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A review of the 2018 AGM Season

2018 AGM season
KPMG Board Leadership Centre

With the vast majority of UK companies having held their AGM, shareholder voting in 2018 looks very similar to what we saw in 2017. Executive remuneration continued to be the main topic of focus, with any pay packages deemed to be excessive being put firmly in the spotlight. However, in overall terms, the average level of support for the Directors' Remuneration Report and Remuneration Policy resolutions in 2018 remained above 90% for both FTSE100 and FTSE250 companies and showed little change to the level of support seen in the 2017 AGM season.

Executive remuneration

The advisory vote on the Directors' Remuneration Report (DRR) resolution received less than 80% support at eleven FTSE100 companies, including one where the resolution was defeated by a margin of two-to-one. Amongst FTSE250 companies the DRR resolution was defeated at two AGMs and received less than 80% support at a further fourteen shareholder meetings.

Shareholder dissent on remuneration matters arose from a number of different issues, rather than a single theme. Any of the following circumstances could lead to a significant vote against the DRR:

— Pay not aligned with company performance

— Salary increases above the level received by the general workforce, or a higher salary being awarded to a new director compared to the predecessor in the role

— An increase in the maximum potential pay, such as due to an increased LTIP award

Looking forward, the scrutiny on pay is likely to increase further and any company that steps outside the norm will be heavily scrutinised by shareholders.

Increased scrutiny of director elections

Beyond executive remuneration matters, the 2018 AGM season has seen some pushback on a small number of director elections. In particular shareholders are increasingly looking at the number of appointments held by a director and may vote against the re-election of those directors considered to be "overboarded".

Three FTSE100 directors received less than 80% support for their re-election during the 2018 AGM season due to overboarding and a further eight FTSE 250 directors had a similar experience. An increasing number of institutional shareholders are adopting specific policies on overboarding and the 2018 UK Corporate Governance Code – effective for accounting periods commencing on or after 1 January 2019 - makes specific reference to the time commitment of directors and states that companies should take into account other demands on directors' time when making new appointments.

Overboarding is likely to be an area where we will see greater shareholder dissent in the coming years.

A further analysis of the issue can be found here.

Greater scrutiny of AGM voting results

Compliance with the 2018 UK Corporate Governance Code requires that when 20 percent or more of the votes have been cast against a resolution, the company should explain - when announcing the result of the AGM vote - what action it intends to take, and provide further updates on the issue within six months and in the following year's annual report.

Companies receiving 20 percent or more votes against a resolution will also be included in the Investment Association Public Register of companies that receive a high vote against an AGM resolution. So, the implication for any company that receives less than 80% support for a particular AGM resolution is that there will be on-going scrutiny of the issue. So adverse press reports immediately after the AGM - which are then forgotten - are likely to be a thing of the past.

In summary, dialogue with institutional shareholders on governance and remuneration matters continues to be very important. Engagement should include both the passive index/quant investors that have grown in importance at the top of the share registers of UK companies, as well as the active investors seen by companies as part of the normal investor relations activity.

A more detailed analysis of the 2018 AGM season can be found here.

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