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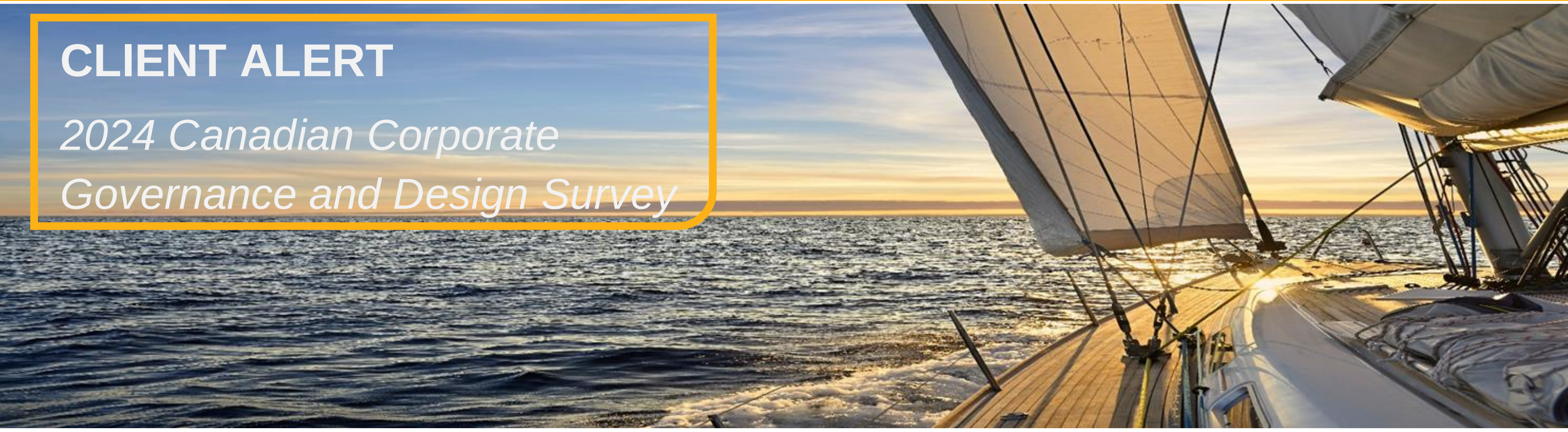

CLIENT ALERT

2024 Canadian Corporate Governance and Design Survey

Meridian 2024 Canadian Governance and Design Survey Results

As companies review their executive compensation program designs and governance policies, current market practices and recent trends may help to inform discussions in the boardroom.

Meridian's 2024 Canadian Governance and Incentive Design Survey offers comprehensive insights into key executive compensation and governance topics. This report highlights key findings in the following areas:

- Corporate Governance Practices and Company Policies
- Executive Compensation
- Annual Incentive Plan Design
- Long-Term Incentive Plan Design
- Proxy Disclosure
- Director Compensation

Meridian reviewed the corporate governance and incentive design practices at the S&P/TSX60 (i.e., the largest publicly traded companies by market cap, reflecting sector weight) through the most recently available proxy statements. These companies have median revenues and market capitalizations of $16.5B and $33.9B, respectively.

Governance Practices and Company Policies

Board diversity disclosures are more common than executive diversity disclosures – 82% of the S&P/TSX60 disclose gender and/or ethnic diversity targets at the Board level, while less than half of the S&P/TSX60 disclose diversity targets for the executive team. At the Board level, gender diversity targets are more common, whereas the inclusion of both gender and ethnic diversity targets are used by 72% of companies for management (when disclosed).

Less than half disclose mandatory director retirement age policies or mandatory term limits– 40% of the S&P/TSX60 disclose a mandatory retirement age policy for board members. Most of these companies set the retirement age between 72 and 75. Similarly, 45% of the S&P/TSX60 disclose mandatory term limits for directors.

Independent Board Chair is the most prevalent leadership structure – 78% of the S&P/TSX60 have separate Board Chair and CEO roles. One-third of the S&P/TSX60 have a Lead Director, either in addition to an Executive Chair or alongside a Non-Executive Chair.

Most companies maintain clawback provisions – 97% of the S&P/TSX60 disclose a Clawback policy for executive officers (current and former) with the most prevalent trigger being a financial restatement (81% of companies), followed by a standalone misconduct event (53% of companies).

Proxy Disclosures

Over half of the S&P/TSX60 include voluntary realized or realizable pay disclosure –The majority of companies disclose both realized and realizable pay analysis, most often comparing pay to Summary Compensation Table values. This provides companies with the opportunity to address any perceived pay and performance disconnect. Historically, we have seen proxy advisors respond positively to this voluntary disclosure.

Almost half of the S&P/TSX60 disclose a cost of management ratio – 40% of companies disclose a cost of management ratio, most commonly compared to net income (38%) and earnings (25%) values. This "millions for billions" analysis provides a sense to investors how wealth is being shared with company management, over time.

Annual Incentive Plan Design Practices

Bottom line financial metrics drive annual incentives– Across annual incentive plans, on average, Net Income/EPS metrics account for 51%, Operating Income/EBIT/EBITDA metrics account for 43%, and Other Financial metrics account for 36% of the overall plan.

Company specific metrics are most prevalent Financial metrics related to business operations are most prevalent at over half of the TSX60, followed by Net Income/EPS and Operating Income/EBIT/EBITDA, equally prevalent at approximately 39% of companies.

Non-financial measures are also common; types of measures vary widely – Most companies (73%) include non-financial measures in the annual incentive plan. 68% of companies include environmental, social or governance metrics and 57% include operational or strategic corporate goals. 58% of companies measure individual performance for the CEO, either as a weighted metric or as a modifier (9% use a modifier).

Long-Term Incentive Plan Design Practices

Performance awards are the main LTI vehicle – 88% of S&P/TSX60 companies include performance-based vehicles in the long-term incentive plan. On average, performance awards represent 59% of CEOs' annual target LTI value.

Standard performance period: 3 years – The vast majority (87%) of S&P/TSX60 companies assess performance over a three-year measurement period. Typically, goals are set over a three-year cumulative period, rather than as annual goals.

Relative TSR remains the predominant metric – 71% of companies include a relative TSR measure in performance awards, on average, accounting for 65% of the overall plan weighting. Most companies (84%) incorporate relative TSR as a weighted measure, rather than a modifier, and 81% pair TSR with at least one other performance measure.

To receive a full version of the report, please contact Kaylie Folias at kfolias@meridiancp.com or your consulting partner at Meridian.

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