

Non-Executive Director Fees in the FTSE All-Share

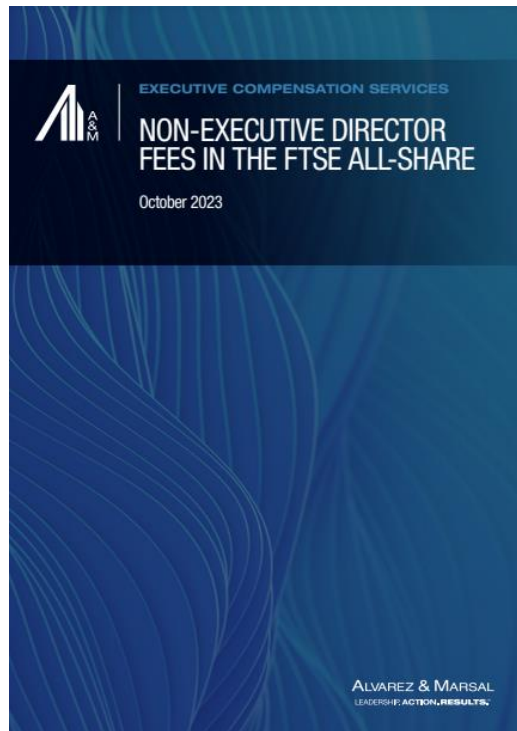
October 2023

ALVAREZ & MARSAL



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Non-Executive Director Fees in the FTSE All-Share



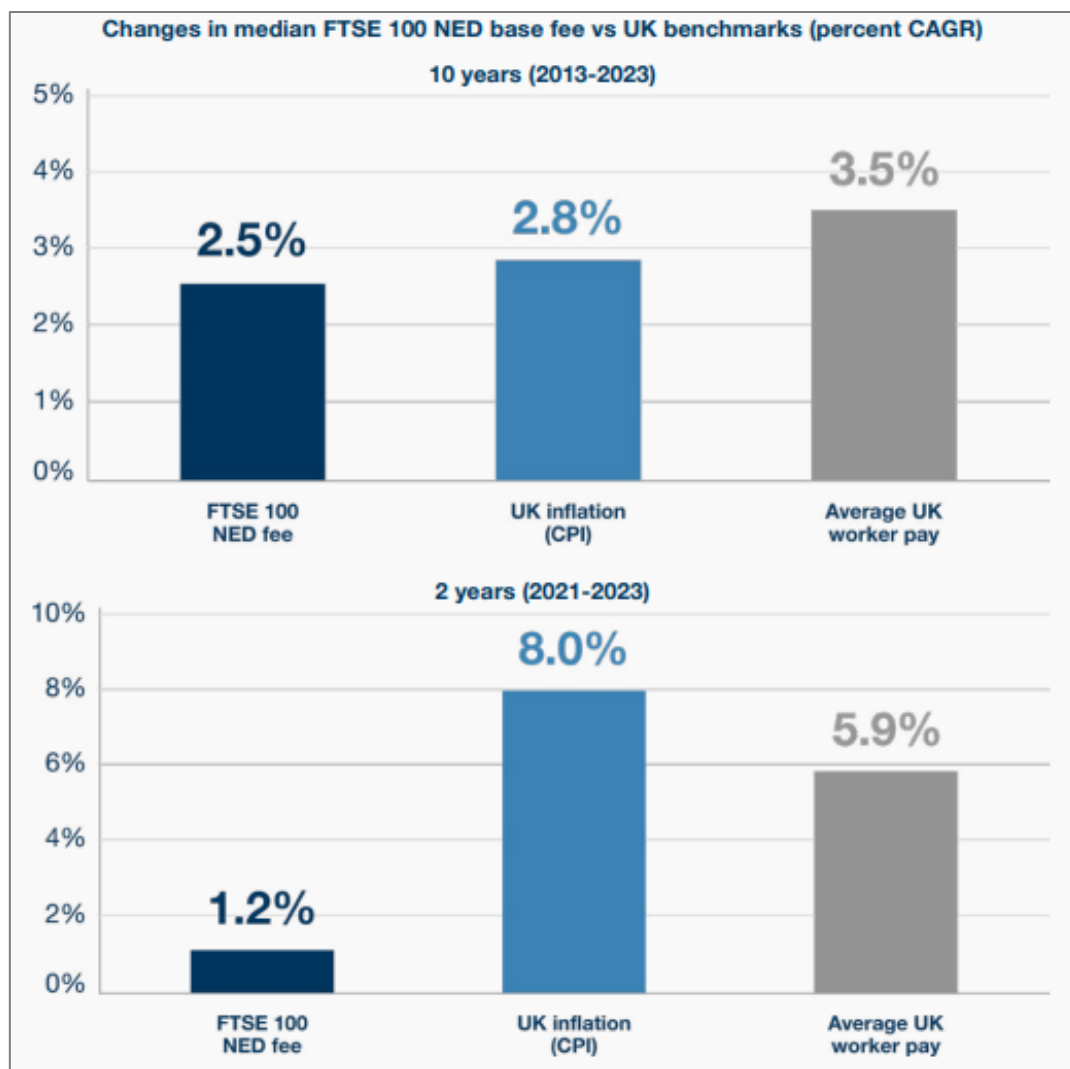
James Harris
Managing Director



Alex Gardner
Senior Director

- ▶ Factors creating renewed interest in NED fees
- ▶ Time for a re-think?
- ▶ Highlights from latest market data
- ▶ Q&A

NED fees have lagged inflation



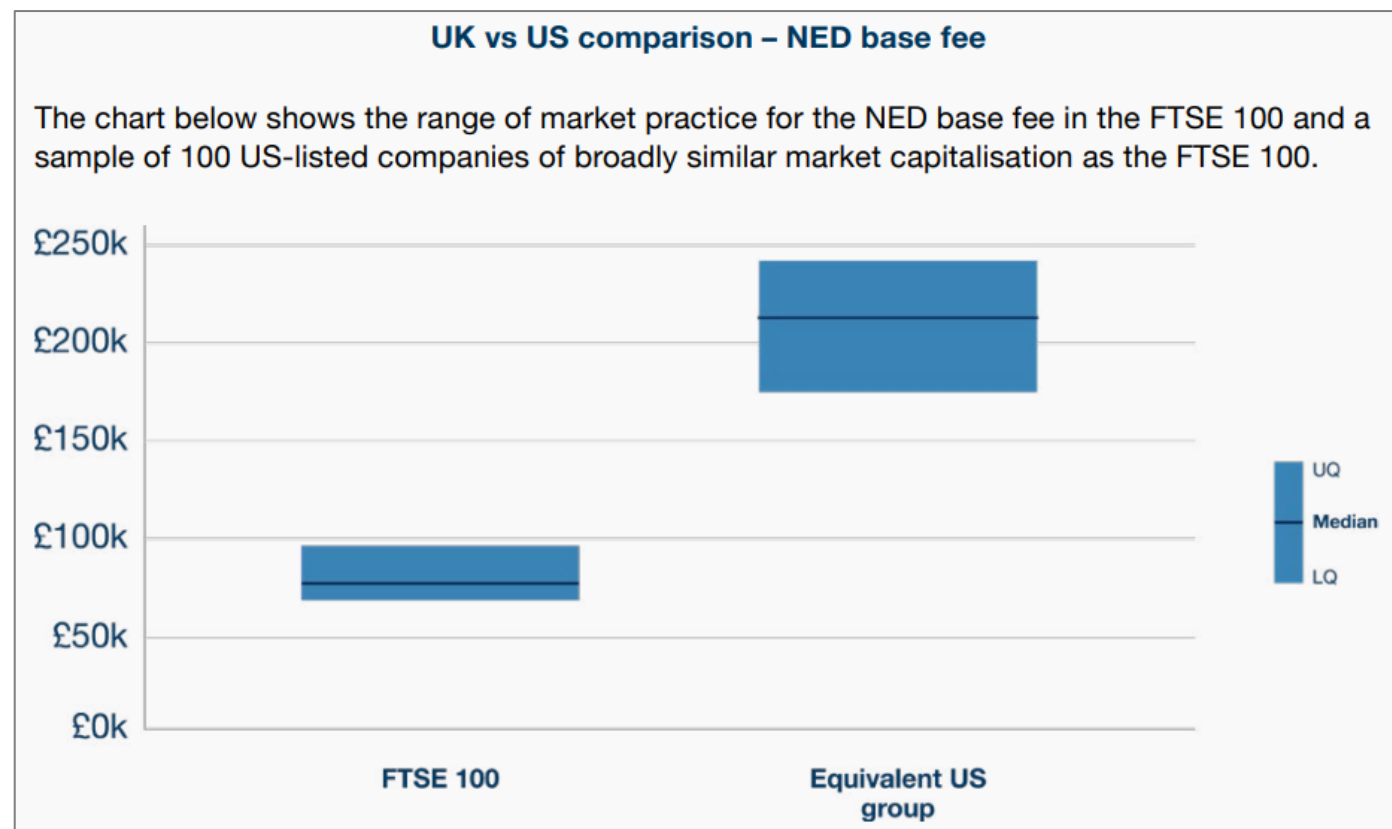
- ▶ Increasingly reviewed on annual basis
- ▶ Expectation for 'restraint' spills over from EDs to NEDs?

75%

**'Discounted' NED fee increase
vs all-employee rate**

Greater demand for skills and diversity

- ▶ Expand the range and depth of talent
- ▶ Skills and experience in key areas
- ▶ Fostering diversity
- ▶ Global talent market



Complexity, time commitment (and overboarding)

- ▶ Widely acknowledged increase in time commitment and complexity
- ▶ Burden often falls on Committee chairs
- ▶ Overboarding concerns also impacts the fees discussion

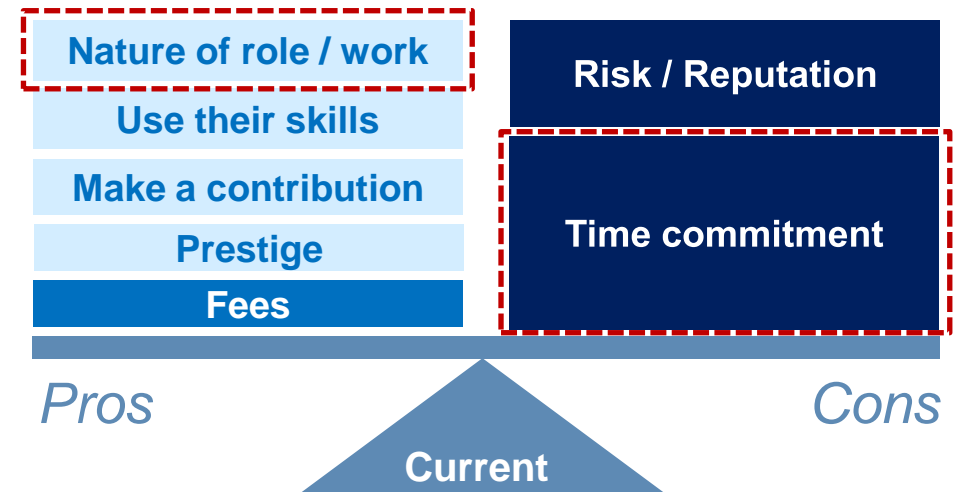
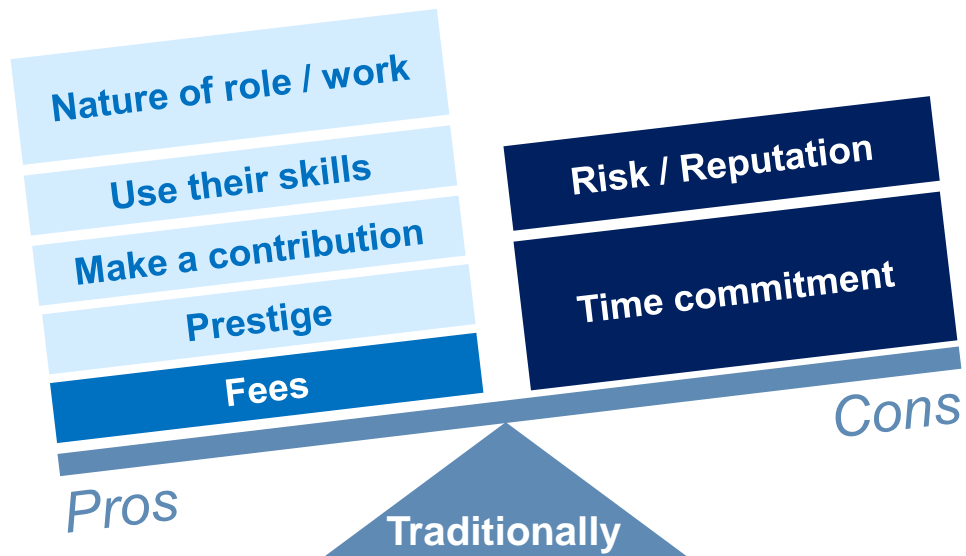
3. Non-Executive Fees and Shareholdings

IA members recognise that Non-Executive Director (NED) fees have not always reflected the increased complexity and time commitment expected of their role. Given the important oversight role which they play on behalf of the company and their shareholders, Non-Executive Directors should receive fees that reflect the time commitment of their role on the Board and its sub-committees, and the scope and complexity of their role(s). However, where increases are deemed warranted, the reasons for such should be properly explained.

NED talent market – views from the frontline

We spoke to a number of leading NED recruitment agencies

The ‘balance’ of a NED’s role assessment is changing....



BUT... it is not impeding recruitment (yet!) other than from the US

Conclusion

Is it time for a re-think in the UK-listed market?

Depending on the needs and circumstances
of the business.....

**Upward re-set or
base fees?**

- How?!
- De-link from EDs

**Consider payment in
shares?**

- For material increases

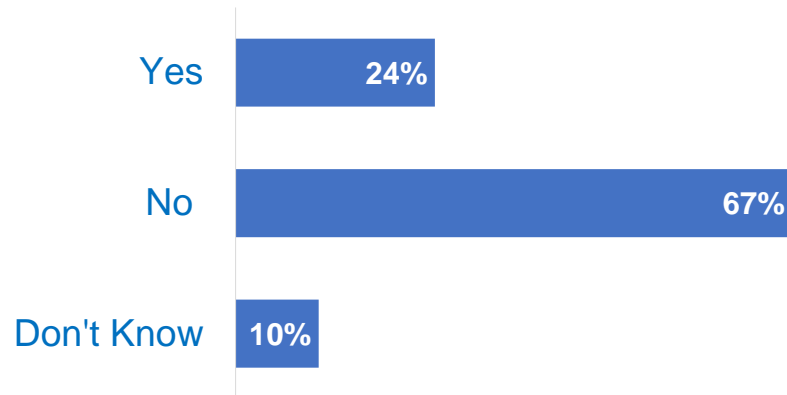
**Enhance additional
fees**

- Committee chairs (or similar)
- Travel allowances

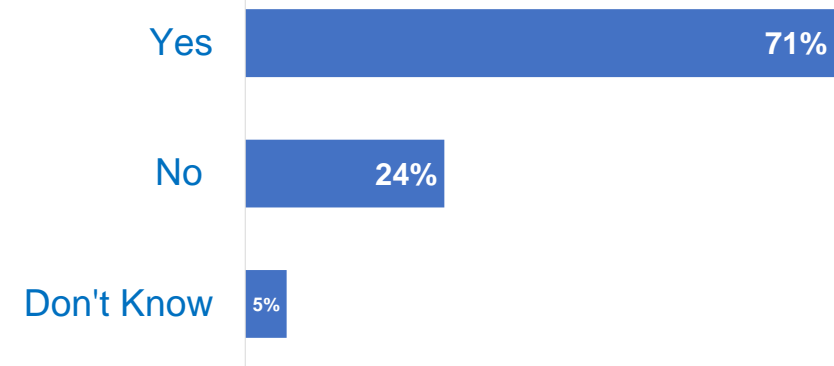
Polling questions were asked during the webinar and the audience response is below

Poll questions

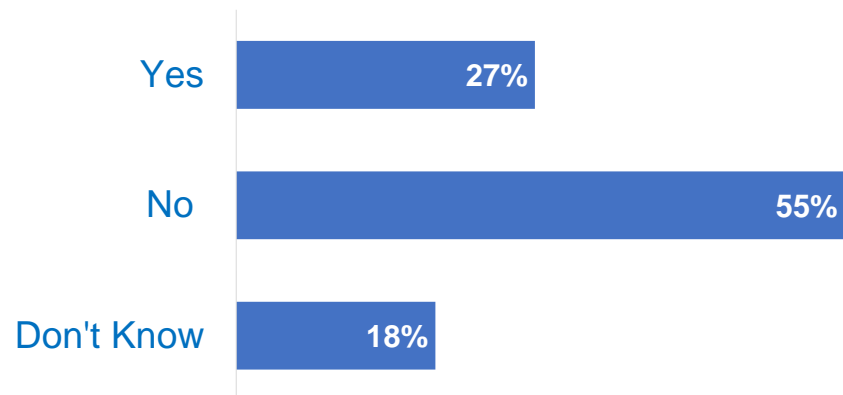
1) *In your company, have NED fees kept pace with time commitment?*



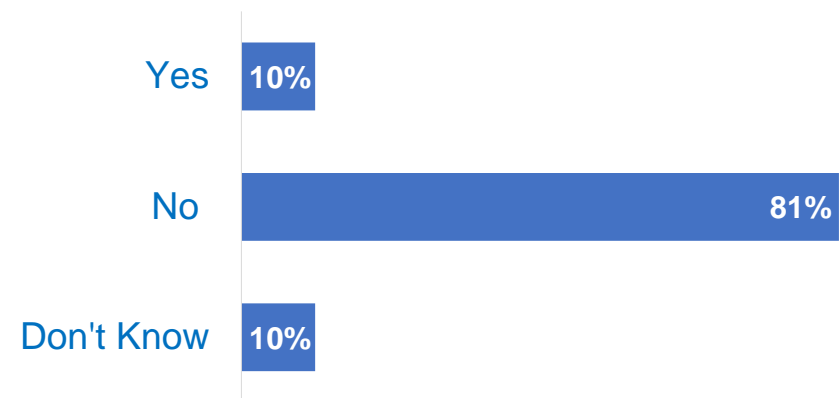
2) *When reviewing NED fees, is the all-employee salary increase a key reference point?*



3) *In your experience, has it become more challenging to secure NED talent?*



4) *Is addressing NED fees likely to be a priority area for your business?*



Increase in median Chair fee

Fee levels increasing, but at slower rate than for workforce / CEOs

Median Chair fee

FTSE 100	FTSE 250	Small Cap
£445k	£236k	£165k
(+4.7%)	(+1.8%)	(+5.4%)

- ▶ Increase in the median fee is not the same as the median % increase
- ▶ Median % increases were +2.9% (FTSE 100), +2.5% (FTSE 250) and +2.0% (Small Cap) – below inflation, below CEO increases
- ▶ Upper quartile increases were around +4% to +5%.

Increase in median base fees

Fee levels also increasing at a slower rate than for workforce / CEOs

Median base fee

FTSE 100	FTSE 250	Small Cap
£77k	£60k	£52.5k
(+2.7%)	(+3.4%)	(+5.0%)

- ▶ Increase in the median fee is not the same as the median % increase
- ▶ Median % increases were +3.1% (FTSE 100), +3.0% (FTSE 250) and +2.9% (Small Cap) – also generally below CEO increase
- ▶ Upper quartile increases were around +4.5% to +5%. Increases above this level appear to be driven by the “gap to market”

Committee Chair fees

Median Audit Committee Chair fee

FTSE 100	FTSE 250	Small Cap
£25.0k	£13.0k	£10.0k
(+0%)	(+8.3%)	(+4.2%)

Median Remuneration Committee Chair fee

FTSE 100	FTSE 250	Small Cap
£21.0k	£12.5k	£10.0k
(+0%)	(+4.2%)	(+8.7%)

Committee membership fees

Not very prevalent, especially at smaller companies

Median Audit Committee Membership fee

FTSE 100 Audit: £17.5k RemCo: £16.0k	FTSE 250 Audit: £7.5k RemCo: £7.5k	Small Cap n/a
<i>Prevalence:</i> <i>c. 45%</i>	<i>Prevalence:</i> <i>c. 30%</i>	<i>Prevalence:</i> <i>< 10%</i>

- ▶ Low prevalence, and more common at larger companies and in FS
- ▶ Where set, typically set at 45% to 55% of Committee Chair fee
- ▶ At FTSE 100, c. 70% set the same Audit and RemCo membership fee

Designated NED – prevalence

Prevalence increasing at the FTSE 100, but not elsewhere

Designated NED fee prevalence

FTSE 100	FTSE 250	Small Cap
34%	29%	18%
<i>(25% in 2022)</i>	<i>(broadly unchanged)</i>	<i>(broadly unchanged)</i>

Designated NED – fee level

Mostly set at a discount to the Audit and RemCo Chairs, and SID

Position relative to Audit / RemCo chair / SID	FTSE 100	FTSE 250	Small Cap
Same fee level	c. 33%	c. 25%	c. 50%
At a discount	c. 67%	c. 75%	c. 50%

*Discount
around
40-50%*

*Discount
around
35-50%*

*Discount
around
50%*

ESG Committee

Prevalence increasing, but mostly at the FTSE 250 and Small Cap

ESG Committee Chair fee prevalence

FTSE 100	FTSE 250	Small Cap
47%	35%	25%
<i>(44% in 2022)</i>	<i>(24% in 2022)</i>	<i>(17% in 2022)</i>

- ▶ Definition of ESG includes safety, sustainability, CSR committees
- ▶ More common at larger companies, but prevalence increasing at smaller companies
- ▶ The fee is typically set at the same level as for other key committees, although some larger companies set it at a discount of 15 to 25%

Q&A

Follow the link to sign up to receive our future executive compensation updates and thoughtpieces



About A&M

Distinctive thought leadership – recent publications

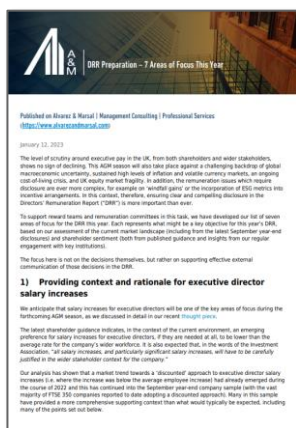
Windfall gains

In early 2023, we published our guide on 'windfall gains', looking at the perspective of all stakeholders and setting out an assessment framework.



DRR preparation this year

We set out our thoughts and practical tips in respect of the preparation of the DRR in the context of key issues for the forthcoming AGM season.



2023 target setting toolkit

Comprehensive study of profit targets in bonus and LTIPs across the FTSE market, to support committees and reward teams in target setting



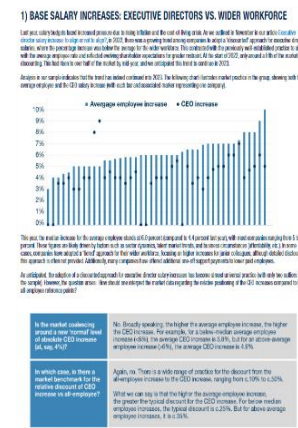
'Big Tent' discussion

Our contribution to the 'big tent' debate on executive pay in the UK – analysis of key trends over the last ten years, and ideas for potential change



2023 AGM season trends

Providing an interim update on key 2023 AGM season trends – salary increases vs employees, 'windfall gains' and bonus target ranges



2023 NED fees report

We take a step back to look at key contextual factors supporting renewed interest in NED fees, and consider whether it is a time for a re-think on the UK's approach?

