

BOARD READY WOMEN

The Board's Role in Executive and Director Compensation

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The Board's Role



Foresight vs Hindsight

- Strategy, capital, talent vs Compliance

Compensation Related Responsibilities

- CEO succession (promoting, hiring, terminating)
- Talent management, culture, D&I
- Setting and evaluating corporate performance goals
- Disclosure

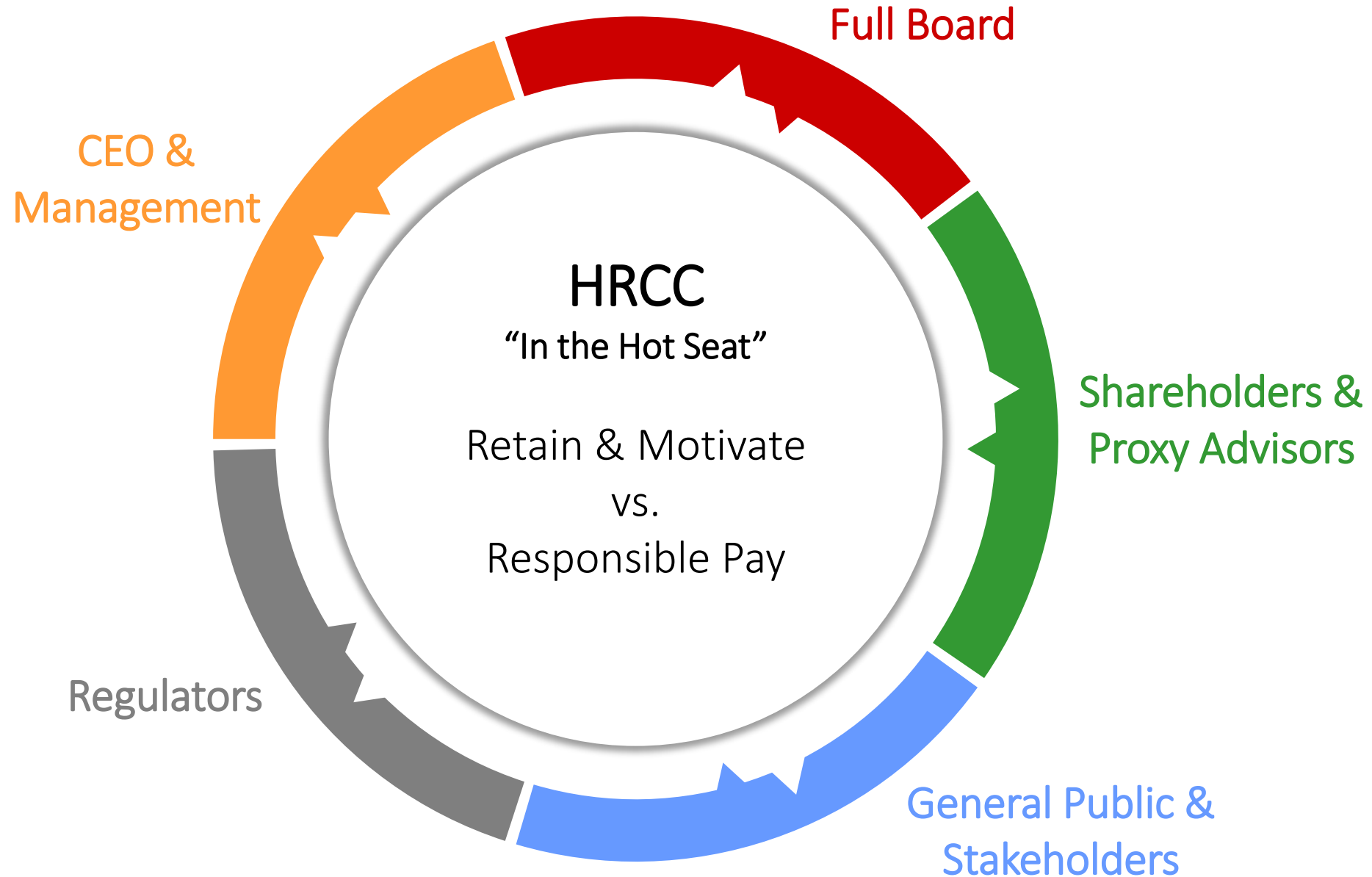
Governance Tools

- Board & Committee Charters
- Board effectiveness reviews
- Defined compensation cycle

How do Boards lean in

1. Determines the extent of “nose in” and “fingers out”
 - a. On which topics and when?
2. Process is helpful
 - a. Compensation philosophy
 - b. Understanding performance
 - c. Collaboration between Board members, CEO and management

The Role of the HRCC



Pay Policy

&

Comparator Group



Pay Comparators



Pay Positioning



Pay Mix



Pay-for-Performance



Industry / Sector, Size



Ownership, Geography

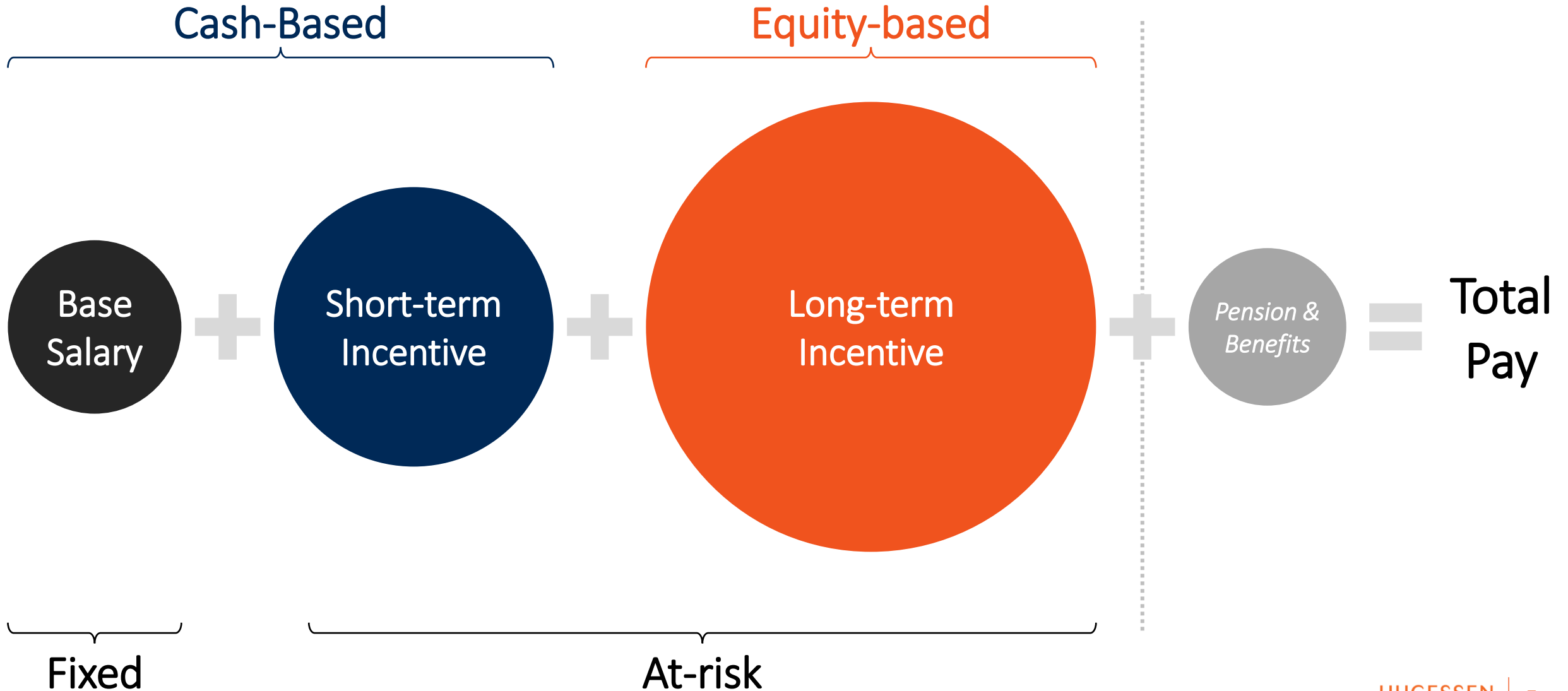


Strategy, Stage, Growth

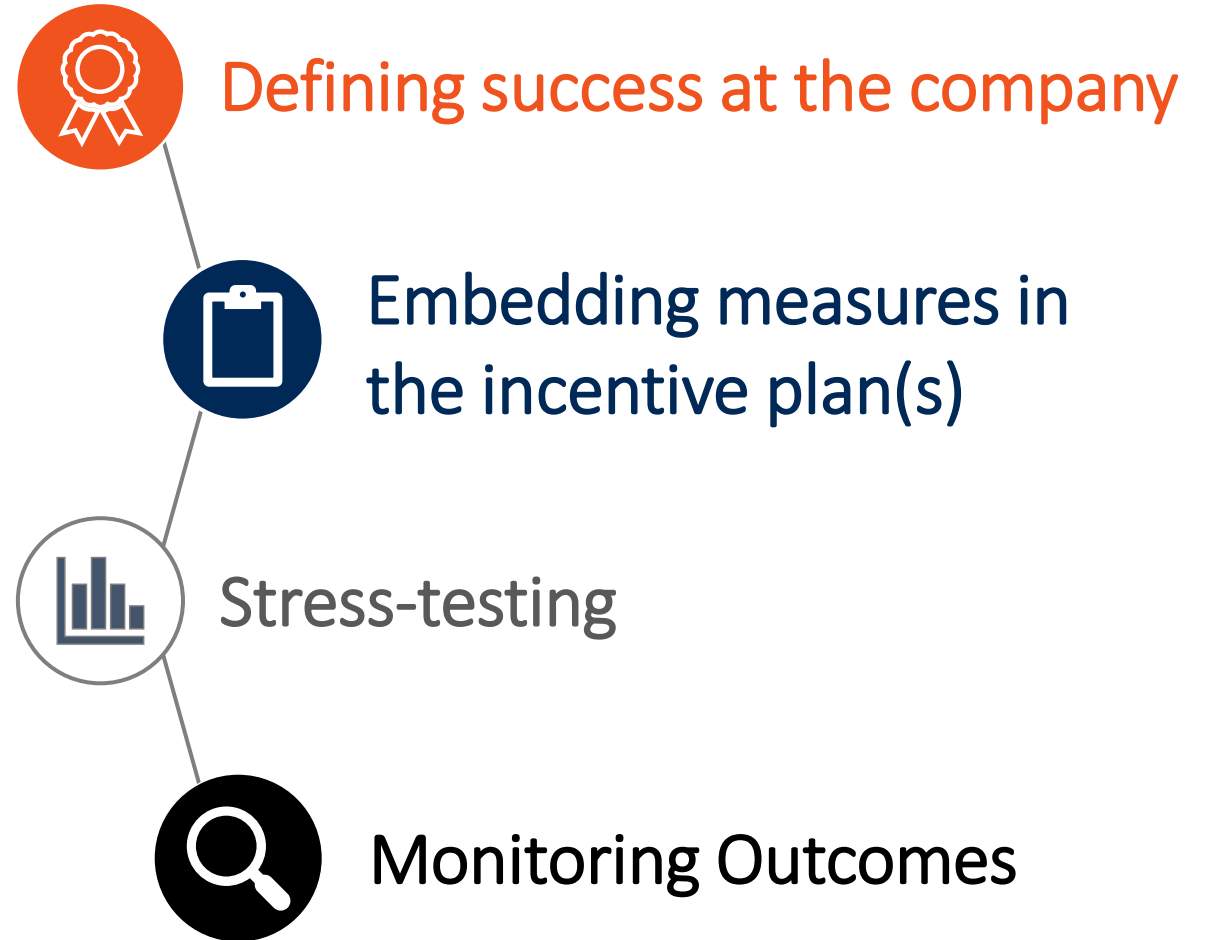


Role complexity, Autonomy

Typical Components of Executive Compensation



The Incentive Program Life Cycle



Executive Pay Trends – TSX 60

- CEO pay increases typically implemented through the LTIP
- Slightly higher CEO transitions
- STIP design – Increased emphasis, prevalence of ESG metrics
- PSU design – incorporation of ESG metrics, and increased number of financial metrics
- AGM trends
 - Environmental proposals at Banks
 - Social proposals
- Director pay levels increasing

Prevailing ESG Issues

Environmental, Social and Governance (ESG) topics have been experiencing increased airtime within Board rooms

- Many definitions of ESG
- Progress has been made on the Governance front
- ESG metrics in incentive plans (outside of Safety in extraction businesses)
 - Ex. Royal Dutch Shell (Net Carbon Footprint), PepsiCo (Water Replenishment)
- Gender pay equity and diversity & inclusion initiatives
 - Ex. Top of mind for major Canadian banks – TD Bank has disclosed introduction of ESG scorecard in its executive compensation program, which includes D&I initiatives

Shareholder Community & Engagement

Major Institutional Shareholders

- Policy compliance
- Pay for Performance
- ESG



Proxy Advisors

- Voting recommendations
- No support (U.S.) represent 25% lower support

Shareholder Association

- Guidance
- Best practices



| Appendix

Typical HRCC Mandate

Annually

- Set CEO target pay
- Set CEO performance level
- Review and approve CEO's recommendations for executive compensation
- Approve incentives & performance conditions
- Talent management
- Review of processes and policies
- Approve disclosure

Every 2-3 years

- Comprehensive compensation policy review
- Incentive plan design review

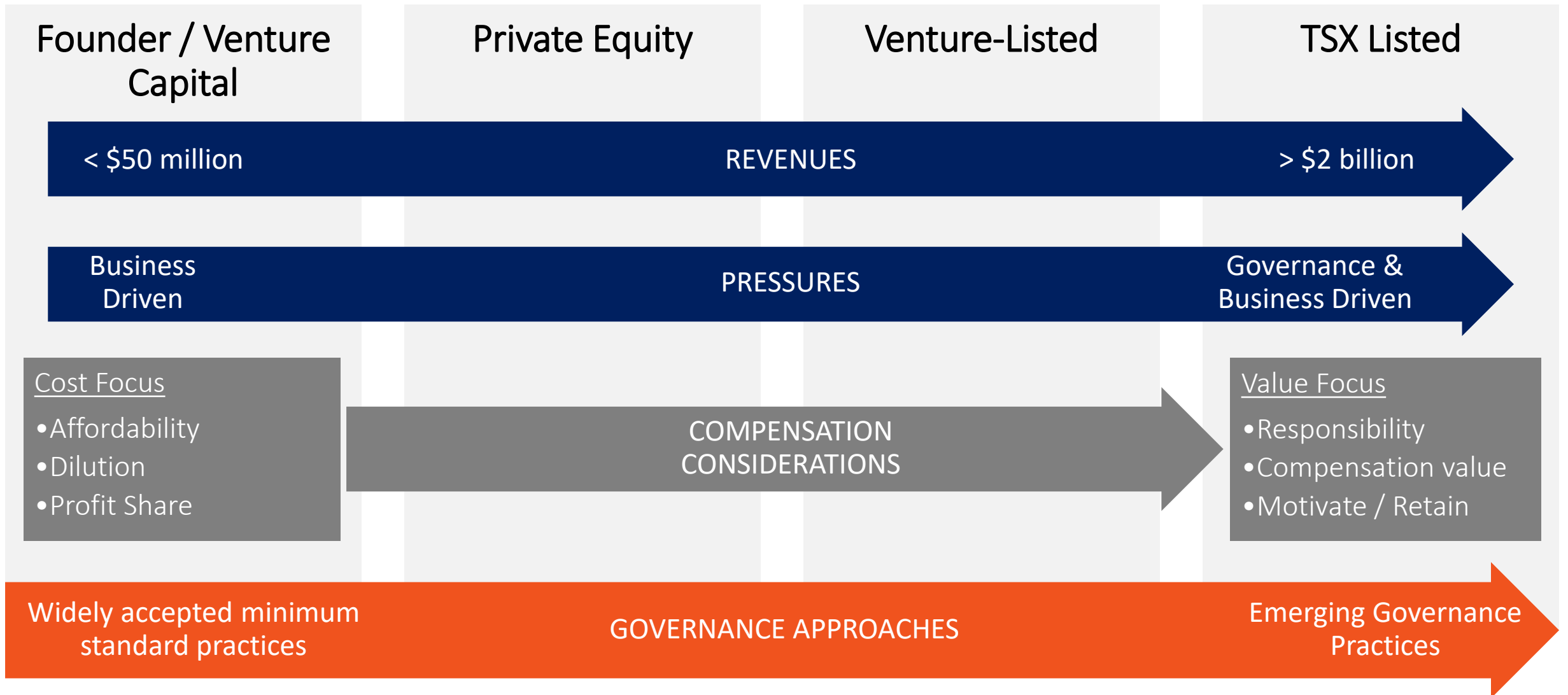
Event-driven

- CEO and executives hire and terminations (e.g. contracts, severance)
- Organisational changes
- Major internal/external events (e.g. commodity shocks, executive fraud, etc.)

HRCC Best Practices

- ✓ Select **independent** HRCC members and Chair
- ✓ Schedule **in camera sessions** at the beginning and end of every HRCC meeting, and provide an in camera report to non-executive Board members
- ✓ Make **major decisions over 2 or 3 meetings**
- ✓ Retain **independent advisor(s)** as determined by the Committee
- ✓ **Stay up to date** on evolving executive compensation rules, trends, and best practices
- ✓ Get updates from management early and often, and **engage in proactive decision-making**
- ✓ Have a **strong sense of performance** when going into year-end decisions

Evolving Pay Philosophy Through Business Maturity



**Note: Non-Profits and Crown Corps face different pressures and compensation considerations*

Short-Term Incentive Plan – *Measures*

2A

Focused

A few measures (no / limited discretion)

Comprehensive

Multiple metrics and more discretion (e.g., scorecard)

Hybrid

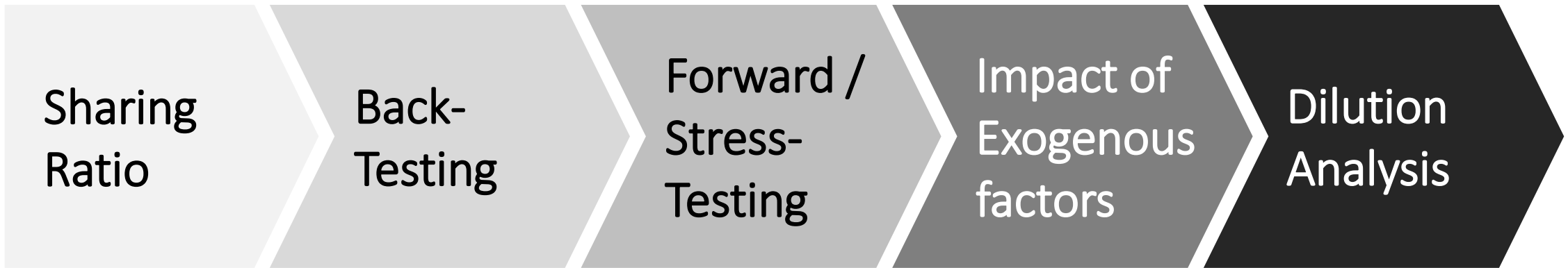
Formula modified by informed judgement

Stress-Testing

3

- How would the plan have paid out under historical performance?

- Evaluating the positive / negative impact of exogenous factors



- How much revenue/profit is being shared with management?

- Testing against extreme performance scenarios

- Evaluating the impact of equity grants on dilution / share reserve

Monitoring Outcomes

4

Tally Sheet

Record historic pay and currently outstanding equity

Wealth Analysis

Realized and realizable granted compensation

P4P Analysis

Pay-for-Performance alignment over a 3 to 5-year timeframe

Sharing Analysis

Review how much revenue/profit is shared with the management over time

Incentive Design Best Practices

- ✓ **Keep it simple** – both for participants and shareholders
- ✓ **Regular review** for incentive alignment with overall company objectives
- ✓ Create a forum and culture which **encourages open dialogue**
- ✓ **Test** for reasonableness
- ✓ **Use judgement**

Remember

- ✓ Can't anticipate all scenarios
- ✓ Getting it 80% “right” is pretty darn good!

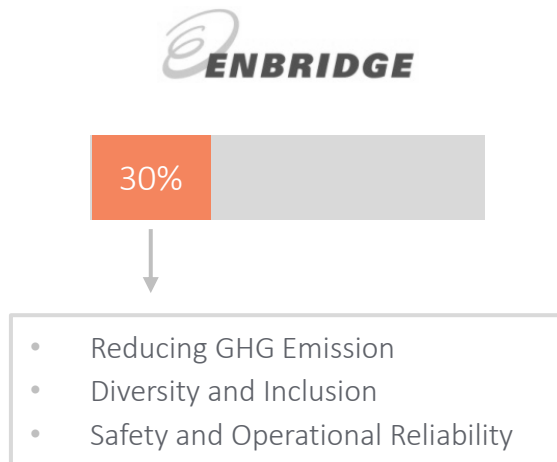


Examples of ESG in Incentive Plans

There are several approaches to incorporating an ESG metric into a short term incentive plan; below we outline three common methods and examples

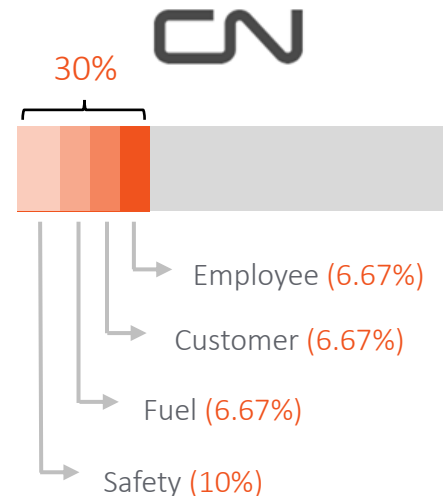
Bucket

- Here, a company uses a weighted component of its scorecard that constitutes a “bucket” of various metrics, typically with unspecified weights
- This approach is often a starting point for introducing ESG metrics into an incentive program, as it naturally lends itself to a more discretionary approach



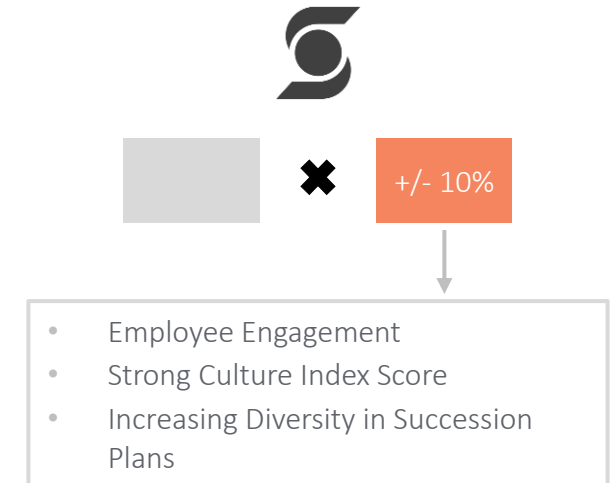
Discrete Metric

- This approach is how we most often see other types of measures (such as financial and operational) incorporated into a corporate scorecard
- This approach suggests a clearer sense of performance targets and shoulders, but may require focusing in on a few key metrics



Modifier

- A modifier is a mechanism outside of the scorecard that can modify the results up or down, based on pre-determined criteria
- In the Scotiabank example outlined below, a “bucket” of metrics is used to evaluate the appropriate modification



Thank You!