



UK Executive Pay & Governance

Shareholder consultation

Executive remuneration in the UK attracts very significant - and often negative – attention. This focus is heightened when a company is seen to be at odds with some of its major shareholders on matters relating to directors' pay. It is for this reason, together with the fact that investors in UK listed PLCs now have quite far-reaching formal voting powers on executive compensation, that companies need to engage with their major shareholders on pay issues.

It is now very common for a company to conduct a consultation exercise with its major shareholders well in advance of seeking formal approval at a General Meeting for a change in pay policy or practice. Proxy voting agencies such as ISS, Glass Lewis and the Investment Association are also typically included in such a consultation process as their voting guidance can be very influential amongst actual shareholders.

At Korn Ferry Hay, we provide partner-level expert guidance to our clients when they are considering embarking on an investor consultation exercise. The first question is whether it is actually necessary to consult, as this may not always be required (depending on the materiality of the subject matter), with an investor "explanation" exercise more appropriate.

Where a consultation is deemed necessary, we then advise as to how this should be approached. For example, might a simple telephone call from the Remuneration Committee chair to major shareholders suffice? Or is written correspondence the better approach? Should face-to-face meetings be arranged with investors? If so, should only the RemCo chair attend, or should the Company chair also have a role to play? Who should be contacted at the institution– just the corporate governance officer, or the fund manager also (as they may well have different views on the proposal)?

We are usually closely involved in preparing any documentation that is sent to investors as part of the process, whether in the form of a letter, briefing document or formal presentation. The form, content and tone of these documents are very important and can have a very significant influence on how the proposals are received by investors. We encourage our clients to show how the proposals reflect and are supportive of the company's underlying strategy through clear and simple messaging.

Once comments have been received from investors, we then advise our clients on how they should respond and what changes (if any) may be required to secure shareholder support. The fact that three of our most senior consultants have previously worked at major proxy voting agencies in the UK is of great assistance during this (potentially highly sensitive) time. We are also:

- Hold a database of corporate governance contacts at all the main institutions that have significant shareholdings in UK listed companies
- Subscribe to the major UK proxy agency voting services (i.e. the Investment Association, ISS and Glass Lewis) and so have access to all our clients' voting reports prepared by these bodies as soon as they are published.



Finally, we support our clients in preparing the Directors' Remuneration Report in which the proposals are explained, together with the formal AGM documentation (e.g. the summary of long-term incentive plan rules).

Want to know more?

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