FTSE 250 – 2023 AGM season update

As of early July, 85% of FTSE 250 companies had published their 2022/23 annual report and accounts. This report, the fourth in our 2023 series (and second for the FTSE 250 index), provides an update of the story so far.

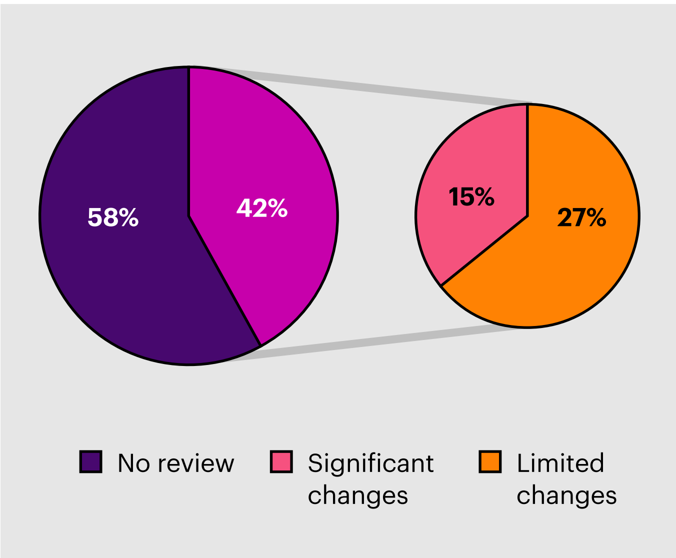
Going into the 2023 AGM season, we expected companies, proxies and investors to focus on policy reviews, executive director [ED] salary increases, windfall gains and ESG. We also anticipated an increase in the number of companies reviewing Chairman and NED fees. A summary of both forward- and backward-looking company disclosures follows and, whilst AGMs are on-going (87% held so far, including all December year ends), we have also provided a summary of proxy agency recommendations and AGM voting out turns to date.

Remuneration proposals for 2023/24

Regular Policy review year

42% of companies have tabled a new Policy for approval, and over 60% of these are making only limited changes, focussing on updating policy items, such as malus/clawback triggers and post-employment shareholding guidelines, or formalising previously implemented changes, for example pension reductions.

Around 24% of companies (33 companies) are proposing to increase variable pay opportunities, under annual bonus (24 companies) and/or long-term incentive (LTI) plans (19 companies); 10 companies are increasing levels under both their annual and long-term plans. These changes have not yet impacted median (or upper/lower quartile) opportunities, which remain at 150% and 200% of salary for annual bonus and LTI respectively across the whole of the FTSE 250.



Few companies are making structural changes to their long-term variable pay: three companies are introducing 'atypical' schemes (two, a Restricted Share Plan (RSP); one, an additional 'stretch' element to its performance share plan (PSP)) and three are reverting to market-standard performance share plans (two companies are simultaneously reintroducing annual bonus plans, having previously operated single variable incentive plans; the third company previously operated a value creation plan).

Median CEO/CFO salary increases:

4.6%/4.9%

below those of the wider workforce

Base salaries and fees

In line with investor expectations, 75%-80% of salary increases for EDs have been below those offered to the wider workforce (6.0% at median).

Around 8% of CEOs/CFOs received increases above 5.0% that were explicitly higher than those provided to the wider workforce; these ranged from 9.0% to 22.0%.

This is in the context of the latest ONS statistics showing annual private sector wages rising by 7.3% in the three months to May 2023, and UK inflation at 7.9% for June which is its lowest level for more than a year.

Around 55% of companies have increased either their all-inclusive Chairman and/or basic NED fees. Median levels of increase are 5.0% and 4.8% respectively (2021/22: 4%/3%), in line with ED but below wider workforce increases.

CEO pay out-turns for 2022/23

2021/22 median single figure **£1.9 million** → **2022/23** median single figure **£1.9 million**

The median annual bonus payout as a percentage of maximum has dropped back down to 74% of maximum, in line with longer-term norms, from a thirteen-year high of 85% last year.

LTI vesting outcomes vary widely but, at 60% of maximum (2021/22: 60%), the median remains steady and in-line with long-term levels. Given the year-on-year reduction in bonus outcomes and the stability of LTI vesting, the lack of change in the median single figure is due to the higher absolute value of vested LTIs, some of which will be a result of share price performance.

RemCos made discretionary adjustments to the formulaic outcome of annual bonuses almost twice as often as to LTIs (similar to last year):

- Bonuses at 13% of companies were reduced by the RemCo or partially waived by recipients (2021/22: 13%).
- 4% of RemCos increased bonus outcomes (2021/22: 3%).
- Formulaic LTI outcomes were reduced at 4% of companies (2021/22: 4%) and most of these were due to windfall gains.
- A further 4% of RemCos increased LTI outcomes (2021/22: 3%).

Only 3 companies have adjusted the 2022/23 vesting of their LTI awards to account for windfall gains. Around 15 companies had already reduced 2020/21 awards at the time of grant, in anticipation of avoiding such gains. Proxies and investors have expressed concerns in respect of 3 companies that (amongst other contentious issues) did not adjust for windfall gains at vesting, despite significant share price falls around the time of grant, without a sufficiently compelling explanation.

ESG

Emerging guidance around climate transition plans (e.g. Transition Plan Taskforce (TPT)) and enhanced climate-related financial reporting regulations (International Sustainability Standards Board (ISSB)) reinforces the need for companies to have short-term KPIs measuring progress towards their long-term ESG commitments. Executive incentives are a recognised governance mechanism to drive accountability against these shorter-term metrics.

The prevalence of broader ESG metrics in variable pay is already quite high, at around 85% and 40% in FTSE 250 bonus and LTI plans respectively; therefore, we expect the focus going forward to be on:

- refining climate metrics,
- ensuring their strategic alignment (with the transition plan objectives) and materiality, and
- robust disclosure, to demonstrate the strategic link and rationale behind metric selection.

In parallel, investor expectations are rising, requiring climate metrics to be measurable and quantifiable and calling for greater standardisation and comparability. This will likely mean:

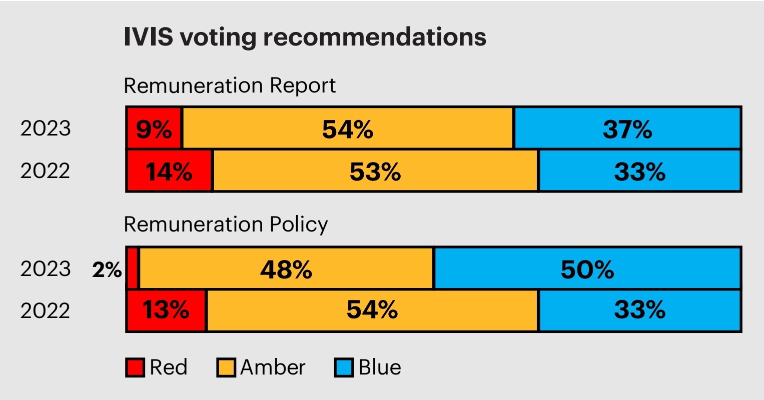
- increased scrutiny around target calibration,
- higher expectations for external audit and independent verification, and
- the development of formal methodologies and benchmarks.

While GHG emissions reduction continues to be an important metric, companies across the economy will likely adopt a broader set of climate metrics with clear links to other ESG factors, to assess how effectively management is transitioning the business to a low-carbon economy and managing the associated risks. This will depend on where the company sits in the economy and its impact on global emissions.

Proxy agencies and AGM voting

IVIS voting recommendations

Around 93% of our sample of companies have received voting recommendations from IVIS for their remuneration reports and remuneration policies, where applicable. Recommendations this year have been more favourable than last year, with fewer 'red-' and 'amber-tops' for both reports and policies.

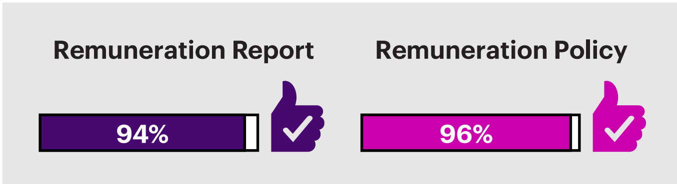


The main reasons for negative recommendations have been:

1. Pay for performance concerns, e.g. performance periods < 3 years; long-term incentives settled in cash.
2. Insufficient disclosure of incentive targets.
3. Wider governance concerns including lack of alignment between pension provision for executive directors and that of the wider workforce.

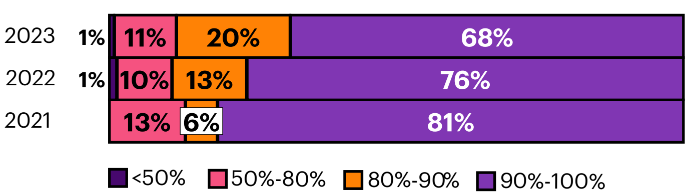
AGM Voting Outcomes

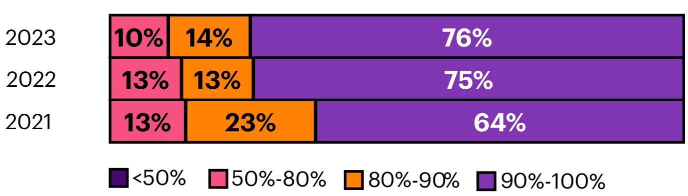
Shareholder support at AGMs is very similar to last year, with median support of 94% for reports (2022: 96%) and 96% for policies (2022: 96%).



The three-year voting outcome charts below provide an interesting perspective over a longer time period.

For reports, the proportion of "low votes" (i.e. those below 80%, in coral) has remained fairly consistent. However, we observe a significant increase in the proportion of votes 'for' between 80% and 90% (in orange) from 6% in 2021 to 20% today. For policies, the reverse is true, and we observe an increased proportion in votes 'for' above 90% in the last two years (around 75%) compared to 2021 (64%).





This year, one company's report resolution was lost due to continued lack of disclosure of performance criteria, under the personal and operational elements of both bonus and LTI, despite prior shareholder dissent.

Further information

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

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This report includes data sourced from **WTW's Global Executive Compensation Analysis Team** and is based on the FTSE 250 as at 19 June 2023.

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