

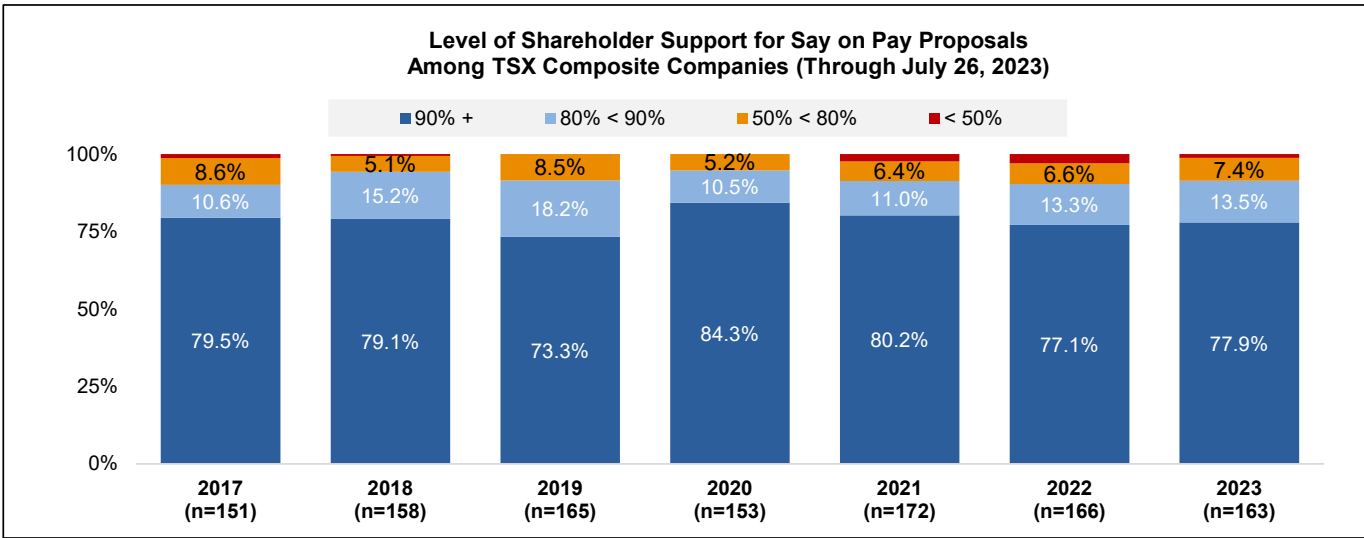
CLIENT ALERT
 Navigating Compensation Governance in Uncertain Times



Canadian Say on Pay Update

With a majority of vote results in for the 2023 annual meeting cycle, we’ve seen companies in the “yellow card zone” on Say on Pay (i.e., 50%-80% support) at the highest level since 2019. For any Say on Pay vote result less than 80% support, the proxy advisors expect more robust engagement with shareholders (and disclosure of both the engagement and any compensation changes made) prior to the next annual meeting.

Areas of Focus	Key Highlights
Say on Pay Results at the TSX Composite	<ul style="list-style-type: none"> Based on 163 ballots held among S&P/TSX Composite companies (through end of July), ~78% have received at least 90% support, with an average level of support of 92% Institutional Shareholder Services (ISS) has recommended “AGAINST” Say on Pay at 6 Composite companies – vote support in brackets: Agnico Eagle Mines (25%), First Majestic Silver (26%), Colliers International Group (61%), Restaurant Brands International (75%), Shopify (78%) and GFL Environmental (81%) Key problematic pay practices identified by ISS include pay-for-performance misalignment, single trigger change in control, uncapped bonuses measured on single metrics, and insufficient shareholder engagement or disclosure of engagement



Influence of Proxy Advisors ISS and GL	<ul style="list-style-type: none"> ▪ The proportion of companies scoring in the “yellow card zone” (50%-80% support) is the highest since 2019, despite only six ISS “AGAINST” recommendations (which approximates the ~4% “AGAINST” rate from ISS over the last six years among Composite issuers) ▪ Notably, the other main proxy advisor Glass Lewis (GL) recommended AGAINST Say on Pay at 86% of the companies scoring in the “yellow card zone” (GL has historically had less influence over institutional investor voting patterns than ISS) ▪ Among all companies scoring below 90% support, GL recommended AGAINST at nearly 4x the rate of ISS, suggesting GL was much more likely than ISS to recommend AGAINST Say on Pay this year
Institutional Investor Voting Preferences Diverging	<ul style="list-style-type: none"> ▪ The higher prevalence of “yellow card scores” may also form evidence of institutional investor policies diverging from those of the proxy advisors. This is a broader trend Meridian has been observing over the past 2 years ▪ Investment stewardship teams at institutional investors are increasingly establishing their own robust voting policies on Say on Pay, director over boarding, board diversity and director tenure (with some policies more stringent than those of the proxy advisors)

Implications for Canadian Companies

Understanding the proxy advisor policies on Say on Pay and other AGM ballot votes remains important for public company compensation and governance committees. The newer development is that companies should focus on the specific preferences of their particular investors, as shareholders increasingly develop their own policies and rely less on proxy advisor guidance to vote their shares.

At a high level, we think this process could look like:

- In partnership with investor relations, review the composition of the company’s top 5-15 institutional holders
- Summarize key voting policies on Say on Pay, director over boarding, gender/ethnic board diversity, and director tenure at these top 5-15 investors
 - Understand how these policies differ from the company’s current pay programs and Board composition
 - Understand how these policies differ from those of ISS and Glass Lewis
- Grounded first in business strategy and the investor perspective, then secondarily in market practice and proxy advisor perspectives, consider whether any differences in the company’s compensation programs (and potentially Board composition) versus stated policy preferences from these stakeholders warrant review and potential change.
- If Say on Pay support is <80%, consider a more comprehensive shareholder engagement strategy to include meetings with top shareholders on compensation programs and subsequent disclosure of this engagement; Meridian’s forthcoming client alert on shareholder engagement will cover this process in greater depth.

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