



## Institutional Investors' Views On The Use Of Share Plans:

Focus On The Use Of Share Plans During The Continuing Pandemic

**Webinar**

Tuesday, 6 October 2020





## A Word From The Chairman



**Professor Michael  
Mainelli**

Executive Chairman

Z/Yen Group



# Agenda



- 11:00 – 11:05 Introduction
- 11:05 – 11:30 keynote address
- 11:30 – 11:45 Questions from the audience



# FS Club

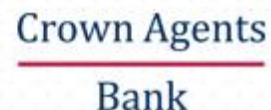
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**Institutional Investors' Views On The Use  
Of Share Plans:**  
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**Fleur Benns**

Legal Director

Share Plans &  
Incentives

Pinsent Masons LLP



**Lynette Jacobs**

Partner and Head  
of Share Plans &  
Incentives

Pinsent Masons LLP



# Institutional investors' and share plans in covid-19 times

Lynette Jacobs, Partner and Head of Share Plans & Incentives

Fleur Benns, Legal Director, Share Plans & Incentives



Pinsent Masons

# Background

- COVID-19 pandemic has made both short-term and long-term reward decisions more complicated due to:
  - volatility of share prices
  - many companies needing to cut dividends, general expenditure and cash outlay
  - employees on furlough
  - required capital raising from shareholders
  - continued market uncertainty around emergence from lockdown and the economic environment both in the next few months and over the next few years





# Background

- Uncertainty from March 2020 onwards as to the impact of Covid-19 on executive variable remuneration
  - 2019 outcomes
  - 2020 awards
  - in-flight awards
- Remuneration committees and advisers keen to know institutional investors' views
- March 2020 onwards starting to see executive salary reductions



# Investment Association

- 27 April 2020 – detailed guidance issued

*“Investment managers expect executive remuneration to be linked to long term company performance and aligned with the experience of its employees, stakeholders and shareholders. During this exceptional period we expect companies to adopt an approach that is appropriate to their business and the specific impacts of coronavirus, being careful to **ensure that executives and the general workforce are treated consistently**”*

- Mid November 2020 – updated guidance expected



# Investment Association

- Suspension or cancellation of dividends – use **discretion** to reduce [2019 or ] 2020 FY bonus outcomes
- Do not expect performance conditions for bonuses or in-flight share award to be adjusted
- Where performance of the company and shareholder experience is not commensurate with the executive remuneration outcomes, then remuneration committees should (following engagement with shareholders) use their **discretion** to ensure a good link between pay and performance



# Investment Association

- Use **discretion** to reduce vesting outcomes where windfall gains would be received
- If a company seeks additional capital from shareholders or takes money from the government this **should be reflected in the executives' remuneration outcomes**, and that failure to do so may have significant reputational ramifications



# Institutional Shareholder Services (ISS)

- Short-term awards: **Contemporaneous disclosure** of rationales for making changes to performance metrics, goals or targets
- Long-term awards: In-flight changes considered on a case-by-case basis – **not generally supportive**
- Will be keeping an eye out for:
  - any alteration to the structures of a long-term plans to take the new economic environment into consideration
  - any repricing actions without asking shareholders to approve or ratify the actions in a timely fashion



# Pensions and Lifetime Savings Association (PLSA)

- Investors must keep an eye on how those firms in which they invest manage the pandemic and consider voting against directors who they believe did not **behave appropriately towards their workforces**
- One of the most effective ways of investors using a vote to effect change is through holding relevant directors individually accountable



# Glass Lewis

- Expects a ‘marked increase in shareholder concerns on repricing, dilution, burn rates, hurdle adjustments, changes to vesting periods, caps and cuts on incentives, and the quality of disclosure concerning the limits and exercise of board discretion’
- It will support executive compensation changes and adjustments that reflect a ‘proportional approach’ where **shareholders and employees share the pain**
- Heavy burden of proof for boards and executives to justify their compensation levels in a **drastically different market for talent**



# International Corporate Governance Network

- Public perceptions that executives earn exorbitant amounts may be exacerbated by the current crisis
- COVID-19 has the potential to invigorate a debate about high levels of executive compensation and its impact on income inequality and society's capacity to respond to global emergencies
- Increases the attention paid to how executive remuneration relates to the health and safety of employees, suppliers, customers and the rights of investors, including end beneficiaries





# Key issues

- Use of discretion
  - Corporate Governance Code 2018 changes
- Consistency of treatment between employees, executives and investors
- Any “propping up” should be reflected in executive pay outcomes
- Directors “behaviour” will be scrutinised and investors may vote against re-election
- Increased focus on the pay-gap



# 2020 AGM season

- FTSE 350
  - Average votes in favour of Directors' Remuneration Reports and Directors' Remuneration Policy consistently 90%+ for last 5 years
  - BUT marked increase of companies with 20%+ vote against over 5 years (c.13% to c.22%)
  - 40%+ relate to remuneration issues and 30+% relate to election of directors
  - Too early in most cases to see the Covid-19 impact in BUT, for example...



# 2020 AGM season

- Ryanair- DRR passed with only 65.8% support
- ISS – *“Many of the larger UK listed companies in less-challenging circumstances than Ryanair have either deferred or cancelled executive bonus payouts altogether in light of the current climate, in a show of solidarity with key stakeholder groups such as employees and shareholders.”*

*“Given the current state of upheaval in the industry and the uncertain outlook, as well as the wider stakeholder experience, it is difficult to justify a payment equal to c. 92% of maximum opportunity to the CEO, regardless of performance against 2020 financial year targets.”*



# 2020 AGM

- IAG - DRR passed but 20%+ vote against
- ISS - *“Significant bonus awards have been made to the executive directors for [financial year] 2019, headlined by the £883,000 (50% in cash) to departing CEO Willie Walsh.”*  
*“Although these bonus decisions would have been made before the full extent of the fallout from Covid-19 was known, there was ample evidence at the time to suggest that a prudent approach would be warranted.”*



# ANY QUESTIONS?



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# Questions & Comments



# Resources



## Esop Centre website & newspad

Home > newspad

### newspad

The Esop Centre's *newspad*, edited by Fred Hackworth, is a monthly publication providing in-depth coverage of the main international news in the employee share ownership field.

NB Reminder: The email address of Fred Hackworth, editor of *newspad*, has now changed to: fred\_hackworth@zen.com (please note the under-score). Please send all press releases, company bulletins and news items for *newspad* to the above address. Thank you.

#### October 2020

In this month's edition:

- Educate public about share schemes, says HMRC study
- Employee-owned companies near 500 milestone
- Centre webinar reports: Could equity be used to replace a portion of an employee's salary?; Employee ownership and the future of capitalism; Employment-Related Securities
- Roadchef: widow urges tax-free compensation
- Float will create 200 millionaire staff shareholders, claim
- Free share awards value employees
- Loan Charge dubbed 'one of the worst laws ever'
- Centre weblave report
- Share plans symposium London March 24
- Companies section: Admiral, BA, Sir Patrick Vallance, Frasers Group, Gymshark, John Lewis, Pearsons, Rio Tinto, Royal Mail, Ryanair and FCA
- Chancellor seeks to reduce job cuts

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## FS Club Bulletins

From 43,000 curated sources, you get a machine summary of the key point(s) from forward-looking articles, not just article titles:

- (LF.10) Reduced Inequalities**
  - In September 2015, 193 world leaders agreed to 17 Global Goals for Sustainable Development. If these Goals are completed, it would mean an end to extreme poverty, inequality and climate change by 2030.
  - Goal 10: Reduce inequality within and among countries.
  - If the distributions of income, mass tested transfer, and federal taxes follow CBO's projections, income inequality will be greater in 2035 than it was in 2015.
  - High growth over the past decade has been based on unsustainable resource exploitation; addressing the resulting growth in inequality and environmental cost will be critical to ensure social stability and to ensure strong sustainable growth in the coming decade.
  - The increase in inequality observed in the last 20 years is a serious threat to France's social contract.
  - America's pro-populist president is pushing a tax plan that will further increase economic inequality at a time when income and wealth gaps are already widening.
  - A failure to give the world's poorest women control over their bodies could widen inequality in developing countries and thwart progress towards global goals aimed at ending poverty by 2030.
  - Under French leadership the G7 group of the 7 largest advanced economies plus the European Union will focus in 2019 on fighting inequality, including poverty induced by climate change.
  - Leadership might require companies to take positions and advocate for change on global inequality - including in-work poverty, reduced inequality and more - would open a market opportunity of \$12 trillion by 2030.
  - The next decade offers an opportunity to address Africa's urban poverty and inequality and shape development priorities to ensure that urbanisation helps foster well-functioning, livable and sustainable cities.
  - In Africa and in the LDCs, eradicating poverty by 2030 will require both double-digit GDP growth and dramatic declines in inequality, illustrating the scale of the current challenges faced.
  - The economic catch-up of Asia with the West will continue in the coming decades - thereby reducing global inequality among countries and among world citizens.
- (FS.3.05) Employee Share Ownership**
  - Considering 75 percent of the 2032 global workforce will be Millennials and Generation Z, it's critical that organizations keep a pulse on employee engagement and in a way that's consistent with how the emerging generations communicate.
  - 2019 will see a continued evolution in designers' understanding of workplace optimisation with designs that boosts office morale and employee wellness while facilitating a creative work environment.
  - By 2016, Gartner Predicts Twice as Many Employee-Owned Devices Used for Work than Enterprise-Owned Devices. With proposed revisions to the UK Corporate Governance Code, from 2020, companies will be required to report on employee engagement, as announced earlier this year by Financial Reporting Council.
  - For HR leaders looking to better determine the attitudes that drive employee turnover and increase retention, using AI to provide insights into employee engagements will be crucial.
  - By 2021, Artificial Intelligence (AI) will allow the rate of innovation in New Zealand to double. Employee productivity gains are expected to increase 1.5 times.
  - Artificial Intelligence will double the rate of innovation improvements and improve productivity gains by 1.5 times in New Zealand by 2021.
  - US health benefit costs per employee will increase 4.1% next year - slightly higher than inflation and less than the double-digit increases seen in years past.
  - With a tight labour pool, small businesses will find 2019 to be the year to focus on employee engagement and happiness.
  - Nearly 50 percent of companies also expect that automation will lead to some reduction in their full-time workforce by 2022, based on the job profiles of their employee base today.
  - Employee wellness has been on trend for years, but expect to see some high-tech changes in 2019.
  - By 2020, automation and artificial intelligence will reduce employee requirements in business shared-service centers by 65 percent, which adds the RPA market will top \$1 billion by 2020.
  - This year, many organizations will look to employee scheduling software to solve problems around creating, publishing and managing employee schedules that include setting its own shifts to adjust course and increase. Act on sales to help identify customer specific content to enhance worker value.

Self-Record News by Topic

- Responsible to COVID-19: Considerations for Corporate Boards
- Share the Good: COVID-19: Facts! Lessons in Corporate from COVID-19
- COVID-19: The Ultimate Survival Exercise
- Self-Need A Plan? Here's How to Create Your Company's COVID-19 Response Plan
- COVID-19: Evolving Capital Markets Considerations for Business
- TE: From 50 Best International Companies to 50 Best Global Companies 2019
- Assessing Incentives in a Compliance & Ethics Program

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## Forthcoming Webinars

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|--------------------------------|--------------------------------------------------------------------|
| <b>07 October 2020 (19:30)</b> | <b>Tennis Around The Time Of Thomas Gresham</b>                    |
| <b>08 October 2020 (11:00)</b> | <b>Why Do People Do Hostile Profiling?</b>                         |
| <b>14 October 2020 (09:00)</b> | <b>Financial Centres Of The World 2020: Focus On Labuan IBFC</b>   |
| <b>15 October 2020 (11:00)</b> | <b>Selling Your Company To An EOT - How It Differs From An MBO</b> |

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**More added every day...**

