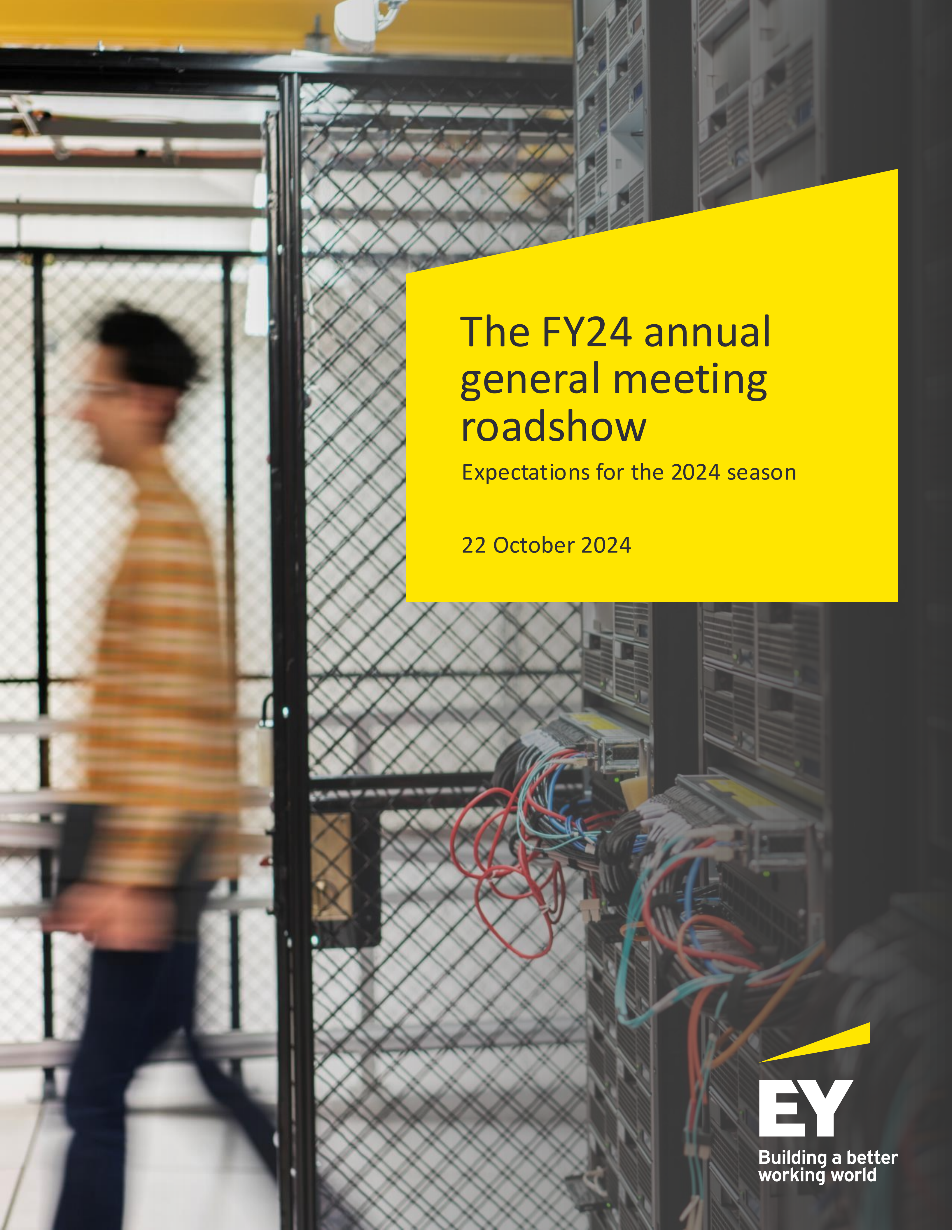

The FY24 annual general meeting roadshow

Expectations for the 2024 season

22 October 2024

Building a better working world

What are we expecting in the 2024 season?

It's that time of year again, when the rubber hits the road and companies hear what shareholders really think at the annual general meeting (AGM). Last year was one of the most heated AGM seasons on record, with 12 ASX100 companies receiving a "first strike." So, what are we expecting in 2024?

FY24 executive remuneration outcomes

To anticipate where the pressure points will come from this year, we first need to look at executive remuneration outcomes. Across the ASX100 in FY24, short-term incentive (STI) and long-term incentive (LTI) outcomes have remained relatively consistent year-on-year:

CEO (average)	FY24	FY23	FY22
Fixed remuneration increase	3.7%	3.8%	2.6%
STI outcome as % of maximum	66%	62%	67%
LTI outcome as % of maximum	59%	58%	52%

The outlier is the FY25 average forecast for CEO fixed remuneration increases. For those companies that have flagged increases, this has jumped to 4.9%. And this is all in a high inflationary environment, with extreme cost of living pressures facing the everyday Australian.

Walking the line between board, shareholder and management expectations as to what "pay-for-performance" means in the court of public opinion has never been harder.

Anticipated pressure points

Quantum of CEO pay

After several years of modest CEO fixed remuneration increases, we are starting to see the numbers shift. In some circumstances, increases of 5% and above may be viewed as a "catch up" correction, whilst in other circumstances, they are warranted considering a proven track record of delivering performance.

Whatever the reason, the anticipated FY25 average CEO fixed remuneration increase of 5% is likely to attract attention from shareholders and the public who, in comparison, are doing it tough. Our latest pulse survey shows fixed remuneration increase forecasts for the overall workforce over the next 12 months is 3.2%, on average.

STIs for day job

STI outcomes sitting "at target" year-on-year (given target is more often than not set at 66% of maximum), will have shareholders asking how these outcomes are aligned with performance, and whether STIs are just fixed pay in disguise.

Last year we saw the following issues raised by shareholder groups and proxy advisors on STI outcomes:

- The robustness of targets, set with the benefit of hindsight.
- Insufficient levels of downward discretion considering negative shareholder returns, safety and reputational issues.
- The application of the individual performance modifier, which in their view tends to only ever operate to increase rather than decrease outcomes for executives.

These watch-points and criticisms will no doubt continue through the 2024 AGM season.

Long-term value creation

Setting long-term targets has become a perennial challenge for boards that are trying to use LTIs for multiple purposes – to retain executives, support delivery of business strategy, and align executives' interests with those of shareholders.

It’s not surprising that LTI outcomes, as shown above, do not vary significantly given the variety of metrics and different total shareholder return peer groups used across the ASX100. The reality is that company-specific performance against each company’s chosen metrics and/or peer groups generates the LTI outcome.

Through the 2024 AGM season, we are expecting a continued focus from shareholders on companies aligning executive pay with long-term value creation – across financial and environmental, social and governance performance. We expect companies to come under pressure where LTI measures and targets do not align with the company’s broader messages to the market on their performance aspirations.

Implications for boards and management teams

It is easy to focus on the loudest voices during AGM season and be led by market practice when it comes to remuneration design. This might explain why the issues here are “not new” to any of us.

For many companies planning for the years ahead, after several years on this same AGM merry-go-round, it is time to take a step back and examine the fundamentals. Across the board and management team, it is essential to get clarity and alignment on:

- What actually drives performance in your organisation? Is remuneration just a tool to identify areas of importance? Should companies be looking at the broader intrinsic motivators of performance at the executive level?
- What is the STI actually for? Is it, as many shareholders would prefer, to reward outperformance or is this just something that is said rather than done?
- Can an LTI act as a retention mechanism and align with the shareholder experience? Has LTI design become a one-size-fits-all approach in Australia and what would truly work to meet your strategic objectives?

Once you are clear on the purpose of your remuneration framework, it is much easier to design something fit-for-purpose and make decisions that are readily understood and accepted by the market.

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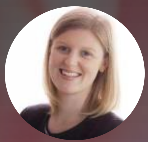

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Performance is driven by more than just remuneration. Understanding the diverse motivators of human behaviour, setting clear goals aligned to company strategy, measuring outcomes and holding people accountable are key to business success.

A cross-functional team with expertise in all facets of employee performance is essential in building an environment that fosters people's performance.

Our team is best equipped to support you in this complex landscape to drive improved performance.

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