Willis Towers Watson

Executive remuneration in FTSE 250 companies

2020 market data report for executive directors

December 2020

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Contents

This report provides a final update for the 2020 Annual General Meeting (AGM) season on key pay developments this year. It also sets out an overview of executive director market data for companies in the FTSE 250.

This report includes data sourced from Willis Towers Watson's Global Executive Compensation Team. This report is based on the FTSE 250 as at 7th December 2020.

Key headlines from the 2020 AGM season

Who changed what?

- 2020 was a regular policy review year for many companies in the FTSE 250, and we therefore saw an increase in the number of companies tabling a new policy for shareholder approval (55%, up from 23% in 2019).
- As expected, most of the changes were made in response to the UK Corporate Governance Code (UKCGC) that applied to companies from 1st January 2019, and responses to evolving views from shareholders and proxy agencies.

How did investors and proxy agencies react?

- We saw an increase in the percentage of companies receiving an Amber Top from IVIS on their policies, up from 56% last year to 62% this year.
- Conversely, the percentage of companies receiving an ISS 'Contentious For' on their policies dropped from 55% to 50%, driven predominantly by an increase in companies receiving an ISS 'For' recommendation (up from 27% to 34%).
- Both of these movements follow a similar pattern to that seen in the FTSE 100, where IVIS Amber Tops on policy increased at the same time as ISS 'Contentious For' dropping.
- Year on year, there were fewer negative Annual Report on Remuneration (ARR) recommendations from ISS whereas the number from IVIS increased.
- The main areas of contention focused on Committee's use of discretion, particularly in respect of bonus outturn, and quantum, with base pay and incentive increases among the top areas of concern where not accompanied by robust rationale.

And what happened at AGMs?

- There was little change in the median AGM voting out-turn which remained high and steady at 96% for the ARR and policy dropping from 96% to 95% in 2020.
- Three companies lost the vote on the ARR, and eight companies received a vote below 80% on the remuneration policy. One company lost the vote at the AGM on the remuneration policy.

Looking ahead to 2021

Figure 1. **Change in ISS and IVIS FTSE 250 voting recommendations, 2019 – 2020**

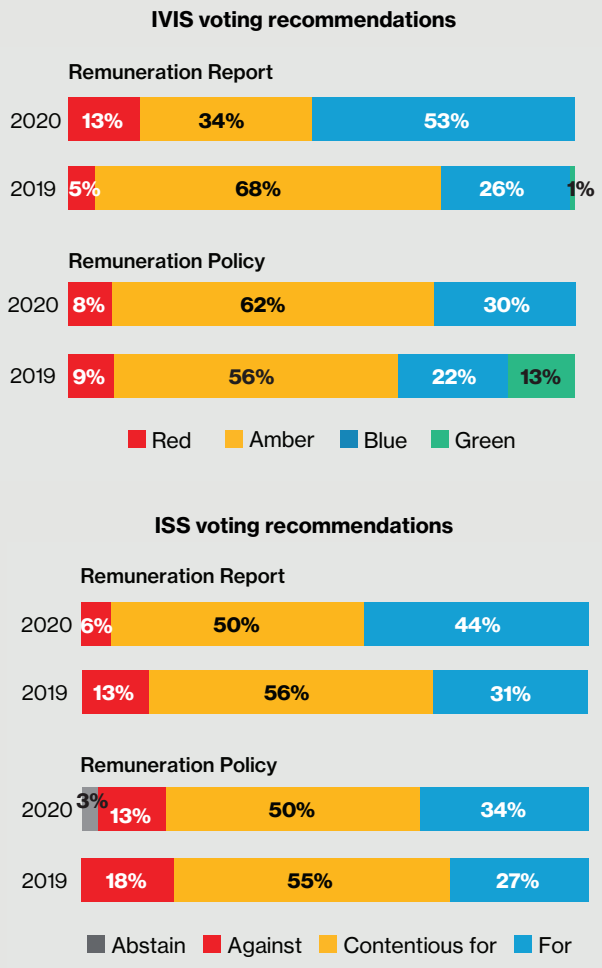


Figure 2. **Total Against/Red recommendations**

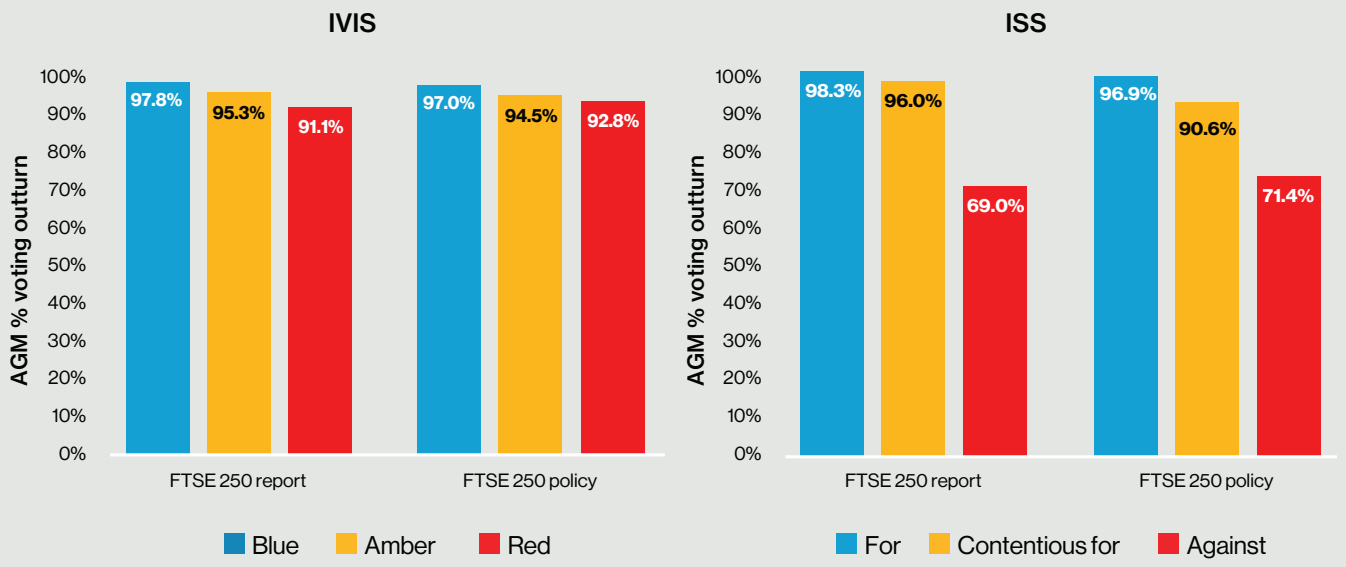
ISS (Against)	IVIS (Red)
12	18

Figure 3. **Most common rationale for an Against / Red recommendation**

	ISS	IVIS
Discretion	46%	29%
Quantum	38%	29%

- The impact of proxy agency views cannot be understated, with ISS Against recommendations resulting in a median voting out-turn of 69.0% and 71.4% for report and policy votes respectively.

Figure 4. **Proxy Agency recommendations: influence upon AGM voting outturns**



COVID-19

Annual reports published by companies with March financial year-ends onwards offer a first opportunity to assess how companies have responded to the unprecedented period of economic and social dislocation created by COVID-19. Over the coming months, we will gain further insight to practice in this area as companies with September 2020 year-ends onwards publish their Annual reports.

While market practice is of note, there are some key reference points that Remuneration Committees should consider when making decisions on executive pay. Every company has been impacted differently by COVID and so it is imperative that decisions are taken in the context of the following;

(i) the impact on the wider employee population;

(ii) financial implications on the business including the need to take up Government aid and/or raise additional capital from shareholders, and;

(iii) the shareholder experience through share price performance and the impact on dividends. The overarching principle that executives shouldn't be isolated from wider company actions taken remains.

Key changes to pay in response to COVID-19

Just under half of the companies reporting to date implemented temporary salary reductions for executive directors with many also applying restraint for forward looking pay reviews resulting in an increase in the proportion of companies freezing salaries for senior leadership.

Where alterations were made to incentive out-turns on a retrospective basis, these have been focused on the annual bonus. Companies took several different approaches including the application of downwards discretion, making payments conditional on future dividend flows and paying the cash element in shares or increasing deferral. We saw few adjustments to LTIP vesting as a direct result of COVID.

Looking to incentives for 2020/21 onwards, again we have seen more disclosure around changes to the annual bonus, although a number of companies have disclosed that they delayed target-setting for 2020 LTIP awards.

Key trends from the 2020 AGM season

The graphics below provide further detail on the key themes we observed this year.

Fixed pay

2%
Median CEO salary increase

Around 1 in 3
CEOs received no salary increase *(1 in 4 CFOs)*

Around 30% of companies have made pension changes.

The median contribution for FTSE 250 CEOs is 15%, the same as last year.

We have however seen a reduction in the range, indicating that companies are reacting to IA expectations by working toward aligning pension contributions/allowances to those of the wider workforce.

Annual bonus

Twenty three companies have increased the annual bonus opportunity and seven companies have decreased it.

23 **7**

One company has decreased bonus opportunity to re-balance incentives towards the long-term.

The most common changes are:

c. 40% of companies changed measures and/or weightings

21% introduced or increased bonus deferral

Long-term incentive plans

Changes to LTIP have been more common than for annual bonus this year, with twenty six companies increasing opportunity and 12companies decreasing.

26 **12**

Nine companies reduced LTIP grant levels to take into account a share price decline.

Changes to LTIPs are more varied than changes to annual bonuses:

c. 36% have adjusted vesting schedule

69% adjusted targets and 31% adjusted vesting at threshold.

c. 28% changed measures and/or weightings

8% introduced or increased holding period

Most companies comply with the five year time horizon provision in the Corporate Governance Code.

Pay out-turns and shareholding guidelines

2019 median CEO single figure **£1.63 million**

2020 median CEO single figure **£1.41 million**

The median annual bonus payout as a percentage of maximum has decreased from **68%** last year, to **54%** this year. **Discretion** was applied by Remuneration Committees to reduce bonus payments in seventeen companies.

Median LTIP vesting has also **decreased to 50% of maximum**, from 54%.

Shareholding guidelines

- 13% of companies have increased shareholding guidelines.
- 64% of companies in the FTSE 250 operate a post-employment guideline.

Executive director market data
Salary

- The figures below set out the quartile salary data for the CEO and CFO roles in the FTSE 101-150, the FTSE 151-350 and the full FTSE 250.
- We continue to observe moderate salary increases, with the same proportion of companies applying no increase to both CEO and CFO salaries.
- We typically find a salary differential of 65% to 75% for the CFO to CEO role, with a median of 68%.

CEO salary trends

Figure 5. **CEO salary data by quartile**

	Lower quartile	Median	Upper quartile
FTSE 101-150	£560,000	£630,000	£700,000
FTSE 151-350	£480,000	£565,000	£680,000
FTSE 250	£495,000	£580,000	£685,000

Figure 6. **CEO median salary increases**

FTSE 101-150	1.8%
FTSE 151-350	2.1%
FTSE 250	2.0%

Figure 7. **Proportion of companies applying 0% increase for CEO salaries**

FTSE 101-150	38.5%
FTSE 151-350	30.8%
FTSE 250	32.7%

CFO salary trends

Figure 8. **CEO salary data by quartile**

	Lower quartile	Median	Upper quartile
FTSE 101-150	£385,000	£445,000	£495,000
FTSE 151-350	£340,000	£385,000	£435,000
FTSE 250	£345,000	£400,000	£450,000

Figure 9. **CFO median salary increases**

FTSE 101-150	2.0%
FTSE 151-350	2.5%
FTSE 250	2.4%

Figure 10. **Proportion of companies applying 0% increase for CFO salaries**

FTSE 101-150	41.7%
FTSE 151-350	32.5%
FTSE 250	26.4%

Benefits and Pension

- Following pressure from some institutional investors and proxy agencies, the alignment of executive director pension contributions with the wider workforce levels was expected to be a hot-topic throughout the 2020 AGM season. We have seen a reduction in the range, indicating that companies are reacting to IA expectations by working toward aligning pension contributions/allowances to those of the wider workforce.
- While disclosure on car allowance benefits practice is mixed, it continues to be a common benefit at executive director level, and we have not seen a significant change in its value over recent years.

Pension contribution

- In the FTSE 250, over 80% of companies offer a defined pension contribution or cash allowance.
- C. 30% of companies changed their pension provision during the most recent financial year, with a mix in practice *(Figure 13)*.
- The median FTSE 250 CEO pension contribution/ allowance as a percentage of salary has stayed level year on year. We have seen a reduction in the range, indicating that companies are reacting to IA expectations by working toward aligning pension contributions/allowances to those of the wider workforce.

Figure 13. **Pension provision practices, based on c. 30% of companies making changes**

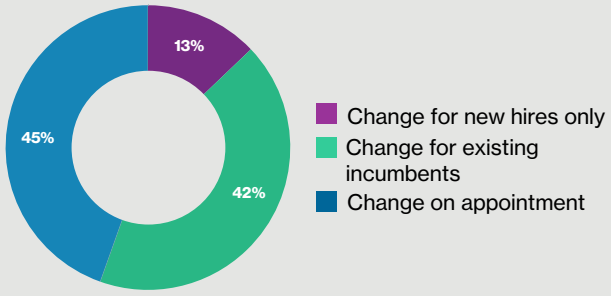


Figure 11. **Value of defined contribution/cash allowance for CEO role (% of base salary)**

	Lower quartile	Median	Upper quartile
FTSE 101-150	10%	12%	18%
FTSE 151-350	10%	15%	20%
FTSE 250	10%	15%	20%

Figure 12. **Value of defined contribution/cash allowance for CFO role (% of base salary)**

	Lower quartile	Median	Upper quartile
FTSE 101-150	8%	11%	15%
FTSE 151-350	10%	15%	20%
FTSE 250	9%	12%	19%

Car allowance

Roughly seventy percent of companies in the FTSE 250 disclose that executive directors receive a car benefit or car allowance. *Figure 14* provides data on the value of this benefit for those companies that do disclose the details of the car allowance.

Figure 14. **Value of car allowance benefit in FTSE 250 companies**

	CEO	CFO
FTSE 101-150	£14,000	£12,000
FTSE 151-350	£18,000	£15,000
FTSE 250	£20,000	£16,000

Annual bonus

- The median annual bonus payout was 54% of maximum for the CEO role in the FTSE 250.
- Three year annual bonus deferral is the norm (although c. 13% don't operate deferral).

Maximum bonus opportunity as percentage of salary

Figure 15. **Maximum bonus opportunity for CEO role (% of base salary)**

	Lower quartile	Median	Upper quartile
FTSE 101-150	150%	150%	200%
FTSE 151-350	125%	150%	175%
FTSE 250	125%	150%	175%

Figure 16. **Maximum bonus opportunity for CFO role (% of base salary)**

	Lower quartile	Median	Upper quartile
FTSE 101-150	125%	150%	170%
FTSE 151-350	120%	145%	150%
FTSE 250	120%	150%	150%

Bonus payouts as percentage of maximum

Figure 17. **Bonus payouts for CEO role (% of maximum opportunity)**

	Lower quartile	Median	Upper quartile
FTSE 100-150	18%	57%	80%
FTSE 151-350	13%	54%	78%
FTSE 250	14%	54%	80%

Figure 18. **Bonus payouts for CFO role (% of maximum opportunity)**

	Lower quartile	Median	Upper quartile
FTSE 101-150	20%	54%	81%
FTSE 151-350	28%	55%	82%
FTSE 250	27%	55%	82%

Application of discretion

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Instances of Committees applying downward discretion

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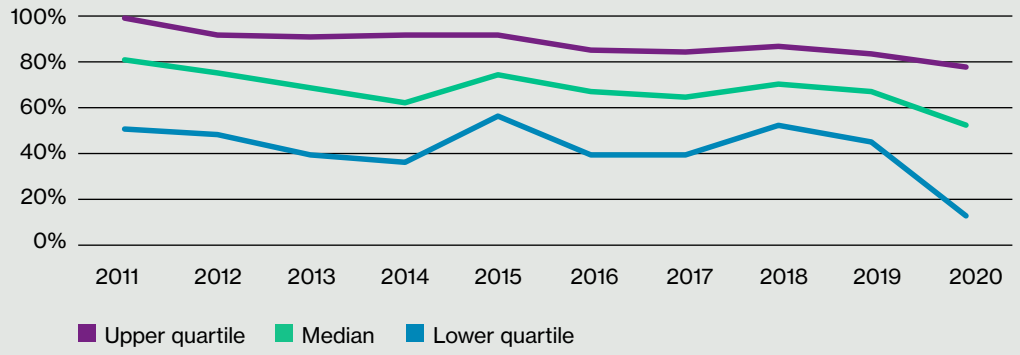
Instances of Committees applying upward discretion

Bonus payouts over time

Over the past 10 years, the median annual bonus payout has generally been between 60% and 80% of the maximum opportunity in FTSE 250 companies. The median payout has fallen outside this range in 2020.

Figure 19. **Bonus payout as percentage of maximum opportunity 2011 - 2020**



Performance measures

In FTSE 250 companies, the median split of financial versus non-financial measures is 80% and 20%, respectively. This split is typically consistent across the whole of the FTSE 250.

Figure 21 shows that a profit or income-based measure continues to be the most common measure used in FTSE 250 annual bonus plans. We have seen an increase in the proportion of companies taking a more tailored approach, for example, incorporating a financial measure specific to a company's sector.

As external expectations evolve, ESG measures continue to increase in prevalence albeit at a slower pace than that observed in the FTSE 100.

Figure 20. **Split of performance measures in FTSE 250 bonus plans**

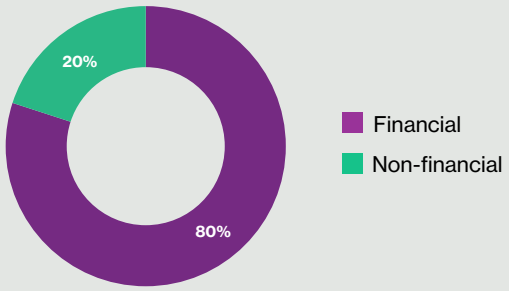
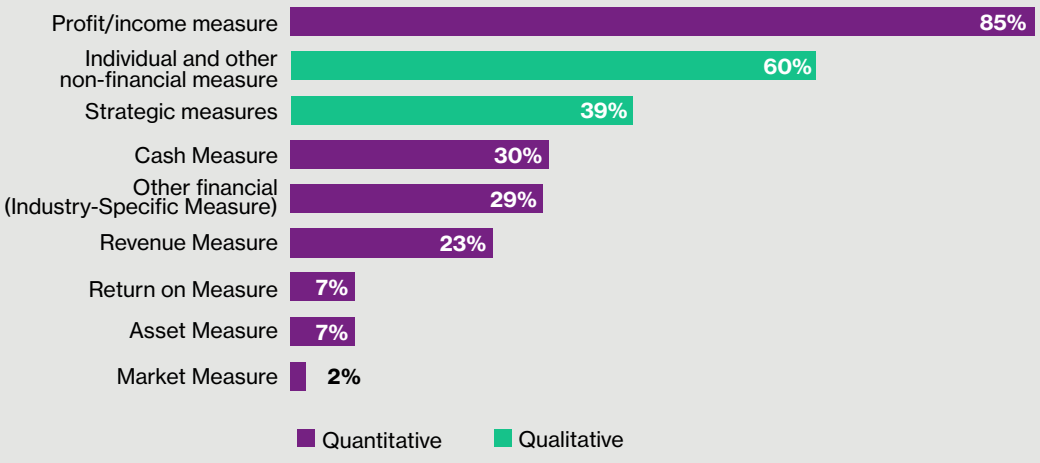


Figure 21. **Prevalence of performance measures (by measure category)**



Annual bonus deferral

Figure 22. **Proportion of deferral**

	FTSE 101-150	FTSE 151-350	FTSE 250
Up to 25.0%	0%	9%	7%
25.1% - 33.0%	5%	6%	6%
33.1% - 50.0%	49%	39%	42%
50.1%+	5%	8%	7%
No deferral	13%	13%	13%
% in excess of salary/other	28%	23%	24%
Voluntary Only	0%	2%	1%

Figure 23. **Deferral mechanism**

	% of FTSE 101-150	% of FTSE 151-350	% of FTSE 250
Deferral with no match	85%	87%	86%
Deferral with match	2%	0%	1%
No deferral	13%	13%	13%

Figure 24. **Deferral time period**

	FTSE 101-150	FTSE 151-350	FTSE 250
Less than two years	0%	1%	1%
Two years	25%	23%	24%
Three years	46%	44%	44%
Four years	0%	1%	1%
More than four years	3%	1%	1%
No deferral	13%	13%	13%
Phased	13%	17%	16%

Malus and clawback

Based on disclosure, malus and clawback provisions apply to the annual bonus within FTSE 250 companies as follows:

- 96% have the ability to operate clawback on the cash bonus.
- 90% of companies have the ability to operate malus on shares that have not yet vested.
- We have seen malus and clawback provisions strengthened in circa a third of companies.
- The most common practice is for malus and/or clawback provisions to be operated for two to three years on the annual bonus.
- Common triggers for malus and clawback include material misstatement of financial results, serious misconduct and miscalculation of any performance condition, with reputational risk and corporate failure recently added by some companies to strengthen the provisions.

Long-term incentive plans (LTIPs)

- While the Performance Share Plan (PSP) continues to be the most common plan operated, there are examples of companies taking a more tailored approach.
- The majority of companies now operate the PSP over a five-year time period (i.e. performance period plus holding period).
- Limited change has been observed to payouts this year and they are broadly consistent across the FTSE 250 at 50% of the maximum opportunity. Payouts at median have been between 50% and 60% for the last five years.
- There have been three examples of upwards discretion to PSP awards this year, and no examples of downwards discretion.

Types of plans

The most prevalent type of plan type continues to be a PSP, which is operated by 86% of companies within the FTSE 250. Other plans include Restricted Shares, Co-investment plans and Stock Options.

Figure 25. **Number of LTIPs operated**

	FTSE 101-150	FTSE 151-350	FTSE 250
No plan	9%	9%	9%
One plan	77%	80%	80%
Two plans	14%	11%	11%

Maximum PSP opportunity

Figure 26. **Maximum PSP opportunity for CEO role (% of base salary)**

	Lower quartile	Median	Upper quartile
FTSE 101-150	200%	200%	250%
FTSE 151-350	150%	200%	200%
FTSE 250	150%	200%	240%

Figure 27. **Maximum PSP opportunity for CFO role (% of base salary)**

	Lower quartile	Median	Upper quartile
FTSE 101-150	150%	190%	230%
FTSE 151-350	150%	150%	200%
FTSE 250	150%	175%	200%

The median threshold opportunity in the FTSE 250 is 25% of the maximum opportunity, with a lower quartile of 20% and an upper quartile of 25%.

Exceptional PSP maximums

Around thirty five percent of companies in the FTSE 250 disclose an exceptional PSP maximum in their policy. This is typically 50% to 100% of salary above the usual maximum PSP opportunity.

PSP payouts as a percentage of maximum

We observe the same payouts to CEO and CFO roles as they generally participate in the same LTIP with the same performance measures.

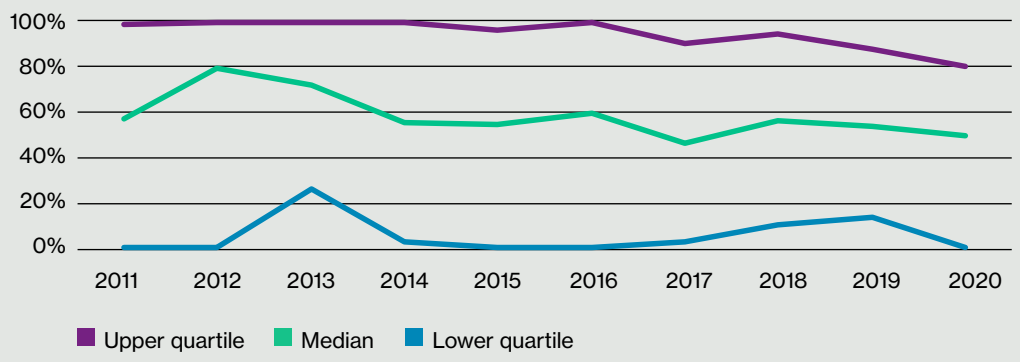
Figure 28. **PSP payouts (% of maximum opportunity)**

	Lower quartile	Median	Upper quartile
FTSE 101-150	19%	56%	77%
FTSE 151-350	0%	49%	83%
FTSE 250	0%	50%	81%

PSP payouts over time

PSP payouts tend to be more variable than payouts under the annual bonus, and we have observed median payouts between 45% and 75% over the past ten years (*Figure 29*).

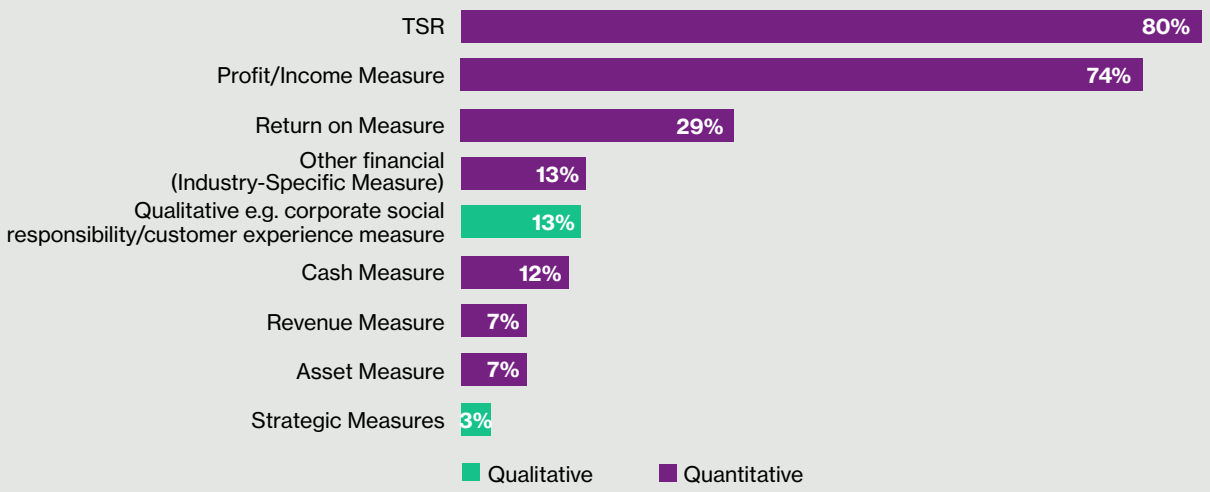
Figure 29. **PSP payouts from 2011 - 2020 (% of maximum opportunity)**



PSP performance measures

Figure 30 provides an overview of the performance measures used in PSPs in FTSE 250 companies. As we can see, TSR and profit/income measures are the most popular metrics used by 80% and 74% of FTSE 250 companies respectively in their PSPs.

Figure 30. **Prevalence of performance measures in PSPs**



PSP time horizons

Ninety-six percent of companies in the FTSE 250 now have a total time horizon (i.e. performance plus holding) of at least five years. Ninety-two percent of companies in the FTSE 250 now operate a holding period on the PSP (*Figure 32*).

Figure 31. **Length of performance period (PSP)**

	FTSE 101-150	FTSE 151-350	FTSE 250
Three years	94%	93%	94%
Four years	0%	2%	1%
Five years	6%	2%	3%
More than five years	0%	3%	2%

Figure 32. **Length of holding period**

	FTSE 101-150	FTSE 151-350	FTSE 250
One year	0%	2%	2%
Two years	94%	93%	93%
Three years	0%	1%	0.5%
More than three years	0%	0%	0%
Until SOG is met	0%	2%	2%
During employment	3%	0%	0.5%
No holding period	3%	2%	2%

Application of discretion

3
Instances of Remuneration Committees applying downward discretion

0
Instances of Remuneration Committees applying upward discretion

Malus and clawback

Based on disclosure, malus and clawback provisions are operated as follows:

- 93% of companies disclose the ability to operate malus.
- Around 95% of companies disclose the ability to operate clawback.
- Common triggers for malus and clawback are similar to those which apply to the annual bonus – they include material misstatement of financial results, serious misconduct and miscalculation of any performance condition.
- Companies are most likely to operate clawback two to three years after shares have vested.
- We have seen malus and clawback provisions strengthened in c. 30% of companies.

Single figure

CEO single figure

The CEO single figure in the FTSE 250 has decreased compared to 2019, as shown in *Figure 33*, across all quartiles across the FTSE 250.

Despite this drop, we would continue to advise caution using the single figure as an indication of excess/restraint in relation to quantum given the significant impact of share price on the out-turn and the change in constituents of the FTSE 250 year-on-year.

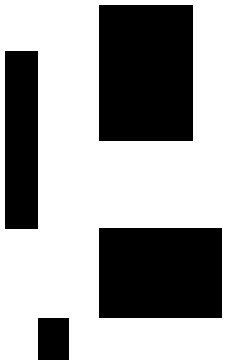


Figure 33. **CEO single figure total compensation in 2020**

	Lower quartile	Median	Upper quartile
FTSE 101-150	£1,049k	£1,707k	£2,649k
FTSE 151-350	£790k	£1,353k	£2,113k
FTSE 250	£849k	£1,410k	£2,220k

Figure 34. **CEO single figure compensation ten year chart**

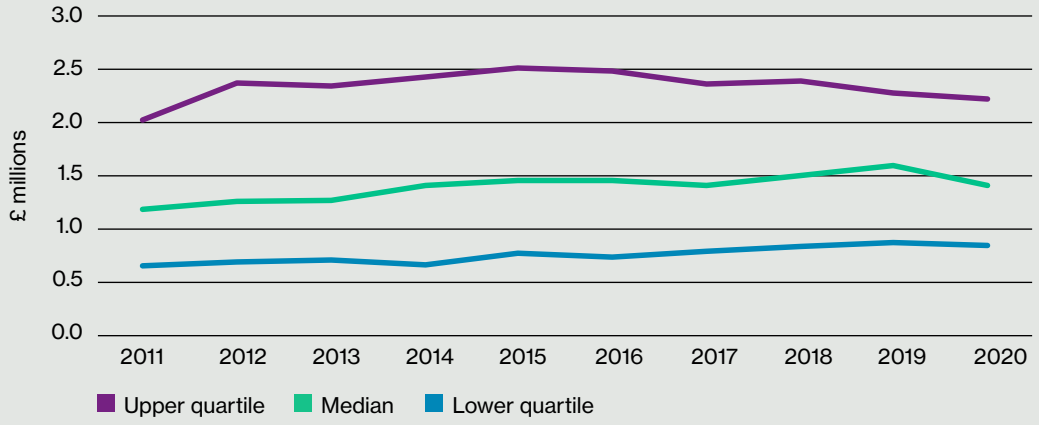
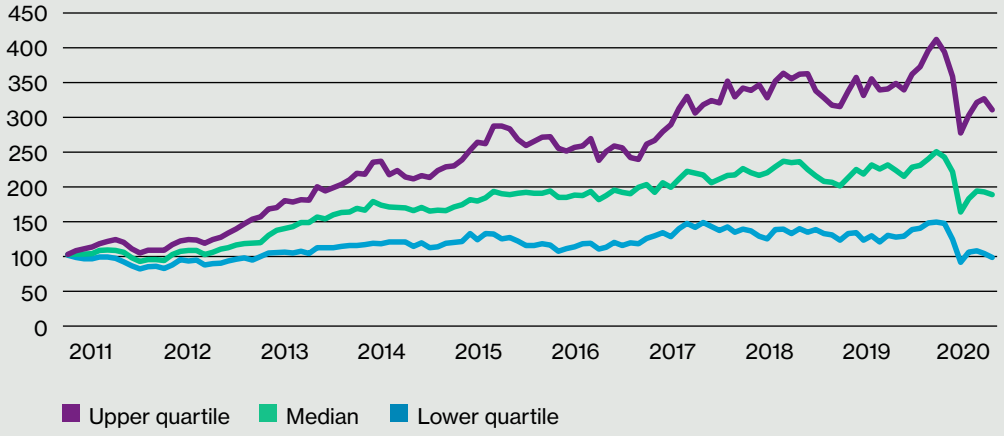


Figure 35. **FTSE 250 total shareholder return (TSR) performance from 2011 – 2020**



Shareholding guidelines

The figures below set out the level of shareholding guidelines in the FTSE 101-150, the FTSE 151-350 and the full FTSE 250 for both the CEO and CFO roles. Circa 30% of companies in the FTSE 250 have a higher guideline for the CEO than other executive directors.

Around half of FTSE 250 companies disclose a time period over which the shareholding should be built. Of those that disclose this information, the most common time period for compliance is five years (c. 90% of companies, up from 80% in 2019).

Figure 36. **Shareholding guidelines for CEO role (% of base salary)**

	Lower quartile	Median	Upper quartile
FTSE 101-150	200%	200%	250%
FTSE 151-350	200%	200%	250%
FTSE 250	200%	200%	250%

Figure 37. **Shareholding guidelines for CFO role (% of base salary)**

	Lower quartile	Median	Upper quartile
FTSE 101-150	200%	200%	210%
FTSE 151-350	200%	200%	200%
FTSE 250	200%	200%	200%

Actual median shareholdings

CEO actual shareholdings in the FTSE 250 are generally higher than the guidelines (*Figure 38*).

Figure 38. **Actual median shareholdings for CEO and CFO roles (% of base salary)**

	CEO	CFO
FTSE 101-150	229%	117%
FTSE 151-350	378%	93%
FTSE 250	412%	133%

Post-cessation shareholding guidelines

64% of companies in the FTSE 250 operate post-cessation shareholding guidelines, and of those companies, nearly half are compliant with the Investment Association (IA) guideline of 100% of the in-employment guideline (or the actual shareholding guideline on departure, if lower) for two years post cessation. Of those who do not comply with the IA guideline, either the requirement applies on a phased basis or the level is lower than the in-employment guideline.

Further information

For more information on FTSE 250 market data and pay trends please contact your Willis Towers Watson contact or:

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