S&P/TSX 60 EXECUTIVE COMPENSATION TRENDS

September 2021

In 2020, we witnessed a year of significant volatility and change because of the COVID-19 pandemic and its related economic impact. The TSX Composite Index dropped by 34% within a month but recovered by the end of the year. There were significant impacts on various stakeholders, including customers and employees, which accelerated discussions on the role of the corporation in considering broader stakeholder interests. It was also a year over differing outcomes by industry. As illustrated in Table 1 for the S&P/TSX 60, while overall performance and the financial services sector were slightly negative/flat, the basic materials and consumer staples sectors had relatively strong years while the energy sector was significantly impacted by lower commodity prices.

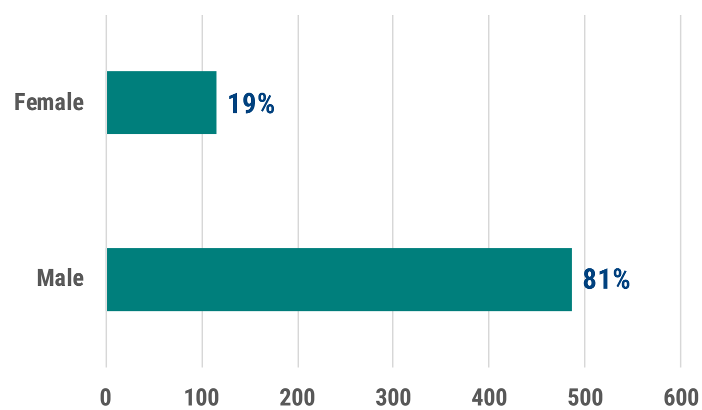
Table 1: 2020 Performance Summary

	YOY Change (2020 for TSR)				
	Total	**Energy**	**Financial Services**	**Basic Materials**	**Consumer Staples**
Revenue	**-5%**	-34%	2%	18%	9%
Operating income	**-7%**	-94%	-3%	15%	10%
Total shareholder return (TSR)	**3%**	-27%	2%	20%	1%

EXECUTIVE DEMOGRAPHICS

To provide additional context on the executive compensation trends, we extracted data on the executive teams among the constituents of the S&P/TSX 60 as summarized in Chart 1. We identified a total of 601 executives, of which, 115 or 19% are female.

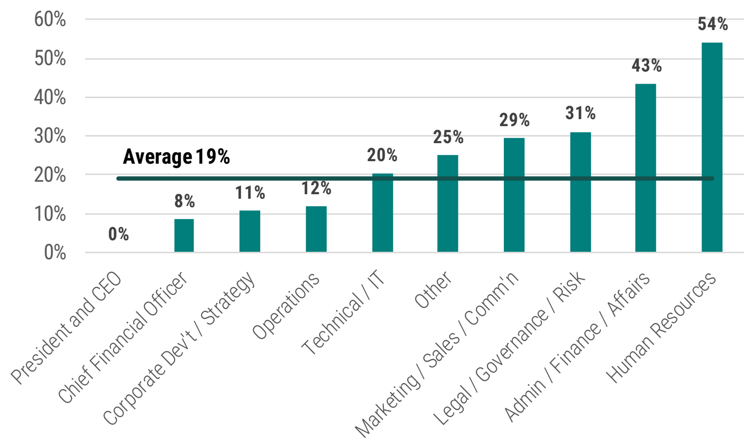
Chart 1: 2020 Executive Demographics



- On average, S&P/TSX 60 companies have 10 executives (ranging from 8 to 12 at the 25th and 75th percentiles)
- Only 19% of S&P/TSX 60 executives are female
- The number of female executives range from 0 to 5 per company

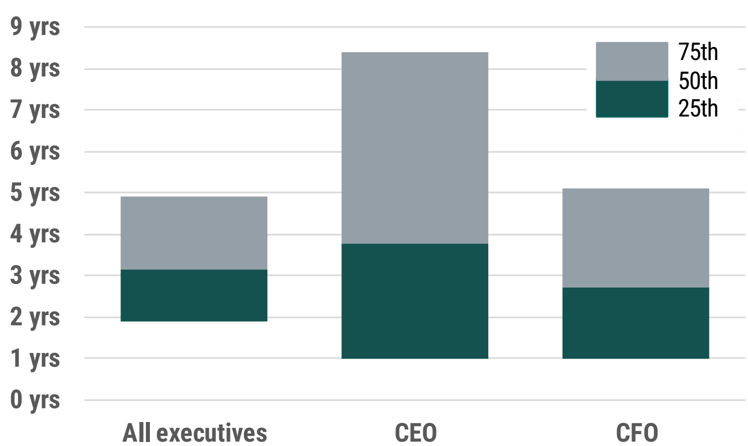
As summarized in **Chart 2**: gender distribution varies quite significantly by role. With less than average representation among CEOs, CFOs, Corporate Development and Operational roles and more than average representation among Marketing, Legal, Administration and Human Resources roles.

Chart 2: 2020 Gender Distribution by Role



In **Chart 3**, we summarize tenure in role which is approximately three years at the 50th percentile and is slightly higher at approximately four years for CEOs. There is greater variability of tenure among CEOs ranging from one to eight years (25th to 75th percentiles) relative to CFOs ranging from 1 to 5 years (25th to 75th percentiles). Average tenure also varies by gender with an average of 3.4 years for male executives and 1.9 years for female executives.

Chart 3: 2020 Tenure in Role



Key Implications

- Tenure can have an impact on compensation as newer executives tend to be paid less than fully experienced executives
- Gender pay differences might be exaggerated in roles with material differences in gender representation relative to average. For example, Human Resource roles might have lower market compensation levels relative to Operational roles due to gender rather than differences in the internal comparability of the roles. Market data needs to be carefully interpreted to not perpetuate potential gender bias
- From a talent perspective, organizations need to consider how to rotate female executives across the organization, including technical and operational roles, to support their progression to CEO where a lack of female representation continues to exist

MARKET COMPENSATION TRENDS

The following compensation trends are based on the same incumbent in both 2019 and 2020 and represent actual compensation disclosed in 2019 and 2020, including actual salaries, actual bonuses and long-term incentive grants (all reported in CAD).

Chart 4: 2019 and 2020 Salaries

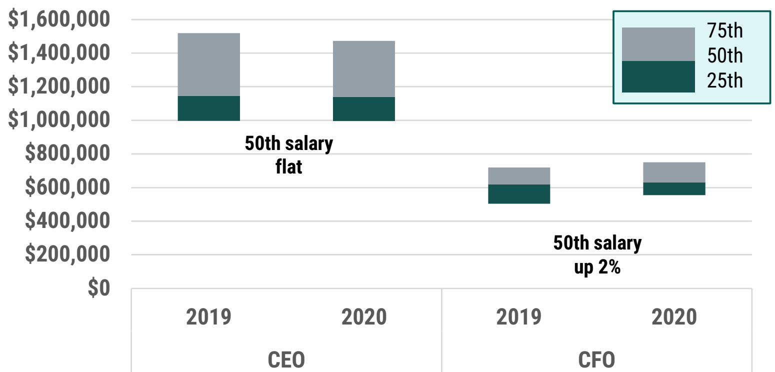


Chart 5: 2019 and 2020 Total Cash Compensation

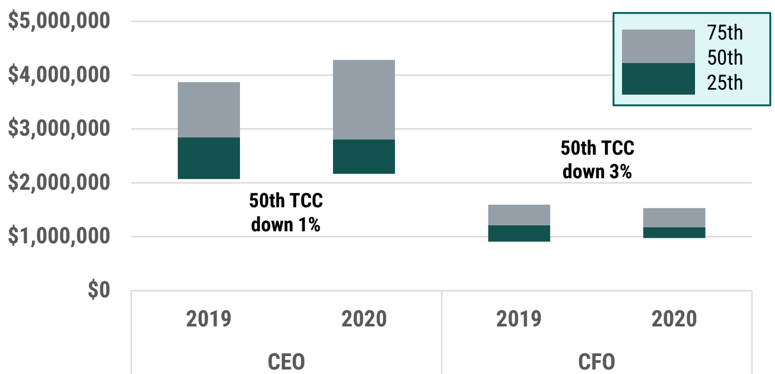
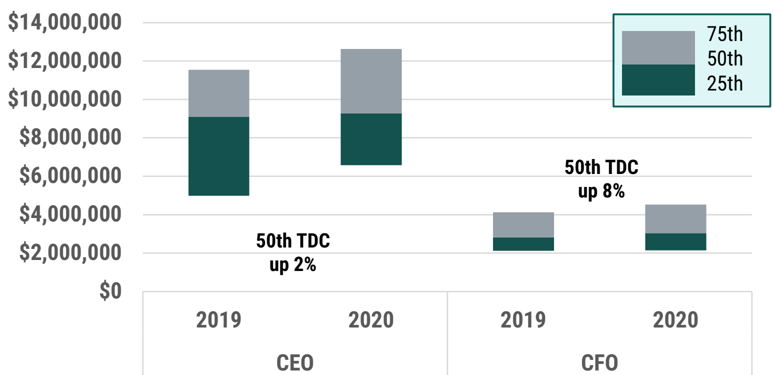


Chart 6: 2019 and 2020 Total Direct Compensation



Key Takeaways

- Salaries were relatively flat between 2019 and 2020 with little variability across the sample
- Actual bonuses for 2020 performance were slightly lower than actual bonuses for 2019 performance resulting in a slight decrease in total cash compensation. However, there was a wider range of bonus outcomes in 2020 as illustrated by the increase at the 75th percentile
- Total direct compensation increased in 2020 as a result of higher long-term incentive awards that were generally granted in early 2020, before the pandemic
- We observe a relationship between company size – in terms of market capitalization – and CEO total direct compensation; an important consideration when interpreting these findings
- As we look forward, we anticipate that 2021 compensation will increase from 2020 because of strong share price performance, higher bonuses and higher 2021 long-term incentive awards

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As illustrated in **Table 2**, year-over-year changes in compensation tend to be well aligned with broader industry dynamics. Energy companies had a relatively weaker year as exhibited by a 2% decrease in total cash compensation while basic material and consumer staples companies saw strong financial performance as exhibited by an 8% and 9% increase in total cash compensation, respectively.

Table 2: Year-Over-Year Changes in Average Pay

	Year-over-year changes		
	Salary	Total cash compensation	Total direct compensation
Energy	-5%	-20%	3%
Financial Services	1%	-9%	1%
Basic Materials	4%	8%	9%
Consumer Staples	1%	9%	10%

As illustrated in **Table 3**, there were several large year-over-year changes among CEOs including:

Table 3: Significant Year-Over-Year Changes in CEO Pay

Gildan – CEO pay more than doubled	Dollarama – CEO pay increased by +75%	SNC-Lavalin – CEO pay more than doubled	Open Text – CEO pay doubled	CCL - CEO pay decreased by over 70%
Grant of performance stock options with share price hurdles to CEO and CFO	Increase in annual bonus (+80%) due to strong performance and a larger stock option grant (+125%) to align with market. New PSU plan adopted for 2021	Increase in annual bonus along with a significant increase in share-based awards that includes a one-time DSU grant	Grant of performance options specific to the CEO based on share price hurdles and an additional grant of RSUs	Long-term incentive award made in 2019 to cover three years of awards (extended to five years in 2021)

In terms of overall pay mix, **Chart 7** summarizes pay mix for CEOs and CFOs which continue to put a majority weighting on long-term incentives (LTI) with short-term incentives (STI) at approximately 1.5x salary for CEOs and 1.0x for CFOs.

Chart 7: CEO and CFO Pay Mix

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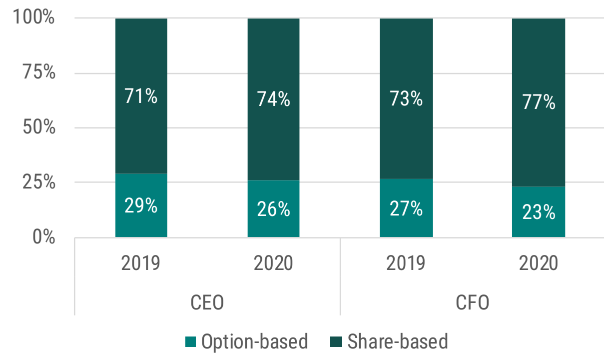
Chart 8 summarizes the average mix of long-term incentives granted to CEOs and CFOs in 2019 and 2020. We saw fewer companies grant stock options in 2020, and of those that made grants, a lower value was granted on a year-over-year basis, continuing a long-term trend to move away from options into other share-based awards, such as performance share units or restricted share units.

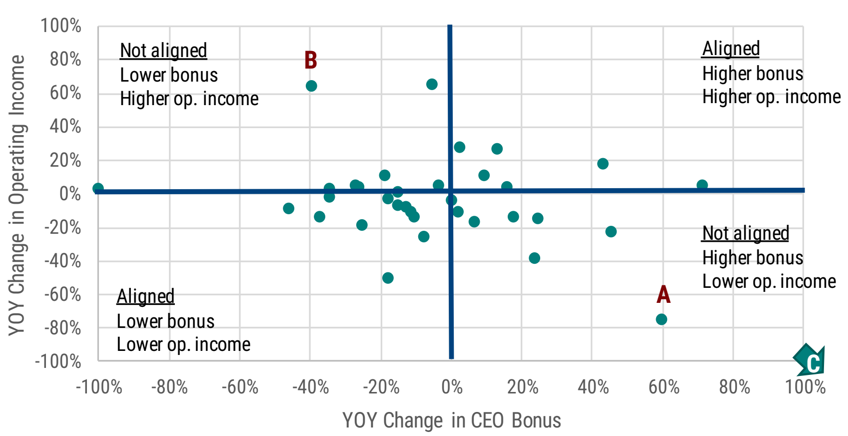
Chart 8: Average CEO and CFO LTI Mix (% of LTI)



PAY-FOR-PERFORMANCE

Chart 9 compares the year-over-year change in operating income with the year-over-year change in the CEO annual bonus (outliers greater than +/-100% were excluded). There does not appear to be much of a correlation between the two with no clear link between operating income and CEO bonus.

Chart 9: Relationship Between Change in CEO Bonus and Operating Income

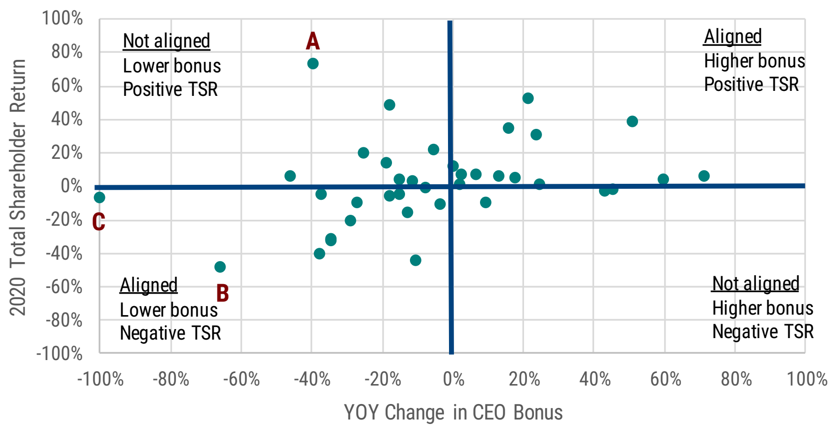


Examples of outliers include a couple of commodity-cyclical companies where financial results tend to have a limited impact on bonuses, including:

- A: Teck Resources – bonus results are adjusted for changes in commodity prices
- B: First Quantum – financial performance has only a 10% weighting
- C: Gildan and SNC – both had significant drops in op. income, but higher bonuses

Chart 10 compares 2020 TSR with the year-over-year change in the CEO bonus. There does appear to be more of a correlation where positive/negative TSR appears to align with the relative change in CEO bonuses, likely reflecting judgement to align with the shareholder experience more closely.

Chart 10: Relationship Between Change in CEO Bonus and Total Shareholder Return



In the first example we find that the change in CEO bonus is not aligned with TSR:

- A: First Quantum – despite positive TSR, the CEO bonus was lower

In these examples, they had significant changes in the CEO bonus, but directionally aligned with TSR:

- B: Suncor – the lower CEO bonus was aligned with negative TSR
- C: CGI – despite relatively flat TSR, the bonus was not earned given it was based solely on financial results

Overall, it appears that most large Canadian companies demonstrated alignment between the shareholder experience and CEO compensation, and where results were not aligned, they tended to favour shareholders relative to the CEO. We recognize that this only captures a small portion of CEO compensation, and we would suggest an analytical review of the pay-for-performance relationship (e.g., reviewing realizable/realized compensation relative to performance on both an absolute and relative basis over a multi-year period). These analytics can be useful tools to test effectiveness for communication to plan participants and for disclosure to investors

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As a trusted independent advisor to boards and management teams, Southlea offers fresh insights and perspectives on people and pay programs to enhance business results. This means working collaboratively with boards and management teams using a proven approach to align pay outcomes with the achievement of an organization's strategy and performance objectives.

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