Access all areas

The pandemic forced many companies to hold virtual shareholder meetings in 2020 – while these worked well in some cases, we also saw some troubling practices. But if such meetings are conducted properly this year, they can support investor stewardship, rather than eroding shareholder rights.

Setting the scene

In 2020 the pandemic created a divergence in practices as companies took their annual shareholder meetings virtual. In many cases shareholder-board interactions diminished and shareholder rights were eroded. However, technological advances mean that virtual or hybrid meetings can support and broaden shareholder participation if they are conducted well. For example, shareholders no longer need to travel long distances to put questions to board members in person.

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Government-imposed bans on large gatherings in 2020 not only prevented summer music festivals and major sporting events from going ahead – companies were also forced to rethink their annual shareholder meetings. While some companies and regulators responded quickly and embraced the latest technology – improving shareholder access via live online virtual meetings – others used the opportunity to shut down debate by controlling the Q&A session, or worse, held their meetings behind closed doors.

The annual meeting is an important part of corporate governance and shareholder democracy, but its value could be far higher. For companies, the annual meeting is the opportunity to present to, discuss with, meet, and hear from a broad base of shareholders. It plays a key role in keeping shareholders engaged with the company and renewing support for management and the board.

It is the primary annual event for shareholders to understand the stewardship of their company, the personalities running the business, and an opportunity to hold them to account. It is also the main or only time investors can address many of a company's board members and hear questions from other shareholders.

Unfortunately in recent years we have seen boards paraphrasing questions or statements and giving uninformative or boilerplate responses to shareholder questions. This trend was noticeable even before the coronavirus sped around the world.

Improving shareholder meeting participation

1. The internationalisation of share ownership restricts physical attendance for a large segment of the shareholder base due to the travel burden. Attending virtually instead of flying to another country keeps carbon emissions down.

2. Given the increase in active ownership and stewardship by investors, and the growing demands on boards and management to engage with a broader set of shareholders, annual meetings are an important forum in the year for engagement with shareholders.

3. There are increasing expectations under stewardship codes and related regulation for asset owners to make use of their shareholder rights, in particular voting, along with greater public scrutiny on voting decisions. This can be informed by the discussion at annual meetings.

4. The rise in the number of shareholder-filed resolutions means that annual meetings are an important opportunity to hear from both the proponent and the board on the item raised.

Responding to Covid-19 restrictions

Although regulatory guidance on annual meetings was unclear or restrictive at the height of the pandemic's first wave, some companies took the opportunity to have limited or no engagement between shareholders and the board. Where companies did put alternative live engagement options in place, these favoured larger institutional shareholders rather than retail investors.

While there were positive examples, such as Deutsche Bank, which delivered its virtual meeting via a live webcast, we also saw some troubling practices.

In Switzerland, some companies, such as LafargeHolcim, did not provide any mechanism for a Q&A at the annual meeting or through an alternative forum.

At other meetings we asked questions about worker rights and safety during the pandemic.

In the UK, some meetings were held behind closed doors with no broadcast. One example was Barclays, where we raised our concerns about the impact on shareholder rights with the company secretary.

Although the virtual format allowed us to intervene at more meetings – 'attending' 22 meetings versus nine the previous year – we often had to pre-submit the questions, as live engagement was not possible. This was the case at UK insurance company Aviva where we asked a question on alignment of its strategy with the Paris Agreement, and at Swiss luxury goods manufacturer Richemont where we asked for a rotation of the auditor and an external evaluation of the board.

At other meetings we asked questions about worker rights and safety during the pandemic. However, pre-submitting questions could yield indifferent results – for example, one UK aerospace company read out its answers via video, but did not provide any substantive detail, and there was no option for shareholders to interact with board members.

In the US, many annual meetings lasted less than an hour, some of which was taken up with presentations. We were particularly disappointed that pharmaceutical company AbbVie ended its virtual meeting after less than half an hour, choosing not to address the question we had submitted on the grounds that it had run out of time.

This year Swiss company ABB held its meeting behind closed doors[1], giving no opportunity for a live Q&A with the board, whilst others in the same market, such as Novartis, provided this.[2]

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Good practice principles

We want to see annual meetings protected as an important mechanism of stewardship, board-shareholder engagement, and board accountability. It is vital that good practice standards, fairness, order, integrity, and shareholder rights are upheld across markets. This transparency and accountability benefits stakeholders far beyond the attending shareholders.

Reflecting on our experiences and observations in 2020, we have defined a set of good practice principles that cover virtual, hybrid and physical meetings and apply to most countries. These aim to maximise the value of the meeting for both company and shareholder.

[1] https://new.abb.com/news/detail/74906/notice-of-abbs-annual-general-meeting-on-march-25-2021
[2] https://www.novartis.com/sites/www.novartis.com/files/2021-novartis-agm-notice.pdf

1. Format of attendance

We believe hybrid meetings are the optimal structure, combining the benefits of both physical and virtual formats. For example, physical attendance facilitates an important accountability/escalation point that is likely to be more immediate and effective than a mediated interaction via an online platform. Virtual attendance enables broad access from an international shareholder base who may need to vote or attend multiple meetings in a day. It also reduces the travel requirements, and the associated costs and carbon emissions.

The procedures and protocol for the meeting should be published in advance, including rules on the selection and ordering of questions, and how the company will respond to questions that are not answered live or in advance.

The annual meeting should have a dedicated area on the company website to which shareholders can refer before, during and after the meeting. This should be updated to include a record of vote results and any statements or actions by the company in response to material dissent.

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Under Germany's Covid-19 Act, German companies held virtual shareholder meetings in 2020, and gave shareholders the opportunity to submit questions ahead of the meeting. For example, at Deutsche Bank, we submitted questions on the lack of gender diversity on the management board, strategy implementation and risk oversight – particularly with regard to non-financial risks – and sustainability. We then joined the meeting via a live video stream.

Revisions to the German rules in October 2020 mean that it is now a legal requirement for management to answer all questions that are submitted ahead of a virtual-only meeting. The earlier rules, devised at the height of the first wave in March 2020, gave management a choice over whether and how to answer.[3]

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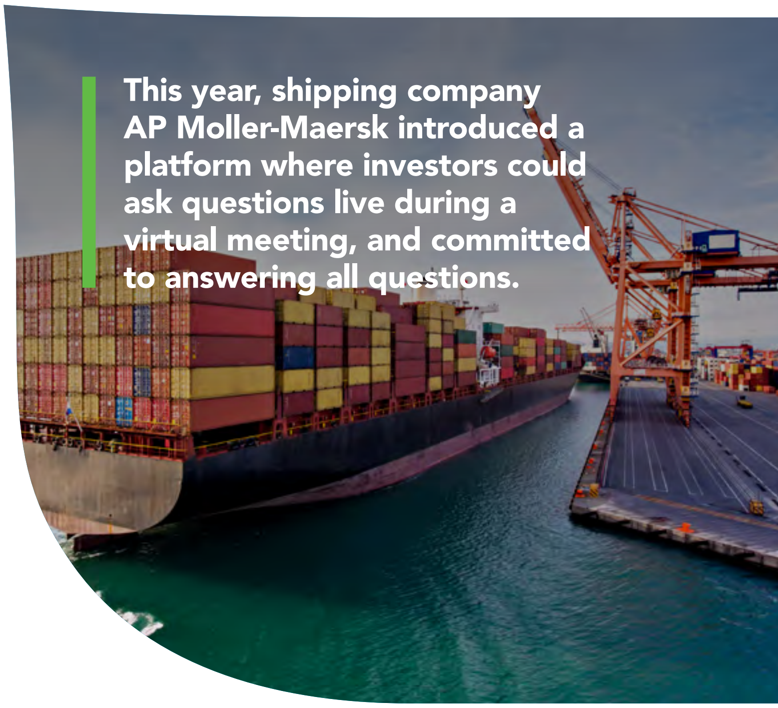


2. The virtual experience

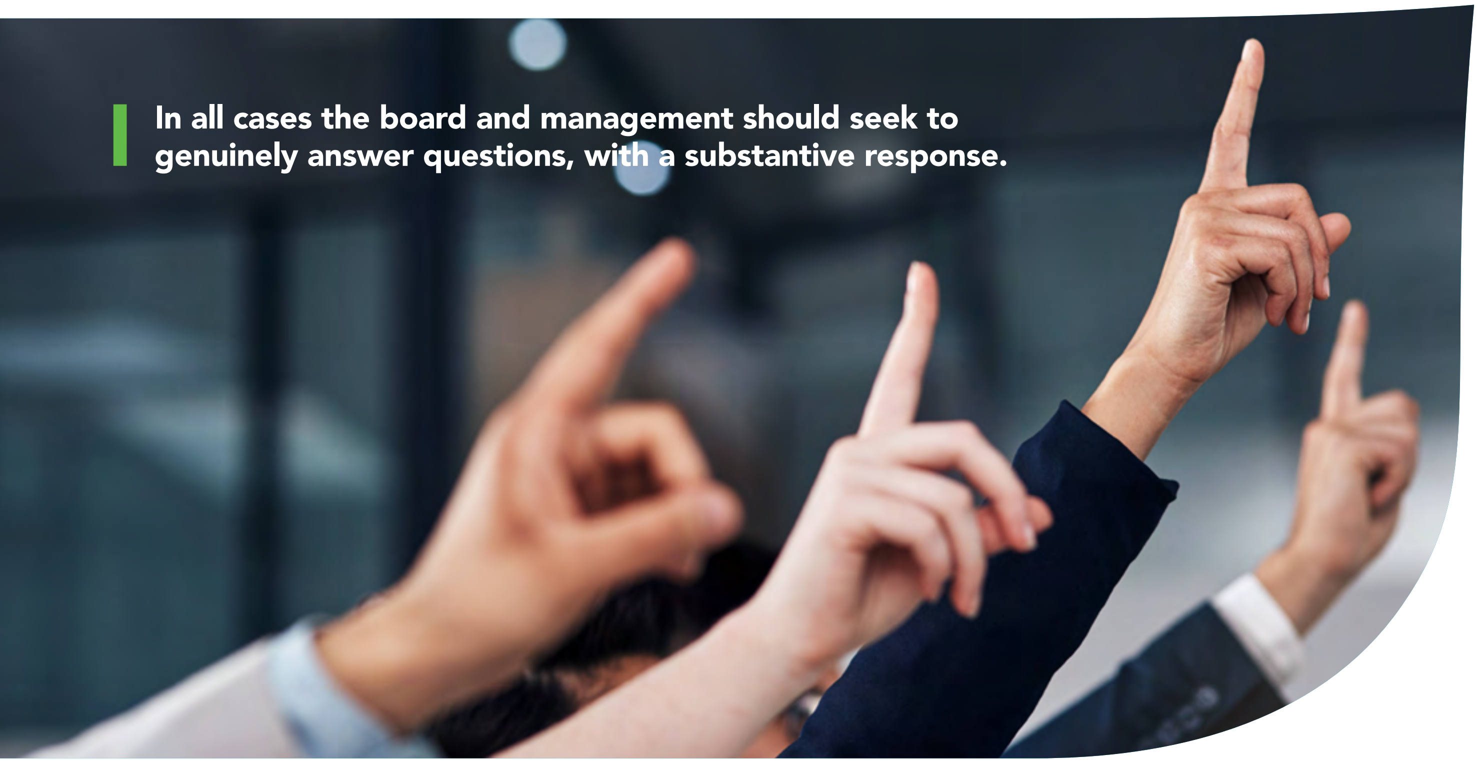
The experience for virtual attendees should mirror that for physical attendees as closely as possible. This includes:

- A video platform, with an audio line also available.
- A live video-feed of the full board, with a close up of the chair (or other director chairing the meeting if the chair is not independent) and CEO when they are speaking.
- The ability to ask questions live to the board, ideally orally rather than in writing.
- If questions are to be submitted in advance, visibility of the list of all submitted questions and the order in which they will be answered.

This year, shipping company AP Moller-Maersk introduced a platform where investors could ask questions live during a virtual meeting, and committed to answering all questions. In the event of a time crunch, it said it would publish any unanswered questions and its responses on its website.[4]

Danish pharmaceutical company Novo Nordisk also held a virtual-only meeting in 2021 due to the ongoing pandemic – the first time it did so. Shareholders could submit questions in advance and during the meeting via an app and the company committed to responding to all relevant questions. If it could not answer them during the meeting, it said the answers would be posted on its website within two weeks. The meeting was also recorded and made available on its website.[5]

[3] https://www.gibsondunn.com/2020-year-end-german-law-update/
[4] https://investor.maersk.com/shareholder-services/annual-meeting
[5] https://www.novonordisk.com/investors/agm-divider/annual-general-meeting-2021.html



3. Company attendance, presiding and presentation

All board members and top executives should attend the meeting and be available for answering questions. This enables more complete responses. Unfortunately, even before the pandemic, some companies failed in this regard. For example, Alphabet's CEO and president did not even attend the 2019 shareholder meeting.

The meeting should be presided over by the chair, or an independent director if the chair is not independent. This is so that the director leading the representation of minority shareholders on the board leads the meeting, and also to avoid management answering questions on corporate governance.

Management and the board should present on progress against company strategy, including ESG-related issues, as well as financial performance. The chair of each board committee should present on its actions of the prior year, its conclusion on the state of the company in its area of focus, and the focus areas of the committee for the next year.

4. Q&A

We support the shareholder right for any shareholder or proxy attending to speak at the meeting. In all cases the board and management should seek to genuinely answer questions, with a substantive response. Shareholders should be able to challenge the board where this is not the case and ask for more detail and clarification. In recent years we have seen a decline in the willingness to provide meaningful and insightful responses and we will call this out where observed.

The proponents of shareholder resolutions should have the opportunity to present their proposals and be given at least 10 minutes in which to do so. This time should be in addition to any minimum time allotted for general Q&A.

Where there is a time limit to a live Q&A session, any questions submitted before the end of the day should also be answered on the annual meeting website within three working days of the meeting. Questions and answers, including those answered in writing, should be included in a published full transcript of the meeting.

In the German market, we attended the Siemens Energy 2021 shareholder meeting which ran for eight hours. We raised eight questions that were read out in full and the company made a good effort to give detailed answers to all the questions that were submitted ahead of the meeting.

Meanwhile Swiss company Novartis offered a virtual speakers' desk, where investors could pre-submit questions. The board responded to all the submitted questions at the meeting.

Voting season 2021

As the 2021 voting season continues, we will take note of which companies embrace open and constructive dialogue with shareholders. We will identify those companies that fall short of our expectations and consider our approach to future voting recommendations. We will highlight the good examples and the worst performers, while working with market authorities in different countries to promote best practice, as we recognise that part of the solution must come through clear regulatory guidance.

It is still early days for these new meeting formats, and some companies need to evolve their approach. However, there is much value for companies, shareholders, and other stakeholders in quality interactions at a well-run meeting. Ultimately, if executed the right way, going virtual or using a hybrid meeting format could enhance access for all, and maintain or even improve shareholder rights.

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