CGLytics

SETTING THE TONE FOR 2020

FTSE 100 REVIEW

About CGLytics

CGLytics is transforming the way corporate governance decisions are made. Combining the broadest global corporate governance dataset in the market, with real-time analytics and powerful peer comparison tools, CGLytics empowers corporations, investors and professional services to instantly perform a governance health check and indicate red flags in seconds, for effective governance oversight.

Providing an independent analysis of listed companies governance practices, companies and investors have access to the most comprehensive source of governance information at their fingertips.

CGLytics' data and analytics are trusted and used worldwide by the leading independent proxy advisor Glass Lewis.

Introduction

Key areas of focus for investors and stakeholders during the 2019 proxy season included director elections, board effectiveness and executive pay. The need for increased transparency in these areas continue to remain a high priority in the 2020 proxy season.

In the interest of increasing engagement among corporations, their directors, and shareholders, CGLytics is releasing its third consecutive annually updated FTSE 100 proxy research report, for the 2020 proxy season.

The COVID-19 pandemic has presented unprecedented challenges to shareholders and investors.

The impact of COVID-19 has changed the future of business. Corporate boards and senior management teams face unprecedented challenges, as the impact forces companies to address a range of executive compensation and governance challenges.

Investors are looking closely at the number of board seats held by individual directors, and are concerned about the appropriate mix of skills, tenure and gender balance on issuers' boards. It's more important than ever for boards to have a dynamic composition in order to navigate through the pandemic and continue towards the goal of long-term value creation.

During 2019, five FTSE 100 companies recorded more than 20 percent opposition to the re-election of individual directors to their respective boards, as compared with the six companies recorded in the CGLytics 2018 proxy season recap report.

Remuneration issues from 2019 are now a heightened issue for investors in 2020. Are remuneration policies clear, without ambiguities? How is reduced commercial activity being reflected in both short-term and long-term performance compensation? Executive pay should continue to be aligned to company performance and investors are keeping a close eye on companies' remuneration plan performance metrics.

This report takes a look at the executive compensation practices of FTSE 100 companies in 2019 and the reactions from shareholders, to understand investor focus for overcoming the challenges ahead.

Content

2019 proxy season highlights

The 2019 proxy season revealed some interesting findings. Among them being changes to the regulatory landscape, which shapes the corporate governance landscape. Regardless, findings suggest that executive pay continues to be a key area for discussion as shareholders are increasingly demanding pay and performance alignment.

- The average votes in favour of remuneration reports was slightly higher than the previous year. Interestingly, three issuers received less than 60% support for their remuneration reports compared to just one in 2018.

- The regulatory landscape continues to shape corporate governance issues giving investors more leverage to scrutinise board decisions particularly in areas of executive compensation.

- A significant number of companies voluntarily reported on CEO pay ratio. Our analysis suggests that FTSE 100 CEOs on average are paid more than 100 times the median employee pay in the United Kingdom.

- The study also suggests that about 29% of issuers in the FTSE 100 display misalignment between pay and performance on a one- and three-year basis.

The recent Coronavirus (COVID-190) pandemic has presented unprecedented challenges not only to health issues, societies, careers, businesses and economies, but also specifically to issuers and the stockholders that invest. The global panic coupled with government actions taken, has resulted in many businesses temporarily stopping trade or severely limiting their business operations, during the volatile time. Some industries and sectors have faced serious and potentially long-term uncertainty. As we are witnessing, in many markets, filings of financial statements and other critical reports have been delayed in recognition of the severity of the difficulties and uncertainties facing companies and the economies in which they operate.

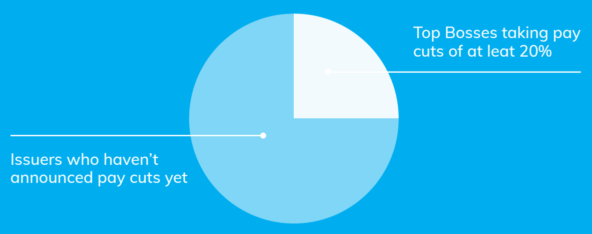
Health and safety concerns have also led to many companies either postponing their 2020 annual general meetings (AGM) or altering their meeting formats to limit or entirely remove physical participation.

In the FTSE 100, we have seen issuers changing their financial outlook for 2020 and beyond to accommodate the effects of the pandemic. The Financial Conduct Authority (FCA) on March 26, 2020, released a statement allowing temporary relief for listed companies facing the challenges of corporate reporting during the coronavirus crisis. According to the statement by the FCA, the temporary relief will permit issuers which need the extra time to complete their audited financial statements. This provides an additional two months in which they can publish. Currently, under the Transparency Directive, companies have four months from their financial year end in which to publish audited financial statements.

Executive compensation

Tracking news and releases put out by issuers during these times, we find at least 25% of FTSE 100 companies have implemented pay cuts for 2020 financial year. Most executives and CEOs have slashed their base salaries and fees by 20%. For example, the CEO of Rentokil, Andrew Ransom has cut his salary by 35%, and donated the remainder to an employee fund.

COVID-19 Pay Tracker



Though these changes are expected to be disclosed in the 2020 annual reports during the 2021 AGMs, there are certain issuers who have already revised their 2019 remuneration outcome numbers in the wake of the pandemic. On April 14, 2020, Barclays plc announced that its remuneration committee has determined that, in light of the current environment as a result of COVID-19, the release of the first portion of CEO James Staley and CFO Tushar Marzari's 2017 long-term incentive plan (LTIP) awards, that was due to vest in June 2020, shall be delayed. This portion will now vest, subject to the LTIP rules, on March 8, 2021. Therefore, the CEO's realisable/realised income was decreased from approximately GBP 5.9M to GBP 4.46M, which is a reduction of 25%. Interestingly issuers such as Whitbread and Landsec said in a press release that pay cuts would be discussed at future board and remuneration meetings while other issuers including Centrica, HSBC, Lloyds, ITV and Persimmon have scrapped bonuses and/or long-term incentive plans for executives.

Investors responses

Investors and investor associations alike have waded in on the issue and have added their voice to the directions issuers and their boards should go during these unprecedented times. Schroders wrote to FTSE 350 companies and reaffirmed their support to companies needing to raise capital to survive. However, in return, they require them to 'share the pain' by suspending dividends and reevaluating executive pay. In a letter to UK plc, the asset manager also said it will support the temporary relaxing of governance measures in place around capital raisings, as issuers battle with income streams crumpling in the wake of the COVID-19 pandemic.

On April 8, 2020, The Investment Association (IA), on behalf of the UK's investment management industry, also wrote to the chairs of all FTSE 350 companies, expressing the industry's commitment to supporting British business during the extraordinary economic circumstances caused by the COVID-19 pandemic. IA has set out the ways it will support issuers, as follows:

- **Executive pay:**
  IA has said that as part of shareholders' focus on the long-term success of companies, executive pay should continue to be aligned to company performance. To this regard if a company decides to cancel dividend payments or makes significant changes to their workforce's pay, the association members will back boards and remuneration committees that demonstrate how this should be reflected in their approach to executive pay.

- **AGMs:**
  IA has said that investors will support companies during 2020 AGM season by concentrating on the most material issues facing issuers. To this regard IA says it welcomes the Governance Institute and City Law Firm's guidance on how AGMs can proceed under the 'Stay at Home' measures and encourage firms to consider how they can continue to engage flexibly and effectively with shareholders instead of via normal AGM meetings.

- **Dividends:**
The IA has tasked companies to consider the appropriateness and sustainability of a dividend payment considering current reservations. Investors will expect companies who do decide to suspend dividend payments to restart them as soon as it is judicious to do so. Therefore, shareholders will expect companies to be transparent about their approach to dividends, particularly, if they are seeking additional capital.

- **Financial reporting:**
Shareholders have welcomed the FCA's call for issuers and auditors to take the necessary time to prepare and audit a company's preliminary results, annual reports and accounts, allowing an additional two months to prepare accounts if needed bearing in mind the situation.

Proxy advisors update their voting recommendations for COVID 19

Institutional Shareholder Services Inc. (ISS) and Glass, Lewis & Co., LLC (Glass Lewis) recently updated their respective proxy voting guidelines in response to the COVID-19 pandemic. The revisions are expected to impact AGMs to be held in 2020.

Glass Lewis announced a change to its standard policy on virtual-only shareholder meetings. For companies holding virtual-only shareholder meetings because of COVID-19, Glass Lewis will refrain from recommending voting against the governance committee members so long as the company discloses its rationale, including citing COVID-19 in this instance. The proxy advisor however added that it will revert to its standard policy for virtual meetings occurring after the 2020 proxy season. ISS on the other hand does not have a policy to recommend voting against companies that hold virtual-only shareholder meetings. ISS has therefore confirmed that there will be no change to its current approach for the remainder of the 2020 proxy season.

With regards to compensation, ISS says it encourages boards of issuers to provide concurrent disclosure to investors of their basis for making material variations to performance metrics, goals or targets used in short-term compensation plans for 2020 financial year. Midstream or in-flight changes to awards granted under long-term compensation plans will be evaluated on a case-by-case basis to determine whether boards exercised suitable decision and provided suitable clarification to investors.

The New Corporate Governance Code - EU Shareholder Rights Directive II – CEO Pay Ratio

Over the past year, investors have made clear their expectations for issuers to foster long-term growth via board and management accountability, and stewardship. The most significant regulatory development from this point of view has been the publication of the UK's revised Corporate Governance Code in July 2018. The code, which became effective for issuers as of January 1, 2019, will have significant impact on listed companies during the 2020 proxy season. The Code has introduced stricter recommendations in the areas of succession planning, tenure and executive remuneration. How issuers react to the 2020 deadline recommendation of having at least 33 percent representation of women on boards is yet to be seen. Data from CGLytics reveals that 41 percent of issuers in the FTSE 100 have yet to achieve this goal.

Investors receive more power due to EU Shareholder Rights Directive II

The updated EU Shareholder Rights Directive (SRD II) was introduced in order to give shareholders a greater voice to ensure that board-level decisions are made in the perspective of the long-term stability of the company, and to help shareholders monitor the companies that they invest in. Entering into effect in the UK as of June 10, 2019, SRD II is not expected to have much impact in the British market, as much of the regulation is already effective. However some companies will have to adhere to certain requirements, such as a prohibition on disclosure of certain types of sensitive personal data (e.g. racial or ethnic origin, as well as sexual orientation).

Changes that may impact issuers include:

Policy resolutions made public: Under the new directive, following the approval of the remuneration policy, the voting results from the relevant AGM must be displayed on the website for as long as the policy applies. Even though companies are already adhering to this in practice, they may now have to keep the voting results available to the public for an extended period.

Failing to pass a remuneration policy resolution: If a proposal for a revised policy is voted down, the issuer in question must present a new policy for approval at the company's subsequent AGM. This is technically a change from the current provisions, according to which, once shareholders approve a policy, the company could keep it in place for up to three years, in the event that a new policy is voted down.

Companies are also expected to ensure that their disclosures include the necessary information for applying SWOT analyses to the company's remuneration framework, for the role of the remuneration committee, and for managing conflict of interest. We note that the UK Corporate Governance Code currently has such requirements already in place.

Remuneration report: Companies are requested to change their single figure table by including two new columns for each director: One for total fixed pay (salary, benefits and pensions) and one for total variable pay (bonus and long-term incentives). This is quite different from current market practices, where there is only one total column. The reporting on annual change in CEO pay (salary, benefits and bonus) compared with average employee pay (or a suitable comparator group) is being replaced. Instead, companies will need to show the annual change in each director's pay compared with the average change in employees' pay.

The new directive has also widened the scope with regard to required remuneration disclosure, as the CEO and deputy CEO will also be subject to the directors' pay rules, even if those persons are not members of the board. This is unlikely to affect most listed companies, as in most cases, these executives are on the board; a matter of good corporate governance in the UK.

Currently in the FTSE 100, only two companies have CEOs who are not on the board of directors: Antofagasta plc and Fresnillo plc. Scottish Mortgage Investment Trust plc is the third company that falls under this category, however, given the fundamentally different nature of the governance structure of trusts from other listed corporations, this is not unusual.

There have been many reforms in corporate governance practice in the UK in order to ensure that issuers clearly disclose how executive pay aligns with the wider company pay and reward schemes. To facilitate this, the government introduced the mandatory pay ratio regulation. Pay ratio regulations will apply to large UK-listed companies with more than 250 employees, and the first statutory disclosures must be provided from the start of 2020.

The disclosure will provide the reasoning that justifies the remuneration package for top executives, and account for how those salaries compare with employee pay. Under the new regulations, issuers will have to disclose annually the ratio of their CEO's pay to the median, lower quartile and upper quartile pay of their UK employees.

This is far more detailed than the US Securities and Exchange Commission's (SEC) regulation of CEO to employee pay ratio. American issuers are only required to disclose the annual total compensation of its median employees, as well as the ratio of such compensation to the annual total compensation of its main executive officer.

In addition, all large companies are required to report on how the board takes employee and other stakeholder interests into account in their decision-making process. Moreover, the law requires further disclosure on how UK-listed boards report on their corporate governance frameworks. The regulation offers two different methods that companies can use in order to calculate pay ratios, as outlined below:

Option A:
Under this approach, issuers will calculate the actual full time employee remuneration of all relevant employees for the fiscal year in question. The identified values are sorted from the lowest to the highest, and three different percentile points are identified; the 25th, the 50th and the 75th percentile. The pay ratios will then be calculated using the single-figure pay table.

Options B and C:
When the companies are not able to calculate the actual full time employee remuneration value, there are two other options. Issuers can identify three UK employees at the 25th percentile, 50th percentile, and 75th percentile on an indicative basis and may apply existing pay data such as gender pay data (Option B) or any other recent existing pay data instead of, or in combinations with, gender pay gap information (Option C). When one of these Options is used, the actual full time employee remuneration of these indicative employees must then be calculated for the fiscal year in question. In the case where Option B or C is used, the company must explain why Option A was not used.

In order to calculate any ratio, the company must divide the CEO's remuneration by that of the employee at each percentile.

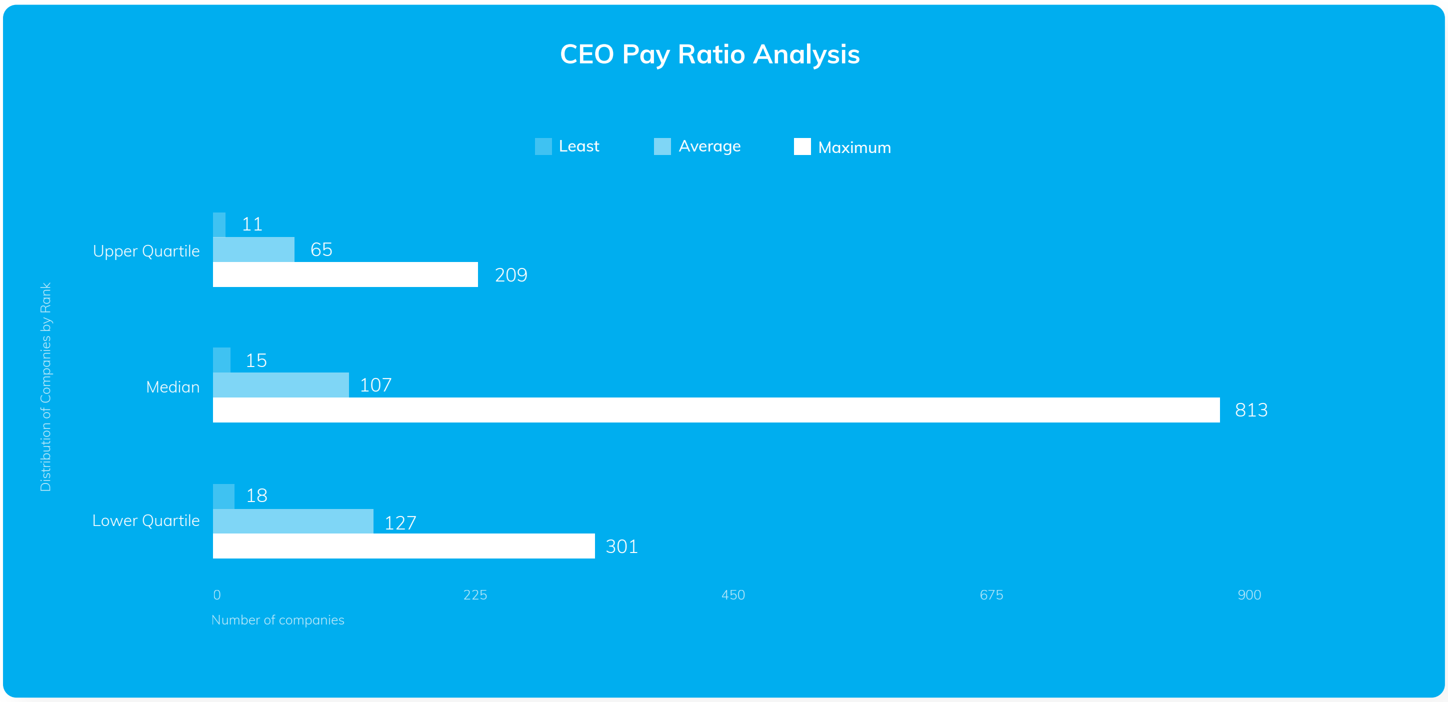
Data from CGLytics shows that 48 companies in the FTSE 100 voluntarily disclosed CEO pay ratios in their 2018 remuneration reports, ahead of the mandatory disclosure period. From the analysis, it is revealed that the company with the highest CEO pay ratio is Carnival plc with a CEO pay ratio of 813 times the median of their employees. The company's disclosure followed the requirements under the United States SEC requirement.

"Big Four" UK banks are setting the pace for CEO pay ratio disclosure

At the same time, the data showed that Unilever plc had the highest CEO pay ratio when compared with the lower quartile employee pay at 301 times. Tesco plc also had the highest CEO pay at the upper quartile employee pay at 209 times from the analysis.

Data gathered by CGLytics suggests that the average CEO pay in the index is 107 times the average median employee pay in the United Kingdom. The company with the lowest CEO pay ratio across the upper quartile, median and lower quartile is Admiral plc. The CEO pay ratios are 11, 15 and 18 times, respectively.

CEOs are on average paid at least 100 times more than median employees in UK



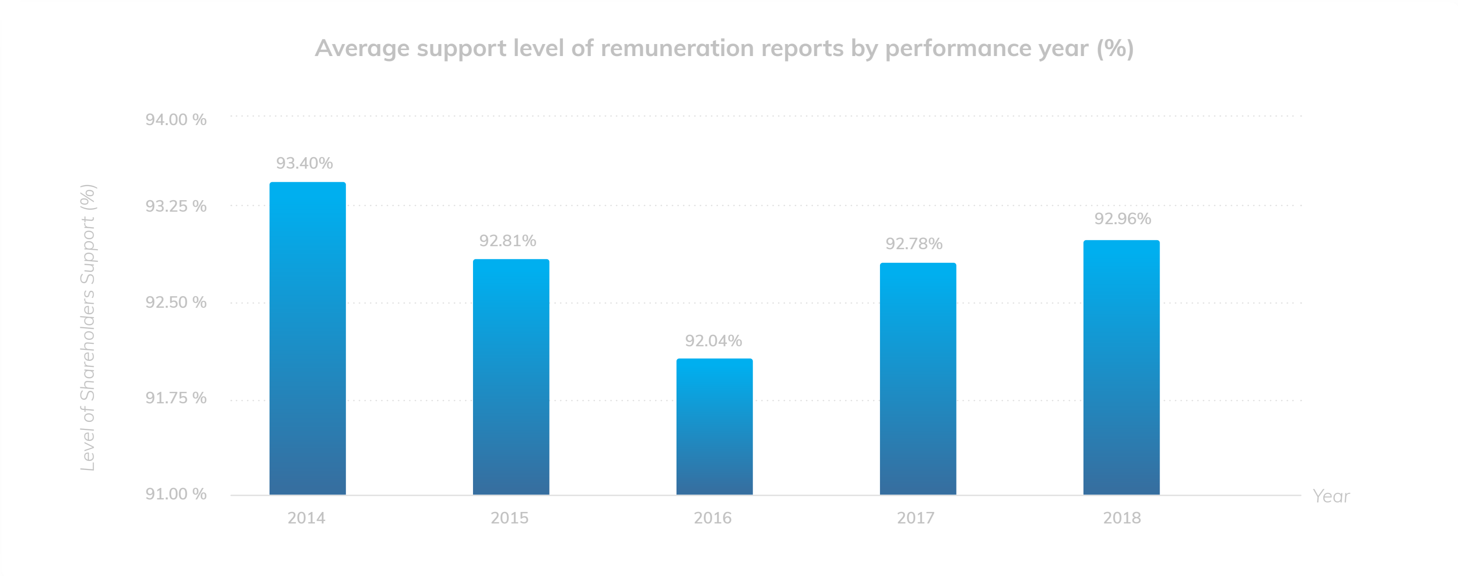
2 Carnival plc is incorporated in Panama and must adhere to specific US and UK regulations

FTSE 100 remuneration report outcomes

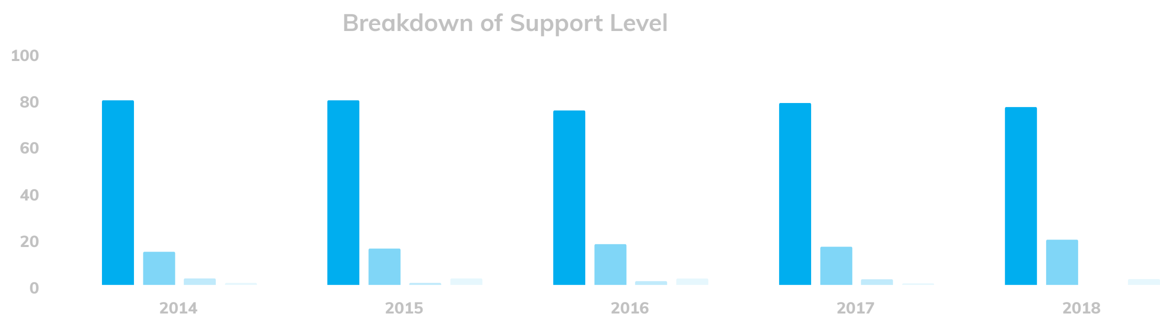
CGLytics has performed a study on the level of support of remuneration reports in the FTSE 100 during the past five years. One of the most notable findings is the average support for remuneration reports over the five years is greater than 92 percent. The 2019 proxy season showed that the average level of support for 2018 remuneration reports was 92.96 percent, which is a slight increase from the 92.84 percent level of support seen for remuneration reports submitted for shareholder approval in 2018 for 2017 remuneration reports.

Greater than 92 percent support for remuneration reports

The highest average support by shareholders was seen for 2014 remuneration reports, with an average level of support of 93.40 percent, while the 2016 remuneration reports recorded the lowest level of average shareholders' support at 92.04 percent.



A total of 77 companies had votes of 90 percent and above in support of their report versus 79 percent last year



	2014	2015	2016	2017	2018
Support Level >90%	80	80	76	79	77
Support Level 70% - 89%	15	16	18	17	20
Support Level 69%-60%	3	1	2	3	0
Support Level <60%	1	3	3	1	3

Data collected from CGLytics shows that the number of companies that received votes of 90 percent and above in support of their 2018 remuneration report was 77, down from 79 companies for 2017 remuneration reports during the previous proxy season. Three companies received less than 60 percent shareholder support for their remuneration report for 2018, an increase compared with that of the previous performance year where only one company received more than 40 percent push-back on the report in 2018. The data also showed that three companies secured less than 60 percent support for their 2015 and 2016 reports.

In 2019, three companies saw their 2018 remuneration report rejected by shareholders. One of these, Micro Focus International plc, was the only company that saw their 2018 remuneration report rejected, as the company did not receive the maximum quorum of votes necessary for a simple majority vote. It was reported that the shareholder revolt was provoked by the decision to give the top executives one more year to hit their targets, potentially allowing them to receive an aggregate bonus of GBP 268 million (USD 308.1 million). Interestingly, one of the largest proxy advisors recommended that shareholders vote against the remuneration report. Aside from asserting that the remuneration committee did not perform its duties effectively, Glass Lewis also asked shareholders to vote against the re-election of the committee chair, Amanda Brown as well as three other members: Darren Roos, Silke Scheiber and Karen Slatford.

Segro plc and Standard Life Aberdeen plc also received only 53.3 percent and 57.98 percent support, respectively, on their remuneration reports. In the case of Segro plc, investors revolted against the decision to increase CEO David Sleath's base salary by more than GBP 100,000 (USD 127,700) over two years. This decision was strongly criticised by proxy advisors ISS and Glass Lewis. Although the company compensated the base salary increase with a cut in pension contributions, Glass Lewis still warned that the pay increase was not linked to any financials, and could, in the future push up the CEO's long-term incentive payouts, which are calculated as a multiple of the base

At Standard Life Aberdeen plc, shareholders voted down the remuneration report over concerns about the new Chief Financial Officer's compensation. Specifically, the company hired Stephanie Bruce from PwC earlier in 2019 on a basic salary of GBP 525,000. This is a large increase considering that her predecessor, Bill Rattray, received a basic salary of GBP 450,000.

Overboarding continues to be a key issue for investors and proxy advisors alike

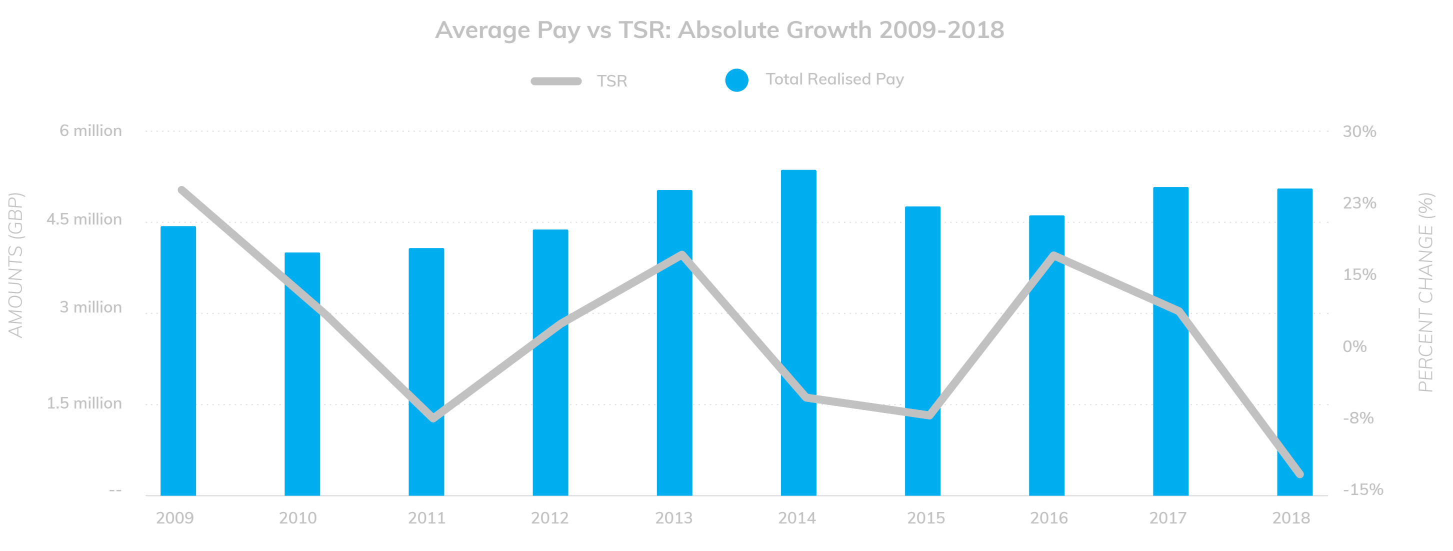
The responsibilities of board members are increasingly complex and demanding. Shareholders seek assurance that directors have the appropriate time dedicated to their boardroom responsiblities. During the 2019 proxy season, several directors received less than 90 percent support for their re-election, and this was attributed to overboarding issues. Specifically, shareholders opposed the re-election of Stephen Davidson at Informa plc by 35.58 percent. Berkeley Group Holdings plc's investors also voted against the re-election of Adrian Li by 31.43 percent, based on what they perceived as overboarding. ISS asked shareholders to vote against the re-election of both directors to their respective boards. Li's re-election was also opposed by Glass Lewis.

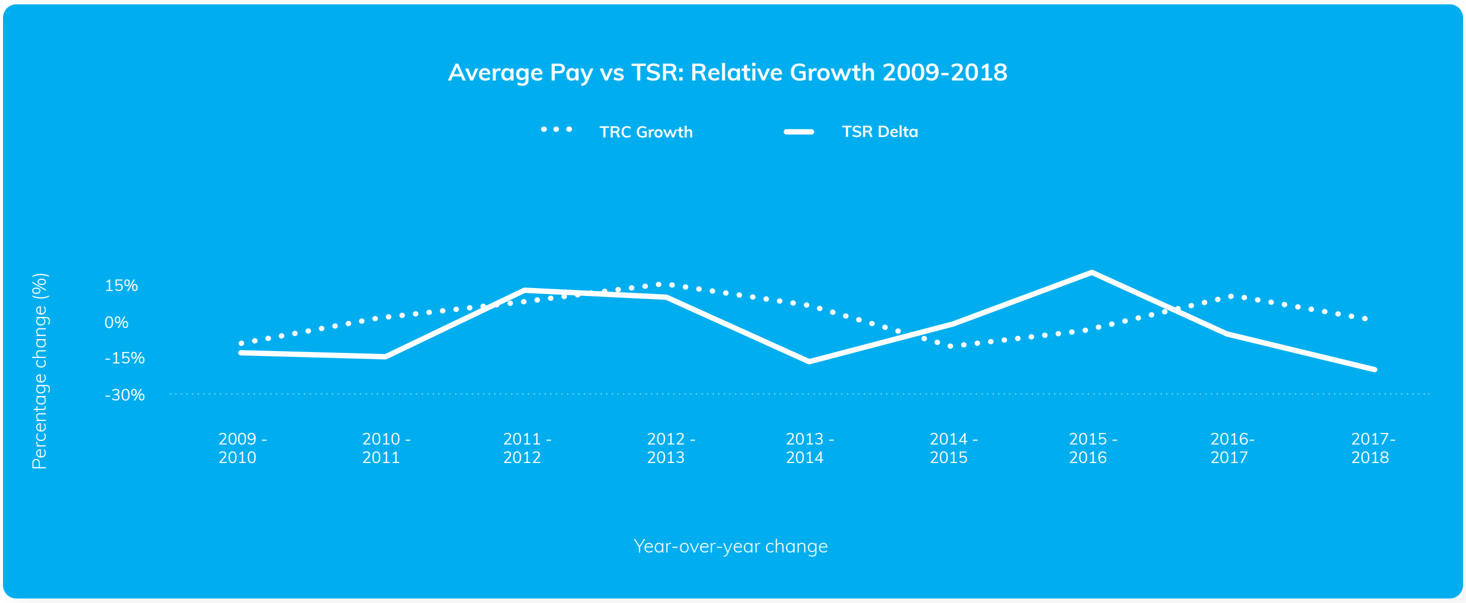
The re-election of Marcelo Bastos of Anglo American plc and of Ireene Vittal of Compass Group plc received shareholder opposition of 26.2 percent and 22.38 percent respectively. Another interesting highlight during this proxy season was the inability of an activist investor to join the board of Barclays plc, as the appointment of Edward Bramson received only 13 percent suppport.

Proxy advisory firms continue to play influential roles in voting outcomes

In order to identify Pay for Performance misalignment within the FTSE 100, CGLytics has compared an individual's company Total Shareholder Return (TSR) with that of its average realised pay. The absolute value graph shows the average value of realised pay and TSR each year, while the relative growth graph illustrates the year-over-year change from 2009 to 2018. Based on CGLytics data it appears that the average TSR for the index demonstrates a high volatility and shows a decrease during the past two years.

At the same time, even though the average realised pay also fluctuated over the years, it was at a much lower pace and showed an increase from 2010 to 2014. From 2017 to 2018 average realised pay decreased by 0.56 percent, from GBP 4.9 million (USD 6.2 million) to GBP 4.5 million (USD 7.9 million). The average TSR for the FTSE 100 also decreased by 20 percentage points to -12 percent from 2017 to 2018.



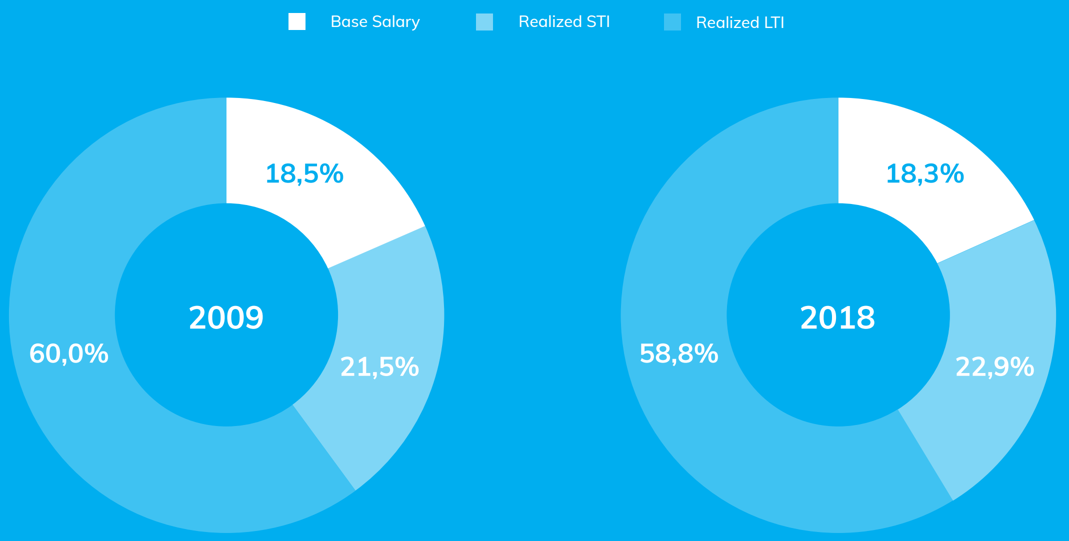


Compensation mix design: Fixed vs Variable

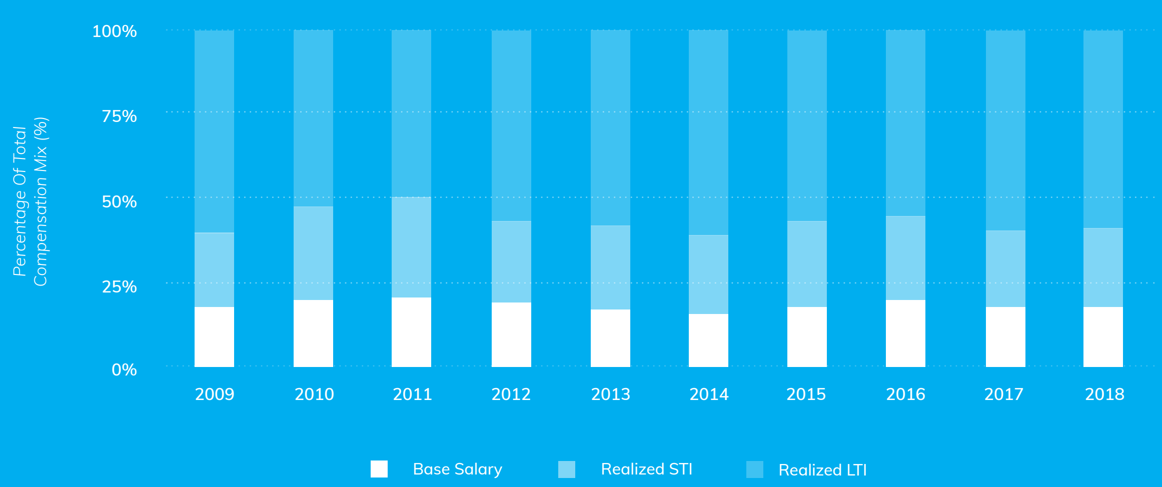
Compensation structure remains at the heart of the discussions in boardrooms. From the analysis, there continues to be strong emphasis on long-term focused variable compensation. This means that a larger portion of CEO compensation continues to be composed of variable packages which aim at the long-term growth of the company. However, from 2009 to 2018 we have observed a slight decrease in the compensation composition of long-term incentives, as well as a small switch from long-term compensation to short-term compensation.

In the 2009 performance year, long-term incentives made up 60 percent of average total realised compensation. But in the 2018 performance year, long-term incentives formed 58.8 percent of average total realised compensation. Short-term incentives have also increased from 21.5 percent to 22.9 percent comparing the two performance years. Interestingly, base salary has also slightly decreased from 18.5 percent to 18.3 percent from the 2009 to the 2018 performance years. The compensation composition, however, remained almost unchanged from 2017 to 2018.

Compensation Mix Design: Fixed vs Variable



Change in total Compensation Mix 2009-2018



Data gathered by CGLytics suggests that there continues to be a significant relative misalignment between pay and performance within the FTSE 100 issuers.

Relative pay for performance – one-year basis

- 29% display a misalignment
- 28% display conservative pay practices
- 42% display alignment between pay and performance

Relative pay for performance – three-year basis

- 29% display a misalignment
- 28% display conservative pay practices
- 42% display alignment between pay and performance

The charts below display CGLytics' pay for performance analysis companies, comparing CEO pay and TSR over a one- and three-year period. We note that this analysis makes use of remuneration data from all FTSE 100 constituent companies for the timeframes in question. The companies that are situated within the grey area are companies displaying a relative alignment between pay and performance. The companies above and below the grey area, show a potential pay for performance misalignment, either in terms of conservative pay practices or a negative alignment.

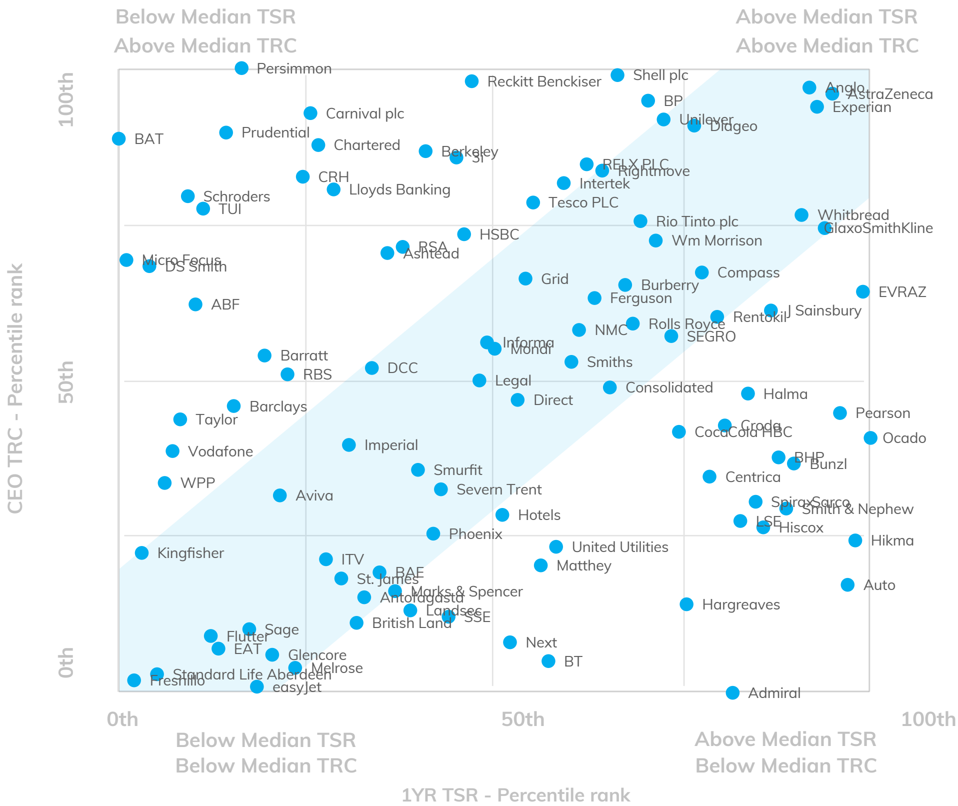
From the analysis, energy companies Royal Dutch Shell plc and British Petroleum (BP plc) display misalignment between pay and performance over a one-year period. For the one-year analysis, Shell ranked in the 99th percentile while the company's TSR ranked in the 66th percentile. For BP, its CEO's compensation ranked in the 95th percentile and its TSR also ranked in the 70th percentile in the FTSE 100 index.

However, over a three-year period, these companies show a relative alignment between pay and performance. Similar to the findings in our 2018 report, British banks such as RBS plc, Barclays plc, Lloyds plc and Standard Chartered plc display misalignment over both the one-year and three-year periods.

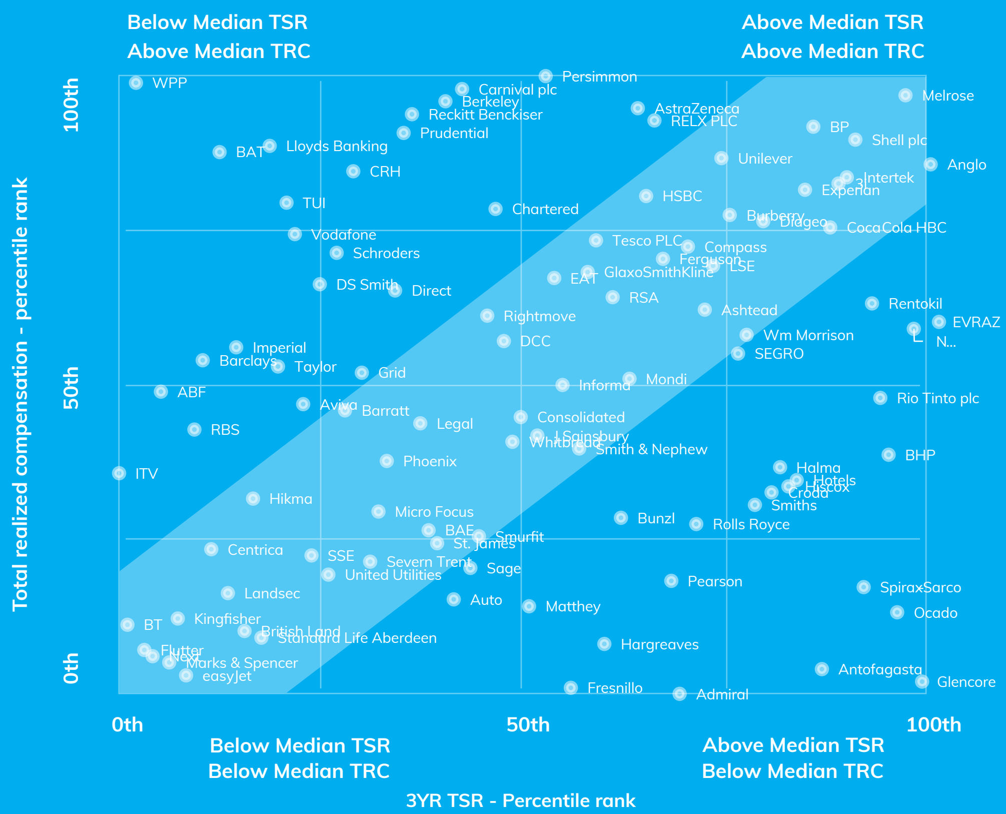
BHP Billiton plc, Croda International plc and Evraz plc, all of whom belong to the materials sector, continued to display conservative pay practice in the one-year analysis, as well as the three-year pay for performance analysis.

CGLytics' FTSE 100 CEO Pay for Performance Index Tracker

2018 PAY FOR PERFORMANCE ALIGNMENT CEO TOTAL REALISED COMPENSATION (TRC) VS 1YR TOTAL SHAREHOLDER RETURN (1YR TSR)



2018 PAY FOR PERFORMANCE ALIGNMENT CEO TOTAL REALISED COMPENSATION (TRC) VS 3YR TOTAL SHAREHOLDER RETURN (3YR TSR)



Data collected by CGLytics show that the CEO from Persimmon plc had the highest realised compensation in financial year 2018. IThe total realised compensation of former Persimmon CEO Jeff Fairburn amounted to GBP 74.5 million (USD 95.1 million) in 2018. Realised compensation is a result of the long-term compensation packages of options and shares that the CEO exercised over the course of the year in review. Persimmon's TSR ranking in the year was -23 percent which gave the company a percentile rank of 16 in CGLytics' index for the financial year 2018. From 2016 to 2018, the CEO realised compensation grew by 34 times, while TSR also had a negative change of 15 percent. Cumulatively, the three-year TSR from (2016-2018) is 16 percent. It is worth noting that GBP 100 (USD 127.7) invested in the company in 2016, would be worth GBP 116 (USD 135.4) in 2018. The company's 2018 remuneration report was supported by 92.25 percent of shareholders during the 2019 proxy season.

Evraz plc had a percentile ranking of 64 in the FTSE 100 index for CEO compensation. In 2018, the CEO's total realised compensation was at GBP 4.2 million (USD 5.3 million), with the Total Shareholder Return at 68 percent, which placed the healthcare company at the top of the index ranking. Total realised compensation grew by 15 percent from 2016 to 2018. During the same period, the TSR had a negative change of 135 percent. The company's cumulative compensation and TSR for the three years 2016 to 2018 was GBP 12 million (USD 15.3 million) and 753 percent, respectively. From the CGLytics' analysis GBP 100 (USD 127.7) invested in the company in 2016 will be worth GBP 853 (USD 1,008) in 2018. This is the highest return in the index. Evraz shareholders voted to support the 2018 remuneration report by 95.51 percent.

Interestingly, we find that ITV plc had the lowest return on investment. In 2018, the CEO'S total realised compensation was approximately GBP 2 million ($2.5 million) which placed the company at the 21st percentile ranking for compensation. 2018 TSR was also -20 percent, which also earned the company a ranking of 28th percentile. From 2016 to 2018, CEO compensation dropped by 49 percent, while TSR increased by 8 percent within the same period. ITV's CEO earned a total compensation of GBP 8.8 million (USD 11.2 million) from 2016 and 2018. Interestingly, the cumulative TSR was -45 percent, meaning that an investment of GBP 100 (USD 127.7) made in ITV in 2016 was worth GBP 55 (USD 70.2) in 2018. The company's remuneration report was nonetheless supported by 95.69 percent of the shareholders.

The upcoming season will see boards pressured to be well informed on their governance practices and to engage as early as possible with their investors, who expect to see reforms of companies' practices and management of governance risks. Over the last few years, we have seen investors expanding their Environmental, Social and Governance (ESG) research capabilities to boost their engagement. Boards will have to face investors who have become much more sophisticated in assessing governance practices. Boards should hold constructive dialogue in an early stage with solid intelligence support to obtain shareholder buy-in during the early stages of the proxy season.

What themes can boards expect in the 2020 season?

- Previously, many investors in the UK were not able to utilise the CEO pay ratio as a factor in deciding how to vote on say-on-pay resolutions. However, going forward, the 2020 proxy season will give them this tool to closely scrutinise the pay ratio information in annual reports.

- There also seems to be a strong correlation between the rising level of opposition to the re-election of directors, as well as opposition for say-on-pay. We find that directors, especially remuneration committee members, are increasingly being held accountable for potential misalignments between executive pay and company performance.

- There has also been a lively shareholder reaction to overboarding, one which has intensified due to stricter investor scrutiny and proxy advisor voting guidelines on the subject.For example the voting guidelines of BlackRock allow a CEO to sit on no more than two external boards, a non-CEO no more than four external boards. Vanguard also allows two external boards for a public company CEO. However, for non-executive directors, Vanguard allows up to five board positions in total.

Issuers should have measures in place aimed at evaluation of material ESG practices as well as hands-on outreach to investors with compelling engagement and strategies for proposals that might raise opposing votes from shareholders.

With the governance landscape becoming more complex, issuers and institutions face a stiff challenge making informed decisions and engaging effectively with one another. A one-stop, interactive corporate governance data and analytics solution, accessible via mobile device or desktop, would be a valuable tool for managing that complexity. Such a tool should provide an independent platform for analysing governance risks, executive pay and benchmarking, and be capable of generating predictive insight. It should also be capable of screening for pay for performancemisalignment over multiple years, board composition, overboarding, director expertise and interlocks, and broader company-level governance practices.

The CGLytics FTSE 100 Pay for Performance analysis shown on the following pages captures the CEO total realised compensation against 2018 TSR, compared to respective peers.

CGLytics - FTSE100 CEO P4P Index

	Ranking 2018 vs. (2016)		2018				Δ 2016-2018				2016-2018				
			Total Realised Compensation (million GBP)	Compensation Ranking	2018 TSR	Performance Ranking	Growth 2016-2018 TRC	Δ 2016-2018 TSR	Compensation Ranking	Performance Ranking	Total Realised Compensation (million GBP)	3Y TSR	Compensation Ranking	Performance Ranking	2018 year-end value of 100 GBP investment made January 1st, 2016
Strong Alignment	1 (13)	Ferguson plc	4,1	63	-3%	63	-43%	-41%	13	27	14,4	46%	71	67	67
	2 (67)	Fresnillo PLC	0,7	2	-38%	2	-19%	-112%	35	4	2,4	27%	1	56	56
	3 (27)	Experian plc	10,3	94	19%	93	149%	-15%	93	57	20,9	68%	82	84	84
	4 (61)	Wm Morrison Supermarkets PLC	4,8	72	2%	71	146%	-58%	91	16	11,8	59%	59	77	77
	5 (96)	AstraZeneca PLC	11,8	96	19%	95	-25%	19%	32	93	39,2	45%	95	64	64
	6 (44)	Burberry Group plc	4,3	65	-1%	67	22%	-30%	67	40	17,4	56%	78	75	75
	7 (4)	Standard Life Aberdeen plc	0,9	3	-36%	5	-62%	-36%	4	31	5,1	-20%	10	18	18
	8 (74)	Legal & General Group Plc	3,3	50	-10%	48	-6%	-9%	44	68	10,1	3%	44	37	37
	9 (40)	Paddy Power Betfair plc	1,4	9	-26%	12	0%	-25%	48	46	4,5	-37%	8	3	3
	10 (48)	NMC Health Plc	4,0	58	-5%	61	7%	-90%	54	6	11,9	230%	60	97	97
	11 (21)	Smurfit Kappa Group plc	2,6	36	-15%	40	19%	-11%	65	63	7,2	8%	26	44	44
	12 (56)	Anglo American plc	15,1	97	18%	92	402%	-269%	98	1	24,6	529%	86	99	99
	13 (11)	Mondi plc	3,7	55	-9%	50	-25%	-38%	33	30	11,2	39%	51	63	63
	14 (75)	JUST EAT plc	1,3	7	-25%	13	-86%	-43%	1	25	14,2	19%	68	53	53
	15 (93)	ITV plc	2,0	21	-20%	28	-49%	-1%	8	78	8,8	-45%	36	-	-
	16 (91)	Direct Line Insurance Group PLC	3,2	47	-8%	53	-36%	-7%	22	74	13,7	-2%	66	34	34
	17 (62)	Rio Tinto plc	5,3	76	0%	69	191%	-68%	95	9	10,7	122%	48	93	93
	18 (50)	The Sage Group plc	1,4	10	-23%	17	-17%	-34%	36	35	6,6	7%	21	43	43
	19 (64)	Smiths Group plc	3,5	53	-5%	60	125%	-61%	86	13	7,8	59%	31	78	78
	20 (38)	Informa plc	3,8	56	-10%	49	15%	-34%	62	33	11,0	22%	50	54	54
	21 (83)	Imperial Brands PLC	3,0	40	-20%	31	-36%	-23%	23	49	11,6	-22%	57	15	15
	22 (52)	Rolls-Royce Holdings plc	4,0	59	-1%	68	134%	-19%	87	53	7,6	51%	28	71	71
	23 (1)	Compass Group PLC	4,4	67	5%	78	-8%	-26%	42	44	14,9	50%	73	70	70
	24 (32)	Severn Trent Plc	2,4	33	-12%	43	14%	-18%	59	54	6,7	-6%	22	31	31
	25 (86)	Aviva plc	2,4	32	-21%	21	-43%	-20%	14	51	10,5	-15%	47	23	23
	26 (3)	St. James's Place plc	1,9	18	-20%	30	-27%	-24%	30	47	7,1	4%	25	39	39
	27 (42)	National Grid plc	4,4	66	-8%	54	16%	-14%	63	60	11,3	-6%	52	30	30

	Ranking 2018 vs. (2016)		2018				Δ 2016-2018				2016-2018				
			Total Realised Compensation (million GBP)	Compensation Ranking	2018 TSR	Performance Ranking	Growth 2016-2018 TRC	Δ 2016-2018 TSR	Compensation Ranking	Performance Ranking	Total Realised Compensation (million GBP)	3Y TSR	Compensation Ranking	Performance Ranking	2018 year-end value of 100 GBP investment made January 1st, 2016
Strong Alignment	28 (66)	Glencore Plc	1,2	6	-22%	20	-4%	-228%	45	2	3,5	242%	2	98	98
	29 (17)	Diageo plc	9,3	91	5%	77	135%	-12%	88	62	17,0	63%	77	79	79
	30 (29)	Whitbread PLC	5,3	77	17%	91	147%	29%	92	97	9,4	12%	41	48	48
	31 (34)	BAE Systems plc	2,0	19	-17%	35	-41%	-40%	18	28	7,6	3%	27	38	38
	32 (81)	Phoenix Group Holdings	2,1	26	-15%	42	-47%	-15%	9	59	9,0	-3%	38	33	33
	33 (10)	SEGRO plc	3,9	57	3%	73	8%	-8%	56	71	11,6	58%	56	76	76
	34 (84)	International Consolidated Airlines Group, S.A.	3,3	49	-2%	65	16%	23%	64	96	10,2	12%	45	49	49
	35 (77)	easyJet plc	0,7	1	-23%	18	-70%	17%	2	92	3,6	-28%	3	9	9
	36 (65)	Antofagasta plc	1,7	15	-19%	33	90%	-64%	83	11	4,0	78%	4	86	86
	37 (71)	DCC plc	3,4	52	-18%	34	-28%	-27%	28	43	11,7	11%	58	47	47
	38 (5)	Rentokil Initial plc	4,1	60	8%	80	-27%	-34%	31	34	13,2	121%	64	92	92
	39 (15)	Rightmove plc	7,3	84	-3%	64	233%	2%	96	82	12,3	9%	62	45	45
	40 (18)	GlaxoSmithKline plc	4,9	74	19%	94	13%	-3%	58	76	14,3	29%	69	58	58
	41 (47)	Kingfisher plc	2,1	22	-36%	3	21%	-45%	66	23	5,4	-30%	13	8	8
	42 (68)	Melrose Industries PLC	1,0	4	-21%	23	6%	-285%	53	0	44,8	212%	97	96	96
Conservative Pay	43 (76)	Unilever PLC	10,1	92	3%	72	23%	-13%	68	61	25,6	54%	87	74	74
	44 (2)	Marks and Spencer Group plc	1,8	16	-16%	37	32%	1%	72	81	4,5	-34%	6	7	7
	45 (7)	The British Land Company PLC	1,5	11	-19%	32	3%	-3%	51	75	5,3	-22%	11	16	16
	46 (45)	Intercontinental Hotels Group plc	2,3	29	-9%	51	-45%	-54%	10	19	8,8	67%	35	83	83
	47 (23)	J Sainsbury plc	4,1	61	13%	87	93%	13%	84	89	9,9	15%	42	51	51
	48 (41)	Land Securities Group plc	1,7	13	-16%	39	-36%	-10%	21	64	6,0	-23%	17	14	14
	49 (14)	SSE plc	1,7	12	-12%	44	-38%	-20%	19	52	6,9	-14%	23	24	24
	50 (53)	Coca-Cola HBC AG	3,1	42	3%	74	61%	-22%	81	50	16,9	79%	76	87	87
	51 (51)	EVRAZ plc	4,2	64	68%	99	15%	-135%	61	3	12,0	753%	61	100	100
	52 (12)	United Utilities Group PLC	2,1	23	-6%	58	-7%	-7%	43	73	6,6	-10%	20	26	26
	53 (16)	Halma plc	3,3	48	9%	84	46%	4%	77	85	8,9	64%	37	81	81
	54 (57)	Johnson Matthey Plc	2,0	20	-7%	56	26%	-31%	70	38	5,6	15%	15	50	50

Ranking 2018 vs. (2016)			2018				Δ 2016-2018				2016-2018				
			Total Realised Compensation (million GBP)	Compensation Ranking	2018 TSR	Performance Ranking	Growth 2016-2018 TRC	Δ 2016-2018 TSR	Compensation Ranking	Performance Ranking	Total Realised Compensation (million GBP)	3Y TSR	Compensation Ranking	Performance Ranking	2018 year-end value of 100 GBP investment made January 1st, 2016
Conservative Pay	55 (35)	Croda International plc	3,1	43	8%	81	45%	0%	76	79	8,5	63%	33	80	80
	56 (69)	Next Plc	1,3	8	-8%	52	-35%	20%	24	94	4,5	-36%	7	4	4
	57 (26)	Centrica plc	2,5	35	6%	79	-10%	-7%	40	72	7,0	-24%	24	12	12
	58 (58)	BHP Billiton plc	2,7	38	15%	88	0%	-61%	47	12	9,0	148%	39	94	94
	59 (55)	Pearson plc	3,1	45	30%	96	107%	12%	85	87	6,4	47%	19	68	68
	60 (24)	BT Group plc	1,1	5	-7%	57	-37%	13%	20	90	5,3	-41%	12	1	1
	61 (43)	Bunzl plc	2,6	37	17%	90	2%	3%	50	83	7,7	33%	29	62	62
	62 (60)	Spirax-Sarco Engineering plc	2,3	31	13%	85	44%	-17%	75	56	6,1	100%	18	91	91
	63 (82)	London Stock Exchange Group plc	2,2	28	8%	83	-69%	1%	3	80	14,4	54%	70	73	73
	64 (72)	Hiscox Ltd	2,1	27	13%	86	-43%	12%	15	88	8,6	67%	34	82	82
	65 (25)	Ocado Group plc	3,1	41	99%	100	174%	112%	94	100	5,5	160%	14	95	95
	66 (22)	Smith & Nephew plc	2,3	30	16%	89	-19%	13%	34	91	9,2	28%	40	57	57
	67 (31)	Hargreaves Lansdown plc	1,7	14	5%	76	-13%	22%	38	95	4,7	31%	9	60	60
	68 (90)	Hikma Pharmaceuticals PLC	2,1	24	54%	98	-44%	71%	11	99	8,1	-22%	32	17	17
	69 (39)	Auto Trader Group plc	1,8	17	31%	97	138%	38%	90	98	5,8	6%	16	41	41
Misalignment	70 (59)	Admiral Group plc	0,4	0	8%	82	51%	-9%	78	67	1,1	47%	0	69	69
	71 (73)	RELX PLC	7,3	85	-5%	62	-42%	-29%	16	42	31,8	46%	93	66	66
	72 (6)	Intertek Group plc	6,3	82	-6%	59	30%	-33%	71	36	22,5	81%	84	89	89
	73 (28)	Tesco PLC	5,8	79	-8%	55	36%	-46%	73	22	16,0	30%	74	59	59
	74 (8)	BP p.l.c.	10,8	95	0%	70	13%	-55%	57	18	30,5	71%	92	85	85
	75 (30)	HSBC Holdings plc	4,9	73	-11%	46	-44%	-43%	12	24	19,7	45%	81	65	65
	76 (80)	WPP plc	2,5	34	-34%	6	-95%	-53%	0	20	62,8	-39%	99	2	2
	77 (92)	The Royal Bank of Scotland Group plc	3,4	51	-21%	22	-9%	4%	41	84	10,0	-28%	43	10	10
	78 (78)	Barclays PLC	3,2	46	-24%	15	-33%	-29%	25	41	11,5	-27%	54	11	11
	79 (94)	Vodafone Group Plc	3,0	39	-30%	7	-53%	-25%	7	45	16,7	-17%	75	22	22
	80 (54)	Royal Dutch Shell plc	18,1	99	-1%	66	559%	-60%	99	15	28,8	85%	90	90	90
	81 (46)	RSA Insurance Group plc	4,6	71	-16%	38	24%	-57%	69	17	13,6	31%	65	61	61

Ranking 2018 vs. (2016)			2018				Δ 2016-2018				2016-2018				
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Misalignment	82 (49)	Ashtead Group plc	4,5	70	-17%	36	40%	-61%	74	14	13,1	54%	63	72	72
	83 (87)	Barratt Developments plc	3,5	54	-22%	19	14%	-1%	60	77	10,3	-9%	46	28	28
	84 (95)	Taylor Wimpey plc	3,1	44	-28%	8	-28%	-8%	29	70	11,4	-17%	53	20	20
	85 (9)	3i Group plc	7,6	86	-12%	45	6%	-64%	52	10	21,0	80%	83	88	88
	86 (97)	The Berkeley Group Holdings plc	7,8	87	-15%	41	1%	6%	49	86	43,0	5%	96	40	40
	87 (85)	Reckitt Benckiser Group plc	15,4	98	-11%	47	56%	-23%	79	48	33,2	3%	94	36	36
	88 (70)	Associated British Foods plc	4,1	62	-26%	10	59%	-9%	80	66	10,9	-36%	49	6	6
	89 (98)	Lloyds Banking Group plc	6,2	81	-20%	29	-58%	-10%	6	65	26,6	-18%	89	19	19
	90 (36)	CRH plc	7,2	83	-21%	24	-11%	-47%	39	21	22,9	-7%	85	29	29
	91 (20)	Standard Chartered PLC	8,0	88	-21%	27	137%	-38%	89	29	18,4	10%	79	46	46
	92 (79)	DS Smith Plc	4,4	68	-36%	4	-16%	-42%	37	26	13,9	-11%	67	25	25
	93 (99)	TUI AG	5,4	78	-26%	11	-41%	-8%	17	69	18,8	-17%	80	21	21
	94 (89)	Carnival plc	10,2	93	-21%	26	-29%	-30%	27	39	45,1	6%	98	42	42
	95 (63)	Micro Focus International plc	4,4	69	-42%	1	280%	-82%	97	7	7,8	-4%	30	32	32
	96 (33)	Schroders plc	6,0	80	-28%	9	73%	-32%	82	37	14,6	-9%	72	27	27
	97 (88)	Prudential plc	8,3	90	-24%	14	-31%	-35%	26	32	30,3	0%	91	35	35
	98 (19)	Persimmon plc	74,5	100	-23%	16	3387%	-15%	100	58	78,9	16%	100	52	52
	99 (37)	British American Tobacco p.l.c.	8,1	89	-47%	0	-1%	-74%	46	8	26,1	-24%	88	13	76

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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 practice, 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 annualised compensation 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 is expressed as an annualised percentage. This will be calculated over one-year (1Y), three-year (3Y) and five-year (5Y) period. The growth in 3Y and 5Y 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 on GBP 100

This figure calculates how much a GBP 100 investment in a would be worth over a period of time by indexing the TSR over multiple years.

Pay for performance Analysis

We conducted a study on compensation realised by CEOs to determine the 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 Realized 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 year-end dates are reported as a 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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