

Proxy season preview

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Virtual meetings became the standard during the Covid-19 pandemic out of necessity and, with uncertainty over when this pandemic will end, the virtual format will likely remain the standard for the time being.

It is likely that, over time, the hybrid meeting will become the dominant format for AGMs, according to Paul Conn, president of global capital markets at Computershare.

‘I think, ultimately, it will come down to whether a hybrid meeting can be done cost-effectively,’ he says. ‘Where the law allows, companies will have virtual meetings. Large companies might offer streaming meetings or some form of participation remotely. You could authenticate shareholders who join virtually and allow them to vote. I think it will take three to five years before in-person meetings are not considered best practice.’



Tom Skulski, managing director for proxy at Morrow Sodali, agrees that eventually hybrid meetings are likely to become the standard because those who preferred to be physically present could be, while those who couldn't attend would at least be able to participate in the AGMs. There are some concerns, however, about boards being held accountable to shareholders with questions.

'ISS did a survey over the summer; it found that a large number of investors who responded are concerned with the way companies are curating questions and how questions are allowed to be asked at meetings,' Skulski says. 'They

are concerned that not all questions are being asked and answered. You would know this at an in-person meeting because you'd see how many people were waiting to speak.'

He adds that ISS and Glass Lewis are going to come out with their policy recommendations regarding holding AGMs before the end of the year.

'It will be interesting to see whether they have changes in how they think virtual meetings should be run and whether they will give any guidance on future approaches by issuers,' he says.

“ Investors want more opportunities to vote on director elections ”

Regional trends



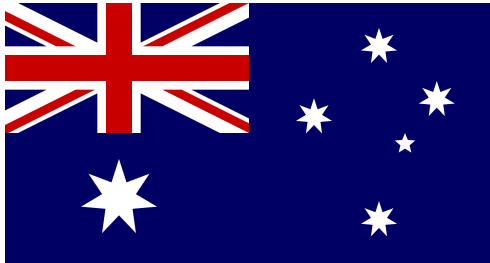
US

The issues motivating shareholders the most are environmental and social. There were 13 environmental and 20 social issues that passed in the US in 2021, compared with a combined total of 18 the previous year, according to Hannah Orowitz, senior managing director at Georgeson. She says ESG issues will continue to dominate the coming proxy season: 'We are going to see more proposals asking firms about climate transition strategies in 2022.'

When it comes to social measures, Orowitz says new proposals at AGMs were related to racial equity audits,

although none passed. Several garnered support of more than 30 percent, however, she points out. 'I believe we are going to see more of this in 2022, asking companies to make commitments on racial equity efforts and have third-party experts reviewing those plans,' she says. 'We will see those proposals in 2022, and it remains to be seen how those proposals will increase.'

This year also saw heightened scrutiny on political spending, which Orowitz believes will continue. This, she says, will continue to be examined at AGMs in 2022, with investors examining how lobbying efforts are affecting companies' climate and social goals. 'Fallout from events at the Capitol in January and scrutiny over political and lobbying efforts – in general, not necessarily connected to environmental and social issues – will all be looked at,' she says.



Australia

The key theme of Australia's proxy season was executive remuneration. 'We had some companies taking government aid and, while doing that, they paid bonuses and dividends,' says Jana Jevcakova, managing director for corporate governance at Morrow Sodali. 'Investors said government

money is not there to subsidize bonuses and dividends.'

Jevcakova explains that there is a two-strike rule when it comes to remuneration in Australia: if a board receives 25 percent of shareholder votes cast against its remuneration package in two consecutive years, it could be forced out by a subsequent 50 percent vote recommending its dismissal. 'That has only happened to one board since the rule was implemented in 2015, which shows how seriously Australian boards take remuneration,' she says.

Jevcakova says Morrow Sodali is looking to see which companies took government aid in 2021 and had first-strike votes. 'Investors are very skeptical about bonuses being paid out to executives,' she says.

'They are often skeptical of the structure of compensation related to performance – they think targets are not challenging enough and executives don't demonstrate enough value creation.'

Investors are looking for boards to take leadership on climate change and set incremental targets on a path to

eventual net-zero emissions. 'Many companies have aspirational goals of net-zero by 2040 or 2050, and investors are going to be looking for incremental targets to meet on the way to net-zero,' Jevcakova says. 'They want to see short-term targets because these directors will not be around in 2040 and 2050.'

Climate change is an issue that will remain at the fore in Australia, and Jevcakova says eight firms are expected to have say-on-climate proposals on the agenda in 2022. Companies will take their cues from the COP26 Climate Conference in Glasgow, UK.

'It will send a stronger signal to investors that have already started tightening scrutiny of investments and voting regarding climate,' Jevcakova says. 'Climate change and human capital management are gaining increasing attention in the Asia-Pacific region. There is a big change happening right now.'

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France

This year, France saw the highest number of contested director elections in Europe, according to Georgeson.

‘The French season is always quite tense. Institutional investors in France tend to be quite strict on French companies,’ explains Daniele Vitale, head of governance for UK/Europe at



Georgeson. ‘They tend to be highly willing to vote against things – there are always several rejected board proposals, for example.

‘The most commonly contested AGM item is share issuance. It’s controversial and there is a law that encourages the idea that share issuance requests should be available during a takeover period where institutional investors don’t tend to agree.

‘About 25 percent of director elections were contested in 2021, which is very high compared with other European countries and significantly higher than 2020 or 2019.’

Asset managers are also under a lot of pressure from clients on ESG issues, according to Domenic Brancati, chief executive for UK/Europe at Georgeson. He says there is a sea change taking place in the way investors look at climate change in France – and across Europe, for that matter.

‘A lot of asset managers, we can see how they vote, so they are in the firing line because people can see how they are voting on climate issues,’ he says.

‘From a moral perspective, what we are seeing is asset owners pushing asset managers to hold boards to account on what they are doing from a climate-

related standpoint. It will be interesting to see how this relates to metrics like say on pay. We are still in the infancy stage of whether the impact will be large enough to change things.’

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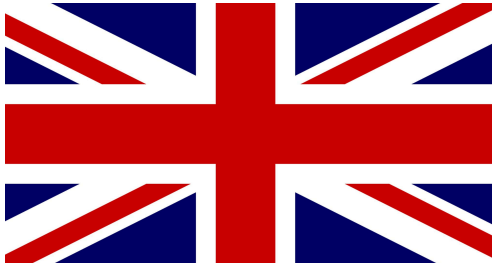
Germany

Last year was the first AGM season in Germany when the Shareholder Rights Directive II was implemented. There was some idea among investors that companies would push forward remuneration votes voluntarily, but that did not happen, Vitale says. 'We are only expecting to see those votes coming in in 2022. Given the introduction of remuneration votes, Germany would be the last country in Europe to do this,' he adds.

Institutional investors and some proxy advisers are also asking to reduce the tenures of directors, Vitale notes. It used to be five years and investors would like to see terms of four years or less. 'Investors want more opportunities to vote on director elections,' he says.

Climate is a big focus in Germany, as it is around much of the world. 'In the US, there is a strong tendency to look at shareholder proposals as an indicator of what topics are of interest to investors,' Vitale says. 'In Europe, there are far fewer shareholder proposals. ESG topics come up less frequently, but they are coming up in climate and director re-election [proposals].'

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UK

This year there was an increase in contested remuneration policy votes and contested remuneration report votes, Vitale says. There was also an increase in director elections contested. 'About 5 percent [were contested], though that is still the lowest in Europe,' he notes. 'A few years ago, it

was only about 1 percent. Executive remuneration figures have fallen for four years. Companies are making efforts to meet investor expectations, and investors are being less flexible than last year, when they were more flexible because of the pandemic.'

Jonathan Harker, senior director and head of account management at Morrow Sodali, says he has seen the ascent of director accountability increasing over the last couple of years regarding remuneration practice and policy. If investors or proxy advisers are driving guidelines through, they are

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looking to drive accountability, he adds. 'The world is shouting a lot about climate right now,' he says. 'Boards are having to wake up and look back at their governance methods, board evaluations, succession, who has the experience on climate to align everything around environmental progress, emissions and what climate metrics to use. The whole board has to figure out whether it is equipped to achieve [oversight and delivery of] the desired climate goals.'

None of this is easy for a board to see and have accountability for. 'So the board has to up its game from an oversight and accountability perspective,' says Harker. 'It is difficult to do. The make-up of the board has to alter and the skills have to alter.'

He also says climate and social issues are connected, which plays into boards' remuneration and diversity considerations as a whole. 'It's hard to

unravel these issues from each other,' he notes. 'You could look at remuneration and governance in a lump, but everything overlaps into climate, social, sustainability and governance.'

In terms of holding meetings, Harker says hybrid meetings will remain the standard until the Covid-19 pandemic is brought under control. He says in-person meetings are still important, and it is key for people who want to attend meetings in-person to be able to do so eventually, public health concerns permitting.

'Physical meetings are about minority rights,' he explains. 'We want people to be able to meet and speak with the board efficiently. Boards will have to get better at handling questions from shareholders that are not [physically present]. You need to get your shareholders recognized and their questions answered [at hybrid or virtual meetings].'

Thank you for reading

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