

PART 2
ARE YOU READY TO RUMBLE?
CEO PAY FOR PERFORMANCE
- 2017 FTSE100 PROXY SEASON -

INTRODUCTION

This is DirectorInsight's second release of the 2017 FTSE 100 CEO Pay for Performance report. The previous report "Are you ready to rumble" contained an analysis for 50 companies in the FTSE 100. This report provides an analysis for 76 companies in the FTSE 100, their CEO pay and financial performance, using total shareholder return (TSR¹) as the key financial performance metric, over a one year, three year and five year period. It tracks changes in CEO's compensation packages, their relative positioning against other FTSE 100 companies and what the value of a 100 sterling investment is over a period of 3 years.

"Executive compensation, diversity and over-boarding have emerged as key areas of focus during the 2017 proxy season."

During the 2017 season, the market witnessed investor and media scrutiny over compensation related issues. Some issuers were forced to withdraw pay policies ahead of their AGMs and managed to avoid revolts by reducing the quantum of pay packages. However, Agm votes on remuneration reports have not been as catastrophic as 2016 and 2012. Though, some companies have had significant revolts from investors on their remuneration reports. Out of the 76 companies we analysed, 70 have remuneration report votes available. 13 of these companies received more than 10% votes against their remuneration reports. Pearson plc had approximately 66% of votes cast against their remuneration report this year. This is the highest revolt recorded against a remuneration report this season in the FTSE 100.

"Mounting income disproportion within companies and across society in broader sense has eroded public confidence in business."

DIRECTORINSIGHT'S CEO PAY FOR PERFORMANCE TRACKER

The table below captures 76 companies in the FTSE 100 to have released their 2016 annual reports. Total CEO Realised Compensation² has been ranked against their peers in the index as well as their respective 2016 TSR.

The pay for performance analysis conducted by DirectorInsight shows that there is still a significant misalignment between pay and performance in the FTSE 100 companies.

- On a one year basis, 31.58% of the companies display negative misalignment.
- On a three-year basis, 34.21% of the companies display negative misalignment.
- On a five-year basis, 27.63% display negative misalignment.

¹ TSR is defined here as the total return of a stock to an investor. It combines annual changes in share price (adjusted share price), dividends paid and expressed as an annualized percentage.

² Pay as used in this study refers to the Total figure comprising Base Salary, Benefits, Pensions, Cash Component of Annual Incentives, and Shares that vested in the year as well as Options exercised in the year.


























In our previous Analysis, RELX PLC's Erik Engstrom had the highest pay among 49 other CEOs used for the study. With the now added 26 companies, the CEO with the highest realized compensation is Sir Martin Sorrell of WPP. His pay for 2016 was GBP 41.4M and the company's total shareholder return (TSR) 20%, earning the company a relative TSR rank of 61th percentile (above median performance). Over a three year period (2014-2016) WPP's TSR was 43% (ranked 62 percentile against other FTSE 100 companies) and the company's CEO total realized compensation was GBP 152.6M, which is ranked top-decile in our pay for performance study. From the table, we see that GBP 100 invested in WPP in 2014 will be worth GBP 143 in 2016.






















“Consensus among market players is that, though not much has changed at the level the FTSE 100 is trading, executive pay has more than tripled in comparison.”

In 2016, BP had its remuneration report for 2015 defeated at its Annual General Meeting. This year, the Board secured 97.05% support for the remuneration report. The CEO of BP Plc. (Bob Dudley) received a total pay of GBP 9.3M, which positioned him at 95th percentile among the 76 companies. The company's 2016 TSR was 55% (ranked 88th percentile). Over a three period the company shows a negative misalignment between CEO pay and TSR performance.

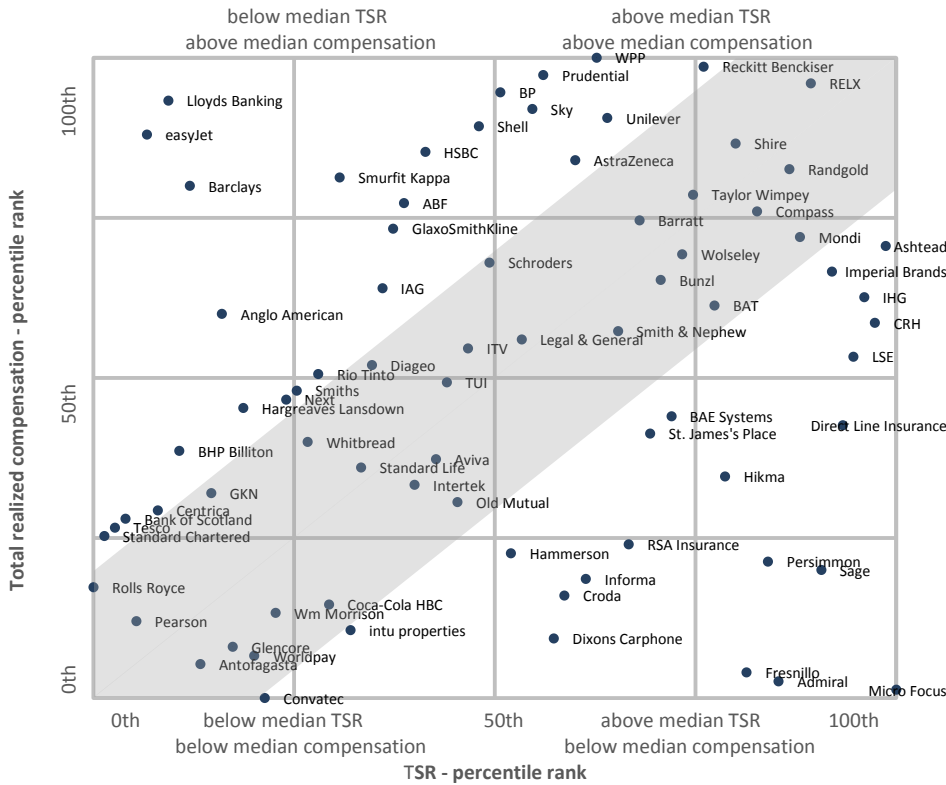
Tesco and Royal Bank of Scotland have the least return for shareholders over a three-year period. GBP 100 investment in Tesco and Royal Bank of Scotland in 2014 will be worth GBP 64 and GBP 66 respectively. CEO pay for Tesco Plc's has increased by 38% from 2014 to 2016 while CEO pay for Royal Bank of Scotland has decreased by 26% from 2014 to 2016. CEO pay for Tesco and RBS CEOs were ranked 40th and 58th percentile respectively in our analysis for the year 2016.

Companies with relative conservative remuneration policies continue to add an interesting dimension to the analysis. In 2016, Micro Focus International Plc.'s CEO pay in the amount of GBP 300,000 was bottom quartile while the company's TSR was upper quartile (80th percentile). Over a three period (2014-2016) the company had a TSR performance of 201%. GBP 100 invested in Micro Focus International Plc in 2014 will be worth GBP 301 in 2016. This is the highest relative investment return currently in our FTSE 100 pay for performance study.

| FTSE 100 | | 2016 | | | | 2014-2016 | | | | 2014-2016 | | | | Remuneration Report AGM Vote Outcomes | | |
|--|------------------------------------|--|-------------------------|----------|---------------------------|----------------------------|---------------------|-------------------------|---------------------------|---|--------|-------------------------|---------------------------|--|-----------|--------------|
| | | Total Realized Compensation in Million GBP | Compensation Ranking | 2016 TSR | Ranking of Performance | Growth 2014-2016 TRC | Δ 2014- 2016 TSR | Compensation Ranking | Ranking of Performance | Total Realized Compensation (million GBP) | 3Y TSR | Compensation Ranking | Ranking of Performance | Current value of GBP 100 invested in 2014 | For % | Against % |
|  | WPP plc | 41.4 | 100 | 20% | 61 | -2% | 19% | 53 | 65 | 152.6 | 43% | 100 | 62 | 143 | 07-6-2017 | |
|  | RELX PLC | 12.7 | 99 | 24% | 68 | 138% | -2% | 92 | 50 | 33.7 | 74% | 96 | 89 | 174 | 92.88 | 7.12 |
|  | Prudential plc | 12.1 | 98 | 10% | 45 | -9% | -4% | 47 | 43 | 34.0 | 32% | 98 | 55 | 132 | 88.86 | 11.14 |
|  | Sky plc | 11.6 | 96 | -8% | 21 | 137% | -18% | 91 | 31 | 24.7 | 30% | 92 | 54 | 130 | 91.06 | 8.94 |
|  | Reckitt Benckiser Group plc | 9.9 | 95 | 12% | 49 | -45% | -2% | 20 | 47 | 43.8 | 58% | 99 | 76 | 158 | 87.38 | 12.62 |
|  | BP p.l.c. | 9.3 | 94 | 55% | 88 | -8% | 67% | 48 | 89 | 32.6 | 26% | 95 | 50 | 126 | 97.05 | 2.95 |
|  | TUI AG | 9.2 | 92 | 0% | 30 | N/A(Due to Merger) | -7% | N/A(Due to Merger) | 40 | 11.4 | 24% | 50 | 43 | 124 | *NA | |
|  | Unilever PLC | 8.2 | 91 | 16% | 53 | 26% | 6% | 65 | 52 | 22.6 | 46% | 91 | 63 | 146 | 98.14 | 1.86 |
|  | Shire plc | 8.0 | 90 | 0% | 31 | 73% | -59% | 76 | 6 | 20.4 | 66% | 87 | 80 | 166 | 93.22 | 6.78 |
|  | Randgold Resources Limited | 7.8 | 88 | 56% | 91 | 84% | 40% | 82 | 78 | 18.3 | 73% | 83 | 87 | 173 | 97.84 | 2.16 |
|  | Imperial Brands PLC | 7.8 | 87 | 3% | 36 | 195% | -25% | 93 | 26 | 13.9 | 76% | 67 | 92 | 176 | 94.69 | 5.31 |
|  | CRH plc | 7.7 | 86 | 47% | 87 | 217% | 43% | 96 | 80 | 12.9 | 101% | 59 | 98 | 201 | 82.31 | 17.69 |
|  | HSBC Holdings plc | 7.4 | 84 | 32% | 76 | 42% | 36% | 67 | 76 | 18.7 | 19% | 86 | 40 | 119 | 96.47 | 3.53 |
|  | AstraZeneca PLC | 6.9 | 83 | 0% | 33 | 88% | -32% | 83 | 21 | 18.4 | 41% | 84 | 59 | 141 | 61.17 | 38.83 |
|  | Anglo American plc | 6.3 | 82 | 287% | 100 | 76% | 293% | 78 | 100 | 13.1 | -3% | 60 | 17 | 97 | 95.05 | 4.95 |
|  | London Stock Exchange Group plc | 6.3 | 80 | 8% | 44 | 392% | -34% | 99 | 20 | 11.8 | 90% | 54 | 95 | 190 | 98.56 | 1.44 |
|  | Taylor Wimpey plc | 5.8 | 79 | -20% | 9 | -4% | -46% | 50 | 10 | 17.5 | 57% | 79 | 74 | 157 | 98.14 | 1.86 |
|  | Barratt Developments plc | 5.7 | 78 | -21% | 7 | 1% | -60% | 55 | 3 | 15.9 | 51% | 75 | 68 | 151 | 98.25 | 1.75 |
|  | Wolseley plc | 5.7 | 76 | 38% | 77 | 1% | 27% | 57 | 70 | 14.7 | 56% | 70 | 73 | 156 | 98.11 | 1.89 |
|  | British American Tobacco p.l.c. | 5.2 | 75 | 27% | 71 | 4% | 14% | 60 | 59 | 13.2 | 61% | 62 | 77 | 161 | 92.05 | 7.95 |
|  | Mondi plc | 5.1 | 74 | 29% | 73 | -2% | 25% | 54 | 69 | 15.3 | 74% | 72 | 88 | 174 | 98.92 | 1.08 |
|  | Compass Group PLC | 4.8 | 72 | 31% | 75 | -23% | 15% | 36 | 61 | 16.5 | 67% | 76 | 83 | 167 | 94.33 | 5.67 |
|  | Intertek Group plc | 4.8 | 71 | 27% | 72 | 101% | 52% | 85 | 85 | 9.5 | 17% | 34 | 39 | 117 | 96.76 | 3.24 |
|  | Lloyds Banking Group plc | 4.6 | 70 | -10% | 19 | -75% | -7% | 6 | 41 | 32.3 | -16% | 94 | 10 | 84 | 97.92 | 2.08 |
|  | Legal & General Group Plc | 4.4 | 68 | -2% | 25 | 6% | -18% | 61 | 29 | 12.7 | 29% | 56 | 52 | 129 | 93.17 | 6.83 |

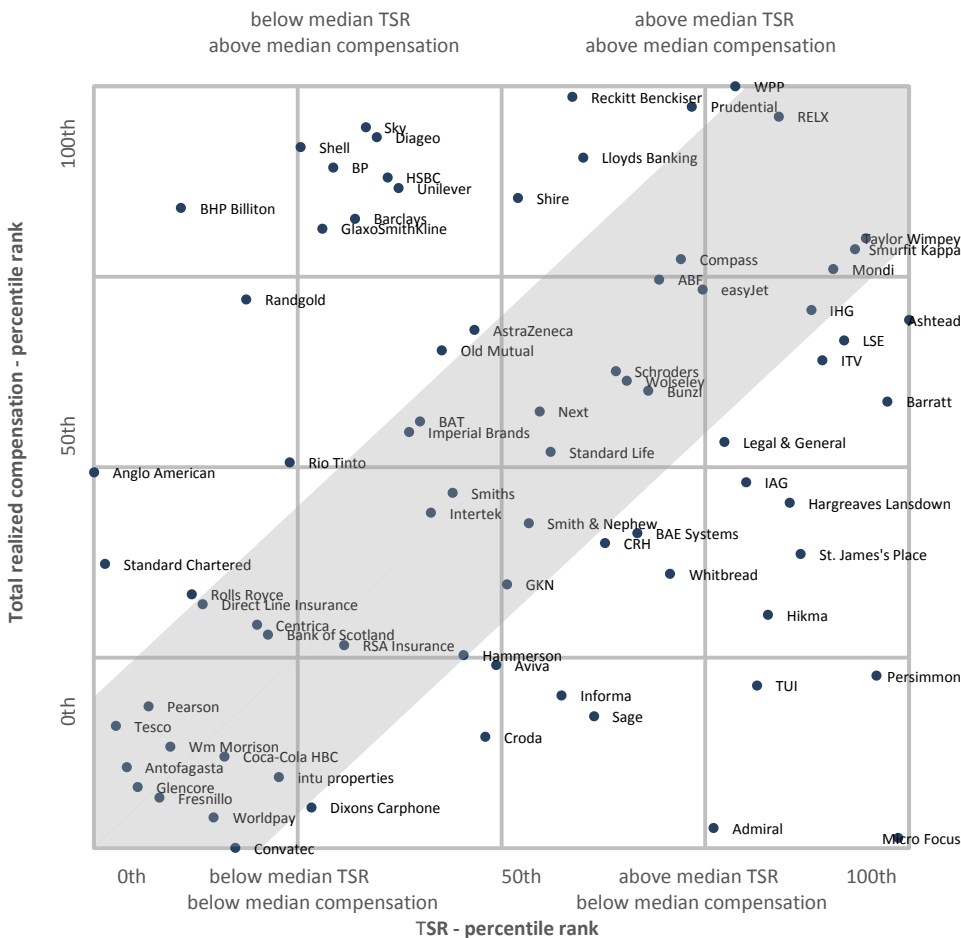
| | | | | | | | | | | | | | | | | |
|--|--------------------------------------|------------|----|---------|---------|--------------------|---------|--------------------|---------|-------------|---------|----|---------|------------|-----------|-------|
|  | Worldpay Group plc | 2.1 | 27 | -12% | 18 | NA(IPO) | NA(IPO) | NA(IPO) | NA(IPO) | 3.2 | NA(IPO) | 7 | NA(IPO) | NA(IPO) | 98.59 | 1.41 |
|  | Hammerson plc | 2.1 | 26 | -1% | 29 | -49% | -25% | 17 | 25 | 7.4 | 27% | 23 | 51 | 127 | 99.41 | 0.59 |
|  | Hargreaves Lansdown plc | 2.0 | 24 | -17% | 13 | -74% | 6% | 7 | 51 | 11.1 | -3% | 46 | 20 | 97 | 89.98 | 10.02 |
|  | Wm Morrison Supermarkets PLC | 1.9 | 23 | 60% | 94 | 51% | 84% | 71 | 96 | 4.9 | 3% | 14 | 21 | 103 | 15/6/2016 | |
|  | Coca-Cola HBC AG | 1.9 | 22 | 25% | 69 | 57% | 54% | 72 | 87 | 5.6 | 7% | 15 | 28 | 107 | 20/6/2016 | |
|  | Rio Tinto plc | 1.8 | 20 | 68% | 95 | -67% | 77% | 9 | 92 | 11.4 | 7% | 51 | 26 | 107 | 91.79 | 8.21 |
|  | Rolls Royce Holdings plc | 1.7 | 19 | 18% | 59 | -42% | 48% | 27 | 84 | 5.9 | -44% | 18 | - | 56 | 98.78 | 1.22 |
|  | Sage Group plc | 1.7 | 18 | 11% | 48 | -56% | -8% | 14 | 39 | 7.1 | 75% | 20 | 91 | 175 | 90.90 | 9.10 |
|  | Dixons Carphone plc | 1.6 | 16 | -27% | 3 | N/A(Due to Merger) | -100% | N/A(Due to Merger) | 0 | 3.3 | 40% | 10 | 57 | 140 | 94.28 | 5.72 |
|  | Standard Chartered PLC | 1.6 | 15 | 18% | 57 | -37% | 44% | 30 | 81 | 7.6 | -44% | 26 | 2 | 56 | 86.78 | 13.22 |
|  | Pearson plc | 1.5 | 14 | 18% | 60 | -17% | 25% | 41 | 68 | 4.5 | -29% | 12 | 6 | 71 | 34.59 | 64.51 |
|  | Smiths Group plc | 1.4 | 12 | 56% | 90 | -77% | 79% | 5 | 94 | 11.2 | 6% | 48 | 24 | 106 | 97.82 | 2.18 |
|  | Whitbread PLC | 1.3 | 11 | -12% | 17 | -83% | -42% | 3 | 15 | 10.3 | 7% | 40 | 25 | 107 | 21/6/2017 | |
|  | intu properties plc | 1.3 | 10 | -7% | 23 | -12% | -32% | 44 | 22 | 3.9 | 14% | 11 | 31 | 114 | 99.63 | 0.37 |
|  | Glencore Plc | 1.2 | 8 | 207% | 99 | 26% | 208% | 64 | 99 | 3.2 | -3% | 8 | 18 | 97 | 98.24 | 1.76 |
|  | Antofagasta plc | 1.1 | 7 | 44% | 84 | 235% | 46% | 98 | 83 | 2.6 | -10% | 6 | 14 | 90 | 99.88 | 0.12 |
|  | Fresnillo PLC | 0.9 | 6 | 73% | 96 | 15% | 70% | 62 | 91 | 2.5 | 67% | 4 | 81 | 167 | 99.86 | 0.14 |
|  | easyJet plc | 0.9 | 4 | -40% | 0 | -85% | -54% | 0 | 7 | 22.3 | -27% | 88 | 7 | 73 | 92.06 | 7.94 |
|  | Admiral Group plc | 0.7 | 3 | 17% | 56 | 68% | 9% | 75 | 54 | 1.4 | 71% | 3 | 85 | 171 | 94.92 | 5.08 |
|  | Micro Focus International plc | 0.3 | 2 | 39% | 80 | 1042% | -2% | 100 | 46 | 0.7 | 201% | 2 | 100 | 301 | 85.65 | 14.35 |
|  | Convatec Group Plc | 0.2 | 0 | NA(IPO) | NA(IPO) | NA(IPO) | NA(IPO) | NA(IPO) | NA(IPO) | 0.2 | NA(IPO) | 0 | NA(IPO) | NA(IPO) | 97.94 | 2.06 |

2016 3YR Pay for Performance alignment
CEO Total realized compensation vs Total Shareholder Return



DirectorInsight's pay for performance study finds that over a three-year period (2014-2016) **34.21%** of the 76 companies in the FTSE 100 show a negative misalignment. WPP, Smurfit Kappa continues to show a negative misalignment. BP, HSBC, Anglo American, GlaxoSmithKline, Barclays, Centrica, Hargreaves Lansdown and Easy jet, which displayed an alignment between pay and performance, is now showing a negative misalignment between pay and performance relative to the other companies. CRH, Bae Systems, Informa plc, St James Plc, Persimmon, Croda, Hammerson are displaying relative positive misalignment. This significantly differs from the alignment it displayed in the one year study

2016 5YR Pay for Performance alignment
CEO Total realized compensation vs Total Shareholder Return



Analysis for pay for performance on a five-year period (2011-2016) also highlights some changes. We note that WPP, Prudential, Reckitt Benckiser, Unilever, AstraZeneca and Lloyds Banking Group consistently displayed negative misalignment over one, three and five years' period of study. Some companies have however shifted their relative degree of alignment. Shire Plc, Randgold, Diageo Plc, Old mutual Plc and Rolls Royce that were displaying relative alignment between pay and performance in the three-year study currently display negative misalignment between pay and performance. Tui, Barrat Development, legal & General, Aviva, ITV and Whitbread have also shifted from relative alignment to a display of positive misalignment whereby total realized over the period over the five years' period pay ranks significantly lower than Total Shareholder return. Royal Bank of Scotland, Smurfit Kappa, Next Plc and Easy Jet are also examples of companies that improved upon their degree of alignment. In the three-year study, these companies displayed negative misalignment. They however display an alignment between Total Pay and TSR over a five years period.

APPENDIX

Our methodology on total realised compensation explained

The realised compensation includes all realised components of compensation in the year of interest. It is defined as the sum of total indirect compensation realised and total direct compensation realised for one year. It consists of base salary + benefits + other compensation + bonus + deferred cash bonus + deferred share bonus + value of performance/restricted shares vested + value of performance/restricted options exercised. Total realised pay is calculated based on performance indicators that have been met during the performance period. Most companies clearly disclose the performance period and vesting period, and the percentage that will be paid in the next year. For example, for shares that will vest on March 31, 2016 but where the performance period ends at December 31, 2015, shares are included in realised compensation for the financial year 2015. When the company doesn't disclose the average share price over the last quarter, we use the company year-end share price to calculate the value of the vested multiyear share packages. In line with UK practices, adjustments are usually made in the following year when the company disclose the exact share price on which the shares vested. For options, we calculate realised pay when the options have actually been exercised. In the event there were two CEOs in a year for a company, for example due to a change in CEO, we explored the companies on individual basis and annualized compensations depending on the issue at hand to make the total realised compensation as realistic as possible.

Total Shareholder Return (TSR)

Total shareholder return is defined as the total return of a stock to an investor. It combines annual changes in stock price and dividends paid and are expressed as an annualised percentage. This will be calculated over one year (1Y), three year (3Y) and five year (5Y) period. The growth in 3 yr and 5 yr TSR is calculated by the percentage points of difference between latest year and 3/5 year prior.

Please note that all figures have been rounded up in the table outlining the CEO pay for performance analysis.

Investment return of 100 sterling

This figure looks to calculate how much an 100 sterling company investment would be worth over a period of time by indexing the TSR over multiple years.

Pay for performance Analysis

We conducted a study on CEO realised compensation to determine degree of alignment relative to peers in the FTSE 100 on a 1, 3, 5 years basis. The degree of alignment is determined by subtracting the compensation rank from the performance rank within a scope of +20 or -20. Results obtained on either side determine a more generous or a conservative remuneration policy. Therefore for the three and five years' study, the percentile rank is calculated by the Total Realised Compensation over the period subtracted from the sum of the period TSR performance.

Definition of financial years

FTSE 100 companies have different year end dates. The most common year end dates are displayed below; 31/12, 31/3, 31/7 and 30/9. The main rule applied is that in a specific year, financial year end dates until 31/3 is reported as financial year of the previous year. All financial year end dates after 31/3 are reported as the year in which the financial year ends.

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DirectorInsight is a specialist provider of data analytics and intelligence on the “G” of ESG. We help corporations, institutional investors, financial institutions and professional services firms to efficiently and effectively manage the increasing challenges they face in reviewing and addressing corporate governance risks and associated decision-making. DirectorInsight provides an integrated web-based, data technology solution, to independently analyze data on the value creation and governance practices of leading listed companies across the globe, in a single convenient solution. **Please contact us on +31 (0) 20 416 0662 or visit our [website](#) when you would like to obtain further information or a demo.**