

TSX60

# Emerging Trends in Executive Compensation and ESG

June 1, 2022

# Introduction and Agenda



**Peter Stephenson**  
Partner | *Toronto*

**Camille Jovanovic**  
Principal | *Toronto*



**Emily Parsons**  
Manager | *Toronto*



**Margaret Hylas**  
Principal | *Semler Brossy (US)*

1. Board Oversight of ESG
2. ESG Trends in Compensation
3. Shareholder Proposals
4. Looking Forward
5. Q&A

# Board Oversight of ESG

As flood battles continue in Western Canada, here's a look at what's happened so far

Spring flooding has forced communities in the western provinces of Canada to declare states of emergency and evacuate residents.

**Sask. First Nation announces hundreds of unmarked graves found at former residential school site**

The Cowessess First Nation says it has discovered hundreds of unmarked graves at the site of the former Marieval Indian Residential School in Saskatchewan.

**Is B.C.'s 2021 wildfire season the worst on record?**

Between April 1 and Sept. 30, 2021, a total of 1,610 wildfires burned 868,203 hectares in B.C. The total cost of wildfire suppression during...

**Racial bias in Canada's health care system makes diagnosing long COVID even more challenging, experts say**

Racialized and immigrant communities face barriers to long COVID treatment because of racial bias in the medical system, and advocates worry...



# 2022 Proxy Season Takeaways



*Continued momentum of companies incorporating ESG into incentive programs*

## # of TSX60 Companies Incorporating ESG into Incentives

	FY2020		FY2021
STIP	37	→	42
LTIP	9	→	13

+ Additional Metrics

+ Increased Weight

# 2022 Proxy Season Takeaways

## ESG Metric Weighting in STIP



+28%



+26%




+20%



+10%

## ESG Metric Weighting in PSUs

Company	Weight	Type of Metric
<b>BARRICK</b>	35%	Environmental <i>Incidents, Emissions, Biodiversity</i>
	20%	Environmental <i>Net Zero, Sustainable Financing</i>
	20%	Social <i>Customer, Employee, DE&amp;I</i>
<b>FORTIS</b> INC.	10%	Environmental <i>Emissions</i>
<b>Teck</b>	20%	Environmental & Social <i>Emissions, Biodiversity, DE&amp;I</i>

# 2022 Proxy Season Takeaways

Companies that added the following metric for the first time in FY2021



Environment +13

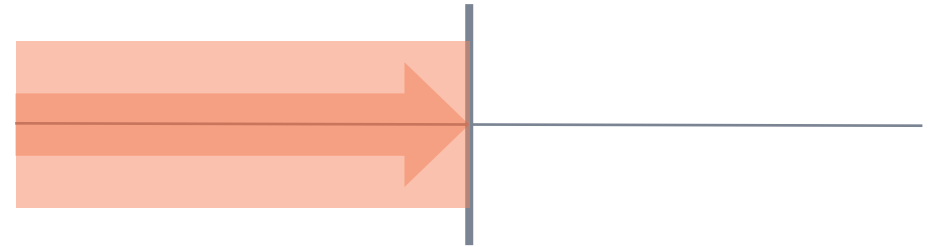


Diversity +11

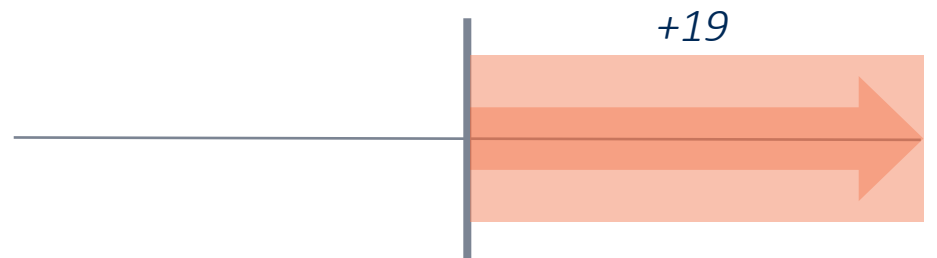


Community +6

## “Lagging” Metrics



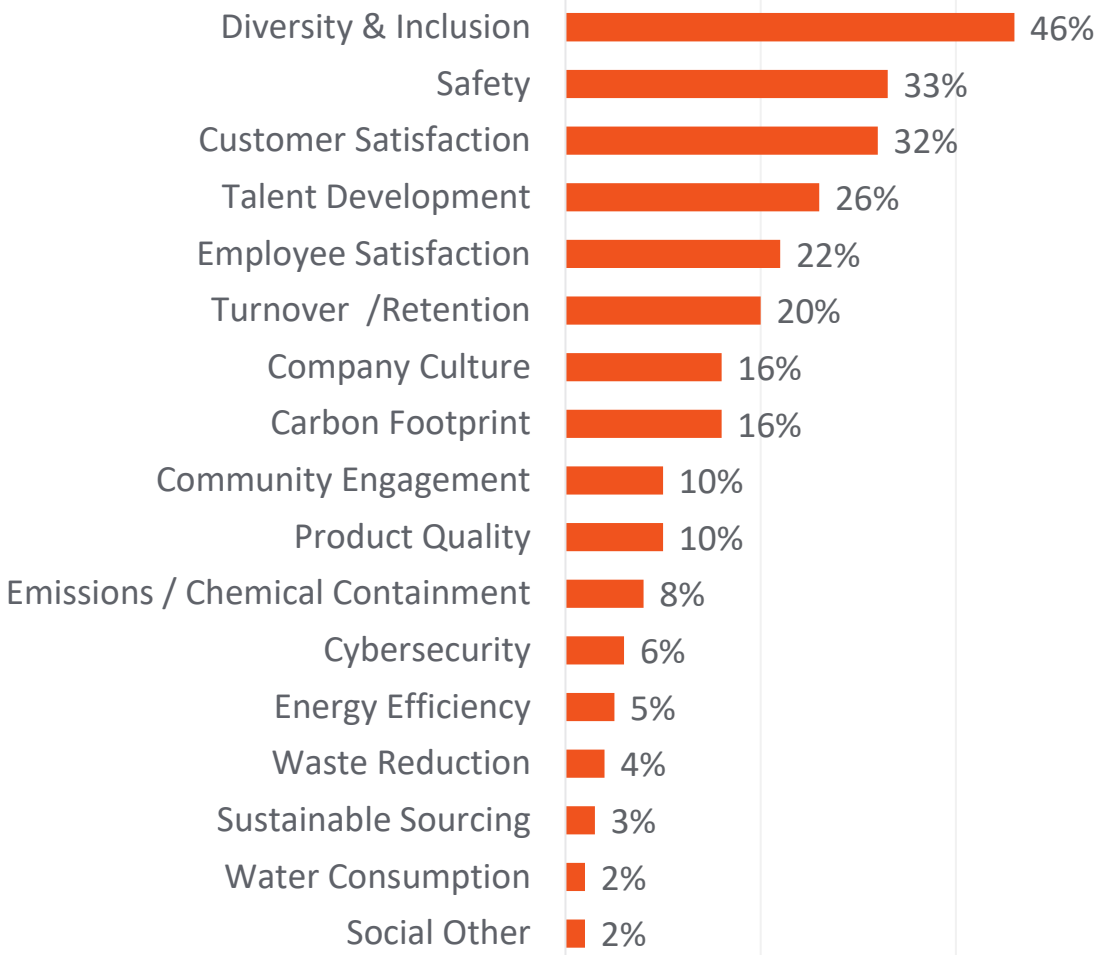
## “Leading” Metrics



# Proxy Season Takeaways: US

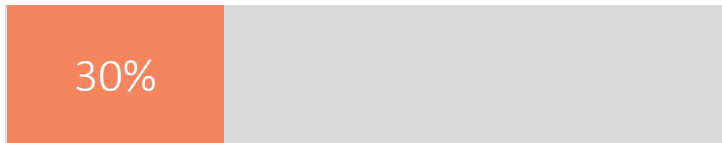
- ~70% of S&P 500 Companies use ESG metrics in incentive compensation design (up from closer to 57% in 2021)
- Human capital management metrics are common, with diversity & inclusion metrics being the most prevalent in 46% of companies, an uptick from 28% last year
- Uptick in environmental metrics, carbon footprint metrics increased to 16% from 5% last year

## Prevalence of ESG Metrics within the S&P500



# Case Studies: STIP

## Bucket



- Reducing GHG Emission
- Diversity and Inclusion
- Safety and Operational Reliability

## Discrete Metric



- Employee (6.67%)
- Customer (6.67%)
- Fuel (6.67%)
- Safety (10%)

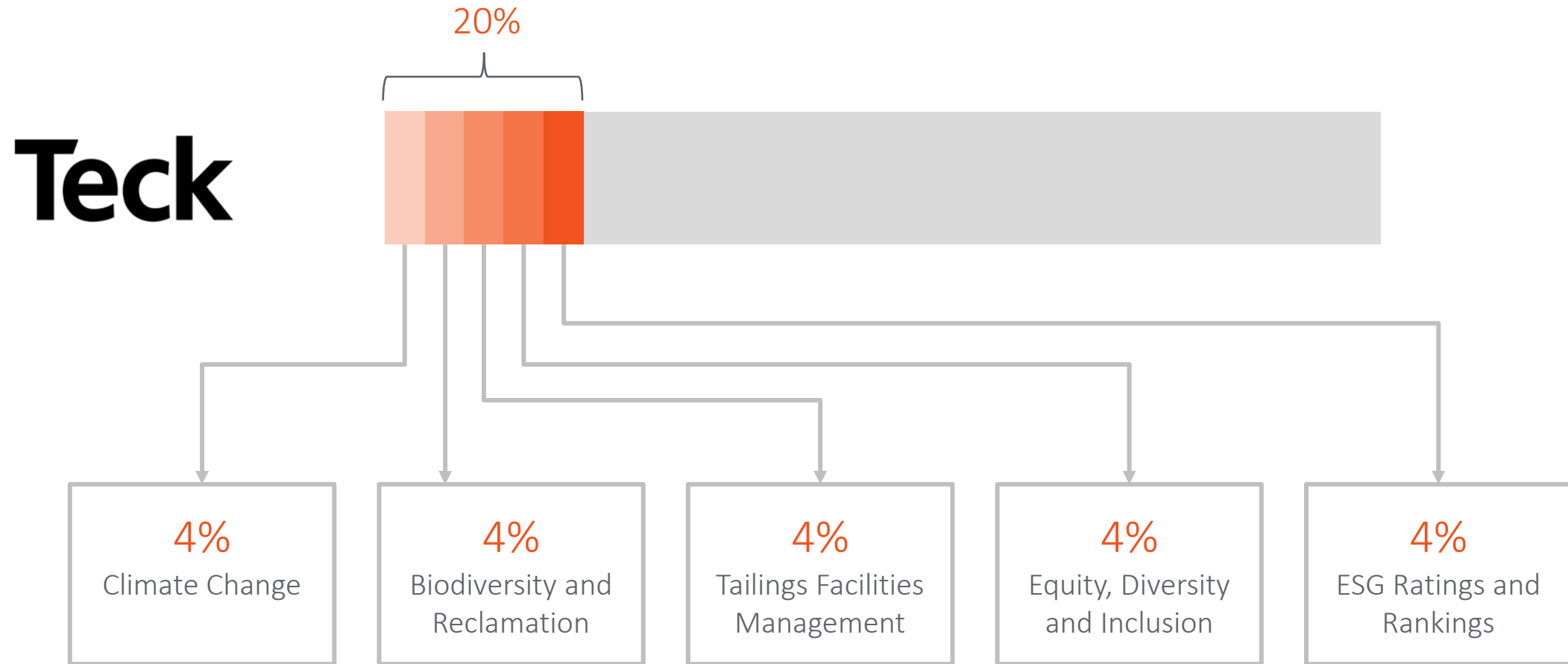
## Modifier



- Employee Engagement
- Strong Culture Index Score
- Increasing Diversity in Succession Plans

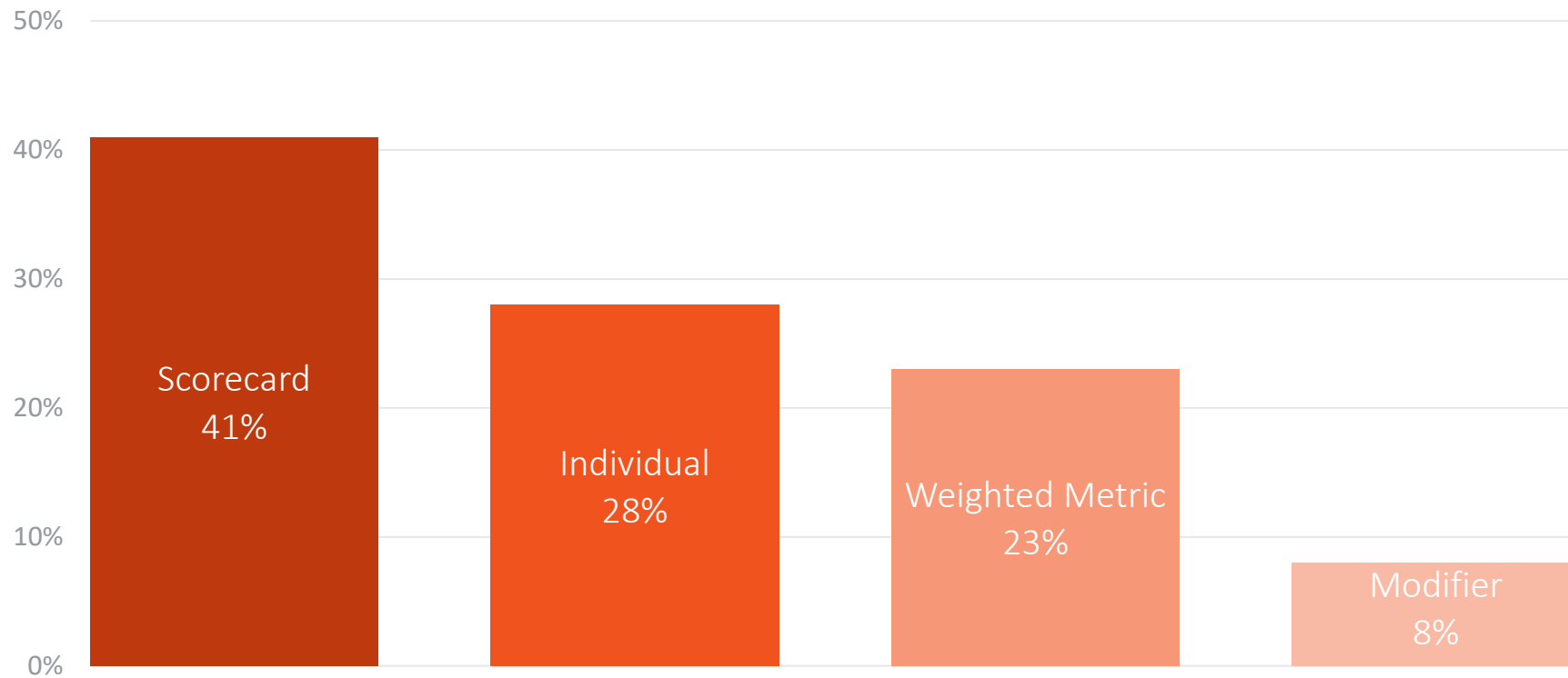


# Case Study: PSUs



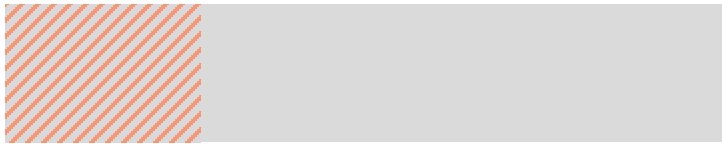
# Case Studies: US

Metric Prevalence by Company (S&P 500)  
*of companies that use ESG metrics (n = 326)*



# Case Studies: US

## Scorecard



- ESG
- Talent and Employee Well-Being
- Technology
- Cybersecurity
- Risk

## Weighted Metric



10%




- Diverse Supplier Spend
- Workforce Diversity
- Carbon Intensity Reduction

## Modifier



- Carbon neutrality
- Financial Inclusion
- Gender median pay gap

# Shareholder Perspectives

	% Support	Topic
	63%	<b>Social:</b> Identify and address racial disparities in the workplace
<b>metro</b>	37%	<b>Environmental:</b> Require suppliers to preserve biodiversity
	29%	<b>Environmental:</b> Zero plastic waste action plan



**BlackRock**<sup>®</sup>

# Shareholder Perspectives: US

Shareholders

**Vanguard**<sup>®</sup>



**BlackRock**<sup>®</sup>

80

Social Proposals

26%

*Median Support*

Proxy Advisors

**ISS** 

 **GLASS LEWIS**

25

Environmental Proposals

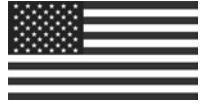
25%

*Median Support*

Regulators



# Looking Forward



Structure & Consistency



Refining Measurement Approaches



Increased Weighting



Scrutiny of Targets



## Q&A

*Thank you for joining us today. We are happy to answer any questions that were not addressed during our Q&A session.*

*Please contact [email@hugessen.com](mailto:email@hugessen.com) or 416.868.1288*