October 28, 2024

MERIDIAN COMPENSATION PARTNERS

CLIENT ALERT

Director Compensation Trends

Director Compensation Trends at S&P/TSX 60 in Canada

Meridian completed a review of director compensation practices at the Canadian TSX 60 companies; we found:

- **Total pay levels in 2023 increased by ~7% over prior year** *(inclusive of cash, meeting fees, committee fees and equity)*

- **Equity continues to comprise a slight majority of base retainer** *(at 53%, excluding committee fees)*
- This lags U.S. large company average, which is now 58%

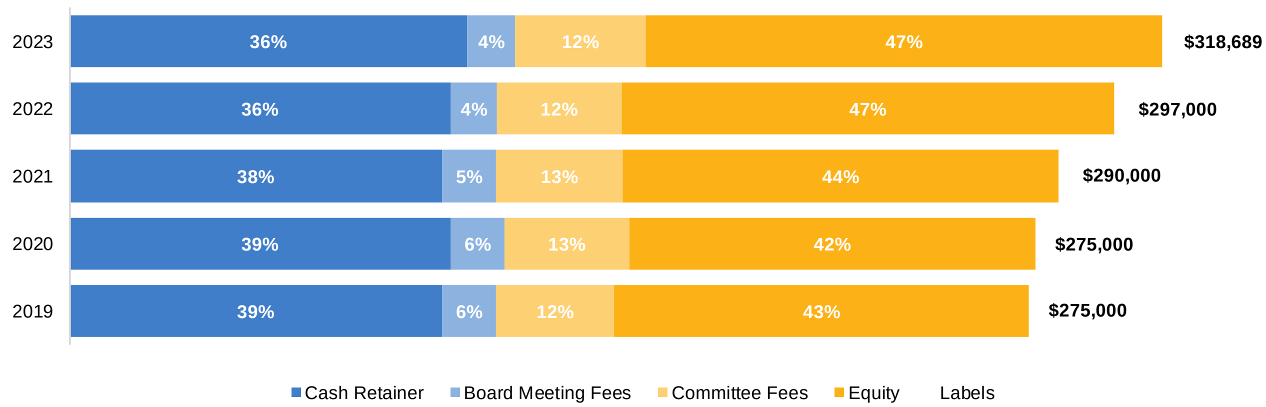
- **Deferred Share Units (DSUs) continue to be the most common form of equity vehicle used for Directors, in Canada**
- Dollar value of ownership guidelines has increased in proportion to pay *(median ownership guideline remains 3x the total Board retainer)*

- **Currency policy is generally dictated by exposure to the U.S. (e.g., investor base, operations, revenue), and desire to recruit North American or global director talent.**
- A majority pay all directors in CAD-only; 33% of companies pay all directors in USD-only and 15% match currency of pay to director residence.

Pay Levels

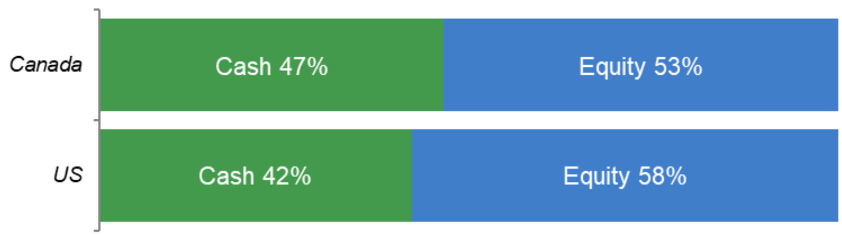
- Total pay levels in 2023 (inclusive of cash, meeting fees, committee fees and equity) increased by 7% over 2022 levels.
- Median total compensation, based on a Model Director (Chair of HR Committee and Member of Audit Committee) increased 3.8% per year over 2019-2023.

S&P/TSX60: Median Levels of Director Pay Components (2019-2023)



Pay Mix

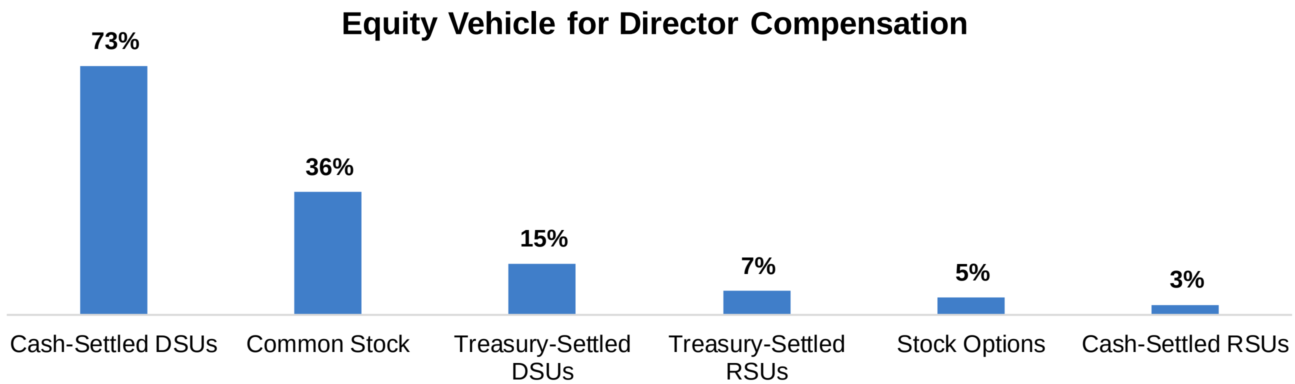
- The required proportion of equity in base retainer (excluding committee fees) remained at 53% year over year:
- In the United States, the equity portion is higher, approximately 58% of the base retainer:



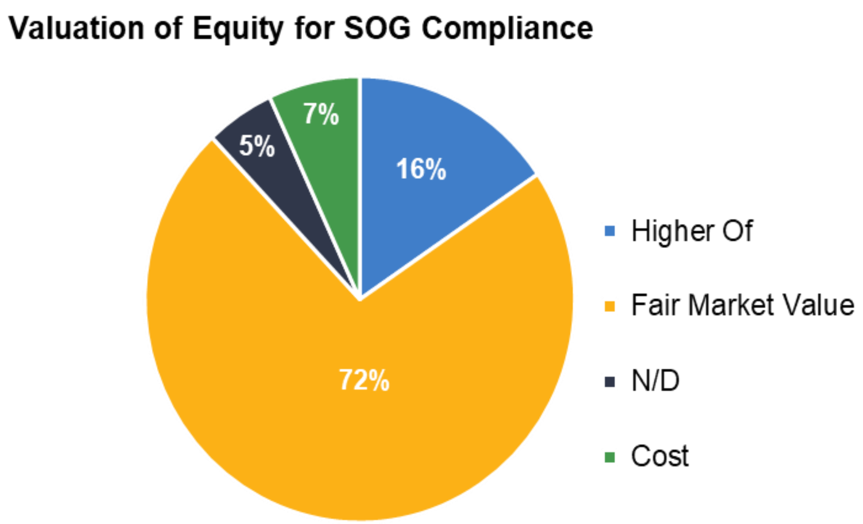
Meridian Comment: While we expect the required equity portion of the base retainer in Canada to continue to increase close to U.S. market practice (e.g., 55%-60%), Canada may not catch up to the U.S..

Equity Delivery and Share Ownership Guidelines

- In Canada, deferred share units (DSUs) continue to be the dominant form of director equity among large Canadian companies. DSUs are used by approximately 88% of the TSX 60 (and are most commonly cash-settled – not dilutive to the company).
- Common stock is the next most common form of equity delivery, and at some companies a portion of the ownership requirements must be satisfied through common shares:

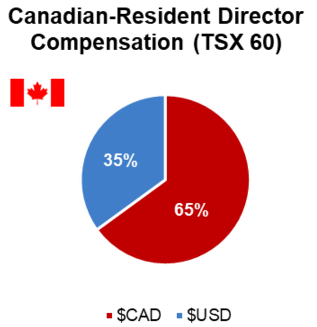


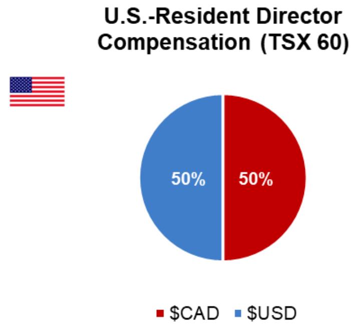
- The median dollar value of share ownership requirements has increased from ~$760K to ~$800K, satisfied most commonly through common stock and full value share-equivalent grants (e.g., DSUs, RSUs).
- Ownership guidelines are most commonly valued at fair market value (e.g., as of the record date or end of fiscal year before proxy publication); a "higher of" market value or cost is used by about 20% of TSX 60 companies while valuing solely at "cost" is uncommon.
- Four TSX 60 constituents (BCE, CN Railway, Hydro One and Intact Financial) apply a post-service holding requirement, requiring directors to retain their vested equity or common shares from 3 months to 2 years after leaving the Board. These are not as common as executive post-retirement holds, as directors must redeem DSUs by 12/31 the year following retirement.

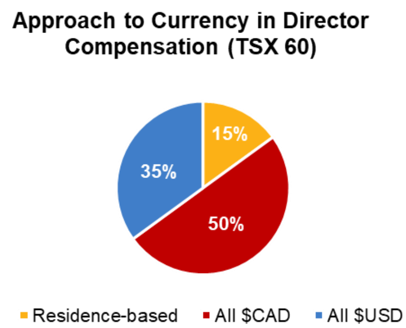


Managing Exchange Rates

- Compensation for TSX 60 directors who reside in Canada continues to be denominated in Canadian dollars by a majority of companies.
- For U.S.-resident directors, approximately half of companies set fees for U.S. directors in $USD.
- Based on data from this study (and not necessarily on a disclosed company policy):
  - — 50% denominate fees in $CAD for all directors, regardless of residence.
  - — 35% denominate fees in $USD for all directors, regardless of residence.
  - — 15% use a “residence-based approach”, paying U.S. directors the same nominal fees as Canadian directors but denominated in USD (1 $CAD = 1 $USD approach).







Meridian Comment: The decision to pay directors in a currency other than Canadian dollars is typically driven by a company’s 1) board composition, 2) pool of future director talent (e.g., Canadian, North American or global) and 3) geography of operations and revenue 4) functional/reporting currency and 5) investor base. For example, the companies that have adopted a USD-only program typically have highly global operations, a material portion of their revenue or operations in the U.S. and recruit director candidates internationally and/or are cross-listed on a major U.S. exchange.

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Questions regarding this Client Update or executive compensation technical issues may be directed to:

Christina Medland at (416) 566-1919 or cmedland@meridiancp.com
Andrew McElheran at (647) 472-7955 or amcelheran@meridiancp.com
Andrew Stancel at (647) 382-7684 or astancel@meridiancp.com
Matt Seto at (647) 472-0795 or mseto@meridiancp.com
Andrew Conradi at (647) 472-5231 or aconradi@meridiancp.com
Rachael Lee at (647) 975-8887 or rlee@meridiancp.com
Kaylie Folias at (416) 891-8951 or kfolias@meridiancp.com
Jason Chi at (647) 248-1029 or jchi@meridiancp.com
Gabrielle Milette at (905) 242-0503 or gmilette@meridiancp.com
Wali Ahmed at (647) 208-0132 or wahmed@meridiancp.com
Steve Li at (437) 451-2710 or sli@meridiancp.com
Krunal Billimoira at (647) 267-5869 or kbillimoira@meridiancp.com