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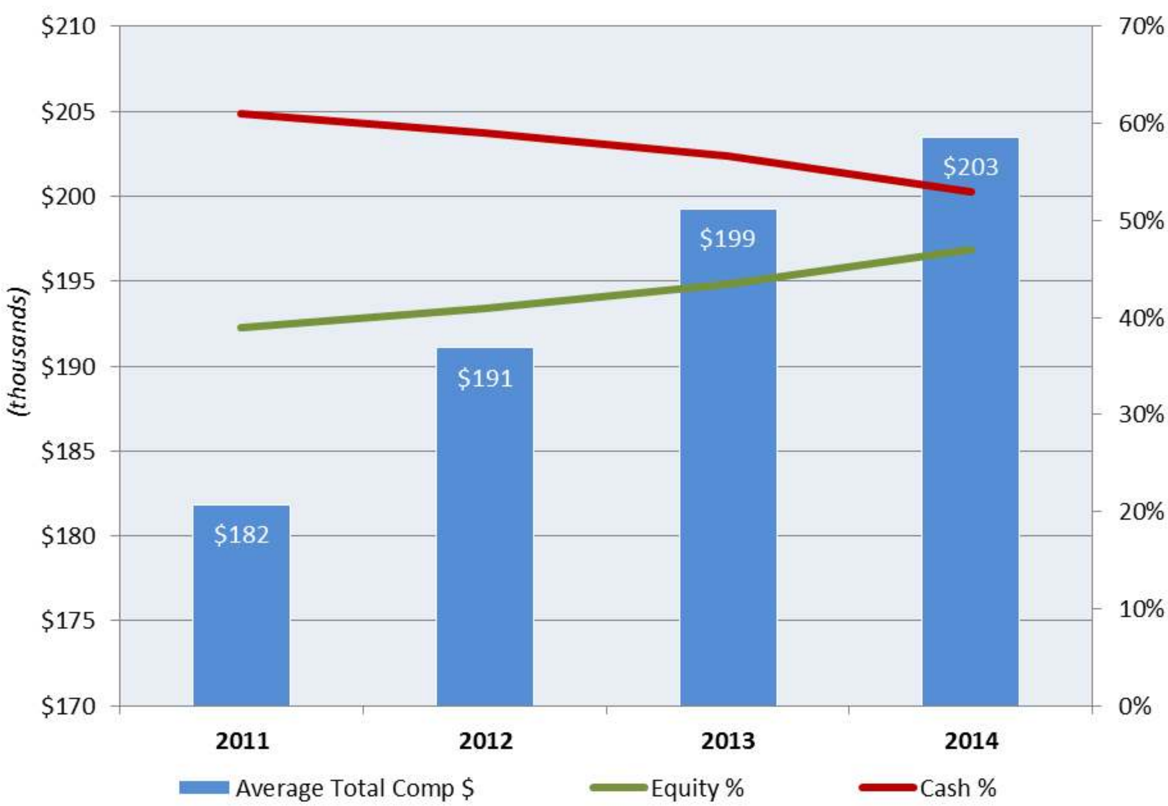
Meridian Client Update

Modest Rise in Director Pay Continues at Canada's Largest Companies

Meridian Compensation Partners' annual analysis of outside director compensation among S&P/TSX 60 index companies found that average total compensation for directors increased by +2.1% last year.

The proportion of total compensation delivered in equity has increased to 47%, up from 43% the year before. We anticipate that this trend will continue in Canada until equity comprises one-half or more of total director compensation as is the case currently among larger public companies in the U.S.

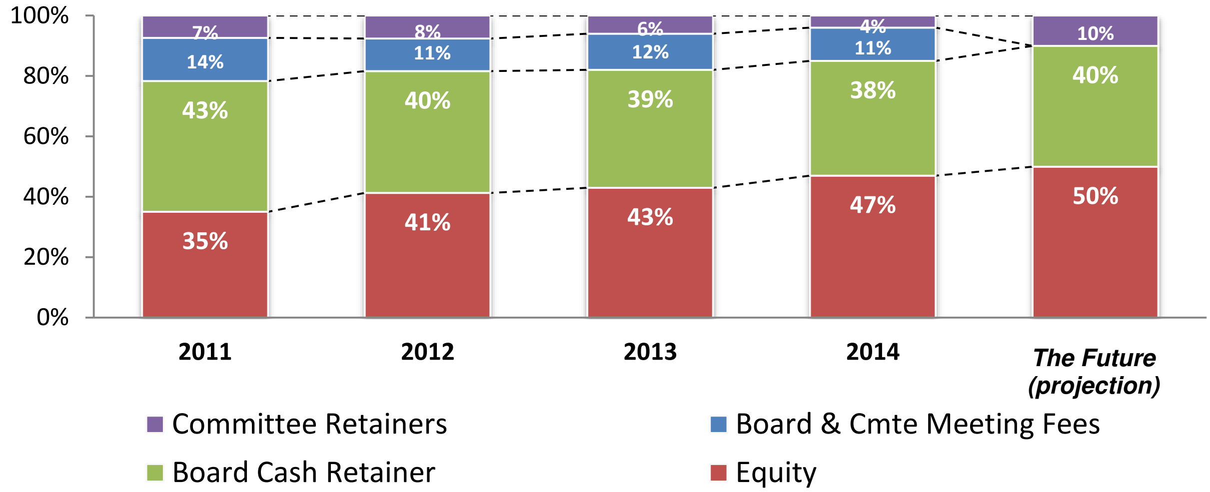


Components of Director Pay

Companies are finetuning specific components of director pay packages, rather than overhauling or redesigning entire compensation programs. However, some companies are moving away from a "pay for attendance" meeting fee model to an all-inclusive annual retainer (i.e., eliminating meeting fees in favour of a "fixed fee" approach for service on the board and/or committees). This aligns better with the changing role of directors, i.e., more reflective of the continuous nature of the commitment. The risk, responsibility and time commitment required of directors has increased dramatically in recent years. Significant preparation for and attendance at meetings has become effectively mandatory and directors are expected to be engaged with company issues year-round.

Note: *Results are not adjusted to reflect changes in sample constituents from year to year. Total compensation represents base cash retainer, equity, total board meeting fees and average committee fees per director.*

Trends in Directors Pay Mix



Trends for 2014

We observed the following trends:

- Committee chair premiums continue to rise, and the gap in premiums paid between audit and compensation committee leadership continues to narrow. Audit chair retainers increased an average of +2% this past year, while compensation chair retainers increased by +5%
- Deferred Share Units (DSUs) are the most commonly employed equity vehicle for director compensation among larger public companies, used by the vast majority of the S&P/TSX 60
- The median value of share ownership requirements increased to about $457,000, up from $420,000, while the median multiple remained at 3× annual retainer. Prescribed multiples range from 2× to 10×.
- The prevalence of board meeting fees continues to decline year over year. However, the pace of change remains slow, with 65% of S&P/TSX 60 companies still paying per-meeting fees this past year, down from 67% the year before, and a fall of only 8 percentage points since 2011. This differs notably from the U.S. and U.K., which have experienced a more pronounced shift, and now have only a small minority of companies paying meeting fees.

> **Meridian comment:** *We expect the pace of change to an all-inclusive retainer to accelerate in Canada over the next two years.*

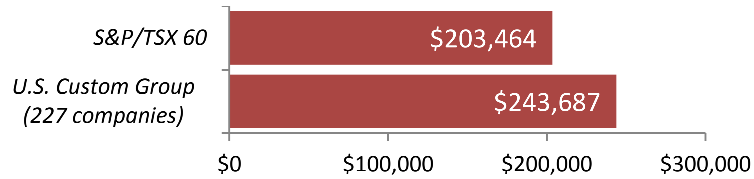
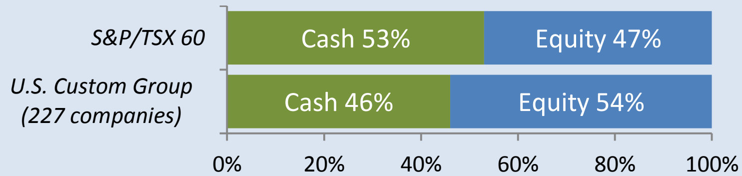
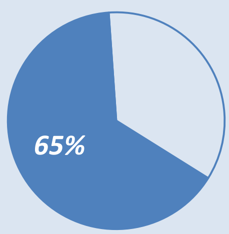
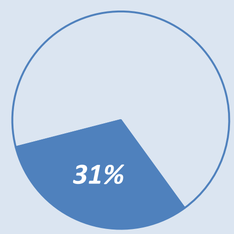
Simplified Fee Approach

Potential considerations for adopting an all-inclusive retainer include:

Pros	Cons
■ Aligned with expectations that being a director requires significant time and attention beyond attending meetings, and that compensation is for fiduciary oversight, risk and responsibility ■ Simplifies disclosure and allows for consistent budgeting of director compensation ■ Avoids the issue whether informal meetings/calls are "meetings" for which director compensation should be paid ■ Meeting attendance is effectively "mandatory" and no longer something companies pay to achieve	■ In a very busy year, risks under-compensating board members ■ Unless structured carefully, it could risk under-compensating those board members who contribute significantly to committee work

Canada vs. The United States—Pay and Governance Trends

Meridian compared outside director compensation practices at the S&P/TSX 60 index companies with 227 comparably sized U.S. companies (based on revenue and market cap[1]). Canadian directors' pay is still 20% below the pay of U.S. counterparts:

Practice			Observation
Average Total Compensation			U.S. companies pay their directors almost 20% more than Canadian companies
Pay Mix			U.S. companies pay a greater proportion of total compensation in equity
	S&P/TSX 60	***U.S. Custom Group***	
Prevalence of Meeting Fees			Fixed fee approaches continue to edge higher in both Canada and the U.S., but Canada significantly lags the U.S.trend— we expect the pace of change in Canada to accelerate over the next two years.
Pay Increases	2014 ▲ 2.1% 2013 ▲ 4.3%	2014 ▲ 2.1% 2013 ▲ 3.7%	Modest increases in compensation for directors over recent years
Equity Ownership Guidelines	3× Cash & Equity Retainer ($457,000 Median Estimated Value)	5× Cash Retainer ($400,000 Median Estimated Value)	Estimated dollar values are comparable; due to the greater prevalence in Canada of guidelines calculated on the basis of Cash + Equity Retainer, vs. a multiple of Cash Retainer alone, in the U.S.

[1]*Median revenues of $13Bn and $10Bn and median market capitalization of $17Bn and $16Bn for the U.S. and Canadian sample groups, respectively.*

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