



Approach to remuneration

Investments



Here we outline the features of remuneration policy that SIM will support. A fuller discussion is outlined in our Responsible Investment Policy and Procedures Document, shown alongside, starting on page 26. Other information on our policy approach and Proxy voting Guidelines appears on pages 10 and 11, and page 12 respectively. As an example of remuneration policy and implementation that SIM will support, we refer you to a Mondi plc integrated report.

We concentrate most on long term incentivisation, where awards are received in shares which, together with holding requirements, serve to align executives with shareholder interests. Incentive shares should preferably be bought in to avoid dilution, provided that makes valuation sense.

Pay mix

Executive remuneration should be broken down into elements of base pay plus benefits, short-term incentives (STI), and long-term incentives (LTI). The expected contribution of each component under various performance scenarios should be disclosed, as well as actual outcomes, with pay awarded distinguished from pay received on an annual basis.

Minimum shareholdings

Executives should be required to hold minimum shareholdings. They should be sourced in part from incentive shares, so that conceptually the purpose of incentive awards is to provide a stock of shares to be retained over the remaining period of tenure.

Performance hurdles

Hurdles in the STI are usually made up of financial metrics (e.g. EBITDA), corporate objectives (e.g. transformation and safety), and individual key performance indicators. Hurdles are scaled and measured annually. Caps are usually applied (e.g. the CEO's bonus could be capped at 200% of base pay).

Profitability, earnings growth, operational returns and shareholder returns are used as performance hurdles in the LTI, both in absolute and relative terms. These should be scaled and measured over a period of at least three years. Our preference is for the majority of hurdles to measure operational returns in excess of cost of capital. The hurdles should be agreed with shareholders in advance.

Scheme life

We don't support evergreen schemes that make awards into perpetuity. LTI schemes should have a maximum lifespan of 10 years in order to encourage refreshment.



Award frequency and size limits

LTI awards should be made annually in instalments of similar size in order to motivate value creation over rolling periods at acceptable risk.

We support LTI limits of 10% of shares in issue overall and 0.5% per participant over the life of the scheme. The limits should apply even if there is more than one incentive scheme and irrespective of whether shares are bought in or not.

Grounds for adjustment

Schemes should allow for adjustments where actual outcomes deviate materially from planned outcomes. The concepts of 'malus' and 'clawback' are of importance here. Malus refers to the adjustment of unvested awards due to trigger events such as fraud and unjustified windfalls, for example, and clawback is the recovery of already vested awards as a result of a negative trigger event.

Retention schemes

Incentive schemes should be separate and/or separately identifiable from retention schemes. To encourage a culture of performance, retention schemes should be limited or avoided.

Reporting

There should be comprehensive reporting of the remuneration policy and its implementation in the integrated report, with a particular emphasis on actual outcomes relative to scaled targets. The remuneration awarded to and received by executive directors should be reflected and broken down into its constituent parts. This is enabled by disclosing scaled targets on award.

Policy Changes

Any proposed changes to the existing remuneration policy should be disclosed, clearly defined and approved by shareholders in advance.

A detailed microscopic image of plant cells, showing a honeycomb-like structure of hexagonal cells with thick, dark cell walls. The cells are illuminated from the side, creating a strong contrast and highlighting their three-dimensional structure. The background is dark, making the cells stand out prominently.

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