

Meridian Compensation Partners

Client Update

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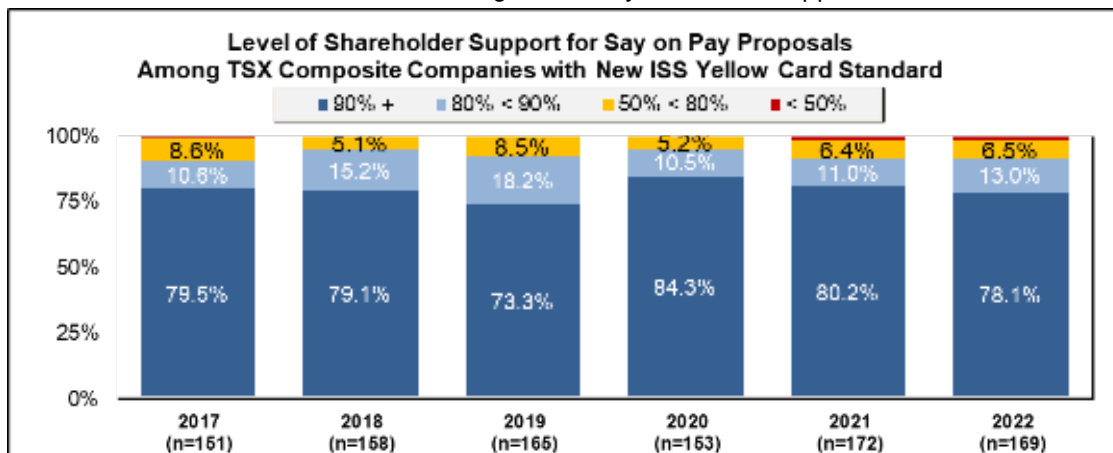
2022 Canadian Proxy Season Highlights: AGM Voting

With the proxy season largely wrapped up for most companies, this update provides a short summary of 2022 highlights in three key areas related to AGM voting:

Areas of Focus	Highlights
Say on Pay results	<ul style="list-style-type: none"> Support among TSX Composite issuers has been strong (average of 91%, with four failures so far). A greater number of companies are expected to engage with shareholders on Say on Pay, now that Institutional Shareholder Services (ISS) has increased its yellow card threshold from 70% to 80% Hot button issues this year are consistent with previous years: 1) discretionary program designs or significant use of discretion without pay-for-performance alignment; 2) significant one-time awards to senior executives
Shareholder proposals	<ul style="list-style-type: none"> Of the 70 shareholder-submitted proposals on ESG matters, 2 were approved (both related to equity, diversity, and inclusion). There were limited compensation-related proposals submitted by shareholders
Institutional investor voting policies evolving	<ul style="list-style-type: none"> Institutional investors are increasingly establishing their own policies on director overboarding, board diversity and director tenure (with some policies more stringent than the proxy advisors)—increasing the risk of director withhold votes

Say on Pay Results

Average level of support is 91% so far this year (through beginning of September). The chart below illustrates historical and 2022 results using the new “yellow card” support standard from ISS in Canada.



On average, over the last six years, the historical yellow card zone of 50%-70% support comprised 2.1% of companies in the S&P/TSX Composite. With the change in the ISS yellow card threshold, an average of 6%-7% of companies would have historically been in this zone, reflecting a roughly 3x increase.

- About 9% of companies received Say on Pay support of less than 80% (the yellow card zone or lower)

— 80% support reflects ISS's new “yellow card” zone in Canada (formerly 70%) aligning with Glass Lewis (i.e., the other main proxy advisor) and CCGG standards; this is the level of support below which ISS expects robust engagement with shareholders on executive compensation issues, including disclosure of this engagement in the following year's proxy

- ISS recommended “AGAINST” Say on Pay at 10 Canadian companies, including:
 - Six companies that passed: Cronos Group (95%), GFL Environmental (82%), SmartCentres (70%), Methanex (68%), Colliers International Group (66%), Bausch Health Companies (65%)
 - Four companies that failed: CI Financial (45%), BlackBerry (44%), Enghouse Systems (37%), Agnico Eagle Mines (24%)

The drivers of the recommendations AGAINST often included 1) discretionary program designs without pay-for-performance alignment (according to the ISS quantitative tests) and 2) one-time awards to senior executives without sufficient business rationale disclosed.

Shareholder Proposals

We are continuing to see an increase in shareholder-submitted proposals at Canadian AGMs on environment and social matters (n=70 so far). The majority relate to diversity, adoption of French language, and climate change targets. However, the approval rate remains low, with only 2 proposals approved, both related to employee equity, diversity, and inclusion matters (Toromont, 99% support and Constellation Software, 63% support). There were four pay-related proposals, none of which attracted significant support.

Institutional Investors

Institutional investors are increasingly developing their own policies on Board composition and director elections which, in some instances, are more stringent than those of the proxy advisors:

Issue	Significant Policies
Independence	<ul style="list-style-type: none"> Substantial majority of independent directors
Role	<ul style="list-style-type: none"> Separate Chair and CEO roles Policies diverge on Executive Chairs, with some specifically opposing the retiring CEO becoming an executive chair
Diversity	<ul style="list-style-type: none"> <30% female often a “trigger point” Ethnic diversity on underrepresented minorities sought. For example, TD Asset Management will recommend a WITHHOLD vote for the Chair of the Nominating Committee if there is no apparent ethnic/racial diversity on the Board
Attendance	<ul style="list-style-type: none"> Should attend >75% of appointed meetings
Tenure	<ul style="list-style-type: none"> 12-15 years is a cautionary zone, with several investors having specific policies for directors with longer than 12 year tenure
Overboarding	<ul style="list-style-type: none"> Vote against nominees with >4-5 outside Boards (the proxy advisors will support 5 total boards for a non-executive director) Stricter limits for Directors who also are CEOs. For example, Ontario Teachers will not support a Director who is also CEO of another company

Meridian Comment: Companies should continue to monitor the evolving preferences and voting policies of their investor base, which is unique for each company. Then, seek to understand how investors' voting policies differ from the company's current practice and assess the need and merits of making a change.

The **Client Update** is prepared by Meridian Compensation Partners. Questions regarding this Client Update or executive compensation technical issues may be directed to:

Christina Medland at (416) 646-0195, or cmeland@meridiancp.com
Andrew McElheran at (416) 646-5307, or amcelheran@meridiancp.com
Andrew Stancel at (647) 478-3052, or astancel@meridiancp.com
Andrew Conradi at (416) 646-5308, or aconradi@meridiancp.com
Matt Seto at (647) 472-0795, or mseto@meridiancp.com
Rachael Lee at (647) 975-8887 or rlee@meridiancp.com
Kaylie Folias at (416) 891-8951, or kfolias@meridiancp.com
Faiza Mirza at (416) 583-3746 or fmirza@meridiancp.com
Jason Chi at (416) 646-0651, or jchi@meridiancp.com

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