



TSX60 Proxy Review, COVID-19 & Emerging Topics Webinar

June 2021

Thank you for joining us, the presentation will begin shortly



2021 PROXY SEASON REVIEW, COVID-19 OBSERVATIONS, AND EMERGING TOPICS & TRENDS

Hugessen TSX60 Webinar

June 2021

HUGESSEN
CONSULTING

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Agenda

- 1 Welcome
- 2 Highlights from 2021 Proxy Season
- 3 COVID-19 & Emerging Topics
- 4 US Pay Trends
- 5 Q&A and Closing Remarks

*If you have any questions, please submit them on Teams.
Questions will be addressed at the end of this presentation*



EXECUTIVE COMPENSATION

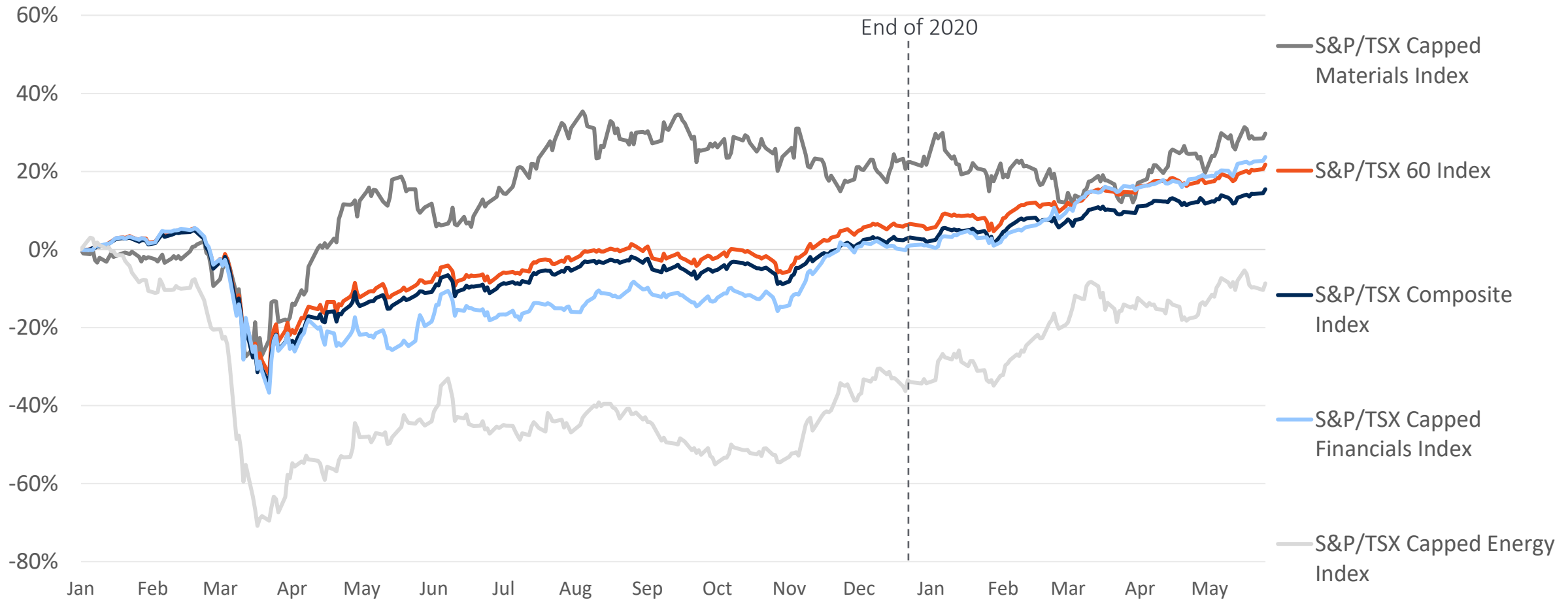
PERFORMANCE AND PAY

Scope of Study:

- *Companies in the TSX60 Index*
- *2021 Proxies commenting on Fiscal 2020 (n=57)*

2020 & YTD 2021 Performance

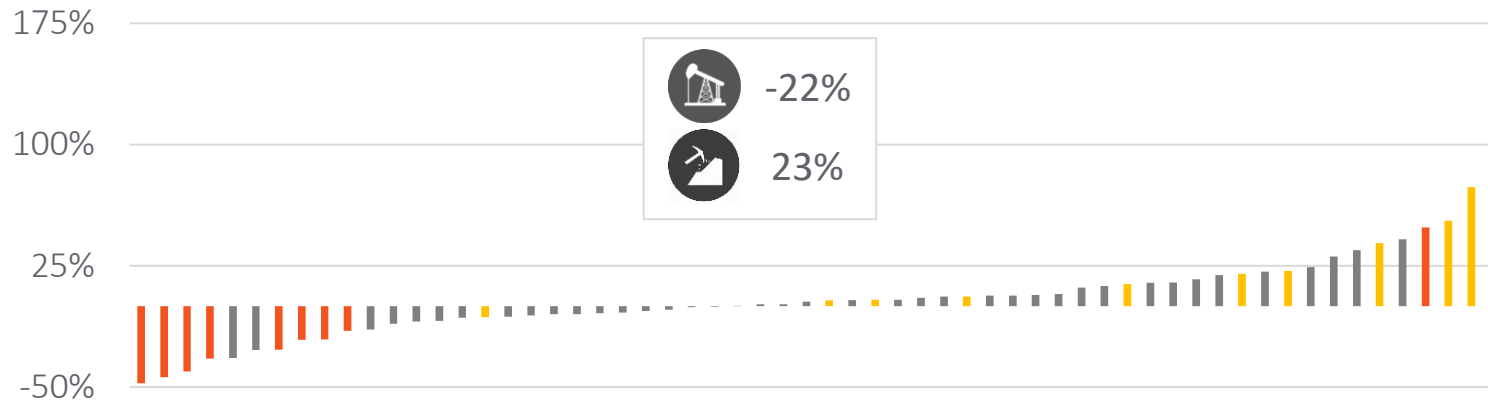
Strong post-COVID recovery across most sectors



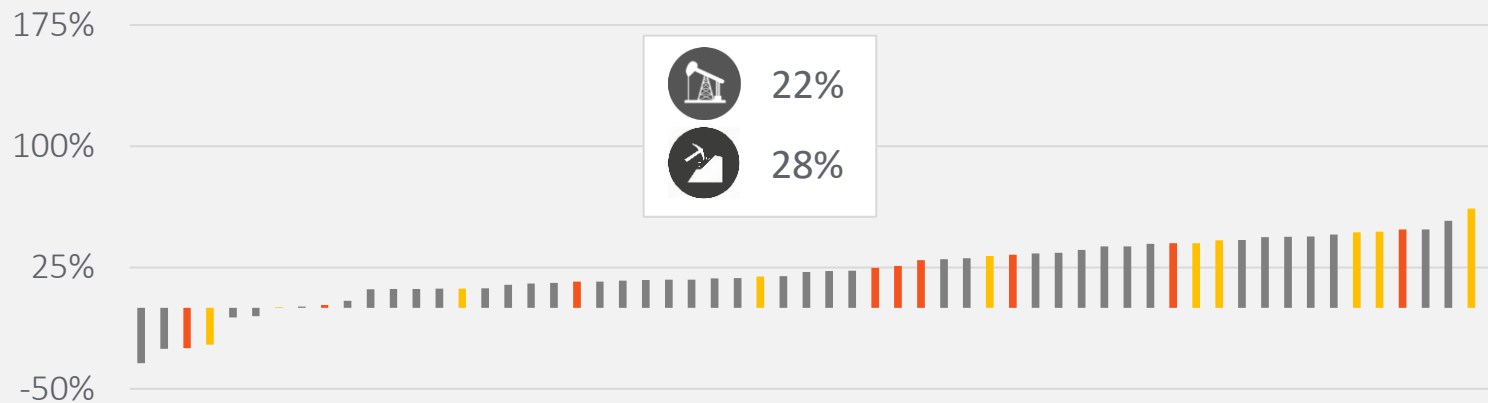
2019 – 2020 TSR

A greater proportion of TSX60 constituents had positive TSRs in 2019 compared to 2020

TSX60 Index Constituents - 2020 Total Shareholder Return



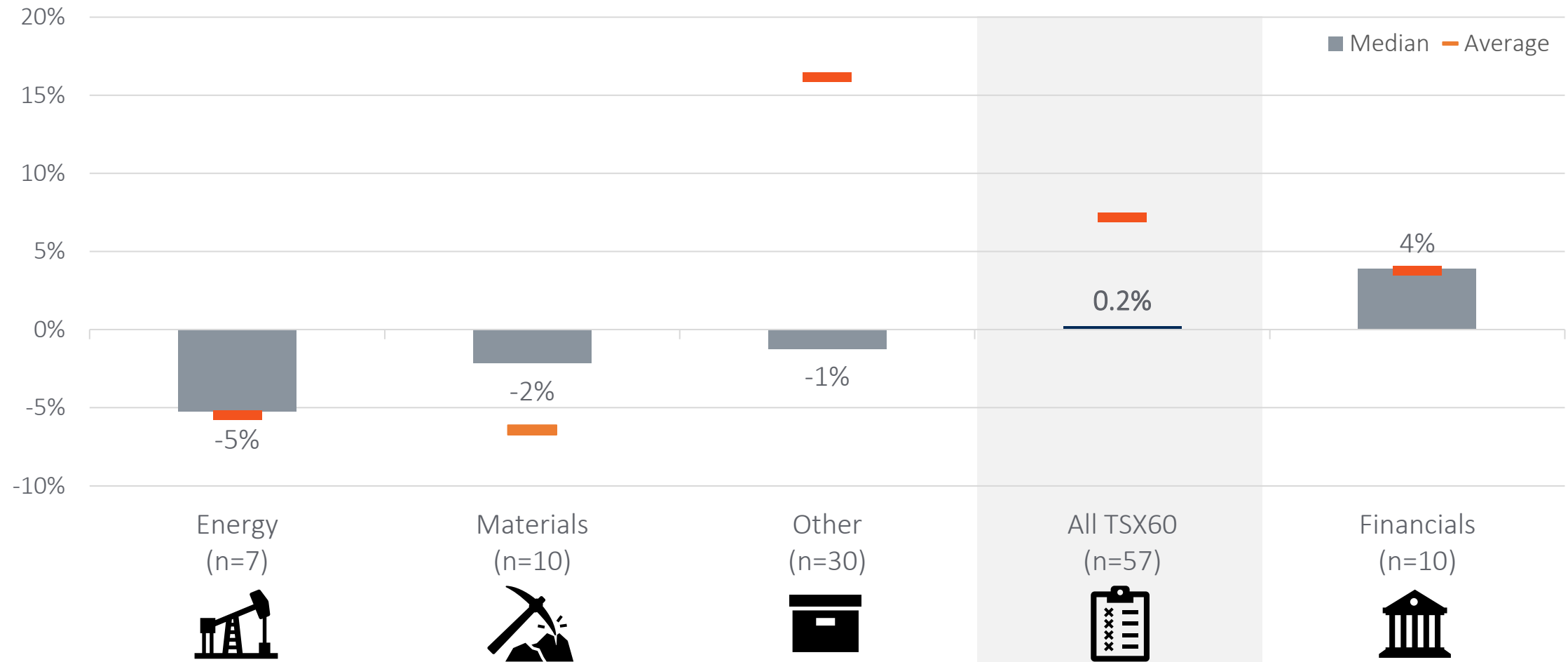
TSX60 Index Constituents - 2019 Total Shareholder Return



2020 YoY Median CEO TDC by Industry

Compensation in the majority of sectors saw YoY decline or stagnation in median TDC

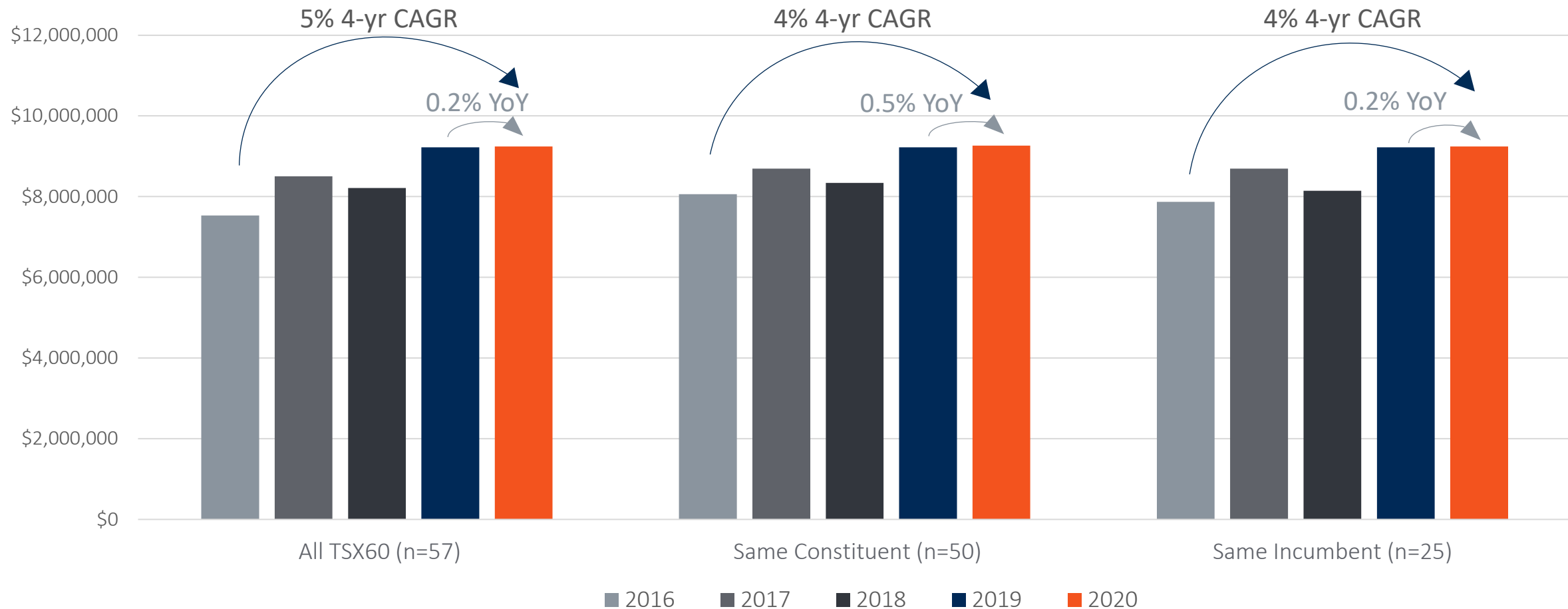
Year-Over-Year Change in Median & Average TSX60 CEO TDC



Median CEO Pay YoY

Median TSX60 compensation has seen a relatively stable increase over the last five years

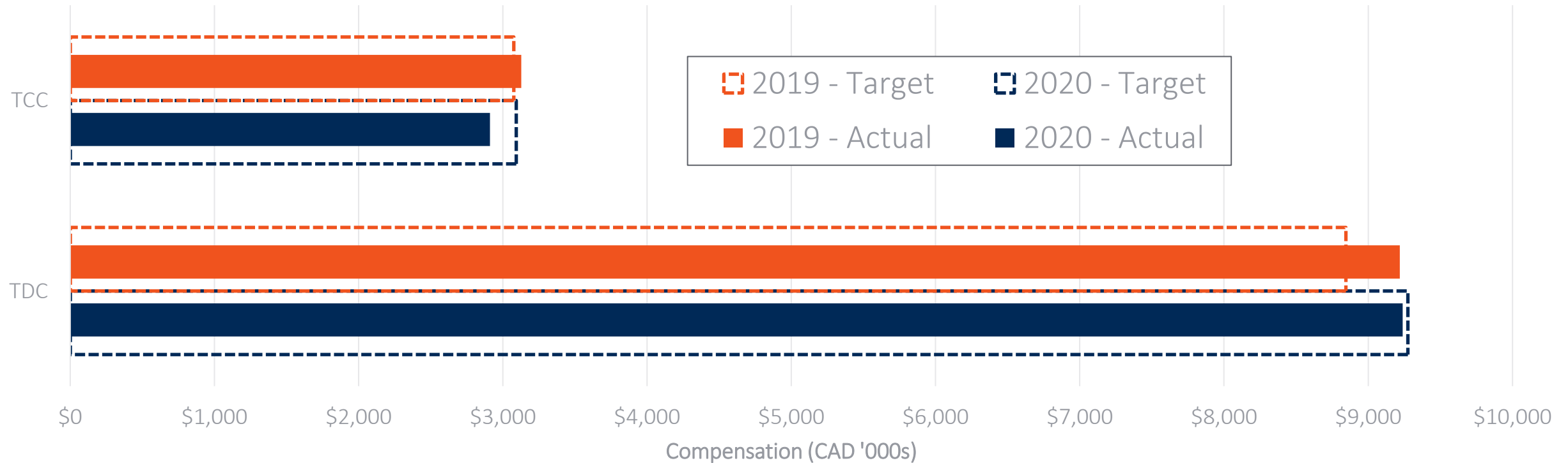
5 Year Trend in Median TSX 60 CEO TDC



Actual vs. Target Pay

Contrary to 2019, actual CEO Total Cash Compensation (“TCC”) and Total Direct Compensation (“TDC”) was less than target in 2020

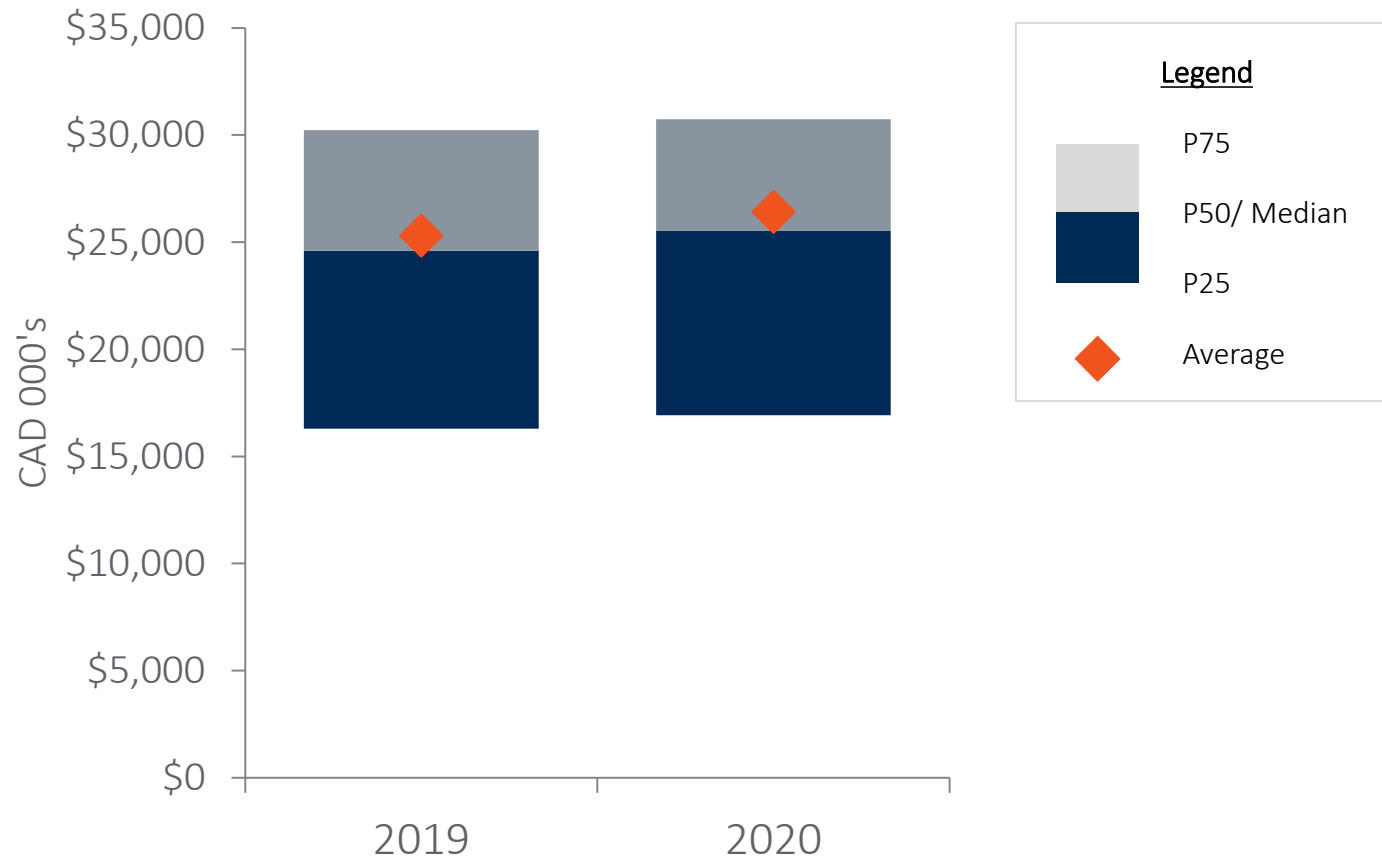
2019 vs. 2020 Change in Actual and Target Median Compensation



Compensation Levels: Top 5 Pay

Total top 5 pay increased year over year, CEO share of total remains stable

Aggregate Top 5 Pay



CEO Pay as a Multiple of NEO Pay		
	2019	2020
CFO	2.93x	3.03x
NEO3	2.34x	2.52x
NEO4	3.14x	2.96x
NEO5	3.68x	3.45x



EXECUTIVE COMPENSATION

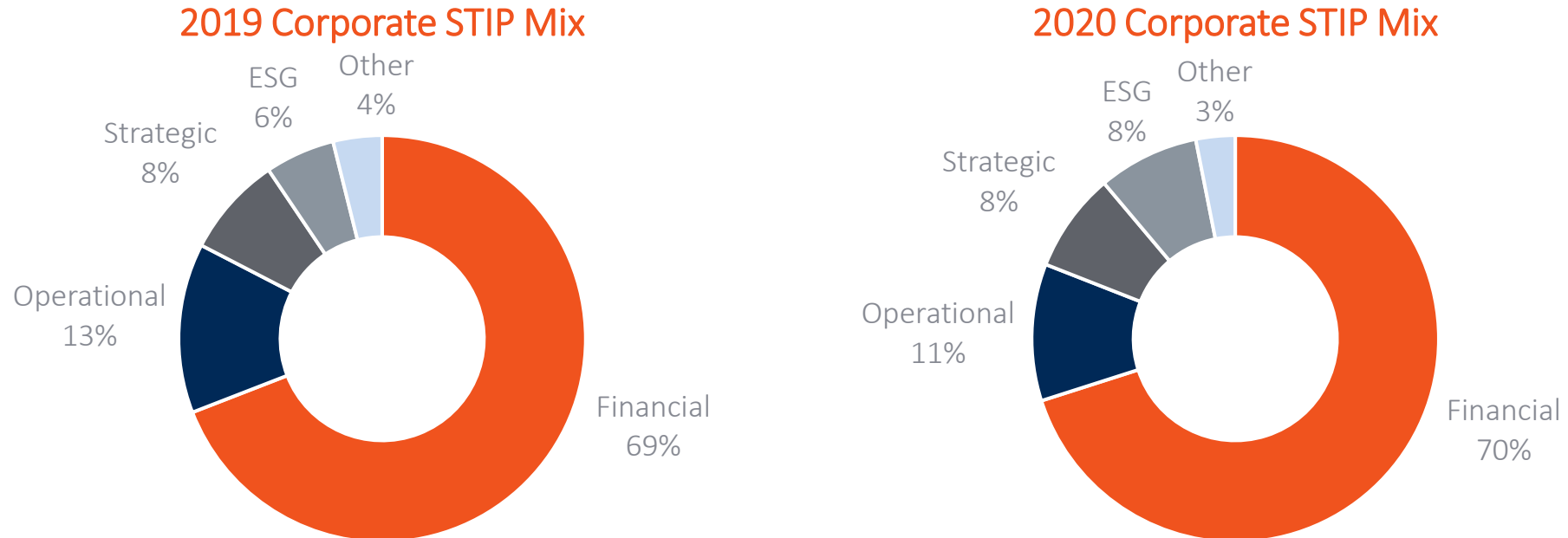
PAY MIX AND PLAN DESIGN

Scope of Study:

- *Companies in the TSX60 Index*
- *2021 Proxies commenting on Fiscal 2020 (n=57)*

Short Term Incentive Design

STIP design remains relatively stable year-over-year, with modest increases to ESG weighting

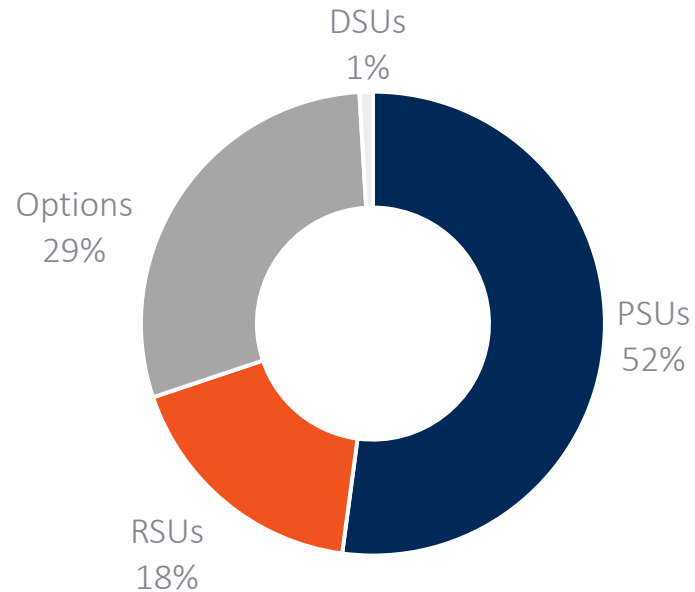


2019	STIP Metrics	2020
5.3	Number of metrics used, on average	5.6
64%	Scorecards with an individual component	67%
17%	Board exercised discretion	47%

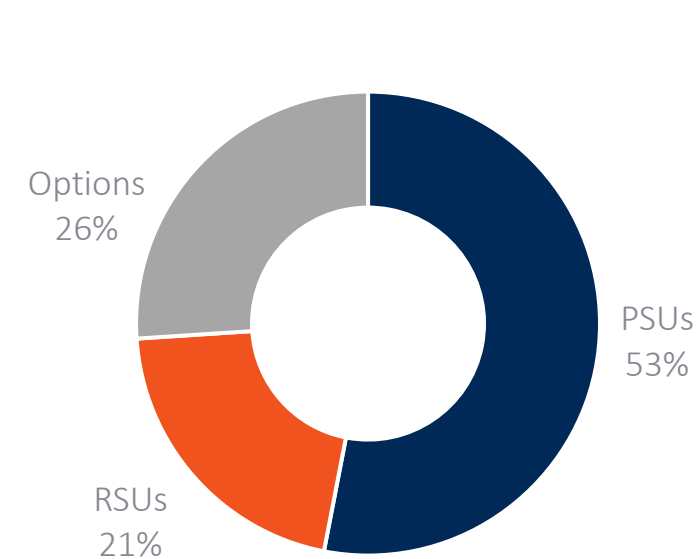
Long Term Incentive Design

LTIP mix continues to shift away from stock options and towards RSUs

2019 Average Target LTIP Mix



2020 Average Target LTIP Mix



2019	LTIP Metrics	2020
2.4	Average number of metrics used in PSUs	2.4
63%	Relative TSR metric used	63%
32%	Return metric used (e.g. ROE)	33%



2020 SAY ON PAY RESULTS

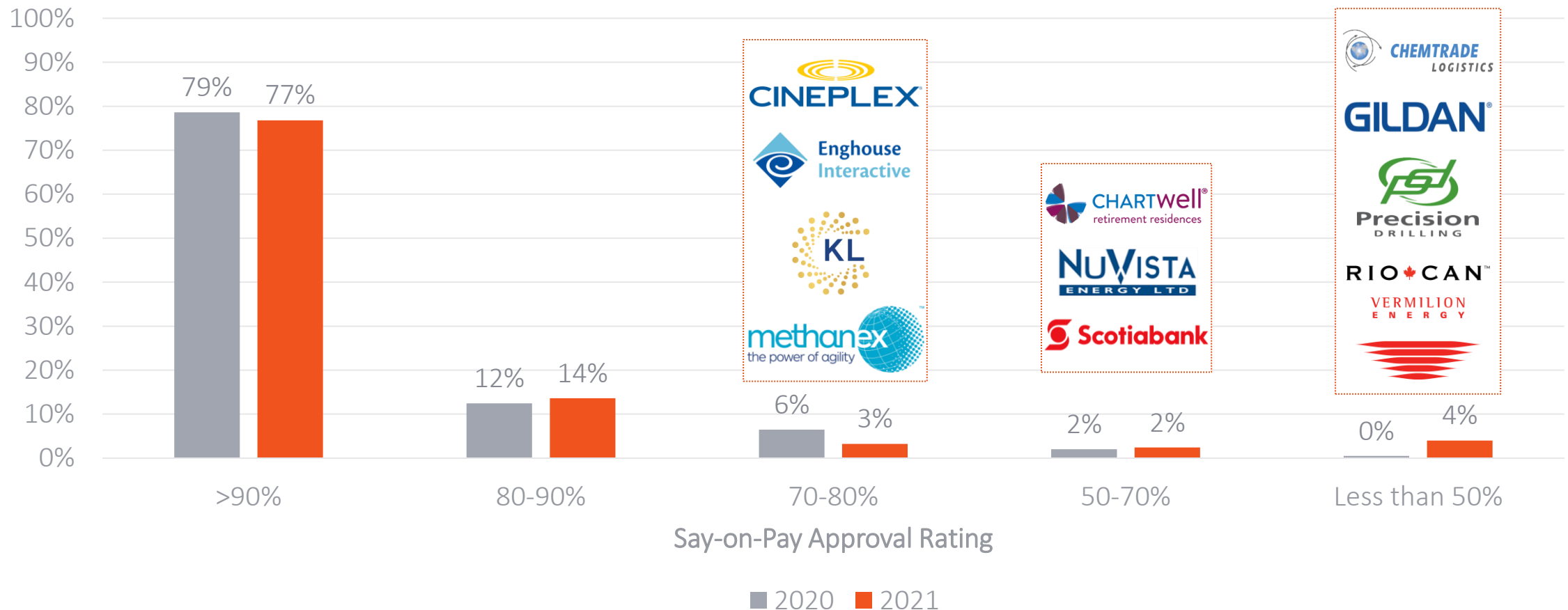
Scope of Study:

- *Say on Pay results among the TSX Composite Index as of May 28, 2021 (n = 125)*

Canadian Say on Pay Results

The number of companies scoring below 50% increased from none in 2020 to 5 in 2021

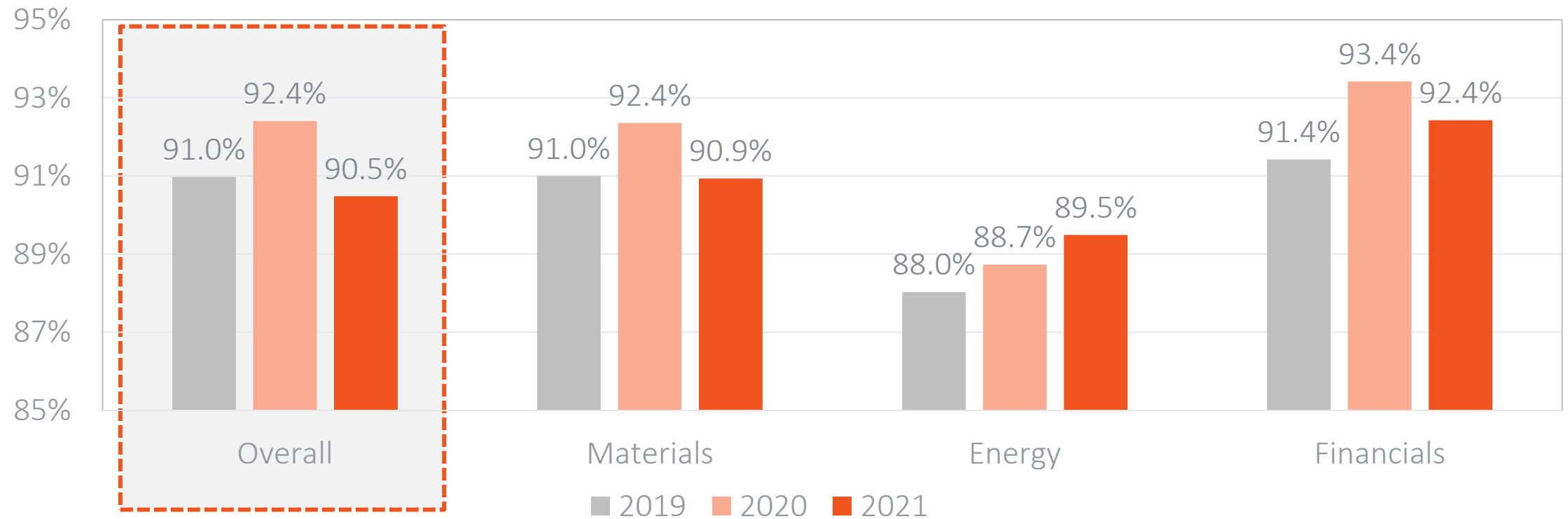
Canada Say-on-Pay Voting Results 2021 vs. 2020



Canadian Say on Pay Results by Industry

Say on Pay results increased for most sectors in 2021 compared to 2020 results

Average SOP Results by Industry
(2019 - 2021)





COVID-19 & EMERGING TOPICS

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COVID-19 Observations



Actions Taken in 2020

- Salary and board retainers cuts early on
- Challenge of balancing poor financial results and management performance
- Adjustments to financial metrics and application of overall discretion at year-end
- Equitable treatment across the organization



Shareholder & Market Reactions

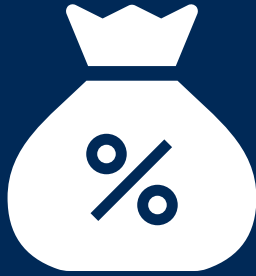
- Increase in failed Say-on-Pay votes
- Negative proxy advisor commentary
- Increase in negative press



Implications for 2021 & Beyond

- Widening of performance shoulders for financial metrics
- Increased use of non-financial metrics and formal discretionary components
- PSU design adjustments

Emerging Topics & Trends



Stock Option Taxation
Changes



Environmental, Social,
and Governance



Recent Initial Public
Offering Activity

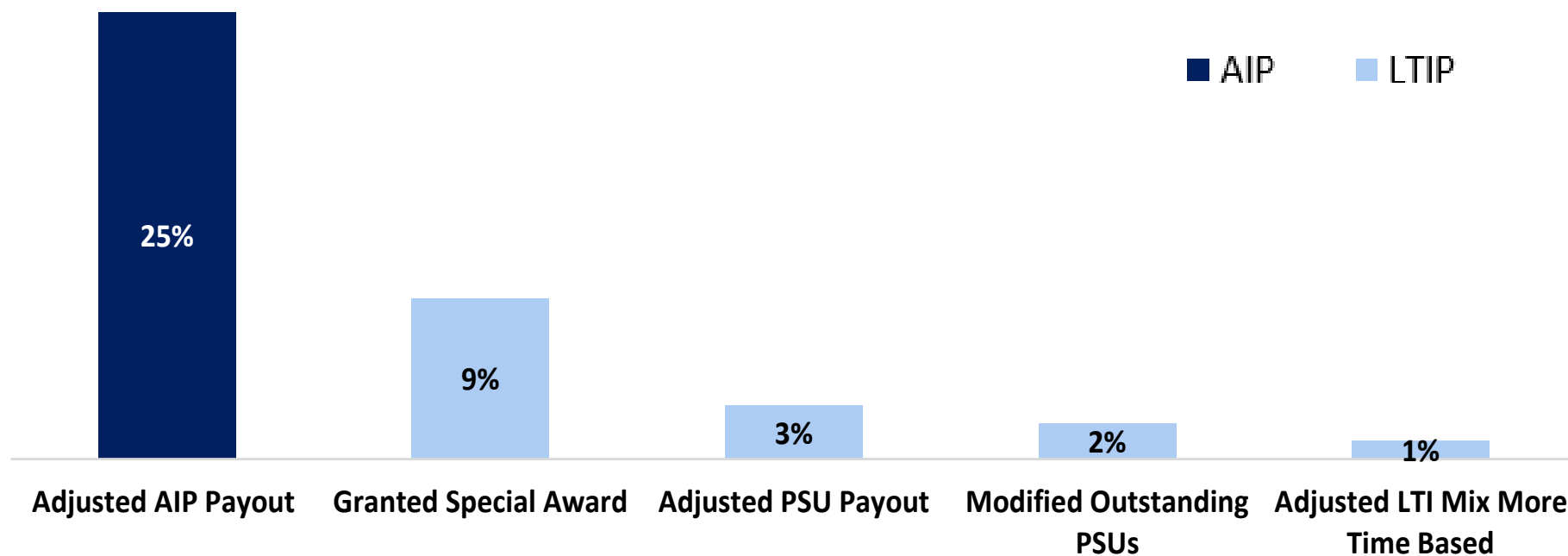


US PAY TRENDS

Select S&P 500 Covid-Related Modifications

The most prevalent modifications involved adjusting annual incentive plan (AIP) payouts by changing metrics and/or goals, using discretion, or setting wider performance ranges to accommodate potential variability in performance outcomes.

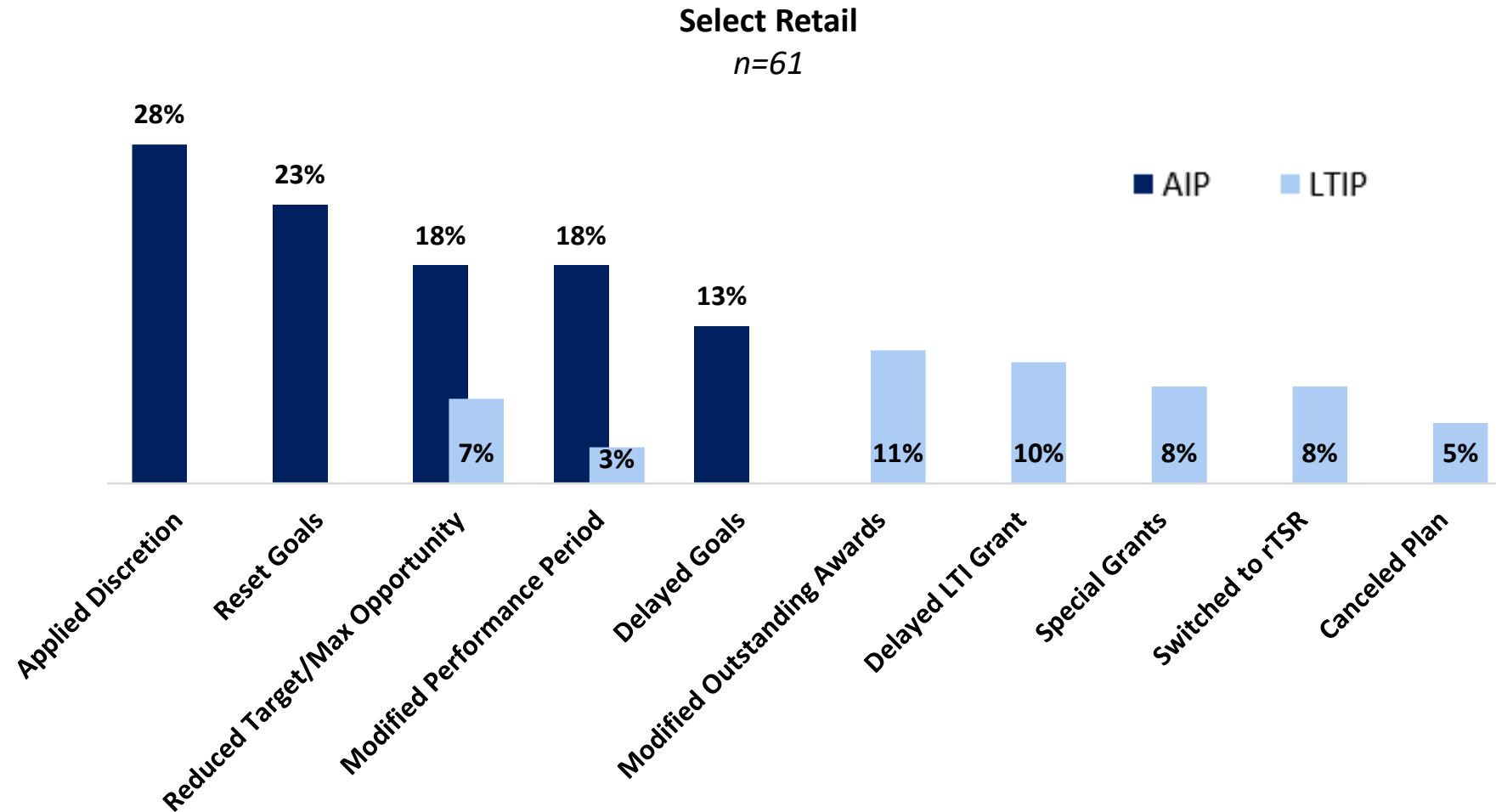
n=345



Adjusted AIP payout approaches include applying discretion, adjusting metrics and/or targets, and widening performance ranges to accommodate potential variability.

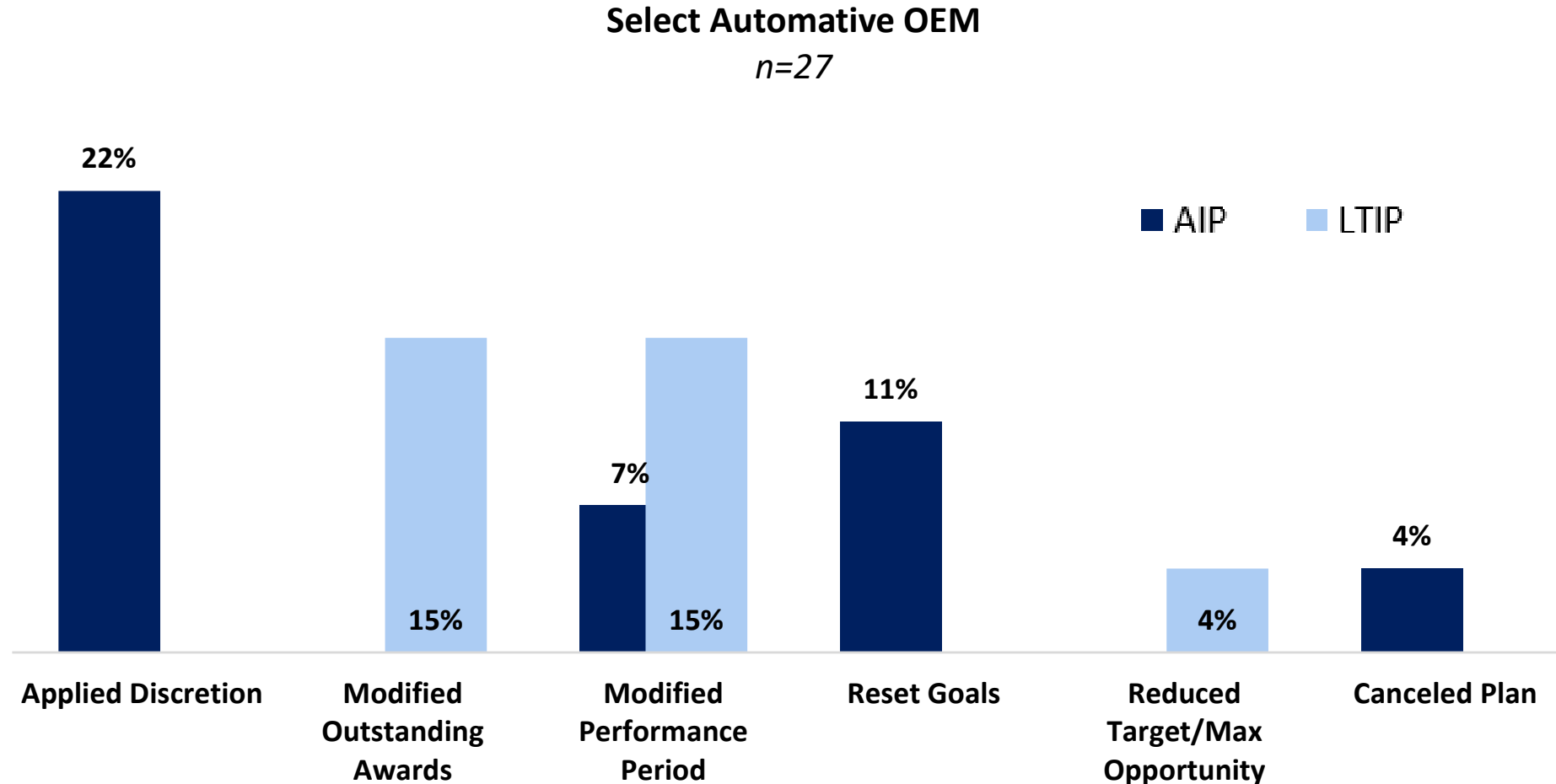
Retail Deep Dive

The retail industry struggled due to changes in consumer behavior, mandated closures, and supply chain disruptions resulting from Covid-19. Most modifications occurred within the AIP rather than the LTIP.



Automotive OEM and Russell 3000 Deep Dive

Auto industry manufacturers also experienced the challenges of the pandemic.



Lasting Impacts from 2021 Proxy Season

Seasonal annual plans—expect prevalent in retail, food & food service, hospitality

New metrics—indicators of operational success and strategic milestones

Wider performance curves

Lower performance curves/governors on the maximums

Rebalancing of LTI—less PSU, less risk

Enhancing 2021 LTI award size...but with risk of Say on Pay backlash

Rebalancing of formula vs. discretion

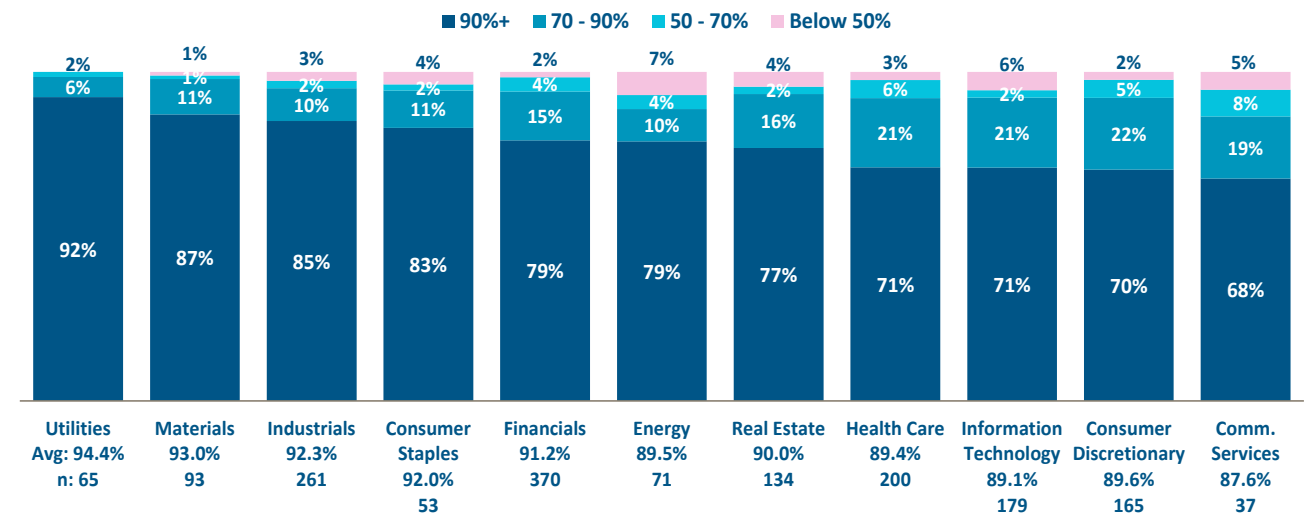
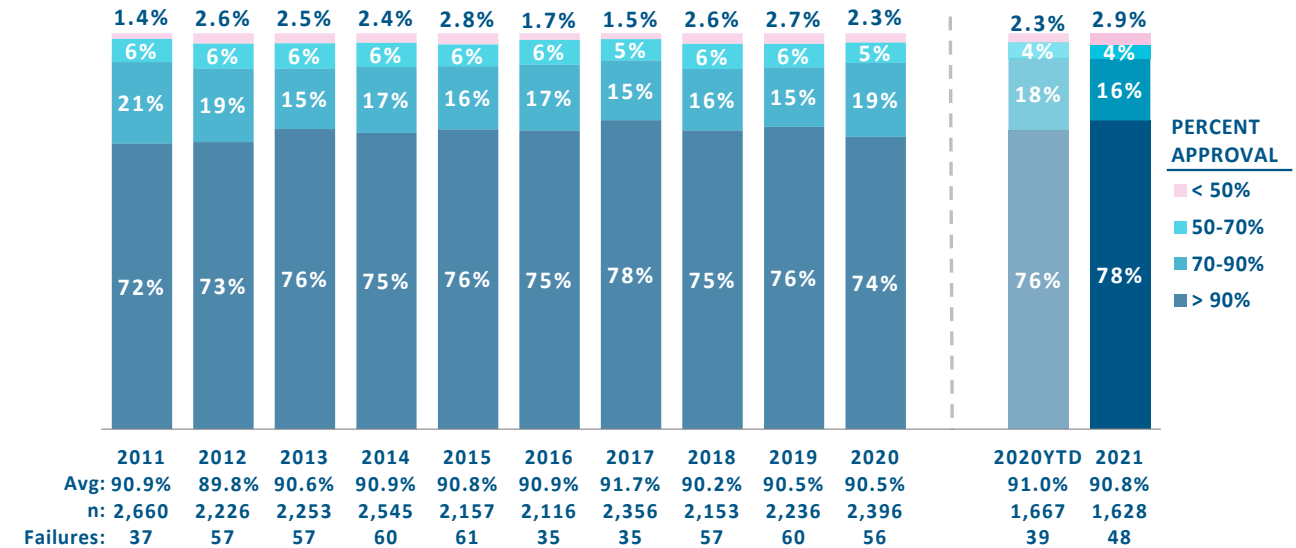
Proportionality relative to all stakeholders

Ability to explain actions transparently and credibly

Current Say on Pay (SOP) Results

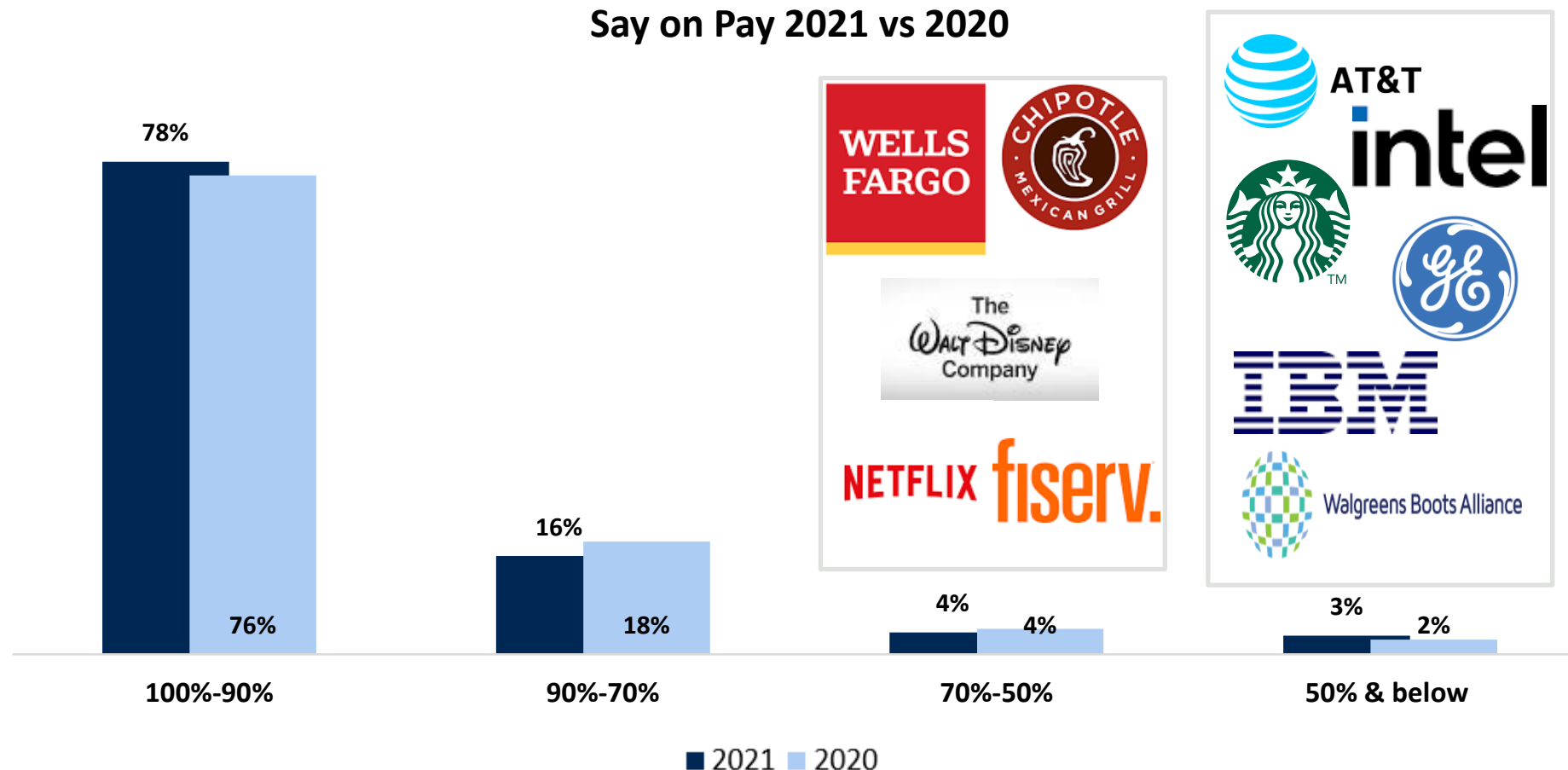
2021 Say on Pay Season

- The current SOP failure rate is 2.9%. Initial evaluation of the likely reasons for failure indicates that fourteen of the forty-eight failed Say on Pay votes are due in part to Covid-19 related actions.
- The top chart indicates 48 failures thus far. 16 of these failures are S&P 500 companies
- The bottom chart shows SOP results by industry, with energy companies having the highest proportion of failures



Breakdown of Say on Pay Results

ISS against recommendations (10%) are lower than they were in 2020 (11%); however, many large cap companies are experiencing increased 'Against' recommendations and low vote support in comparison to 2020.



¹ Companies outlined in the boxes received low or failing vote support in 2021.

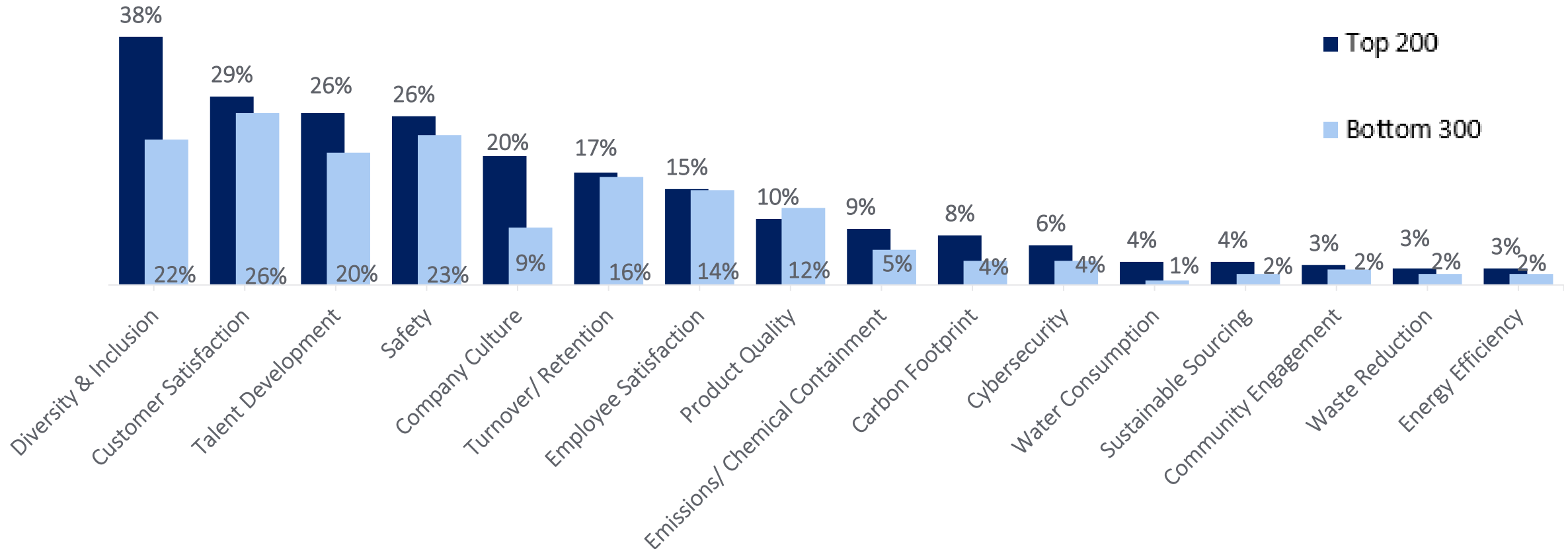
Themes Emerging from 2021 Say on Pay Season

Topic	Detail
Spotlight on Large Cap Companies	<ul style="list-style-type: none">Early evaluations of the 2021 Say on Pay season have revealed an increased focus on larger cap companies from ISS and institutional shareholders (approximately a third of failures are companies amongst the S&P 500)
New Challenges with Litigation Expenses	<ul style="list-style-type: none">Institutions and proxy advisors expressed new interest in greater disclosure regarding Committees' incentive decision making process as it pertains to litigation expenses, with some contending significant litigation expenses should not be excluded from incentive calculations
Special Awards Panned	<ul style="list-style-type: none">Proxy advisors were critical of those who made special awards solely based on retention as well as awards that did not have strong performance conditions or long-term vesting schedules
2021 Actions Carry Over	<ul style="list-style-type: none">Some companies enhanced 2021 grants, modified go forward awards, and/or paid annual incentives in stock in response to pandemic performance shortfalls. These actions have yet to be evaluated
ESG Proposals	<ul style="list-style-type: none">Proposals have received an elevated level of support, often above 70%, involving matters such as disclosure of EEO-1 statistics, diversity and inclusion efforts, board diversity, lobbying payments, climate impact reporting, and emission reduction target disclosure

ESG Metric Prevalence in Incentives

62% of the largest 200 companies incorporate ESG in incentives, compared to 55% for the smaller 300. This follows expectations – high-profile companies face more public scrutiny and are often among the first to adopt new governance trends

Metric Prevalence at Top 200 and Bottom 300 S&P 500 Companies by Revenue¹
(N=500; revenue as of 5/1/2021)



¹ Data is sourced from 2021 Proxy Statements

Trends in Tech-Industry Pay

- The technology sector talent market remains hyper competitive
 - Pay levels for high-growth tech companies up 15% to 25% year-over-year for multiple senior-level roles—including individuals receiving 50%+ premiums upon joining competitors
 - IPO/ SPAC market creating a desire for “moonshot” awards that can be as large as \$1B in grant date fair value
 - Use of one-time special awards increasing as companies look for more ways to attract and retain top talent
 - Continued shift towards equity as a time-based currency rather than a performance-based currency—acknowledging the continued increasing proportion of pay delivered in equity as more and more tech companies eliminate cash bonus programs
- Bellwethers like Google, Facebook, and Apple continue to have significant impact on the talent market, though their influence has receded somewhat under the backdrop of recent IPO successes
- Increased employee and stakeholder activism (e.g., Amazon employees supporting shareholder proposal) has garnered significant media attention but has not had a noticeable impact on the overall talent market at FAANG companies

The technology talent market continues to be strong as companies “pay-up” for experienced talent. The two “unknowns” for us to monitor over the coming year—and which could impact pay levels—include: (i) will the IPO/ SPAC market weaken, strengthen, or stabilize, and (ii) how will companies “return to work” (or not) in the post-COVID environment?



Q&A

If your question was not addressed during our Q&A session, please contact email@hugessen.com



CLOSING REMARKS



TSX60 Proxy Webinar and Discussion

June 2021

Thank you for joining us. If your question was not addressed during our Q&A session, please contact email@hugessen.com.

Please take a minute to complete our survey.