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Meridian Client Update

2013 Canadian Say on Pay Results

Say on Pay (“SoP”) is still voluntary in Canada and the uptake continues with 127 companies having SoP votes in 2013, up from 104 last year. Among the S&P/TSX 60 index companies, 82% have now adopted SoP. Overall, support for SoP remains strong, but we now have our first significant SoP failure: Barrick Gold.

High Support for Say on Pay

SoP votes have generally tracked last years’ experience with high approval rates, but they are down slightly from prior years. Three companies failed to receive majority support: Barrick Gold (15% support), Equal Energy (44% support) and Golden Star Resources (38% support). Last year, only one company (QLT Inc.) failed to receive majority support.

Meridian comment. Barrick’s significant SoP failure was one of the lowest results ever in North America. The combination of poor share performance, perceived lack of pay-for-performance alignment and a strong pay package for the Co-Chair, appear to have caused institutional shareholders and others to vote against Say on Pay and (to a lesser extent) to withhold votes for the election of committee members.

% Vote Cast in Favour	Average	Median
S&P/TSX 60 Index Companies (47 reported)	89% (2012 = 91%) (2011 = 94%)	94% (2012 = 94%) (2011 = 95%)
All Companies with SoP (123 reported)	90% (2012 = 92%)	95% (2012 = 95%)

Source: ISS Voting Analytics Database. Note, six companies reported the proposal “passed” without disclosing voting results. All data updated to June 27, 2013.

Distribution of Voting Results

Eighty percent (80%) of Canadian companies with SoP votes received at least 80% shareholder support. Twelve percent (12%) received shareholder support ranging from 50% to 79%, the so-called “yellow card” status. Of these, 20% received between 50%–60% support.

2013 Vote Results for Companies with Prior Year Poor SoP Results

For those companies that either failed to receive majority support or received “yellow card” status for their 2012 SoP proposal, one-half have successfully turned around last year’s vote outcome, receiving more than 80% shareholder approval for their 2013 SoP proposal (see following table).

Meridian comment. Generally, these companies turned around the 2012 vote outcome by implementing changes to their executive compensation programs to address issues reflected in the 2012 SoP vote result and/or improving their relative TSR performance, along with more aggressive shareholder outreach programs.

2013 Vote Results for Companies with Failed/Yellow Card 2012 MSOP Proposals That Turned Around Outcome

Company Name	2012 FOR	2013 FOR
Agnico Eagle Mines Ltd	64.1	81.2
Encana Corporation	75.8	82.8
QLT Inc.	42.1	98.8
SNC-Lavalin Group Inc	75.3	83.4
Ultra Petroleum Corp	65.8	87.7

Impact of Negative ISS Vote Recommendation on Vote Outcome

Of the 8 companies that had an “against” recommendation from ISS, 6 passed SoP but with far lower than typical approval levels:

- Canadian Natural Resources (55.8%)
- Canadian Pacific Railway (71.5%)
- MDC Partners (50.3%)
- Thompson Creek Metals (62.8%)
- Thomson Reuters Corp (83.8%)
- Vitran Corp (58.6%)

Barrick Gold and Golden Star Resources, the other 2 companies that had a negative ISS recommendation, failed SoP. Given the small sample it is difficult to interpret the results, however, the ISS against vote recommendation seems to correlate with significantly reduced shareholder support, but not necessarily with a negative vote outcome.

Meridian comment. The effect of ISS in Canada likely mirrors the U.S. where ISS has issued vote recommendations on 1,974 of the Russell 3000 companies with SoP proposals so far this year. Of the companies with vote recommendations, 13.3% have received an “against” recommendation from ISS on their SoP proposals. An ISS against recommendation clearly dampens shareholder support, but generally does not result in a negative vote outcome. In fact, only 17.5% of the companies with ISS recommendations “against” saw their SoP proposals voted down. However, these companies typically saw levels of shareholder support approximately 25%–30% lower than shareholder support at companies that received a positive ISS vote recommendation.

Regulatory Action

The Canadian voluntary SoP regime appears unlikely to change soon. Two years ago, the Ontario Securities Commission (OSC) issued a staff notice seeking comments on SoP. Responses received by the OSC during the comment period indicated that investors and issuers are divided on mandatory SoP votes. The OSC has yet to publish any results or clarify whether a change is coming.

Meridian comment. In the U.S., the U.K., and several other countries, public companies are required to hold an advisory SoP vote, and the U.K. is considering the introduction of a binding SoP vote. Switzerland recently introduced a binding SoP vote.

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