

2023 Executive Compensation Trends

S&P TSX Composite Index

EXECUTIVE SUMMARY

Market Trends

Actual compensation	Actual total direct compensation was relatively flat for CEOs (up 1%) and increased slightly for CFOs (up 6%) on a year-over-year basis primarily due to lower bonuses in 2022 relative to 2021 offset by higher salaries and long-term incentive grants
Target compensation	Salaries increased by 1% for CEOs and 7% for CFOs in 2022 and we anticipate that higher increases were made in early 2023 as a result of inflationary and market pressures No material year-over-year changes made to target short-term incentive levels
Short-term incentives	No significant shifts in short-term incentive plan designs. Profit remains the most common financial metric with most companies using non-financial measures (ESG and/or other operational objectives)
Long-term incentives	There was a slight increase in the prevalence and weighting on PSUs in 2022. While the prevalence of stock options remained the same (about 55%), their average weighting in the overall LTI portfolio dropped to 22% from 26% TSR remained the most common metric in PSUs with an average weighting of approximately 60%
Say-on-pay	Say-on-pay votes remained relatively strong in Canada with average support of 91% (v. 89% in the US) with only three companies receiving less than 50% support in 2023

Other Emerging Trends

ESG and incentives – increasing tensions and trade-offs as companies consider whether to include ESG measures within their incentives, and a continued movement to more quantitative and measurable objectives for companies that have already adopted ESG measures

Pay longevity – as companies continue to move away from stock options, we see a shortening in the time period required to fully realize compensation (salary plus annual incentives plus long-term incentives). Focusing on the S&P/TSX 60 companies, the average CEO requires 2.4 years to fully realize their compensation which may not align with the investment and strategic time horizons for many businesses.

INTRODUCTION

This report summarizes year-over-year executive compensation trends among the companies within the S&P/TSX Composite Index. The data are from 218 companies that disclosed compensation for their executives and were collected by ESGAUGE, a data analytics firm.

PERFORMANCE CONTEXT

In 2022, we saw a more challenging performance year with lower growth in operating income and challenging total shareholder returns (TSR). We continue to see significant differences by industry, with Energy outpacing the other sectors (refer to **Table 1**). As we reflect on 2023 to date, we anticipate more challenging performance conditions, given higher inflation and interest rates, lower growth expectations and overall geopolitical uncertainty leading to lower

financial outcomes on a year-over-year basis. TSRs through 2023 are tracking negatively overall but with variation by industry ranging from minus 14% for Utilities to plus 10% for Information Technology. This can potentially create significant differences in pay outcomes across the broader market and would suggest that 2023 actual pay will track similarly to 2022 levels given flat performance.

Table 1: Performance Summary

Metric	n	Median YoY Change						
		Revenue (year % +/- prior year)		Operating Income (year % +/- prior year)		Total Shareholder Return (TSR) (year close % +/- year open)		
		2022	2021	2022	2021	2023 (YTD)	2022	2021
Total	216	18%	20%	10%	28%	-3%	-6%	30%
Communication Services	5	5%	5%	9%	7%	-11%	-4%	24%
Consumer Discretionary	12	19%	15%	9%	29%	-2%	-18%	22%
Consumer Staples	7	14%	5%	14%	13%	-9%	-4%	13%
Energy	40	60%	89%	108%	290%	8%	44%	101%
Financials	30	8%	22%	-5%	39%	-3%	-14%	38%
Health Care	4	6%	2%	7%	-1%	5%	-28%	12%
Industrials	25	25%	12%	29%	18%	5%	-8%	22%
Information Technology	8	34%	16%	16%	37%	10%	-19%	39%
Materials	49	8%	23%	-16%	41%	-6%	-4%	-11%
Real Estate	21	10%	11%	10%	8%	-12%	-23%	41%
Utilities	15	21%	9%	26%	-3%	-14%	-8%	19%

Data effective date: October 31, 2023

MARKET COMPENSATION TRENDS

The following compensation trends are based on the same incumbent through 2021 and 2022, and reflect actual compensation disclosed in 2022 and 2023 proxy circulars, including actual salaries, actual/target bonuses and long-term incentive grants (on an as-reported currency basis, as disclosed).

Table 2: Year-Over-Year Changes in 50th Percentile Pay

Both actual and target total direct compensation levels, where disclosed, were relatively flat on a year-over-year basis. Last year, we found a 20% increase in actual total direct compensation because of significantly higher bonus payouts relative to a challenging 2020.

50th Percentile	CEO			CFO		
	2022	2021	Δ	2022	2021	Δ
Actual						
Salary	\$805	\$800	1%	\$465	\$435	7%
Actual STI (% of Salary)	135%	150%	-	90%	100%	-
Actual Total Cash	\$1,735	\$1,930	-10%	\$865	\$875	-1%
LTI (% of Salary)	325%	290%	-	195%	185%	-
Actual Total Direct Compensation	\$4,345	\$4,295	1%	\$1,795	\$1,690	6%
Target						
Target STI (% of Salary)	100%	100%	-	75%	75%	-
Target Total Cash	\$1,630	\$1,745	-7%	\$1,325	\$1,225	8%
Target Total Direct Compensation	\$4,325	\$4,240	2%	\$2,150	\$2,065	4%

Chart 1: 2021 and 2022 Salaries

The median CEO salary in 2022 increased by 1% to \$805,000. The median CFO salary increased by 7% to \$465,000. Last year, we saw salaries for CEOs and CFOs increase by 12% and 7%, respectively.

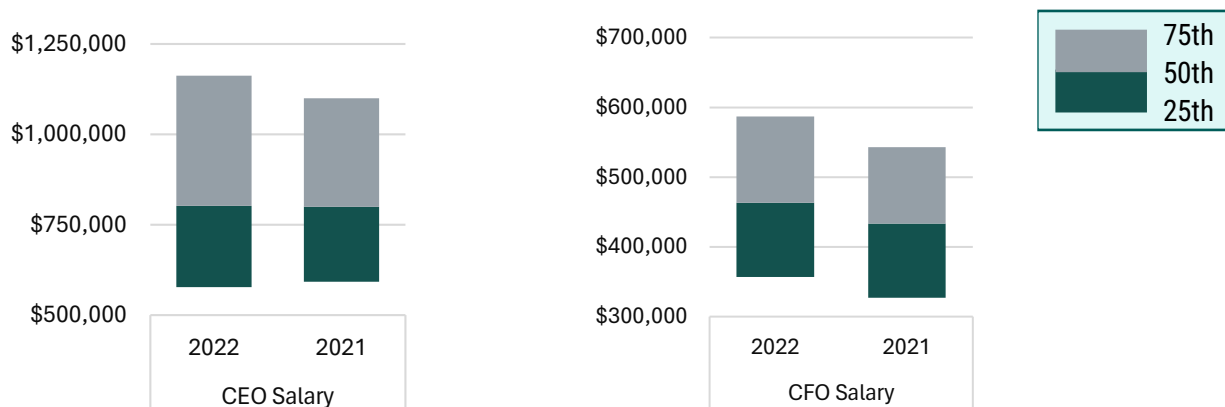


Chart 2: 2021 and Actual Total Cash

Median actual total cash (ATC) decreased by 10% for CEOs and 1% for CFOs in 2022. The median actual bonus as a percentage of target bonus for CEOs decreased to 1.17x target in 2022 from 1.61x target in 2021. Last year, ATC increased by 34% for CEOs and 17% for CFOs.

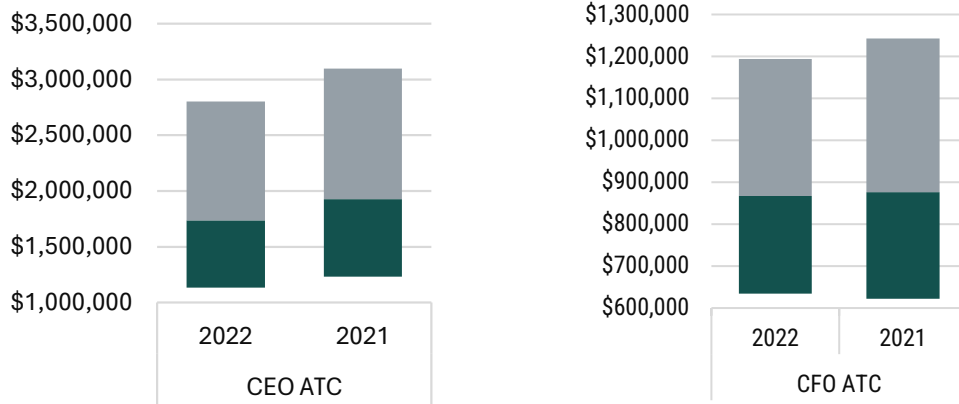


Chart 3: 2021 and Actual Total Direct Compensation

Median actual total direct compensation (ATDC) increased by 1% for CEOs and 6% for CFOs in 2022, primarily driven by higher salaries and long-term incentive grants. The median grant value of long-term incentives increased to 325% of salary from 290% for CEOs and 195% of salary from 180% for CFOs.

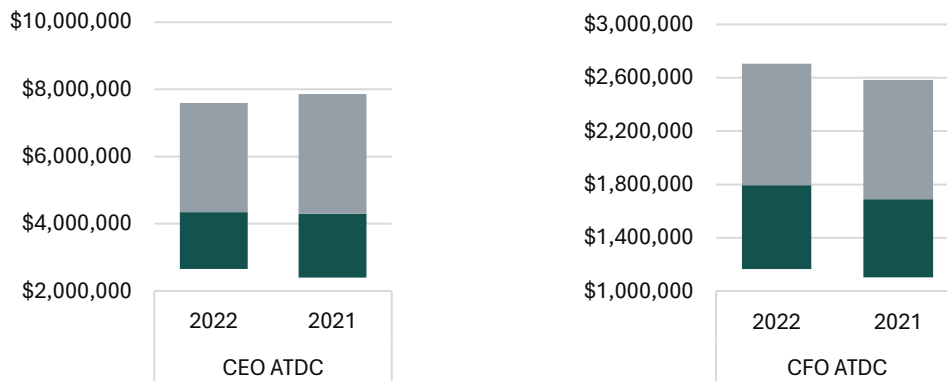


Table 3: CEO Compensation by Sector

We found significant variability in the quantum of CEO pay – likely driven by differences in the size of company in each sector – and also in the year-over-year change in CEO pay. The Energy sector saw a 11% increase in ATDC while the Materials sector saw a 14% decrease, commensurate with the performance of each sector (Energy sector TSR was up 44% while Materials sector TSR was down 5%). Note that some of the sectors have relatively small sample sizes (i.e., less than 10) and are subject to more volatility.

Sector	# of Cos	Market Cap. (2022 YE)	50th Percentile								
			Salary			Actual Total Cash			Actual Total Direct Compensation		
			2022	2021	Δ	2022	2021	Δ	2022	2021	Δ
Energy	32	\$3,607	\$575	\$555	4%	\$1,488	\$1,551	-4%	\$4,364	\$3,935	11%
Materials	39	\$2,559	\$803	\$804	0%	\$1,746	\$1,788	-2%	\$3,395	\$3,933	-14%
Industrials	18	\$6,801	\$1,174	\$1,091	8%	\$3,007	\$3,161	-5%	\$7,475	\$7,215	4%
Consumer Discretionary	10	\$5,647	\$858	\$822	4%	\$2,587	\$3,136	-18%	\$6,977	\$6,763	3%
Consumer Staples	5	\$3,653	\$1,250	\$1,100	14%	\$1,686	\$1,807	-7%	\$3,288	\$4,344	-24%
Health Care	5	\$1,040	\$664	\$604	10%	\$1,161	\$1,162	0%	\$2,219	\$1,820	22%
Financials	20	\$7,394	\$989	\$975	1%	\$2,237	\$3,125	-28%	\$6,399	\$6,555	-2%
Information Technology	8	\$4,668	\$618	\$615	0%	\$1,250	\$1,621	-23%	\$6,572	\$5,896	11%
Communication Services	3	\$37,793	--	--	--	--	--	--	--	--	--
Utilities	12	\$5,722	\$943	\$928	2%	\$1,869	\$1,695	10%	\$3,800	\$3,568	7%
Real Estate	17	\$3,220	\$800	\$785	2%	\$1,607	\$1,589	1%	\$3,076	\$3,026	2%

Table 4: CEO Compensation by Company Size

There are significant differences in pay based on company size. CEO salaries were flat across each of the size categories while ATDC saw the most significant increase among the largest companies in the TSX Composite (up 11% v. 1% overall)

Market Cap	# of Cos	Market Cap. (2022 YE)	50th Percentile								
			Salary			Actual Total Cash			Actual Total Direct Compensation		
			2022	2021	Δ	2022	2021	Δ	2022	2021	Δ
Less than \$2.5B	59	\$1,610	\$688	\$673	2%	\$1,258	\$1,363	-8%	\$2,685	\$2,549	5%
\$2.5B to \$10B	75	\$4,631	\$811	\$800	1%	\$1,746	\$2,000	-13%	\$4,406	\$4,308	2%
Greater than \$10B	38	\$30,582	\$1,238	\$1,228	1%	\$3,242	\$3,350	-3%	\$10,390	\$9,370	11%

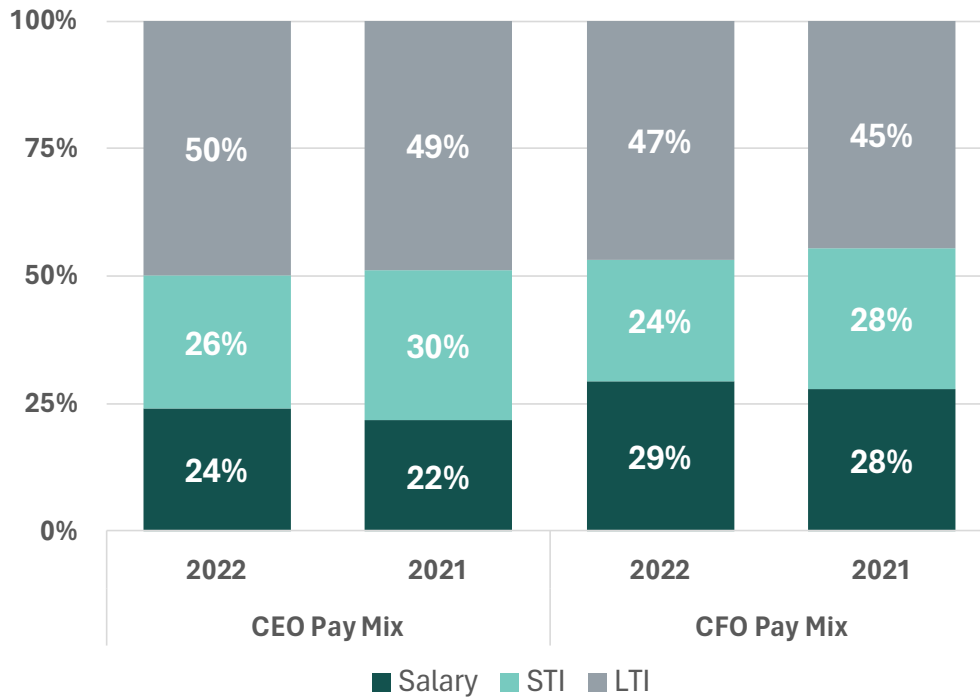
PAY MIX

In terms of overall pay mix, salary (or fixed pay) represented 24% of ATDC for CEOs and 29% for CFOs.

Actual short-term incentives (STI) represented approximately 1.1x salary for CEOs and 0.8x salary for CFOs and comprised a lower proportion of total pay relative to 2021 due to lower bonuses paid in 2022.

Companies continued to put a majority weighting on long-term incentives (LTI). This captures the value of the LTI at grant, but the actual value realized can vary significantly, reinforcing the importance of ensuring this portion of compensation is designed appropriately and aligned with strategy / shareholder interests.

Chart 4: CEO and CFO Pay Mix



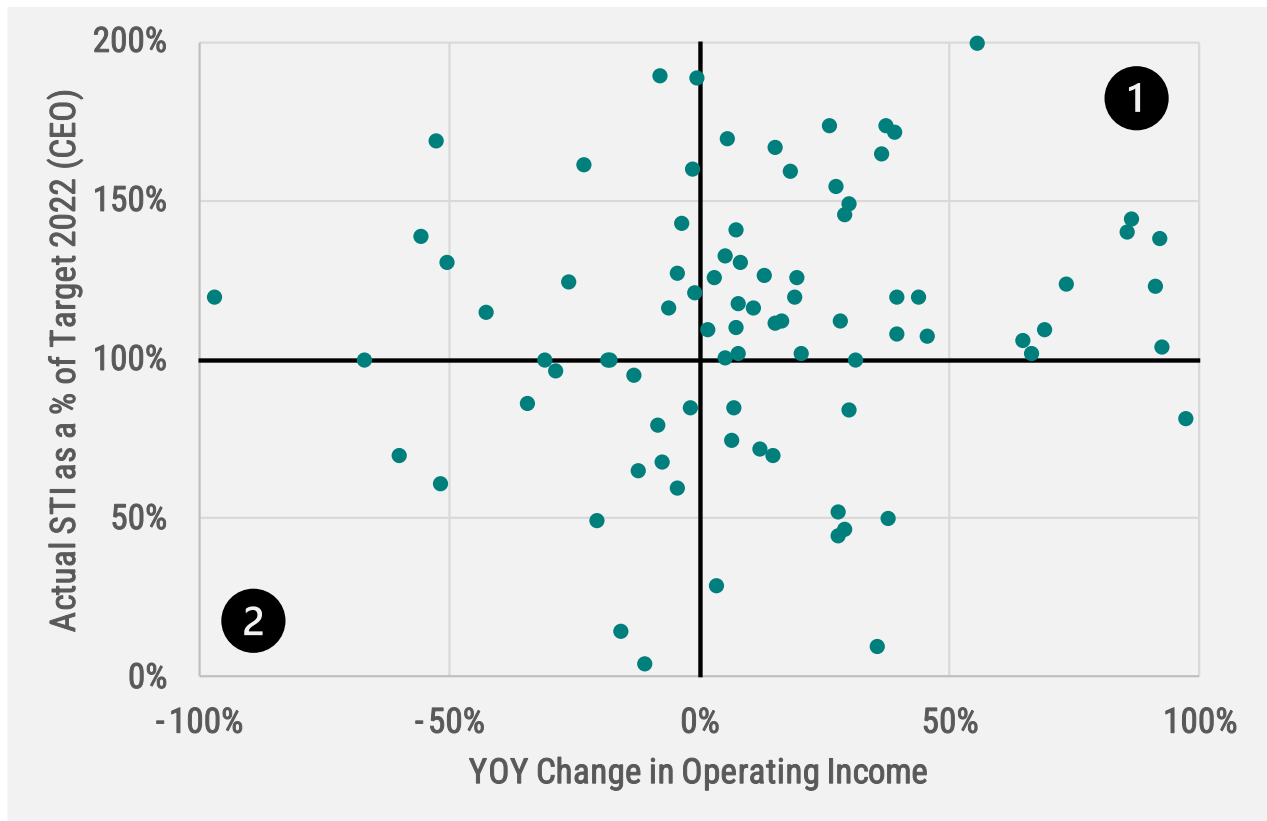
PAY-FOR-PERFORMANCE

From a pay-for-performance perspective, we compared the year-over-year change in operating income relative to the actual short-term incentive paid (as a percentage of target). The majority of companies appear to be aligned in either the top right (1) or bottom left (2) quadrants.

- **Top right (1)** – most companies saw a YOY increase in operating income resulting in an above-target short-term incentive payment
- **Bottom left (2)** – some companies with a YOY decrease in operating income paid a bonus below 55%

We tend to find disconnects in industries that are more cyclical (mining/oil & gas) where financial performance is a smaller portion of the incentive award and/or not considered on a YOY growth perspective, suggesting more challenging disclosure of the pay-for-performance relationship.

Chart 5: Performance Analysis



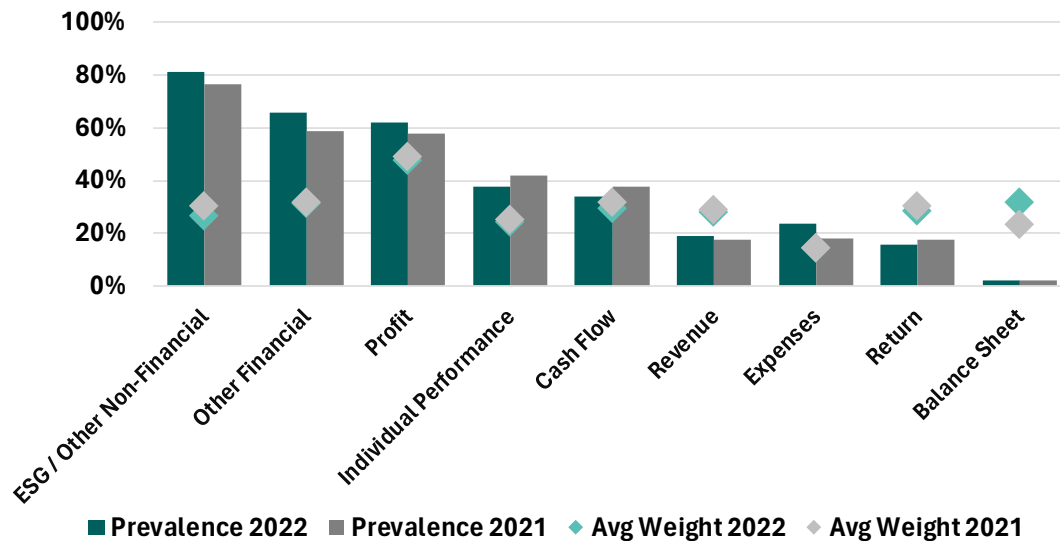
SHORT TERM INCENTIVES (STI)

Within STI plans, organizations continue to place majority weight on financial measures, with an average weight of 70% (remaining 30% weight on non-financial measures).

Chart 6 summarizes the prevalence and mix of performance measures within the STI plan. ESG (and other non-financial) measures were the most common with an average weighting of approximately 30%. Profit-based

measures at the most common financial weighting and remain the highest weighted type of measure at approximately 50% of the STIP. Individual performance is incorporated by about 40% of companies with an average weighting of $\approx 25\%$. Year-over-year changes remain minor on an overall basis with some shifting between measures.

Chart 6: Prevalence and Mix of STI Performance Measures



ESG and Incentives – Global Trends of Lg. Companies

- Over 80% include ESG measures in their incentives (75% of S&P/TSX 60 in Canada)
- 70% use social measures (primarily diversity) and 60% use environmental measures (primarily GHG emissions)
- 35% have adopted ESG measures within the long-term incentive plan (25% in Canada)
- 10% impact to CEO total compensation (7% in Canada)

2024 Global Trends in ESG Incentives: Entering the Next Phase of Maturity



LONG-TERM INCENTIVES (LTI)

Chart 7 summarizes the prevalence of the long-term incentive vehicles granted to the CEO in 2022 and 2021 and **Chart 8** summarizes the average mix of long-term incentives granted to CEOs over the same period. There was a slight increase in the prevalence and weighting on PSUs in 2022. While the prevalence of stock options remained the same (about 55%), their average weighting in the overall LTI portfolio dropped to 22% from 26%.

Chart 7: Average CEO LTI Prevalence

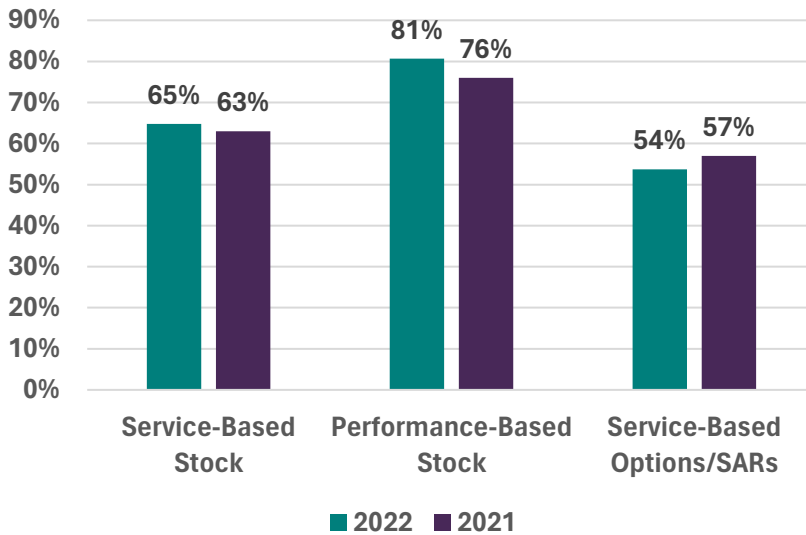


Chart 8: Average CEO LTI Mix (% OF LTI)

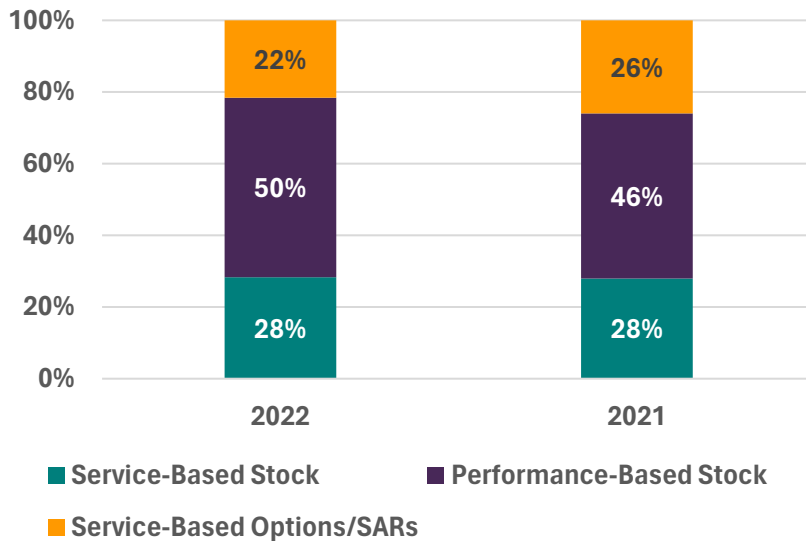
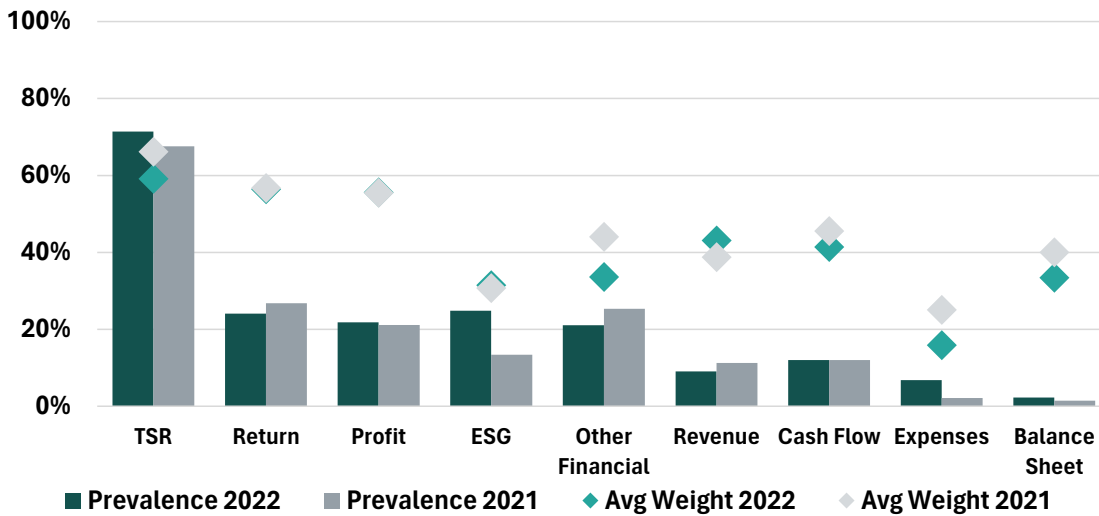


Chart 9 summarizes the prevalence and mix of performance measures in PSU plans. We saw some shifts in the types of measures used, but average weightings remained generally consistent. TSR remained the most common metric with an average weighting of approximately 60%. Given the increasing use of PSUs and relative TSR, there is more pressure on companies to get this component right, including participation, selection of the relative TSR comparison (market index or peer group) and the performance range calibration.

Chart 9: Prevalence and Mix of PSU Performance Measures



Pay Longevity

As we see changes in how pay is delivered, particularly the shift away from stock options to performance share units (PSUs), we wanted to assess how Canadian executive compensation plans address the uncertainty embedded in incentive plans. The overall “riskiness” of a pay package is primarily driven by the degree of performance exposure (e.g., risk of not receiving target pay) and the longevity of the pay elements (e.g., period needed for total awarded compensation to become realizable).

When we reviewed the S&P/TSX 60 companies, we found average longevity of 2.4 years. This means a **CEO fully realizes their total pay in only 2.4 years** which may not reinforce a long-term orientation and/or align with the risk tail of their strategic decisions. The longevity of CEO pay packages in Europe continues to increase through longer-vesting performance equity and a greater emphasis on long v. short-term incentives.

Even without stock options, most Canadian companies can achieve longer-term vesting in their LTIP portfolios by settling RSUs and PSUs in treasury shares (exceptions include those governed by the Bank or Insurance Acts). Companies establishing or replenishing their equity reserve(s) would be prudent to adopt an omnibus plan (i.e., reserve of shares can be used to settle various forms of equity vehicles – stock options, RSUs, PSUs and/or DSUs) offering flexibility and increased pay longevity.

SAY ON PAY

Charts 10 & 11 summarize the say-on-pay results (as of October 27, 2023) for Canada (left) and the U.S. (right). In Canada, the average say-on-pay vote remains strong at 91% in 2023 (compared to 91% in 2022 and 2021). In the U.S., the average score has increased slightly to 89% from 87% and 88% in 2022 and 2021, respectively.

Chart 10: Canada Say-on-Pay

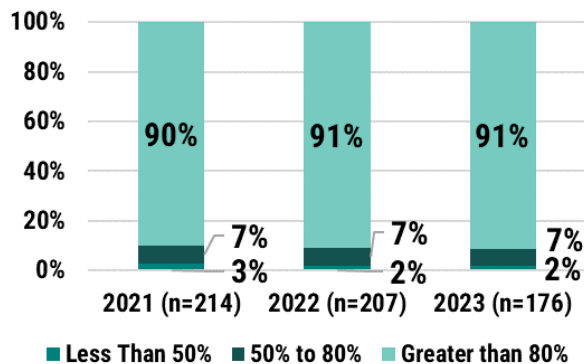
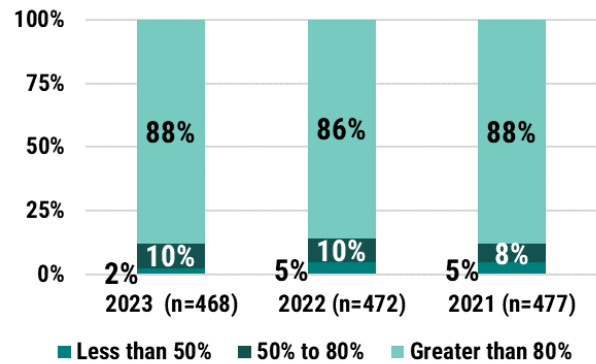


Chart 11: U.S. Say-on-Pay



For most companies, there is little year-over-year change in the reported say-on-pay results and **Table 5** highlights the most significant year-over-year increases and decreases. There were three failures in 2023 with Agnico Eagle and Open Text failing in both years.

Table 5: Significant Year-Over-Year Changes in Say-on-Pay Support

	Company	2022	2023	YOY Change
YOY Increases	CI Financial Corp.	45	91	46
	Enghouse Systems Limited	36	74	38
	Methanex Corporation	68	91	23
	SmartCentres REIT	70	92	22
	Chartwell Retirement Residences	72	88	16
	B2Gold Corp.	80	94	14
YOY Decreases (or 2023 failures)	Agnico Eagle Mines Ltd.	24	25	1
	Open Text Corporation	45	30	-15
	First Majestic Silver Corp.	61	26	-35
	First Capital REIT	87	67	-20
	Precision Drilling Corporation	88	68	-19
	Shopify, Inc.	94	77	-16

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The logo consists of the letters 'L', 'S', and 'I' in a white, sans-serif font. The 'L' is on the left, the 'S' is in the center, and the 'I' is on the right. The background is a teal color with diagonal stripes of varying shades of teal.

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