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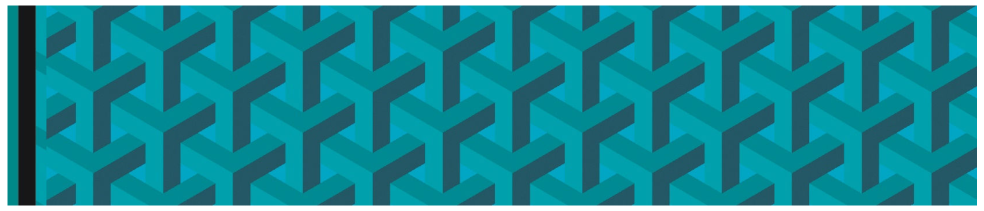

2025 OUTLOOK FOR HUMAN RESOURCES COMMITTEES

January 2025

Each year, we like to reflect upon the issues being discussed at Human Resources Committee (HRC) meetings across the country and amongst other interested third parties, such as the proxy advisors, regulators and governance groups, to identify emerging trends for ongoing review and monitoring.

We are entering a period of significant risk and volatility because of several geopolitical and economic issues. We have had relatively strong financial and share price performance through 2024, but there are questions on how 2025 might look given potential tariffs, a lower CAD: USD exchange rate and other trade tensions.

OVERVIEW OF 2025 PREDICTIONS

1. Greater risks and uncertainties affecting incentive designs

2. Integrating talent management with compensation

3. Pressures on executive pay levels

4. Maturing ESG incentive measures

5. Going outside of established compensation norms

RECAP OF 2024 PREDICTIONS

Last year at this time, we had the following predictions (refer to this article for further details on each prediction) and below we summarize what occurred through 2024:

Prediction	Our Assessment of 2024
1. Innovative share ownership policies	A key topic of interest amongst HRCs in 2024 was reconsidering the role of minimum share ownership requirements and finding ways to build more real ownership among the executive team given the recommendations of the Canadian Coalition for Good Governance (CCGG). While most ownership policies remain status quo, we expect upcoming disclosure to show some companies have adopted requirements expressing minimum ownership as a multiple of total direct compensation (instead of salary), the removal of unvested share units in determining compliance, and the increased usage of deferred share units for executives (as a voluntary deferral and as replacement to RSUs).

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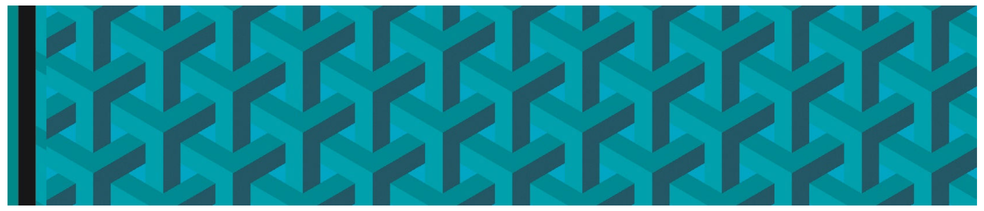

Prediction	Our Assessment of 2024
2. Clarifying adjustments made to measures for incentive purposes	While we did not see significant changes in the use of adjusted (or non-GAAP) financial measures for incentive purposes, HRCs were taking more time to understand the rationale for adjustments and potential misalignment of results. We anticipate some companies in upcoming disclosure will enhance their reporting to clearly explain differences between adjusted vs. unadjusted measures.
3. Greater quantification of ESG measures	As ESG strategies and reporting standards mature, we anticipated greater quantification of ESG measures. In our 2025 Global Trends in Stakeholder Incentives report, we found that 37% of global companies reported quantitative only emission-related goals in their incentive plans, indicating that emissions measures lend themselves to more quantitative targets. In last year's research, only 14% of overall ESG measures had purely quantitative goals.
4. Pressures on directors' compensation	We anticipated pressures to increase board member compensation given increasing globalization and competition for director talent with the U.S., where compensation levels are materially higher. While we have anecdotally seen many companies benchmark compensation and increase pay levels for 2024 and/or 2025, Southlea's 2024 Director Compensation Trends report on 2023 compensation, suggested relative flat year-over-year changes.
5.Changes to pay v. performance disclosures	The new pay v. performance disclosure rules in the U.S. were implemented in 2023. Many Canadian companies – particularly those dual listed on a U.S. exchange – reviewed the methodology, tested the application of the rules and analyzed the initial disclosures of U.S. peers. However, we do not anticipate Canadian companies making changes to the voluntary pay-for-performance summaries currently being disclosed, given the increased complexity of the U.S. rules and their voluntary nature in Canada.

2025 PREDICTIONS

We continually monitor the market for emerging trends and best practices and gather insights from our clients. Our top five predictions for 2025 include:

1. Greater risks and uncertainties affecting incentive designs

The ongoing geopolitical turmoil and significant political shifts are prompting a review of global trade policies that have historically supported the growth of Canadian companies in international markets. By 2025, there may be substantial impacts resulting from US-imposed tariffs, interest rate differentials between Canada and the US, and a weaker Canadian dollar. These factors will be in addition to the routine market influences on company performance that we regularly encounter.

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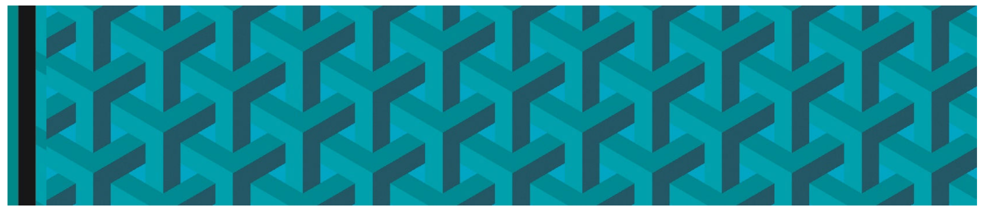

From a compensation perspective, this means that companies should consider:

- Broadening performance shoulders around target to address greater variability in potential performance outcomes. In our recent article, Navigating the Complexities of Incentive Target Setting, we found that the range around target varies by measure.

- Adopting time-vested share units for a portion of the long-term incentive mix to provide greater resiliency and stronger retention in challenging performance situations. There could be an opportunity to adopt longer vesting (e.g., 5 years) equity-settled awards to address potential concerns associated with the lack of performance vesting (refer to Southlea's update on ISS and Glass Lewis' policies).

- Adding measures to performance share units to diversify the performance orientation and to address a mix of financial, operational and market (both relative and absolute) performance outcomes. This may also include a small weighting (e.g., 15-25%) on strategic measures reflecting key priorities over the next few years.

2. Integrating talent management with compensation

Historically, Human Resources Committees (HRCs) have reviewed compensation and succession planning separately, often in distinct meetings and with different management representatives (e.g., head of total rewards versus head of talent). However, we are increasingly collaborating with HRCs to develop a more integrated approach to compensation and talent development/succession that emphasizes alignment. For instance:

- Differentiating compensation for critical skills, succession candidates, and/or areas with elevated talent risk by offering higher pay relative to market benchmarks (e.g., 75th percentile).

- Ensuring adequate retention holds in relation to talent risk and current compensation levels, which might involve reviewing compensation plan terms where retirement provisions could impact the retentive value of equity.

- Incorporating succession planning and leadership development as significant components of incentive compensation to motivate leaders to cultivate successors.

- Establishing more robust performance assessment processes that evaluate both outcomes and behaviors/competencies to support talent development and growth, potentially "protecting" pay while new skills are developed.

3. Pressures on executive pay levels

The Canadian dollar is trading at levels that we have not seen since 2020 (and the lows of COVID) and may trend lower depending on the impact of potential tariffs and interest rate differentials. This puts pressure on Canadian executive compensation levels. Many large publicly-traded Canadian companies have North American executive compensation benchmarking peer groups, which will see increases in the Canadian-

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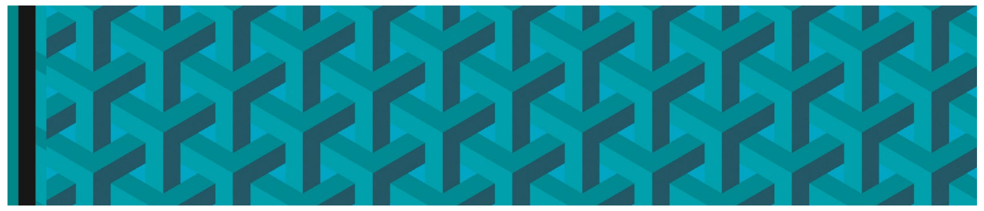

equivalent compensation levels because of the lower Canadian dollar. Even companies that only benchmark against Canadian companies are indirectly impacted as many of their peers may reference U.S. companies in their respective peer groups.

This can create challenges from a pay-for-performance perspective, particularly given that ISS only includes Canadian companies in their analyses and higher relative pay may not be offset by higher relative performance. In Glass Lewis' recent policy survey (see highlights in Southlea's update), 60% of investors were concerned with the "transatlantic pay gap" between the U.S. and Europe. We would anticipate that many investors would have the same concern with the Canadian v. U.S. pay gap and would be able to rationalize pay increases to address this gap, where appropriate.

4. Maturing ESG incentive measures

The journey of Environmental, Social, and Governance (ESG) continues to evolve globally. Notable differences have emerged, with Europe maintaining its leadership in sustainability reporting, while the United States exhibits resistance on several ESG issues, including diversity and climate reporting. Companies are now more judicious about adopting ESG measures, focusing on deliberate integration into their incentive plans rather than implementation for its own sake. We foresee an ongoing emphasis on climate-related incentives, with greater focus on quantitative metrics in addition to the qualitative / strategic measures, inclusion within long-term incentive plans, and clear guidelines on performance assessment. This includes specifying conditions under which incentive results might be adjusted (e.g., reset targets, etc.) due to unforeseen or extraordinary circumstances.

5. Going outside of established compensation norms

Through 2024, we collaborated with several companies facing unique business circumstances such as strategic transitions, business uncertainties, and retention risks. In these cases, HRCs and management teams aligned on customized compensation practices instead of strictly following market typical standards. We expect this trend to continue as companies tailor compensation programs to their strategic needs. These may include higher pay levels, greater incentive leverage through stock options, higher performance maximums for exceptional performance (>200% of target), and special incentive awards with specific vesting conditions. Clear disclosure and investor outreach are essential for these programs, which aim to align compensation with key priorities effectively.

ABOUT US

Southlea Group is a national independent compensation advisory firm that provides global perspectives as a GECN Group company working with over 150 compensation professionals in 15 countries. We are headquartered in Toronto with offices in Montreal and Vancouver, and clients across Canada, representing all industries and organization structures. Our team of advisors is multi-disciplined with diverse backgrounds and experiences. We are proud to be a certified Women's Business Enterprise by WBE Canada and to be Rainbow Registered as an LGBT+ friendly organization.

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