

# FTSE SmallCap Board remuneration

Pay trends report for the 2024 financial year

# Introduction

## Welcome to the Ellason 2024 pay trends report for the FTSE SmallCap

This report captures remuneration trends across the FTSE SmallCap for the 2024 AGM season.

Key observations:

- Just over a third of FTSE SmallCap companies put their Policy to vote at the 2024 AGM. While the majority of companies tabled Policies with very little change, some increased variable pay opportunities, while nearly 20% reduced variable pay opportunities
- Most companies heeded the advice from shareholders and awarded lower salary increases to their executive directors this year (median 4.0%) than the general increase budgeted for the wider workforce (median 5.0%)
- The median pension opportunity for a FTSE SmallCap CEO and FD is aligned with the workforce at 7.0% of salary
- 11% of companies report using downward discretion to reduce annual bonus payments for 2023

**Please email us if you would like a tailored report, detailing how your company compares with the FTSE SmallCap data on all relevant slides.**

Do not hesitate to share this report with colleagues, and/or contact the Ellason team if you have any questions on this report or have any other remuneration matters you would like to discuss.

The Ellason library includes pay trends reports for the FTSE350, FTSE SmallCap, FTSE AIM, ISEQ and investment trusts – contact one of the team if you would like a copy of other FTSE cuts either by size or by sector (and which can be tailored to your specific request).

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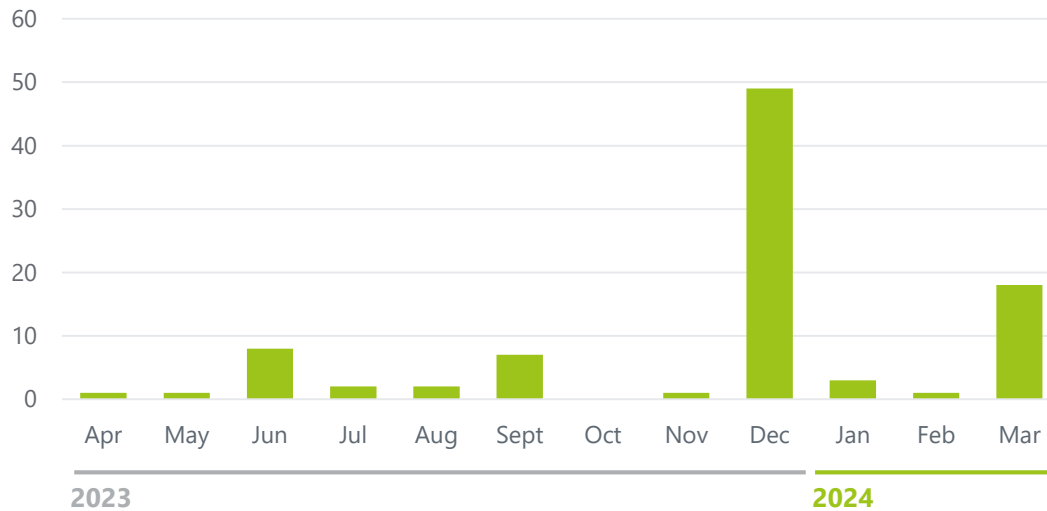
# Introduction

## Overview of the FTSE SmallCap

This survey captures pay data for the constituents of the FTSE SmallCap at 1 January 2024. The data includes companies with year ends between 1 April 2023 through to 31 March 2024.

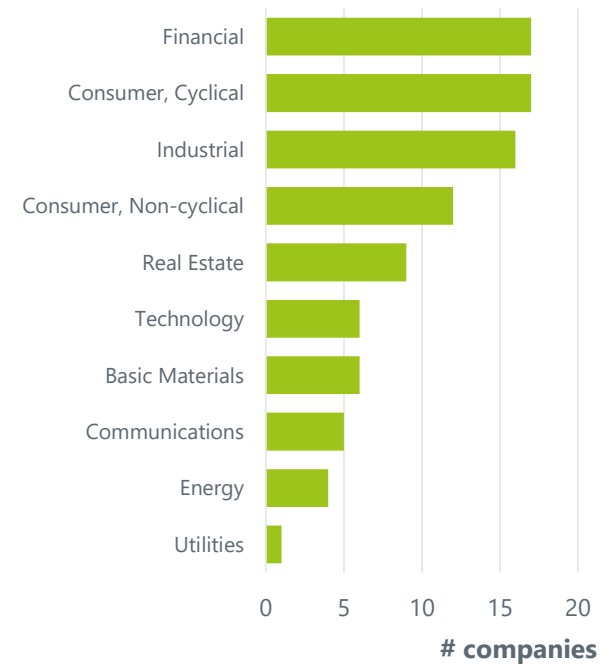
The FTSE SmallCap is fairly well represented by most industry sectors, with no one sector dominating:

### Financial year end, # companies



### FTSE SmallCap market capitalisation

75 <sup>th</sup> percentile	£344m
<b>Median</b>	<b>£253m</b>
25 <sup>th</sup> percentile	£152m



## Introduction

### A number of companies sought shareholder approval for a new Remuneration Policy in 2024

#### Overview

- 36% of the FTSE SmallCap tabled a new Remuneration Policy for a binding shareholder vote at the 2024 AGM. Nearly a third of the companies submitting a revised Remuneration Policy have proposed increases to variable incentive opportunities for at least one Executive Director; nearly 20% did the opposite by reducing variable pay opportunities. Two companies removed the exceptional limit in their LTIPs, one reduced their Restricted Share Plan in light of Board changes and one reduced both bonus and LTIP opportunity to better align with FTSE norms having moved from the AIM market.

#### Common Policy changes (as % of companies submitting a new Policy):

<b>13%</b>	Increased LTI opportunity for at least one Executive Director	<b>4%</b>	Increased in-post shareholding guidelines or introduced post-exit requirements	<b>17%</b>	Reduced variable pay opportunities for at least one Executive Director
<b>22%</b>	Increased bonus opportunity for at least one Executive Director	<b>9%</b>	Lowered % deferral requirements where in-post SOG achieved		

- A few companies put forward less 'typical' changes to their Policies in 2024, including The Gym Group, who have switched from an annual bonus and Performance Share Plan to a Single Integrated Incentive.

## Introduction

### Use of ESG metrics in FTSE SmallCap incentive plans; an overview

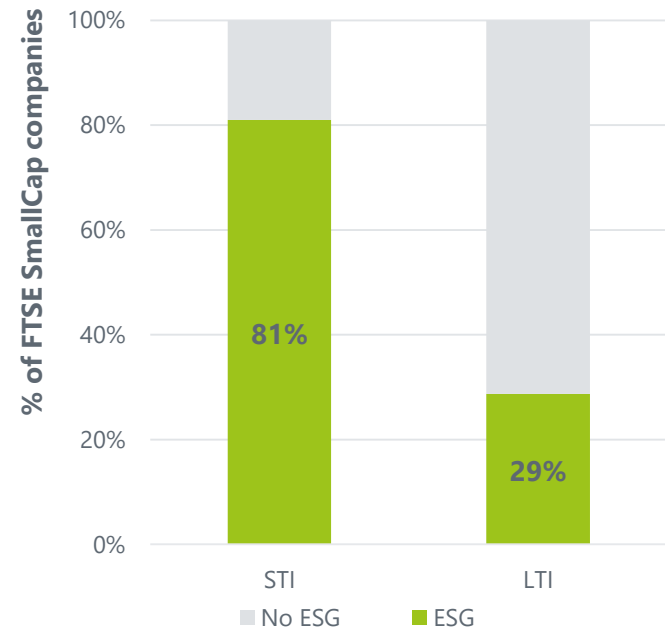
In similar fashion to 2023, the prevalence of ESG metrics in incentive scorecards has remained steady in 2024. Investors are now much more focused on ensuring that any metrics used are aligned with a company's stated ESG strategy and value creation opportunities, and are both measurable and quantifiable.

While currently more prevalent in short-term incentives, ESG metrics are now used in around a quarter of FTSE SmallCap long-term incentive plans, though this remains a lower proportion than we see elsewhere in the FTSE:

- 81% of the FTSE SmallCap incorporate ESG into their annual bonus scorecard, up from 73% in 2023; often as part of the personal/strategic objective scorecard. The median weighting on ESG in FTSE SmallCap annual bonus plans is 15% of maximum
- 29% of the FTSE SmallCap use ESG in the long-term incentive, broadly similar to 2023, the median weighting on which is 10%

ESG metrics are predominantly linked to the 'E' and 'S' components of ESG:

ESG measure prevalence (% of plans with an ESG metric)		
	Annual bonus	LTI
Environment	65%	89%
Social	82%	26%
Governance	12%	0%
Other (unspecified)	7%	5%



ESG weightings		
	Annual bonus	LTI
75 <sup>th</sup> percentile	25%	16%
<b>Median</b>	<b>15%</b>	<b>10%</b>
25 <sup>th</sup> percentile	10%	10%

## Introduction

### 2024 AGM season overview

36% of the FTSE SmallCap have sought shareholder support for a new Remuneration Policy at their 2024 AGM.

Shareholder support for remuneration resolutions is broadly consistent year-on-year, with median votes of 97% for Policy renewals (2023: 97%) and 98% for the advisory Implementation vote on the Directors' Remuneration Report (2023: 96%).

No FTSE SmallCap company failed its Policy vote or Implementation vote in 2024. However, two companies secured less than 80% support for their Policy (below the threshold used for the IA's Public Register), and three gained less than 80% support for the Implementation vote. These companies must disclose in their next Annual Report how they have consulted with shareholders on the issues that triggered the low vote.

The primary reasons for low votes include:

- Significant increases to base salaries and/or incentive opportunities (a perennial problem)
- Lack of alignment between incentive outcomes and the shareholder experience
- Concerns around target-setting for metrics linked to bonus or LTIP opportunities

Shareholder support, 2024 AGMs		
	Remuneration Policy	Implementation Report
75 <sup>th</sup> percentile	98.5%	99.3%
<b>Median</b>	<b>97.0%</b>	<b>98.0%</b>
25 <sup>th</sup> percentile	91.3%	93.4%
Average	94.2%	95.0%
<i>Lowest</i>	73.6%	55.4%

*All data as at Aug 2024*

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## **Ellason FTSE SmallCap Board Director remuneration**

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### **Salary and pension**

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# Salary

## Overall salary findings

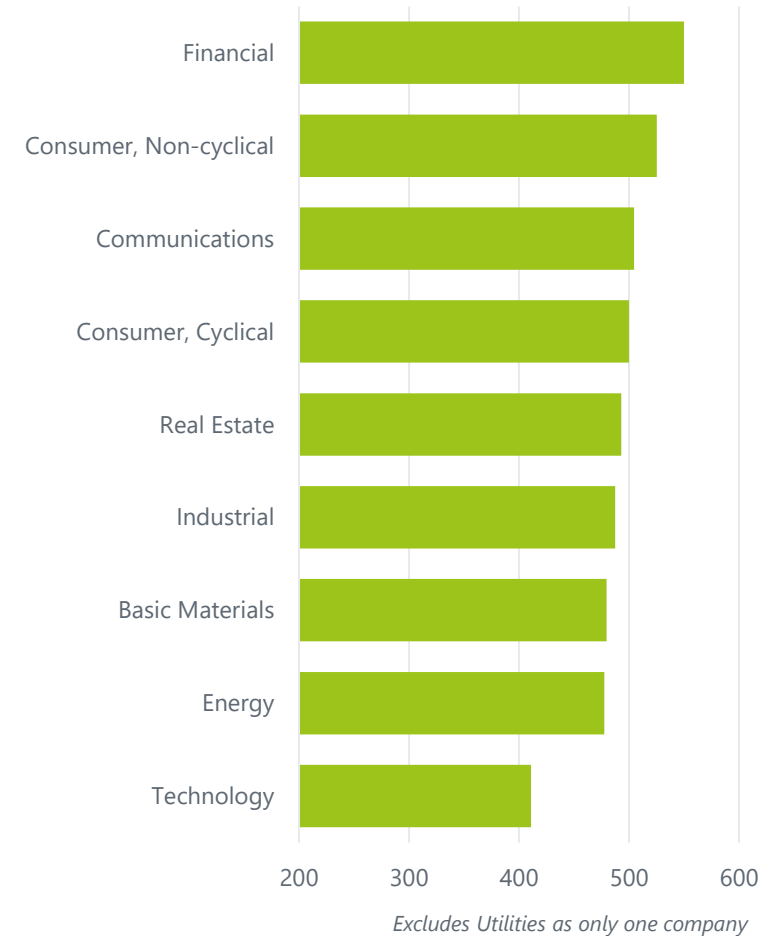
Median FY24 salaries across the FTSE SmallCap are now £500k for a CEO (up from £479k in FY23) and £342k for a Finance Director (£335k FY23). The highest salaries are observed in the utilities sector; the lowest are within technology companies.

We observe a broad consistency in the ratio between executive director salaries for the more common roles, e.g. the FD's salary is typically set at around two-thirds of that of the CEO.

A handful of companies (2%) include executive director salary caps in their Remuneration Policies, ranging from £250k to £745k (where disclosed). 4% of companies include a salary *increase* cap in their Policy; the median cap is 12.5% in any one year (range: 9.5%-25%).

FY24 Salary, all FTSE SmallCap		
	CEO	FD
75 <sup>th</sup> percentile	£577k	£400k
<b>Median</b>	<b>£500k</b>	<b>£342k</b>
25 <sup>th</sup> percentile	£429k	£300k

Median CEO salary by sector, £k





# Salary

## Salary increases

Despite inflation falling investors were keen to reinforce their 2023 stance on executive pay increases and reiterated that 2024 increases should generally be lower than that awarded to the wider workforce. Just over half of FTSE SmallCap companies have heeded the advice from shareholders and awarded lower increases to their executive directors this year than the general increase for the wider workforce.

Across the FTSE SmallCap, the median salary increase for FY24 was 3.8% for CEOs and 4.0% for FDs. The median workforce increase of 5.0% is in line with that observed in recent years. 23% of CEOs (19% of FDs) received no increase in the year.

Where disclosed, eighteen companies awarded higher than the workforce increase to an executive director in the year. While circumstances differ from company to company, where executives received higher increases, the reason given included alignment with market levels, strong individual performance and experience, and growth within the scope of the executive's role.

Reported FY24 salary increases, including zeroes			
	CEO	FD	Workforce
75 <sup>th</sup> percentile	5.0%	5.0%	5.9%
<b>Median</b>	<b>3.8%</b>	<b>4.0%</b>	<b>5.0%</b>
25 <sup>th</sup> percentile	1.8%	2.0%	4.0%
<i>No increase (excluding new hires)</i>	23%	19%	<i>n/a</i>
<i>Less than employee increase</i>	52%	57%	<i>n/a</i>

## Pension

### Overview

As in FY23, the median FY24 pension opportunity for a FTSE SmallCap CEO and FD is aligned with the workforce at 7.0% of salary. (Since the 2023 AGM season, IVIS (the Investment Association's voting arm) updated its policy to 'red top' a company's proxy report if executive director pensions are not aligned with the wider workforce.)

<b>FY24 Pension opportunity, % salary</b>			
	<b>CEO</b>	<b>FD</b>	<b>Workforce</b>
75 <sup>th</sup> percentile	8.0%	8.0%	8.0%
<b>Median</b>	<b>7.0%</b>	<b>7.0%</b>	<b>7.0%</b>
25 <sup>th</sup> percentile	5.0%	5.0%	5.0%

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## Variable pay opportunity

### Maximum award opportunities, bonus and LTIs

#### Bonus

Executive director annual bonus opportunities typically range from 100% (lower quartile) to 150% (upper quartile) of salary, with target bonus award opportunities typically 50% of the maximum opportunity.

Around 65% of companies offer the same bonus opportunity to the CEO and FD. Where the bonus opportunity is lower for the FD, it is typically 20% lower than the CEO's opportunity.

Just over a quarter of companies provide for a higher maximum bonus opportunity in the Remuneration Policy. Where a higher maximum is included, the headroom above the normal maximum ranges from 15% to 100% of salary (median: 25% of salary).

Five companies do not operate an annual bonus for their executives, generally because the variable pay opportunity is delivered entirely through a long-term plan (single integrated incentive plan), or due to governance stipulations in the jurisdiction where they operate.

FY24 Annual Bonus opportunity, % salary		
	CEO	FD
75 <sup>th</sup> percentile	150%	150%
<b>Median</b>	<b>125%</b>	<b>125%</b>
25 <sup>th</sup> percentile	100%	100%

#### LTIP

LTIP opportunities (on the basis of PSP equivalence) are now typically 120-200% of salary for executive directors, with the median opportunity unchanged at 150% of salary for both CEOs and FDs.

Around 50% of companies offer the same opportunity to the CEO and FD; where there is a gap, the FD typically receives 80% of the CEO's opportunity.

Around half of companies provide for a higher maximum LTI opportunity in the remuneration policy than the annual opportunity typically granted to executive directors. Where this is the case, the Policy limit is typically around 50% of salary higher.

FY24 LTIP maximum opportunity, % salary		
	CEO	FD
75 <sup>th</sup> percentile	200%	175%
<b>Median</b>	<b>150%</b>	<b>150%</b>
25 <sup>th</sup> percentile	125%	120%

# Variable pay opportunity

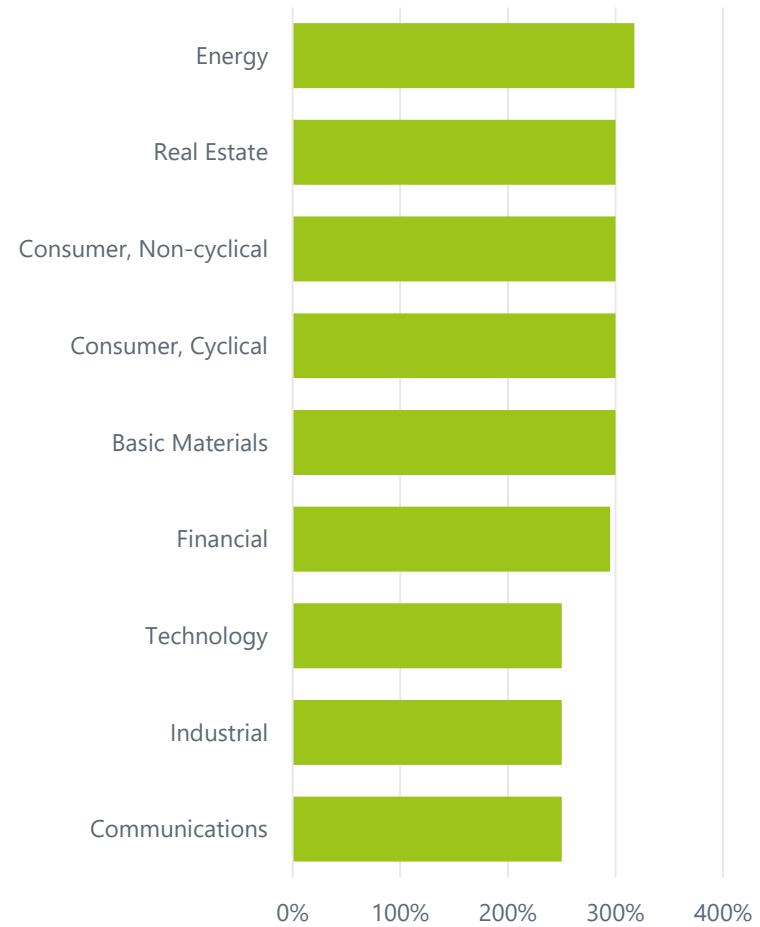
## Maximum aggregate award opportunities

The median total variable pay opportunity for a FTSE SmallCap CEO is 275% of salary, unchanged from FY23. The opportunity for FDs has also remained unchanged at 250% in 2024.

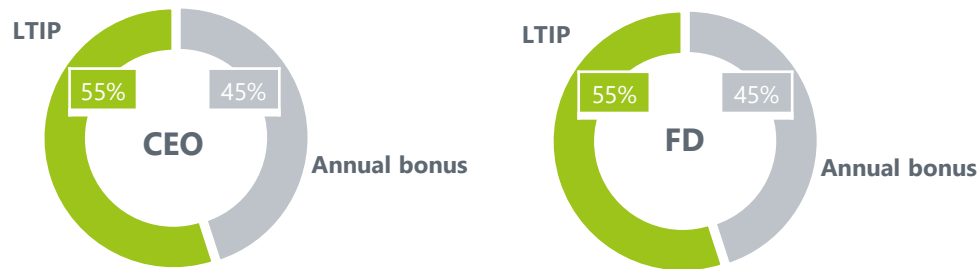
The variable pay opportunities do not vary significantly between sectors.

FY24 Total variable pay maximum opportunity, % salary		
	CEO	FD
75 <sup>th</sup> percentile	325%	300%
<b>Median</b>	<b>275%</b>	<b>250%</b>
25 <sup>th</sup> percentile	225%	200%

CEO total variable pay opportunity by sector, % salary



Average variable pay mix, % of total



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# Annual bonus structure

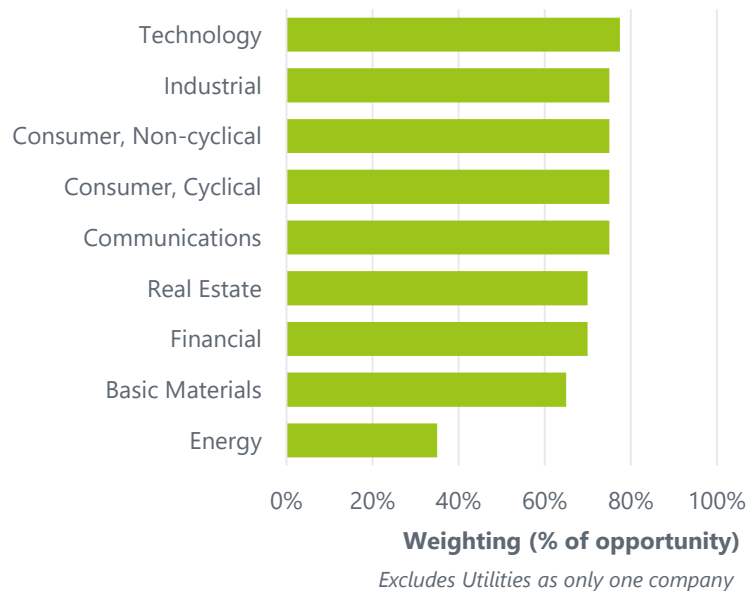
## Measures and ranges

Financial measures typically comprise 70%-80% of the bonus (with a median of 75%). The balance of the opportunity is typically based on non-financial measures set around either strategic or personal objectives.

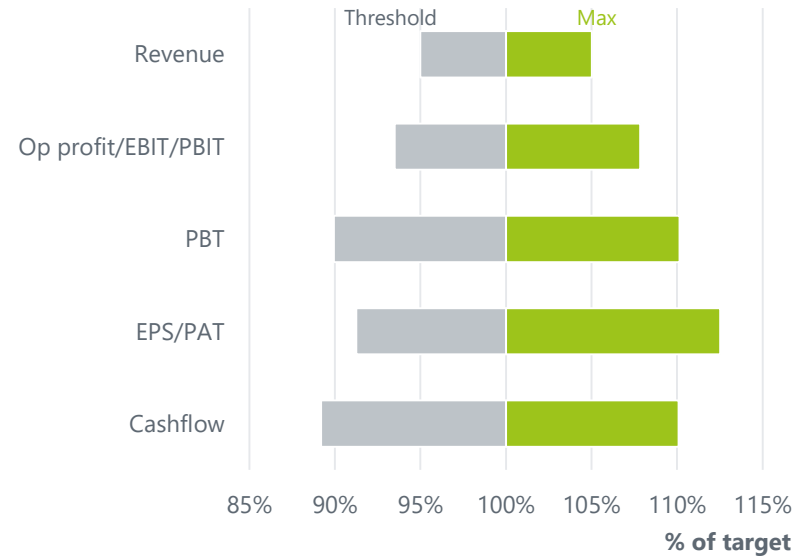
The highest weighting on financial measures is observed in the technology sector; with the lowest in the energy and basic materials sectors, where a large number of performance categories are often used. A growing proportion of companies incorporate ESG measures in their non-financial scorecards, often capturing key perspectives on employee, customer, environmental or reputational performance.

Performance ranges for bonus measures vary by the type of measure, on the basis that the range should reflect the inherent volatility in the measure. The chart below shows the typical ranges used by FTSE SmallCap companies for the bonuses which paid out for the 2023 financial year, as a % of target. For example, PBT had a typical threshold-target-max range of 90%-100%-110% in 2023.

**Weighting on financial measures**



**Typical performance range, by bonus measure**



# Annual bonus structure

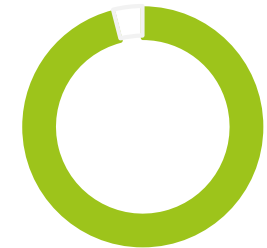
## Deferral

Mandatory bonus deferral is now used by 96% of FTSE SmallCap companies who operate a bonus; nearly 10% of plans link the deferral to the level of the in-post shareholding achieved.

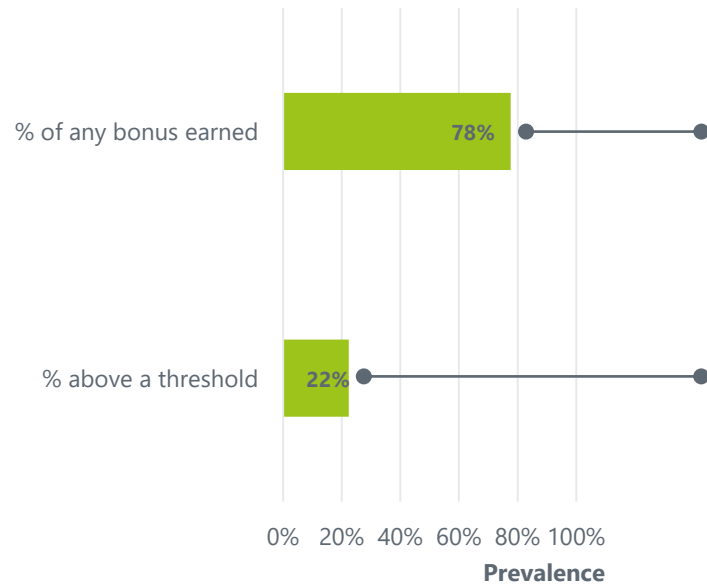
The most common approach is to defer a fixed % of *any* bonus earned (78% of plans), most commonly 33%. The other 22% typically defer any bonus earned *above a threshold* (ranging from 10% to 100% of salary). The Investment Association’s guidance is for any company with a bonus plan of more than 100% salary to mandate some deferral – 97% of SmallCap companies in this category comply with this guidance.

The most prevalent deferral period is a cliff vest after 3 years, with 42% of plans employing this approach. Other common approaches include cliff vesting after 2 years and phased vesting over several years.

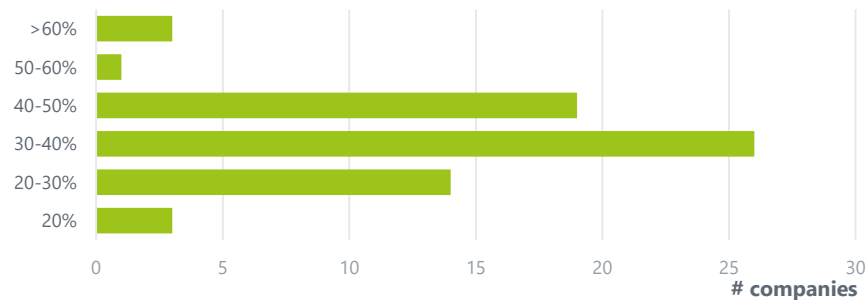
Mandatory bonus deferral, prevalence



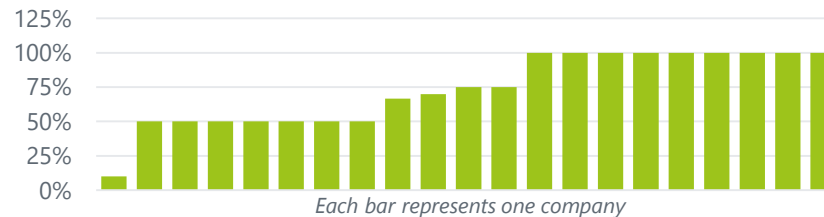
### Mandatory bonus deferral, approach



Mandatory deferral, % of earned bonus



Threshold, % of salary





# Annual bonus structure

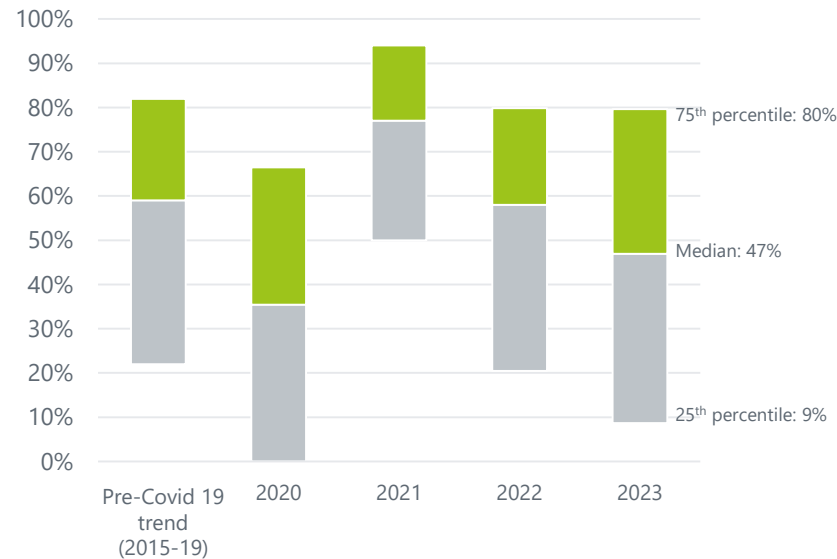
## Outcomes

The median CEO bonus payout in the last reported financial year was 47% of maximum, which is a fall from the post-pandemic highs seen in 2021 and 2022 (median: 77% and 58% of maximum respectively). 2023 bonuses are generally paying out at lower rates than they did before the pandemic, with the long-run average (FY15-19) at 59%.

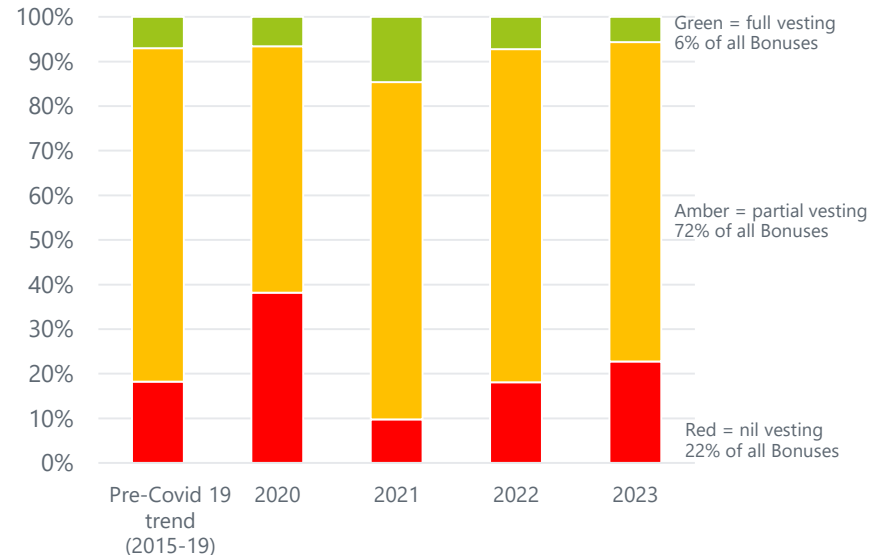
As illustrated in the chart on the right below, 22% of companies did not pay a bonus in the year, with 6% paying full bonus. Around half of FTSE SmallCap companies recorded a lower bonus outcome in 2023 as compared to 2022, and a similar number reported paying a higher bonus.

11% of companies report using downward discretion in the year, compared to 9% in 2022.

**CEO actual bonus outcomes, % max**



**Bonus payout**



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## Long-term incentive structure

Performance share plans remain the most prevalent LTI vehicle across the SmallCap

### Performance share plans

Performance share plans remain the predominant long-term incentive vehicle across the SmallCap, with 74% of companies using them for executive directors

### Co-investment matching

Two companies offers co-investment matching plan

2%

74%

### Value Creation Plan

One company operates a VCP, alongside a restricted stock plan

2%

### Restricted stock plan

19% of companies employ restricted stock plans with most being standalone plans

19%

### Single integrated incentive

4% of companies employ a single integrated incentive

4%

### Options

Two companies use options, one alongside a PSP

2%

2% No LTI plan in operation

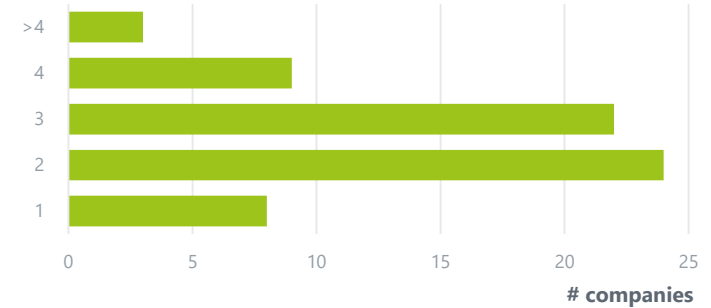
# Long-term incentive structure

## Performance measures

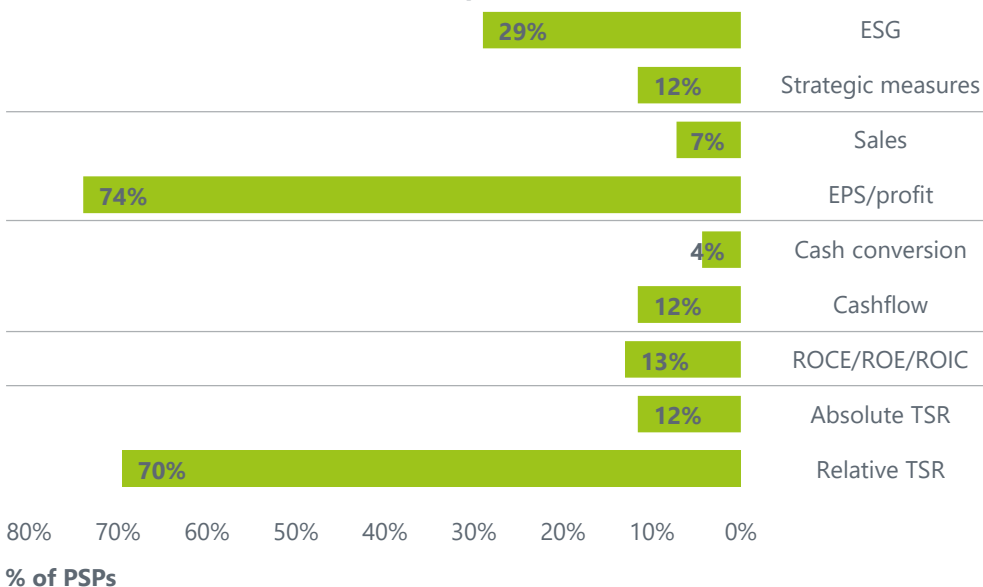
Almost all SmallCap companies with a PSP, except one, who measures performance over four years, measure performance over three years. The vast majority of companies also impose a post-vesting holding period of at least two years.

The most common number of PSP performance measures is two; the number using three has increased in the year. The most common performance measures are Total Shareholder Return ('TSR', usually relative rather than absolute) and 'fully-loaded' P&L measures such as EPS. We have also seen an increase in the number of companies using ESG in their LTIPs (now 29%), though this remains a lower proportion than we see elsewhere in the FTSE.

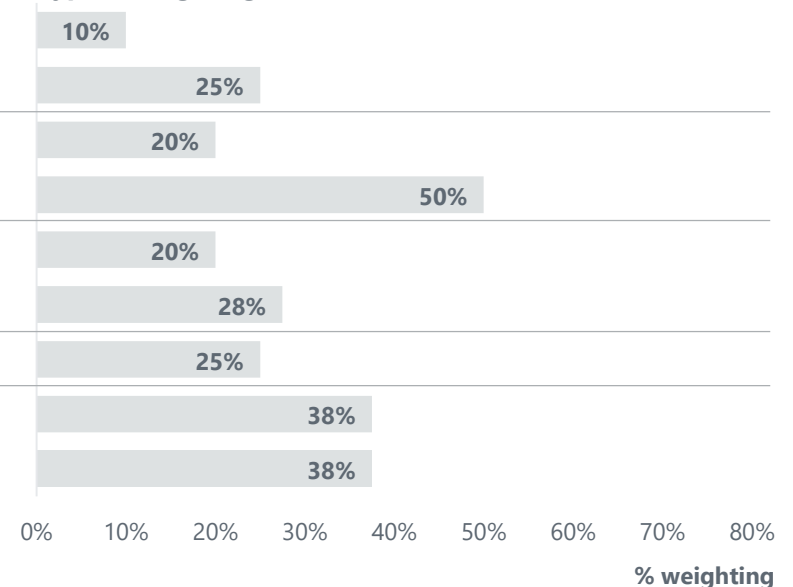
Number of LTIP performance measures



Prevalence of performance measure



Typical weighting in LTIP, when used



# Long-term incentive structure

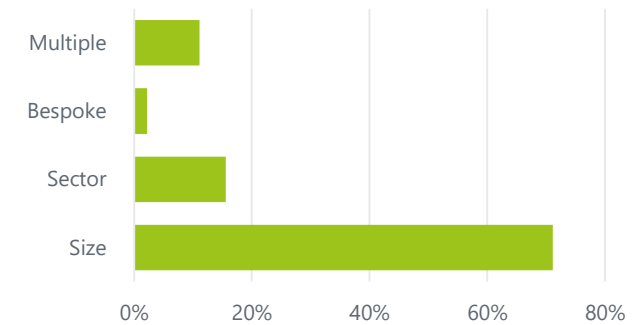
## Performance ranges – relative TSR

The most common TSR benchmark is based on a 'size' group (e.g. FTSE SmallCap), with other companies using either a 'bespoke' (i.e. selected by the company) or a 'sector' group (e.g. FTSE Retailers); a handful of companies use more than one benchmark.

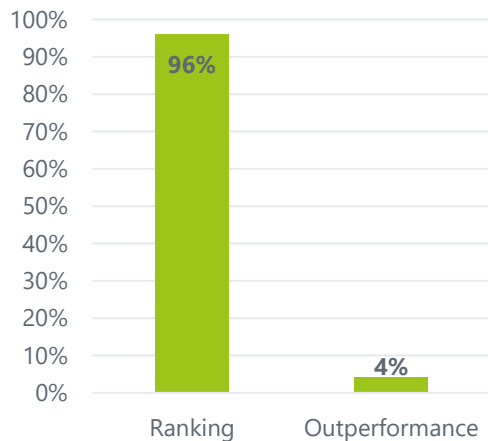
TSR-based long-term incentives continue in the main to be based on a ranking vs a relevant benchmark, with upper quartile the most common full-vesting level (96% of companies).

However, only two of the TSR-based plans use TSR outperformance to determine vesting, with full-vesting at 6% and 10% p.a..

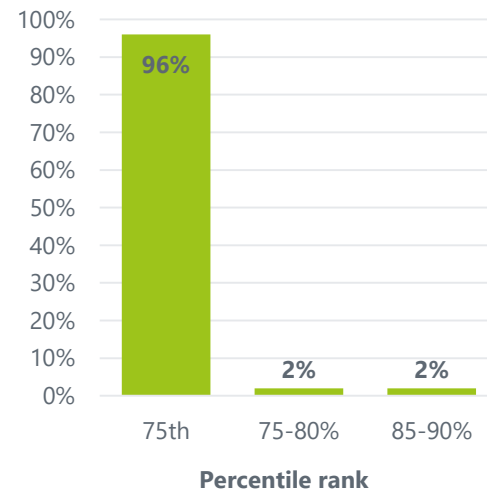
Type of TSR benchmark (% of plans using TSR)



TSR calibration

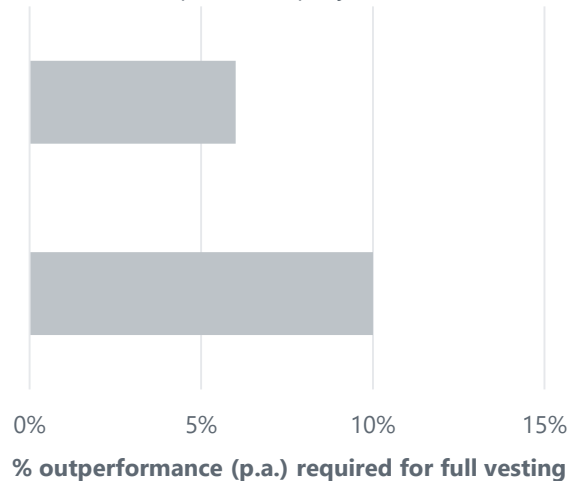


Full vesting level – ranking approach



Full vesting level – outperformance approach

Each bar is a separate company



# Long-term incentive structure

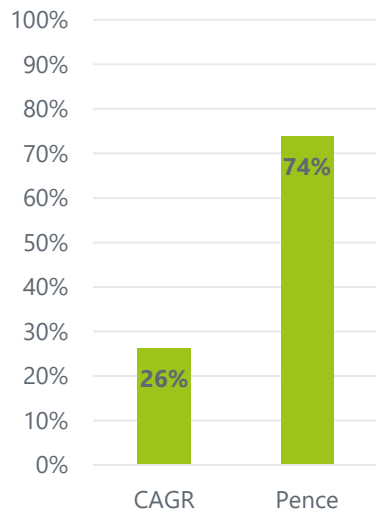
## Performance ranges – EPS

74% of companies express their LTIP EPS targets on a pence basis, broadly similar to last year (2023: 76%). The remainder continue to express targets on a compound annual growth rate (CAGR) basis. Using a pence-based target helps avoid being tied into the same growth range from one cycle to the next, as well as preventing unrealistic growth targets when the base year has been exceptionally high (or low).

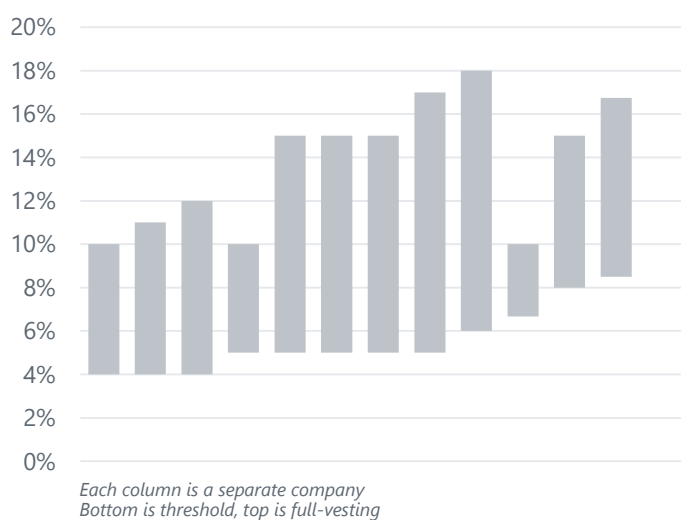
Setting EPS targets only on the basis of the third year in the performance period is the most common practice; 81% of companies who disclose their approach adopt this measurement basis. The remainder disclose using a cumulative basis (i.e. aggregating EPS in each year of the performance period).

When EPS CAGR is used, the typical range is 5-15% p.a.; the typical growth ranges implied in those targets set on a pence basis is significantly higher, set at around 12-21% p.a.

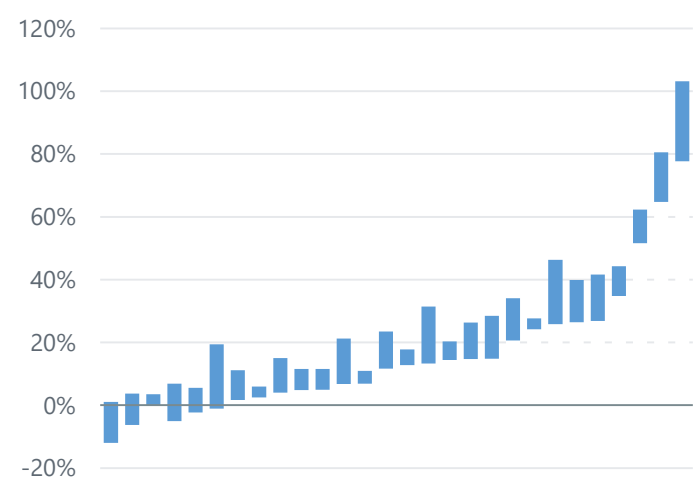
**EPS calibration**



**EPS CAGR range (p.a.)**



**EPS pence range (p.a.)**



# Long-term incentive structure

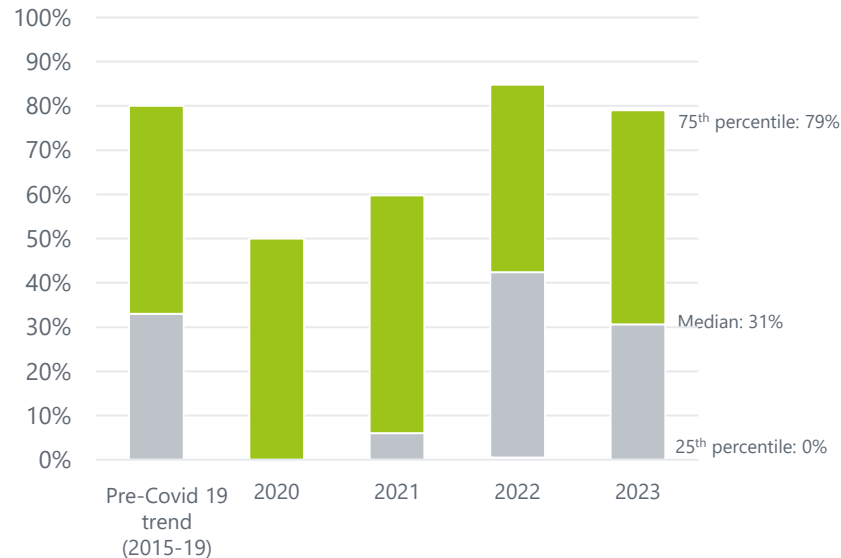
## Outcomes

The median CEO LTI vesting in the last reported financial year was 31% of max, with an interquartile range of 0% to 79%, and is slightly below the longer-run average (FY15-19: 33%).

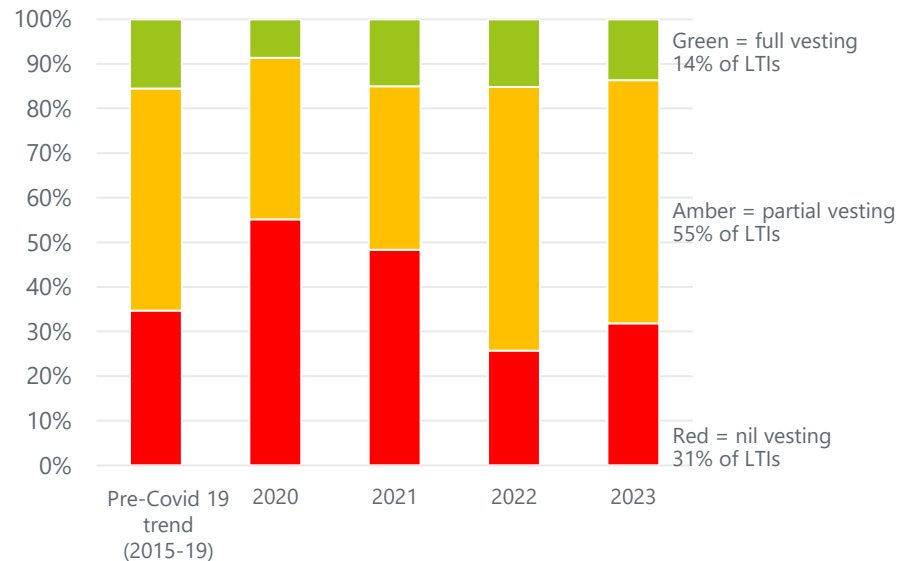
As illustrated in the chart on the right below, 31% of companies reported nil vesting under the LTIP, up from 2022 at 26% of companies, while 14% reported full vesting, which is broadly similar to the longer run average (FY15-19: 15%). Around half of the FTSE SmallCap companies recorded a lower LTIP outcome in 2023 as compared to 2022, while around a quarter reported a higher vesting outcome.

Very few companies applied discretion to vesting outcomes, where it has been used it has been to reflect the wider shareholder experience.

**LTI vesting, % max**



**LTI vesting**



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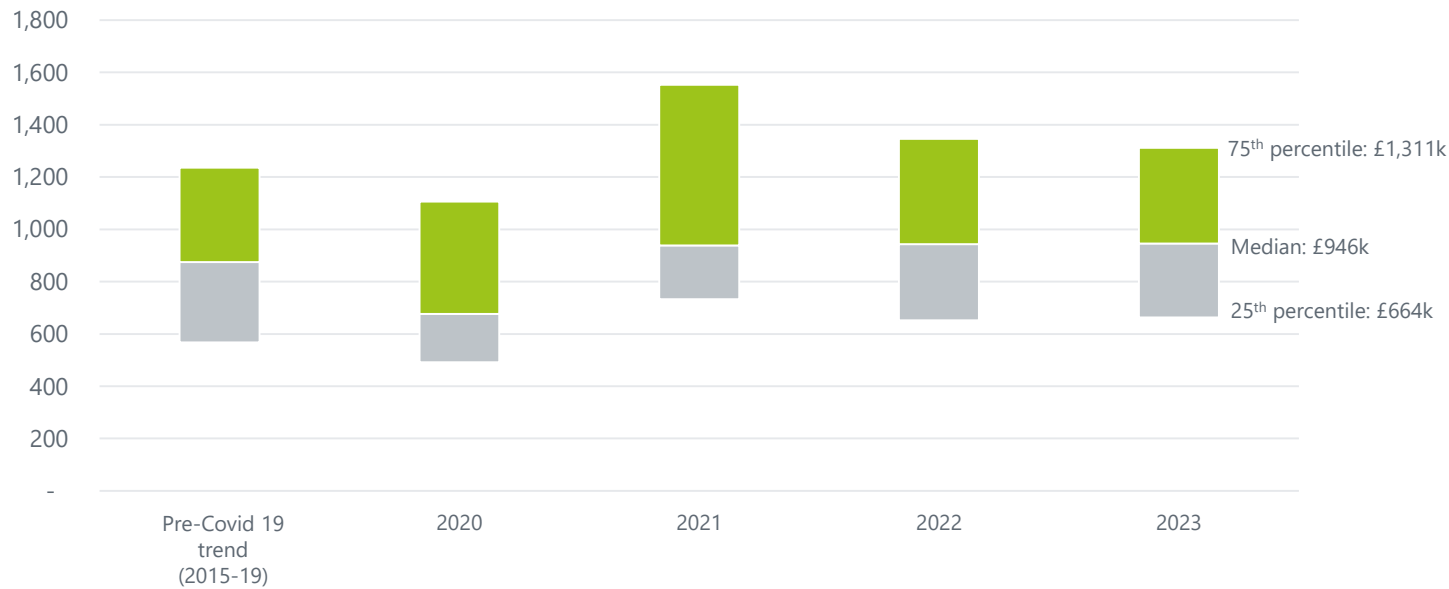
## Total actual remuneration

### An overview of 2023

The median actual total remuneration paid to a FTSE SmallCap CEO was £946k in 2023 and remains above the longer-run average (FY15-19: £875k); the highest paid FTSE SmallCap CEO earned £2.6m.

58% of companies reported a higher CEO single figure in 2023 compared to 2022.

Actual total remuneration, CEO, £k



## CEO pay ratio

### All FTSE SmallCap

2023 was the fifth year in which main-market listed companies with more than 250 UK-based employees were required to report a CEO pay ratio. The focus is on the CEO's total pay vs that of the median employee – across the SmallCap, the median ratio was 21:1. The lowest ratio was 0.3:1, the highest was 72:1.

The majority of companies (58%) adopted methodology 'A' when calculating the ratio, in line with the stated preference of HM Government and institutional investors. This methodology captures the 'single figure pay for all full-time UK employees'.

The CEO pay ratio reporting regulations also require the reporting of all-employee pay data: in 2023, the median total pay for a SmallCap employee was £40,755, and the median salary was £36,125.

No SmallCap companies voluntarily disclose a CEO 'salary ratio'.

Calculation methodology		
	Description	Prevalence
A	Single figure pay calculated for ALL UK employees	58%
B	Single figure pay calculated for those relevant UK employees identified through the Gender Pay Gap analysis	36%
C	Single figure pay calculated for those relevant UK employees identified through any other means	6%

	All FTSE SmallCap			
	Total pay comparison		Salary comparison	
	CEO total pay ratio	Workforce total pay	(calculated) CEO salary ratio	Workforce salary
75 <sup>th</sup> percentile	33:1	£51,500	20:1	£46,820
<b>Median</b>	<b>21:1</b>	<b>£40,755</b>	<b>14:1</b>	<b>£36,125</b>
25 <sup>th</sup> percentile	14:1	£30,405	10:1	£28,000

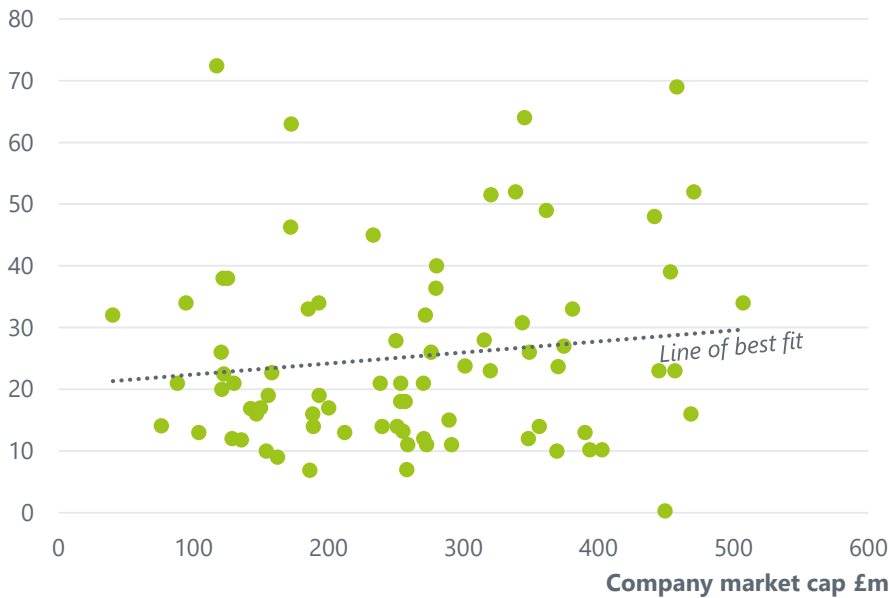
# CEO pay ratio

## By company size and sector

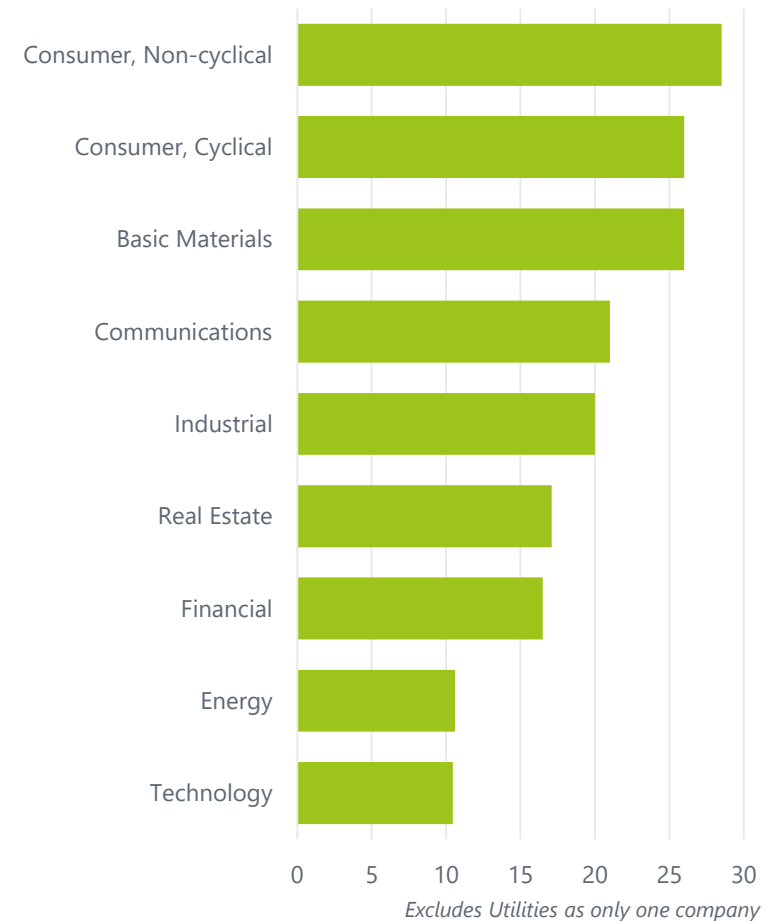
The CEO pay ratio is dependent on several factors, the primary being the pay-out of LTIs in the year. More systemically, the ratio is driven by sector, i.e. the highest ratios are observed where human capital is significant, and to a lesser extent company size.

The chart to the right shows the median CEO pay ratio observed in each sector. The range is fairly concentrated, from 10:1 in the Technology sector to 29:1 across the Consumer (cyclical) sector.

**CEO pay ratio, relationship with company market cap**



**CEO pay ratio, median by sector**



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## **Ellason FTSE SmallCap Board Director remuneration**

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# Executive share ownership

## In-post and post-termination requirements

### In-post requirements

98% of companies have established shareholding requirements for their executive directors while in-post. These typically range from 100% to 500% of salary, but the most prevalent requirement is a holding level of 200% of salary.

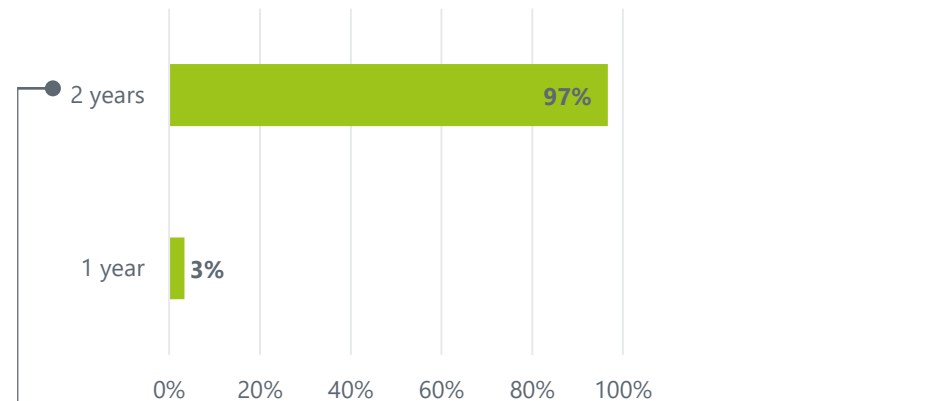
65% of these companies require executives to hold some or all of their vested LTIP/deferred bonus awards until this shareholding requirement is met. Nearly 40% specify a time limit (typically 5 years) over which the shareholding requirement is expected to be met.

### Post-termination requirements

The proportion of SmallCap companies that apply post-termination shareholding guidelines is broadly similar to that last year, 95% (FY23: 93%), and is broadly in line with the number of SmallCap companies with an in-post guideline.

Most companies (97% of those with requirements) expect executive directors to hold their shares for two years post-termination; the other 3% set a one-year horizon. Of those using two years, the significant majority set the guideline at the same level as the in-post requirement over the full period; others either reduce to another level (usually 50%) after 1 year or start at a lower level.

Time period over which post-termination requirements extend (as % with requirements)



Level of post-term requirement relative to in-post requirement (% of companies with 2-year periods)

Same as in-post requirement, for entire period	62%
Same as in-post requirement for Year 1, then reduces by 50%	34%
Lower than in-post requirement from the start	4%

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## Non-executive director fees

### Board Chair fee and NED base fee

Median FTSE SmallCap fees are £175k for the Board Chair and £54k for the NEDs (base fee). Only two companies have a Deputy Chair, with fees of £120k and £180k. Additional fees are typically paid for additional responsibilities; most commonly, these fees are paid to the chairs of the Audit and Remuneration Committees and the SID. Compared to the wider FTSE, relatively few SmallCap companies pay additional membership fees, although the proportion of companies paying an Audit or Remuneration Committee membership fee has increased in the year from 5% to 14% this year.

Half of companies increased the Board Chair's fee in 2023, with a median increase of 4.5% (excluding zero increases). 55% of companies increased the NED base fee, the median reported increase was 4.5% (excluding zero increases).

Non-executive director fees			
	Board chair	Deputy chair	NED base
75 <sup>th</sup> percentile	£207k	n/a	£60k
<b>Median</b>	<b>£175k</b>	<b>£150k</b>	<b>£54k</b>
25 <sup>th</sup> percentile	£150k	n/a	£51k

### Shareholding requirements

Only two companies have established shareholding requirements for non-executive directors, both with a requirement of holding 100% of the base fee.

	Chair				Member				
	SID	Audit	Rem	ESG / CSR	Audit	Rem	ESG/ CSR	Nom	Employee engagement
75 <sup>th</sup> percentile	£10k	£12k	£11k	£10k	£5k	£5k	n/a	n/a	£8k
<b>Median</b>	<b>£10k</b>	<b>£10k</b>	<b>£10k</b>	<b>£10k</b>	<b>£5k</b>	<b>£5k</b>	<b>£5k</b>	<b>£5k</b>	<b>£5k</b>
25 <sup>th</sup> percentile	£7k	£9k	£8k	£7k	£5k	£5k	n/a	n/a	£4k
<i>Prevalence</i>	88%	92%	91%	24%	14%	14%	5%	9%	24%

## About Ellason

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Ellason provides independent advice and support on all aspects of executive remuneration to Remuneration Committees and senior HR professionals.

Our senior consultants have a proven track record of advising companies on executive pay strategy, and our client base includes a large number of listed and private companies. Ellason's aim is to become the leading and most trusted advisor to Remuneration Committees, and to do so through a primary focus on the requirements of the Chair and members of the remuneration committee.

Our guiding principle is that advice on remuneration matters should be strategic as well as pragmatic, and always supported by objective and independent analysis.

Our aim is to help companies develop senior executive pay structures which suit the economics of each company. Our starting point is to identify the ideal solution, and then partner with our clients to refine this to ensure that it appropriately balances the perspectives of internal and external stakeholders.

Please do not hesitate contact us if you have any questions relating to this survey or other remuneration-related query.