



## Remuneration Committee update

### 2023 AGM season – early snapshot (September year ends)

As we look ahead to the forthcoming 2023 AGM season, we are sharing an early snapshot of remuneration trends based on the following data sources:

- Disclosures from over two-thirds of September year end companies who have published their Annual Report to date (4 FTSE 100 (all) and 11 FTSE 250 companies)\*.
- Recent polling results, based on over 200 attendees on our recent December 2022 Remuneration Committee update webinar.

## Key takeaways

1

### Executive salary increases typically set below average workforce rate

- Based on September year ends published to date, all FTSE 100 CEO and CFO increases are set below the average workforce rate. FTSE 100 CEO and CFO salary increase range of 3% - 4.8%.
- All FTSE 250 CEO increases set below average workforce rate, excluding one-off exceptional increases. FTSE 250 CEO and CFO salary increase range of 3% - 6%.
- For December year ends, recent polling suggests that most companies are considering CEO salary increases of c. 3% - 5%, which is lower than increases estimated for the wider workforce.

2

### Continue to see strong annual bonus out-turns, in line with pre-pandemic levels

- For the 2022 CEO annual bonus out-turn, quartile range of 66% to 96% of maximum in September year ends to date (median 84%), compared to a median of 67% of maximum for the prior year bonus in this sample.
- Based on polling results, expected median bonus out-turn for December year ends in the range of 61-80% of maximum, in line with typical pre-pandemic levels. This appears to be lower than bonus outcomes last year, when the median bonus outcome in the FTSE 100 rose to 88% of maximum.

3

### Lower levels of long-term incentive vesting to date

- Lower long-term incentive vesting levels in the four FTSE 100 companies (range of 0% - 20% of maximum). More varied out-turns in FTSE 250 companies.
- For December year ends (where relevant), under one third expect to adjust for windfall gains in respect of grants made in 2020.

4

### Six companies putting new Remuneration Policy to vote, with some increases to incentive opportunity

- One FTSE 100 company introduced a new restricted share plan. Three FTSE 250 companies are increasing incentive opportunities (two companies in the range of 50% - 100% of salary) under the new Policy.

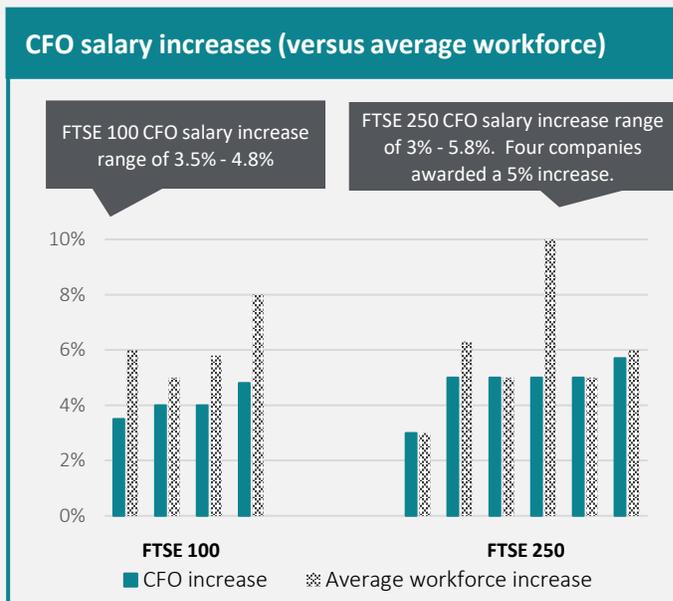
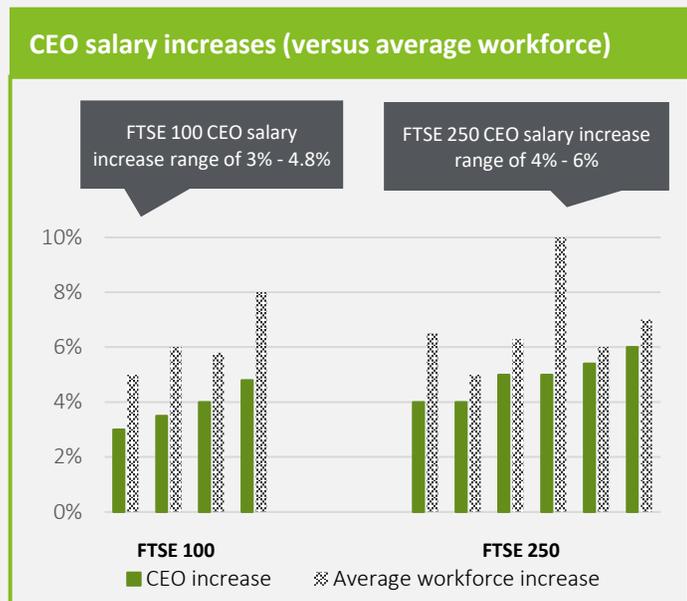
5

### Continued introduction of ESG metrics with focus on climate

- c.80% of the sample have ESG metrics in incentive plans (including all FTSE 100 companies). Four companies in the sample introduced new ESG metrics for 2023, with a continued focus on carbon emissions reduction.

# 1 Salary increases (executive directors)

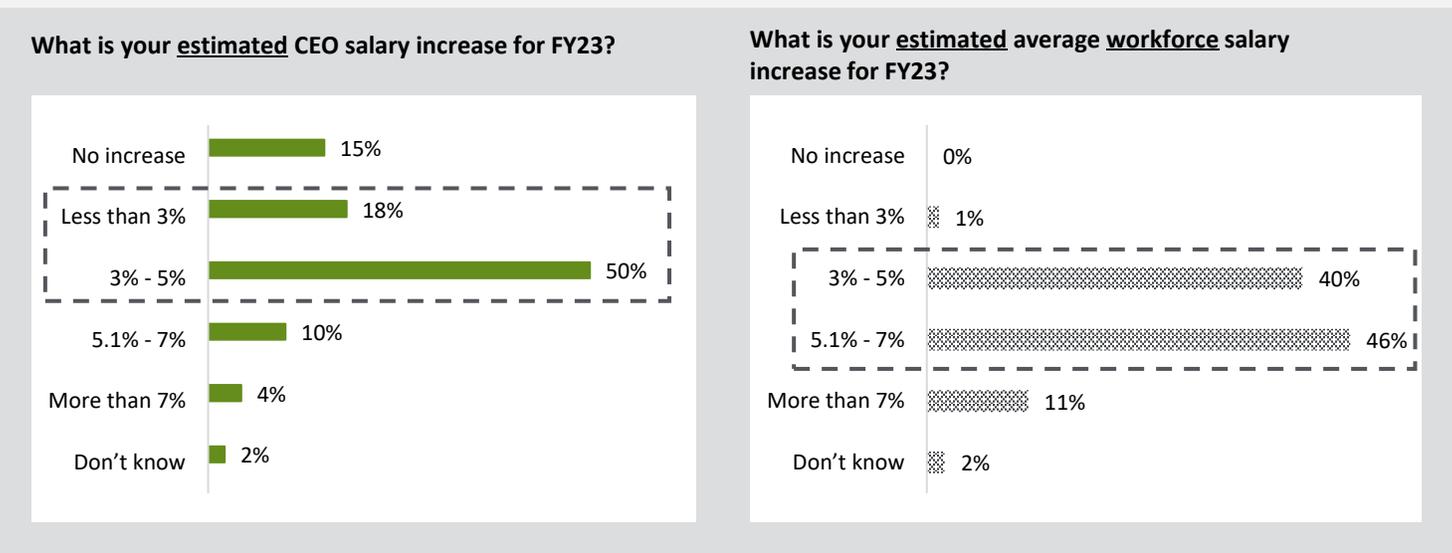
September year ends to date



\* **Note:** Sample above excludes one-off exceptional or 'glidepath' increases, and new appointments in the year.

- All FTSE 100 CEO and CFO increases set below average workforce range. FTSE 100 CEO and CFO salary increase range of 3% - 4.8%.
- All FTSE 250 CEO increases set below average workforce rate, excluding one-off exceptional increases. FTSE 250 CEO and CFO salary increase range of 4% - 6%.
- Recent polling suggests that most companies are considering CEO salary increases of c. 3% - 5%, which is lower than increases estimated for the wider workforce (see below).

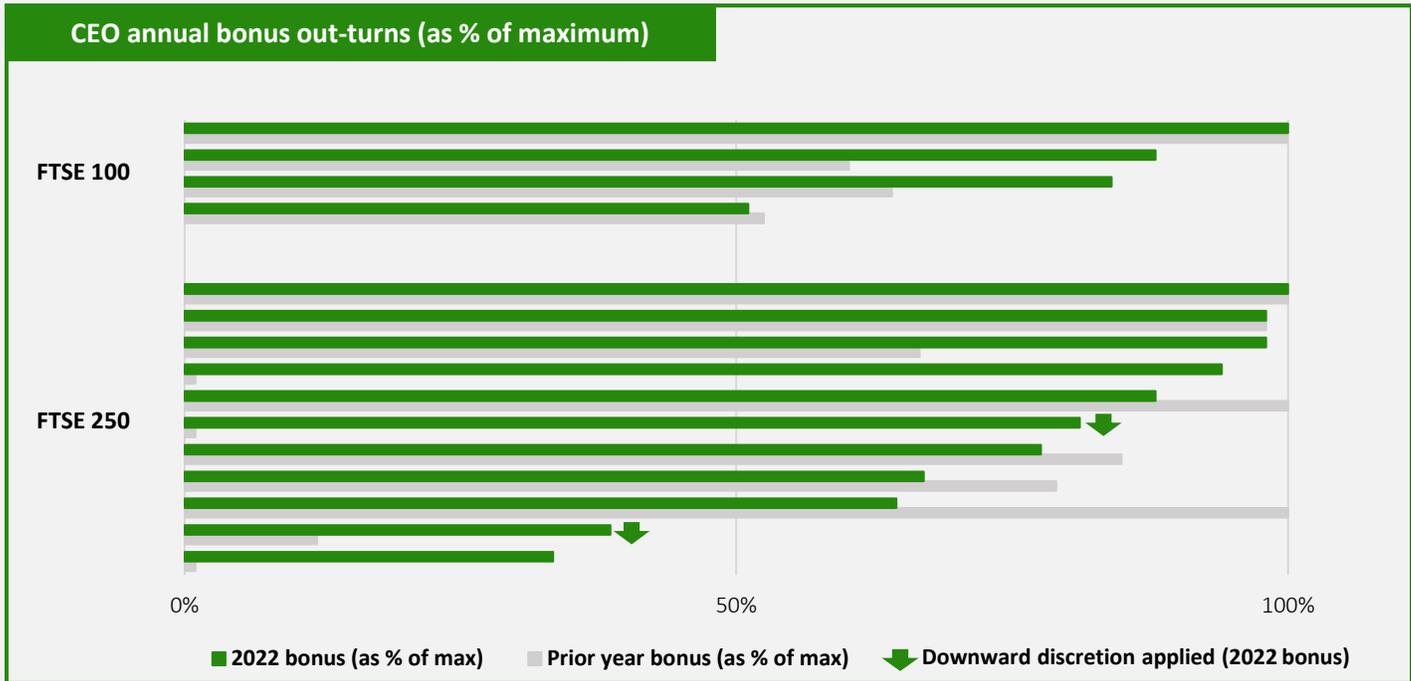
**Polling results** (> 200 attendees on December 2022 Remuneration Committee update webinar)



"...Annual increases in salary are expected to be low and ideally lower proportionally than general increases across the broader workforce." **ISS 2023 Policy Guidelines for UK and Ireland**

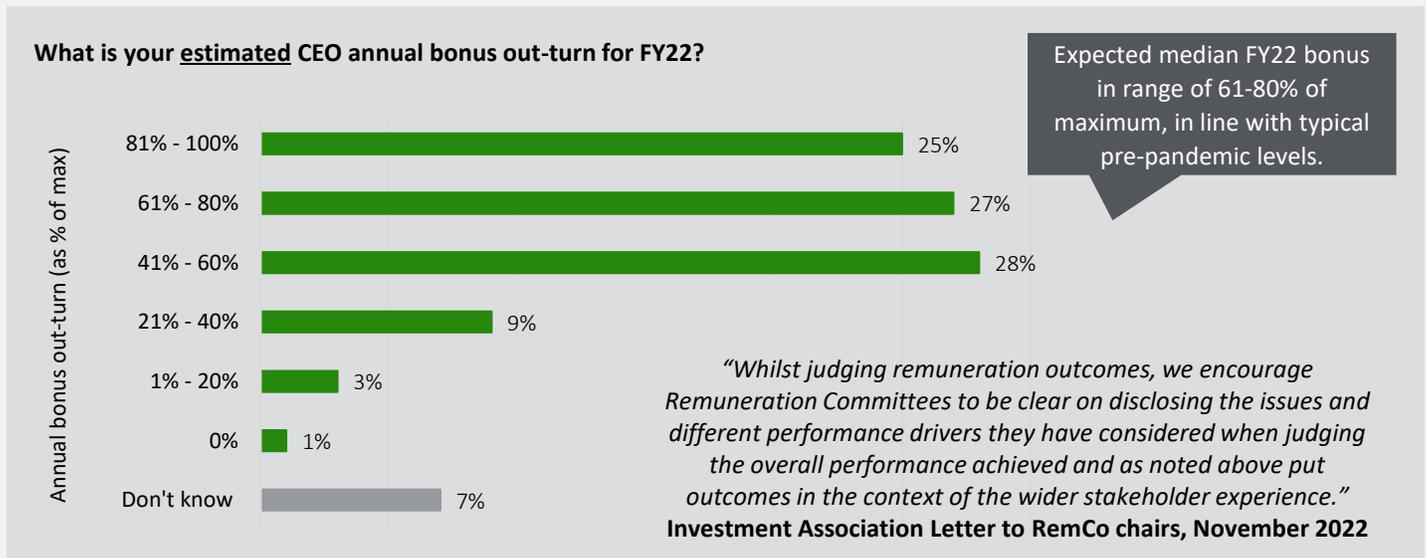
## 2 Annual bonus out-turns

September year ends to date



- For the 2022 CEO annual bonus out-turn, quartile range of **66% to 96% of maximum in September year ends to date (median 84%)**, compared to a median of 67% of maximum for the prior year bonus.
- Two companies exercised downward discretion to adjust bonuses to take account of the wider stakeholder experience. One company adjusted profit targets part way through the year in light of the Omicron virus, inflation and energy costs, with the bonus opportunity reduced on pro-rata basis to reflect a shortened performance period.
- Based on polling results, expected median bonus out-turn for December year ends in the range of 61-80% of maximum, in line with typical pre-pandemic levels. This appears to be lower than bonus outcomes last year, when the median bonus outcome in the FTSE 100 rose to 88% of maximum.

**Polling results (> 200 attendees on December 2022 Remuneration Committee update webinar)**

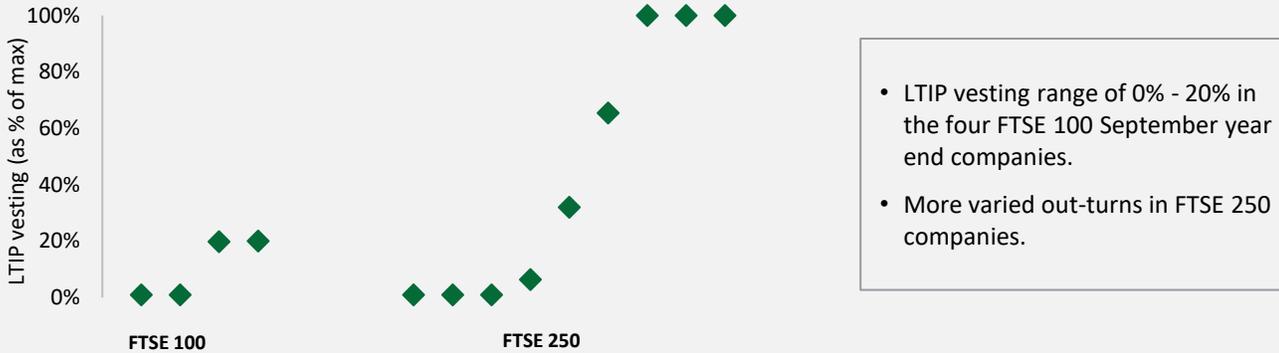


# 3

## Long-term incentive awards - vesting

September year ends to date

### Long-term incentive awards vesting



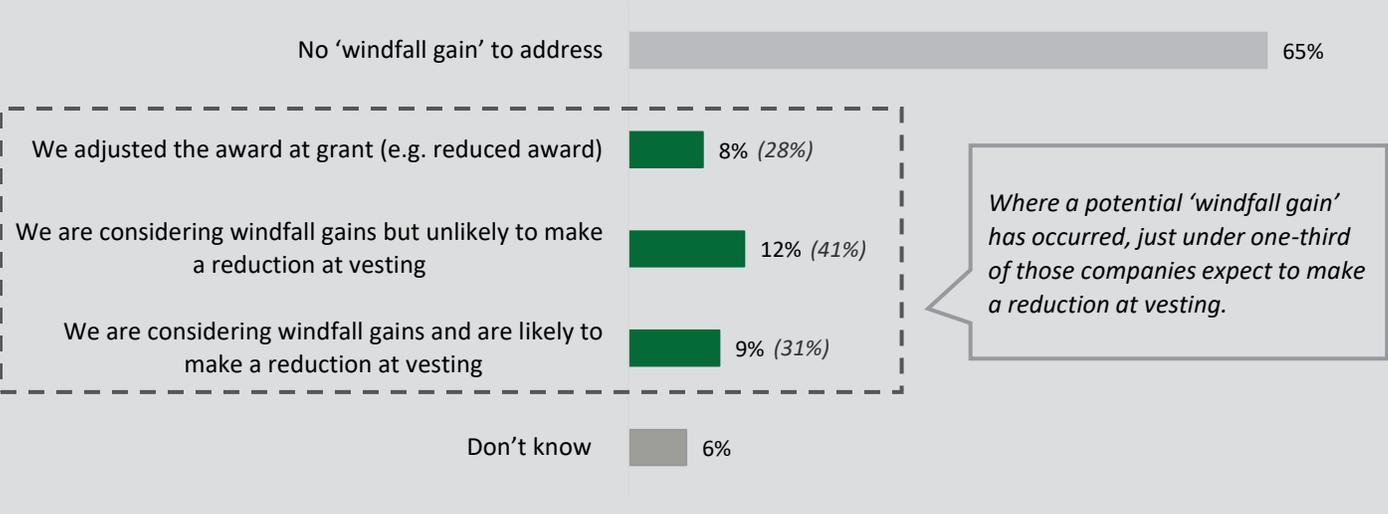
- LTIP vesting range of 0% - 20% in the four FTSE 100 September year end companies.
- More varied out-turns in FTSE 250 companies.

### Considering windfall gains?

- Many December year end companies granted LTI awards in March to May 2020, very close to the ‘trough’ of the pandemic market volatility, making commitments to review the out-turn at the end of the performance period and assess whether a windfall gain occurred. In a recent letter to RemCo chairs, the Investment Association highlighted that *“Committees should clearly articulate to shareholders how they have considered the impact of any potential windfall gains when determining vesting outcomes and why any reduction is appropriate. If the Committee has decided not to adjust for windfall gains it should explain and disclose its rationale for doing so.”*
- This is expected to have impacted c.one-third of LTI awards granted by December year end companies (see below).

### Polling results (> 200 attendees on December 2022 Remuneration Committee update webinar)

#### What best describes your position on ‘windfall gains’ in relation to LTIP awards granted in 2020?



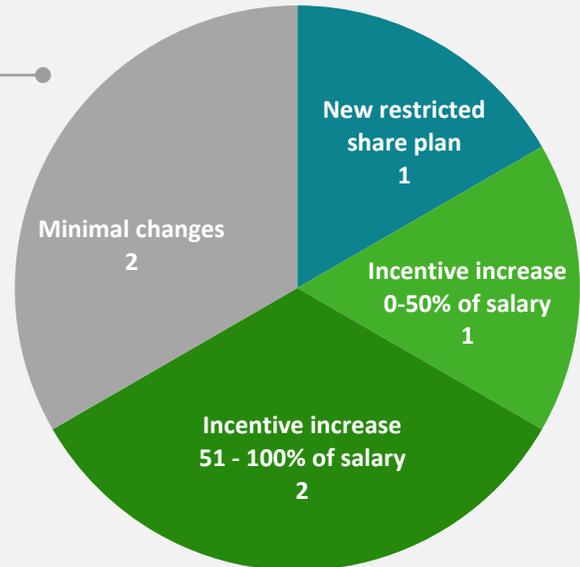
*Where a potential ‘windfall gain’ has occurred, just under one-third of those companies expect to make a reduction at vesting.*

## 4 Policy review

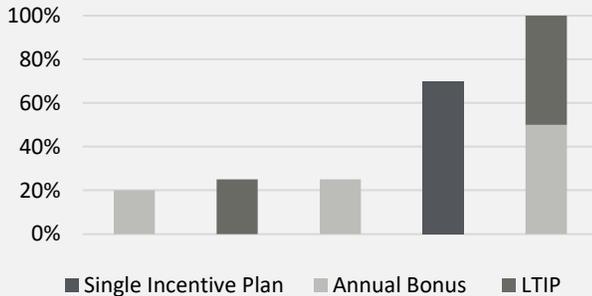
September year ends to date

### New remuneration policies

- 6 out of 15 companies put a new Remuneration Policy to a binding shareholder vote.
- One FTSE 100 company introduced a new restricted share plan.
- Three FTSE 250 companies increased incentive opportunity (annual bonus/LTIP/Single Incentive Plan) under the Policy.
- Two companies (one FTSE 100 and one FTSE 250) increased the usual incentive opportunity using headroom in the existing Remuneration Policy.



### Incentive increases (maximum increase % of salary)\*



\* Includes two companies increasing incentive awards using existing Policy headroom

*“We expect that in 2023, a majority of companies will seek shareholder approval for their Remuneration Policy. Given the external environment, IA members will expect companies to generally show restraint on the increases to variable pay opportunity in their new Policy. Any increases in opportunity should be carefully explained in the context of the business and delivery of strategy.”*

**Investment Association Letter to RemCo chairs, November 2022**

## 5 Continued introduction of ESG metrics

September year ends to date

- c.80% of the sample incorporate ESG metrics in executive incentive plans (including all FTSE 100 companies).
- Four companies in the sample introduced new ESG metrics for 2023, typically using 2-3 metrics or a scorecard of quantifiable KPIs to assess ESG performance. This includes a continued focus on carbon emissions reduction (Scope 1 & 2 or Scope 1, 2 & 3).
- One company introduced an element on a new diversity metric, based on gender diversity in senior leadership roles and inclusion score in employee survey.
- One company in the hospitality industry replaced a Net Promoter Score metric with social media scores (reputation.com) and guest complaints.

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