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RE: IA Principles of Remuneration

Dear Remuneration Committee Chair,

I am writing to outline the key changes to The Investment Association's Principles of Remuneration for 2021, and to highlight the key areas of focus for our members for the forthcoming AGM season.

This year, as we update our Principles of Remuneration, companies, investors and society are all attempting to navigate uncharted waters in the continuing response to the COVID-19 pandemic. Shareholders recognise that Remuneration Committees will want to sensitively balance the need to continue to incentivise executive performance at a time where management teams are being asked to demonstrate significant leadership and resilience, and ensure the executive experience is commensurate with that of shareholders, employees and other stakeholders. Remuneration Committees should be careful not to isolate executives from the impact of COVID-19 in a manner that is inconsistent with the approach taken for the general workforce and should also be cognisant of the pandemic's impact on society.

In April 2020, the IA provided additional guidance on Shareholder Expectations during the COVID-19 pandemic. We have updated this guidance in light of the current expectations of members which has also been published today. Members continue to believe that the IA's Principles of Remuneration continue to provide a useful guide to shareholder expectations and good practice.

Key Changes to the Principles of Remuneration for 2021

The Principles have received a small number of updates to reflect developments in market practice and investor expectations, whilst recognising the significant focus at the current time is responding to the COVID pandemic including:



Use of Non-Financial Performance Measures – The Principles have been updated to be clearer on shareholder expectations on the range of non-financial performance metrics (strategic, personal and Environmental, Social and Governance) in variable remuneration.

Post-Employment Shareholding Policies – Shareholders are keen to understand the enforcement mechanisms which the Remuneration Committee has in place to ensure that post-employment shareholding policies are enforced once a director has left the Company.

Deferral of bonuses – the Principles have been updated to reflect member expectations that a proportion of the entire bonus should be deferred when the bonus opportunity is greater than 100% of salary.

Approach to Pensions in 2021

As previously set out in the Principles of Remuneration, IA members consider pension contributions for the executive directors should be aligned with those available to the majority of the company's workforce. Where the pension contributions for incumbent directors are above the majority of the workforce rate, members expect Remuneration Committees to set out a credible action plan to align the pension contributions of incumbent directors to the majority of the workforce rate by the end of 2022. The approach will take to implement this guidance in 2021 is:

Pension contributions for new Directors

It is now standard market practice for any new executive director or any director changing position to be appointed on the pension contribution which is aligned to the majority of the workforce rate. In 2021, IVIS will continue with its current approach:

- Any new remuneration policy that does not explicitly state that any new executive director appointed will have their pension contribution set in line with the majority of the workforce will result in a Red Top on the remuneration policy.
- Any new executive director or director changing role whose pension contribution is not aligned with the level of the majority of the workforce will result in a Red Top on the remuneration report.

Pension contributions for incumbent directors

IA members welcome the leadership shown by the significant number of companies and individuals who have voluntarily reduced their pension contributions. Whilst recognising that incumbent directors have a contractual right to their current pension contributions, as outlined in our Principles of Remuneration members want to see all pension contributions aligned to the majority of the workforce rate, as soon as possible. As such, when analysing companies with year-ends starting on or after 31 December 2020, IVIS will take the following approach:

- Members expect Remuneration Committees to set out a credible action plan to align the pension contributions of incumbent directors to the majority of the workforce level by the end of 2022.
- Where the committee has not disclosed a credible action plan to align the director's pension contribution to the majority of the workforce rate by the end of 2022, IVIS will Red Top the remuneration report if the pension contribution received by the executive director is 15% or more. In most circumstances, members do not consider fixing the

monetary value of pension contributions over time to be a credible action plan to bring the pension contributions in line with the majority of the workforce.



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