350 companies to set targets for the number of women they expected to have on their boards and executive committees in 2015 and recommended that FTSE 100 boards should aim for a minimum 25% female representation on their boards by 2015.

Four years on from that initial aspiration it is very satisfying to note that the overall target has been met and that now one in every four people sitting on a FTSE 100 board is a woman - double the number five years ago. When the Davies review was launched in 2011 there were 152 all-male boards across the FTSE 350, there is now not a single all-male board in the FTSE 100 and comfortably less than 20 in the FTSE 250.

There is little doubt that more gender female representation is beneficial to the decision making process on company boards; greater cognitive diversity helps prevent the “group-think” that causes companies to ignore warning signs and charge headlong into poor decisions. Over the coming years it will remain important to maintain the positive momentum of recent years. There still remains many companies with just a single woman on the board and in many cases the diversity of ages and backgrounds still remains narrow.

If the push is for more thoughtful boards that comprise different types of competent and effective people with a range of perspectives and views to contribute then there remains room for progress. Most importantly, but more difficult in the immediacy, is in ensuring that the pipeline of talent is expanded and thus translating the progress made on diversity amongst non-executives to the executive management team.

The annual election of directors is important in providing accountability to shareholders. The NAPF Corporate Governance policy stresses the importance of both composing an effective board and the importance of individual responsibility, and in turn the role of shareholders in ultimately holding accountable those individuals they have elected to the board. This is especially important when voting on the re-election of directors. There is a sense that too often in recent years - since the 2010 introduction of the annual re-election of directors - investors have avoided personalising or escalating their concerns to those ultimately bearing responsibility for the decisions being made.

Given the increased emphasis on this particular area of governance over recent years we have this year highlighted below those instances whereby a director seeking re-election received more than 15% dissent. Whilst it is common for 20% dissent to be seen as ‘significant’ with respect of remuneration related resolutions investors have been clear that the judgement as to what is considered ‘significant’ should be taken within the context of the type of resolution. As it is common for directors to receive near universal levels of support, and the resolution on their re-election is the mechanism for their accountability to the shareholders, we would

suggest that it is appropriate for boards and individual directors to reflect upon instances where these resolutions receive anything less than 90% support.

For a number of years now the NAPF policy has highlighted various strands which may have a bearing on an investor's decision to support the re-election of a particular director. In addition to assessments of the directors' independence reasons suggested have included, for chairs of committees such as the remuneration committee chair, an escalation of previously expressed discontent if, after engagement, concerns remain.

The policy for 2014/15 for the first time also encouraged investors to give consideration to two aspects in particular, the quality and availability of directors.

Self-evidently assessments about the quality of individual directors are to a large extent a subjective exercise. Shareholders rely heavily on the board's recommendation and as such the NAPF has suggested that the board explains to shareholders why it believes that the director should be re-elected and confirm that the director has recently been subject to formal performance evaluation and continues to be an effective member of the board. Certain other factors will also inform a shareholder's judgement, these include the director's record of attendance at board meetings; a failure of a specific aspect of reporting – for example an unsatisfactory audit committee report and of course where engagement with a director has informed a judgement on his/her effectiveness.

With satisfactory engagement between company boards and investors crucial to the health of the UK's corporate governance regime it is crucial that the board as a whole is engaged with the company's shareholders on governance and strategy matters. Most fundamentally, willing and positive engagement with shareholders by the company chair and the chairs of the key committees is crucial to fostering a trusting relationship which is vital to ensuring both parties maintain a focus on the long-term success of the company.

The table below illustrates instances whereby individual directors have been held accountable by shareholders for decisions made in-year. More commonly however, it demonstrates that proxies will often likely continue to be used for assessing a director's quality; these include his or her attendance at board meetings and assessments about their independence.

Dissent against director re-elections			
Company	2015 resolution	dissent	Issues of concern
SVG Capital	Re-elect Andrew Sykes	39.4%	A significant shareholder
	Re-elect Lynn Fordham	31.9%	A significant shareholder
Pace	Re-elect Allan Leighton	27.2%	A non-independent chair and sits on the Remuneration Committee.
Investec	Re-election of David Friedland	27.0%	Independence questioned given prior role as partner of KPMG and chairs the Audit Committee.
	Re-election of Peter Richard Suter Thomas	25.4%	Independence questioned due to long tenure on the board but sits on many key committees. Has been on the Board since June 1981.
International Consolidated Airlines Group	Re-elect Cesar Alierta Izuel	21.9%	Missed a third of Board meetings - a successive year of poor attendance (although annual report explains some of the absences during the year).
Lonmin	Re-elect Len Konar	21.8%	Sits on multiple Boards and Chairs the Audit & Risk Committee and Social, Ethics & Transformation Committee.
Playtech	Re-elect Hilary Stewart-Jones	21.6%	Not independent but sits on audit and remuneration committees.
RELX Group	Re-elect Robert Polet	20.5%	Missed a third of Board meetings with no explanation given.
Inmarsat	Re-elect John Rennocks	19.8%	10+ year tenure and still retains key Board roles (although there has been recent refreshment on the board).
Mitchells & Butlers	Re-elect Eddie Irwin	18.6%	A significant shareholder and member of the audit committee.
Investec	Re-election of Bradley Fried	17.9%	Non-independent having previously been CEO of Investec Bank. Did step down from remuneration committee in-year.
RSA Insurance	Re-elect Hugh Mitchell	17.4%	Remuneration Committee Chair
SOCO International	Re-elect Olivier Barbaroux	16.9%	Independence issues
	Re-elect John Norton	16.9%	Independence issues
Investec	Re-election of Ian Robert Kantor	16.9%	Non-independent as is brother of Investec Managing Director and is the founder and previous CEO. Has been on the Board since July 1980.

Al Noor Hospitals Group	Re-elect Sheikh Mansoor Bin Butti Al Hamed	16.2%	Missed over half of Board meetings with insufficient explanation provided.
Jardine Lloyd Thompson Group	Re-elect Lord Leach of Fairford	15.8%	Independence issues and sits on key committees along with missed meetings.
	Re-elect Lord Sassoon	15.8%	Independence issues and sits on key committees.
Derwent London	Re-elect Robert Rayne	15.7%	Missed more than a quarter of Board meetings with insufficient explanation. In addition, the company did not provide a sufficient explanation for not having an independent chairman.
BG Group	Re-elect Sir John Hood	15.5%	Material concerns over the recruitment of new CEO.
<i>Dissent is calculated as composing both votes against management + active abstentions</i> <i>Voting figures provided by Georgeson</i>			

Succession rises to the top

With many companies becoming ever more global and complex management succession is a primary shareholder risk in a number of circumstances. The development of detailed succession plans, including an internal pipeline of talent, coupled with strong independent boards, is vital in ensuring smooth transition. As a number of examples have demonstrated the impact of management decisions often come to light post departure, therefore ensuring executives are focused on creating a sustainable legacy is crucial.

Concerns around succession have been the focus of engagements with a number of large FTSE 100 companies in recent years, not least with respect to those companies where there is (or was) a long-standing and dominant figure as CEO. It is at one of these companies, WPP, where some investors this year felt compelled to take their concerns public.

There is an increasing desire for greater reassurance to be provided via transparent reporting and open dialogue. It is in the interest of companies that they present as much detail as is feasible about their forward looking board succession and refreshment plans, not least when so much value generation is associated with one individual.

Board refreshment and succession planning is one of the most important issues for consideration by shareholders. In particular it is crucial to ensure that appropriate and sufficiently flexible succession plans are in place for both the CEO and Chair. Shareholders recognise the confidential or sensitive nature of some succession planning issues which may make disclosure more difficult; however, companies should endeavour to disclose as much information as is feasible about the company's succession plans.

Succession and WPP's "Sorrellcentricity"

Sir Martin Sorrell has headed WPP for 30 years, taking it from a supermarket basket manufacturer based in Kent, known as Wire & Plastic Products, to the world's largest marketing services group. There is no doubt that this is a great achievement personally, as well as for the company, its employees and also its shareholders.

This year - as in past years - Sir Martin's £43m pay package generated headlines. It is true to say that many investors remain uncomfortable with the level of these awards (19.4% voted against the remuneration report). For many however, the larger and underlying fundamental concern is not about pay (or not just about pay) but about the planning for life after Sir Martin Sorrell.

Ten years ago, RREV (the former NAPF and ISS joint venture) raised concerns about the lack of disclosed succession planning at WPP. A decade on, the issue for many investors has become more pressing. At the company's AGM Guy Jubb of Standard Life Investments attended to express his concerns with the company's "Sorrellcentricity". A request was made for the incoming Chair Roberto Quarta "to not only acknowledge that managing the succession elephant will be his number one governance priority, but also commit to ensure share owners are given a clear and concise explanation by this time next year on how the board is doing so".

Outgoing Chair Philip Lader used his statement in this year's Annual Report to address the issue head on. Reflecting on his 14 years on the Board Mr Lader noted that a noteworthy change, "since none of our leadership is getting any younger, has been the emphasis on succession-planning". He added that the process "has become, especially in the past seven years, steadily more rigorous and comprehensive". He did acknowledge however, that "few would deny a certain 'Sorrellcentricity' to the Group even though he stressed WPP is "far more than one individual".

It is of course obviously true to say that WPP, with nearly 180,000 employees, is much more than one individual. Equally however, succession is particularly important at WPP. A primary driver of the group's growth has been acquisitions and many investors question the ability of any successor CEO to get to grips with a company which makes multiple acquisitions each year. Furthermore, there are concerns that with Sir Martin being a hugely charismatic and powerful figure, a big risk is that his departure could prompt a wave of defections across the business thus compounding the fall out associated with the key-person risk.

30 years on and still 70 years young Sir Martin shows no indication of wishing to step aside in the short-term. There will come a time however, when the baton is handed on and investors are keen to ensure the group will be able to remain as successful for a further 30 years.

Looking ahead to 2016

As previously mentioned, the Corporate Governance Code was updated in September 2014 with the new provisions in force for financial years which start on or after 1 October 2014 – thus essentially this coming year’s AGM season. In addition to the new provisions on directors’ remuneration which have been mentioned previously, the key changes relate to risk management and internal control.

Viability statements

It is in the area of risk management that the UK Corporate Governance Code raises the bar. After what was a protracted and at times tense consultation exercise the final provisions are intended to have a profound impact on the way organisations think about, manage and report on their principal risks and culture.

The new requirement to publish a ‘viability statement’ is perhaps the one that many investors are most eagerly awaiting the responses to. This new Code provision requires directors to explain, given the company’s current position and principal risks, “how they have assessed the prospects of the company, over what period they have done so and why they consider that period to be appropriate”.

Selecting the appropriate time period will require some judgement as directors will need to “state whether they have a reasonable expectation that the company will be able to continue in operation and meet its liabilities as they fall due over the period of their assessment, drawing attention to any qualifications or assumptions as necessary”.

The objective is to draw out richer risk disclosures from companies and to lift the horizons of both parties outwards to consider the long-term sustainable success of the company. There is understandable reticence on the part of boards to give forward looking assurances and quite obviously the longer the period one looks out the greater the level of uncertainty and likely number of, to borrow a phrase, unknown unknowns. As such there is a concern that resultant statements may end up being either pretty short-term or so heavily caveated as to lose any value.

Although there has been no great rush to adopt many of the measures contained within the updated Code early, there have been a few ‘viability statements’ published in annual reports this year. The early adopters have included Derwent London, BAE Systems, Lancashire Holdings, ICG and United Utilities – quite different FTSE 350 companies. It is interesting to note that of these early statements, BAE, Derwent and United Utilities chose to look out five years; ICG three years and Lancashire up to the 31 December 2016.

At this stage as we await more statements, investors and analysts are trying to understand what the new disclosures will mean – and what they do not mean. The reassurance that investors hope to get from the viability statements is that boards have grappled with the issue of what the principal risks are to their business model and what is their risk appetite. The resultant disclosures should, linking in with the discussion of risks, give a more coherent story.

There are no hard and fast rules over what the right time period is for these viability statements and therefore it is likely that, to begin with at least, investors will look across sectors to compare the number of years chosen. However, what is crucial is for companies to be clear about why *they* think the period chosen makes sense for their company. Does this fit with the business planning cycle? If so, what about the length of outstanding financing?

The viability statement given by Derwent was enlightening as it did explain that the five year period was selected because:

- The Group's strategic review covers a five-year period.
- For a major scheme five years is a reasonable approximation of the maximum time taken from obtaining planning permission to letting the property.
- Most leases contain a five-year rent review pattern and therefore five years allows for the forecasts to include the reversion arising from those reviews.

What we hope is that these new disclosures will build on the evolving richer disclosures within strategic reports. They should be both thoughtful and company specific. In turn investors will form judgements about the quality of boards. Greater reassurance is likely to be gained from evaluations that are evidently open and transparent rather than ones which appear boiler-plated and heavily caveated.

Human capital reporting



In June, the NAPF published *Where is the workforce in corporate reporting?*

The genesis for this discussion paper was a growing acknowledgement that, in the communication of a company's business model, one aspect and core input remains commonly missing - the workforce. There is compelling evidence to demonstrate that a well engaged, stable and trained workforce which operates within a supportive environment is one which is likely to be more committed and productive and, in turn, be more likely to drive long-term business success. In this context, we believe that issues related to the composition and management of the workforce are deserving of more transparency by companies and also attention by investors.

The people who constitute a company's workforce are in many cases a firm's most valuable asset - indeed this view is ascribed to regularly by many companies and words to that effect are commonly featured within the opening pages of many a company's annual report.

Picking up on the discussion of the new viability statements and building on the good intentions which underpin the new strategic reports we wish to see clearer articulation of a company's long-term sustainability, including a description of the sustainability of its employment model and through this an insight provided into the culture of the organisation. This will require a holistic approach to company reporting which provides consistent data points alongside entity-specific policies.

The composition of the workforce and the sustainability of the employment model should be core to discussions of strategy, sustainable performance and the creation of value in the short, medium and ultimately long term.

This discussion paper suggested four areas where better reporting is required and suggests data points in relation to each of these can and should be provided.

1. The composition of the workforce

- Who constitutes the workforce? How is it composed? Is the employment model sustainable?

2. The stability of the workforce

- What are the turnover figures? Is talent being undesirably lost?

3. The skills and capabilities of the workforce

- What investment is made in training and development? Are the talents of the workforce being maximised and productivity gains being achieved?

4. Employee motivation

- Is there a positive culture? Is the workforce motivated? Are the employees advocates for the business?

Genuinely long-term investors such as pension funds recognise that conversations about the people that constitute company management and the wider workforce are crucial to understanding a company's business model, culture, how well it is functioning and whether warning lights are beginning to flash. With investors increasingly being encouraged to act as engaged owners, this additional reporting would both inform ex-ante investment decisions and equip them to have broader and more informed dialogues with the management of those companies in which they have invested.

The NAPF will, in conjunction with other interested parties, be engaging further with both issuers and investors on this agenda over the coming months. However, our desire is that perfection should not be allowed to be the enemy of the good. There are challenges to be worked through to determine how certain metrics should be calculated and reported and what issues are most material to different sectors. However, the four core areas we have identified are we believe applicable across sectors and therefore warrant disclosing by all.

We will be monitoring progress in this area and hope to see a step-change in reporting in this area beginning over the next reporting cycle(s).

NAPF keeping it topical

The NAPF publishes on a monthly basis two topical questions to aid pension fund trustees in questioning the effectiveness of their fund managers' stewardship activities (these are available on the NAPF's Stewardship Central website – www.napf.co.uk/stewardship). A number of the issues highlighted within these topical questions were prominent in the lead up to or during the AGM season itself. Others provided pension funds with a hook on which to question how fund managers and in turn companies are approaching governance in a holistic fashion and how these judgements inform their voting decisions on AGM resolutions.

Below are 2015's questions to date:

January's topical questions for your manager:

1. This month, Government published results of their 2014 Cyber Governance Health Check of FTSE 350 boards alongside a new report detailing the common cyber-attacks used against industry. Additionally, five more FTSE 100 companies announced their intention to adopt the [Cyber Essentials Scheme](#).
 - What assurances have you sought from investee companies that have not obtained the Cyber Essentials Badge that they are taking adequate steps to protect themselves against cyber-attacks?
2. Over the past six months the price of oil has plunged from \$110 to below \$50 and there is little sign of a reversal yet. This fall in price has hit many energy companies and is causing reassessments to be made of the long-term profitability of many projects.
 - With the Energy Sector accounting for an eighth of the overall FTSE All-Share Index how have you assessed the opportunities and threats from the fall in oil price? Additionally, what engagement have you had with energy stocks with respect to understanding their long-term sustainability?

February's topical questions for your manager:

1. This month Old Mutual signalled its intention to begin to vote against pay policies of companies that fail to shorten the service contracts for their directors to less than 12 months. These annual rolling contracts are essentially universal and according to Old Mutual are an "anachronism" which results in companies being compelled to make payments for failure.
 - What is your view on this proposal and what discussions are you having with companies about ensuring that executives are exposed to tail risk for an appropriate length of time once they leave a company?
2. The FCA this month formally endorsed ESMA's advice to the European Commission to separate portfolio managers' payments for research from execution arrangements in order to better align their incentives to control costs and procure research in the best interests of their customers. These reforms, to be implemented via the MiFID II Directive, will also require more disclosures around the total costs that a fund manager has incurred for third party research.
 - Are you able to demonstrate now how the investment research you have purchased via commissions is enhancing and protecting value for the fund?

March's topical questions for your manager:

1. Investors are often criticised for fixating on executive pay at the expense of longer-term issues. Interestingly, from next year directors will be required to make a statement about the longer term viability of their company over an appropriate period – in doing so, Barclays this week reported that they intend to look out three years.
 - Over what time period do you believe the Barclays' directors should be able to look out and have a reasonable expectation that the company will remain a viable enterprise?
2. As we move rapidly into company reporting season, this week saw the publication of full year results by amongst others Aviva, Glencore, ITV and Standard Chartered; companies' annual reports will begin to land in the in-trays of many investors and the AGM season looms on the horizon.
 - What internal and external resources do you have in place to analyse company report and accounts and make informed voting decisions?

April's topical questions for your manager:

1. A shareholder resolution drafted by the Local Authority Pension Fund Forum will be the subject of a vote at the National Express AGM next week. The resolution is the latest in a long-running dispute between the company and the Teamsters Union and calls on the company to commission an independent review of its US subsidiary to investigate to alleged anti-union activity.
 - What engagement have you had with the company and the Teamsters Union and how did you balance their conflicting arguments when determining whether to support the resolution?
2. Late last year BG Group caused headlines with the very generous recruitment package awarded to incoming Chief Executive Helge Lund. The company acknowledged in April that directors had not given enough weight to concerns about the levels of executive pay in the UK and that in designing the original package it did not strike the correct balance. BG is now the subject of a takeover by Shell and thus what seemed a generous arrangement a few months ago looks even more generous today.
 - What clarity have you sought as to how discretion over Mr Lund's share awards will be exercised at the change of control and how has the handling of the recruitment last year informed your decision on the re-election of individual directors BG's AGM?

May's topical questions for your manager:

1. This week Jamie Dimon, Chief Executive of JPMorgan Chase criticised "lazy" and "irresponsible" shareholders who followed proxy advisory services recommendations. The remarks arose after 38.1% of shareholders voted against executive pay at JPMorgan's AGM with concerns expressed about the awarding of a \$7.4m cash bonus for 2014.
 - What proportion of your voting decisions automatically follow the recommendations of your proxy advisory service provider and how do you respond to Mr Dimon's critique?
2. Severe drought in central Vietnam is halting cultivation and the drought in California, now entering its fourth year, has pushed cotton acreage to 1930's levels. These incidents are highlighting the importance

NAPF 2015 AGM season report

of usable water as one of the most critical aspects of corporate survival - the World Economic Forum lists a water-supply crisis as one of their top global risks within this decade. Whilst water use may be relatively straightforward in the food production sector, it is also a significant issue for others throughout their supply chain.

- How are you integrating water management into your company valuations and analysing the risks and opportunities to your investee companies?

June's topical questions for your manager:

1. At WPP's AGM this week Standard Life Investments attended to voice concerns about the company's "Sorrell-centricity" and urge more transparency to be given on the board's approach to dealing with the "succession elephant".
 - With the FRC due to publish a discussion document on the subject later this month what reassurances have you sought on succession at WPP and how do you incorporate uncertainty on such issues into company valuations?
2. While BP this week reported that global energy consumption had slowed to its slowest rate of growth since the late 1990s Mercer also published its second report looking at the danger of climate risk for investors. Their analysis concluded that climate change will give rise to investment winners and losers and the biggest risk will be at industry level where asset-class return impacts will be material but vary widely by scenario.
 - How have you assessed the risks and opportunities posed by climate change across different sectors and within different geographies?

July's topical questions for your manager:

1. Productivity was a central focus of this week's Budget and the headline measure, the National Living Wage, is directed at this challenge. There is compelling evidence to demonstrate that a well-engaged, stable and trained workforce is likely to be more committed and productive and, in turn, be more likely to drive long-term success; decent pay and conditions are a contributing factor to this. Paying a living wage of course has direct costs as well as benefits and certain sectors such as retail will be most impacted by the increase in salaries.
 - What engagement have you had with companies on the topic of the living wage and how do you believe companies across and within different sectors should respond?
2. The end of last month saw the annual rush of Japanese AGMs – 40% are held on the same day. In contrast to previous years however, this season was the first since the introduction of a corporate governance Code (a Stewardship Code was introduced last year) in an effort to improve the financial performance and capital efficiency of Japanese companies in part by bringing more genuine independence to boardrooms.
 - Given that the reforms have attracted the attention of many overseas investors, how did you engage with your Japanese holdings this year and how have you assessed any impact on boardroom culture and the attractiveness of Japanese stocks?

August's topical questions for your manager:

1. The UK's Modern Slavery Act, one of first laws in the world to specifically address slavery and trafficking in the 21st century, came into force at the end of July. This new law will require companies each year to prepare a statement setting out the steps they have taken to ensure that slavery and human trafficking is not taking place in any of its supply chains and in any part of its own business.
 - How do you envisage making use of these new disclosures within both your investment decisions and engagement activities?
2. This week the SEC in the USA adopted a rule requiring public companies to disclose the ratio of the pay of its CEO to the median pay of its employees. In contrast in the UK, government noted earlier this year that a significant minority of companies provide insufficient detail for shareholders to judge how consideration of wider workforce pay informs executive pay.
 - With an increasing focus on workforce productivity in both jurisdictions how do you assess the appropriateness of remuneration below the executive management team, especially for those companies that cite human capital as a key factor in their success?

September's topical questions for your manager:

1. Changes made to the Listing Rules which came into force last year mean that non-executive directors of companies with a controlling shareholder need to receive a majority of support from both the totality of shareholders and the minority shareholders. This time last year many investors publicly questioned the governance arrangements at Sports Direct, and ahead of next week's AGM it is clear that for many these concerns remain with some analysts cautioning earlier this year that governance at the business is "an issue" and was deterring institutional investors from buying the stock.
 - Given the enhanced accountability of directors in controlled companies to minority shareholders what engagement have you had with the company and in turn how have you cast your votes in respect of the re-election of the non-executive directors at Sports Direct?
2. Earlier this summer the target for 25% female representation on FTSE 100 boards was met. When the Davies review was launched in 2011 there were 152 all-male boards across the FTSE 350 and there is now not a single all-male board in the FTSE 100 and less than 20 in the FTSE 250. The focus is now shifting to the pipeline of talent and translating the progress made on diversity amongst non-executives to the executive management team and wider workforce; in line with this the NAPF has encouraged government to press ahead with proposals to require companies to publish their gender pay gaps.
 - How do you assess whether companies are making full use of the talent available to them and what use, if any, would you make of consistent disclosure of gender pay gaps?

Conclusion

As we reflect back on the AGM season, more than anything else companies and investors will be pleased that 2015 saw a return to a more steady state. With few new regulations for either party to contend with this year it was encouraging to note that the quality of engagement between companies and their investors continued to improve. That said, both parties may reflect that many conversations remain dominated by the topic of remuneration. although perhaps the tide is beginning to turn.

Few regulatory changes, and this being a general election year resulted in another year of pay restraint with few headlines. The 2015 AGM season was not however, quite as placid as it first appears. The overall picture masks a number of significant shareholder rebellions on governance matters.

In an apparent quiet year there were “significant” rebellions at approximately 20% of FTSE 100 and FTSE 250 companies. In addition there were much discussed (and accepted) shareholder proposals at BP and Royal Dutch Shell and there was also a further shareholder proposal at National Express.

This report identified 12 companies within the FTSE 350 for whom a significant proportion of their shareholders have for a successive year expressed their discontent with particular aspects of their governance arrangements. We hope that they do not feature in the corresponding table next year.

While there was general pay restraint, the introduction of the constraints imposed by binding pay policies has not resulted in this issue becoming wholly uncontentious. Indeed this report highlights the top five and top 10 remuneration rebellions in the FTSE 100 and FTSE 250 respectively. Disappointingly there was much competition for these top slots although Intertek Group was the only company to lose the vote – Diploma also failed to receive a majority of votes in support if, as we do, active abstentions are taken into account.

Whilst, remuneration does continue to disproportionately dominate conversations between companies and investors there are encouraging signs that time is being found to focus on other, arguably more important issues.

Rightly attention is being increasingly directed towards the effectiveness of both boards as a whole as well as the individual directors. In addition, the NAPF has drawn attention to the present opaque area of the wider workforce. An increasing number of investors are keen to better understand how companies’ human resources practices are aligned with their objective of generating long-term sustainable success.

Looking ahead to 2016, it is hoped that governance discussions will continue to become more integrated and holistic in nature. Enhanced disclosures about the other 99% beyond executive management which constitute a company’s workforce alongside the new viability statements should provide new richer insights. If linked well with the discussion of risks these statements should go some way to giving a more coherent company specific story and equipping both investors and companies with the context to adjust their conversations away from remuneration minutiae and towards their shared aim of aligning governance practices with the aim of fostering long-term business success.

The NAPF will continue to assess how companies are matching up against its corporate governance policy, monitor developments in good practice and seek improvements from both companies and investment managers in the best interests of our pension fund members.