

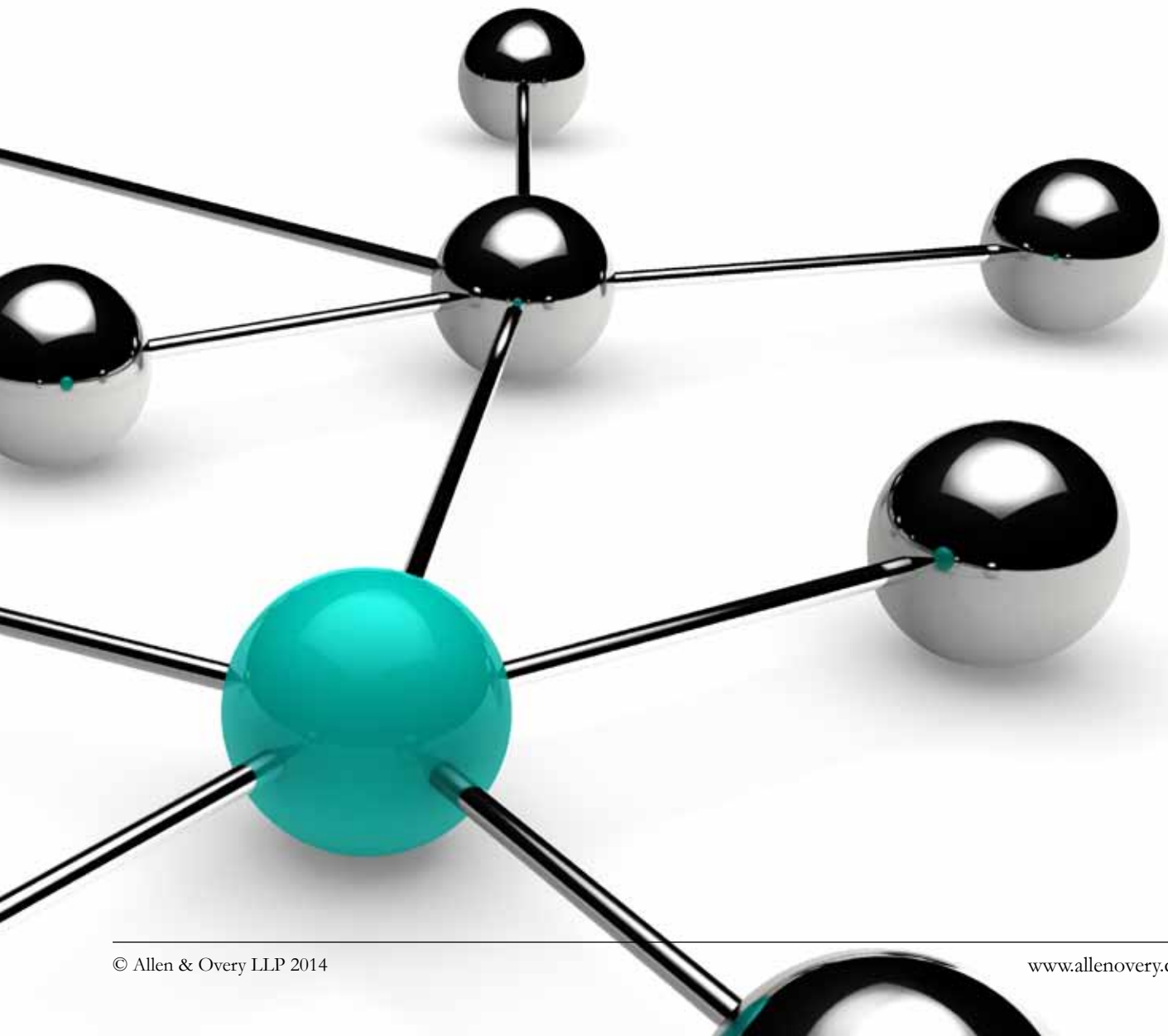
ALLEN & OVERY

Remuneration Voting

2014 AGM Season

Over the 2014 AGM season, there was much media attention on the so-called ‘Shareholder Spring’. We have analysed the shareholder votes on resolutions to approve directors’ remuneration reports and remuneration policies during the 2014 AGM season (**Report Votes** and **Policy Votes** respectively) to ascertain the true extent of this ‘rebellion’.

Our analysis covers all votes held by FTSE 350 companies before August 2014 for which data is available – a total of 273 companies. We have also looked at the various concerns raised by shareholders on remuneration policies and reports, and have identified some recurring trends.



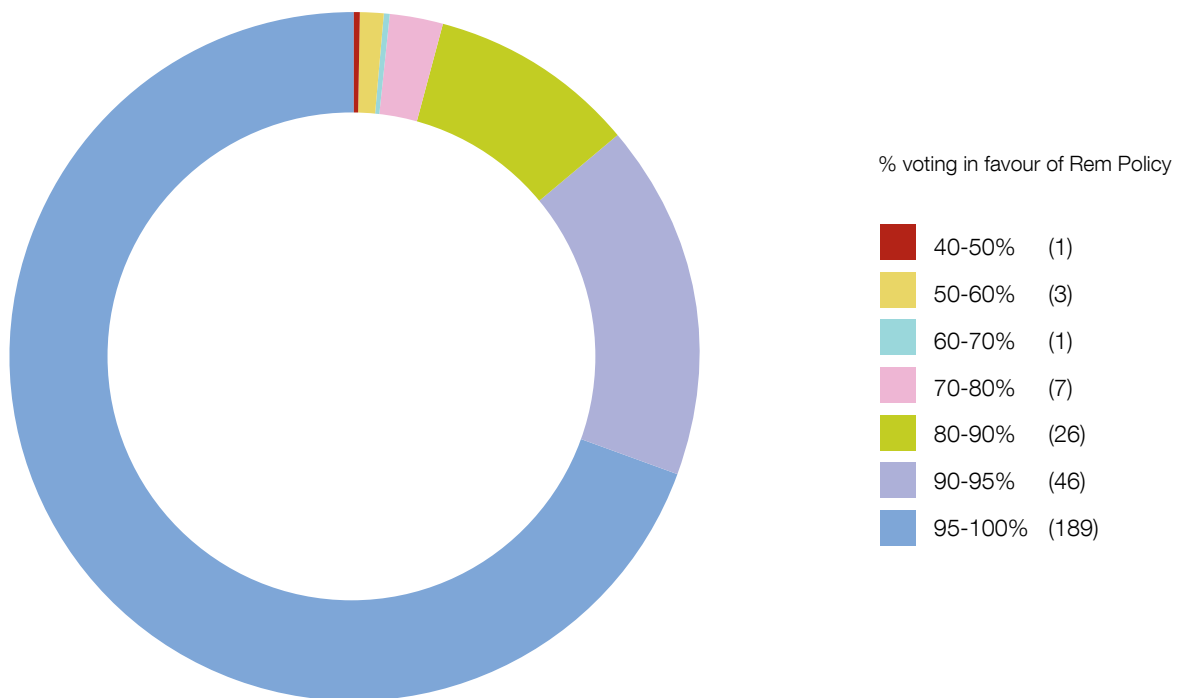
Policy Votes

OVERVIEW

The 2014 AGM season saw the UK's first round of binding Policy Votes. Notwithstanding the press predictions early on in the season of a second 'Shareholder Spring', prompted by sizeable levels of shareholder dissent at a small minority of companies, overall, levels of shareholder approval were strong. Note that only votes for or against are taken into account; withheld votes are disregarded.

- At nearly 70% of companies, more than 95% of votes cast were cast in favour of remuneration policies.
- A further 17% of Policy Votes received approval of between 90-95 % of shareholders.
- The remaining companies experienced varying degrees of shareholder dissent but only one Policy Vote failed to pass.
- Overall levels of shareholder support were strong but slightly less at companies that elected to conduct Policy Votes on a poll rather than a show of hands.

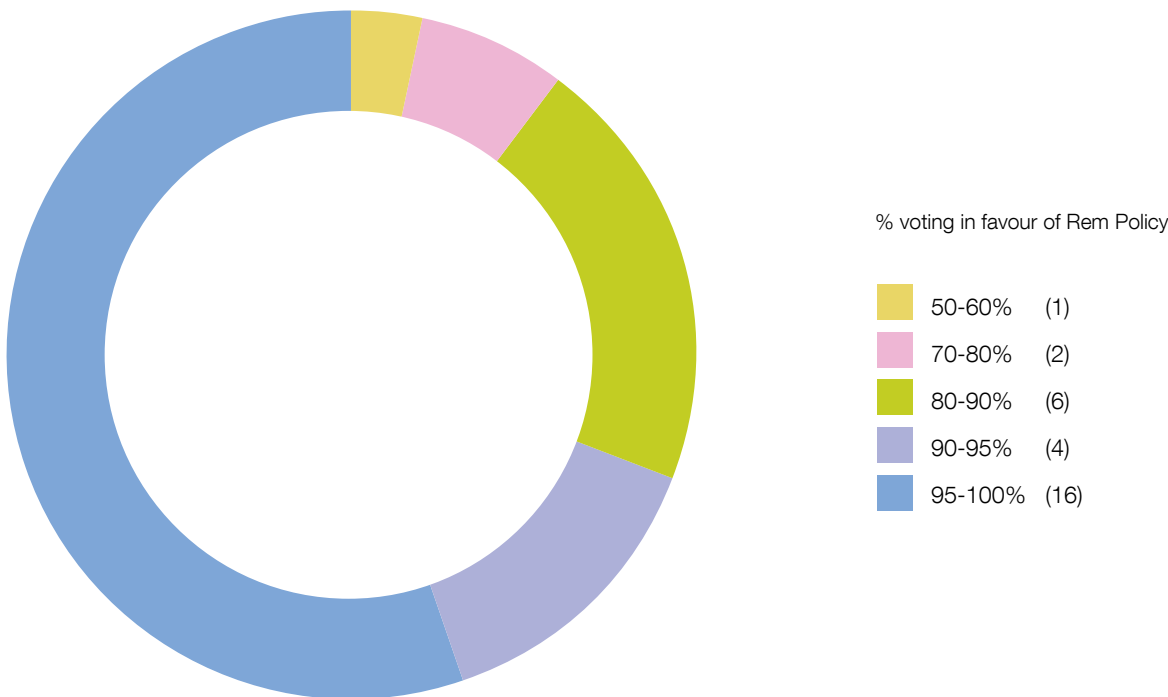
FTSE 350 – Remuneration Policies – level of approval



ADVISORY VOTES

At around 10% of the companies reviewed, the company had chosen to comply with the new regulations voluntarily, and the Policy Votes at these companies were non-binding (**Advisory Votes**). These companies were not compulsorily required to comply with the new regulations, either because they are non-UK incorporated companies, not subject to the UK Companies Act, or because their AGM fell before the requirement to comply was in force. There was a greater degree of shareholder dissent on these Advisory Votes. Only just over half of these received 95% or more approval, with a further 14% securing 90-95% approval. Although all Advisory Votes were passed, in almost a third of cases this was achieved with less than 90% shareholder approval.

FTSE 350 – Advisory Votes on Remuneration Policies – level of approval



SIGNIFICANT SHAREHOLDER REBELLIONS

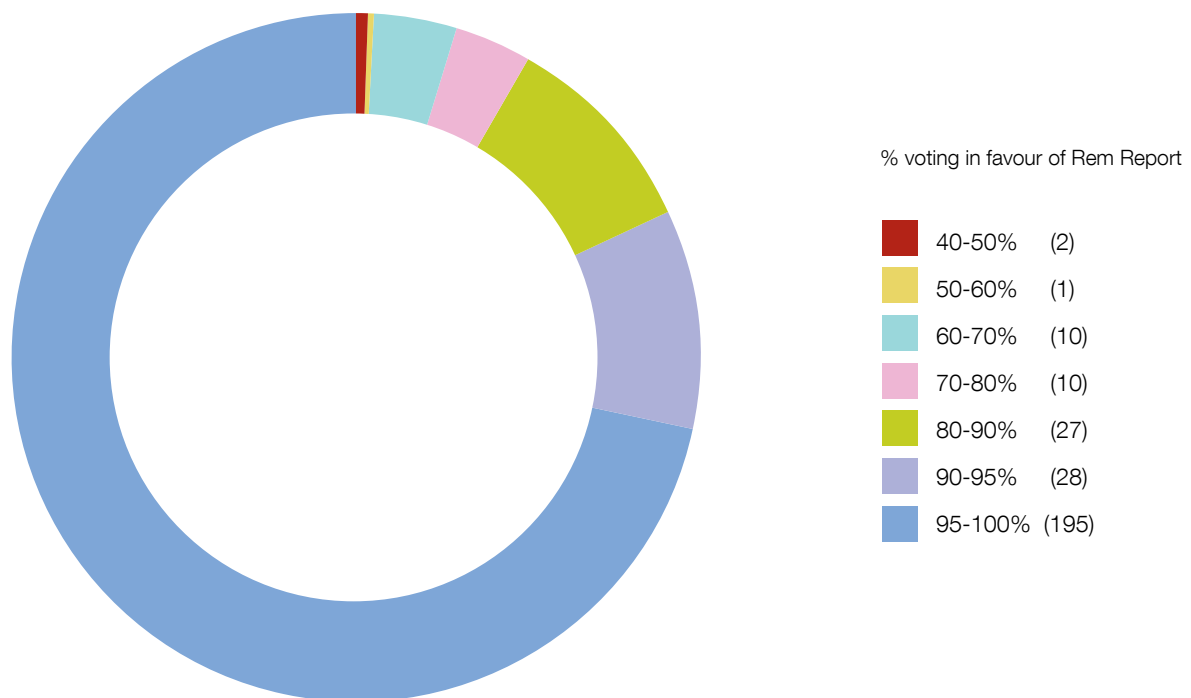
The Policy Vote failed to pass at just one company. However, there were sizeable shareholder votes against remuneration policies at a small number of other companies, with dissenting votes against totalling 40-50% at 1% of companies, 20-30% at 3% of companies and 10-20% at 9% of companies (in addition to the company where the vote failed to pass). If votes withheld are taken as dissenting, overall levels of opposition are, obviously, higher.

Report Votes

OVERVIEW

The non-binding Report Vote seemed to continue to be the preferred means of expressing dissent by shareholders. Remuneration reports generally received strong levels of support, but slightly fewer companies received the highest levels of support as compared to the Policy Votes and almost a fifth of companies received less than 90% approval for their remuneration reports. As with Policy Votes, shareholder approval of Report Votes was lower at companies electing to hold polls.

FTSE 350 – Remuneration Reports – level of approval



EFFECT OF ADVISORY POLICY VOTES ON REPORT VOTES

At companies electing to hold advisory rather than binding Policy Votes, the level of support received on Report Votes closely mirrored that for Policy Votes. This would suggest that shareholders of these companies do not necessarily distinguish between the two votes: those who are encouraged to vote against a Policy Vote by its non-binding nature are likely to vote against on the Report Vote.

SIGNIFICANT SHAREHOLDER REBELLIONS

The Report Vote failed to pass at just two companies, but there were, again, sizeable shareholder rebellions in a number of instances. In addition to the companies where the vote failed to pass, votes against totalled 40-50% at one company, 30-40% at 4% of companies, 20-30% at 4% of companies and 10-20% at 9% of companies. Overall levels of disapproval are higher, of course, if votes withheld are taken as dissenting.

Trends In Shareholders' Concerns

There were a number of noteworthy company-specific issues raised by shareholders (for example, the bonus targets of specific individuals, the terms of bespoke incentive plans, the inclusion of bonuses in contractual termination payments and specific terms in directors' service contracts), but also certain recurring trends of shareholder concern in particular areas.

The most commonly recurring issues raised regarding remuneration policies related to the recruitment policy. Specifically, the ability of the remuneration committees to set pay for a new recruit beyond the remuneration policy, along with the level of discretion of remuneration committees, and lack of disclosure in this area.

The most commonly recurring concern regarding remuneration reports was the lack of disclosure on issues relating to incentive arrangements, bonus targets and bonus outcomes and the remuneration levels of executives.

SHAREHOLDER CONCERNS – REMUNERATION POLICIES

- Remuneration committees' ability to pay beyond the remuneration policy on the recruitment of new executives or in order to retain existing executives
- General discretion of remuneration committee to pay one-off awards and general lack of disclosure
- Levels of, and lack of limits on, fixed pay, salary increases and caps on awards
- Level of vesting thresholds of incentive awards and/or no performance conditions attached to awards
- General discretion of the remuneration committee on remuneration issues

SHAREHOLDER CONCERNS – REMUNERATION REPORTS

- Level of disclosure on incentive arrangements, bonus targets and bonus outcomes
- Remuneration levels and increases for company executives
- Level of performance measures and targets of bonuses and other variable pay
- Termination/joining arrangements or lack of disclosure in these areas
- Level of vesting thresholds of incentive awards and/or no performance conditions attached to awards
- Levels of pay for newly recruited executives

PUBLIC CLARIFICATIONS

Since October last year, 32 companies (including 9 FTSE 100 companies) have had to issue public clarifications addressing specific issues on their remuneration policies. The clarifications, which are published on the website of the Investment Management Association, demonstrate an effort by companies to work with shareholders to ensure that the remuneration policy is not voted down, and have largely been required to address the use of discretion under recruitment policies, and in determining bonus levels.

Your Allen & Overy contacts

PAUL MCCARTHY

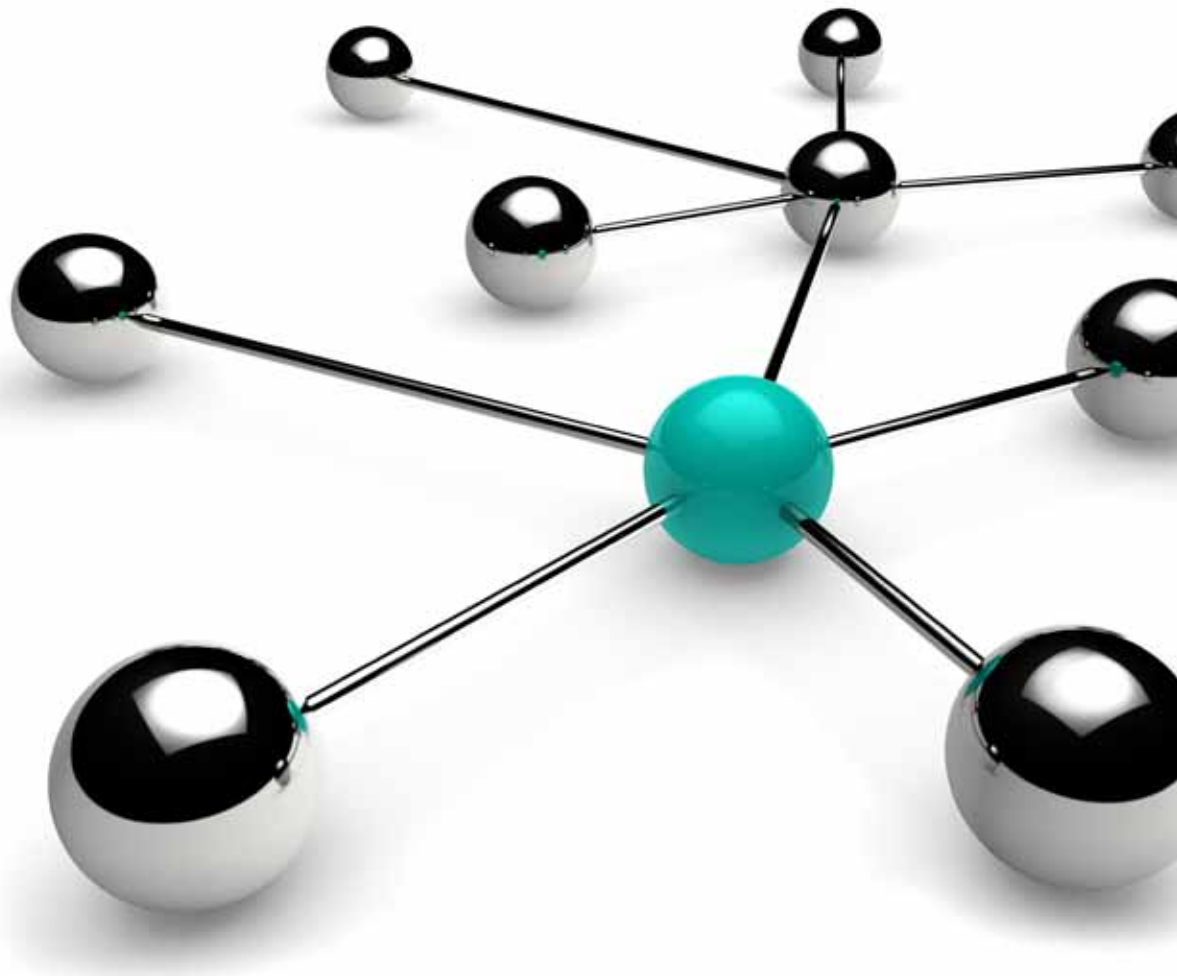


Partner – Corporate Incentives
Tel +44 20 3088 4889
paul.mccarthy@allenoverly.com

LOUISE BATTY



Senior Associate – Corporate Incentives
Tel +44 20 3088 2892
louise.batty@allenoverly.com



Allen & Overy means Allen & Overy LLP and/or its affiliated undertakings. The term **partner** is used to refer to a member of Allen & Overy LLP or an employee or consultant with equivalent standing and qualifications or an individual with equivalent status in one of Allen & Overy LLP's affiliated undertakings.

Allen & Overy maintains a database of business contact details in order to develop and improve its services to its clients. The information is not traded with any external bodies or organisations. If any of your details are incorrect or you no longer wish to receive publications or marketing communications from Allen & Overy, please email epublications@allenoverly.com