10 minutes on...

Finding balance in a shifting world

2024 AGM Season

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Summary of 2024 AGM outcomes

The 2024 AGM season saw shareholders holding fast on their views, with continued strike activity and an increased prevalence of second strikes.

In 2024 the number of remuneration report 'strikes' (i.e. vote against of >25%) and average % vote against was slightly down from 2023 but still higher than the long-term average. There was also an increased number of companies experiencing a second strike indicating continued shareholder discontent. For around half of the companies that received a strike, the 2023 year appeared to provide some signals to the result–having received either a strike or a 'near miss' (an against vote between 15% and 25%) in 2023.

20 organisations within the ASX200 received a strike in 2024. While this was a slight decline from 2023 (23 strikes), it remains at an elevated level compared to the years before 2023–an average of 14 strikes per year during 2018 to 2022. A similar trend was witnessed in average against vote being 10.07% in 2024 as compared to an average 8.18% from 2018 to 2022.

Six companies received a second strike against their remuneration report in 2024 (i.e. triggering a Board spill resolution) compared to none in 2023. Of these, two companies had received a strike for four consecutive years (Dicker Data and Lovisa) although noting that three consecutive strikes does not trigger a spill resolution with the strike resetting after two strikes. There were no Board spills in 2024.

Fewer companies (i.e. four) received an extreme vote (of greater than 50%) against their remuneration report in 2024, compared 2023 (seven). Of these, similar to 2024, three companies received a no vote greater than 70%.

Similar to prior years, stakeholders' concerns were raised on the pay for performance linkage, one-off or retention awards, demand for increased transparency in pay and adequacy of governance practices.

The pay for performance link continues to be a common theme in strikes, especially where there are shareholder losses or financial/share price performance that was lower than expected.

1. Results of AGMs held in the calendar year to 31 December 2024. ASX positions based on 3-month average market capitalisation as at 30 September 2024 (excluding REITs and companies domiciled overseas).

The remuneration concerns associated with this year's extreme votes is shown below (noting that there may also have been issues outside of remuneration practices):

Perpetual Limited (88% against)
Concerns were raised of a high degree of pay for performance misalignment, use of Board discretion to increase STI outcomes and operation of retention bonuses perceived to be substantial resulting in the highest no vote in recent years. They also received a near miss vote last year of 18.5%.

Mineral Resources Limited (75% against)
Concerns over a delay in Board response, insufficient downwards discretion, and that the clawback policy did not trigger for the Managing Director and CEO's FY21 long-term incentive after a controversy.

Sandfire Resources Limited (56% against)
Concerns over lack of transparency, substantial increases to short-term incentive opportunity above market levels and a retention bonus being awarded, perceived to be inconsistent with Australian market practice. This is their second strike after an 'against' vote of 35.5% last year.

Lovisa Holdings Limited (74% against)
Concerns from proxies continued to be over excessive CEO pay, duplicative performance hurdles and period across short and long-term incentives for the CEO and lack of action to address these concerns over multiples years, this being Lovisa's fourth strike.

***Figure 1**: 2024 and 2023 remuneration report strike analysis*

	2024	2023
ASX 100		
% receiving a strike	**9.86%** (8 out of 77)	12.50% (10 out of 80)
Average % vote 'against' rem report (min/max range)	**7.96%** (0.13% - 74.59%)	11.91% (0.06% - 82.93%)
ASX 200		
% receiving a strike	**12.99%** (20 out of 154)	14.74% (23 out of 156)
Average % vote 'against' rem report (min/max range)	**10.07%** (0.13% - 88.08%)	12.50% (0.06% - 82.93%)

Summary of 2024 AGM outcomes

Proxies and shareholders hold fast on their views, as the issues raised once again remain consistent with prior years.

Misalignment between executive pay and company performance particularly where incentive outcomes are perceived to be high in comparison with the value delivered to shareholders

Delayed or inadequate Board response in both the application of remuneration and non-reward consequences to organisational or individual failures

Excessive remuneration quantum, particularly regarding CEO pay positioned significantly above median (as determined by external stakeholders)

Insufficiently rigorous metrics (limited perceived stretch) and lack of disclosure/transparency, particularly if metrics are duplicated across short- and long-term incentives or could be considered 'day job' responsibilities

Retention payments, and other one-off payments continue to be unpopular with proxies, sometimes regardless of rationale for application.

This season a number of companies have more rapidly responded to shareholder criticism by taking actions to address feedback between the release of their Annual Report and AGM (e.g. revising LTI targets) and/or removing select resolutions from their AGMs. A few companies are also proactively moving towards greater transparency in disclosures, including limited examples of prospectively disclosure of future year STI financial targets.

There continues to be differing perspectives on what constitutes appropriate reward structures for specific companies–while proxy advisors typically do not favour deviations from commonly observed market practices. Among companies that received strikes or near misses, the following aspects of the remuneration framework received commentary on misalignment to market:

- lack of deferral mechanism in STI plans
- less than 50% weight on financial metrics in STI plans
- provision of dividends on unvested shares
- threshold vesting of relative LTI metrics below fiftieth percentile; and
- provision of one-off payments, including retention awards, sign-on bonuses, and excessive termination benefits

Extreme strikes: four companies received an 'extreme' vote against their remuneration report of greater than 50%, compared to seven companies in 2023

Figure 2*: ASX 200 Remuneration voting outcomes*

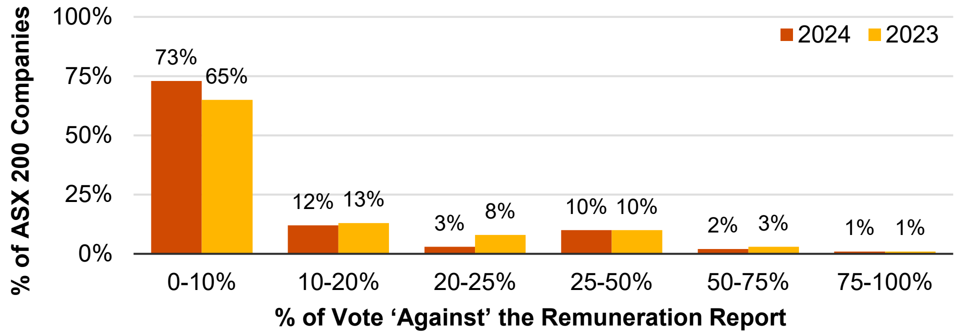
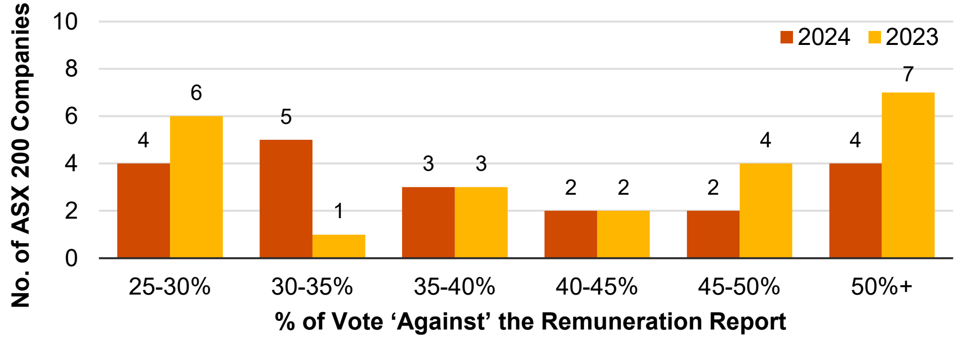


Figure 3*: ASX 200 Strikes: Spread of voting outcomes*



Largest 'no' votes in 2024

- Perpetual (88%)
- Mineral Resources (75%)
- Lovisa (74%)
- Sandfire Resources (56%)
- IPH (48%)
- Sigma Healthcare (47%)
- Ingenia Communities (43%)
- Dicker Data (42%)

Summary of 2024 | What the future holds

Evolution or revolution?

Driven by both internal and external factors, there have been some shifts to what is considered as common remuneration practices in recent years such as:

- Greater prevalence and weight of non-financial metrics in STI and LTI plans, usually to focus on risk or ESG performance.
- Uptick in the use of Board discretion to adjust incentive outcomes.

Outside of more broadly applied changes, we expect the 'norm' to evolve to be shaped more by alignment with internal/strategic objectives rather than common market practice, as organisations continue to review 'what makes sense' in their individual contexts, including for example increased prevalence of restricted equity plans and some profit share plans.

However equally, this brings the need for clear and compelling narratives to support framework changes and a considered approach to external market engagement becomes even more critical.

What companies can do

Given the relative stability of remuneration frameworks in recent years, but heightened scrutiny, consider appropriateness and effectiveness of framework for current and future purposes

Given the quickly evolving economic landscape, heightened scrutiny on pay from external stakeholders, and the importance of an organisation-specific rationale, it may be opportune to revisit remuneration frameworks focused on multiple effectiveness lenses–from participants (e.g. motivational impact[1]), customer experience, shareholders, regulators and community–and future proofing with shifting conditions, such as the impact of GenAI and global growth[2]. Two particular areas of focus may also include:

- Use of data to understand historical and future impact on performance, particularly non-financial metrics given increasing prevalence in LTI over the last four years.
- Undertaking scenario testing of atypical scenarios to understand the robustness and responsiveness of the remuneration framework, e.g. in the event of corporate governance failures or external shocks.

Where non-standard remuneration framework designs are proposed, determine a considered approach to engaging with external stakeholders together with holistic and specific rationale

There has been some variation in how companies are addressing shareholder concerns this year, with some companies taking immediate steps (i.e. making changes to remuneration decisions prior to the AGM and post the release of Remuneration Report) and some companies holding steady on remuneration decisions. Each of these approaches may be appropriate based on context, however, what is critical to the success of the approach is early and proactive engagement, clarity on what the non-negotiables are, a level of transparency in the disclosures and a shared and consistent messaging across internal stakeholders (e.g. Board, management, investor relations). In determining non-negotiables, this also supports the Board to have strong conviction on what is critical to the organisation and won't change–and over what period (e.g. leaving a framework to 'play out' over a period). Rationales tied to organisation-specific narratives, and packaging framework changes (i.e. holistic agenda vs on a piece meal basis) may prove more capable of engendering long-term support.

Determine the impact of the evolving landscape relating to remuneration disclosure

Market change and regulatory requirements are driving increased transparency and detail of disclosures. Firstly, from the middle of calendar year 2025, all APRA-regulated financial services companies will begin to publish their first remuneration disclosures required by CPS 511, covering the design, governance and (for larger entities) quantum of remuneration. These disclosures extend beyond KMP to broader cohorts. Additionally, the Australian Sustainability Reporting Standards (AASB S2) commence on 1 January 2025 for selected large FS companies and include obligations to disclose KMP remuneration linkage to climate related considerations. The regulation sets a new expectation for remuneration governance and accountability, with possible flow-on impacts to non-FS sectors. Together with continued desire from shareholders for greater transparency on metrics, performance targets and assessment to better understanding the pay/performance linkage, companies should consider the level and detail of disclosures in their Remuneration Reports against these increasing expectations.

1. *PwC's Psychology of Incentives*
2. *PwC's 28th Annual Global CEO Survey*

How PwC can help | Contact out Reward Advisory specialists

To have a deeper discussion about these issues, please contact:

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