Rebels with a cause:
Asset manager voting on controversial resolutions in 2019

CHARITIES RESPONSIBLE INVESTMENT NETWORK

ShareAction»

Acknowledgements

We are grateful to the 13 asset managers who kindly checked our voting data, which was provided by Proxy Insight. Our particular thanks go to Kevin Chuah for his invaluable expertise, and to the members of the Charities Responsible Investment Network.

About ShareAction

This briefing has been written and compiled by ShareAction for the Charities Responsible Investment Network. ShareAction (Fairshare Educational Foundation) is a registered charity that promotes responsible investment practices. ShareAction believes that responsible investment helps to safeguard investments as well as securing environmental and social benefits.

About the Charities Responsible Investment Network

The Charities Responsible Investment Network supports charity investors to further their mission through responsible investment. It supports members by fostering a community of practitioners, providing in-depth research into environmental, social and governance (ESG) topics, delivering training tailored to Network members' interests and needs, and facilitating a range of optional engagement activities with selected companies and other entities across the investment chain.

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Executive summary

Votes at company Annual General Meetings (AGMs) that result in 20% or more shareholders voting ("rebelling") against management's voting recommendations can be seen as a signal that investors have a serious concern about how the company is being managed.

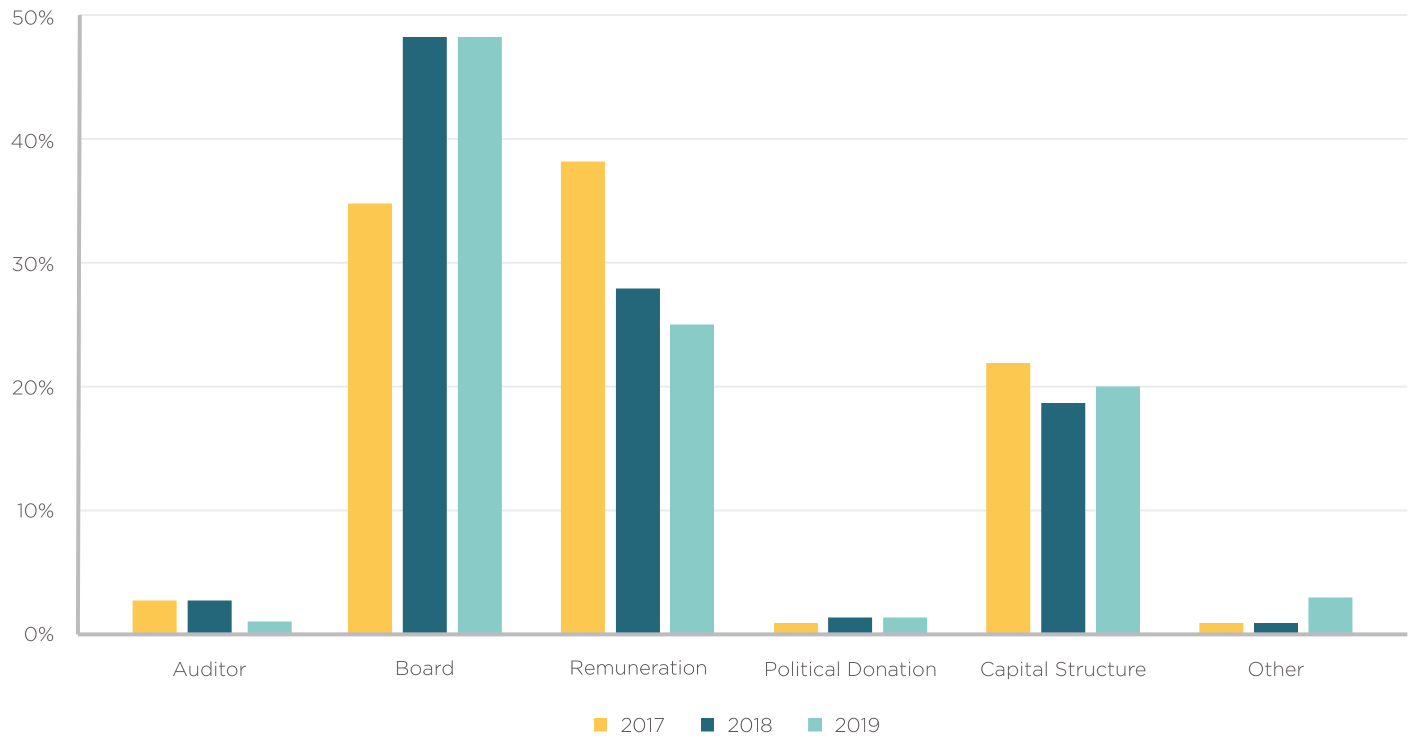
Analysing how investors vote on these 'controversial' resolutions provides an insight into how willing they are to speak out against management, and how serious they are about exercising their ownership rights on behalf of clients.

Controversial resolutions may arise from a range of governance issues - from shareholders showing concern over an incumbent auditors' independence, to concerns that a director holds positions on too many boards to be an effective board member (overboarding).

In 2019, 277 resolutions appeared on the Investment Association's Public Register of controversial resolutions, which covers all UK FTSE All Share companies.

A breakdown of these resolutions is provided in Figure 1, which also shows changes in the number of different types of resolution over time. The pattern of controversial votes in 2019 was similar to 2018, with board director (re)elections accounting for almost half of the cases. However, remuneration continues to be an important issue of contention between shareholders and managers.

Figure 1: Controversial resolutions – 2017-2019



This report examines how the leading charity asset managers have responded to these crucial governance concerns when voting on behalf of their clients. We focus on a selection of controversial resolutions, which responsibly invested asset owners generally expect their managers to be aware of and concerned about.

While the motivations for supporting management will vary on a case-by-case basis, the findings in this report provide a general indication of asset managers' willingness to publicly support or rebel against management.

Our key findings are:

Finding 1: There is significant variation between asset managers' voting patterns on controversial resolutions.

- The majority of asset managers in our sample voted against management over 50% of the time for our sample of resolutions. This shows that there is appetite for asset managers to express their dissent publicly, when they disagree with the controversial practices that companies are using. Regardless, we observe a wide divergence in the willingness to rebel, with a large tail of asset managers consistently siding with management, despite the controversial nature of the votes.

Finding 2: Asset managers are generally more willing to rebel on controversial remuneration votes compared to board director (re)elections

- On average, the asset managers in our sample rebelled on controversial remuneration votes 65% of the time, compared to 41% for board director votes. Asset managers were generally consistent in the degree to which they were likely to rebel on both types of resolutions, although there were notable outliers that we more rebellious on remuneration compared to board directors (HSBC Global Asset Management, Jupiter Asset Management), and vice versa (Investec Asset Management).

Finding 3: The recommendations of ISS, the largest proxy advisor, are more rebellious than most asset managers in the sample

- Institutional Shareholder Services (ISS), a proxy advisory firm (that makes voting recommendations to institutional investors), recommended that asset managers rebel against management on 75% of the resolutions in our sample. In contrast, asset managers rebelled on 56% of votes on average. This is consistent with separate findings in our previous research, showing that ISS was more progressive on environmental and social issues than the average asset manager.

Finding 4: The proportion of asset managers' votes against management are largely consistent over time, indicating that their rebellious 'genetics' have been hard-coded

- Based on all their voting decisions 2017-2019, each asset manager's tendency to rebel or conform has remained relatively constant over time, as disclosed in their PRI reporting. Despite the stark differences between asset managers' willingness to rebel, there are only a few cases where behaviour has changed (Aberdeen Standard Investments, Schroders and Sarasin & Partners LLP).

Methodology

This section outlines the methodology that we have used to select asset managers, and shareholder resolutions.

1. Selection of asset managers

The asset managers included in this study met the following criteria:

1. Used by members of the Charities Responsible Investment Network and,
2. had more than five voting decisions across our sample of controversial resolutions.

In total, 15 asset managers fulfilled the above criteria and are shown in Table 1 below.

Table 1: Asset managers included in this analysis

Asset Manager	Abbreviation
Aberdeen Standard Investments	ASI
Arrowstreet Capital	Arrowstreet
Aviva Investors	Aviva
AXA Investment Managers	AXA
Baillie Gifford & Co.	Baillie Gifford
BMO Global Asset Management	BMO
EdenTree Investment Management	EdenTree
HSBC Global Asset Management	HSBC
Investec Asset Management	Investec
Janus Henderson Investors (UK)	JHI (UK)
Jupiter Asset Management	Jupiter
Newton Investment Management	Newton
Royal London Asset Management	Royal London
Sarasin & Partners LLP	Sarasin
Schroders	Schroders

2. Selection of resolutions

The resolutions selected for this research fulfilled the following criteria:

1. Appears on Investment Association's Public Register of 2019 controversial resolutions;[i]
2. pertains to auditors, remuneration or board composition;
3. were voted on at the AGM of a FTSE 350 company.

The topics of remuneration and board composition were chosen as these are the most consistently controversial resolution types, and to provide continuity from the 2018 Charities Responsible Investment Network controversial votes report. Criteria 3 was applied to condense the sample of resolutions to those widely voted on by the selected asset managers.

The voting data were accessed from Proxy Insight's database on 28/11/2019. All asset managers included in this study were contacted by ShareAction as part of our data verification procedure for the report. We thank the 13 asset managers who kindly agreed to verify their data for us. The final sample includes 61 resolutions across 40 companies. A summary of these is provided in Table 2.

Across the 61 resolutions, there was only one case where the majority of shareholders rebelled against management. This was for a non-binding "advisory" vote on remuneration for Micro Focus International where 50.33% of shareholders voted against management.

Table 2: Controversial resolutions – 2019

Resolution Type	Number of Resolutions	Proportion of sample	Average votes against
Board	28	46%	30%
Remuneration	33	54%	34%

i. The investment association includes companies on the Public Register if:

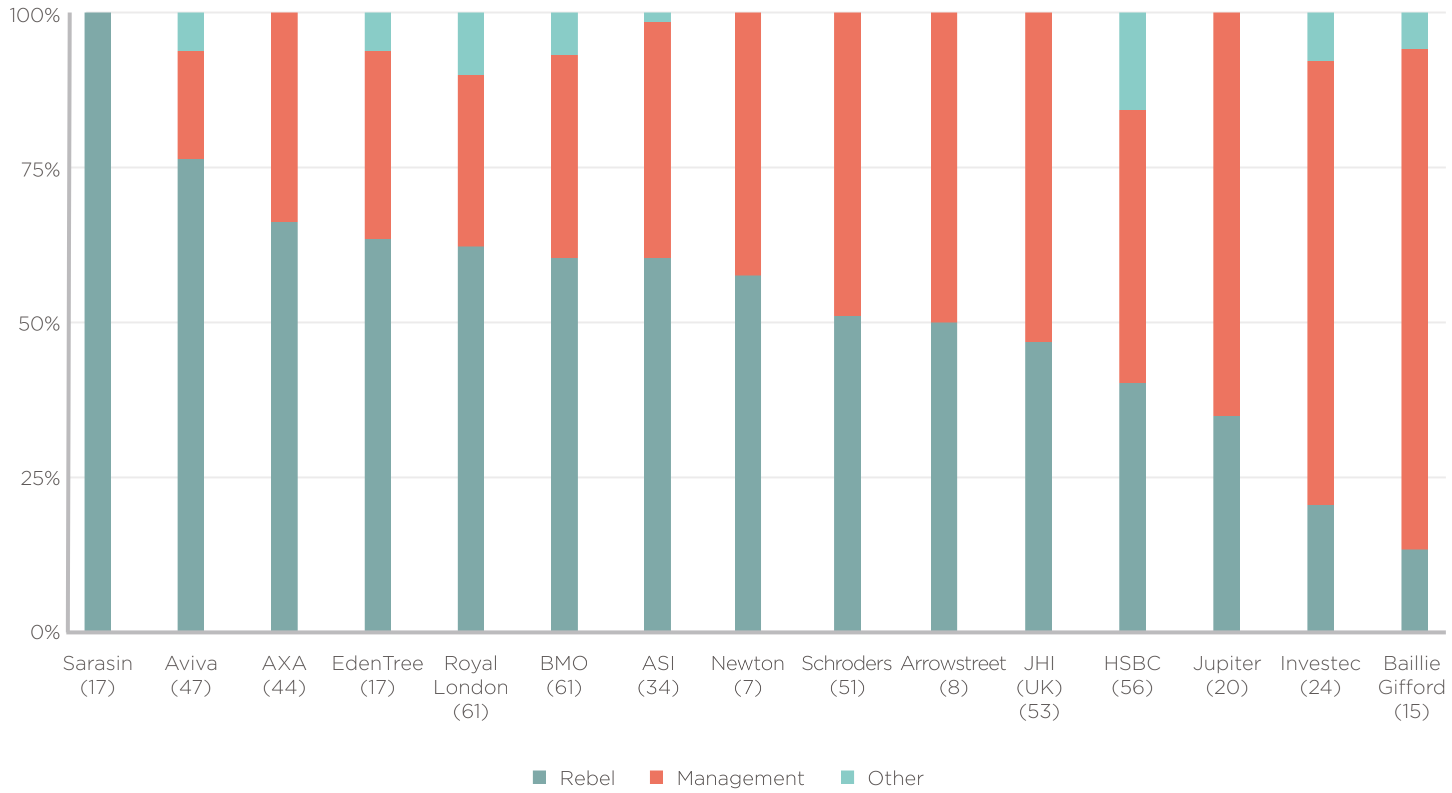
- They were a constituent of the FTSE All-Share Index when the company held an AGM or GM;
- a resolution at the meeting received 20% or more votes against, or;
- a resolution at that meeting was withdrawn between announcing the Notice of Meeting and the end of the meeting.

Findings

1. Large divergence in voting patterns on controversial resolutions

Figure 2 shows how our selection of charity asset managers voted on controversial resolutions. The number of resolutions applicable to each asset manager is also provided in brackets.

Figure 2: Asset Manager voting on controversial resolutions[ii]



Number of resolutions voted on by each asset manager is shown in brackets

ii. 'Other' includes votes where managers abstained, split or did not vote.

As illustrated in Figure 2, we see both ends of the 'rebellion' scale within our sample, from managers consistently voting against management recommendations (Sarasin) to those voting in support of management 80% of the time (Baillie Gifford).

Janus Henderson, HSBC, Jupiter, Investec and Baillie Gifford all supported management more than 50% of the time, within our sample of controversial governance resolutions.

While the motivations for supporting management will vary on a case-by-case basis, these findings provide a general indication of asset managers' willingness to publicly support or rebel against management. As the resolutions in our sample were specifically selected due to their 'controversial' nature, we would anticipate that support for management would generally be higher for non-controversial votes.

To get a better sense of asset managers' motivations, we analysed the voting rationales given by asset managers, where these were publicly disclosed.

In line with the Charities Responsible Investment Network's 'Improving the Conversation' consultation, charity investors expect asset managers who are serious about their responsible investment processes to publicly disclose rationales for their voting decisions, especially when voting against management, abstaining/using special exemptions and on all controversial resolutions.

Our analysis found a strong positive correlation ($r = 0.73$) between voting against management and publishing rationales for voting against management.[iii] This correlation was even greater in the context of all votes in our sample ($r = 0.83$), which is unsurprising as asset managers often have a policy to publish rationales for votes against management.

The asset managers who did not provide a rationale for any of their votes against management (Janus Henderson, HSBC, Jupiter and Investec) also voted against management less than 50% of the time. Similarly, the asset managers who provided a rationale for all of their votes against management (Aberdeen, EdenTree and Sarasin) voted against management more than 50% of the time. This may suggest that managers who vote more 'rebelliously' are more likely to be more transparent about how they arrived at their decisions, or that transparency encourages 'rebellious' voting.

Despite these findings, our data do not allow us to delve into the motivations for why asset managers might consistently side with management for these controversial votes.

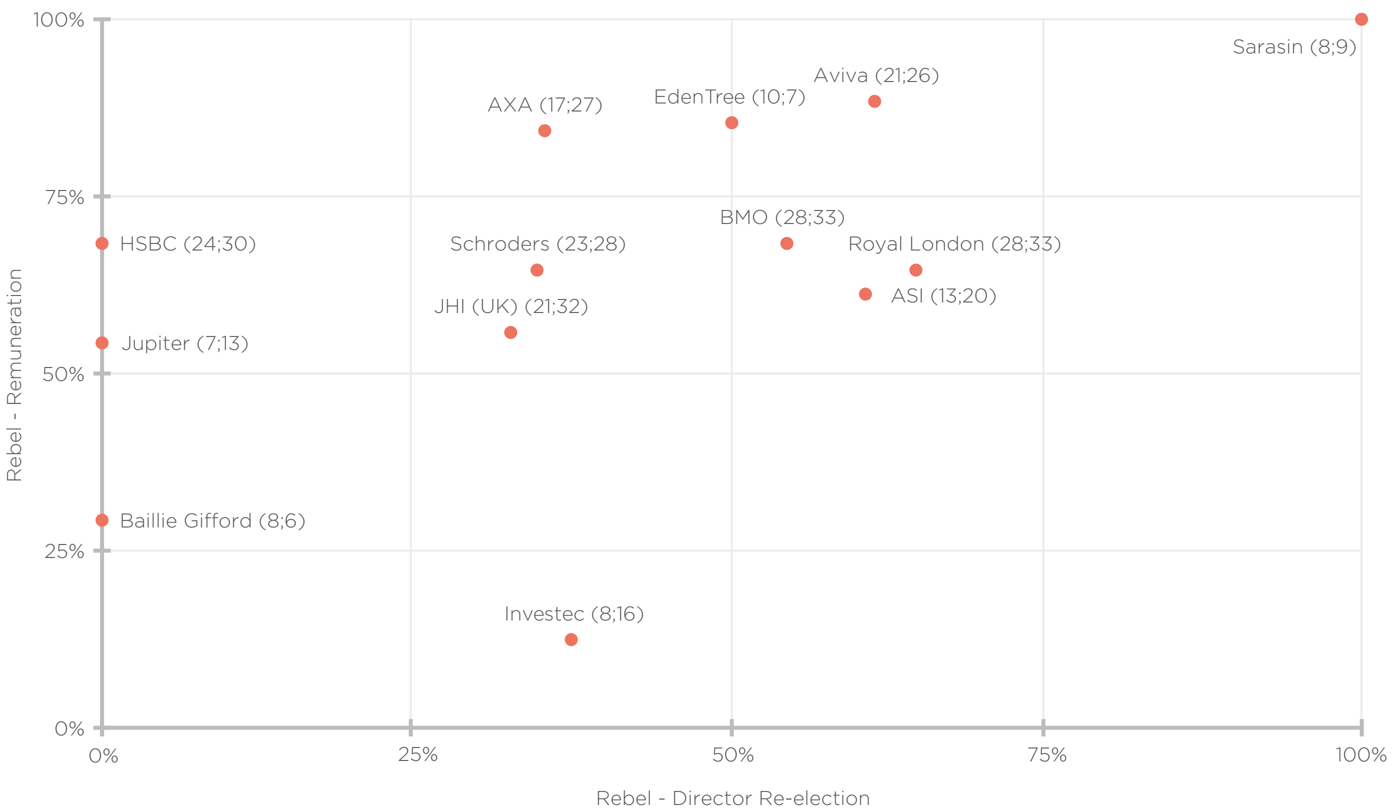
iii. We removed asset managers with fewer than 5 votes against management from this analysis, as they were deemed statistically insignificant.

2. Asset managers more willing to rebel on remuneration than director (re)election

To further unpack our data set, we disaggregated asset managers' votes by resolution type, to see if there was variation across the main categories.

As shown in Figure 3, asset managers are generally more willing to vote against managements' pay packages (average of 65%) than the (re)election of directors (41%). This pattern holds even if we remove non-binding 'advisory' 'say on pay' votes from the sample. At a time when executive pay has continued to come under the spotlight, it is promising to see that some asset managers are showing signs of discomfort with excessive pay packages.

Figure 3: Asset managers' votes against remuneration, compared to their votes against director (re)election



Number of resolutions voted on by each asset manager is shown in brackets

There is a moderately high positive correlation (r = 0.55) between rebelling on remuneration votes and dissenting on board directors. Yet, there are a few exceptions to this pattern. HSBC and Jupiter rebelled on remuneration votes over 50% of the time, but did not vote against any of the director (re)elections. This may be because high pay and excessive remuneration is a particularly contentious issue at the moment, and one which investors are under pressure to address, or due to an unwillingness to vote against an individual directors' (re)election; a more personal show of dissent than voting against a report. At the other end of the spectrum, Investec was an outlier by only rebelling on one of their eight remuneration votes, while rebelling on board director votes 38% of the time.

Asset manager pay

One of the most controversial FTSE 350 votes in 2019 was at Standard Life Aberdeen, where 42% of investors voted against the incoming Chief Financial Officer's remuneration package.

Proxy advisor firms ISS and Glass Lewis both voiced disapproval of the £525,000 salary, a 16.7 per cent increase on the incoming CFO's predecessor's salary, and the package of company shares worth £750,000. The proxy advisory firms recommended that shareholders vote against the resolution, saying that the one-off recruitment award did not reflect performance and that the package should instead take the form of phased increases.

Other financial companies also faced shareholder revolts over remuneration in 2019, including Standard Chartered, Barclays and Provident Financial.

These followed a report from MPs in the Business Select Committee, which urged Britain's biggest companies to cap "eye-watering and unjustified" pay packets for executives, and align them more closely with their workforce.

The report highlighted concerns over the ability of the asset management sector to hold investee companies to account on excessive pay packages and curb executive pay, due to high pay awards present in the investment industry itself. The report said, "it may be awkward, if not hypocritical, for [asset managers] ... to criticise pay policies for prioritising short-term financial incentives".

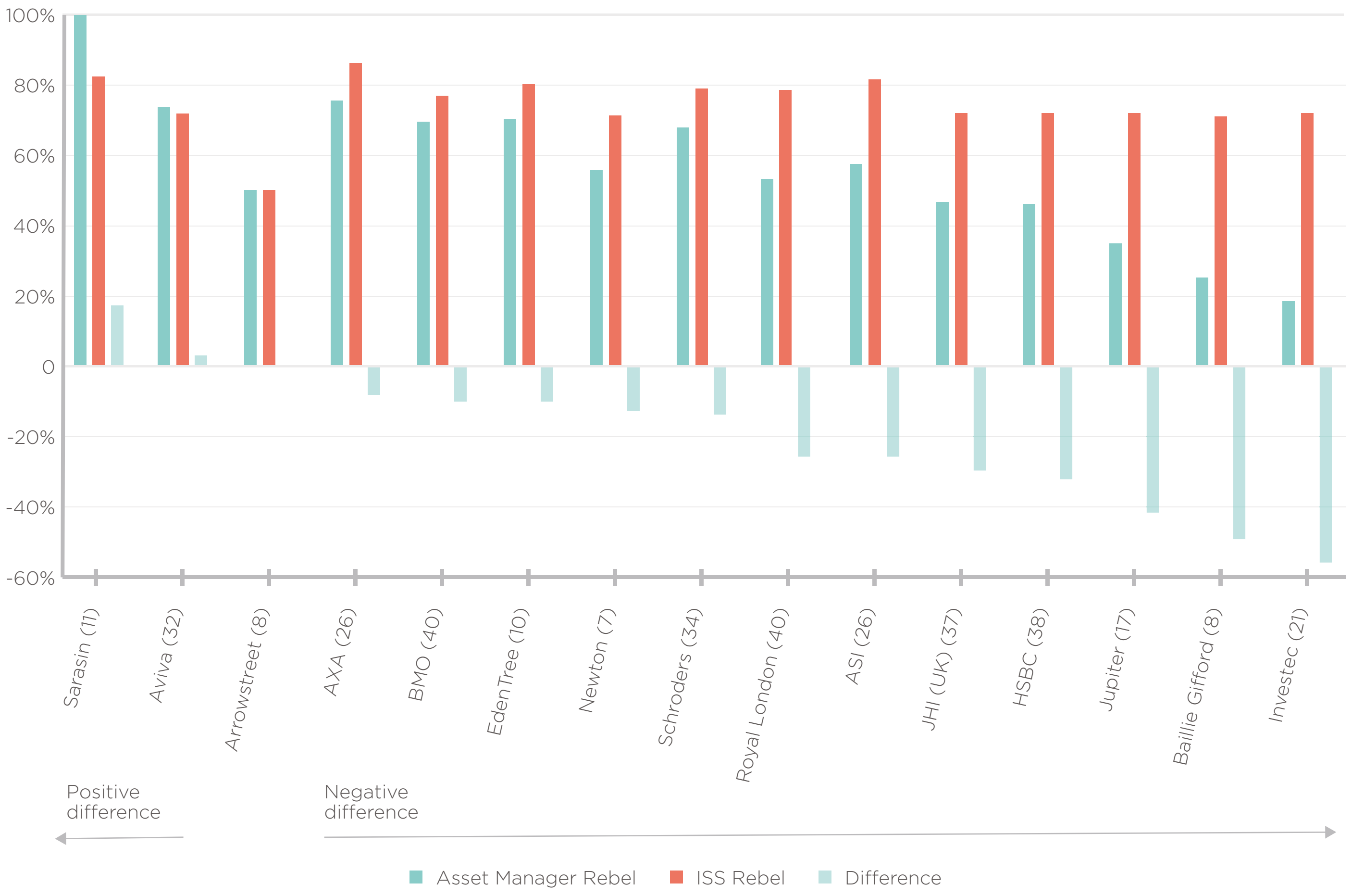
For their part, Aberdeen Standard Investments voted against 62% of the remuneration related controversial votes in our sample. It is therefore not obvious that this potential conflict of interest is material in this case, but is a governance issue that charitable investors should be aware of.

3. Largest proxy advisor more rebellious than most asset managers

We now turn to the role of proxy advisors in relation to the sample of controversial votes. Proxy advisors are third-party service providers who deliver recommendations to institutional investors on how to vote at shareholder meetings. Investors may use proxy advisors in a range of ways, and many use their recommendations as a resource, or receive bespoke recommendations based on their own voting policies.

As shown in Figure 4, only two managers – Sarasin and Aviva – in our sample of 15 managers voted against management more often than the benchmark recommendations of ISS, the largest proxy advisory firm.[iv]

Figure 4: Asset managers votes "Against" management, compared to ISS' recommendations "Against"



Number of resolutions included in this analysis for each asset manager is shown in brackets

iv. All asset managers included in this analysis except Royal London Asset Management receive services from ISS.

The majority of investors in our sample voted in support of management more often than ISS recommended (negative difference bar). This suggests these asset managers are either employing voting policies that are less progressive on board director votes and remuneration than their proxy advisor, or are overriding their proxy advisors' recommendations – and making special exemptions to their voting policy – in order to vote with management on these controversial resolutions.

Zooming in on proxy advisors

The pattern shown here in relation to proxy advisors echoes that of CRIN's 'Another Link in the Chain: Uncovering the role of proxy advisors in investor voting' report, which found that the majority of asset managers were less supportive of environmental and social issues than ISS, with the largest managers being the least supportive.

The report also found that there is little evidence to suggest asset managers over-rely on their proxy advisors' recommendations for shareholder resolutions. The data suggest that our sample of managers are not reliant on their proxy advisors' recommendations for governance resolutions either. Only Arrowstreet showed a 100% match with ISS' recommendations over 8 resolutions, a sample size too small to draw a strong conclusion.

The main findings from CRIN's 'Another Link in the Chain: Uncovering the role of proxy advisors in investor voting' are:

1. ISS is more supportive of environmental and social resolutions than the largest asset managers
2. There is little evidence to suggest a systematic overreliance on the recommendations of ISS for responsible investment resolutions
3. ISS, the largest proxy advisor, is more likely to recommend investors support environmental and social shareholder resolutions than the second largest firm, Glass Lewis

4. Asset managers' 'rebel genetics' have been hard-coded

How likely are asset managers to become more rebellious? We sourced data from asset managers' PRI Transparency Reports, to see how managers' votes against management had changed over the years, across all of their votes.[v,vi]

As shown in Figure 5, we found that the proportion of votes against management were relatively stable over time, indicating that asset managers' rebel genetics are slow to evolve.

Although there is significant variation between asset managers, their individual tendencies to rebel are quite stable between years. Notable exceptions to this trend include Schroders (who have become more and less rebellious), and both Aberdeen Standard Investments and Sarasin & Partners (who have become more rebellious).

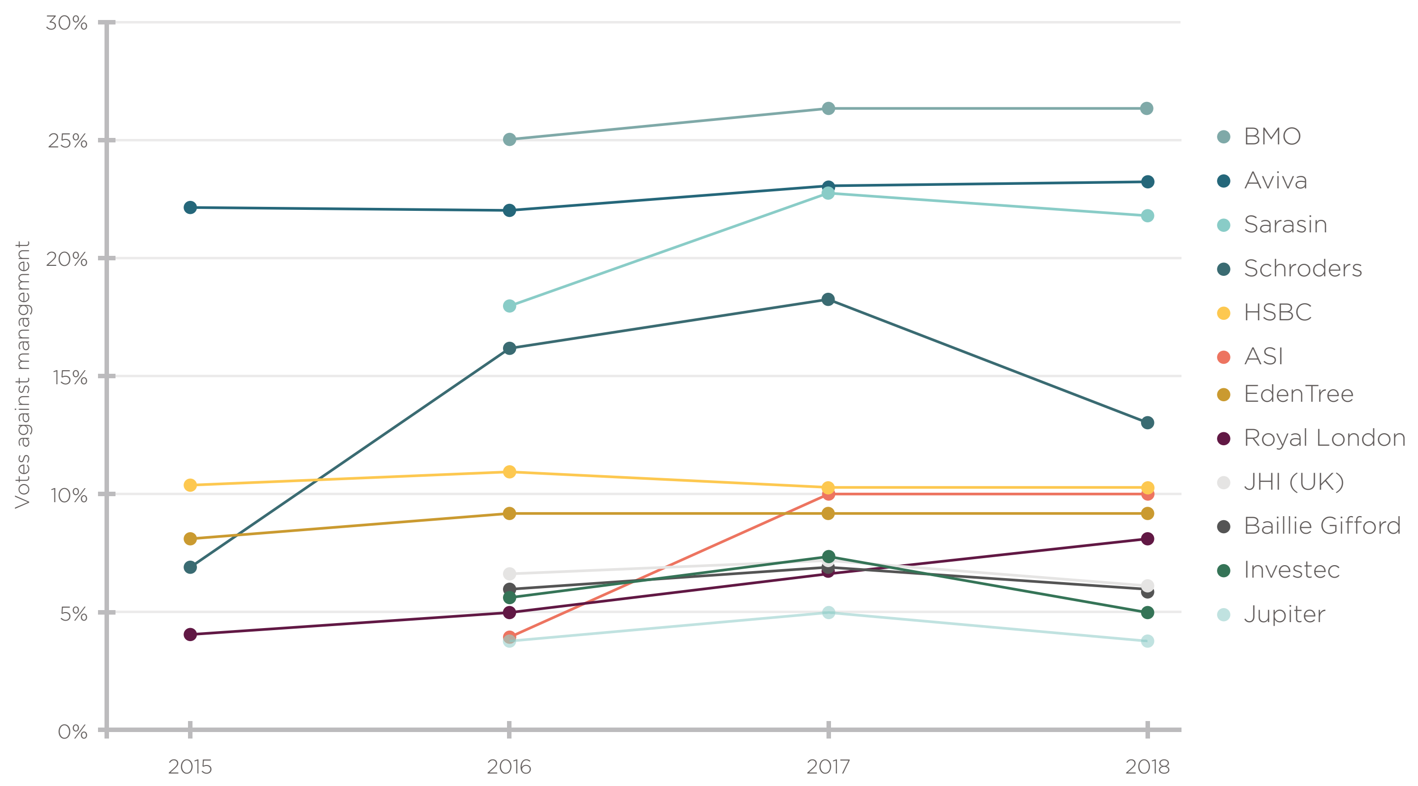
All managers included in the analysis for this finding disclosed to the PRI that they review objectives for their responsible investment activities at least annually. It is therefore striking to see that their policy reviews haven't affected their confidence to vote against management on matters of concern. This suggests that asset managers' 'rebel genetics' are hard-coded traits, and withstand multiple reviews of their responsible investment objectives and activities.

Asset owners, occupying one half of the symbiotic client/provider relationship, have an opportunity to propel the evolution of their asset managers' voting genetics. By pushing for improved voting practices, from policy to reporting, asset owners can drive an ESG 'survival of the fittest', which sees responsible investment thrive in the gene pool.

v. Before the 2017 PRI reporting period, votes against management were voluntary to report on. In 2017, the PRI made this section mandatory to report on (but not disclose). We therefore only have consistent PRI data for asset managers' votes against management from the 2016 voting period onwards.

vi. AXA and Newton are left out as we suspect they answered the PRI question with the figure that pertains to their percentage meetings with one or more vote against management, leading to much higher and incomparable figures. Arrowstreet have also been left out as they first reported to the PRI in 2017.

Figure 5: Asset managers' votes against management over time



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