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Executive Remuneration Principles - UK

For Professional clients only. Capital at risk.

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Introduction

As a long-term engaged investor, we entrust the board to oversee the investee company and its management on our behalf. This applies equally to the setting and awarding of executive remuneration. We want to support companies' boards to be able to recruit, retain and incentivise the appropriate talent to sustainably grow the business and encourage innovation without undue risk-taking.

L&G is aware of the discussions around executive pay competitiveness currently circulating between diverse stakeholders in the UK capital market, and we believe that our pay principles and voting policies allow the necessary flexibility to facilitate effective discussion with remuneration committees in implementing the pay structures best suited for their companies' strategies.

L&G does not apply a strict policy threshold or maximum pay expectation in terms of absolute quantum. However, instead we closely consider companies' pay structures and their alignment to long-term sustainable performance and stakeholder experience. In our view, upper quartile total pay should only be earned for outperforming peers and meeting stretching performance targets. Equally, we do not expect minimum performance outcomes to result in significant pay awards.

We remain concerned about the misalignment of the level of executive pay versus relative company performance, and the current social sensitivities around income inequality. To address the issue of income inequality, L&G expects the remuneration committee to be mindful of the pay and benefits offered throughout the organisation.

We expect company boards to ensure executive directors' pay is fair, balanced and aligned with the strategy and long-term growth and performance of the business. In line with L&G's long-term investment horizon, we expect executive directors' pay to reflect financial performance, operational and strategic measures and to be achieved within a long-term, sustainable framework.

We take our stewardship responsibilities and voting rights seriously and want to be able to support both the remuneration proposals and the boards in their decision-making at the shareholder meetings of the companies we invest in.

To assist company boards in this regard we have developed this stand-alone document to support our corporate governance and voting policy on executive remuneration. We expect all companies to closely align with our principles, or to engage with us when exceptional circumstances prevent them from doing so.

In determining executive remuneration practices and setting pay levels, it is ultimately the responsibility of the remuneration committee to clearly explain to company investors why its chosen pay package is fair and appropriate after considering all the circumstances.

Detailed policy and guidance on other governance issues and relevant ESG topics can be found on our website, here.

We publicly disclose our voting decisions, including the rationales for votes against management. This data is accessible one day after the shareholder meeting, here.

The remuneration committee

Structure and operation

The chair of the remuneration committee should have appropriate knowledge of the business to align remuneration with the strategy of the company. In addition, we would expect the chair to have a good working knowledge of the key people for whom they are setting pay structures and the pay and benefits offered throughout the company. For this reason, the person appointed to the role of remuneration committee chair should have served on the board for at least a year prior to their appointment.

We expect the remuneration committee to:

- Set the remuneration policy for the executive directors and senior management.
- Seek independent advice. External advisers, consultants and internal employees advising the committee should be fully accountable to the committee. The committee should exercise its own independent judgement when considering any advice provided by third parties.
- Consider carefully and be able to demonstrate how they have reviewed workforce pay and related policies, the gender pay gap, ethnicity pay gap and pay ratios when setting remuneration for the executive team. They should be able to show how their decisions are aligned with the culture of the company.
- Challenge management if the company is paying less than the real living wage as set out by the Living Wage Foundation, or if the company is not offering all employees the chance to work a minimum of 15 hours per week (e.g. zero-hour contracts).
- Take into account the views of their largest shareholders, whose pay policies are generally available on their corporate websites. L&G communicates these policies with remuneration consultants annually, so that they can provide better advice to companies.

L&G will vote against the election of individual board directors when we do not support remuneration for the second consecutive year. L&G may also vote against individual directors when there are particularly contentious issues.

A large voting opposition (>20%) to the remuneration proposals should not be ignored. The remuneration committee should:

- Hold themselves accountable for the decisions taken that led to a high number of votes against the proposal.
- Publish an explanation for the dissent when disclosing the voting outcomes, including what the board is doing to address concerns. An explanation should also be included in the remuneration committee chair’s statement in the next annual report.

Pay principles

We apply a set of simple pay principles when looking at remuneration structures:

- The remuneration structure and the payments awarded should be fair, balanced and understandable. This means: fair in terms of what the company has achieved; balanced in terms of total pay to the executive when compared with employees, shareholders and the wider stakeholder experience; and understandable for the recipient, the board and stakeholders.
- Awards should promote long-term decision making and be aligned with and support the company's values and the achievement of its business strategy. We therefore encourage all companies to put in place a share-based long-term incentive plan.
- Companies should be transparent on why rewards have been transferred to the executive. In doing so, the committee should set out: the chosen targets; their relevance to meeting long-term goals and company strategy; which targets were met; and justifying all adjustments made to accounting measures or discretion used for remuneration purposes.
- Executives should have meaningful direct equity holdings while employed and thereafter; buying shares is one of the best ways of aligning management and shareholders.
- Significant changes to existing remuneration strategy should be subject to a two-way consultation with shareholders prior to the company seeking specific approval via shareholder vote.
- Boards should retain the flexibility to apply discretion and 'sense-check' final payments to ensure that they align with the underlying long-term performance of the business. Mechanisms should also be in place to allow for clawback of performance pay if this is later found not to have been justified.

Simple and understandable

The remuneration policy should be understandable for all stakeholders and clearly explained in the annual report.

- Companies should only use one long-term incentive plan with no more than four performance measures. 'Long term' is defined as a minimum of three years' performance, with an additional 2-year post-vesting holding period.
- L&G would not expect to support a new incentive scheme if it complicates the remuneration structure.
- L&G does not support matching schemes, performance-on-grant schemes, bonus banking schemes or highly-geared value creation plans. One-off schemes are generally not supported.
- Performance criteria should not be retrospectively changed. Performance metrics, targets and vesting terms should be clearly set out upon grant, to provide a clear line of sight for participants, the board and other stakeholders.

L&G

Transparency in the annual report

Executive remuneration is a board decision, supported by the remuneration committee. The board chair should support the process of setting pay and this should come through in the annual report.

Companies can build trust with shareholders if they can demonstrate historic restraint, consistency and alignment with shareholders. The board should provide an explanation in the annual report of how this has been achieved and how pay structures help drive company strategy and create value for shareholders.

Remuneration committee chair statement

The remuneration committee chair's statement is an important opportunity for the committee to provide important background information on the pay decisions made during the year and how they reflect the company's performance. We expect the statement to explain:

- Why the total single figure is appropriate, taking into account the delivery of key performance indicators (KPIs), employee pay, shareholder value created and the wider stakeholder experience over the relevant period. Any explanation should avoid comparisons with peer median pay as its main argument.
- Details of engagement undertaken with all stakeholders:
  - Engagement that has taken place with the workforce to explain how executive remuneration aligns with the wider company pay policy.
  - Engagement with shareholders should be outlined, as well as the impact this has had on remuneration policy and the outcomes.
- The exercise of discretion (in revising pay up or down) during the year and the committee's reasoning behind why the revised outcome is considered fair and appropriate. Where pay has been revised upwards, we would expect to be reminded of when pay was last revised downwards. When discretion is applied, we want to understand what the monetary outcome would have been had this change not been applied. This will help us in applying our own judgement on the level of fairness.

Remuneration policy table

The policy table provides an opportunity to explain in straight-forward terms the company's remuneration structure. L&G recommends that companies publish a simple policy table in each annual report for the interim years between policy renewals, as well as providing a link to the full policy on the company's website.

We will particularly look for:

- How the company will address salaries over the next three years;
- The company's policy on executive pension provisions and other in-service benefits;
- Details of the maximum awards under the bonus/long-term plans;
- The size of normal awards if they differ from the maximum;
- Performance measures that will apply under the annual bonus and long-term plan, including the weights between the measures;
- In-role and post-exit shareholding guidelines; and
- An explanation for the total potential award.

Other disclosures

Other disclosures we would expect to find, or be signposted to, in the remuneration report include, but are not limited to:

- How the chosen performance criteria and targets align with the long-term strategy of the company, thus providing a clear linkage between the front end of the annual report, including company strategy and KPIs, agreed pay structures and targets, and financial performance outcomes.
- A breakdown of fees paid to remuneration consultants, broken down as fees paid for services carried out for the remuneration committee and other HR-related fees.
- Gender pay gap reporting as required by the Equality Act 2010 (Gender Pay Gap Information) Regulations 2017.
- Pay ratios. The Companies (Miscellaneous Reporting) Regulations 2018 was published in August 2018, requiring companies with an average number of UK employees of 250 or more to provide a set of pay ratios based on the CEO’s total single figure remuneration versus the 25th, 50th and 75th percentile employee. We believe calculating this ratio is an important step in addressing fairness in pay across the different levels of the organisation.

Quantum considerations

As the executive remuneration landscape continues to evolve to meet the needs of modern corporations, companies must also take account of the current socio-political sensitivities around director incentivisation and pay inequality.

- We entrust the board with ensuring that executive pay is set at an appropriate level to drive company performance and positive corporate behaviour and sustainable performance. In doing so, the board should consider the wider impact of executive pay, e.g. upon the general workforce, the public's perception, and taking into account the economic climate and government policy.
- Boards should not consider increases to individual elements of remuneration in isolation and should consider the effect that an increase in each component will have on total remuneration. The board should consider whether the total package is appropriate for the nature of the role, the size and complexity of the business, director performance and market context, preferably without relying solely on benchmark data.
- **Pay ratios.** Boards are expected to consider whether their company's pay ratio is appropriate within the industry in which it operates. Consideration should also be given as to whether the 'year-on-year' changes in the ratio are appropriate in light of corporate performance.
- **Pay benchmarking.** The focus on median pay has contributed to the general increase in executive remuneration for all companies (ratcheting up), with less focus being given to the alignment between performance of the individual company and absolute pay. For this reason, L&G discourages the over-reliance on and over-use of benchmark data, as pay and performance can vary considerably between companies. Benchmarks should only be used at specified intervals, e.g. once in three years or when considering new appointments.
    - When using benchmark data, remuneration committees should take into consideration factors, such as: company size, geographic spread and performance relative to the benchmark peers. The peer group used should not be too large or too small as both extremes could produce misleading results. Companies should ensure they disclose meaningful information on the benchmarking data used and why it has selected the benchmark group, as well as which companies may have been removed and why. L&G encourages companies to consider the appropriateness of their salary benchmark, in conjunction with comparators used across its performance pay disclosures. Directors at underperforming companies should not expect to be remunerated as highly as directors of companies where the performance has been outstanding.
- **Total quantum.** L&G does not apply a threshold or maximum pay expectation in terms of absolute quantum. Instead, we consider the pay structures and their alignment to long-term sustainable performance and stakeholder experience. However, upper quartile total pay should only be earned for outperforming peers and meeting stretching performance targets. Equally, we do not expect minimum performance outcomes to result in significant pay awards, suggesting that remuneration committees may need to reconsider the level of payout that can be earned for threshold performance following an increase to award opportunity.

Fixed pay

Base salary

- When reviewing an individual's base salary, consideration should be given to the impact of any change on the total package.
- Salary increases should not exceed what is offered to the general workforce, unless there has been a genuine change to the role with increased responsibilities, in which case a phased increase is expected.
- L&G expects the committee to use the opportunity when a new director is appointed to reset executive pay and consider the current circumstances of the business as well as the previous experience of the individual.
- Salary levels for new directors with less experience than their predecessor should be set at a discount to what was set for said predecessor, and any increases should be phased over time based on their performance and growing experience. The intention to adopt this policy should be highlighted to shareholders in the annual disclosures until the executive has reached market rates for the role.

Addressing inflation and the cost-of-living crisis
The remuneration committees of those companies that have decided to give employees on low salaries a significant pay increase to help them navigate the cost-of-living crisis should exercise caution if they plan to use the average workforce salary increase rate when setting executive salaries.

It is expected that executive salary raises will generally be lower than those provided to the wider workforce, given the impact of such increases on other incentives that are based on a percentage of base pay.

Pensions

L&G expects directors' pension provisions to be aligned with what is offered to a majority of the workforce. We will vote against the remuneration policy where there have been no changes proposed to address a disparity in pension provisions.

Where companies model their executive directors' pay practices more closely to US structures, to enhance competitiveness in US talent markets, we expect that the differing practices of pension contributions of the local market will also be considered.

Pension enhancement payments at retirement or when a contract is terminated early are not supported, nor are compensatory payments to an individual for changes in tax.

Non-executive director (NED) fees

NED fees should reflect their level of responsibility and the time commitment of the role. The use of share options or other performance-related pay is not supported, but a proportion of the fixed fees being paid in shares is encouraged.

Variable pay

Annual bonus

Companies may choose to award annual incentives to executive directors. We believe that any annual incentive should be geared to delivering operational performance. A significant portion of the annual incentive should be linked to the delivery of financial performance.

- Bonus awards should be capped. L&G encourages a reduction in the reliance on short-term annual bonus opportunities. A bonus of 250% of salary should generally be reserved for the largest global companies. L&G discourages increases to the annual bonus opportunity.
- A portion of the bonus should be paid in the form of shares that are deferred for at least two years. In most cases we encourage deferral into shares of one-third or more of bonus earned. We also expect companies to put in place contractual provisions that may allow for a reduction or forfeiture of the annual bonus component in exceptional circumstances (clawback/malus).
- In certain circumstances, we may allow a smaller proportion of a bonus to be deferred, where directors have substantial shareholdings above their normal shareholding guidelines and mechanisms are in place to allow for clawback of performance pay if this is later found not to be justified (i.e. shares held in trust).

Long-term share incentive plans

Executive remuneration should promote long-term decision-making and be aligned with the sustainable achievement of its business strategy. We therefore encourage all companies to put in place a long-term incentive plan.

- All variable incentive schemes to be capped (as a percentage of salary or fixed number of shares). Where a fixed number of shares is used, we would expect the level of award being offered to be reviewed every three years to ensure it is at a level commensurate to when the plan was first adopted.
- Regardless of an award cap, the remuneration committee should ensure that scheme rules permit the application of downward discretion to reduce the value of vested awards if they reach a value that goes beyond the committee's expectation and could result in reputational damage to the company.
- Where a company has experienced a significant fall in the share price (>20%) since the last award was made, and if any new award would result in a greater number of shares being granted, companies are expected to reduce the size of the new award to ensure there is no prospect of reward for failure or undue windfall gains. Where this has not happened, and the committee has not provided an undertaking to reduce awards when they vest, L&G will vote against the remuneration report.
- Accrued dividends on share awards should only be paid on shares that ultimately vest.

For a discussion of our expectations on performance criteria to be used with annual bonus plans and long-term share incentives, refer to the section on Performance metrics and targets.

Restricted share plans

We do not believe that this structure is right for all companies. Therefore, companies will have to justify why a time-based incentive plan is appropriate and why the existing incentive structure is no longer suitable.

For those companies considering adopting a restricted share plan (RSP), here is further guidance as to what would be acceptable to L&G to allow us to support its adoption:

- Acceptable justification has been provided on why this type of arrangement is appropriate and why the existing arrangement is no longer suitable. The plan, once agreed, should continue to operate through different business cycles.
- Award levels should be reduced to 50% or less compared to the performance share grant awards made, to take into account the greater level of certainty. L&G expects companies to reduce annual awards further in years when the share price has fallen in value by more than 20%.
- Given the lack of a direct performance link, additional long-term alignment should be provided. Accordingly, shares should be held for a minimum of five years prior to release and a strong shareholding guideline must be in place that is material while in employment as well as post-exit (see below).
- The vesting of shares should be subject to:
  - Meeting a threshold level of financial performance.
  - The remuneration committee being satisfied that over the period since the grant, the company's overall performance and the individual's leadership is such that the release of shares is warranted.
  - For those companies in the sectors with the greatest impact on climate change, meeting pre-disclosed transition climate targets to act as an additional gateway.
- Discretion should be applied to reduce awards if at the end of the holding period the performance of the company and the shareholder experience are not aligned with the full vesting of the award (see: page 23, paragraph two of the Executive Remuneration Working Group report).
- For good leavers, unvested restricted shares should be prorated for time and subject to the same vesting criteria, timeframe and holding requirements. Bad leavers should see their awards lapse in full.

Hybrid schemes

With an increased push towards remuneration structures that are more closely aligned to US-style pay, some UK companies with executives operating in the US, or those recruiting and competing for talent in that market, have been introducing an element of time-based share awards into their long-term variable pay packages.

L&G prefers simple remuneration packages, and therefore, we believe that multiple incentive schemes can remove the clear line of sight provided by a single performance-based share award. However, where a company wishes to introduce an element of time-based restricted shares to their variable pay structures, we may support such plans under the following circumstances:

- The same expectations for the introduction of RSPs (see above) also apply to the time-based element of hybrid pay structures.
- Acceptable justification has been provided on how this pay structure is aligned to the company's strategy and business cycles, and is appropriate in the company's specific circumstances.

- The total pay does not increase in fair value terms. The introduction of a time-based share element results in a commensurate reduction of the existing performance-based LTIP at the discount normally applied to such schemes (50%; see above).
- Where there are no strong company-specific circumstances for the introduction of this type of pay scheme, we would expect the company to provide an equivalent time-based element as part of the pay package across the wider workforce.
- We continue to prefer performance-based variable pay and expect a substantial majority of share schemes to comprise share incentives that require pre-set performance criteria in order to vest. We therefore expect no more than a quarter of a company's total long-term incentives to be awarded under an RSP-style plan.

Windfall gains

Following share price volatility during the pandemic, some companies informed shareholders that they would adjust vesting outcomes rather than reduce the initial award. This is not L&G's preferred solution as it is more complex and can lead to greater uncertainty for participants.

However, where no reduction is applied at point of award, to ensure that this action does not result in a negative vote in following years, we would ask that a clear explanation is provided in the annual report of the intention to review the award upon vesting. At the point of vesting, L&G will expect a detailed explanation on how the remuneration committee has applied discretion to ensure appropriate adjustments were made to avoid windfall gains.

L&G will vote against the remuneration report where we believe that the committee has not been thorough in its decision making and/or not provided sufficient information to explain its final decision.

Equity dilution

We believe that industry body guidelines should be adhered to in relation to the issuance of shares for incentive schemes to limit potential dilution for shareholders.

- We expect no more than 10% of a company's equity to be used for all share schemes over a 10-year period and will closely review cases where more than 5% in 10 years may be used for discretionary schemes.
- The annual run rate (or burn rate) should also be reasonable, at about 1%.
- Treasury shares should be included within these limits and restrictions should apply to all shares, whether they are market purchased or newly issued.

Discretion and adjustments to pay outcomes

Discretion applied to any earned award by executives is a means to demonstrate better alignment with company performance and the experience of shareholders and other stakeholders. We define discretion as anything that alters the monetary outcome of total remuneration.

We expect companies to set out:

- The main reasons that might give rise to the application of discretion
- Whether their discretion policy would apply to revising pay upwards as well as downwards
- The elements of pay to which discretion may be applied
- The effect that the application of discretion has had on the director's final pay outcome

Malus and clawback

We also expect companies to put in place contractual provisions that may allow for a reduction or forfeiture of any variable pay component in exceptional circumstances.

- Employment contracts and share plan terms should be designed to enable malus and clawback to be applied to vested and unvested awards.
- To provide clarity for all stakeholders, the remuneration committee should set out the circumstances under which malus and clawback will be applied. These circumstances should not be too narrowly defined.

Performance metrics and targets

- Metrics should be material to the business and linked to long-term strategy, with targets that are clearly defined, measurable and stretching but achievable without undue risk taking.
- Companies should consider a basket of criteria to achieve their strategy and to ensure that the same
- performance achievement does not lead to 'double-dipping' under various pay schemes.
- Metrics should comprise a mixture of internal, absolute and relative targets, and should take account of the use of input versus output measures. Absolute TSR or share price targets are not preferable as they tend to be heavily influenced by external factors.
- Financial performance targets should use the reported numbers without further adjustments, except for share buy-backs and other capital changes. Any adjustments should be consistent, explained and reconciled with reported numbers.
- **Relative performance**. We expect variable pay to be structured to incentivise and reward sustainable outperformance and, therefore, do not approve of awards that start vesting for below-median relative performance against a chosen peer group or benchmark. This does not align with L&G's pay-for-performance principle.
- **Bonus targets.** To highlight the integrity of the target-setting process, companies should disclose as many components of the bonus targets as possible, including their weighting and full target ranges. Any targets that are commercially sensitive to the business should be disclosed retrospectively, within a year after payment; if this is not possible, an explanation of why the target continues to be commercially sensitive is expected.
- A significant proportion should be linked to the delivery of financial performance. Achieving a threshold level of financial performance should be a prerequisite for the payment of any bonus, including the achievement of personal/strategic performance objectives. The exception being in a turnaround situation when strategic targets may take priority for a few years. Such circumstances should be explained within the remuneration report, as well as how these measures align with strategic priorities to aid positive financial performance.
- **Personal performance.** L&G's view is that for board directors, personal performance amounts to delivering the strategy. We therefore expect any non-financial targets to be meaningful and quantifiable. We are conscious that the weighting for personal/strategic targets continues to grow. L&G may vote against the remuneration report if the weighting is high and the measures are not meaningful/quantifiable or sufficiently explained.
- **LTIP targets.** Long-term incentive targets should be disclosed in advance and should not normally be adjusted retrospectively. Any proposed material amendment or discretion to in-flight awards that could affect the outcome to the directors' benefit should be subject to shareholder consultation and support. L&G will accept a meeting to discuss these changes in advance.
- The LTIP should not have too many performance conditions, as each additional measure will dilute the importance of the performance that it intends to reward and increase complexity. We expect at least one measure to be linked to shareholder returns. Other measures should be linked to the strategy of the business, such as KPIs that are selected by the board and reflect the company's ESG risks as well as target opportunities.
- L&G does not generally support the setting of targets at a level that is below the previous year's performance range. However, if due to exceptional circumstances the remuneration committee believes it is appropriate to set lower targets, we would expect to understand why the new targets are considered to be equally stretching. Without such an explanation we would expect a reduction to the award size to reflect the reduction in targets.

ESG metrics in pay

- Companies that are exposed to high levels of environmental, social or governance (ESG) risks should include relevant targets that are meaningful, measurable and aligned to the company's strategy. E&S targets should ideally be subject to third-party verification.
- L&G expects ESG topics to be incorporated into the strategy of the business, the delivery of which should inform how the business operates and its purpose. As we believe ESG considerations should be part of a company's strategy, we do not expect separate ESG performance metrics to result in additional incentive pay, but to instead replace other strategic targets.
- Companies within sectors[1] that can have a significant effect on climate change should link part of their pay to delivering on their climate mitigation goals. The performance targets should be linked to SBTi approved or equivalent transition plans aimed to achieve net zero by 2050 or sooner. Targets should also be set to create new opportunities that not only improve revenue but also have a positive impact on climate and the environment.
- With companies now a few years away from reaching their 2030 climate change transition goals, we expect a majority of companies to have a clear idea of what must be done to hit these crucial targets. Therefore, as part of L&G's escalation strategy, to gain our support for a new remuneration policy being put to shareholders, we expect to see climate targets included within variable pay plans – given the timeframe of climate commitments, we would prefer to see such metrics included as part of the LTIP. These targets should be in line with stated transition goals of reaching net zero and across the full value chain (scopes 1 and 2 and material scope 3).
- The weighting of climate targets should ideally represent 20% or more of the overall LTIP award at these companies, with some sector nuances. For those companies that have adopted a restricted share plan, one of the underpins should be specific to achieving set transitional carbon reduction targets.
- The use of diversity targets may be relevant for sectors that struggle to recruit female talent where increased diversity at board level and across the workforce may unlock value and mitigate risks.
- L&G discourages the use of employee engagement targets, as we believe this is something a well-governed company with an inclusive culture should already be doing. Financial incentives should not be necessary to drive such programmes. A better metric for companies, especially those that have a high level of staff turnover, could be targets around employee retention as a way to gauge whether efforts to improve employee retention are working.
- For those companies in high-risk sectors, where the health and safety of employees is key, we expect a health and safety modifier to be introduced to the annual bonus and/or long-term incentive. L&G expects to see awards reduced by at least 20% or more if there have been fatalities.
- At oil and gas companies, remuneration should prioritise financial value over fossil fuel production volumes. The use of measures that directly encourage volume growth (such as reserve replacement ratios or production targets) risks incentivising overinvestment at a time when growth in future demand seems increasingly uncertain. L&G prefers financial measures (e.g., relating to total shareholder return, balance sheet strength) or other strategic metrics. The use of volume growth targets may result in a negative vote.

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[1] This will apply to companies in the following sectors: Aluminium, Apparel, Autos, Aviation, Banks, Cement, Chemicals, Food, Forestry, Glass, Insurance, Logistics, Mining, Oil & Gas, REITs, Shipping, Steel, Technology and Telecoms, Multi-Utilities and Utilities.

Director alignment

As an essential part of aligning directors' interests with those of investors, L&G expects directors to build up and maintain a significant equity holding in the company they are leading. To promote long-term strategic decision-making and shareholder alignment, directors should continue to hold a meaningful number of shares even after their departure from the company.

In-role shareholding guidelines

- As a minimum, a shareholding guideline should be equivalent to the value of annual share awards earned under an LTIP or equivalent to two times' face value of restricted share awards.
- L&G recommends a majority of vested LTIP awards and deferred bonus shares to be retained (except those sold for tax purposes) until the shareholding requirement is achieved.
- Directors should be encouraged to buy shares in their company. These purchased shares do not need to be included in the post-exit holding requirement discussed below. If purchased shares are used to make up the in-post shareholding requirement, these should be replaced proportionally as part of the calculation of the shareholding requirement when shares vest from incentive arrangements.
- Vested shares, deferred bonus shares and shares subject to a holding period can count towards meeting shareholding guidelines. Any unvested share awards, including unvested time-based restricted shares (RSPs), should not be counted towards achievement of shareholding guidelines.

Post-exit shareholding requirement

- Post-exit shareholding guidelines should reflect a significant proportion of the prevailing minimum shareholding requirement (no less than 80% of the in-post requirement).
- These guidelines should remain in place for two years following the termination of employment.
- Where a company has set an in-post shareholding guideline that is substantially greater than L&G's minimum expectations (equivalent to their annual LTIP award or two times the restricted share award), then we will support a proportionally lower post-exit shareholding requirement providing it remains at least 80% of L&G's minimum shareholding expectation.
- Any shares purchased by the director can be excluded from this requirement.
- L&G will vote against the remuneration policy where a post-exit shareholding requirement that meets our guidance is not included.

Share scheme holding periods

We encourage the use of post-vesting holding periods for shares that ultimately vest under executives' share incentives, as we find this further helps align the remuneration structure with sustainable, long-term decision-making.

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Director appointments and departures

Service contracts

Executive contracts should provide for a maximum notice period of 12 months. We do not support provisions within service contracts that enhance contractual terms for loss of office following a change in control.

We would expect the notice period to be the same for employer and employee.

Malus and clawback

The employment contracts of key people, the terms of share incentives and the company's remuneration policy should provide the remuneration committee with the authority to clawback unvested and vested awards across all elements of variable remuneration.

To provide clarity for all stakeholders, remuneration committees should set out the circumstances under which malus and clawback will be applied. These circumstances should not be too narrowly defined.

Recruitment

A new executive director's remuneration should be set by taking into account their level of experience. When setting the remuneration package of a new executive who lacks experience of the company and/or the role, we encourage the remuneration committee to consider placing the individual on a lower salary than their predecessor with a view to increasing their pay over an extended period, subject to performance. It would be prudent to state this intention in the annual report at the time of the appointment and to repeat it annually until all recruitment-related increases have been completed.

Where possible, the existing remuneration arrangements should be used to incentivise new appointees.

- New recruits should be encouraged to purchase shares in the company.
- Any buy-out awards considered necessary, in exceptional circumstances, should be explained and awarded predominantly in shares and subject to performance.
- Additional employee benefits related to moving residence should reflect what is being offered to employees at all levels and have a time limit of no more than two years.
- The use of 'golden hellos' is not supported.

Departures

- Where a director leaves their role early for any other reason than as a 'good leaver' (e.g., retirement, ill-health, death or by mutual agreement of the board), we expect outstanding unvested awards to lapse.
- Any outstanding share-based awards that are permitted to vest, should be time pro-rated and subject to the same vesting conditions that applied when they were granted.
- We expect companies to ensure that there have been no rewards for failure. Therefore, remuneration committees should take account of poor performance or any exceptional events when determining whether a director should be paid a bonus for the period worked.
- The use of 'golden goodbyes' is not supported. Any gifts with a material value should be fully disclosed.

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Ultimate holding company - Legal & General Group plc.

Key Risks
The value of an investment and any income taken from it is not guaranteed and can go down as well as up, and the investor may get back less than the original amount invested.

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