

# Welcome

Managing your remuneration policy,  
report and shareholder vote

18 January 2017





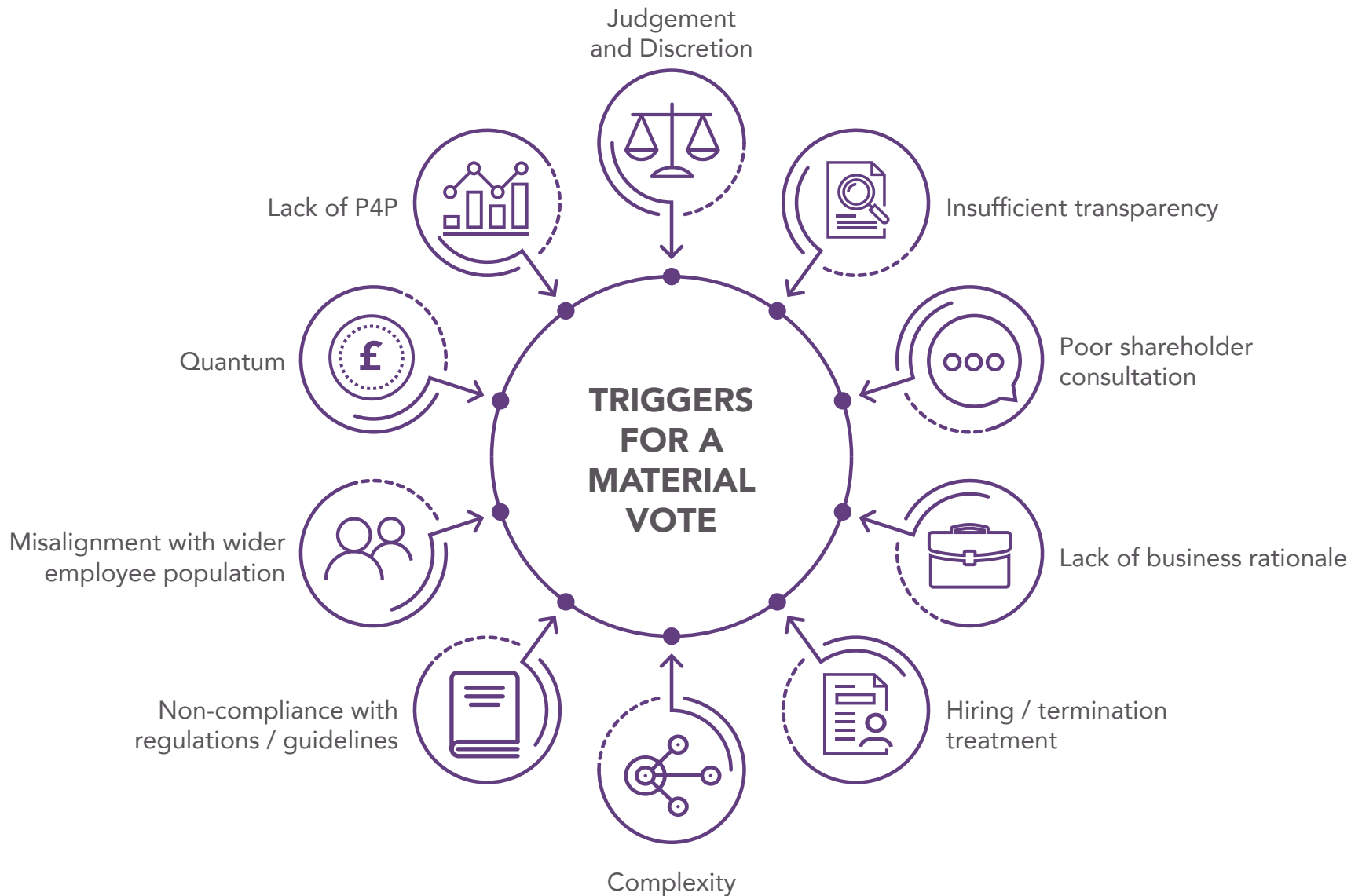
The background of the slide is a blurred night photograph of a city skyline. In the foreground, a bridge with a metal railing and a walkway is visible. Several people are walking across the bridge, their figures blurred due to motion. In the background, the city lights are visible, with a prominent domed building, likely St. Paul's Cathedral in London, standing out against the dark sky. The overall color palette is dominated by blues and purples from the night scene.

# Avoiding the pitfalls when revising your remuneration policy: investor expectations

John Pymm, Willis Towers Watson  
Equiniti Premier Breakfast Briefing

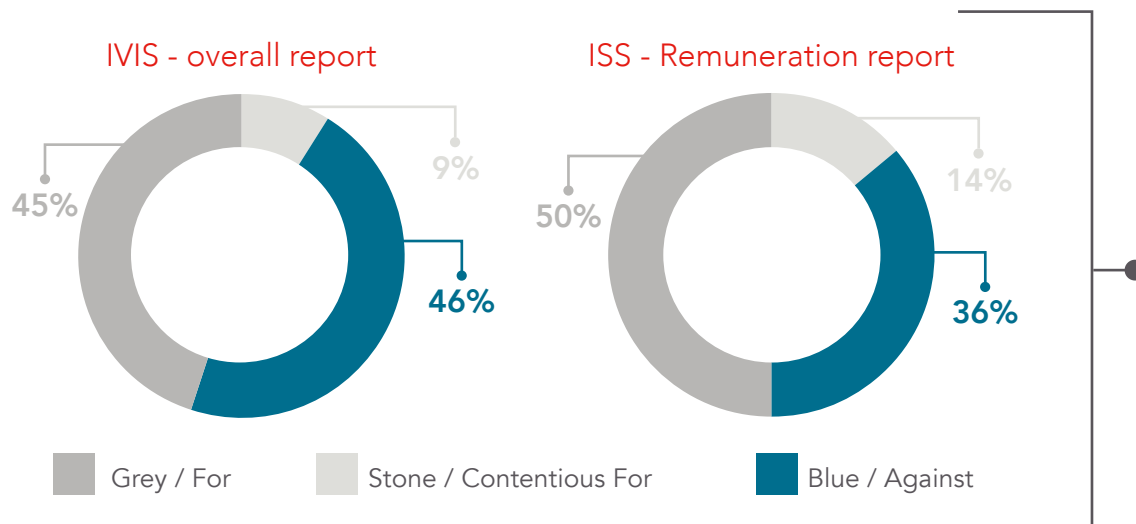
18 January 2017

# WHAT ARE THE MAIN TRIGGERS FOR A MATERIAL VOTE AGAINST?



## PUTTING THESE TRIGGERS INTO CONTEXT...

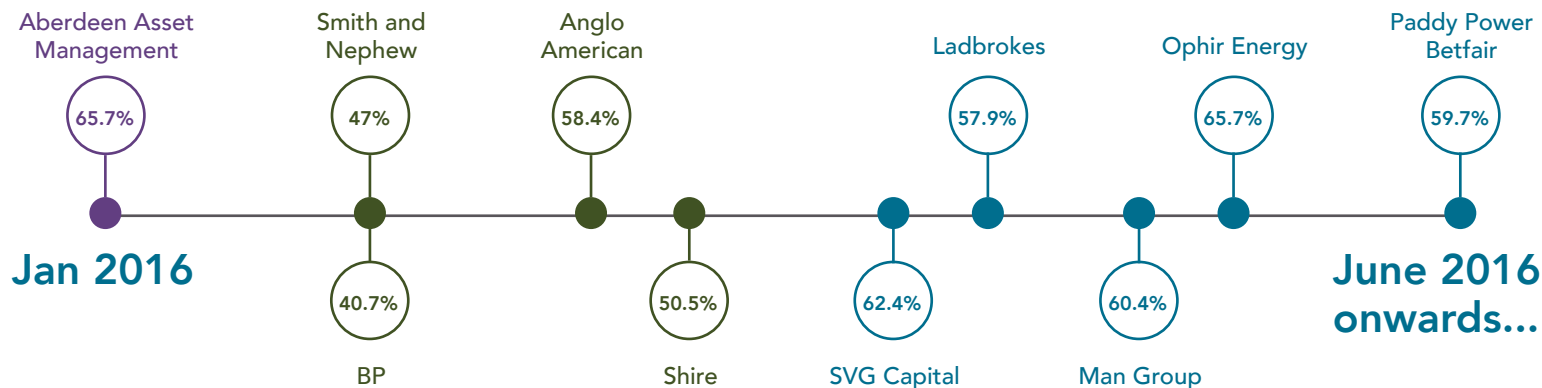
### Voting recommendations – 2016



### 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

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## 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'**



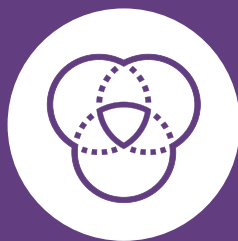
# HOW TO RESPOND IF YOU DO RECEIVE A MATERIAL VOTE AGAINST

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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

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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** 

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# 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

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## 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

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## 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

A low-angle, upward-looking photograph of several modern skyscrapers with glass facades. The buildings are reflected in each other, creating a complex geometric pattern of lines and shapes. The sky is visible at the top, and the overall color palette is dominated by blues, greys, and the warm tones of the glass reflections.

# Voting

Lisa Graham  
Equiniti Breakfast Briefing  
18 January 2017

# AGENDA



**01**

Remuneration

**02**

Vote amendments

## REMUNERATION REPORT

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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

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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

## Timing

Notice of meeting



2

## Complex Voting Chain



3

## Crest Voting



4

## Corporate Representatives

Chairman



5

## 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 man on the left wears glasses and a blue suit. A woman next to him is smiling and looking at a laptop. A man on the right, wearing a dark suit and an orange tie, looks directly at the camera. A woman's back is visible on the far right. On the table are a red thermal carafe, two white coffee cups, and some papers. The text "Any questions?" is overlaid in white in the center.

Any questions?

A wide-angle photograph of the London skyline at sunset. The River Thames flows through the center, with several boats visible. On the left, the Royal Opera House and the Shard are prominent. On the right, the Gherkin and other skyscrapers are visible. The sky is filled with soft, orange and pink clouds.

**EQUINITI**

**Thank you**