



2024 Director Compensation Trends

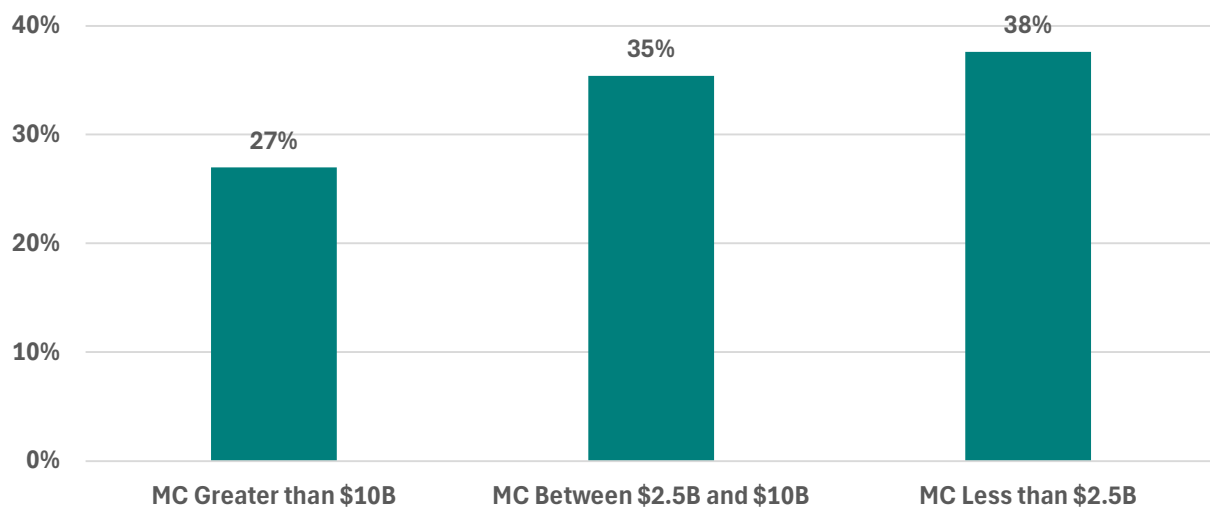
EXECUTIVE SUMMARY

Board member compensation	<p>2% decrease in 2023 total board member compensation to a median of \$195,000 (from \$199,000 in 2022 and \$182,000 in 2021)</p> <p>55% of total board member compensation provided in equity and 45% in cash</p>
Industry differentials *NEW*	<p>Board compensation is highest in the Energy and Materials sectors (~10% higher than average) and lowest in the Consumer and Financials sectors (~14% lower than average)</p>
Board chair compensation	<p>5% increase in 2023 board chair compensation to a median of \$330,000 (from \$315,000 in 2022 and \$295,000 in 2021)</p> <p>Approximately a 1.6x multiple between Board Chair compensation to board member compensation, consistent year-over-year</p>
Committee compensation	<p>No material year-over-year changes in committee compensation</p> <p>Continued mixed practice to provide separate committee member compensation, including retainers and meeting fees</p> <p>Committee Chair compensation remains highly prevalent with differentiation for Audit and HR Committee Chairs relative to Governance Committee Chairs</p> <p>Notably, HR Committee Chair compensation continues to increase at a faster pace than other Committees, recognizing the increased workload and responsibility associated with the scrutiny on executive compensation</p>
Pay design	<p>Equity continues to be predominantly provided in deferred share units</p> <p>Share ownership requirements remain 3x either the cash retainer or the total cash plus equity retainer</p>
Demographics	<p>Slight increase in the percentage of female directors (35% v. 33% last year and 31% in 2021)</p> <p>Slightly older and more tenured directors on a year-over-year basis</p>

INTRODUCTION

Southlea’s latest research report summarizes year-over-year director compensation trends among the companies within the S&P/TSX Composite Index. Data reflect 226 companies that disclosed compensation for their board of directors and have been summarized by company size in terms of market capitalization (MC), with a fairly well distributed group of companies in each size category. The data were collected by ESGAUGE, a data analytics firm.

Chart 1: Sample by Market Capitalization (MC)



Methodology

Data in this report reflect compensation disclosed in 2024, 2023, and 2022 proxy circulars representing 2023, 2022, and 2021 compensation levels, respectively. Total compensation is estimated based on a standard number of meetings and committee memberships (eight board meetings, two committee memberships and four committee meetings per committee) to provide an apples-to-apples comparison for similar workloads. All data are in the currency reported by each company and are summarized at par (e.g., \$1CAD = \$1USD). For comparison purposes, we have also provided data for the S&P 500 in USD. Each element is independently arrayed and cannot be added to form the total.

BOARD MEMBER COMPENSATION

Total board member compensation for the TSX Composite fell slightly at the 50th percentile (median, or 50P) from \$199,000 to \$195,000 between 2022 and 2023; however, pay levels remain above those in 2021 (\$182,000). The relative weight on compensation delivered in cash v. equity remains consistent at 55% weight on equity (cash includes the cash retainer and meeting fees where applicable).

In 2023, total board member compensation for the S&P 500 was \$315,000 USD, approximately 60% percent higher than the TSX Composite, driven by a combination of higher pay levels and larger companies. We note that the difference is less for cash compensation with significantly higher equity retainers driving the overall total board member compensation difference.

The premium observed at median in the S&P 500 over the TSX Composite is higher in 2023 (v. 50% in 2022), demonstrating that pay levels increased in the U.S. while they have been flat in Canada. This increasing pay disparity could result in difficulties for Canadian companies to attract and retain North American / Global board members. This also raises questions on the inclusion of U.S.-based peer companies and how to address currency between Canadian and non-Canadian-based directors (e.g., residency-based pay).

Companies continue to move away from providing board meeting fees with 12% of companies (v. 15% last year and 21% the year before) continuing this practice, reflecting a persistent trend towards an “all-in” retainer structure.

Table 1: Board Member Compensation

Element	Board Members							
	TSX Composite - 2023		TSX Composite - 2022		TSX Composite - 2021		S&P 500 - 2023	
	Prevalence	50P	Prevalence	50P	Prevalence	50P	Prevalence	50P
Cash Retainer	99%	\$85,000	98%	\$80,000	98%	\$75,000	95%	\$110,000
Equity Retainer	81%	\$115,500	80%	\$114,500	76%	\$100,000	98%	\$200,000
Meeting Fees (Per Meeting)	12%	\$1,500	15%	\$1,500	21%	\$1,500	5%	\$2,000
Total Board Member Comp.	100%	\$195,000	100%	\$199,000	100%	\$182,000	99%	\$315,000
<i>% Equity Compensation</i>	-	55%	-	58%	-	55%	-	64%

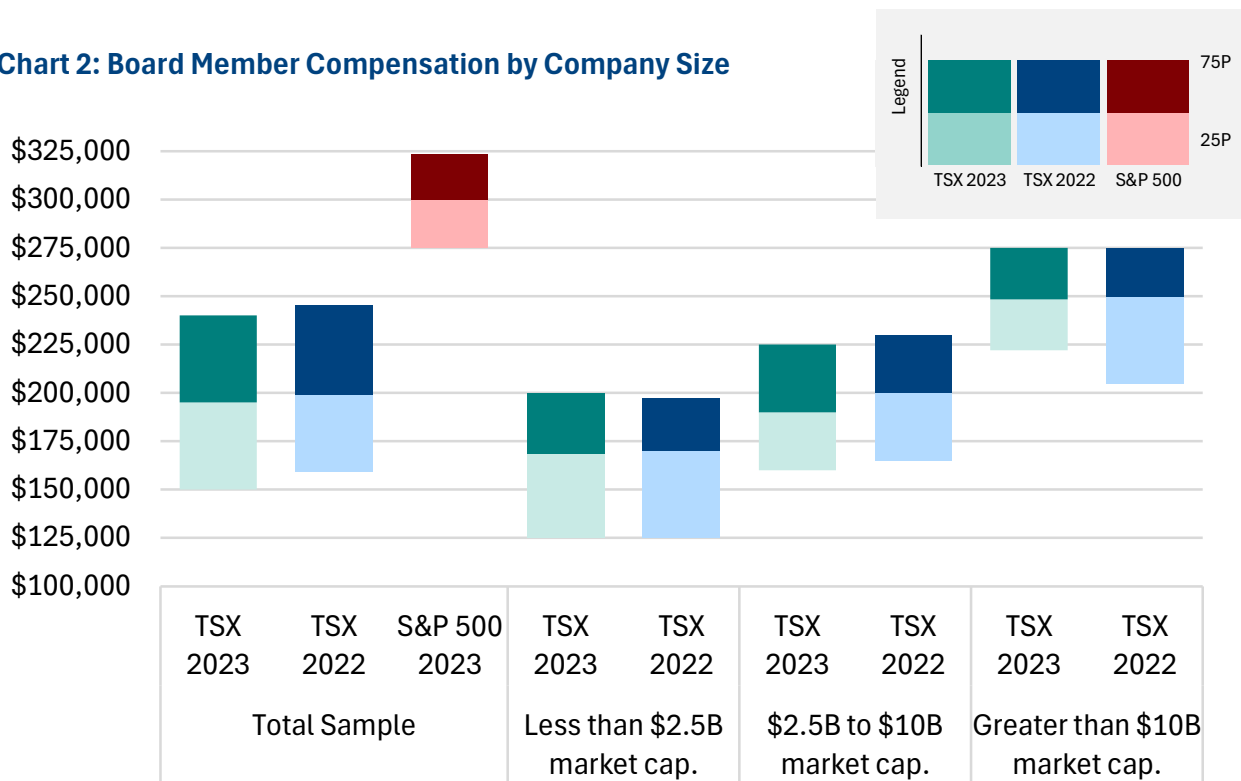
BOARD MEMBER COMPENSATION BY COMPANY SIZE

We observe a clear relationship between company size (in terms of market capitalization) and total board member compensation. Flat to slightly lower pay levels are consistent across the sample with an approximate 1% to 5% decrease year-over-year depending on the size of company. The range of compensation among companies of a similar size represents the diversity of practices depending on the organization’s scope, industry, and relative complexity.

Table 2: Board Member Compensation by Company Size

Total Board Member Compensation (by size)	Percentiles				Δ
	TSX Composite - 2023		TSX Composite - 2022		
	n=	50P	n=	50P	
Total Sample	226	\$195,000	221	\$199,000	-2%
Less than \$2.5B market cap.	61	\$168,750	79	\$170,000	-1%
\$2.5B to \$10B market cap.	80	\$190,000	82	\$200,000	-5%
Greater than \$10B market cap.	85	\$248,250	60	\$250,000	-1%

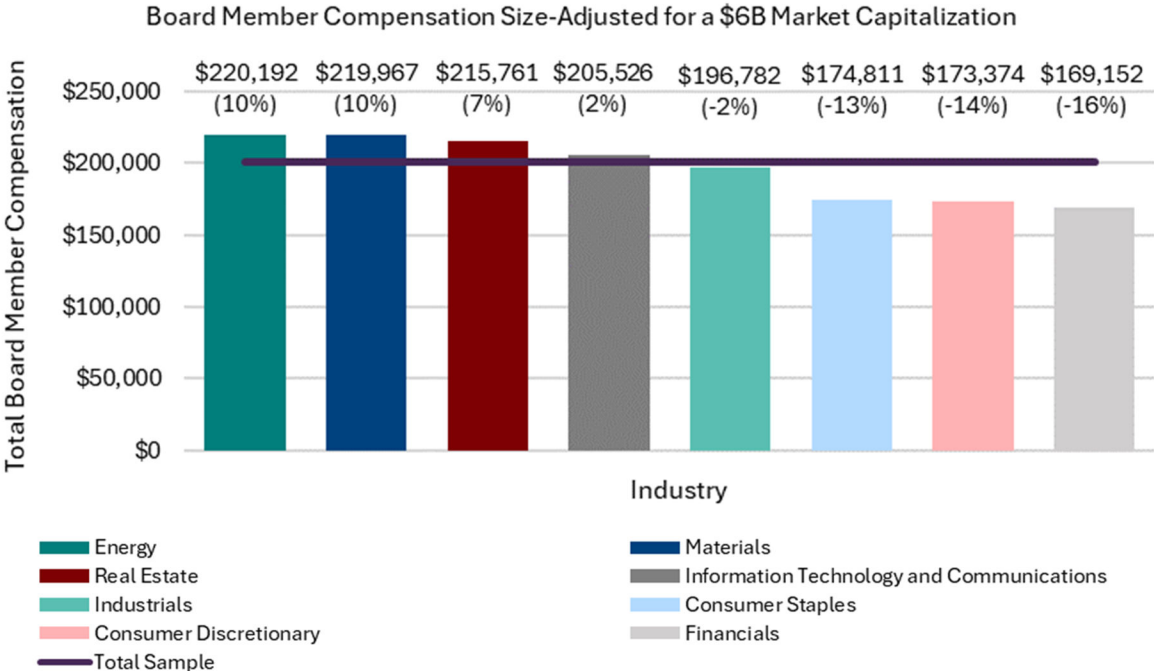
Chart 2: Board Member Compensation by Company Size



BOARD MEMBER COMPENSATION BY INDUSTRY

Board member compensation is highest in the Energy and Materials sectors and lowest in the Consumer and Financials sectors. We note that this summary has been normalized to reflect a company with a market capitalization of \$6 billion to provide a clearer perspective of the industry impact on compensation. These industry differences may reflect the different talent markets required for each industry, e.g., some industries may have a broader global talent market, or require unique skills / experience, which puts upward pressure on compensation.

Chart 3: Board Member Compensation by Industry*



*Size adjusted using a regression analysis to \$6 billion market capitalization

BOARD CHAIR COMPENSATION

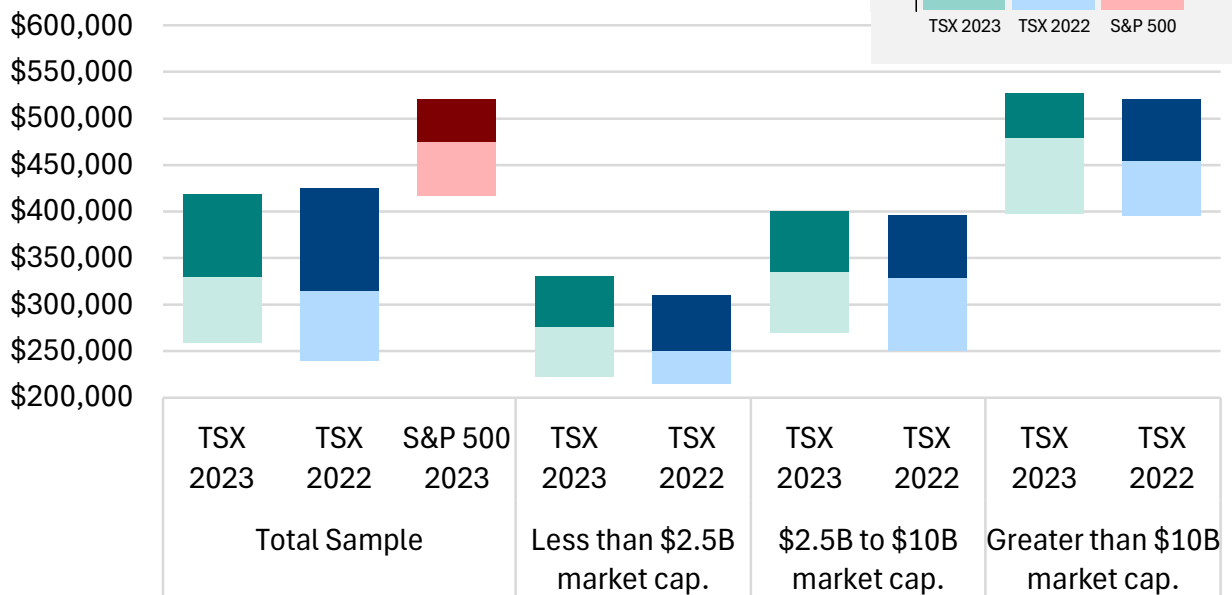
Of the 60% of TSX Composite companies with a non-executive Board Chair, total Board Chair compensation at the 50th percentile increased from \$315,000 to \$330,000, representing a 5% increase. When expressed as a multiple of board member compensation, Board Chair’s receive 1.6x board member compensation at the 50th percentile, consistent with the past two years.

In the U.S., approximately 40% of the S&P 500 have a non-executive Board Chair, reflecting the increased prevalence of a combined Board Chair and CEO. Non-executive Board Chair compensation is higher than in Canada at \$475,000 and represents approximately the same multiple to board member compensation (1.5x) as found in Canada (1.6x).

Table 3: Board Chair Compensation

Element	Independent Board Leadership							
	TSX Composite - 2023		TSX Composite - 2022		TSX Composite - 2021		S&P 500 - 2023	
	Prevalence	50P	Prevalence	50P	Prevalence	50P	Prevalence	50P
Total Board Chair Compensation	63%	\$330,000	59%	\$315,000	59%	\$295,000	38%	\$475,000
<i>Multiple of Board Member Comp.</i>	-	1.6x	-	1.6x	-	1.6x	-	1.5x

Chart 4: Board Chair Compensation by Company Size



COMMITTEE COMPENSATION

There is mixed usage of additional compensation (retainers and/or meeting fees) for committee member participation with a higher prevalence for Audit v. other committees. Total committee member compensation at the 50th percentile varies by committee at \$10,000 for Audit, \$9,000 for Compensation / HR and \$7,500 for Nominating / Governance with no year-over-year change except for the Compensation / HR committee (up 3% year-over-year, following an 11% increase between 2021 and 2022). Committee member compensation in Canada remains lower than the S&P 500.

Table 4: Committee Member Compensation

Committee	Committee Member - Total Compensation					
	TSX Composite - 2023		TSX Composite - 2022		S&P 500 - 2023	
	Prevalence	50P	Prevalence	50P	Prevalence	50P
Audit	54%	\$10,000	57%	\$10,000	54%	\$15,000
Compensation / HR	47%	\$9,000	44%	\$8,700	43%	\$10,000
Nominating / Governance	45%	\$7,500	43%	\$7,500	41%	\$10,000

Additional compensation for Committee Chairs (including retainers and meeting fees) is more prevalent, particularly for Audit Committee Chairs. Total compensation at the 50th percentile varies by committee at \$25,000 for Audit, \$20,000 for Compensation / HR and \$16,000 for Nominating / Governance influenced by the respective workloads of each committee. Committee Chair compensation remained relatively consistent year-over-year, with a 7% increase to Nominating / Governance Committee Chair compensation only. Pay levels remain slightly below the S&P 500.

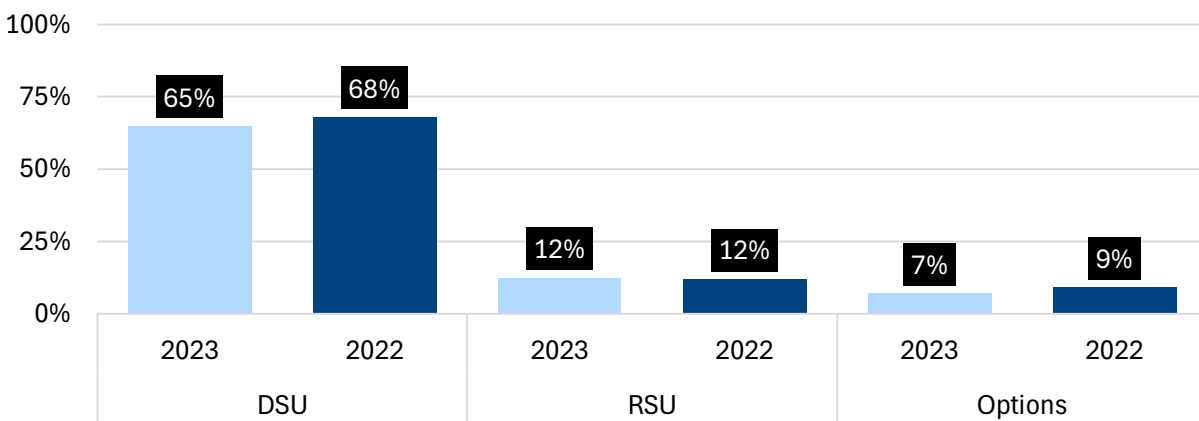
Table 5: Committee Chair Compensation

Committee	Committee Chair - Total Compensation					
	TSX Composite - 2023		TSX Composite - 2022		S&P 500 - 2023	
	Prevalence	50P	Prevalence	50P	Prevalence	50P
Audit	97%	\$25,000	98%	\$25,000	98%	\$30,000
Compensation / HR	80%	\$20,000	76%	\$20,000	96%	\$25,000
Nominating / Governance	73%	\$16,000	73%	\$15,000	95%	\$20,000

BOARD EQUITY GRANTS

The majority of TSX Composite companies continue to grant deferred share units (DSUs) with approximately 12% granting restricted share units (RSUs) and 7% granting stock options, with little change on a year-over-year basis. The use of stock options is typically in resource-based and/or recently public companies. In the U.S., S&P 500 companies grant equity primarily in RSUs.

Chart 8: Equity Grants



Alternatives to DSUs

While DSUs are most common given that you can hold notional shares on a pre-tax basis with tax deferred until a board member retires, there is no flexibility to liquidate prior to retirement which can raise concerns for longer-serving board members particularly in commodity-cyclical businesses. There is also a short time frame to redeem the value of DSUs after leaving the board, which could result in a large income tax bill within a compressed period of time. In addition, some investors are raising concerns as to whether DSU ownership is akin to holding real shares.

Alternatives that provide share price alignment and support share ownership include:

- Requirements to purchase common shares using a portion of the cash retainers on an after-tax basis, allowing any subsequent capital gains/dividends to be taxed accordingly
- Grants of treasury share-settled restricted share units which vest and settle over time, of which, a portion of after-tax value can be held to satisfy share ownership guidelines

SHARE OWNERSHIP REQUIREMENTS

Share ownership requirements are similar year-over-year. Almost all TSX Composite companies articulate share ownership requirements for board members as either a multiple of the cash retainer or cash + equity retainers. Despite the significantly different total dollar amounts resulting from the differing ownership definitions, the median multiples of both cash and cash + equity retainers are 3.0x.

Given recent preferences expressed by the Canadian Coalition for Good Governance in 2022 and the Globe & Mail Board Games in 2024 to define executive share ownership as a multiple of total direct compensation instead of salary, organizations wishing to comply may also re-evaluate their Board member ownership guidelines (in which total retainer is analogous to the notion of total compensation for executives).

In the U.S., most S&P 500 companies express the requirement as a multiple of the cash retainer. They also have a higher requirement at 5x the retainer (v. 3x in Canada) but that is on a relatively lower cash portion of the retainer whereas close to 40% of Canadian companies apply their requirement to the total of the cash + equity retainers.

Table 6: Share Ownership Multiples

Share Ownership Guideline	Retainer Multiple					
	TSX Composite - 2023		TSX Composite - 2022		S&P 500 - 2023	
	Prevalence	50P	Prevalence	50P	Prevalence	50P
Cash Retainer	42%	3x	45%	3x	81%	5x
Equity Retainer	4%	4x	4%	5x	4%	5x
Cash & Equity Retainer	41%	3x	41%	3x	0%	-
Other	8%	3x	7%	3x	11%	5x

Other: includes fixed number of shares or fixed value guidelines

Typical share ownership amongst Canadian companies

- 3x multiple
- Based on cash retainer or cash + equity retainers, but the latter is more meaningful and tied to total compensation received by the director

BOARD DEMOGRAPHICS

TSX Composite companies tend to have between 7 to 13 board members with an average of 35% female board members (up from 33% last year and 31% in 2021). In terms of age, 35% of board members are less than 60 (down from 38% last year) with about one-half between age 60 and 70.

Board member tenure has increased year-over-year, with a lower proportion with less than a five-years tenure (43% this year v. 56% last year and 47% in 2021) and more board members serving on the board for greater than 10 years (27% this year v. 21% last year and 26% in 2021).

Chart 5: Gender Breakdown

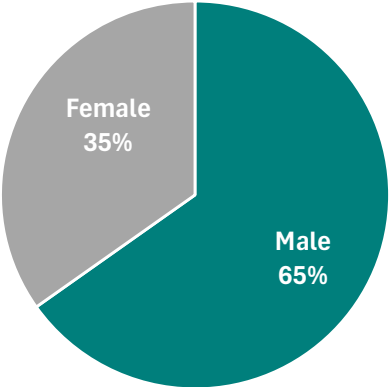


Chart 7: Tenure Breakdown (Years)

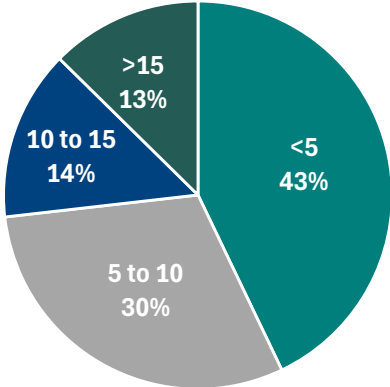
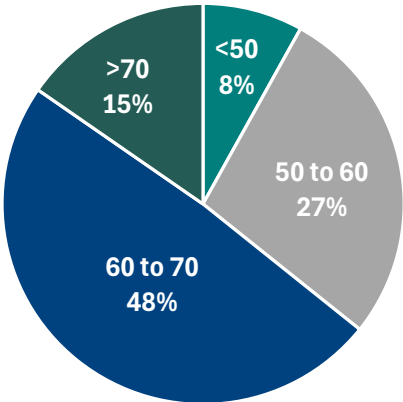


Chart 6: Age Breakdown



Highlights

- 35% female board members (up from 33% last year and 31% in 2021)
- Average age of 62.4 years (v. 62.2 years last year)
- Average tenure of 7.8 years (v. 6.6 years last year)

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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.

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