

# **GRG**

# ***Remuneration Review***

## **Institutional Investor Perspectives on Executive Remuneration**

Remuneration Review No. 4

June 2007

### **INTRODUCTION**

In April 2007 Institutional Shareholder Services Pty Limited undertook a survey on behalf of a small group of six sponsors. GRG was one of the sponsors and saw that sponsoring such a survey would help in keeping abreast of the latest views of institutional shareholders who are important and influential stakeholders in the area of executive remuneration.

It is an area in which most Boards and top executives would also be interested. Accordingly we present a summary of the findings of the survey in this GRG Remuneration Review number 4.

### **SUMMARY OF RESULTS OF ISS SURVEY OF APRIL 2007**

#### **Introduction**

Semi-structured interviews were conducted with 19 institutional investors (15 funds managers & 4 superannuation funds) that manage large portfolios of ASX listed securities. They collectively managed approx. \$190 billion of Australian equities as at the first quarter of 2007.

#### **Remuneration Reports**

1. Just over two-thirds of participants took an on-balance approach to assessing remuneration reports (weighing up the positive and negative aspects of the company's remuneration practices), although many would potentially vote against a remuneration report on the basis of a single practice they considered especially egregious.
2. Participants considered remuneration reports too long, but at the same time many complained that the reports did not contain all the information required by shareholders.

#### **Executive Pay Generally**

3. Participants expressed a strong preference for a significant portion of executive remuneration to be at-risk, with the majority of at-risk Pay to be assessed over the long term.
4. Most participants found it difficult to assess what constituted a reasonable quantum of pay for an executive.
5. All participants were willing to consider sign-on and retention payments on a case by case basis.
6. All participants expected companies to explain the rationale behind a substantial increase in the fixed pay or short term incentive potential for executives.

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GRG **Remuneration Reviews** are articles to assist directors and senior executives who have responsibilities in relation to Board and senior executive remuneration and other human resources issues. Their role varies between articles with some aimed at stimulating critical thinking, others updating information and others simply acting as a reminder of principles and approaches where awareness may need to be heightened.

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## Termination Payments

7. All participants were concerned about termination packages.
8. Only one participant was prepared to accept termination payments in excess of one year's fixed remuneration.
9. 21% said payments on termination for poor performance should be limited to statutory entitlements.

## Long Term Incentive Aspects

10. A majority (53%) of participants had no preference for options or ZEPOs/performance shares/restricted shares in long term incentive schemes. Most who expressed a preference preferred ZEPOs/performance shares/restricted shares.
11. 42% of participants expressed a preference for on-market purchases over new issues of shares. Of the remaining 58% the vast majority expressed no preference for either on-market purchases or new issues.
12. 74% favoured shareholder approval for equity incentives for executive directors irrespective of whether the equity was sourced on-market or by new issues.
13. 47% had no in-principle objection to loan funded shares schemes for executives.
14. All participants preferred long term incentive vesting periods of at least 3 years.
15. The most preferred type of performance hurdle for long term incentives schemes was an external hurdle such as relative total shareholder return (42%). Another 37% of participants supported the use of a mixture of hurdles.
16. Participants were willing to consider non-standard performance hurdles if a company was able to explain the rationale behind such hurdles.
17. 84% of participants opposed re-testing of performance against performance hurdles.

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## GRG Contacts

GRG is well positioned to assist boards in reviewing their company's remuneration strategies, incentive plans and employment contract terms. Many of the top Australian listed companies are among our growing number of clients.

GRG maintains data bases on director and executive remuneration. We will be capturing all the aspects required to be covered in Remuneration Reports and therefore will provide an authoritative source of advice in relation to market practices and emerging trends.

Please feel free to call any of the following consultants.

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More information on GRG may be obtained from our website:

[www.godfreyremuneration.com](http://www.godfreyremuneration.com)