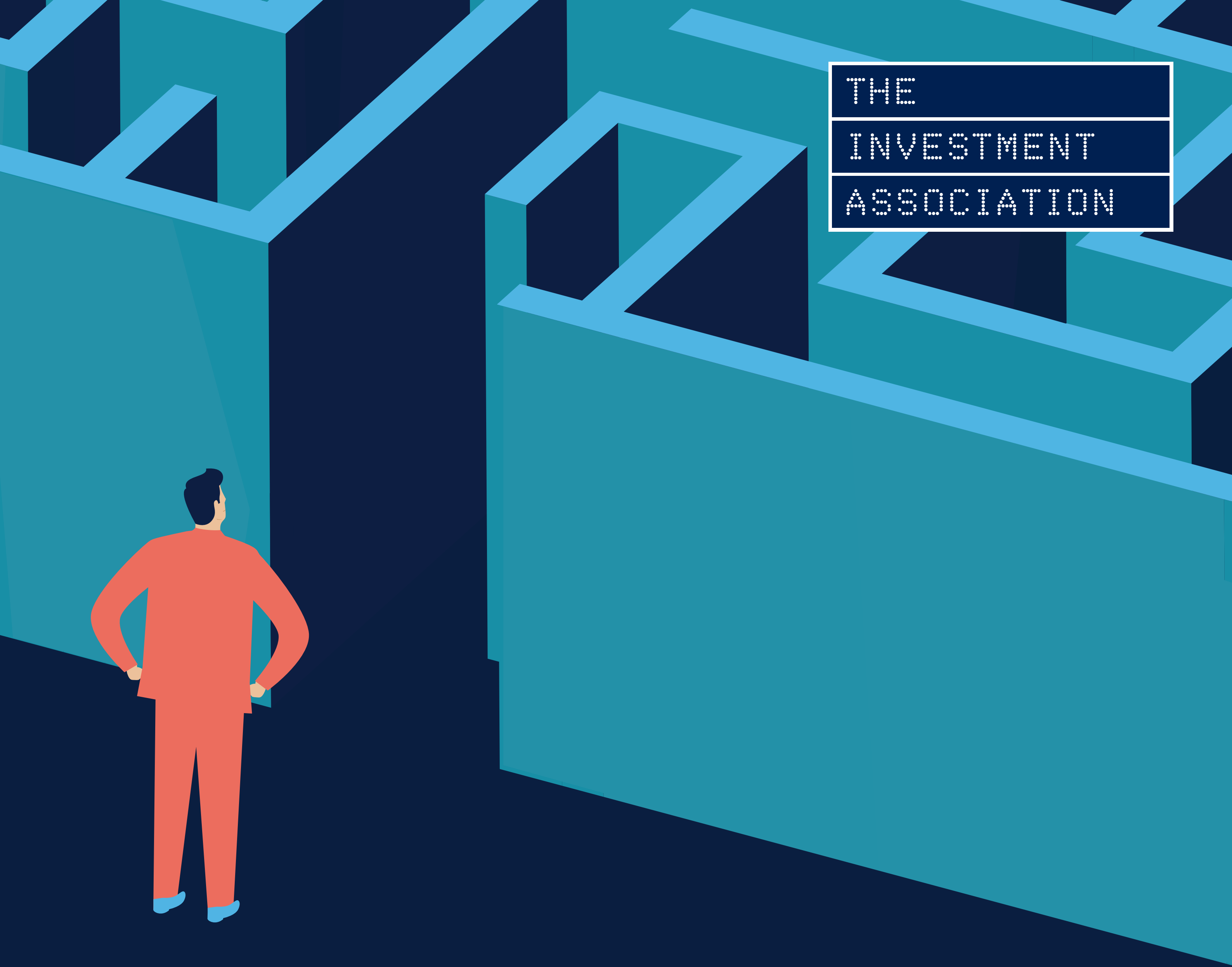

THE INVESTMENT ASSOCIATION

HOLDING BIG BUSINESS TO ACCOUNT:

A GUIDE TO THE UK AGM SEASON

March 2018

This guide is an introduction to the Annual General Meeting (AGM) season in the UK. It provides a simple introduction to AGMs, the issues they cover, and how the shareholders who vote in them hold the UK's biggest listed companies to account.

The Investment Association (IA) represents UK-based asset managers. Our 240 members manage £6.9 trillion of assets for pension funds, lifetime savers, and individual investors. Our members play a central role in the UK economy moving money from savers to businesses, investing in companies through shares and corporate bonds, and providing funding for infrastructure and housing projects.

Every day millions of households entrust our members to put their savings to work. In the UK, our members own over a third of the FTSE All-Share – the register of major UK listed companies – on behalf of millions of savers. This means that they play an important role in holding big business to account through ongoing company engagement and by how they vote at AGMs.

240 members

£6.9 trillion

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£

Millions of households entrust our members to put their savings to work

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1. OVERVIEW OF AGMs

WHAT IS AN AGM?

Companies are required to hold an AGM each year. It is one of the key ways that shareholders, who own the company, hold the Board to account for the decisions made during the past year.

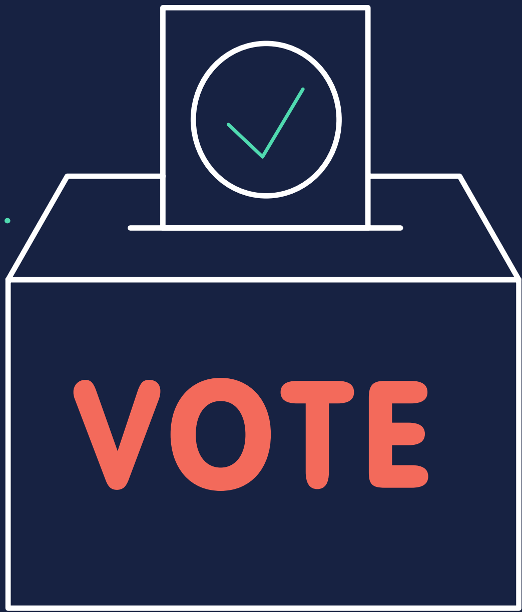
Shareholders have regular and ongoing engagement with companies across the year on issues including strategy and financial performance as well as remuneration. The AGM provides one of the opportunities for shareholders to hold companies to account by voting on a number of measures including: the annual report, the re-election/election of directors, the remuneration report and policy, as well as other resolutions which allow companies to issue or buy back shares.

Effective corporate governance during the year by shareholders can drive change at companies without requiring a high level of shareholder dissent in votes at the AGM.

The AGM season typically takes place from March through to the end of July and is made up of two waves. The first wave runs from March to May (for companies whose financial year ends on 31 December) and the second wave runs from June to July (for companies whose financial year ends on 31 March).

"It provides one of the opportunities for shareholders to fulfil their rights and hold the company to account"

WHO ATTENDS AND VOTES IN AN AGM?



Any shareholder, who owns at least one share in a company can attend and vote at the company's AGM. Unless they hold shares or the company invites them, the general public and the press are not allowed to attend AGMs.

There are two types of shareholders: institutional investors (investment managers, insurance companies and pension funds) who invest money on behalf of individuals, pension savers or collective schemes; and retail investors (individual savers or pensioners) who buy shares directly. In all FTSE-listed companies, the principle of one-share-one-vote applies.

Many shareholders do not attend the AGMs of every company they own shares in and vote by proxy. Typically, institutional investors cast their votes electronically in advance. Those who attend are usually retail investors.

IA members own over a third of the FTSE All-Share on behalf of millions of savers. They wield significant power in terms of their ability to vote at AGMs and have an important role in holding big business to account. Institutional investors only tend to attend when they want to make a specific point about how a company is being run, particularly if previous engagement has not led to a change or a response. This could relate to strategy, board succession, or remuneration.

The company's Board (including the Chairman, Non-Executive Directors, CEO, and CFO) will be present so it is a good opportunity to address questions to the whole Board.

2. VOTING AT AGMs AND THE ROLE OF SHAREHOLDERS

HOW DO SHAREHOLDERS DECIDE HOW TO VOTE?

Institutional shareholders (the IA's members) take corporate governance very seriously. Decisions on how to vote are typically informed by views from across their businesses, including fund managers and CIOs, as investment management firms will have contact with the companies they invest in at all levels and areas of the business, all year round.

This in-house view is complemented by external research services which institutional investors subscribe to in order to get detailed analysis on listed companies which will help them make informed voting decisions at a company's AGM. The major providers in the UK include: the Investment Association's IVIS (Institutional Voting Information Service), PIRC (Pensions Investment Research Consultants), ISS (Institutional Shareholder Services), Glass Lewis and Manifest. These are all commercial services.

IVIS: A SPOTLIGHT ON COMPANIES

IVIS is the IA's paid-for service that provides independent information on listed companies in the FTSE All-Share and FTSE Fledgling Index, to help shareholders reach a decision on how to vote at AGMs.

Unlike most research services, IVIS does not recommend investors how to vote. The IA believes that shareholders should take their investment responsibilities seriously and form their own conclusions on how to vote. Instead, using the IA's guidelines as the basis for its analysis, each IVIS report is colour coded from a 'blue top' to a 'red top', to reflect any breaches of best practice or highlight areas of concern. Red denotes the strongest concern, followed by amber, which shows a significant issue to be considered. A 'blue top' indicates no areas of major concern.

The IA's IVIS team analyse all public documents provided ahead of a company's AGM and produces a detailed report containing key information on voting matters, on the UK Corporate Governance Code, as well as on Environmental, Social and Governance (ESG) issues including executive pay, reappointment of auditors, diversity and Board composition. The IVIS team also holds face-to-face meetings with listed companies it is reviewing ahead of the AGM season to give them the opportunity to explain why certain measures have been taken. These inform the end view on colour at the top of the IVIS report.

IVIS Institutional Voting Information Service

WHAT DO SHAREHOLDERS VOTE ON AND HOW?

Shareholders will vote on a range of issues such as executive remuneration, appointments to the company's Board of Directors, dividend payments and the appointment and remuneration of the company's auditors. Institutional investors will normally vote electronically ahead of the meeting.

Whichever way the investor chooses to cast their vote, there are a number of different types of votes or 'resolutions', depending on the subject matter investors are voting on, and some have a higher threshold than others depending on the issue.

The two main types of resolutions are:

Ordinary resolutions

This is where a simple majority of over 50 per cent of the votes cast is needed to be passed. Most votes at the AGM season are ordinary resolutions.

Special resolutions

Certain actions at an AGM can only be carried out by special resolution, for example, amendments to a company's articles of association. This is where over 75 per cent of the votes cast at an AGM are required for a resolution to be passed.

Key votes at an AGM

Twenty to thirty resolutions are voted on, on average, at an AGM but the ones which attract the most commentary relate to pay and director re-election:

Executive remuneration

- **Remuneration Policy** – The Companies Act was amended by the Coalition government in 2013 to require shareholder approval for a company's remuneration policy every three years. This is a binding vote. This policy determines how the CEO and other executive directors can be paid. Companies can only legally pay directors in accordance with an agreed Remuneration Policy.

- **Remuneration Report** – Every year, the company has to put its remuneration report to shareholders setting out the total remuneration, or quantum, paid to directors during the year. The report sets out how the remuneration policy has been implemented in the year under review and how the company will implement the policy in the next year. This is an advisory vote.

  New pay ratios and pay scenarios will come into force in 2019. A company failing to receive majority support for the Remuneration Report must bring a new Remuneration Policy to shareholders in the next financial year.

- **Approval of Employee Share Schemes or long-term incentives (LTIPs)** – Companies need shareholder approval for any remuneration scheme which is long-term and includes the award of shares to employees or directors.

Re-election of directors

The appointment and re-election of directors are all based on the ordinary resolution model, with a simple majority (50%) required.

3. HOLDING BIG BUSINESS TO ACCOUNT

WHY DO SHAREHOLDER VOTES MATTER?

In recent years, shareholder votes have increasingly been having an impact on the approach companies take to executive remuneration and corporate governance.

Following a 60% vote against its Remuneration Report in 2016, BP actively engaged with investors ahead of its 2017 AGM. That led to a new Remuneration Policy with a significant reduction in the variable pay opportunity, an increase in mandatory deferred bonus pay, and tougher performance conditions. BP received 97% in favour of its new Policy.

During 2017, 6 FTSE350 companies (Aggreko, Aveva, Chemring, Hunting, Imperial Brands and Safestore) chose to withdraw remuneration resolutions ahead of their AGMs due to insufficient investor support. These are now all on the IA's Public Register.

THE TIMES

Investors turn guns on Reckitt directors

CITY A.M.

Safestore faces another shareholder revolt - this time over its revised executive pay proposals

INDEPENDENT

Executive pay: shareholders flex their muscles in 2017 AGM season to reduce ballooning salaries

The Telegraph

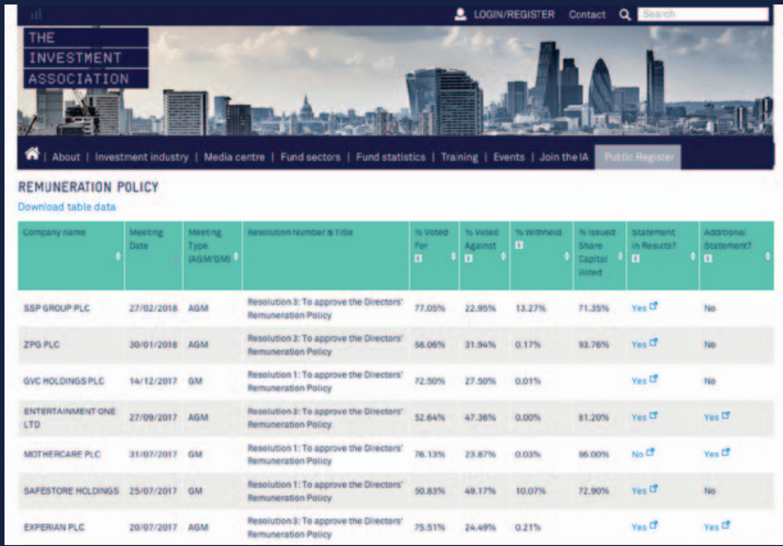
Shareholder spring 2017: is this the year investors win the war on CEO pay?

sky news

BP averts pay revolt after chief executive Bob Dudley awards are cut

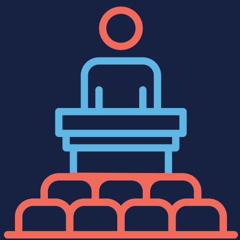
THE IA PUBLIC REGISTER OF SHAREHOLDER VOTES

In December 2017, the IA launched a world first: a Public Register of FTSE All-Share companies which have received votes of 20% or more against any resolution or withdrawn a resolution prior to their AGM. By publishing this information for the first time in one central location, the Register aims to increase transparency, accountability, and scrutiny of listed companies by shareholders, media and the wider public.



Company name	Meeting Date	Meeting Type (AGM/GM)	Resolution Number & Title	% Voted For	% Voted Against	% Withheld	% Issued Share Capital Voted	Statement in Results?	Additional Statement?
SSP GROUP PLC	27/02/2018	AGM	Resolution 3: To approve the Directors' Remuneration Policy	77.05%	22.95%	13.27%	71.35%	Yes	No
ZPG PLC	30/01/2018	AGM	Resolution 3: To approve the Directors' Remuneration Policy	68.06%	31.94%	0.17%	93.76%	Yes	No
GVC HOLDINGS PLC	14/12/2017	GM	Resolution 1: To approve the Directors' Remuneration Policy	72.50%	27.50%	0.01%		Yes	No
ENTERTAINMENT ONE LTD	27/09/2017	AGM	Resolution 3: To approve the Directors' Remuneration Policy	52.64%	47.36%	0.00%	81.20%	Yes	Yes
MOTHERCARE PLC	31/07/2017	GM	Resolution 1: To approve the Directors' Remuneration Policy	76.13%	23.87%	0.03%	86.00%	No	Yes
SAFESTORE HOLDINGS	25/07/2017	GM	Resolution 1: To approve the Directors' Remuneration Policy	50.83%	49.17%	10.07%	72.90%	Yes	No
EXPERIAN PLC	20/07/2017	AGM	Resolution 3: To approve the Directors' Remuneration Policy	75.51%	24.49%	0.21%		Yes	Yes

The public register is located on the IA website: https://www.theinvestmentassociation.org/publicregister.html



A key purpose of the Public Register is to focus attention on how companies respond to the concerns of their investors. The Register also includes any public statements from companies on how they have addressed shareholders' concerns. To date, a third of companies on the Register have provided a public response explaining how they are addressing shareholders' concerns.

In 2017, one in five companies listed on the FTSE All-Share made it onto the Public Register, due to having at least one resolution that received over 20% dissent or at least one resolution which was withdrawn.

This was much larger than expected and shows how investors are holding business to account.

Executive pay tops the list of shareholder concerns, with almost four in ten resolutions listed on the Register due to high votes against pay-related resolutions, such as shareholders voting against an annual remuneration report, remuneration policy or related resolution such as share plan approvals or other pay proposals. The second highest number of resolutions with a significant vote against in 2017 were the re-election of company directors, accounting for one in three of resolutions listed on the Register.

The Public Register will be an invaluable resource to investors and to the media as the 2018 AGM season gets under way, providing regular data on companies who have not satisfied investor concerns.

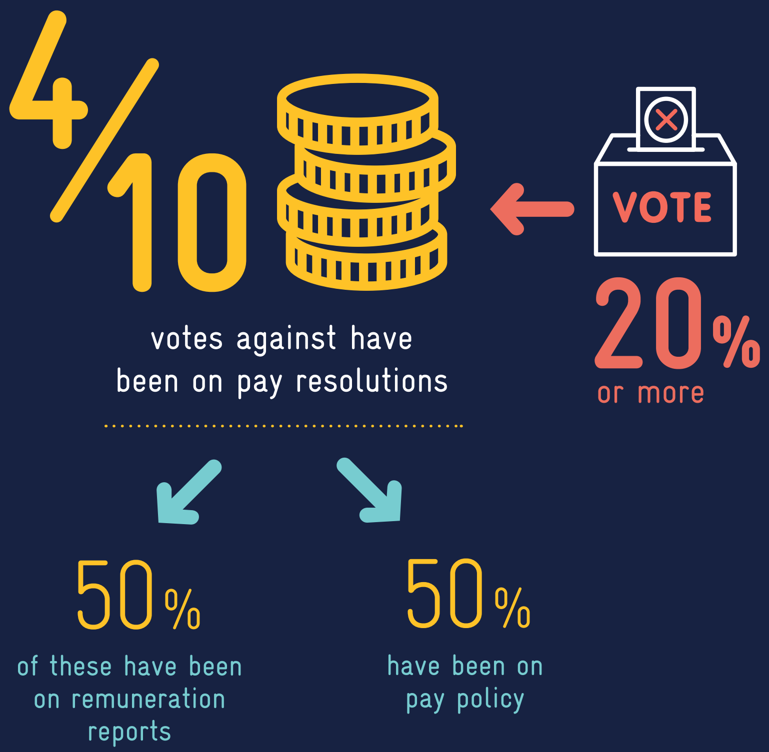
4. AGM SEASON THEMES TO WATCH

THEMES FROM 2017

Analysis of the 2017 data in the Public Register shows that, in a critical year for executive pay policy renewal, investors held companies and individual directors to account.

Four out of every ten resolutions (86) put on the Public Register related to pay in 2017. Half of which related to approval of the Remuneration Report (remuneration paid to Directors during the last year), with the other half relating to remuneration policies, share schemes, and one off changes to pay structures.

Many FTSE 100 companies who saw large shareholder votes against pay in 2016, submitted more conservative pay policies. As a large number of remuneration policies were up for their three year renewal, there was significant focus on the schemes companies were choosing and levels of variable pay opportunity within the new policies.



TRENDS TO WATCH OUT FOR IN 2018

2017 saw shareholders turn up the heat on **individual director accountability**, with just over 1 in 4 (27%) of resolutions on the Public Register relating to director re-election.

Investors rejected the reappointment of directors for a number of reasons, including whether individual directors had sufficient time to meet their responsibilities given other board commitments, concerns on decisions made by directors in their role on the remuneration committee, and concerns about their independence. We expect investors to continue to highlight concerns on individual director responsibility through their re-election.

The 2017 AGM season saw a new trend of **companies withdrawing resolutions** on executive pay and other issues ahead of shareholders voting, due to concerns over investor rebellion. A third of withdrawn resolutions on the Public Register for 2017 related to executive pay. We may see more of that trend in 2018 as a tool to curb investor revolt, despite withdrawn resolutions continuing to be listed in the register.

More broadly, the collapse of Carillion in January 2018 and the launch of an investigation in relation to the audit of financial statements by the company will undoubtedly lead to **greater scrutiny of the role of auditors**.

> ***Investors expected to highlight concerns on individual director responsibility***

INVESTOR PRIORITIES

Shareholders have a track record of using their ongoing engagement and votes at AGMs to drive positive changes in how companies are run. During the 2018 AGM Season investors will be looking to further strengthen best practice.

REMUNERATION

Shareholder engagement has helped make executive pay more transparent, accountable, and linked to performance but more progress is needed. In considering remuneration resolutions, shareholders will focus on:

Pay levels: Last year's AGM season saw some of the UK's top 20 companies reduce future variable pay awards (such as bonus and LTIPs). Our members expect this restraint to be extended across the FTSE 350.

Pay for performance: Fund managers will be seeking greater transparency on both financial and non-financial bonus targets to ensure pay is in line with performance.

Pay ratios: Our members expect companies to disclose pay ratios between the CEO and median or average employee as well as between the CEO and the Executive team.

Clarity on incentives: Investors will continue to support companies that have appropriately aligned incentive arrangements with delivery of the company’s long term strategy.

DIVERSITY

IA members support the Hampton-Alexander Review to increase diversity. Our members are engaging with companies and voting against individual Directors, where they believe that the company has not made sufficient progress.

INVESTOR PRIORITIES

PRODUCTIVITY

As part of its Productivity Action Plan, the industry committed to playing its part in boosting productivity. In May 2017, we launched our Long Term Reporting Guidance which set out areas where company reporting could improve:

Productivity – reporting on the drivers of productivity and outlining how companies are improving productivity within their own organisation.

Capital Allocation – outlining how capital allocation decisions are made including the Board's role and examples of decisions made during the year under review.

Human Capital Reporting – providing an overview of the approach to managing the workforce including the investments made to improve its productivity.

AUDITORS

Shareholders rely on auditors to provide an independent opinion that the Annual Report and Accounts show a true and fair view of a company's financial position and its performance.

Shareholders want to understand the Audit Committee and Auditors' approach to key accounting judgments and how the committee assesses the overall quality of the audit provided by the Auditor.

For further information please contact the IA's corporate affairs team on corporateaffairs@theia.org or 020 7831 0898.

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