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# FTSE 100 Executive Remuneration Survey 2020

# Introduction

## 1. Shareholder Environment

- In 2020 we saw fewer significant votes against remuneration reports and policies than in recent years and less than we were expecting, given that 2/3 of FTSE 100 companies put their policies up for renewal in 2020. In total only 5% of companies suffered a defeat of their remuneration report and 9% of companies experienced a significant vote against their remuneration policies in 2020. The ISS also issued fewer "against recommendation" in relation to remuneration reports, against 6% of companies (down from 11% in 2019).

- In our view, this is largely due to the cautious approach adopted by most companies with respect to their new remuneration policies: the vast majority of companies, for example, sought increases to executive remuneration of less than 3% and few companies made significant changes to their plan design. The reporting season also occurred at a time where the shareholders were focused on the impact of the COVID-19 crisis on their investors, rather than specific remuneration packages of executives.

- Despite this relatively calm season, high profile organisations had resistance from shareholders over plans to adopt a restricted stock plan and concerns regarding the proposed quantum of share awards due to be made to executives, and as a result of proposed changes to pay benchmarking.

- That being said, we expect the shareholder environment into 2021 to be more volatile. Whilst the COVID-19 pandemic has likely contributed to the more subdued shareholder environment in 2020, we expect it to be a catalyst for shareholder scrutiny in 2021 as shareholders and investors focus on companies' approaches to the COVID-19 pandemic and the ways that executive pay structures have been adjusted accordingly. We anticipate that shareholders will not look kindly upon any remuneration outcomes which are perceived to be disproportionate, particularly for those companies that have relied on furlough schemes, received other public support or have made large redundancies as a result of COVID-19.

- Numerous proxy advisors and advisory bodies have published their revised guidance and principles for 2021 (please see further below). Understandably, the interaction between shareholders' interests, societal fairness and executive quantum in the wake of COVID-19 is the overriding message of the revised guidance and FTSE 100 companies should expect greater scrutiny and enhanced disclosure of their executive pay packages in 2021 and beyond.

## COVID-19

Several FTSE 100 companies have announced a reduction in executive pay and/or a suspension of bonuses in response to the COVID-19 pandemic. The full impact of the pandemic on executive pay structures will not be known until this year's reporting season; however; based on the information available so far, it looks like roughly 35% of companies have reduced executive pay (through a combination of measures) and that such changes are intended to be short-term only.

In 2020, the UK government announced restrictions on cash bonuses and pay rises for senior executives in any company borrowing more than GBP 50 million through the Coronavirus Large Business Interruption Loan Scheme. Similar restrictions applied to companies claiming under the COVID Corporate Financing Facility which sought to borrow money beyond 12 months. Such companies were also subject to restrictions on dividend payments and share buybacks. Similarly, several regulatory bodies, including the European Central Bank (ECB), urged companies to suspend share buybacks and the payment of dividends until 1 January 2021 at the earliest. With regards to executive remuneration the ECB expects financial services companies to adopt "extreme moderation" in relation to variable remuneration payments. Similarly, whilst, the PRA (in December 2020) confirmed that UK banks may recommence some distributions and is updating its guidance regarding bonuses, the PRA is still urging banks to take a cautious and measured approach in 2021 against the backdrop of the COVID-19 pandemic (coupled with the distripution cause by of the end of the Brexit transition period).

The proxy advisors, the Investment Association (IA), the ISS and Glass Lewis, each expect the pandemic to intensify shareholder scrutiny of executive compensation. RemCos are urged to strike the right balance between incentivising management and reflecting the reality of shareholders, employees and the society at large in the wake of COVID-19. The IA is very clear that it does not expect executives to be compensated for any reduced pay as a result of COVID-19. Existing performance conditions for annual bonuses and long-term incentives should not be altered to account for the impact of the pandemic. Further, existing long term incentive plan (LTIP) grants should not be cancelled and replaced with new awards and executives should not receive disproportionate salary rises in FY2021. Any increases in salary should be in line with changes to the wider workforce. RemCos are expected to fully disclose how executive pay has been adjusted to reflect the pandemic, including where LTIP grants have not been reduced, the factors that they have considered, or will consider, to assess whether there has been a windfall gain and how the performance measures for 2020 and future grants are still appropriate in the current market environment.

**Baker McKenzie and Aon have published several client alerts on COVID-19 and executive remuneration over the course of 2020. For a copy of these alerts please click here:**

- HPC/CIPD Annual FTSE 100 CEO pay review and measures taken by companies in the wake of the COVID-19 pandemic don't go far enough. Click here.
- ECB's recommendation to refrain from share buybacks and dividend payments and adopt "extreme moderation". Click here.
- Bonus ban for businesses borrowing through the Coronavirus Large Business Interruption Loan Scheme. Click here.
- Cash Flow Crisis- Shares for Salary Reduction Plans. Click here.
- United Kingdom: COVID-19 - PRA allows cash bonuses of large UK banks to recommence. Click here.
- Six Year-End Considerations for Financial Services Remuneration Committees. Click here.
- How U.K. Companies are Calculating the CEO Pay Ratio in First Year of Disclosure. Click here.

## 2. New guidance to be mindful of in 2021

Proxy Advisors, the ISS, Glass Lewis and Investment Association (the IA) have each issued recommendations in 2020 which caution that companies should consider the wider environment when setting executive pay in the wake of the pandemic. They each expect companies to make at least short-term adjustments when making decisions on cash bonuses and the grant of new awards for executives.  Such recommendations are at the centre of each body's new 2021 guidance and in particular companies should note:

- **The IA:** Where a company has raised capital from shareholders or has relied on governmental support (including the Job Retention Scheme), the IA expects that no bonus payments will be made to executives in FY2020/21, unless there are truly exceptional circumstances.
- **The ISS:** The ISS continues to focus on executive pensions in their Updated Policies. Companies are warned that any vote to approve the remuneration policy will be determined on a case-by-case basis, paying particular attention to the extent to which pension contributions are aligned with those available to the wider workforce.
- **Glass Lewis:** The alignment of executive remuneration with stakeholder experience is singled out by Glass Lewis. Their 2021 UK Policy Guidelines highlight their expectation that RemCos retain a level of discretion to ensure that remuneration outcomes align with company performance as well as shareholder and employee experiences. Further, shareholder and employee experience should also factor into any forward looking disclosures.  They warn companies that they may recommend shareholders to vote against a remuneration report where there is substantial misalignment in this regard, including where executive pay increases outpace employee salary increases.

The High Pay Centre (HPC), as part of their annual FTSE 100 CEO pay review concluded that despite measures taken by companies in the wake of COVID-19, that excessive pay culture amongst FTSE 100 companies remains. They have been largely critical of the measures taken during the pandemic – dismissing these as superficial and short term nature. The report argues that very high CEO pay risks "undermining the spirit of solidarity" which many companies are trying to project during the COVID-19 and plead with companies to take action to address this in 2021.

For more information, please see Baker McKenzie's Executive Remuneration placemat, which includes recent client alerts on the above.

## 3. Annual Bonus

### Key Points to Note

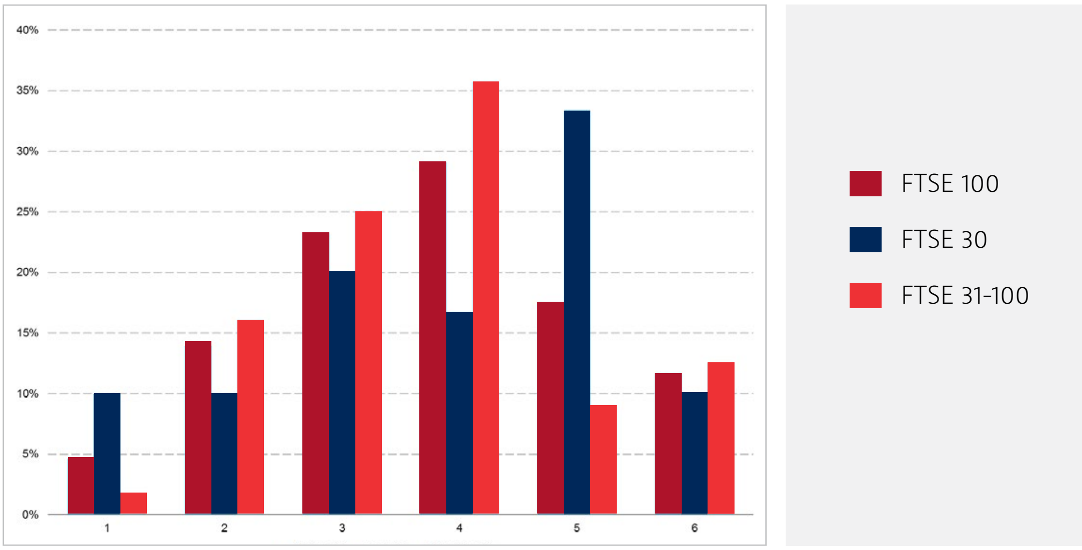
- Compulsory share deferral arrangements have marginally decreased from 2019, due to changes in constituents in the FTSE 100, but are still in place at 86% of companies. Deferral is typically 50% of any bonus awarded which is deferred into shares and held for a three-year period.
- The median bonus pay-out level has decreased to 58% of the maximum opportunity (from 70% of maximum in 2019). FTSE 100 market median on-target bonus is 50% of the maximum opportunity which implies that most companies out-performed their targets.

- Disclosure of bonus targets is common practice; 98% of companies disclosed their financial targets and around 86% disclosed their quantifiable non-financial targets. Looking forward, however, the IA in their revised Principles of Remuneration for 2020, cautions RemCos against the increasing trend to link annual bonuses with strategic targets and/or personal objectives and expect that financial metrics will comprise the significant majority of the overall bonus in 2021 and beyond.
- Further, the IA cautions in their 2021 Principles that Bad Leavers should not receive annual bonus payments.
- As touched on above, companies that have taken governmental support, including relying on the Job Retention Scheme, have been warned by the IA not to pay bonuses to their executives for FY2020/2021. Further, where a company has relied on indirect government support (such as Business rate relief), the IA expects RemCos to disclose how they have taken into account the impact of these government measures on remuneration outcomes. Similarly, if a company has suspended or cancelled its dividend in relation to FY2019 or FY2020, the IA expects this to have a corresponding impact on remuneration outcomes. RemCos will need to clearly disclose how this has been reflected.

## Performance Measures

It is typical for companies to operate a balanced scorecard of measures to give a more rounded assessment of performance; 95% of companies used two or more measures and 29% used five or more performance measures. This allows companies to capture a broader range of company-specific Key Performance Indicators (KPIs) – this is popular with many investors, who prefer to see performance measures linked to underlying company financial and operational performance.

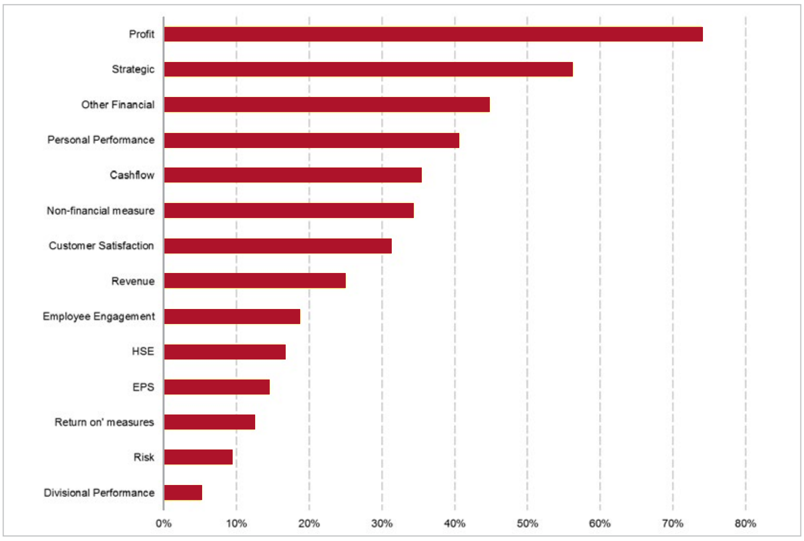
**Chart 1:**
Number of bonus performance measures




The most commonly used annual incentive measure continues to be profit. There are different definitions of profit that are used, ranging from EBITDA (earnings before interest, tax, depreciation and amortisation), EBIT (earnings before interest and tax), PBT (profit before tax) and PAT (profit after tax). When companies who use EPS (earnings per share) in their annual bonus are also taken into account, an earnings/profit measure is almost universal.

The use of strategic measures has remained constant from last year and, with almost 60% of companies including these in their bonus scorecards, they remain the second most common type of performance metric after profit.

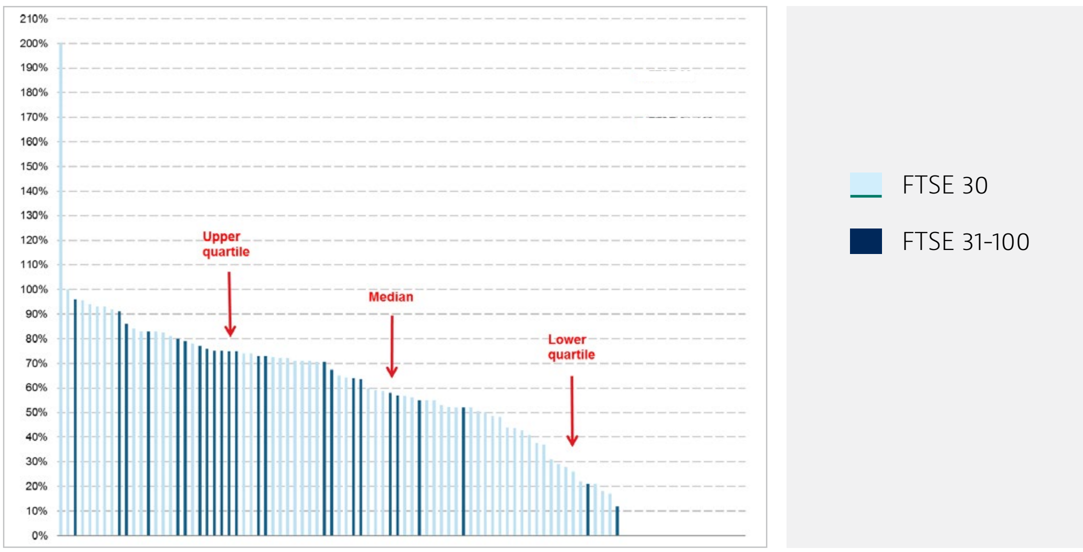
## Chart 2:
## Prevalence of performance measures in annual bonus plans




## Pay-Outs

60% of companies received a bonus pay-out of above 50% (a decrease from 73% last year) and 13% received no bonus (an increase from 4% last year).

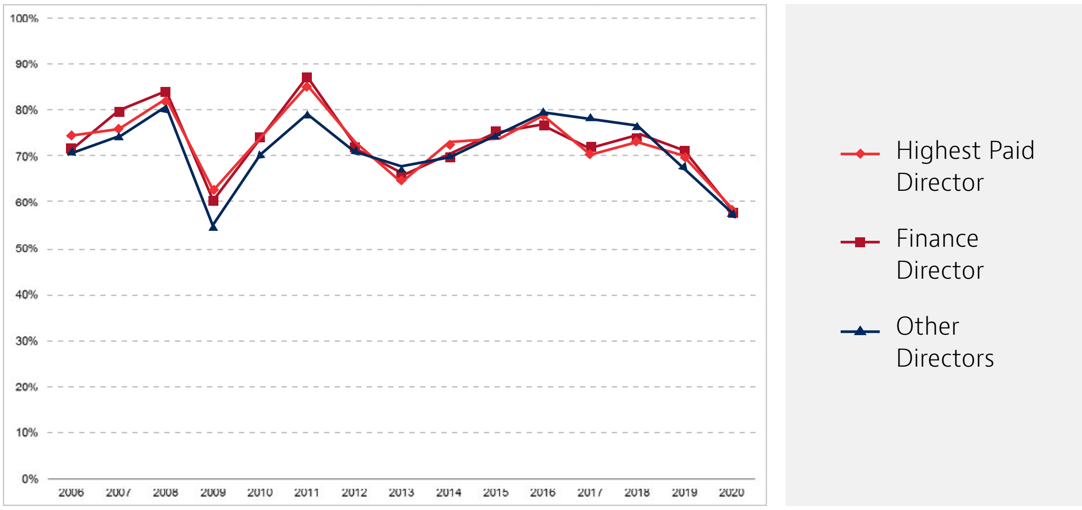
## Chart 3:
## Company-by-Company annual bonus pay-outs (as % of maximum)




The median annual bonus pay-out for the last financial year has decreased to 58% of maximum for the Highest Paid Director (from 70% of maximum in 2019) which indicates a return to 2009 pay-out levels. This remains significantly above the typical stated on-target level of 50%.

**Chart 4:**
Historic bonus pay-outs (% of maximum)

**Median actual bonus paid (as % of maximun)**

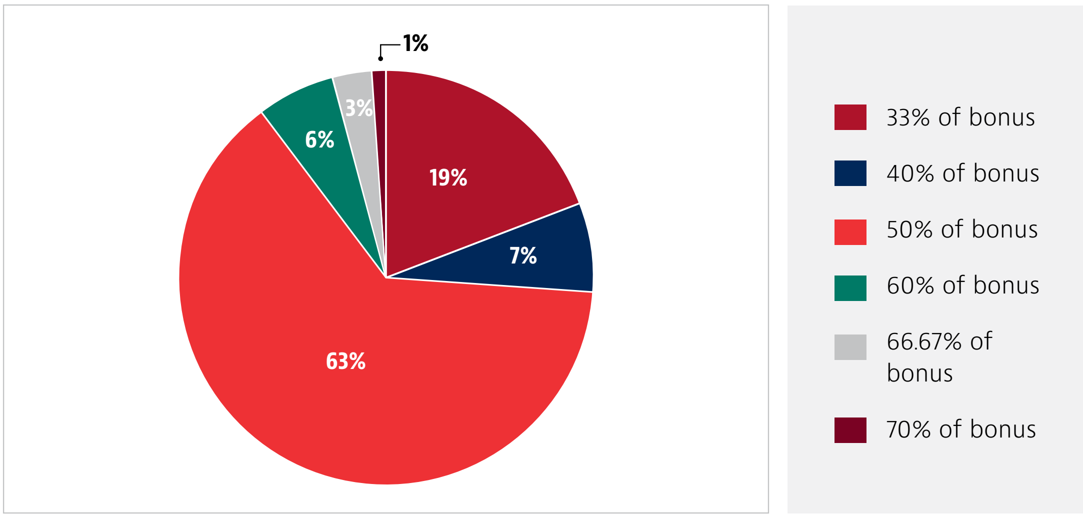



## Deferral

- Deferred share bonus plans require part of the bonus to be deferred into shares which are released at a later date (subject to continued employment) with no additional performance conditions (as the bonus has already been earned).
- Compulsory deferral is now in place at around 87% of the FTSE 100 (an increase from 84% last year). Amongst companies with compulsory bonus deferral, only one company also allows for more of the bonus to be deferred on a voluntary basis.
- We have set out below each company's compulsory deferral requirements for their highest paid director. Where the deferral requirement is not a flat percentage (for example, a percentage of bonus above a threshold), we have excluded this from the analysis.
- Where companies do not have compulsory deferral requirements, some pay all or part of the annual bonus in immediately vested shares (often subject to a holding period) or have stretching share ownership requirements.
- Looking forward to 2021, the IA will expect the entire portion of any bonus over 100% of an executive's annual salary to be deferred into shares.

**Chart 5:**
Portion of annual bonus which is deferred

**Annual bonus deferral amount**




The most common approach to deferral is for shares to "cliff" vest – i.e. all shares vest at the same time. In relation to the companies which have compulsory deferral, 81% have cliff vesting. For those companies with cliff vesting, 17% vest the shares after two years, 81% vest the shares after three years and 2% vest the shares after four years.

19% of companies have "phased" vesting for their deferred bonus awards (i.e. awards vest in multiple tranches). Where companies have phased vesting, this ranges from 1-2 years to 3-7 years.

## Disclosure

Following pressure from proxy agencies and shareholders, the prevalence of companies disclosing quantifiable targets (both financial and non-financial) has increased, having remained broadly flat last year. The disclosure of non-financial targets is an area of heightened focus for investor bodies. With regards to the director's report, where a portion of the annual bonus comprises personal or strategic objectives, as well as a detail rationale, the IA in 2021 will expect companies to disclose the actual achievements which have led to the payment of these elements.

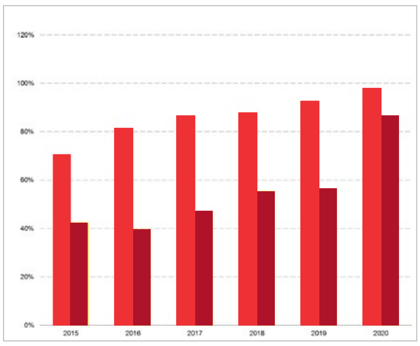
Further there has been an increased use of ESG metrics, which are now incorporated into roughly 49% of annual bonus plans. Looking ahead more generally, ESG risks to the long-term value of companies is highlighted in the IA's revised Principles and the IA recommends that RemCos consider the management of those material ESG risks which are clearly linked to the implementation of the company's strategy as performance conditions in the company's variable remuneration.

**Chart 6:**
Percentage of companies disclosing quantitative bonus targets

**% Companies disclosing some or all bonus targets**

Financial

Non-financial



## 4. Long-Term Incentives (LTI's)

- The sole operation of a performance share plan (PSP) remains the most common approach in the FTSE 100, adopted by 85% of companies
- There is little evidence to date of companies moving away from "traditional" Long-Term Incentive Plan (LTIP) structures although, as noted above, those companies that have looked to do so have experienced scrutiny from investors.
- Three companies have outstanding awards under their value creation plans - as such, these companies are not currently making annual grants under any other plans.
- The prevalence of post-vesting holding periods continues to rise as UK shareholders - in particular, Fidelity UK - have continued to drive for a minimum of five years between the date of award and the sale of the shares. The revised Corporate Governance Code (the "Code") reinforces this principle by requiring long-term incentives to be subject to combined vesting and holding periods of five years. Post-vesting holding periods are majority practice and they are in place in 95% of long-term incentive plans (compared with 87% last year and only 18% in 2013). The typical holding period is 24 months.
- Total Shareholder Return (TSR) and Earnings Per Share (EPS) remain the most prevalent metrics used in LTIPs. They are typically used in combination with each other or in combination with other measures. Almost 90% of plans use more than one measure.

### Types of Long-Term Incentives

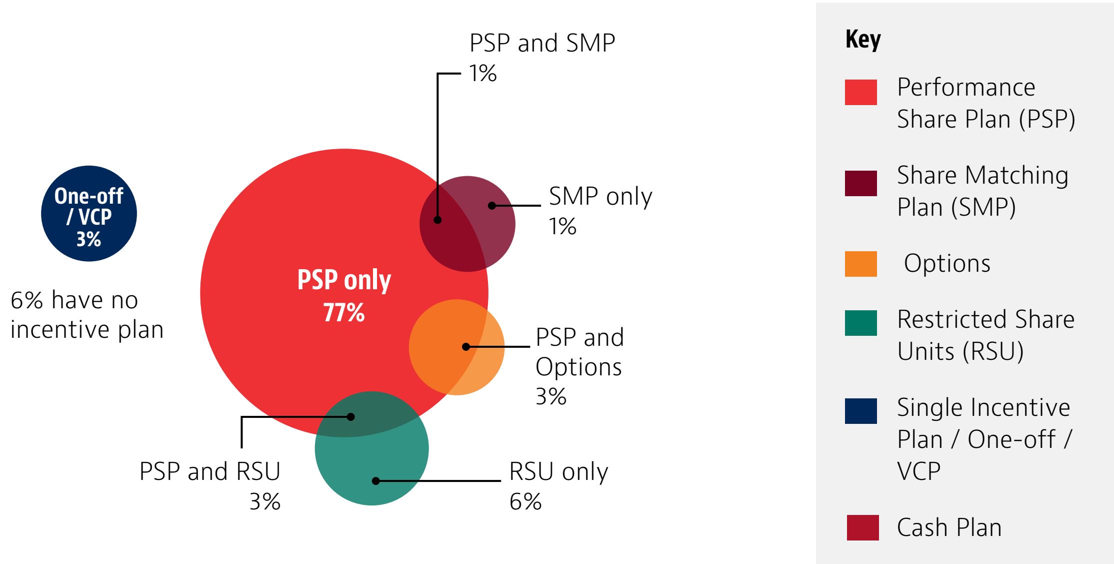
PSPs remain the predominant form of long-term incentive in the FTSE 100. They are in operation at around 85% of companies, either in isolation or in conjunction with a share matching, share option or a restricted stock plan.

- Under a **performance share plan** ("PSP"), awards of free shares are granted which typically vest three years later, subject to continued employment and the achievement of performance conditions.
- Under a **share matching plan** ("SMP"), awards of shares are made as a "match" for any shares unvested (using deferred bonus shares or voluntary investment of salary) and retained by the executive in the plan, subject to continued employment and (usually) the achievement of performance conditions.
- Under a **share option plan**, market value share options are granted that vest typically three years later subject to continued employment and the achievement of performance conditions.
- Under a **restricted share plan**, awards of shares are granted which vest subject to continued employment only (i.e. no performance conditions).

Despite the rhetoric around the potential demise of traditional long-term incentive structures, there has been little evidence of companies introducing different structures or restricted share plans becoming the blueprint for the future. This may be due to the shareholder hostility faced by companies that have sought to introduce restricted share plans in the past. However, two FTSE 100 companies were successful in introducing a restricted share plans in 2020 and we expect more companies to follow suit in the coming years (although, any increase to the UK's capital gains tax rates may make this less attractive for executives). Further, given the challenges for companies in setting performance targets in the wake of COVID-19, we expect the trend for simplification for share plans to continue.

Chart 7 shows the long-term incentive vehicles used in FTSE 100 companies. The use of a single PSP remains the norm (77% of companies have this structure). Where companies operate an alternative plan - such as a share matching, share option or restricted share plan - this is typically in conjunction with a PSP (only 15% of companies operate an alternative structure without a PSP). The CEOs of three companies do not participate in an LTIP: two of those companies do not operate an LTIP and the third CEO opts not to participate in the existing incentive plan.

## Chart 7:
Types of incentives granted to Executive Directors



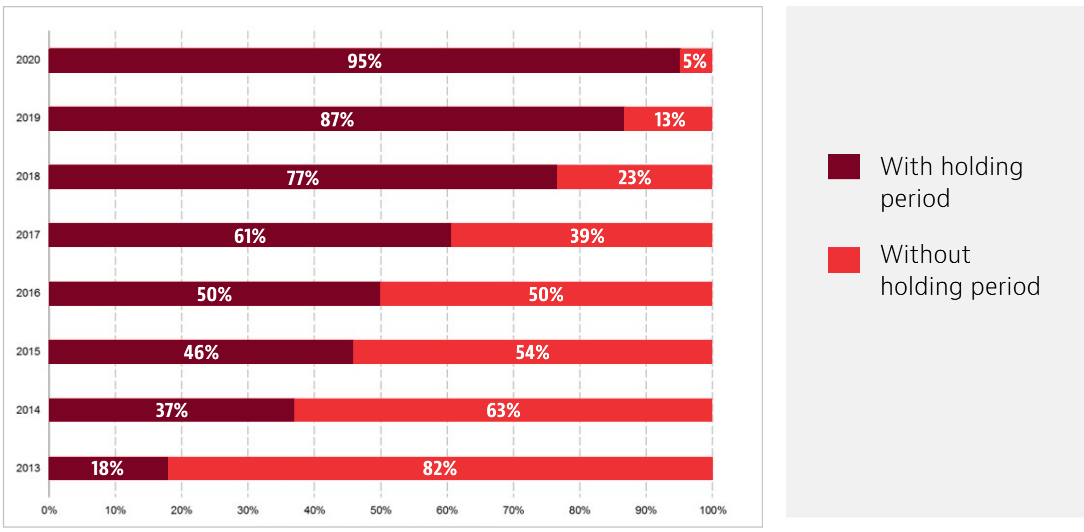

## Performance and Holding Periods

Performance is measured in a single tranche over three years in 94% of share plans (a minor increase from 93% last year). In relation to those using a different schedule, performance is typically measured over four or five years.

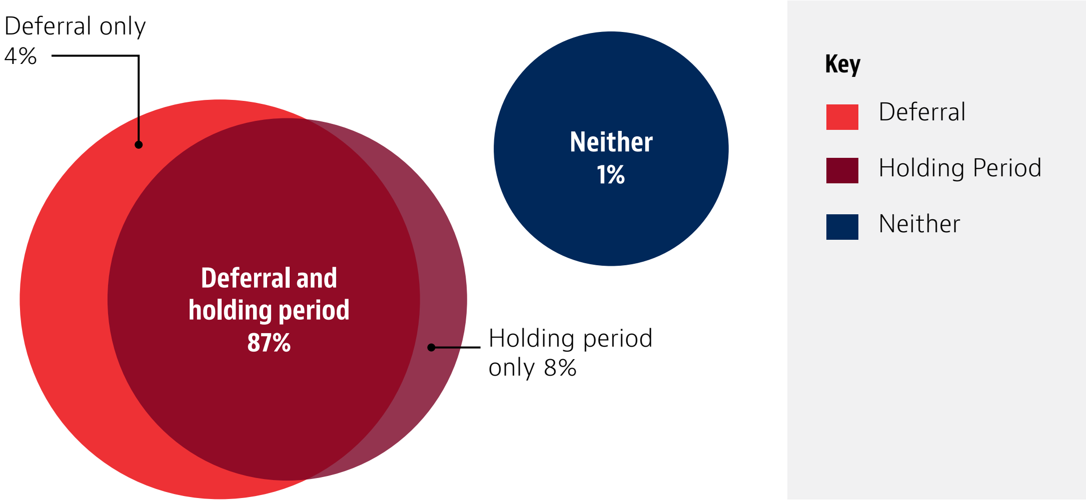
Holding periods require executives to retain shares for a period after they vest. The prevalence of post-vesting holding periods has increased in 2020 to 95% (from 87% in 2019). The majority of companies with a holding period require shares to be held for two years.  The Code strengthens the requirements for post-vesting holding periods. Going forwards, we expect this to become almost universal. Chart 8, shows the increase in prevalence of holding periods over the last seven years.

## Chart 8:
Percentage of companies with a post-vesting holding period on their long-term incentive

Where companies have both a bonus plan and a PSP, only 1% have neither compulsory bonus deferral, nor a PSP holding period.



## Chart 9:
Companies with a bonus deferral; and companies with bonus deferral and an LTIP post-vesting holding period




## Award Levels

At face value, the median annual PSP policy grant level for Highest Paid Directors has remained the same as last year at 250% of salary. For Finance and other Executive Directors, the median grant policy has remained at 225% of salary

## Chart 10:
Performance Share Plan awards for the Highest Paid Director: Company by Company (face value, % of base salary)

### LTI Quantum - Highest Paid Director

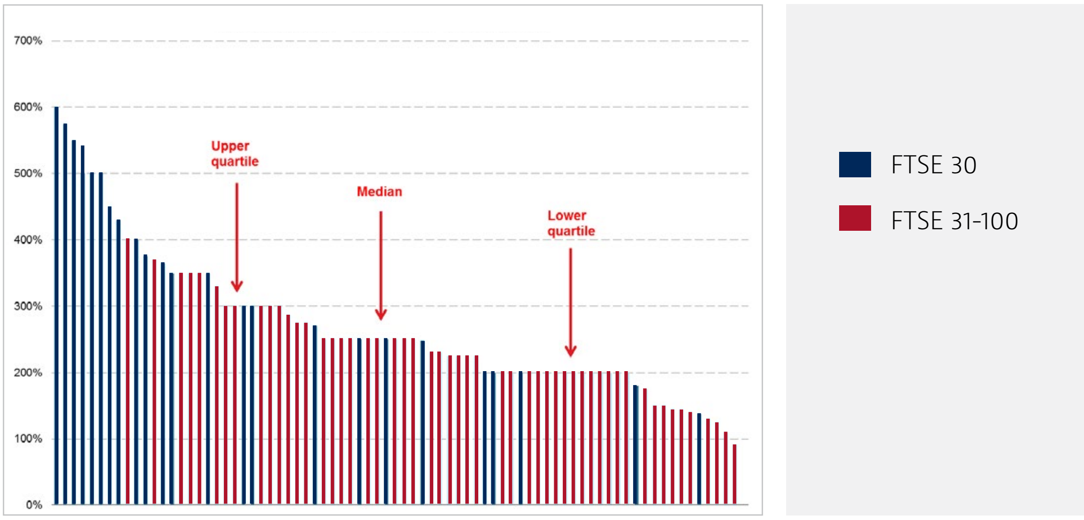


**Table 11:**
Quartile analysis of future grant policy – face value (% of base salary)

| | FTSE 100 | | | FTSE 30 | | | FTSE 31-100 | | |
|---|---|---|---|---|---|---|---|---|---|
| | LQ | M | UQ | LQ | M | UQ | LQ | M | UQ |
| **Highest Paid Director** | 200% | 250% | 300% | 200% | 350% | 450% | 200% | 225% | 275% |
| **Finance Director** | 175% | 213% | 275% | 225% | 283% | 400% | 175% | 200% | 250% |
| **Other Director** | 188% | 225% | 250% | 200% | 250% | 300% | 175% | 200% | 250% |

## Performance Measures

Chart 12 shows the number of measures in place. Almost 90% of share plans use multiple performance measures and almost 60% use three or more performance measures.

**Chart 12:**
Number of performance metrics in long-term incentive plans

### Number of LTI measures

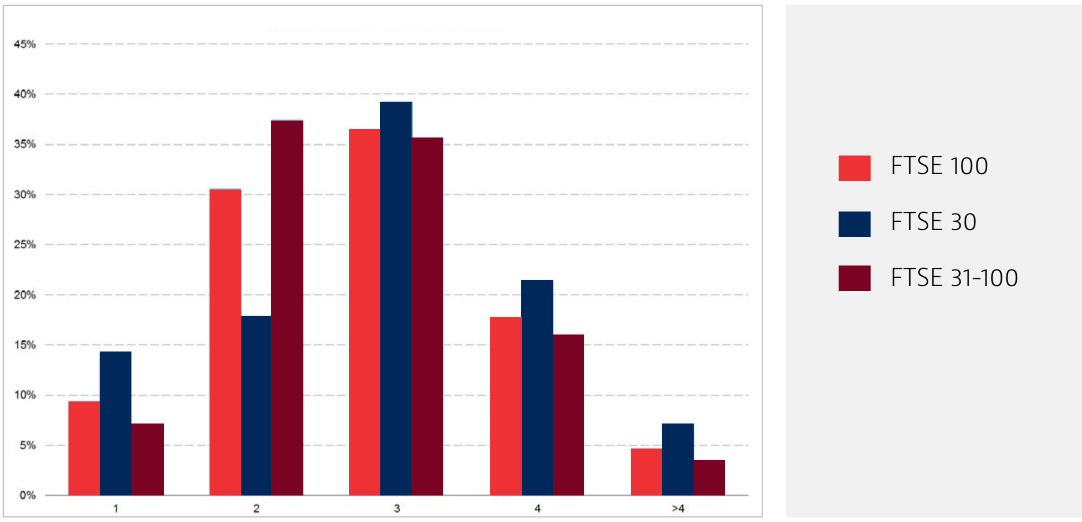
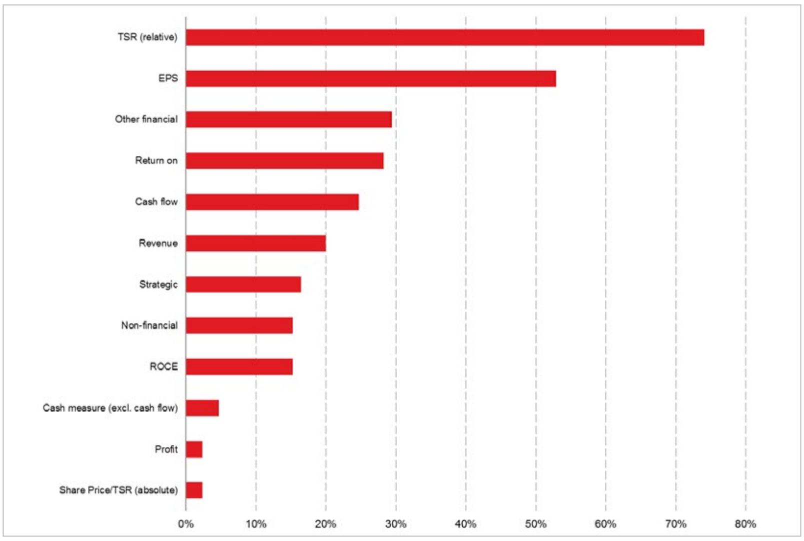


Chart 13 shows the main types of performance measures used. Overall, relative TSR is used in 74% of plans (68% last year) and EPS is used in 53% of plans (same as last year). While TSR and EPS remain the most common measures, around two thirds of plans use one or more other measures in combination with one or both of TSR and EPS.

**Chart 13:**
Prevalence of performance measures in long-term incentive plans




## Total Shareholder Return

Where TSR is used, it is usually measured on a relative basis, with only 2% of FTSE 100 plans measuring TSR on an absolute basis. Measuring TSR on an absolute basis is an approach which is typically not favoured by large UK investors.

Where TSR is measured on a relative basis, 72% of plans measure TSR against a comparator group of companies (e.g. the constituents of the FTSE 100 Index, the constituents of a specific sector or a bespoke group of direct peers). The remaining 28% measure performance against that of an index (e.g. the FTSE 100 index or FTSE 350 index).

Threshold vesting typically occurs for performance in line with the median of the comparator group. At the threshold, typically 25% of the maximum award vests (in 69% of plans). Some shareholders have pushed for threshold vesting levels to decrease – the portion of companies who pay less than 25% at threshold is now 27% (35% last year).

Chart 14 shows that while upper quartile performance is still the most common level at which awards vest in full (in 74% of plans) and around 25% of plans now require higher performance for full vesting.

**Chart 14:**
TSR targets for maximum vesting in LTIs using a relative TSR performance measure

| Maximum TSR Target | % of Plans |
|---|---|
| Top 25% (i.e. upper quartile) | 72% |
| Top 20% (i.e. upper quintile) | 18% |
| Above upper decile | 4% |
| Top 10% (i.e. upper decile) | 4% |
| Below upper quartile | 2% |

## Earnings Per Share

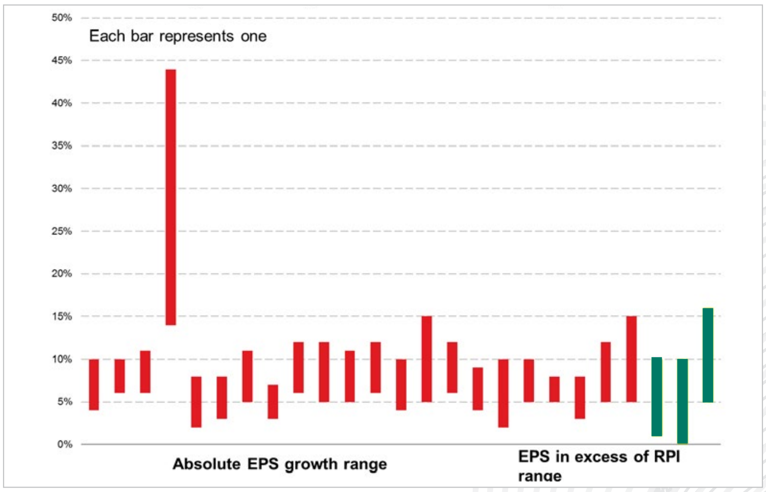
In relation to the companies using EPS as a performance measure, 59% use a percentage growth rate and 27% measure on an absolute basis (i.e. using a defined EPS target). Outperformance of the Retail Price Index (RPI) or Consumer Price Index (CPI) is used in around 9% of plans. A minority measure EPS performance relative to a specific index or comparator group.

Chart 15 shows the range of EPS required for minimum and maximum vesting. The first section of the chart shows the percentage growth range required with the typical range being 5% p.a. to 10% p.a. (minimum vesting is marginally higher than last year).

The second section of the chart shows the range where out-performance of RPI or CPI is required. The typical minimum outperformance is RPI plus 3 percentage points per annum. The maximum outperformance ranges from RPI plus seven percentage points to 16 percentage points per annum.

**Chart 15:**
Range of EPS targets for minimum and maximum vesting in long-term incentive plans

### Range of EPS targets for min and max vesting LTIPs



## Vesting of long-term incentive plans

Chart 16 shows the range of vesting in the past three years (this relates to reported vesting after the relevant year-end). Pay-outs in FTSE 30 are higher than in previous years and in FTSE 31-100 are slightly lower than last year. Median vesting has been between 65-70% of the maximum in the previous three years compared to around 50% in 2017. As in 2019, vesting of LTI awards is at a similar level (as a percentage of maximum) to the annual bonus plan pay-outs. Given that investors generally require targets used in LTIPs to be more stretching than those in annual bonus plans, this may attract some attention if this trend continues.

**Chart 16:**
Quartile analysis of actual LTI vesting (% of full vesting)

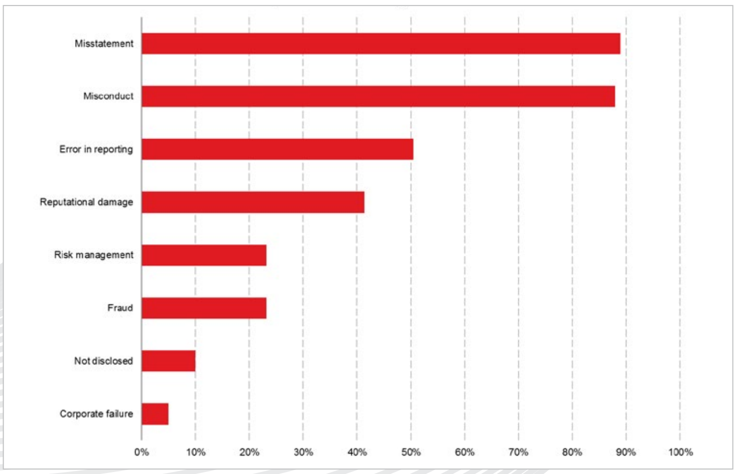
| | 2020 | | | 2019 | | | 2018 | | |
|---|---|---|---|---|---|---|---|---|---|
| | LQ | M | UQ | LQ | M | UQ | LQ | M | UQ |
| **FTSE 100** | 36% | 67% | 85% | 37% | 65% | 92% | 38% | 69% | 92% |
| **FTSE 30** | 17% | 65% | 79% | 41% | 67% | 81% | 36% | 64% | 80% |
| **FTSE 31-100** | 0% | 52% | 80% | 33% | 64% | 95% | 43% | 75% | 100% |

## Malus and Clawback

99% of FTSE 100 companies have some form of malus and clawback provisions in their annual bonus and/or LTIPs. These provisions typically allow the company to recover a past award in the event of financial misstatement, error in calculation or misconduct. Following the high-profile collapse of Carillion and the Lloyds v Daniels case, the Financial Reporting Council (FRC) recommended that additional triggers such as corporate failure and serious reputational risk may be appropriate. 5% of FTSE 100 companies have already expanded their triggers to include corporate failure.

We expect that more companies will amend their executive plans to incorporate the FRC's guidance (which the Investment Association (IA) adopted and endorsed in their 2019 Principles of Remuneration). Baker McKenzie has worked with several companies this year to expand their malus and clawback triggers accordingly.

**Chart 17:**
Recovery & withholding circumstances



# 5. Shareholding Requirements/ Post-Employment Requirements

## Minimum Shareholding Requirement ("MSR")

### Key Points to Note

- 16% of FTSE 100 companies have disclosed details of their MSR for Executive Directors.
- In the FTSE 100, the majority of companies now have a requirement of 300% of salary or higher for the Highest Paid Director.
- The IA expects that the time period for achieving the MSR be set out, including the consequences of not achieving this.
- The IA have gone further by confirming that this post-employment shareholding requirement should apply for at least two years, at the lower of the actual shareholding on departure or the MSR. In 2021, the IA will expect RemCos to have put in place effective post-employment shareholdings and state how such policies are being enforced after a director has left the company.

The chart below shows the MSR for the Highest Paid Director (where a shareholding requirement is in place). In relation to these companies, 66% specify a maximum timeframe within which to build the required level, typically over a 5-year period (91% of companies).

**Chart 18:**
Company-by-Company Minimum Shareholding Requirement

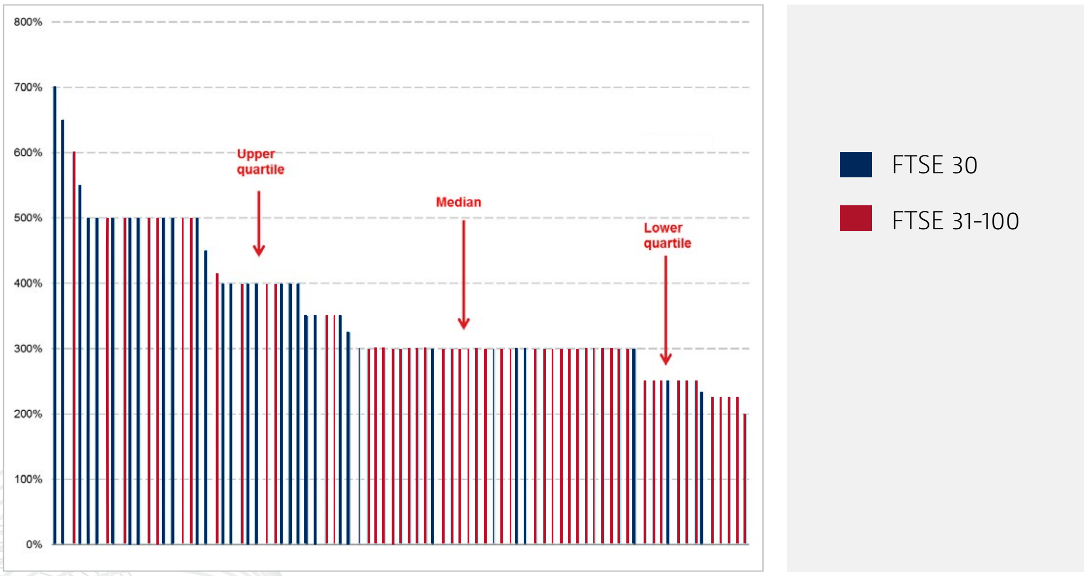


Chart 19 sets out typical requirements for Executive Directors.

**Chart 19:**
Median level of shareholding requirement (% of salary)

| Highest Paid Directors | | | Finance Directors | | | Other Directors | | |
|---|---|---|---|---|---|---|---|---|
| FTSE 100 | FTSE 30 | FTSE 31-100 | FTSE 100 | FTSE 30 | FTSE 31-100 | FTSE 100 | FTSE 30 | FTSE 31-100 |
| 300% | 300% | 300% | 225% | 200% | 225% | 250% | 200% | 250% |

## 6. CEO Pay Ratio

### Key Points to Note

From January 2020, all FTSE-listed companies with 250 employees or more were required to publish the ratio of their CEO pay to the remuneration of their employees at the 25%, median and 75% percentile.

Median pay for FTSE 100 companies CEOs was £3.4m (compared to £3.4m in 2019).

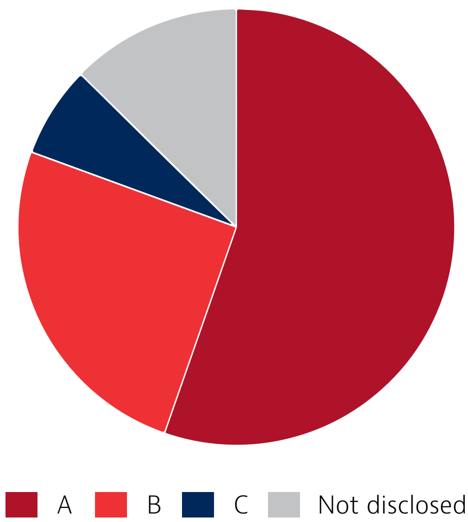
Option A is the most popular calculation method with almost 60% of companies using this method.

In December 2020, the High Pay Centre (HPC) published its first report into FTSE 350 Pay ratios. For FTSE 100 companies, the report found that the median CEO/median ratio was 73: 1 and the median CEO/lower quartile ratio was 109: 1, with the highest average CEP/median employee ratio being in retail and the lowest being in financial services.

The difference between the highest and lowest CEO pay ratio (as disclosed in the HPC report) was stark: the highest at 2,605:1 (due to a large incentive scheme payout to the CEO in 2019/2020) and the lowest at 8:1

**Chart 20:**
CEO pay ratio methodology by option

**Breakdown by option**




| Ratio breakdown by Industry | | | |
|---|---|---|---|
| | P25 | P50 | P75 |
| Basic Materials | 116 | 72 | 48 |
| Financials | 92 | 65 | 41 |
| Industrials | 92 | 70 | 59 |
| Technology, Consumer, Discretionary | 63<br>93 | 41<br>73 | 29<br>48 |
| Consumer Staples | 116 | 81 | 69 |
| Healthcare | 355 | 305 | 279 |
| Real Estate | 34 | 23 | 14 |
| Energy | 345 | 138 | 68 |

Continue next page

| Total comp breakdown by Industry £000 | | | |
|---|---|---|---|
| | P25 | P50 | P75 |
| **Basic Materials** | 19.27 | 30.15 | 47.555 |
| **Financials** | 28.865 | 46.92 | 72.995 |
| **Industrials** | 25.735 | 35.45 | 49.25 |
| **Technology** | 31.16 | 47.91 | 68.79 |
| **Consumer, Discretionary** | 32.12 | 44 | 56 |
| **Consumer Staples** | 24 | 34 | 51.58 |
| **Healthcare** | 16.07 | 17.86 | 18.37 |
| **Energy** | 39.27 | 77.92 | 143.91 |

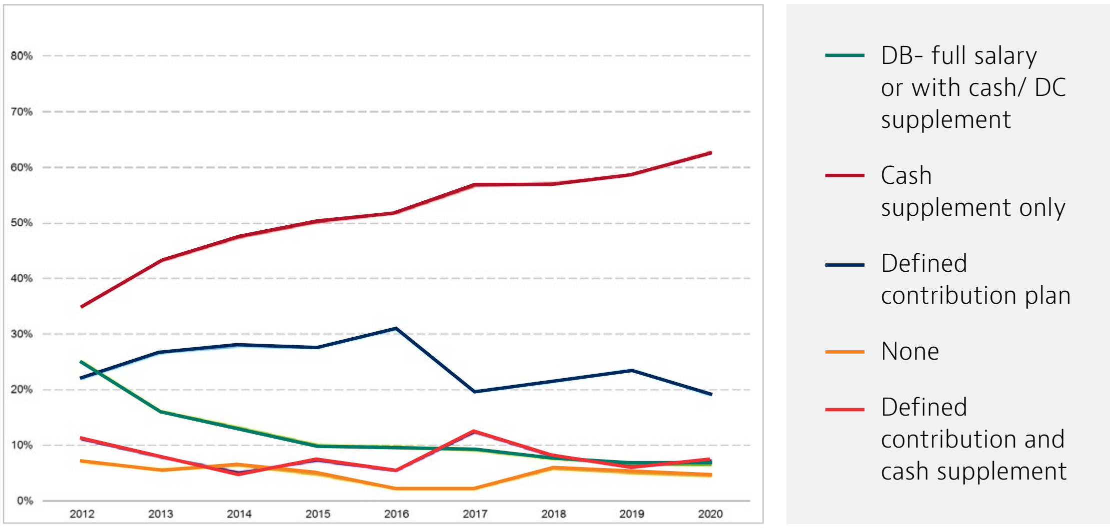
## 7. Executive Pensions

### Key Points to Note

- The majority (63%) of executives in the FTSE 100 receive all of their pension provision as a cash allowance (which is slightly higher than in 2019 (59%)).
- While we expect this trend to continue, the number of non-UK based executives is likely to mean that Defined Contribution schemes will not disappear altogether.
- The average pension contribution for executives in 2020 was 8.58% down from 9.72% from 2019. This is unsurprising given the IA's threat last year to "red top" those companies that fail to bring their executive pension pay in line with the rest of the workforce.
- However, 9% of companies pay their executives a defined pension contribution of 20% or more and 1% of FTSE 100 companies still have defined pension contributions of greater than 30% of salary.
- Executive pensions remains at the top of issues for the proxy advisors. In its November 2020 letter to RemCo Chairs, the IA doubled down on its previous guidance and cautions companies that shareholders will expect pension contributions for new directors to align with the majority of the workforce rate from day 1. For incumbent directors, FTSE 100 companies must set out a credible action plan to align the contributions by the end of 2022.
- The IVIS and the ISS have warned that they will red top any report and policy that fails to follow this guidance. In 2020, the IVIS issued "Red Tops" in respect of 13% of companies, primarily due to a lack of executive/workforce pension alignment.

The chart below shows the MSR for the Highest Paid Director (where a shareholding requirement is in place). In relation to these companies, 66% specify a maximum timeframe within which to build the required level, typically over a 5-year period (91% of companies).

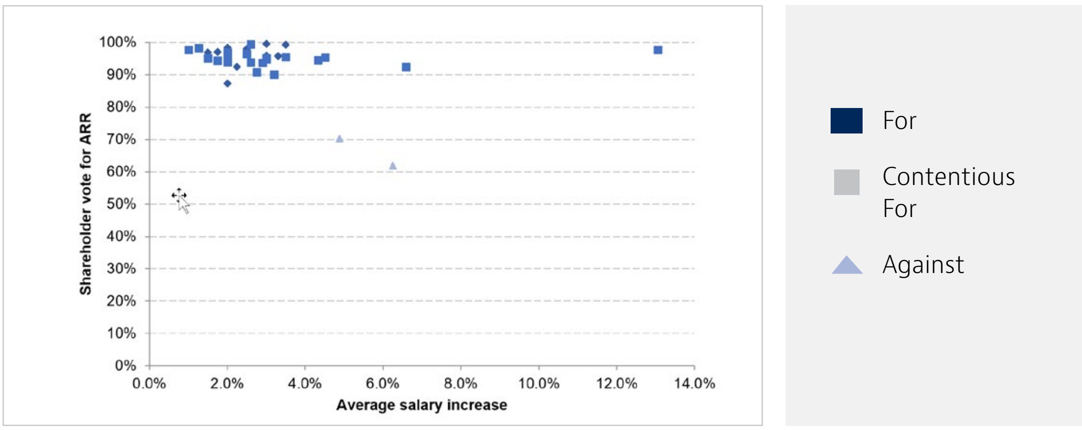
**Chart 21:**
Types of pension arrangement (all Directors)




## 8. Voting Outcomes

**Chart 22:**
Average salary increase versus shareholder vote for ARR by ISS recommendation for 2020 AGMs

- Only two companies have experienced shareholder revolts and have seen their remuneration policies voted down so far in the 2020 AGM season
- 80% of companies only sought salary increases of 3% or less for their Highest Paid Director.
- It is worth noting that the two companies that were defeated sought average salary increases of 5% and 6% respectively.



## Methodology

The FTSE 100 has been 'struck' as at 31 December 2020. The median market capitalisation of the Index as a whole is £9,159m (compared with £8,691m last year). The FTSE 30 has a median market capitalisation of £32,061m and the FTSE 31-100 has a median market capitalisation of £7,942m

The Executive Director data has been sourced from public disclosures in reports & accounts and circulars and includes all companies with up to and including a September 2020 year end. Data has been provided for the:

- Highest Paid Director – typically the Chief Executive;
- Finance Directors; and
- 'Other Directors' - i.e. other Main Board executive directors, excluding Chief Executives, Executive Chairmen and Finance Directors.

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Working seamlessly together, our practitioners maintain an appreciation of each client's particular global strategy while providing cutting-edge advice on the design, implementation, governance and maintenance of equity compensation and other incentive plans, deferred compensation plans, benefit and retirement plans, and other compensation arrangements offered to employees, executives, consultants and directors around the world, as well as on risk mitigation and risk reduction techniques.

**We also:**

- Design and implement local and international incentive plans tailored to client needs
- Advise on tax structures that achieve corporate or executive cost savings
- Advise on compliance with employment tax, social security and employer withholding obligations, including those related to globally mobile employees
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- Develop contracts and related documents to convey complex technical issues in simple terms employees can understand
- Create practical solutions for managing incentive plans amid major business change and restructuring projects, including corporate transactions
- We actively partner with both publicly traded and privately held clients in advisory, transactional and litigation matters relating to their compensation and other incentive programs around the world.

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# Aon Equity Services

## 6 Ways We Can Help

Empower Results®

At Aon, we're forging a new path forward in rewards – one designed around an all-out focus on helping clients build a thriving workforce for the digital age. Here are 6 ways we can help through our all-encompassing approach:

### 1. Designing Robust LTI Plans

Through Aon's deep expertise of executive and broad-based compensation, equity accounting, taxation and administration, corporate governance considerations, and comprehensive databases on trends and prevalence, we can help you design robust incentive plans that balance the perspectives of shareholders and employees, meet corporate objectives and avoid unintended consequences.

### 2. Minimizing Compensation Expense

In today's environment, it's not uncommon to have the pressure to minimize cost without impacting the value delivered. Through Aon's expertise in equity design and valuation, minimize the cost of your programs while maximizing the potential value delivered to employees. Whether it's post-vest holding periods, total value caps, or other design provisions, Aon can help you get more out of your programs.

### 3. Implementing a Global Equity Plan

As businesses expand and companies grow, a global presence is becoming increasingly more common and complicated. With Aon's vast array of experts around the globe and deep technical expertise, you can have the confdence to effectively roll out your equity plans on a worldwide level. We'll not only prepare you for the considerations when expanding your plan into specifc regions but also help you understand when a certain region might be worth excluding given the cost implications.

### 4. Educating Participants on Your Plans

Get the most out of your plans with customised educational content, including interactive video, brochures, high impact email campaigns, customised websites and more. Take your communication up a level with Aon's EquiTV, a tailored, highimpact interactive video solution. Choosing from our 100+ video library, personalised to your plans and brands, provides a cost-effective, measurable solution for your educational needs. To learn more, visit www.equiTV.com.

### 5. Tracking Performance Equity

Performance equity is not going anywhere in today's marketplace but these awards remain the most confusing and underappreciated methods of delivering value. Often times, companies can struggle just understanding how the awards work and where performance is tracking. Aon's PeerTracker system can solve this problem for you. Get access to real-time updates on performance with customised content to help employees understand and appreciate your performance equity plans.

### 6. Assisting with Valuation & Financial Reporting

One of the most complicated pieces of equity compensation is ensuring the awards are effectively accounted for. Through Aon's breadth of experience and expertise servicing over 700 companies annually, you can get help on awards requiring complex valuation methods such as lattice models or Monte Carlo simulation. And after you have the valuation, you can leverage Aon's expertise in the fnancial reporting of equity including expense amortization, the calculation of dilutive common equivalents and the tracking of your deferred tax asset

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