

Review of the 2020 AGM season

October 2020



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Summary

The following report features FTSE 350 constituents as at March 2020, analysing AGMs that were held up until the 31st August 2020 and covers well over three quarters of the FTSE 350 (excluding Investment Trusts).

With the 2020 AGM season almost complete, the vast majority of AGM resolutions have been overwhelmingly supported by shareholders, producing a similar pattern to 2019. In the FTSE 100 just 24 board recommended resolutions received less than 80% support, whilst in the FTSE 250, 58 board recommended resolutions received less than 80% support. The 80% level of support being particularly important given that a vote of less than 80% triggers the inclusion of the company on the Investment Association Public Register.

The advisory vote on the Directors' Remuneration Report (DRR) remained the AGM resolution most likely to see significant shareholder dissent. Four companies in the FTSE 100 received less than 80% support for the DRR, including Tesco where over two-thirds of voting shareholders voted against the DRR, resulting in the resolution being defeated. In the FTSE 250, a total of 16 companies received less than 80% support for the DRR, with three DRR resolutions being defeated at Capital & Counties Properties, Playtech and Wizz Air. In addition, across the FTSE 100 and FTSE 250, a total of 13 Remuneration Policy resolutions received less than 80% support, but all received a majority of votes in favour and were passed by shareholders.

Away from remuneration matters more than 2000 directors have been elected or re-elected across the FTSE 350 so far this year. Of these just 25 received less than 80% support from shareholders, with none of these directors failing to get elected. There were however nine instances where resolutions to re-elect a director were withdrawn ahead of the AGM, presumably following negative feedback from shareholders.

Of the 25 directors to have received less than 80% votes in favour, shareholders voted against two-fifths for so called "overboarding" where a director is considered to have too many directorships to be able to apply sufficient time to each of the roles. Shareholder rationale for overboarding can vary widely and a positive vote recommendation from Proxy Vote Advisor's does not guarantee a good result. As in 2019, for a small number of cases shareholders voted against the chair of the Remuneration Committee where the company had experienced significant dissenting votes on the DRR over more than one year.

Looking ahead to the 2021 AGM season, around one-quarter of FTSE 350 companies will put their Remuneration Policy to a vote in 2021 and it is likely that pay will continue to be the main focus of attention at AGMs next year. The consideration points from our previous AGM season review (below) will still be relevant for these companies and any company proposing excessive increases in salary, bonuses or overall quantum which are not considered in-line with performance, as well as failure to align pensions to that of the wider workforce by 2022, should be prepared for a rough ride as these factors are likely to be as contentious for shareholders in 2021 as they were in 2020.

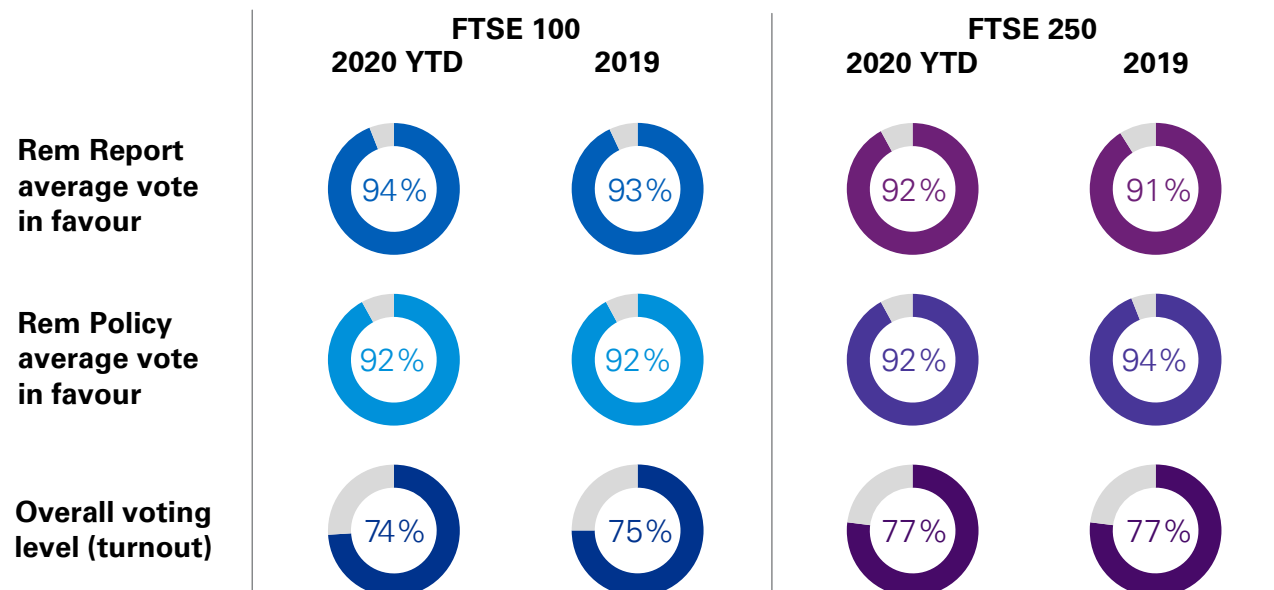
Proposing an unchanged Remuneration Policy will not automatically be well received by shareholders. On issues such as pension contributions and malus & clawback shareholders may be looking for revisions to the policy to be in line with the latest Investment Association Remuneration Guidelines.

Restricted shares schemes as an alternative to LTIP's have been slow to gain traction. Companies proposing a restricted share scheme are likely to encounter pushback from those shareholders that believe all long term pay arrangements should contain performance conditions. A company looking at an alternative structure to an LTIP will need to ask the questions, does it work for the company strategy, the long term performance of the business and for the shareholders.

Finally, the expectation from shareholders and wider stakeholder groups is that overall pay needs to go down. As regards the Remuneration Policy this means looking at the factors impacting potential pay.

Voting overview

The analysis considers votes in favour of each resolution as a proportion of votes for and against. Shareholder dissent on a particular resolution by abstention or a vote withheld is not a vote in law and thus not counted in the calculation of votes in favour.



Source: KPMG Makinson Cowell analysis

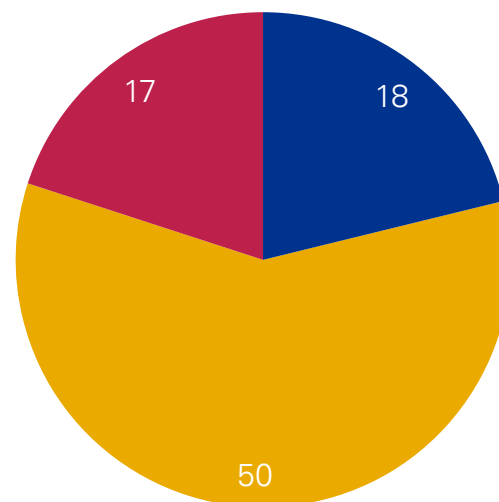
- The average vote in favour for the Directors' Remuneration Report in the 2020 AGM season was 94% for FTSE 100 and 92% for FTSE 250 companies. This is broadly unchanged from 2019 where the level of support was 93% and 91% respectively.
- There has been a similarly strong level of support for the Remuneration Policy whenever it has been voted on, with on average 92% support within both the FTSE 100 and FTSE 250 in 2020, again consistent with 2019.
- The overall voting level or turnout has also been comparable between 2020 and 2019, with no suggestion of the COVID-19 situation impacting voting levels, despite shareholder non-attendance at this year's AGMs. The FTSE 100 average voting level of 74% in 2020 being marginally lower than in 2019, with the more UK focused and concentrated ownership of FTSE 250 companies leading to an average vote of 77% of the shares in issue, in line with the previous year.
- The UK Corporate Governance Code states that "When 20 per cent or more of votes have been cast against the board recommendation for a resolution, the company should explain, when announcing voting results, what actions it intends to take to consult shareholders in order to understand the reasons behind the result. An update on the views received from shareholders and actions taken should be published no later than six months after the shareholder meeting. The board should then provide a final summary in the annual report and, if applicable, in the explanatory notes to resolutions at the next shareholder meeting, on what impact the feedback has had on the decisions the board has taken and any actions or resolutions now proposed."

FTSE 100 proxy voting research

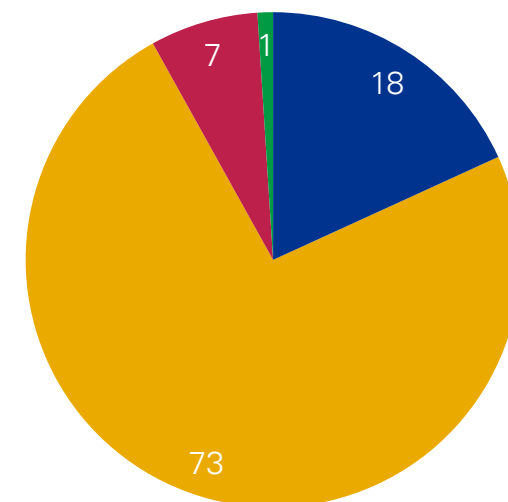
The next two pages look at the Investment Association's Institutional Voting Information Service (IVIS) research reports which use a colour coding system to highlight areas of concern and breaches of best practice to be considered at the AGM.

IVIS Report Coding on the following two pages is based on the overall Report, where any one resolution could determine the colour code.

FTSE 100 IVIS Report Coding 2020 YTD



FTSE 100 IVIS Report Coding 2019



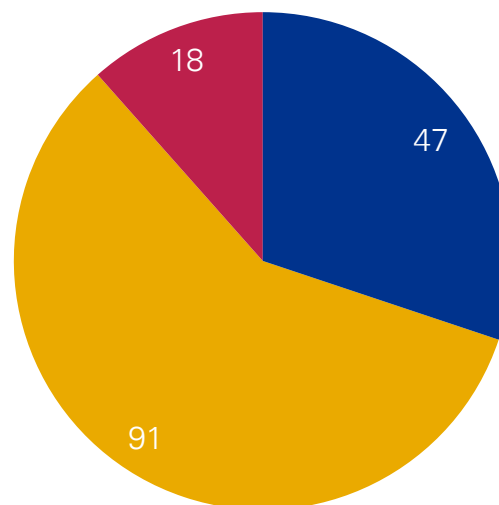
- Blue (no areas of major concern)
- Red (strongest concern)
- Amber (significant issue to be considered)
- Green (issue that has been resolved)

- In 2020, 79% of IVIS reports for the FTSE 100 feature either an Amber or Red top colour coding, indicating that there are significant issues to be considered. This is broadly similar to 2019 (81%), although in 2020 red tops have increased to 20% of the overall distribution compared to 7% in 2019.
- In our analysis, 17 FTSE 100 companies received an IVIS red top in 2020 compared to seven in 2019.
- The 17 red tops have been received for a range of resolutions including: Approval of the Remuneration Report, Approval of the Remuneration Policy, Approval of the Long Term Incentive Plan, Approval of a Stock Plan, Gender Diversity, Dis-application of Pre-emption Rights and Amendment to the Articles of Association
- The Investment Association announced in January that for the 2020 AGM season it would be tracking climate change and in particular, companies progress in reporting in line with Task Force for Climate-related Financial Disclosures (TCFD) recommendations by 2022, as well as monitoring Audit Quality, Stakeholder Engagement and Diversity.
- IVIS also informed companies that they would now be giving a 'red top' for the following two reasons.
1) where a company had 20% or less gender diversity on their senior leadership teams, in addition to their boards. 2) where pensions contributions (as part of the Remuneration Policy) remained 25% or more of salary and a credible plan to reduce this to the level of the majority of the workforce by 2022 has not been set out.

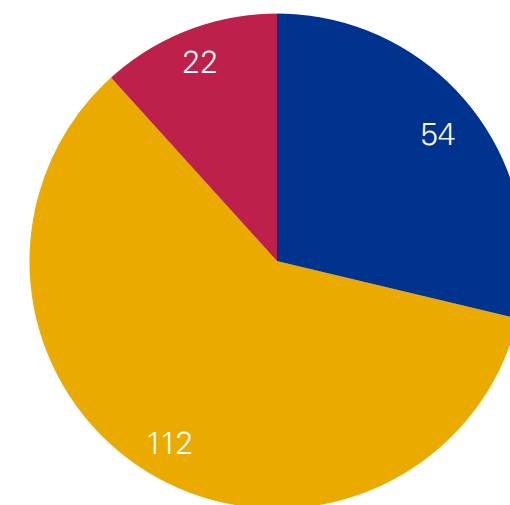
FTSE 250 proxy voting research

This page shows the Investment Associations IVIS research reports and the distribution of colour coding given to the reports at FTSE 250 AGMs.

FTSE 250 IVIS Report Coding 2020 YTD



FTSE 250 IVIS Report Coding 2019



■ Blue (no areas of major concern)
■ Amber (significant issue to be considered)

■ Red (strongest concern)

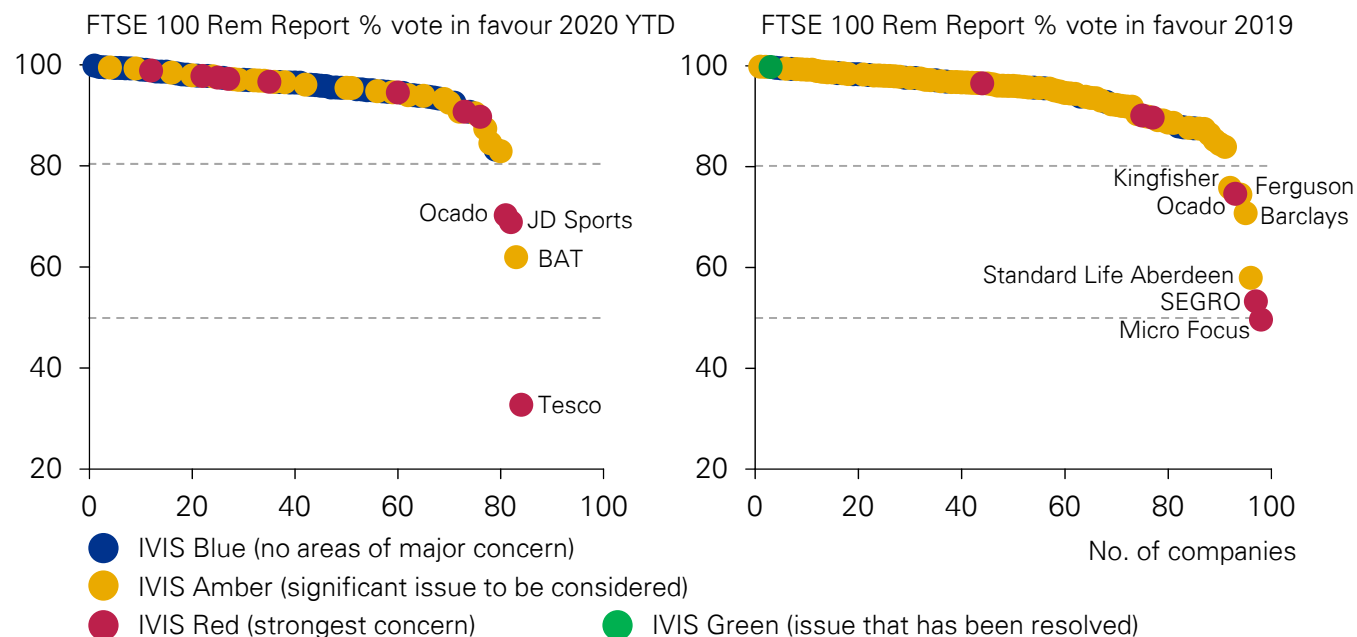
- In 2020, 70% of IVIS reports for the FTSE 250 feature either an Amber or Red top colour coding indicating that there are significant issues to be considered. This is slightly lower than in 2019 (71%), although the overall distribution in 2020 remains consistent with 2019.
- In our analysis, 18 FTSE 250 companies received an IVIS red top in 2020 compared to 22 in 2019.
- The 18 red tops have been received for a range of resolutions including: Approval of the Remuneration Report, Approval of the Remuneration Policy, Dis-application of Pre-emption Rights, Approval of the Adoption of New Articles of Association, Board Diversity and Gender Diversity.

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 2020 and 2019. Each dot represents the IVIS colour code received for the resolution at each FTSE 100 company.

The IVIS colour code given to each Directors' Remuneration Report resolution highlights an area of concern that is considered important to shareholders.

The following four pages show dotted lines on each chart which represent two values. 80% where if below, companies are included on the Investment Association Public Register and 50% where if below, a resolution has been defeated.



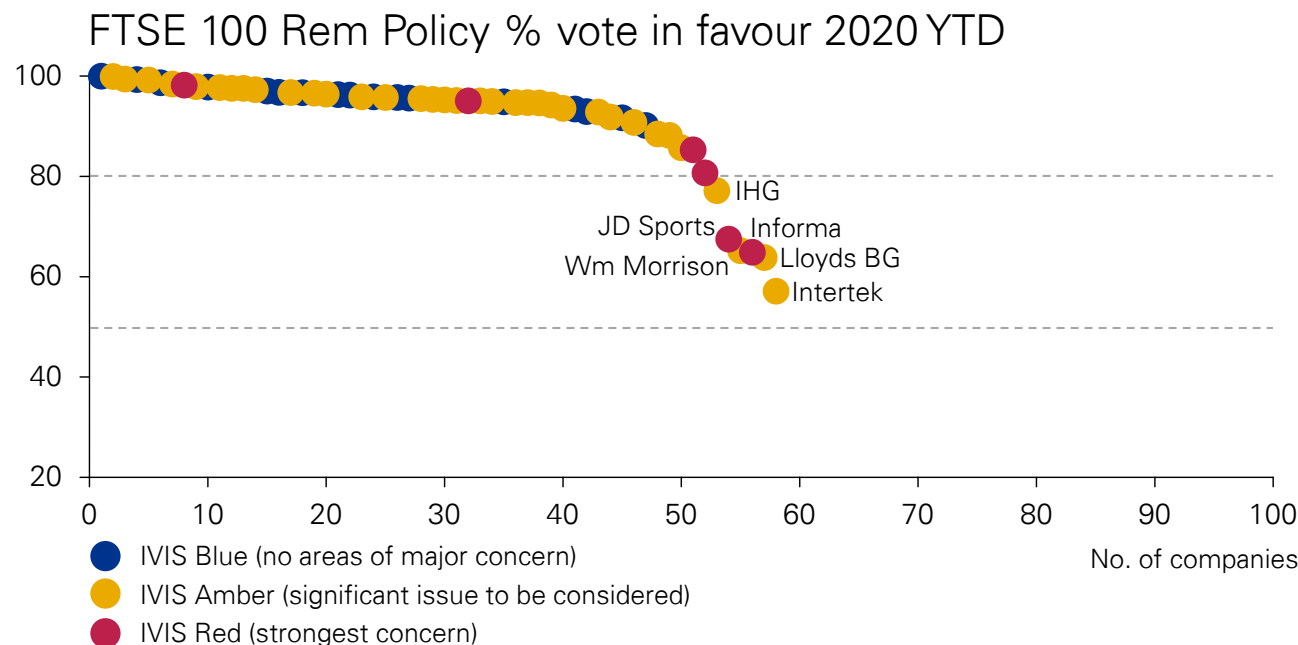
- The charts above show that four companies encountered significant shareholder dissent in 2020 compared to seven in 2019. Three of these companies received an IVIS red top highlighting a strong concern, whilst all four received an ISS vote recommendation for shareholders to vote against the Directors' Remuneration Report. Glass Lewis recommended a vote against three of the companies, with BAT receiving a positive vote recommendation.
- Tesco is the only FTSE 100 company where the DRR has been defeated in 2020 with two thirds of the shares cast voting against. Tesco had adjusted the company's PSP comparator group used to measure TSR performance of the company, a performance condition that is 50% of the LTIP award and allowed the vesting of approximately 67% under this element.
- The DRR at BAT was approved with 62% of votes in favour with shareholders opposing the CEO's 9.5% salary uplift and the new CFO's LTIP award being increased from 350% to 400% of salary for FY2020.
- JD Sports Fashion's DRR received 69% of votes in favour and attracted shareholder dissent after the Executive Chairman received an exceptional bonus for the fifth consecutive year and questions were raised to whether sufficient rationale had been provided. In addition there continue to be ongoing concerns around the LTIP cash award and retrospective target disclosures.
- Ocado has received less than 80% support for its DRR for the second year running with 70% of votes in favour of the DRR. Shareholder concerns focused on large fixed pay increases for the Executive Board, the 2014 GIP which vested at 100% and resulted in excess of £70m of shares for the CEO, CFO and COO and bonuses that were based on non-financial performance as financial targets were not met.

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.

In 2020 around two-third of the FTSE 100 have put their Remuneration Policy to a vote, compared to 22 in 2019.

The IVIS colour code given to each Remuneration Policy resolution highlights an area of concern that is considered important to shareholders.



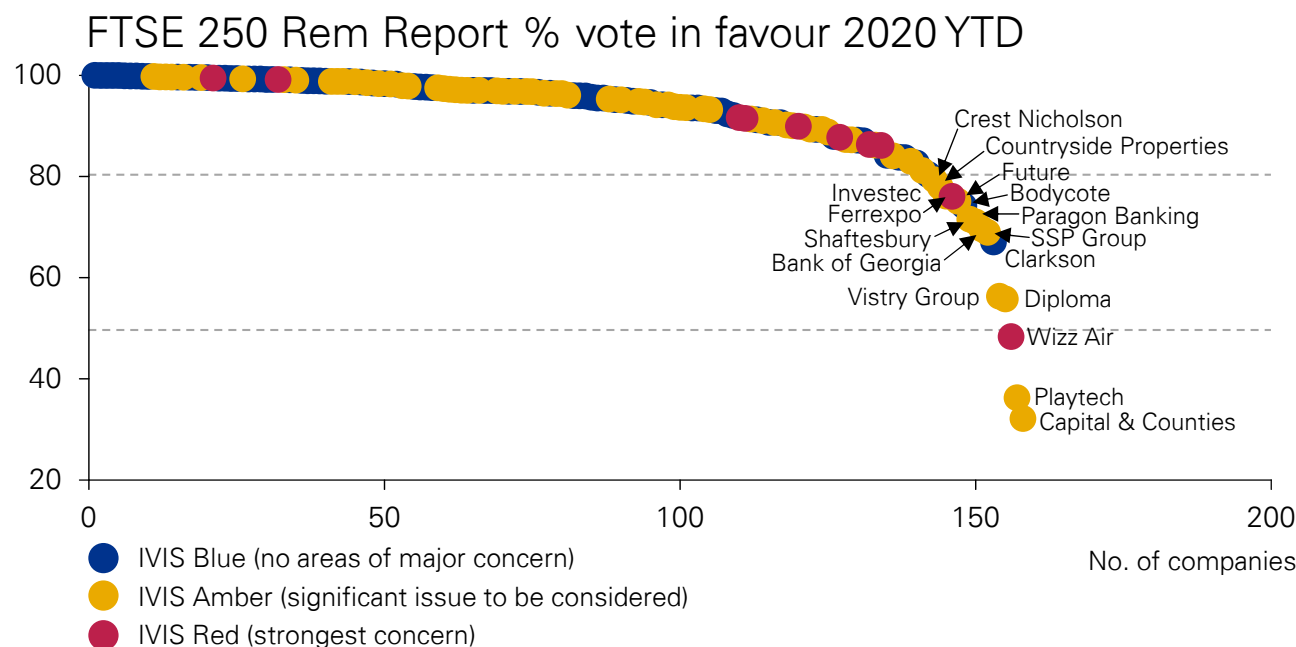
Source: KPMG Makinson Cowell Analysis, Proxy Insight, IVIS

- All FTSE 100 Remuneration Policy resolutions were approved by shareholders in 2020, with six companies receiving less than 80% support from shareholders. Two of these companies received IVIS red top highlighting a strong concern, with all six receiving an ISS vote recommendation for shareholders to vote against the Remuneration Policy. Glass Lewis only recommended a vote against JD Sports.
- Pension contribution was the main shareholder concern at Intertek, Informa and Wm Morrison who received votes in favour of 57%, 64% and 65% respectively. At Intertek, the CEO's pension contribution remains at 30% of salary with no commitment to align the pension with that of the wider workforce. At Informa, the decision to extend its current Policy until 2022 resulted in Director pension contribution remaining at 25% of salary and higher than the wider workforce, whilst at Wm Morrison there were concerns around the level of pension contribution for incumbent directors and no clear indication of aligning them with the wider workforce.
- Lloyds Banking Group received only 64% of votes in favour of its Remuneration Policy with shareholder concerns over the new Long Term Share Plan, which exhibited elements of a restricted share plan and meant that the maximum opportunity of 200% of salary, which represents less than a 50% discount on the current LTIP awards levels, was not considered enough to offset the increased certainty of payout.
- JD Sports received 67% of votes in favour of its Remuneration Policy with a number of items being cited. The increase in maximum opportunity from 200% to 250% of salary and LTIP awards that continue to be paid in cash, whilst performance underpins will not be disclosed until the end of the performance period.
- IHG received 77% of votes in favour of its Remuneration Policy with shareholders focused on the LTIP award opportunity increasing to 350% of salary for the CEO and 275% of salary for other directors.

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 2020. Each dot represents the voting at a particular FTSE 250 company.

The IVIS colour code given to each Directors' Remuneration Report resolution highlights an area of concern that is considered important to shareholders.

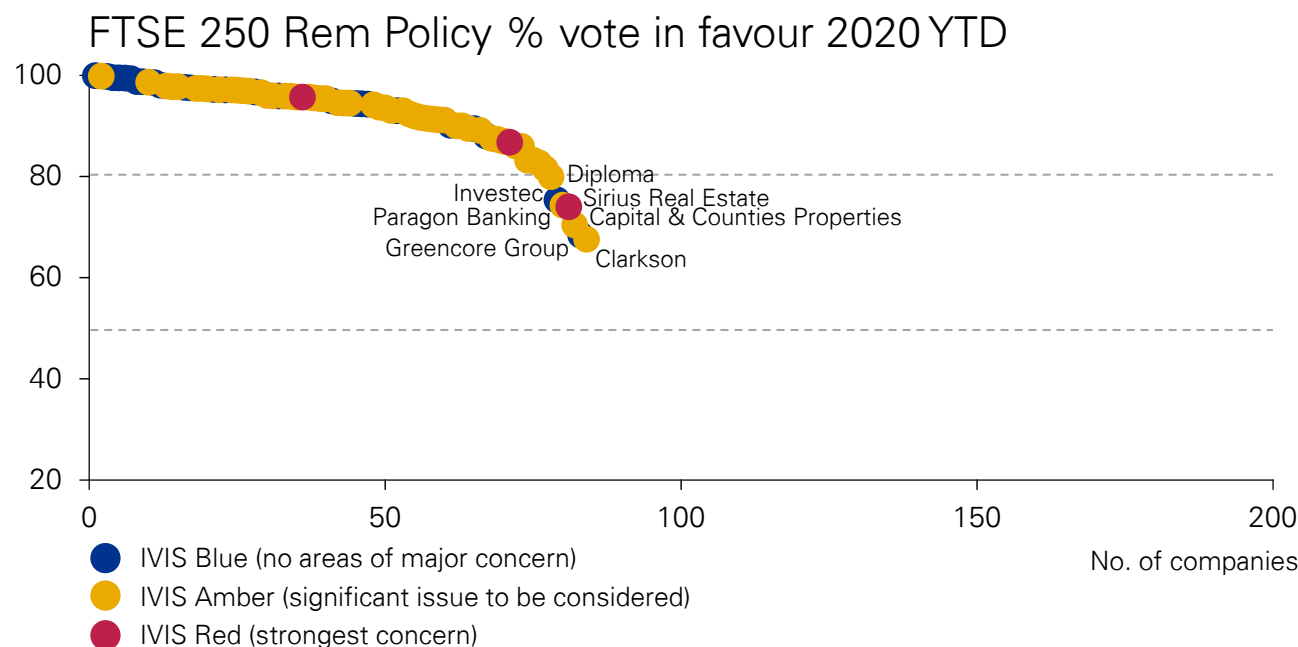


- 158 FTSE 250 Directors' Remuneration Report resolutions have been voted on in 2020. Of these, 16 have received less than 80% support from shareholders and three have been defeated.
- The DRR at Capital & Counties Properties received 32% of votes in favour. Shareholder strongly opposed bonus payouts of Executive Directors that do not appear to be aligned with company performance and the mid-year leaving bonus arrangements of a departing director, both of which were applied with company discretion.
- At Playtech only 36% of votes received were in favour of the DRR. Shareholders highlighting that the company has not addressed the concerns raised at the 2019 AGM and that issues with quantum and the alignment of pay and performance remain.
- The DRR at Wizz Air Holdings received 48% votes in favour with shareholder dissent focused around a discretionary bonus award received by the CEO even though net profit targets had not been met.
- Diploma and Vistry Group both received 56% support for their respective DRR's. At Diploma, there were shareholder concerns over the newly appointed CEO's bonus which was not pro-rated to reflect his time served, whilst at Vistry Group shareholders objected to the CFO receiving an 18% salary increase without compelling rationale, as well as overall quantum available due to the introduction of a new Remuneration Policy in December 2019.
- Clarkson's DRR received shareholder support with 67% votes in favour, the fourth consecutive year the company has received less than 80% votes in favour. Dissenting voters highlighted the uncapped awards of the annual bonus scheme which has consistently resulted in excessive bonus payouts in the view of many shareholders.

FTSE 250 Rem Policy

Of the 158 FTSE 250 companies (ex-Investment Trusts) to hold their AGM in 2020 and publish their DRR voting outcome, 84 also put their Remuneration Policy to a vote.

Once again, the IVIS colour code given to each Remuneration Policy resolution highlights an area of concern that is considered important to shareholders.



Source: KPMG Makinson Cowell Analysis, Proxy Insight, IVIS

- Of the 84 FTSE 250 companies to have put their Remuneration Policy to the vote in 2020, seven have received less than 80% support from shareholders.
- At Clarkson, the Remuneration Policy was approved with 68% shareholder support. There were no proposed changes to current Executive remuneration structure and concerns remain over the uncapped bonus plan for incumbent executive directors and that there is no contractual obligation to defer bonuses.
- The proposed Greencore Remuneration Policy received votes in favour of 68%. Concern over the pension contribution for the CEO and CFO which are currently set at 35% and 25% of salary respectively, with no current commitment to align this wider workforce by 2022.
- Capital & Counties Properties Remuneration Policy received 70% of voting shareholder support. The company proposed to amend the portion of the bonus deferred into shares from 50% of bonus to an element of bonus greater than 100% of salary and have not introduced a post-cessation shareholding requirement policy.
- Sirius Real Estate received 74% of votes in favour of their Remuneration Policy, which is an annual advisory vote as required by the JSE Listings Requirements. No changes had been made from the previous year. Dissenting shareholders focused on the structure of the policy, concerns over the alignment of pay and performance including the maximum LTIP grant size considered to be excessive for a company of this size.

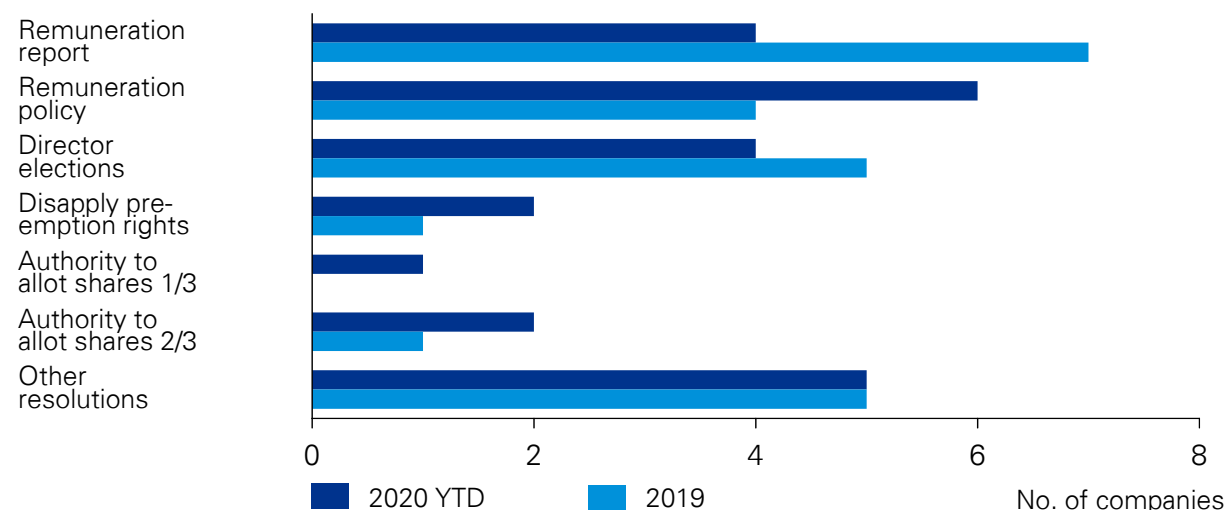
FTSE 100 resolutions

The next two pages consider the 2020 and 2019 AGM seasons in terms of the number of board recommended resolutions receiving less than 80% support.

As with all the data in this review, the analysis considers votes in favour of each resolution as a proportion of votes for and against. Shareholders that dissent on a particular resolution by abstention or a vote withheld is not a vote in law and thus not counted in the calculation of votes in favour.

Resolutions across the FTSE 100 in 2020 included shareholder resolutions for three companies that were not supported by management. All three resolutions were defeated.

FTSE 100 resolutions <80% support 2020 YTD vs 2019



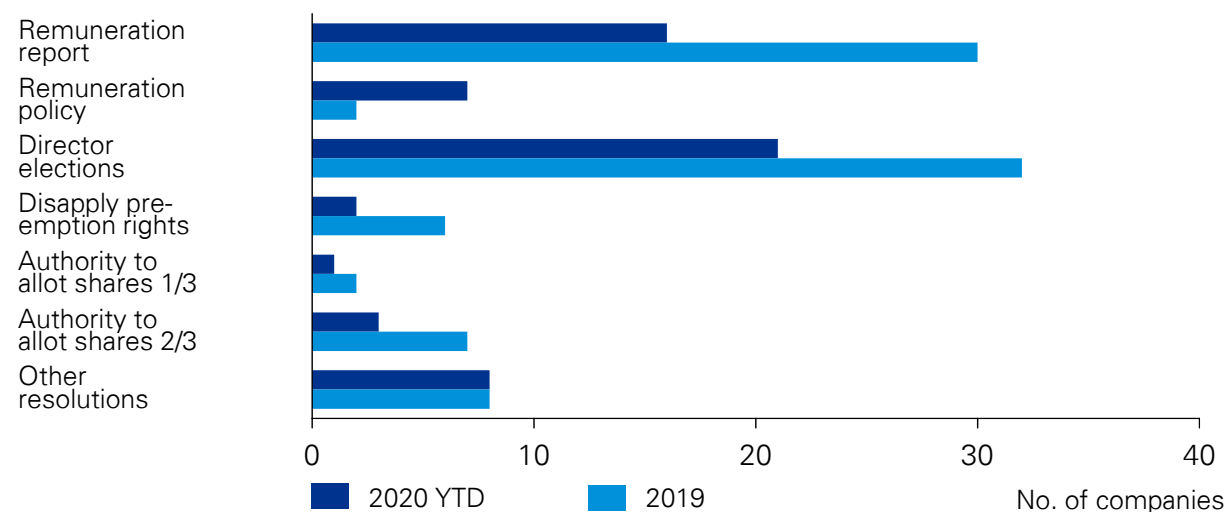
Source: KPMG Makinson Cowell Analysis, Proxy Insight

- Earlier in our report we highlighted four FTSE 100 companies in 2020 received less than 80% on the DRR which compares to seven in 2019. In addition, six FTSE 100 companies received less than 80% support for the Remuneration Policy vote, a lower percentage of dissent overall given that to three times as many companies putting their Remuneration Policy to the vote in 2020 compared to 2019.
- As to resolutions to re-appoint directors we have seen four directors receiving less than 80% support in 2020, moderately lower than the level seen in 2019. In addition four director re-elections were withdrawn ahead of their respective AGM's.
- Overboarding, where shareholders consider a director to hold too many appointments continued to be high on the agenda for some shareholders. Michael Lynton at Pearson was re-elected with 67.5% support, whilst both Belinda Richards of Wm Morrison Supermarkets and Edward Bonham Carter of Land Securities received just under 80% votes in favour. ISS supported all three re-elections, whilst Glass Lewis supported at least two of the re-elections, highlighting the differing rationale of shareholders.
- At TUI, Vladimir Lukin received 71% of votes in favour with shareholder concerns of non-independence which contributed to less than a third of the supervisory board being sufficiently independent.
- The other resolutions category includes three pay linked resolutions which all related to the approval of Long Term Share Plans or Long Term Incentive Plans with Lloyds Banking Group, JD Sports Fashion and InterContinental Hotels Group receiving votes in favour of 64%, 70% and 77% respectively.

FTSE 250 resolutions

This page considers the number of AGM resolutions receiving less than 80% support at FTSE 250 companies in 2020 and 2019.

FTSE 250 resolutions <80% support 2020 YTD vs 2019



Source: KPMG Makinson Cowell Analysis, Proxy Insight

- 16 FTSE 250 companies in 2020 received less than 80% on the DRR which compares to 30 in 2019, whilst seven FTSE 250 companies received less than 80% support for the Remuneration Policy vote, around three times as many than in 2019 and in line with the increased number Remuneration Policies put to vote this year.
- A total of 21 Director elections received less than 80% support in 2020, significantly lower when compared to the overall total of 32 in 2019. In addition five director re-elections were withdrawn ahead of their respective AGM's. Four companies had multiple directors receiving less than 80% shareholder support.
- At Mitchells & Butlers, Josh Levy and Ron Robson who both represent shareholder Piedmont Inc received 77% and 74% of votes in favour respectively, whilst Eddie Irwin who represents shareholder Elpida Group received 75% of votes in favour, with continued concerns that they are not sufficiently independent.
- At Shaftesbury, Brian Bickell (CEO), Christopher Ward (FD) and Jonathan Nicholls (Chairman) received 71%, 71% and 67% votes in favour respectively, when for the second consecutive year Samuel Tak Lee, owner of 26% of the shares, opposed a number of resolutions in connection with the litigation he instigated against the Company in June 2019.
- A significant number of Ferrexpo's shareholders dissented on the re-election of Kostyantyn Zhevago who received 67% votes in favour due to reportedly being indicted by the Ukrainian authorities and is currently subject to ongoing legal proceedings. Vitalii Lisovenko (SID) and Stephen Lucas (Board Chair) both received 72% votes in favour due to the lack of disclosure around these legal proceedings and continued reputational risk of Kostyantyn Zhevago remaining on the board.
- At Britvic, William Eccleshare and Ian McHoul received votes in favour of 74% and 79% respectively, with some shareholders considering them to be overboarded.

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