

EQUINITI

Welcome

Managing your remuneration policy,
report and shareholder vote

18 January 2017



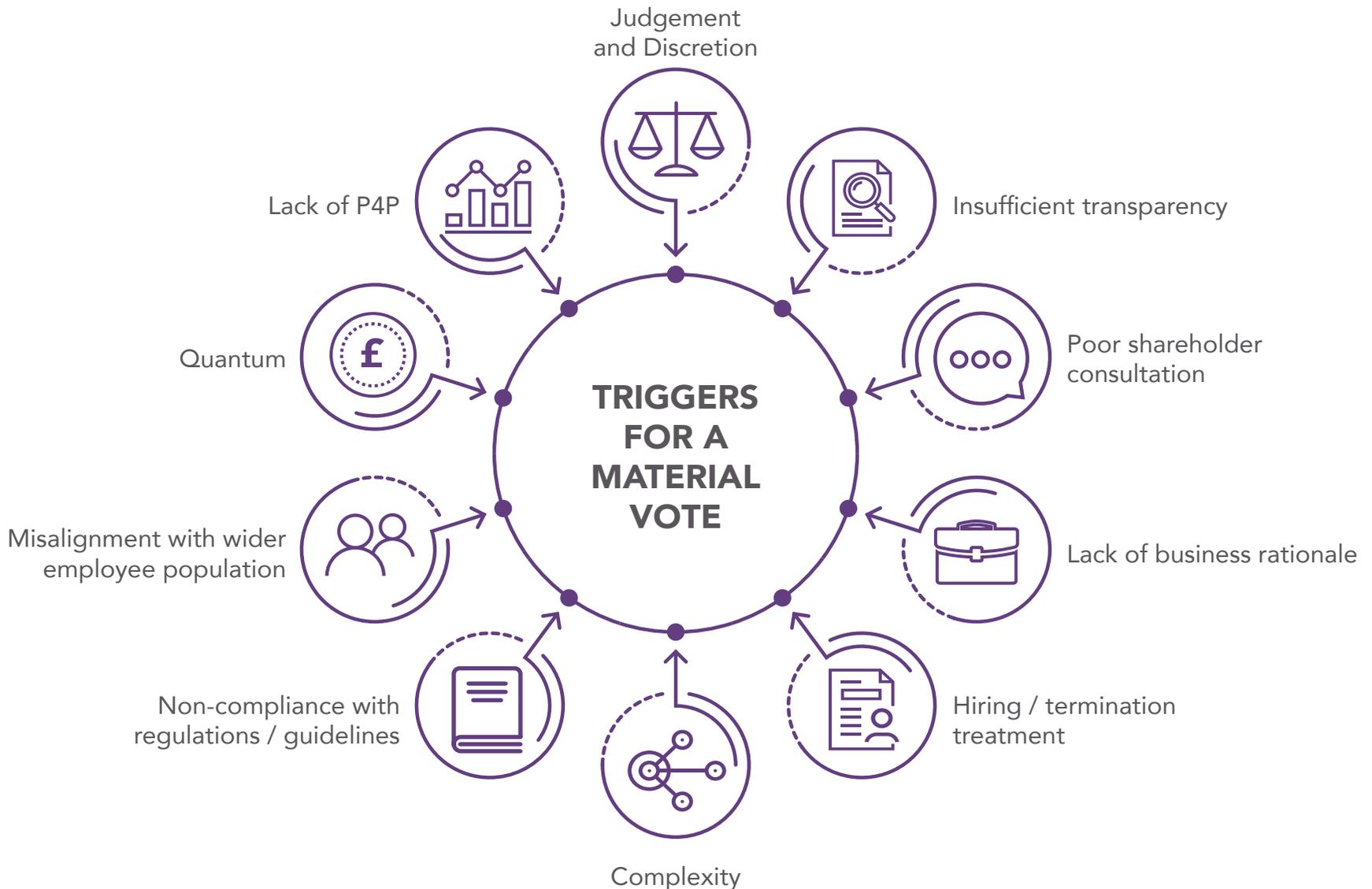


Avoiding the pitfalls when revising your remuneration policy: investor expectations

John Pymm, Willis Towers Watson
Equiniti Premier Breakfast Briefing

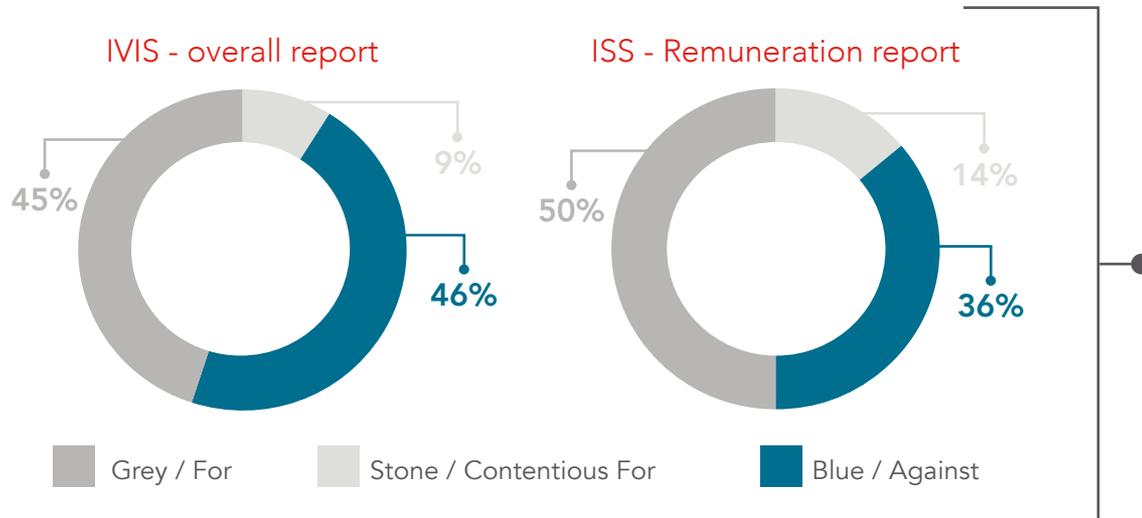
18 January 2017

WHAT ARE THE MAIN TRIGGERS FOR A MATERIAL VOTE AGAINST?



PUTTING THESE TRIGGERS INTO CONTEXT...

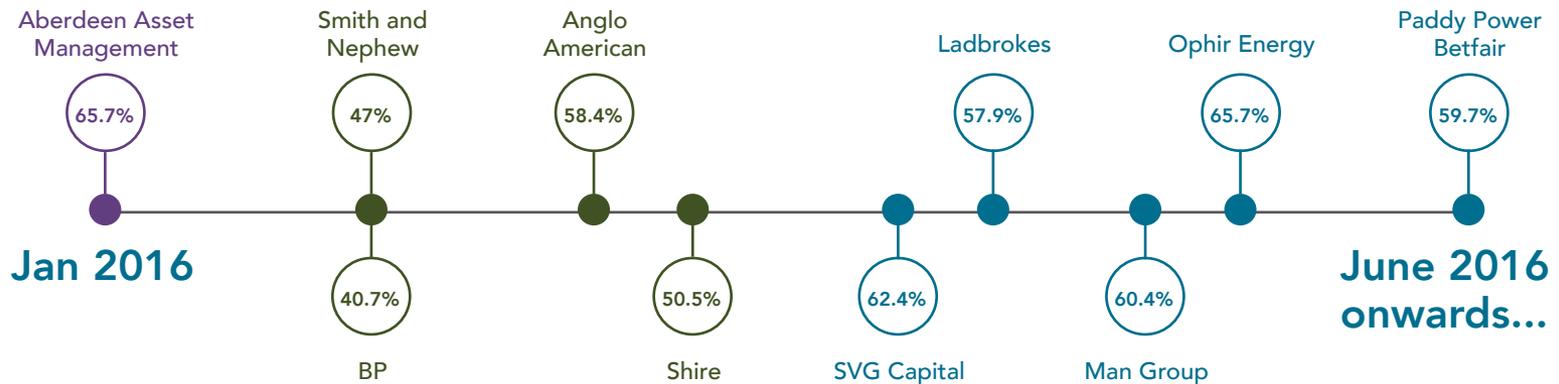
Voting recommendations – 2016



Voting outcomes - 2016

11% of companies received <80% 'vote for'

25% of companies received <90% 'vote for'



WEIR GROUP PLC

The first company to introduce a **restricted stock plan** alongside a traditional performance share plan

Key features

- PSP awards reduced (250% to 75% salary)
- Introduced restricted stock awards (90% salary)
- PSP vesting over 5 years (3 year performance period and 2 year hold)
- Restricted stock vesting over 5 years (equal tranches in years 3, 4 and 5)
- Annual bonus opportunity stays the same and 70% is paid in cash with 30% deferred in shares released at 1, 2 and 3 years (no matching)

AGAINST from ISS Reason: Use of restricted stock represents a deviation from standard market practice without appropriate justification

AMBER-TOP from IVIS Reason: Remuneration geared towards short-term performance

Shareholders did not support the resolution in the AGM and the policy failed to pass


28%
voted for the policy

KINGFISHER PLC

Similar to Weir Group, Kingfisher have introduced a **restricted stock plan** with block LTI awards but were met with approval from shareholders

Key features

- Block LTI every three years, measured over five years
 - Target awards for CEO and CFO of 220% and 200% (previous max 200%)
 - 4x multiplier for exceptional performance
 - Performance measures are 50% EPS growth, 50% ROCE
- Annual award of restricted stock – 80% of base salary with a pre-grant performance condition based on good personal performance.
 - 25% of the award will vest immediately but must be held for five years
 - 75% vests after three years with a two year holding period based on two underpin conditions: Dividend cover and ratio of lease adjusted net debt to EBITDAR
 - 100% of shares must be held until the shareholding requirement is met
 - Underpin conditions are independent

CONTENTIOUS FOR from ISS
Reason: Share structure could be criticised for not having proper performance conditions attached

AMBER-TOP from IVIS
Reason: Block awards and overall quantum

98% 
voted for the policy

HOW TO AVOID A MATERIAL VOTE AGAINST



Pay for performance

- Metric selection
- Target calibration
- Consider TSR



Telling the story

- Good shareholder consultation
- Good disclosure
- Discretion – explain why clearly



Having a policy that clearly supports your business

- Business Rationale
- Talent needs
- Link to strategic report



Understanding your investors

- Shareholder preference
- Shareholder experience
- Judging inequality

THREE VISIONS OF THE FUTURE...



Theresa May's
Comments

**'Consider other
stakeholders**



P4P focus

**'Performance
is primary
consideration'**



Investor guidelines

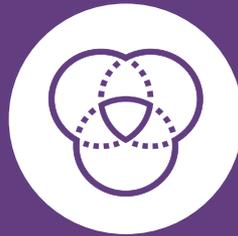
**'Time for
Change'
'or is it'**

HOW TO RESPOND IF YOU DO RECEIVE A MATERIAL VOTE AGAINST



Understanding
why

Reflect
Consult



Take any
remedial action

Amend
Explain



Tell the story
effectively

Be clear
Align

OUR EXECUTIVE PAY SERVICES – HOW WE CAN HELP YOU



Executive Pay Matters (EPM) – sign up for your monthly updates



Executive pay philosophy and strategy



Executive pay assessments and benchmarking



Short-/Long-term incentive plan design



Shareholder consultation



Advice on benefits and pension



Transaction/M&A advise



DRR drafting



LTIP vesting, performance monitoring and IFRS calculations



Target calibration analysis - new PPM tool



Executive job levelling

WillisTowersWatson 



John Pymm
Managing Director

John.pymm@willistowerswatson.com

DL 020 7170 2316

MB 07904 384646

Writing the Remuneration Report

Chris Stamp – Prism Cosec
Equiniti Premier Breakfast Briefing

18 January 2017

INTRODUCTION

THE REMUNERATION REPORT STRUCTURE

Introduction from the Remuneration Committee Chairman

Remuneration Policy Report
(Forward Looking 3-Year Policy)

Annual Report on Remuneration
(Implementation during the year)

Binding Vote at AGM

Annual Advisory Vote at AGM

The majority of UK Main Market listed companies renewing Policies in 2017

Annual **BINDING** Vote being suggested

Note: Only applies to UK incorporated/Main Market companies (AIM companies may still be expected to comply)

THE INTRODUCTORY LETTER

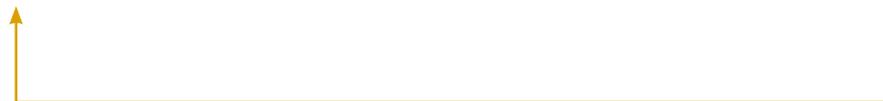
THE REGULATIONS

The Introductory Letter should include a summary of:

- The major decisions on directors' remuneration
- Any substantial changes to directors' remuneration made during the year
- The context in which those changes occurred and decisions have been taken

An opportunity to:

- Explain how discretion has been used by the Committee
- Explain proposed changes to the Remuneration Policy
- Comment on shareholder engagement
- Create linkages between performance, strategy and remuneration outcomes



WRITING YOUR REPORT

GC100: REVISED DIRECTORS' REMUNERATION REPORTING GUIDANCE

Areas of emphasis in the new guidance

- Explain the link between remuneration and the company's strategy upfront
- Clarification on the use of discretion by remuneration committees
- Disclosure of the maximum level of each component of remuneration
- The use of commercial sensitivity exclusion on the disclosure of information
- Shareholder expectations on prospective/retrospective disclosure
- Meaningful comparator groups (i.e. not a narrow group of managers)



WRITING YOUR REPORT

REMUNERATION POLICY

Points to consider when renewing the Remuneration Policy

- Keep changes to a minimum unless the previous Policy really needed change
- Summarise the changes to the policy upfront
- Make sure shareholders are consulted on any controversial changes before writing the new Policy
- Consider whether aspects of the Policy could be written more clearly even where there are no substantive changes in principle e.g. use of discretion



INSTITUTIONAL SHAREHOLDER VIEWS

THE EXECUTIVE REMUNERATION WORKING GROUP REPORT (INVESTMENT ASSOCIATION)

Ten Recommendations

Lack of Flexibility

- More flexibility in remuneration structures particularly in relation to LTIPs

Lack of Trust

- A NED should serve for a year at least before becoming Committee Chair.
- Boards should engage more with the remuneration setting process
- Remuneration Committees need to exercise independent judgement
- Shareholder engagement focus on the strategic rationale for pay structures
- Guidance on shareholder consultations
- Remuneration committees should disclose the process for setting bonus targets
- The use of discretion by the Remuneration Committee should be clearly disclosed
- Board's should explain why the maximum remuneration level is appropriate
- Committees should guard against the inflationary impact of market data

INSTITUTIONAL SHAREHOLDER VIEWS

ISS VOTING GUIDELINES UPDATE

Consolidating its position

- For pay structures with a greater certainty of payment (e.g. non-performance-related restricted shares) lower award levels will be expected
- Serious breach(es) of remuneration good practice may result in a recommendation to vote against the re-election of the Remuneration Committee Chair
- The ISS Pay-for-Performance methodology will be taken into account when considering remuneration report resolutions
- Audit and Remuneration Committee membership must be fully independent
- Clarification about the rules on overboarding
- The new guidelines apply to shareholder meetings after 1 February 2017



FUTURE DEVELOPMENTS?



BEIS Green Paper Consultation

Executive Pay

- Five areas of focus
 - Shareholder voting and other rights
 - Shareholder engagement on pay
- The role of the remuneration committee
- Transparency in executive pay
- Long-term incentive schemes

“The Government wants to explore whether there is additional information which companies could provide which would make shareholders more effective in holding boards to account on their executive pay arrangements.” (BEIS: Green Paper)

- Options
 - Pay ratio reporting
 - Disclosure of bonus targets

IN SUMMARY

Principles for enhancing your Remuneration Reporting

- Use the Introductory Letter to set the tone for the Remuneration Report
- Make clear links between strategy, performance and remuneration outcomes
- Challenge your designers to help you present clear messages
- Recognise where shareholders are coming from and speak to their concerns



Any questions?

REMUNERATION REPORT

Key facts

- Established in 2002
- Based in London
- Clients include FTSE100, FTSE250, Main Market and AIM listed companies
- Team of around 25 Chartered Secretaries many with senior FTSE100/250 experience
- Became part of Equiniti Group in November 2012

Our key areas of activity



Governance



IPO's and Projects



Cosec Processes



Interim Cover



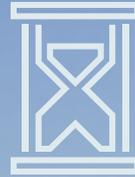
Prism Boardroom



Voting

Lisa Graham
Equiniti Breakfast Briefing
18 January 2017

AGENDA



01

Remuneration

02

Vote amendments

REMUNERATION REPORT

Average vote in Favour

90.94%

FTSE 100

94.43%

FTSE 250

96.03%

OTHER

**4 defeated resolutions
& 4 'close calls'**

"Investor fury on executive pay"

"FTSE 100 bosses face fresh
revolt over pay"

"Shareholders revolt over
directors' pay"

REMUNERATION POLICY

Average vote in Favour

91.22%

FTSE 100

93.05%

FTSE 250

99.75%

OTHER

**2 defeated resolutions
& 1 'close call'**

The majority of companies
will need to re-propose the
policy resolution in 2017.

VOTE AMENDMENTS



1



2



3



4



5

Timing

Notice of meeting

Complex Voting Chain

Crest Voting

Corporate Representatives

Chairman

Proxy Solicitation

- Timing of appointment/engagement
- Advisory reports

A group of four business professionals are seated around a table in a meeting room with a stone wall background. A woman in a blue and white patterned dress is smiling and looking at a laptop. A man in a dark suit and orange tie is looking towards the camera. A man with glasses and a beard is on the left, and a woman is partially visible on the right. A red thermal carafe and white coffee cups are on the table. The text "Any questions?" is overlaid in white.

Any questions?



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Thank you