mm&k

1 Bengal Court

Birchin Lane

London

EC3V 9DD

Tel: + 44 (0)20 7283 8200

Fax: + 44 (0)20 7283 4119

www.mm-k.com

The GC100 and Investor Group

c/o Caroline Pearce,

Practical Law.

Dear Sirs

Consultation on the Directors' Remuneration Guidance

Thank you for the opportunity to comment on the current IGC Guidance, which was communicated to us through the Remuneration Consultants Group. MM&K is a long-established independent executive remuneration consultancy, based in the City of London.

Though we have strong links to the financial sector (particularly to alternative investment management firms) we work with the remuneration committees and boards of companies across the UK economy. Our focus is on FTSE 250 and small cap companies. We also work extensively with AIM companies who have an interest in the Regulations either because they are planning a main market listing or because they have chosen to adopt many of the principles of the Regulations as best practice and to help their shareholders.

The current Guidance is comprehensive and relevant. We wish to comment specifically on the disclosure of the linkage of remuneration to company strategy - the subject of expanded guidance in the 2014 review and a listed item for this new review.

What are we currently seeing and experiencing?

1. In our experience of reading remuneration reports and consulting with remuneration committees, there is a very varied level of disclosure of this linkage and indeed a varied understanding of what this linkage means at all. The 2014 review refers to FRC guidance on the strategic report and the Financial Reporting Lab insight report on clear and concise reporting encouraging and guiding companies to produce a "joined up" report.

   This approach is far from common at the moment, yet there are many ways in which remuneration can link to strategy:

- The talent needs of the business to deliver its strategy and how these will be met by the balance of fixed remuneration and short and long term variable opportunity

- The way short and long term incentive plans take account of the company's KPIs and risks - principally through the measures used

- The funding of remuneration plans - in cash or shares - linked to the long-term economics of the company and a fair sharing of success between the executives and shareholders

- Above all, the balance that is to be struck between these inevitably competing demands and, not least, the desired organisational culture.

2. The Regulations include a requirement to show how each "component of remuneration supports the short and long-term strategic objectives of the company". However, they miss the opportunity to show how the overall package balances rewards for management performance and a share in the success (or failure) of the company.

3. Investors have often spoken to us of the need to "tell the story". This needs to be a story of the future as well as the past. An oil exploration and production company, for example, is highly dependent on long-term exploration and conversion of assets in order to generate the cash to repay its funding. Many such companies have to weight their packages towards the long-term and might well consider that a total assets measure is more relevant than the still common TSR measure for LTIs. A fashion retailer, on the other hand, might be better to focus the incentive package on short term performance and create longer-term strategic alignment through deferral or shares vesting on strategic milestones.

Our proposal for the future

A description of the overall policy and package shape should fall best within the Annual Statement (from the remuneration committee chair).

To encourage this, we suggest the Guidance:

a) is more explicit about what the linkage to strategy means and what should be included in the Annual Statement;
b) contains some real examples of best practice in this regard.

Reasoning behind for our proposal

This suggestion is not just a matter of best practice in disclosure: it is also a matter of improving the use of remuneration as a management tool.

The current Guidance stresses frequently the need for remuneration policies to fit the circumstances of the particular company. However, we have found many remuneration committees to be reluctant in going outside the "vanilla" remuneration policy that they (maybe wrongly) believe is the one that institutional shareholders (and proxy advisors) will pass through on the nod.

Instead, our recent research shows that the measures used in long-term incentive plans correlated strongly to the firm the company used to advise the remuneration committee. Thus for example, one major firm, active in the FTSE 100, is associated with a preponderance of relative TSR and EPS growth targets; irrespective of the particular industry or stage of the company's growth.

Companies, investors and their advisors are in the middle of a learning process in improving both remuneration policy and remuneration disclosure. We think these changes will help this learning.

If you require any further information or have any questions please do not hesitate to contact Damien Knight or Stuart James at the above address

We look forward to the next stages of the consultation.

Yours faithfully,

for and on behalf of

MM & K Limited