

2018 Proxy Season Preview – Europe

The quality and quantity of engagement between issuers, investors and proxy advisors continues to grow at a blistering pace across Europe, with significant repercussions for all stakeholders. It has been our experience that the most engaged market participants will this be focused on three key issues over the coming year: Board skills and composition; issuer responsiveness; and non-financial reporting, including environmental and sustainability reporting.

Board Skills and Composition

While discussion on board composition over recent years has focused primarily on gender diversity, the increasingly circumspect investing environment means the investor gaze is adjusting in order to better assess board diversity in a much broader sense – having an appropriate mix of skills, experience, diversity, and independence is essential to ensure that the board as a whole can satisfactorily perform its oversight duty, have informed opinions on all topics relevant to the company and effectively advise management on important strategic decisions.

Glass Lewis Approach for 2018

Last year, we piloted the skills matrix on a smaller scale covering the largest 5 issuers from three sectors in the FTSE 100 based on their market cap. The feedback we received was positive so from 2018, our analyses of director elections at the following groups of companies will include board skills matrices in order to assist in assessing a board's competencies and identifying any potential skills gaps:

- UK: FTSE 100 companies excluding investment trusts
- Germany: DAX companies holding supervisory board elections at 2018 AGM
- Switzerland: All non-controlled SMI companies with a market capitalisation of >CHF 20bn
- Netherlands: AMX companies with a market capitalisation of >€20 billion
- Spain: IBEX-35 companies with a market capitalisation of >€20 billion
- Italy: FTSE MIB companies holding supervisory board elections at 2018 AGM
- France: All non-controlled CAC 40 companies with a market capitalisation of >€20 billion

Issuer Responsiveness

Like many of our clients, we view a board's responsiveness as a key indicator of a company's culture and the efficacy of its directors. We also believe that boards should be aligned with shareholders' expectations, and that poor transparency and accountability can act as a barrier to effective stewardship on the part of investors. As a global firm, we are well positioned to share best practices in this regard, which we do via our ongoing engagement efforts.

Glass Lewis Approach for 2018

Our 2018 policy guidelines clarify that we believe the board generally has an imperative to respond to shareholder dissent from a proposal at an annual meeting of more than 20% of votes cast, particularly in the case of a compensation or director election proposal. While our guidelines previously specified 25% as an appropriate threshold, our updated guidelines reflect evolving investor sentiment as well as the common practices we have observed through our extensive engagement with public companies.

Non-Financial Reporting

For the first time, 6,000 of the largest European issuers face requirements to report on “non-financial” issues, including environmental protection, social responsibility, human rights, anti-corruption and bribery, and board diversity. While these can be considered non-financial issues in terms of traditional financial reporting paradigms, investors and regulators increasingly recognise the financial impact of failing to monitor these risks or harness related opportunities. This is a result of the EU Directive on Non-Financial Reporting from 2014, which only fully comes into effect in 2018 in all EU member states for the 2017 fiscal year.

Glass Lewis Approach for 2018

In 2018, Glass Lewis will consistently assess board-level oversight of ESG issues for larger companies globally in our Proxy Papers. In doing so, we intend to build a picture of the diversity of approaches in this regard and to identify outliers, both leaders and laggards, so as to better inform our engagement efforts and policy developments going forward.