EXECUTIVE COMPENSATION SERVICES

THE 'BIG TENT' DISCUSSION ON EXECUTIVE PAY – TWO YEARS IN…

ALVAREZ & MARSAL

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In June 2023, we published our contribution to the so-called ‘Big Tent’ discussion on executive pay in the UK-listed market, the first UK advisory firm to do so. In that **report**, we examined a number of long-term market trends and set out our suggestions for change.

Since then, two AGM seasons have elapsed, the most recent of which taking place after the Investment Association’s overhaul of the ‘Principles of Remuneration’ which had provided a welcome shift in tone and greater flexibility in response to the ongoing debate. This is therefore a good time to check in on how the UK market has been evolving, and what we expect looking forward, focusing on five key themes.

Should you wish to discuss any aspect of this report, its implications for your business or to request more specific data cuts or analysis, please reach out to your A&M contact.

1 QUANTUM INCREASES AND GREATER TRANSPARENCY

40%

of the FTSE 100 have increased incentive opportunities over the past two years (either through a Policy vote or using existing Policy headroom)

Of the 58 FTSE 100 companies with a Policy vote in 2025 or 2024, over half (30 companies) increased incentive opportunities for the CEO. Additionally, 10 other companies have increased award levels during that time via existing Policy headroom.

Most increases have typically been in the range 50-100 percent of salary, although some more sizeable increases have been introduced.

The majority of increases are to the long-term incentive, rather than the annual bonus.

The proportion of companies increasing CEO opportunities in the FTSE 250 has been lower (32 percent of those with a Policy vote – 31 companies).

40%

of FTSE 100 companies increased at least one executive director salary by a greater percentage than the average workforce rate in 2025

Between 2022 and 2024, it became widely established market practice to set executive director increases below the average workforce rate (which during that period were above historic norms as a consequence of higher inflation and cost of living pressures).

However, in 2025, as average employee increases have fallen, setting executive increases in line with the employee average has re-emerged as majority market practice.

In addition, 40 percent of the FTSE 100 increased at least one executive director's salary by more than the workforce rate, although prevalence was only 21 percent in the FTSE 250. Generally speaking, this has not resulted in adverse voting agency recommendations or voting outcomes on Directors'

Evolving trend towards enhanced **disclosure** of benchmarking

We have seen a trend towards more fulsome disclosure on benchmarking, particularly when used in support of the more sizeable increases to quantum.

For example, this can include an explanation of the talent markets in which the company competes, details on how benchmarking peer groups are constructed, illustrations of the benchmark data itself (sometimes on a detailed company-by-company basis), and internal pay comparisons if 'pay compression' is a relevant consideration.

A&M VIEW

The upward movement in incentive opportunities has not been surprising, particularly in those companies looking to compete in global talent markets. That most increases come in the form of the long-term incentive reflects the commercial reality for some UK companies of having to compete in US-influenced global talent markets, where they can often find that the short-term components (salary, annual bonus) are broadly competitive whilst the long-term element falls significantly short of the market range. In addition, delivering increases to total compensation via the LTI also maximises alignment to shareholders – being long-term, share-based and (typically) performance-linked – and therefore should be the route which the UK market prioritises.

Regarding base salary, our view is that the notable increase in the proportion of FTSE 100 companies implementing salary increases above the workforce rate this year is more likely to represent a degree of one-off market adjustment, rather than 'the new normal'. Looking forward, we would expect the market to continue the reversion to the established practice (pre-2022) of normally aligning executive increases to the employee average. Therefore, the practice of significantly 'discounting' executive increases will not become embedded. However, if we experience another spike in price inflation which pushes employee salary increases higher again, the principle of discounting could re-emerge as a theme for shareholders.

The trend towards enhanced disclosure of benchmarking data to support material package increases is a positive development for all market stakeholders, and one which is likely to become increasingly common. Remuneration committees should feel sufficiently comfortable with the market data on which they are making pay decisions that they are able to transparently 'show their workings' to their shareholders.

The trend puts a new onus on both the remuneration committee and shareholders to scrutinise the approach to benchmarking data to ensure it is relevant, robust, and fairly constructed. We hope that shareholders and voting agencies will recognise that robust benchmarking data can be an important factor in support of a proposal to re-position remuneration packages – there to be scrutinised and challenged, but not automatically opposed simply on the grounds that such proposals are 'benchmarking-related'.

2 LTI STRUCTURE – EMERGENCE OF ‘HYBRID’ LTI AS A VIABLE OPTION

17

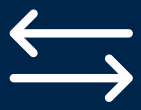
New hybrid plans across the FTSE 350 over the last two years

From just 3 percent of the market two year ago, the growing adoption of hybrids, normally Performance Shares (PSP) and Restricted Shares (RSP) has been the most notable trend in incentive structure.

Hybrids now represent almost 10 percent of FTSE 350 market practice. Adoption has been greater in the FTSE 100 (14 percent of the market) compared to 7 percent in the FTSE 250.

Although alignment with typical practice in the US talent market is often a factor, many companies present a broader case in support of their hybrid. For example, including elements that can both drive retention/shareholder alignment, as well as performance, provides a more balanced overall framework. Companies also often mention that a hybrid improves the consistency of LTI structure which is cascaded below board.

Of the 17 proposals, ISS has opposed 15 – consistently on the basis that award quantum is being simultaneously increased. The average Policy vote where new hybrids have been introduced has been 76 percent.



Companies switching back from an RSP to a PSP outnumber those moving the other way

In the past two years, we have seen five companies reverting from Restricted Share Plans (RSPs) to a conventional PSP, with only three choosing to introduce restricted shares (i.e. not as part of a hybrid).

PSPs continue to dominate market share for executive directors (75 percent of the FTSE 350) with the share of companies using just RSPs now down to 8 percent.

A&M VIEW

In our 2023 report, we argued that, although they will not be right for all companies, there is a role for hybrid LTI structures in the UK market. We therefore welcome this emerging trend, which we expect to continue.

Investor views around hybrid adoption remain somewhat mixed. Following last year's update, the IA Principles have become more amenable to the use of hybrids. On the other hand, some institutional investors continue to remain almost 'ideologically' opposed to hybrids, on the grounds that a combination of PSP and RSP is considered either too complex or akin to 'having one's cake and eating it'. They suggest that companies should be required to choose one or the other. ISS has consistently opposed hybrids when award quantum is being simultaneously increased, in what has been a clear and consistent stance. However, this approach can be frustrating for companies if the proposed quantum, after being appropriately benchmarked in the Policy review, is fairly market-aligned.

We would like to see a continued evolution in the shareholder environment around hybrids. Companies should not be forced to choose between a PSP and an RSP. They should be enabled to create a balanced long-term structure which combines the benefits of both types of award, *provided that shareholders consider the overall award quantum to be reasonable*. Of course, investors and voting agencies should scrutinise and challenge award sizes against market data (using valuations which reflect the quasi-guaranteed nature of the RSP element). If award sizes are found to be market-aligned, then a hybrid is simply a means of delivering the overall LTI using a different risk profile – 'having a smaller cake, with a better chance of eating some of it'.

Finally, the increase in hybrid adoption is by no means the death knell for the conventional PSP, but it may start to reduce the attractiveness of the pure RSP model. Hybrids will not be right for all companies, and we believe a sizeable majority of the market will continue to feel comfortable with a PSP as their sole long-term vehicle for executive directors. However, where remuneration committees are weighing up the potential benefits of RSPs, we suspect the majority will now welcome the opportunity to incorporate it into a hybrid (and hence retain performance-linkage via the PSP) rather than having to fully switch to the RSP model (and remove all links to performance). We can see initial evidence of this trend in the data above.

3 BONUS DEFERRAL – LINK TO SHARE OWNERSHIP

16%

of the FTSE 350 now link bonus deferral percentage to the executive's level of shareholding

During the current AGM season, 25 percent of new Policies (16 companies) have been amended to link the requirement to defer an element of the bonus to whether the executive has met their share ownership requirement.

The practice is more widely embedded in the FTSE 100 (25 percent) than the FTSE 250 (10 percent).

Practice is broadly equally split between those who **reduce** deferral and those who **remove** it

Companies take different approaches for what happens to deferral once the shareholding requirement is met.

9 percent of the market retain deferral but at a reduced rate. For example, assuming the normal level of deferral is 50 percent of the bonus earned, once the shareholding requirement has been met, required deferral falls to, typically, 25 percent.

For the other 7 percent of the market, deferral is removed completely once the requirement is met.

A&M VIEW

As outlined in our 2023 report, simplifying the complex 'patchwork' of deferral and holding requirements which has evolved over a number of years and are typically not applicable in other talent markets, should be an important objective for the UK. We are therefore supportive of this trend and believe it will remain a key theme in Policy renewals during the years ahead.

For companies looking to adopt this approach during a Policy review, the critical question to address now is whether, once the share ownership requirement has been met, the level of deferral should be reduced or removed completely. As described above, market practice is broadly split between these two options.

In financial services companies, there may be regulatory deferral requirements on variable pay, which are often satisfied by bonus deferral (even if it is possible to satisfy requirements for senior executives through the PSP, companies may choose to retain deferral to ensure consistency with the Identified Staff population, who may not participate in the LTIP).

Outside of financial services, opinions on this question are likely to be shaped by one's view of the main underlying purpose of bonus deferral:

One perspective is that bonus deferral primarily serves as a practical mechanism to effectively enforce recovery provisions (i.e. by means of applying malus to an unvested award rather than having to clawback a vested amount) and therefore, some level of deferral should always apply. This link to recovery provisions is referenced in the IA Principles, which state that a reduction in deferral may be supported "*provided that the committee still has sufficient ability to exercise malus and clawback provisions*".

However, for many companies (outside of financial services) the primary purpose of bonus deferral is to facilitate share ownership and long-term shareholder alignment. Retaining deferral to address the extremely rare circumstances in which malus needs to be invoked can seem like an overly risk-averse and onerous position. In addition, retaining deferral, but at a reduced level from the norm, only serves to further complicate the overall deferral and holding framework, at a time when the UK-listed market is looking to simplify these structures. Companies adopting this view may prefer to simplify their structure by completely removing deferral, provided that the share ownership requirement is sufficient to ensure long-term alignment and, consistent with the IA Principles, other means to implement recovery are available (for example, via a reduction to other incentive components such as in-year bonus or LTIP, or via effective clawback arrangements).

An alternative potential framework to combine and simplify the various deferral and alignment provisions which are common in the UK market was described in our 2023 report: Executives would be required to divert an agreed portion of the shares received from their bonus (and LTIP) outcomes into a company-controlled nominee account until they had reached their share ownership requirement. For vestings after that point, no further deferral or holding would be required. However, the company would retain control of the release of the shares held in the account until two years post-cessation, providing an effective ability to recover value if required.

4 DISCRETION TO AMEND INCENTIVE OUTCOMES – NO EVIDENCE OF INCREASED USE

9%

of the FTSE 350 used discretion during 2025 to reduce the annual bonus

This was a broadly similar proportion of the market compared to last year.

Discretion tends to be used more commonly in the FTSE 100 (14 percent) than the FTSE 250 (6 percent).

Companies rarely adjust the LTIP vesting outcome (around 1 percent).

The most common reasons for using discretion include aligning outcomes to overall performance and reflecting events not captured in the formulaic outcome (e.g. health and safety).

No uptick in the use of positive discretion

Following the change to the IA Principles in October 2024, which explicitly acknowledged that there can be a role for using discretion to positively adjust outcomes (and not just reduce them), the 2025 AGM season was an important test case for how the market would react.

Only three companies used discretion to positively adjust an outcome, two of which received ISS support whilst the other received an 'against' recommendation.

A&M VIEW

The more balanced guidance on the potential application of discretion contained in the updated IA Principles has generally been well received by the market. At the same time, we sense that many remuneration committees retain a degree of suspicion around the extent to which the IA's evolved position on positive discretion is sufficiently shared by all institutional investors and, perhaps more importantly, by the other voting agencies. In this context, some companies may be reluctant to be a 'first mover' on positive discretion and will wait to understand how market practice, and the associated investor reaction, develops over time.

Of course, it may also be that 2024 was a (relatively) benign year for the types of events which might cause companies to re-consider whether the formulaic outcome is fair and appropriate. Only time will tell whether the significant global economic and geo-political volatility so far this year will make 2025 a different story. Companies should watch how the market develops later this year.

Our view is that, over time, we will start to see a more balanced application of discretion across the market, including being used to increase outcomes more commonly than is currently the case. However, it will need to be managed carefully to ensure shareholder support (e.g. ensuring that there is a genuine case based on specific events, and that discretion is operated in a fair and consistent way), with those remuneration committees able to demonstrate a credible track record of robust target setting and past use of downward discretion likely to be best placed to succeed. While we have concerns around the practical challenges of consulting on whether to use discretion in a particular circumstance (as suggested in the updated IA Principles), it is of course true that a clear and compelling case for would need to be fully disclosed in the relevant DRR.

5 INVESTOR ENGAGEMENT AND VOTING

Over
60%
of the shareholder register are typically consulted on a Policy review in the FTSE 100

During the current AGM season, 20 FTSE 100 companies proposing a new Policy disclosed the extent of their shareholder engagement.

Most companies engaged with between 50-60 percent of the register, with some disclosing as high as 75 percent.

Softening of ISS approach to DRR voting in year following low Policy vote?

We analysed all Policy votes between 2019 and 2024 which received a low vote (<80 percent) and an against recommendation from ISS. We found that if the Policy vote was below c.65/70 percent then it was probable that ISS would also recommend against the next DRR at the following year's AGM.

However, during 2025, the ISS position may have shifted – with both FTSE 100 companies that received a Policy vote below that threshold in 2024 receiving ISS support on their DRR this year.

A&M VIEW

Investor engagement on executive pay is more important than ever. Our experience is that companies increasingly recognise and embrace this, with the scope of shareholder consultations continuing to broaden, as described above, and remuneration committee chairs normally happy to commit significant amounts of time to meet investors, irrespective of the size of their holding.

However, there is a continued frustration around some practical aspects of the engagement process. From our discussions with companies, we find this frustration can reflect: insufficient clarity from investors on the process companies should use to engage with them; shareholders failing to respond or fully participate in the consultation (even in some instances where their holding is material); and shareholders limiting their engagement to suggesting that companies simply 'read our voting policy' even where doing so is not sufficient to understand how the investor will interpret the company's specific proposals. Looking forward, we hope that changes to the Stewardship Code will free up resources to improve the quality and availability of engagement.

One particular source of frustration for UK companies in recent years has been the tendency for a low Policy vote to carry forward into a low vote on the DRR in the following year. This has often appeared to reflect the perception among some shareholders and voting agencies that companies should do more to address shareholder concerns after a low vote. In reality, companies have often undertaken an extensive consultation on the policy prior to the AGM. Provided that shareholder input is appropriately sought in the Policy consultation itself, companies, shareholders and voting agencies should be able to accept the vote and 'move on'. We therefore welcome the apparent shift in approach from ISS this year, as described above.

As a related broader theme, we would like to see the regime evolve more towards one which values how companies engage and seek input over simply the voting outcome itself. For example, a company that receives a 30 percent vote against having engaged widely with, say, 80 percent of the register and which fully understands and acknowledges their range of views, should be viewed differently from a company with the same voting outcome who has not engaged at all. We continue to suggest that the Code requirement to re-engage with shareholders post-AGM and the Investment Association's Public Register both be updated to focus only on companies that have not already conducted a sufficient engagement exercise before the relevant vote.

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