

04 March 2013

Dear Chairman,

Executive Remuneration 2013

As we are all aware 2013/14 will see considerable changes to the regulatory landscape for executive pay. We are encouraged to see that companies and their institutional shareholders are now working closely together to ensure that the new rules are practical and deliver the higher standards of reporting and accountability which the Government seeks and which investors have supported.

Nevertheless, for the 2013 voting 'season' the NAPF, on behalf of its 1300 pension fund members, seeks a more robust link between executive rewards and company performance. In our view, too many companies have allowed that link to weaken in recent years.

We set out below some of the best practice principles from our Corporate Governance policy which we expect to see applied in 2013:

- In the current economic environment we expect base pay increases to be capped at inflation and to be in line with the rest of the workforce – a sound and compelling rationale should be presented for any divergence from this principle.
- The performance conditions attaching to variable pay should be genuinely stretching and support the long-term growth of the business. We are conscious that “stretch” often too easily leads to behaviours which are focussed too much on the short term.
- We will push back on the use of peer group benchmarking. At the most senior levels so-called peer comparisons are surely only a small part of what is needed to motivate and retain an executive. We would like to see boards take a more robust line when faced with peer comparisons. We are often told that each company is unique; as such we would like to see boards reflect more upon the drivers needed to enact their own individual strategies and less comparing themselves against their ‘peers’.
- Remuneration committees should be prepared to use discretion when finalising bonus payments and share award vesting to ensure rewards are aligned with the success of the business over time and returns on capital are taken into account. Our members want to see boards showing their authority when negotiating pay and being willing to take difficult decisions. Those Remuneration Committee

Chairs who act in this fashion will be trusted by shareholders, those that do not may face opposition to their re-election.

2012 saw shareholder concern about executive reward come to the surface with the significant opposition to remuneration policies at a number of larger companies. We expect a similar outcome at Annual General Meetings in 2013 for those companies whose remuneration practices are seen as poorly aligned with the interests of shareholders. Similarly, it can be expected that where there is continued poor practice, directors who bear responsibility for remuneration policy are likely to meet opposition to their re-election.

To stimulate thinking about pay practices we recently published, jointly with our largest members, a discussion paper which argues for more payments in shares which are to be held for the very long term. We see reforms along these lines as vital if executive pay is to become better aligned with the interests of the shareholders whose capital is at risk. We would like to see companies taking these principles into account when assessing their remuneration policies ahead of the introduction next year of the binding vote. A copy of the paper is attached for your interest and comment.

We look forward to continuing our dialogue with you and would be happy to discuss the issues raised in this letter.

Yours sincerely,



Joanne Segars
Chief Executive, NAPF