



2017 PROXY SEASON REVIEW & OTHER TOPICS

Hugessen Breakfast Seminar | June 15 & 20 2017

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CONSULTING

Agenda for Today's Event

Welcome

Highlights from 2017 Proxy Season

Comments from Guests

Open Discussion

Closing Remarks



Highlights from 2017 Proxy Season

Highlights from 2017 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
- 2017 proxies filed by May 31, 2017 (n = 56)
- Say on Pay results as of May 31, 2017 (n = 44)

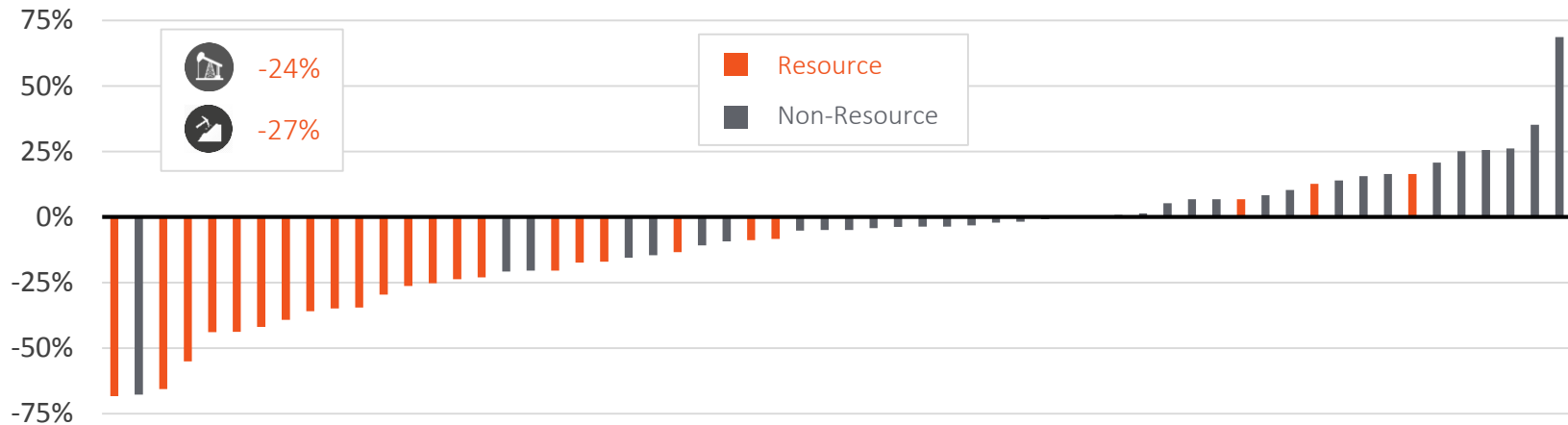
2016 Performance Context

2016 TSX 60 Index Total Return



2016 Performance Context

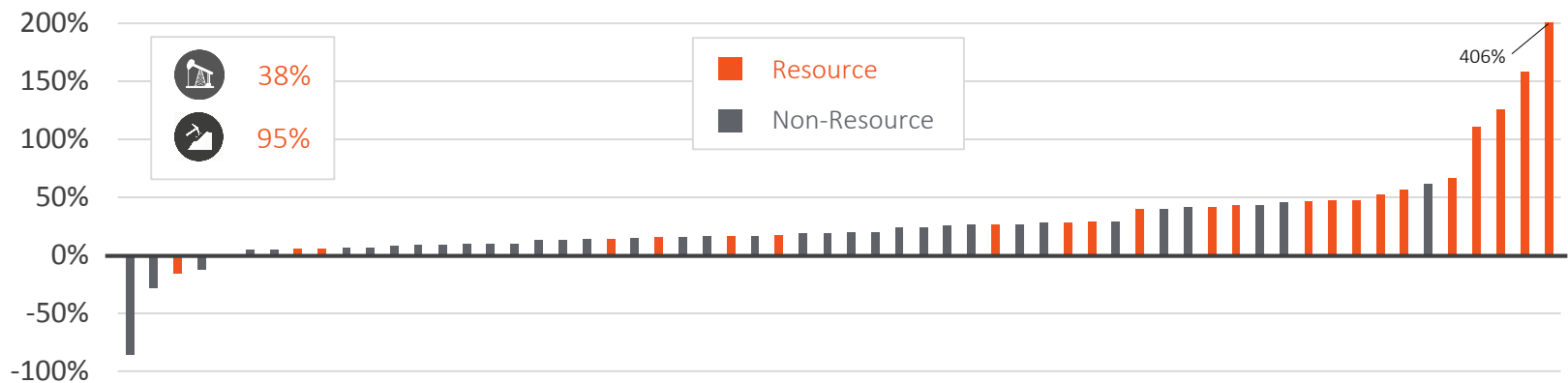
TSX 60 Index Constituents - 2015 Total Shareholder Return



2015



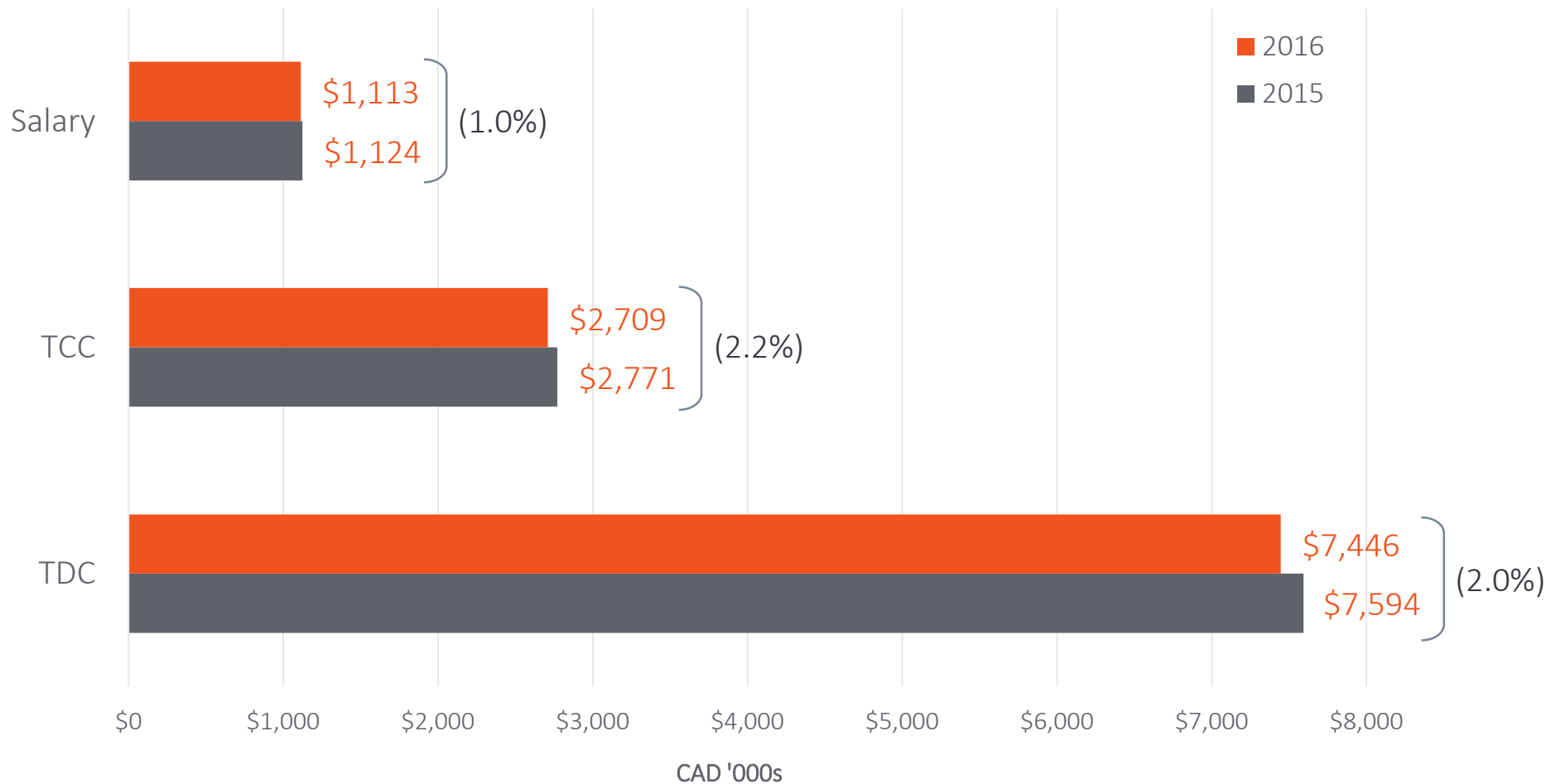
TSX60 Index Constituents - 2016 Total Shareholder Return



2016

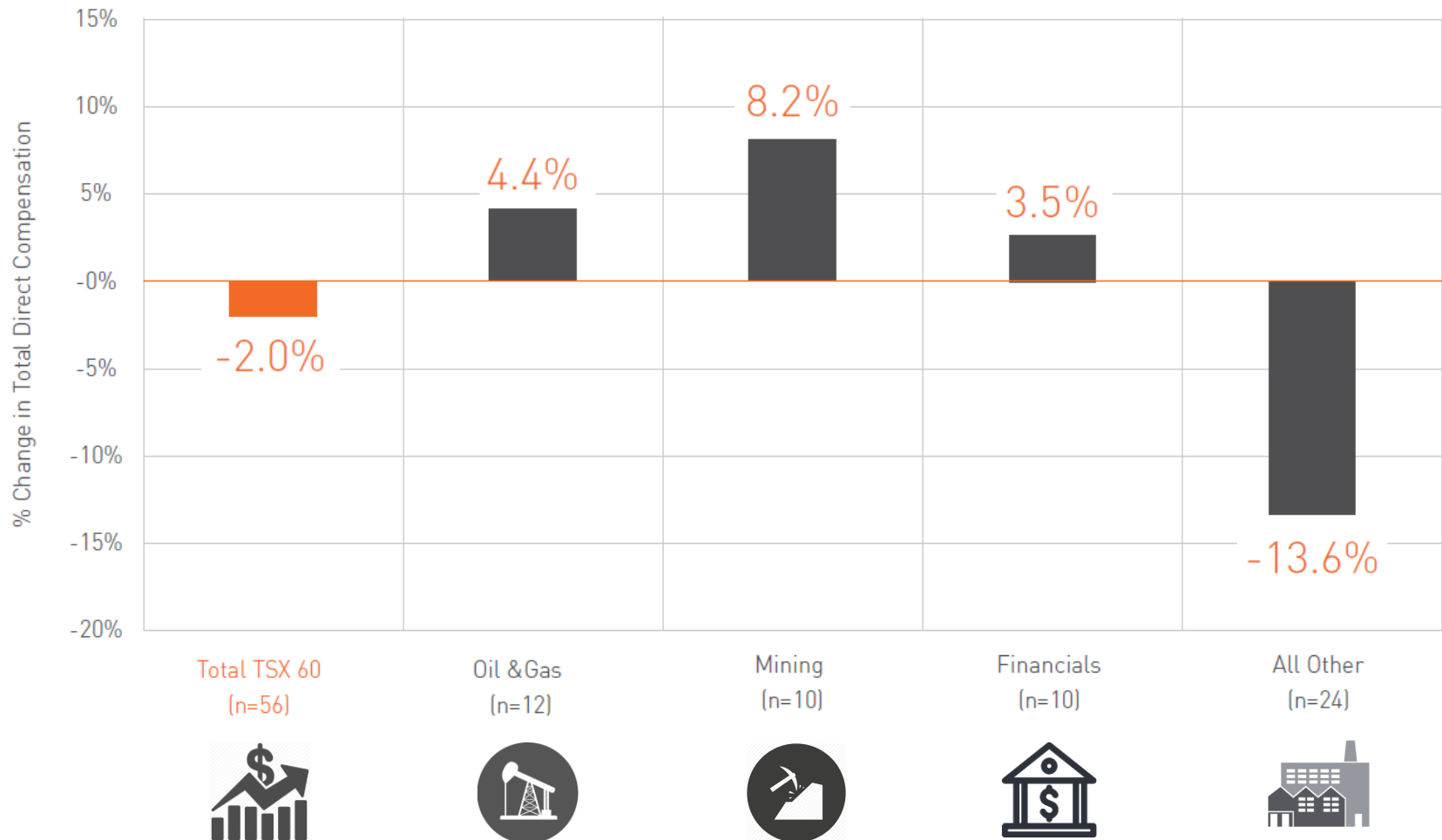
2016 CEO Pay Trends

Year-Over-Year Change in Median TSX 60 CEO Actual Compensation



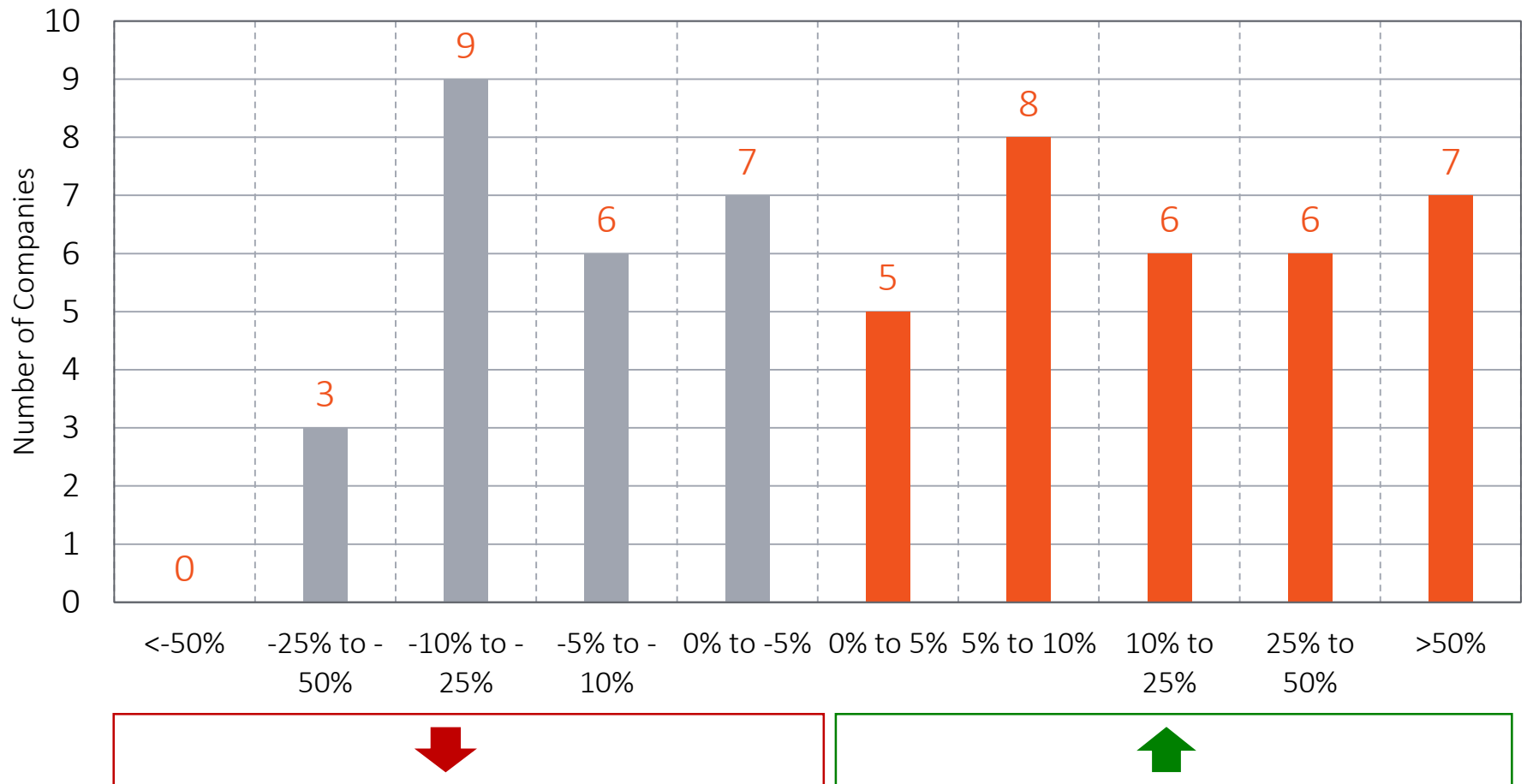
2016 CEO Pay Trends

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



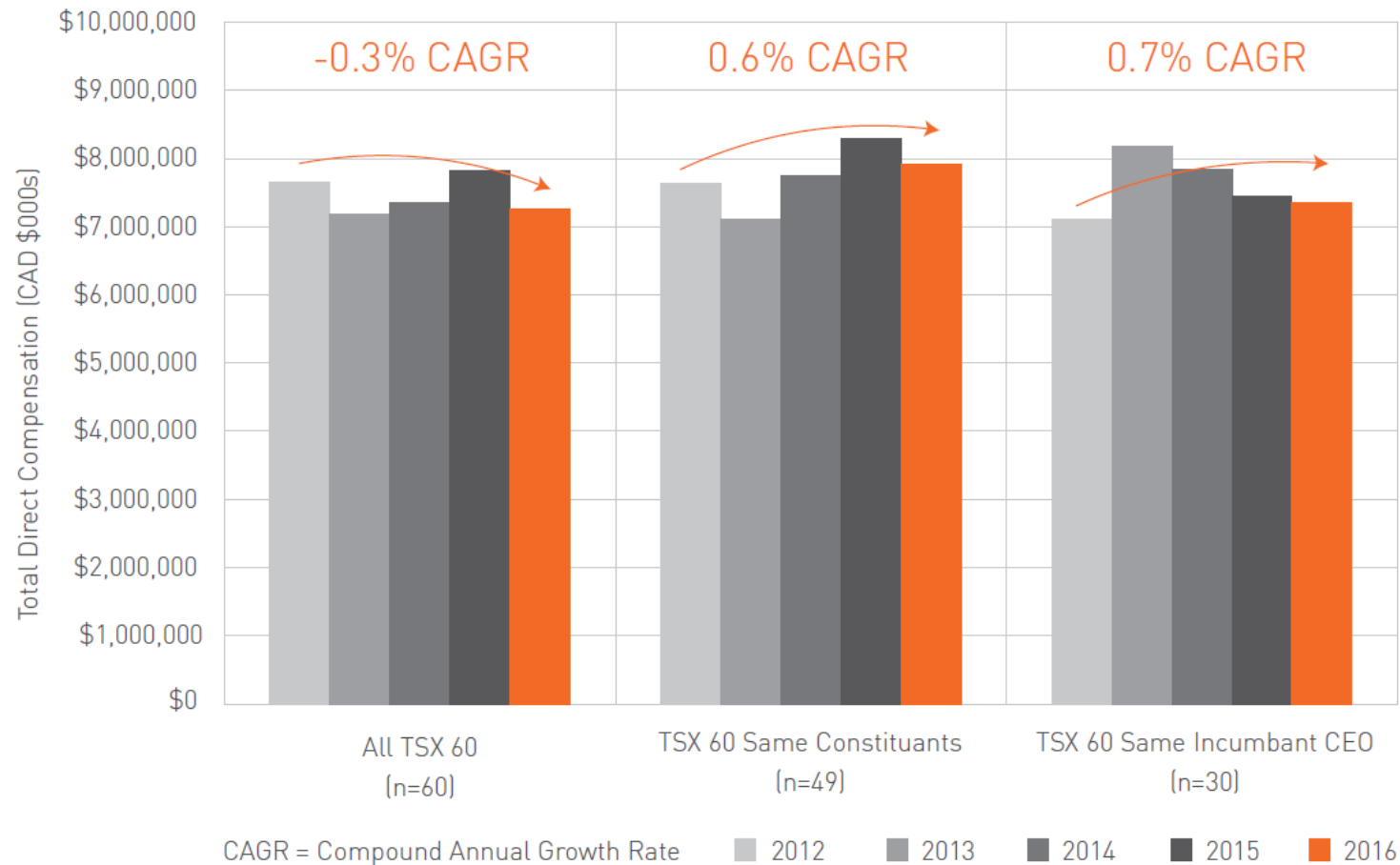
2016 CEO Pay Trends

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

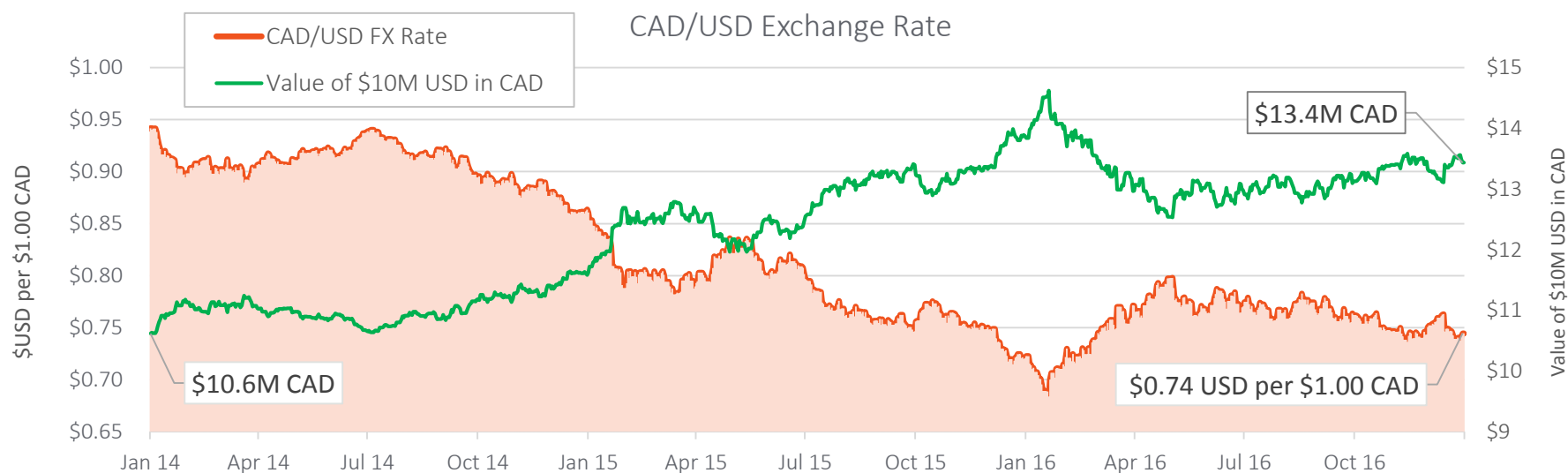


Is CEO Pay Being “Ratcheted” Up?

5-Year Trend in Median TSX 60 TDC



Canadian and U.S. Dollar Exchange Rate



Exchange Rate	FX Rate Dec. 31, 2013	FX Rate Dec. 31, 2016	Factor
CAD/USD FX	\$0.9418	\$0.7445	1.2644

Issuer	TSR (Dec. 31 2013 to Dec. 31, 2016)		Factor
	CAD Return (TSX)	USD Return (NYSE)	
TD Bank	47.8%	16.9%	1.2644
Bank of America	85.8%*	47.0%	1.2644



*Synthetic CAD return

STIP Design

A handful of TSX 60 issuers undertook significant structural change to their STIP in 2016

Several issuers made notable cutbacks to the number of STIP scorecard metrics (e.g., CIBC from 6 - 3; Crescent Point 7 - 3; Manulife 7 - 4)

- Some added a formal discretionary component (e.g., Sun Life added a +/- 20% discretionary modifier for 2017)

Notable Topic: the use of Discretion – 3 types

1. Adjusting the performance measure or standard
2. Overriding the bonus result
3. Formalizing discretion within the incentive structure

Notable Topics: Formalized Discretion in AIP

Competing Pressures

- Have focused measures to help demonstrate alignment with performance
- Ensure all important measures and categories are considered
 - Examples: relative performance, financial strength, one-time items, ESG/risk

A combined approach that formalizes judgement in the incentive

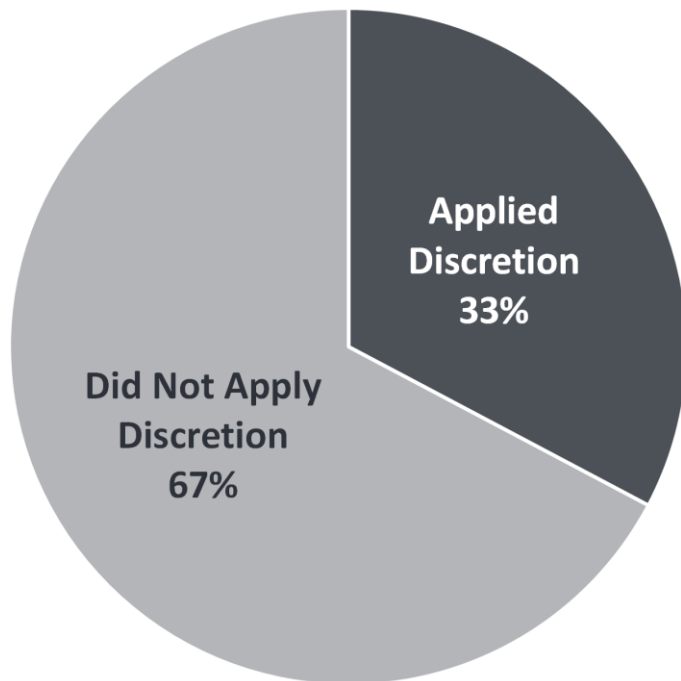


Most recent changes:



Notable Topics: Use of Discretion Outside Plan

Board Discretion on STIP Payout



Reduced 2016 STIP to match 2016 TDC with 2015 TDC due to TSR performance below median of peers



Reduced CEO's 2016 STIP to 60% of target from calculated result of 88% due to 3-year TSR performance below median of peers



Reduced CEO's compensation by 50% YoY and reduced 2016 STIP scorecard from 119% to 100%

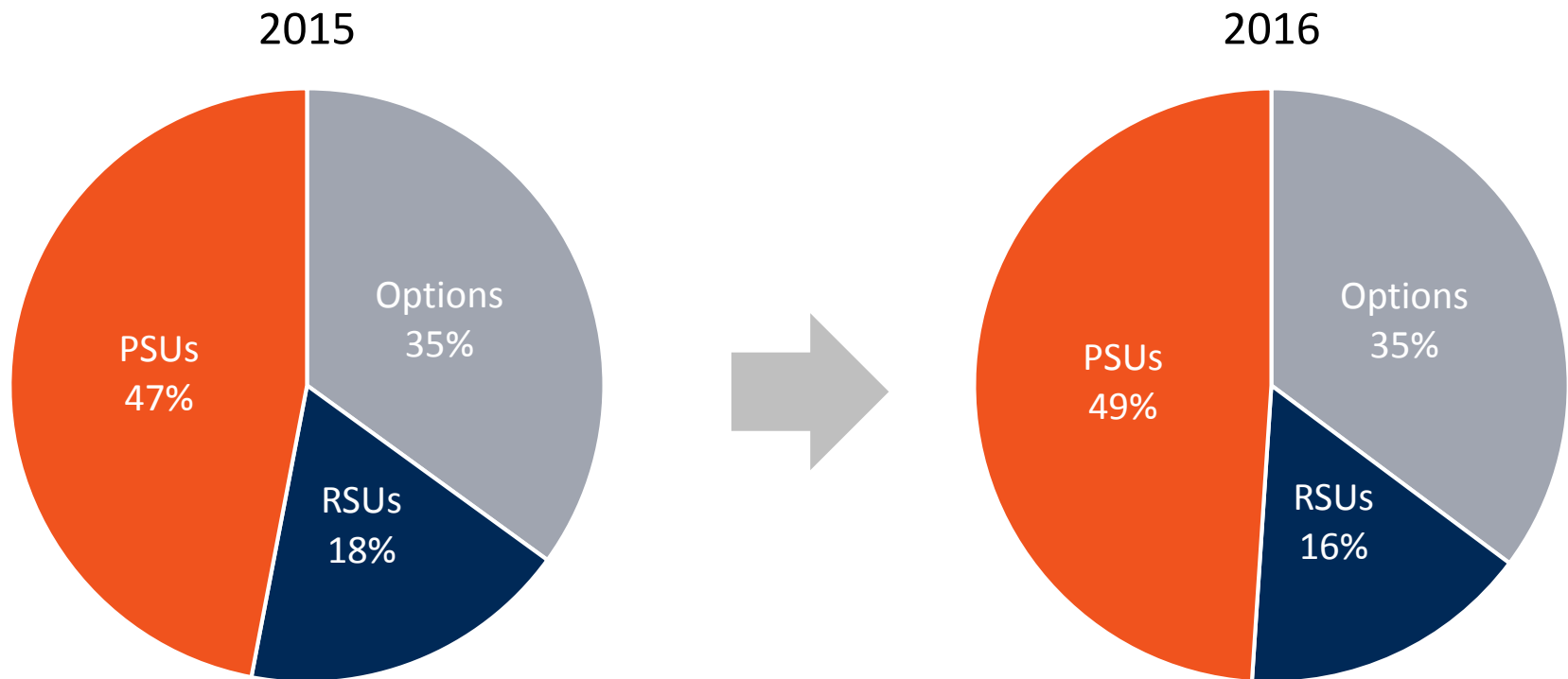


Board applied discretion to reduce the 2016 scorecard performance factor from 175% to 150% due to lower than expected revenue and earnings growth

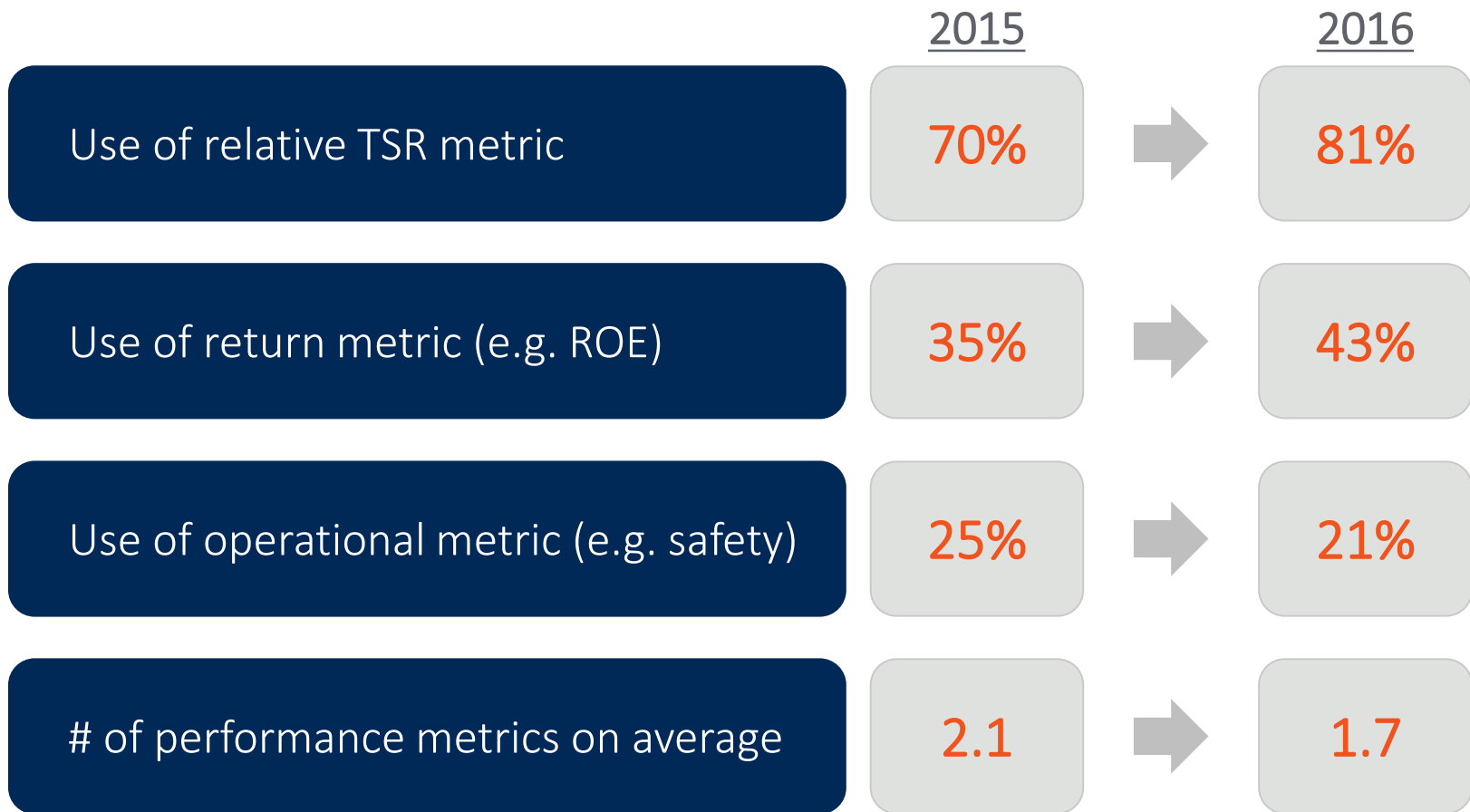
Note: n=58

CEO Pay Mix and Plan Design: LTI Mix

Long-term incentive plan mix generally consistent year over year



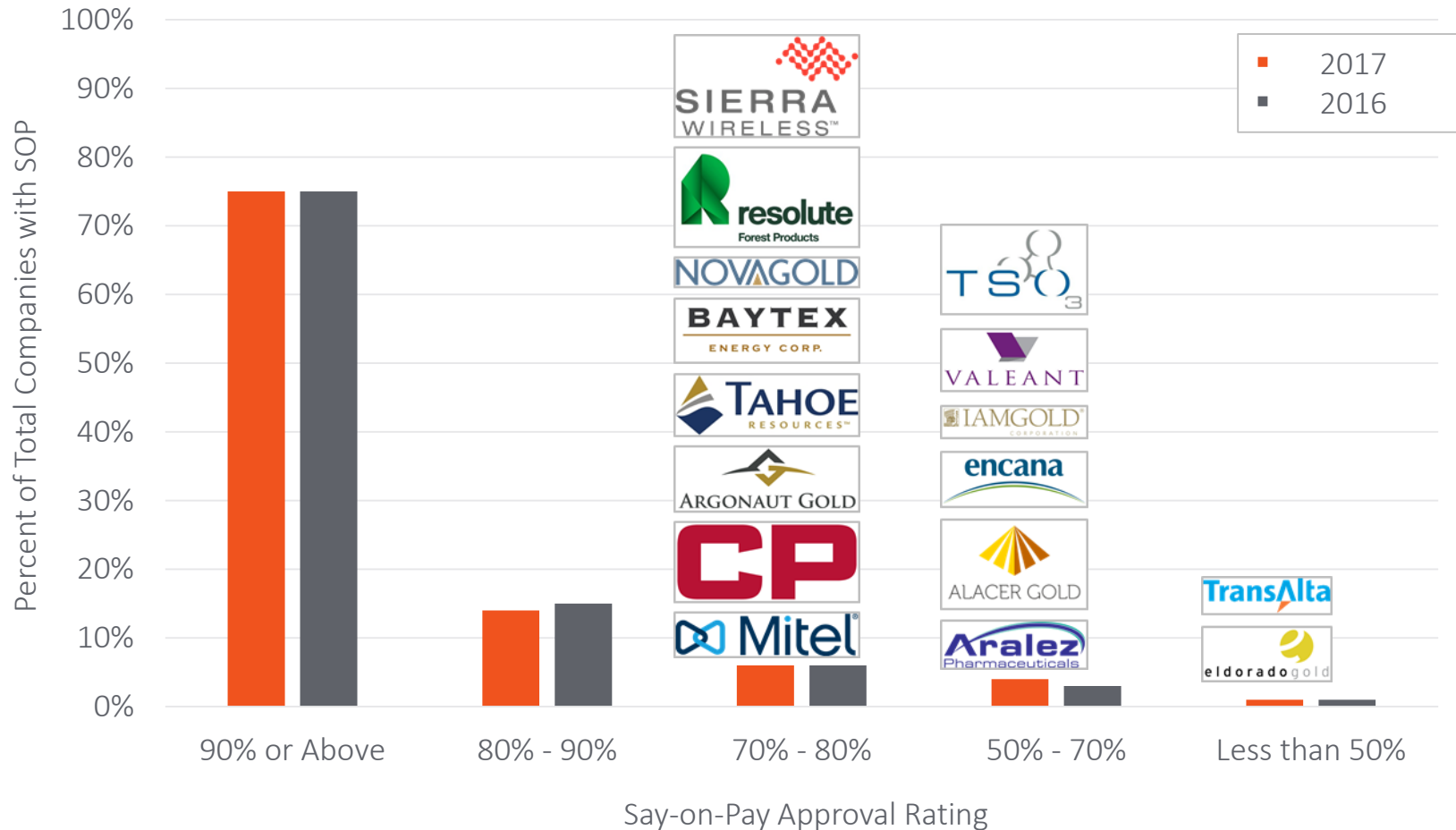
Pay Mix and Plan Design: PSU Framework



Say-on-Pay Results 2017

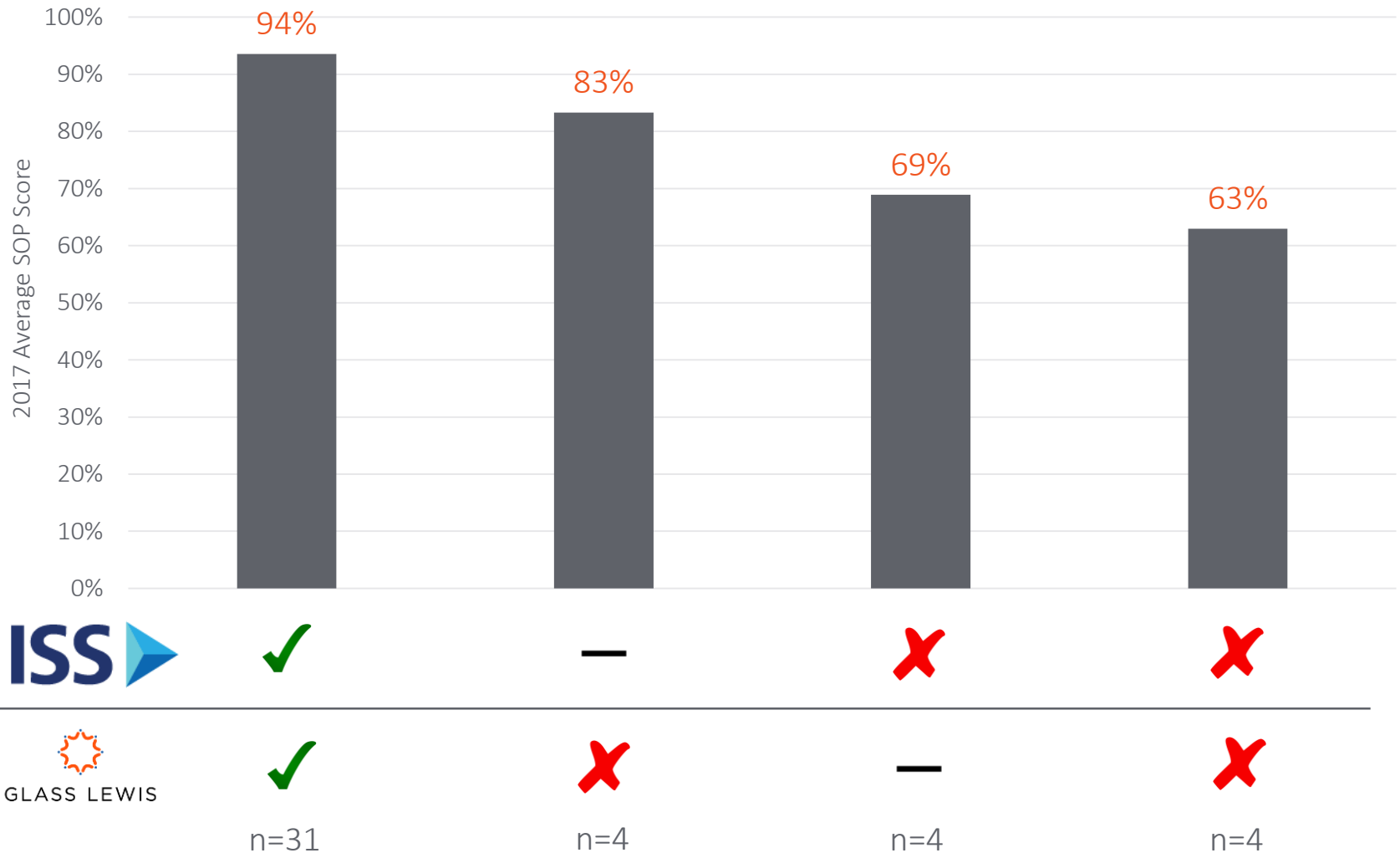
Overall, voting results are in line with last year

Canada Say-on-Pay Voting Results 2017 vs. 2016






Say on Pay Results: Influence of ISS and Glass Lewis

Influence of ISS and Glass Lewis on SOP Results 2017



Companies Responding to Low Say-on-Pay

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

Company	Key Issue	Response	SoP Result
	Poor overall plan design	<ul style="list-style-type: none"> Engaged with shareholders Redesign of incentive plan 	74% → 99%
	Pay and performance disconnect	<ul style="list-style-type: none"> Engaged with shareholders Redesign of incentive plan 	78% → 94%
	Pay and performance disconnect	<ul style="list-style-type: none"> Engaged with shareholders Reduced bonus and LTIP Redesign of incentive plan 	75% → 97%

Case Study: Bombardier

[Feb. 2017] BBD receives C\$373M loan from Ottawa on top of US\$1B from Quebec

[March 2017] Exec Chairman sends news release offering to renounce pay increase

[April 2017] Disclosure in public filings sparks protests – BBD responds by saying 50% of total pay would be deferred until 2020

[March 2017] BBD files plan with regulators to increase pay for senior execs nearly 50%

[April 2017] Chair of Comp. Committee defends pay levels in letter, calling them “fully and appropriately aligned with value creation”

[May 2017] Exec Chair resigns from executive role, remains Chairman of the Board

Disclosure Trends

Use of Visual Aid



Plain Language Disclosure



Board & Mgmt Diversity



Shareholder Engagement



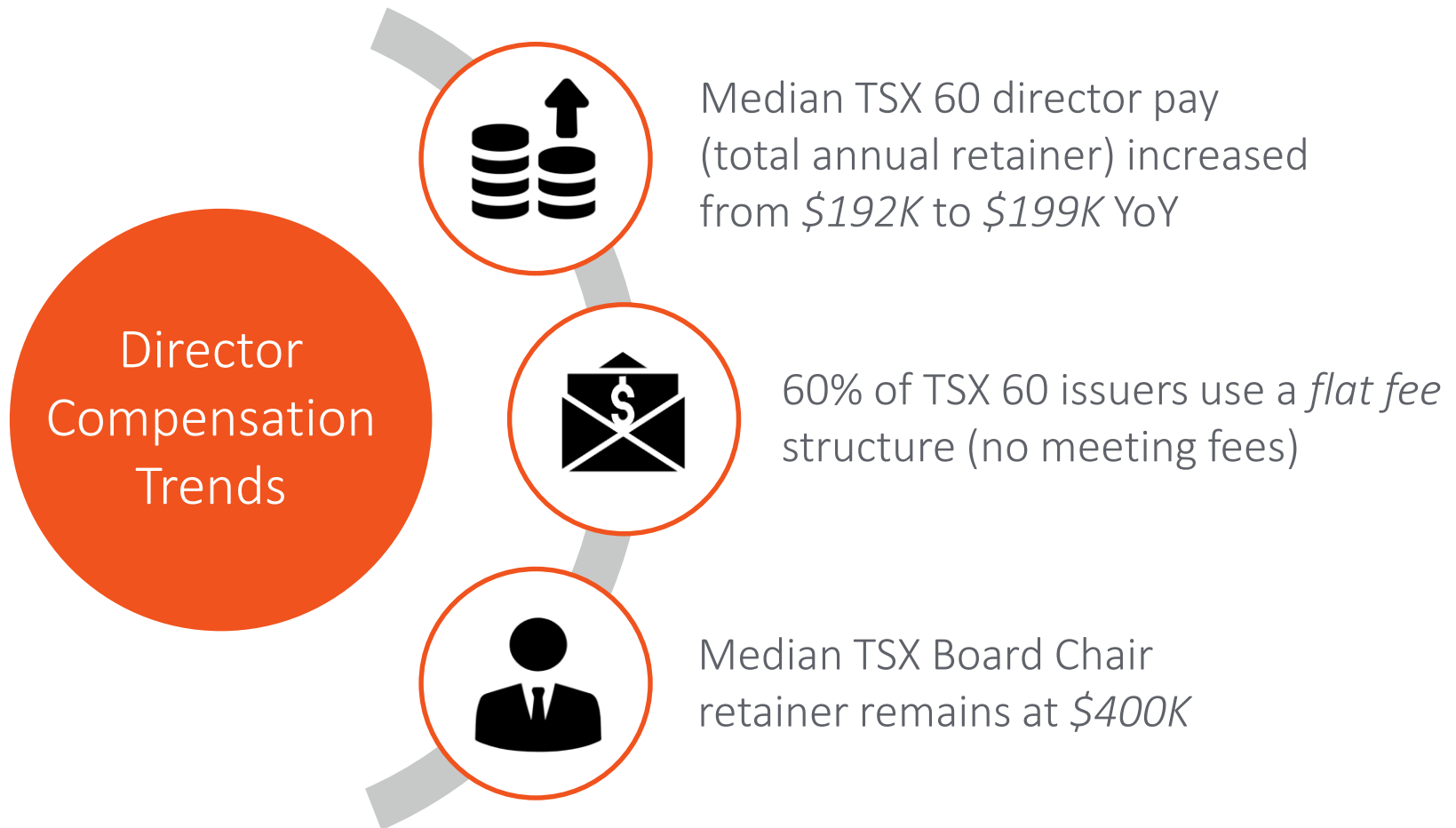
“Narrative” Style Disclosure



Realized / Realizable Pay Analysis



Director Compensation Trends





Emerging Topics & U.S.

One-time Awards

Increasingly attracting attention from shareholder community

Outside of Plan Awards 2016 Report



- US\$5.0B in outside of plan awards in 2016 (\$4.8B in U.S. and \$0.2B in Canada)
- 48% increase year-over-year in Canada and 11% increase in U.S.
- Repeat users of one-time awards represent over half of total awards
- Executive succession (sign-on + severance) the most common reason

Conclusion: Important for Board to provide clear rationale on how structure and quantum were determined

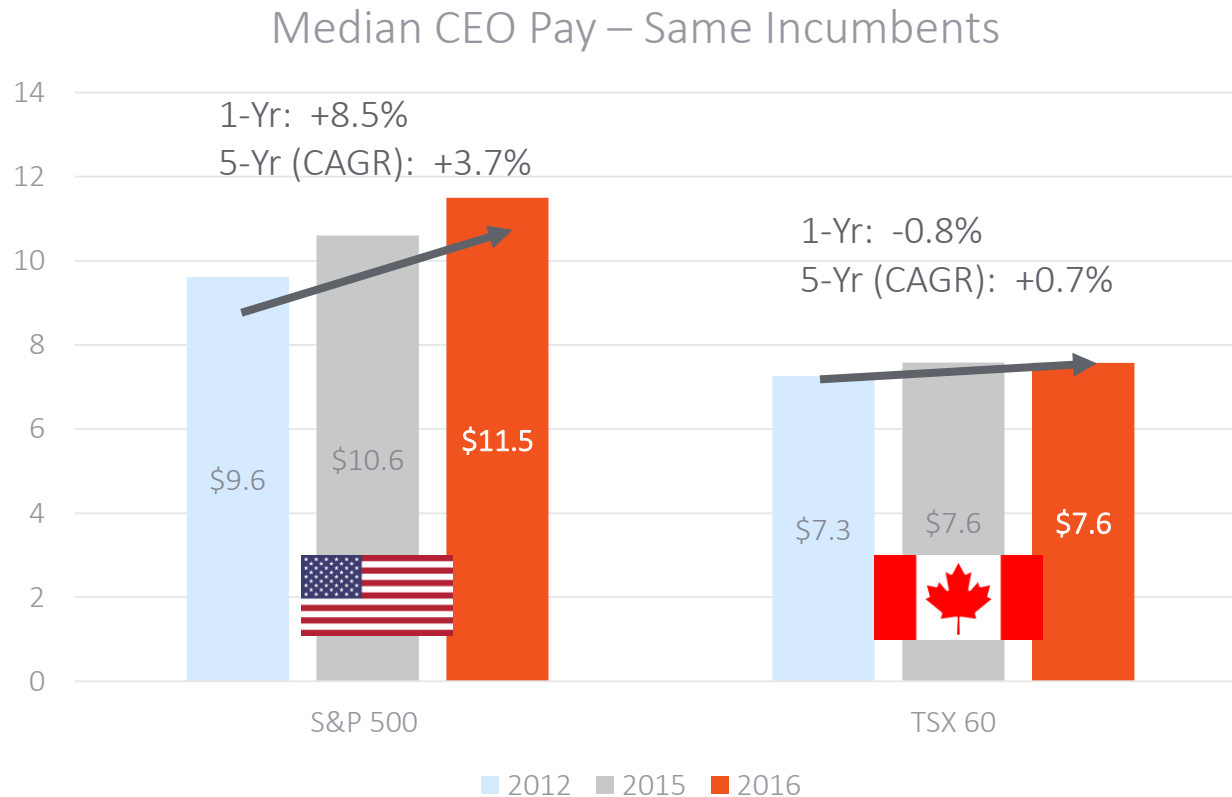


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“One-time [awards] are generally not supported, but will be assessed case-by-case on the basis of: grant terms, size, any future service or performance conditions, and the rationale for why one-time awards are needed in addition to the regular compensation program.”

US Snapshot: CEO Pay Levels

- CEO pay among largest companies in the US continues to rise

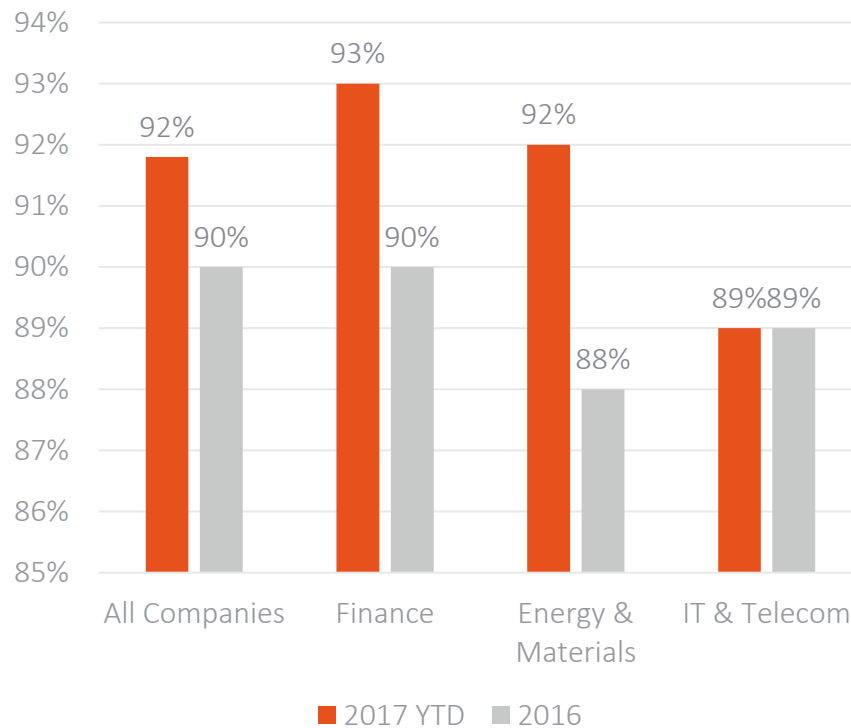


All currencies in nominal dollars. Source: S&P 500 Associated Press & Equilar. TSX60 Hugessen Consulting.

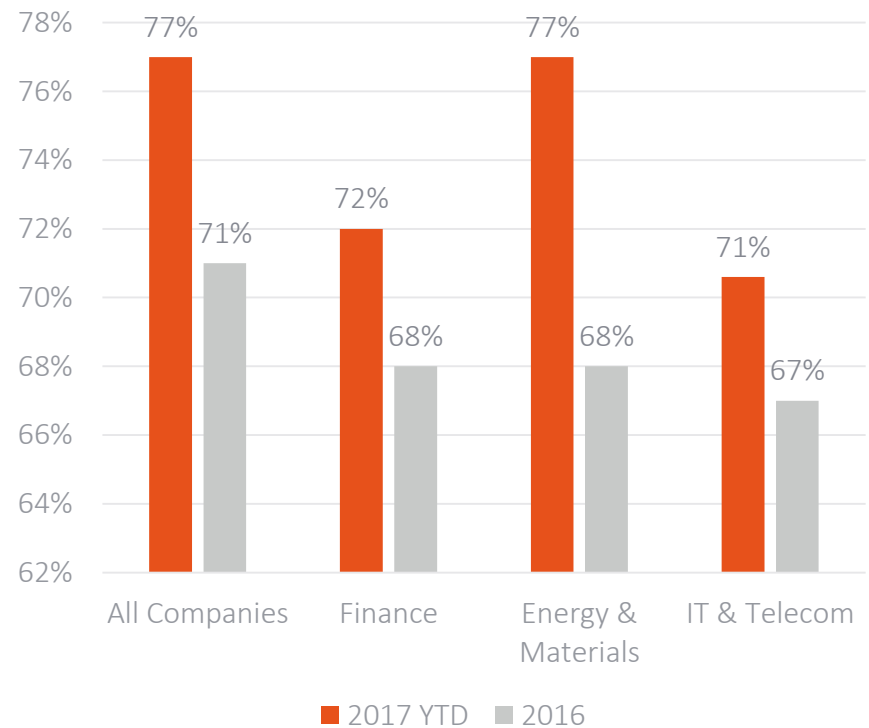
US Snapshot: Solid SOP Support

- Shareholder support looks fairly strong in 2017 proxy season with only (9) companies of 1,457 having failed SOP as of May 19, 2017

Average Support on SOP



% of Company with 90%+ Support



US Snapshot: Pay and Design

- Strengthening economy and pay direction in 2017
- Reconsideration of payout curves with targets set as range rather than point
- Shorter performance periods
- Use of relative measures
- Increase in number of metrics utilized
- Many problematic pay practices and irritants mostly eliminated

US Snapshot: Regulatory & Related Governance

- Deregulation philosophy but massive uncertainty – Dodd Frank, Choice Act 2.0
- Possible personal and corporate income tax changes and implications for executive pay
- Fate of CEO pay ratio disclosure in 2018 proxies, as well as disclosure proposals (pay for performance, clawback and pledging / hedging) that have not been finalized
 - Companies focusing on calculation of ratio and related disclosure

Culture & Risk Management

- Recent corporate scandals and media reports (including in Canada) have highlighted the importance / risk of corporate culture



- Discussion in board rooms on the appropriate role of the directors in overseeing corporate culture
- A number of major financial institutions undertaking extensive reviews of code of conducts, alignment of incentives, etc.
- Financial Reporting Council ("FRC") published their report "Corporate Culture And The Role Of Boards" - collaboration of several UK groups and included interviews with more than 250 chairmen, CEOs and leading industry experts
- ICD Directors Journal - Is Corporate Culture on your Agenda?



Discussion