

## Press Release

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Immediate Release

### **EXECUTIVE PAY RESTRAINT AND ALIGNMENT WITH LONG-TERM INTERESTS OF PENSION FUNDS NEEDED**

The National Association of Pension Funds (NAPF) has written to the Chairmen of Britain's top 350 companies urging executive pay restraint and making it clear that company remuneration should be aligned with the long-term interests of shareholders, including pension funds.

Boards should pay close attention to how profits are apportioned between capital, remuneration and dividends to shareholders. This follows a year in which many companies have raised capital and many dividends have been cut. The growing trend of deferring parts of bonus payments into shares is good practice and the NAPF expects that more companies will go down this route in 2010.

The NAPF has also questioned whether current remuneration structures serve management and shareholders well and suggests that a review of 'best practice' is now warranted.

**NAPF Head of Corporate Governance, David Paterson, said:**

"While we appreciate the restraint shown by many companies in remuneration policy during 2009, it is important that in the coming year there is a clear focus on linking pay to results and to the long-term interests of shareholders such as pension funds.

“Shareholders in turn need to play their part by remaining vigilant and ensuring that boards are held to account for their pay policies through ongoing discussion and also by the use of their votes at annual general meetings.

“Through its regular engagement work, the NAPF will be pressing companies to explain how their remuneration policies help align management with the interests of long-term investors.”

ENDS

### **Notes to Editors**

1 The text of the letter is set out on the following page:-

2 **About the National Association of Pension Funds**

The NAPF is the leading voice of workplace pensions in the UK. We speak for 1,200 pension schemes with some 15 million members and assets of around £800 billion. NAPF members also include over 400 businesses providing essential services to the pensions sector.

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## NAPF LETTER TO THE CHAIRMEN OF THE FTSE 350

Dear Chairman

### **RE: Remuneration Policies**

When we wrote to the chairmen of the FTSE 350 in February, we made a few simple points about the alignment of pay with shareholders' interests, in what were difficult economic circumstances. The 2009 reporting season demonstrated that many boards were thinking along similar lines and we appreciate the restraint shown by companies in setting pay and reviewing remuneration policy.

Notwithstanding some early signs of recovery, the continued need for restraint and better alignment with the long-term interests of shareholders means that executive remuneration continues to be a focus of attention for investors as well as the press.

We believe that a review of accepted best practice, which serves neither shareholders nor management well, is warranted and we have made these views clear to Government and in the FRC consultation on the Combined Code. The objective should be to create simpler structures which better align interests over the longer term and which expose management to significant financial risk in the event of failure to achieve agreed goals. This may be achieved by the deferral of cash bonuses into shares and the mandatory build up of material shareholdings by management. In this context the trend towards higher levels of share ownership by management, including the greater use of bonus deferral into shares is to be welcomed.

As we approach 2010, we felt it would be helpful if we were again to set out our thinking, in advance of year-end awards of bonuses and any share plan revisions:

- Companies should bear in mind the need to ensure that pay and performance are clearly aligned and that the focus on risk, which is a feature of the developing regime for financial institutions, is adopted more widely. We see bonuses as a form of profit share and therefore if profits are down we expect bonuses also to be lower.
- Companies should pay close attention to how profits are apportioned between retentions (which provide the capital to finance future growth), remuneration (especially bonuses) and dividends to shareholders. Following a year in which many companies have raised capital and many dividends have been cut there is a real need to be seen to balance the longer term interests of shareholders with those of management. Companies in their

annual reports should explain how these different demands have been addressed.

- Deferral of a significant part of any bonus payments into shares is good practice and we expect more companies to go down this route in 2010.
- Whilst we accept that the performance conditions set in many share plans are no longer realistic, awards should be reduced if lower hurdles are set and performance conditions should take account of the potential for recovery in profits as we come out of the recession.

The volatility of share prices, combined with the weak economy over the past year or so serve to illustrate well the shortcomings in many performance conditions, including the timeframe over which performance is measured. It is therefore a good time for companies and their shareholders to consider how the model might best be improved. It is, after all, in the interests of pension funds as long-term investors that company management be well rewarded for delivering outstanding performance.

We would be happy to discuss these issues with you further.

Yours sincerely

**Joanne Segars**  
Chief Executive

**David Paterson**  
Head of Corporate Governance