UNITED KINGDOM

Measures taken by companies to stay afloat during the global Covid-19 pandemic meant that investors took a more lenient approach in terms of their stewardship activities this proxy season. This has been shown by similar AGM approval levels this year to those of last year. However, against a turbulent backdrop, a spotlight was shone on the materiality of ESG risks and opportunities, arguably putting to bed any doubt that ESG factors take a back seat in the eye of the investor.

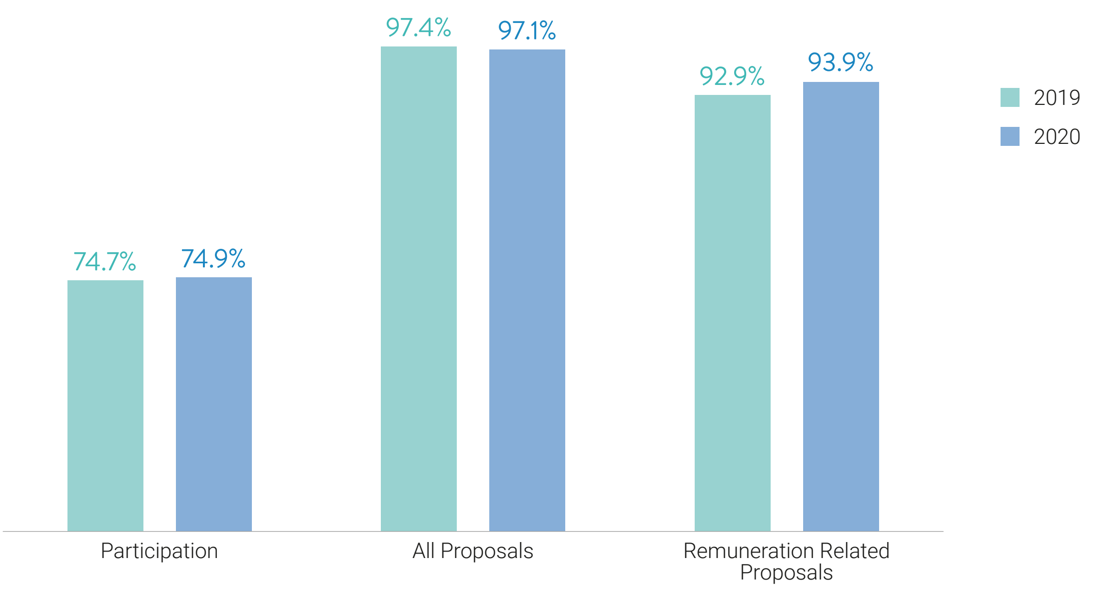
QUORUM

The 2020 AGM season presented several challenges to issuers as they navigated a turbulent environment crippled by a global pandemic and resulting regulatory and investor pressures. However, despite the majority of FTSE100 AGMs taking place behind closed doors with little opportunity for live engagement with company boards, average investor participation at AGMs and average support for all proposals remained in line with what was seen last season. There was a slight increase in support for remuneration-related items, perhaps signaling a gradual convergence in views between companies and their shareholders on issues related to pay.

REMUNERATION

As highlighted in our 2019 AGM season review, many UK issuers renewed their remuneration policies in 2020 with nearly half of all FTSE100 companies seeking investor support for a new 3-year policy. All of the 41 remuneration policies were passed with a comfortable vote bar two which received more than **20%** shareholder opposition and negative recommendations from ISS. We note investor concerns centered on the disapproval of the replacement of a restricted share plan or on the pension arrangements for incumbent executive directors which remained significantly above market levels with no commitment provided to align the pension with that of the wider workforce. The latter we highlighted in 2019 as a major investor concern, echoing revisions made to the 2018 Corporate Governance Code which required companies to align pension contributions of directors with that of the wider workforce.

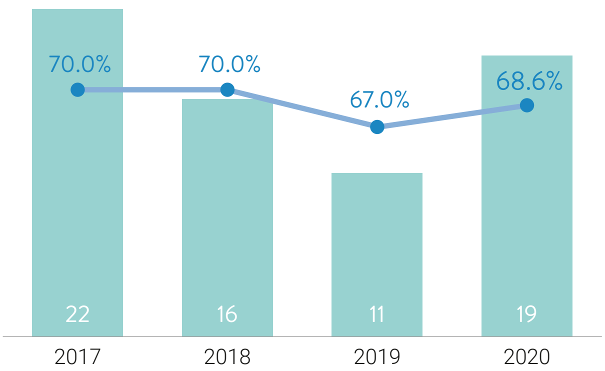
GENERAL MEETING SUPPORT



BOARD

Casting the net wider to the UK FTSE All Share, data from the Investor Association's Public Register shows us that the 2020 proxy season was a year where trends were reversed when looking at approval rates of remuneration policies and director elections. Here we see where investors were willing to slightly relax accountability (director elections) and sharpen focus (remuneration policies) as their portfolio companies navigated the business impact of Covid-19.

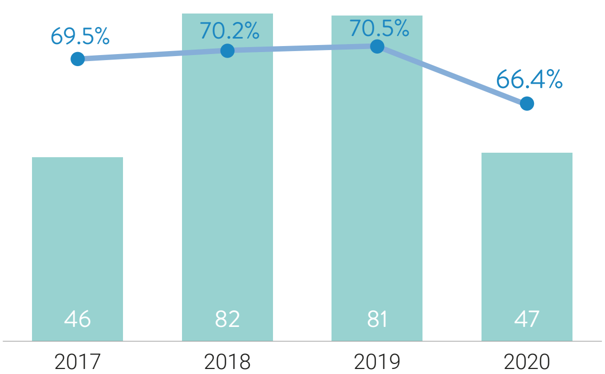
FTSE ALL SHARE REMUNERATION POLICY APPROVALS



Average Remuneration Policy support

Number of Remuneration Policies receiving more than 20% opposition

FTSE ALL SHARE DIRECTOR ELECTION APPROVALS



Average Director Election support

Number of Director Elections receiving more than 20% against

The increased focus on remuneration policies was demonstrated by nearly double the number of companies receiving more than 20% opposition to their proposed structure in comparison to the previous year, halting a downward trend in the number of remuneration policies receiving this level of opposition since 2017. Average support was broadly in line with previous years with only one company unable to implement its new policy. Additionally, a handful of companies who received more than 20% opposition are not first-time offenders, having appeared on the register once or twice since 2017. It is clear investors are not adopting a more lenient approach to remuneration structures of smaller companies and these investee companies will only come under increasing pressure to meet the standards expected of larger organizations.

We expect increased scrutiny on remuneration reports next year when decisions that were made during the pandemic will be reported. Comprehensive explanations of how investors and wider stakeholders were considered in, for example, discretionary adjustments to criteria, targets or pay outcomes will be expected.

When it comes to holding individual directors accountable over an organization's strategy and performance, investors took a relatively relaxed approach to re-appointments with the number of directors being elected with more than **20%** opposition dropping by nearly **40%** between 2019 and 2020. This is not entirely unexpected as our engagement with investors revealed fund managers were largely supportive of companies steadying their ships through the pandemic without disruption to the composition of the board and executive management.

The call on companies to preserve cash during the pandemic was illustrated by a request from the Prudential Regulatory Authority, the supervisory arm of the Bank of England, to suspend dividend payouts for the 2019 financial year. While we witnessed most major banks in the UK apply this policy without objection, the withdrawal of its dividend for one issuer left its large retail base without their regular expected income resulting in a threat to call an EGM in an effort to reverse the decision.

PROPOSED HYBRID MEETINGS

Forced to carry out their AGMs behind closed doors with, in some cases, no live virtual participation, some UK issuers took the opportunity this season to amend their articles of association to allow for hybrid meetings in future, comprising a physical and virtual component. One company had proposed the option to allow for this, however some shareholders were of the view the company could and possibly would use the permission to hold 'virtual' meetings only with no shareholders present, suggesting they thought the Board had plans to do away with physical meetings, reminding issuers that crisis related limitations in shareholder rights are only tolerated in the short term.

Other issuers were perceived as avoiding shareholder scrutiny for their AGM when meetings did not comprise a virtual component. With retail investors increasingly weary of potential limitations on their shareholder rights, issuers with strong retail shareholdings will need to be increasingly aware of the voice of this shareholder group especially as we expect hybrid meetings to continue in 2021.

15 FTSE100 COMPANIES

suspended 2019 dividend payments including 5 banks and 4 insurance companies on the back of a request by the Prudential Regulatory Authority to preserve cash during the pandemic.

OUTLOOK 2021

During the 2020 AGM proxy season, against a backdrop of a global health crisis and social unrest, the growing importance and investor expectation on a company's management of ESG risks, opportunities and consideration for stakeholder perspectives is for all to see. Climate change and executive pay will continue to be pressing issues, however going into the 2021 AGM season we expect much closer attention to be placed on health, safety and treatment of staff. This has been and will continue to be driven by the likes of Blackrock's call on companies to report based on SASB and TCFD frameworks, their list of 192 at-risk companies as well as State Street's open letter asking companies to articulate their risks, goals and strategy related to racial and ethnic diversity. These are themes that will continue to gain traction as we move into 2021 and play a bigger part in corporate governance engagement between issuers and investors. The message of investors was loud and clear: we are looking at the "S", but the "E" in ESG is not going away.

AGMs 2020: INVESTOR INSIGHTS Q&A

Philip Vernardis,
Vice President, Asset Stewardship,
State Street Global Advisors

How are companies responding to the coronavirus crisis? Have you been engaging with your portfolio companies on the pandemic?
Since the outbreak of the pandemic we have engaged with over 170 companies globally, across various markets and sectors, to understand how they have navigated the crisis and positioned their business for the future. Many companies were forced to adapt quickly though managing their business remotely and making changes to their operations, supply chains and customer connectivity. The pandemic has thus accelerated trends that were already in place, such as digital transformation, remote working, online ordering and delivery and supply-chain diversification.

What are some of the key ESG trends in the time of Covid-19? Has the focus of State Street Global Advisors' Stewardship program changed?
I think the Covid-19 pandemic has brought the social pillar of ESG to the fore, in a way that we have never seen before. As a result, we have amplified our focus on human capital, employee health, safety, equality, diversity and inclusion. In our engagements during the 2020 proxy season, we encouraged our investee companies to articulate how the pandemic might influence their approach to these material issues as part of their long-term business strategy. We believe that companies should consider redeploying talent by reskilling and upskilling the workforce. Companies may also need to re-evaluate their purpose, culture and portfolios to deliver more sustainable business models in the post-pandemic era. We are confident that forward-looking companies with strong ESG practices will use this crisis as an opportunity to reinvent themselves.

We also believe that the Covid-19 crisis accelerates the need for transformative change to address climate change as it shows the importance of being prepared and the huge cost of slow action. Therefore, climate change continues to be a core theme of State Street Global Advisors' stewardship activities in 2020 and it will remain a core campaign until we are confident that portfolio companies are effectively addressing this issue.

In terms of governance the potential impact of Covid-19 on the health of company senior executives and the risk of multiple concurrent absences highlight the need for robust succession plans in a time of crisis. Such leadership-continuity risk is a new experience for many boards. Therefore, we have placed additional focus on succession plans in our engagements with investee companies since the outbreak of the pandemic. Our engagements revealed that, even though many boards spend more time and effort on succession planning than ever before, some companies are still not fully prepared to handle multiple unexpected executive transitions.

How did companies respond to liquidity risks arising from the pandemic during 2020 proxy season?
Liquidity management was a top priority for companies during 2020 proxy season. As a consequence of the pandemic, many companies have been in greater need of capital and liquidity and have consequently suspended their dividend payments and share buy-back programs to preserve cash and ensure the ongoing viability of their business. In light of the current uncertainties, we understand that some companies have to take a prudent approach in assessing their ability to withstand financial stress. However, we are also mindful when companies unnecessarily suspend or reduce their return of capital to shareholders. We expect companies that decide to suspend dividend payments to resume them as soon it is prudent to do so.

Unsurprisingly, there was also a significant increase in the number of investee companies seeking to raise survival cash from shareholders during the 2020 proxy season. The number of capital raising resolutions submitted for approval at shareholder meetings more than doubled compared to the same period last year. As we recognize that a global health and economic crisis of this magnitude presents extraordinary challenges for businesses, we have been supportive of well thought-out capital-raising requests.

Covid-19 has disrupted supply chains around the world. Are there any trends you have seen during the season in terms of supply chain management? How should companies respond to this?

In our discussions with our investee companies, it is clear that Covid-19 has accelerated the need for businesses to embrace digital transformation and supply-chain optimization. The pandemic and the associated production stoppages across the globe have revealed the fragility of many companies' centralized-production and supply chain systems. Therefore, some companies are now reconsidering the benefits of their existing systems. We believe that companies may need to re-evaluate their supply chains and consider implementing more diverse sourcing, digitalization and robust supply-chain risk management processes. These factors will be key for companies to achieve resilience and ensure a lasting recovery from the pandemic.