

ENHANCING YOUR BOARD EFFECTIVENESS PRACTICES AND DISCLOSURES: INSIGHTS FROM THE 2024 TSX COMPOSITE

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Boards are looking inward and reflecting on their core purpose

Prompts from across the globe are requiring Boards to level up.

Macroeconomic pressures, social challenge, and geopolitical uncertainty are creating pressure for Board's to rethink their purpose: their *raison d'être*, the value they add, and to whom they are accountable. Pressure to perform is increasing as expectations from investors, regulators, and the public are calling to increase Board accountability and effectively govern themselves. Canadian Boards are responding. Each year, Hugessen examines the Board effectiveness practices of the TSX Composite and have found that the largest publicly traded boards in Canada are increasingly focused on reflection and improvement. TSX60 companies remain at the forefront of Board Effectiveness practices, perhaps in response to heightened investor engagement, additional regulatory scrutiny, and high expectations of experienced corporate directors. TSX60 Board's approach their Board Evaluations with a broader scope, deeper inquiry, and greater willingness to invest in external advisory.



Key Trends in Canadian Board Effectiveness Practices:

- ☑ The scope of Board Effectiveness evaluations continues to **broaden to include Committee- and Director-level performance**
- ☑ More boards are choosing to use **both interviews and surveys in their evaluations**
- ☑ Engaging 3rd parties to facilitate Board Effectiveness reviews is on the rise. **Nearly half of the TSX composite engaged an advisor over the past three years**
- ☑ The **focus of Board diversity is shifting to ethnic/racial diversity**, leading to tangible differences in Board composition
- ☑ Board renewal mechanisms such as **age and term limits are used by 1/3 of Boards**

Effectiveness of Boards, Committees, Chairs, and Individual Directors

Nearly all (98%) of the TSX Composite evaluated their Board Effectiveness in some capacity. The scope of the Board Effectiveness evaluations varies and can include:

- Effectiveness of the full Board
- Effectiveness of Committees
- Effectiveness of the Chair of the Board
- Effectiveness of the Committee Chairs, and
- Effectiveness of each individual Director

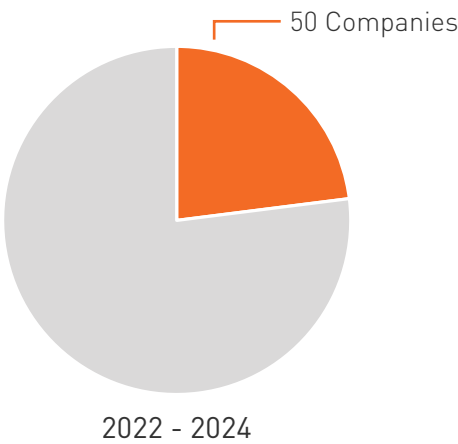
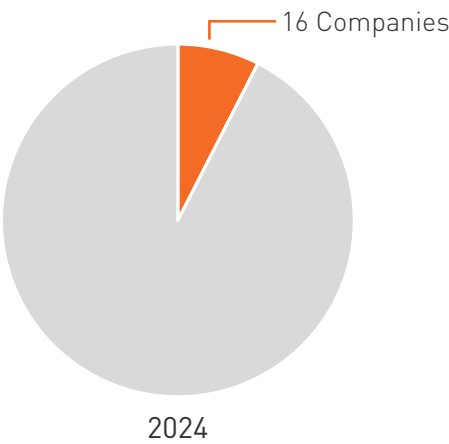


Performed **Committee** Performance Assessments

95% of companies that conducted a Board assessment also conducted an assessment of its committees, which may signal that high functioning committees are becoming an increasingly important aspect of a high-performing Board.

As Board responsibility continues to increase in complexity, some Boards are addressing the added responsibility by increasingly leveraging Committees to get work done.

Nearly a Quarter of TSX Composite Companies have asked Management for Feedback in the last 3 years



Boards that have engaged feedback from Management in their Board Effectiveness activities.

Of the TSX Composite, **90%** of Boards conducted individual Director performance feedback last year.

Director performance is a critical foundation of a Board's ability to be successful. Boards are continually in pursuit of making themselves more than the sum of their parts. Director feedback enables deliberate reflection on and discussion about Director performance, which ultimately enables continuous growth, sustained contribution, and accountability to a high standard of engagement in the Boardroom.



Performed Individual
Performance Assessments

One of the most important factors in conducting peer feedback is a debrief with the Chair of the Board to:

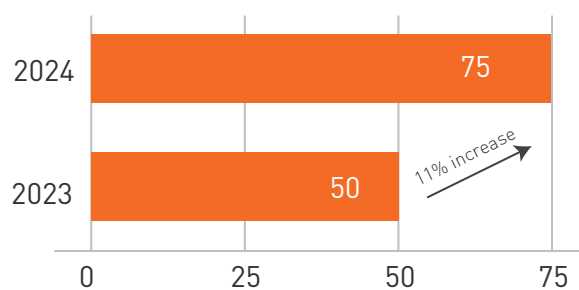
- Discuss changes in the Boardroom that could enable a Director to contribute more fully
- Identify behavioural blind spots and areas of development for Directors, and
- Create accountability for Directors, if needed

Dialogue is the best way to diagnose a Board's effectiveness

Boards are increasingly acknowledging that dialogue is the best way to explore the Board's effectiveness. Board Effectiveness is mostly a function of leadership, alignment, behaviours, relationships, and ability to work together through ambiguity, risk, and varied perspectives. Dialogue and reflection can surface and help resolve those opportunities more effectively than a survey.

Director time is precious - interviews yield the greatest return on investment.

Use of Both Interviews & Questionnaires



In 2024, there was an 11% YoY increase in the use of both interviews and surveys.

Questionnaires are useful to diagnose the past or understand the current state. Interviews gather depth, insight, and solutions for enhancing Board performance.



3rd Party service providers enable more direct and candid feedback

Each year, more Boards on the TSX Composite are engaging 3rd party support for their Board Effectiveness evaluations. Boards may do so for a variety of reasons:

- **To learn better practices** that might be able to assist the Board in its ongoing development
- **To get an impartial outside perspective** on functions of the Board that have become “normalized”
- **To create a space of confidentiality** and anonymity for Directors
- **To enable candid upward feedback** from Management

Use of Third Party, cumulative from 2022-2024:



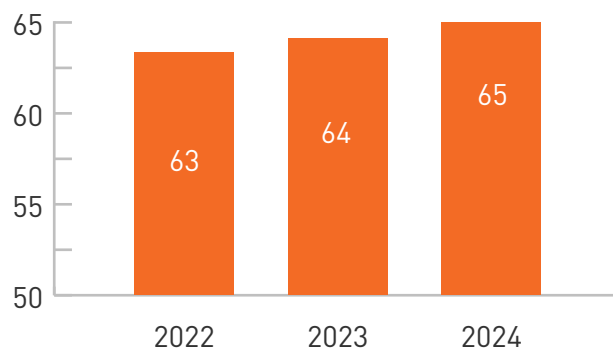
TSX Composite



TSX60

Boards often engage 3rd parties every 2-3 years. Collectively, over the past 3 years, **44% of TSX Composite and 62% of TSX60 constituents disclosed engagement of a 3rd party** in their Board Evaluation process.

Year-Over-Year Engagement of a 3rd Party

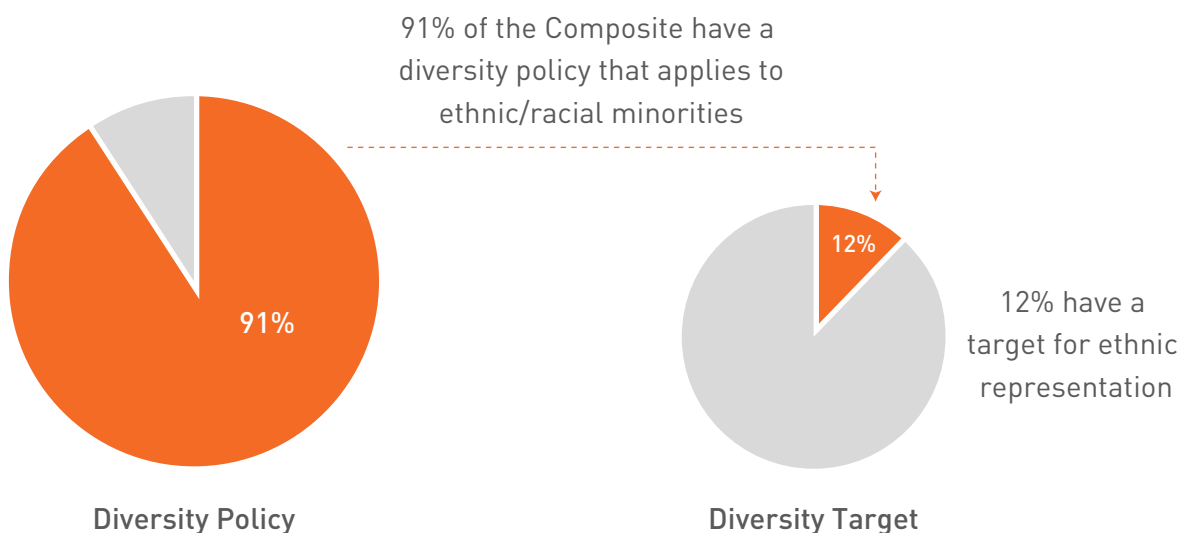


Board Diversity: Moving beyond Gender

In recent years, the Board composition dialogue has augmented from skills alone to include skills, capabilities, experiences, and perspectives. There has also been a significant increase in Board diversity policies that aim to include a variety of perspectives, beyond gender. Diversity policies are being modified to consider the inclusion of individuals from different ethnic and racial backgrounds, as well as those with disabilities.

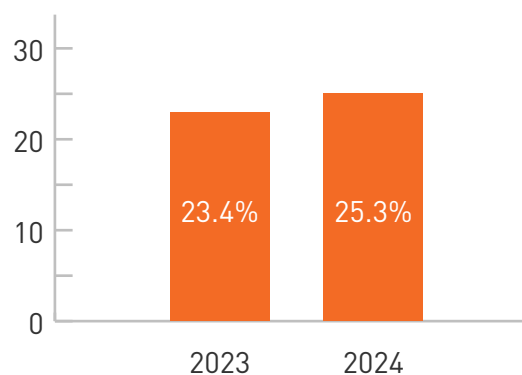
In 2024, within the TSX Composite, **91% of constituents have outlined that their diversity policy applies to ethnic/racial minorities**. Far fewer companies have gone further to propose a numeric target for ethnic representation. **26 companies (12%) within the Composite disclose a numeric target for ethnic representation on the Board**; seeking, on average, at least 1 Director of diverse ethnicity. Among the TSX60, a target is more prevalent, with **17% disclosing a target for racial/ethnic representation**.

TSX Composite



Average racial and ethnic diversity on S&P 500 boards in the U.S. has risen from **23.4%** to **25.3%** between 2023 to 2024. A comparable increase of nearly 2% year-over-year was observed companies in Russell 1000 index.¹

S&P500: Racial & Ethnic Diversity



Board diversity continues to grow as a critical priority for both proxy advisors and shareholders. As ISS study found that in 2024, the reason for the 6 directors with the **lowest support among the TSX composite appears to partially driven by a lack of racial/ethnic diversity on the board.**

Reminder: 2024 Proxy Advisor Policy Update

Starting this year, ISS began recommending voting withhold for the Nominating Chair if there are **no racially and/or ethnically diverse** members on the Board. Exceptions are to be made if “the Board makes a firm public commitment to appoint at least one racial and/or ethnic diverse member at or prior to the next AGM”.²

As Boards move to align with shareholder expectations, we expect to see an increase in the number of targets related to racial/ethnic diversity, similar to the previous increase in gender diversity targets when proxy advisors implemented comparable voting policies for gender representation.

ISS defines racial and/or ethnic diversity as: Aboriginal Peoples (persons who are Indigenous, Inuit or Métis) and members of visible minorities (persons, other than Aboriginal peoples, who are non-Caucasian in race or non-white in colour)

Other definitions of diversity include: visible minorities (including racial and ethnic), cultural background, 2SLGBTQ+, and persons with a disability

1: Glass Lewis Global Briefing: Board of Directors (2024)

2: ISS Insights in Focus: 2024 Canada Proxy Season Recap

Mandatory Retirement: an imperfect Board renewal mechanism

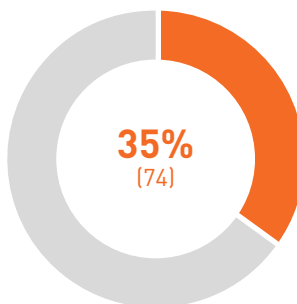
Board renewal involves balancing knowledge retention, leadership stability, onboarding future skills, and diverse perspectives. Age and term limits are a controversial tool in corporate governance offering both benefits and drawbacks that can impact a Board's effectiveness. Mandatory retirement clauses are applauded for creating space for fresh perspectives by requiring long-tenured directors to step down. They are equally criticized because they can arbitrarily generate instability of knowledge loss on a Board at an inopportune time, as well as fostering tolerance for under-contributing Directors (e.g. awaiting term to expire rather than have a difficult conversation on performance).

The use of policies such as age and term limits among the TSX Composite has been relatively stagnant over the last three years. About a 1/3 of TSX Composite have an age and/or term limits, while 2/3 do not.

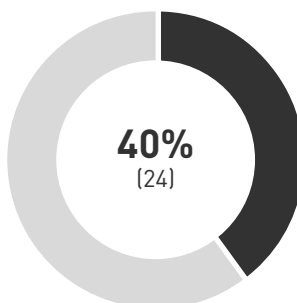
Age limits are generally becoming less favourable as people work and live longer. There is a modest year-over-year uptick in term limits, which can be attributed to replacing an age limit. In practice, where Boards have sound processes for renewal rooted in strategy and performance, mandatory retirement and term limits are less consequential.

Use of Age Limits in 2024:

TSX Composite

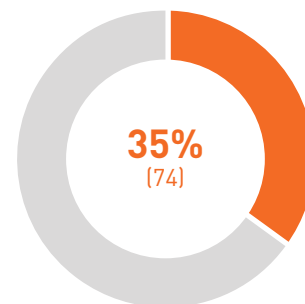


TSX60

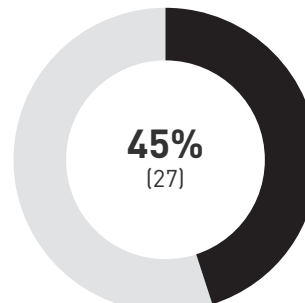


Use of Term Limits in 2024:

TSX Composite



TSX60



2024 TSX Composite Board Effectiveness Trends: In Pursuit of Purpose

Every aspect of a Board's effectiveness is rooted in Purpose. In today's complex, multi-stakeholder environment, Boards must cultivate a clear and shared understanding of their purpose to ensure alignment among Directors. This alignment is crucial, as it focuses Board time and energy on the most pressing issues facing the organization.

By refining the necessary strategy-driven skills and perspectives needed on a Board, and implementing robust processes for collaboration and feedback, Boards can significantly enhance their overall performance.

Importantly, the evolution of Board effectiveness goes well beyond mere compliance with external pressures; it represents a proactive effort to redefine a Board's role and contribution within society. Thoughtful exploration of purpose and reflection on effectiveness is enhancing Board's impact and re-shaping the future of governance in Canada for the better.

About Hugessen's Board Effectiveness Advisory Services

Hugessen's **Board Effectiveness** practice is on a mission to help boards make better choices for future generations. We are experienced at guiding boards as they conduct their **Board Evaluations**, ensuring that all voices are heard, and the evaluation process leads to actionable results.



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Methodology

- All data is based on publicly disclosed information obtained through 2024 Company Proxy Circulars.
- Data was collected from the Proxy Circulars of the for all 2024 constituents of the TSX Composite;
 - At the time of data collection, there were 214 companies included in the TSX Composite
- Data represents the disclosure of Board Evaluation processes, DE&I policies and Board Renewal mechanisms
- For data summary purposes, all “No” indicates that Board practices that were *not disclosed*
- Where applicable, Hugessen’s TSX Composite and TSX 60 findings have been contrasted with public sources on the Fortune 100 and S&P500



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