Sustainability & Rewards: Getting Started

7th October 2021
Agenda for today

Welcome and setting the scene: Laura Wadding, Partner – Risk Advisory, Deloitte
Scene setting – the mainstreaming of ESG and incorporating ESG under incentive plans rewards

ESG in reward: trends and design considerations: Anne Kelleher, Director – Tax & Legal, Deloitte and Rhys Thomas, Manager, Tax & Legal, Deloitte
What we have seen in the market and how to get there – design approaches and getting started.

ESG and governance: Melissa Scully, Director, Deloitte
Exploring the Board’s role in respect of ESG and key ESG topics on the Remuneration Committee agenda

Q&A session

Please enter your questions into the Q&A box
Welcome and setting the scene

Laura Wadding
Partner – Risk Advisory | Sustainability Leader
Deloitte
ESG in reward - trends and design considerations

Anne Kelleher
Director – Tax & Legal
Deloitte

Rhys Thomas
Manager – Tax & Legal,
Deloitte
Agenda

1. What does ESG mean in a Reward Context?
2. Current trends in ESG
3. What are the Proxy Advisers saying about ESG?
4. ESG in Incentive Plans
What does ESG mean in a Reward Context?
Questions for Organisations to ask themselves

Workforce and communications
- Eligible populations – broad-based or senior management only?
- Line of sight and signifying priorities of business

Setting robust and quantifiable targets
- Disclosure of metrics – bonus v LTIP
- Target versus maximum range
- Verification / assurance of out-turns?

Quantum?
- Level of opportunity?
- Is the RemCo comfortable paying £ amount for achievement of targets, irrespective of financial performance?
  Additive versus modifier?

Timeframe for assessment?
- Progress assessment after one year, three years? Or a different timeframe e.g. five years, separate incentive plan?

Which metric – link to strategy
- KPIs and key strategic measures
- External goals and commitments made?
- Reported/audited metrics?

Single metric or basket of measures?
- Clear single metric/KPI versus scorecard – ‘single goal’ with clear message versus more holistic assessment?
MentiMeter poll Question

Has your organisation introduced ESG metrics into your organisation’s Executive Remuneration?

- We have
- We intend to
- We have not

Please note all responses are anonymous
### Current Trends in ESG

The hot topic items

<table>
<thead>
<tr>
<th>Climate Change: Net Zero</th>
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<tbody>
<tr>
<td>Climate change will be a dominant theme, as governments across the globe introduce more climate-related regulations.</td>
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<table>
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<tr>
<th>ESG Disclosures</th>
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<td>Disclosures on ESG factors will become standardized and widespread by the end of the decade. Pressure from investors will serve as a major catalyst for change.</td>
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<table>
<thead>
<tr>
<th>Diversity &amp; Inclusion</th>
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<tr>
<td>In addition to boardroom diversity, the focus for companies and investors will shift toward diversity across the organization, to include the general workforce. Policies on equal pay, equal opportunity and corporate culture will also come under more intense scrutiny.</td>
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<tr>
<th>Executive Remuneration</th>
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<tr>
<td>Expect companies to re-design their rewards programme in order to achieve sustainable performance. This includes giving fair rewards as well as providing talent-nurturing programmes.</td>
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**Current Trends in ESG**
What is happening in the market?

**Linking Climate Change Metrics to executive pay**

Ryanair will include metrics within its Long Term Incentive Plan which incentivises its ESG goals of reducing CO2 per passenger / km over the coming years. The metric will have a 20% weighting on the overall award and will depend on Ryanair Group’s CDP environmental protection score improving over the 3-year vesting period.

**Element of bonus linked to sector specific metric (e.g. 10% weighting)**

A responsible gambling measure has been included for the current performance year. Flutter notes this is critical to the sustainability of their organisation and the wider industry. Measured by a reduction in revenue from customers who are defined as “at risk”

**There are three purpose pillars in which ESG targets are set and linked to executive pay:**

Within Inclusion for all, Vodafone have set a target to have 40% of women in management and senior leadership positions by 2030. Within Planet, Vodafone have set a target of reaching “net zero” emissions across their full value chain by 2040. Within Digital Society, Vodafone aims to support the digitalization of healthcare to help those unable to go to a hospital.

**Linking Climate Change Metrics to executive pay**

Kingspan have introduced an additional ESG metric into their Performance Share Plan, the metric is based on their Planet Passionate sustainability strategy to reduce the company’s environmental impact. The weighting of the metric will be 10% against the total award.
What are the Proxy Advisers Saying About ESG?
ISS and Glass Lewis

ISS

In February of 2018, ISS launched an Environmental & Social Quality Score which they describe as “a data-driven approach to measuring the quality of corporate disclosures on environmental and social issues, including sustainability governance and to identify key disclosure omissions.”

Glass Lewis

Glass Lewis uses data and ratings from Sustainalytics, a provider of ESG research, in the ESG Profile section of their standard Proxy Paper reports for large cap companies or “in instances where they identify material oversight issues.” Their stated goal is to provide summary data and insights that can be used by Glass Lewis clients as part of their investment decision-making. ISS and Glass Lewis guidelines can help provide a basic structure for starting board conversations about ESG.
MentiMeter poll Question

For organisations who have considered introducing ESG metrics into their incentive plans, have they been introduced into:

• Annual bonus
• Long term incentive
• Both

Please note all responses are anonymous.
What are the Proxy Advisers Saying About ESG?
Trends and proxy environment in Ireland and further afield

**Ireland***

Based on 24 Irish PLCs, **46%** have included ESG metrics in their incentive plans. Measures are more commonly found within the annual incentive.

**ESG and incentive plans**
(% of companies using ESG metrics)

<table>
<thead>
<tr>
<th></th>
<th>Annual</th>
<th>LTIP</th>
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<tbody>
<tr>
<td>FTSE 100</td>
<td>43%</td>
<td></td>
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<tr>
<td>FTSE 250</td>
<td>25%</td>
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</tbody>
</table>

**Breakdown of ESG measures in the annual bonus**

- Environmental: 73%
- Social: 27%
- Governance: 0%

**Breakdown of ESG measures in the LTIP**

- Environmental: 73%
- Social: 0%
- Governance: 0%

**Europe**

- c. **70%** of the largest European companies include ESG within their incentives, an increase from last year.
- Social metrics are most common but there have been larger increases in Environmental and Governance.

ESG metrics are more common within short term incentive plans compared to Long-term incentives. Measures are most common in the Consumer, Energy and Financial Services (typically banking) sectors.

*Based on 24 companies with March 2020 – March 2021 year ends

**UK**

- **Annual bonus plans**
  - FTSE 100: 40%
  - FTSE 250: 35%

- **Long-term incentive plans**
  - FTSE 100: 12%
  - FTSE 250: 8%

**Annual bonus – ESG metrics**

- Health and safety: 40%
- Climate/environment: 23%
- ESG ratings/ESG strategy: 7%
- Societal (e.g. diversity, community impact): 7%
- Governance and risk: 33%

**LTIP – ESG metrics**

- Climate/environment: 42%
- Societal (e.g. digital impact, diversity): 33%
- Governance and risk: 13%
- Other/not disclosed: 13%

Based on 24 Irish PLCs, **46%** have included ESG metrics in their incentive plans. Measures are more commonly found within the annual incentive.

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**ESG in Incentive Plans**

**Key Considerations**

**Environmental**
- CO2 emissions – scope 1 & 2
  - Carbon intensity
  - Water efficiency
  - Vehicle fuel efficiency
- ‘Green’ financing
  - Plastic use
  - Recycling rate
  - Flight emissions
- Hazardous waste
  - Renewable energy consumption
- CDP rating

✓ Emerging as the primary focus of investor groups (e.g. ShareAction)
✓ More common in LTIP
✓ Often stand-alone metrics
✓ Potential use of reporting standards (e.g. TCFD)

**Social**
- Digital education
  - Women in leadership
  - Community outreach
  - Fair tax policy
- Accident / incident rate
  - Real living wage
  - Digital connections
- Responsible supplier policy
  - Responsible gambling
  - Ethnic diversity
- Employment for under-represented groups

✓ Increasing focus post COVID-19
✓ Emergence in annual bonus and LTIP scorecards
✓ Internal and external metrics? E.g. D&I versus societal / community programmes

**Governance**
- Cyber/ data security
  - Regulatory relationships
  - Risk management strategy
- Culture and engagement
  - Conduct and complaints
  - Internal controls
- Financial crime
  - Crisis management

✓ Commonly part of FS scorecard in annual bonus
✓ Focus on risk frameworks, health and safety – part of ‘day job’?
✓ Individual or collective targets

**Underpin**
- Inclusion of specific ESG-related underpin metric before some or all incentive element can pay out

**‘Modifier’**
- e.g. Apple
  - ESG modifier applied to incentive out-turn
    - e.g. +/- 10%

**Basket or scorecard**
- e.g. 4-5 ESG-related KPIs assessed as part of scorecard

**Stand-alone metric**
- Single ‘material’ KPI identified and linked to stand-alone incentive element (typically 10-20% weighting)

**Stand-alone incentive plan?**
- Separate incentive plan linked to ESG goals and aligned to timeframe
ESG in Incentive Plans
Growing focus on climate change

How are Remuneration Committees considering climate?

- Aligning financial and strategic priorities on ESG
- Integrate sustainability into core board responsibilities
- Set tone from the top
- Set external goals
- Executive accountability – link pay to wider stakeholder experience
- Link to executive incentive plans

Stakeholder sentiment
Investor guidance on incentive plans
Reputational risk / shareholder voting

Former VW boss Martin Winterkorn pays out €11m over dieselgate emissions scandal, June 2020
Apple links executive pay to performance against ESG targets January 2021
Mark Carney says banks should link executive pay to Paris climate goals October 2020

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Gender Pay Gap (GPG) Information Act 2021 will require organisations with 250 or more employees to publish pay differences between female and male employees.

We’ve seen examples of organisations, such as SSE plc in the UK, incorporating Gender Pay Gap specific metrics into their incentive plans. Typically, this would involve the achievement of lowering the organisation’s gender pay gap and achievement of DEI strategy.

**Initial Steps**

- Gather all relevant data and conduct the Gender Pay Gap calculations utilising Deloitte’s consultancy expertise and Gender Pay Gap tools.
- Review your organisation’s readiness to report.

**Who is this for?**
- Organisations of any size who have not yet conducted any gender pay gap analysis.

**Assurance**

- Review the methods employed by your organisation to measure its Gender Pay Gap to ensure compliance with the Irish Gender Pay Regulations.
- Review any compliance gaps and risks.
- Review your organisation’s readiness to report.

**Who is this for?**
- Organisations of any size who have undertaken the calculations of their Gender Pay Gap and are now looking to develop their future Gender Pay strategy.
- Organisations who need support in forming their supporting narrative.

**Gender Pay and Equal Pay Strategies**

- Analyse the drivers of your organisation’s Gender Pay Gap.
- Supporting in forming your Gender Pay strategy.
- Assistance with forming your organisation’s supporting narrative.

**Who is this for?**
- Organisations of any size who have undertaken the calculation of their Gender Pay Gap and are now looking to develop their future Gender Pay strategy.
- Organisations who need support in forming their supporting narrative.

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ESG and governance

Melissa Scully
Director – Risk Advisory
Deloitte
## The Board’s role in ESG

Understanding where the Board can add value

<table>
<thead>
<tr>
<th>1. Stewardship</th>
<th>2. Supervise</th>
<th>3. Accountability</th>
</tr>
</thead>
<tbody>
<tr>
<td>• Provides strategic leadership to ensure that the <strong>purpose</strong> is clear</td>
<td>• Ensures it is properly <strong>informed</strong> on ESG matters in a timely fashion</td>
<td>• Engages <strong>proactively</strong> and <strong>meaningfully</strong> with owners and stakeholders on key ESG topics</td>
</tr>
<tr>
<td>• Ensures that ESG is <strong>integrated</strong> into the overall strategy</td>
<td>• Seeks <strong>assurance</strong> from management</td>
<td>• Openly and clearly <strong>explains</strong> the direction, performance and conduct of the organisation</td>
</tr>
<tr>
<td>• Defines and visibly role models the <strong>values</strong> of the organisation</td>
<td>• Holds management to <strong>account</strong></td>
<td>• Openly and clearly explains the <strong>impact</strong> of the board and the effectiveness of its governance arrangements</td>
</tr>
<tr>
<td>• Proactively develops its <strong>culture</strong></td>
<td>• <strong>Monitors</strong> performance against ESG targets and compliance</td>
<td>• Focuses on the impact they are having and <strong>ESG outcomes</strong></td>
</tr>
<tr>
<td>• Supports initiatives to further <strong>long term sustainability</strong></td>
<td>• Oversees the <strong>risk framework</strong> and major risks, ensuring that ESG is <strong>embedded holistically</strong></td>
<td></td>
</tr>
<tr>
<td>• Helps to develop effective <strong>governance</strong> arrangements, including an <strong>ESG policy or framework</strong></td>
<td>• Ensures governance arrangements are <strong>effective</strong> and adhered to</td>
<td></td>
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</tbody>
</table>
Remuneration Committee perspectives
Areas to focus on in respect of ESG/reward

- Wider workforce
- Policies
- Context
- Internal processes
- Materiality
- Culture
- CEO performance evaluation
Key issues for the Board and Remuneration Committee

Current challenges to navigate

- Articulating a clear rationale that aligns to purpose
- Linking ESG (and reward) to overall strategy
- Setting clear and measurable ‘stretching’ targets
- Determining appropriate non-financial criteria
- Providing sufficient disclosure for stakeholders
- Setting measurable ‘stretching’ targets
Key issues for the Board and Remuneration Committee
Examples to consider (1/2)

**Anglo American Plc**

**THE PURPOSE TO REWARD JOURNEY**

Our strategy is to source, develop and operate a portfolio of high-quality and long-life assets, from which we will deliver sustainable shareholder returns. We achieve this through innovative technologies and processes in the hands of our people.

**OUR STRATEGIC ELEMENTS**

1. Portfolio
   - The quality and scale of our mineral assets are the foundation of our industry leadership. We are investing in a continually evolving portfolio that uses the most efficient and responsible assets, supported by sustainable outcomes.

2. People
   - Our people are critical to all we do. The performance we need and are seeking are from our people, ensuring we deliver sustainable performance.

3. Innovation
   - Cross-functional inputs into our businesses are an innovation-led culture, where we are fostering a culture of innovation.

4. Capital allocation
   - Understanding our strategy, we have a clear plan to deliver sustainable performance, with a clear approach to balance capital allocation towards capital, liquidity, production, growth, and cost.

**THE FUTURE ENVIRONMENT**

Anglo American’s Material Issues Framework is designed to encourage consideration of the significant material issues that are most important to our stakeholders.

**OUR BUSINESS MODEL**

Anglo American’s business model is designed to deliver sustainable returns to shareholders, with a focus on sustainable performance.

**SURE-FIRE RESULTS**

- Sustainable growth
- Operational excellence
- Strong balance sheet
- Innovative technologies

**MEASURING DELIVERY OF OUR STRATEGY**

We track our strategy progress against key performance indicators (KPIs) that are based on our seven pillars of value:

1. Safety and health
2. Environment
3. Water
4. Society
5. Financial
6. People
7. Innovation

**BALANCED REWARD**

Anglo American’s executive remuneration policy is designed to encourage delivery of the Group’s strategy and is consistent with balanced value creation.

**SUSTAINABLE RISK MANAGEMENT**

- Sustainable discipline
- Enhanced financial and operational performance
- Strong balance sheet
- Innovative technologies

**SUSTAINABLE SHAREholder RETURN**

We aim to deliver sustainable returns to shareholders, with a focus on sustainable performance.

**Annual Results**

- 20% in share price improvement through sustainability and responsible performance
- 15% in safety and health and environmental (ESE) measures
- 15% in social performance
- 15% in sustainability

**HOW WE OPERATE**

- Our strategy is to source, develop and operate a portfolio of high-quality and long-life assets, from which we will deliver sustainable shareholder returns.

**CAPITAL ALLOCATION**

- Our strategy is to source, develop and operate a portfolio of high-quality and long-life assets, from which we will deliver sustainable shareholder returns.

**ANGLO AMERICAN PLC**

- Our strategy is to source, develop and operate a portfolio of high-quality and long-life assets, from which we will deliver sustainable shareholder returns.

**PRESENTATION TITLE**

- Our strategy is to source, develop and operate a portfolio of high-quality and long-life assets, from which we will deliver sustainable shareholder returns.

**OUR PURPOSE**

- Our purpose is to source, develop and operate a portfolio of high-quality and long-life assets, from which we will deliver sustainable shareholder returns.

**OUR STRATEGIC ELEMENTS**

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**MEASURING DELIVERY OF OUR STRATEGY**

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**BALANCED REWARD**

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**SUSTAINABLE SHAREholder RETURN**

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## Key issues for the Board and Remuneration Committee

Examples to consider (1/2)

### OneSavings Bank plc

#### 2019 performance against the Business Balanced Scorecard

<table>
<thead>
<tr>
<th>Category</th>
<th>Key performance indicator</th>
<th>Targets¹</th>
<th></th>
<th></th>
<th></th>
<th></th>
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<th></th>
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</thead>
<tbody>
<tr>
<td>Financial (50%)</td>
<td>Underlying PBT</td>
<td>£192.9m</td>
<td>£196.9m</td>
<td>£204.9m</td>
<td>£199.1m</td>
<td>33.44%</td>
<td>33.44%</td>
<td></td>
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<tr>
<td></td>
<td>All-In ROE</td>
<td>21.4%</td>
<td>22.4%</td>
<td>24.4%</td>
<td>23.2%</td>
<td></td>
<td></td>
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<tr>
<td></td>
<td>Cost to income ratio</td>
<td>31.0%</td>
<td>30.0%</td>
<td>28.0%</td>
<td>30.4%</td>
<td></td>
<td></td>
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<tr>
<td></td>
<td>Net loan book growth</td>
<td>16.2%</td>
<td>17.2%</td>
<td>19.2%</td>
<td>20.1%</td>
<td></td>
<td></td>
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<tr>
<td>Customer (15%)</td>
<td>Customer satisfaction</td>
<td>45</td>
<td>50</td>
<td>60</td>
<td>67</td>
<td>11%</td>
<td>11%</td>
<td></td>
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<tr>
<td></td>
<td>Broker satisfaction</td>
<td>27.5</td>
<td>30</td>
<td>35</td>
<td>26.6</td>
<td></td>
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<tr>
<td></td>
<td>Complaints</td>
<td>0.8%</td>
<td>0.5%</td>
<td>0.1%</td>
<td>0.1%</td>
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<tr>
<td>Quality (15%)</td>
<td>Overdue actions</td>
<td>3</td>
<td>2</td>
<td>0</td>
<td>1</td>
<td>11.45%</td>
<td>11.45%</td>
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<td></td>
<td>Arrears</td>
<td>1.25%</td>
<td>1.0%</td>
<td>0.5%</td>
<td>0.96%</td>
<td></td>
<td></td>
<td></td>
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<tr>
<td></td>
<td>High-severity incidents</td>
<td>4</td>
<td>3</td>
<td>1</td>
<td>0</td>
<td></td>
<td></td>
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<tr>
<td>Staff (10%)</td>
<td>Diversity²</td>
<td>27.0%</td>
<td>28.0%</td>
<td>30.0%</td>
<td>30.9%</td>
<td>10%</td>
<td>10%</td>
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<td></td>
<td>Employee engagement³</td>
<td>3</td>
<td>4</td>
<td>6</td>
<td>7</td>
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<tr>
<td>Personal (10%)</td>
<td>Vary by executive – see section below</td>
<td></td>
<td></td>
<td></td>
<td></td>
<td>10%</td>
<td>10%</td>
<td></td>
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<tr>
<td>Total</td>
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<td></td>
<td>75.89%</td>
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</table>

1. Targets – based on a sliding scale between threshold, target and maximum.
2. Diversity – based on the gender diversity of the senior leadership team.
3. Employee engagement – the employee engagement score represents the number of categories which showed improvement versus the prior year.
Practical steps
Guidance to think about going forward

Refresh your Terms of Reference
Ensure that your Board and Committee Terms of Reference reflect their emerging responsibilities in respect of ESG matters and these have been mapped into your forward plans.

Engage appropriately
This expanded role will affect what is reported to (the Board), employees, shareholders and the public. There needs to be a clear understanding of key stakeholders and plans to engage with them.

Continuously monitor
Receive regular updates and carve out time in the agenda to allow enable review of tracking against agreed targets. Ensure you have the right information and insights to make informed decisions.

Training and development
Keeping up to date on technical matters, ESG developments. Understanding trends, competitor areas of focus and the market response.
Q&A

Please submit your questions into the Q&A box
Thank you for attending
Webinar recording and slides will be shared with all attendees in the coming days