

The 2017 AGM season – the story so far

June 2017



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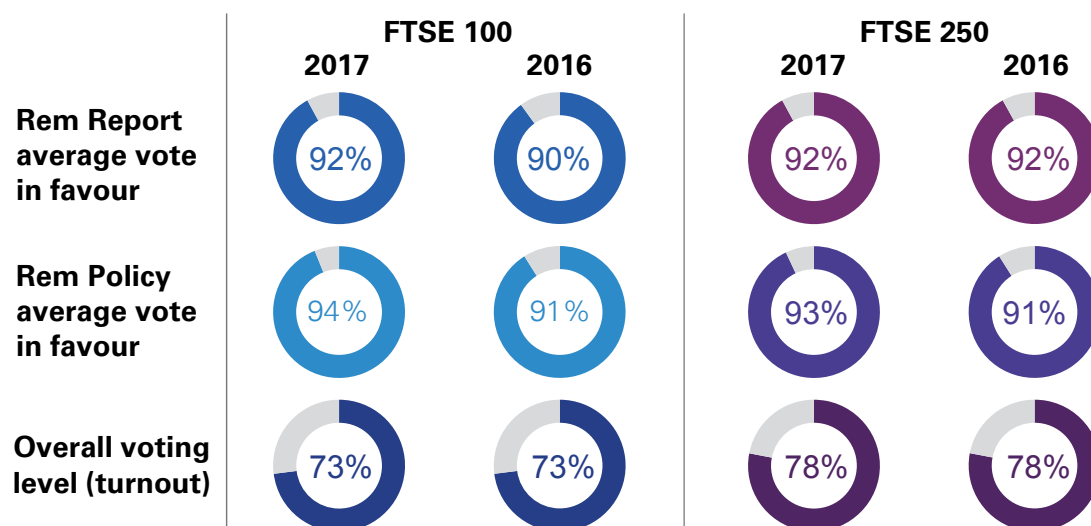
Introduction

This review considers the AGM voting results for FTSE 100 and FTSE 250 companies (excluding Investment Trusts), up to the beginning of June 2017.

The average vote in favour for the Directors' Remuneration Report in the 2017 AGM season currently stands at 92% for both FTSE 100 and FTSE 250 companies. This is broadly unchanged from 2016 where the level of support was 90% and 92% respectively for FTSE 100 and FTSE 250 companies.

There has been a similar level of support for the Remuneration Policy whenever it has been voted on, with on average 94% support within the FTSE 100 and 93% support in the FTSE 250 in 2017 compared to 91% in 2016.

The overall voting level or turnout has also been very consistent between 2017 and 2016. The FTSE 100 average voting level remains at 73% with the more UK focused and concentrated ownership of FTSE 250 companies leading to an average vote of 78% so far this year, which is again consistent with the average voting level in 2016.



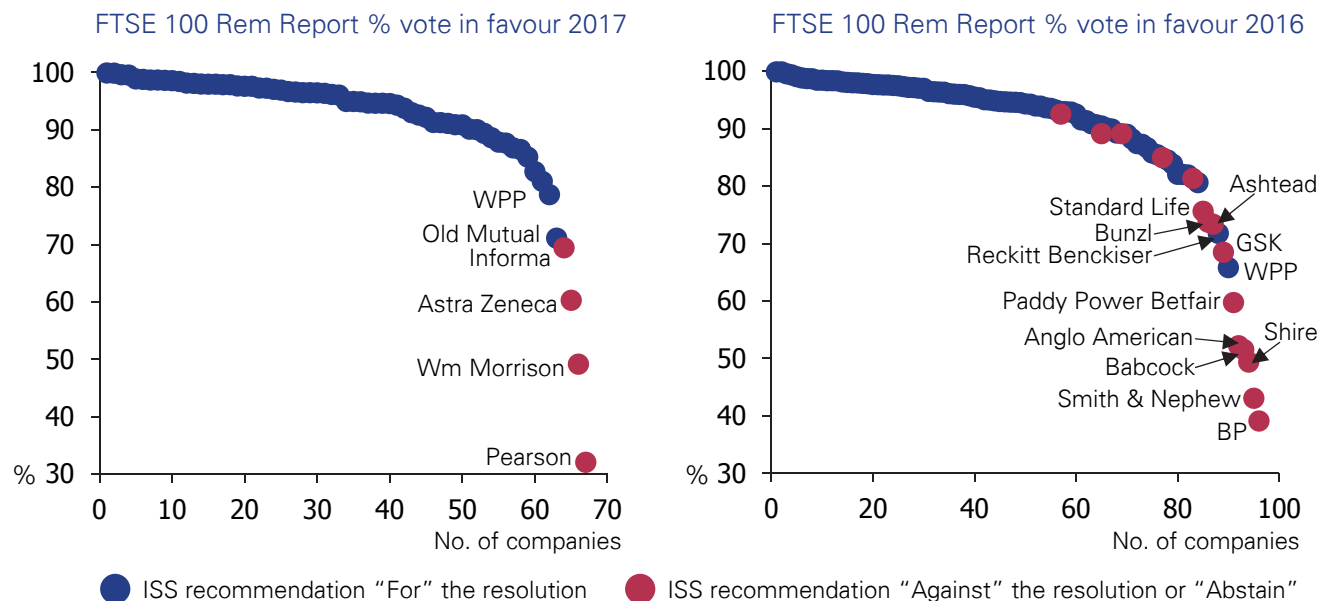
The analysis considers votes in favour of any resolution as a proportion of total votes cast. Hence votes withheld are treated as abstentions and therefore arise from shareholders that are dissenting on a particular issue.

The UK Corporate Governance Code 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". Generally accepted practice is that less than 80% support for a particular resolution would typically constitute a significant level of shareholder dissent and this is the threshold applied in this review.

FTSE 100 Rem Report

The charts to the right plot the level of support at FTSE 100 companies on the Directors' Remuneration Report resolution for the 2017 year to date and 2016. The 2017 data cover the 67 companies to have held their AGMs up until 15 June 2017. Each dot represents the voting at a particular FTSE 100 company.

The chart distinguishes companies that received a positive voting recommendation from Institutional Shareholder Service (ISS) – blue dot, and those where ISS recommended that shareholders vote against or abstain on the DRR resolution – pink dot.



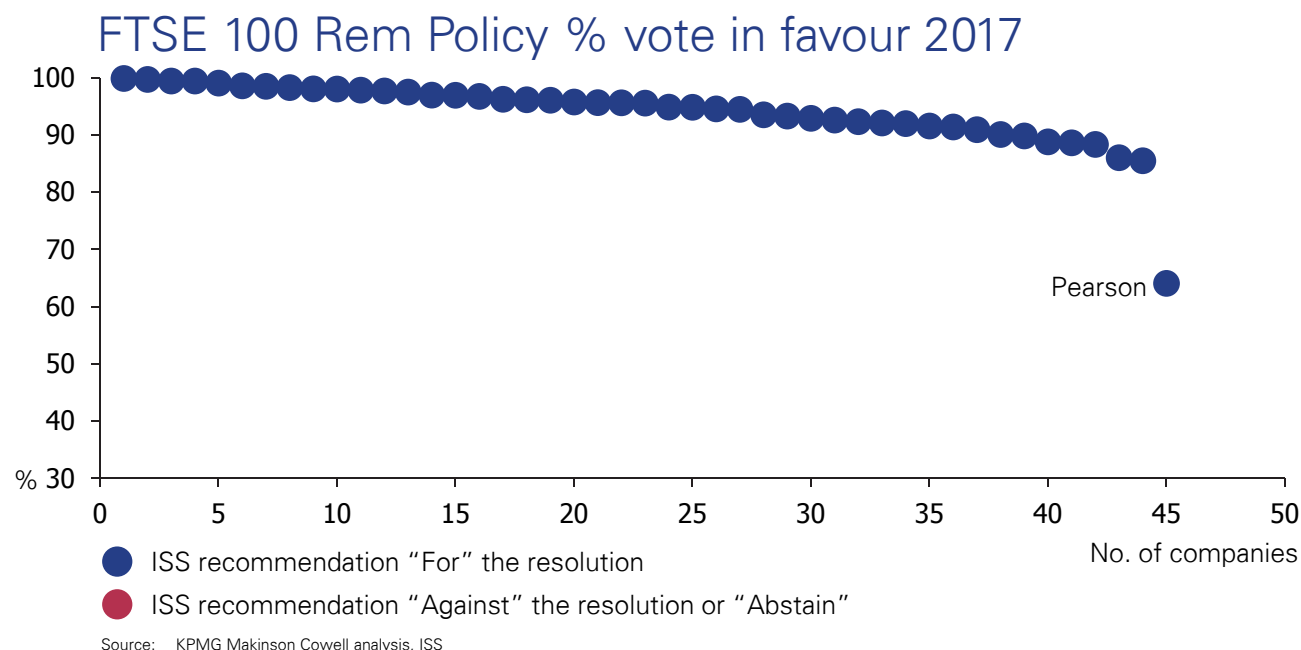
Source: KPMG Makinson Cowell analysis, ISS

- So far in 2017 Pearson has been the only FTSE 100 company where the Directors' Remuneration Report resolution was defeated. More than two-thirds of shareholders either voted against or abstained on the Pearson DRR, with most shareholder concerns centred around the bonus payments in a year where the company had issued a profit warning.
- Wm Morrison, AstraZeneca, Informa, Old Mutual and WPP were the other FTSE 100 companies to receive less than 80% support for the DRR. The DRR at Morrisons was only narrowly approved following an increase in the LTIP award from 240% to 300% of salary for the CEO/CFO. The principal issue at AstraZeneca related to its LTIP, where the remuneration committee was proposing changes to the performance conditions. At Informa shareholder concerns centred around whether the LTIP EPS target was sufficiently challenging.
- The charts above clearly show a greater number of companies encountering significant shareholder dissent in 2016 compared to 2017. The Pearson, Wm Morrison, AstraZeneca and Informa AGMs were the only meetings this year where the ISS vote recommendation was for shareholders to vote against the DRR, whereas there were 14 negative ISS vote recommendations in 2016. From our privileged position as an advisor to many FTSE 100 companies we believe that the extensive shareholder consultation undertaken by many companies this year has led to outcomes on remuneration issues which are more in tune with shareholder views.

FTSE 100 Rem Policy

The requirement for a binding vote on a company's Remuneration Policy first came into effect in 2014 and any approved policy can stay in place for three years before being voted on again by shareholders.

The three year anniversary of the initial binding Remuneration Policy vote has led to around two-thirds of FTSE 100 companies putting their Remuneration Policies to a vote in 2017.

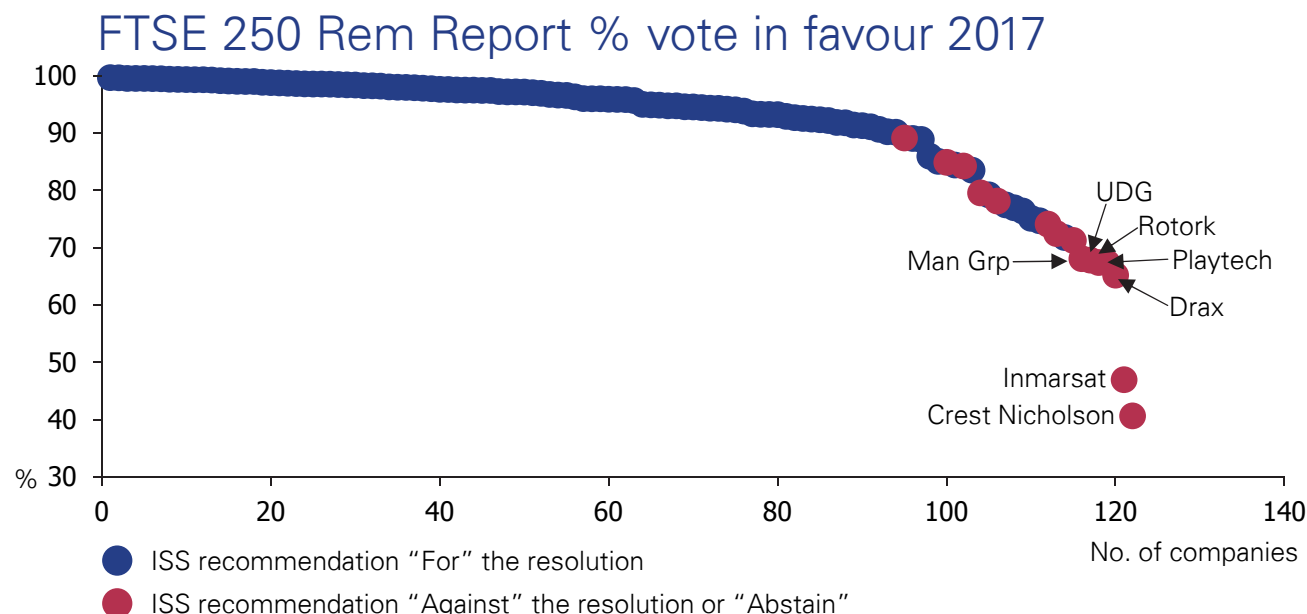


- All FTSE 100 Remuneration Policy resolutions have been approved by shareholders so far in 2017.
- Pearson saw the lowest vote with just 64% support for its proposed new policy. There was also a significant dissenting vote against the re-election of the RemCo chair at Pearson.
- Early on in the 2017 AGM season Imperial Brands withdrew its proposed new Remuneration Policy after shareholder opposition to the increase in the maximum LTIP award for the CEO. Imperial Brands had most recently put its Remuneration Policy to a vote in 2015 and hence it did not need to seek shareholder approval in 2017.
- ISS has recommended that shareholders vote in favour on all the FTSE 100 proposed Remuneration Policy votes so far in 2017.

FTSE 250 Rem Report

The chart to the right plots the level of support at FTSE 250 companies, excluding investment trusts, on the Directors' Remuneration Report resolution for the 2017 year to date and covers 122 companies up until 2 June 2017. Each dot represents the voting at a particular FTSE 250 company.

The chart distinguishes companies that received a positive voting recommendation from Institutional Shareholder Service (ISS) – blue dot, and those where ISS recommended that shareholders vote against or abstain on the DRR resolution – pink dot.



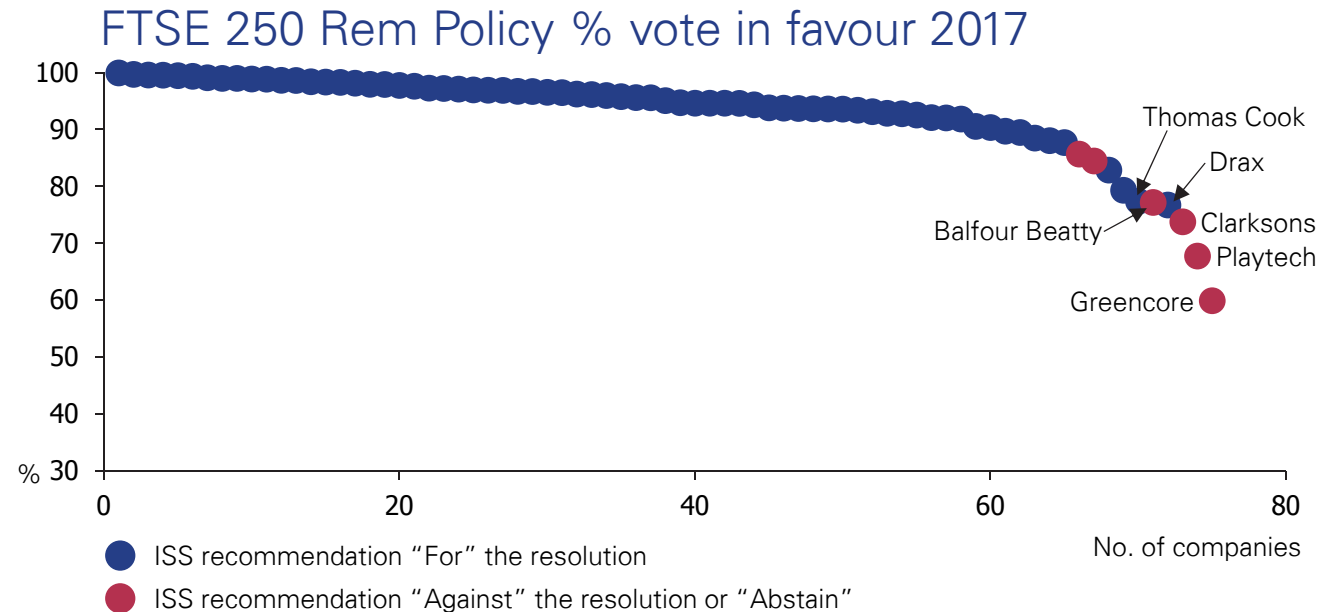
Source: KPMG Makinson Cowell analysis, ISS

- The DRR resolution was defeated at the Crest Nicholson AGM, with 56% of shareholders voting against. Shareholders were concerned that the PBT target for the 2017 LTIP award was significantly below the targets for the 2016 and 2015 LTIP awards and may therefore not be sufficiently stretching.
- The DRR at Inmarsat was approved by shareholders, but taking abstentions into account, 53% of shareholders were not supportive. The Bonus Share Award (BSA) at Inmarsat for 2016 was awarded in full, despite the targets not being fully met.
- 18 FTSE 250 companies received less than 80% support for the DRR resolution, with ISS recommending a negative vote in 11 instances.

FTSE 250 Rem Policy

Of the 122 FTSE 250 companies (ex-investment trusts) to hold their AGM so far in 2017, 75 also put their Remuneration Policy to a vote.

Once again, the chart distinguishes companies that received a positive voting recommendation from Institutional Shareholder Service (ISS) – blue dot, and those where ISS recommended that shareholders vote against or abstain on the DRR resolution – pink dot.



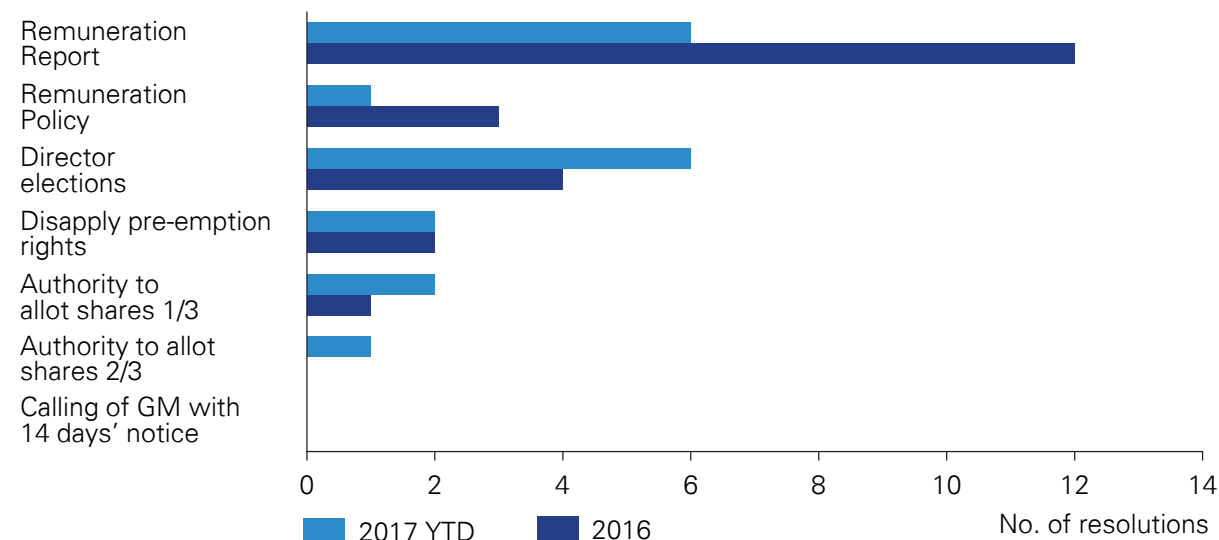
- All FTSE 250 Remuneration Policy resolutions have been approved by shareholders so far in the 2017 AGM season. The lowest level of support was at Greencore, where just 60% of shareholders voted in favour of the new policy, which included an increase in the maximum Performance Share Plan (PSP) award from 100% to 200% of salary, without any apparent stretch in the performance criteria.
- The ISS vote recommendation was for shareholders to vote against the Greencore Remuneration Policy. ISS also recommended a vote against the Clarkson Remuneration Policy, because its annual bonus scheme is uncapped.
- At Playtech, where there was only 68% support for the Remuneration Policy resolution, the AGM was immediately followed by a General Meeting to vote on a revised Remuneration Policy. This revised policy was approved with 84% support. However, at the General Meeting shareholders rejected the proposal for a one-off share award to the CEO.
- A number of FTSE 250 companies withdrew proposals for a revised Remuneration Policy ahead of the AGM as a result of shareholder consultations. Companies that withdrew the Remuneration Policy resolution included Aggreko, Chemring and Safestore.

FTSE 100 resolutions

The next two pages consider the 2017 AGM season in terms of the number of resolutions receiving less than 80% support and not just remuneration related matters.

As with all the data in this review, the analysis considers votes in favour of any resolution as a proportion of total votes cast. Hence votes withheld are treated as abstentions and therefore arise from shareholders that are dissenting on a particular issue.

FTSE 100 resolutions <80% support 2016-2017



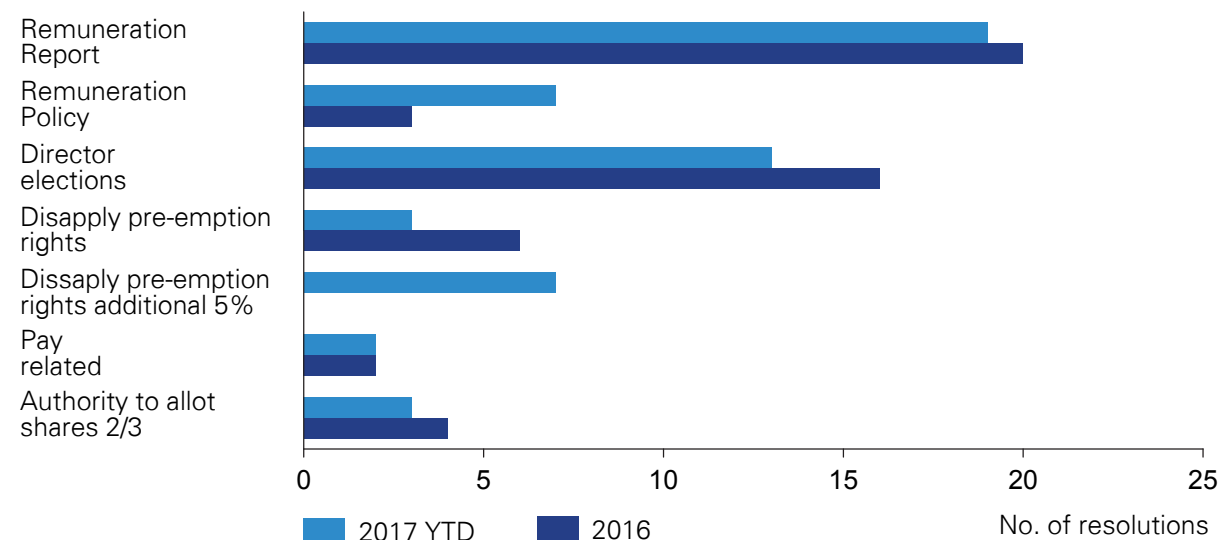
Source: KPMG Makinson Cowell analysis

- As previously highlighted, six FTSE 100 companies have in 2017 received less than 80% on the DRR and just Pearson received less than 80% support for the Rem Policy vote.
- As regards resolutions to re-appoint directors we have already seen six directors receiving less than 80% support in 2017, compared to only four such instances in the whole of 2016.
- It appears that shareholders are looking more closely at the number of appointments that a director holds and whether the director could be “overboarded”. This was the issue for Ireena Vittal at Compass and Irene Lee at HSBC, who were re-elected with 60% and 71% support respectively.
- Two of the board members at Reckitt Benckiser received just 60% support on their re-appointment because of a serious issue relating to a product recall in South Korea. Finally, Elizabeth Corley at Pearson received just 73% support because of her role as the Remuneration Committee chair and Vassi Naidoo at Old Mutual received just 79% support as he is a non-independent director, but is a member of the Audit Committee.

FTSE 250 resolutions

This final slide considers the number of AGM resolutions receiving less than 80% support at FTSE 250 companies in 2017.

FTSE 250 resolutions <80% support 2016-2017



Source: KPMG Makinson Cowell analysis

- In addition to Crest Nicholson, where the DRR resolution was defeated, a further 17 FTSE 250 companies received less than 80% support for the DRR and seven companies received less than 80% support for the approval of the Remuneration Policy.
- 13 director re-election resolutions at FTSE 250 AGMs received less than 80% support, with three instances arising at the Centamin AGM. At Centamin shareholders voted by two-to-one against the re-election of Trevor Schultz, who had temporarily taken on the chair of the Remuneration committee following the departure of another director. Following the AGM the directors re-appointed Trevor Schultz to the board, although he was not put back onto the Remuneration Committee.
- Eva Lindqvist at Bodycote was re-elected to the board, but taking abstentions into account she received just 47% support from shareholders due to her sitting as a NED on seven other boards.
- The technical resolutions relating to the authority to allot shares and disapplication of pre-emption rights continue to illicit some shareholder dissent. In particular Capital Group, M&G and Baillie Gifford routinely vote against the authority to allot an additional 5% of the share capital on a non pre-emptive basis in the event of an acquisition or specified capital investment.

Conclusions

Despite the increasingly febrile atmosphere as regards executive remuneration from both the press and government over recent months, in overall terms the average level of support for the Directors' Remuneration Report and Remuneration Policy resolutions in 2017 remained above 90% and was therefore consistent with the level of support seen for these resolutions in the 2016 AGM season.

Just two remuneration reports were voted down across the FTSE 350, at Pearson and Crest Nicholson and all remuneration policy resolutions were passed by shareholders.

Whilst this might suggest business as normal on remuneration matters, it is also apparent that companies have in general been listening to shareholders, in part because of the greater dialogue required this year with the binding vote on remuneration policy required by a majority of companies. This increased shareholder dialogue led in some cases to modifications to remuneration plans, which in turn helped companies to receive a greater level of shareholder support. In addition a number of companies withdrew proposals for new remuneration policies just prior to their AGM after receiving negative shareholder feedback.

Away from remuneration matters, shareholders seem to be more willing to vote against the re-election of directors, albeit such instances remain quite rare. Shareholders are particularly concerned at circumstances where they believe that a director has too many commitments. For example the ISS Proxy Voting Guidelines considers it excessive if any director has more than five non-chair non-executive director positions. A director can also run into trouble with shareholders if they are deemed not to be independent, because of tenure or links to a shareholder. Voting sanctions may then be applied to a non-independent director if they sit on a board committee that requires only independent directors, such as the RemCo.

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