

TSX60 Review

Emerging Trends in Executive Compensation and ESG

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Thank you for joining us, the presentation will begin shortly

Speakers



Bridget McKellar
Principal | *Toronto*



Jean-François Malo
Manager | *Montreal*



Emily Parsons
Associate | *Toronto*



Deborah Beckmann
Managing Director | *Semler Brossy (US)*



Olivia Voorhis
Consultant | *Semler Brossy (US)*

Agenda

- 1 Welcome
- 2 Environmental Factors
- 3 Social Factors – Diversity, Equity & Inclusion
- 4 US Perspectives
- 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*

ESG & Board Effectiveness

Oversight of ESG is now a core Board responsibility

- Institutional investors want **sustainable** TSR
- Employees and other stakeholders want **ethical, values-driven climate stewardship** and actions around **diversity, inclusion and anti-racism advocacy**

Boards are expected to “walk the walk”

- Public statements of support are no longer enough
- Business actions and Board and senior management team composition **need to reflect commitment to tangible progress** on ESG-related issues
- Companies that do this well experience higher levels of **business success, employee engagement and customer loyalty**

Actions high-performing Boards are taking:



Educate themselves



Drive a strategy refresh



Set robust goals with the CEO



Create links to compensation



Continue / hasten Board renewal



Leverage feedback processes



Ensure meaningful disclosure

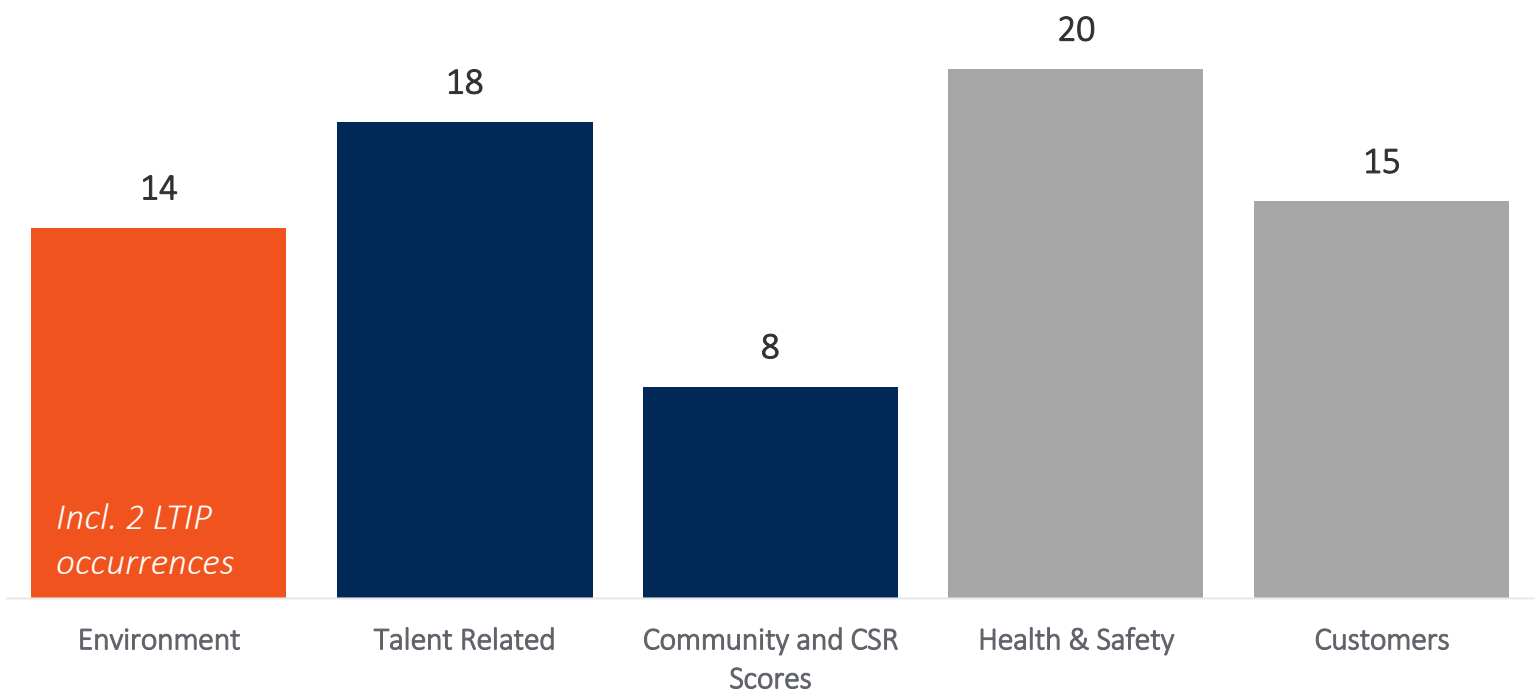


ENVIRONMENTAL FACTORS

TSX60 – ESG Factors in Compensation

63% of the TSX60 consider at least one ESG factor in their incentive plan – steady YoY.

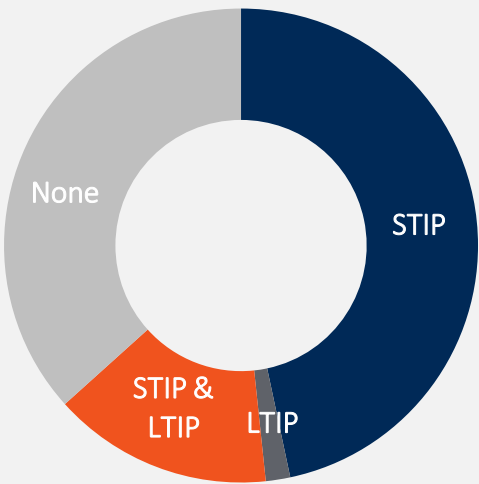
Metrics Used by Company



~20%

Average weight of the ESG component in the total incentive

Where are ESG metrics incorporated?



TX60 – ESG Factors in Compensation: Examples

Materials and energy sectors remain the most likely industries to include environmental factors in compensation plans



ESG BLEND | UTILITIES

Algonquin includes a number of ESG metrics in its STIP scorecard, including **Employee Engagement** (~10%), **Customer & Brand** (~10%), **Sustainability Targets** (~5%), and **Safety** (~5%) (represents weighting in corporate scorecard)



ESG BLEND | RESOURCES

CNRL incorporates in its STIP **10% of ESG measures**, including **environmental** (GHG emission, pipeline leaks) and **Health & Safety** metrics (injury frequency, and lost time injury frequency).



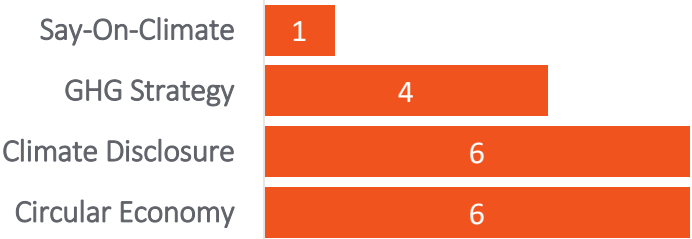
ESG BLEND | BANKING

TD uses an ESG metric (20% weight) in the determination of a variable compensation pool and STIP payout for senior executives, to reinforce the importance of ESG as a core component of TD's business.

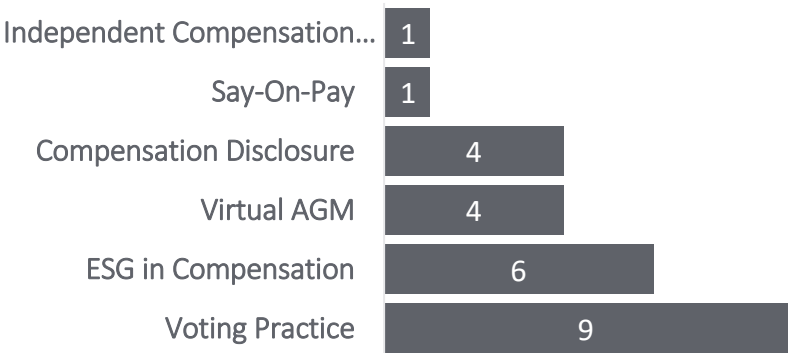
TSX60 Shareholder Proposals

79 shareholder proposals for 19 companies in the TSX60 – most of which were put forward by MÉDAC

ENVIRONMENTAL



GOVERNANCE



Say On Climate – Advisory Vote on Climate Strategy

New advisory vote on climate strategy gain traction in 2021, especially in Europe. While at early stage, some parallel on its progression could be drawn with the progression of Say-On-Pay trend years ago.



will generally recommend **AGAINST** management and shareholder proposals requesting that companies adopt a policy that provides shareholders with an annual Say on Climate vote on a plan or strategy for the following reasons

Underlying reasons:

- Limited capacity technical ability to analyse the plan and risk of rubber stamp for climate change misaligned with broader climate goals
- Potential legal concerns in certain markets
- Adequacy of the data on which shareholders are voting on



Caisse de dépôt et placement
du Québec

CDPQ supports the Say on Climate initiative

Our voting right and engagement to companies are **preferred instruments to promote our positions as a long-term investor**. These key levers allow us to share our expectations and convictions on a variety of topics at our portfolio companies' annual meetings.

Support for the Say on Climate initiative follows this strategy and is an **additional tool** we use to foster the transition toward a sustainable economy.

Voluntary Adopters



Voluntary Adopters



RioTinto



ferrovial

GLENCORE



Climate Activism

Campaigns were more visible this year, and we note an increasing interest from shareholders in issuers' climate strategy and disclosure



Vote No Campaigns

Majority Action recommends votes **AGAINST** directors of several companies that have failed to either set emissions targets aligned to limiting warming to 1.5°C, or to align business plans and policy influence to those targets.

Select targets – Electricity, Banks, and O&G



O&G Sector

ExxonMobil

Activist investors appointed 3 of 4 dissidents directors on the slate.

Criticism included :

- Progress on emission and energy transition (strategy & compensation)
- Financial questions and lack of industry expertise on the Board
- Questionable governance tactics in delaying vote



61% support to an activist shareholder on indirect (supply chain) carbon emission and company transition to clean energy



Dutch Courts Ordered Shell to deepen carbon emission cuts.

Court rules company must reduce emissions by 45% by 2030 from 2019 levels – Company climate commitment was 20% by 2030, 45% by 2035 and net zero by 2050 (which was approve via say-on-climate).

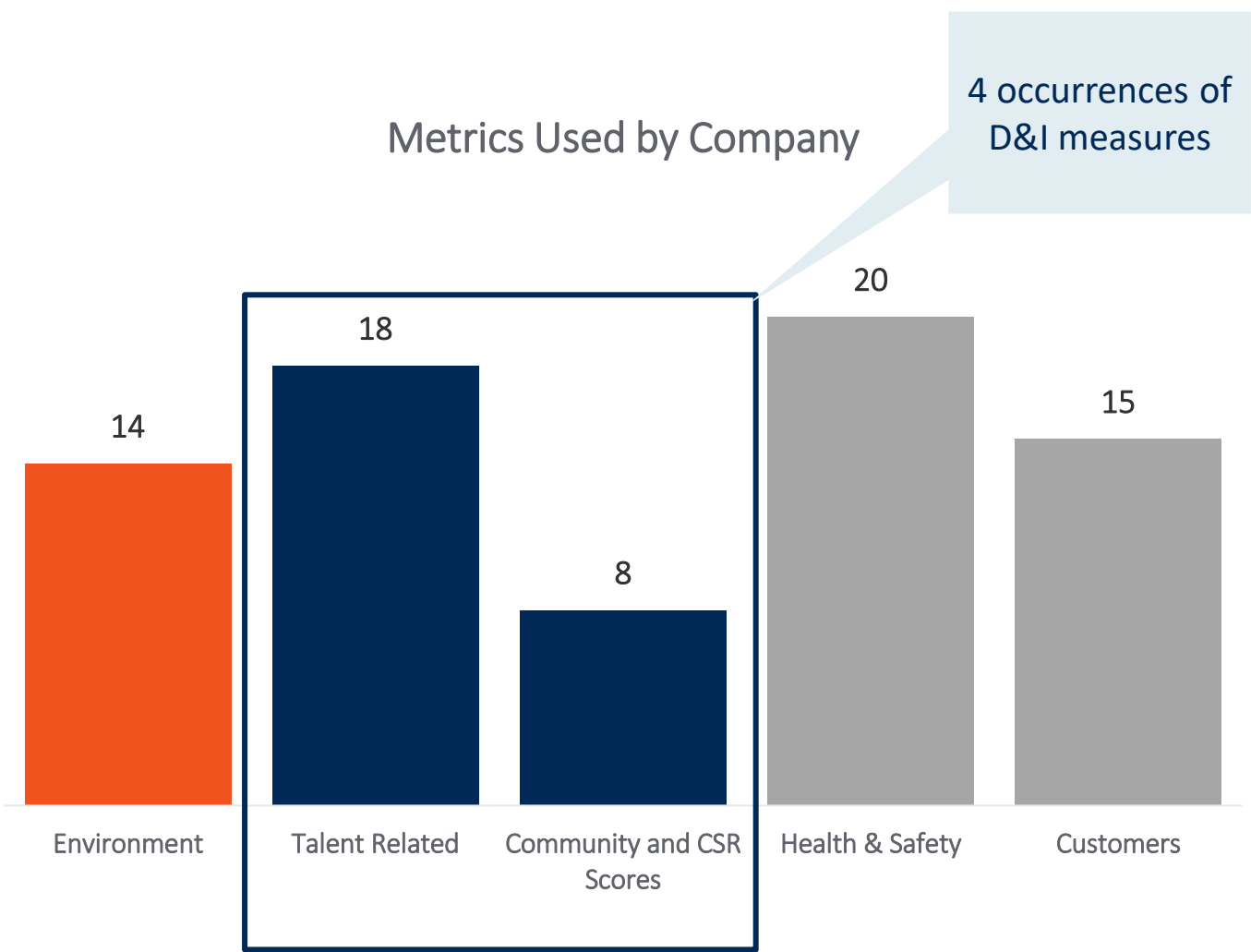
Landmark legal case could potentially put pressure on regulators and legislators to up their own game. Shell is appealing the ruling.



SOCIAL FACTORS

TX60 – ESG Metrics in Compensation

Metrics Used by Company



RBC has a 30% “Risk and Strategic” bucket in its STIP and front-end conditioned LTIP scorecard, that is individualized for each executive. Some buckets include diversity and inclusion metrics.

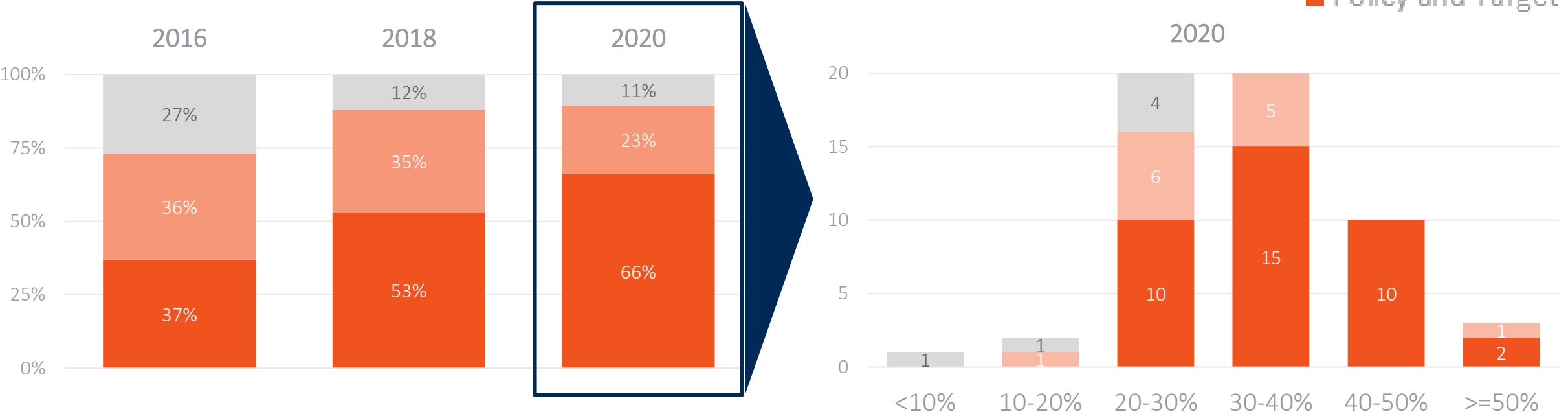


Each of the STIP and PSU scorecards are weighted 10% on Human Capital priorities, which include “building effective, industry-leading processes for attracting, developing, and retaining an effective multicultural, multigenerational workforce”



20% of the STIP scorecard is weighted on strategic measures, including diversity and inclusion metrics.

Board Gender Diversity Policies & Targets

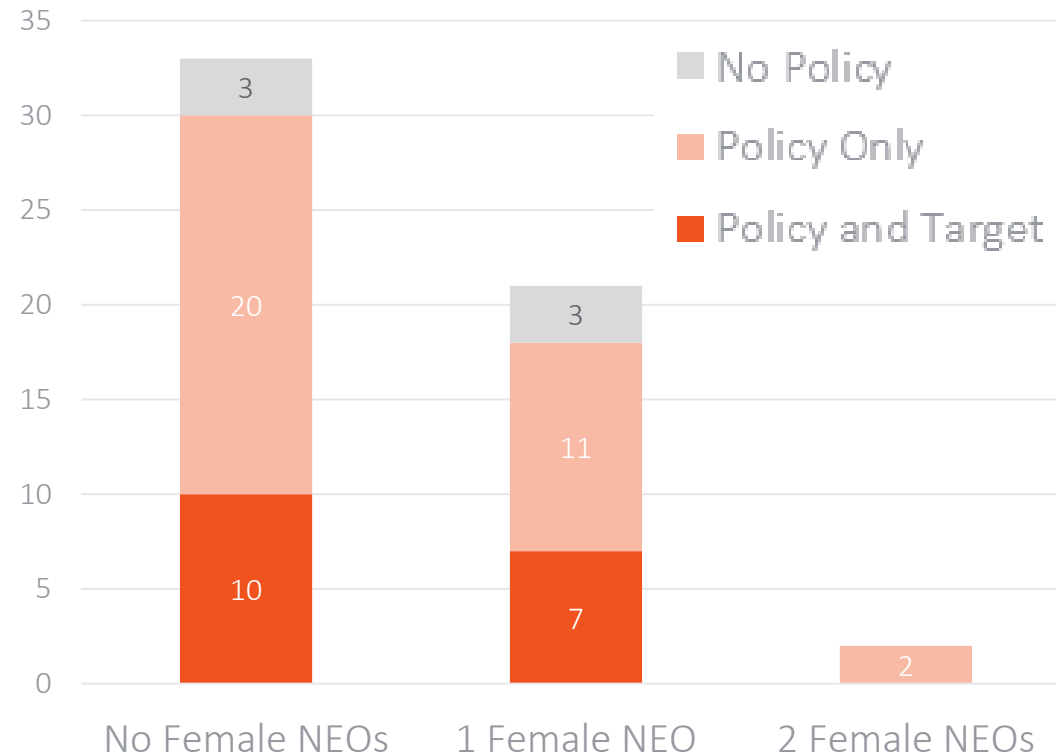
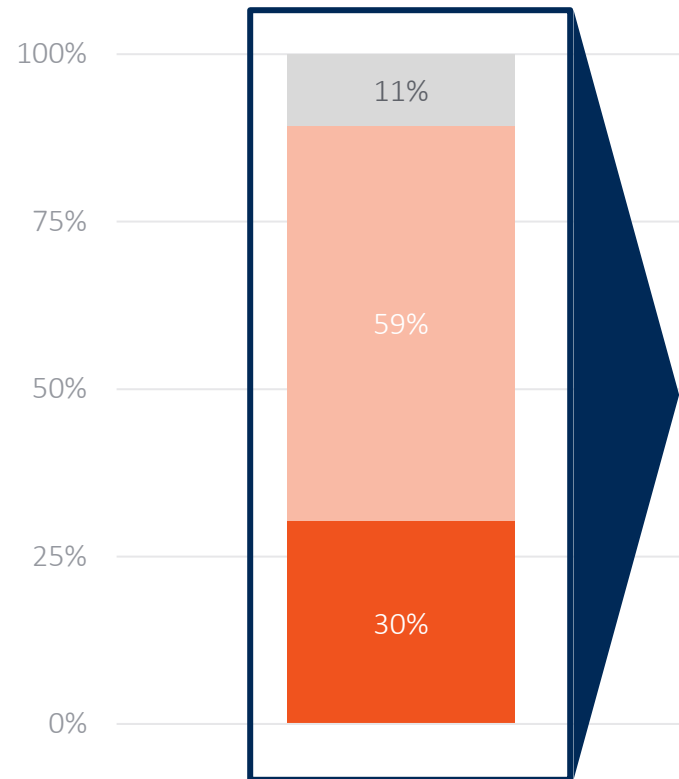


<10% female directors

>=50% female directors



Executive Gender Diversity Policies & Targets



30%

Of companies have targets

0

Female CEOs among the TSX60

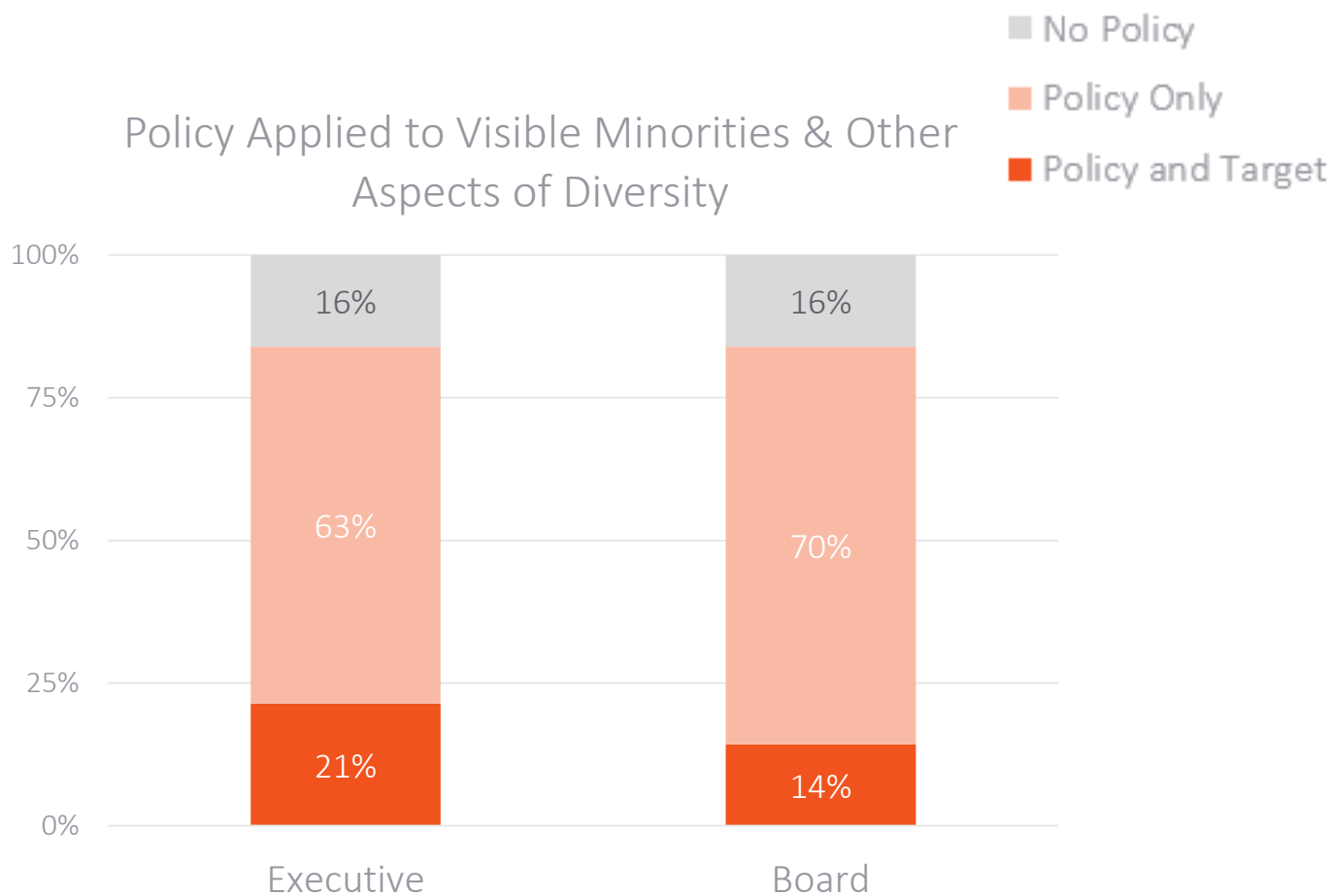
33

Companies have no Female NEOs

2

Companies have more than 1 Female NEO

Policies Addressing Diversity Beyond Gender



21%

Of companies have diversity policies that extend beyond gender for their executive teams

14%

Of companies have diversity policies that extend beyond gender for their Board

4

Companies disclosed a target for both the executive team and Board; all others set targets for one or the other



Most TSX60 financial institutions had targets for visible minority representation on **executive teams** only (RBC, BNS, CIBC, Manulife, Sun Life)

TSX60 Shareholder Proposals



SOCIAL



Disclose a review considering the incorporation of ESG metrics in executive compensation

Result: 11.3% FOR



Set a target of over 40% diverse Board members over the next 5 years

Result: 7.7% FOR



Report on policies and practices regarding indigenous community relations, recruitment and advancement of indigenous employees, internal education on indigenous reconciliation, and procurement from indigenous-owned businesses

Result: 97.96% FOR

CBCA Disclosure Requirements

As of January 2020, CBCA requires all publicly-traded companies to provide enhanced disclosure regarding diversity of Boards and senior management teams

Enhanced disclosure requirements include, among other things:

- Presence of diversity policies and/or specific targets for representation from “designated groups” at the board and senior management level
- Actual representation of “designated groups” among the Board and senior management

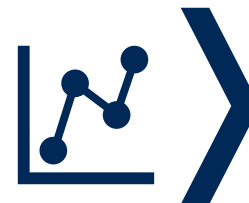
Key Takeaways



Outside of large public companies, there is limited diverse representation on Boards and senior management teams



Expect there are compliance issues in reporting, with incomplete and/or inaccurate information



Will be helpful to view trends over time as companies continue to disclose this data



US PERSPECTIVES



SEMLER BROSSY

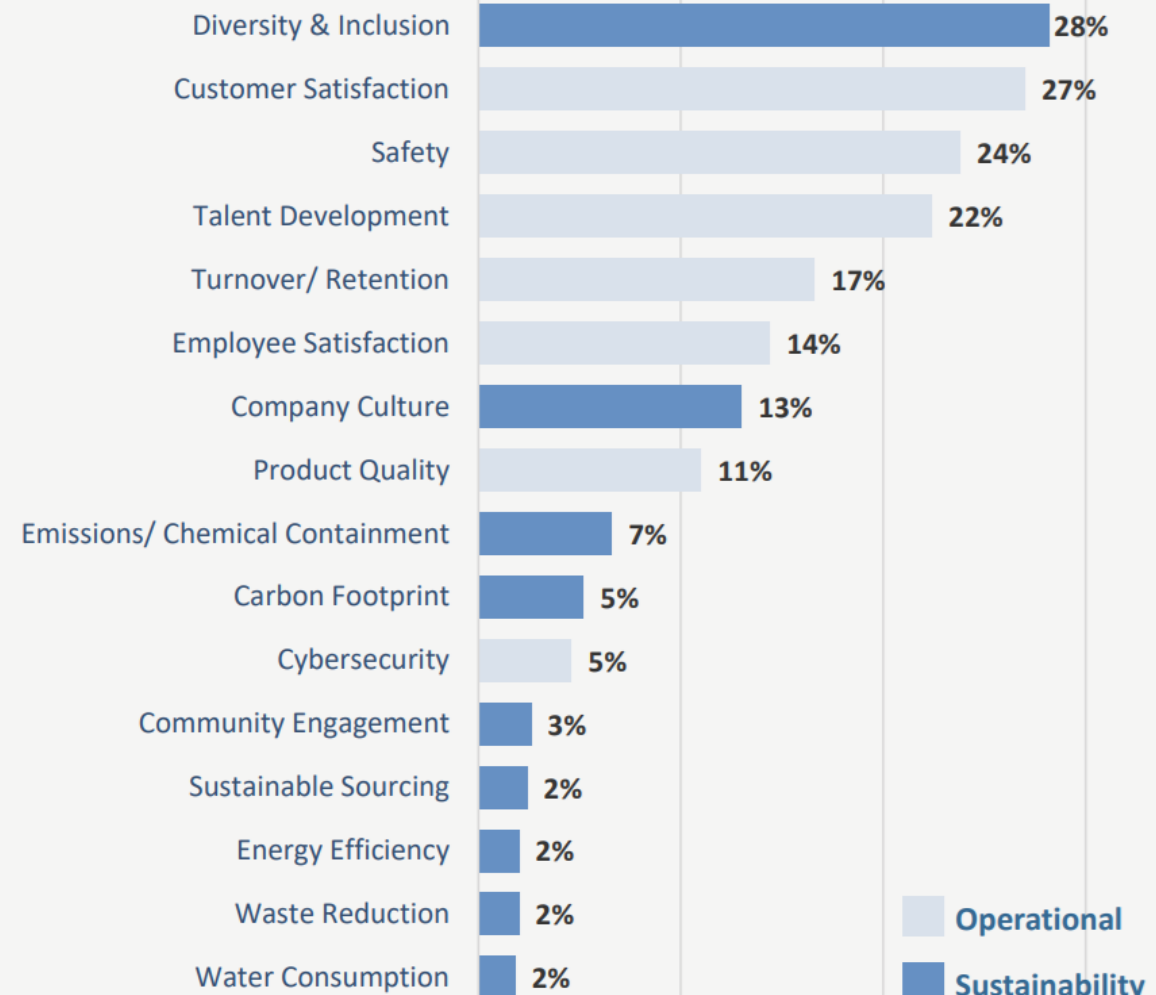
ESG Metrics in Compensation Plans

“I cannot recall a time where it has been more important for companies to respond to the needs of their stakeholders. We are at a moment of tremendous economic pain. We are also at a historic crossroads on the path to racial justice – one that cannot be solved without leadership from companies.”

— LARRY FINK
2021 LETTER TO CEOs

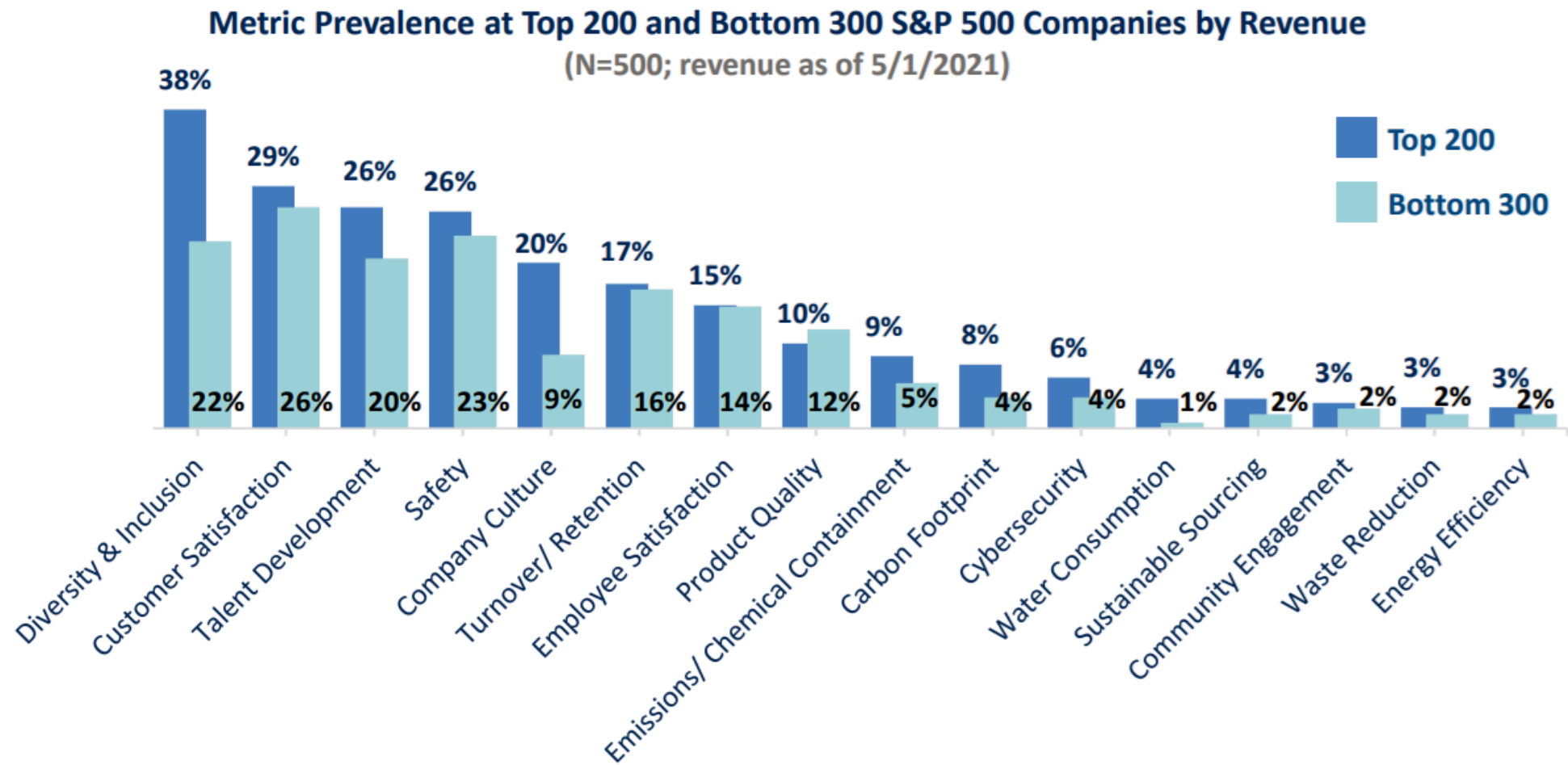
Prevalence of Each
ESG Metric Among
All S&P 500 Companies

% of S&P 500 companies
using each metric
(N=500)



ESG Metric Use by Company Size (Revenue)

The largest companies use ESG metrics more frequently, with 62% incorporating ESG compared to 55% of smaller companies. Larger companies also focus more on sustainability vs. operational measures



Impact of COVID-19 on ESG Metrics

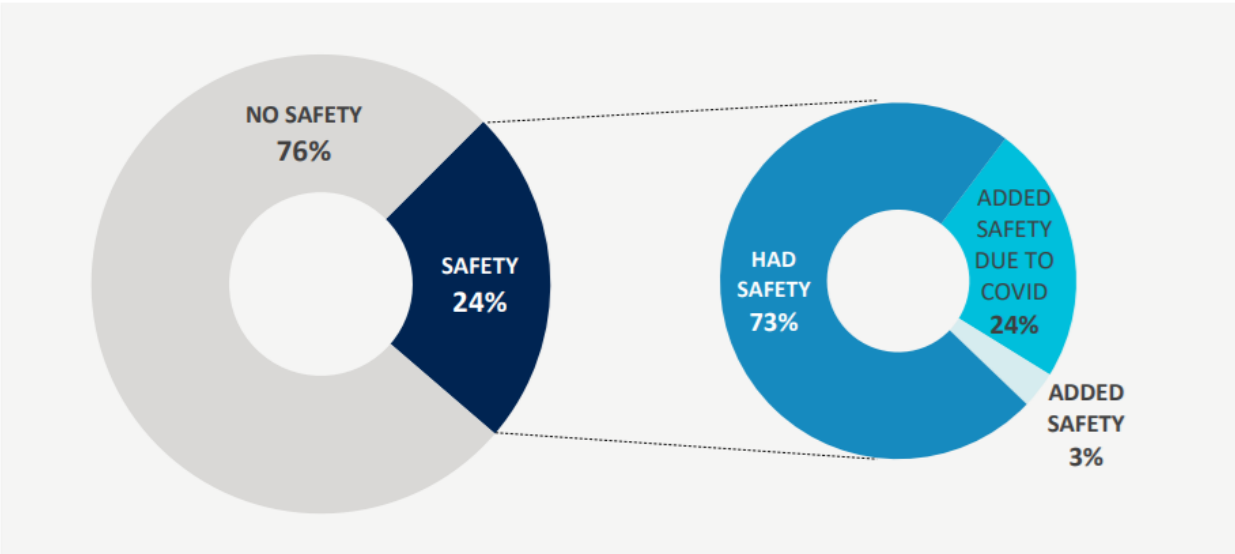
Most companies that adopted safety measures in response to Covid-19 incorporated the metric as part of the individual performance assessment rather than as an ongoing, weighted component

Year-Over-Year Increase in Metric Prevalence:
Number of S&P 500 Companies Adding Each Metric with
Proxy Filings Between January and March (2021 vs 2020)



Safety Metric Prevalence
in Annual and
Long-Term Plans

(N=119)



Case Studies



ESG GOAL/ WEIGHT	THRESH.	TARGET	MAX	ACTUAL
Customer Experience (15%)	Various customer interaction survey, SAIDI, and SAIFI goals are disclosed			
Progress Toward Emission Goal (7.5%)	95.5%	98.3%	100%	100%
People of Color (3.75%)	5.2%	5.4%	5.6%	5.4%
Women (3.75%)	25.9%	26.6%	27.3%	25.7%



CHANGE REPRESENTATION AMONG: 1) DIVERSE LEADERS IN TOP POSITIONS AND 2) PEOPLE OF COLOR ONE LEVEL BELOW VP	
Increase by ≥ [8% to 10%]	+5%
No Change	-5%
Decrease by ≥ 2%	-10%
CLOSE GAP IN EQ SCORES OF BLACK EMPLOYEES	
Improve to ≤ 0 pts	+10%
No Change (3 pts)	-2%
Decline to ≥ 5 points	-10%

+

CHANGE IN BLACK/ REPRESENTATION	LATINX
Increase by ≥ 25%	+5%
Increase by ≤ 25%	0%



Q&A

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



CLOSING REMARKS

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Emerging Trends in ESG, Executive Compensation & Board Governance

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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.