

2023 Director Compensation Trends

S&P TSX Composite Index

EXECUTIVE SUMMARY

Market Trends

Board member compensation	<p>9% increase in 2022 total board member compensation to a median of \$199,000 (from \$182,000 in 2021)</p> <p>57% of total board member compensation provided in equity and 43% in cash</p>
Board chair compensation	<p>7% increase in 2022 board chair compensation to a median of \$315,000 (from \$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 is increasing at a faster pace than other Committees, recognizing the increased workload and responsibility associated with the scrutiny around executive compensation</p>
Demographics	<p>Slight increase in the percentage of female directors (33% v. 31% last year)</p> <p>Slightly younger and less tenured directors on a year-over-year basis</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>

Emerging Issues

Currency – conversion of U.S. peer data into Canadian dollars, paying all directors in U.S. dollar and/or paying in the currency of residence (e.g., U.S. directors in U.S. dollars)

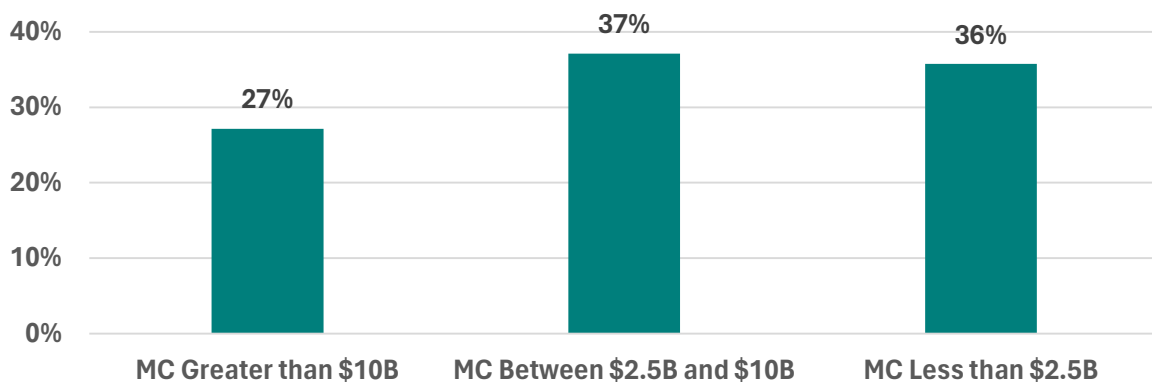
Committee chairs – less differentiation in Committee Chair compensation as the scope of other committees (e.g., HR and Governance) continues to increase relative to the Audit Committee

Equity compensation – granting restricted share units instead of deferred share units to provide increased liquidity once share ownership guidelines are met

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 222 companies that disclosed compensation for their board of directors and have been summarized by company size in terms of market capitalization (MC), with a distributed group of companies in each size category. The data were collected by ESGAUGE, a data analytics firm.

Chart 1: Sample by Market Capitalization



Methodology

Data in this report reflect compensation disclosed in 2023 and 2022 proxy circulars representing 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 increased at the 50th percentile from \$182,000 to \$199,000 between 2021 and 2022. Approximately 55% percent was provided in equity v. 45% percent in cash (including the cash retainer and meeting fees where applicable). In 2022, total board member compensation for the S&P 500 was \$300,000 USD, approximately 50% 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.

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

We continue to see pressures for Canadian companies to increase pay to remain competitive on a North American / Global basis given the increasing number of board members being recruited from outside of Canada, and the higher pay levels found in U.S. companies (refer to table 1 below). 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).

Table 1: Board Member Compensation

Element	Board Members					
	TSX Composite - 2022		TSX Composite - 2021		S&P 500 - 2022	
	Prevalence	50P	Prevalence	50P	Prevalence	50P
Cash Retainer	98%	\$80,000	98%	\$75,000	97%	\$100,000
Equity Retainer	80%	\$114,500	76%	\$100,000	98%	\$185,000
Meeting Fees (Per Meeting)	15%	\$1,500	21%	\$1,500	9%	\$2,000
Total Board Member Compensation	100%	\$199,000	100%	\$182,000	99%	\$300,000
<i>% Equity Compensation</i>	-	58%	-	55%	-	62%

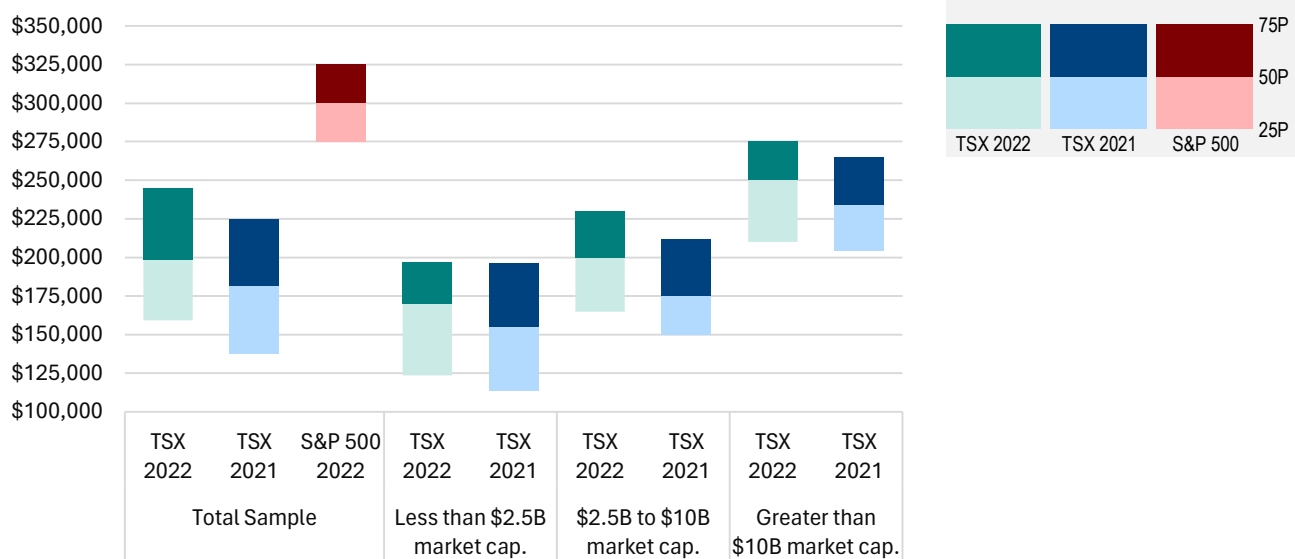
BOARD MEMBER COMPENSATION BY COMPANY SIZE

We observe a clear relationship between company size (in terms of market capitalization) and total board member compensation with an approximate 7% to 14% increase year-over-year depending on 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 - 2022		TSX Composite - 2021		
	n=	50P	n=	50P	
Total Sample	221	\$199,000	232	\$182,000	9%
Less than \$2.5B market cap.	79	\$170,000	80	\$155,000	10%
\$2.5B to \$10B market cap.	82	\$200,000	94	\$175,000	14%
Greater than \$10B market cap.	60	\$250,000	58	\$234,000	7%

Chart 2: Board Member Compensation by Company Size



BOARD CHAIR COMPENSATION

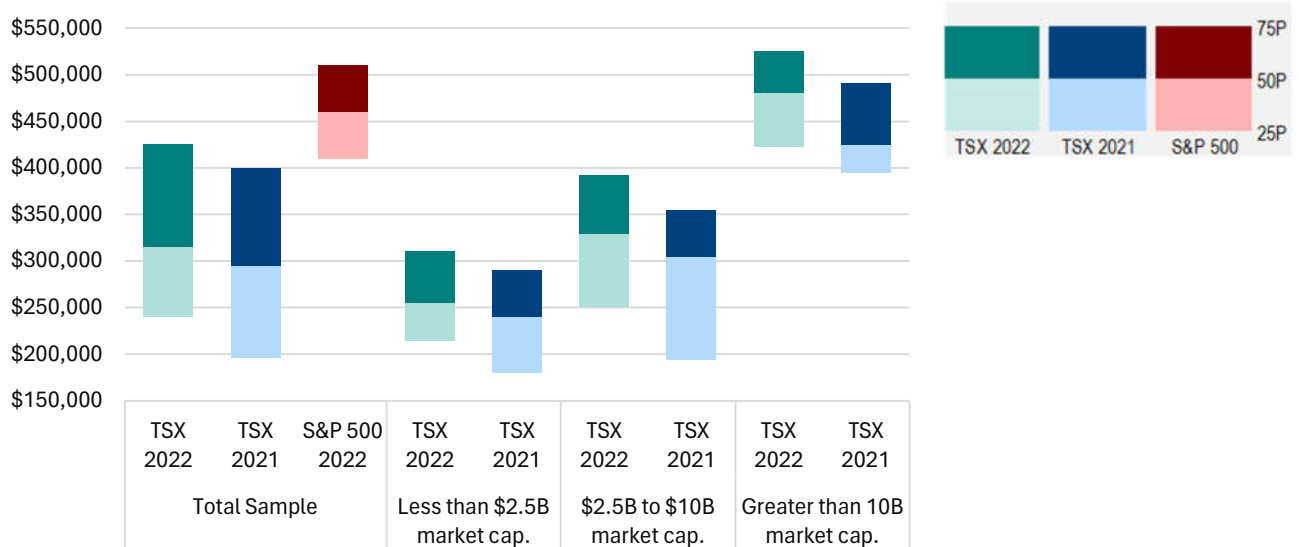
Of the 60% of TSX Composite companies with a non-executive Board Chair, total Board Chair compensation at the 50th percentile increased from \$295,000 to \$315,000, representing a 7% year-over-year increase. When expressed as a multiple of board member compensation, Board Chair’s receive 1.6x board member compensation at the 50th percentile, consistent with last year.

In the U.S., approximately 35% 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 \$460,500 and represents approximately the same multiple to board member compensation (1.5x) as found in Canada (1.6x).

Table 3: Board Chair Compensation

Element	Board Leadership					
	TSX Composite - 2022		TSX Composite - 2021		S&P 500 - 2022	
	Prevalence	50P	Prevalence	50P	Prevalence	50P
Total Board Chair Compensation	59%	\$315,000	59%	\$295,000	35%	\$460,500
<i>Multiple of Board Member Compensation</i>	-	1.6x	-	1.6x	-	1.5x

Chart 3: 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, \$8,700 for Compensation / HR and \$7,500 for Nominating / Governance with little year-over-year change except for the Compensation / HR committee (up 11% year-over-year). Committee member compensation in Canada remains lower than the S&P 500.

Table 4: Committee Member Compensation

Committee	Committee Member - Total Compensation					
	TSX Composite - 2022		TSX Composite - 2021		S&P 500 - 2022	
	Prevalence	50P	Prevalence	50P	Prevalence	50P
Audit	57%	\$10,000	57%	\$10,000	54%	\$15,000
Compensation / HR	44%	\$8,700	43%	\$7,800	43%	\$10,000
Nominating / Governance	43%	\$7,500	42%	\$7,500	41%	\$10,000

Additional compensation (including Committee Chair retainers and meeting fees) for Committee Chairs is more prevalent, particularly for Audit Committee Chairs. Total Committee Chair compensation at the 50th percentile varies by committee at \$25,000 for Audit, \$20,000 for Compensation / HR and \$15,000 for Nominating / Governance representing the respective workloads of each committee. Committee Chair compensation remained constant year-over-year and is still slightly below the S&P 500.

Table 5: Committee Chair Compensation

Committee	Committee Chair - Total Compensation					
	TSX Composite - 2022		TSX Composite - 2021		S&P 500 - 2022	
	Prevalence	50P	Prevalence	50P	Prevalence	50P
Audit	98%	\$25,000	97%	\$25,000	98%	\$30,000
Compensation / HR	76%	\$20,000	74%	\$20,000	96%	\$23,000
Nominating / Governance	73%	\$15,000	70%	\$15,000	94%	\$20,000

BOARD DEMOGRAPHICS

TSX Composite companies tend to have between 6 to 11 board members with an average of 33% female board members (up from 31% last year). In terms of age, 38% of board members are less than 60 years old (up from 34% last year) with about one-half between 60 and 70 years old.

An increasing number of board members have less than a five-year tenure (56% this year and up from 47% last year) with fewer board members on the board for greater than 10 years (21% this year and down from 26% last year).

Chart 4: Gender Breakdown

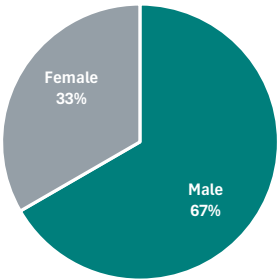


Chart 6: Tenure (Years) Breakdown

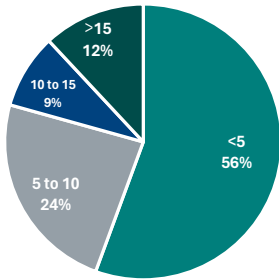
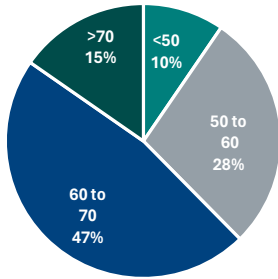


Chart 5: Age Breakdown



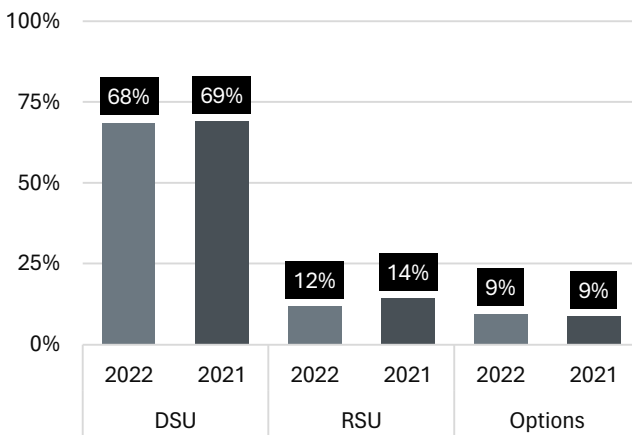
Highlights

- 33% female board members (up from 31% last year)
- Average age of 62.2 years (v. 62.3 years last year)
- Average tenure of 6.6 years (v. 6.7 years last year)

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 9% 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 7: 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. 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 of share ownership requirements 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 restricted share units which vest and payout over time, of which, a portion of after-tax value can be held as shares to satisfy share ownership guidelines

SHARE OWNERSHIP REQUIREMENTS

Almost all TSX Composite companies have share ownership requirements for board members. Most of these requirements are expressed as a multiple of the cash retainer with a 50th percentile of 3.0x; however, some companies use the equity retainer and/or cash + equity retainer when establishing the multiple which can result in significantly different total dollar amounts that need to be held. Given differences in pay mix (between cash and equity retainers) a multiple based on total compensation (cash & equity retainer) is more reflective of a director's total compensation and ability to comply with the share ownership requirements.

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 companies apply their requirement to both the cash and equity portion of the retainer.

Table 6: Share Ownership Multiples

Share Ownership Guideline	Retainer Multiple					
	TSX Composite - 2022		TSX Composite - 2021		S&P 500 - 2022	
	Prevalence	50P	Prevalence	50P	Prevalence	50P
Cash Retainer	45%	3x	45%	3x	80%	5x
Equity Retainer	4%	5x	4%	5x	3%	5x
Cash & Equity Retainer	41%	3x	34%	3x	2%	5x
Other	7%	3x	10%	3x	14%	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 plus equity retainer, but the latter is more meaningful and tied to total compensation received by the director

Amanda Voegeli, CFA
President and Managing Partner

416.901.4858
amanda@southlea.com

Ryan Resch, ICD.d
Senior Partner

416.456.0179
ryan@southlea.com

Alex Pattillo
Partner

647.278.2946
alex@southlea.com

Tara Armstrong, CFA
Partner

416.575.3261
tara@southlea.com



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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.

Southlea Group
Exchange Tower, Suite 1900
130 King Street West
Toronto, Ontario
M5X 1E3

hello@southlea.com
(647) 480-1553