

**HUGESSEN**  
CONSULTING

# TSX60 Proxy Review & Emerging Topics Webinar

*June 2022*

*Thank you for joining us, the presentation will begin shortly*



# 2022 PROXY SEASON REVIEW AND EMERGING TOPICS & TRENDS

Hugessen TSX60 Webinar

June 2022

**HUGESSEN**  
CONSULTING

# Speakers



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*Principal*  
Semler Brossy - NYC

# Agenda

- 1 Welcome
- 2 Highlights from 2022 Proxy Season
- 3 Board Effectiveness
- 4 Emerging Topics
- 5 Q&A and Closing Remarks

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



# EXECUTIVE COMPENSATION

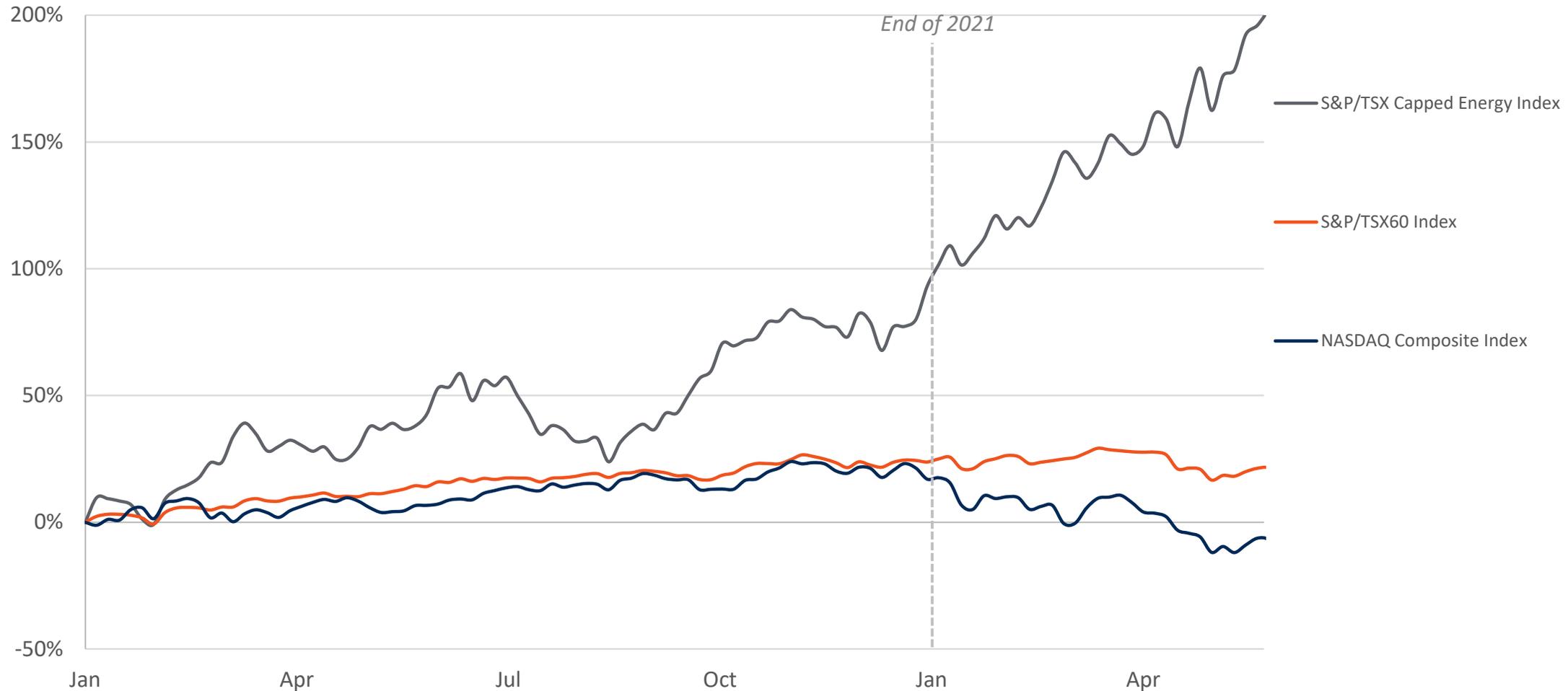
## *PERFORMANCE AND PAY*

### *Scope of Study:*

- *Companies in the TSX60 Index*
- *2022 Proxies commenting on Fiscal 2020 (n=59)*

# 2021 & YTD 2022 Performance

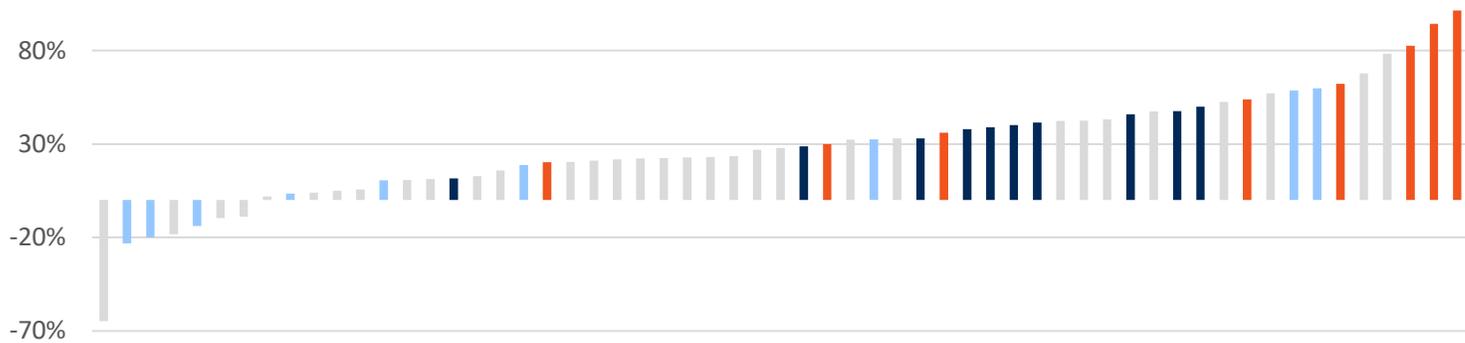
Energy sector performance outpaced broader market returns



# 2020 – 2021 TSR

All industries outlined, with the exception of the Materials sector, performed better in 2021 versus 2020

TSX60 Index Constituents - 2021 Total Shareholder Return



TSX60 Index Constituents - 2020 Total Shareholder Return

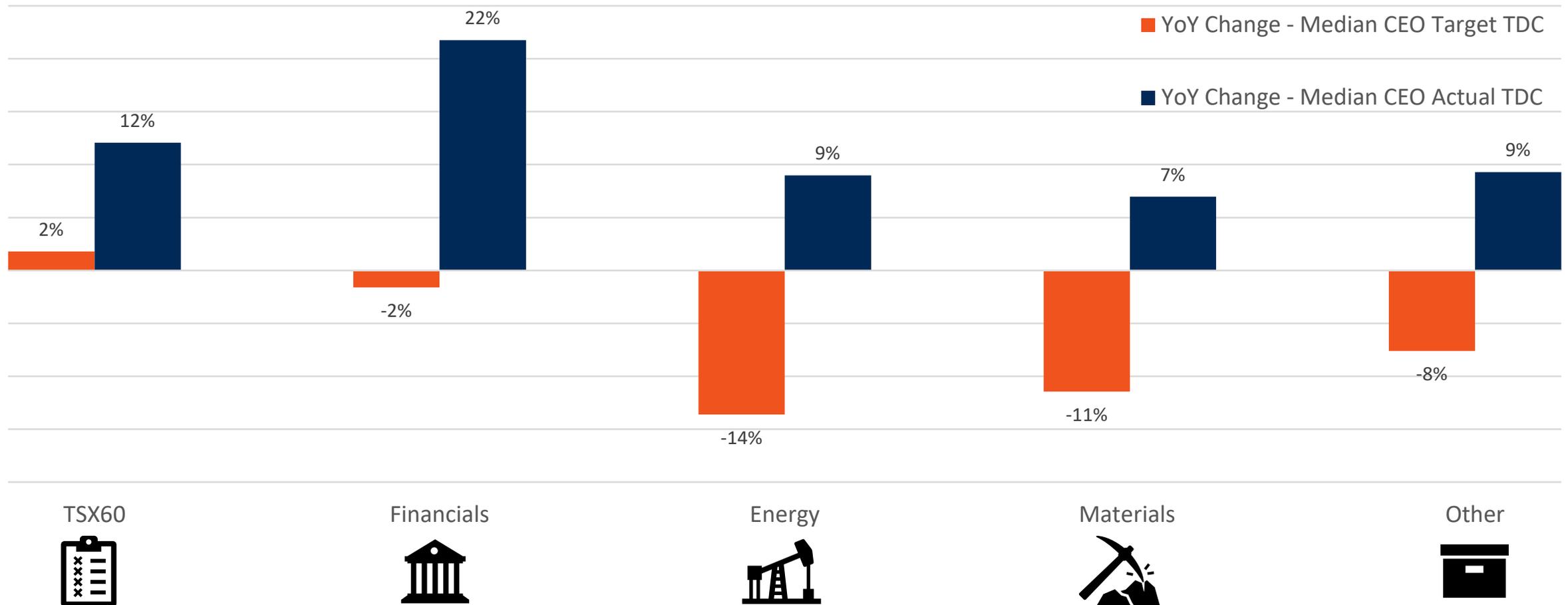


Industry	2020	2021
Energy	-19%	+60%
Materials	+26%	+14%
Financials	+1%	+38%
Other	+12%	+22%

# 2021 YoY Median CEO TDC by Industry

Compensation in the majority of sectors saw YoY increase in actual TDC

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



TSX60



Financials



Energy



Materials

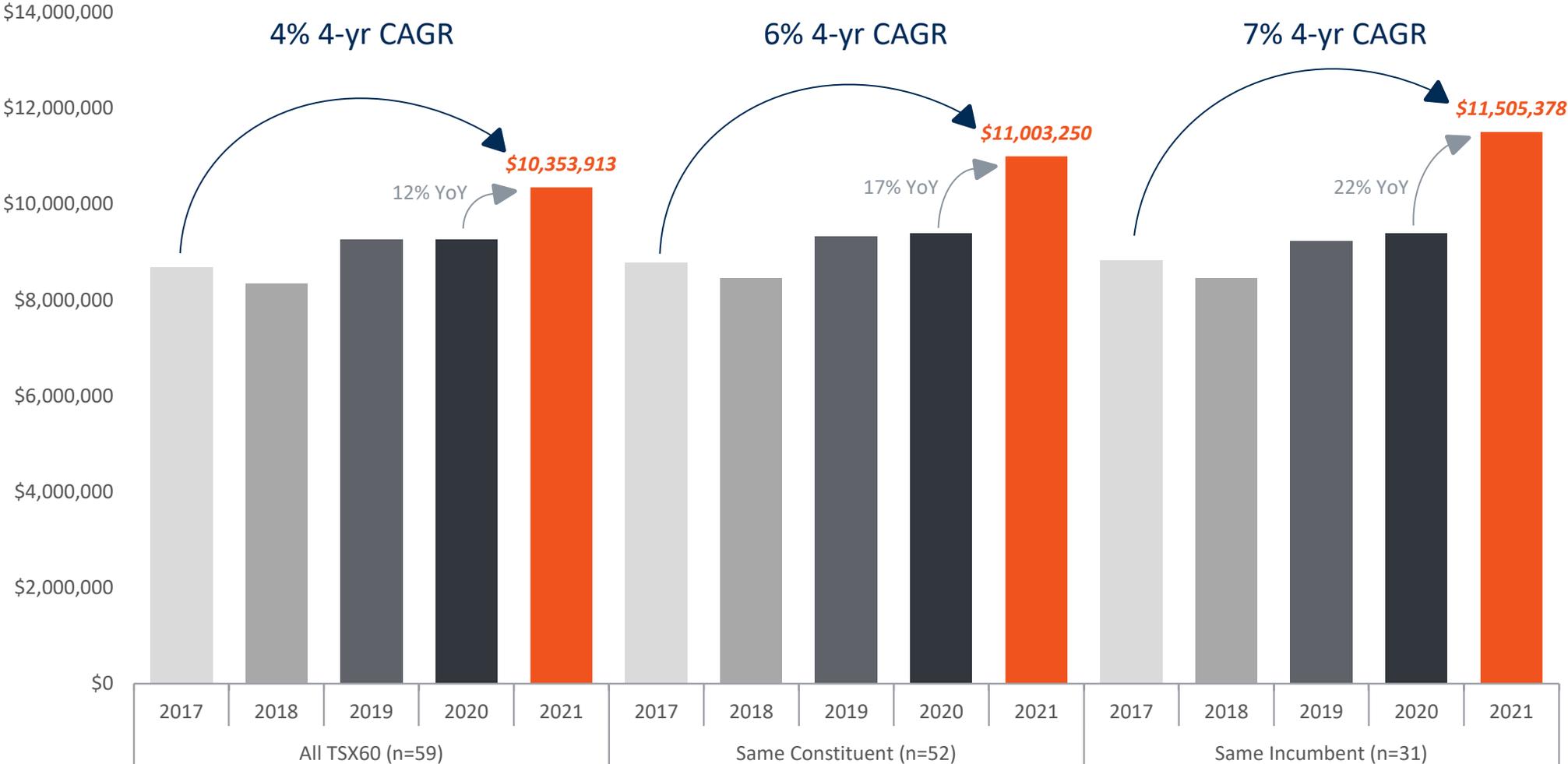


Other



# Median Actual CEO Pay YoY

Median TSX60 compensation has seen a relatively stable increase from 2017 to 2020, with a more significant increase in 2021



# Actual vs. Target Pay

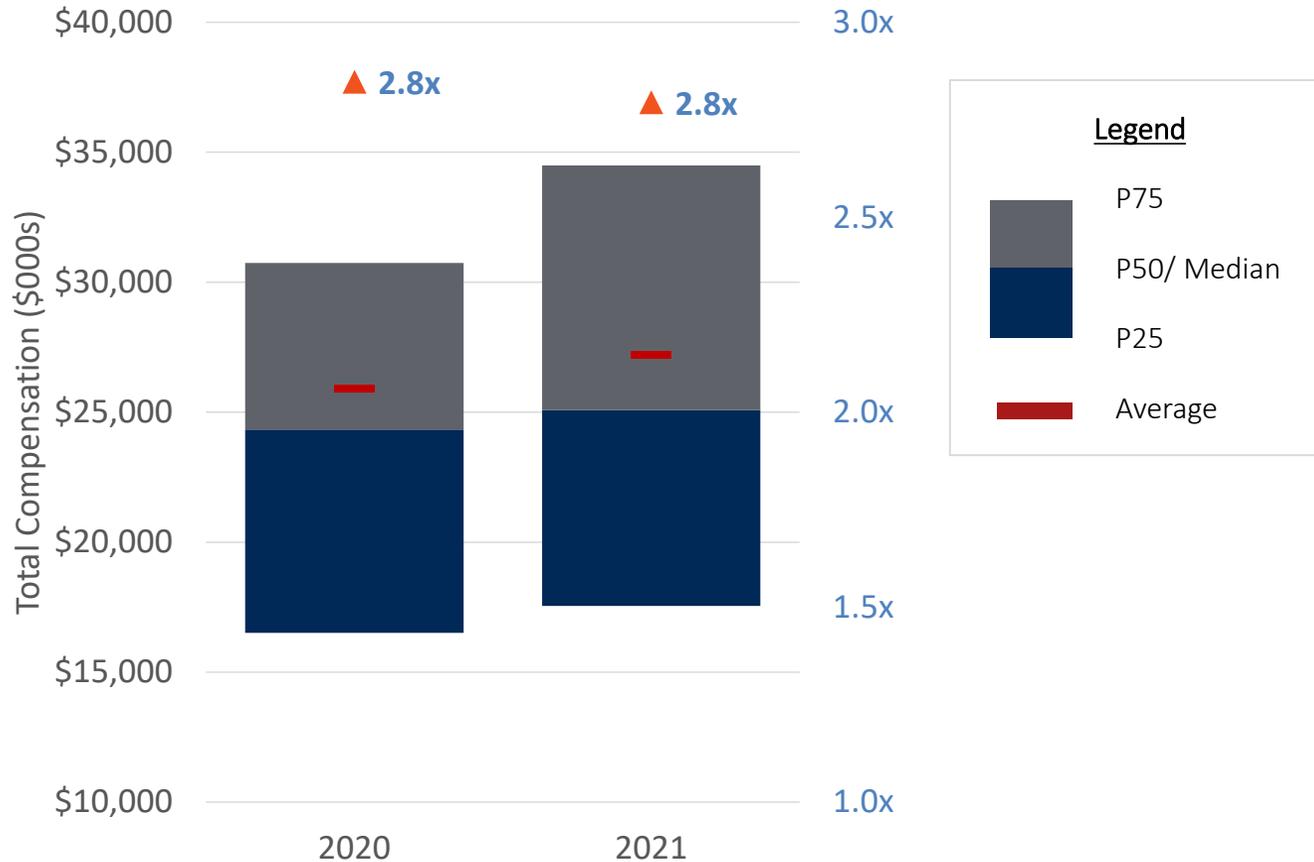
In 2021, actual total direct compensation was about 10% higher than target, compared to the relatively narrow spread between actual and target in 2020

2020 vs. 2021 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



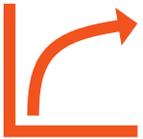
CEO Pay as a Multiple of NEO Pay (Median)		
	<i>2020</i>	<i>2021</i>
CFO	3.03x	3.01x
NEO3	2.52x	2.56x
NEO4	2.96x	2.95x
NEO5	3.45x	3.45x

# US Pay Trends



## Executive pay levels continued to increase, especially among high-growth technology companies

- Median S&P 500 CEO pay increased by 5% in 2021
- Annual increases for technology companies continued to outpace the broader market (12%)
- Annual increases were driven by larger equity grants



## We expect a modest softening of ongoing pay levels across the market

- Moderate softening of new hire grant levels
- Companies that are able will emphasize cash compensation to address inflation concerns and offset the volatility/uncertainty of equity
- Annual total pay increases over the next 6-12 months will soften



# EXECUTIVE COMPENSATION

## *PAY MIX AND PLAN DESIGN*

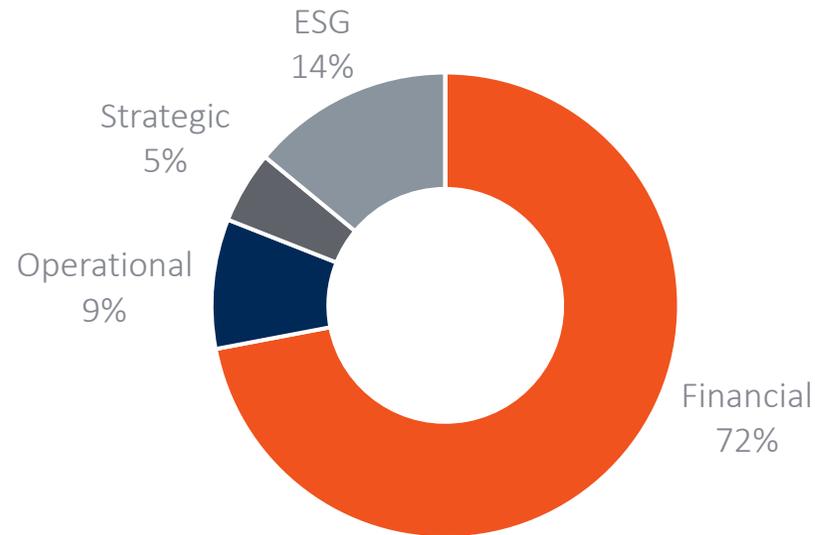
### *Scope of Study:*

- *Companies in the TSX60 Index*
- *2022 Proxies commenting on Fiscal 2021 (n=59)*

# Short Term Incentive Design

Decreased use of discretion amid strong corporate performance

## 2021 Average Corporate STIP Mix



## Most Common Metrics



### Financial

*Earnings, Cash Flow, Revenue*



### ESG

*Safety, Customer Satisfaction, Employee Experience*



### Operational

*Production, Cost Savings, Net Store/Client Growth*



### Strategic

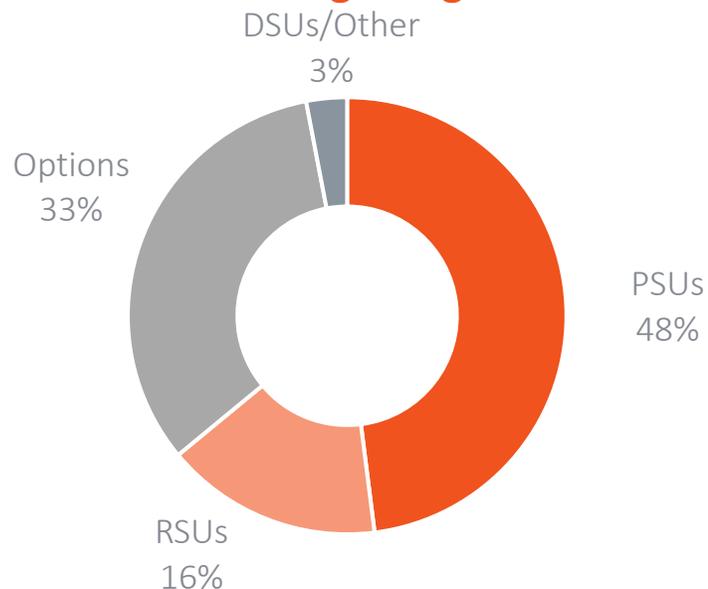
*Business Development, Compliance, Dividends & Share repurchases*

2020	STIP Design	2021
5.6	Average Number of Metrics Used	5.5
96%	Average Corporate Score (%)	133%
33	Number of Companies that Used Discretion	14

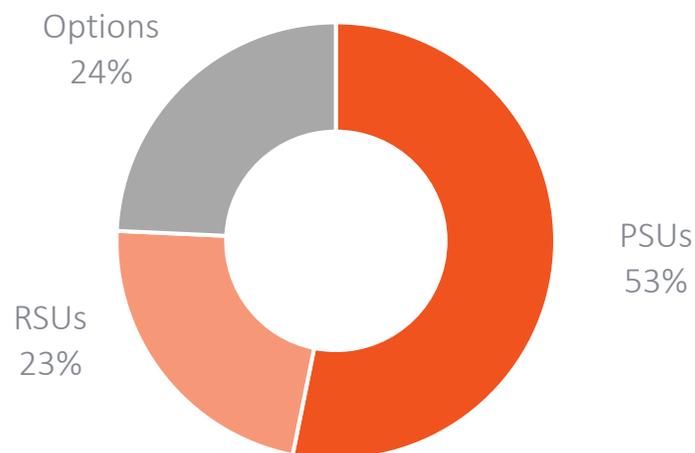
# Long Term Incentive Design

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

2016 CEO Average Target LTIP Mix



2021 CEO Average Target LTIP Mix

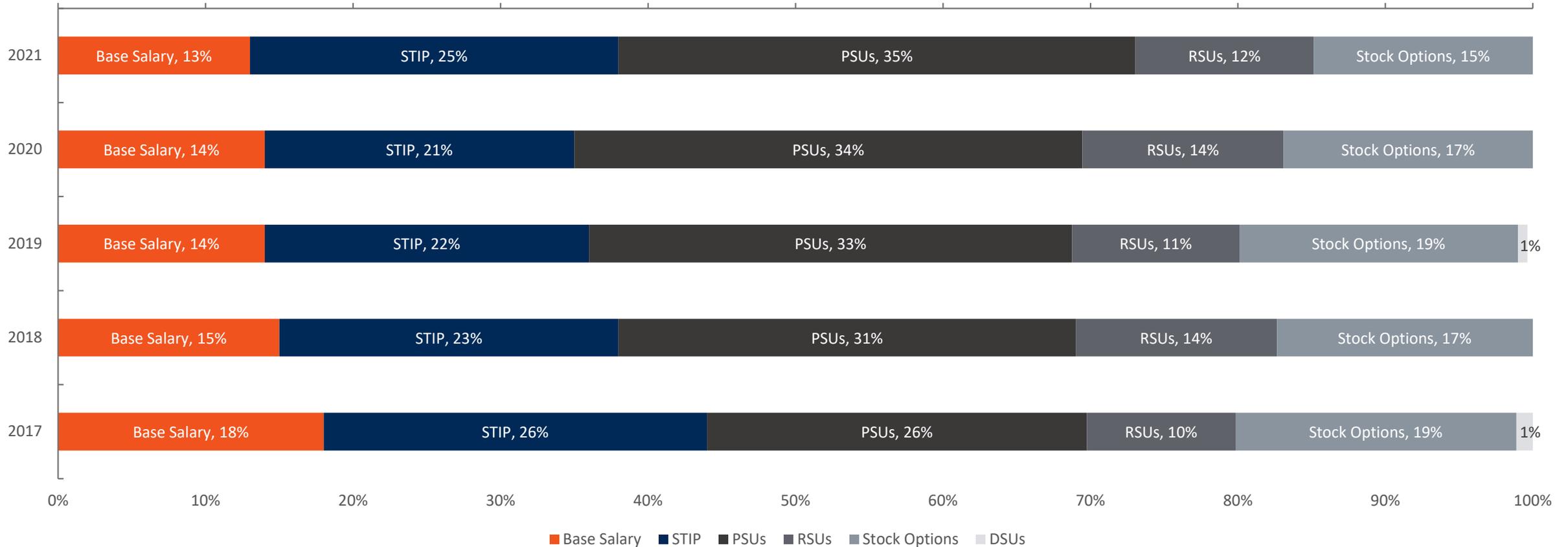


2016	2020	LTIP Metrics	2021
2.0	2.3	Average number of metrics used in PSUs	2.1
78%	73%	Relative TSR metric used <sup>[1]</sup>	71%
43%	39%	Return metric used (e.g. ROE) <sup>[1]</sup>	31%

<sup>[1]</sup> Note: statistics were calculated as a percentage of constituents with PSUs (i.e., excludes those who do not use PSUs)

# Change in Actual Total Direct Compensation Mix

Average Actual CEO Compensation Mix  
2017 - 2021



# Long Term Incentive Design – US

Long term incentive plan design remains similar year-over-year, but expect changes for 2023

Relative TSR Metrics



Three-year Performance Periods



Payout Levels:  
50% - 200%



Financial Measure Performance  
Range: 80% and 120%





# 2022 SAY ON PAY RESULTS

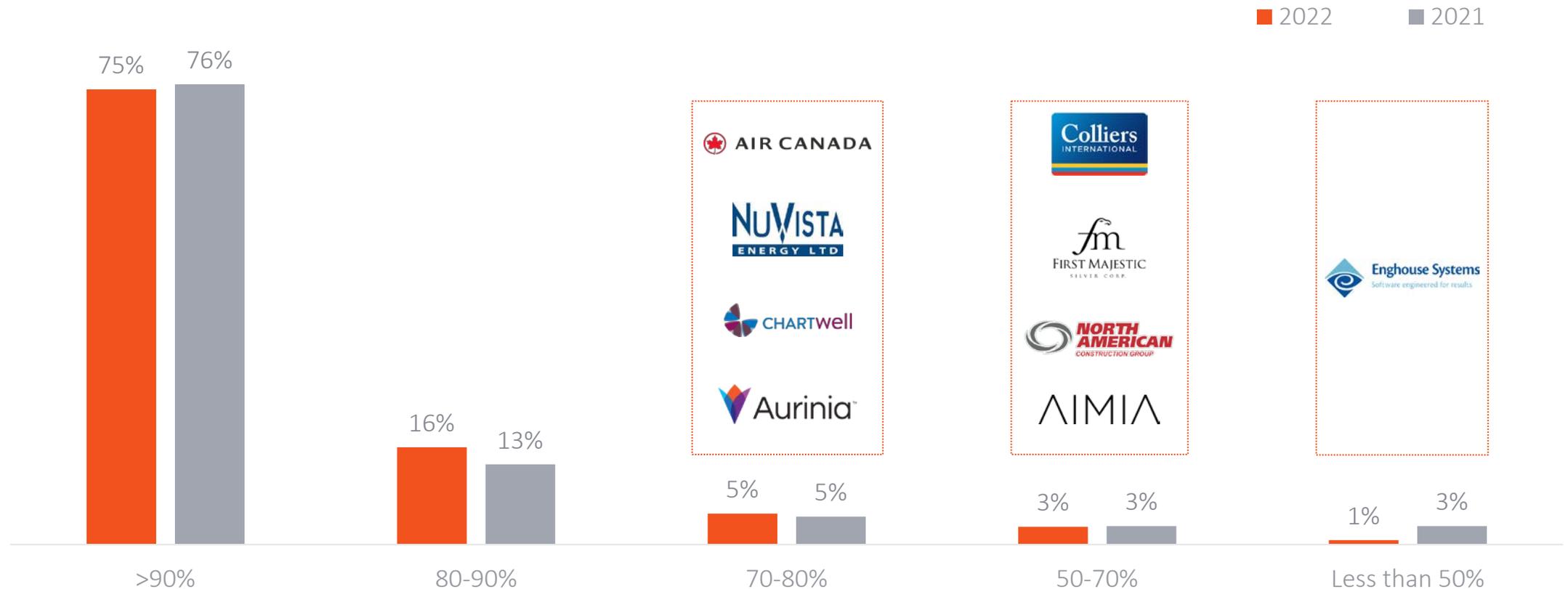
*Scope of Study:*

- *Say on Pay results among the TSX Composite Index as of June 5, 2022 (n = 125)*

# Canadian Say on Pay Results

The number of companies scoring below 50% decreased from 6 in 2021 to 1 in 2022

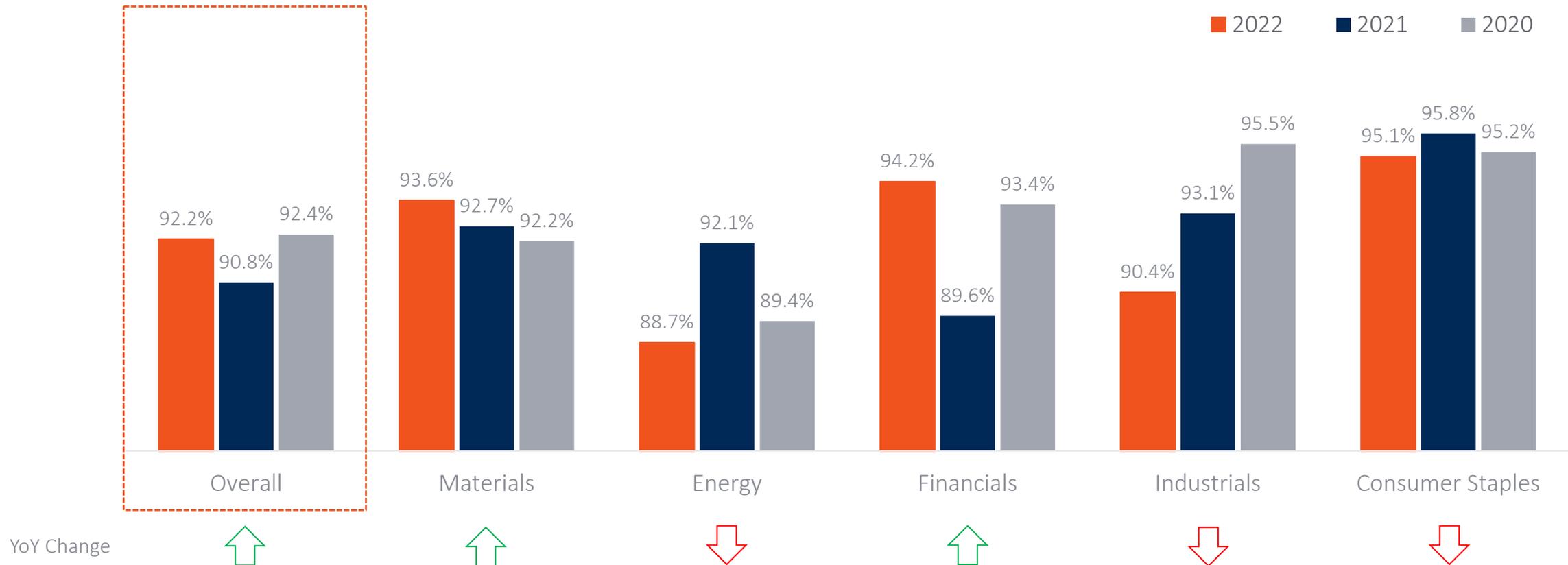
## Canadian Say-on-Pay Results – 2021 vs. 2022



# Canadian Say on Pay Results by Industry

Say on Pay results decreased for most sectors in 2022 compared to 2021 results

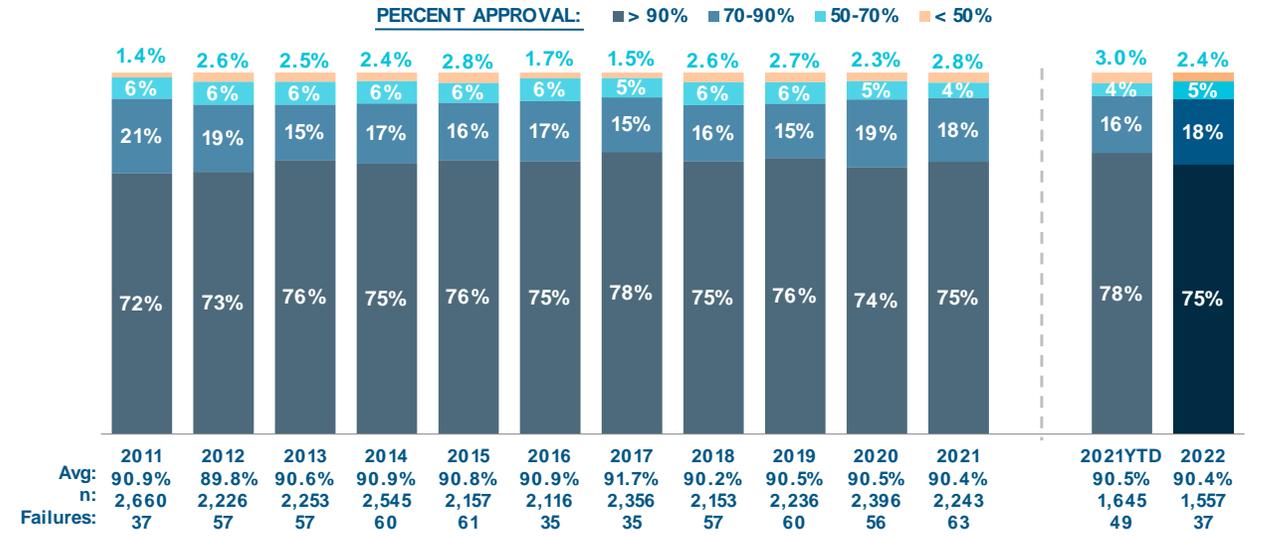
## Average SoP Results by Industry – (2020 – 2022)



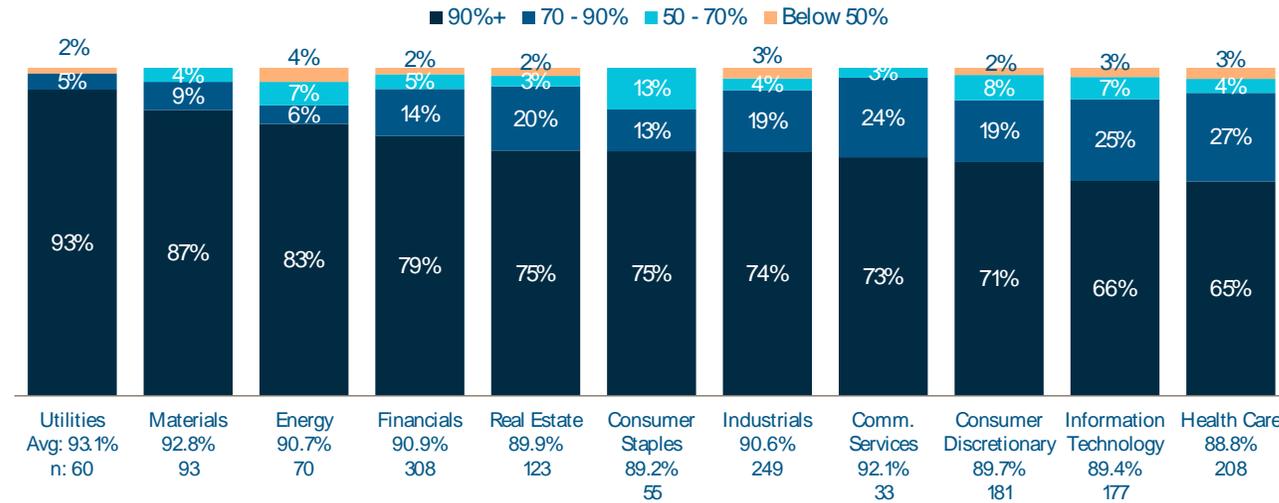
# Current Say on Pay Results – US

2022 Say on Pay Season

- The current SOP failure rate is 2.4%, which is consistent with historical failure rates following an elevated number of failures in 2021. Average vote results for the Russell 3000 (90.4%) are also in-line with historic levels; however, the current S&P 500 average vote result of 88.0% suggests that shareholders are more highly critical of pay programs for large companies



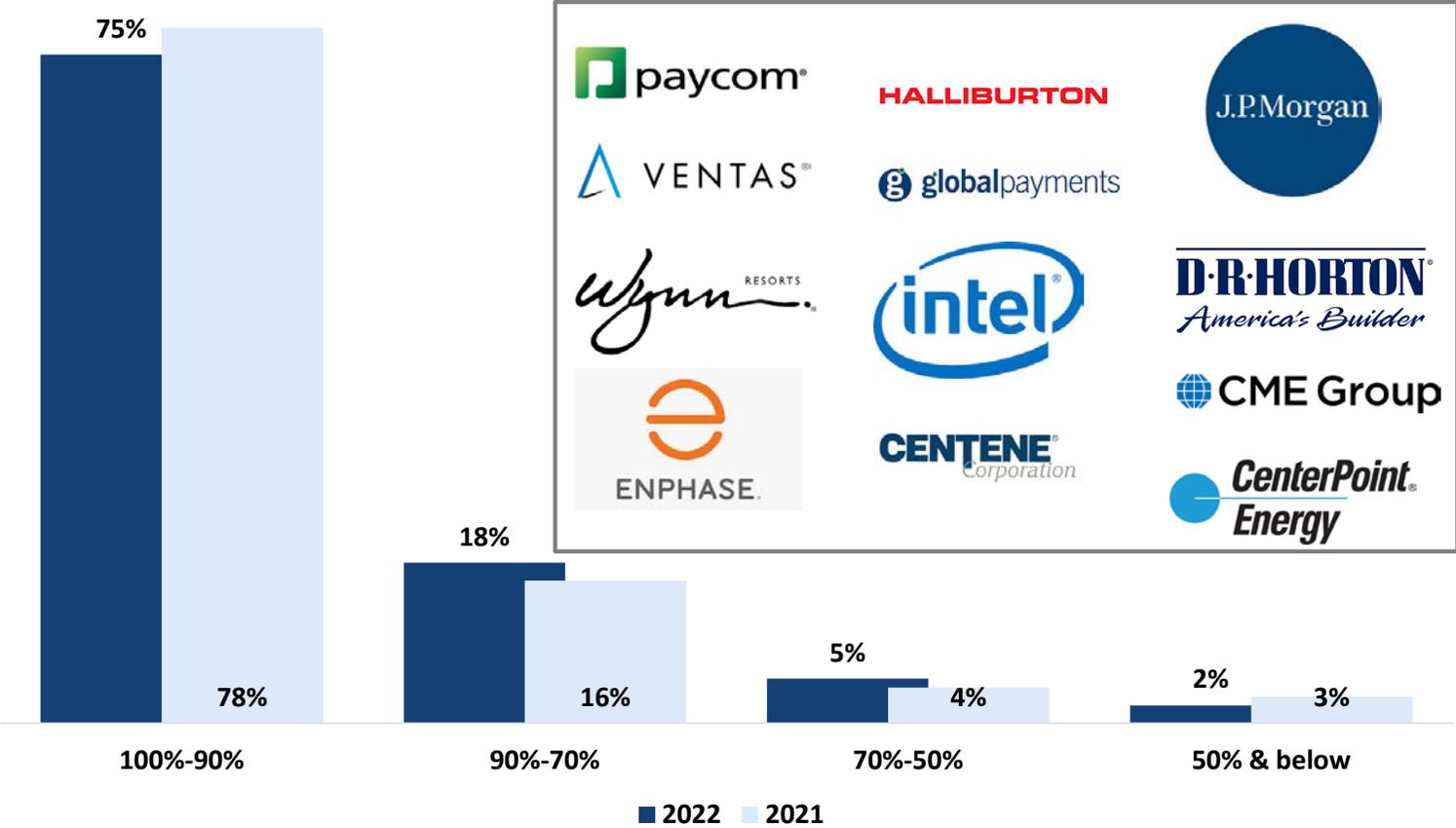
- The top chart indicates 37 failures thus far. 12 of these failures are S&P 500 companies
- The bottom chart shows SOP results by industry, with energy companies having the highest proportion of failures



# Breakdown of Say on Pay Results – US

ISS against recommendations (11%) are equal to the against recommendation rate in 2021; however, many large cap companies are continuing to experience increased ‘Against’ recommendations and lower vote support 2022.

Say on Pay 2022 vs 2021



<sup>1</sup> Companies outlined in the boxes received failing vote support in 2022.

# Themes Emerging from 2022 Say on Pay Season – US

Topic	Detail
Spotlight on Large Cap Companies	<ul style="list-style-type: none"><li>▪ Early evaluations of the 2022 Say on Pay season have revealed an increased focus on larger cap companies from ISS and institutional shareholders through lower average vote results rather than elevated failure rates</li></ul>
Special Awards and Incentive Adjustments	<ul style="list-style-type: none"><li>▪ Institutions and proxy advisors continue to be highly critical of adjustments made to in-cycle incentive plans (due to volatile market conditions, litigation expenses, etc.) and special awards without rigorous performance goals or adequate disclosure</li></ul>
Pay Magnitude	<ul style="list-style-type: none"><li>▪ Pay magnitude, particularly at larger cap companies, has once again moved into the forefront of proxy advisors' and investors' minds as the hot talent market continues to increase pay levels</li></ul>
ESG Proposals	<ul style="list-style-type: none"><li>▪ While the rate of ESG proposals receiving passing support has decreased relative to 2021 levels, we are observing increased support for proposals requesting broader environmental reporting (i.e., reporting carbon emission levels), rather than proposals requesting specific changes to company incentive plans or strategy (i.e., requiring GHG emission reduction goals in incentive plans)</li></ul>

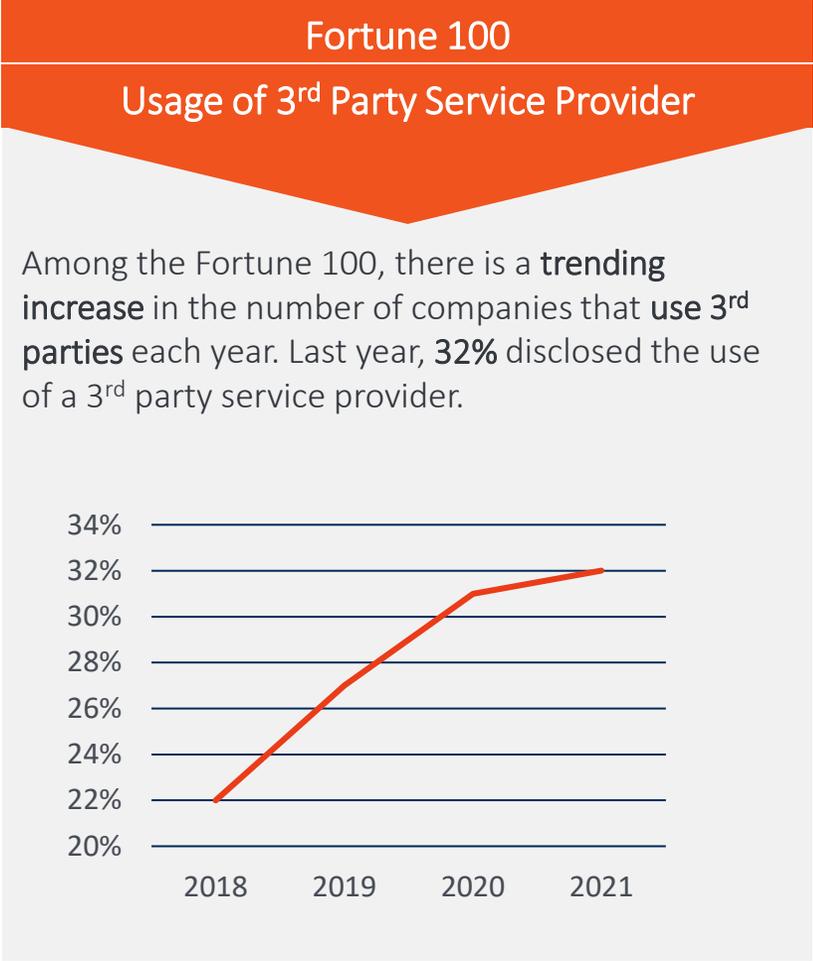
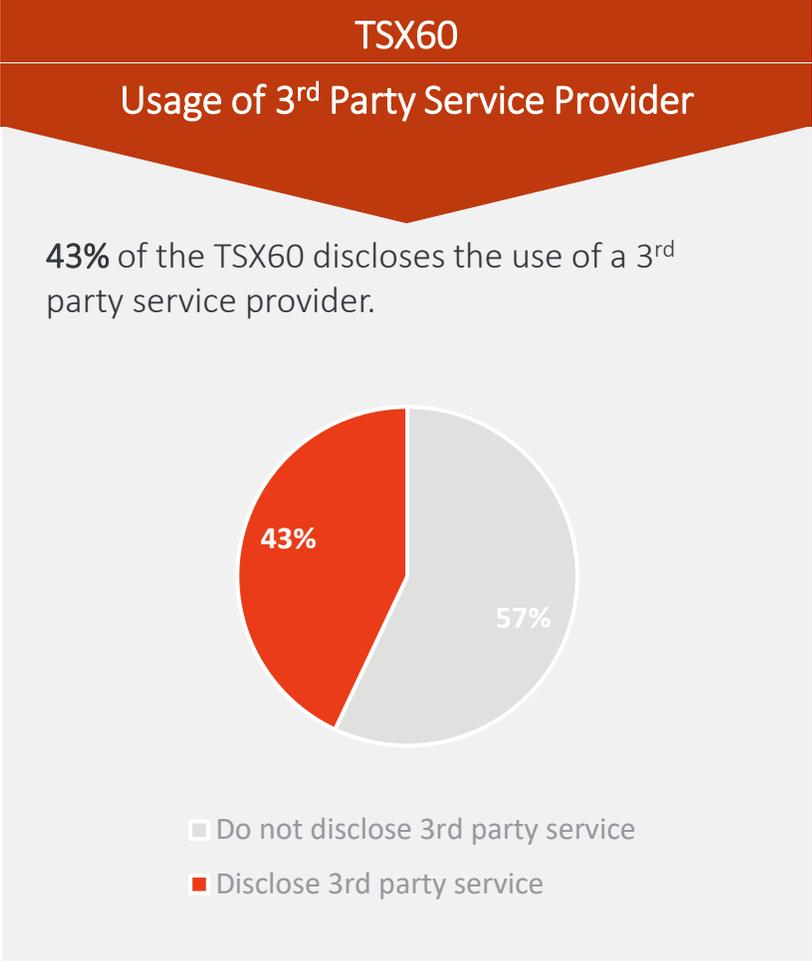


# BOARD EFFECTIVENESS

# Disclosure of Board Effectiveness Practices

Among TSX60 constituents, all but one firm disclosed their Board Effectiveness practices. The only member without made a commitment to conduct a Board evaluation over the next fiscal year.

- ✓ Disclosure of Board Effectiveness practices is table stakes, including:
  - Board Evaluations
  - Goal setting, feedback, and appraisal practices
  - Skill matrix and Board Composition definition
  - CEO transition advisory
  - Board search priorities and practices
  
- ✓ Firms are increasingly using 3<sup>rd</sup> party services providers for support



# Board Assessment Themes

Nearly half of the those who disclosed their Board evaluations also disclosed topics addressed. In the Fortune 100, 57% disclosed the topics.

**Topics Addressed in TSX60 Assessments**

- **Board Composition:** Director skills, experience, competencies, and diversity
- **Structure** of Board and Committees
- **Board procedures:** meeting structure and agenda planning
- **Succession** planning
- **Risk management**
- Effectiveness of **communication**
- **Relationship with management**
- Adequacy and timeliness of **materials**

TSX60



Fortune100

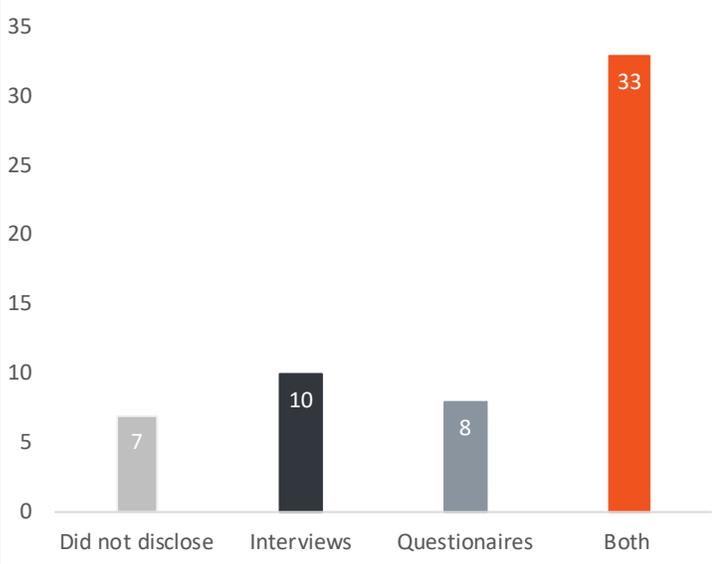


# Board Assessment Tools

The use of interviews alone or in combination with surveys is viewed as best practice and is increasingly popular among the TSX60

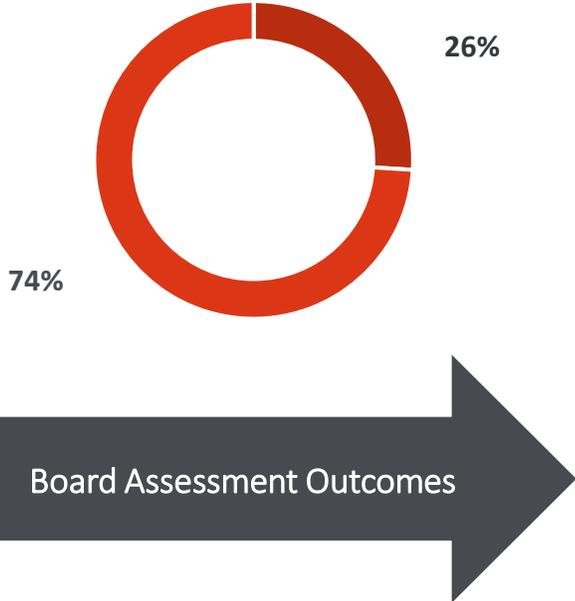
## Prevalence of Board Assessment Tools

**Interviews and upward feedback** from Management to either compliment or replace survey data. Understanding context and **qualitative perspectives is increasingly becoming better practice.**



**26% of Boards** included management inputs in their evaluation. These include:

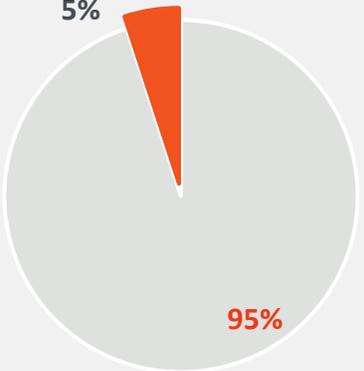
- 5 of 6 big banks
- Manulife
- Sun Life
- Canadian Pacific Railway Limited



## Actions Resulting from Board Evaluations

5% of the TSX60 disclosed the outcomes of their board evaluations, actions included:

- Board Composition changes
- Changes to agendas and presentations
- Commitments to specific issues and cross-functional coverage
- CEO succession and ESG



*To fully benefit from an assessment, you need the right follow up and actions in place.*



# EMERGING TOPICS AND TRENDS

# Emerging Topics & Trends



## Environmental, Social, and Governance

- ESG's continued increase in prevalence in pay
- ESG topics now coming through regulatory bodies and not just institutional shareholders



## War for Talent and Inflation (and Potentially Stagflation)

- Competition for talent led to an increase in what competitive pay looked like for junior and mid-level talent
- Maintain retention with depleted equity pools
- This, paired with inflation, may lead to pay increasing significantly
- To what extent should the gap between the median worker and the executives remain? Is this an opportunity for a “soft landing” where this gap closes?



## Geopolitical Conflicts / Termination of Russian Business Operations

- To what extent should Management's decision to maintain or remove business operations from Russia impact compensation and other year end decisions?
- How accountable should Management be for knock-on effects caused by the conflict (i.e., increased commodity prices)?



## Q&A

*If your question was not addressed during our Q&A session, please contact [email@hugessen.com](mailto:email@hugessen.com)*



# CLOSING REMARKS