



2018 PROXY SEASON REVIEW & OTHER TOPICS

Hugessen Breakfast Seminar | June 13, 14 & 20 2018

HUGESSEN
CONSULTING

Agenda for Today's Event

Welcome

Highlights from 2017 Proxy Season

Comments from Guests

Open Discussion

Closing Remarks



Highlights from 2018 Proxy Season

Highlights from 2018 Proxy Season



Performance and Pay



Pay Mix and Plan Design



Say on Pay Results

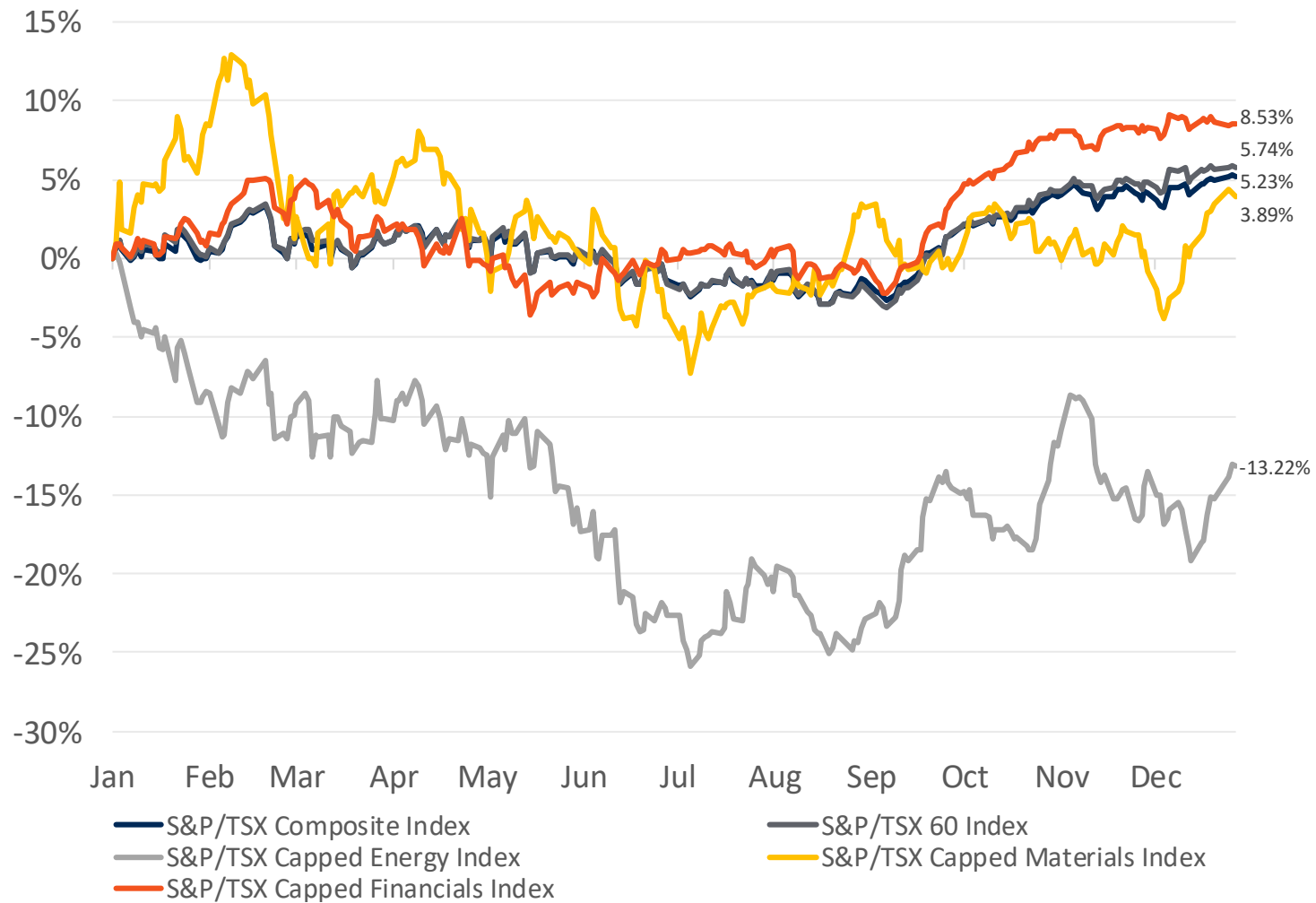


Emerging Topics and U.S.

Scope of study:

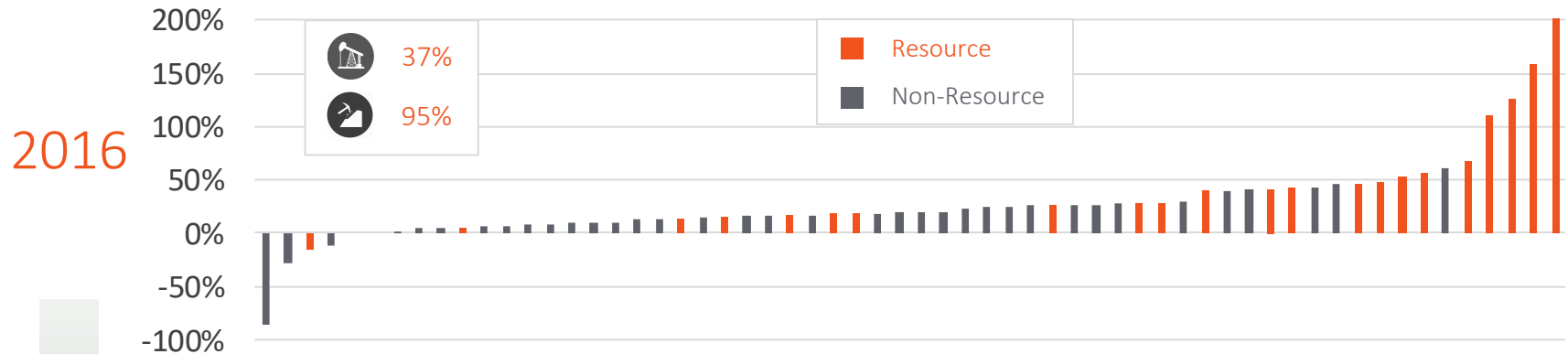
- Companies in the TSX 60 Index
- 2018 proxies commenting on Fiscal 2017 (n = 59)
- Say on Pay results among the TSX Composite as of June 11, 2018 (n = 155)

2017 Sector Performance – solid year following a strong 2016

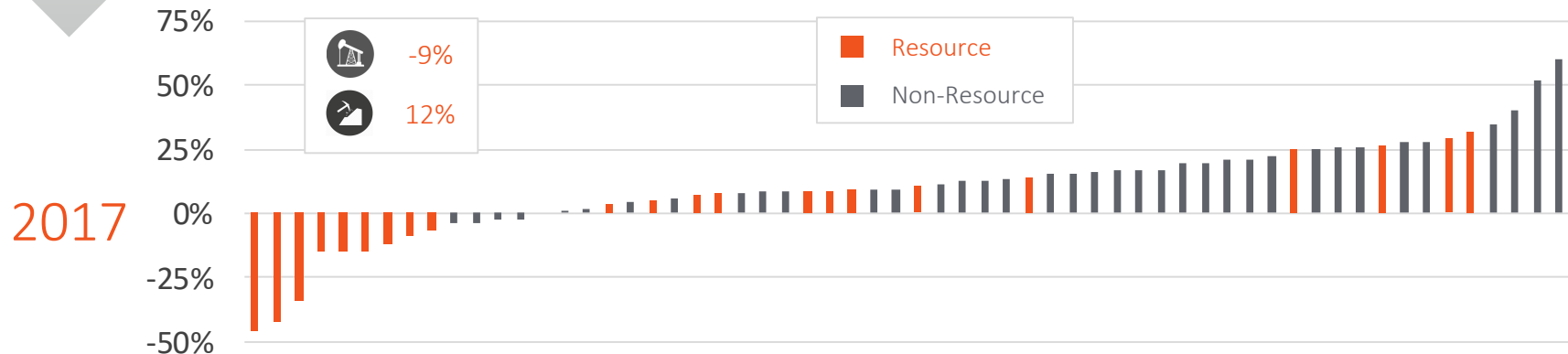


2017 Growth – resource sector underperforms non-resources

TSX60 Index Constituents - 2016 Total Shareholder Return

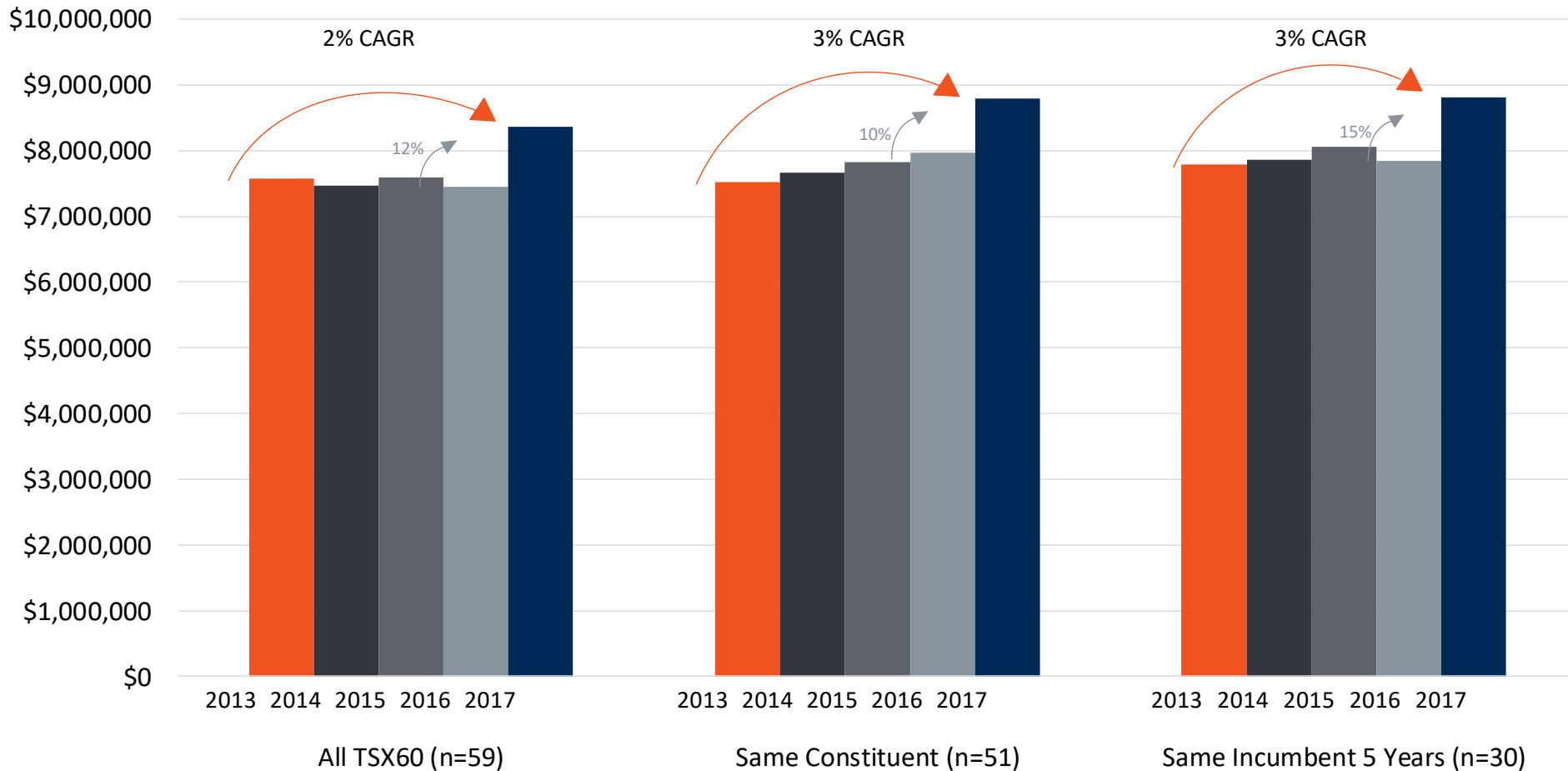


TSX60 Index Constituents - 2017 Total Shareholder Return



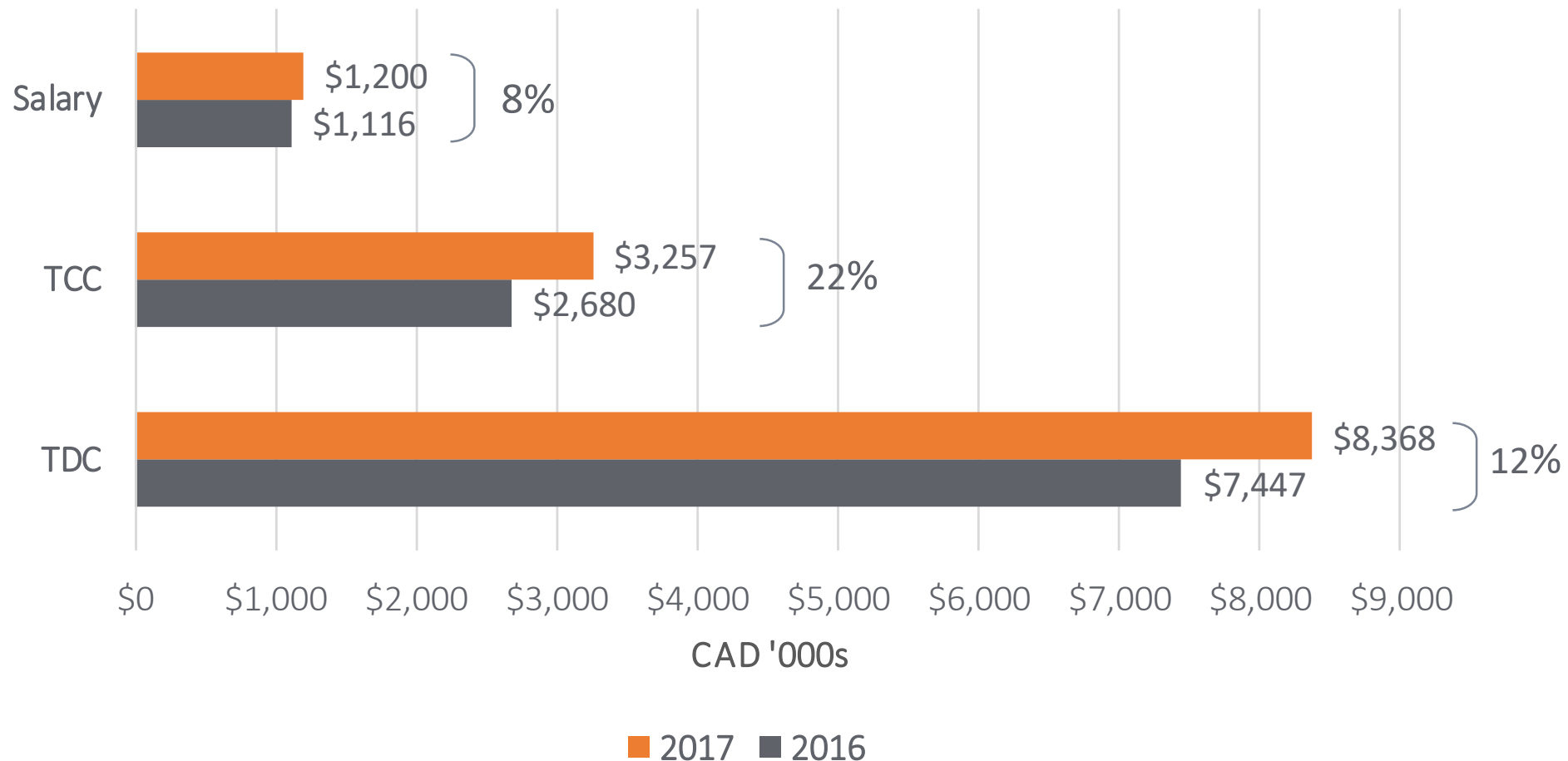
Is CEO Pay Being “Ratcheted” Up?

5 Year Trend in Median TSX 60 CEO TDC



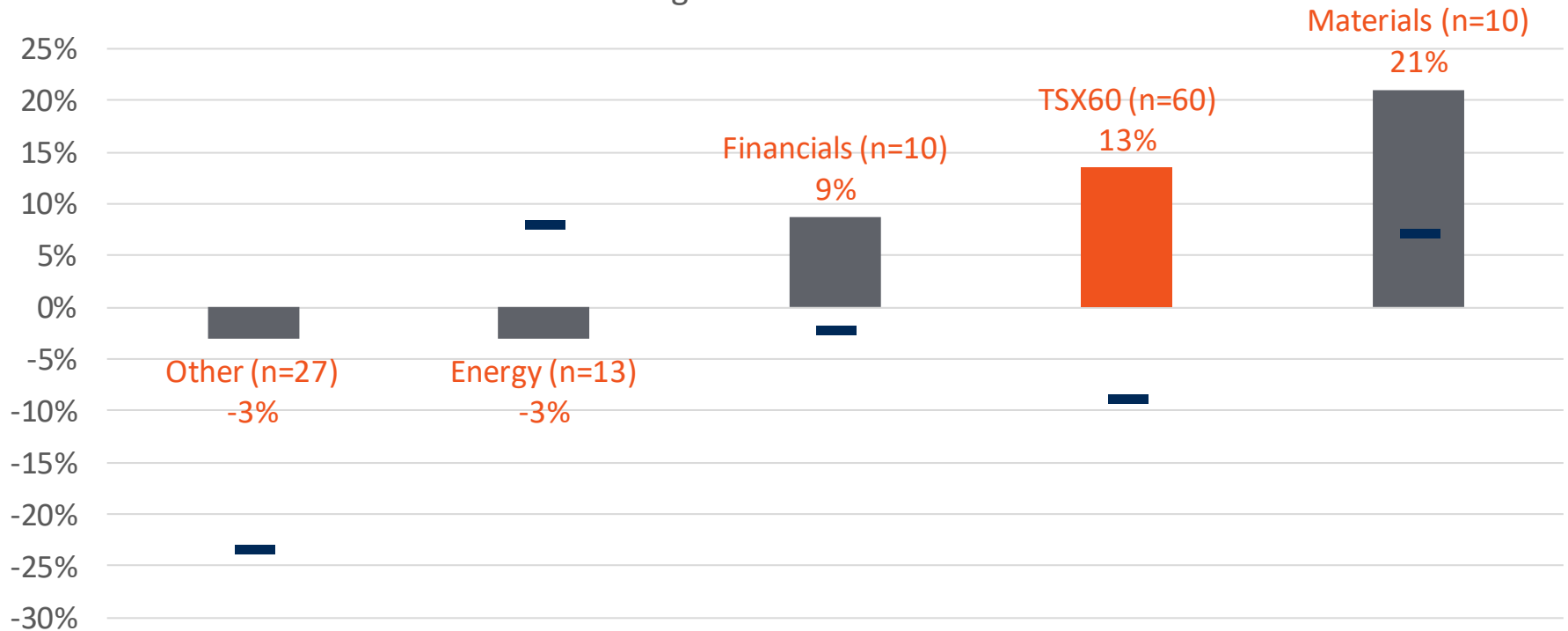
2017 CEO Pay Trends – material increase in STIP

TSX60: Year-Over-Year Changes in Actual Compensation 2016 & 2017



2017 Industry Pay – a strong year for materials and financials

Year-over-Year Change in Median TSX 60 CEO TDC

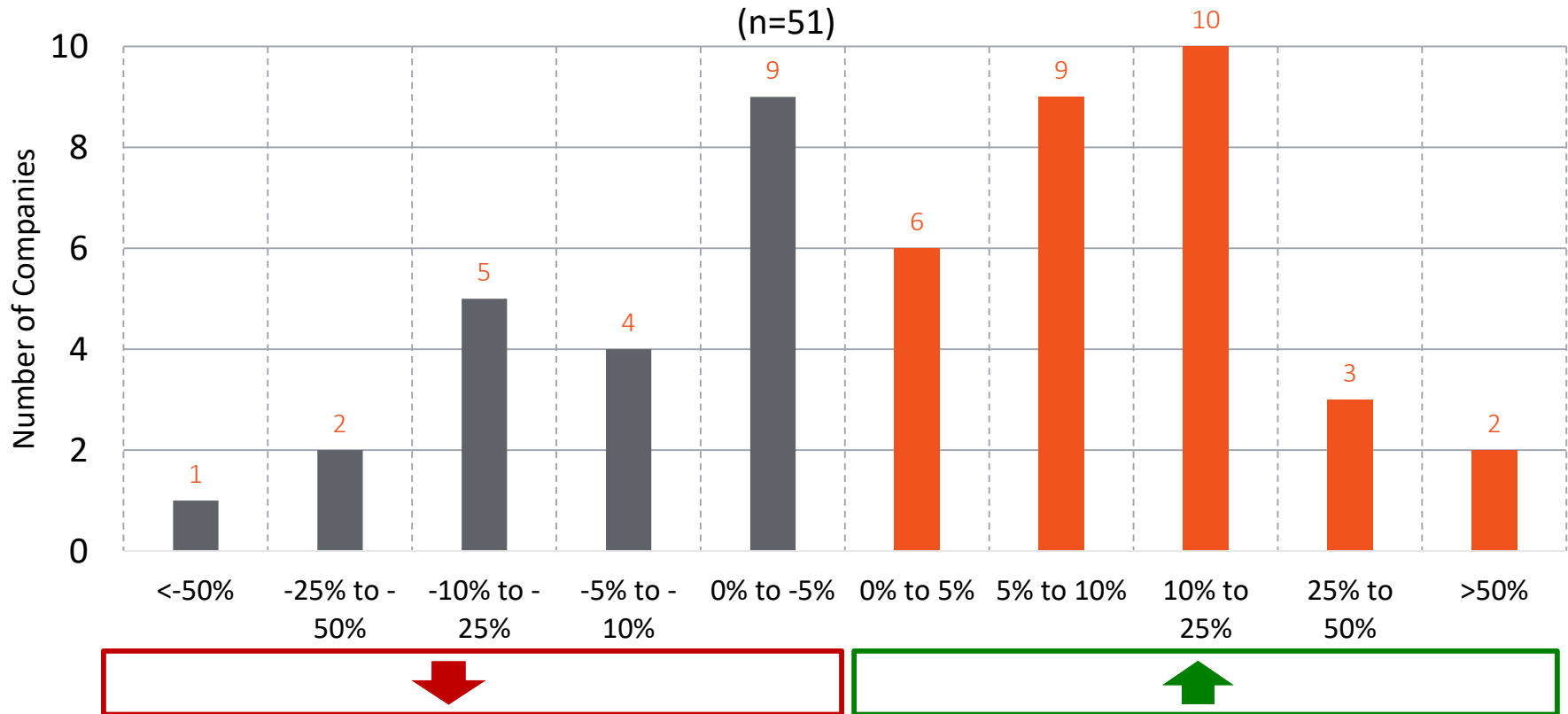


■ Median — Average

2017 Same Incumbent YOY Actual Pay

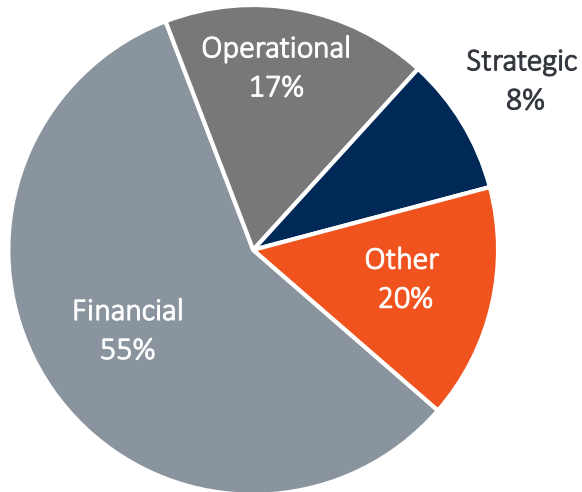
More instances of companies increasing YOY same incumbent pay – mostly in the 5-25% range

Year-over-Year Change in Same Incumbent Actual Total Direct Compensation



TSX60 Incentive Design – No significant change in STIP design

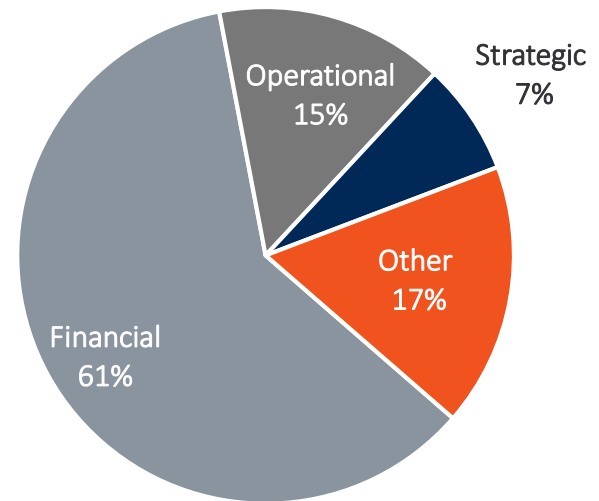
2016 Average STIP Scorecard Weight



2016 STIP Metrics

Average number of types of metrics used: 2.8
57% have an individual component

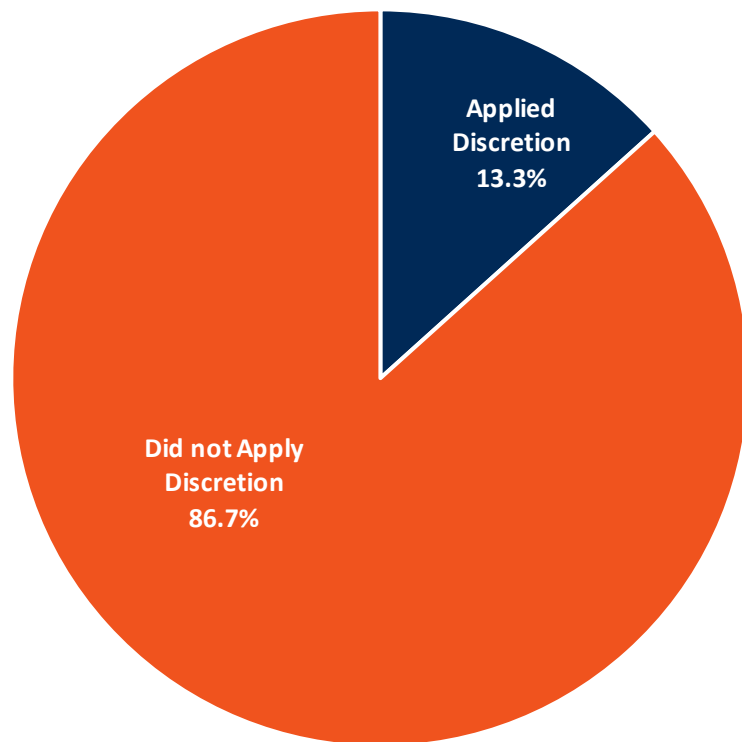
2017 Average STIP Scorecard Weight



2017 STIP Metrics

Average number of types of metrics used: 2.6
60% have an individual component

Lower prevalence of “override” discretion in 2017



13% of the TSX60 applied discretion in 2017, representing a decrease in use of discretion from 2016 (29%)

Note: n=59



Adjustment to metrics in light of acquisition timing



Crescent Point
ENERGY CORP

Decrease of CEO salary and STIP



Downward adjustment to corporate performance score



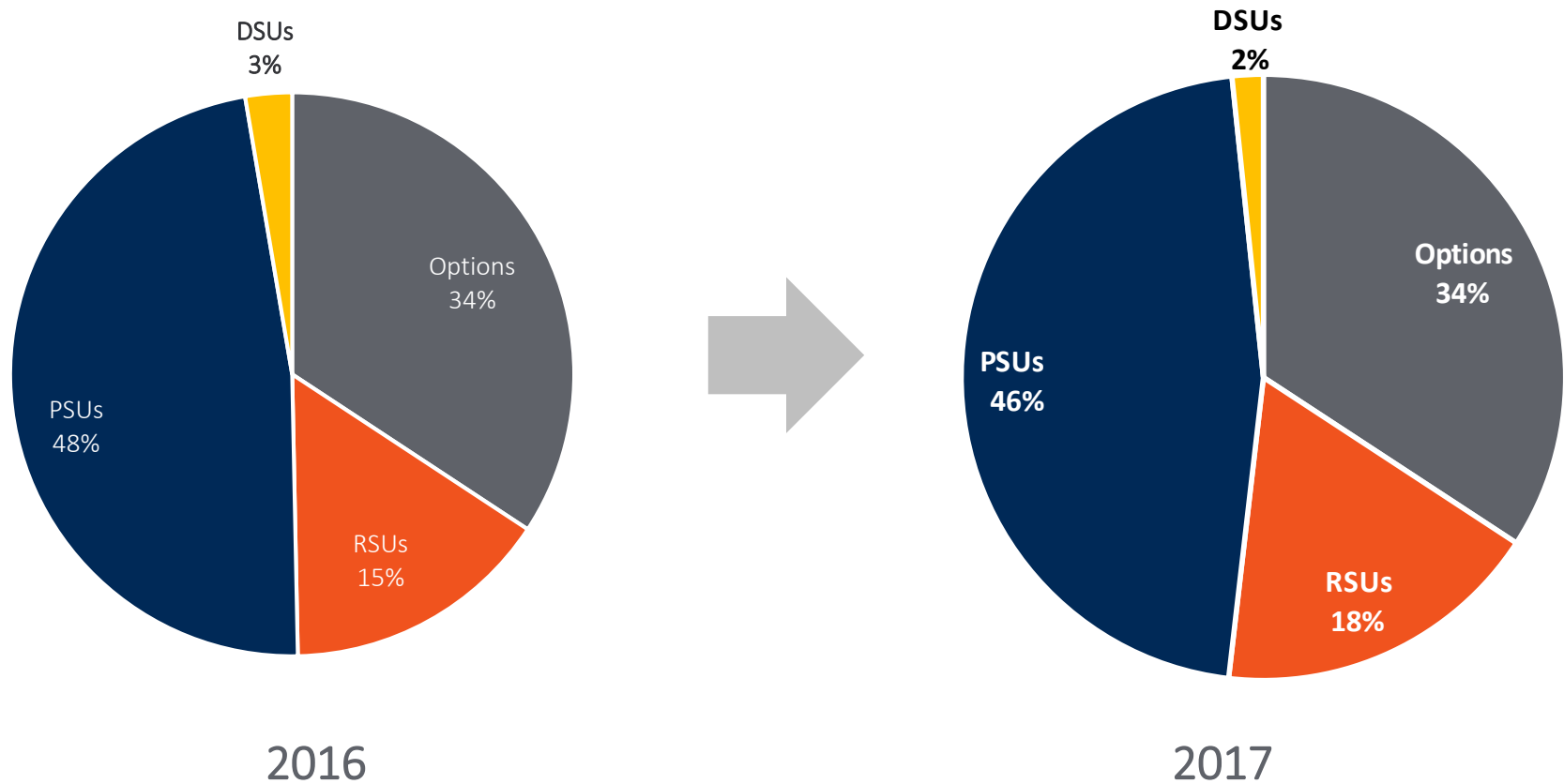
Downward discretion to offset favourable impact of US operations sale



Increase to qualitative adjustment for CEO and top 4 NEOs

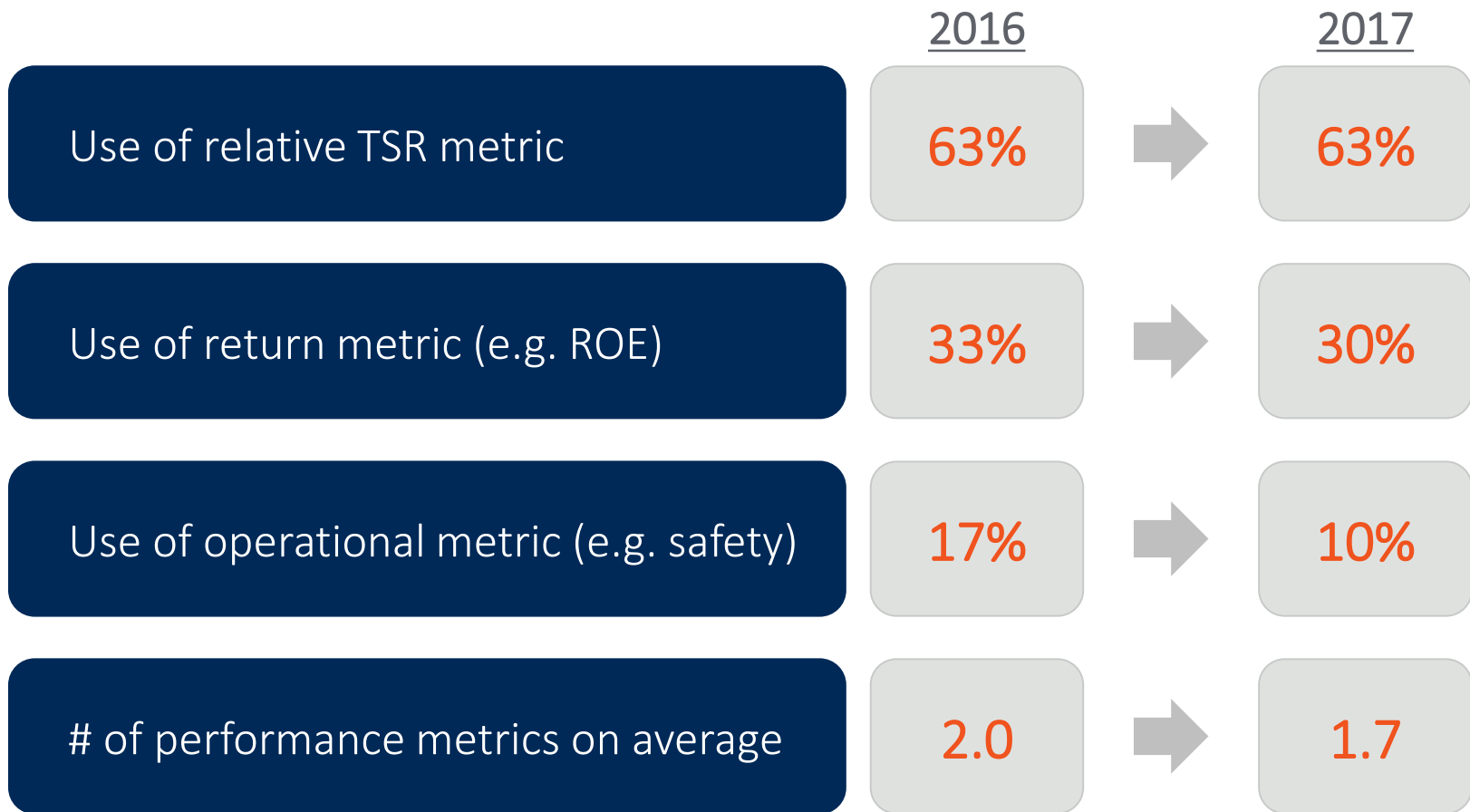
CEO Pay Mix and Plan Design: LTI Mix

Long-term incentive plan mix generally consistent year over year



Pay Mix and Plan Design: PSU Framework

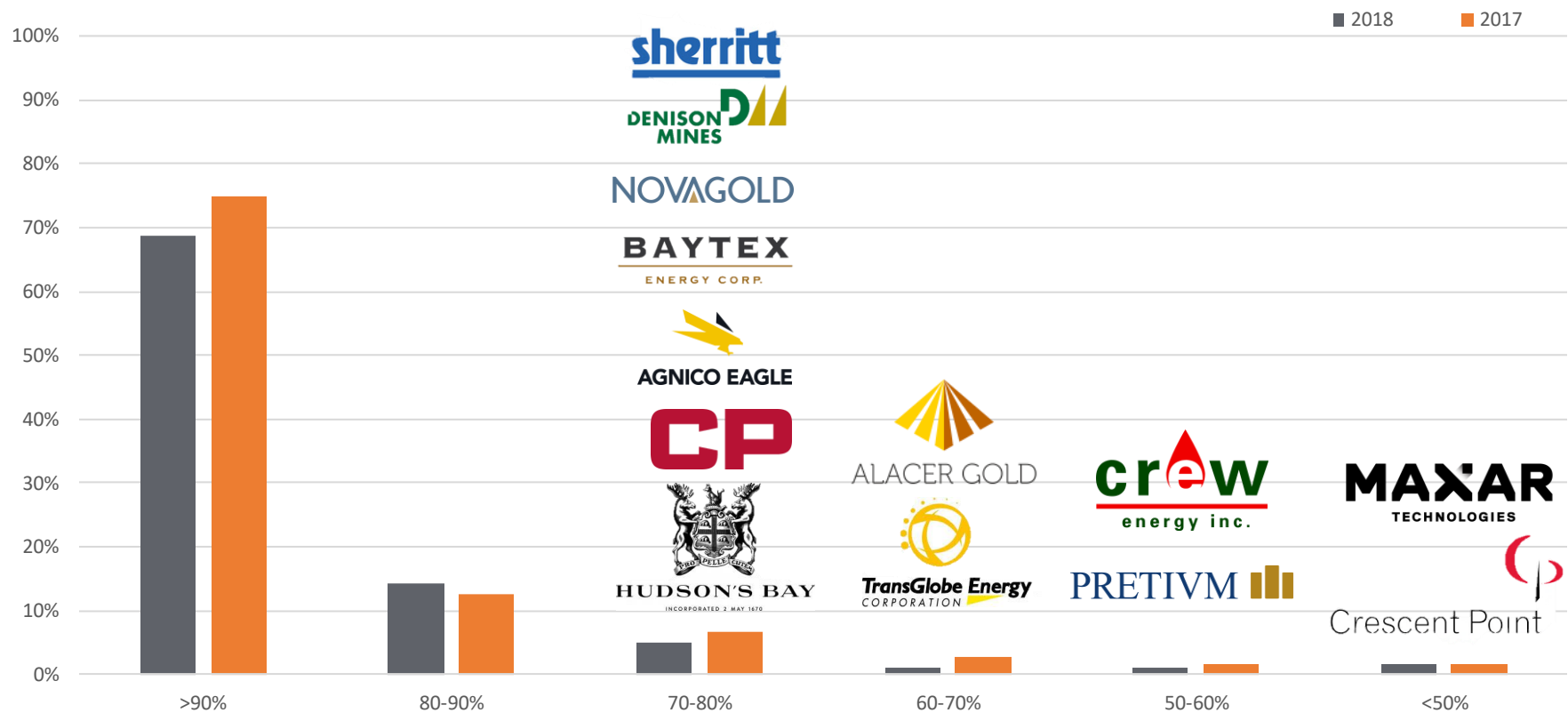
Little change in PSU performance design



Say-on-Pay results of TSX listed companies in 2018

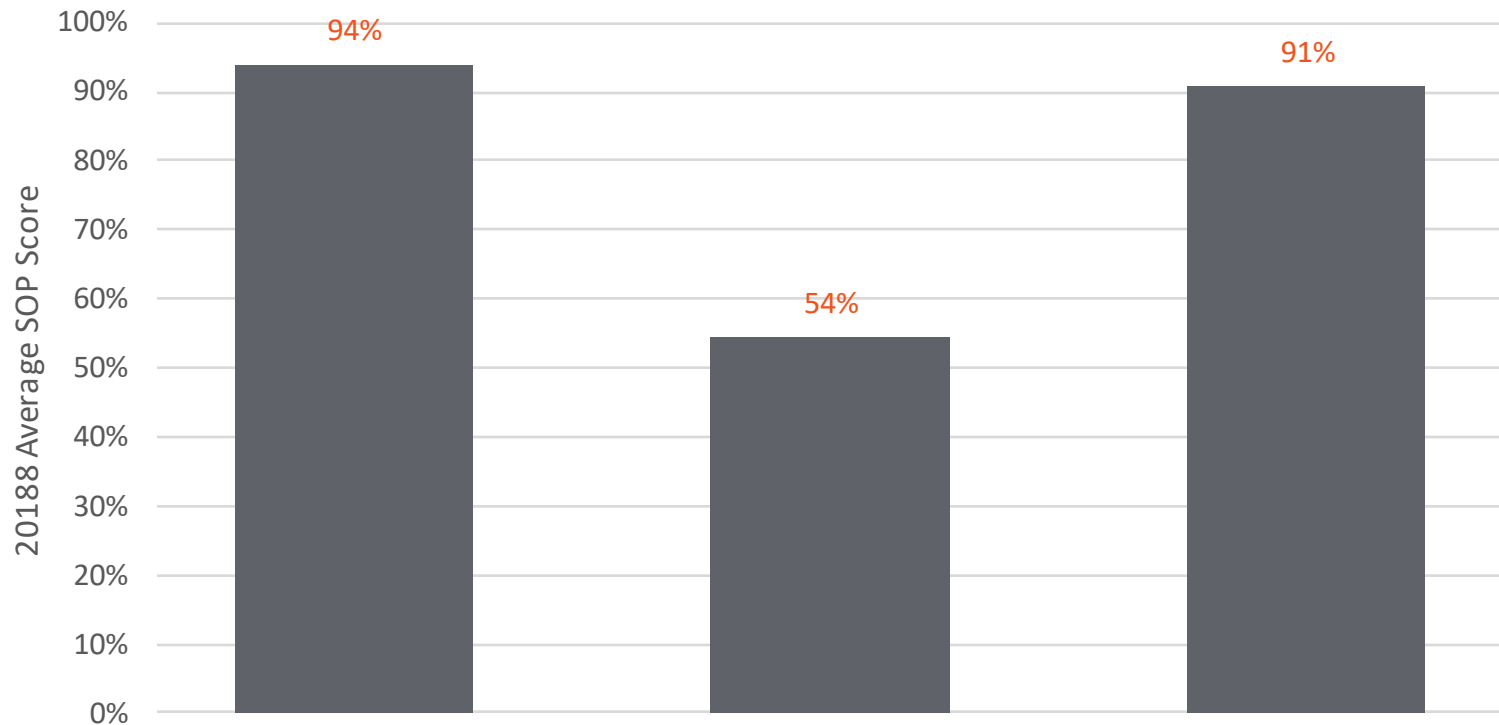
Overall, we see a similar pattern in voting results as 2017

Canada Say-on-Pay Voting Results 2018 vs. 2017



Results as of June 20th, 2018

Say on Pay Results: Influence of ISS and Glass Lewis on TSX60 Companies



GLASS LEWIS



n=40



n=2



n=1



2018 Say-on-Pay Poor Results

- Two Say-on-Pay failures so far in 2018. Misalignment between pay and performance continues to be a key factor behind recommendations “against” by proxy advisors

Company	“AGAINST” Recommendation from Proxy Advisor	Key Issue	2018 SoP Result
		Pay and performance disconnect	37%
		Pay and performance disconnect	47%
		Pay and performance disconnect	70%



Companies Responding to Low Say-on-Pay in 2017

Substantial changes in pay practice and decisions led to notable improvements in 2017 Say-on-Pay approval rating

Company	Key Issue	Response	SoP Result
	Pay and performance disconnect	<ul style="list-style-type: none"> Engaged with shareholders Coal negotiation and transition metric added to STIP Reduce option weighting by 5% Increase PSU weighting by 5% Removed Enbridge as a peer No discretionary awards considered 	47% → 89%
	Pay and performance disconnect	<ul style="list-style-type: none"> Engaged with shareholders Cancelled CEO's front-loaded sign-on PSU grant STIP payouts purely formulaic CEO LTIP mix change from pure PSUs to mix of PSUs, RSUs, Stock Options 	68% → 95%

Companies Responding to Low Say-on-Pay in 2017

Substantial changes in pay practice and decisions led to notable improvements in 2018 Say-on-Pay approval rating

Company	Key Issue	Response	SoP Result
	<p>Misalignment of value distribution between shareholders and executives</p>	<ul style="list-style-type: none"> Engaged with shareholders Removal of Working Capital and Cost/Oz metrics, addition of Strategic Initiatives metric 2-Year relative TSR replaced with 50/50 split between 1-Year and 3-Year relative TSR Clarified equity award metrics 	<p>68% → 95%</p>
	<p>Poor overall design</p>	<ul style="list-style-type: none"> Adoption of clawback Improved disclosure of STIP metrics and discretionary bonuses STIP scorecard reweighting (50% discretionary to 25% discretionary) Introduction of PSU plan 	<p>73% → 96%</p>

Best Practices in Proxy Disclosure (CCGG)

Shareholder
Engagement



Use of Visual Aid



Director Nominee
Profiles



Executive
Succession



Executive
Compensation and
Risk Management



Diversity Policy



On-going Themes

Longer-Term Long-Term Incentives

Introduction of instruments with terms of 5+ years

Use of Options

2 companies introducing/re-introducing options in 2017

Simplifying Plans

Focusing management on true value-add drivers, easing communication and understanding of plans

Decrease in the sole use of Relative TSR

Movement towards absolute metrics

North-Americanization of Canadian Companies

Adoption of US or North American pay philosophy

Case Studies – Crescent Point and Hydro One

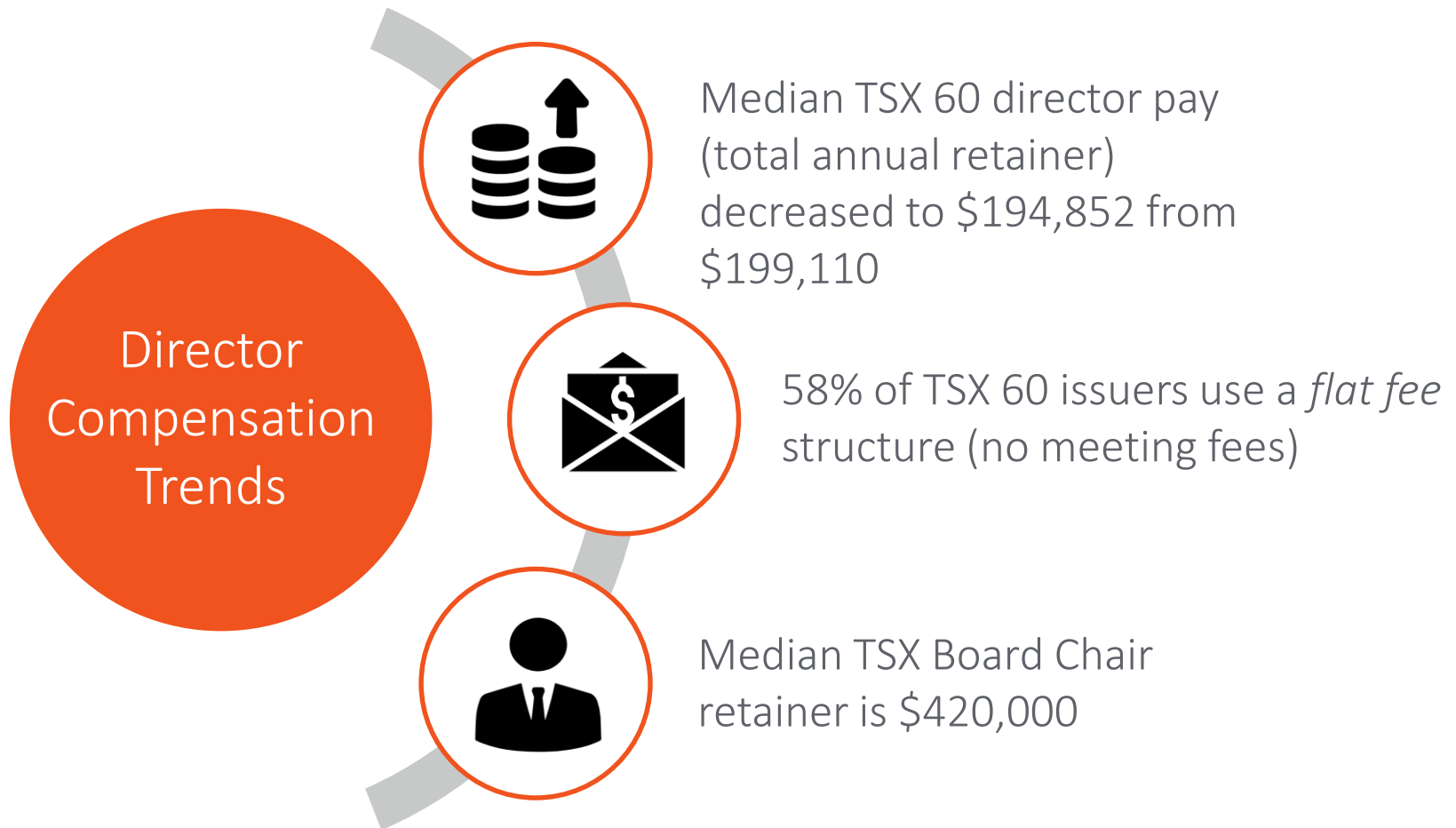


- Minority shareholder, Cation Capital, launches a proxy contest in April 2018
- Cation puts forward 4 nominees, of which ISS supported two
- Shareholders voted down the proposal and voted to re-elect all Crescent Point directors
- Key Takeaways: Board quickly engaged shareholders in response to the dissident proposal
- Average Management Nominee director support: 83%
- 2018 Say-on-Pay support: 38.5%



- Hydro One's executive and director compensation and related governance provisions drew criticism from Ontario politicians
- Province of Ontario (47% owner) abstained from voting on Say-on-Pay. Balance of shareholders voted 92% in favor on SoP
- Key Takeaways: importance of effectively communicating the rationale for pay framework (Canadian growth, expansion to the US, financial performance)
- Yet not immune from politicization

Director Compensation Trends





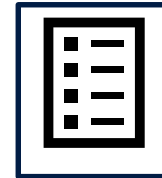
Emerging Topics

Rewarding Growth vs Returns



Shareholder Community Concern

- Shareholders have become increasingly vocal on over-emphasis of growth (v. returns) in compensation design, particularly in extractive industries
- Ontario Teachers' Pension Plan article, Sailing Stone, Paulson & Co have all commented on lack of management and shareholder alignment



ISS Updates – Return Metrics

- Updated pay-for-performance methodology in 2017 to include ROE, ROA and ROIC relative to peers



Addition of Return Metrics

- Crescent Point
- Magna
- TD



Board Considerations

OTPP recommendations:

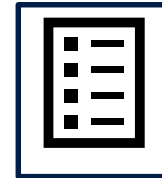
- STIP metrics per share and debt adjusted
- Focus management on ROE and ROCE
- Supplement Relative TSR with Absolute

Gender Diversity & Pay Transparency



Institutional Shareholders

- Public Sector Investment Board (PSP)
- Ontario Teachers' Pension Plan (OTPP)
- Caisse de Dépôt et Placement du Quebec (CDPQ)
- State Street Global Advisors
- Blackrock



Proxy Advisors

- ISS will withhold voting if no diversity policy and no females on the Board
- **Glass Lewis** will recommend against Chair of Nominating committee of Boards with no females and no policy



Gender Diversity Quotas

- As of 2017, 53% of companies in the TSX60 had adopted formal gender diversity quotas



Public Scrutiny

- UK requirement to disclose pay difference between male and female employees; US CEO pay ratio
- Canadian banks called out for significant gender pay gaps

ESG Trends



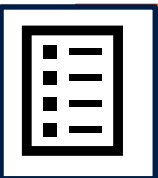
Shareholder Engagement

- Larry Fink letter to CEOs, emphasis on social and environmental impact of operations
- Focus solely on short term financial gain no longer sufficient



Shareholder Community

- Increased proposals in 2018 focused on ESG factors
- OTPP recommends the use of a GHG emissions target in compensation design (where relevant)



Proxy Advisors

- ISS: Effective 2018, includes ISS E&S QuickScore in reporting
- Glass Lewis: Effective 2017, incorporates ESG risk profile into reporting



ESG & Compensation Design

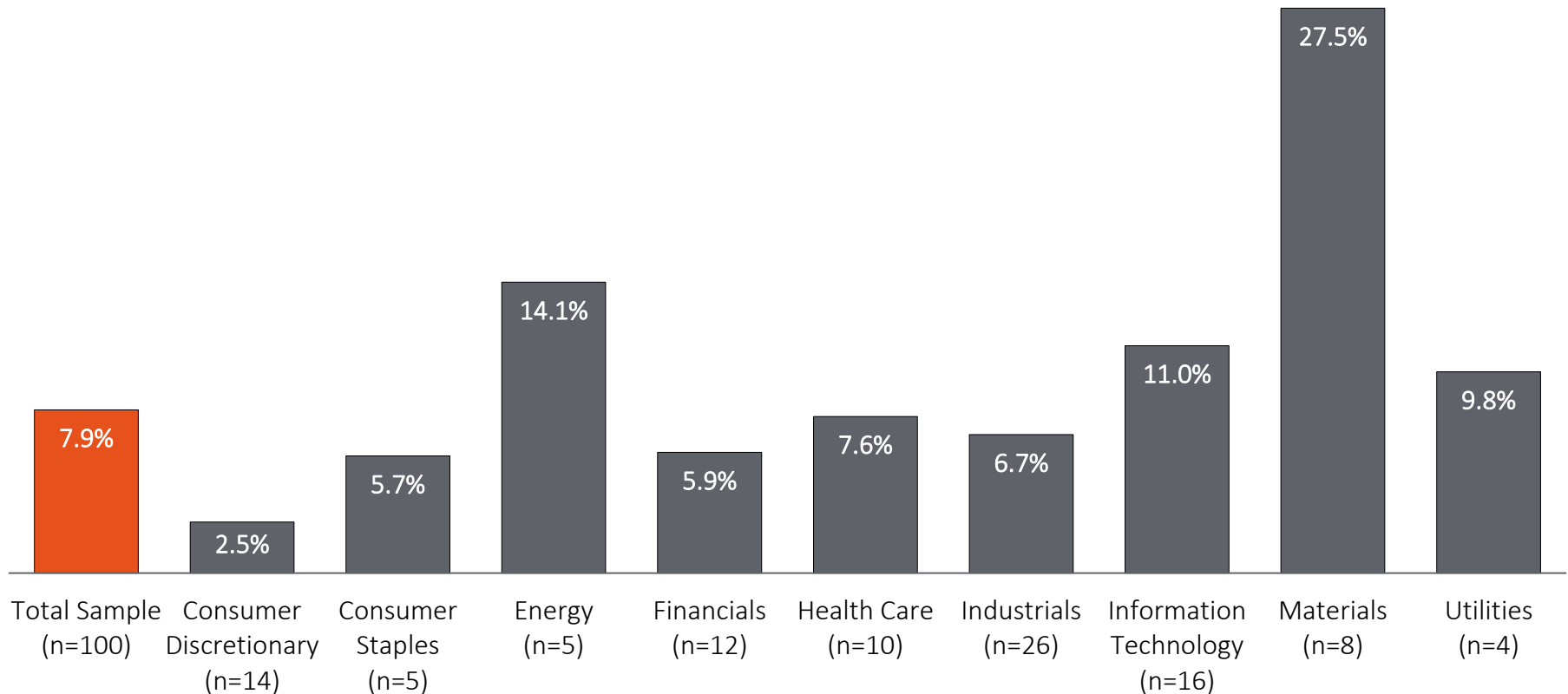
- 77% of the TSX60 use ESG metrics (e.g., CNRL's scorecard, CN Rail)



U.S. Compensation

2018 early proxy filer data – median 1 year change in CEO total compensation

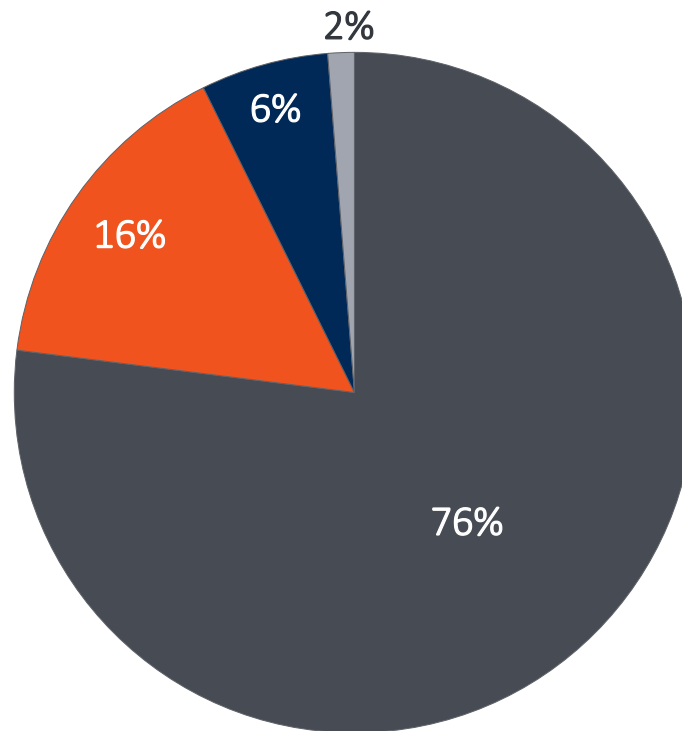
Pay packages increased 8.5% to \$11.7 million in 2017



2018 US Say-on-Pay Votes reveals 2% of companies falling below 50%

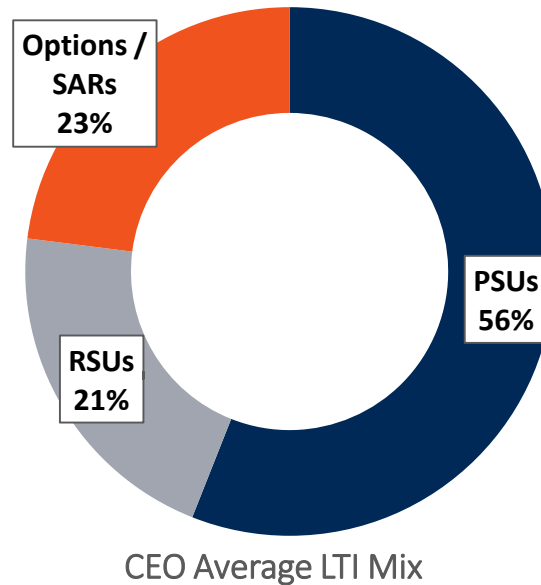
2018 SAY-ON-PAY 'FOR' VOTES

■ >90% ■ 70% - 90% ■ 50% - 70% ■ <50%



US Compensation Design reveals higher prominence of PSUs

Shareholder sentiment and themes on pay design



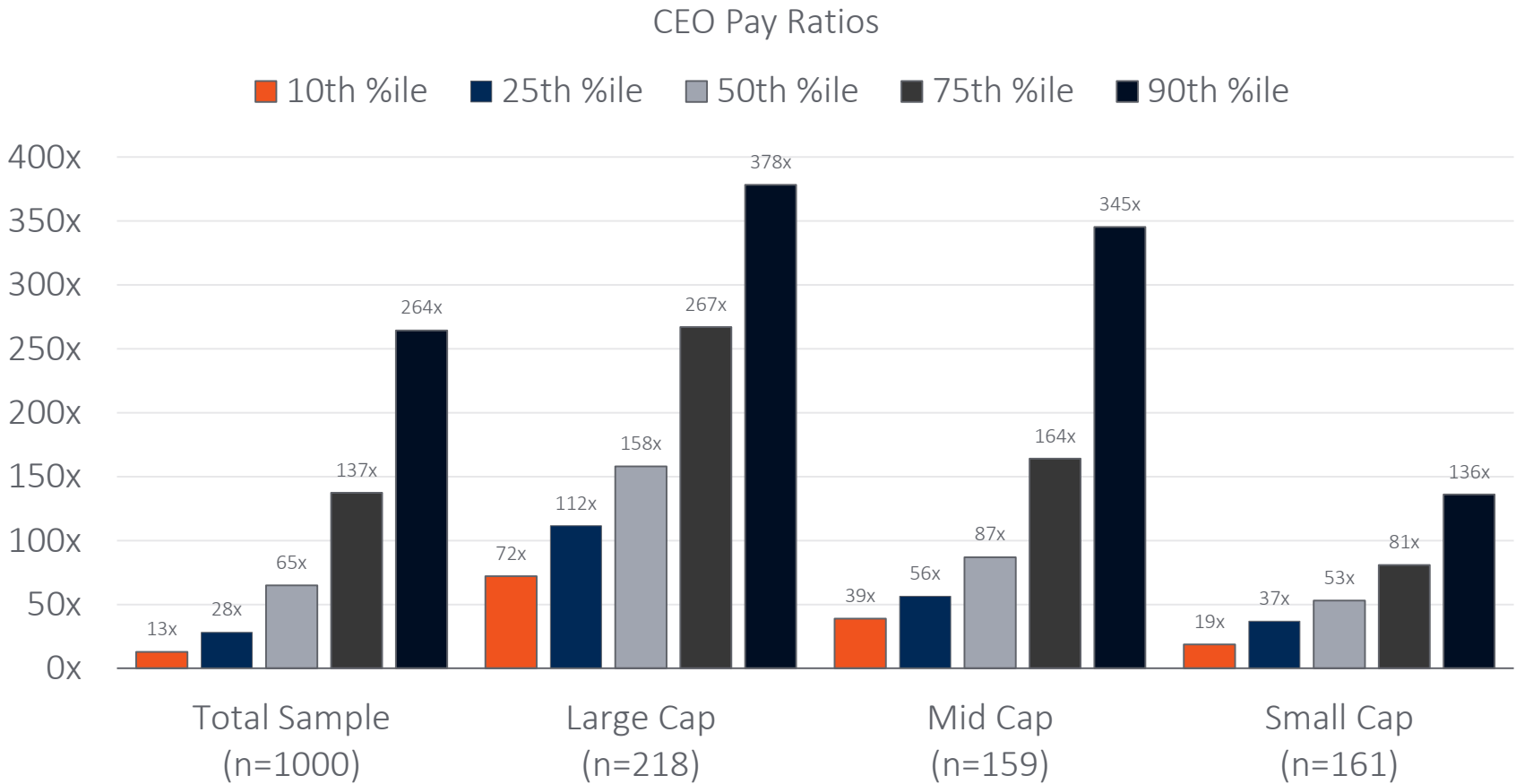
- Greater emphasis on performance-based compensation (particularly PSUs)
- Multiple performance metrics are the norm with the number increasing
- Concerns over complexity of pay programs and too many metrics/vehicles
- RSUs are now more prevalent than options

Source: Steven Hall & Partners, Equilar

US Snapshot: Regulatory & Related Governance

- Tax Cuts and Job Act of 2017
- Corporate Governance Reform and Transparency Act of 2017
- Dodd-Frank Rollback
- Wells Fargo – Federal Reserve Restrictions
- Continued Trends in Shareholder Engagement
- Pay ratio Findings

CEO Pay Ratio findings





Discussion