Diligent Market Intelligence

Investor Stewardship 2024

Georgeson

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Editor's foreword

Josh Black

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I am delighted to share with you the 2024 edition of Investor Stewardship, the flagship annual report featuring data from the Voting, Compensation and Governance modules of Diligent Market Intelligence (DMI). Thanks to Georgeson for sponsoring this report and to Kiran Vasantham for contributing market leading insights on the importance of shareholder engagement.

This year is a significant milestone for DMI's Voting data. As many of our readers will be aware, new disclosure requirements from the Securities and Exchange Commission (SEC) have added much more granular data to the annual N-PX Voting disclosures, including shares voted and on loan for regular filers, and compensation-related voting disclosures by 13F filers (including most large hedge funds).

In this year's report, we look at the record levels of shareholder support for "say on pay" resolutions despite rising executive compensation (a sign of the work that has gone into disclosure and investor engagement on this topic), the debate over whether the SEC's no-action process is fit for purpose against the rising number of shareholder proposals, and where investors concentrate their protests against board oversight.

We also include updates from two recent Diligent conferences including the Diligent Market Intelligence Stewardship Series in London.

The talk of this event was the U.K.'s new listing rules. Lighter touch regulation of corporate governance is always bound to cause concern among some investors but our audience also heard that stewardship will be more important than ever – and particularly engagement – would be increased rather than diminished by the prospect of fewer votes or weakened voting power.

That sentiment underpins responses to many challenges of recent years, whether ESG-related, economic shifts, or activist campaigns. Our goal is to provide the data and insights to ensure investment stewardship teams can weather those challenges.

We look forward to continuing the conversation in our reports, as well as live and in person, in 2025.

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Executive summary

1. With markets rebounding after a down year in 2022, median CEO pay also saw substantial gains while improved disclosure and performance alignment resulted in increased investor backing for "say on pay" plans in the U.S. and the U.K.

2. As the U.K. moves to improve competitiveness amid a decline in listings and competition for executive talent, CEO pay has reached record levels.

3. The chair of the nominating and governance committee attracted the most shareholder scrutiny at annual meeting time this year with CEOs receiving the highest support in both America's premier index and at the FTSE 100.

4. Amid a continued rise in environmental and social-themed shareholder proposals in the U.S. and declining investor support, more companies are turning to the SEC no-action process to exclude such demands and with greater success.

5. Governance-focused demands targeting companies in the Russell 3000 and the S&P 500 both increased in number and secured record levels of support as investors pushed for improved checks and balances.

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How the Big Three voted

As company boards prepare to engage with their shareholders ahead of another proxy season, below DMI takes a look at how the Big Three institutional investors voted in 2024 and their priorities moving forward.

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Director elections

According to DMI data, support for director elections in the 2023/2024 proxy season stood at 96.2% for the S&P 500, up 0.5% when compared to last season. Support for director elections at Russell 3000 companies was recorded at 94.8%, also up 0.5% on last season.

During the 2023/2024 proxy year, BlackRock voted on nearly 76,000 director elections globally, supporting 90% of resolutions and opting to vote against management in situations where it identified concerns around director independence, board composition, executive compensation not aligned with shareholder interests, and director overcommitment, according to its Global Voting Spotlight.

In the Americas, support increased by 1% from the year before, with BlackRock supporting 93% of director reelections in the region. Meanwhile, in EMEA, its support also increased by 1% to reach 85%. “Remuneration continues to be a key governance theme in EMEA and a driver of votes against director elections each proxy year,” the asset manager said.

In its Regional Brief, Vanguard, which supported 94% of director reelections in the U.S., observed enhanced disclosures related to the board’s evaluation of director skill sets and saw more portfolio companies implement director commitment policies and expanding disclosures around how boards evaluate director capacity and commitments. In Europe, Vanguard supported 86% of the almost 4,500 director elections that it voted on, outlining that board independence concerns were the primary factor behind its votes against directors in the region.

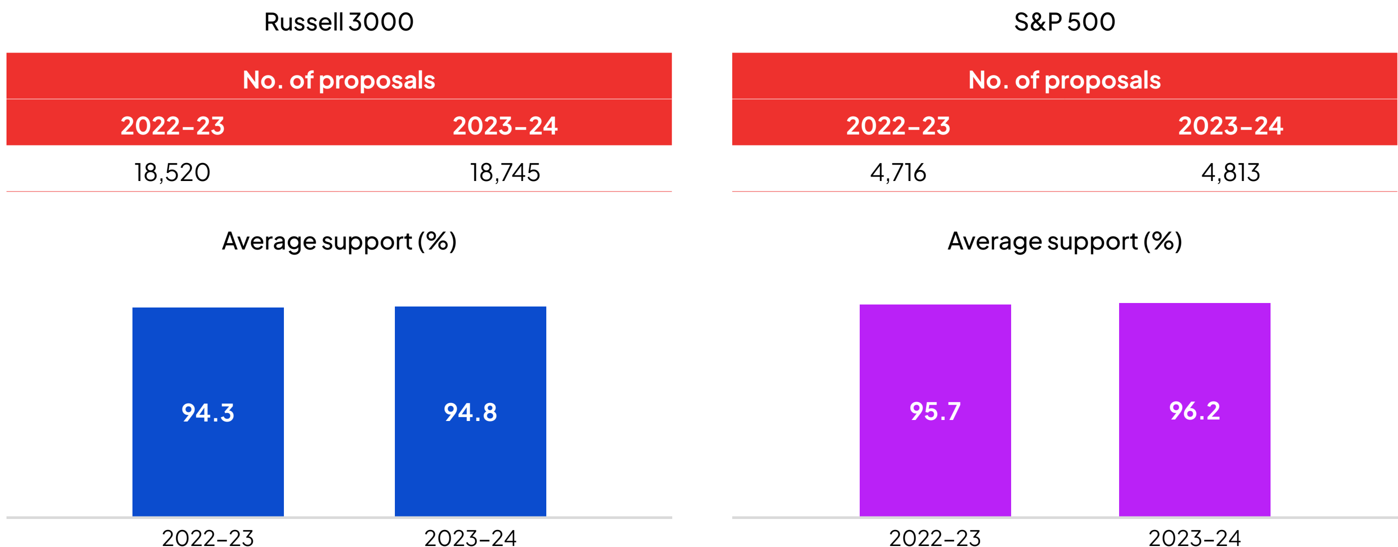
E&S proposals

DMI data show that in the 2024 proxy season, environmental-focused proposals targeting companies in the Russell 3000 and S&P 500 indexes secured 19% and 17% average support from investors, respectively, while social-themed demands averaged 14.8% support at S&P 500 companies and 15.4% at Russell 3000.

Reviewing the season, BlackRock concluded that the majority of E&S proposals were over-reaching, lacked economic merit, or sought outcomes that were unlikely to promote long-term shareholder value. The world’s largest asset manager supported just 4% of the 493 E&S proposals it voted on globally during the period, down from 6.5% last year. “The continued low support rate for these shareholder proposals suggests that like last year, investors continue to perceive them to be of poor quality or unconnected to how a company delivers long-term shareholder value,” BlackRock stated.

Vanguard disclosed that it did not support any of the 400 E&S proposals that it voted on at U.S.-based companies during the 2024 proxy season determining that they “did

Average support for director re/election proposals by index and proxy season



Russell 3000

No. of proposals	
2022–23	2023–24
18,520	18,745

S&P 500

No. of proposals	
2022–23	2023–24
4,716	4,813

Source: Diligent Market Intelligence / Voting

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not address financially material risks to shareholders at the companies in question or were overly prescriptive." It also referred to "repeats or variations" of previously filed proposals that companies had taken action to address. In Europe, the asset manager referenced a higher number of E&S proposals filed in the Nordic region compared to other European markets, which made up 18 of the 19 proposals it voted on.

In its Stewardship Activity Report, State Street also said the number of environmental proposals it has supported over the last two years has decreased, with the asset manager only voting in favor of 6% of such demands in the first six months of the year – again citing the responsiveness by companies to prior shareholder requests, as well as the increasing prescriptiveness of the proposals. State Street also revealed declining support for social proposals from 34% in 2021 to 7% in 2024 primarily due to "companies disclosing adequate information aligned with our frameworks, proposals being too prescriptive, or the asks being too specific or niche."

Executive pay

Better alignment and increased investor engagement on executive compensation lifted overall support for advisory pay resolutions to 91.5% at S&P 500 and Russell 3000 companies, per DMI data, a second successive increase after consistent declines from 2018.

Support for management "say on pay" resolutions at U.K.-listed companies also increased, securing a record 94.7% backing in the first nine months of this year, compared to 93.8% in the same period in 2022 and 93.5% in 2023.

BlackRock supported 82% of compensation-related management proposals put to a shareholder vote worldwide, similar to last season. "In general, companies improved their explanations of how short- and long-term incentive plans complement one another and are effective in rewarding executives who deliver long-term financial value," it noted. BlackRock paid particular reference to the debate on CEO pay levels in the U.K., where it said several companies had proposed increases to CEO pay in an effort to further incentivize long-term financial performance and retain global talent.

Vanguard supported 98% of the more than 3,000 U.S.-based management pay plan proposals it voted on during the year and said it prioritized engagements with companies where it identified potential concerns about the linkage between the relative magnitude of executive pay and long-term shareholder returns. Vanguard observed that the use of one-time retention awards had generally decreased since the COVID-19 era but said the continued use of large one-time awards in connection with executive transitions remained prevalent.

In Europe, Vanguard supported 72% of management "say on pay" proposals and noted a significant increase in companies seeking substantial increases in base salaries or incentive opportunities for executives. "We heard from company leaders that such increases were intended to account for inflation, and often followed years of restraint on remuneration increases during the COVID-19 pandemic." In the U.K., it saw companies with a more global footprint and talent pool seeking to attract and retain C-suite executives by increasing the total magnitude of pay or by replicating pay structures more commonly used in U.S. markets.

Pass through voting

BlackRock's Voting Choice was launched in 2022 with certain clients given the ability to apply preferred voting policies. Earlier this year, it was also extended to three million U.S. retail shareholder accounts. At the end of last year, 23% ($598 billion) of eligible investors were exercising the program.

Vanguard's Investor Choice pilot, which launched in early 2023, has expanded to include five equity index funds comprising more than $100 billion in assets. Interest reportedly continues to grow, with approximately 40,000 investors (representing over 2% of eligible investors) choosing to participate during the 2024 proxy season.

State Street has not disclosed the level of pass through voting for its Proxy Voting Choice program, which covers over 80% of the eligible index equity assets it manages.

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Voting trends at at glance

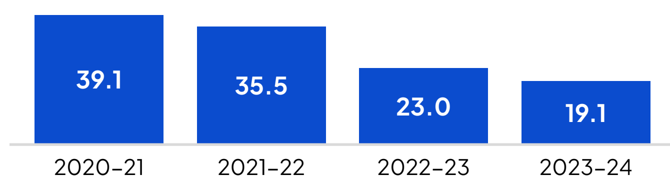
All data is for the period July 1 - June 30

No. and average support for environmental shareholder proposals

Russell 3000

No. of proposals			
2020–21	2021–22	2022–23	2023–24
40	67	97	99

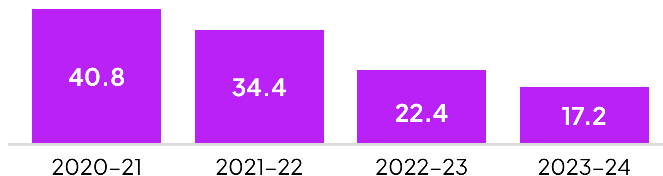
Average support (%)



S&P 500

No. of proposals			
2020–21	2021–22	2022–23	2023–24
36	61	85	80

Average support (%)

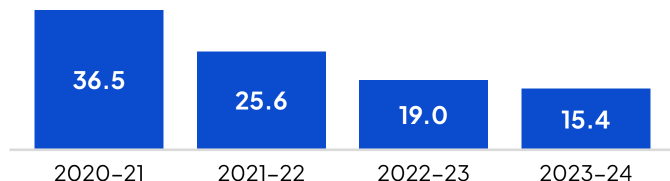


No. and average support for social shareholder proposals

Russell 3000

No. of proposals			
2020–21	2021–22	2022–23	2023–24
97	200	230	280

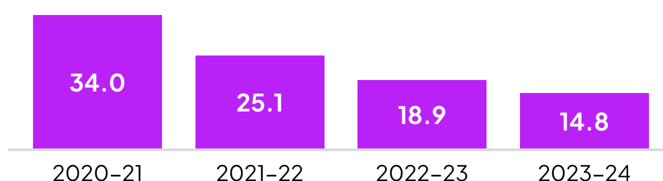
Average support (%)



S&P 500

No. of proposals			
2020–21	2021–22	2022–23	2023–24
86	183	213	237

Average support (%)

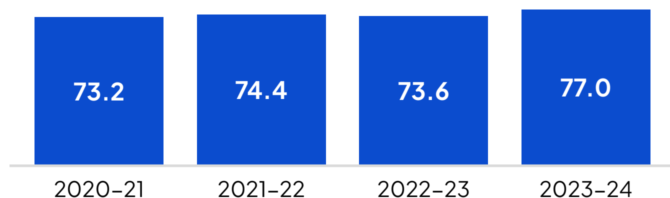


No. and average support for governance proposals

Russell 3000

No. of proposals			
2020–21	2021–22	2022–23	2023–24
427	442	285	297

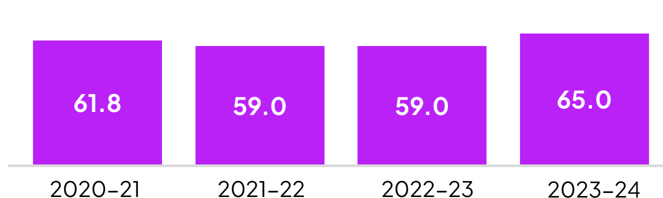
Average support (%)



S&P 500

No. of proposals			
2020–21	2021–22	2022–23	2023–24
180	166	104	125

Average support (%)



Source: Diligent Market Intelligence / Voting

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Why shareholder engagement matters

Active and meaningful engagement with shareholders can significantly increase the likelihood of successful annual general meetings and the achievement of governance goals, writes Kiran Vasantham, head of investor engagement in the U.K. and Europe, Georgeson.

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> Companies will be best served by engaging with shareholders proactively well before the AGM to explain positions and face concerns head on.

Transparency, accountability and preparation are crucial when hosting roadshows, investor days and multi-stakeholder discussions, as are one-on-one engagements with investors or proxy advisors. These elements build credibility with investors and may help to gain their support during proxy season.

During the last decade, shareholders have demonstrated the need to have their voices heard and companies that engage transparently and proactively tend to foster more positive relationships with these stakeholders.

> New methods of messaging have raised the bar.

The last couple of proxy seasons around the world have also underlined the potential consequences of failing to respond satisfactorily to shareholder requests for director access or strategic environmental, social and governance (ESG) improvements, including the risk of votes against a director, shareholder proposals or more shareholder support for strategic activists. Significant or consecutive votes "against" can also lead investors to pay closer attention to the board's actions overall. Assessing shareholder engagement to better understand how top shareholders measure progress can therefore help improve governance practices.

Capturing shareholders' attention

New methods of messaging have raised the bar, including an activist investor-hosted podcast focused on showcasing the qualifications of alternative director candidate nominees, highlighting their skills and experience. We anticipate that this type of messaging tool may be a highly effective way to reach a wider group of stakeholders, including shareholders, employees, customers and suppliers.

Companies also face a significant challenge to convince shareholders to prioritize the board's recommendations over those of proxy advisors while noting that investors do not solely rely on proxy advisor recommendations and either use their own proprietary research or develop their own custom policies on specific issues to align closely with their investment strategies.

To address this, companies will be best served by engaging with shareholders proactively well before the AGM to explain positions and face concerns head on. In doing so, boards can address specific concerns raised by proxy advisors directly with shareholders to demonstrate why its recommendations serve the best interests of all. Other areas include the use of educational initiatives, such as webinars and white papers, to inform shareholders about governance practices and strategic goals as well as tailored communications to different shareholder segments to reflect the fact that institutional and retail investors have varying priorities.

Navigating these diverse shareholder priorities is challenging and requires strategic planning and tailored communication as well as a robust governance framework that builds trust and aligns interests. This can be further complicated by engagement fatigue, a company's limited resources, regulatory compliance and shareholder activism.

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> “Good relationships with investors are built on ‘a clear day’ when there isn’t a vote on the line.”

The right team at the right time

Team composition is key and for corporate governance issues, companies should include the general counsel and corporate secretary in the line-up. They should also ensure that investors can access board and senior management to avoid negative voting outcomes. A note-taker, such as a member of the investor relations team or company secretary, can also be assigned to document key points and actions for post-meeting follow-ups.

Preparation is key for companies, regardless of when engagement occurs. Companies should understand investor priorities and anticipate their questions in order to engage successfully.

Timing is everything. Good relationships with investors are built on “a clear day” when there isn’t a vote on the line. It’s also worth noting that conversations with investors are likely to be more productive — and investors more likely to be available — during the off-season, which generally runs from late summer through February.

If a company faces proxy season challenges, such as a negative recommendation from a proxy advisor, that team may need to engage during the proxy season. However, some proxy advisors will not engage in-season, so it’s important to understand their policies and plan accordingly.

Engagement opportunities reduce significantly from early March with the start of proxy season, so companies should begin confirming participants’ availability as early as possible.

Optimizing governance for shareholder support

In order to achieve governance goals and secure shareholder support, companies should consider optimizing their governance structures and practices. This includes providing regular updates on financial performance, strategic initiatives and governance matters, and by involving shareholders in key decision-making processes using surveys, town hall meetings and other feedback forums. It’s also advisable to implement a robust governance framework with clear policies and procedures for decision-making, risk management and compliance. On board composition, companies should work to ensure board diversity and independence to bring a range of perspectives and unbiased oversight. Finally, well-managed boards tend to establish clear performance metrics for the board and management and align them with the company’s strategic goals.

To help investors gauge the board’s oversight, companies should provide transparent and comparable disclosures aligned with ESG standards such as the Sustainability Accounting Standards Board (SASB) and the Task Force for Climate-related Financial Disclosure (TCFD). We’ve seen major asset managers such as BlackRock, Vanguard, State Street Global Advisors, JP Morgan Asset Management, Invesco and Goldman Sachs Asset Management withdraw from key climate change coalitions during the past 12 months. However, despite the change, the priorities and approach to climate risk among asset managers remain unchanged. These same investors have developed a number of decarbonization investment strategies. As a result, company engagement with these investors is important in order to align and understand their methodology and measurements.

Shareholder engagement is essential for achieving AGM and governance goals. By fostering trust, aligning interests and addressing concerns, companies can secure shareholder support and enhance governance practices. Companies should effectively communicate and optimize governance structures to convince shareholders to support the board’s recommendations.

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The hot seat

Who occupies the hottest seat on a board of directors? It depends on the circumstances, writes Josh Black.

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While a CEO might face the toughest questions when an activist investor shows up, and the chief financial officer the biggest grilling from analysts, modern stewardship trends dictate that the chair of the nominating and governance committee is often the one that attracts the most shareholder scrutiny at annual meeting time.

"Over the last decade, institutional investor voting has evolved to targeted votes against members of committees that they view as responsible for inaction or action on specific events," said Stephen Brown, senior advisor at the KPMG Board Leadership Center. "The nominating and governance committee is just the newest entrant here." Data from Diligent Market Intelligence (DMI) show that nomination committee chairs received the lowest average support of all senior board positions in the period from January to September 9, at 92% in the S&P 500 and 95.6% in the FTSE 100.

CEOs received the highest support, at 96.7% in America's premier index and over 99% among the biggest London-listed companies. "In years past, there was more of a preference to vote against a line-item proposal than a director," such as auditor ratification or "say on pay," Karla Bos, associate partner at Aon, told DMI. "But in recent years we've seen more investors move away from trying to target specific proposals to focusing on board accountability, which by definition elevates focus on boards or certain committees or directors."

Board accountability

With many areas falling under the purview of the nominating and governance committee, Bos argues that the role of chair carries increasing responsibility. "Board evaluation, composition, refreshment, diversity. It's much more than 'just' renominating or nominating directors."

"I would figure if you were mad about something, you would vote against the CEO," said Doug Chia, president of Soundboard Governance. "If you're looking at it from a governance perspective, a board perspective, you would focus on that [nominating] committee."

BlackRock's U.S. stewardship guidelines suggest the investor will vote against the nominating and governance committee chair, or the most senior member of that committee, in at least six scenarios. Those include inadequate explanations for lacking board diversity, adopting a poison pill or entrenchment tactics and a lack of board responsiveness to shareholders.

Elsewhere on the board

In contrast, the investor offers more succinct reasons for voting against compensation committee members: when pay is excessive or not aligned with shareholders, or when a "say on pay" vote is not scheduled as frequently as shareholders request.

> "Directors should not take those votes personally. That's just the risk you run when you agree to take on those positions."

Mind you, despite improving "say on pay" approval rates, compensation committee chairs average the second-lowest votes among committee chairs in the S&P 500, at 93.3%. In the U.K., compensation committee chairs do better, with an average of 97.1% of votes in favor.

DMI data also show one nomination committee chair received less than 50% support – at AO Smith – with investors mostly citing the company's dual-class share structure and lack of a sunset clause. However, as if to emphasize the range of concerns placed on the nomination committee, other investors also mentioned a lack of responsiveness to previous shareholder votes, failure to disclose EEO-1 data, lack of board diversity, and the combination of the chair and CEO roles, according to DMI data collected directly from investors.

"Given engagement constraints, issuers would benefit if more investors disclosed voting rationales," Bos says of the multitude of potential reasons for "against" votes.

"Companies are going to need to have more and more access to that data. If they're not using a trusted advisor for support, it's a tremendous lift to go through hundreds of stewardship reports."

The only compensation committee chair to receive less than 50% support during the 2024 proxy season was targeted in a proxy contest. Although, in 2022, a majority of

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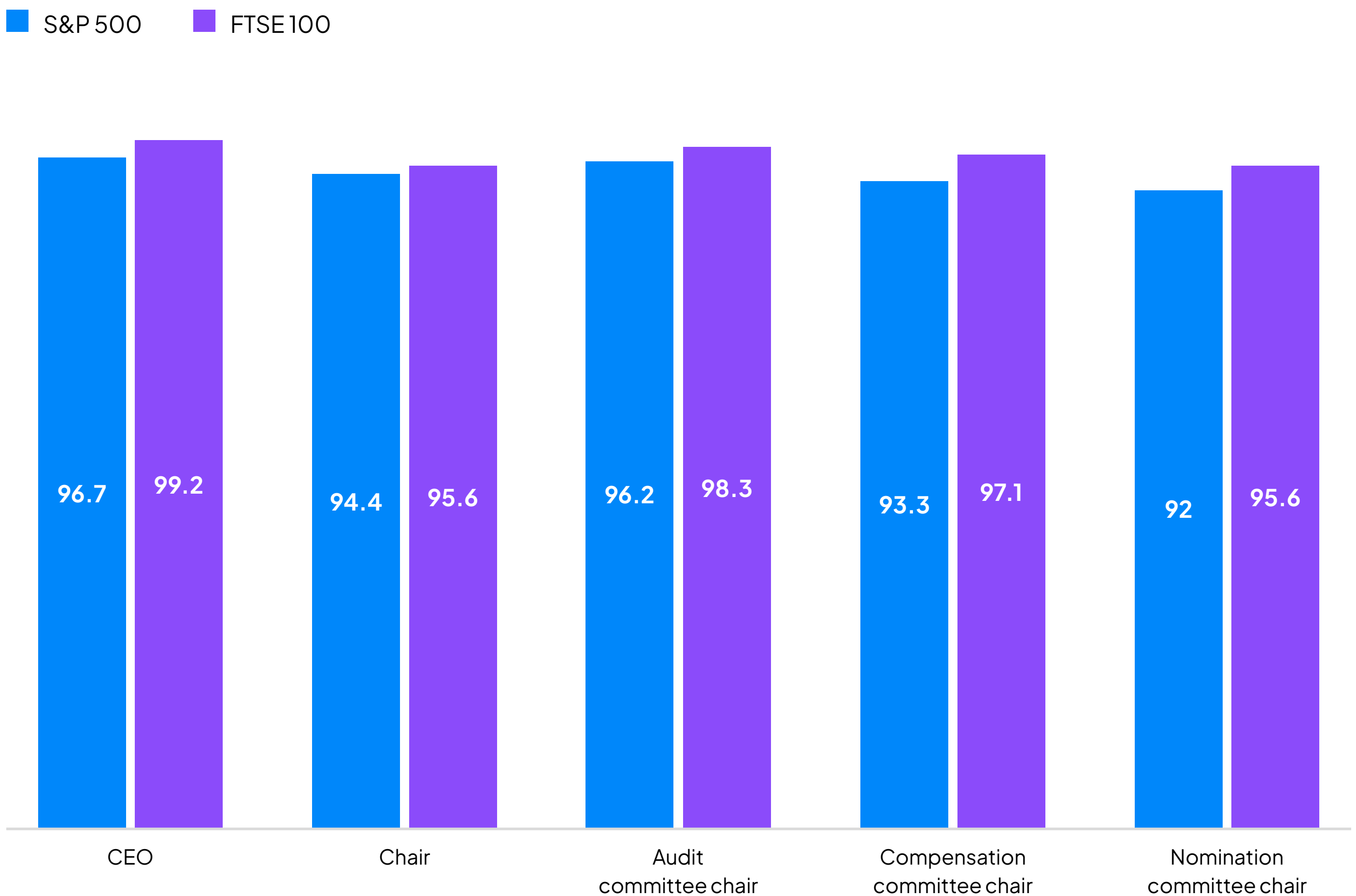
investors voted against the chair of Netflix's compensation committee due to ongoing concerns about the company's pay practices and to "escalate" the matter after several years of below-average support for the company's "say on pay" resolution.

No member of an audit committee failed to receive majority support in 2024. For the two that received around 70% of votes for, investor voting rationales cited nominating committee concerns like board diversity, rather than their membership of audit committees.

While many directors will feel a professional desire to avoid getting the lowest share of votes, there is also a recognition that sometimes boards have to "absorb some hits over time" and make unpopular decisions for the good of the business, says Chia. "I don't think any chair or committee is immune to shareholder angst," says Brown. "That said, I think when shareholders think about the role of audit committee they do think about the committee as a whole, versus singling out the chair."

"Directors should not take those votes personally," he concludes. "That's just the risk you run when you agree to take on those positions."

Average support (%) for board roles, by position and index



Source: Diligent Market Intelligence / Voting, Governance (January to September 9, 2024)

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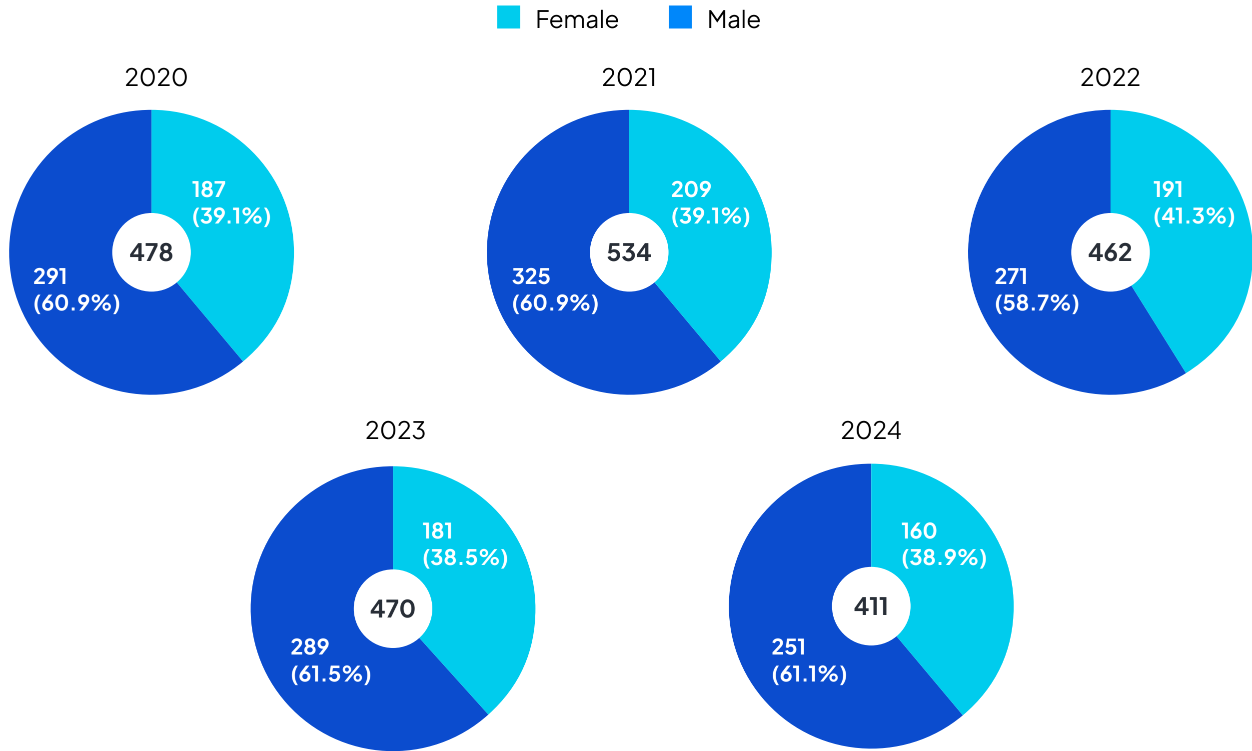
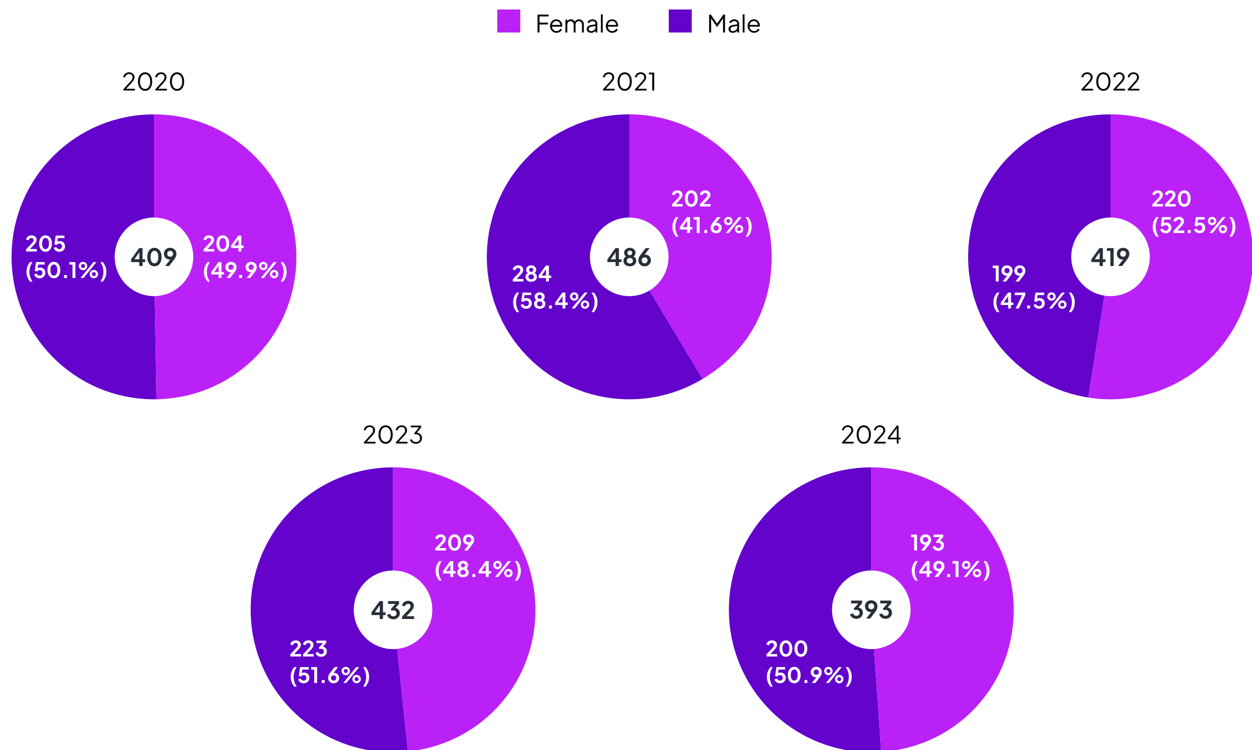
Director appointments, by index, gender and proxy year

Number and percentage of director appointments at S&P 500 companies



Number and percentage of director appointments at FTSE 350 companies



Source: Diligent Market Intelligence / Governance

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CEO pay rebounds as market bounces back

With U.S. markets rebounding after a down year in 2022, median executive compensation also bounced back with pay plans securing greater support from investors, writes Will Arnot.

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After delivering negative returns to shareholders in 2022, the S&P 500 and Russell 3000 indexes jumped back to positive in 2023 and with the rebound in performance, median granted and realized CEO pay recorded substantial gains.

According to Diligent Market Intelligence (DMI) data, the median granted pay package for an S&P 500 CEO in 2023 was $15.9 million, an 8.9% increase on the year prior, while the median granted pay for Russell 3000 CEOs was $6.6 million, up 8.8% on 2022.

"Stock markets in the U.S. increased to substantial gains in 2023," Rebeca Coriat, head of stewardship at Lombard Odier Investment Managers, told DMI. "In general terms, compensation in the U.S. keeps increasing, despite some relative low dips during some years."

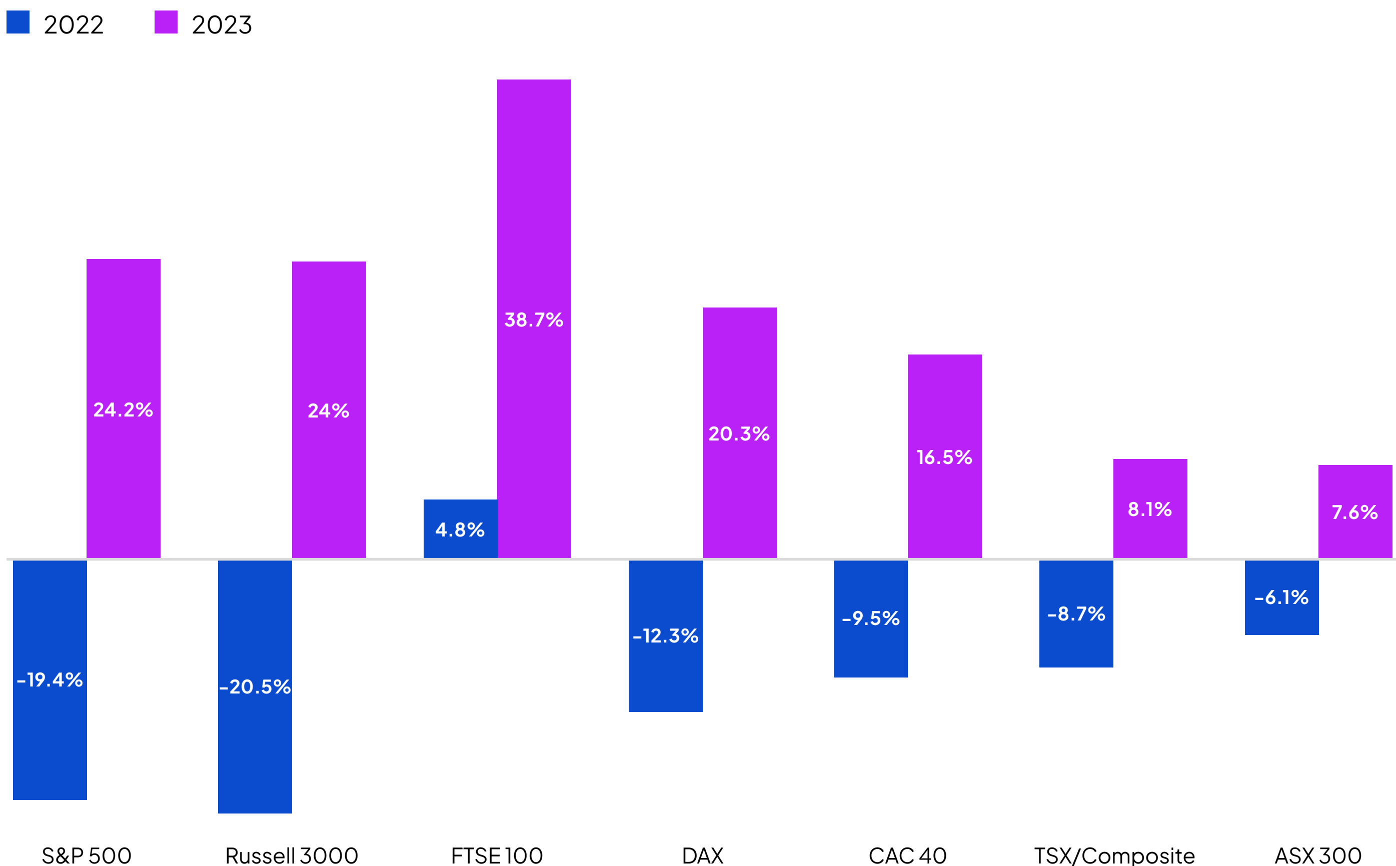
Meanwhile, improved market conditions and increased levels of issuer communication have also translated into more positive investor sentiment, with shareholder support for "say on pay" proposals this proxy season at the highest level since 2020.

Speaking with DMI, Matthew Roberts, associate director, stewardship at Fidelity International noted that over the years since "say on pay" was introduced, "many companies have developed a better understanding of what shareholders expect in terms of compensation design and disclosure, as well as what tends to garner opposition."

Pay for performance

Against the backdrop of a down market in 2022, median CEO realized pay was stripped back by 0.4% in the S&P 500 and 3.5% for the Russell 3000. However, as market performance ticked upwards in 2023 with the S&P 500 and Russell 3000 indexes delivering an average total shareholder return of approximately 24%, median CEO take-home pay in the S&P 500 stayed largely flat, while the median pay of Russell 3000 CEOs went up by 5.7%.

Average total shareholder return (TSR) by index



Source: Diligent Market Intelligence / Compensation

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Coriat noted that the rise has been driven by two key factors - performance-related plans and time-vesting plans.

"For the former, as targets were met (potentially at target and maximum levels), higher payouts have taken place. Regarding the latter, in cases, restricted stock was awarded one, two or three years ago and remuneration committees may not have modelled the extreme range of share price increases that could occur, explaining some of the increases we have seen," she noted. "In such cases, it could have been expected that remuneration committees exercised some degree of downward discretion to nuance the unexpected gains."

Coriat also argued that U.S. pay structures continue to influence other markets, pointing to a move by U.K.-listed companies towards hybrid remuneration packages that include performance-related and time-vesting plans.

Investors upbeat

Better alignment and increased investor engagement on executive compensation lifted support for advisory pay resolutions to 91.5% at S&P 500 and Russell 3000 companies, a second successive increase after consistent declines from 2018.

> "Many companies have developed a better understanding of what shareholders expect in terms of compensation design."

The number of proposals that failed to win majority support has also decreased, with just 25 "say on pay" resolutions failing this season, compared to 42 in the last.

Vanguard, which supported 98 % of management "say on pay" proposals in the U.S. during the 2024 proxy season – up from 96% last year, noted a decline in the use of one-time retention awards and an increase in the use of absolute stock price hurdles within remuneration packages.

"When a program is heavily based on absolute metrics, clear and comprehensive disclosure of the board's target-setting process helps shareholders assess the rigor of these metrics and their alignment with long-term company performance relative to their peers," Vanguard stated.

BlackRock, which in its latest voting spotlight revealed that it had supported approximately 92% of "say on pay" proposals at U.S. companies during the most recent proxy season – up from 91% the season prior – noted that its increased backing reflected "better program disclosure and increased alignment with companies' long-term financial outcomes."

> "Stock markets in the U.S. increased to substantial gains in 2023. In general terms, compensation in the U.S. keeps increasing despite some relative low dips during some years."

"I think boards and companies are really embracing the engagement process," Alliance Advisors Senior Vice President Brian Valerio told DMI.

Valerio noted that while there is increased engagement between boards, investors and proxy advisors following annual meetings, issuers are also improving their communication in the run-up to meetings.

"Companies are utilizing supplemental proxy materials when there are issues that they might be hearing during the solicitation, whether it be a proxy advisor firm advising against the proposal, or if there is a theme identified during engagement with investors," Valerio added. "Supplemental materials can provide context that can turn a vote from a 'no' to a 'yes'."

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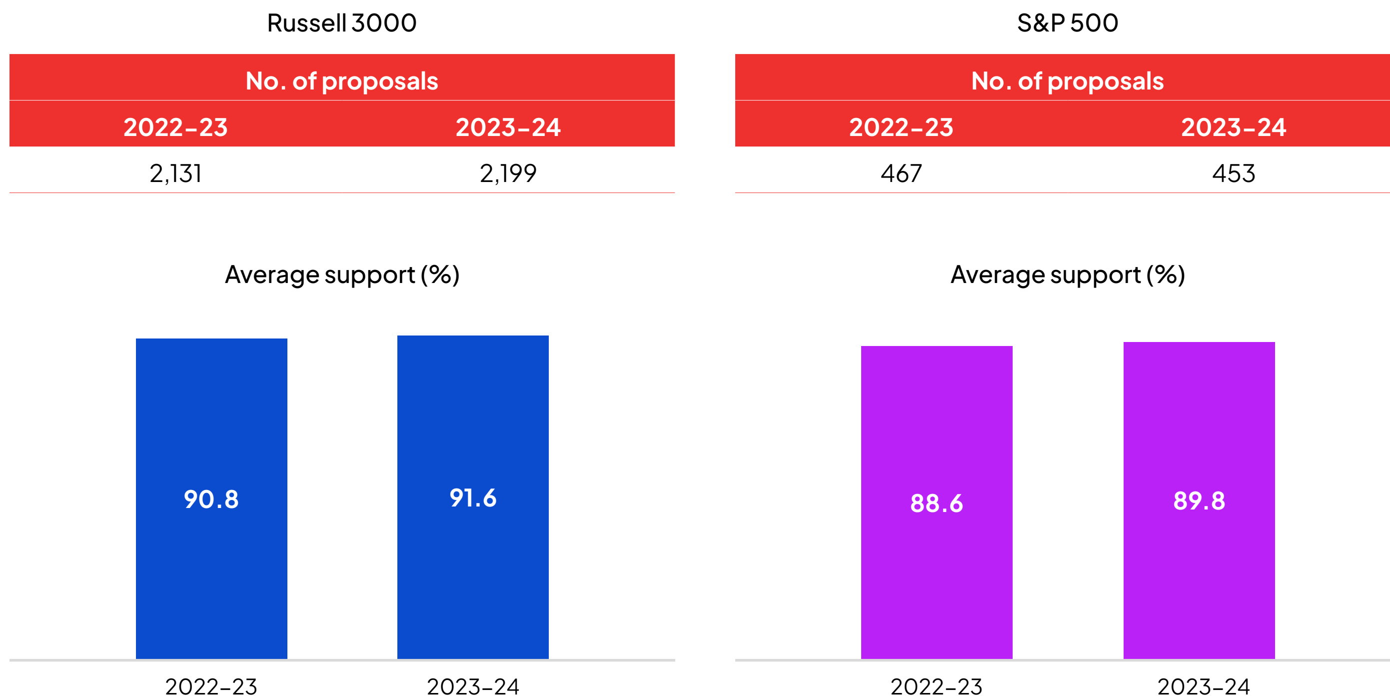
Average support for “say on pay” plans at Russell 3000 and S&P500 for by proxy season



Support for S&P 500 “say on pay” proposals by industry and proxy year

	Proxy season							
	2020–2021		2021–2022		2022–2023		2023–2024	
Industry	No. proposals	Average Support (%)	No. proposals	Average Support (%)	No. proposals	Average Support (%)	No. proposals	Average Support (%)
Basic Materials	26	90.7	27	91.9	29	90.5	26	91.8
Communication Services	5	75.2	5	79.8	7	81.0	5	89.7
Consumer Cyclical	61	85.1	61	84.3	65	87.0	65	88.4
Consumer Defensive	35	92.2	34	88.9	35	90.3	36	91.4
Energy	21	86.8	21	87.3	21	93.8	21	94.4
Financial Services	57	92.1	56	89.9	59	89.0	58	88.4
Healthcare	55	87.8	58	85.8	60	89.6	59	89.9
Industrials	78	90.6	76	89.4	81	90.1	80	87.9
Real Estate	27	91.0	27	90.0	27	84.8	27	91.9
Technology	76	84.9	77	86.1	77	86.2	78	88.4
Utilities	30	94.3	30	91.6	31	93.2	31	93.2
Total	471	88.9	472	87.9	492	88.9	486	89.7

Source: Diligent Market Intelligence / Voting

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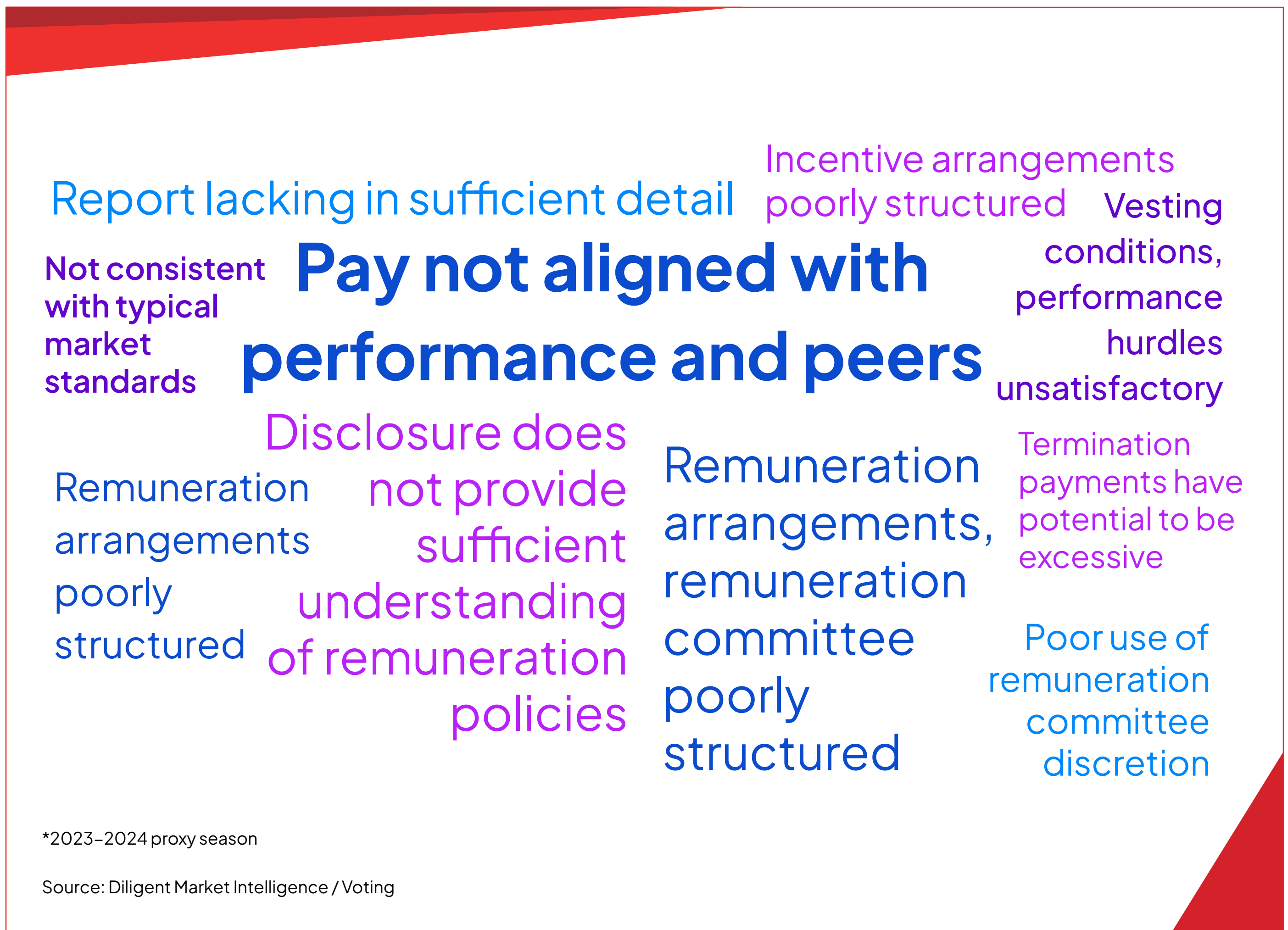
Most referenced pain points in BlackRock rationale on votes against "say on pay" at Russell 3000



*2023–2024 proxy season

Source: Diligent Market Intelligence / Voting

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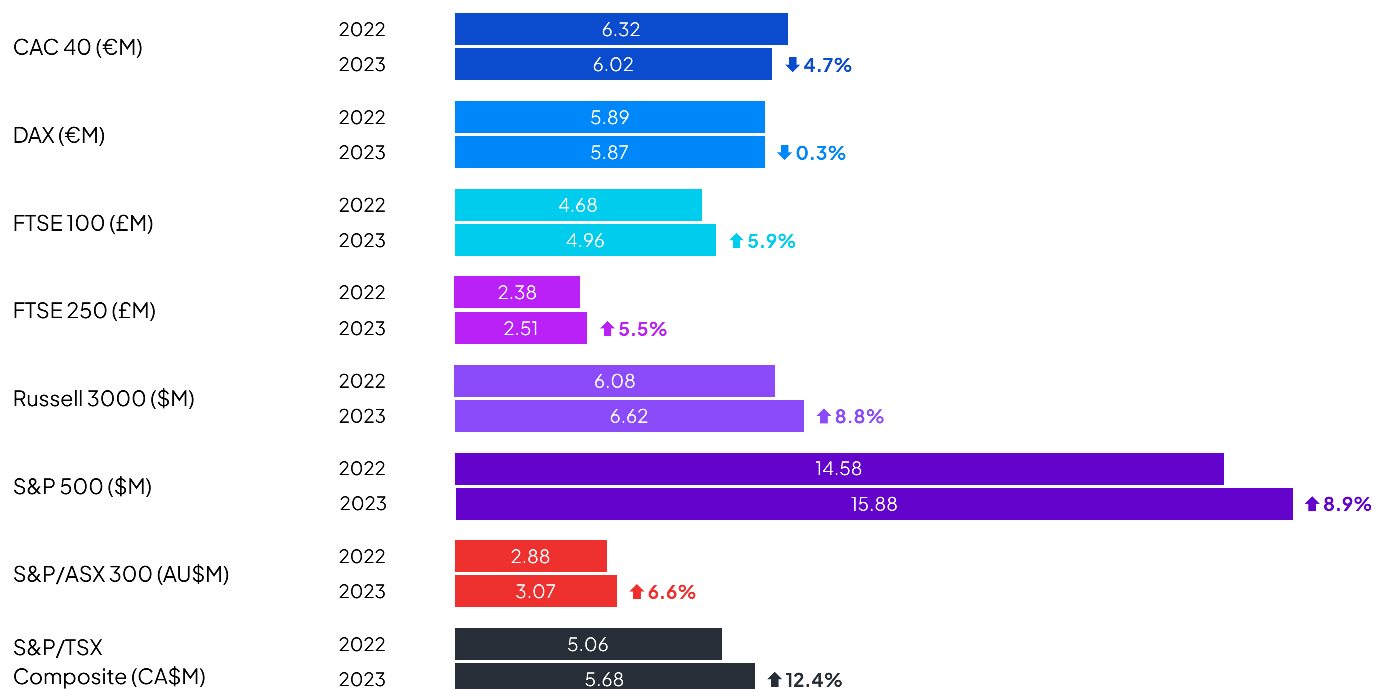
CEO Total Granted Pay

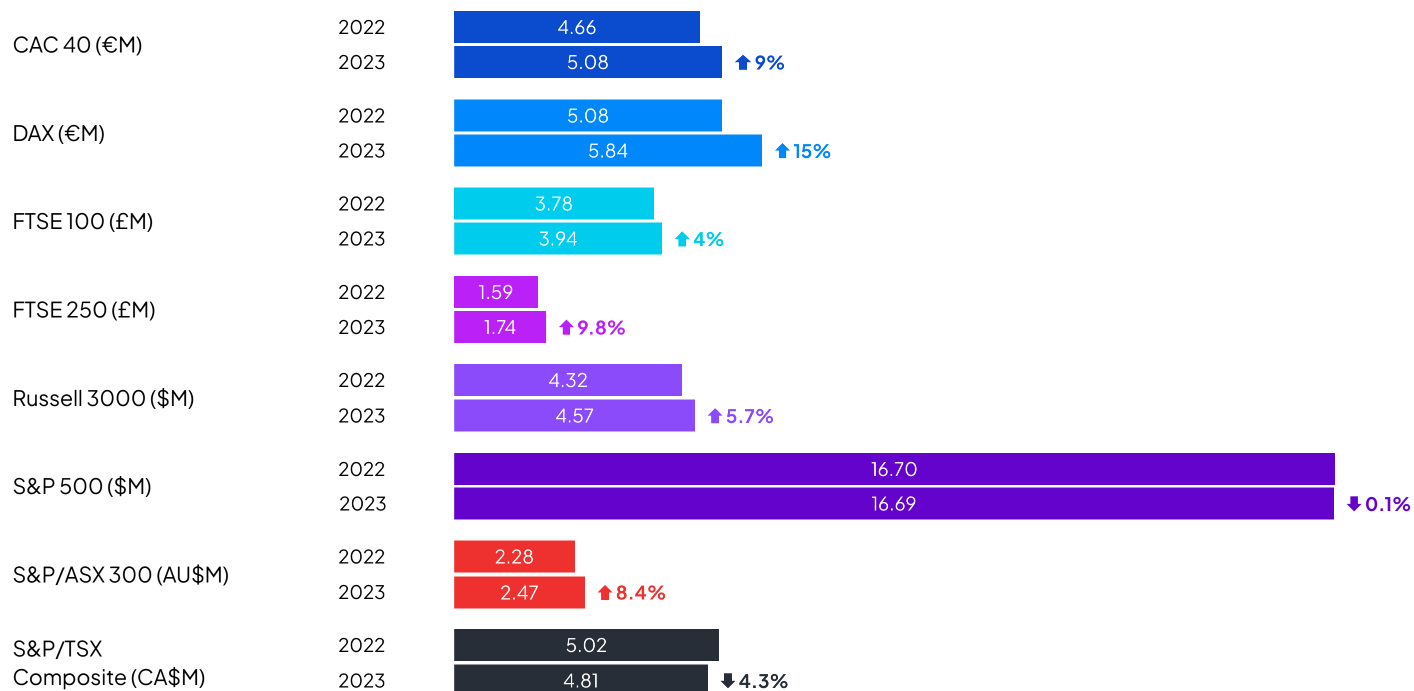
Median CEO total granted pay by index and year



Source: Diligent Market Intelligence / Compensation

CEO Total Realized Pay

Median CEO total realized pay by index and year



Source: Diligent Market Intelligence / Compensation

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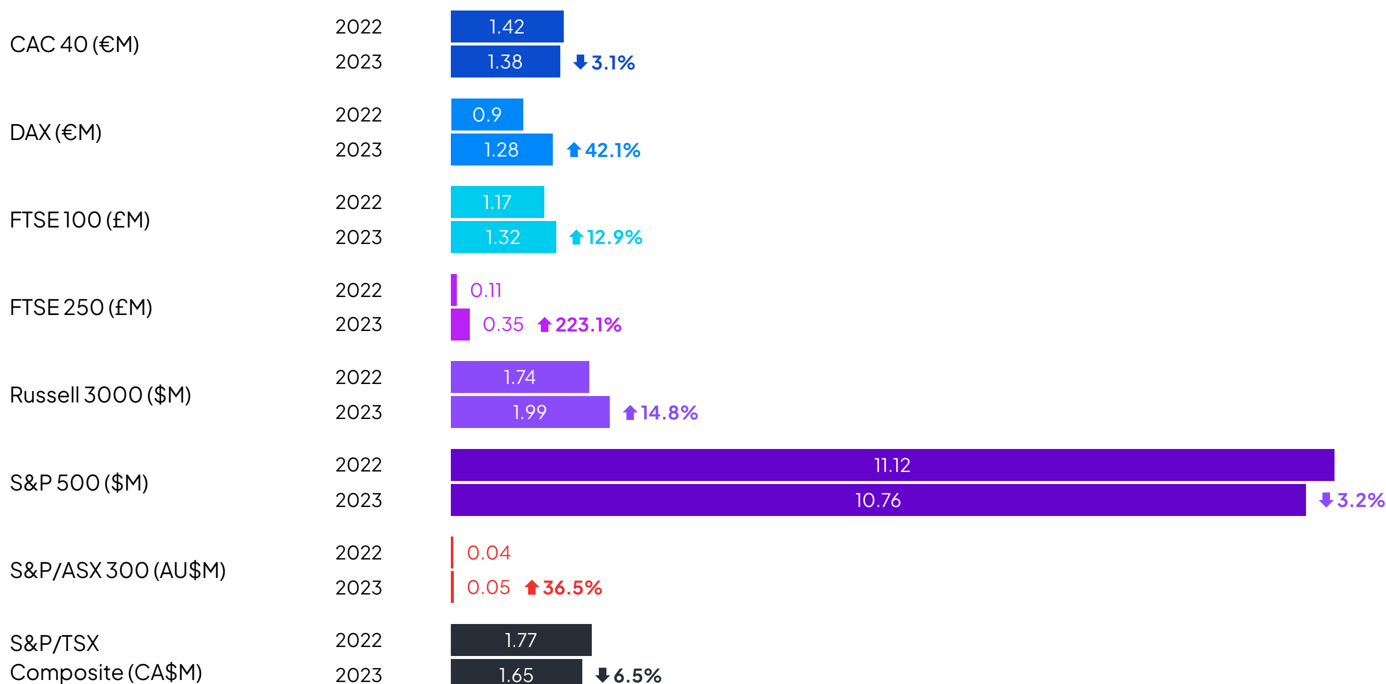
Long-Term Incentive (LTI) Pay

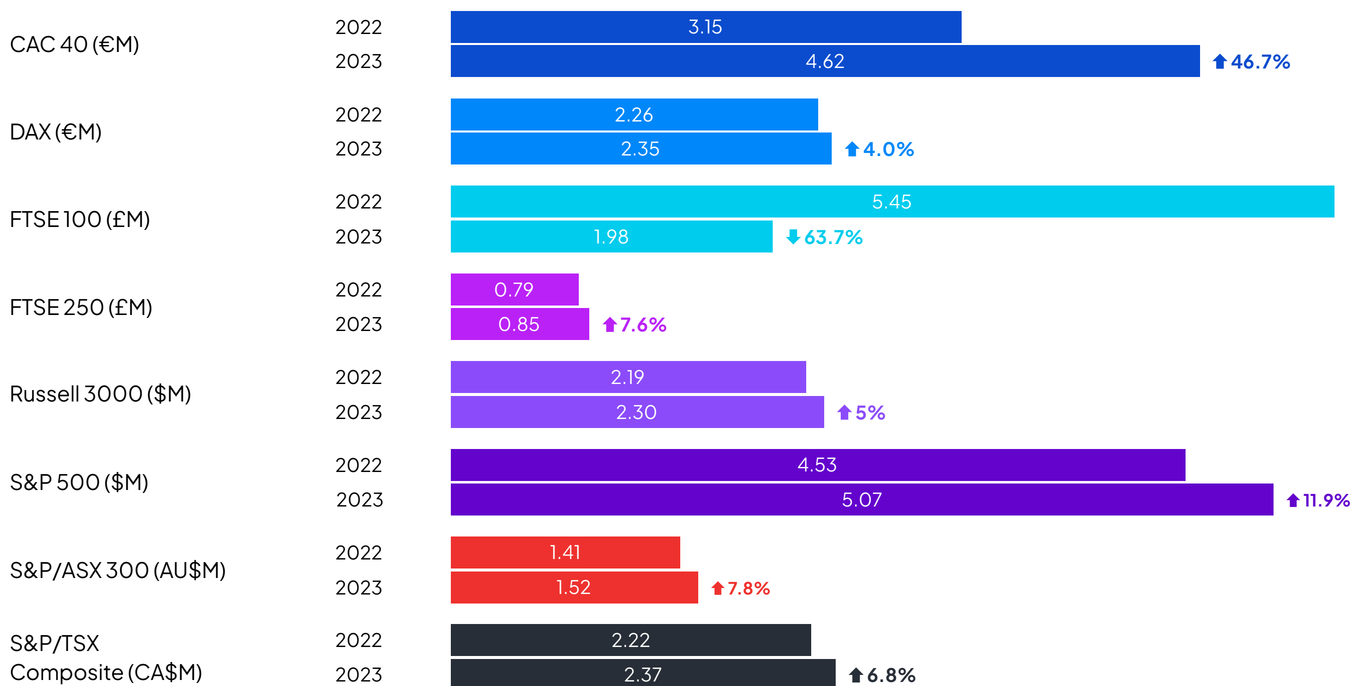
Median CEO total realized LTI by index and year



Source: Diligent Market Intelligence / Compensation

Executive pay (excluding CEO)

Median executive granted pay by index and year (excluding CEO)



Source: Diligent Market Intelligence / Compensation

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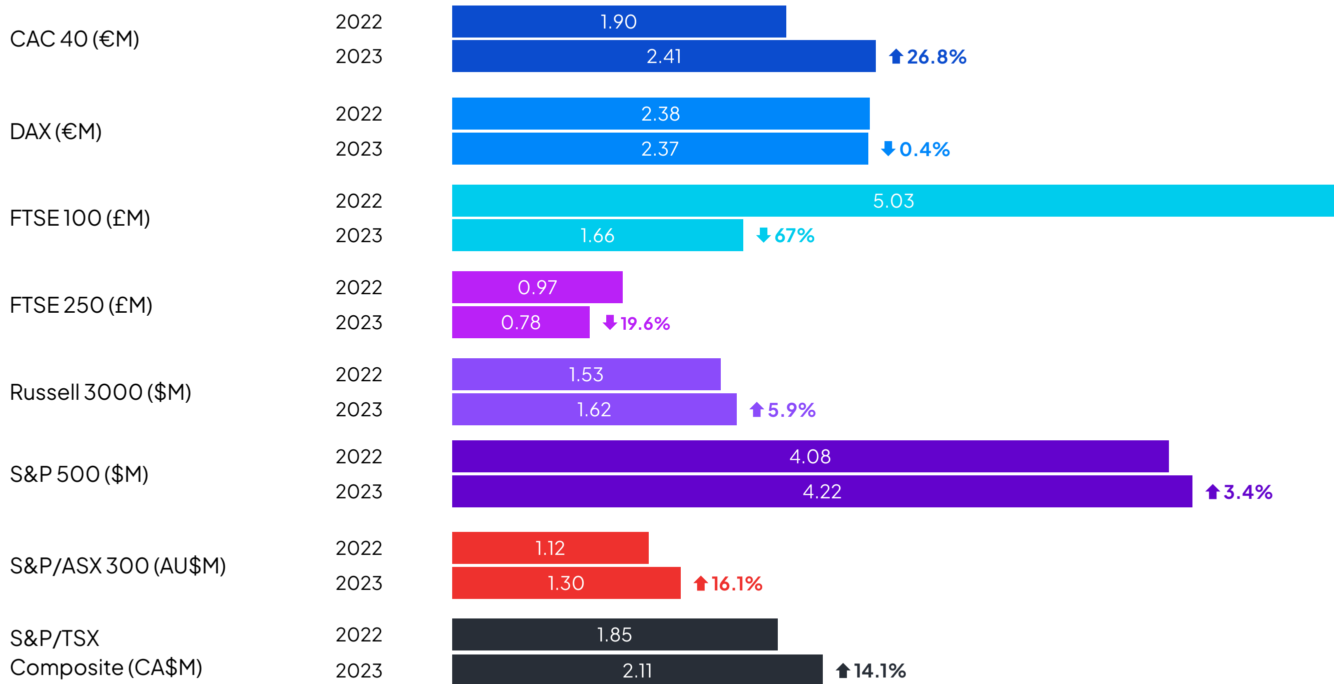
Median executive realized pay by index and year (excluding CEO)



Source: Diligent Market Intelligence / Compensation

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UK moves to address competitiveness concerns

As the U.K. takes bolder steps to advance its competitive position, efforts focused on ensuring the governance environment does not prohibit progress have been met with mixed reaction, writes Antoinette Giblin.

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Efforts to arrest the decline in U.K. listings in the face of competition from financial centers in the U.S., Asia, and Europe have triggered a controversial debate over the nature of governance incentives directed at managers.

The most recent U.K. Listings Review described that situation as "stark," pointing to a 40% fall in listings from a peak in 2008, with London accounting for only 5% of initial public offerings globally between 2015 and 2020. Research compiled by Diligent Market Intelligence (DMI), with support from S&P Capital IQ, found that London listings have continued to slump with the number declining from 95 in 2021 to 76 in 2022, and 36 last year.

But while factors that have influenced London's competitive position include the depth of capital pools, Brexit and the hangover common to all markets from the 2008 financial crisis, the easiest lever for authorities to pull has been seen as listings standards.

"If you go back 30 years, you would have seen what was a relatively nascent venture capital industry alongside public markets but not much in between," Jonathan Parry, partner in the capital markets group at White & Case, told DMI. "Since that time, the pools of capital available to businesses either from private equity or sovereign wealth funds has meant that businesses can grow to significant scale without needing to tap the public markets."

Lowering the barrier

Reforms of the regulatory landscape to lower perceived barriers and make listing rules less onerous have driven concern among some investors with fears the measures could undo decades of stewardship progress and water down governance standards.

The Financial Conduct Authority's (FCA) overhaul of the region's listing regime in July was hinged on a single category and streamlined eligibility with key changes involving the removal of shareholder votes on significant and related-party transactions, as well as increased flexibility around dual-class shares with enhanced voting rights – both measures that have vexed some investors.

"It is disappointing to see what feels like a polarizing approach, pitting management and their advisors against the company's owners – the shareholders," said ICGN's CEO Jen Sisson. The group also questioned the complexity of the dual-class share system.

Those welcoming the reforms argue that the tweaked regulatory ecosystem, coupled with other government initiatives, sends a strong signal that London is open for business. "London was more stringent than other destinations and in essence, all that London has done is brought itself in line with others," said Inigo Esteve, partner in the capital markets group at White & Case. "These rules will undoubtedly help to attract companies to London that had viewed it as having a tougher regulatory environment and we are certainly seeing the green shoots of that in a number of the conversations that we are having."

The FCA also moved to quell concerns that the well could be poisoned by diluting investor protections, stressing that shareholder approval for key events such as reverse takeovers will still be required.

"It is disappointing to see what feels like a polarizing approach, pitting management and their advisors against the company's owners – the shareholders."

Compensation and the war for talent

Outside of listings, the U.K. has also been vying for supremacy with New York on CEO pay where the transatlantic divergence continues to drive debate.

The Capital Markets Industry Taskforce (CMIT), headed up by London Stock Exchange CEO Julia Hoggett, which had pushed for the relaxing of the listing rules, has also lobbied to allow companies to raise CEO pay in a bid to attract global talent to Britain. Citing evolving views on quantum and hybrid schemes, the U.K.'s Investment Association (IA) has also recently moved to simplify its remuneration guidelines in a move pitched to "reflect the evolving practices in the market and the expectations of investors."

Despite a 6% increase in FTSE 100 median granted CEO compensation in 2023 and a 4% climb in realized pay, the index continues to trail others in New York. According to Diligent Market Intelligence data, the median FTSE 100 CEO realized pay was 3.9 million pounds in 2023 compared to $16.7 million for the S&P 500 and $4.6 million for the Russell 3000.

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Number of listings annually by exchange

Year	London Stock Exchange	NASDAQ	New York Stock Exchange
2013	57	85	68
2014	70	134	73
2015	82	106	56
2016	78	111	44
2017	87	146	64
2018	106	158	68
2019	81	187	61
2020	84	269	109
2021	95	488	175
2022	76	269	56
2023	36	263	49

*Surge in IPOs in 2021 included special purpose acqusition companies

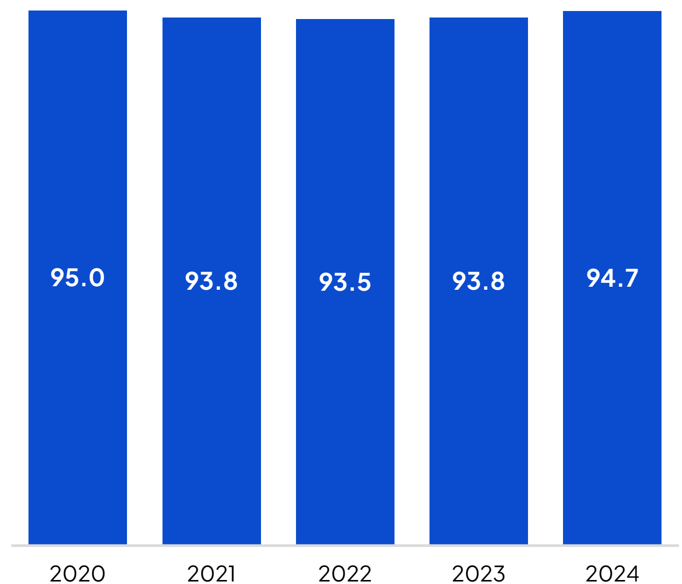
Source: Diligent Market Intelligence with data from S&P Capital IQ

However, as executive pay levels climb, support for management resolutions for "say on pay" at U.K.-listed companies has also increased, with the advisory votes securing a record 94.7% backing in the first nine months of this year, compared to 93.8% in the same period in 2022 and 93.5% in 2023.

> "London was more stringent than other destinations and in essence, all that London has done is brought itself in line with others."

As investors assess such pay plans as well as the push to reward performance and secure the right talent to succeed, cultural differences are also at play, as Parry explains. "In the U.S., there is a more commonly accepted view that where there are successful businesses where the shareholders did extremely well, it's only right that management should do commensurately well. London, and possibly Europe more generally, is behind the U.S. in that regard."

Average support (%) for advisory "say on pay" plans at UK-based companies, by year*



*January - September 30

Source: Diligent Market Intelligence / Voting

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New window of transparency as hedge funds disclose pay voting

Changes to N-PX disclosure rules by the Securities and Exchange Commission (SEC) have opened up a new window of transparency into how hedge funds and others vote on executive compensation, writes Antoinette Giblin.

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With registered funds and institutional investment managers holding substantial proxy voting power that they exercise on behalf of millions of investors, the wave of filings submitted by the end of August deadline each year has been a pivotal point in the Diligent Market Intelligence (DMI) calendar year, and a key part of our expanding data sets.

By the end of September and with the first filings subject to the amendments, the DMI research team had added 38,399,672 votes with 10,209 filings processed, compared to 2,658 such filings at the same time last year.

This import brings us key insights on 3,935 investors, 15,559 funds and almost 25,000 issuers.

> "We now can look behind the curtain and have the opportunity to lift the hood and really analyze their voting directions."

"Investors that provide minimal policy disclosure and until now haven't disclosed any votes, such as hedge funds and various other firms that don't manage mutual fund shares - there is a lot we can learn from their disclosures and help convey that to companies. This includes looking at any significant alignment with proxy advisor recommendations," Karla Bos, associate partner at Aon, told DMI.

The 'for' and 'against' buckets

The new regime requires managers that exercise investment discretion over securities with an aggregate value of at least $100 million to report their pay votes – a rulemaking dictated by the 2010 Dodd-Frank Wall Street Reform and Consumer Protection Act.

The expansion is expected to provide both risks and opportunities for the new filers with greater scrutiny of their voting decisions. While some may embrace the opportunity to demonstrate their governance standards and their focus on responsible compensation structures, the disclosure may also expose some who are seen to have backed management on pay where packages are considered egregious.

"We now can look behind the curtain and have the opportunity to lift the hood and really analyze their voting directions. If they are consistently supporting lavish pay packages that are not aligned with company performance, putting that out there publicly likely won't serve them well," Marcus Campbell, managing director at Sodali & Co., told DMI. "There's an opportunity for the funds to differentiate themselves by voting in favor of more responsible compensation structures, which may resonate with long-term investors."

As well as expanded disclosure on pay, the changes will also shine a light on the number of shares voted, or instructed to be cast, as well as the number of shares loaned but not recalled and, therefore, not voted by the fund - another DMI data point set to come on stream, giving company boards a fuller picture on the voting power in their stock.

"I think really understanding the patterns of shares on loan and the actual voting impact is another positive step. Boards are often rallying to get something across the finish line and counting shares to understand mathematically what's needed and often, the votes don't really match up, it can be really demoralizing," said Campbell.

> "I'm hopeful that this will spark robust conversations for company boards with investors, especially where they see that they voted against."

As he unveiled the changes in November 2022, SEC Chair Gary Gensler said the move would provide investors with more detailed information about proxy votes.

The reforms, which also aim to create more consistency around how funds describe their proxy votes and ensure Form N-PX is provided in a machine-readable format, are also expected to lead to more productive engagement with boards. "I'm hopeful that this will spark robust conversations for company boards with investors, especially where boards see that they voted 'against,' as some of them don't disclose much in the way of policies," said Bos. "You have to have these conversations to understand where that vote came from."

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More companies turn to SEC for relief as E&S demands evolve

The number of U.S.-listed companies turning to the Securities and Exchange Commission's (SEC) no-action process to exclude environmental and social-themed shareholder proposals has surged this proxy season, with the SEC appearing to take a more corporate-friendly approach, writes Miles Rogerson.

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According to Diligent Market Intelligence (DMI) Voting data, a record 183 companies sought no-action relief this proxy season, compared to 116 in 2023, 142 in 2022 and 172 in 2021. The requests, which give companies comfort in excluding shareholder proposals from their proxy statements, have been a political hot topic thanks to a lawsuit filed by ExxonMobil earlier this year, but the latest numbers appear to show the SEC backing more companies.

Of the requests that came before the commission for decision this season, 51% were accepted, compared to 47% last season and 29% in 2022.

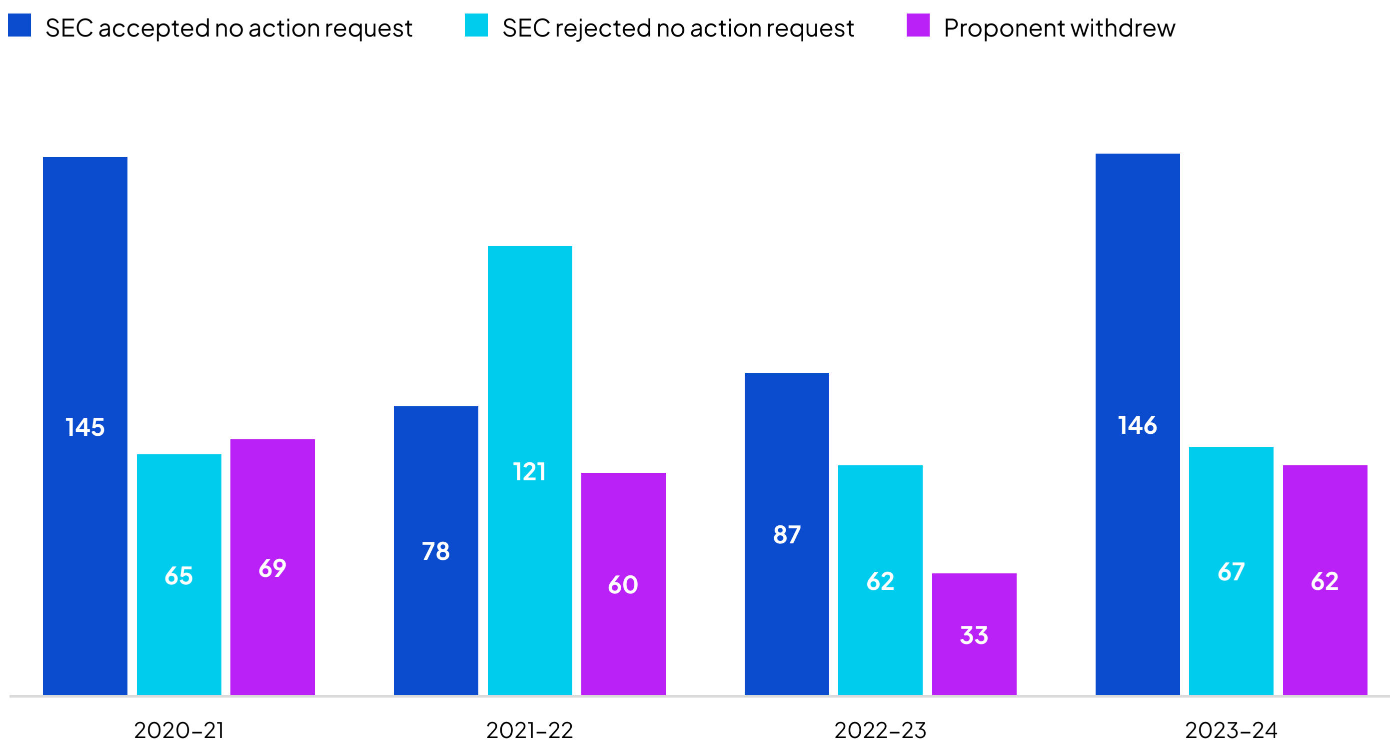
"Following [SEC Chair Gary] Gensler's regime, companies began only putting in letters when they had a very firm basis for exclusion, which led to that contraction we've seen over the past two years," Marc Gerber, partner at Skadden, Arps, Slate, Meagher & Flom, told DMI in an interview. "This year, levels have been returning to normal and with the more novel topics and the more detailed proposals, companies feel they're more likely to get relief from the SEC, often thanks to a lack of historical precedent on certain new topics."

Meeting the threshold

In late 2021, a shift in guidance from the SEC meant that companies had to demonstrate that the proposal they sought to exclude did not raise significant social or ethical issues with broad societal impact. The move was seen to create a more difficult threshold for no-action relief with many at the time forecasting the move would lead to more E&S-styled shareholder proposals. However, companies have since returned to lean on the process, often citing procedural defects in an effort to exclude repeat demands or demands seen to micromanage.

> "It's important to remember that the SEC no-action process is still effective – because it's helpful to have a referee and a civil process whereby a company can challenge a resolution."

SEC no-action request outcomes by proxy season



Source: Diligent Market Intelligence / Voting

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No-action relief is commonly sought to exclude climate-themed demands that have evolved from asking target companies to disclose emissions to begin taking steps to reduce such emissions, with many getting "stuck" in the no-action process, as Timothy Smith, senior policy advisor at the Interfaith Center on Corporate Responsibility (ICCR), told DMI.

"We don't believe that constitutes micromanagement because a) it's a real crisis and b) the company had often not been clear about what it was going to do to address the risks," he added. "That's one of the issues where we feel the SEC may have been too cautious to support the proposal."

> "Following Gensler's regime, companies began only putting in letters when they had a very firm basis for exclusion, which led to that contraction we've seen over the past two years."

In a landmark case this season, energy giant ExxonMobil bypassed the SEC's no action process, instead filing a lawsuit against Dutch climate activist Follow This and Arjuna Capital that set out to exclude a demand to accelerate its greenhouse gas (GHG) emissions reduction efforts, after similar proposals from the proponents failed in 2023 and 2022.

While it could not pursue its claim against Netherlands-based Follow This on jurisdictional grounds, a judge ruled in June that the case against Arjuna was no longer valid after the climate activist agreed not to submit a future proposal regarding its GHG emissions.

Exxon CEO Darren Woods has remained steadfast in his criticism of the SEC process, telling the September Council of Institutional Investors conference that the goal of the controversial lawsuit was "simply to get back to a simple interpretation grounded in the intent of the rules," after the number of no-action requests and approvals fell.

"I lost count of the number of public company CEOs who told me, thanks for doing this. It's a process that's being abused and we wish we had the same courage of conviction to do what you're doing," he told the gathering.

Crafting next year's proposals

With engagement well underway for a new season, proponents are reconsidering how best to craft their E&S demands in what many see as a battleground to make it to the ballot paper and amid declining support for those resolutions that do make it to the finish line.

DMI data show that in the 2024 proxy season, environmental-focused proposals targeting companies in the Russell 3000 and S&P 500 indexes secured 19% and 17% average support from investors, respectively while social-themed demands targeting the S&P 500 averaged 14.8% support and 15.4% at Russell 3000.

In deciding on what resolutions do reach shareholders, many argue the SEC no-action process should continue to serve as the right mediator.

"It's important to remember that the SEC no-action process is still effective because it's helpful to have a referee and a civil process whereby a company can challenge a resolution for a variety of reasons," said Smith.

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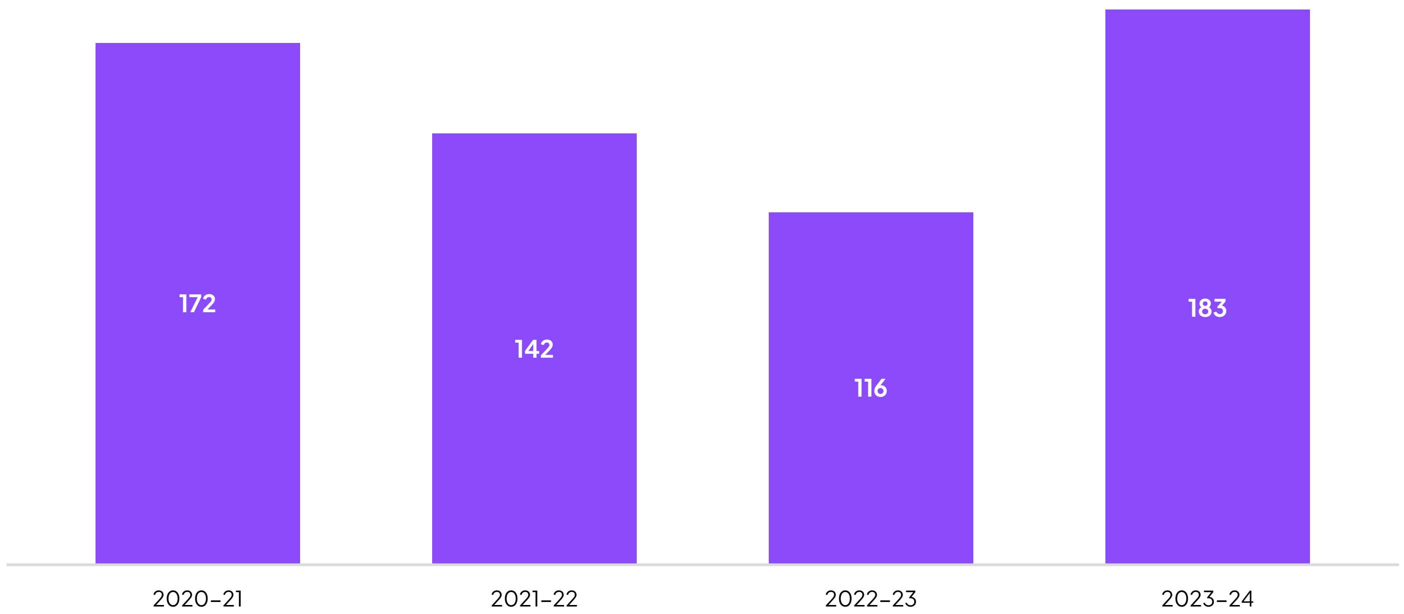
Volume of no action requests by proxy season

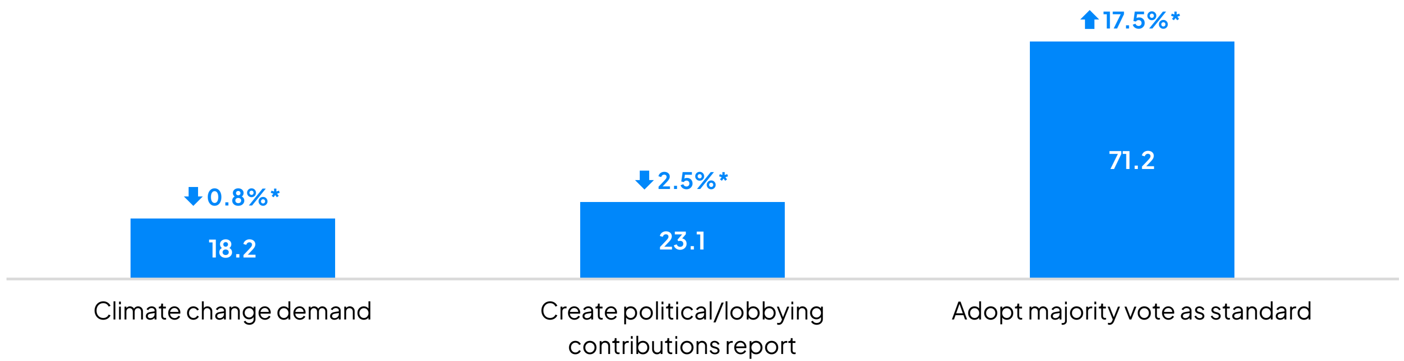


Source: Diligent Market Intelligence / Voting

Most commonly filed ESG shareholder proposals in 2024 proxy season

Type	Proposal	No. of proposals
E	Climate change demand	92
S	Create political/lobbying contributions report	61
G	Adopt majority vote as standard	44

Average support (%)



*Change in support since 2023 proxy season (%).

Source: Diligent Market Intelligence / Voting

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DMI Stewardship Series makes way to London

Over 130 members of the U.K. stewardship community came together at the London Stock Exchange (LSE) last month as Diligent Market Intelligence brought its Stewardship Series to London for the first time. Investors, advisors and issuers heard insights over a packed afternoon with an agenda that included five panel discussions and a line-up featuring expert speakers from our event sponsors White & Case, Georgeson, Okapi Partners and Snowflake, as well as institutional investors including Schroders, Fidelity International and Aviva Investors.

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Advancing the UK's competitive position

It was standing-room-only for a lively debate concerning the Financial Conduct Authority's (FCA) recent overhaul of the U.K. listing regime where the audience heard that the rules are just one part of a complex puzzle to make London a more attractive market. Furthermore, all speakers supported the goal of a more competitive market and the focus on ensuring companies succeed but stressed that management and their advisors need to be aligned with the company's owners in order to truly succeed in that vision.

- Under the old regime, the FCA argued that many companies looking to list in the U.K. had viewed London as having stricter, overly onerous rules with hopes the overhaul in regulation will make it more straightforward in line with international counterparts. "Regardless, no-one is arguing for a rush to the bottom and a huge de-regulating of the market, just a softening of the existing rules to be aligned to other markets," Inigo Esteve, partner in White & Case's capital markets group in London, argued.

- The new rules will change the dial on risk with companies set to see increased engagement from investors. "It's our responsibility to navigate through that risk and allocate to companies accordingly. We're going to be placing greater emphasis on our research activities and our stewardship activities are going to become even more critical," said Richard Butters, head of stewardship, Aviva Investors. "I think as investors, we'll have to consider how to escalate certain issues and I think there will be a greater shift towards keeping boards accountable for their actions."

- Boards need to ensure the investor voice is being heard after fears key protections have been diluted with the removal of a vote on related party transactions and the introduction of flexibility around dual-class share structures. "We don't believe there is a need for these radical changes imposed. We actually believe other jurisdictions around the world could learn from the well-established U.K. rules and achieve better outcomes for all stakeholders," Doug McMurdo, chair of the Local Authority Pension Fund Forum (LAPFF), told the gathering.

Europe carves out unique approach to activism

- The U.K. is attracting even more players with the whole ecosystem becoming more familiar. "The universe of activism and active shareholder engagement is expanding year after year. There are many traditional hedge funds turning their eyes away from the U.S. for the first time and the U.K. is a pretty good place for them to go," noted Tom Matthews, partner, White & Case.

- Activists new to the European market can struggle to adapt to the less confrontational approach. "Activist investors who are just entering the European market can sometimes get frustrated with the expectations of many European investors for a less combative approach although those expectations are changing as more activists enter the European market," said Pat McHugh, co-founder and senior managing director, Okapi Partners, who headed up the firm's London expansion last year.

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- The perception of activist investors has changed in Europe with a growing recognition among company boards that they can be constructive, effective stewards and operate with a less aggressive style when compared to their U.S. counterparts. "We don't use 'activist' as a term. We see ourselves as a shareholder, doing our fiduciary duty and if there is no dialogue, we will use our rights, speak to others and consider a contest if needed," said Anne-Sophie d'Andlau, co-founder and deputy CEO, CIAM.
- Most of the engagement in Europe takes place behind closed doors with few campaigns being made public as companies are expected to open the door transparently to investors, especially in the current climate as management navigates geopolitical challenges, a slowing economy and evolving disclosure demands such as the corporate sustainability reporting directive (CSRD).
- Closed end fund (CEF) activism is expected to take hold in the U.K. market as it has in the U.S. "There is no subjectivity about what the asset is worth in closed end fund activism. Most trade at a discount to net asset value and you don't need a lot of shares to control a large percentage of the vote," Anthony Kluk, head of U.K. and Nordics, Georgeson, told the session. "Closed end fund AGM turnout is on average around 12% less than the standard FTSE 350 company."

Executive compensation

- While the U.K. is often seen to trail the U.S. on CEO pay, competitiveness is only part of the conversation with investors more focused on comparing companies within peer groups and sectors, and against other markets such as the wider European region, Asia and Australia. The U.S. is also considered an outlier due to its higher historical total shareholder returns.
- There is now a greater focus on sustainable business practices and long-termism when investors engage with remuneration committees with transparency considered key when revising pay structures to consider alternatives such as hybrid plans. "Schroders looks at three key areas when analyzing an increase in executive compensation: Is there a retention risk? Is there a competitive risk? And is the compensation justifiable from a pay for performance perspective? All three of these questions need to be answered," explained Pippa O'Riley, corporate governance analyst, Schroders.

- Looking to 2025, investors are also considering the other end of the compensation spectrum to move their focus beyond executive pay to also include the wider workforce and issues around wage and pension inequality. "Schroders are conscious that the focus should not just be on remuneration at the top of the organization and are therefore also running an engagement project with the lowest paid industries around workforce pensions. Where these companies are in a financial position to do so, we are encouraging them to think about increasing these above the currently low statutory minimum,'' noted O'Riley.

With in-demand demo stations staffed by our dedicated research and sales teams throughout the afternoon, and product updates including DMI's recently rolled out data feeds on Snowflake Marketplace, the gathering was also addressed by Diligent CEO and President Brian Stafford on Diligent's mission to improve shareholder engagement by empowering both investors and companies with the broadest collection of governance data available in market.

Speaking following the event, Josh Black, editor-in-chief of Diligent Market Intelligence, extended his thanks to all the speakers and sponsors who contributed to the event's success. "The Diligent Market Intelligence team is delighted to have brought together investors and issuers to share data and best practices for shareholder engagement on activism, executive compensation and corporate governance," he said. "We're excitedly planning future events in New York and London to continue the conversation."

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Takeaways from Diligent Elevate 2024

At our September Elevate conference in Houston, Texas, Diligent brought together over 600 governance, risk and compliance professionals to discuss the latest trends in corporate governance, risk mitigation and stakeholder relations. Alongside a packed four days of panels and thought leadership sessions, attendees also made the most of on-demand presentations, networking opportunities and product sessions.

The agenda included three panels hosted by DMI's Activism Editor Jason Booth exploring best practices for boards of directors, trends in shareholder activism and initial public offerings.

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10 practices to build the best boards

Lori Nishiura Mackenzie, co-founder Stanford VMware Women's Leadership Innovation Lab and Jim Myers, deputy general counsel, corporate governance at Fannie Mae shared various strategies to improve board culture and performance, highlighting the need to evaluate individual directors, reorient long-serving members, organize effective meetings and promote inclusivity.

Establishing inclusive norms for board practices and behaviors was top of the list of recommendations. Delegates also heard that in order to encourage constructive engagement, boards need to truly listen to all diverse viewpoints. "Groupthink tends to exclude voices not typically part of a traditional board structure," noted Mackenzie. "In this time of polarization, most of us are not skilled at finding common ground."

Both panelists recommended an annual board evaluation process asking directors to identify the strongest contribution that they bring to the board and examining the strongest contribution that their peers bring to the board. It was also suggested that long-standing directors are often best placed to act as a mentor to prepare new board members to ensure their expertise can shine. "It's hard being a new board member. You're struggling to understand what your role is," noted Myers. "A mentor can help amplify the opinions of a new board member."

Mitigating shareholder risk and controlling your proxy narrative

The universal proxy card and evolving risks such as AI and cyber security, as well as higher interest rates and geopolitics tensions have forced companies to take a good look at their current board membership, according to a panel featuring insights from Geoffrey Weinberg, managing director, M&A and activism advisory at Sodali & Co; Catherine Morris, director, PJT Partners; and Jon Solorzano, counsel, ESG at Vinson & Elkins.

"Activists and institutional investors alike are taking a closer look at board composition, so the skills of each board member will become more important," said Morris.

"Every board member is vulnerable now," said Solorzano. "Every director needs to stand on their own merits and have a reason to be on your board. And you need to communicate that to the market."

The panel noted that activists are getting better at recruiting and nominating high-caliber director candidates. As such, it's incumbent on boards and the nominating and governance committee to think critically and look at their own boards like an activist. Morris recommended "putting on the activist hat and looking at your potential vulnerabilities from an outside-in activist viewpoint, then take steps to mitigate those vulnerabilities. "

The group highlighted the importance of "tabletop exercises" where the company responds to a theoretical activist campaign. "Tabletop exercises take time, but in the fog of war things get very complicated," Solorzano added. "You need to be thinking about what you're going to do in a crisis situation."

The IPO boom revisited

2021 was a watershed year for IPOs in the U.S., with more than 1,000 companies going public. Four years on, many that listed that year no longer operate as public companies.

Kevin Roy, managing director and head of issuer solutions at S&P, and Ryan Nagy, regional listings lead at NYSE, offered insights into what drove the 2021 IPO boom and what companies considering an IPO should do to improve governance and organizational resilience in order to create value for shareholders.

Delegates heard that when going public, companies should have sound financials and a clear and successful business model. Other factors influencing a successful IPO were noted to include a team of diverse and independent board members, including a board member with IPO experience, along with robust risk management and good investor relations. Timing was also noted as critical. "Being a publicly traded company is not easy and adds an extra layer of complexity, so leaders need to make sure the time is right," noted Roy.

Looking to 2025, the panel predicted a surge in IPOs following the U.S. presidential election, arguing "government policy affects everything." The software, tech and consumer products sectors are considered as among those most likely to see IPO activity next year, the panel predicted. The trend that has seen overseas companies relisting on the U.S. markets is also expected to continue. "The U.S. is the envy of the world regarding capital markets and that is why many European companies are relisting here," stated Nagy.

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About Diligent Market Intelligence

Diligent Market Intelligence is the leading provider of corporate governance, shareholder engagement and investor stewardship data. Trusted by advisors, investors and issuers globally, the Diligent Market Intelligence platform equips firms with the necessary information to proactively manage shareholder pressures, mitigate governance risks, and maintain a competitive edge in the market.

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