2020 PROXY SEASON OVERVIEW

HIGHLIGHTS FROM THE TSX60

AND COMMENTARY ON THE IMPACTS OF COVID-19

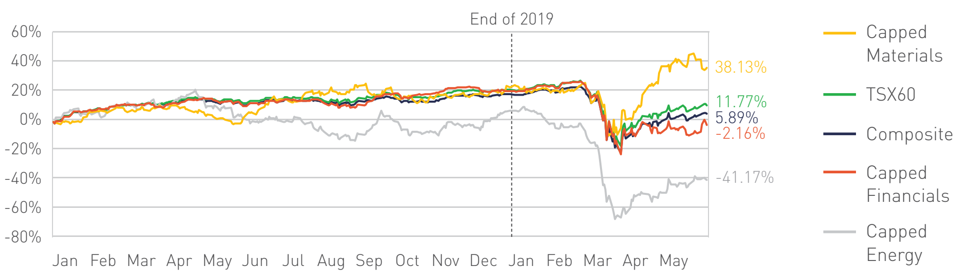
HUGESSEN
CONSULTING

In Summary

2019 was a stellar year for the TSX overall, but circumstances drastically changed in February/March 2020. The unprecedented impacts of COVID-19 halted businesses and resulted in one of the fastest share price declines in history. Adding to these difficulties, firms in the Energy sector had to overcome tumbling oil prices and a lack of storage due to the demand shock and OPEC / Russia market share battle. At the other end, the Materials sector excelled as the S&P/TSX Materials Capped Index saw 2020 YTD to May 31, 2020 performance of +10% (vs. -11% for the S&P/TSX Composite Index). During this time, compensation has been an important topic to all stakeholders, and we have seen numerous firms implement reductions or deferrals in executive and director compensation.

As in the recent past, executive compensation trends in 2019 regarding the design of incentive plans and the use of the performance metrics remain relatively stable. Greater emphasis continues on items related to environment, social and governance topics, with notable emphasis on the "social" component as boards grapple with employee safety, diversity and inclusion.

Equity Market Price Changes - FY2019 and 2020 YTD



Top 3 TSX60 Performers	
Shopify Inc.	453.5%
Wheaton Precious Metals Corp.	122.6%
Kinross Gold Corporation	103.4%
Bottom 3 TSX60 Performers	
Bombardier Inc.	-78.1%
Ovintiv Inc.	-73.7%
Teck Resources Limited	-55.5%

Source: S&P CapIQ as of May 31, 2020

CEO Total Direct Compensation ($CAD 000s)

Percentile	All TSX60 (n=59)		Same Incumbent(YoY) (n=54)		Same Constituent (Last 5 Years (n = 52))	
	$	YoY Δ	$	YoY Δ	$	YoY Δ
P75	$11,914	2.5%	$11,748	1.9%	$11,831	0.0%
P50	$9,236	12.5%	$9,236	9.1%	$9,219	2.7%
P25	$7,441	17.1%	$7,639	19.1%	$7,617	15.4%

Sources: TSX60 Constituent Proxy Data as of May 31, 2020; excludes Kirkland Lake Gold

Average Compensation Mix

Component	All TSX60	Financials	Materials	Energy
Base Salary	14%	12%	16%	13%
STIP	22%	20%	24%	19%
LTIP	63%	68%	60%	68%

Sources: TSX60 Constituent Proxy Data as of May 31, 2020; excludes Kirkland Lake Gold

Average Long-Term Incentive Mix

Component	All TSX60	Financials	Materials	Energy
PSUs	52%	64%	60%	46%
RSUs	18%	13%	17%	19%
Stock Options	30%	23%	23%	35%
DSUs	1%	0%	0%	0%

Sources: TSX60 Constituent Proxy Data as of May 31, 2020; excludes Kirkland Lake Gold

Director Compensation Overview ($CAD 000s)

Percentile	Cash Retainer		Equity Retainer		Total Retainer	
	$	YoY Δ	$	YoY Δ	$	YoY Δ
P75	$133	20.6%	$144	2.0%	$269	9.7%
P50	$105	10.5%	$119	-0.5%	$225	4.7%
P25	$75	15.1%	$71	-13.8%	$199	9.1%

Sources: TSX60 Constituent Proxy Data as of May 31, 2020; excludes Kirkland Lake Gold

Among the TSX60 in 2019, median CEO total direct compensation (sum of base salary, annual bonus and grant date value of long-term incentives) increased by 12%. This follows a slight decrease of 3% in the year prior. Median CEO pay increased in the Energy and Materials sectors, while Financials remained relatively flat. However, we have observed 57 companies (10 in the TSX60) announcing pay reductions in 2020 in light of the COVID crisis (as of May 31, 2020).

Overall, 2019 saw few major changes to the typical incentive plan design. We are continuing to see companies shifting long-term incentive plan ("LTIP") mix towards performance share units. The outlook of stock options in Canadian compensation programs remains unclear due to the potential changes on stock option taxation.

Say-on-pay ("SoP") support through the 2020 proxy season remained strong with an average support level of 93%, consistent with what we have seen in recent years.

Director and Board Chair retainers both saw decent increases in 2020 (5% and 6% respectively). Boards such as Fortis and Power Corporation continue to modernize their director compensation frameworks and are shifting away from the use of meeting fees and towards an all-in retainer – this can partially explain the year-over-year increase in cash retainer compensation.

COVID-19 Update

As the impacts of COVID-19 unfolded over the last few months, companies across all industries were either forced to cease operations or drastically change how they conduct business. Certain sectors such as airlines, travel/tourism and hospitality have been impacted more than others. As companies assess various scenarios and potential actions, compensation reductions or deferrals have been key tools used by various firms.

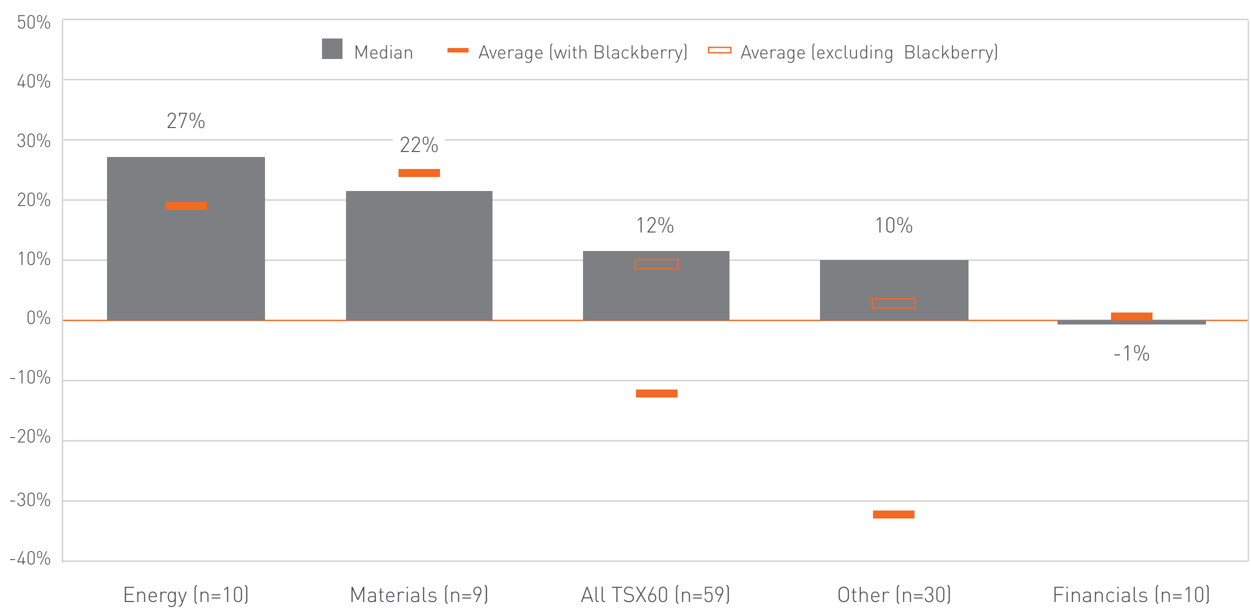
Hugessen has been providing timely insight and collecting relevant market data on the impacts COVID-19 (please see our COVID-19 Resource Centre for more details). As of May 31, 2020, there were 57 Canadian companies that have publicly noted compensation changes due to COVID-19, with 18% (10 companies) being constituents of the TSX60. Among the TSX60, the average decrease in market cap (from January 1 to the date of announcement) was -45% for those who announced salary reductions, which ranged from -15% to -100%. Furthermore 60% of these TSX companies also announced director compensation reductions in the same range as noted above.

Our analysis of TSX60 pay trends for 2019 does not include the impact of COVID-19, but we expect a significant impact to 2020 compensation levels and have provided further thoughts in the subsequent sections of this briefing. At the time of writing (June 5, 2020), we have noticed a significant share price recovery in Canadian markets, but not as significant as the level of recovery seen in the US.

2019 Pay Levels Update

Median pay for TSX60 CEOs saw increases across most sectors, while Financials remained relatively flat. The Energy sector saw the largest gain of 27%, followed by the Materials sector (which includes mining) with an increase of 22%. Although median pay increased for the broader TSX60 and Other sectors, there was a decrease in average compensation for both groups. This was driven by BlackBerry due to a large multi-year one-time grant awarded in FY2018 of approximately $130 million. The summary statistics excluding BlackBerry are the more meaningful figures (e.g. YoY change of 12% for average TSX60 CEO compensation).

Year-Over-Year Change in Median & Average TSX60 CEO TDC



Among companies with the same CEO, 33 companies increased their CEO compensation in 2019, with 7 companies increasing their pay by 25% or more. The largest three increases:

CCL	Cenovus	Brookfield
(+323%)	(+39%)	(+37%)

Energy saw the largest increase at median, increasing by 27% in 2019, with companies such as Cenovus Energy (+39%) and Inter Pipeline (+35%) showing significant gains. Furthermore, almost all companies in this sector saw increases, except for Imperial Oil (decreasing by 11% in 2019).

Materials was the sector that saw the second largest increase in 2019 at 22%. The companies with the largest changes (increase and decrease) in this sector include:

CCL	First Quantum Minerals Ltd.	Wheaton Precious Metals	Teck
(+323%)	(+23%)	(-13%)	(-14%)

Although median change for CEOs in the Financial sector was relatively flat (-1%), companies in this segment saw both increases and decreases in 2019, including:

Brookfield	Manulife	CIBC	TD
(+37%)	(+14%)	(-11%)	(-15%)

Companies falling into the Other category (e.g. Healthcare, Industrials, Consumer Discretionary) had a mix of increases and decreases in CEO TDC, with increases proving to be more prevalent (median increase of +10%). However, it should be noted that the overall average figure is skewed due to significant changes at one constituent. CEO compensation at BlackBerry decreased by 97% in 2019 due to a grant of ~$130mm of RSUs and PSUs in 2018. If Blackberry is removed from the analysis, summary statistics change as follows:

- "All TSX60" – median: +14%, average: +10%
- "Other" – median: +13%, average: +3%

When assessing target versus actual compensation, the median of target total cash compensation ("TCC") saw a decrease of 3% between 2018 and 2019, while actual TCC increased by 2%. As noted above, actual total direct compensation ("TDC") increased by 12%, but target TDC only increased by 2%. Thus, the larger increase in TDC was primarily attributed to increased actual grants of long-term equity awards.

For certain constituents, actual awards were finalized after the application of discretion. One notable finding in our assessment of TSX60 constituents was the use of downward discretion on calculated short-term incentive plan ("STIP") results:

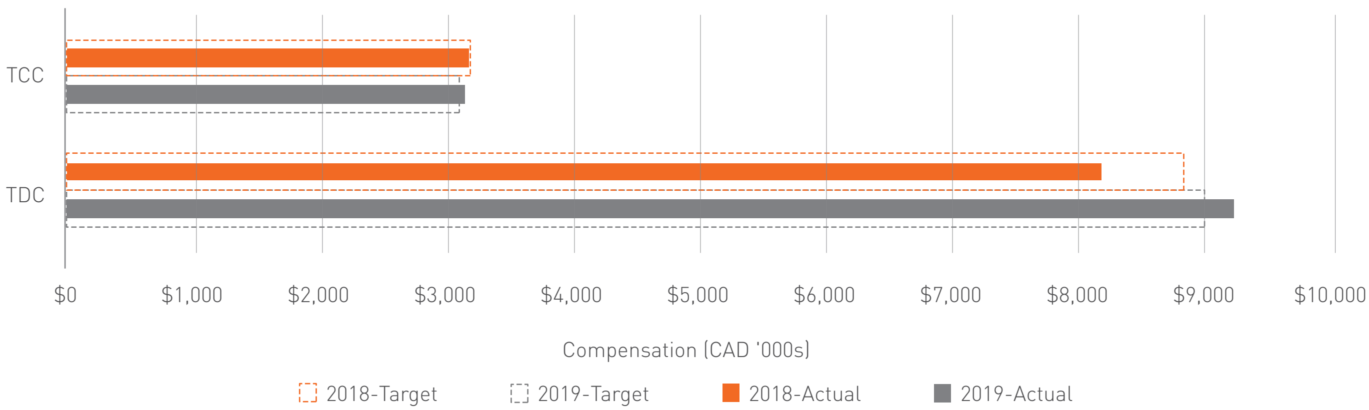
KINROSS

Kinross significantly outperformed its Free Cash Flow measure in its STIP and was expected to receive a maximum score of 150%. Although performance was strong, the firm's disclosure noted that "management and the committee also considered that gold price had been an important factor in this outperformance". Therefore, a lower result (135%) was recommended and approved.

Nutrien

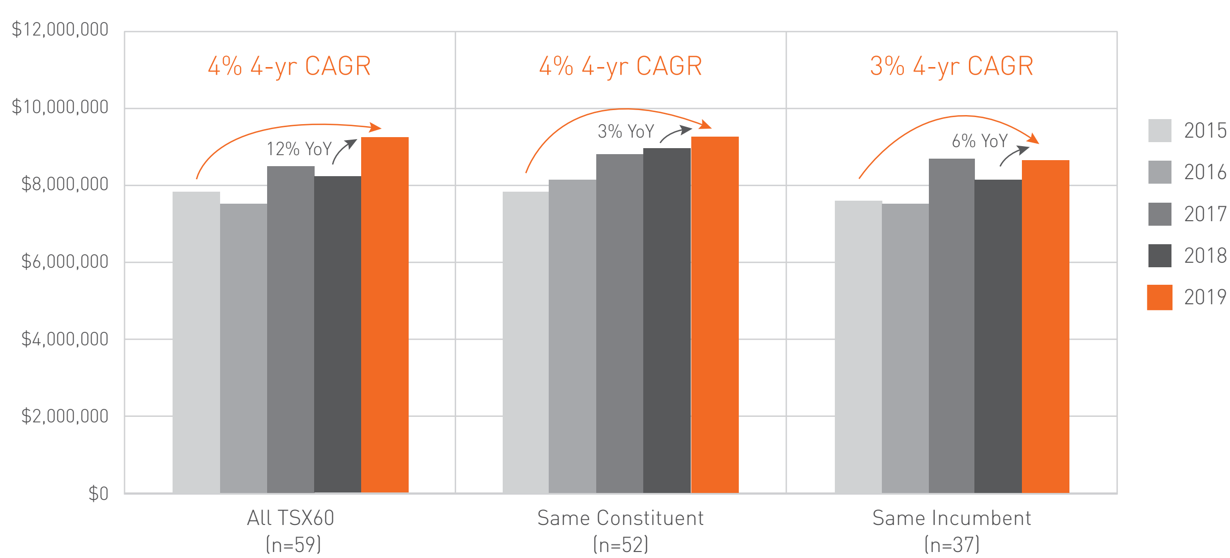
Nutrien applied downward discretion on the "Safety, Health and Environmental (SHE)" STIP results to reflect a fatality that occurred in the retail operating segment. The magnitude of discretion applied varied by executive, but the CEO's SHE score was reduced from 159% to 80%.

2018 vs. 2019 Change in Actual and Target Median Compensation



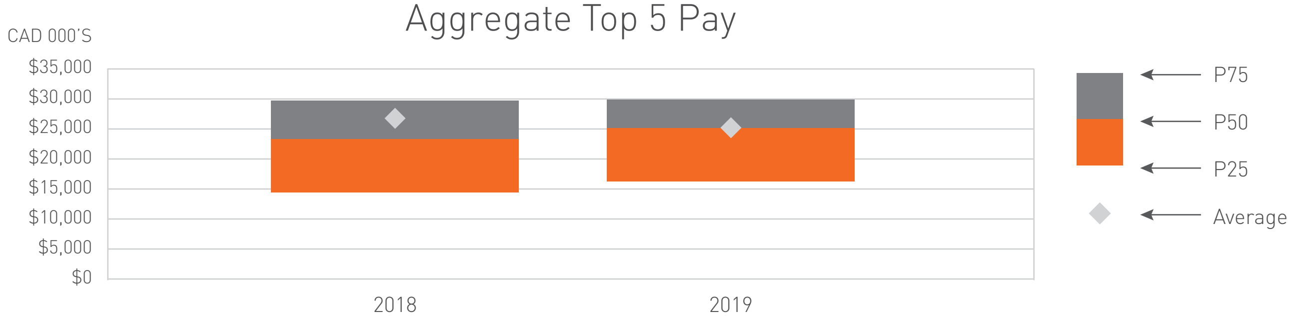
A more notable trend emerges when observing pay levels for companies that have been in the TSX60 for the past 5 years ("Same Constituent") and for CEOs that have been in their respective roles for 5 years ("Same Incumbent"). Same Constituent CEO compensation continued its upward trend (overall 4-year CAGR of 4%) and increased 3% between 2018 and 2019. Among Same Incumbent CEOs, the year-over-year compensation increase (6%) was double the 4-year CAGR (3%).

5 Year Trend in Median TSX60 CEO TDC



For the top 5 named executive officers ("NEOs"), total pay at median increased by 6% to $24.6 million.

Aggregate Top 5 Pay

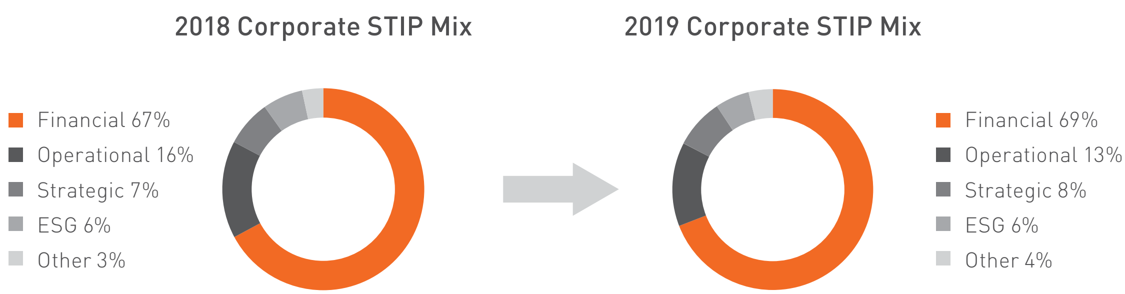


The table shows median CEO pay as a multiple of median NEO pay.

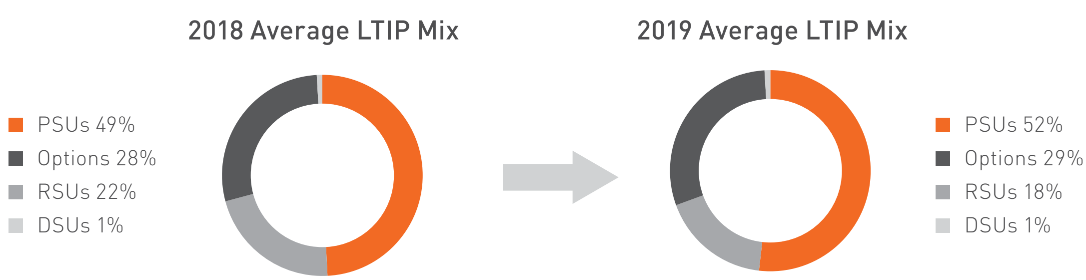
CEO Pay as a Multiple of NEO Pay				
Year	CFO	NEO3	NEO4	NEO5
2019	2.88x	2.28x	3.09x	3.68x
2018	3.07x	2.10x	2.78x	3.83x

Pay Design Update

2019 brought few major structural changes to STIP design. On average, companies within the TSX60 use a scorecard with 5 metrics, with one constituent disclosing as many as 18 (CNRL). Corporate STIP mix saw an increase in financial metrics from 67% to 69%, while operational metrics (quantitative metrics not measured on a dollar basis) declined. Additionally, ESG metrics in constituent corporate STIPs remained steady between 2018 and 2019 at 6%.



Average target LTIP mix saw minor shifts in the type of instruments used. We continue to observe the increase in PSUs and in 2019, PSUs represent the majority (52%) of CEO LTIP compensation. Contrary to the pattern of declining option usage over the past several years, there was a modest increase in the proportion of options, while the proportion of RSUs decreased. We do note that although the proportion of RSUs has decreased, certain constituents have added/will add RSUs to their program (e.g. Suncor, Emera, Enbridge, Fortis).

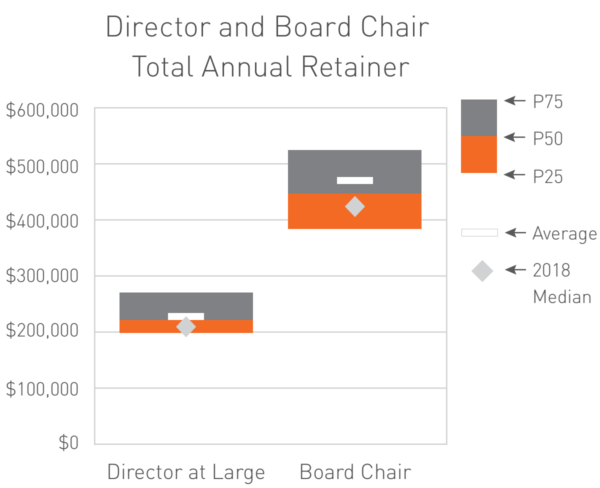


Despite the general consistency year-over-year, we note the following notable changes to incentive plan design in 2019:

- Cenovus launched a one-time incentive program ("20 for 20 Incentive Plan") designed to drive significant value creation. If at any time within 5 years from the effective date, the company's closing price on the TSX reaches or exceeds $20 for 20 consecutive trading days, each eligible employee will receive a one-time cash award equal to 1.0x base salary. For reference, the share price was $11.04 when the program was launched on February 13, 2019.

- After engaging with shareholders in 2019, Ovintiv (formerly Encana) made a number of changes to their compensation programs to more strongly align NEO compensation to company performance and link long-term incentives to the shareholder experience. Beginning in 2020, 100% of NEO annual bonus payouts will be based on the corporate score, instead of a 75% corporate and 25% individual mix. Within their long-term incentives, the firm capped the relative total shareholder return of PSUs at target if absolute TSR is negative over the performance period and eliminated the use of stock appreciation rights and stock options. Furthermore, RSUs will vest equally over three years instead of vesting at the end of three years.

Director Compensation Update



The median total non-executive director annual retainer (including equity) increased by 5% in 2019 relative to 2018 to approximately $225K, while median Board Chair pay increased 6% to $450K.

Approximately 80% of TSX60 companies have adopted a flat fee structure by which directors do not receive meeting fees, an increase from approximately 70% last year. Flat fees have gained traction and support from shareholders as a more appropriate structure of compensation for directors of Canadian Boards. As the role of the director has expanded, paying a fee "per meeting" is less likely to appropriately reflect the ongoing manner in which directors increasingly serve boards.

Say-on-Pay Update

2020 SoP results are shaping up to be in line with recent years in terms of average support levels:

- Average SoP support for the TSX60 issuers is 93% among the 37 companies that have held AGMs as of May 29, 2020, consistent with recent years
- Looking beyond the TSX60, there has been no failures (i.e. SoP vote below 50%) to date in Canada, with only a single company in the 50%-70% range (Vermilion Energy).
  - Vermilion Energy had a pay and performance disconnect cited by Glass Lewis as their key issue
- Baytex Energy, Crew Energy and Agnico Eagle Mines have all seen material improvements YoY, largely through the engagement with shareholders and adjustments to incentive plans

Notable Year-over-Year Changes

	Baytex Energy Corp.	Crew Energy Inc.	Agnico Eagle	Vermilion Energy	Inter Pipeline	Sierra Wireless
2020	92%	91%	95%	65%	72%	74%
2019	58%	61%	72%	94%	93%	94%
Δ	+34%	+30%	+23%	-29%	-21%	-20%

Heighted Focus on the "Social" Pillar Within ESG

While COVID19 has dominated much of the narrative lately, the growing importance of ESG has not changed. This topic continues to gain traction at the Board table, including an increasing prevalence of formal ESG committees. However, when it comes to linking executive compensation to ESG objectives, most Canadian boards are still in the early stages of thinking this through.

Although there was minimal documented change in 2019 on ESG usage in compensation plans, companies continue to assess how to incorporate ESG into their strategies and operations. We note 65% of TSX60 companies have incorporated ESG metrics into their scorecard, although a majority of these are related to the health and safety prevalent in Oil and Gas and mining companies. Some more interesting examples of companies implementing ESG in their scorecards are TELUS which considers a corporate sustainability index at 3% and Cameco which has a category focused on supporting communities at 15% of their short-term incentive plan.

Notably, the COVID19 pandemic has provided an opportunity for companies to highlight the "S" or "Social" pillar of ESG, which to date has been relatively harder to "pin down" and measure objectively. In the face of these challenging times, many organizations have been compelled to pivot quickly to ensure their workforces, customers, and stakeholders are safe, while others have been forced to make significant workforce changes or reductions to manage costs.

Actions taken by many organizations, and particularly large Canadian employers, have also been subject to significant public scrutiny as to how they have managed their workforce during recent events. Many organizations, in making these decisions, have explicitly considered factors relating to their social license to operate and the concept of "sharing the impact" across the organization. Where organizations have laid off a substantial number of employees, or cut back compensation/benefits to broad-based employees, it has been more common to see immediate action on executive pay taken and communicated externally.

Some notable examples of recent executive pay cuts related to COVID19 include:

- **SNC Lavalin** rolled back executive salaries by 20%, CNRL rolled back executive salaries by 15% and Enbridge rolled back salaries by 10%
- Other interesting examples are **Air Canada** and **TELUS**, where it was announced the CEOs (and CFO at Air Canada) would forgo/donate their salaries for Q2

Aligned with the focus on social impact, the government recently announced that large companies who seek federal loans for support during COVID will be required to ensure no executive is paid more than $1MM per year until the loan is repaid. This applies to the Large Employer Emergency Financing Facility program that was announced on May 11, intended for companies with at least $300MM in annual revenues. In addition to the cap on total compensation, the government has also imposed restrictions including prohibitions on dividends, capital distributions and share repurchases, and a requirement to disclose according to the Task Force for Climate-related Financial Disclosures (TCFD), a leading framework for financially quantifying and disclosing climate risks to an organization.

2020 Compensation & Use of Informed Judgement (Discretion)

Although we are still early in the 2020 compensation cycle, we expect most Boards will be faced with the decision of how to manage their incentive plan outcomes for the year. Key considerations will include the possible application of discretion to adjust incentive plan results in 2020, or to let incentive plans "play out" per their original plan.

A key component of most companies' corporate performance has been the corporate score/multiplier. A Hugessen article published in November 2019 ("How Boards Score Annual Corporate Performance") showed that over a 6-year period for companies with a 0-2x payout range, the median score for corporate performance was 1.1x target, and very few instances of "0" bonus were recorded. In what is shaping up to be a very volatile year, it will be interesting to see how pre-agreed formulas are adjusted mid-stream and/or discretion is applied at year-end to adjust the formulaic score to arrive at what will be deemed to be by boards a more equitable outcome.

While very situation specific, it's likely all Boards and Compensation Committees will grapple with whether to apply discretion at all, and, if so, whether it should be done mid-year (e.g., agree on adjustments to profit calculations, current targets/shoulder; pivoting to COVID strategic goals), or to wait and assess adjustments at year end. The consideration is how much to maintain of the current integrity scorecard/program vs. pivot from typical practice. With respect to "in-flight" long-term incentive programs, in our experience companies are less inclined to adjust those at this stage; the focus for now is on the 2020 bonus programs.

With regards to when or how discretion is applied, companies should consider the following principles:

Ensure a fulsome understanding of the current circumstances on the incentive programs, including various economic and company recovery scenarios

- Boards should have a good understanding of where the programs are currently tracking, including relative to the refreshed business plan for the balance of 2020
- This should include the relative impact on the various segments of the executive and employee population – both the do nothing and apply judgement scenarios

Communicate the board's support of Management's efforts and results

Balance shareholder and stakeholder priorities:

- Be mindful of perceived fairness and balancing reputational risk
- Employee and other stakeholder perceptions
- Retention/motivation of the senior team

Avoid formal mid-year changes to the incentive for 2020 (e.g., avoid locking yourself into a formula during this period of uncertainty), but start the socialization of how year-end bonuses and other executive pay decisions will be made

- That said, we appreciate for some industries that COVID impact is dramatic and long-lasting at a course correction mid-year may be appropriate. But even here, ensure that results are responsible and defensible and guard against hard-wired revised formulas that could still end up generating a pay outcome that is materially disconnected from performance

Be ready to disclose your rationale for any discretion the board applies

- If a company is considering a more innovative solution, they may consider shareholder engagement to build support

As needed, inform shareholders and proxy advisors of your governance to support these efforts

Although 2020 compensation decisions are most relevant and may require immediate attention, the effects of COVID-19 will be long-lasting and impact decisions in future years

- The 2020 performance assessment will be challenging, but equally as important will be goal setting for 2021 in the context of significant uncertainty, and these decisions may set the precedent for future years
- It will also be important to manage a potential "rebound" effect in 2021 (e.g., calculating growth metrics based on relatively low 2020 results)

Regulatory & Disclosure Update

2019 brought minimal changes to regulatory and disclosure requirements but provided a number of notable updates to outstanding items discussed in last year's briefing, including diversity disclosure and increased governance disclosures.

Diversity Disclosure – As per Bill-C25, corporations will be required to disclose information regarding their board and senior management diversity policies. The amendments outlined in the bill will broaden the previous 'comply-or-explain' disclosure regime, requiring more formal communication to their shareholders beginning with their 2020 annual meeting. CBCA corporations will need to indicate in their management information circulars if they have adopted a written policy on "designated groups". Our analysis of the TSX60 show that more than 80% have a disclosed policy for women and more than 50% have adopted targets. However, we do note that a majority of these targets are related to gender representation (e.g. 33% board representation of women by 2022).

Increased Governance Disclosure – The passing of Bill C-97 increases the level of required governance disclosure from federally incorporated issuers to their shareholders. Governance policies affecting CBCA corporations include shareholder vote on executive compensation ("say-on-pay") and executive compensation clawbacks. Among TSX60 companies, clawbacks of executive compensation have been adopted by nearly all constituents (55 out of 59), while say-on-pay votes are less prevalent.

Conclusion

Compensation and performance for the TSX60 reflected an upward trend in 2019, but amid the backdrop of increased volatility and uncertainty, the same cannot be expected for 2020. We continue to follow new developments driven by the impacts of COVID-19 and have observed widespread efforts by companies across industries to adapt to these new realities. 2020 has already provided important learnings for senior management and directors on crisis management and the need to pivot to meet changing market dynamics. Beyond 2020, some level of uncertainty will remain and issues such as setting appropriate targets and addressing the impacts on long-term incentive programs will be top of mind.