

CLIENT ALERT

Navigating Compensation Governance

Executive Summary

Overall, it is a strong year for Say on Pay in Canada. With a majority of vote results in for the 2024 annual meeting cycle, key highlights from this proxy season include:

1. At the S&P/TSX Composite, the number of companies with 90%+ support are at the highest level, and companies that failed Say on Pay are at the lowest level, since 2020
2. Vote results suggest that institutional investor voting preferences are continuing to diverge from those of the proxy advisors
3. Among companies receiving an AGAINST recommendation from Institutional Shareholder Services (ISS), the median vote support for the Chair of the Compensation Committee has been declining since 2021, despite median Say on Pay vote outcomes remaining fairly constant. This suggests that investors are becoming more assertive in their voting practices
4. The Globe and Mail's Board Games methodology for scoring Say on Pay changed to a graded system, with full marks provided for vote results greater than 95% (which exceeds the Canadian average)

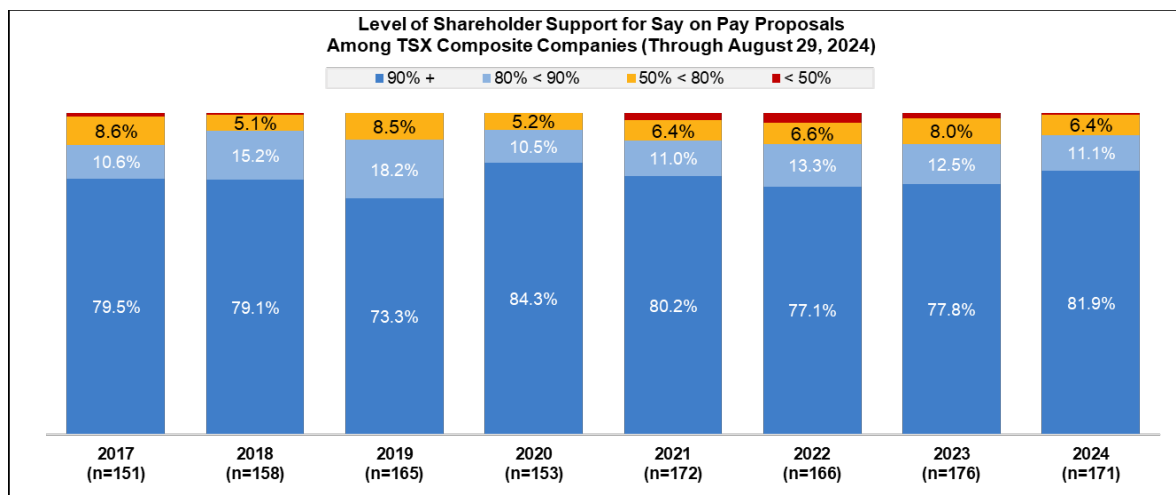
Meridian Insight: Despite strong Say on Pay support observed in the Canadian market, we suggest that companies continue to proactively engage with shareholders to mitigate potential compensation-related concerns prior to the next proxy season, particularly when significant changes are being made to compensation programs.

Recap of Say on Pay Results at the TSX Composite

Based on 171 ballots held among S&P/TSX Composite companies (through the end of August), ~82% have received at least 90% support, with an average level of support of 93% (slightly higher than the average support of 92% last year).

ISS has recommended "AGAINST" Say on Pay at 5 Composite companies – vote support in brackets: BlackBerry Limited (53%), First Majestic Silver (49%), GFL Environmental (64%), NovaGold Resources (84%), and Shopify (69%).

In addition to a pay-for-performance misalignment, key problematic pay practices identified by ISS include internal pay disparity, single trigger change in control, excessive severance and perquisites, tax gross-ups, and insufficient shareholder engagement and disclosure of engagement.



Influence of Proxy Advisors – ISS and Glass Lewis

ISS

ISS recommended AGAINST Say on Pay at 33% of the companies that failed or scored in the “yellow card zone” (50%-80% support). The impact of an ISS AGAINST recommendation on median vote results has been decreasing over the past 3 years, but ISS influence remains stronger than Glass Lewis.

Difference in Median Vote % Following an ISS “AGAINST” Recommendation	S&P/TSX Composite		
	2022	2023	2024
ISS	-40 pts.	-34 pts.	-32 pts.

Glass Lewis

Glass Lewis recommended AGAINST Say on Pay at 58% of the companies that failed or scored in the “yellow card zone”, and 4 companies that received 90%+ vote support. Similar to last year, Glass Lewis was much more likely than ISS to recommend AGAINST Say on Pay this year. Glass Lewis recommended AGAINST at roughly 3x the rate of ISS. A negative vote recommendation from Glass Lewis resulted in a median 16pt. lower vote outcome, about half the impact of ISS.

The decreased impact of proxy advisor vote recommendations suggest that institutional investor voting preferences are continuing to diverge from those of the proxy advisors. The influence of proxy advisors on median vote outcomes is declining, and many companies are scoring below 80% despite a positive recommendation from the proxy advisors, particularly ISS.

Combined Influence

The following table sets out the median vote results where one or both of the proxy advisors have recommended FOR or AGAINST Say on Pay. While both proxy advisors have some influence on vote results, the impact of a negative recommendation from ISS is more pronounced than Glass Lewis, independent of Glass Lewis' recommendation.

Say on Pay Results - 2024 Median Vote  ort		ISS Recommendation	
		For	Against
Glass Lewis Recommendation ¹	For	96% N=150	68% ² N=2

	Against	84% N=13	61% ² N=3
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¹ Three composite companies not covered by Glass Lewis in 2024.

² Data indicates average rather than median, due to small sample size.

Impact on Compensation Committee Chair Vote Outcomes

We also considered the impact of a negative Say on Pay recommendation from ISS on average vote outcomes for the election of the Chair of the Compensation Committee. Over the last four years, median vote support for the Chair of the Compensation Committee has been declining at companies receiving an AGAINST recommendation from ISS, despite median Say on Pay vote outcomes remaining fairly constant.

Vote Results – Median Vote Result	S&P/TSX Composite Companies Receiving an AGAINST Recommendation from ISS			
	2021	2022	2023	2024 ¹
Compensation Committee Chair (YoY)	93%	86% (-7%)	86% (0%)	76% (-10%)
Say on Pay (YoY)	61%	66% (+5%)	61% (-5%)	64% (+3%)

¹ As of August 14, 2024.

“Investors are becoming more pronounced in their voting practices.”

2024 Board Games Say on Pay Methodology Changes

One of the material changes to this year’s Globe and Mail Board Games methodology was related to Say on Pay – companies now only receive full marks for Say on Pay vote outcomes of at least 95% compared to the prior scoring of full marks for simply holding a Say on Pay vote.

Over the last 3 years, over 90% of companies in the S&P/TSX Composite received at least 80% support for Say on Pay proposals and this year, 57% of companies received at least 95% support. The new scoring approach spotlights those that achieve the highest levels of shareholder approval (95%+), driving better recognition of superior governance and shareholder alignment in executive pay practices.

New Tiered Scoring:

- 4 Marks:** Say on Pay vote is at least 95%
- 3 Marks:** Say on Pay vote is between 90% and 95%
- 2 Marks:** Say on Pay vote is between 80% and 90%
- 1 Mark:** Say on Pay is less than 80%, but clearly explains changes made to compensation

This graduated scoring system more closely aligns with recent proxy advisor guidance that companies meaningfully engage with shareholders on Say on Pay and disclose these engagement efforts in the subsequent proxy when support drops below 80%.

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