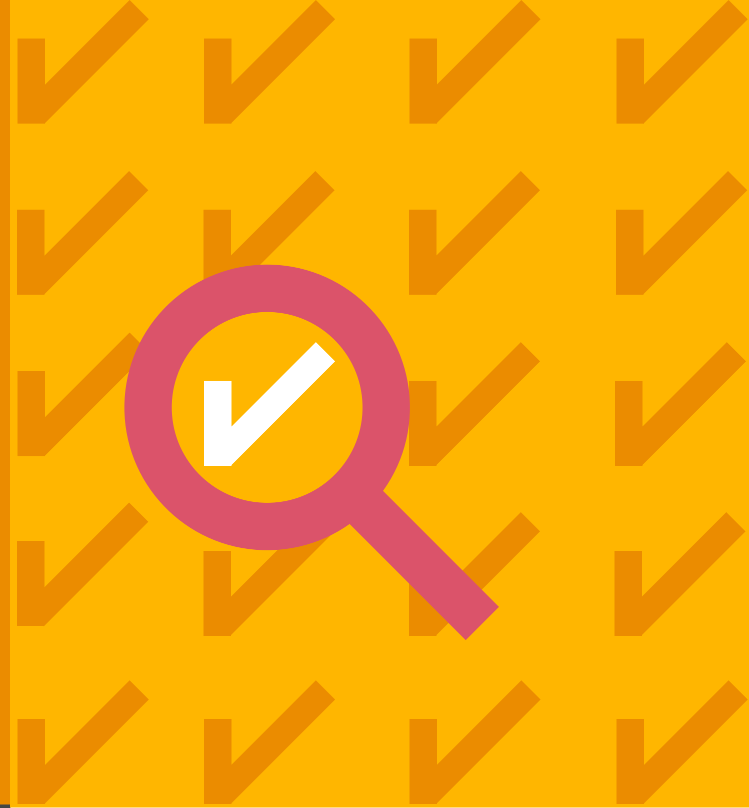
2021 AGM season update

FTSE 250



September 2021

pwc

Introduction

This report sets out a summary of the key executive remuneration trends from Directors' Remuneration Reports from FTSE 250 companies[1] in the 2021 AGM season.

Proxy advisory agencies, in particular the Investment Association, issued clear guidance in the run up to the 2021 AGM season, with an expectation that the impact of the pandemic on financial performance, the use of government support and the employee and shareholder experience were appropriately reflected in remuneration decisions. It appears that the majority of remuneration committees have taken this guidance on board, with CEO total remuneration down 19% compared to last year and 40% of companies paying no bonus to their CEO (compared to 7% last year).

2021 AGM voting outcomes on remuneration reports have been more polarising, with an increase in very strong support (90%+) but also an increase in significant votes against (20%+). Institutional Shareholder Services (ISS) continues to be heavily influential in this area, with almost 80% of companies receiving a significant vote against their remuneration report when ISS issued an "Against" recommendation. The influence of Institutional Voting Information Service (IVIS), the proxy voting arm of the Investment Association, appears to be more limited.

Around a third of companies have presented new Directors' Remuneration Policies for shareholder approval. Most have made only minor changes, such as to align pension contributions with the wider workforce or to introduce post-cessation shareholding requirements. However, a small number of companies have increased bonus and/or long-term incentive opportunities. The steady flow of companies adopting restricted share plans continues, with 9 companies introducing such plans this year.

As the 2021 AGM season continues for those with financial year ends in the latter half of the season, we expect to see continued restraint and scrutiny where pay outcomes do not appropriately reflect the broader stakeholder experience, and this is likely to continue into the 2022 AGM season.

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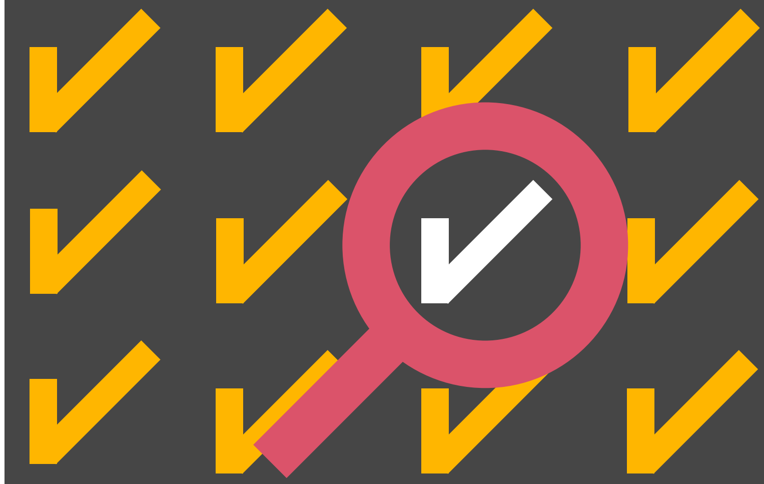


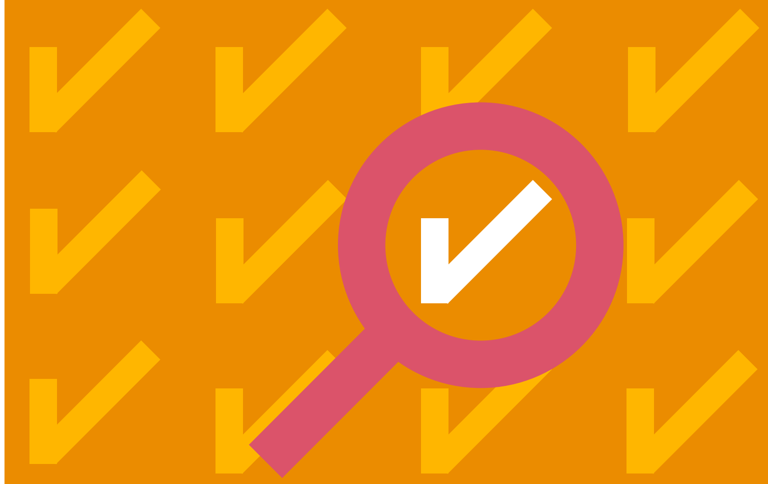
[1] This report is based on the 150 published Directors' Remuneration Reports of FTSE 250 companies, excluding Investment Trusts, as defined at December 2020 with financial years ending in September 2020 or later.

2021 AGM season update

Executive summary

1

Executive summary (1 of 2)



Remuneration outcomes

2020/21 remuneration decisions demonstrate restraint by Remuneration Committees, with:

- **19%** reduction in median total single total figure of remuneration for FTSE 250 CEOs
- **40%** of companies had a zero bonus (either formulaically or by waiver, cancellation or exercise of downwards discretion)
- **27%** fall in median annual bonus outcomes (as a % of maximum)
- **32%** fall in median LTIP outcomes (as a % of maximum)
- **50%** of CEOs have had their salaries frozen for 2021

New Directors’ Remuneration Policies

There have been a minority (34%) of new Directors’ Remuneration Policies being presented for shareholder vote this AGM season. Most companies rolled forward their existing Policy, with minor changes to align with the UK Corporate Governance Code. However:

- **12** companies have increased the annual bonus opportunity for CEOs (11 for CFOs)
- **6** companies have increased the long-term incentive opportunity for CEOs (6 for CFOs)
- **9** companies have introduced restricted share plans for the first time

Executive summary (2 of 2)

AGM voting outcomes

This year's AGM season has seen more divided voting outcomes, with a higher proportion of companies achieving very high (90%+) and low (<80%) outcomes, and fewer companies in the middle ground:

81% of companies have received 90% or more votes in favour of their Directors' Remuneration Report (2020: 71%)

No FTSE 250 companies have lost the vote on their Directors' Remuneration Report (FTSE 100: 3 companies)

62% of companies putting forward new Directors' Remuneration Policies have received 90% or more votes in favour (2020: 74%)

Alignment with UK Corporate Governance Code

There has been widespread alignment with the provisions of the Corporate Governance Code:

90% of companies now have a post employment shareholding requirement (with 54% of those in line with Investment Association guidelines)

97% of companies have aligned pensions for new hires with the workforce

45% of incumbent CEOs received pension contributions (or cash in lieu) in line with the wider workforce in 2020

91% of companies will have aligned incumbent CEO pension contributions (or cash in lieu) with the workforce by the end of 2022, in line with IA guidance, or have already done so

FTSE 250 2021 AGM season snapshot

The table below sets out a snapshot of FTSE 250 remuneration outcomes for 2020 and implementation 2021, with prior year figures provided for comparison. All figures are medians of the sample.

		CEO			CFO	
Remuneration outcomes		**2020**	**2019**		**2020**	**2019**
Single figure amount (£'000)[1,2]	↓	1,293	1,596	↓	757	1,009
Annual bonus payout (% of maximum)	↓	39%	66%	↓	30%	63%
LTIP vesting (% of maximum)	↓	30%	62%	↓	32%	66%
Remuneration policy implementation		**2021**	**2020**		**2021**	**2020**
Salary increase (excluding freezes)	↓	2.4%	3.0%	↓	2.1%	3.0%
Pension (% of salary)	↓	13%	14%	↓	12%	14%
Annual bonus policy maximum (% of salary)	=	150%	150%	=	150%	150%
LTIP grant value (% of salary)	=	200%	200%	↑	175%	150%
LTIP policy maximum (% of salary)	=	200%	200%	=	200%	200%
Shareholding Requirement (% of salary)	=	200%	200%	=	200%	200%

1. Note that these numbers includes buy out awards.
2. Excluding Directors where the incumbent has not been in role for two full financial years.

↑ of CEOs with salary freezes has increased (50% vs 40% in 2020).

29% of companies cancelled, waived or exercised discretion to reduce CEO bonuses to zero.

11% of companies had a nil formulaic CEO bonus outcome

15 companies seeking new Policy approval have increased their CEO annual bonus and/or LTIP opportunity

9 companies have introduced Restricted Share Plans

2021 AGM season update

Looking back: 2020 remuneration

2

Median bonus and LTIP outcomes are down significantly on the prior year

Median bonus and LTIP payouts (as a % of maximum opportunity) have decreased on prior year for CEOs and CFOs.

This is due to:

- challenging underlying performance directly impacting the outcomes of short and long term incentives;
- bonus plans being cancelled during the year;
- bonuses being waived at the end of the year; and
- Remuneration Committees exercising discretion to reduce the bonus outcome (in some cases to zero).

There was in an increase in zero payouts for incentives for 2020:

- 40% of CEO bonuses (7% for 2019);
- 40% of CFO bonuses (6% for 2019);
- 28% of CEO LTIPs (20% for 2019);
- 27% of CFO LTIPs (19% for 2019).

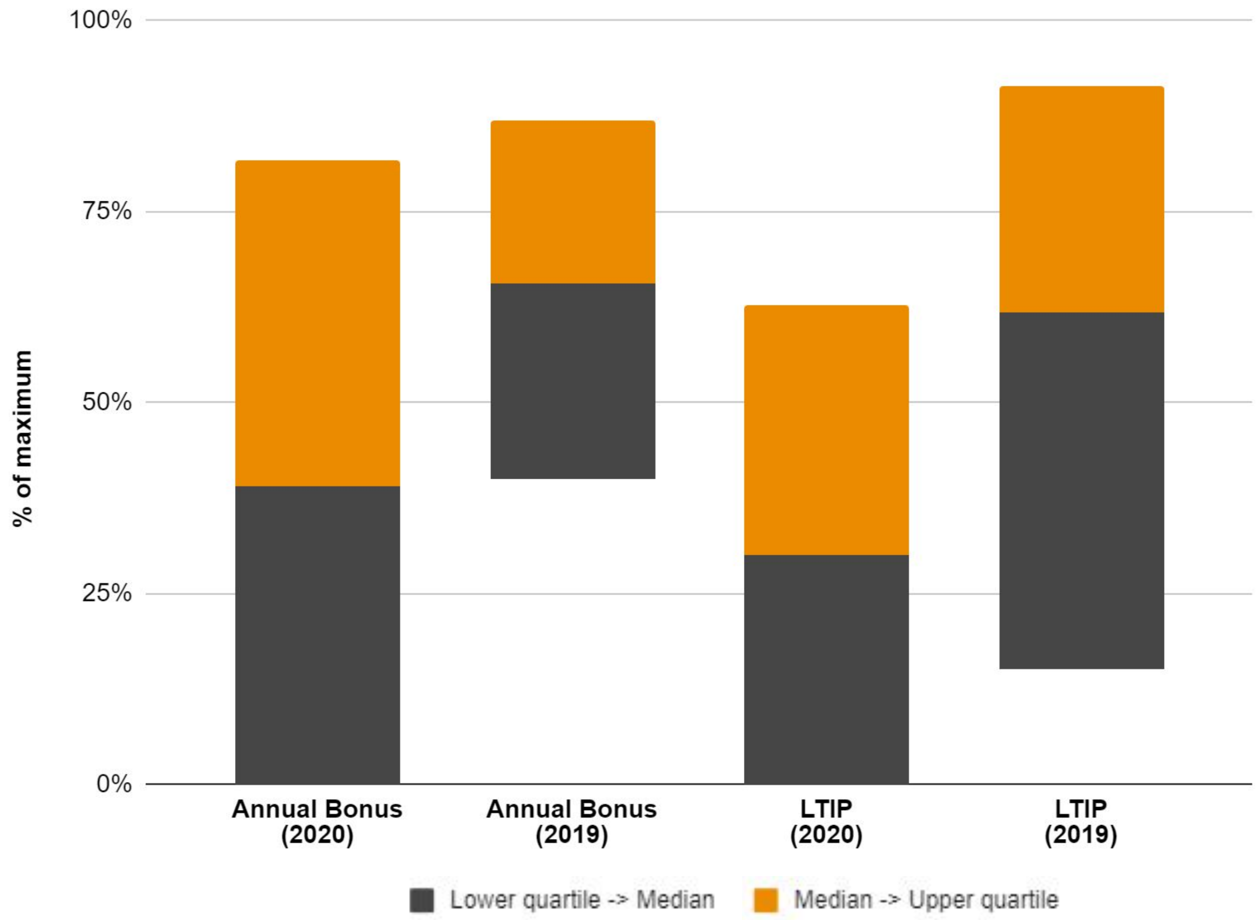


Figure 1: CEO Incentive payouts as a % of maximum in 2019 and 2020

Most company bonus decisions were aligned with shareholder expectations

	Suspended dividends	Maintained dividends / Originally suspended dividends but since restarted them / Existing policy to not pay dividends
Utilised the CJRS[1] (or similar) (without repayment)	see below	see below
Did not utilise the CJRS[1] (or similar) / Utilised the CJRS[1] (but repaid)	see below	see below

Utilised the CJRS[1] (or similar) (without repayment) — Suspended dividends

22 companies

No companies in this scenario paid a bonus:

- **6** had a zero formulaic bonus outcome
- **7** cancelled or waived the bonus
- **9** exercised discretion to reduce the bonus to zero

Utilised the CJRS[1] (or similar) (without repayment) — Maintained dividends / Originally suspended dividends but since restarted them / Existing policy to not pay dividends

10 companies

Each bar represents an individual CEO bonus outcome

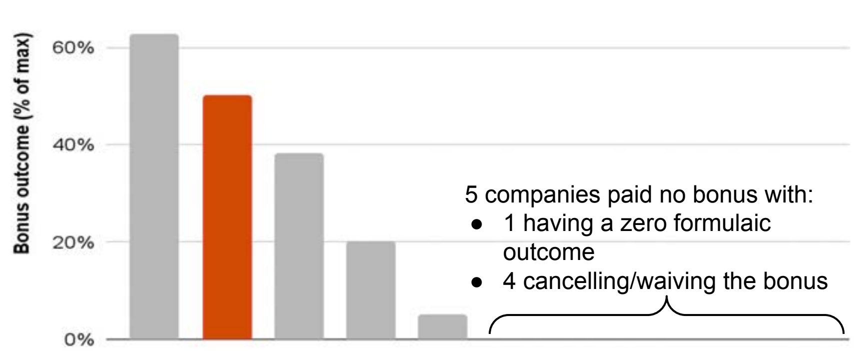


Figure 2: Bonus payout levels in companies where dividends were paid but CJRS[1] was accessed and not repaid

Did not utilise the CJRS[1] (or similar) / Utilised the CJRS[1] (but repaid) — Suspended dividends

15 companies

Each bar represents an individual CEO bonus outcome

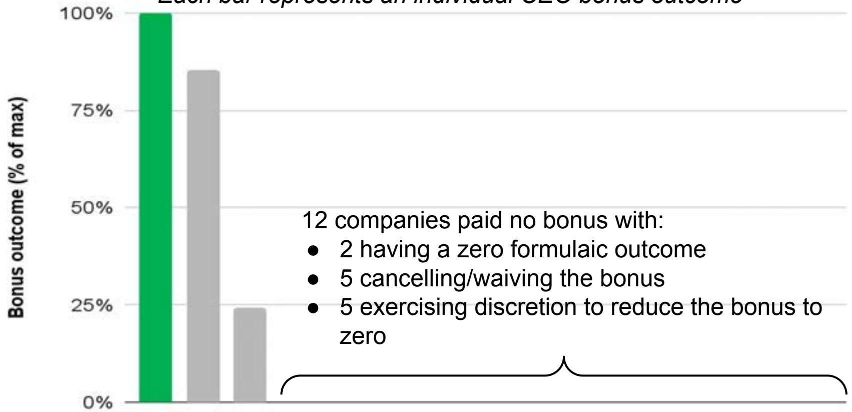


Figure 3: Bonus payout levels in companies where dividends were suspended but CJRS[1] was not accessed, was accessed but repaid or where no disclosure on its use was provided

Did not utilise the CJRS[1] (or similar) / Utilised the CJRS[1] (but repaid) — Maintained dividends / Originally suspended dividends but since restarted them / Existing policy to not pay dividends

91 companies

Each bar represents an individual CEO bonus outcome

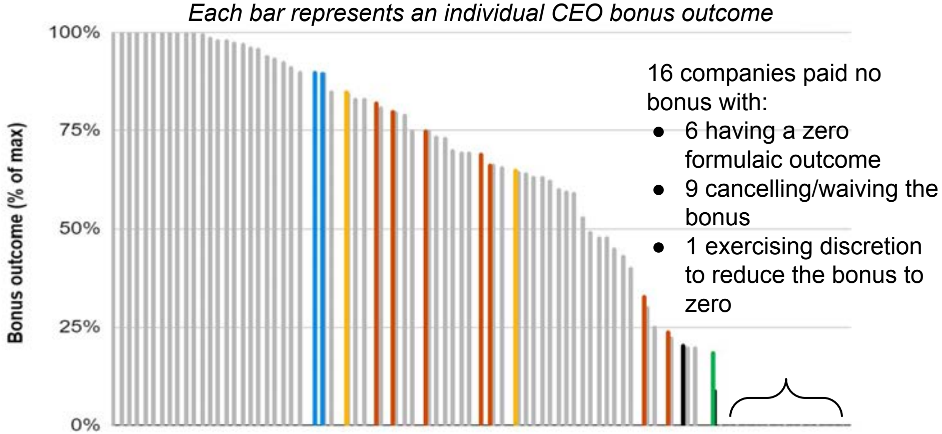


Figure 4: Bonus payout levels in companies where dividends were paid and CJRS[1] was not accessed, was accessed but repaid or where no disclosure on its use was provided

No discretion | Cancelled/waived | Part-waived | Downwards discretion | Upwards discretion | Adjusted targets/weightings | Deferred

1) CJRS and international equivalents

84% made no changes to their planned LTIP grants in 2020

2020 LTIP grants

- Many companies experienced share price volatility in 2020, presenting a risk that Executives could benefit from "windfall gains" if awards were granted at depressed share prices which subsequently recovered.
- Companies also faced challenges in setting robust three year performance targets in light of the increased business uncertainty.
- 84% of companies continued to grant LTIP awards without making any up front changes.
- However, around 20% committed to reviewing windfall gains at vesting and exercising downwards discretion to avoid this where appropriate.
- Small numbers of companies made up front adjustments, including:
    - reducing the grant value of the award
    - using a different share price
    - using different performance measures or targets; or
    - not granting LTIP awards all together.

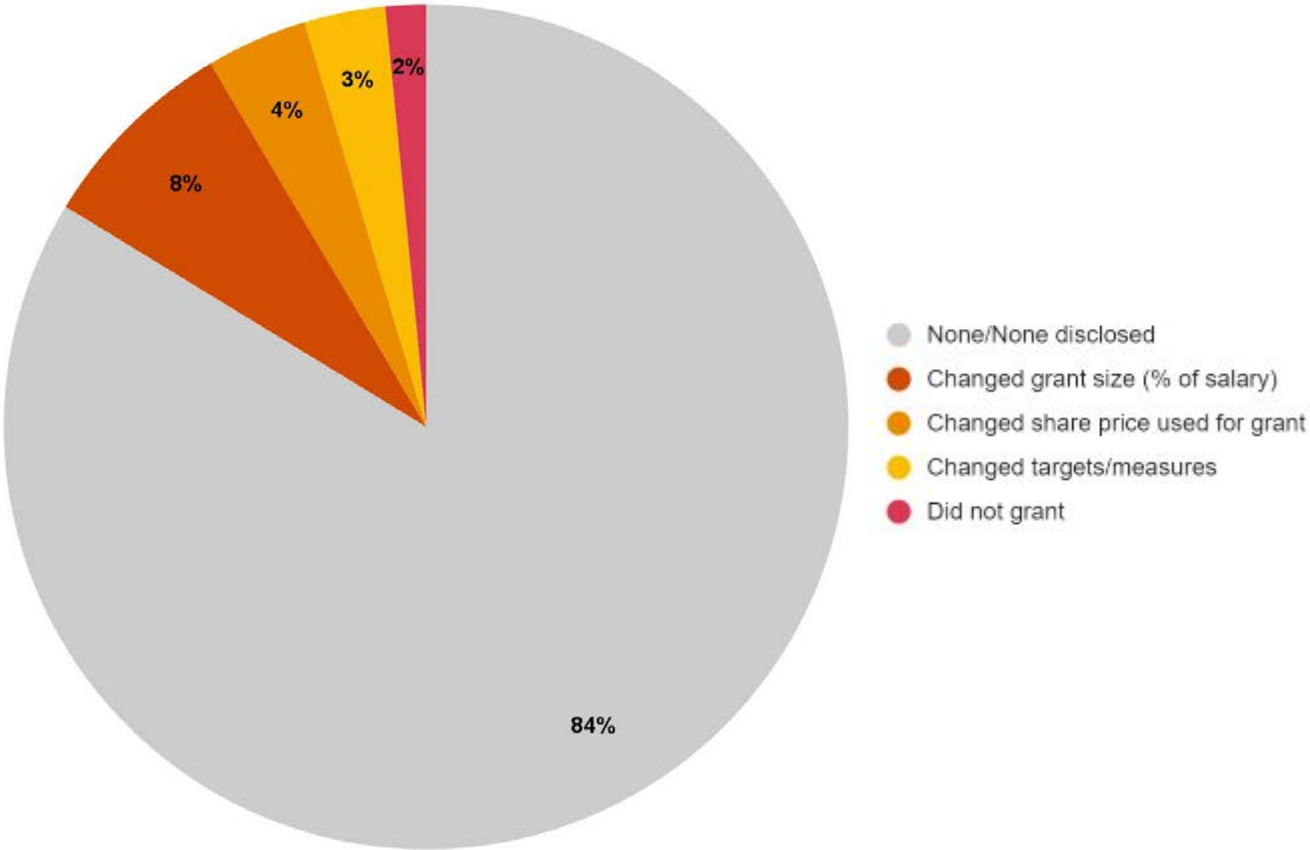


Figure 5: Changes made to 2020 LTIP grants (%s may not sum due to rounding)

Majority of companies have a post-employment shareholding requirement in line with IA guidance

90%

of companies have a post-employment shareholding requirement.

Of those companies that do not, most state their intention to review this during their next policy review.

54%

of companies with a requirement have implemented a post-employment shareholding requirement which is 100% of the in-employment requirement for 2 years, in line with the Investment Association's preferred approach.

The majority of the remaining requirements are structured 100% of the in-employment shareholding requirement for 1 year, reducing to 50% for the second year.

24%

of companies (12 companies) taking a new policy to vote have increased shareholding requirements. This is often linked to a corresponding increase in LTIP opportunity or the introduction of a restricted share plan.

The median shareholding requirement for CEOs and CFOs remains at 200% of salary.

Median CEO:50th percentile pay ratio fell from 36:1 in 2019 to 28:1 in 2020

- Option A was the most common methodology, used by 72% of companies in 2020 (compared to 70% in 2019).
- Option C continues to be the least common methodology used (6% of companies used this methodology in 2020).
- 10 companies voluntarily disclosed their pay ratio information despite not being required to do so by the regulations.

- The median CEO:50th percentile pay ratio fell from 36:1 2019 to 28:1 in 2020, largely driven by a significant fall in the single figure for many CEOs this year.
- The sectors with the widest range of CEO:50th percentile pay ratios were:
    - Financial Services - from 5:1 to 105:1
    - Consumer Discretionary - from 8:1 to 106:1
- The highest and lowest CEO:50th percentile pay ratios were 106:1 and 5:1 respectively.

The detail included in the accompanying explanatory narrative varies widely. Those including the most detail are able to:

- Explain, in detail, the reasons why the ratios have changed from the prior year, including comparison of CEO incentive outcomes and employee remuneration; and
- Explain why the median pay ratio is consistent with the pay, reward and progression policies for the UK workforce by explaining the rationale for the make-up of the CEO and employee remuneration packages.

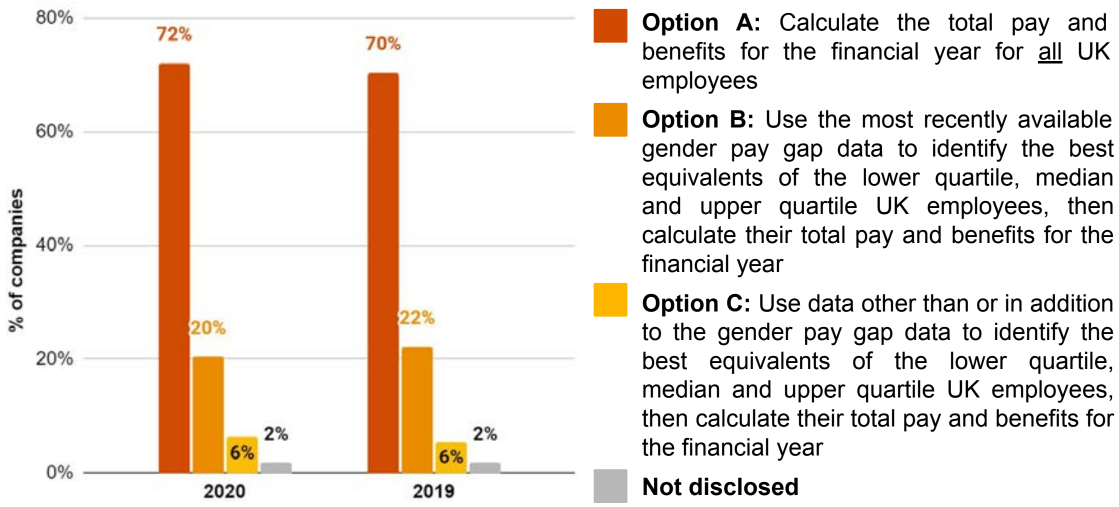


Figure 6: Methodologies used by companies required to disclose CEO:employee pay ratios

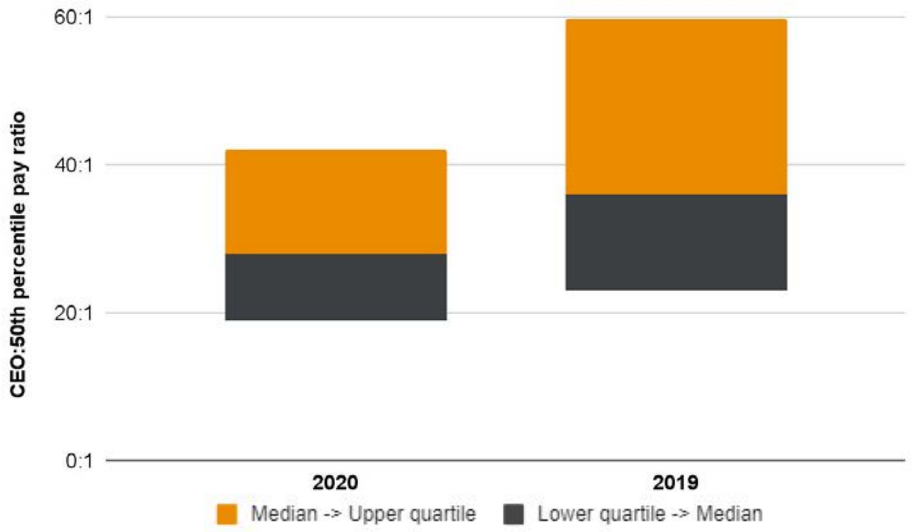


Figure 7: CEO: 50th percentile pay ratios for individual companies by sector and the lower quartile to upper quartile range for the FTSE 100 companies in the relevant dataset

The 2021 AGM season has been more polarising

81% of companies received at least 90% of votes in favour of their DRR (an increase on 71% in 2020)

85% of companies received at least 80% of votes in favour of their DRR (a decrease on 89% in 2020)

Zero companies have lost their DRR vote (compared to 3 companies in 2020)

- In addition to salary increases and pension alignment, bonus and LTIP decisions are typically a key driver behind remuneration voting outcomes.
- As illustrated on page 8, there has been a significant increase in the number of companies with a zero bonus and/or LTIP outcomes. In the absence of other major shareholder voting issues, this has removed the potential for contention in the voting outcome, leading to an increase in the number of companies achieving very strong support (90% or higher)
- Conversely, a higher proportion of companies experienced a significant vote against (20% or more) in 2021 compared to 2020. This may be because the shareholder voting issues were more clear cut this year, and therefore those not in the "top" were in the "bottom".
- Where companies received less than 80% support, the majority of concerns related to awarding significant salary increases to Executive Directors (above the wider workforce level) and/or perceived misalignment of bonus outcomes with stakeholder experience.
- The influence of ISS and IVIS are explored further on the next page.

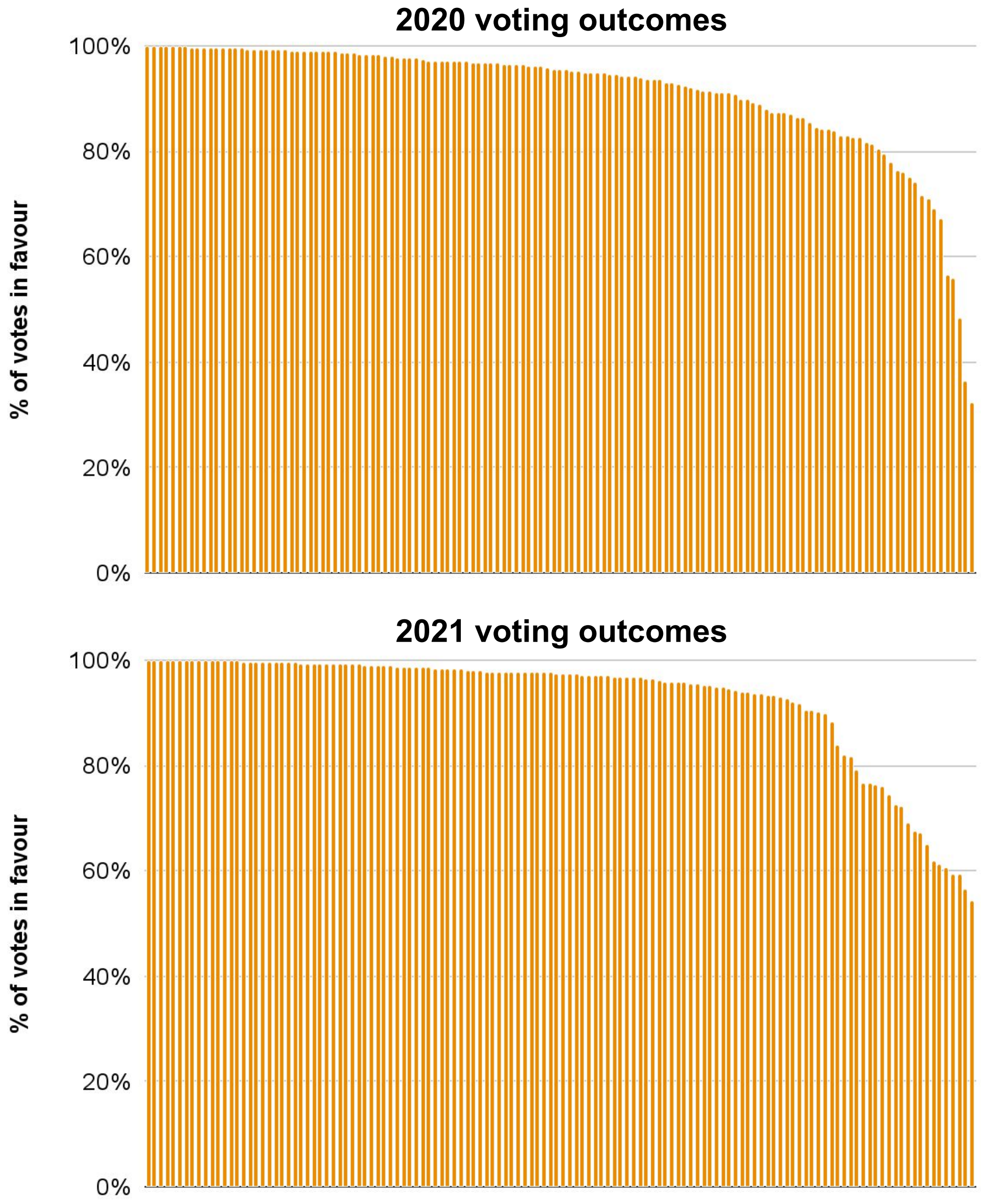


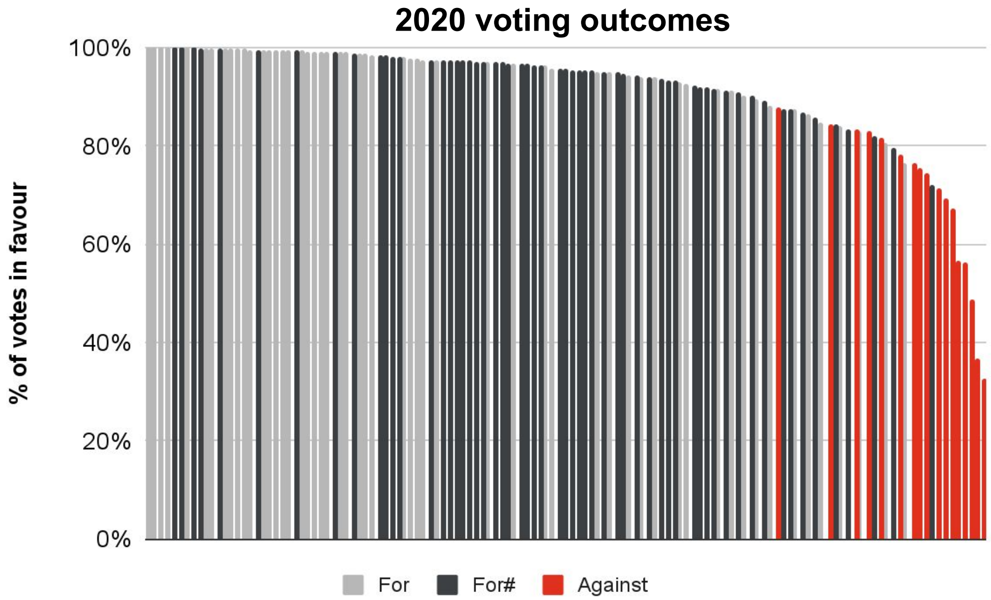
Figure 8: DRR voting outcomes in 2020 (top) and 2021 (bottom)

ISS remain highly influential…

79% of companies receiving an "Against" recommendation from ISS in respect of their DRR received less than 80% of votes in favour (an increase on 71% in 2020)

99% median votes in favour of the DRR when ISS issued a "For" recommendation (98% in 2020)

- Unlike the Investment Association, ISS did not issue executive remuneration guidance in the context of COVID-19 in the run up to the 2021 AGM season. However, the principles of the IA's guidelines are likely to mirror the voting recommendation approach of ISS in this area.
- The proportion of "Against" recommendations was broadly flat year-on-year at 15% (compared to 13% in 2020).



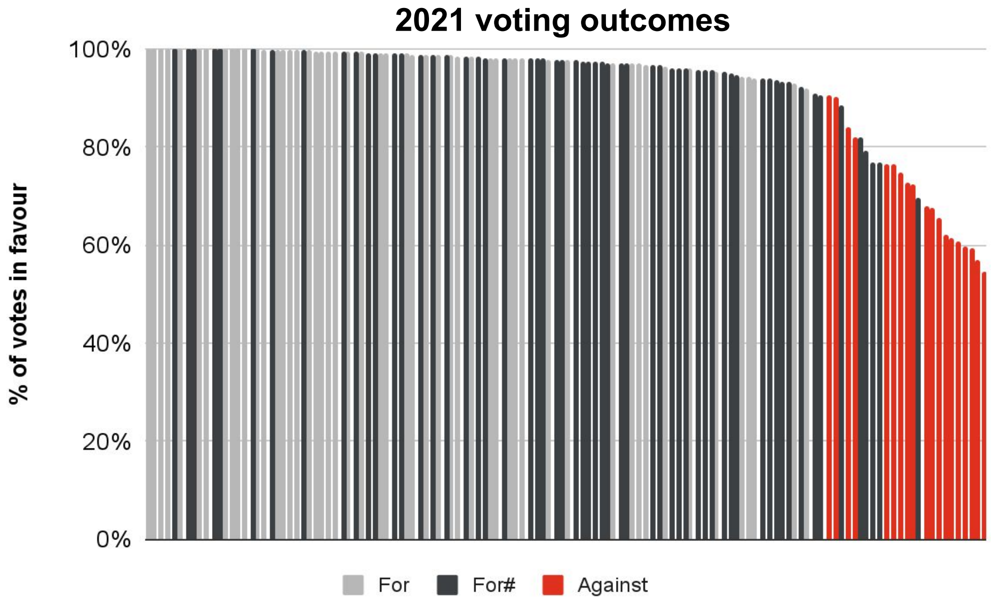


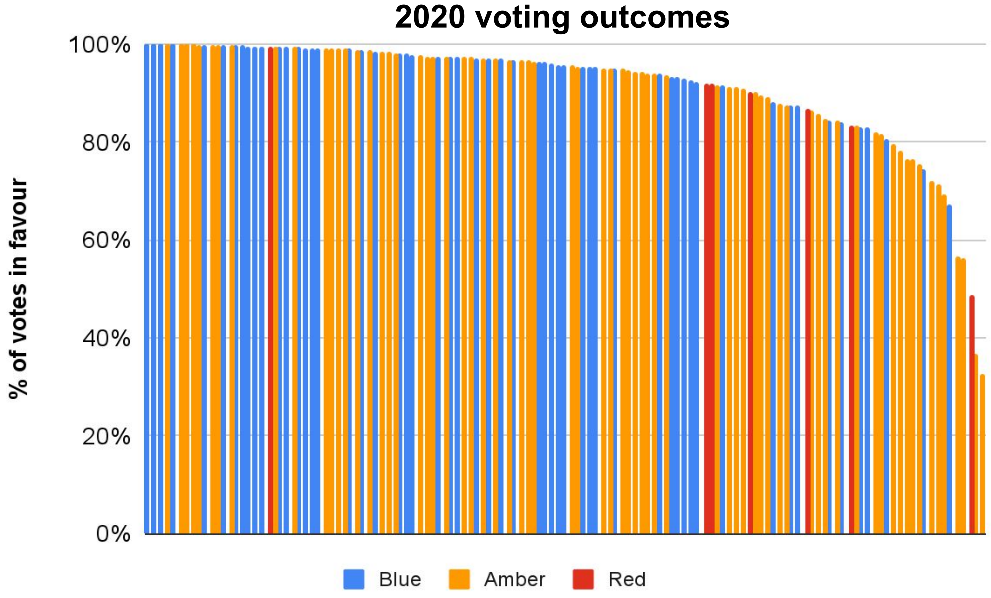
Figure 9: DRR voting outcomes in 2020 (top) and 2021 (bottom) overlaid with ISS voting recommendations. A "FOR#" represents a "qualified FOR" recommendation i.e. a recommendation to vote in favour but not without concerns

…but the influence of IVIS is more mixed

29% of companies receiving a "Red" top from IVIS in respect of their DRR received less than 80% of votes in favour (an increase on 14% in 2020) - far lower than the equivalent for an ISS "Against" recommendation

98% median votes in favour of the DRR when IVIS issued a "Blue" top (97% in 2020)

- IVIS issued more "Red" tops this year (13%) compared to 2020 (5%). However, the range of voting outcomes when a "Red" top was issued was much more variable compared to an ISS "Against" recommendation.
- An IVIS "Blue" was also less likely to be associated with a high voting outcome than an ISS "For" recommendation, with 8% of companies receiving less than 80% of votes in favour when a "Blue" top was issued (compared to none when ISS issued an unqualified "For" recommendation).



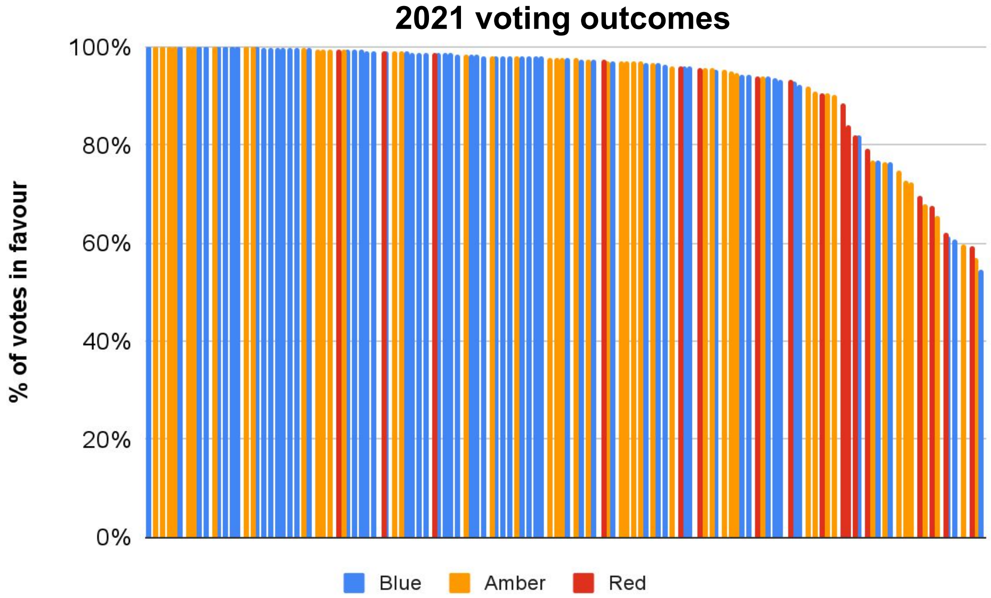


Figure 10: DRR voting outcomes in 2020 (top) and 2021 (bottom) overlaid with IVIS voting recommendations.

2021 AGM season update

Looking forward: 2021 remuneration

3

Continued restraint for pay in 2021, including companies with new policies

- 50% of CEOs and 45% of CFOs received a salary freeze - an increase on 2020.
- The median salary increase (excluding freezes) for 2021 was 2.4% for CEOs and 2.1% for CFOs, slightly lower than 2020 (3.0% for CEOs and CFOs).

- Median bonus opportunity in 2021 is 150% of salary for both the CEO and CFO.
- Median LTIP face value for 2021 is 200% of salary for CEOs and 175% for CFOs.

- 34% have put forward new Directors' Remuneration Policies for shareholder approval.
- 31% are increasing normal maximum CEO opportunities:
  - 19% are increasing the normal CEO maximum annual bonus opportunity;
  - 6% are increasing the normal CEO maximum LTIP opportunity; and
  - 6% are increasing both.
- 9 companies are adopting a restricted share plan for the first time.

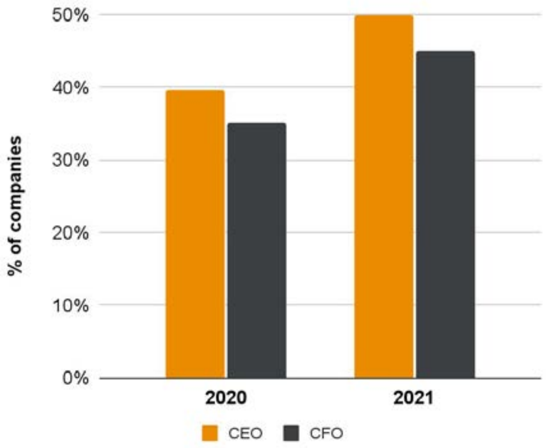


Figure 11 (Left): Proportion of CEOs and CFOs with salary freezes in 2020 and 2021
Figure 12 (Right): CEO and CFO salary increases for 2021

Figure 13: CEO and CFO annual bonus maximum and LTIP opportunities for 2021

Most companies have disclosed a plan to align incumbent pensions with the wider workforce by 2023

Pension levels

13% of salary — median pension rate for incumbent CEOs in 2021 (compared to 14% in 2020)

12% of salary — median pension rate for incumbent CFOs in 2021 (compared to 14% in 2020)

Alignment to workforce

Incumbents

45% of companies already have pensions for incumbents aligned to the wider workforce

91% of companies will have incumbents aligned to the wider workforce by the end of 2022, or have already done so

The remaining companies either do not currently intend to lower the rate to that of the wider workforce or have set out a timeframe beyond 31 December 2022.

New hires

97% of companies now have new joiner pension rates aligned to their wider workforce

Figure 14: Incumbent pension contribution levels in 2020 and 2021

Adoption of ESG measures in incentive plans continues in light of increasing shareholder interest

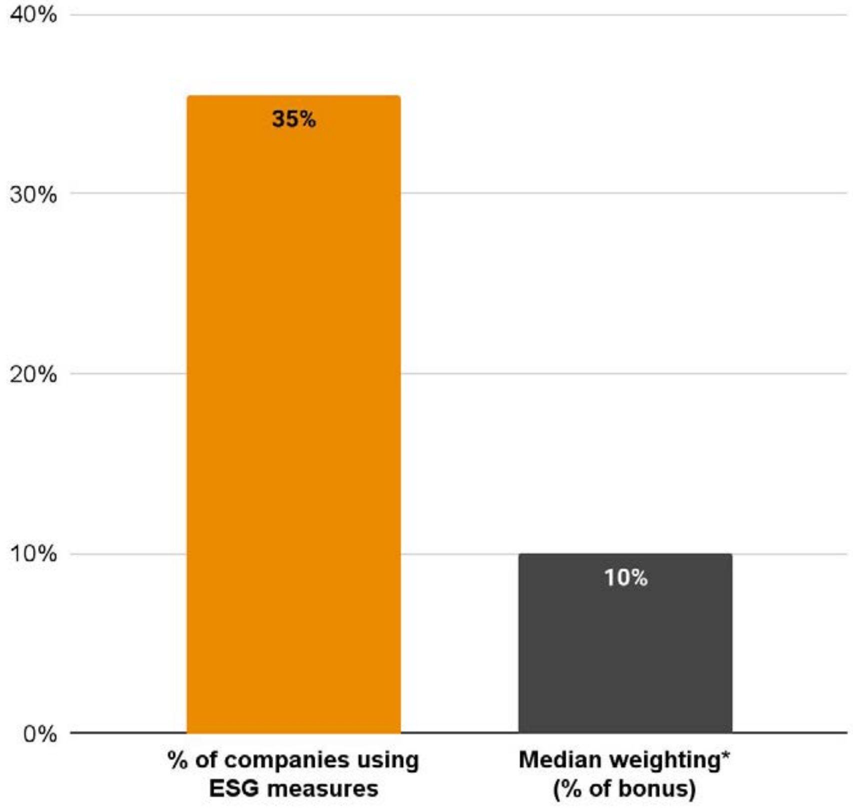


Figure 15: ***Annual bonus*** *- percentage of companies using ESG measures and median weighting (as % of maximum award)*

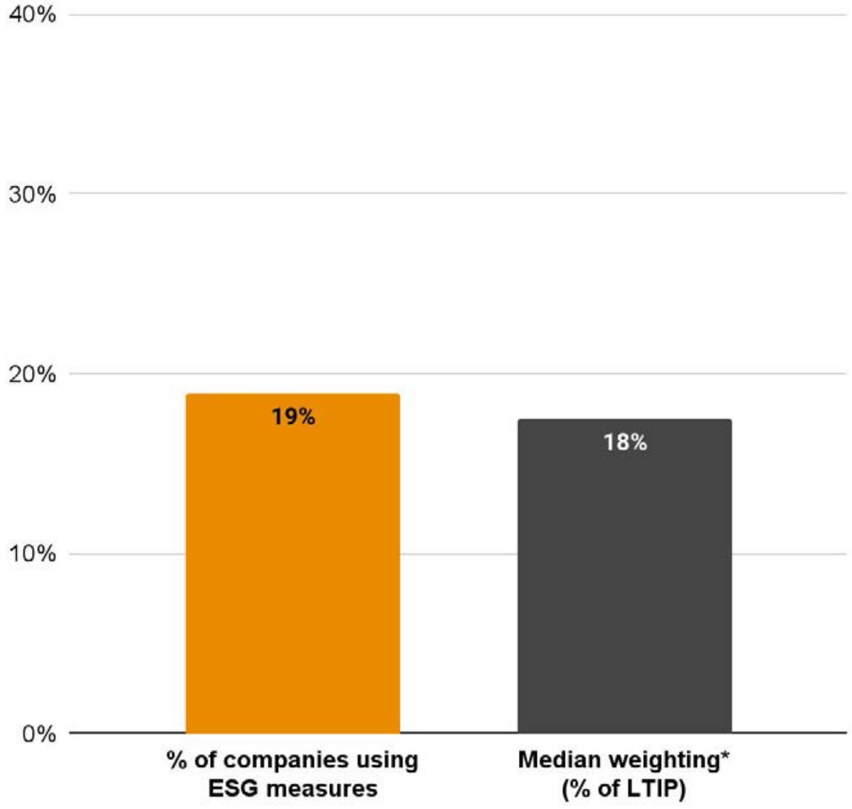


Figure 16: ***LTIP*** *- percentage of companies using ESG measures and median weighting (as % of maximum award)*

**where disclosed*
Note that ESG measures have been broadly defined as any measure relating to the environment, sustainability, community, employee engagement, diversity, health & safety and risk.

For further details on using ESG performance measures see PwC reports "Paying well by paying for good" - https://www.pwc.co.uk/services/human-resource-services/insights/environmental-social-governance-exec-pay-report.html

Slightly lower support for new Policies

62% of companies received at least 90% of votes in favour of their new Policy (a decrease on 74% in 2020)

80% of companies received at least 80% of votes in favour of their new Policy (a decrease on 89% in 2020)

1 company has lost their Policy vote (the same company that lost their Policy vote in 2020)

- Companies seeking new Policy approvals this year fell broadly into one of three categories:
  - minor amendments related to best practice and/or adoption of UK Corporate Governance Code changes (e.g. post-employment shareholding requirements);
  - increases in annual bonus and/or LTIP opportunities; and
  - adoption of non-standard long-term incentive structures, in particular restricted share plans.
- Companies receiving low voting outcomes were almost exclusively seeking changes in the second and third categories above.
- The influence of ISS and IVIS are explored further on the next page.

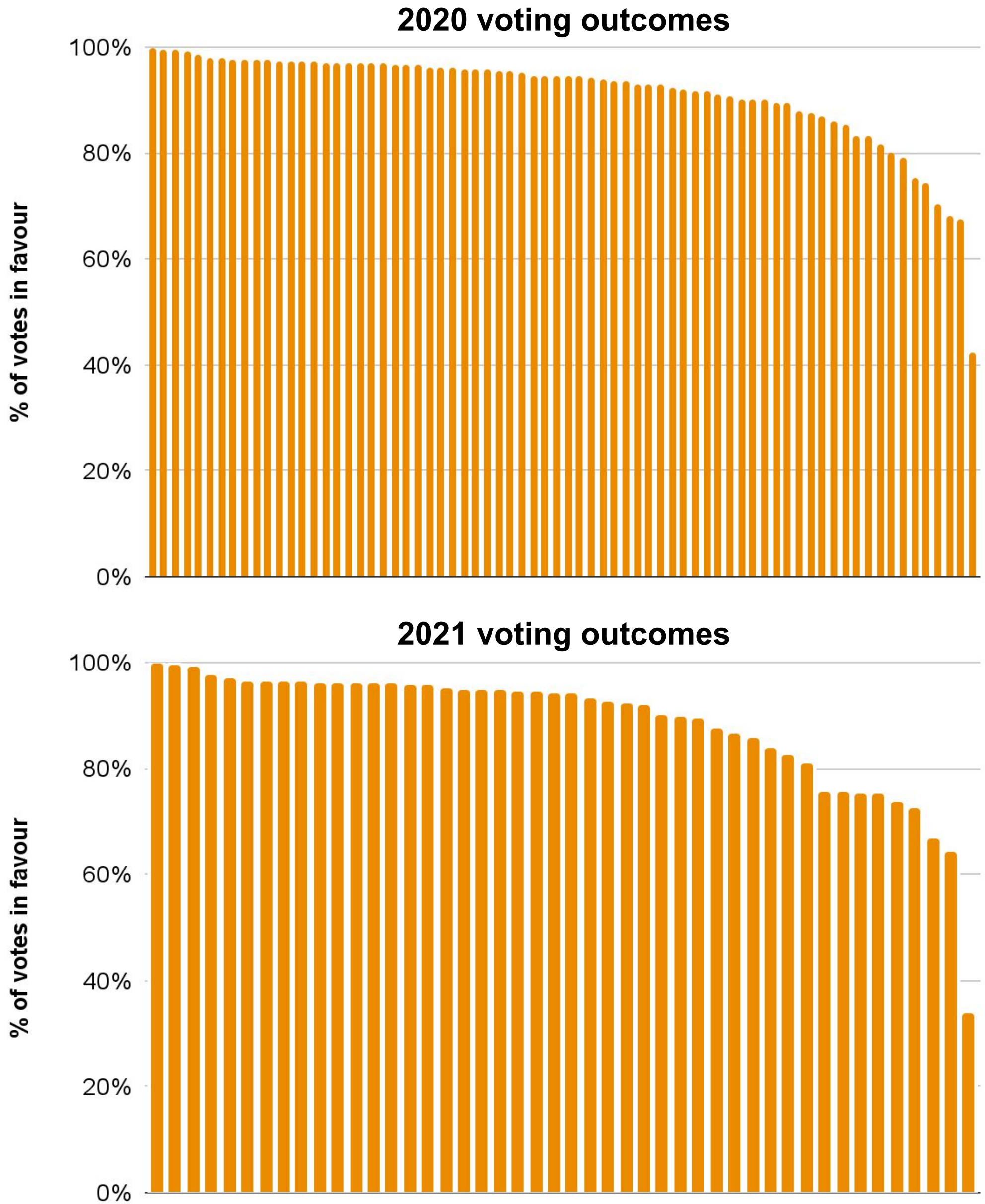


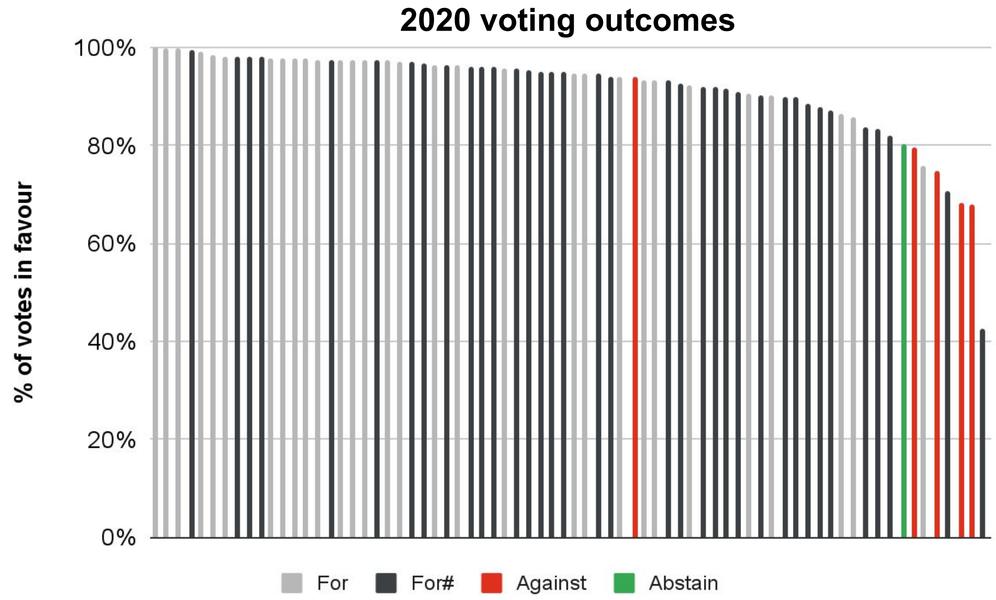
Figure 17: Policy voting outcomes in 2020 (top) and 2021 (bottom)

Increased ISS opposition to new Policies

58% of companies receiving an "Against" recommendation from ISS in respect of their Policy received less than 80% of votes in favour (a decrease on 80% in 2020)

96% median votes in favour of the Policy when ISS issued a "For" recommendation (97% in 2020)

- The proportion of "Against" recommendations has increased significantly from 7% in 2020 to 26% in 2021.
- The majority of the "Against" recommendations were associated with non-standard long-term incentive plans (value creation plans or restricted share plans) and/or increases in variable remuneration opportunities.



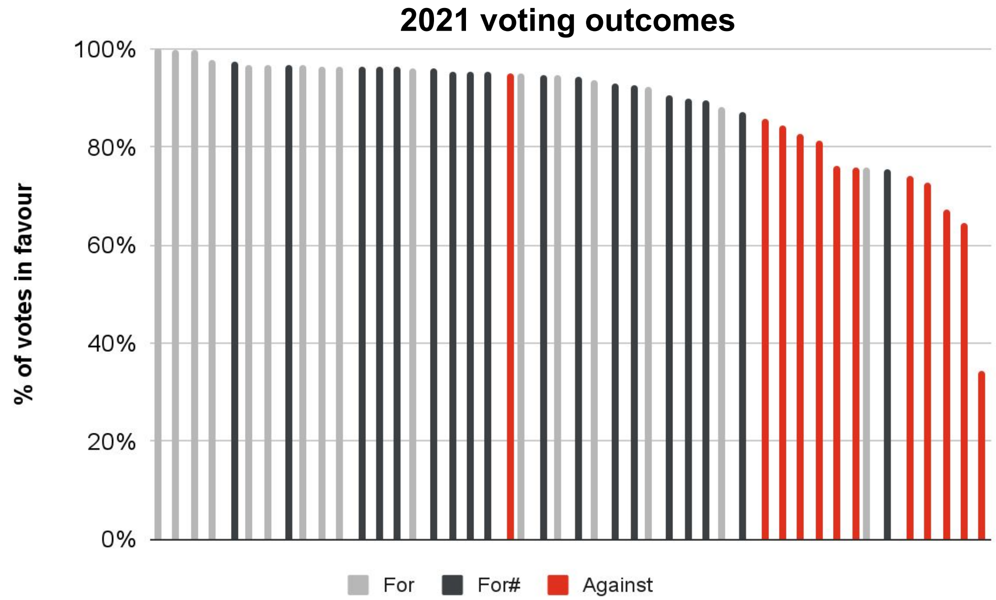


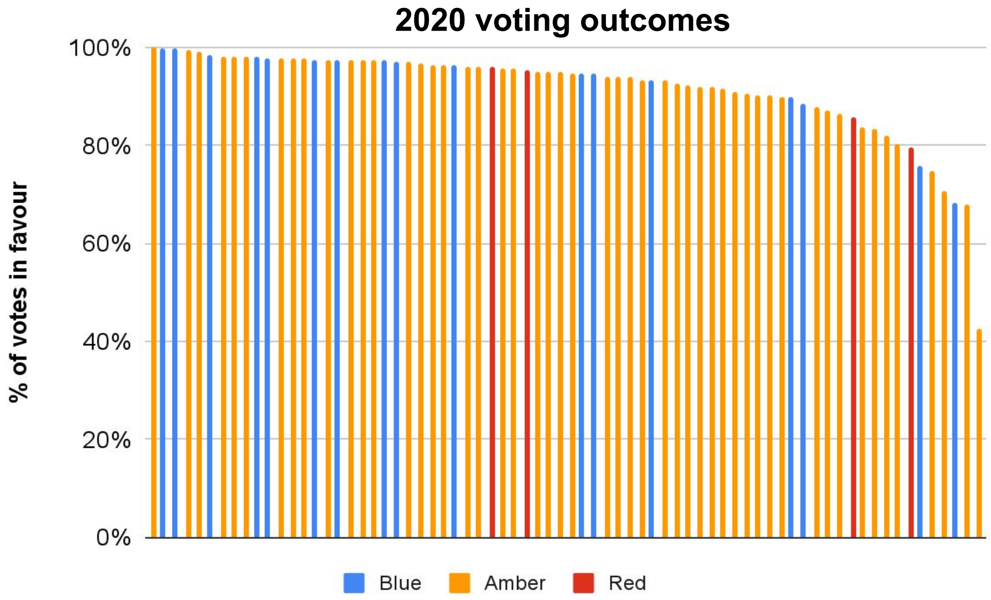
Figure 18: Policy voting outcomes in 2020 (top) and 2021 (bottom) overlaid with ISS voting recommendations. A "FOR#" represents a "qualified FOR" recommendation i.e. a recommendation to vote in favour but not without concerns

Limited influence of IVIS on Policy voting outcomes

40% of companies receiving a "Red" top from IVIS in respect of their Policy received less than 80% of votes in favour (an increase on 25% in 2020)

96% median votes in favour of the Policy when IVIS issued a "Blue" top (97% in 2020)

- IVIS issued slightly more "Red" tops this year (11%) compared to 2020 (6%). However, as with the DRR, the range of voting outcomes when a "Red" top was issued was much more variable compared to an ISS "Against" recommendation.



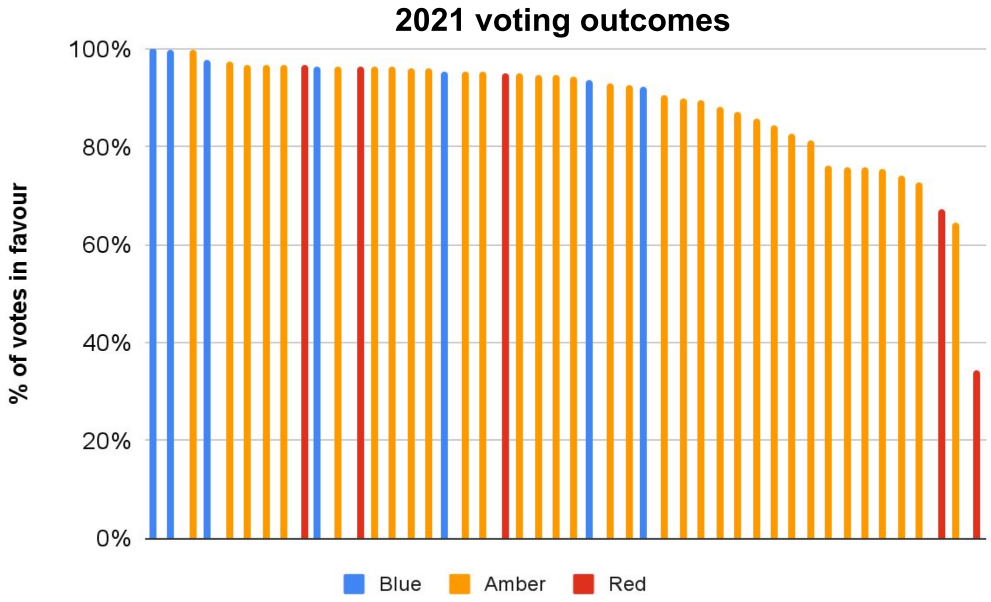


Figure 19: Policy voting outcomes in 2020 (top) and 2021 (bottom) overlaid with IVIS voting recommendations.

Start a conversation

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