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# FTSE 350: EXECUTIVE REMUNERATION TRENDS 2020

OCTOBER 2020

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The research in this report includes UK companies that published their Annual Report during the first half of 2020 (i.e. those with financial year ends between 31 December 2019 and 31 March 2020).

# IMPACT OF COVID-19 ON EXECUTIVE REMUNERATION

Whilst the effects of the COVID-19 pandemic have varied by sector, the scale of the impact on business activity levels is unprecedented. Immediate consequences for some companies have included suspension or cancellation of dividends, nearly 10 million furloughed employees overall, suspension of annual bonus plans, and temporary reductions or waivers of executive salaries (sometimes also including non-executive Directors' fees and senior management salaries).

Companies with a March year-end (around 50 companies) were the first to report their response to COVID-19 in an Annual Report. Among the many insights into the crisis provided by these reports, a significant number highlighted the challenges of 2020-21 target setting for both annual bonuses and long-term incentive plans (LTIP), and some companies delayed the setting of their LTIP targets for their 2020 grant. Where LTIP grants were made in 2020, many companies strengthened, or will be considering the use of, their powers of discretion to adjust for any windfall at vesting resulting from the depressed share price at grant.

## FTSE 350 COMPANIES WITH A MARCH YEAR-END

30%

Reported furloughing employees

>50%

Reported a temporary salary reduction/waiver for Executive Directors (EDs) - typically 20% reduction for 3 months

>2/3

Froze base salaries or delayed their annual pay review

Some companies increased bonus deferral into shares, delayed the payment of the bonus or in a few cases deferred the decision on whether to pay bonuses (typically in line with dividend review).

The majority reported a lower bonus outturn for 2019-20 than the prior year - as the table below shows, there was a fall in outturns, sometimes as a result of Remuneration Committee discretion.

## MARCH YEAR-ENDS - AVERAGE BONUS OUTCOME AS % OF MAXIMUM

| | 2018 | 2019 | 2020 |
|---|---|---|---|
| **FTSE 100** | 72.7% | 67.4% | 53.6% |
| **FTSE 250** | 61.2% | 53.9% | 44.6% |

As we enter the period when companies start to consider 2020 incentive outcomes, Remuneration Committees are considering a range of additional factors:

- The impact on the wider workforce, including the context of potential redundancies
- The use of Government financial support
- The need to continue to preserve cash in the business
- The overall shareholder experience through the impact on the share price and dividends.

Ensuring 2021 bonus targets and 2021-2023 LTIP goals are robust but achievable is extremely challenging in a highly uncertain and fragile international economic environment.

# REMUNERATION POLICY CHANGES

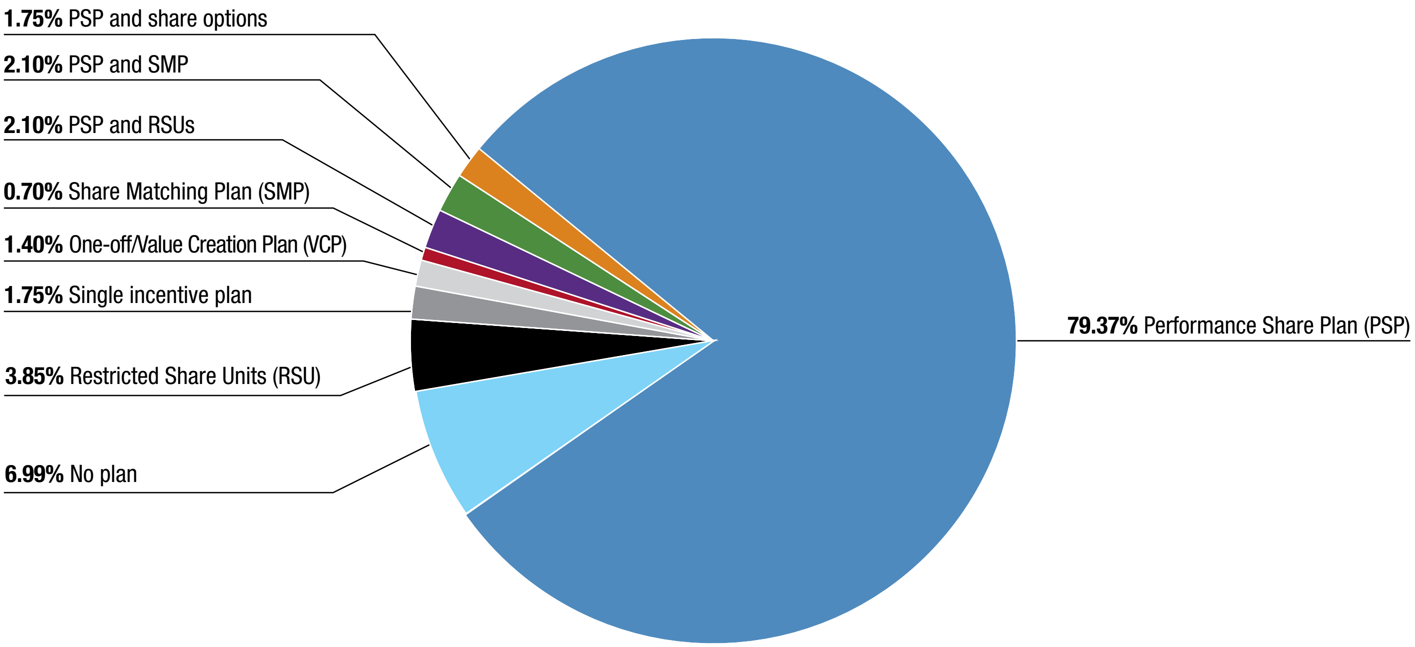
More than 50% of FTSE 350 companies have already put their Directors' Remuneration Policy to a vote in 2020. Overall levels of support for both Policy and Remuneration Report resolutions remained high with the median level of support above 90%, but with notable exceptions where there was significant dissent. The ongoing theme of moderation persists, and a perceived lack of restraint in policy proposals, salary increases, or bonus awards was a key reason for a significant vote against. The majority of policy renewals included updates for the new 'best practice' features required by the 2018 Corporate Governance Code.

### AVERAGE LEVEL OF SUPPORT REMAINS HIGH

| Remuneration Policy | Remuneration Report |
|---|---|
| 93.2% | 93.8% |
| *(2019: 92.9%)* | *(2019: 93.8%)* |

Despite extensive debate over the last few years about alternatives to the traditional Performance Share Plan, only 6% of companies with a 2020 policy vote took the opportunity to introduce a new long-term incentive vehicle. However, the difficulty of 3-year target setting in the current environment may well increase the number of companies considering Restricted Share Units. For some others, the need for transformational change may lead to the consideration of a bespoke turnaround incentive, although shareholders and proxy agencies remain cautious about such schemes, and a robust rationale and extensive consultation is required.

## TYPES OF LONG-TERM INCENTIVES AVAILABLE TO EXECUTIVE DIRECTORS (FTSE 350)




**Only 6% of companies with a policy vote in 2020 have introduced a new long-term incentive vehicle, the majority of which were RSU plans**

# PENSION

The majority of companies have taken action to comply with the Investment Association's (IA) guideline to align, or outline a plan to align, existing Executive Directors' pension allowances to the workforce by the end of 2022. Around 28% of the FTSE 100 and 26% of the FTSE 250 had already aligned their CEO to the workforce prior to 2020 (either due to a new appointment or in some cases as a result of actions already taken to reduce pensions).

13% of the FTSE 100 and 7% of the FTSE 250 have reduced their CEO's pension in one step in 2020. Some are making phased reductions (24% in the FTSE 100 and 17% in FTSE 250). Some companies stated their commitment to reduce by the end of 2022 but have not provided a specific plan (12% in the FTSE 100 and 14% in the FTSE 250).

Fewer than 10 companies (around 3%) have reported increasing the employer contribution levels for the wider workforce this year, although a few more have highlighted this is under review.

## RESPONSES TO INVESTOR PRESSURE HAVE REDUCED THE MEDIAN PENSION ALLOWANCE IN THE FTSE 100

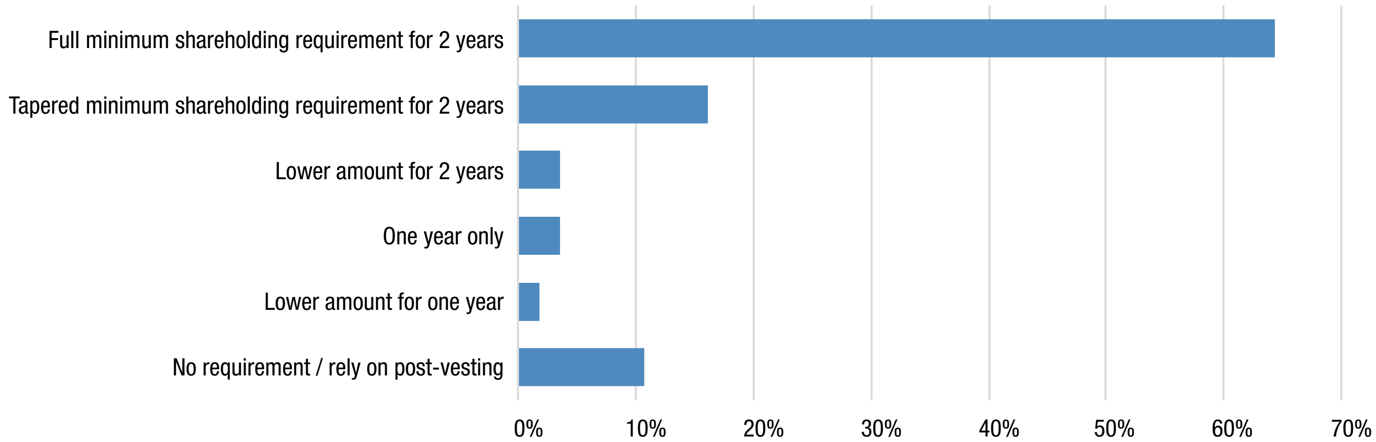
| Highest paid director employer pension allowance (% of base salary) | FTSE 100<br>Median | FTSE 250<br>Median |
|---|---|---|
| **Highest paid director pension 2019** | 20% | 15% |
| **Highest paid director pension 2020** | 15% | 15% |
| **Pension policy (new appointees)** | 12% | 10% |

# POST-CESSATION SHAREHOLDING POLICY

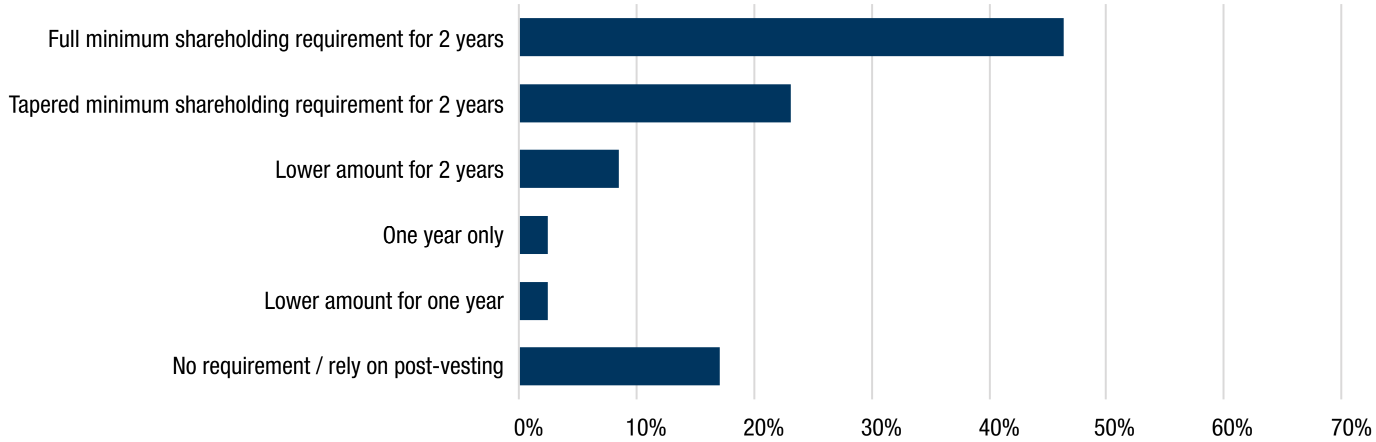
Under the 2018 UK Corporate Governance Code, companies are required to develop a post-cessation shareholding policy. The most common approach has been to comply with the IA guidance which is a 2-year post-cessation requirement with the same level of shareholding as the in-employment requirement. However, in the FTSE 250 over a third of those that renewed their Remuneration Policy in 2020 introduced a different requirement – for example a tapering shareholding requirement for 2 years. Around 40% of companies who did not go through a policy vote have nevertheless introduced a requirement in 2020.

Many companies are still ironing out points of detail regarding implementation. Questions remain about how the requirements will be enforced (with the IA likely to focus on this further in the future), the price to be used to calculate the holding requirement after employment has ended, whether modifications to existing plan rules are necessary, and whether this requirement should apply only to shares acquired from incentive plans or also to shares purchased by executives. Furthermore, should the requirement apply to share awards already granted, or only to those share awards which are granted after the requirement comes into force?

### FTSE 100 - APPROACH TAKEN BY COMPANIES WITH A 2020 POLICY VOTE




### FTSE 250 - APPROACH TAKEN BY COMPANIES WITH A 2020 POLICY VOTE



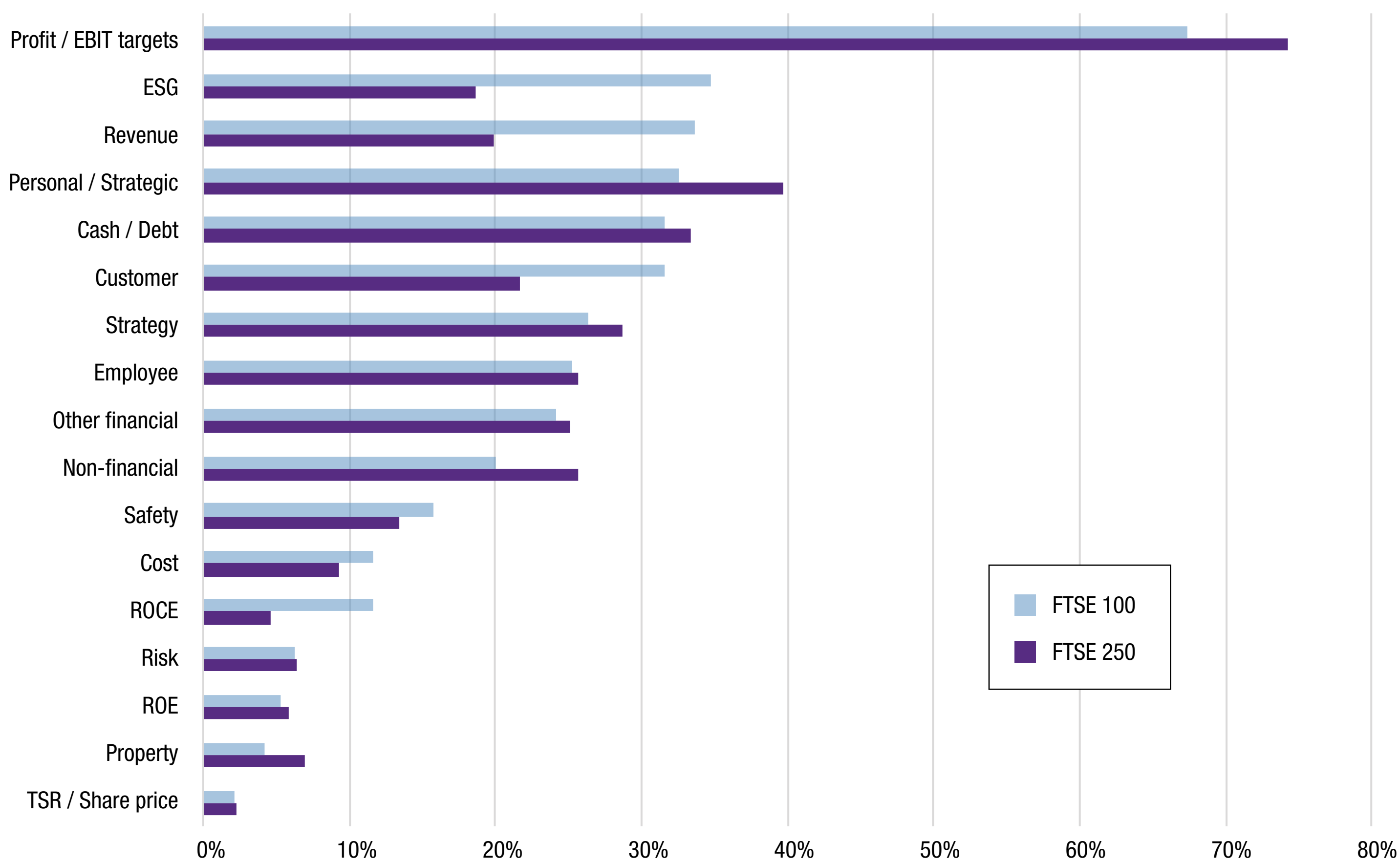
# ENVIRONMENTAL, SOCIAL, AND GOVERNANCE

Environmental, social, and governance (ESG) metrics are increasingly of interest to investors. The IA has introduced an additional criterion on climate-related disclosures in the ESG section of their proxy reports.

There are different definitions of ESG metrics and KPIs. However, an analysis of the FTSE 350 indicates that, in annual bonus plans, 35% of the FTSE 100 and 19% in the FTSE 250, use at least one ESG-type indicator - around half of these form part of strategic/personal metrics rather than operating as a standalone metric with a discrete weighting.

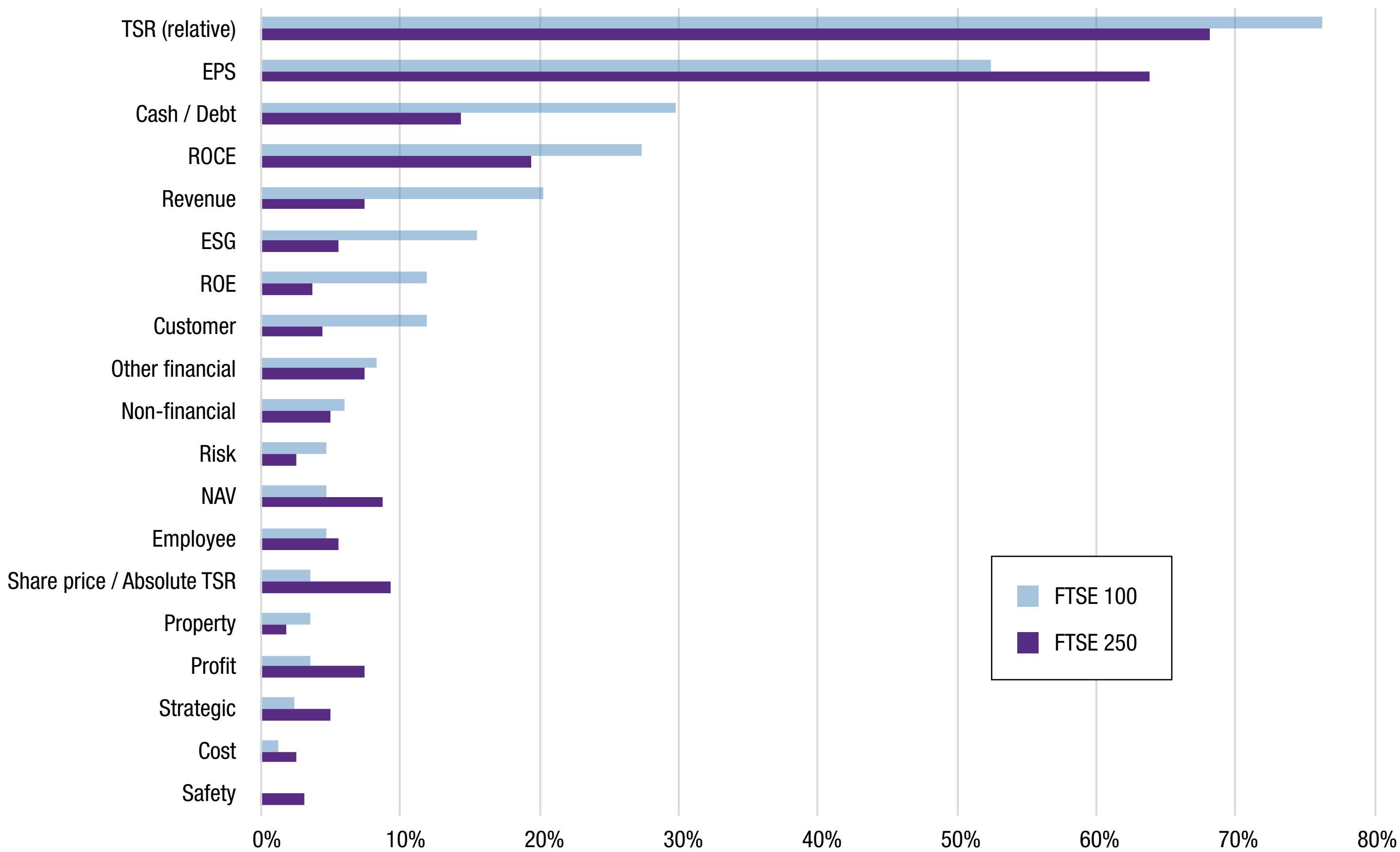
An environmental metric is a common choice, especially in energy, mining and manufacturing sectors. Social metrics such as diversity and inclusion, community involvement, colleague engagement, and safety are also common. Where companies have recently introduced a standalone metric with its own weighting, this is often balanced by a reduction in the weighting on strategic/personal metrics. COVID-19 is likely to accelerate the introduction of such metrics as companies consider the interaction of their business with a wider range of stakeholders.

## ANNUAL BONUS PERFORMANCE METRICS



ESG-type KPIs are already used in 15% of Performance Share Plans (PSP) in the FTSE 100 and 6% in the FTSE 250, particularly among companies in sectors with the greatest exposure to ESG risks (e.g. mining, oil & gas and chemicals). The weighting of these metrics is typically between 5% and 20%, but there are examples of higher weightings. PSP plans are usually limited to "harder" measures based on financial outcomes and total shareholder return rather than "strategic" measures. It could be that shareholders are becoming more tolerant of ESG metrics in recognition of the current high level of focus on this area and as ESG outcomes are becoming more quantifiable.

## PERFORMANCE SHARE PLAN PERFORMANCE METRICS




*63% of the FTSE 100 use 3 or more performance conditions in their PSP, with 41% of the FTSE 250 using 3 or more*

# CEO PAY RATIO

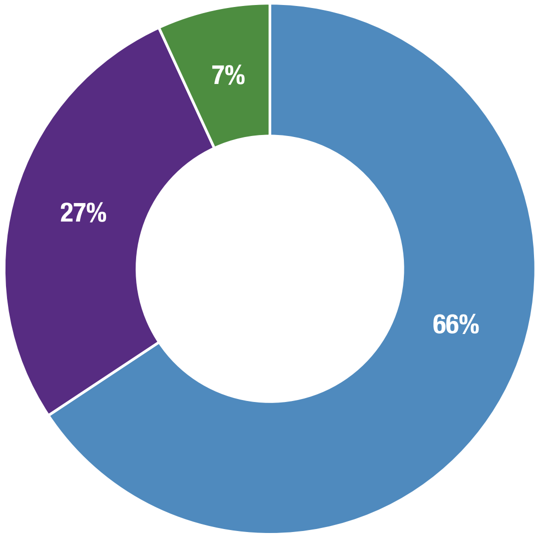
This is the first full year companies were required to report their CEO pay ratio. As expected, the majority of companies chose Option A as their preferred calculation methodology under the regulations and the ratio varies by size of company.

## CEO PAY RATIO: QUARTILE ANALYSIS

| | LOWER QUARTILE | MEDIAN | UPPER QUARTILE |
|---|---|---|---|
| **FTSE 100** | 56 | 80 | 139 |
| **FTSE 250** | 22 | 32 | 61 |

A wide range of factors can influence the ratio including: sector, workforce profile, incentive plan outcomes, and the effect of share price on LTIP vesting. Companies will need to carefully draft their narrative to explain year-on-year differences in the ratio.

## FTSE 350: OPTIONS USED




Option A Option B Option C

**UK regulations provide three different methodologies (Option A, B and C) for companies to choose when calculating the CEO pay ratio. Option A is preferred by investors and is the most rigorous approach, Option B uses the Gender Pay Gap reporting data as a starting point, and Option C provides the most flexibility when making the calculation.**

# CONCLUSIONS

Remuneration Committees are now ensuring that the impact of COVID-19 will be appropriately accounted for in remuneration outcomes, and that the existing remuneration policy and incentive structures can support the strategy as we start to emerge from the pandemic. Issues vary by company and by sector, so a tailored approach is essential. Fortunately, the increasing acceptance amongst many shareholders for a wider variety of incentive schemes, coupled with the prevailing exceptional circumstances, provide a unique opportunity to seek closer alignment between strategic goals and remuneration outcomes, and to re-consider how remuneration is structured throughout the whole organisation.

A&M Executive Compensation Services is well-positioned to advise Remuneration Committees through this period. All engagements are led by a Managing Director who attends all meetings and is actively involved in all deliverables. This ensures you always have access to the right level of advice, particularly when making critical decisions under time pressure. Our Managing Directors have a combined 80+ years of experience in advising on executive remuneration matters.

We hope you have found this update, including the following data sheet, helpful. If you would like to discuss any of these developments further or have other enquiries please contact one of our Managing Directors, whose details are shown on the back cover.

# QUICK REFERENCE GUIDE
## FTSE 350 EXECUTIVE REMUNERATION DATA 2020

### SALARY: QUARTILE ANALYSIS OF BASE SALARY (£000s)

| | FTSE 100 | | | FTSE 250 | | |
|---|---|---|---|---|---|---|
| | LQ | M | UQ | LQ | M | UQ |
| **Highest paid director** | 734 | 863 | 1,090 | 500 | 594 | 683 |
| **Finance director / CFO** | 472 | 554 | 710 | 350 | 398 | 450 |
| **Other director** | 446 | 546 | 698 | 286 | 349 | 439 |

- Numbers reflect actual base salary rates and do not take account of temporary reductions

### PENSION: QUARTILE ANALYSIS OF EMPLOYER PENSION ALLOWANCE (% OF BASE SALARY)

| | FTSE 100 | | | FTSE 250 | | |
|---|---|---|---|---|---|---|
| | LQ | M | UQ | LQ | M | UQ |
| **Highest paid director pension 2019** | 12% | 20% | 25% | 10% | 15% | 20% |
| **Highest paid director pension 2020** | 10% | 15% | 23% | 10% | 15% | 20% |
| **Pension policy (new appointees)** | 10% | 12% | 15% | 7% | 10% | 15% |

### BONUS: QUARTILE ANALYSIS OF BONUS MAXIMUM OPPORTUNITY (% OF BASE SALARY)

| | FTSE 100 | | | FTSE 250 | | |
|---|---|---|---|---|---|---|
| | LQ | M | UQ | LQ | M | UQ |
| **Highest paid director** | 150% | 200% | 210% | 125% | 150% | 175% |
| **Finance director / CFO** | 150% | 160% | 200% | 123% | 150% | 150% |
| **Other director** | 150% | 150% | 200% | 100% | 125% | 150% |

- The majority of companies operate bonus deferral in the FTSE 100 and FTSE 250

### LONG-TERM INCENTIVES: QUARTILE ANALYSIS FUTURE GRANT POLICY (FACE VALUE OF PSP AWARDS, % OF BASE SALARY)

| | FTSE 100 | | | FTSE 250 | | |
|---|---|---|---|---|---|---|
| | LQ | M | UQ | LQ | M | UQ |
| **Highest paid director** | 200% | 250% | 327% | 150% | 200% | 200% |
| **Finance director / CFO** | 196% | 225% | 300% | 150% | 168% | 200% |
| **Other director** | 200% | 230% | 250% | 125% | 150% | 200% |

### TOTAL TARGET REMUNERATION: QUARTILE ANALYSIS OF TOTAL TARGET REMUNERATION (£000s): (BASE SALARY + PENSION + BENEFITS + ON-TARGET BONUS + EXPECTED VALUE OF LTI)

| | FTSE 100 | | | FTSE 250 | | |
|---|---|---|---|---|---|---|
| | LQ | M | UQ | LQ | M | UQ |
| **Highest paid director** | 2,487 | 3,239 | 4,653 | 1,399 | 1,803 | 2,244 |
| **Finance director / CFO** | 1,541 | 1,943 | 2,684 | 912 | 1,144 | 1,381 |
| **Other director** | 1,484 | 1,736 | 2,595 | 695 | 909 | 1,350 |

### SINGLE TOTAL FIGURE OF REMUNERATION (£000s): (BASE SALARY + PENSION + BENEFITS + BONUS PAID/AWARDED + LTI VESTED): QUARTILE ANALYSIS OF THE SINGLE TOTAL FIGURE

| | FTSE 100 | | | FTSE 250 | | |
|---|---|---|---|---|---|---|
| | LQ | M | UQ | LQ | M | UQ |
| **Highest paid director** | 2,219 | 3,465 | 5,276 | 1,039 | 1,485 | 2,208 |
| **Finance director / CFO** | 1,401 | 1,742 | 3,392 | 666 | 992 | 1,401 |
| **Other director** | 1,415 | 2,214 | 3,705 | 559 | 753 | 1,245 |

### SHAREHOLDING REQUIREMENTS: MEDIAN LEVEL OF IN-EMPLOYMENT SHAREHOLDING REQUIREMENT (% OF BASE SALARY)

| | FTSE 100 | | | FTSE 250 | | |
|---|---|---|---|---|---|---|
| | LQ | M | UQ | LQ | M | UQ |
| **Highest paid director** | 300% | 300% | 400% | 200% | 200% | 250% |
| **Finance director / CFO** | 200% | 225% | 300% | 200% | 200% | 200% |
| **Other director** | 200% | 200% | 300% | 200% | 200% | 200% |

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## ABOUT ALVAREZ & MARSAL

Companies, investors and government entities around the world turn to Alvarez & Marsal (A&M) for leadership, action and results. Privately held since its founding in 1983, A&M is a leading global professional services firm that provides advisory, business performance improvement and turnaround management services. When conventional approaches are not enough to create transformation and drive change, clients seek our deep expertise and ability to deliver practical solutions to their unique problems.

With over 5,000 people across four continents, we deliver tangible results for corporates, boards, private equity firms, law firms and government agencies facing complex challenges. Our senior leaders, and their teams, leverage A&M's restructuring heritage to help companies act decisively, catapult growth and accelerate results. We are experienced operators, world-class consultants, former regulators and industry authorities with a shared commitment to telling clients what's really needed for turning change into a strategic business asset, managing risk and unlocking value at every stage of growth. risk and unlock value at every stage of growth.

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