sage

- **Please can you explain the discrepancy between the pensions awarded to Mr Hare and Mr Howell at 15% and 10% of their base salaries, respectively? To improve alignment with shareholders, please can you standardise pension awards at the lower rate of 10% - which is still competitive - and increase variable, performance-based awards instead?**
    - The discrepancy in pension provision reflects the timing of the Directors' appointment to their current roles. When Steve Hare was promoted to CEO in November 2018, his level of pension provision was reduced from 25% to 15% of salary to comply with our prevailing Directors' Remuneration Policy (as set out in our 2018 Annual Report). Following the publication of updated guidance from the Investment Association in late 2018, we further reduced the maximum level of pension provision for future Executive Director appointments to 10% of salary. This was then applied to Jonathan Howell when he was appointed CFO in December 2018. The pension policy for Steve Hare will be reviewed as part of our next Policy cycle, which will be subject to approval at the 2022 AGM.

- **Please can you explain why costs relating to the hosting of Platinum Elite events (£61,533) are reflected in Mr Hare's benefits awards? Also, does this number represent the full cost of hosting the event? Additional information on the program would be much appreciated.**
    - The Platinum Elite benefit included in Steve Hare's remuneration relates to items such as travel and accommodation (on a grossed-up basis) incurred by him whilst hosting the trip which is regarded by HMRC to be taxable to Steve and therefore disclosable as remuneration. It is not the full cost of the event, which would fall outside of the scope of Steve's remuneration. The programme is a major internal event for high-performing colleagues, first launched in 2016 (see p.53 2016 ARA) which we review annually to ensure it remains aligned to our talent agenda.

- **Regarding the ROCE underpin of PSP awards, at 12% it does not appear to be a particularly challenging hurdle. Please can this be moved closer to the level around 20% achieved in recent years? Even 15% would be a more reasonable, stretching threshold.**
    - The main financial metrics for PSP awards are ARR growth and Cloud Native ARR growth and highly challenging growth targets aligned to delivery of our strategic ambitions have been set for both of these metrics. By contrast, ROCE is intended to act as an underpin to these primary metrics (thereby ensuring that the ARR targets can't be met at the expense of highly inefficient capital allocation) and the underpin target has been set accordingly.
    - The ROCE underpin of 12% represents a premium on our weighted average cost of capital. Whilst Sage is not a capital-intensive business, the use of ROCE as an underpin should give some comfort to investors that management will allocate capital to create value for shareholders, whilst providing some flexibility to invest to grow and continue to implement our sustainable dividend policy.

- **With respect to the TSR weighting which guides PSP awards, I understand it has been reduced to 30% but question how much value this adds in its current form. Would it not be fairer and more relevant to measure absolute TSR as opposed to relative? Or else, why not measure against a metric entirely in managers' control such as Retention or Free Cash Flow (conversion rate or absolute)? Changing this should simplify measurement while avoiding comparison with companies not entirely relevant in industry or geographic terms.**
    - Just to clarify, relative TSR has been weighted at 30% of PSP awards since 2019, so its implementation in 2021 is consistent with the last two years.
    - Our remuneration framework uses a balance of metrics designed to assess performance against a range of parameters. TSR provides an external assessment of performance to complement the more internally focussed metrics such as ARR, Cloud Native ARR and Customer NPS which account for the majority of the performance scorecard.
    - The Remuneration Committee prefers relative TSR to absolute TSR as it neutralises the effect of general market movements when assessing the performance of Sage's returns to shareholders. The choice of the FTSE 100 excluding extraction and financial services companies provides a broad and relevant base for assessment and avoids the distortions that can occur in smaller industry-specific comparator groups (such as when one or more comparator is subject to a bid or rumour of a bid). The Committee also believes that changes in absolute TSR are reflected in the share price at the point of vesting, so any underperformance in absolute TSR will be reflected in the value management realise from the PSP awards when they are released.

- **Please can you provide an update on the status of your search for a new chairperson? The degree of forward planning and transparency of communication have been excellent so far, but has the process been impacted at all by the pandemic or is it likely to be delayed?**
    - The process to appoint a new Chair is well underway. The process has not been impacted so far by the pandemic nor are we currently expecting it to be delayed. Due to the ongoing process and confidentiality reasons, we are unable to disclose any further information at present but we will update on the matter once the selection has been made.