



The Rank Experience

Aligning remuneration with shareholder returns

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Alignment with shareholders

We all talk about it...

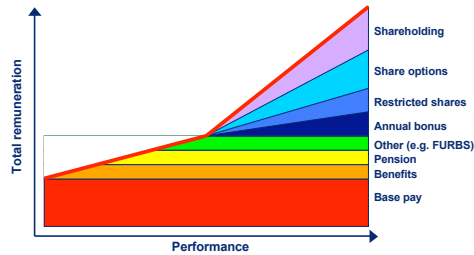
"Awards should be structured to promote as close an alignment as possible of participants with...shareholders."
ABI Remuneration Principles (para 11)

"Remuneration package of executive directors should be designed to align their interests with those of shareholders"
Combined Code (B1.1)

"Equity-compensation plans can help align shareholder and management interests"
SEC - NYSE Corporate Governance Proposals

...but what do we really mean?
...and what do we do in practice?

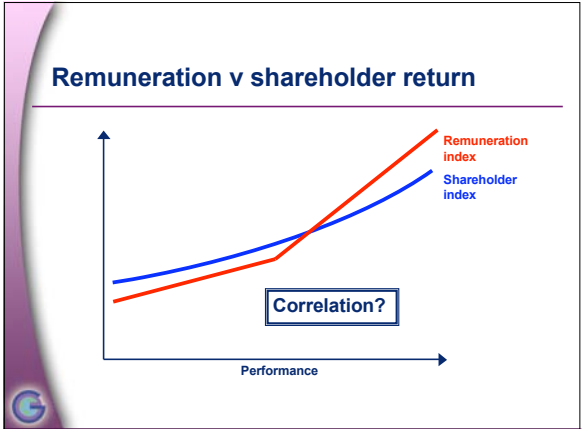
Typical executive remuneration

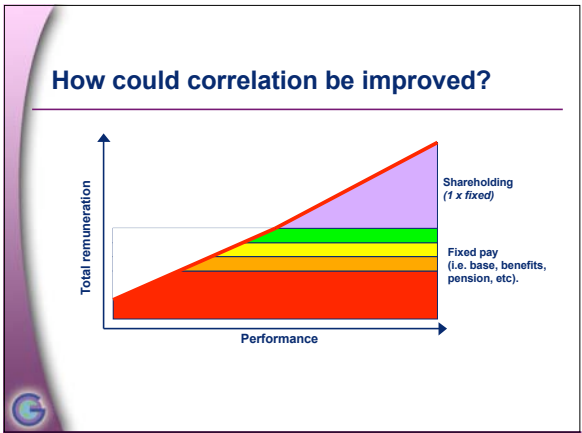


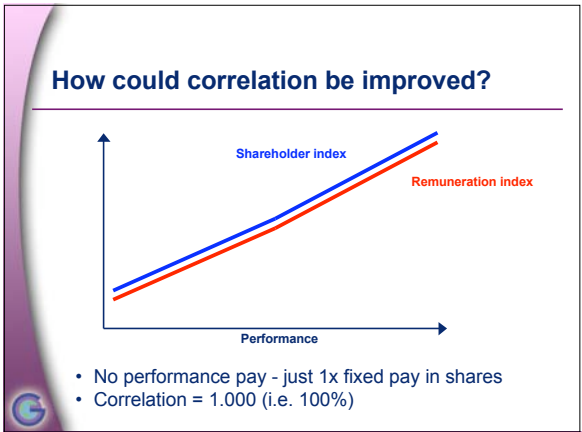
Total remuneration

Performance

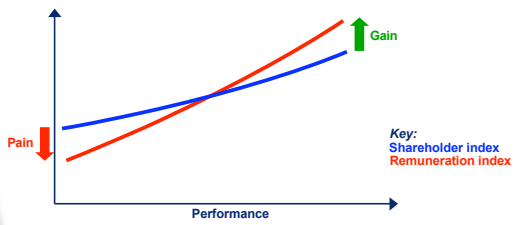
- Shareholding
- Share options
- Restricted shares
- Annual bonus
- Other (e.g. FURBS)
- Pension
- Benefits
- Base pay







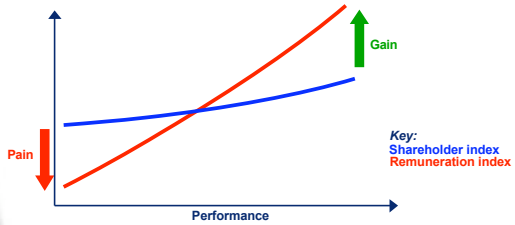
But is this what we want?



- Perhaps we want more pain and more gain?



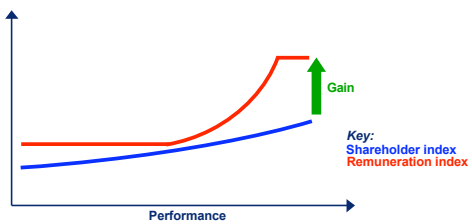
...but not too much!



- May encourage "short-termism"
- Ultimately not good for shareholders

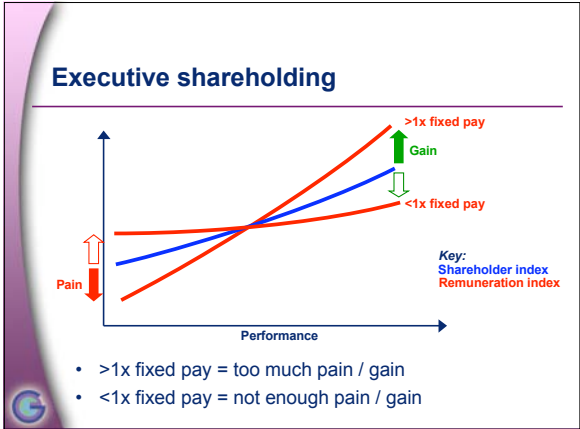


...or even worse!



- All gain and no pain!
- This is a current CEO of FTSE-100 company!





What does this tell us?

- Shareholding requirements should be expressed as a multiple of fixed pay, not base pay?
- Performance pay is generally less aligned than a one-off award of shares (1x fixed pay).
What would shareholders think about that?
- High shareholding adversely affects correlation.
In addition to minimum shareholding requirements, should companies introduce maximum limits?

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MIND THE GAP


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Abacus Global

Traditional Compensation Structure


The Current Trend is towards Total Reward

Move towards increasing the cash element in total compensation

Increase in the use of Restricted Stock/Performance Stock
Decrease in the use of Stock Options
Changes in pension funding a major consideration
Focus on shareholder alignment



Some general observations in 2005...



Two key sets of objectives for implementing a Long Term Incentive Plan

Company

- Attract and retain key employees
- Incentivise and motivate to achieve company objectives

Employees

- Wealth creation
- Financial security

Financial Education is key to meeting this objective



Increased Focus on Financial Education

Recent research has highlighted the knowledge gap in Financial Education

Employees need to understand where the gaps and risks are in their financial planning

To ensure a full understanding of what the benefits and risks

Give employees access to independent, qualified advice

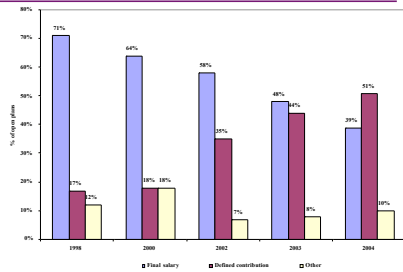
Creating access to full range of investment options in plan and at maturity

Creating a channel for employee feedback



Trends in pension provision

Shift from final salary to defined contribution pension schemes

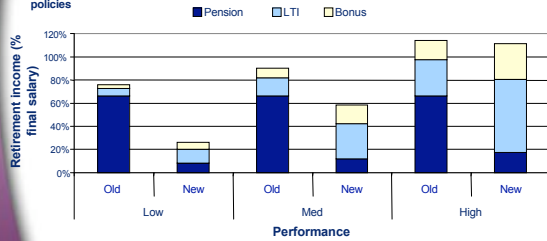


Source: Watson Wyatt Pension Plan Design Survey 2004



Developments in total reward and HR policy

Retirement income as a percentage of final salary for new-style and old-style remuneration policies



Source: Watson Wyatt Pension Plan Design Survey 2004



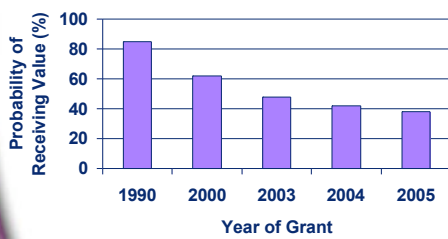


Are you feeling lucky?



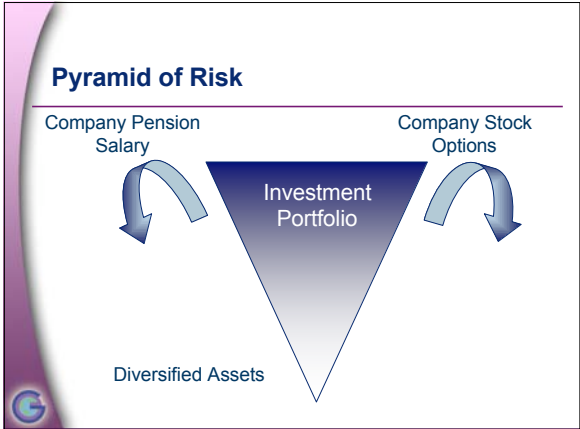
The End of Options?

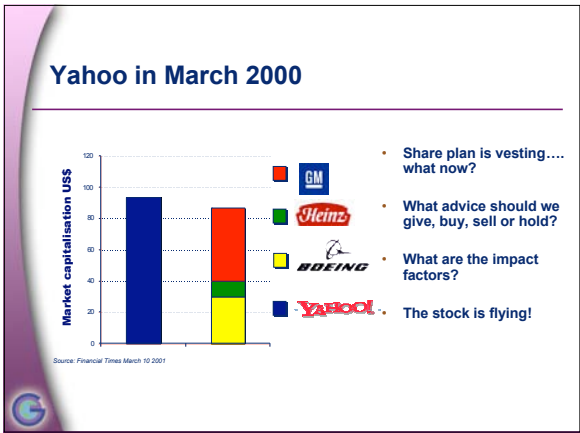
Probability of Option Pay-out in UK

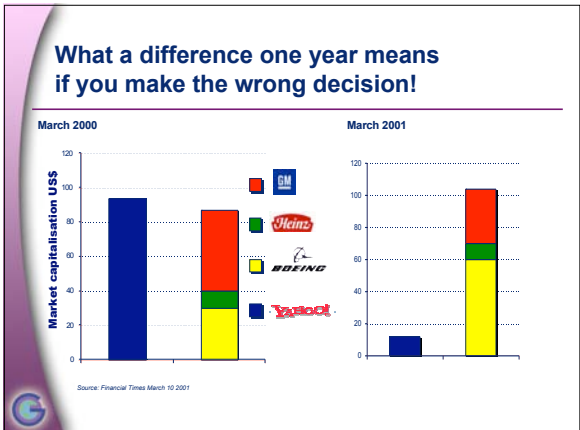


Source: Watson Wyatt Pension Plan Design Survey 2004







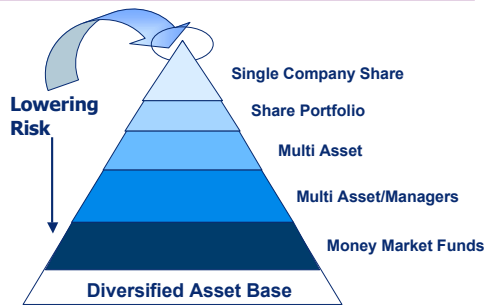


The major challenge in 2005?

Matching the risk profile and client expectations with the appropriate investment strategy



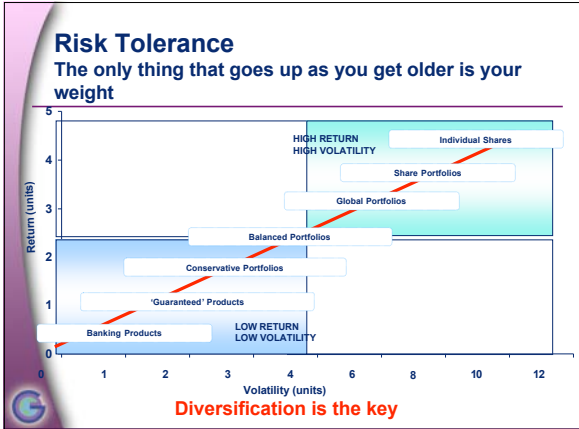
Diversifying Risk through Asset Allocation



What is Asset Allocation?

- Process of diversifying your portfolio – by asset class
- Objective is to lower investment risk
- Reduce volatility
- Improve the overall long term performance





Having the right Asset Allocation is not the same as having the right investment!

Just search



Thank You

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the team around you | 
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