2022

PROXY SEASON REVIEW UNITED KINGDOM

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CMi2i CAPITAL MARKETS INTELLIGENCE

HIGHLIGHTS

(FTSE 100)

AVERAGE QUORUM: 75%

27 NUMBER OF CONTESTED RESOLUTIONS WITH 20%+ DISSENT*

106 NUMBER OF CONTESTED RESOLUTIONS WITH 10%-20% DISSENT*

2 NUMBER OF REJECTED RESOLUTIONS

ESG

&

REMUNERATION

MOST CONTESTED PROPOSALS

*Percentage based off of total number of votes

HIGHLIGHTS

(FTSE 250)

AVERAGE QUORUM: 71%

58 NUMBER OF CONTESTED RESOLUTIONS WITH 20%+ DISSENT*

232 NUMBER OF CONTESTED RESOLUTIONS WITH 10%-20% DISSENT*

7 NUMBER OF REJECTED RESOLUTIONS

ESG

&

REMUNERATION

MOST CONTESTED PROPOSALS

*Percentage based off of total number of votes

GENERAL OVERVIEW & REGULATORY UPDATE

The UK 2022 proxy season saw not only a number of regulatory changes relating to traditional/ ESG themes, as observers are accustomed to, but was also heavily influenced by material market changes due to extraordinary geopolitical events, changes and conflicts. Russia's invasion of Ukraine in February 2022 lead to noteworthy changes to the composition of the FTSE 350[1] index due to sanctions against Russia in the wake of the invasion. These sanctions still stand today as the conflict continues and are unlikely to be lifted anytime soon. Due to the sanctions, by March 2022 the FCA suspended trading shares for issuers with significant Russian state interest, investment or control, including Evraz, Petropavlovsk, Polymetal, and they were consequently removed from the FTSE 350 index.

While these material changes to the indices have not necessarily impacted the proxy advisors (ISS, Glass Lewis) and investors in a literal sense with regards to significant voting guideline changes, stakeholders have been closely monitoring the ongoing effects of this crisis on affected companies. For example, Glass Lewis has responded by recommending that its clients do not vote at general meetings held by sanctioned companies or items relating to sanctioned individuals. There is also an increased expectation, albeit an informal one for the time being, that issuers provide clarified risk evaluations of their material connections to Russia, which may be touched upon in future guideline updates.

In terms of changes to the regulatory environment, from April 2022 publicly listed issuers retaining 500+ employees have been required to disclose climate-related financial information in line with the four TCFD Pillars. This change was made after further consultation by the FCA after further consultation[1] that was launched in March 2021. While this may have little impact on issuers already compliant with TCFD standards, it will present significant challenges to a handful of companies with historical concerns regarding quality of climate-related disclosure and oversight persist.

The FCA also updated its listing rules regarding Board diversity with an accompanied comply-or-explain rule, that started to be applied from April 2022. From this year, all companies with UK listed equity shares / certificates must have at least 40% of women on their Board, have at least one of those women occupying a senior board position (i.e. Supervisory Board Chair, CEO, CFO, or SID), and have at least one member of the Board who is from a minority ethnic background.

In November 2022, the Pre-Emption Group (which is part of the FRC) issued a new Statement of Principles on the disapplication of pre-emption rights which took effect immediately after its publication. The 2022 Statement of Principles increased the limit for general authorities to issue shares. The limit for authorities without pre-emptive rights has increased from 5% to 10%, with a further authority of no more than 2% to be used only for the purpose of making follow-on offer or a kind contemplated in the Principles[2]; and authorities without pre-emptive rights in connection with an acquisition or specified capital investment has increased to 5% to 10%.

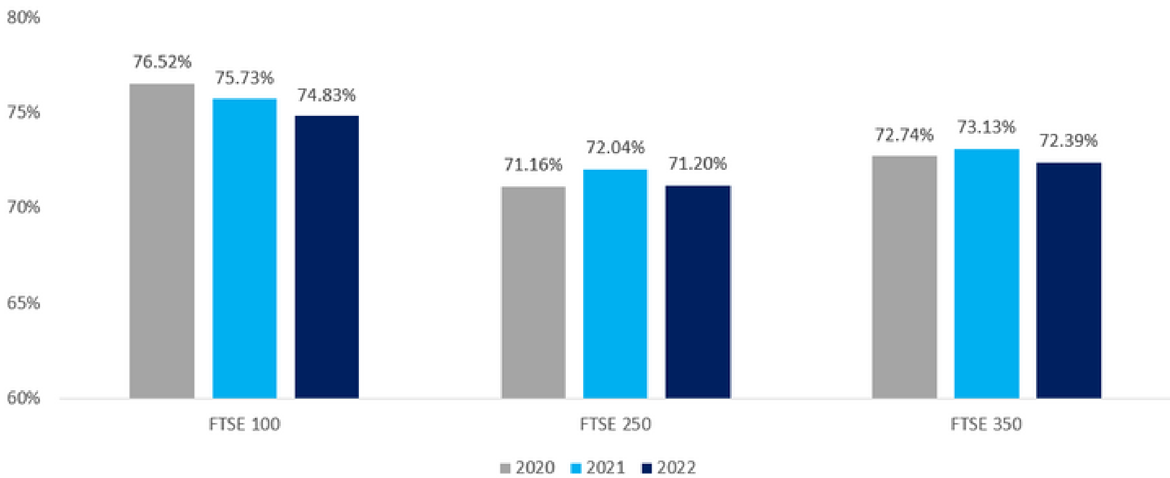
[1] FTSE 100 companies studied in CMi2i's UK Season Review are as per FTSE UK Index Series Quarterly Review March 2022, excluding companies that are not headquartered in the UK incl. Crown Dependencies.
[2] "Mandatory climate-related financial disclosures by publicly quoted companies, large private companies and LLPs". FCA
[3] Pre-Emption Group updated Statement of Principles 2022

Summary of the SEASON (FTSE 350)

Quorum

For the past 3 years, the average voting participation has gradually decreased in FTSE 100 companies while quorum in the FTSE 250 has fluctuated. These changes can be attributed to a number of factors, including Brexit and expanded vote choice policies being implemented by major asset managers, including BlackRock. Simultaneously, however, voting participation and the power of retail shareholders is growing in the UK and is expected to increase as brokerages and platforms further democratise voting, enabling retail shareholders to exercise their voting rights via their platforms.

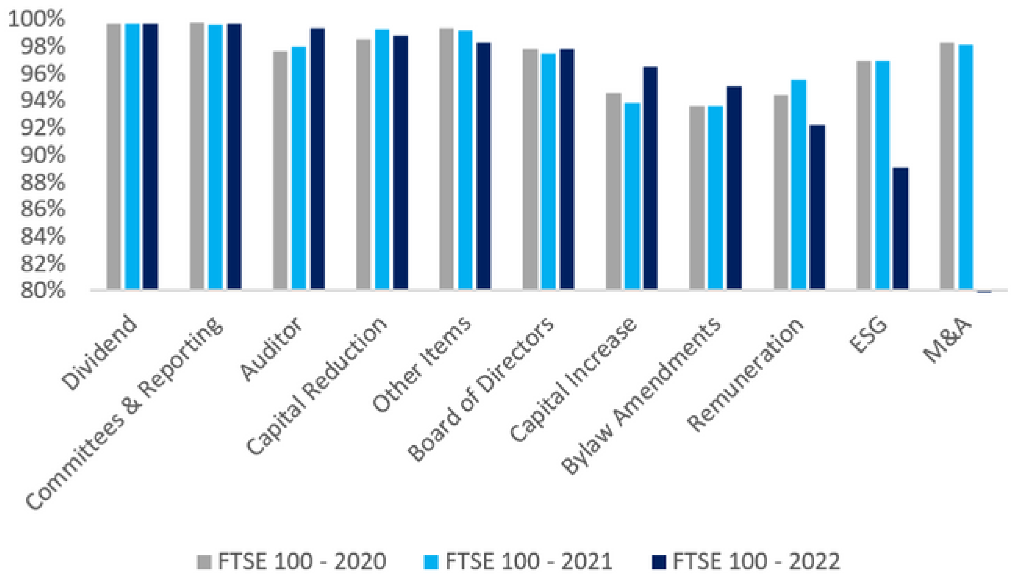
THREE YEAR QUORUM COMPARISON



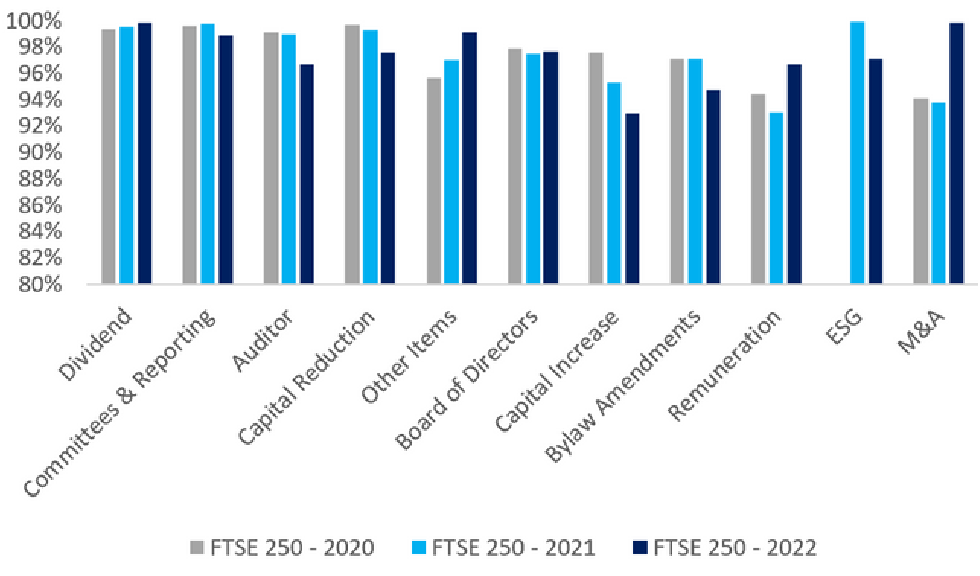
Summary of the SEASON
(FTSE 350)

Average Support by category

FTSE 100 THREE YEAR AVERAGE SUPPORT



FTSE 250 THREE YEAR AVERAGE SUPPORT



Focus on...

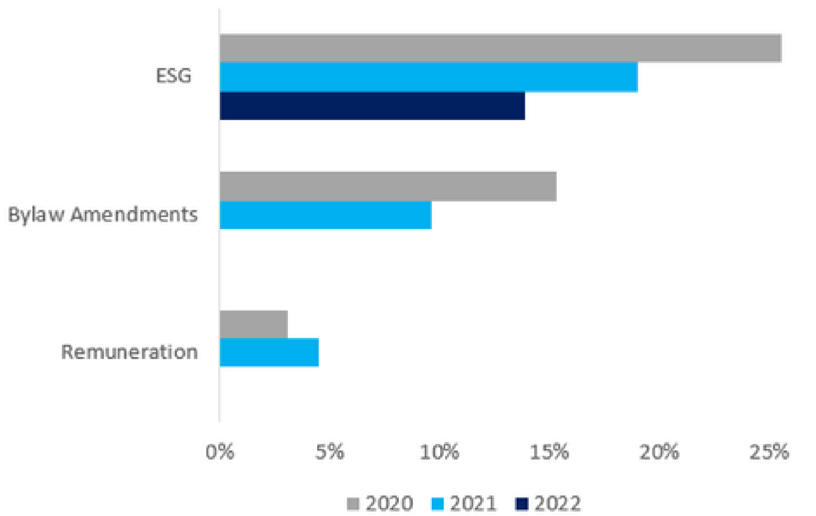
ESG

(FTSE 350)

Across the FTSE 350 index, the first major trend with regards to ESG proposals is increased investor opposition to managements' Say-on-Climate proposals. While the impacts are lower in the FTSE 100, where approval levels were virtually unchanged compared to previous proxy season, we are observing a slight increase in investor opposition in the FTSE 250 (0.86% reduced average approval).

At their 2022 AGMs, M&G and Shell both received less than 80% approval for their Say-on-Climate proposals, with 79.57% and 79.51% respectively. LGIM dissented on both companies' proposals due to insufficiencies within their climate transition plans, noting M&G lacked disclosure with regards to its Paris-alignment, Scope 1/2/3 emissions and short/medium/long term reduction targets; and that Shell, whilst it had made significant progress on its net-zero by 2030 pathway and low carbon investment plan, LGIM remained greatly concerned regarding the issuer's lack of disclosure of future fossil fuel production plans.

AVERAGE APPROVAL SHAREHOLDER RESOLUTIONS 2020 to 2022



*No shareholder proposals on Articles amendments and Remuneration in 2022.

Focus on...

ESG

(FTSE 350- continued)

As noted in other markets covered in CMi2i's 2022 Proxy Season Reviews, there is an increasing rift between ESG impact-oriented sub-advised funds with retained voting rights and the larger asset managers with regards to how they view and vote on investee companies' climate strategy and performance. Asset managers including BlackRock are trying to avoid ESG votes seen as too prescriptive or micro-managerial while sub-advised funds, notably ESG oriented pension funds, are increasingly putting pressure on companies for more extensive climate disclosure and energy transition planning.

The second major trend was a decrease in number and average approval for ESG proposals put forwards by shareholders. Despite the decrease in average support, all shareholder proposals put forwards this proxy season were ESG related and 40% of these were specifically in relation to human capital management issues, such as living wage compliance for the wider workforce in light of current cost of living crisis.

Sainsbury's Share Action's living wage proposal received the second highest approval rate of all FTSE 350 shareholder proposals (16.69% - is this correct: second highest was only 16.69%) despite negative recommendations from ISS and Glass Lewis and was supported by a number of investors, among others, DWS, LGIM and HSBC. This demonstrates a growing focus on human rights within ESG and its link to asset value in light of current market conditions. Other proposals, 60% of shareholders resolutions were Climate related items presented at BP Plc, Shell Plc, and Standard Chartered Plc. Whilst not approved, these proposals gathered significant support i.e., 14.86%, 20.29% and 11.77% respectively. Although we note a 5%[4] year on year drop in ESG shareholder proposals support. While current market conditions have not yet been formally outlined by the global proxy advisors' guidelines, these are clearly areas of importance to investors both inside and outside of the UK that may influence future guidelines updates from 2023

[4] 13.91% support in 2022 Compared to 19.03% in 2021

Focus on...

REMUNERATION

(FTSE 350)

This year, Informa PLC faced one of the largest pay revolts seen in the UK in the last decade due to performance metric concerns which led to the remuneration committee chair deciding not to stand for re-election next year. Informa's remuneration report for the 2021 FY was rejected by over 70% of shareholders and received negative reccomendations from both ISS and Glass Lewis, who also issued negative reccomendations against the entire remuneration committee's re-elections. Main concerns cited were insufficient response to shareholder dissent and the levels of non-performance based committee discretion allowed within the remuneration system due to the company's move from TSR & EPS metrics to cash conservation during the pandemic, and the difficulty in justifying significant pay increases given that business operations had actually slowed down in 2021. Investors such as BlackRock and LGIM agreed with this assessment and also considered the 2022 remuneration policy to be poorly structured. BlackRock opted to abstain while LGIM ultimately voted against the new policy.

This season, the most contested remuneration policy was RS Group's. Although approved it was only supported by 60.77% of the voting shareholders. In its response to the outcome of the vote, RS Group did not openly acknowledge the reasons for the dissenting votes. These votes were primarily fuelled by investors skeptisism surrounding RS Group's one-off J2G (Journey 2 Greatness) Award, which would have allowed the company to award up to 750% of base salary to executive directors, in addition to bonuses capped at 150% and a standard LTIP capped at 250%. Dissenting investors included AllianceBerstein, Swedbank Robur and Dimensional Funds Advisors.

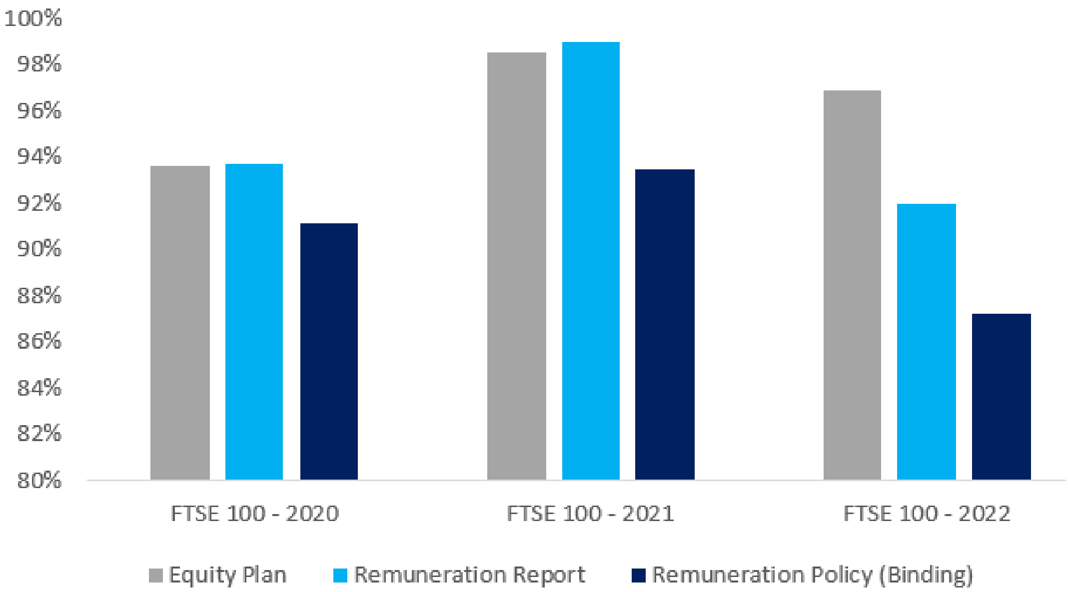
This year, over 40% of FTSE 350 proposals with less than 80% shareholder support and 25% of all failed proposals in the FTSE 350 were remuneration reports. We expect this trend and figures to continue to rise in the following years. Indeed, issuers who do not amend their 2022 remuneration policies and bonus award schemes to appropriately reflect pandemic and post-pandemic performance, and do not consider executive to employee ratios of pay, can expect future pay revolts, especially if current UK market conditions continue to negatively impact the wider workforce. As previoulsy mentioned, Human Capital Management is a key ESG focus for stakeholders. As such investors are increasingly linking employees' well-being and pay as to companies' ESG performance, overall financial performance and asset value. Alliance Bernstein notably published an edition of their white paper, 'ESG in Action', on the 28th September 2021 titled "Encouraging Effective Executive Pay Structures" which outlined its plans to do exactly that by referring to Stern's 2020 meta study on the positive correlation between company performance and integration of ESG performance metrics.

Focus on...

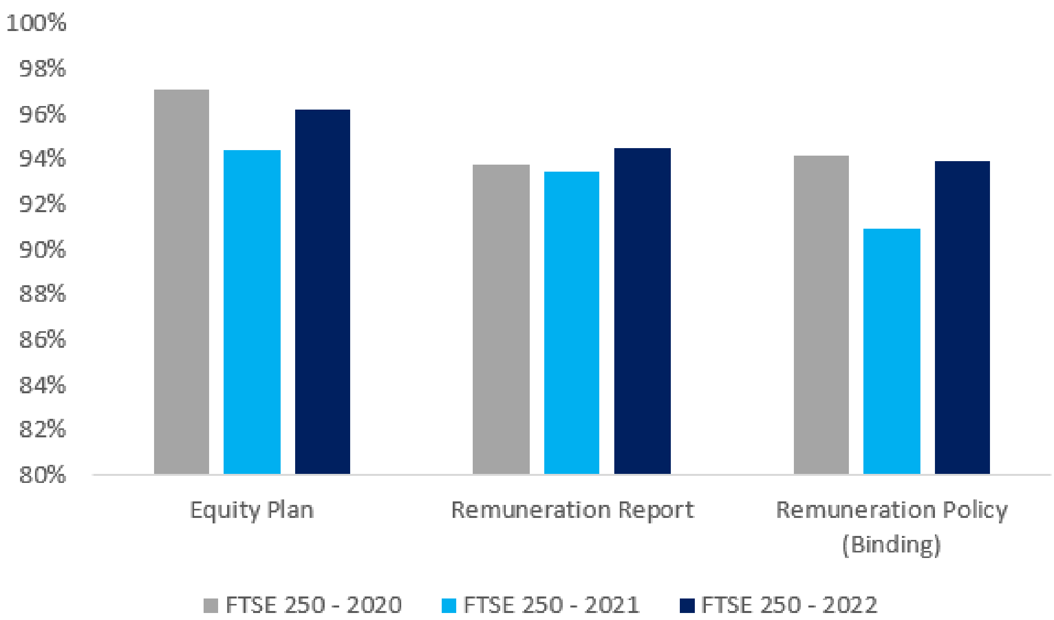
REMUNERATION

(FTSE 350 Continued)

FTSE 100 THREE YEAR AVERAGE SUPPORT



FTSE 250 THREE YEAR AVERAGE SUPPORT



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Focus on...

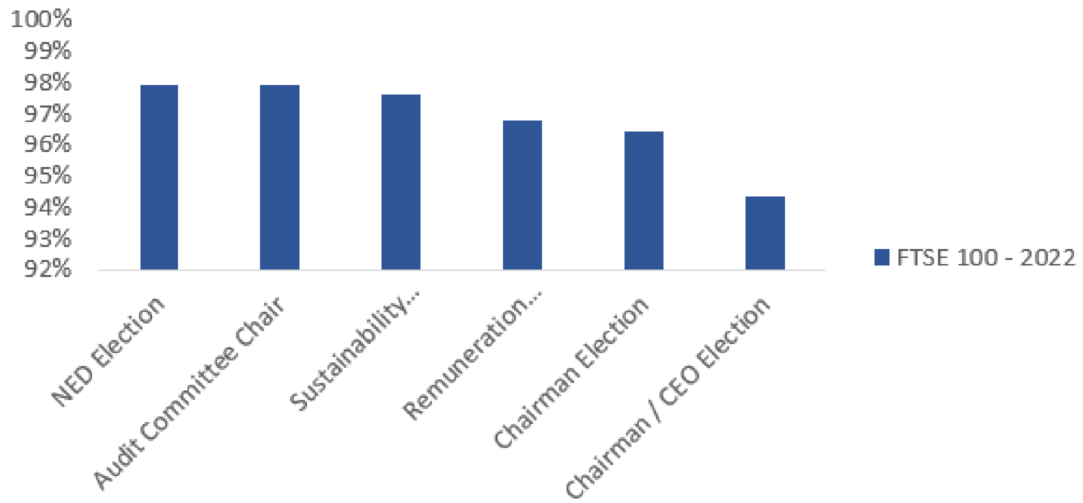
BOARD

(FTSE 100)

Of all the FTSE 100 committee chair elections this proxy season, unsurprisingly Remuneration Committee Chairs faced the highest investor's opposition after the reelection of Said Darwazah as Executive Chairman and CEO of Hikma Plc. A notable example was Halma Plc's Remuneration Committee Chair who received nearly 25% shareholder dissent on her reelection. Scrutiny was due primarily to the lack of Board responsiveness to previous remuneration practice issues, and ongoing concerns. These were the major themes of dissent with regards to Board elections overall this year.

As of September 2022, 84% of all FTSE 100 companies had at least one (1) Director from a minority ethnic background (and all but two failed to provide disclosure) and the average percentage of women on boards for the entire index was 41%. Next plc, for example, does not currently meet this threshold for ethnic diversity and has a board that is comprised of only 29% women. At their 2022 AGM, several investors voted against the Chair due to concerns surrounding the board's overall gender and ethnic diversity (with additional investors dissenting on remuneration and overboarding grounds). The Chair was ultimately reelected with ca. 88% support, though investors such as Calvert dissented as it has a recquirement for at least 2 ethnically diverse directors or an excess of 40% overall diversity, while ILIM generally deemed the board's ethnic diversity to be insufficient and therefore also did not support the Chair's reelection. Whitbread plc has the same diversity profile as Next plc, and its Chair garnered similar levels of support (89%) for his re-election, and notable investors also dissented on this vote due to insufficient diversity, including DWS, AEGON, ILIM, Pictet, Sarasin and UBS.

AVERAGE BOARD RELATED SUPPORT BY CATEGORY



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CONCLUSION

The UK saw significant drops in shareholder approval for ESG and Remuneration proposals. Shareholder dissent in relation to these topics also impacted average Board Election approval rates. The extraordinary geopolitical factors impacting the 2022 Proxy Season had undeniable effects on overall FTSE 350 poll results and have also started to foster an activist renaissance. By May 2022 the number of companies targeted by activists was up 50%, and the rise of ESG as a prominent feature of activist campaigns adds additional vulnerability for issuers in the energy sector, especially those who are not TCFD compliant. An anticipated knock-on effect of the TCFD reporting requirement in the immediate term this season was the potential impact this may have on approval levels for issuers' financial statements.

Key Board trends to look out for next season will relate to diversity and how issuers adapt to FCA standardisation while there is a wide variety of practice as to how disclosure currently is performed in practice.

Board responsiveness is likely to grow as a key governance consideration. Glass Lewis has stipulated in its 2022 guidelines that while the usual threshold of 20%+ dissent will not automatically trigger an negative recommendation, it may be a contributing factor in recommending a vote against a particular resolution in the event of inadequate board response, where the proxy advisor may escalate, where appropriate, to hold the Chair and relevant committee members accountable by recommending against their re-elections. We anticipate that the observed lack of board responsiveness will increasingly negatively impact remuneration votes as the quality of the board's response, alongside quantum, was one of the key rationales within dissenting remuneration votes this year.

Moreover, there is a growing trend (primarily in the US at this time) in corporate and activist communications where non-traditional mediums, such as social media platforms and forums, are being utilised by all sides for contentious situations, proxy fights and transactions. Whilst issuers and corporate advisors are gradually moving away from relying solely on generic RNS letters, notices and announcements. An example of an issuer who recently used new social tools for proxy solicitation is Nikola Corp, who launched a multi-channel social media campaign to gain shareholder approval for M&A fundraising in July 2022 that ultimately passed with 67% shareholder approval. At some point, these trends may impact future UK and European campaigns and playbooks, where issuers and their advisors will need to adapt to a changing and increasingly more digital environment and reflect this in its shareholder communication and campaign strategies. These new forms of communication can be used to proactively engage with and reach retail shareholder bases that are actively voting more than ever before, notably due to increased voting choice and opportunity.

FUTURE PLC

KEY ISSUES

- Future PLC's 2022 Remuneration Report failed to achieve sufficient shareholder approval, gaining only 44.5% support despite a significant increase in revenue and earnings from 2021.
- Several dissenting investors also voted against the re-elections of Rob Hattrell (RemCo Member, 34.70% against) and Mark Brooker (RemCo Chair, 38.82% against).
- In 2021, Future PLC's equity plan (Value Creation Plan) was approved however it did receive significant shareholder dissent (35.68%).

Remuneration Report

44% support

OVERVIEW

- Dissenting rationale was primarily based on the leaving bonus awarded to the former CFO, who received ca. £532k in cash as opposed to deferred shares, and on the overall structure of the VCP approved in 2021 (dissenting shareholders voiced concerns it would allow for excessive payouts).
- ISS and Glass Lewis both recommended against the Remuneration Report. ISS believed that the bonus payment made to the departing CFO was not aligned with good market practice, and Glass Lewis tied their negative recommendation to the excessive payout potential due to the overall structure of the VCP.
- Future PLC's Board responded to the result of the vote both in the voting results and in a separate RNS, where dissenting investor opinions were noted and the Board outlined its current and planned engagement efforts with shareholders, representing approximately 84.5% ISC.

KEY TAKEAWAYS

- As a consequence of the failed Remuneration Report vote, Future will submit a new Remuneration Policy to a binding vote at its 2023 AGM. Until then, the company has committed to extensive consultation with stakeholders in order to aid in the drafting of its new Policy.
- Most of the shareholder dissent stemmed from concerns about the potential for excessive payouts where COVID-era pay/performance models were applied to present financials and the lack of board responsiveness to past remuneration dissent.
- One of the greatest remuneration challenges for issuers in 2023 will be to put forward new remuneration policies that appropriately address investor concerns and consider post-pandemic financial performance.

NON-SUPPORTERS

JUPITER, AXA, Nordea, CALSTRS, Invesco, BlackRock, Amundi, UBS

SHELL

KEY ISSUES

- Shell Energy Transition Progress Update received a notable level of shareholder dissent while a Climate activist's proposal calling for additional disclosure on Shell's Paris alignment targets, although not approved obtained over 20% of votes.

OVERVIEW

- In 2021, the Dutch courts ordered Shell to cut its absolute emissions to no more than 45% by 2030.
- After the 2021 Proxy Season, Shell PLC had relocated its headquarters to the UK post-restructure and its 2022 AGM faced disruption due to climate protests occurring inside and outside the premises. As a result, the AGM was delayed by several hours.
- This year, ISS and Glass Lewis recommended to support Shell's climate resolution (20) and reject Follow This's shareholder proposal (21). PIRC supported Follow This.
- In 2020, Follow This's shareholder proposal gained ISS' support for the first time ever, though not from Glass Lewis'. In 2021, Follow This received support from neither main global proxy advisors on its proposal calling for enhanced disclosure.

KEY TAKEAWAYS

- Shell's Climate Strategy received only 79.91% support, an approx. 10% drop from the 2021 AGM result. Support for the Follow This proposal also saw an approx. 10% decrease in support to 20.29% this year.
- Shareholders criticised amongst others, Shell's targets which were not confirmed as science-based and the lack of detail on scope 3 emissions and granularity, explicit disclosure on the goals and the relevant IEA net zero pathways.
- "20% is still a shareholder rebellion and we have to work with them because they see that these companies, not only Shell, are not going to change their business models on their own accord." – Mark van Baal, Follow This
- The non-uniformity of investors' ESG views and applications to voting behaviour has become more divisive since 2021, a year in which shareholder proposals on ESG received record levels of support in the UK.
- However, despite these overall drops and pressure from anti-ESG groups that intensified in 2022, this has not led to calls from investors (ESG activists, retail, clients, and the general public) for concrete and enhanced climate strategy plans to die down to an extraordinary degree.
- Investors will be expected by clients to continue aligning ESG policies with the times and continue to pressurise issuers for enhanced climate plans. In the UK, this is now expected to focus on mandatory TCFD reporting, i.e., increased scrutiny on financial statements and the audit committee.

NON-SUPPORTERS

achmea · CREDIT SUISSE · NORTHERN TRUST · FRANKLIN TEMPLETON INVESTMENTS · PICTET 1805 · Irish Life · Russell Investments · SARASIN & PARTNERS

PLAYTECH, SHAFTESBURY, TULLOW

KEY ISSUES

- These three issuers proposed capital increases (without pre-emptive rights) that were rejected by shareholders. Some of the rejected proposals were also M&A related.
- All proposals in question received positive recommendations from both ISS and Glass Lewis.
- These case studies, will examine the particularities and circumstances that lead to the rejections of these proposals and the specific overall trends and challenges for FTSE 250 capital issuance proposals in 2022.

OVERVIEW

- Playtech Investors voiced dilution concerns due to the authority exceeding 20% of the issued share capital. Shaftesbury's related M&A activity saw similar concerns and certain Tullow investors' took issue with the non-specific nature of the authority.
- Playtech's AGM result followed Aristocrat's attempted £2.8 bil takeover of the company, which was blocked by a group of shareholders representing 45.32% ISC at its a February 2022 EGM. Shareholders argued that the Aristocrat's acquisition would have acted against the long-term interests of investors.
- The M&A battle involving Playtech ultimately ended without a final deal, that led to a significant share price drop. The company addressed shareholder concerns relating to their remuneration report (30%+ dissent), but did not address dissent against the proposed disapplication of pre-emptive rights.
- Following Shaftesbury's and Tullow Oil's AGMs, both boards committed to consultation/engagement with shareholders to understand and discuss their concerns with respect to these resolutions and to provide an update within 6 months of the AGM date.

KEY TAKEAWAYS

- Increased overall scrutiny on capital issuance proposals in the FTSE 250 correlates with the gradual decrease in UK M&A activity we saw from June 2021 – June 2022, which is now again on the increase as of Autumn/Winter 2022.
- In tandem, many issuers seeking a takeover deal are likely to face challenges in ensuring their capital raising proposals gain 75%+ approval if there is prior significant dissent.
- Boards that are supported by corporate advisors are more likely to be able to constructively respond to past shareholder dissent, navigate issues surrounding rival ownership and garner investor approval for M&A related capital increases.

NON-SUPPORTERS

	PLAYTECH	SHAFTESBURY	TULLOW
	UBS, CALSTRS	State of Connecticut Treasurer's Office	Coronation

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