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Approach for Evaluating Executive Remuneration Practices in the Wake of Covid-19

This document sets out Fidelity International's views on how investee companies should approach their executive remuneration practices in the wake of the Covid-19 crisis, as we are aware that many of our investee companies have questions about this. Covid-19 was a major external shock, and we recognise that many remuneration committees are now keen to ensure that pay outcomes for FY20 reflect senior executives' efforts in navigating through the crisis. We are aware that many companies took immediate steps to restrain executive remuneration as a matter of cost savings e.g. by cutting or deferring the FY19 bonus and/or enacting temporary salary cuts, and some companies also reduced LTIP grants to reflect the fall in the share price and risk of windfall gains for recipients. We will consider these factors when it comes time for us to evaluate executive pay outcomes for FY20.

While we understand the desire for our investee companies to pay competitively and reward management fairly, given the continuing uncertainty about the post-Covid economic recovery we are advocating for a restrained approach to executive pay this year:

- Remuneration committees must remain mindful of ensuring that variable pay outcomes broadly reflect shareholders' experience, and appropriate discretion should be applied when this is not reflected in formulaic outcomes.

- We expect companies that have participated in taxpayer-supported employee furlough schemes to not pay bonuses (cash or otherwise) to executive directors and senior management for FY20.

- We strongly encourage scaling back LTIP grants in monetary terms to account for any temporary fall in the share price. Companies that did not do this in 2020 should put a hard cap on the pay outcomes to prevent windfall gains.

- When evaluating pay outcomes, we will consider the consistency between company's treatment between senior management and the general workforce. We expect senior management salaries to be frozen or rise only modestly next year and in any event, not beyond the workforce rate of increase.

- Any ex-post adjustments to performance targets should be well-explained in the remuneration report and should respect the principles of shareholder alignment and consistent treatment with the broader workforce.

- The Covid-19 crisis has highlighted the importance of appropriately reflecting stakeholder outcomes in executive pay. Looking ahead to FY21, we will be encouraging investee companies to incorporate appropriate non-financial and/or stakeholder-focused factors into their remuneration policies where they have not done so already and where sufficiently robust metrics can be identified.