
The Investment Association

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Dear Remuneration Committee Chair,

I am writing to outline the key changes to The Investment Association's Principles of Remuneration for 2020, and to highlight the key areas of focus for our members for the forthcoming AGM season. IA members want their investee companies to generate long-term sustainable value for their clients, the end beneficiaries. The Principles set out Investment Association members' views on executive remuneration.

The IA has updated the Principles of Remuneration against a backdrop of ongoing political uncertainty and with a majority of FTSE All Share companies required to seek a new remuneration policy at their 2020 AGM. The focus on executive pay from shareholders, employees and other stakeholders including politicians and the media shows no sign of abating.

IA members continue to believe that a high level of executive remuneration is a reputational risk to companies, individual directors and their shareholders. It is increasingly important that Remuneration Committees are considering the wider employee pay context and fairness of executive pay when setting pay levels and deciding on the remuneration outcomes.

The Principles have been updated to reflect current best practice and evolving views of our members including the impact of remuneration on wider stakeholders, the consultation process, approach to leavers, long term incentives and alignment of performance conditions with the company strategy.

IA members highlight the following areas of focus:

Alternative remuneration structures – In recent years, there has been a growing debate on the benefits of various long-term incentive structures. For many years, Long Term Incentive Plans have been introduced by companies and generally accepted by shareholders. However, IA members are increasingly of the view that the traditional Long Term Incentive Schemes are not working as effectively as they could for all companies and can sometimes drive outcomes which can cause concerns for shareholders such as increasing grant levels or volatile and significant vesting outcomes. We encourage all Remuneration Committees to evaluate their remuneration structures to ensure that they appropriately aligned with the implementation of the company's strategy. Research from the [Purposeful Company](#) has recently shown, there is a growing body of investors who are willing to consider alternative remuneration structures, if the Remuneration

Committee can argue the strategic benefits of adopting such schemes. Following the Purposeful Company report, IA members commit to working with other stakeholders to look at the circumstances in which such schemes may be more widely implemented in the UK market. If needed the IA, will look to review the Principles of Remuneration as soon as possible after next year's AGM season to reflect on any developments or changing expectations.

Discretion on vesting outcomes – In recent years, we have seen in a small number of cases where the vesting of long-term incentives has led to a very significant value being paid to a small number of individuals. In some of these cases, the Remuneration Committee had no ability to reduce the level of reward delivered to the individuals. These payments have had reputational impact on the company, their directors and shareholders. To address this potential issue, the discretion section of the Principles of Remuneration has been updated to include the suggestion that Remuneration Committees introduce discretion into their incentive schemes which would allow them to limit the vesting outcomes if a specific monetary value is exceeded. IA members consider it appropriate for individual Remuneration Committees to decide on the level at which such a discretion would be suitable for their company and how it would be implemented on an individual basis.

Approach on Pensions – As outlined in our position paper from September 2019, the IA's approach in 2020 will continue to meet the underlying aim set out in our Principles of Remuneration which is for pension contributions for executive directors to be aligned with those provided to the majority of the workforce. Members expect Remuneration Committees to set out a credible action plan to reduce the pension contributions of incumbent directors to the majority of the workforce level by the end of 2022.

Shareholding requirements and post-employment shareholding requirements - the Principles were updated last year to outline which shares can count towards the shareholding guidelines and the expectation of investors on post-employment shareholding requirements. During the forthcoming AGM season shareholders expect post-employment shareholding requirements to be introduced for all new policy approvals.

Levels of Remuneration – It is essential that companies adequately justify to investors the level of remuneration paid to Executives. In the coming year, investors will continue to look closely at how any increases to basic salary or variable pay opportunity are justified, and will expect Remuneration Committees to show restraint in relation to overall quantum. Members continue to be concerned by incremental increases to both fixed pay and variable pay opportunity which, on aggregate, can lead to substantial increases in overall remuneration.

Pay for Performance – Our members' clients, ordinary savers continue to seek explanations as to why remuneration pay-outs are supported. In order to justify their support, they require robust transparency on financial, strategic and personal targets so that the link between pay and performance can clearly be seen. IA members request that strategic and personal targets and outcomes are disclosed separately.

If you need any further details on the Principles of Remuneration, please do not hesitate to contact me or one of the IVIS team (www.ivis.co.uk/contact-us).

Yours faithfully,

Andrew Ninian
Director, Stewardship and Corporate Governance