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# Assessing and Engaging Asset Managers on Proxy Voting: Controversial Votes in 2017 and Issues for 2018

This report explores the proxy voting practices of selected leading UK charity asset managers, focussing on controversial 2017 AGM votes covering board structure, pay and auditors. We look at trends for 2018 and provide recommendations for engagement.

ShareAction»

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# Acknowledgements

This guide has been commissioned for the Charities Responsible Investment Network, known as CRIN. The CRIN, run by ShareAction, exists to help trusts, foundations, and operational charities in the UK connect their charitable aims with their investment decision making across their portfolio. The Network was founded in 2013, and currently has 25 members with over £6bn in assets. The main activities include:

## Engagement

Supporting members to engage on themes such as gender equality, climate change, and workers' wellbeing.

## Networking

Providing a supportive environment for members to talk and learn about specific challenges and opportunities in their responsible investment journey.

## Education

Undertaking a range of member-led research projects to increase understanding of specific issues.

Members participate in activities of interest to them on a case by case basis, with no obligation to participate in any individual activity.

Network members include:

The Baring Foundation

Comic Relief

Barrow Cadbury Trust

Polden-Puckham Charitable Foundation

Tellus Mater

Trust for London — Tackling poverty and inequality

JRF Joseph Rowntree Foundation

# Executive Summary

This report analyses and reviews the proxy voting practices of a selection of leading UK charity fund managers. The report focuses on controversial votes from the 2017 AGM season, covering board structure, pay and auditors. The report also looks ahead to the 2018 AGM season and identifies some key questions for asset managers.

Proxy voting is a key right of asset ownership – an opportunity for asset owners to influence the strategic direction and governance of the businesses they own. This right has increasingly been outsourced to asset managers, and yet again from asset managers to other service providers such as proxy advisers and custodians. Yet proxy voting is increasingly a topic of conversation for politicians and policy makers, as issues such as gender balance on boards, executive remuneration, and the broader responsibilities of listed businesses increasingly come into focus. Reviewing the proxy voting decisions of fund managers offers a fascinating insight into their governance policy and its application.

The recent cases of two companies, Persimmon and Carillion, have highlighted how the asset management community has generally failed their clients as guardians of their assets. Both businesses gained infamy over the last six months for different – but ultimately related – reasons and both exposed the failings in corporate governance and how it is 'implemented' by institutional investors. Persimmon awarded its CEO and 140 senior executives one of the most generous and unnecessary corporate pay-outs in UK plc history. Carillion recently collapsed after it buckled under a massive debt pile and over-optimistic profit forecasts.

In both cases, institutional investors had the opportunity to influence and alter the direction of these businesses. These opportunities were missed, and resulted in material capital losses to shareholders.

It is therefore extremely pertinent and timely that we have reviewed the voting patterns of a number of leading charity fund managers for a selection of controversial resolutions in the 2017 AGM season. We also review the forthcoming AGM season, and key questions that asset owners might want to use to challenge their asset managers.

This survey used the Investment & Pensions Europe (IPE) Reference Hub[1] and CRIN asset manager list to identify the leading charity fund managers in UK equities[2]. We have then selected a list of more

Here follows an overview of key findings, expanded upon later in this report:

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Finding 7: Over-stretched directors receive significant dissent votes, but asset managers continue to support their (re)election – p17 than 20 controversial resolutions from the 2017 Investment Association public register. Using Proxy Insight data, we mapped how the selected fund managers voted on these specific resolutions. We reviewed 218 voting decisions by 19 fund managers on 21 resolutions, covering remunerations, climate change, auditors and over-boarding (executives taking on too many boardroom roles). The full list and methodology is included later in this report.

So what can asset owners do? How can this survey help to improve asset owners' understanding of their asset managers, and nudge them towards better practice?

This report is not intended to be a comprehensive review of all voting decisions and has a number of limitations. However, it does shed a little bit of light on a key right of ownership – one that we feel asset owners need to take their asset managers to task on more regularly.

## We suggest five key questions for asset owners to ask their asset managers after the next AGM season:

### 1. Improving transparency

a. Do you publicise voting decisions and rationales on resolutions, where over 20% of shareholders have voted against management?
b. If so, are these listed in an easily searchable online system?

### 2. Voting anomalies

c. Do you have a specific policy on abstentions and special exemptions?
d. How do you monitor this policy?
e. Where you are an investor and there are over 4 resolutions listed in the Investment Association Public register and at a single company, what actions have you taken?

### 3. Governance team

f. How big is your governance team?
g. How does the corporate governance team work with portfolio managers?
h. Do environmental, social and governance representatives sit on investment committees or equivalent investment decision making committees?
i. If not, how are these areas discussed by senior investment decision makers?

### 4. Comparing to peers

j. Have you undertaken a review of your 2018 voting results and how they compare to your peers?
k. Are you more or less generous on key issues such as remuneration policies and reports?
l. How do you explain this relative performance?

### 5. Corporate governance policy

m. When did you last thoroughly review your policy on proxy voting? Does this policy have specific topic guidance?
n. How do you ensure new guidance from the PLSA, the Investment Association or the UK corporate governance code are regularly integrated into your policy, practice and voting decisions?
o. How are annual changes in the corporate governance/proxy voting policy approved?

# Introduction

## What does this report cover?

The recent cases of Persimmon and Carillion highlight the failings of corporate governance with regards to remuneration and auditing respectively. They also provide a useful case study of embarrassingly lax and entirely avoidable issues caused by poor implementation of governance and voting policy by institutional investors. Most institutional investors should be thoroughly embarrassed by previous voting decisions and their knock-on results. However, some investors emerged with a better record – reflecting a more considered and thoughtful approach.

Remuneration and audit are both areas we review in this report – alongside over-boarding and shareholder resolutions, e.g. climate change. The report reviews the voting decisions of a selection of leading charity fund managers, and tries to differentiate between approaches. We also look to the forthcoming AGM season, and identify a range of issues which are likely to be in focus over the coming six months.

The executive summary also lists a series of basic questions charity asset owners might want to ask fund managers during and after the 2018 AGM proxy season.

“Most institutional investors should be thoroughly embarrassed by previous voting decisions and their knock-on results.

Persimmon and Carillion highlight some real issues around the voting practices of major institutional investors, and their in/ability to pick through the small print and think about implications. These issues are increasingly on the top of politicians’ to-do lists and on the front pages. It should be similarly high priority for asset owners, particularly those with an interest in aligning their investment practices with their values, and maintaining positive reputations. It is our view that the asset management industry can no longer claim that it didn’t know or understand the implications of specific votes. The industry should now be under real pressure to publish voting records and rationales on controversial votes, and asset owners have a key role to play in ensuring that this happens.

## Why it matters: Persimmon and Carillion

At 11.00am on Wednesday 17 October 2012 at Persimmon House, York, Persimmon shareholders approved the suggested pay policy or Long-Term Incentive Plan (LTIP) without so much as a whimper. 140 senior executives would be eligible for massive pay-outs if a series of targets, relating to dividends and share price, were met. As with most similar LTIPs, the assumption is that if management do well then shareholders do well, and of the 72% of the shareholders who voted, nearly 85% voted in favour of the new pay policy.

The Persimmon case highlights the issues around remuneration schemes that focus on share price and dividends as their core measures – they miss the bigger picture. As the UK’s largest housebuilder, Persimmon benefitted most from the Government-backed ‘Help to Buy’ policy (introduced in 2013 after the LTIP’s approval) and a rising housing market – which had nothing to do with the recipients of the £630 million pay-out. Hardly any of the major shareholders voted against the scheme, even though it was relatively simple to calculate the potential riches that management would receive. This LTIP could have been altered by a vote from shareholders at a later stage, an opportunity that shareholders again failed to take.

Had Government policy worked against Persimmon, or the housing market seen a downturn, there is little doubt that the company's compensation committee would have gone back to shareholders for a redesigned pay policy that was would have been lucrative in a challenging climate.

Quite rightly, Nicholas Wrigley, the chairman, and Jonathan Davie, the remuneration committee chair, both resigned in December 2017, as the excessive pay-outs came to light. Its large institutional shareholders should also be thoroughly embarrassed.

At Carillion the issues were different, but the failures just as telling. The 2017 AGM vote was before the first significant profits warning, so despite the red flags raised by some, there was little shareholder disquiet at the AGM. Although highlighting issues in hindsight is easy and sometimes misleading, there were a number of signs that things were not all as they seemed at Carillion, which should have alerted corporate governance teams.

> "The Persimmon case highlights the issues around remuneration schemes that focus on share price and dividends as their core measures – they miss the bigger picture.

KMPG had been the company's auditors since 1999, in clear transgression of the corporate governance code which states that auditors should be retendered after 10 years. This was overlooked by the 97% of shareholders who voted to reappoint the auditor team that signed off the accounts. This team is now subject to FRC investigation.

Carillion investors also waived the binding vote to approve the directors' remuneration policy with 98% support despite weak clawback provisions – another governance flag. Shareholders might ponder this when they are trying to reclaim bonuses paid to executives who have driven the businesses into a brick wall.

In both cases, institutional investors had the opportunity to influence and alter the direction of these businesses. These opportunities were missed, and resulted in material capital losses to shareholders. In the case of Persimmon, this resulted in an unnecessary transfer of value from shareholders to executive management. In the case of Carillion, effective corporate governance could have highlighted potential risks, whereas failings eventually contributed to the failure of the business, and capital loss to shareholders. This is important for all asset owners – not just those specific to the charity sector.

## Voting practices

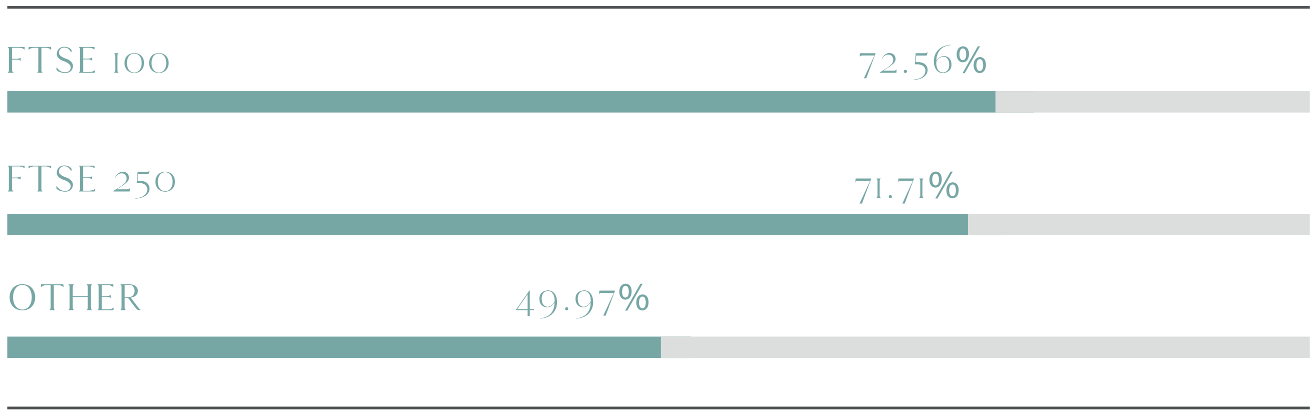
The right to vote at a listed company's annual general or extraordinary meeting is the only time shareholders – retail or institutional – have the right to express a formal opinion on the management, direction and governance of the business they own. As the connection between the owners and executive management has become more distant and the asset management industry more complex, this right has been increasingly ignored and its importance diminished. The introduction and adoption of various corporate governance codes over the last five years has provided a façade that institutional investors take this right seriously - but the evidence still points to limited endeavour by asset managers to ensure the rights of beneficiaries are protected.

Even after the introduction of various codes, a number of high profile controversies and a focus by politicians on shareholder rights, on average still only 70% of capital is voted at FTSE 100 and FTSE 250 listed businesses. The pattern for smaller companies (where sometimes governance failings and issues are more acute) is woeful, with just under 50% of capital voted by shareholders. Exercising the right to vote is not a complicated task. The standard opportunity to vote is at a company's AGM. In the UK, these tend to take place between April and August. At AGMs, shareholders have the opportunity to vote on a number of resolutions that are predominantly posed by the company management, although shareholders can also add resolutions to the agenda if they meet certain criteria. These shareholder-proposed resolutions have been particularly common in the US where they cover a plethora of issues, notable examples being gender equality, and climate change. Some resolutions are binding for executive management, whereas others are simply advisory. Most large institutional investors now outsource the voting process, both in terms of the logistics and process of exercising a vote, and deciding which way to vote.

Standard annual general meetings include a number of resolutions which have been proposed by the management and usually include:

1. To receive the Company's Accounts, the Reports of the Directors and Auditor and the Strategic Report for the year ended [date].
2. To reappoint the auditors of the company.
3. To elect/re-elect each Executive Director and Non-Executive Director.
4. To approve the remuneration report.
5. To approve the remuneration policy.
6. This report examines how the top charity asset managers have exercised their ownership rights during the most controversial votes in the 2017 AGM season. In addition to this review of their practice, the report also examines the quality of their proxy voting and corporate governance policies.

Figure 1: Percentage of capital voted 2017[3]



# Methodology

This section outlines the methodology used to select the asset managers and the controversial resolutions analysed.

## Scoping: Selection of asset managers

We selected asset managers to be included in this research using three criteria:

1. The top 10 largest charity asset managers listed in the IPE Reference Hub list[4]. This is based on AUM in the sector.
2. A list of charity asset managers widely used by the members of the Charities Responsible Investment Network.
3. Asset Managers who do not specialise in equities were removed from the list.

## Scoping: Controversial resolutions

The selection of the specific resolutions were selected from the Investment Associations public register of controversial votes at large and widely held UK listed businesses. The criteria we used are as follows:

1. Was the resolution included in the Investment Association's Public Register of shareholder rebellions in 2017?[5] This register lists all companies in the FTSE all-share who

Figure 2: Asset managers included in the survey

| | Name | Reason for Identification |
|---|---|---|
| 1 | Aberdeen Standard | IPE Charity Asset Manager No. 1 |
| 2 | Baillie Gifford | IPE Charity Asset Manager No. 3 |
| 3 | Newton Asset Management | IPE Charity Asset Manager No. 5 |
| 4 | Schroders | IPE Charity Asset Manager No. 6 |
| 5 | HSBC Asset Management | IPE Charity Asset Manager No. 8 |
| 6 | Henderson | IPE Charity Asset Manager No. 9 |
| 7 | Mondrian Investment Partners | IPE Charity Asset Manager No. 10 |
| 8 | Kames Capital | IPE Charity Asset Manager No. 11 |
| 9 | Aviva Investors | IPE Charity Asset Manager No. 12 |
| 10 | AQR | Commonly used by CRIN Members |
| 11 | AXA | Commonly used by CRIN Members |
| 12 | BMO Global | Commonly used by CRIN Members |
| 13 | CCLA | Commonly used by CRIN Members |
| 14 | Jupiter Asset Management | Commonly used by CRIN Members |
| 15 | Liontrust | Commonly used by CRIN Members |
| 16 | Martin Currie | Commonly used by CRIN Members |
| 17 | Royal London Asset Management | Commonly used by CRIN Members;<br>IPE Charity Asset Manager No. 17 |
| 18 | Ruffer | Commonly used by CRIN Members |
| 19 | Sarasin & Partners | Commonly used by CRIN Members |
| 20 | Veritas Asset Management | Commonly used by CRIN Members |

experienced 20% or more of their shareholders voting against the management recommendation on a resolution.

2. Did the resolution fit into one of three categories:
   a. Remuneration;
   b. Over-boarding;
   c. Auditors;
   d. Climate change.
3. Was the resolution at the AGM of a large listed company with a diverse shareholder register?
4. We excluded resolutions where the company had specific unusual circumstances e.g. activist shareholders or companies undergoing mergers and acquisitions (M&A).
5. We also included:
   a. Notable resolutions posed by shareholders on climate change at Exxon Mobil and Occidental, both of which are widely held. Each resolution received approximately 50% shareholder support.
   b. Carillion and Persimmon, both particularly controversial in 2017.

## The resolutions selected were at the following companies:

**Remuneration:**

1. Astrazeneca plc
2. Crest Nicholson plc
3. Entertainment One plc
4. Informa plc
5. Inmarsat plc
6. Pearson plc
7. Wm Morrison Supermarkets plc
8. Persimmon plc (2012)

**Over-boarding:**

1. Berkeley Group Holdings plc
2. Compass Group plc
3. HSBC Holdings plc
4. Reckitt Benckiser plc
5. Sports Direct plc

**Auditors:**

1. BT Group plc
2. MITIE Group plc
3. Carrillion plc

**Climate change:**

1. Occidental plc
2. Exxon Mobil plc

A full list of votes is included in the appendices. The voting data was collected from Proxy Insight in November 2017.

# 2017 AGM Season

Before reviewing the voting decisions of the specific asset managers on the listed resolutions, it is useful to provide an overview of some of the most controversial resolutions in 2017. The list below highlights the high level of dissent at certain resolutions in 2017. This dissent was caused by a range of different reasons. London Stock Exchange was in the midst of a controversial bid approach and Petropavlovsk had an unusual shareholder structure, whereas the Pearson, Sports Direct, Crest Nicholson and Playtech votes reflect real concern among institutional investors about specific governance aspects.

The Investment Association public register also highlighted the list of topics that institutional investors were most concerned about, with remuneration, board structure and capital structure dominating the list.

## Figure 3: 2017 Proxy votes with >50% dissent[6]

| Company name | | Resolution title | % for | % against | % withheld |
|---|---|---|---|---|---|
| LONDON STOCK EXCHANGE GROUP PLC | Board Structure | Resolution 1: To remove Donald Brydon as a Director | 20.93% | 79.07% | 3.22% |
| SPORTS DIRECT INTERNATIONAL PLC | Remuneration | Resolution 2: To approve a proposed payment to John Ashley | 29.27% | 70.73% | 4.23% |
| PETROPAVLOVSK PLC | Board Structure | Resolution 15: To re-elect Mr Peter Hambro as a Director | 30.13% | 69.87% | 0.00% |
| PETROPAVLOVSK PLC | Board Structure | Resolution 14: To re-elect Mr Andrew Vickerman as a Director | 33.40% | 66.60% | 0.18% |
| PETROPAVLOVSK PLC | Board Structure | Resolution 12: To re-elect Mr Robert Jenkins as a Director | 33.50% | 66.50% | 0.00% |
| PETROPAVLOVSK PLC | Board Structure | Resolution 13: To re-elect Mr Alexander Green as a Director | 33.52% | 66.48% | 0.00% |
| SPORTS DIRECT INTERNATIONAL PLC | Remuneration | Resolution 1: To extend the guaranteed minimum value for eligible employees participating in the Company's share scheme to Karen Byers and Sean Nevitt | 34.13% | 65.87% | 0.30% |
| PEARSON PLC | Remuneration | Resolution 14: To approve the Directors' Remuneration Report | 34.41% | 65.59% | 6.80% |
| CENTAMIN PLC | Board Structure | Resolution 4.4: To re-elect Trevor Schultz as a Director | 34.85% | 65.15% | 1.33% |
| REDROW PLC | Board Structure | Resolution 16: To approve the Rule 9 Waiver | 41.32% | 58.68% | 0.54% |
| CREST NICHOLSON HOLDINGS PLC | Remuneration | Resolution 13: To approve the Directors' Remuneration Report | 41.88% | 58.12% | 2.89% |
| PLAYTECH LIMITED | Remuneration | Resolution 2: To approve a one-off grant of shares to the CEO | 43.99% | 56.01% | 0.01% |

The Investment Association list also has a number of repeat offenders – companies where there were a number of controversial resolutions that resulted in significant shareholder 'rebellions'.

## Figure 4: Proxy votes – controversial topics[7]

| | | |
|---|---|---|
| Capital Structure & Ownership | 61 | 23% |
| Auditors | 8 | 3% |
| Board Structure | 91 | 34% |
| Political Donations | 3 | 1% |
| Remuneration | 101 | 38% |
| Other | 3 | 1% |
| Total | 267 | |

## Figure 5: AGMs with over five separate resolutions where ≥20% shareholders voted against management

| | |
|---|---|
| Mitchell & Butlers plc | 7 |
| Petropavlocsk plc | 6 |
| Entertainment One plc | 6 |
| Braemer Shippinh plc | 5 |
| Safestore plc | 5 |
| ZPG plc | 5 |
| Investec plc | 5 |
| Edinburgh Dragon Trust plc | 5 |

Although some of these multiple expressions of dissent are at companies with unusual shareholder registers – for example Mitchell and Butlers plc and Petropavlovsk plc – most have standard registers. Where this is the case, asset owners might want to challenge asset managers on what actions have been taken, and whether there are unusual circumstances that can explain these votes.

# Research findings

## Finding 1: Charity fund managers are conservative voters

We reviewed 218 voting decisions by 19 fund managers, covering 21 resolutions. Inevitably, not all fund managers held all the companies reviewed, and data was missing in a small number of cases. On these 218 votes, 50% voted against management and 40% supported management (the reminder being split, abstained or missing data). Considering the resolutions reviewed were some of the most controversial votes of 2017, these figures are disappointingly low. The rate of votes against management falls to 36% when you exclude particularly controversial votes such as Exxon Mobil (climate change), Crest Nicholson (remuneration) and William Morrison (remuneration), which recorded over 10 votes each against management. We do not think that this conservativism is specific to 'charity specialist' fund managers, but rather that it is a feature of the asset management industry.

## Finding 2: Climate change was broadly supported, 'more difficult' analysis was ignored

Somewhat surprisingly, the climate resolutions at Exxon Mobil and Occidental gained the greatest level of support among the fund managers assessed, with 100% support from 11 and nine holders of each stock, respectively.

The controversial 'over-boarding' resolutions (where a board member is viewed as being over-committed to other roles) got the lowest level of support from the fund managers surveyed. This was despite advice from ISS and Glass Lewis, the two largest proxy advisors, to vote against at the Berkeley and HSBC over-boarding votes. The notable exception is AQR, one of the key 'rebels' across other controversial resolutions.

The votes at Carillion (auditor, capital structure and remuneration) and Persimmon (2012 Long term incentive scheme) were also largely supported by the fund managers surveyed. This is despite the issues highlighted in the case study in the introduction of this report.

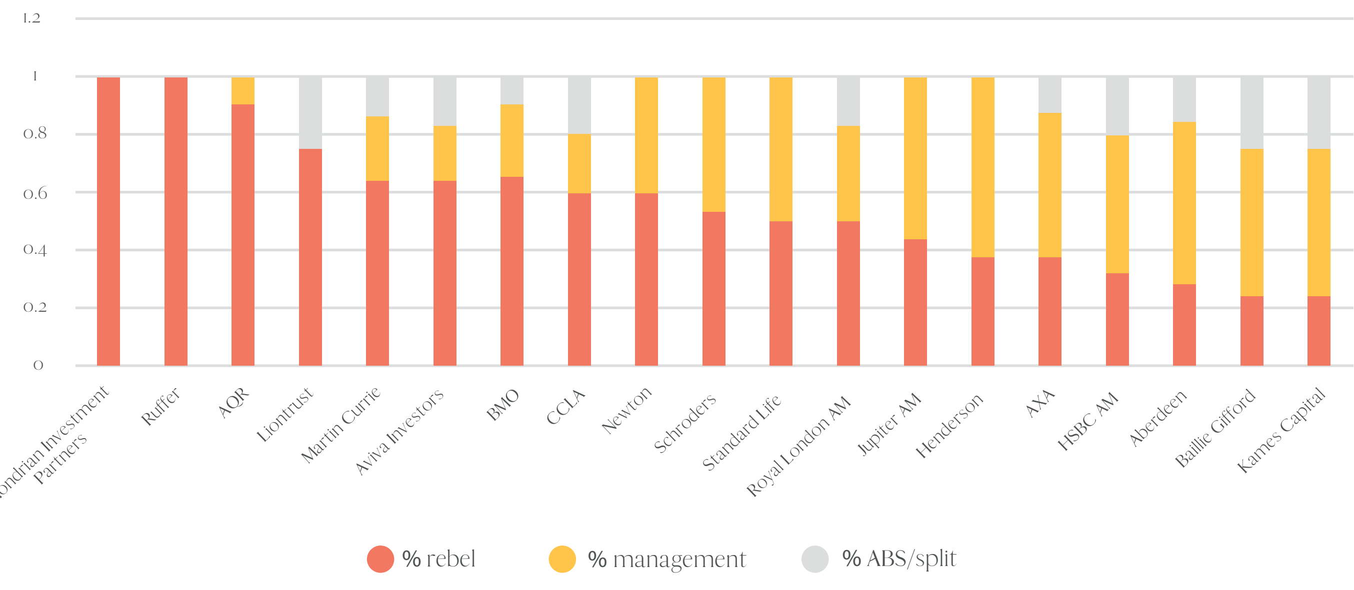
## Finding 3: Some fund managers have 'rebel genetics'

As highlighted in the methodology, we have specifically focused on controversial resolutions which were included in the Investment Association's Public Register of shareholder rebellions in 2017. This register lists all companies in the FTSE all-share who experienced 20% or more of their shareholders voting against the management recommendation on a resolution. The chart below compares some of the leading charity fund managers and how they voted at these resolutions in 2017. This chart gives an indication as to how willing each fund manager has been to take a position against management proposals (rebel) and vote against specific issues.

Though this is only an indication, it does highlight a number of major charity fund managers including Aberdeen, Henderson, AXA, Standard Life and Jupiter, who have all supported management in 50% or more of these controversial resolutions. Since the 2017 AGM season, there has been some major M&A in this group with Standard Life/ Aberdeen and Henderson/Janus combining, so future comparative analysis will be slightly complicated. However, these fund managers' records should still be challenged, and clients be made aware of potential weaknesses in their voting records and willingness to stand up for their beneficiaries.

Some fund managers seem to have a greater tendency to vote against management – they have better 'rebel genetics'. Aviva Investors, AQR, BMO, Liontrust, CCLA, Martin Currie and Newton all voted against management at our selected controversial resolutions in over 60% of resolutions. Mondrian and Ruffer voted against 100%, though with a small sample size.

### Figure 6: Who has the genetics of a rebel?



## Finding 4: On the fence? Special exemptions and abstentions

A further concerning feature of the voting process is the frequency of abstentions: almost 10% of our selected fund managers' votes in controversial AGMs were abstentions, representing 17 cases across all resolutions surveyed. Though the numbers were relatively small, Royal London, Aviva Investors, Aberdeen and BMO decided to abstain most regularly. We reviewed a number of fund manager policies on abstentions and found little formal guidance on where abstentions are a preferred decision. We agree with a policy adopted by Newton Asset Management, which states that they "rarely register abstentions, given our belief that these give a confusing message to management or may be interpreted wrongly" – in other words, 'get off the fence!' We would agree with this sentiment and are disappointed to see such a number of abstentions in this selection of controversial votes.

Reviewing voting decisions and policies at the fund managers within this survey also highlighted a number of fund managers who commonly used 'special exemptions'. 'Special exemptions' are used where the voting decisions do not conform to the fund managers' stated voting policy. This might reflect either an asset managers' thorough approach to reviewing votes, or their taking the 'lazy' option. Clients should review the fund manager's policy on both abstentions and the use of special exemptions, and refer to our suggested questions for asset managers as part of their follow-up.

## Finding 5: For generous pay – make sure Aberdeen is on the register

In the UK, regulation was introduced in 2013 which required director remuneration policies to be put to a binding shareholder vote at least once every three years. These include LTIPs, policies and reports. Therefore, as was expected, a large number of companies sought shareholder approval for their remuneration policy in 2017. We reviewed the voting patterns at Informa plc, Pearson plc, WM Morrisons plc, Entertainment One plc, Astra Zeneca plc, Persimmon (2012 LTIP) and Carillion plc.

Out of the 10 resolutions on remuneration, Aberdeen supported management in the highest number (six), followed by Henderson (five) and Jupiter, Royal London, Standard Life and BMO (three each).

As with the previous commentary, future comparative analysis will be challenging due to the merger of Standard Life/Aberdeen.

Despite the high profile nature of certain remuneration packages and the presence of regulation ensuring increased scrutiny from shareholders, overall voting patterns by UK institutional shareholders show that few remuneration policies and reports receive significant dissent from shareholders. In fact, remuneration resolutions at FTSE 100 and FTSE 250 listed businesses received over 90% support from investors as an average vote in 2017, a percentage which has been largely stable since 2014.

As a matter of interest, we qualitatively reviewed the governance policy at Janus Henderson and Aviva Investors. These policies were similar, broadly based around the Pension and Lifetime Savings Association/UK Corporate Governance guidelines, and with a focus on ensuring executive schemes were aligned with shareholder value. We found both policies were open to interpretation, to the extent that the fund managers voted differently at the 10 remuneration resolutions we reviewed, with Janus Henderson supporting six and Aviva Investors supporting two.

Despite the small scale of the analysis, this shows that in implementing governance policies there is significant scope for interpretation.

Figure 7: Remuneration policies – shows of dissent are unusual[8]

| YEAR | FTSE 100 | | FTSE 250 | | OTHER | |
|---|---|---|---|---|---|---|
| 2014 | 100 | 93.12% | 229 | 95.12% | 107 | 96.08% |
| 2015 | 19 | 94.09% | 68 | 94.25% | 41 | 96.29% |
| 2016 | 17 | 91.22% | 38 | 93.05% | 26 | 95.75% |
| 2017 | 65 | 94.61% | 133 | 94.02% | 70 | 96.02% |

Number of companies putting forward a remuneration policy resolution

Average vote in favour

# 2018 AGM Season

This section reviews the forthcoming 2018 AGM season and outlines some of the key expected 'battlegrounds' in the UK. We also review some of the key forthcoming shareholder resolutions globally.

## Remuneration: Pay ratio disclosure, bonus deferral, quantum, and transparency

Pay ratios have been a high profile political topic for the past year and were highlighted in the Investment Association's letter to boards in November 2017.[11] Disclosure of the ratio of CEO to employee pay as well as gender gap data are now a regulatory requirement in the UK for certain businesses, so the Investment Association's mention is purely re-iterating these regulatory changes.

In their letter, the Investment Association advise that bonuses in excess of 100% of salary should be deferred to future periods. From our review of institutional investor governance policies, this is something that has also started to become a focus. Bonus deferrals and associated mechanisms to claw back bonus payments due to issues that only come to light at a later date are also likely to be strengthened, and become a feature of governance voting policies from 2019 onwards.

Developing pay schemes that are transparent has always been a feature of the PLSA guidelines and the UK Corporate Governance Code. The Investment Association has requested that the chairman should also consider the social context of pay increases, that any increases are in line with broader pay reviews, and that pay increases are not undertaken through stealth by increasing pension contributions out of line with broader changes across the workforce.

Institutional investors are likely to require increased transparency on how KPIs link to variable pay and bonus payments. The Investment Association warns that "its members will carefully scrutinise the rationale for such payments to ensure they are warranted and companies which fail to provide sufficient information will receive an Amber Top from the IVIS (Institutional Voting Information Service)." An amber top is effectively advice for Investment Association members to vote against a specific remuneration policy or report.

"Institutional investors are likely to require increased transparency on how KPIs link to variable pay and bonus payments.

Despite these changes and suggestions by the Investment Association, the 2018 AGM season is expected to be quiet on remuneration. This is due to the three year cycle of remuneration policies, meaning that there will be relatively few policies up for re-approval by shareholders.

## Board Structure: Gender diversity

Political attention has led to increasing gender diversity on boards. This will remain a key area of engagement between boards and institutional investors. Interestingly, two of the controversial 'over-boarding' resolutions reviewed were on women who were in high demand across a number of FTSE 100 boards and therefore met shareholder dissent due to concerns of over-boarding.

## Auditors will remain controversial

The lack of audit resolutions with significant levels of dissent included in the 2017 Investment Association

Public register of controversial votes reflects the low level of dissent for auditor resolutions received in 2017. With new regulations surrounding the appointment, review, tenure, and relationship between audit and non-audit services, we expect that this area will become increasingly controversial.

## Policy reviews: UK Corporate Governance Code and the Stewardship Code.

In the UK, we will see the publication of several key reviews of guidance on governance-related issues. These include the UK Corporate Governance Code (which is set to be completed in June/July) and the UK Stewardship Code (where the consultation process is 'opening in the near future'). These two pieces of legislation are key, as they are important guidelines used by the asset management industry to develop proxy voting policies. We understand these revisions will include an increasing focus on board 'culture and purpose'. From a voting perspective, we hope the broadening of investor guidance does not mean it will be easier to avoid black and white decisions.

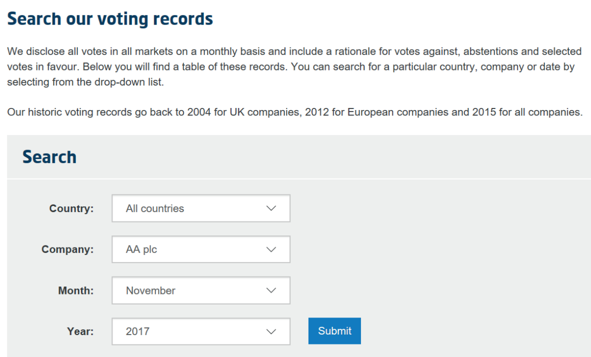
## Voting Practices

As demands on listed businesses change, they are also changing for institutional investors. Reviewing the voting records of the 20 charity fund managers, there seem to be a number of issues that require the attention of the regulator or industry bodies:

1. **Explaining rationales** – Many institutional fund managers provide only limited rationales for voting decisions, and do so in an ad hoc manner. These rationales often seem to be taken directly from proxy voting advisors, rather than being the considered position of the fund manager. Industry bodies or the regulator should review this position and ensure fund managers provide sufficient rationales for controversial resolutions and a level of comparability across institutional fund managers. Asset owners should ask their fund managers about their current position.

2. **Explaining special exemptions and abstentions** – Many fund managers explain voting decisions that are against or in contrast to a governance and proxy voting policy, as a 'special exemption'. At some fund managers, these exemptions seem to be used liberally and with little further explanation. Fund managers should be clearer about their policy relating to special exemptions or abstentions. Clients may ask for explanations where the level of 'special exemptions' is significantly higher than industry average.

### Figure 8: Standard Life Investments - Online Proxy Voting Records.[12]




3. **Providing transparent voting records** – Institutional fund managers who do not provide a record of their votes in a reasonable time after the AGM season are now out of step with industry practice and should be forced to do so. That said, the approach also needs to be functional. A number of institutional fund managers do publish proxy voting decisions, but in a format that makes it extremely difficult to identify a specific voting decision. Better practice is the provision of online databases that allow tracking of votes on the basis of date, country and name. At the very least, larger fund managers with greater levels of resources and

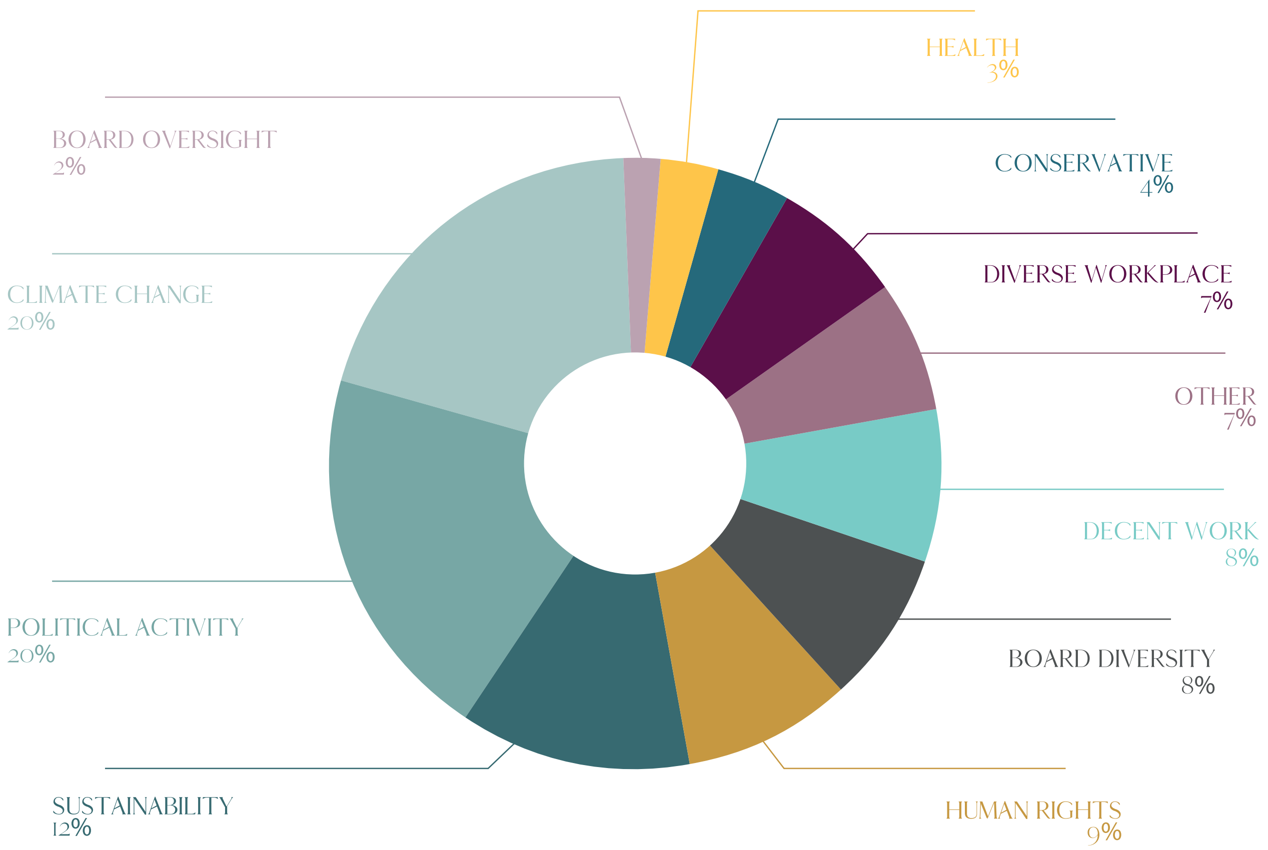
a large number of holdings should be providing such tools.

## The global AGM season

Reviewing the global landscape provides a different view to looking at London-listed businesses and asset managers. Most asset managers are increasingly global in their operations, and have to deal with proxy voting decisions across a number of different jurisdictions.

For example, in contrast to the UK and Europe, where the number of shareholder resolutions can be counted on one hand, at the time of writing there are 429 shareholder resolutions on environmental, social and governance issues proposed for the 2018 US proxy season, with more pending approval. The plethora of governance issues that asset managers must deal with is increasing rapidly – issues such as cyber security and the use of antibiotics in the food manufacturing industry were issues that would not have been on the agenda a couple of years ago. However, climate and sustainability remain major areas of concern, and have therefore been highlighted as target areas for ShareAction this year.

Figure 9: Spread of issues for the 2018 US AGM season[13]



# Shareholder resolutions at Royal Dutch Shell Plc (Shell) and Rio Tinto

Shareholder resolutions are a great way to put ESG issues onto corporate agendas, gain media attention and prompt company action.

## 2018 Follow This resolution at Shell

Since 2016, a group of shareholders coordinated by Dutch NGO Follow This have been filing climate resolutions at Shell, requesting that the company aligns its business model with the goals of the Paris Agreement. Institutional investor support for the resolution has risen over time. Last year's resolution received 6.3 % support and 5.3 % abstention. These modest figures, alongside private pressure and engagement between Shell and its shareholders, turned out to be sufficient to generate a significant reaction from Shell's management team in the months that followed. In November 2017, Shell announced a new ambition to cut the net carbon footprint of its energy products by around 20% by 2035 and by around half by 2050. Yet, this ambition differs from the demands of the 2018 Follow This resolution, which requests Shell to set greenhouse gas intensity targets in line with the Paris Agreement, for the three main reasons: 1. Shell's stated ambitions are not proper targets; 2. They are not aligned with the goals of the Paris Agreement; 3. Shell's absolute emissions may still increase.[14] For these reasons, and given the alignment between the resolution asks and Shell's position on climate change, ShareAction recommends that shareholders committed to the Paris Agreement vote in favour of the resolution, and that asset owners ask their asset managers what their position is.

## Resolutions 19 and 20 at Rio Tinto Ltd

A group of over 100 Australian retail shareholders convened by the Australasian Centre for Corporate Responsibility (ACCR), Australia's Local Government Super, the Church of England Pensions Board, and the Seventh Swedish National Pension Fund (AP7) co-filed two shareholder resolutions with the Australian arm of Rio Tinto (Rio Tinto Ltd). Resolution 19 seeks a change to the constitution to allow advisory shareholder resolutions, while Resolution 20 asks the company to review and fully disclose its relationships with industry bodies that may hold misaligned or counter-productive positions to that of the company in relation to climate change and energy policy, as well as to describe payments to all climate-related trade associations.

ACCR previously convened the filing of a similar resolution with BHP Billiton Limited (BHP) in 2017. As a result of the resolution and ACCR's engagement with BHP, the company released an Industry Association Review and ceased its membership of the World Coal Association.

Rio Tinto's board has responded to this shareholder resolution very differently to its competitor BHP. Not only has the board recommended that shareholders vote against the two resolutions, but it has prevented shareholders in its UK arm from voting on the resolution. This stance contrasts with its previous position on the 2015 'Aiming for A' resolution and puts it at odds with BHP, which did put both resolutions to a vote at its 2017 London AGM. At Rio Tinto's London AGM on 11 April 2018, the Church of England Pensions Board and South Yorkshire Pension Fund announced that they had voted against the reports and accounts of Rio Tinto Ltd as a result of Rio Tinto's decision not to treat shareholders equally in relation to resolution 20. Resolution 20 has been brought by a group of shareholders who have identified specific concerns with corporate climate lobbying and the risks it poses to the implementation of the Paris Agreement. Rio Tinto retains membership of 22 trade associations that have been identified as engaging with climate and energy policy, and has not provided significant disclosure of these memberships or attempts to address material inconsistencies. We therefore recommend that shareholders vote for resolutions 19 and 20 at the company's Australian AGM on 2 May 2018 and undertake further engagement with the company to ensure its active prioritization of these issues. Asset owners can also ask their asset managers about their position on this, whether prior to the vote or to request a rationale retroactively.

These examples suggest ways asset owners can engage with their asset managers to address critical ESG issues through voting and taking part in shareholder activism.

# Recommended Questions to Ask Asset Managers

We suggest five key questions for asset owners to ask their asset managers after the next AGM season:

## 1. Improving transparency

a. Do you publicise voting decisions and rationales on resolutions, where over 20% of shareholders have voted against management?
b. If so, are these listed in an easily searchable online system?

## 2. Voting anomalies

a. Do you have a specific policy on abstentions and special exemptions?
b. How do you monitor this policy?
c. Where you are an investor and there are over 4 resolutions listed in the Investment Association Public register and at a single company what actions have you taken?

## 3. Governance team

a. How big is your governance team?
b. How does the corporate governance team work with portfolio managers?
c. Do environmental, social and governance representatives sit on investment committees or equivalent investment decision making committees?
d. If not, how are these areas discussed by senior investment decision makers?

## 4. Comparing to peers

a. Have you undertaken a review of your 2018 voting results and how they compare to your peers?
b. Are you more or less generous on key issues such as remuneration policies and reports?
c. How do you explain this relative performance?

## 5. Corporate governance policy

a. When did you last thoroughly review your policy on proxy voting? Does this policy have specific topic guidance?
b. How do you ensure new guidance from the PLSA, the Investment Association or the UK corporate governance code are regularly integrated into your policy, practice and voting decisions?
c. How are annual changes in the corporate governance/proxy voting policy approved?

# Appendix

| Company | Resolution topic | Resolution: | ISS | GLASS LEWIS | PIRC | Aberdeen | Rationale |
|---|---|---|---|---|---|---|---|
| Exxon Mobil | Climate | [climate] Prop 12: Report on Climate Change Policies | Against | Against | | A | Proposal encourages enhanced environmental approach |
| Informa | Remuneration | [rem] Prop 3: Approve Remuneration Report | Against | For | | A | Concerns about linkage between pay and performance |
| Sport Direct | Board structure | [gvnce - workforce] Prop 3: Re-elect Keith Hellawell as Director | Against | Against | Against | A | |
| Wm Morrisson Supermarkets | Remuneration | [rem] Prop 2: Approve Remuneration Report | Against | Against | | A | |
| Entertainment One | Remuneration | [rem] Prop 3: Remuneration Report (Advisory) | | Against | | A | Concerns about linkage between pay and performance |
| BT Group | Auditor | [auditor - fraud] Prop 17: Reappoint PricewaterhouseCoopers LLP as Auditors | Abstain | For | | ABS | Concerns about auditor independence |
| Inmarsat | Remuneration | [rem] Prop 2: Approve Remuneration Report | Against | Against | | ABS | Concerns about linkage between pay and performance |
| MITIE Group | Auditor | [auditor] Prop 10: Reappoint Deloitte LLP as Auditors | | For | | ABS | Concerns about auditor independence and effectiveness |
| Astrazeneca | Remuneration | [rem] Prop 6: Approve Remuneration Report | Against | For | | F | |
| The Berkeley Group Holdings | Board structure | [gvnce - overboarding] Prop 12: Re-elect Adrian Li as Director | | Against | | F | |
| Compass group | Board structure | [gvnce - overboarding] Prop 14: Re-elect Ireena Vittal as Director | | | | F | |
| Crest Nicholson | Remuneration | [rem] Prop 13: Approve Remuneration Report | Against | For | | F | |
| HSBC Holdings | Board structure | [gvnce - overboarding] Prop 3(k): Elect Irene Lee as Director | Against | Against | | F | |
| Pearson | Remuneration | [rem] Prop 14: Approve Remuneration Report | Against | Against | | F | |
| Reckitt Benckiser Group | Board structure | [gvnce - product safety] Prop 8: Re-elect Kenneth Hydon as Director | Against | For | | F | |
| Persimmon | Remuneration | [LTIP] Prop 1: Approve 2012 Long Term Incentive Plan | For | Against | Against | F | |
| Carillion | Auditor | [auditor - company collapse] Prop 11: To Re-Appoint Kpmg Llp As Auditor | For | For | | F | |
| Carillion | | [preemption - company collapse]Prop 14: To Disapply Pre-Emption Rights | | | | F | |
| Carillion | Remuneration | [rem - company collapse] Prop 3: To Approve The Directors Remuneration Policy Set Out On Pages 74 To 81 Of The Directors Remuneration Report | For | For | | F | |
| Carillion | Remuneration | [rem - company collapse] Prop 2: Approve Remuneration Report | For | | | F | |
| Occidental | Climate | [climate] Prop 5: Assess Portfolio Impacts of Policies to Meet 2 Degree Scenario | For | For | | A | Proposal encourages enhanced environmental approach |

| Company | Standard Life | Rationale | AQR | Aviva investors | AXA | Baillie Gifford | BMO | CCLA | First State | Generation IM |
|---|---|---|---|---|---|---|---|---|---|---|
| Exxon Mobil | A | Investors would benefit from greater clarity on the company's strategic positioning with regards to climate change risks. While we welcome the publication of several high-level pieces by the company addressing the issue, this lacks the necessary details that would help investors make a comprehensive analysis of the company. | A | A | A | No holding | A | No holding | No holding | No holding |
| Informa | A | We did not consider the Earnings Per Share targets set for the 2017 Long Term Incentive awards to be sufficiently stretching. | Unkown | A | A | No holding | A | No holding | No holding | No holding |
| Sport Direct | A | At the company's AGM in September, the Chairman Keith Hellawell did not receive majority support for his re-election in the separate vote by minority shareholders. In line with requirements, the board convened an EGM to submit his re-election for another vote. We did not support Mr Hellawell's re-election at the AGM and our views remain unchanged. We have concerns regarding the oversight of the board and are of the view that a structural change in the way the company organises itself and operates is required and that substantial strengthening of the non-executive members of the board is required, particularly in the role of Chairman. | Unkown | A | No holding | No holding | A | No holding | No holding | No holding |
| Wm Morrisson Supermarkets | A | The company's remuneration policy is not aligned with our principles and policy guidelines on executive remuneration arrangements. | A | A | A | No holding | A | No holding | No holding | No holding |
| Entertainment One | A | The company awarded a very significant increase in salary to its Chief Executive with little justification. | No holding | A | No holding | No holding | A | No holding | No holding | No holding |
| BT Group | A | In our opinion, PwC did not sufficiently protect shareholder interests in respect of their audit of BT's Italian division and we therefore opposed their reappointment as auditors. | Unkown | F | A | No holding | ABS | Unkown | No holding | No holding |
| Inmarsat | No holding | | A | F | ABS | No holding | A | A | No holding | No holding |
| MITIE Group | F | | No holding | A | No holding | No holding | A | No holding | No holding | No holding |
| Astrazeneca | F | | A | A | ABS | No holding | A | A | No holding | No holding |
| The Berkeley Group Holdings | No holding | | Unkown | ABS | F | No holding | F | No holding | No holding | No holding |
| Compass group | F | | A | A | F | F | ABS | A | No holding | No holding |
| Crest Nicholson | A | The Profit Before Tax targets used in the long term incentive had been revised downwards by a significant amount, without prior consultation with shareholders. After due consideration, we concluded that the revised targets were not sufficiently stretching in the context of the prospects of the company. | No holding | A | A | No holding | A | No holding | No holding | No holding |
| HSBC Holdings | F | | A | F | F | Split | A | ABS | No holding | No holding |
| Pearson | F | | A | A | Unkown | A | A | No holding | No holding | No holding |
| Reckitt Benckiser Group | F | | A | A | F | F | A | F | No holding | No holding |
| Persimmon | F | | F | A | No holding | No holding | F | No holding | No holding | No holding |
| Carillion | No holding | | No holding | ABS | F | No holding | F | No holding | No holding | No holding |
| Carillion | No holding | | No holding | F | F | No holding | F | No holding | No holding | No holding |
| Carillion | No holding | | No holding | F | F | No holding | F | No holding | No holding | No holding |
| Carillion | No holding | | No holding | | F | No holding | F | No holding | No holding | No holding |
| Occidental | No holding | | A | A | A | No holding | A | No holding | No holding | No holding |

| Company | Genesis | GMO | Henderson | HSBC AM | Impax | Jupiter AM | Kames Capital | Liontrust | Marathon AM | Martin Currie | Mondrian Investment Partners |
|---|---|---|---|---|---|---|---|---|---|---|---|
| Exxon Mobil | No holding | No holding | A | A | No holding | No holding | Unknown | No holding | No holding | A | Unknown |
| Informa | No holding | No holding | F | Split | No holding | A | Unknown | A | No holding | No holding | No holding |
| Sport Direct | No holding | No holding | A | Unknown | No holding | No holding | No holding | No holding | No holding | No holding | No holding |
| Wm Morrisson Supermarkets | No holding | No holding | A | A | No holding | No holding | No holding | No holding | No holding | No holding | No holding |
| Entertainment One | No holding | No holding | A | Unknown | No holding | No holding | No holding | No holding | No holding | No holding | No holding |
| BT Group | No holding | No holding | F | Unknown | No holding | A | ABS | Unknown | No holding | Unknown | No holding |
| Inmarsat | No holding | No holding | F | A | No holding | F | No holding | No holding | No holding | A | No holding |
| MITIE Group | No holding | No holding | F | No holding | No holding | No holding | No holding | No holding | No holding | No holding | No holding |
| Astrazeneca | No holding | No holding | F | Split | No holding | A | F | No holding | No holding | A | No holding |
| The Berkeley Group Holdings | No holding | No holding | F | Unknown | No holding | No holding | No holding | No holding | No holding | No holding | No holding |
| Compass group | No holding | No holding | F | F | No holding | F | F | A | No holding | No holding | No holding |
| Crest Nicholson | No holding | No holding | A | A | No holding | A | A | ABS | No holding | No holding | No holding |
| HSBC Holdings | No holding | No holding | F | F | No holding | F | Unknown | No holding | No holding | A | No holding |
| Pearson | No holding | No holding | A | Split | No holding | F | No holding | No holding | No holding | F | A |
| Reckitt Benckiser Group | No holding | No holding | F | F | No holding | No holding | Unknown | A | No holding | ABS | No holding |
| Persimmon | No holding | No holding | A | No holding | No holding | F | No holding | No holding | No holding | F | No holding |
| Carillion | No holding | No holding | F | F | No holding | No holding | No holding | No holding | No holding | No holding | No holding |
| Carillion | No holding | No holding | F | F | No holding | No holding | No holding | No holding | No holding | No holding | No holding |
| Carillion | No holding | No holding | F | F | No holding | No holding | No holding | No holding | No holding | No holding | No holding |
| Carillion | No holding | No holding | F | F | No holding | No holding | No holding | No holding | No holding | No holding | No holding |
| Occidental | No holding | No holding | A | A | No holding | Unknown | No holding | No holding | No holding | A | No holding |

| Company | Newton | Rathbone Greenbank | Royal London AM | Ruffer | RWC Partners | Sarasin Partners | Schroders |
|---|---|---|---|---|---|---|---|
| Exxon Mobil | No holding | No holding | No holding | A | No holding | Unknown | A |
| Informa | F | No holding | A | No holding | No holding | No holding | A |
| Sport Direct | No holding | No holding | A | No holding | No holding | No holding | F |
| Wm Morrisson Supermarkets | No holding | No holding | A | Unknown | No holding | No holding | A |
| Entertainment One | No holding | No holding | A | No holding | No holding | No holding | No holding |
| BT Group | A | No holding | ABS | Unknown | No holding | Unknown | A |
| Inmarsat | No holding | No holding | F | No holding | No holding | Unknown | A |
| MITIE Group | No holding | No holding | A | No holding | No holding | No holding | A |
| Astrazeneca | A | No holding | A | No holding | No holding | Unknown | A |
| The Berkeley Group Holdings | No holding | No holding | ABS | No holding | No holding | No holding | F |
| Compass group | F | No holding | No holding | No holding | No holding | No holding | F |
| Crest Nicholson | No holding | No holding | A | Unknown | No holding | No holding | A |
| HSBC Holdings | No holding | No holding | F | No holding | No holding | Unknown | F |
| Pearson | No holding | No holding | ABS | No holding | No holding | Unknown | A |
| Reckitt Benckiser Group | A | No holding | A | No holding | No holding | Unknown | F |
| Persimmon | No holding | No holding | F | No holding | No holding | No holding | A |
| Carillion | No holding | No holding | F | No holding | No holding | No holding | F |
| Carillion | No holding | No holding | F | No holding | No holding | No holding | F |
| Carillion | No holding | No holding | F | No holding | No holding | No holding | F |
| Carillion | No holding | No holding | A | No holding | No holding | No holding | F |
| Occidental | No holding | No holding | No holding | Unknown | No holding | No holding | A |

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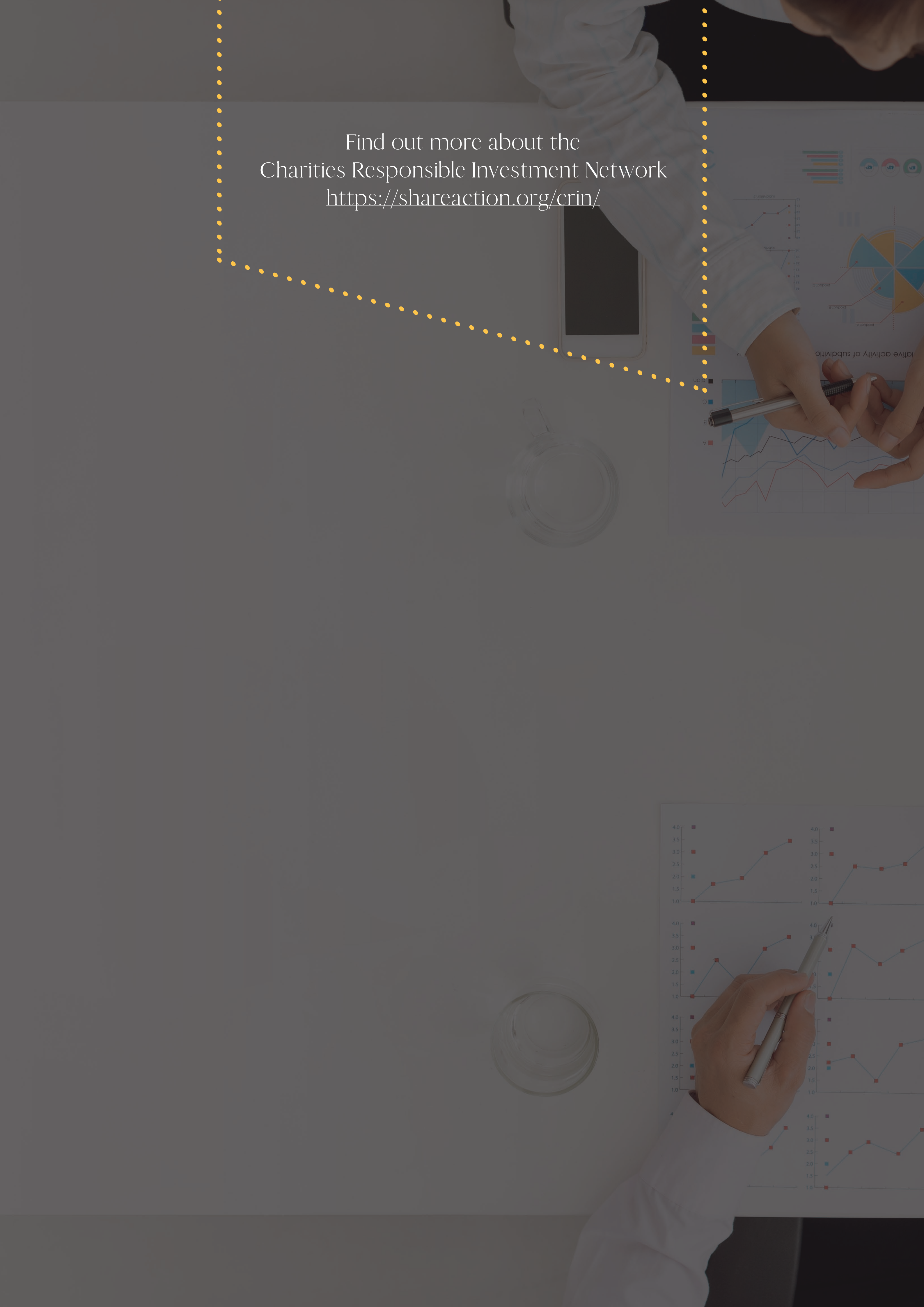

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