FTSE 100 – 2023 AGM season update

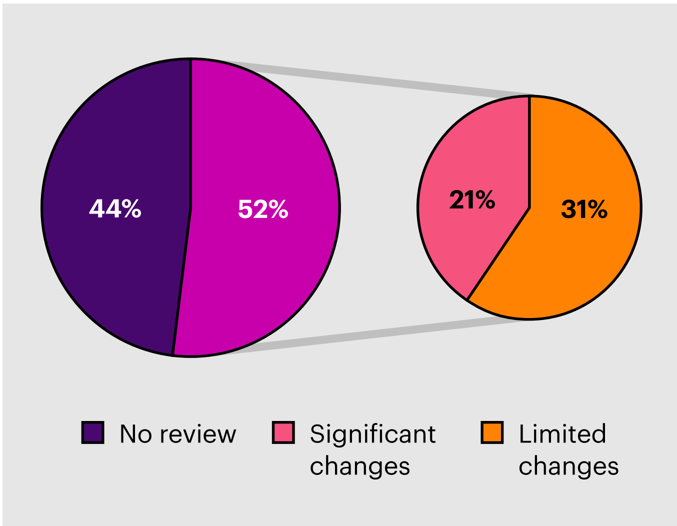
As of 27 June, 88 FTSE 100 companies had published their 2022/23 annual report and accounts, including all bar one of the March year ends. This report, the third in our 2023 series (and second for the FTSE 100 index), provides an update of the story so far.

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 (81% 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

52% of companies have tabled a new Policy for approval, and nearly 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 (21 companies) are proposing to increase variable pay opportunities, under annual bonus (11 companies) and/or long-term incentive (LTI) plans (15 companies); 5 companies are increasing levels under both their annual and long-term plans. Whilst median opportunities have not yet been impacted, remaining at 200% of salary for bonus and c. 300% for LTI, we observe an increase in lower and upper quartile bonus levels (from 150% and c. 210% to 170% and 225% of salary respectively) and upper quartile LTI levels (from 375% to 400% of salary).

Few companies are making structural changes to their long-term variable pay: three companies are introducing ‘atypical’ schemes (one, a Restricted Share Plan (RSP); another, a 4-year block award of performance shares; and the third, a supplementary IPO-related incentive) and one is reverting to a market-standard performance share plan from a RSP.

Median CEO/CFO salary increases:

4.0%

below those of the wider workforce

Base salaries and fees

In line with investor expectations, 85%-90% of salary increases for EDs have been below those offered to the wider workforce (6.0% at median).

Fewer than 5% 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 19.0%.

This is in the context of the latest ONS statistics showing annual private sector wages rising by 7.2% in the three months to April 2023, and UK inflation for April and May dipping below 9% for the first time in 12 months and being forecast to fall further.

Around 60% of companies (2021/22: c. 50%) have increased either their all-inclusive Chairman and/or basic NED fees. Median levels of increase are 4.0% for both roles (2021/22: 3.0%), in line with ED but below wider workforce increases.

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 high, around 90% and 60% in FTSE 100 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.

CEO pay out-turns for 2022/23

2021/22 median single figure	→	2022/23 median single figure
£3.6 million		**£4.0 million**

The median annual bonus payout as a percentage of maximum has dropped back down to 75% of maximum, in line with longer-term norms, from a thirteen-year high of 88% last year.

LTI vesting outcomes vary widely but, at 61% of maximum (2021/22: 60%), the median remains steady and in-line with long-term levels. Despite this, the increase 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 somewhat more than to LTIs (last year, interventions were almost twice as prevalent in bonuses as LTIs):

- Bonuses at 13% of companies were reduced by the RemCo or partially waived by recipients (2021/22: 19%).
- Formulaic LTI outcomes were reduced at 9% of companies (2021/22: 3%) and most of these were due to windfall gains.
- Three companies have increased outcomes, one for annual bonus (1% vs 0% in 2021/22) and two for LTI vesting (2% vs 8% in 2021/22).

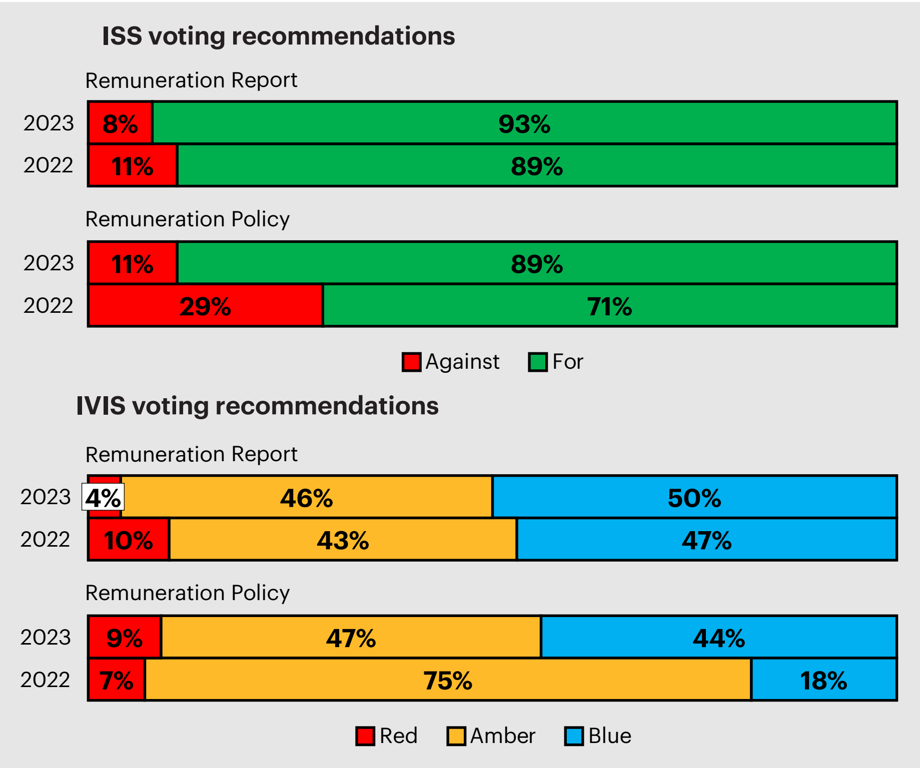
Only 5 companies have adjusted the 2022/23 vesting of their LTI awards to account for windfall gains. A further 7 companies had already reduced 2020/21 awards at the time of grant, in anticipation of avoiding such gains. Proxies and investors have expressed concerns in respect of 3 companies that (amongst 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.

Proxy agencies and AGM voting

Proxy agency recommendations

ISS recommendations have been slightly more favourable than last year: 93% of remuneration reports have received 'for' recommendations so far (2022: 89%), and just 11% of policy renewals have received 'against' recommendations, down from 29% for the whole of 2022.

The picture from IVIS is more mixed: their recommendations for reports have been similarly more favourable, with only 4% of 'red-tops' (2022: 10%). In respect of policies, the proportion of 'red-tops' is similar to last year (9% vs 7% in 2022) although there have been significantly fewer amber-topped policies (47%, versus 75% in 2022).



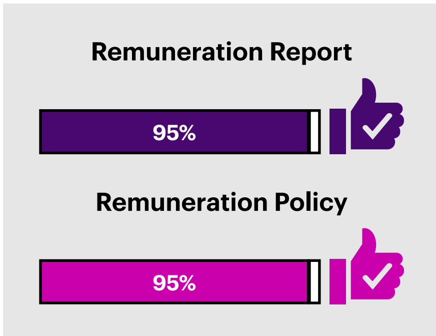
The main reasons for negative recommendations have been:

1. Excessive/insufficient use of discretion
2. Increase in variable pay levels without sufficiently compelling rationale
3. Pay for performance concerns, e.g. performance periods < 3 years; insufficiently stretching targets

AGM Voting Outcomes

Amongst other factors, an ISS 'vote against' recommendation can materially affect the voting outcome; acknowledging that sample sizes are small in just the 2023 period, we calculate a median vote 'for' of 70% on the report and 78% on the policy, where ISS recommended a 'vote against', versus a median voting outcome of 96% where ISS recommended a 'vote for'.

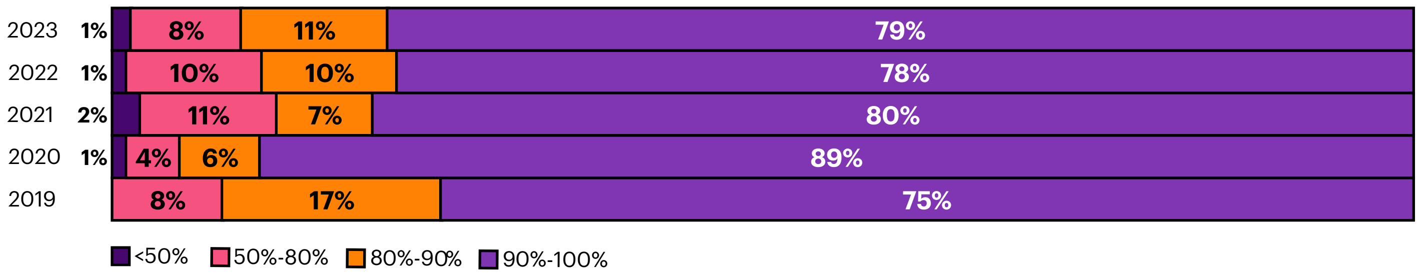
Overall, shareholder support at AGMs is a little higher than last year, with median support of 95% for both the report (2022: 94%) and 95% for the policy (2022: 92%).



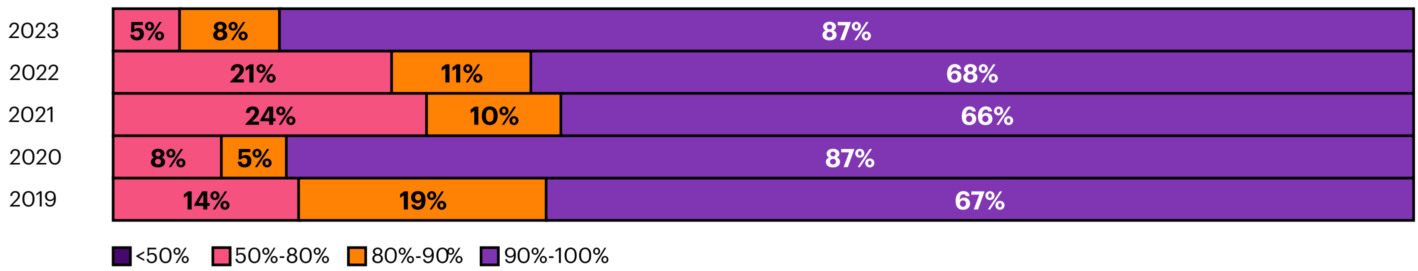
These five-year voting outcome charts provide an interesting perspective over a longer time period.

For reports, the recent year-on-year picture is fairly consistent, but we observe a gradual increase in the proportion of votes ‘for’ between 80% and 90% (in orange), from 6% in 2020 to 11% today. The proportion of “low votes” in respect of policies (i.e. those below 80%, in coral) is significantly lower than in the last two years, (5%, down from over 20%), although the difference is somewhat less pronounced in absolute terms due to the larger sample size in this regular policy review year (2 companies, down from 6 in 2022 and 7 in 2021).

Voting outcomes by category - report



Voting outcomes by category - policy



This year, one company’s report resolution was lost due to the proposed salary for the incoming CEO being considered excessive.

Further information

For more information on FTSE 100 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 100 as at 19 June 2023.

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