LENS ON:

Recent investor updates

March 2022

A number of investors have recently issued updated voting guidelines, or written to companies, setting out expectations for the forthcoming year. In line with the latest updates published by Glass Lewis, ISS and the Investment Association (IA), a central theme is the increased focus on remuneration through the lens of ESG factors.

Additionally, in light of the ongoing situation in Ukraine and the impact on the wider economy, the IA has published a statement in relation to executive remuneration and Russian sanctions.

IA guidance on executive remuneration and Russian sanctions

The IA has confirmed its expectations on executive remuneration decisions in light of the ongoing Russian sanctions and the wider economic impact of the Russian invasion of Ukraine:

- **Fall in share price**. The IA *Principles of Remuneration* state that long-term incentive award opportunities should be scaled-back following a material share price fall – the IA has confirmed that they expect such an approach to be followed in the current circumstances.
- **Ability to set LTIP performance targets**. The IA has confirmed that, for those companies impacted (for example, companies with material revenues or profits from Russian operations), the IA will support a delay in setting LTIP performance targets in FY22, as long as the reason for the delay is clearly communicated. However, the IA also noted that any general impact of the Russian invasion, for example an increase in energy costs, should not warrant a delay in target setting.

Ellason commentary:
We welcome the additional clarification from the IA in response to the current uncertain situation.

PLSA (Pension and Lifetime Savings Association)

The updated PLSA Stewardship and Voting Guidelines for 2022 highlight three key areas; climate change, diversity and executive pay. Recognising the continued impact of COVID-19 and the increased cost of living, they are pressing for companies to demonstrate caution in remuneration packages for 2022, especially where companies have taken Government support. Consideration should be given as to how the company has been impacted by the pandemic, the level of financial support accepted from the Government, and how this might impact the perception of remuneration amongst stakeholders.

The PLSA welcomes the increased focus on ESG in remuneration and would like to see more packages linked to clear targets for performance against achieving a company's ambitions to meet climate goals. However, this should be done in a way which does not incentivise the pursuit of sustainability at any cost, and should be appropriate to the company context.

Allianz Global Investors

Allianz's updated guidelines set out an expectation for companies to incorporate ESG targets into incentives. They will vote against large UK and European companies that fail to link executive pay to ESG metrics from 2023. They join Cevian Capital, who last year stated they would vote against companies that fail to include ESG targets in pay packages.

Ellason commentary:
The heightened focus externally on ESG is underpinning a growing trend for relevant measures to be incorporated into incentive design, particularly as companies are starting to publish their longer-term ambitions for sustainability and corporate responsibility (and, in some cases, submitting these for shareholder approval). The statements from Allianz and (previously) Cevian are a reminder of how ESG is emerging as a key component to incentive design for many investors.

PIRC (Pensions & Investment Research Consultants)

In 2020, PIRC consulted on a revised pay scheme for senior executives which they consider is preferable to that used today; we understand their recently-published 2022 Shareholder Voting Guidelines sets out new expectations:

- the standard pay package should include salary and participation in a single company-wide profit pool, with a [shareholder] vote on the pool value and distribution method;
- no long-term incentive plan opportunity, but bonuses could be paid under exceptional circumstances albeit subject to a [shareholder] vote

Going forward, PIRC may recommend that subscribers 'oppose' any remuneration policy which includes variable remuneration.

Ellason commentary:
PIRC handle proxy voting for many Local Authority Pension Funds, and whilst their influence on the wider market may be somewhat limited, their guidelines offer an alternative view to the typical investor perspective on variable pay.

Please do not hesitate to contact any of the Ellason team should you wish to discuss this issue further.