EsopCentre

spreading the wages of capital

Institutional Investors' Views On The Use Of Share Plans:

Focus On The Use Of Share Plans During The Continuing Pandemic

Webinar

Tuesday, 6 October 2020

EsopCentre

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A Word From The Chairman

Professor Michael Mainelli

Executive Chairman

Z/Yen Group

Agenda

11:00 – 11:05	Introduction
11:05 – 11:30	keynote address
11:30 – 11:45	Questions from the audience

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Institutional Investors' Views On The Use Of Share Plans:

Focus On The Use Of Share Plans During The Continuing Pandemic

Fleur Benns

Legal Director

Share Plans & Incentives

Pinsent Masons LLP

Lynette Jacobs

Partner and Head of Share Plans & Incentives

Pinsent Masons LLP

Institutional investors' and share plans in covid-19 times

Lynette Jacobs, Partner and Head of Share Plans & Incentives
Fleur Benns, Legal Director, Share Plans & Incentives

Background

- COVID-19 pandemic has made both short-term and long-term reward decisions more complicated due to:
  - volatility of share prices
  - many companies needing to cut dividends, general expenditure and cash outlay
  - employees on furlough
  - required capital raising from shareholders
  - continued market uncertainty around emergence from lockdown and the economic environment both in the next few months and over the next few years

Background

- Uncertainty from March 2020 onwards as to the impact of Covid-19 on executive variable remuneration
  - 2019 outcomes
  - 2020 awards
  - in-flight awards
- Remuneration committees and advisers keen to know institutional investors' views
- March 2020 onwards starting to see executive salary reductions

Investment Association

- 27 April 2020 – detailed guidance issued

"Investment managers expect executive remuneration to be linked to long term company performance and aligned with the experience of its employees, stakeholders and shareholders. During this exceptional period we expect companies to adopt an approach that is appropriate to their business and the specific impacts of coronavirus, being careful to ensure that executives and the general workforce are treated consistently"

- Mid November 2020 – updated guidance expected

Investment Association

- Suspension or cancellation of dividends – use discretion to reduce [2019 or] 2020 FY bonus outcomes
- Do not expect performance conditions for bonuses or in-flight share award to be adjusted
- Where performance of the company and shareholder experience is not commensurate with the executive remuneration outcomes, then remuneration committees should (following engagement with shareholders) use their discretion to ensure a good link between pay and performance

Investment Association

- Use discretion to reduce vesting outcomes where windfall gains would be received
- If a company seeks additional capital from shareholders or takes money from the government this should be reflected in the executives' remuneration outcomes, and that failure to do so may have significant reputational ramifications

Institutional Shareholder Services (ISS)

- Short-term awards: Contemporaneous disclosure of rationales for making changes to performance metrics, goals or targets
- Long-term awards: In-flight changes considered on a case-by-case basis – not generally supportive
- Will be keeping an eye out for:
  - any alteration to the structures of a long-term plans to take the new economic environment into consideration
  - any repricing actions without asking shareholders to approve or ratify the actions in a timely fashion

Pensions and Lifetime Savings Association (PLSA)

- Investors must keep an eye on how those firms in which they invest manage the pandemic and consider voting against directors who they believe did not behave appropriately towards their workforces
- One of the most effective ways of investors using a vote to effect change is through holding relevant directors individually accountable

Glass Lewis

- Expects a ‘marked increase in shareholder concerns on repricing, dilution, burn rates, hurdle adjustments, changes to vesting periods, caps and cuts on incentives, and the quality of disclosure concerning the limits and exercise of board discretion’
- It will support executive compensation changes and adjustments that reflect a ‘proportional approach’ where shareholders and employees share the pain
- Heavy burden of proof for boards and executives to justify their compensation levels in a drastically different market for talent

International Corporate Governance Network

- Public perceptions that executives earn exorbitant amounts may be exacerbated by the current crisis
- COVID-19 has the potential to invigorate a debate about high levels of executive compensation and its impact on income inequality and society’s capacity to respond to global emergencies
- Increases the attention paid to how executive remuneration relates to the health and safety of employees, suppliers, customers and the rights of investors, including end beneficiaries

Key issues

- Use of discretion
  - Corporate Governance Code 2018 changes
- Consistency of treatment between employees, executives and investors
- Any “propping up” should be reflected in executive pay outcomes
- Directors “behaviour” will be scrutinised and investors may vote against re-election
- Increased focus on the pay-gap

2020 AGM season

- FTSE 350
  - Average votes in favour of Directors' Remuneration Reports and Directors' Remuneration Policy consistently 90%+ for last 5 years
  - BUT marked increase of companies with 20%+ vote against over 5 years (c.13% to c.22%)
  - 40%+ relate to remuneration issues and 30+% relate to election of directors
  - Too early in most cases to see the Covid-19 impact in BUT, for example…

2020 AGM season

- Ryanair- DRR passed with only 65.8% support
- ISS – "*Many of the larger UK listed companies in less-challenging circumstances than Ryanair have either deferred or cancelled executive bonus payouts altogether in light of the current climate, in a show of solidarity with key stakeholder groups such as employees and shareholders.*"

  "*Given the current state of upheaval in the industry and the uncertain outlook, as well as the wider stakeholder experience, it is difficult to justify a payment equal to c. 92% of maximum opportunity to the CEO, regardless of performance against 2020 financial year targets*."

2020 AGM

- IAG - DRR passed but 20%+ vote against
- ISS - "*Significant bonus awards have been made to the executive directors for [financial year] 2019, headlined by the £883,000 (50% in cash) to departing CEO Willie Walsh.*"

  "*Although these bonus decisions would have been made before the full extent of the fallout from Covid-19 was known, there was ample evidence at the time to suggest that a prudent approach would be warranted.*"

ANY QUESTIONS?

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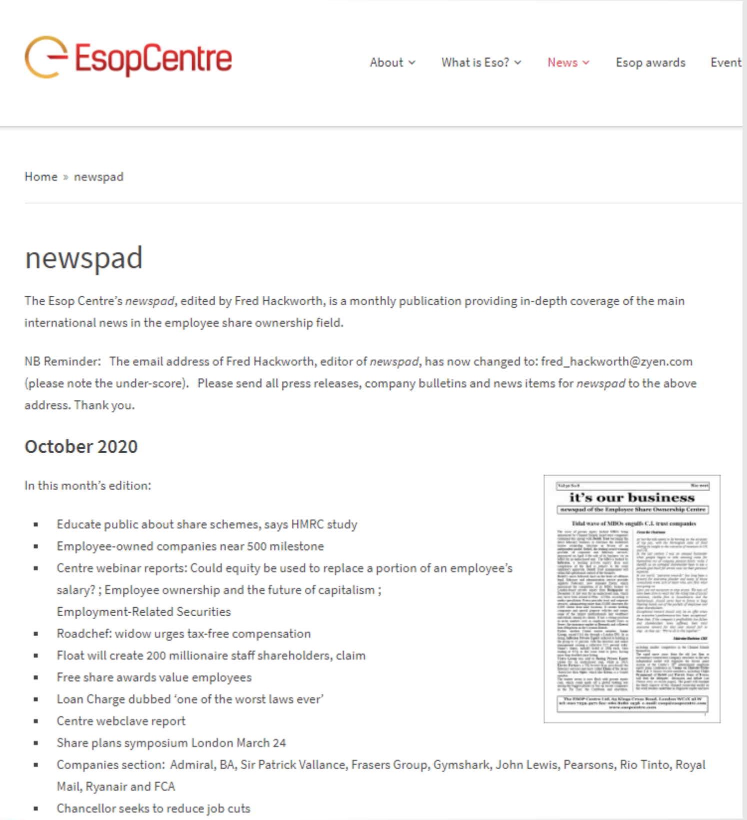
Questions & Comments

Resources

Esop Centre website & newspad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newspad

The Esop Centre's *newspad*, edited by Fred Hackworth, is a monthly publication providing in-depth coverage of the main international news in the employee share ownership field.

NB Reminder: The email address of Fred Hackworth, editor of *newspad*, has now changed to: fred_hackworth@zyen.com (please note the under-score). Please send all press releases, company bulletins and news items for *newspad* to the above address. Thank you.

October 2020

In this month's edition:

- Educate public about share schemes, says HMRC study
- Employee-owned companies near 500 milestone
- Centre webinar reports: Could equity be used to replace a portion of an employee's salary? ; Employee ownership and the future of capitalism ; Employment-Related Securities
- Roadchef: widow urges tax-free compensation
- Float will create 200 millionaire staff shareholders, claim
- Free share awards value employees
- Loan Charge dubbed 'one of the worst laws ever'
- Centre webclave report
- Share plans symposium London March 24
- Companies section: Admiral, BA, Sir Patrick Vallance, Frasers Group, Gymshark, John Lewis, Pearsons, Rio Tinto, Royal Mail, Ryanair and FCA
- Chancellor seeks to reduce job cuts

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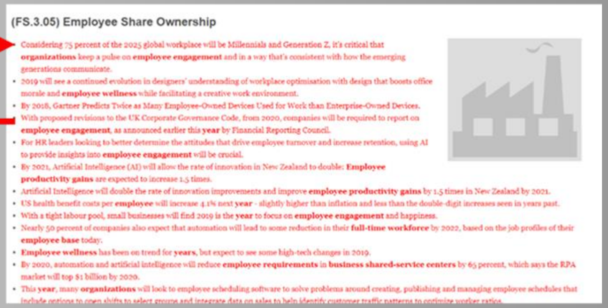

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Forthcoming Webinars

07 October 2020 (19:30)	Tennis Around The Time Of Thomas Gresham
08 October 2020 (11:00)	Why Do People Do Hostile Profiling?
14 October 2020 (09:00)	Financial Centres Of The World 2020: Focus On Labuan IBFC
15 October 2020 (11:00)	Selling Your Company To An EOT - How It Differs From An MBO

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