

Non-Executive Director Remuneration Report

EXECUTIVE SUMMARY
MARCH 2020

AON



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Introduction

Australian Boards have had a tough year. Over the last 12 months Directors have had to grapple with several issues, such as a weakening global economic outlook, the tightening of regulation and their associated business impacts. The effects have been felt particularly strongly in the Financial Services industry, where higher-than-ever levels of investor oversight on company performance and a continued pressure to retain good executive talent have put additional strain on Boards. The general public's trust in Corporate Australia has been dealt a sharp blow from the string of malpractices recently uncovered by the Royal Commissions in the Financial Services and Aged Care sectors as well as instances of wage underpayment in the Retail sectors, among others.

While regulators are proactively advocating material changes to executive remuneration programs in Australia to bring in elements of culture and conscientious corporate behaviour in incentive plans, attempts to do so have been met with unabashed criticism from investors and proxy advisors, leaving Boards and Remuneration Committees to resolve an almost unsolvable conundrum. At the same time, Audit & Risk committees are faced with an ever-expanding scope of review to counter the threat of reputational damage arising from corporate transgressions. The ongoing global health crisis and associated business impact of COVID-19 spread will only add further to the uncertainty faced by Australian Boards.

In an environment mired with uncertainty, it is more important than ever before for organisations to employ the right talent on Boards and remunerate them appropriately to enable effective corporate governance and decision-making. Earlier this month, Aon released its inaugural *Non-Executive Director (NED) Remuneration Survey* to its participants. The report was a deep-dive into all facets of NED pay, but also examined issues such as gender representation and workload. In this abridged version of the survey we have highlighted several key findings from the complete edition which we trust will be useful to you and your organisation.

Should you wish to attain a full copy of the report, please contact

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All the following analyses exclude zeroes. As a result, the actual size of some samples may appear smaller than their intuitive size. All remuneration data is reported in Australian Dollars.

Survey Constituents

The data used in this abridged survey comprises 282 organisations from the S&P ASX 300 index. The complete edition of the report includes a number of private organisations. Data for these organisations was extracted from their latest available remuneration report disclosure, except if they provided a data submission to this survey. For most ASX listed organisations, the 2019 annual report was used to extract the remuneration details. For those with a December year end, where the latest annual report had not been published for use in this analysis, the 2018 annual report was referenced.

The sector and industry labels used align with the Global Industry Classification Standard (GICS).

Fee Movements

Year-on-Year Movements

The tables below illustrate the median year-on-year movements for the Chair and Members of both the main board and major committees over the past three years.

Table 1: Overall Main Board Fee Schedule Movements (2019 over 2018)

Overall, the median Board Chair fees for the ASX300 showed an increase of 3.8% over 2018. The median main Board Member fee (excluding committee fees) was observed to grow at a higher pace of 5.0% over 2018. In addition, we also looked at same company fee schedule movements for main Board Chair and Members which were observed to be more in line with the general employee salary increases in Australia.

Position	Overall Market Median Movement ASX300	Same Company Movement (excl. 0s)
Chair	3.8%	3.0%
Member	5.0%	3.3%

Digging deeper to investigate the same company main Board and Committee fee schedule movements for the ASX100, we observe that the fee schedule for Remuneration Committee Chairs has increased at a faster rate than the Audit & Risk Committee. This is reflective of the increased time commitment required from Directors in Remuneration Committee matters owing to increased investor and regulatory scrutiny, particularly in, but not limited to, sectors like Financial Services.

Table 2: Median Main Board Fee Movements – ASX100 (2019 over 2018)

Position	Main Board	Audit & Risk Committee	Remuneration Committee
Chair	2.9%	3.1%	5.3%
Member	3.0%	3.3%	3.3%

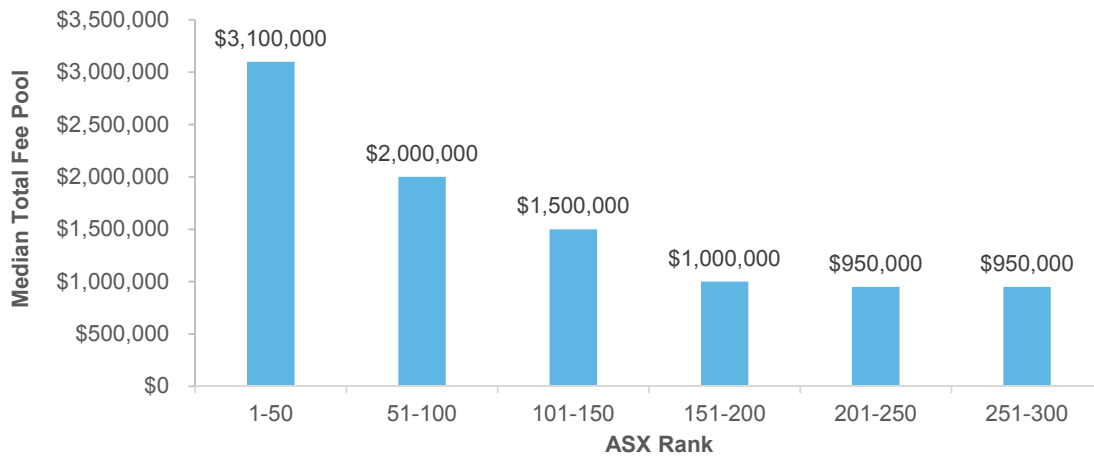
Total Fee Pool & Fee Structure

Total Fee Pool

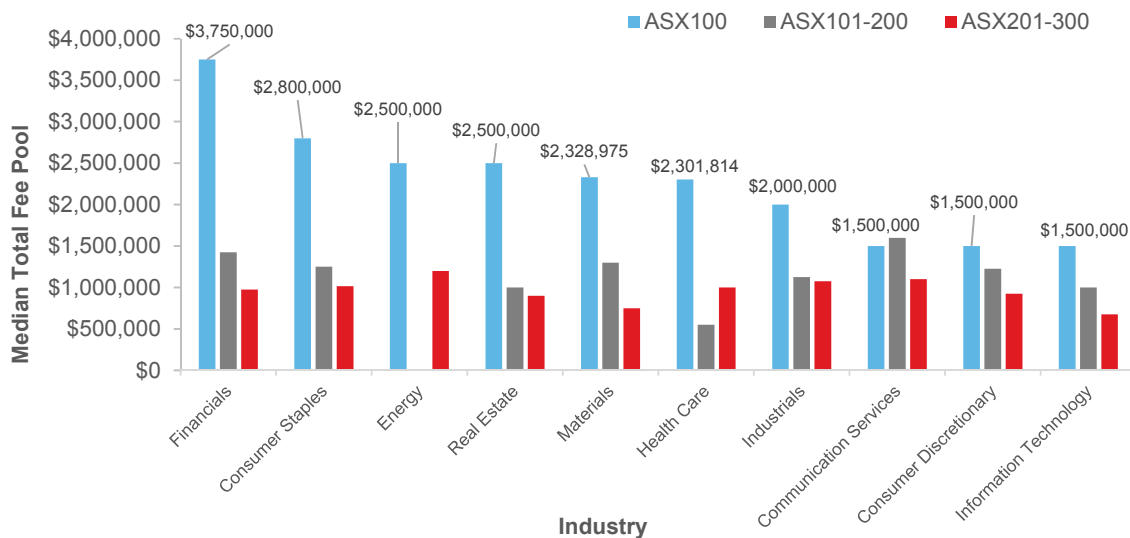
Total fee pool refers to an organisation's total remuneration budget for Non-Executive Directors including both the main Board and committee fees.

Median Total Fee Pool by ASX Rank

The median fee pool differs significantly within the ASX150 and then plateaus beyond that to some extent as displayed in the graph below. When compared with last year, the fee pool for the ASX 251-300 has increased significantly from \$750,000 to \$950,000. For the other ASX rank categories there has been no, or only marginal increases in the fee pool.



Median Total Fee Pool by ASX Rank and Industry



A view across industries shows that Financials, Consumer Staples and Energy organisations generally tend to have the highest median fee pools in the ASX100.

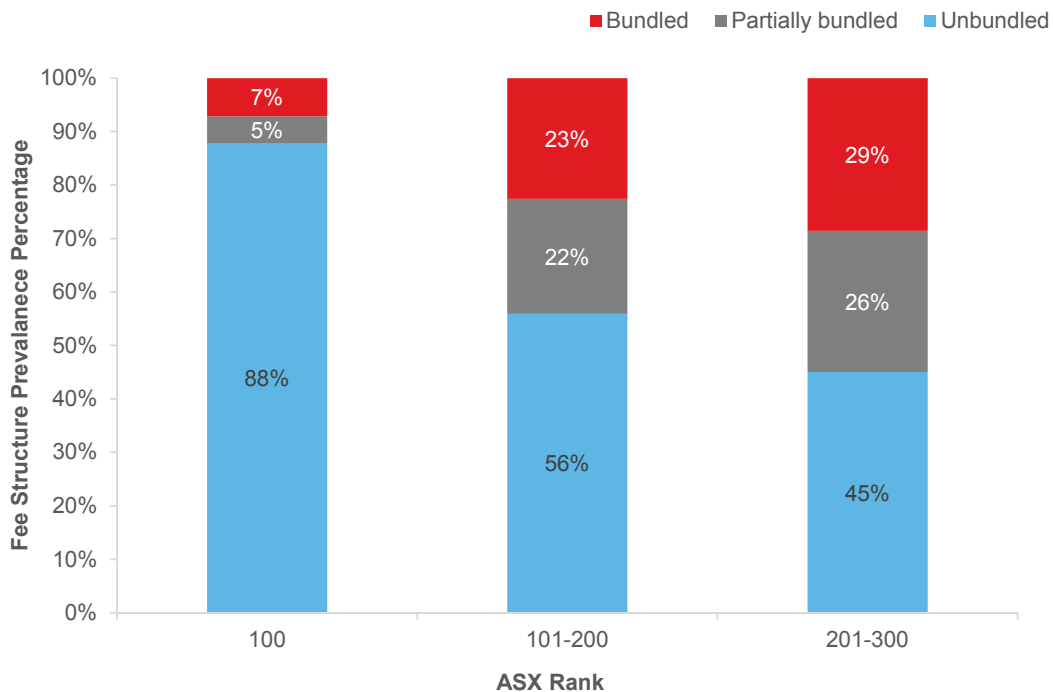
Fee structures

Board fee structures can be split into three categories: (a) bundled; (b) partially bundled, and (c) unbundled. These terms are defined below:

- a) **Bundled:** Director remuneration is 'bundled' into one fee that encompasses both main Board and Committee duties
- b) **Partially bundled:** Directors receive additional fees for chairing a committee, but regular Members of that committee do not (i.e. the committee chair's fees are 'unbundled', but the committee Members' fees are 'bundled')
- c) **Unbundled:** Directors receive additional fees for all committee duties

The chart below displays the relative prevalence of the above fee models. Clearly unbundled models make up a majority of the overall ASX300 market. Looking more closely, we find that the prevalence of unbundled model is much higher in the ASX100 and reduces progressively with company size.

Fee Structure Prevalence – ASX300

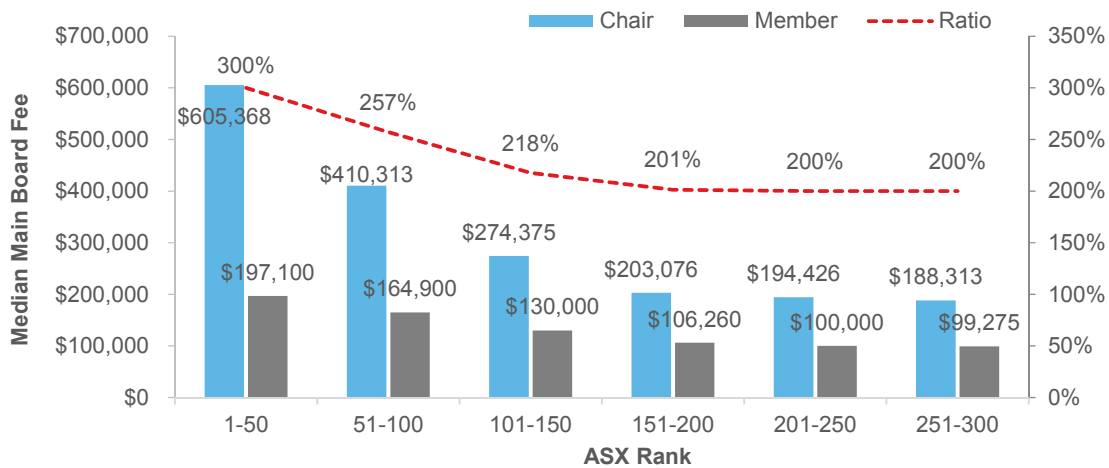


Main Board Fees

Main Board fees are remuneration received by the Chair and Members of an organisation’s main Board, excluding any supplementary fees for involvement in sub-committees. The fees expressed in the tables below are inclusive of superannuation.

Median by ASX Rank

The chart below displays the median main Board fee for Chairs and Members as categorised by ASX rank. The line indicates the ratio of Chair-to-Member fees, which is typically observed to be around 200% for the ASX101-300 and increases to 300% for the ASX50. In comparison to the previous year, the median Chair fee for the ASX251-300 rose by approximately 11% from \$170,000 to \$188,313.

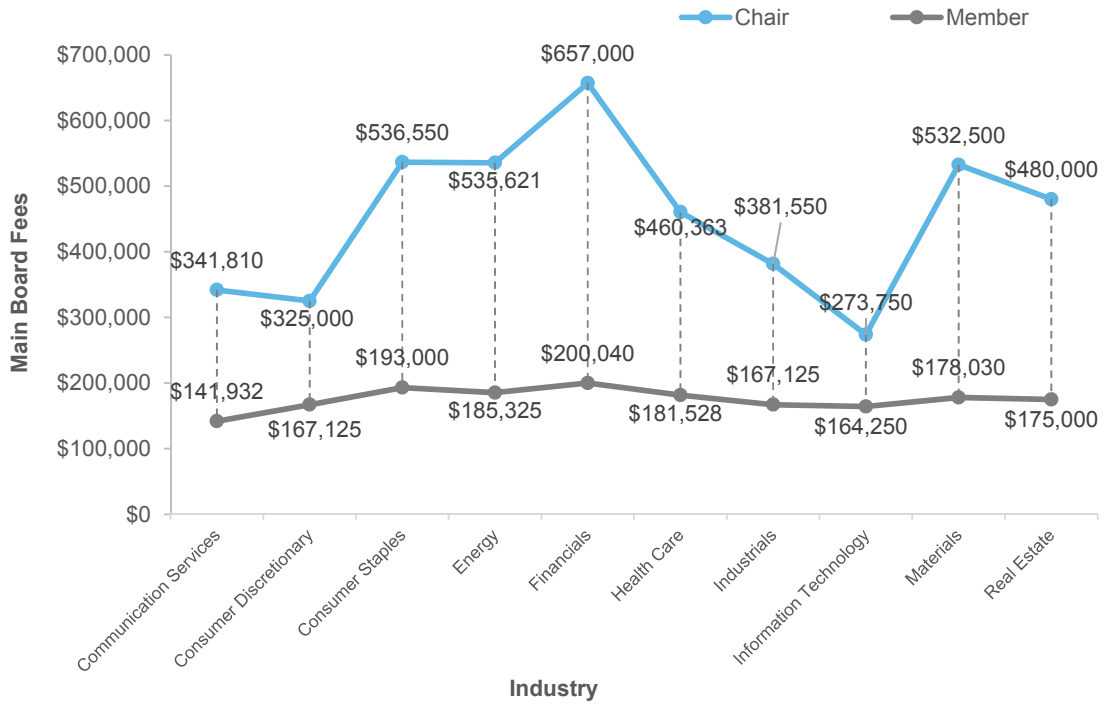


Median Main Board Fee by ASX Ranks and Industry

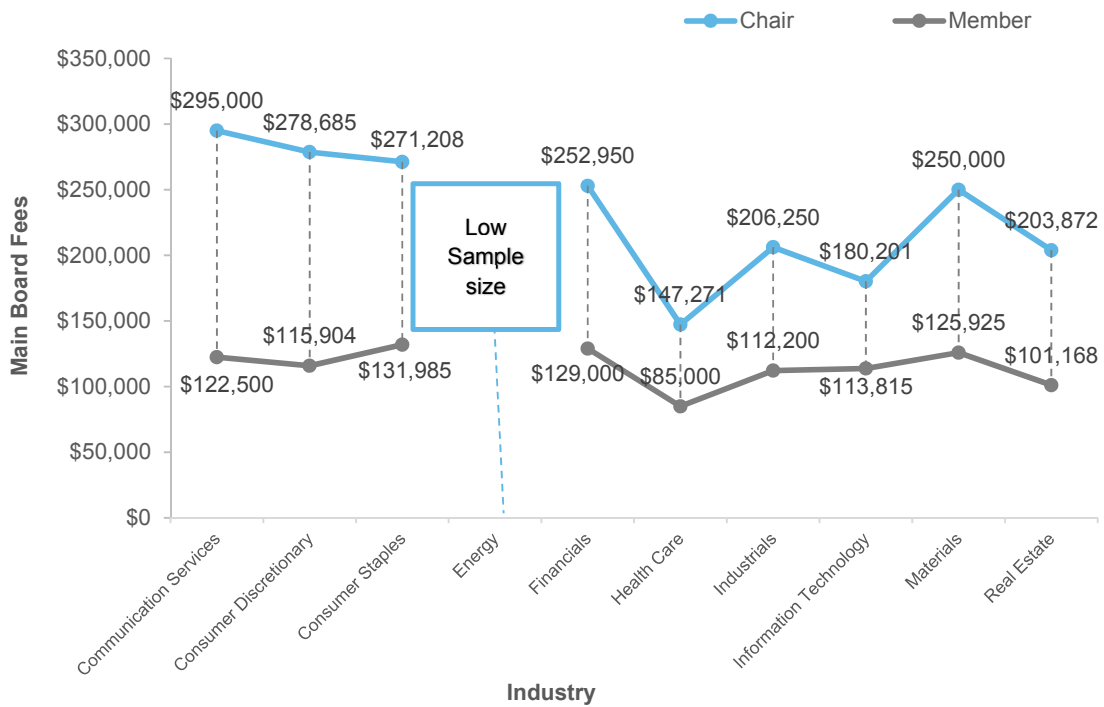
The charts below show the variation in main Board fees by ASX Rank and industry. The graphs indicate that Consumer Staples as an industry is within the top three highest-paying industries across all ASX100, ASX101-200 and ASX201-300 categories. For the ASX100, unsurprisingly, the Financials industry shows the highest median Chair fee and second-highest Member fee, reflecting the impact of a higher level of regulatory compliance expectations. The Energy industry also appears in the top three highest-paying industries in the ASX100 and ASX101-200, reflecting the highly technically-intensive nature of the industry.

It is noteworthy that the level of variance in Chair fees across industries is observed to be higher than in Member fees. As an illustration, for the ASX100, the highest median Chair fee was observed in the Financial sector, which is 240% of the lowest median Chair fee observed for the Information Technology sector. However, the highest median Member fee observed for the Consumer Staples sector was 136% of the lowest median Member fee in the Communication Services sector.

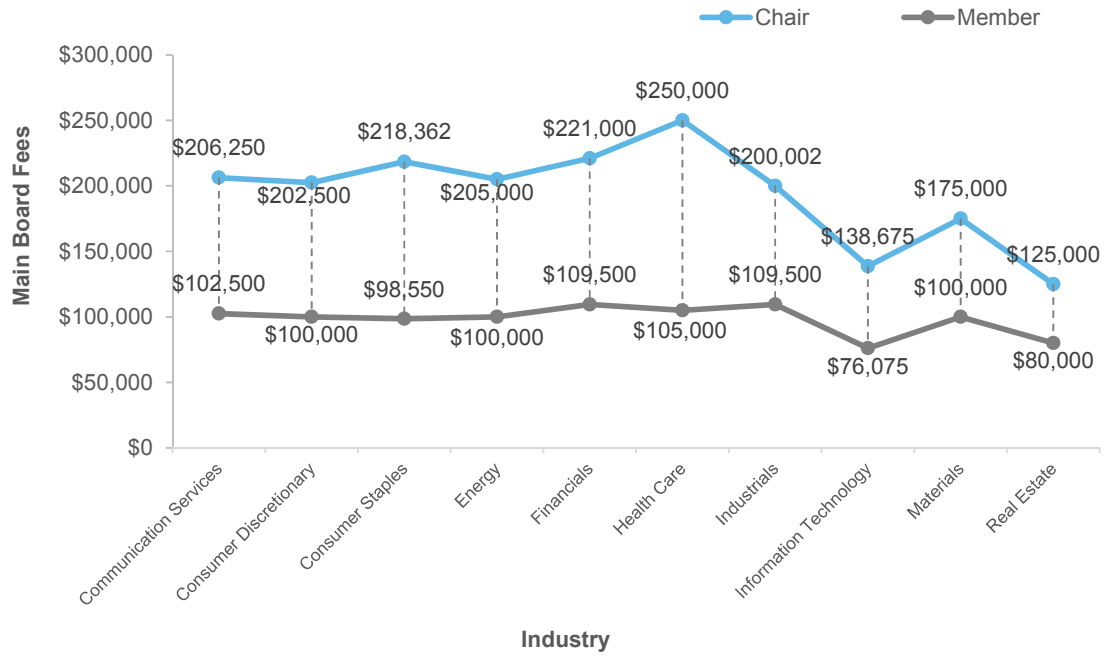
Main Board Fees for ASX100 by Industry



Main Board Fees for ASX101-200 by Industry



Main Board Fees for ASX201-300 by Industry



Committee Fees

Audit & Risk Committee Fees

The tables below outline fees paid for the Chair and Members of Audit & Risk Committees. As companies' committees do not follow a uniform structure, Aon has in some cases aggregated data from committees responsible for Audit or Risk on a separate basis: in these situations, Aon has taken the higher fee as the basis for the sample.

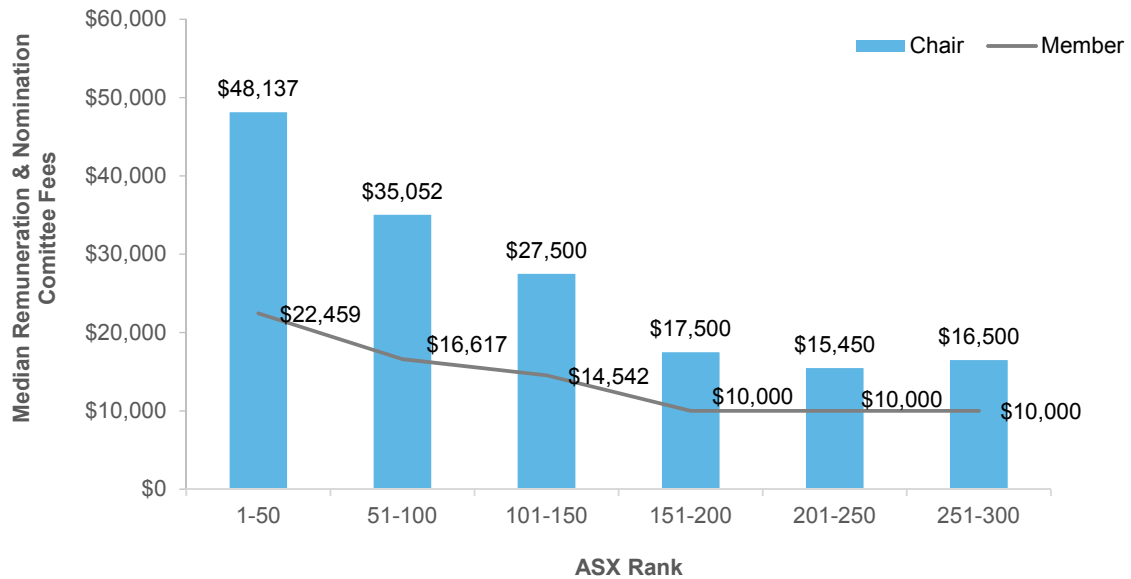
Median Audit & Risk Committee Fees by ASX Ranking



Remuneration Committee Fees

The tables below outline fees paid for the Chair and Members of Remuneration Committees. As companies' committees do not follow a uniform structure, Aon has in some cases aggregated data from committees responsible for Nominations or Remuneration on a separate basis: in these situations, Aon has taken the higher of the two individual committees' fees.

Median Remuneration & Nomination Committee Fees by ASX Ranking



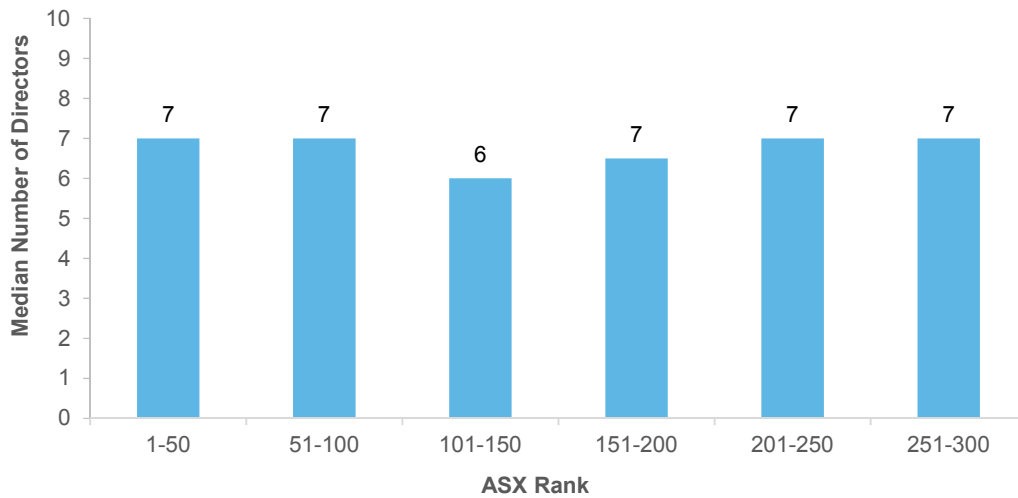
Board Composition and Workload

This section displays an analysis of Board composition including the number of Directors, split between male and female Directors, as well as the number of meetings conducted annually.

Total Number of Directors

The charts below detail the median number of Directors serving on the main Board, including Executive Directors. As observed, the number of Directors serving on the main Board is not observed to differ materially by ASX rank.

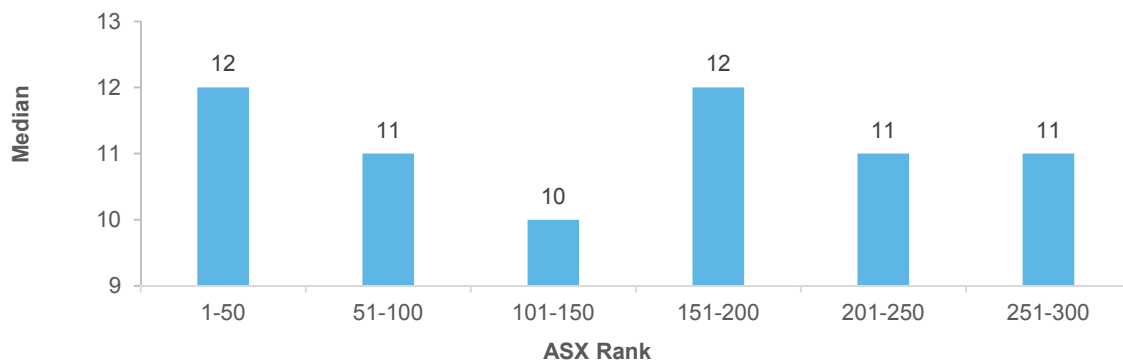
Median Number of Directors by ASX Ranking



Board Meetings

The tables below examine the number of scheduled main Board meetings held annually. There is no material difference observed in the number of main Board meetings by ASX rank.

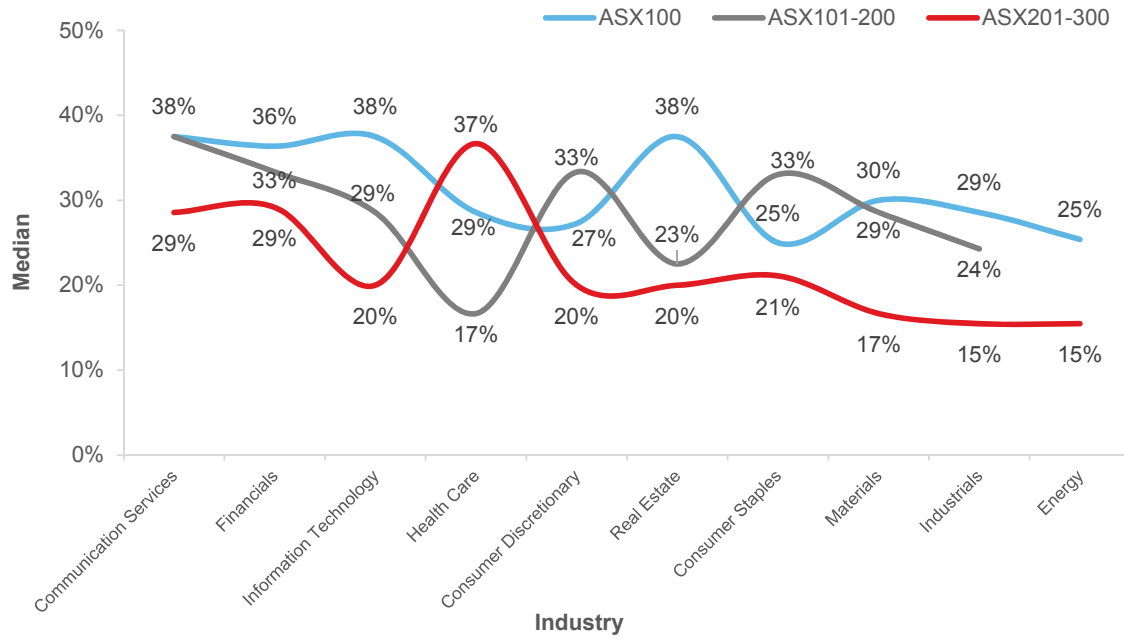
Median Number of Board Meetings by ASX Rank



Female Representation

Board gender equality has been a topic of debate for corporate Australia for some time now, with investor bodies like ACSI pushing for more gender equality on Australian Boards. The chart below shows the female representation on Australian Boards by ASX rank and industry. Communication Services, Financials, IT and Health Care sectors have the highest observed female representation whereas Materials, Industrials and Energy sectors are on the lower end of the spectrum.

Median female representation by Industry



Appendix A: Terms used in this Report

Main Board Fee	<p>The fee for service as the Chair or Member of the Main Board, as reported in the fee schedule in the company's most recent annual report or in survey data, effective for FY2019. Where the latest annual report was not available or filed, we have considered the 2018 annual report. This applies only to organisations with a December year-end.</p> <p>Fees reported are inclusive of superannuation.</p>
Committee Fee	<p>The fee for committee service as either the Chair or Member, as reported in the fee schedule in the company's most recent annual report or in survey data, effective for FY2019. Where the latest annual report was not available or filed, we have considered the 2018 annual report. This applies only to organisations with a December year-end.</p> <p>Fees reported are inclusive of superannuation.</p>
Total Fee Pool	<p>The maximum aggregated sum set aside by the company from which directors are remunerated.</p>
Board Meetings	<p>The number of formal main Board meetings scheduled per annum.</p>
Committee Meetings	<p>The number of formal Committee meetings scheduled per annum.</p>

Appendix B: Interpreting Data Tables

25th percentile	Point below which 25% of incumbents in the sample are paid. Remuneration falling below the 25 th percentile is said to be in the first or bottom quartile (Q1).
Median (50th percentile)	Point below which 50% of incumbents are paid. Remuneration falling between the 25 th percentile and the market median is said to be in the second quartile (Q2).
75th percentile	Point below which 75% of incumbents are paid. Remuneration falling between the market median and the 75 th percentile is said to be in the third quartile (Q3). Remuneration falling above the 75 th percentile is said to be in the fourth or top quartile (Q4).
Average	The simple average of remuneration data for all incumbents in the sample.
Sample size	The number of organisations used in each sample.

Each remuneration component in the remuneration table is calculated independently, indicating that only data from incumbents that receive that remuneration element goes into the calculation for the values of that element. The aggregated remuneration components (e.g. Total Remuneration) are not the sum of the preceding lines on the table, as not every incumbent in a position receives each remuneration component (e.g. only some may have a Target STI).

Statistical Conventions: Data Confidentiality

Maintaining confidentiality of client data is paramount to Aon's reputation as a leading survey provider and remuneration consultancy. The culture of the organisation and every system and process utilised by Aon staff are built around client data confidentiality.

Remuneration results are published only where there is a minimum of three peer organisations contributing data to a remuneration component. In addition, the following minimum requirements concerning incumbent numbers (individual lines of data) apply.

Summary statistic	Minimum sample (lines of data)
25 th percentile	5
50 th percentile	4
75 th percentile	5
Average	3

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