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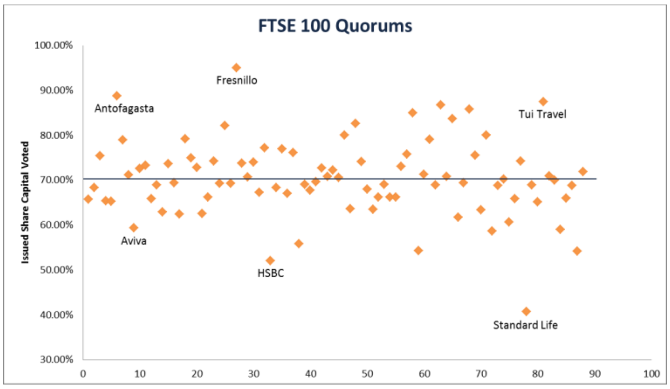
Review of the FTSE100's 2014 AGM results

This review serves to highlight patterns of investor voting across the FTSE100 index and underline what the most contentious agenda items were this season. With an ever-increasing public appetite for corporate scandal, our goal is to comment on *real* results and describe potential hot topics for 2015.

Quorum: *year-on-year decline*

In 2014 the average level of voting participation at FTSE100 AGMs was 70.36% of issued share capital. This marks a decline for the third successive year (2013: 70.81%, 2012: 71.33%).



This year **Fresnillo** achieved the highest quorum of 95.10% of Issued Share Capital, despite showing a decrease in AGM voting participation for the third consecutive year. Conversely, **Standard Life** achieved the lowest quorum of 40.69%, illustrating an increase in participation over the last three years. In both cases, the specific shareholder structure was the determining factor in AGM participation.

During the 2014 season, D.F. King has observed several key trends impacting AGM participation:

- Greater institutional and international dispersion of shares;
- Increase in small holdings falling below institutional voting thresholds;
- Stock-on-loan not being recalled to vote;
- Increase in European conditional voters (holders who only vote a certain size of holding non-domestically or who do not vote in a certain market);
- Some Passive or Indexed Funds who do not have the voting mechanics in place.

> *"A higher quorum dilutes negative votes and also decreases the voting power of activist investors. From a PR perspective, a high quorum can often be regarded as indicative of positive, broad-based investor engagement."*

Remuneration: *impact of binding policy votes*

With the expectation that 2014 would be a banner year for remuneration disapproval, surprisingly we have seen a dramatic increase in votes being 'withheld' by institutional investors, particularly the case for the binding resolution on the remuneration policy. This trend points to in-house governance teams and proxy advisors wanting to highlight their concerns to issuers, without risking the failure of the binding resolution which could result in reputational, legal and financial burden on an investee company. **easyJet** and **Standard Chartered** came close to an outright rejection, however certainly in one of these cases this was more a reflection of an unique shareholder structure and for neither should be viewed as indicative of the company's actual performance.

With the above in mind, at face value the binding remuneration vote passed with an average 93.55% approval, with the non-binding remuneration report achieving an average of 93.16%. However, this does not tell the full story. Dozens of issuers in the FTSE100 were spared head-line grabbing remuneration disapproval as a result of the wide-spread use of the 'withheld' votes.

At the time of writing, **Burberry** achieved the lowest level of support for their non-binding Remuneration Report (47.32% 'For') and was the only FTSE 100 constituent to see this resolution fail.

Auditors: *quiet before the storm?*

> *"The wide-spread use of 'withheld' votes in 2014 points towards the use of boiler-plate corporate governance policies as well as the perceived risks of a binding vote failing out-weighing the desire to hold issuers to account."*

In 2014, six accountancy firms serviced the FTSE 100, with 'the big four' covering 98% of the Index. Price Waterhouse Cooper had 44 clients, twice that of their nearest competitor KPMG.

- On average, auditor elections and re-elections received a staggering 98.71% support from investors
- Auditors' fees were on average approved with 98.98% support

Intercontinental Hotels' auditors received the lowest approval of 94.05% and **3i** received the greatest approval with 100% support, closely followed by **Randgold Resources** with 99.99% approval.

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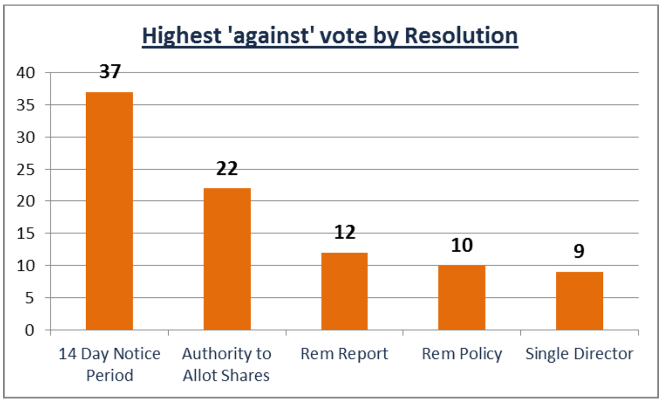
Agenda Trends

From a macro perspective, across all of the agendas analysed by DF King the resolution that most commonly received the largest opposition was the 14 day notice period for General Meetings. This is in large part due to some non-domestic investors requiring a longer notice period. Additionally, Glass Lewis routinely recommends voting against this resolution to their clients.

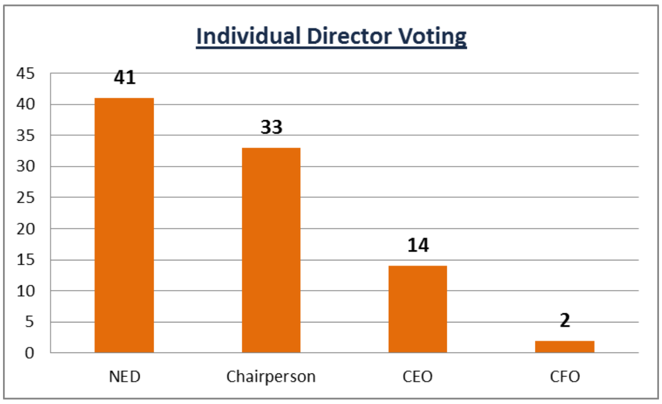
'Directors' Authority to Allot Shares' was the most unpopular resolution at 22 AGMs, with Remuneration Reports and Policies' receiving the greatest investor dissent at 12 and 10 AGMs respectively.

A total of 9 individual directors received the largest 'against' vote in their respective AGM.



Director Elections: *Spotlight on the Chairperson*

In this graph we have looked at which director on each FTSE100 agenda received the highest 'against' vote. As shown below, Chairmen and women received by far a disproportionate level of investor dissent. Arguably with CEOs and CFOs having a greater responsibility in the day-to-day running of a business, we were surprised to see the results of this survey.



The main reasons investors vote against directors, continue to be based on governance-related issues rather than company or individual performance. These reasons include:

- Over-boarding
- Tenure
- Non-independent Shareholder Representatives
- Board and Committee Meeting attendance

At **AstraZeneca's AGM**, one of the Non-Executive Directors received 43.03% against their re-election, ostensibly due to year-on-year Board Meeting attendance falling below acceptable levels.

> *"Voting against Director elections highlights an increasing trend of investors taking a hard line with off-the-shelf governance criteria as well as holding individuals to account for a Company's performance. The importance of pre-AGM engagement to a Board could not be clearer."*

Key Topics and Takeaway for 2015

In the coming voting season D.F. King expects to see a continuation of the trends set-down in 2014; these being medium-level scrutiny on Remuneration structures with a focus on LTIP vesting together with the overall quantum being mis-aligned with underlying company performance.

We anticipate the recent public overstatements of quarterly profits to have a knock-on effect across the FTSE100 on auditor elections as well as increased pressure on the Head of the Audit Committee. With this in mind, we expect to see an increase in the levels of opposition for individual Board members and some Board-level shake-ups as a direct consequence.

As it has been demonstrated through this analysis, whilst the 2014 AGM season was a 'routine' exercise for many FTSE100 companies, for others, the levels of dissent generated in large part due to boiler-plate governance policies should give rise to concern for Investor Relations teams and Company Secretariats. With this in mind, D. F. King and Orient Capital have helped over 500 Issuers across the UK to engage with their Investors ahead of AGM time.

News:
D.F. King and Orient Capital's proxy teams join-forces

As announced in June 2014, Australia's largest Private Equity Firm, Pacific Equity Partners ('PEP'), acquired via AST the global operations of D.F.King & Co, Inc. The European proxy teams of D.F. King and Orient Capital have now combined to create the largest and most experience proxy solicitation firm in the UK and Europe.

To learn more, contact us:

Nicholas Laugier
Director
+ 44 20 7920 9726
nlaugier@dfkingltd.com

David Chase Lopes
Managing Director
+44 207 776 75 78
dchaselopes@dfkingltd.com