

Sustainability & Rewards: Getting Started

7th October 2021



Agenda for today



Welcome and setting the scene: Laura Wadding, Partner – Risk Advisory, Deloitte
Scene setting – the mainstreaming of ESG and incorporating ESG under incentive plans rewards



ESG in reward: trends and design considerations: Anne Kelleher, Director – Tax & Legal, Deloitte and Rhys Thomas, Manager, Tax & Legal, Deloitte
What we have seen in the market and how to get there – design approaches and getting started.



ESG and governance: Melissa Scully, Director, Deloitte
Exploring the Board's role in respect of ESG and key ESG topics on the Remuneration Committee agenda



Q&A session

Please enter your
questions into the Q&A
box

Welcome and setting the scene

Laura Wadding

Partner – Risk Advisory | Sustainability Leader

Deloitte





ESG in reward - trends and design considerations

Anne Kelleher

Director – Tax & Legal
Deloitte

Rhys Thomas

Manager – Tax & Legal,
Deloitte

Agenda

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What does ESG mean in a Reward Context?

2

Current trends in ESG

3

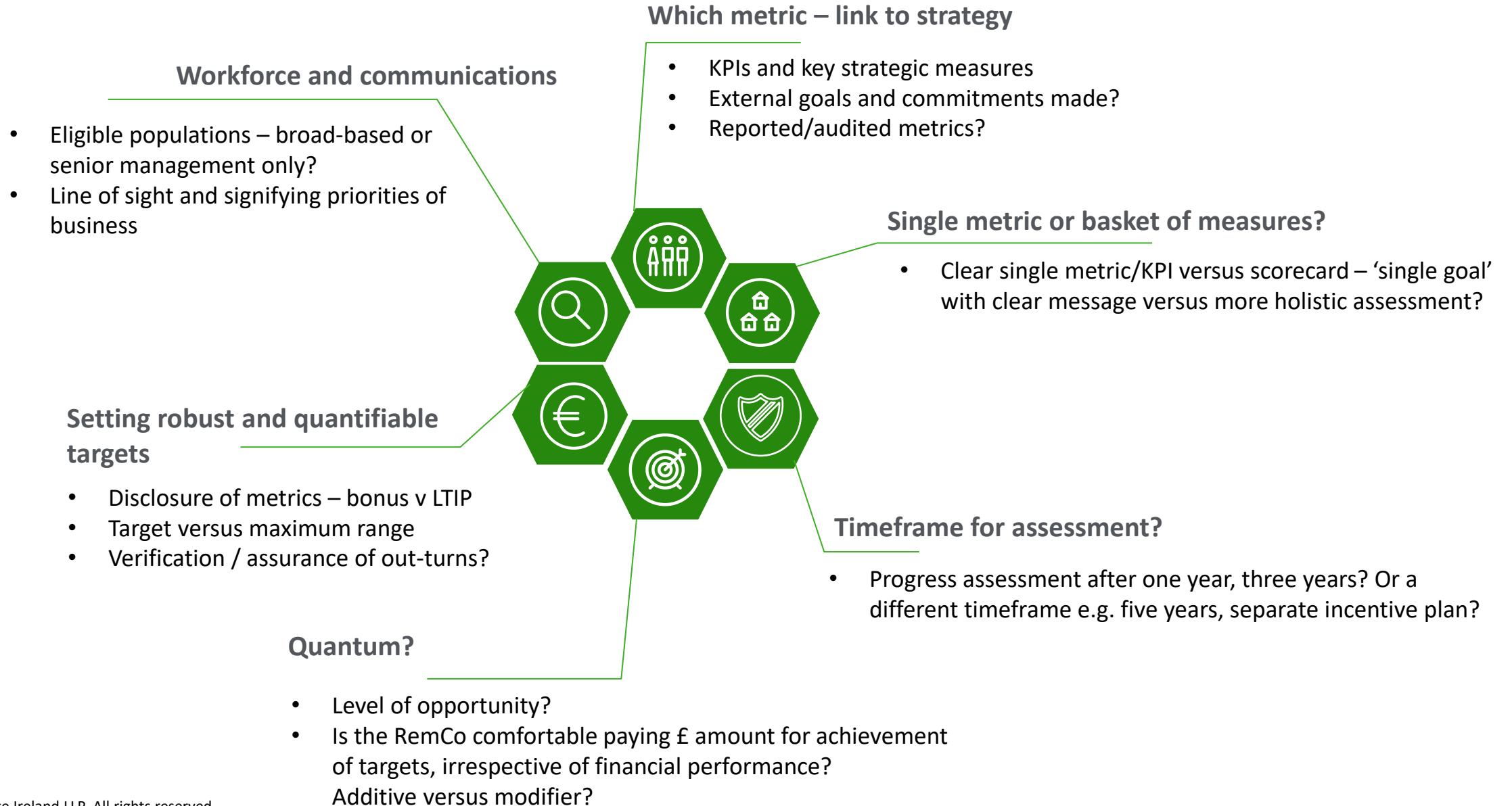
What are the Proxy Advisers saying about ESG?

4

ESG in Incentive Plans

What does ESG mean in a Reward Context?

Questions for Organisations to ask themselves

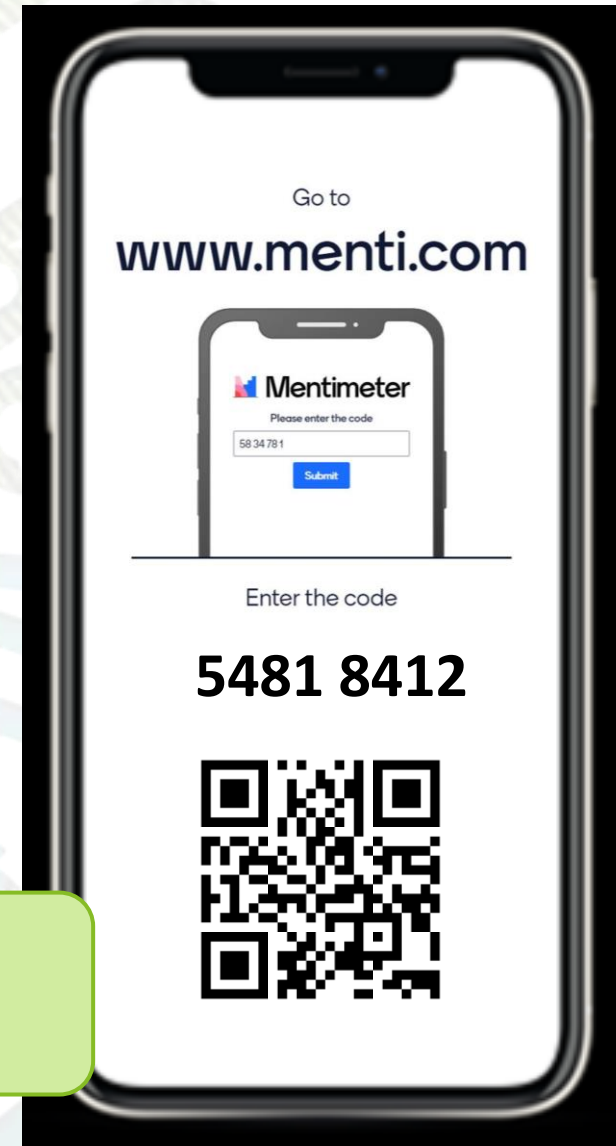


MentiMeter poll Question

Has your organisation introduced ESG metrics into your organisation's Executive Remuneration?

- *We have*
- *We intend to*
- *We have not*

Please note all responses are anonymous



Current Trends in ESG

The hot topic items



Current Trends

Climate Change: Net Zero

Climate change will be a dominant theme, as governments across the globe introduce more climate-related regulations.

ESG Disclosures

Disclosures on ESG factors will become standardized and widespread by the end of the decade. Pressure from investors will serve as a major catalyst for change.

Diversity & Inclusion

In addition to boardroom diversity, the focus for companies and investors will shift toward diversity across the organization, to include the general workforce.

Policies on equal pay, equal opportunity and corporate culture will also come under more intense scrutiny.

Executive Remuneration

Expect companies to re-design their rewards programme in order to achieve sustainable performance. This includes giving fair rewards as well as providing talent-nurturing programmes.

Current Trends in ESG

What is happening in the market?



Linking Climate Change Metrics to executive pay

Ryanair will include metrics within its Long Term Incentive Plan which incentivises its ESG goals of reducing CO2 per passenger / km over the coming years. The metric will have a 20% weighting on the overall award and will depend on Ryanair Group's CDP environmental protection score improving over the 3-year vesting period.



There are three purpose pillars in which ESG targets are set and linked to executive pay:

Within **Inclusion for all**, Vodafone have set a target to have 40% of women in management and senior leadership positions by 2030.

Within **Planet**, Vodafone have set a target of reaching "net zero" emissions across their full value chain by 2040.

Within **Digital Society**, Vodafone aims to support the digitalization of healthcare to help those unable to go to a hospital.

Element of bonus linked to sector specific metric (e.g. 10% weighting)



A responsible gambling measure has been included for the current performance year. Flutter notes this is critical to the sustainability of their organisation and the wider industry, Measured by a reduction in revenue from customers who are defined as "at risk"

Linking Climate Change Metrics to executive pay



Kingspan have introduced an additional ESG metric into their Performance Share Plan, the metric is based on their Planet Passionate sustainability strategy to reduce the company's environmental impact. The weighting of the metric will be 10% against the total award

What are the Proxy Advisers Saying About ESG?

ISS and Glass Lewis

ISS

In February of 2018, ISS launched an Environmental & Social Quality Score which they describe as *“a data-driven approach to measuring the quality of corporate disclosures on environmental and social issues, including sustainability governance and to identify key disclosure omissions.”*



Glass Lewis

Glass Lewis uses data and ratings from Sustainalytics, a provider of ESG research, in the ESG Profile section of their standard Proxy Paper reports for large cap companies or “in instances where they identify material oversight issues.” Their stated goal is to provide summary data and insights that can be used by Glass Lewis clients as part of their investment decision-making. ISS and Glass Lewis guidelines can help provide a basic structure for starting board conversations about ESG.



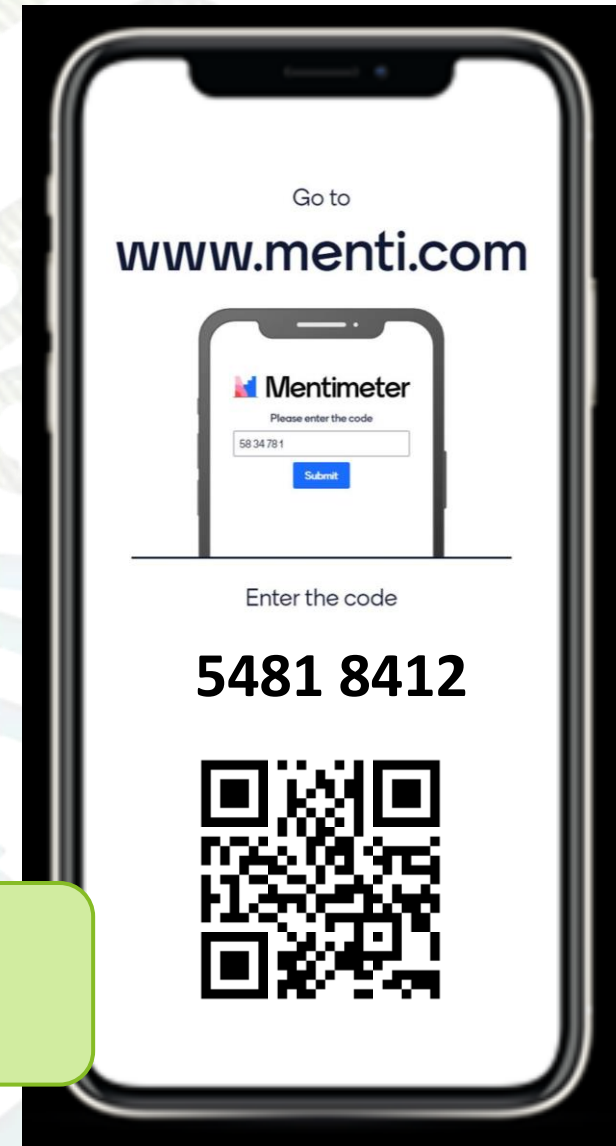
GLASS LEWIS

MentiMeter poll Question

For organisations who have considered introducing ESG metrics into their incentive plans, have they been introduced into

- *Annual bonus*
- *Long term incentive*
- *Both*

Please note all responses are anonymous



What are the Proxy Advisers Saying About ESG?

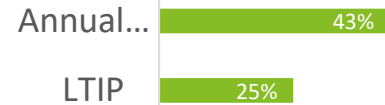
Trends and proxy environment in Ireland and further afield

Ireland*

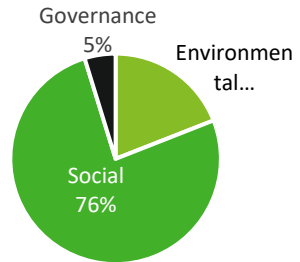
Based on 24 Irish PLCs, **46%** have included ESG metrics in their incentive plans.

Measures are more commonly found within the annual incentive.

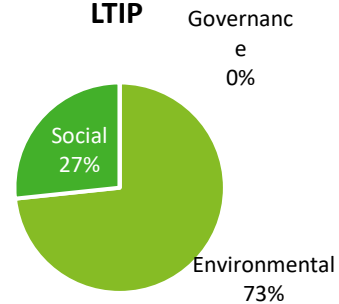
ESG and incentive plans (% of companies using ESG metrics)



Breakdown of ESG measures in the annual bonus



Breakdown of ESG measures in the LTIP



Europe

c. 70% of the largest European companies include ESG within their incentives, a increase from last year.

Social metrics are most common but there have been larger increases in Environmental and Governance.

ESG metrics are more common within short term incentive plans compared to Long-term incentives.

Measures are most common in the Consumer, Energy and Financial Services (typically banking) sectors.

UK

Annual bonus plans



Long-term incentive plans

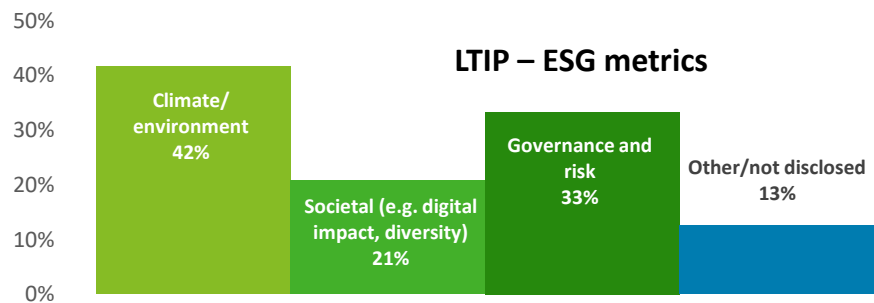


0% 10% 20% 30% 40%

Annual bonus – ESG metrics



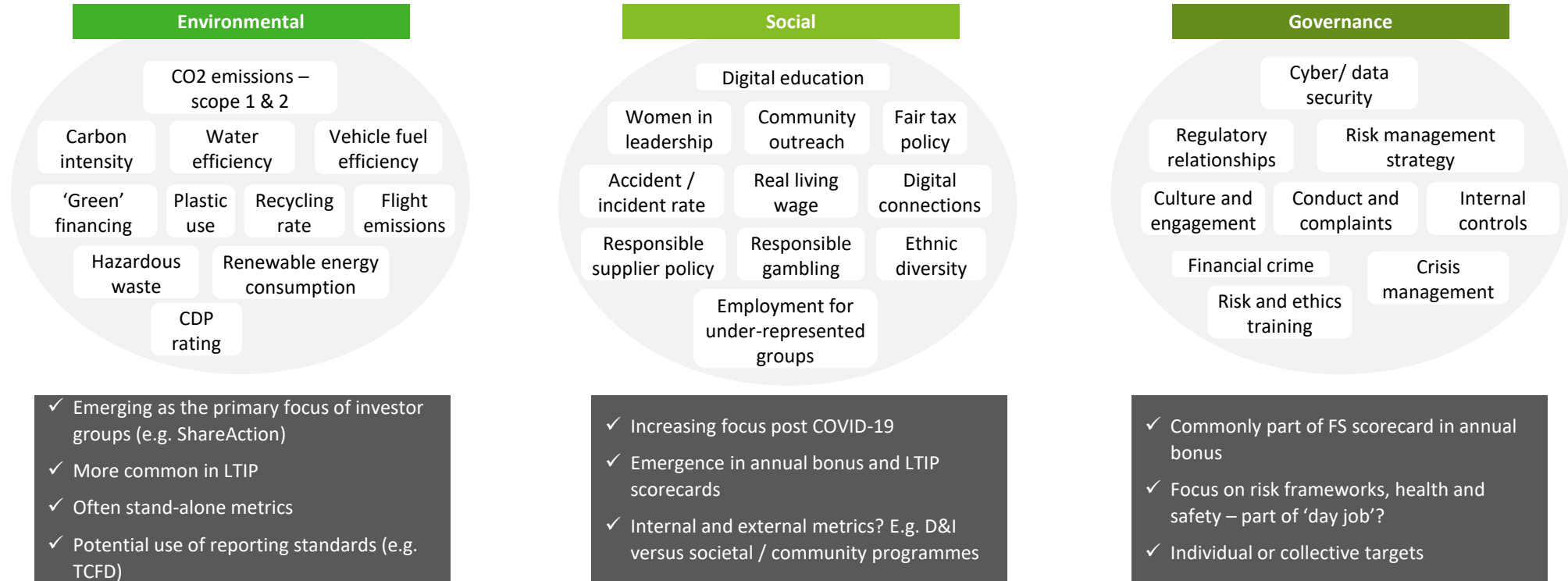
LTIP – ESG metrics



*Based on 24 companies with March 2020 – March 2021 year ends

ESG in Incentive Plans

Key Considerations



ESG in Incentive Plans

Growing focus on climate change

How are Remuneration Committees considering climate?

Aligning financial and strategic priorities on ESG

Integrate sustainability into core board responsibilities

Set tone from the top

Set external goals

Executive accountability – link pay to wider stakeholder experience

Link to executive incentive plans

Former VW boss Martin Winterkorn pays out €11m over dieselgate emissions scandal, **June 2020**

Mark Carney says banks should link executive pay to Paris climate goals **October 2020**

Apple links executive pay to performance against ESG targets **January 2021**



Stakeholder sentiment



Investor guidance on incentive plans



Reputational risk / shareholder voting

ESG in Incentive Plans

Gender Pay Gap

Gender Pay Gap (GPG) Information Act 2021 will require organisations with 250 or more employees to publish pay differences between female and male employees

We've seen examples of organisations, such as SSE plc in the UK, incorporating Gender Pay Gap specific metrics into their incentive plans. Typically, this would involve the achievement of lowering the organisation's gender pay gap and achievement of DEI strategy

We advise that all organisations begin preparing for public reporting.

Be clear and consistent on data classifications to be used.

Understand GDPR and legal considerations to collecting data.

Identify systems and indicators to measure improvement

Define the narrative

The Initial Steps

1

- Gather all relevant data and
- Conduct the Gender Pay Gap calculations utilising Deloitte's consultancy expertise and Gender Pay Gap tools
- Review your organisation's readiness to report

Who is this for?

- Organisations of any size who have not yet conducted any gender pay gap analysis

Assurance

2

- Review the methods employed by your organisation to measure its Gender Pay Gap to ensure compliance with the Irish Gender Pay Regulations
- Review any compliance gaps and risks
- Review your organisation's readiness to report

Who is this for?

- Organisations of any size who have taken the first steps on their Gender Pay Gap journey
- Organisations who would like assurance around their calculations

Gender Pay and Equal Pay Strategies

3

- Analyse the drivers of your organisation's Gender Pay Gap
- Supporting in forming your Gender Pay strategy
- Assistance with forming your organisation's supporting narrative

Who is this for?

- Organisations of any size who have undertaken the calculations of their Gender Pay Gap and are now looking to develop their future Gender Pay strategy
- Organisations who need support in forming their supporting narrative

ESG and governance

Melissa Scully

Director – Risk Advisory

Deloitte



The Board's role in ESG

Understanding where the Board can add value

1. Stewardship

- Provides strategic leadership to ensure that the **purpose** is clear
- Ensures that ESG is **integrated** into the overall strategy
- Defines and visibly role models the **values** of the organisation
- Proactively develops its **culture**
- Supports initiatives to further **long term sustainability**
- Helps to develop effective **governance** arrangements, including an **ESG policy** or **framework**

2. Supervise

- Ensures it is properly **informed** on ESG matters in a timely fashion
- Seeks **assurance** from management
- Holds management to **account**
- **Monitors** performance against ESG targets and compliance
- Oversees the **risk framework** and major risks, ensuring that ESG is embedded **holistically**
- Ensures governance arrangements are **effective** and adhered to

3. Accountability

- Engages **proactively** and **meaningfully** with owners and stakeholders on key ESG topics
- Openly and clearly **explains** the direction, performance and conduct of the organisation
- Openly and clearly explains the **impact** of the board and the effectiveness of its governance arrangements
- Focuses on the impact they are having and **ESG outcomes**

Remuneration Committee perspectives

Areas to focus on in respect of ESG/reward



Key issues for the Board and Remuneration Committee

Current challenges to navigate

Articulating a clear rationale that aligns to purpose

Linking ESG (and reward) to overall strategy

Setting clear and measurable 'stretching' targets

Determining appropriate non-financial criteria

Providing sufficient disclosure for stakeholders

Setting measurable 'stretching' targets

Key issues for the Board and Remuneration Committee

Examples to consider (1/2)

Anglo American Plc

THE PURPOSE TO REWARD JOURNEY

OUR PURPOSE

Anglo American is re-imagining mining to improve people's lives.

Mining has a smarter, safer future.

Using more precise technologies, less energy and less water, we are reducing our physical footprint for every ounce, carat and kilogram of precious metal or mineral.

We are combining smart Innovation with the utmost consideration for our people, their families, local communities, our customers, and the world at large – to better connect precious resources in the ground to all of us who need and value them.

And we are working together to develop better jobs, better education and better businesses, building brighter and healthier futures around our operations in our host countries and ultimately for billions of people around the world who depend on our products every day.

OUR STRATEGIC ELEMENTS

1

Portfolio

The quality and long life of our mineral assets are the foundation of our global business. We focus on securing and continuously improving assets that offer the most attractive long term value-creation potential, as measured by sustainable cash flow and returns.

The scale and diversity of our portfolio allow us to leverage our financial resources, technical expertise, and supplier relationships towards delivery on our full potential and to the benefit of our customers, creating a measured risk profile and supporting strong returns, through the cycle.

[For more on Portfolio: See pages 20-25](#)

2

Innovation

Across every aspect of our business, we are thinking innovatively about how we ensure the safety of our people, enhance our sustainability performance, and deliver enduring value for all our stakeholders.

From exploration to delivering our products to our customers, FutureSmart Mining™ is our innovation-led pathway to sustainable mining. Coupled with the best-in-class operational improvements being delivered from our unique Operating Model and P101 programme, we are fundamentally changing the way we extract, process and market our products, and will provide the next step-change in operating and financial performance.

[For more on Innovation: See pages 26-35](#)

3

People

Our people are critical to all that we do. The partnerships we build locally and globally are central to maintaining our regulatory and social licenses to operate and our sustained commercial success.

We create inclusive and diverse working environments that encourage and support a high performance culture and innovative thinking.

Our Organisation Model ensures we have the right people in the right roles doing the right value-adding work at the right time, with clear accountabilities that minimise work duplication and increase capability and effectiveness.

[For more on People: See pages 36-41](#)

OUR STRATEGIC ELEMENTS

4

Capital allocation

Underpinning our strategy, we have a value-focused approach to capital allocation, with clear prioritisation: sustaining capital to maintain asset integrity; payment of base dividends, and then the allocation of discretionary capital to either growth investments, upgrades to our portfolio, or additional returns to shareholders.

[For more on Capital allocation: See page 42-43](#)

FutureSmart Mining™

FutureSmart Mining™ is our innovation-led pathway to sustainable mining. Technologies and digitalisation will fundamentally change how we mine, process, move and market our products; and our Sustainable Mining Plan will transform how our stakeholders experience Anglo American.

[For more on FutureSmart Mining™: See pages 31-32](#)

Technology

We are integrating technologies to enable safe mining, removing people from harm's way and to more precisely target metal and mineral with less waste, water and energy.

[For more on Technology: See page 31](#)

Digitalisation

Our vision is to create a truly smart, connected mine, transforming vast quantities of data into predictive intelligence with the ultimate aim of creating a self-learning operation that offers new levels of safety, stability and predictability.

[For more on Digitalisation: See page 31](#)

Sustainability

Our far-reaching Sustainable Mining Plan is built around three major areas or global sustainability pillars, which are aligned to the UN's Sustainable Development Goals.

[For more on our Sustainable Mining Plan: See pages 31-32](#)

Safety

Care and Respect

Integrity

Accountability

Collaboration

Innovation

MEASURING DELIVERY OF OUR STRATEGY

We track our strategic progress on an ongoing basis using KPIs that are based on our seven pillars of value:

SAFETY AND HEALTH

To do no harm to our workforce

ENVIRONMENT

To minimise our impact on the environment

SOCIO-POLITICAL

To partner in the benefits of mining with local communities and government

PEOPLE

To create a sustainable competitive advantage through capable people and an effective, purpose-led, high performance culture

PRODUCTION

To sustainably produce valuable product

COST

To be competitive by operating as efficiently as possible

FINANCIAL

To deliver sustainable returns to our shareholders

[For our KPIs: See pages 50-51](#)

BALANCED REWARD

Anglo American's directors' remuneration policy⁽¹⁾ is designed to encourage delivery of the Group's strategy and creation of stakeholder value in a responsible and sustainable manner, aligned to our Purpose. The main elements of the remuneration package are basic salary, annual bonus and Long Term Incentive Plan (LTIP).

Fixed pay

Basic salary levels are reviewed annually by the Remuneration Committee, taking into account company performance, individual performance, levels of increase for the broader population and inflation. Reference may be made to the market median of FTSE 50 and natural resource companies, or other peer groups, to ensure market alignment.

Pension levels are offered at market-competitive levels. New executive directors are appointed with a pension level equal to the wider workforce.

Annual bonus

Annual bonus performance measures include:

- 50% on underlying earnings per share (EPS). EPS is one of the Group's key financial measures of performance and is set on an annual basis to ensure targets are demanding yet realistic
- Individual measures which have a focus on portfolio delivery, innovation and high performing teams
- 10% on safety, health and environment (SHE) measures
- A safety deductor may be applied, to hold our business leaders personally accountable for any failures in our journey to the goal of zero harm
- To help ensure sustainable long term performance, 80% of any annual bonus is deferred into shares for a minimum of three years and is subject to malus and clawback

Long Term Incentive Plan (LTIP)

The LTIP performance measures are aligned to our strategic objectives over a three-year performance period. Vested LTIP awards are subject to malus and clawback and must be held for an additional two years to encourage alignment of executive and shareholder interests.

The LTIP performance measures and weightings are:

- 70% subject to Group TSR, with two-thirds relative to the Eurozone Global Mining Index and one-third relative to the constituents of the FTSE 100 index
- 30% subject to a balanced scorecard of financial and strategic objectives, including environmental and broader sustainability targets

Shareholding targets

Executive directors are expected to hold shares in the company with a value of three times salary for the CEO and two times salary for other executive directors. This encourages further alignment with shareholders.

[For our KPIs: See pages 50-51](#)

Key issues for the Board and Remuneration Committee

Examples to consider (1/2)

OneSavings Bank plc

2019 performance against the Business Balanced Scorecard							
Category	Key performance indicator	Targets ¹			Actual result	Outcome CEO	Outcome CFO
		Threshold (25%)	Budget (50%)	Max (100%)			
Financial (50%)	Underlying PBT	£192.9m	£196.9m	£204.9m	£199.1m	33.44%	33.44%
	All-in ROE	21.4%	22.4%	24.4%	23.2%		
	Cost to income ratio	31.0%	30.0%	28.0%	30.4%		
	Net loan book growth	16.2%	17.2%	19.2%	20.1%		
Customer (15%)	Customer satisfaction	45	50	60	67	11%	11%
	Broker satisfaction	27.5	30	35	26.6		
	Complaints	0.8%	0.5%	0.1%	0.1%		
Quality (15%)	Overdue actions	3	2	0	1	11.45%	11.45%
	Arrears	1.25%	1.0%	0.5%	0.96%		
	High-severity incidents	4	3	1	0		
Staff (10%)	Diversity ²	27.0%	28.0%	30.0%	30.9%	10%	10%
	Employee engagement ³	3	4	6	7		
Personal (10%)	Vary by executive – see section below					10%	10%
Total						75.89%	75.89%

1. Targets – based on a sliding scale between threshold, target and maximum.
2. Diversity – based on the gender diversity of the senior leadership team.
3. Employee engagement – the employee engagement score represents the number of categories which showed improvement versus the prior year.

Practical steps

Guidance to think about going forward



Refresh your Terms of Reference

Ensure that your Board and Committee Terms of Reference reflect their emerging responsibilities in respect of ESG matters and these have been mapped into your forward plans



Engage appropriately

This expanded role will affect what is reported to (the Board), employees, shareholders and the public. There needs to be a clear understanding of key stakeholders and plans to engage with them



Continuously monitor

Receive regular updates and carve out time in the agenda to allow enable review of tracking against agreed targets. Ensure you have the right information and insights to make informed decisions.



Training and development

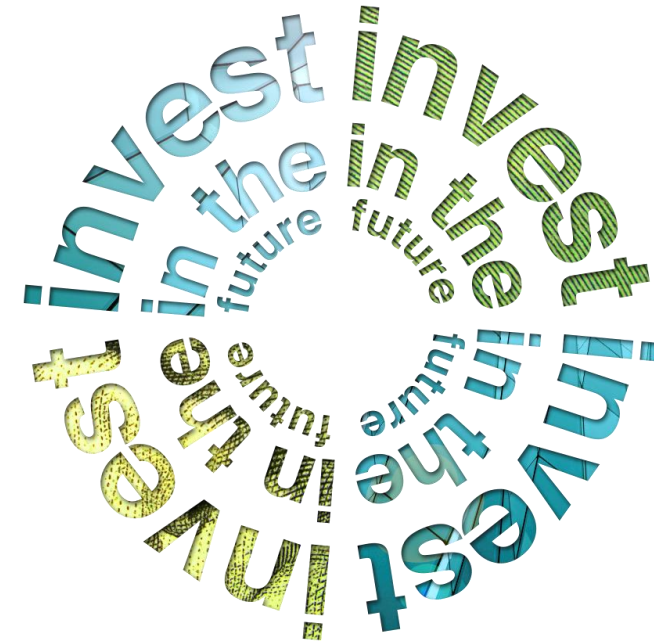
Keeping up to date on technical matters, ESG developments. Understanding trends, competitor areas of focus and the market response.

Q&A

Please submit your questions into the Q&A box



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MATTERS**
since 1845



Sustainability & Rewards: Getting Started

Thank you for attending

Webinar recording and slides will be shared with all attendees in the coming days



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