April 2025

M&G Investments

Remuneration Guidelines for UK Investee Companies

Introduction

It is clearly in the interests of shareholders that boards should have the ability to effectively remunerate both executive and non-executive directors. A company's remuneration policy should be aligned with the interests of shareholders, should be well governed and should be transparent to all stakeholders.

Regular, open and purposeful dialogue with investee companies is a key aspect of M&G's stewardship activities, which includes engagement on remuneration. We aim to meet or correspond with all of the remuneration committee chairs of UK companies in which we have material holdings, in particular where the company is reviewing their remuneration policy or prior to general meetings where sensitive or contentious resolutions are being put to shareholders to vote on.

We seek to vote on all resolutions proposed at general meetings. These include resolutions for UK-listed holdings on the periodic binding vote on remuneration policy (typically every three years), resolutions approving share based incentive plan structures and the annual advisory vote on the implementation of the company's remuneration policy.

We have set out below the principles on which pay decisions should be determined. These principles form the basis of our engagement on remuneration with all listed UK equity investments, and the framework against which we assess voting decisions. We endeavour to extend these principles to our listed global investments as widely as we can, taking into consideration local regulations and market practice:

- The remuneration policy should seek to align the interests of directors with shareholders;
- Executive pay should provide appropriate reward but should not be excessive;
- Remuneration frameworks should be suitable for the characteristics and strategic objectives of the company;
- Variable pay should reflect the success of the company over time and should not incentivise inappropriate risk-taking;
- Disclosures should be sufficient to allow shareholders to vote in an informed manner on remuneration arrangements and outcomes; and
- Remuneration decisions should be independently governed.

We are supportive of the Investment Association's *Principles of Remuneration*. Where a company's policy diverges from these, we expect the rationale for this to be clearly explained.

Principles for determining pay

Principle 1: The remuneration policy should seek to align the interests of directors with shareholders

It is important to establish a commonality of interest between shareholders and executive directors. This is best achieved by all executive directors owning shares and ensuring that a significant proportion of their remuneration is paid in shares that are then held for an extended period.

Remuneration policies should:

- Enable the recruitment and retention of suitably qualified executives;
- Promote the creation of long-term shareholder value;
- Align incentives with the board's agreed corporate strategy;
- Avoid complexity;
- Support share ownership widely across the company; and
- Not reward failure.

We expect directors and senior executives to build up and maintain a direct shareholding in the company that is substantial in the context of their remuneration.

Principle 2: Executive pay should provide appropriate reward but should not be excessive

Remuneration levels should be a market-based judgement, taking into account business size, range of operations and jurisdictions in which the company operates and performance.

We acknowledge that each company is subject to different circumstances, therefore there are differing remuneration frameworks which may be appropriate. The remuneration structure should best suit the business in helping to deliver its strategy and create value for shareholders over the long term.

Remuneration Committees should disclose in a clear and transparent way the maximum value of remuneration packages along with the expected value of the package based on various performance assumptions. We will have regard to the overall quantum, which should not be excessive.

Executive remuneration should be set as part of the wider remuneration policy and practice across the company.

Remuneration arrangements on the recruitment of executive directors should be made within the company's established remuneration policy. Arrangements that go beyond the current policy should be specific to potential remuneration foregone upon leaving previous employment and have equivalent performance conditions/economic value.

Principle 3: Remuneration frameworks should be suitable for the characteristics and strategic objectives of the company

Companies should seek an appropriate balance of fixed to variable remuneration, with rewards delivered for long-term sustainable performance that supports the creation of shareholder value. Structures should be simple and transparent. M&G will examine remuneration arrangements holistically rather than considering individual elements in isolation.

Salary

In setting or reviewing executive salaries, consideration should be given to the potential overall level of remuneration (including pension liability) and referenced against appropriate market data.

We generally expect maximum increases in salaries for executives to be in line with those awarded to the relevant wider workforce in their locality. Shareholders should be consulted in advance of any raises where the absolute amount or percentage increase is material.

Remuneration Committees, when appointing new executive directors, should have consideration for the remuneration of the outgoing executive. Any material deviation above needs to be clearly explained.

Annual incentive arrangements

Annual bonus potentials should be capped. Increases to maximum potentials should be justified.

Performance metrics should be appropriately challenging, quantifiable and predominantly focused on financial metrics. Metrics should align with the delivery of shareholder value and we will not normally support metrics that adjust for macro factors (for example currency or tax) with a view to enhancing performance. Personal objectives should not normally account for more than 20% of the annual bonus potential.

We strongly encourage structures that deliver the majority of bonus payments in shares that are then held for a period of time (our preference is for this to be a minimum of three years). Share matching schemes (ie plans under which deferred share awards are enhanced or potentially enhanced with additional free shares) and the linking of bonus awards to long-term incentives are generally discouraged.

Long-term incentive arrangements

Companies should generally have no more than one equity-based long-term incentive plan, which should be based on a small number of key performance metrics aligned with strategy, a performance share plan. The structure should reward executives for the financial success of the company and the delivery of substantial and sustainable returns to shareholders over the medium to long term.

A range of measures might be appropriate but those that directly align with the efficient use of capital to generate profit and returns to shareholders (via both share price appreciation and the payment of dividends) should be considered. On occasion, metrics that are non-financial may be appropriate, but in such instances the company should clearly communicate the basis on which they will be measured.

Awards should vest over a period of at least 3 years with executives required to hold shares post vesting. Dividends should accrue to unvested share awards.

We recognise that in some cases the performance share plan is not suitable. We are supportive of companies proposing alternative structures where it can be demonstrated that the model fits with the company's strategy and is aligned with our interests as shareholders.

Alternative models of pay might, on occasion, include replacing the annual bonus and long-term incentive with a single incentive plan (based on short or long-term metrics), making awards subject to past performance, replacing incentive pay with an allocation of restricted shares (which are not subject to on-going performance metrics) or by way of some form of hybrid scheme that is a combination of models.

In all cases, the incentive plan structure should clearly align with the company's key strategic objectives, with metrics measured over an appropriate period of time (to be determined and justified by the remuneration committee) and with awards delivered predominantly in shares (which are then held for a significant period of time). We would expect a material reduction in the value of award where performance is focused on shorter timeframes or retrospective performance to reflect the increased certainty of payment.

Making awards over a fixed number of shares (rather than being expressed as a percentage of salary) should only occur in exceptional circumstances, for a finite period of time (no more than 3 years) and with specific consideration given to the level of award, considering how this might appear if the share price increases significantly.

We will vote against resolutions where performance conditions are adjusted retrospectively, share options are re-priced or awards made under long-term incentive arrangements or via bonus deferral are released early unless there are clear mitigating circumstances.

Dilution resulting from the issuance of shares for incentive schemes should be restricted. In general this should be limited to no more than 10% of a company's equity to be used for all share plans over a rolling 10 year period. In normal circumstances, we would expect the issuance of shares to be limited to around 1% annually. We recognise that flexibility around these limits may be appropriate for smaller companies and/or where the circumstances of the company are exceptional and in circumstances that these limits are breached, then clear reasons need to be given.

Pension and benefits

Benefit arrangements (including pension provisions) should not be excessive. Pensionable pay should be based on salary only and should not include incentive pay-outs. Pension contributions should align with those available to the workforce. We are generally unsupportive of increases to executive remuneration prior to an executive's contract terminating, including prior to retirement.

Tax and regulation

Remuneration arrangements should not seek to circumvent relevant regulation or mitigate an executive director's tax obligations. Executive directors are expected to pay their own tax liabilities and we will not support arrangements intended to mitigate these obligations.

Companies must comply in full with all relevant regulation in respect of remuneration arrangements. Remuneration Committees should ensure that they keep abreast of regulatory changes and the implications of these.

Non-executive director fees

The fees paid to non-executive directors should reflect the level of responsibility of the role and the time commitment required to perform it. We support the payment of such fees in shares but are not supportive of non-executive directors (including the Chair) participating in performance based incentive plans. We are not supportive of non-executive directors being paid in options.

Principle 4: Variable pay should reflect the success of the company over time and should not incentivise inappropriate risk-taking

Remuneration committees should have discretion to ensure the remuneration outcomes are acceptable for both shareholders and executives in light of corporate and executive performance. The committee should explain clearly where they have exercised discretion (and where they have not, but might have been expected to) in the annual report on remuneration.

As a general rule, we would expect remuneration arrangements under which delivery is more certain to provide a lower quantum of reward than where delivery is less certain. In assessing this, remuneration committees should consider the risk of incentivising inappropriate risk-taking.

Robust clawback and malus provisions should be in place to prevent executive directors being rewarded for failure.

Change of control provisions should normally only pay out where a change of control has occurred and the executive's contract is terminated as a direct result of that change of control.

We are not generally supportive of payments specifically paid for the completion of an acquisition.

Service contracts and termination provisions

Service contracts should not contain notice periods exceeding one year. Any payment made relating to the early termination of a contract should take into account performance over time. Boards should not sanction 'reward for failure' and boards should seek to mitigate termination costs.

Ex-gratia or discretionary payments are considered unnecessary. Any that are made or proposed should require shareholder approval and it is imperative that the company provides clear justification. We are generally unsupportive of increases to executive remuneration prior to an executive's contract terminating, including prior to retirement.

Principle 5: Disclosures should be sufficient to allow shareholders to vote in an informed manner on remuneration arrangements and outcomes

Accountability to shareholders is achieved by full disclosure of remuneration arrangements, which should be subject to appropriate shareholder approval of an annual remuneration report. This report should describe how the arrangements are expected to operate in practice. Providing details of expected values contributes to a better understanding of remuneration arrangements and their intended application.

For annual incentive arrangements, where, in the opinion of the remuneration committee, performance targets are considered to be commercially sensitive, disclosure of these targets may be delayed. In such instances, the company must explain the circumstances that justify this approach and indicate when the targets will be disclosed. In most instances, a delay on disclosure of 12 months should be sufficient to address the sensitivity. Where the proposed timeframe is longer robust justification should be provided. For long term incentives, targets are expected to be prospectively disclosed.

Where a company's disclosure provides insufficient information to make an informed decision on the appropriateness of the remuneration policy or the application of this policy, we will seek additional information from the company. We may, on occasion, abstain from voting or vote against a remuneration policy or remuneration report where insufficient information has been provided in order for us to make an informed decision. In such cases, we will raise our concerns with the company.

Principle 6: Remuneration decisions should be independently governed

Executive director remuneration should be determined by a remuneration committee of independent nonexecutive directors. There should be a formal and transparent process for determining remuneration policy and the committee membership should ensure appropriate consideration of risk in the context of remuneration.

No executive director should be involved in determining their own remuneration.

Voting on Company Remuneration Policies and Remuneration Reports

In line with our stewardship responsibilities, we seek to vote on all resolutions proposed at general meetings. M&G subscribes to a number of shareholder voting and information service providers and the information provided by them is used to inform voting decisions. M&G's voting policy is set by the Corporate Finance and Stewardship team, in consultation with the investment teams.

In determining our voting on company remuneration resolutions, consideration is given to the principles outlined in these guidelines. M&G may not support resolutions if:

- There is a material increase in quantum without sufficiently robust justification;
- Proposals lack transparency and simplicity and/or there is insufficient disclosure;
- Performance metrics (including the timeframe over which they are measured) are not appropriate;
- The structure proposed fails to support the principle of building a material shareholding for executive directors (in the context of their remuneration levels);
- The composition of the remuneration committee is not sufficiently independent to support strong governance of remuneration decision-making;
- Discretion has been applied by the remuneration committee that is inappropriate or where discretion has not been applied but it would have been appropriate to do so; or
- In addition, pension contributions for directors should align with those available to the workforce.

We will also vote against companies where:

- Performance conditions are adjusted retrospectively;
- Share options are re-priced; or
- Awards made under long-term incentive arrangements or via bonus deferral are released