Employee Services Forum 2018

EQUINITI

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Insights into the 2018 AGM reporting season

What are the key executive remuneration policy and implementation trends so far in 2018?

Trends

TRENDS FOR THE FTSE 100 (1)

27% have frozen CEO base salaries in 2018

The majority of the FTSE 100 (61%) granted broadly inflationary salary increases of between 1% to 3%, typically referencing the average salary increase granted to the wider workforce

TRENDS FOR THE FTSE 100 (2)

More than **Twenty** companies have amended their pension policy

The majority of those who made amendments to pension policy have lowered the employer contributions for new hires, typically leaving existing incumbent contributions unchanged

TRENDS FOR THE FTSE 100 (3)

Eleven companies published their CEO pay ratio

The majority of these were financial services organisations. A mix of methodologies were employed in the calculation but typically the single figure value was used, ratios range from 1:41 - 1:119

POLL 1

Post employment shareholding guidelines. Have you given any thought to what these should look like?

1. Yes – we have them already
2. Yes – we are putting our policy together
3. No – we will adopt best practice as and when it emerges
4. No – we do not believe they should form part of our policy

(Select one)

TRENDS FOR THE FTSE 100 (4)

Around **Ten** companies used downward discretion to adjust bonus outcomes

Two companies used upwards discretion to adjust annual bonus outcomes, both received a ‘contentious for’ recommendation from ISS

TRENDS FOR THE FTSE 100 (5)

Nine companies implemented deferral and/or holding periods

Companies not operating a five year LTIP time horizon are now a small minority. Typical deferral levels remain at between one-third and 50% of bonus earned, deferred for three years

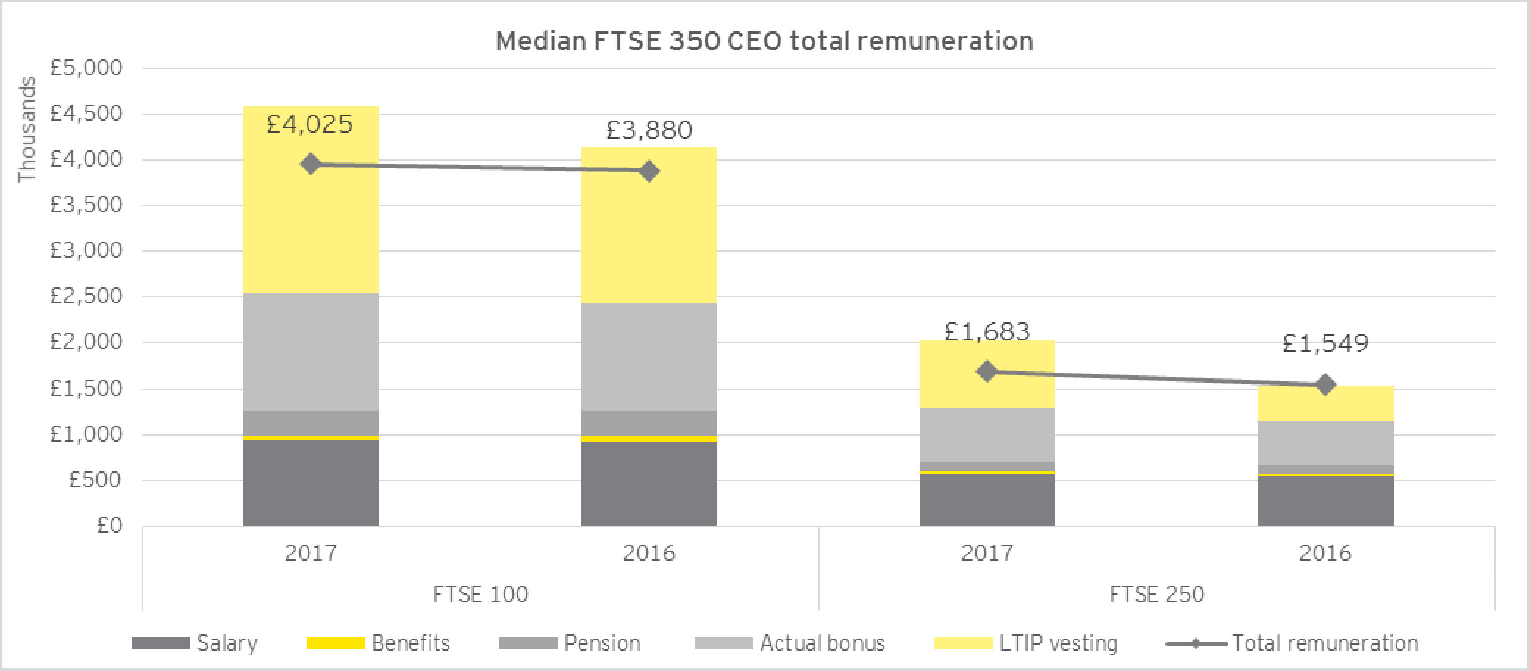
TRENDS FOR THE FTSE 100 (6)

One third of companies mentioned the gender pay reporting regulations

Most of these companies used the Chairman's Statement to reference their obligations under the regulations with some detailing actions being taken to address their gender pay gap

Outcomes

OUTCOMES FOR THE FTSE 100 (1)



OUTCOMES FOR THE FTSE 100 (2)

Median total remuneration of FTSE directors (000s)

Median	Salary	Benefits	Pension	Actual bonus	LTIP vesting	Total remuneration
FTSE 100						
CEO	£940	£51	£273	£1,293	£2,034	£4,025
CFO	£587	£29	£149	£725	£882	£2,240
OED	£629	£40	£121	£739	£874	£2,472
FTSE 250						
CEO	£577	£23	£97	£602	£739	£1,683
CFO	£364	£17	£63	£349	£363	£989
OED	£362	£18	£68	£335	£242	£1,057

OUTCOMES FOR THE FTSE 100 (3)

The increase in total remuneration was mainly due to higher levels of LTIP vesting in 2017, which were up c. 20% and 90% across the FTSE 100 and the FTSE 250, respectively.

The median CEO salary increased by c. 1% across the FTSE 100 and by c. 5% across the FTSE 250 in 2017.

The median maximum bonus opportunity across the FTSE 100 was 200% of salary in 2017, whereas the median maximum bonus opportunity across the FTSE 250 was 150% of salary.

The median LTI opportunity was 275% of salary across FTSE 100 and 200% of salary across FTSE 250 in 2017.

OUTCOMES FOR THE FTSE 100 (4)

Median shareholding requirement

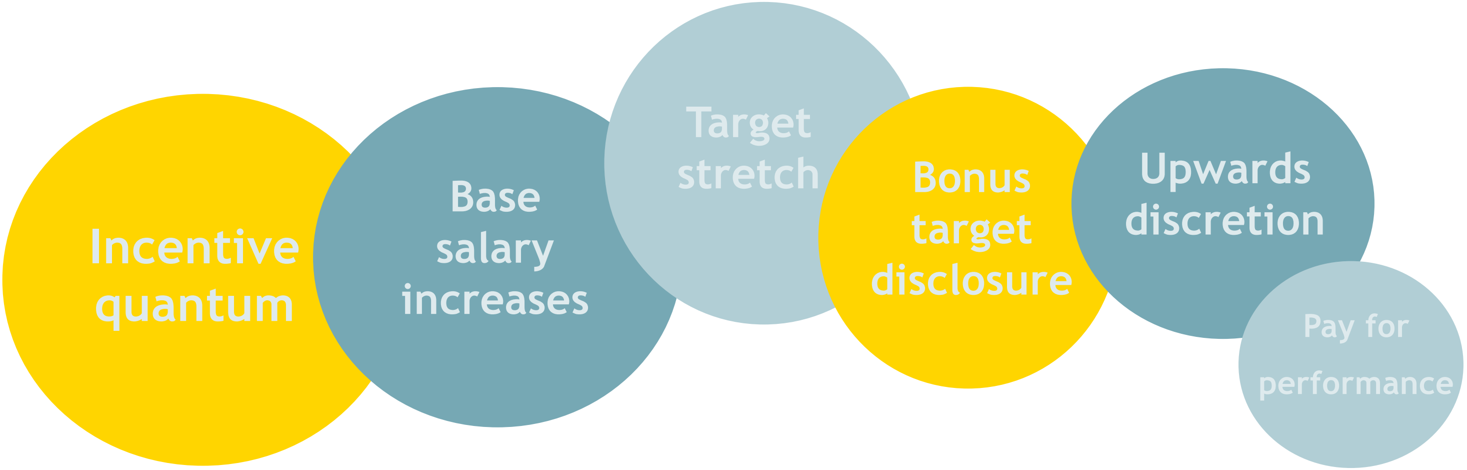
Median	CEO	Other Executive Directors
FTSE 100	300%	200%
FTSE 250	200%	200%

- The median shareholding requirement across the FTSE 100 and FTSE 250 has remained constant over the past few years
- There has been movement on a company-by-company basis in 2017 / 2018.
- Almost 20% of FTSE 100 companies and c. 15% of FTSE 250 companies increased their share ownership requirement – by c. 50% and 75% on average, respectively. We also saw one FTSE 100 company and four FTSE 250 companies reducing their share ownership requirement in 2017 / 2018.

Shareholder Reaction

SHAREHOLDER REACTION

Shareholder reaction remains focussed on issues raised in previous years



SHAREHOLDER REACTION

IA Register

The 2018 AGM season marks the first full season that the IA shareholder register has been in operation

Imapct

So far this season, there have been 18 FTSE 100 named on the register in connection with opposition to pay

Why?

Twice as many as this seen in 2017.

Why is this?

POLL 2

Do you think the IA register will impact/influence company decisions on pay?

1. Yes – we will avoid being named at all costs
2. No – the impact of being named and the disclosures that follow would appear to be manageable
3. Clearly, we should ideally avoid, but we will do the right thing first and foremost.

(Select one)

SHAREHOLDER REACTION

Policy

Company A

Consolidated base pay, benefits and pensions into fixed pay and increased quantum in the process

ISS rec. **Against**

Company B

Increased the quantum of both the annual bonus and long-term incentive award by 60% and 50% respectively

ISS rec. **Against**

Implementation report

Company C

New CEO recruited with a base salary in excess of a third higher than their predecessor

ISS rec. **Against**

Company D

Excessive ED salary increases; upwards annual bonus discretion; and poor bonus target disclosure

ISS rec. **Cont. For**

Company E

FD received excessive salary increase and an increased LTIP grant. Follows shareholder opposition to quantum in 2017

ISS rec. **Against**

Company F

Overall quantum of LTIP vesting exceptionally high due to uncapped LTIP plan, vesting was subsequently reduced

ISS rec. **Abstain**

What's next?

WHAT'S NEXT?

Traditional (albeit expanded) role

Executive remuneration

- Determine policy for director remuneration
- Set remuneration for the board and senior management

Discretion

- Exercise independent judgement and discretion when approving remuneration outcomes

Extended remit of Remuneration Committees

New role

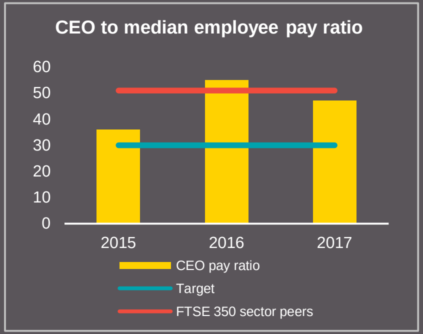
Oversight

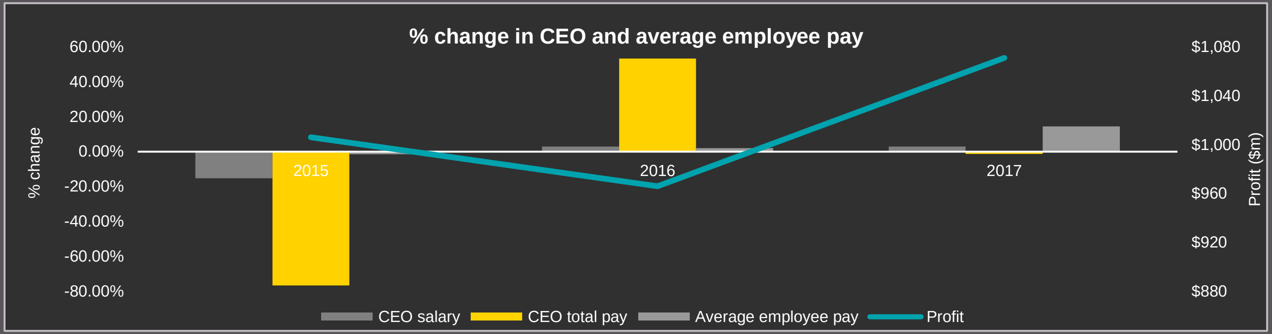
- Review workforce remuneration and related policies
- And the alignment of incentives and reward with culture
- Take into account when setting policy for director remuneration

Expanded disclosure

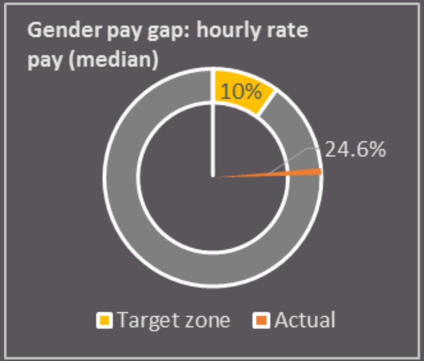
- Strategic rationale for policy
- Why remuneration is appropriate
- Engagement with the workforce

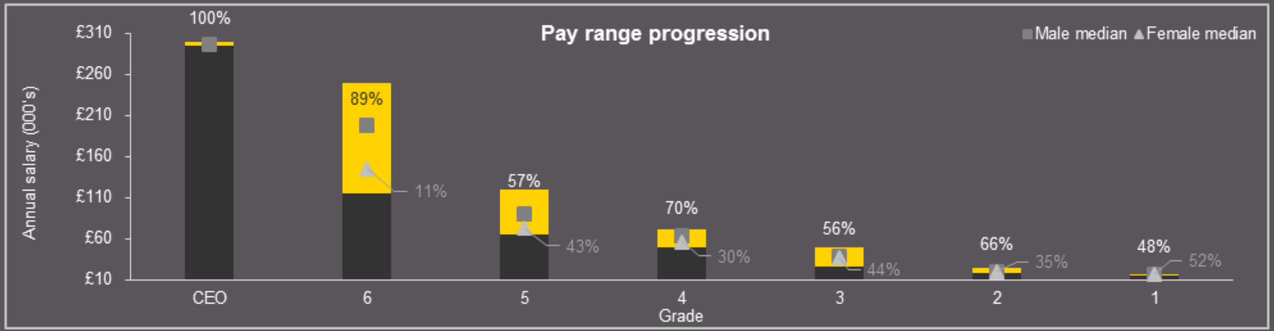
USING A PAY FAIRNESS DASHBOARD (1)?





USING A PAY FAIRNESS DASHBOARD (2)?





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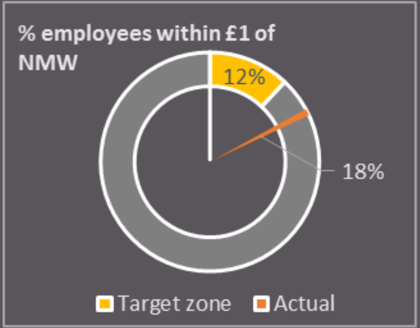
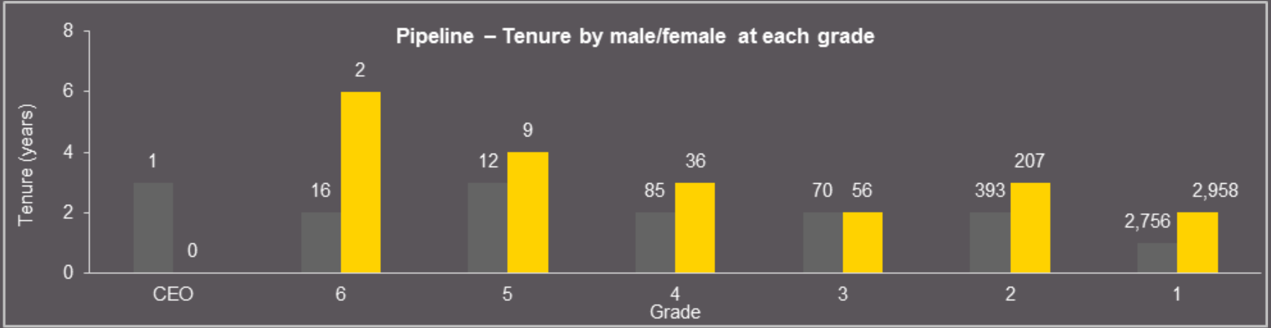




WHAT'S NEXT?

Pension alignment

Five year total vesting/holding periods

Remco Chair tenure

Policy for post employment share holding

Discretion to override formulaic outcomes

Culture, risk and behaviours

POLL 3

Are you proposing to disclose an indicative CEO pay ratio in your 2018 annual report and accounts?

1. Yes – working on it now
2. No – the regulations do not require us to
3. Don’t know – Remco has yet to decide

(Select one)

Pay Ratios

PAY RATIOS

For accounting periods beginning 1 January 2019, companies will be required to publish a CEO to UK employee pay ratio in their remuneration reports covering the 25th 50th (median) and 75th percentile employees.

Companies will be required to produce accompanying narrative on how the ratio is consistent with the company's wider policies on employee pay, reward and progression

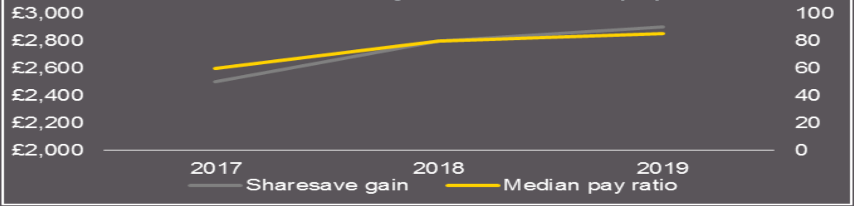
We expect many companies to go above and beyond minimum disclosure requirements by producing additional analysis and graphs to help contextualise the ratio

CONTEXTUALISING PAY RATIOS

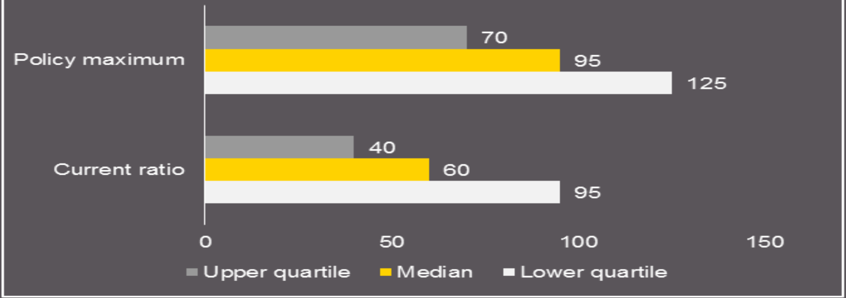
Pay ratios table as detailed in regulations *(minimum)*

Year	Method	25th	50th (median)	75th
2019	[A/B/C]	95:1	60:1	40:1

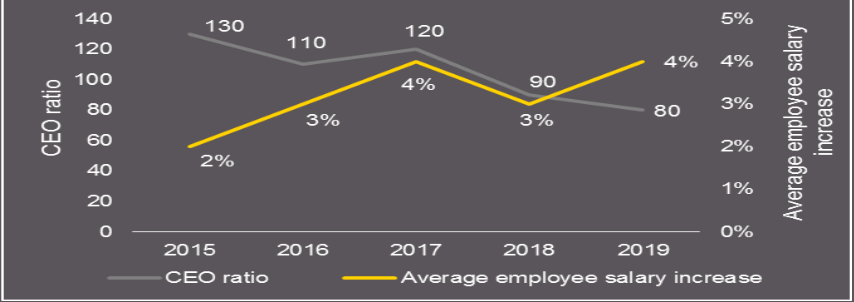
Indicative sharesave gain and median pay ratio



Comparing the current ratio against the policy max



Historical ratio and average employee salary increase



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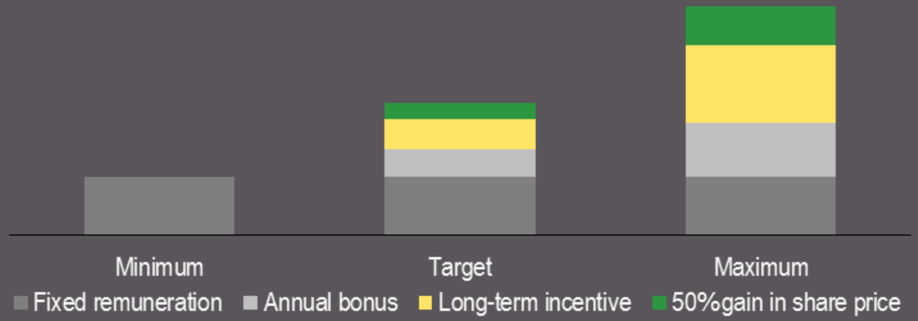
Share Price Performance

SHARE PRICE PERFORMANCE

Requirement (1)

Companies will be required to provide in the next new directors' remuneration policy, an indication of the maximum remuneration receivable to all Director's assuming company share price appreciation of 50% during the relevant performance period for pay elements with a performance period greater than a year.

One method to fulfil the requirements is to utilise the existing scenario charts with the addition of a 50% share price gain in both the target and maximum scenarios:



POLL 4

How often do you disclose performance/share price updates on your LTIPs to employees

1. Pre/on vesting only
2. Annually
3. Every six months
4. Employees may access in real time – on demand
5. Other!

(Select one)

SHARE PRICE PERFORMANCE

Requirement (2)

Companies will be required to include in the note to the single figure the amount that is attributable to share price appreciation and whether and how discretion has been exercised as a result of share price change. Any use of discretion to adjust incentive outcomes must now be stated in the Chair Statement

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Conclusion

CONCLUSION?

Conclusion (1)

FTSE 100 companies are continuing to focus on pay elements that are ‘shareholder friendly’ rather than implementing more radical changes - such as adopting restricted stock.

CONCLUSION?

Conclusion (2)

This approach is reflective of current public scrutiny and shareholder sentiment. The use of downward discretion and reduction in pension contributions by some companies demonstrates that some shareholder concerns are being heard.

CONCLUSION?

Conclusion (3)

It is evident that remuneration committees are beginning to pay genuine attention to pay of the wider workforce in reaching decisions on executive pay.

Some companies are making their commitment clear by considering the introduction of fair pay principles, aiming to drive a competitive advantage through pay transparency and trying to present a coherent message on pay across the organisation.

CONCLUSION?

Conclusion (4)

As the rules on CEO pay ratio disclosure take effect in the coming months we expect that fairness in reaching decisions on executive pay relative to the wider workforce will become increasingly important and companies will be expected to utilise a variety of disclosures and metrics to tell a compelling, and fair, pay story.

CONCLUSION?

Meaning?

This then becomes the **biggest influencer** impact on design, implementation, quantum and disclosure.


Thank you