

# STAND UP AND BE COUNTED

## UNILEVER VOTE AUDIT

Today's voting environment is characterised by shareholders taking an increasingly activist stance on company issues and voting against important resolutions, making it more important than ever for companies to get as many shareholders as possible – particularly institutional shareholders – to vote.



Unilever, the international manufacturer of leading brands in foods, home care and personal care, was curious to establish why it was not seeing a steady rise in the numbers of votes received at its AGMs as anticipated. In 2003, it contacted 10 of its major non-voting shareholders who did not appear to have voted 50% or more of their holding to establish why they'd decided against voting their entire holding.

Their findings were troubling: of the nine responses they received, three institutions had not voted as a matter of policy, two cited technical reasons, and of the four who had given instructions to vote, only one had their votes received and recorded by the registrar. The findings were highlighted to the Shareholder Voting Working Group in January 2004 and as a result, Paul Myners produced a 35-page report. The report found that the voting process was overly manually intensive, the chain of accountability complex and voting participants – made up of beneficial owners, investment managers, proxy voting agencies and the registered owners of the shares – placed a differing level of importance on voting. The report also made recommendations on how the issues uncovered could best be addressed.

In 2006, Unilever appointed proxy solicitation experts Georgeson to carry out an audit to uncover the scale of votes that were still going missing following its AGM on 9 May that year. Although the problem of the missing votes didn't affect any of the resolutions passed, Unilever was interested in discovering the scale of the leakage for meetings going forward.

Cas Sydorowitz, Georgeson's Director of Proxy, managed the work and commented on the processes involved. "We gained the cooperation of

17 of Unilever's top 25 shareholders following the AGM to verify whether the votes they had cast actually arrived at the meeting. We then followed the movement of the votes through the chain of ownership by contacting each link – from investment advisor to beneficial owner, global custodian, registered holder and finally to Unilever's Registrar – to find out how each had voted and whether the voting intentions actually tallied with the voting figures submitted at the end."



### THE SCALE OF THE PROBLEM

Georgeson found that out of a universe of 2.9 billion Unilever shares, 1.7 billion, or approximately 58.6%, claimed to have voted. Of these, 195 million shares (6.7% of the entire vote), worth a staggering £2.4 billion, were lost or were never voted. Georgeson identified four key reasons for the discrepancy and made recommendations on how they could be resolved. Sydorowitz commented on each problem they uncovered:

"We found that over-voting was the biggest reason for votes not getting counted. Overvoting occurs when a voting agent submits voting figures a few days before the meeting, but on the record date, it is discovered that the number of shares they actually hold differs significantly from the number of shares they voted on – most likely because there has been trading in the few days prior to the meeting. If all the votes are in favour or against, it's a simple process of discounting the over-voted shares, but if the vote is split for any resolution – as we found in a number of cases – the entire vote for that resolution has to be discounted because it is not known which way the eligible shares actually voted on the day.

Another problem we encountered was with corporate representatives – many nominees would appoint a corporate representative to vote at the meeting by submitting the figures on a company-issued official letter, but for various reasons – such as the rep turning up late or not staying for the poll and casting their votes, or submitting incorrect voting figures, the votes never actually arrived at the meeting or had to be discounted."

"Human error was another big problem, resulting mainly from the number of parties involved in the voting chain and the lack of Straight-Through Processing, which increased the chance of votes being mis-keyed and errors creeping in. In one instance, 58 million votes were entered by an agent as 55 million, understating the amount of votes received by three million. In another example, a third party voting agent failed to execute nominee instructions correctly, resulting in the loss of over 21 million votes. "The final problem we found was due to a breakdown in the voting at nominee level. Although an increasing number of companies in the UK are now enabling voting through CREST, promoting simple and straightforward voting, some still prefer to vote by paper proxy. Paper voting is more time-consuming and carries a greater potential for error – we identified paper voting levels to be between 30% and 40%."



So, what measures can be taken to mitigate these issues going forward? Georgeson's recommendations to Unilever were as follows:

- Adjust the timing of the meeting to avoid Bank Holidays and weekends, or to have the meeting on or after Wednesday, which would ensure that the record date fell on a working day, giving voting agents greater latitude for meeting the deadline (this issue has been addressed by the Companies Act 2006)
- Communicate the results of the study to investors to increase awareness of the potential of lost voting – both individually, to parties involved and to the wider market – to communicate what the overall issues were
- Push for all accounts to be made CREST eligible, allowing shareholders to vote electronically.

So what changes have Unilever made in the run-up to their 2007 AGM? "We are now holding our AGM on a Wednesday so the record date will fall on a weekday, and encouraging CREST voting to reduce paper voting errors," says Chris Fletcher Smith, Deputy Company Secretary for Unilever. "We have also made a summary of the findings of our report available to the Shareholder Voting Working Group." The Group, chaired by Paul Myners, encourages all parties to adopt best practice voting methods, such as electronic voting and lobbying the Government and investing institutions to promote change. Although no complete solution is likely to come about overnight, it is encouraging that action is being taken and awareness of the issues increased. "Unilever is committed to achieving the highest possible, accurate and transparent vote at its AGM – and Georgeson's work with shepherding the votes is vital in helping us to achieve this," adds Fletcher Smith.



Computershare electronic voting technology is used at Unilever AGMs

#### ABOUT UNILEVER

Unilever has shares listed on Euronext Amsterdam, London and New York Stock Exchanges, and is one of the world's leading suppliers of fast-moving consumer goods, with strong local roots in more than 100 countries.

Its portfolio includes some of the world's best-known and most-loved brands, including 12 £1 billion brands and global leadership in many categories in which the company operates.

The portfolio features brand icons such as Knorr, Hellmann's, Lipton, Blue Band, Flora/Becel, Bertolli, Dove, Lux, Pond's, Axe/Lynx, Rexona/Sure, Skip/Persil, Cif and Domestos.

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[www.georgeson.com](http://www.georgeson.com)

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**Cas Sydorowitz**  
 Managing Director > Corporate Advisory  
[cas.sydorowitz@georgeson.com](mailto:cas.sydorowitz@georgeson.com)  
 Tel: +44 (0) 870 703 0302

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