

Quoted Companies Alliance

Investor Research Survey Report to support the revisions being contemplated to the QCA Remuneration Committee Guide

Report prepared by



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Introduction

MM&K were asked by Quoted Company Alliance to launch an online questionnaire and produce a short report based on the responses.

A total of 15 respondents answered the questionnaire. 14 out of the 15 respondents identified working for an Asset Management firm with funds under management ranging from £1 billion to £1 trillion. The minimum market cap of companies that respondents invest in ranges from £5 million to £2000 million. 11 out of 15 respondents identified themselves as Corporate Governance professionals and 4 as Fund Managers.

The results to the survey questions are reported below.

1. Which sections of the annual report do you typically read as a part of your company analysis (nb for Small Cap and AIM companies)?

	Always %	Usually %	Sometimes %	Rarely %	Never %	Responses #
Remuneration Report	27%	60%	7%	7%	0%	15
Share Schemes IFRS2 disclosures	0%	20%	13%	20%	47%	15
Chairman's statement	33%	47%	20%	0%	0%	15
Strategic report	27%	33%	33%	7%	0%	15
KPIs	33%	40%	20%	7%	0%	15
Business Model	27%	40%	27%	0%	7%	15
Audit report	20%	27%	47%	7%	0%	15
Financial statements	27%	27%	33%	13%	0%	15
Notes to the financial statements	13%	27%	47%	13%	0%	15
Other (please specify below)	15%	31%	23%	0%	31%	13

The majority of respondents reported looking at a mixture of elements in their company analysis. Share Schemes IFRS2 disclosures typically being the least looked at component with 67% of the respondents reporting "rarely" or "never" reading that section at all. Whilst the Remuneration Report (87%), Chairman's Statement (80%), KPIs (73%), Strategic Report (60%) and Business Model (66%) are read either "always" or "usually". There was a mix of responses with regards to reviewing the Audit Report and Financial Statements as well as the Notes to the Financial Statements being more weighted towards the middle of the scale. The most frequently reported "Other" responses included reading the Audit Committee Report and the Governance Statement.

2. Remuneration Voting and Engagement (nb for Small Cap and AIM companies)

	Always Fund Manager %	Usually Fund Manager %	Split roughly equally between Fund Manager and Corp Gov Exec %	Usually Corp Gov Exec %	Always Corp Gov Exec %	An external service provider %	Responses #
Voting: Who decides on your firm's decision in respect of voting on a company's remuneration resolutions	21%	7%	21%	43%	7%	0%	14
Engagement policy decision: Who makes the decision about your response to a company's remuneration proposals	21%	7%	21%	36%	14%	0%	14
Engagement manager: who is the person that engages with each company on their remuneration proposals	14%	0%	0%	57%	29%	0%	14

The responses on Remuneration Voting and Engagement show the majority of respondents identify Corporate Government Executives as being the most likely to engage with remuneration proposals and voting. Fund Managers were also identified as participants in remuneration voting and proposal responses but not as heavily weighted as Corporate Governance Executives. 21% of the respondents

state an equal split in engagement between Fund Manager and Corporate Governance Executive. 86% of the responses identified Corporate Governance Executive as being “usually” or “always” the key person who engages with each company on their remuneration proposals. None of the responses stated that an external service provider is used.

3. Which disclosures in the Directors Remuneration Report do you find essential/useful when analysing executive remuneration policy and its implementation (nb for Small Cap and AIM companies)?

	Essential %	Useful %	Nice to have %	Of no interest %	Don't know %	Total #
Rem Com Chair statement	27%	47%	20%	7%	0%	15
Remuneration Policy Table	53%	27%	20%	0%	0%	15
Illustration of the application of remuneration policy (ie Scenarios)	33%	27%	33%	7%	0%	15
Table of Single Total Figure of Remuneration	43%	36%	0%	21%	0%	14
Bonus performance measures, weightings, outcomes v targets	80%	20%	0%	0%	0%	15
LTIP performance measures, weightings, outcomes v targets	80%	20%	0%	0%	0%	15
10 year graph of TSR and supporting table of CEO Single Figure, Bonus % of max and LTIPs % of max that vested (note for current year only 6 years of data is required)	33%	40%	27%	0%	0%	15
Share ownership and share interests	69%	31%	0%	0%	0%	13
Percentage change in CEO remuneration and average employee	27%	40%	27%	7%	0%	15

The majority of the respondents (80%) identified Bonus and LTIP performance measures, weightings and outcomes v targets as “essential” disclosures in the Director’s Remuneration Report, with 20% of the respondents identifying it as “useful”. Share ownership and share interests were identified by respondents as another key essential disclosure. Other disclosures (not referred to above) received mixed responses with a skew towards most other disclosures in Director’s Remuneration report being either “essential” or “useful”. Other responses identified as “essential” by individual respondents included “recruitment policy and termination policy”, “a narrative, explaining changes”, “explanation as to why bonus and LTIP targets are appropriate to the company”.

4. What were the most important and key reasons for you voting against, abstaining or raising concerns with companies over directors’ remuneration policy and report in 2014 (nb for Small Cap and AIM companies)? (Ranked 1st highest to 5th highest)

	1st	2nd	3rd	4th	5th	Count
Quantum of reward	50%	0%	0%	38%	13%	8
Salary increases	0%	20%	20%	20%	40%	10
Increases in Bonus or LTI opportunity	13%	25%	25%	25%	13%	8
Inappropriate use of discretion / judgement in Bonus or LTI pay out decisions	23%	15%	31%	23%	8%	13
Payments to leavers (eg payments for failure)	0%	50%	25%	0%	25%	4
Recruitment packages	17%	0%	33%	0%	50%	6
LTI did not have a 5 year performance period nor a 3+2 approach of 3 year performance period and 2 year subsequent minimum retention	0%	33%	33%	0%	33%	3
Lack of disclosure of bonus or LTI outcomes re performance measures, targets and outcomes	50%	29%	0%	14%	7%	14

“Lack of disclosure of bonus or LTI outcomes re performance measures, targets and outcomes” is identified by 14 out of the 15 respondents with varying degree of weighting as being a key reason for voting against or abstaining from voting on Directors Remuneration policy. Furthermore, 79% of those respondents identified it as a either 1st or 2nd key reason for doing so. Reasons other than “lack of disclosures of bonus or LTI outcomes” received mixed responses with various degrees of weighting. “Inappropriate use of discretion/ judgement in Bonus or LTI pay out decisions” received 2nd highest response rate with varying rank importance. Respondents also specified other reasons for voting against or abstaining, in particular: “Use of inappropriate benchmarks”, “Poor Link between pay and performance”.

5. How do you decide whether KPIs used under the proposed cash and share-based incentive schemes are appropriate for the company (nb for Small Cap and AIM companies)?

	Always %	Frequently %	Rarely %	Never %	Responses #
In your experience, do the KPIs in the strategic report reflect strategic objectives and key value drivers for the business?	20%	73%	7%	0%	15
In your experience, do bonus schemes performance measures reflect the strategic KPIs and key value drivers for the business?	7%	60%	33%	0%	15
In your experience, do LTIs performance measures reflect the strategic KPIs and key value drivers for the business?	7%	57%	36%	0%	14
Do you support company-specific bespoke performance measures for bonus and LTI schemes?	40%	53%	7%	0%	15
Do you support performance measures of non-financial nature under bonus schemes?	7%	80%	7%	7%	15
Do you support performance measures of non-financial nature under LTI schemes?	0%	33%	47%	20%	15

The majority of respondents (93%) identified KPIs in the strategic report “always” or “frequently” reflecting strategic objectives and key value drivers for the business. However, there is a mixed response with regards to bonus schemes and LTIs performance measures reflecting the strategic KPIs for the business. A third of the respondents stated that they “rarely” do. The majority of questionnaire participants (93%) stated that they “always” or “frequently” support company-specific bespoke performance measures for bonus and LTI schemes. 86% of the respondents “always” or “frequently” support non-financial performance measures under the bonus schemes but only 33% “frequently” and 0% “always” support them under the LTI schemes .

Please add your views on (i) what performance measures should reflect and/or (ii) how you decide whether KPIs used under the proposed cash and share-based incentive schemes are appropriate for the company.

See Appendix for a list of responses

6. What is the minimum time you require to assess remuneration proposals and respond to a written consultation (nb for Small Cap and AIM companies)?

Value	Count	Percent
Less than 1 week	2	13%
1 to 2 weeks	4	27%
2 to 4 weeks	7	47%
More than 4 weeks	2	13%

The majority of the respondents (73%) take between 1 and 4 weeks to assess remuneration proposals and respond to a written consultation. 26% of the respondents take more than 4 weeks or less than 1 week.

7. What are your views on non-executive directors' remuneration in Small Cap and AIM companies?

	Much too high %	Too high %	About right %	Too low %	Much too low %	Responses #
Level of fees (please respond to give your view in general. We understand that you will most likely consider this on a case by case basis).	0%	7%	93%	0%	0%	15

The majority (93%) of the respondents think that non- executive directors' level of fees in Small Cap and AIM companies are at the expected level or "about right".

	Yes generally supportive %	Yes, would consider in exceptional circumstances %	No, not supportive under any circumstances %	Responses #
Are you supportive of non-executive directors in Small Cap and AIM companies receiving part of their fees in shares?	80.0%	13.3%	6.7%	15
Are you supportive of non-executive directors in Small Cap and AIM companies being remunerated in modest amounts of share options?	13.3%	26.7%	60.0%	15
Are you supportive of non-executive directors in Small Cap and AIM companies being remunerated in large amounts of share options or geared long term incentive plans?	0.0%	13.3%	86.7%	15

The majority of the respondents are supportive of non-executive directors in Small Cap and AIM companies receiving part of their fees in shares in but are split in opinion with regards to non-executives being remunerated in modest amounts of share options with a skew towards "not being supportive under any circumstances". 87% of respondents do not support non-executive directors in Small Cap and AIM companies receiving large amounts of share options or geared long term incentives plans.

8. Do you have different approaches for different sizes of AIM companies, when considering remuneration issues?

	Treat same as Small Cap %	Treat different to Small Cap %	Responses #
Large > £100 million	78.6%	21.4%	14
Medium £30 million to £100 million	73.3%	26.7%	15
Small £5 million to £30 million	53.3%	46.7%	15
Micro < £5 million	46.7%	53.3%	15

Over 70% of the respondents treat AIM companies above £30 million the same as Small Cap, whilst about 50% of the respondents treat AIM companies below £30 million the same as Small Cap.

Appendix

Responses
(i) Shareholder return (ii) Relationship to pre-existing management equity ownership.
(i) TSR and/or EPS growth are usually our favoured measures.
All performance measures should be company specific not generic or compared to peers.
We consult with our fund managers.
Creation of economic profit over time - as assessed by analysts.
Bonus plans should have scope to use short term strategy specific goals which should feed into long term financial performance of the company. The longer term incentive plan should use quantifiable financial metrics that are aligned to strategy and market expectations. However, we may also consider alternative structures of remuneration on a case by case basis.
Performance measures should reflect the strategic direction the company has chosen and should aim to reward directors for delivering those strategic milestones. Non Financial measures should not exceed 25% of the total award unless it is a utility company.
Performance measures should be: (i) tailored to the KPIs that fit the strategy of the company. However, they should also be transparent and result in tangible benefits to shareholders (and other stakeholders?); (ii) this is determined through discussion with the company about strategy and the proposed targets. It is subsequently discussed with the stakeholder (i.e. the fund manager) to ensure that it meets our needs.
KPIs used in bonus schemes are too often NOT disclosed. Details of LTIs are too often in notes to accounts rather than an explanation based rem report.
We look for performance conditions that are linked to the drivers of long-term success for the company. Our fund managers are asked to take a view on the appropriateness of performance measures and conditions.