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Governance of Sustainability Dialogue - ***From Climate Change to Social Change***

23-24 June 2021
Hosted by UNCTAD World Investment Forum

Plenary 3: Reviewing CEO incentives with a social and sustainable lens

- Ian Burger, Responsible Investment Lead, Newton Investment Management, UK
- Jim Goodfellow, Board Director, Canadian Tire Financial Services, Canada
- Georgina Marshall, Global Head of Research, ISS, USA
- Samantha McDonald, Vice President, ESG Research & Engagement, TD Asset Management, Canada
- Chair: Mark Van Clieaf, Managing Director, Future Zero, USA

Mark Van Clieaf:
Today's panel's core purpose, particularly, is thought leadership in the changing world of performance measurement, aligning with executive compensation, particularly focusing on equitable executive compensation and the challenges in and beyond the COVID era, with learnings from that. Secondly, focusing on Environmental, Social, Governance alignment.

Our broad range of panellists today include Georgina Marshall from ISS and Ian Burger from Newton Investment Management, with extensive experience. Priti Shokeen from TD Asset Management had a family emergency, so we have an outstanding panellist, Samantha McDonald, who has 10-15 years' perfect experience for today's panel. Lastly, Mr Jim Goodfellow, Former Vice Chairman of Deloitte's. I've attended many boardrooms over 30 years and he's one of the most strategic Directors I've met.

Our first poll relates to the pandemic's impact on CEO and frontline worker pay and disparity, whether it has a positive long-term impact, temporary positive impact, no impact at all, a temporary negative impact or a negative long-term impact?

A couple of points to set the stage for the current environment, having been in the world's largest companies' boardrooms for 25-30 years, mostly framed from a North

American perspective, but part of what is happening there is close to where we're at today. In North America, only 12% of listed companies have pay and performance in alignment, clearly a disconnect from a pay and performance alignment perspective. We measure Executive Teams by performance periods, the longest today being three years or less for probably 90% of companies, which is hardly long-term or strategic and for Net Zero is a rounding error compared to 2040/2050 type end goal, a clear disconnect between performance periods and incentive design.

The CFA Institute asked us to conduct research over the last 24 months. We discovered that 85% of the top 3,500 North American companies have no balance sheets or capital efficiency metric in their Executive Team's key performance measures, which I subsequently tied into long-term incentives. Which raises the fiduciary question, are we and boards in the Institutional Investor community doing our jobs?

On environment and ESG, 24 months ago, 94% had no environment, social or governance metrics aligned or tied to the long-term incentive plan, a big gap in where we're at.

The last poll is surprising. In my world of executive pay and strategy, twice in the last 12 years, I've asked the top European and North American Executive Pay Advisors what percentage of the time they get the business strategy, CapEx and R&D plans of their clients as an input to setting performance target in long-term incentive plan designs. Shockingly, it's less than 5%. If the world's boards' Executive Pay Advisors are getting business strategies, R&D and CapEx plans less than 5% of the time, then for 95% of companies, performance measurement and long-term incentive plan design is not linked to business strategy. From inside the boardroom, alongside that, more than once I've had conversations with Boards of Directors who had no clear long-term company strategy. Net Zero looks likely to reset the bar on business strategy for many companies and many boards are not ready.

With that as background to the myths I'm attempting to blow up, from 30 years inside the boardroom, 28% of you saying 'temporary positive impact', 10% 'no impact', 30% 'negative', 27% long-term negative, it looks like pay gap and disparity problems aren't going any time soon.

Our first focus is around the pandemic era, particularly, how executive pay was handled during COVID. Was it equal between the C-Suite, boardroom and the frontline? Secondly, is fair and equitable pay and performance pay to the frontline for the CEO working well? Where is need for improvement and what does that look like? Georgina, take us on a tour to see how your numbers stack up against mine from being on the frontline. I think they're pretty close.

Georgina Marshall:

Some thoughts from my perspective at ISS, what we've seen in looking at companies around the world, what they've done in the last 12-18 months and what many of our investor clients say. I don't speak on behalf of our clients. They have many different perspectives and are mostly more than capable of talking for themselves.

Regarding executive pay handling during the pandemic and whether the pain was shared equally, last year, when the pandemic's effects started being felt, many world companies announced high profile executive pay cuts or some type of reduction to Exec pay, showing sympathy, solidarity, pain sharing, often explicitly mentioning workforce layoffs, furloughs, cuts, etc. Most were, temporarily, base salary reductions or bonus opportunity forgone. Not taking credit away from those companies and executives, not least because some did nothing, but a general observation from this year's results is that for many, executive pay has continued to rise, overall, which speaks to relativity with workforce pay, largely because where salaries or bonuses were reduced temporarily, executive pay is mostly earned from long-term incentives, hence the relevance on incentive metrics today, not only, but especially in the US, incentive payments tending to dwarf fixed pay.

In 2021 company disclosures, despite pandemic challenges, S&P 500 median CEO, as for many years, rose again from average last year, $13.1 million, to $13.3 million so far this year, on 2020 disclosures, although the smaller US companies on the Russell 3000 Index, the median has dipped slightly, $4.1 million to $3.9 million. The full half-year numbers aren't all in for comparison, but these are the results so far.

Regarding whether fair, equitable pay and performance pay works well, I'll answer partly by looking at shareholder votes on pay proposals to date, where support in many markets is down, with higher opposition levels shown to paid votes. For S&P 500 US companies to end of May, average support for Say on Pay resolutions dropped to its lowest, from 95% last year, to under 90%. The failure rate is also higher, those resolutions receiving less than majority support. 4% of these votes failed by end of May. In comparison, equivalent to 15 this year was nine last year and in 2019, six, so, small numbers, but real movement.

This is not unusual. When tallying up voting results across developed markets, we anticipate in many, lower average support and increased failure markets. Both measures indicate investors are unhappy with some companies' management of executive pay during the pandemic. In the UK, there were no failed remuneration reports in FTSE 100 in 2019/2020. There are three hitherto this year. Small numbers, off a small index, but looking quite different. With two Canadian panellists today, we see both increased opposition and failure rates in Canada strongly this year.

Anecdotally, some investors felt, with the pandemic unknowns last year, they gave companies a lot of support and flexibility last year, but found outcomes disappointing this year, including Executive pay appearing seriously out of step with workers' experiences.

Mark Van Clieaf:
Another related datapoint, on the S&P 1500 four years ago we pulled numbers, using sectoral return on capital as the key performance measure. Of the 1,500 largest US companies, 600 had overpaid executives relative to return on capital of the comparative sector. Added up over five years, the level of executive overpay to the 600 companies, for five Officers, $15 billion of excessive executive pay was granted more than warranted, institutional shareholders having approved that. The bar needs resetting to return to Ground Zero. Are we using the right metrics to link pay and performance? Ian, tell us about the COVID year from your perspective.

Ian Burger:
Giving context at Newton over the last 18 months, I'm an active Investment Manager, with concentrated portfolio holdings, having around 500 equity positions. I have experience, having reviewed executive pay proposals and plans for over two decades, and am partly responsible, with all other investors, for our position today with pay plan structure, partly failed, partly succeeded.

The COVID experience, fundamentally, the disparity between frontline and Executive Team is disclosure. We don't always know the frontline experience granularly, but have more information on executives, so it's anecdotal. Immediately we saw a base salary reduction over three-to-nine-months, with layoffs and furloughed staff, which felt right. In the 2021 proxy season, not to generalise, there are exceptions, with the base salary cut offset by reinstating pre-pandemic salaries. Executives have shares invested and share prices have recovered over time. Exceptionally, two companies we've invested in had significant votes against pay proposals, based on Remuneration Committee discretion. When looking at the vesting of the 2018 awards, they retrospectively changed the awards. The companies recognise it's a massive miss and look to address this.

The immediacy of making public commitments on Executive pay and aligning with the wider workforce is quickly dismissed. Investors have long-term time horizons and keep in mind memories of companies who've irked us. I still remember the first UK company that failed its Say on Pay vote.

That's a broad COVID view. The experience was mainly positive, excepting a couple of oddities regarding workforce alignment. It's insightful and useful in crucially understanding corporate culture, which we need the greatest clarity on.

On fair and equitable pay for performance, it's interesting in the context of recognising the differing roles between executives and the frontline. You'd expect a proportionality within pay arrangements. The Executive variable pay element should be, and is likely to be greater, proportionately. My team and I, when reviewing companies on ESG, look at is everybody aligned to the same interests? We take positive views from companies providing greater detail and granularity on employee incentive schemes. Do they align with executive pay schemes? Do they share success? How deep does the option scheme or restricted share plan go? I have positive anecdotal examples where the alignment of interest has driven, financially, share price performance over the long-term.

Mark Van Clieaf:
To North America, to Sam of TD Asset Management, for her perspective on the COVID implications on equitable pay and pay for performance.

Samantha Johnson:
We can't argue that the pain was shared equally between C-Suite and frontline. Furlough and forced reduction of working hours versus CEO pay cuts is not a fair comparison. As a North American Asset Manager at TDAM, how we handle executive compensation is a key engagement area for us normally, and fair and equitable pay and pay for performance are very important considerations when evaluating Say on Pay proposals. Before testing proxy votes this season, we undertook engagements on executive comp where we saw misalignment in pay and performance or pay decisions seeming at odds with the pandemic and economic realities.

Our general approach is research led, encouraging investee companies' dialogue and direct engagement and baseline research long-term company performance comparing to peers and benchmarks. We check for previous controversies on Say on Pay and any major proxy items of concern requiring attention. Combining this with discussions with company management, we hear their side. 2020/2021 aren't typical years for anyone and it's important to consider company perspectives to make voting decisions. The results swung both ways. In some situations, we voted against Say on Pay and in others, voted in favour, sometimes deviating from proxy firm recommendation.

In the former case, despite 2020 CEO pay reductions, our research found prior compensation misalignment over many years. On discussion, we found the company they didn't put enough effort into ending the disparity between compensation level and total shareholder return. Contrasting to another company whose arguments for target adjustments, to us, felt rational and COVID related. They promised no layoffs, extra insurance, extra leads and flexible work for all employees. Their criteria was to meet shareholder returns before revising any target pay outs and their performance in line or above expectations during observation. With nuanced discussion, we felt comfortable and confident in voting for Say on Pay.

Generally, there's room for improvement in fair and equitable pay. It means different things to different shareholders and no established framework has gained momentum. We believe in pay equity and look closely at and support proposals aiming to gain clarity. The difference between executive comp and the average employee is stark. The distancing of the two groups in comp packages in reportedly rising. There are nuances in what is granted and stock prices, we need to thoroughly understand the space regarding value creation and operational performance, with heightened social equality concerns. As with ESG generally, this requires more transparency and data from companies.

In future, other disparities should become an increased focus of attention and shareholder advocacy. Women and people of colour are disproportionately impacted by the pandemic and pay divides between gender and race needs addressing.

Mark Van Clieaf:
Your perspective is a good counterbalance to Ian's view from Europe. Maybe in future, we can get someone from Asia and get the global 360 perspective. Jim, what is your perspective from inside the boardroom?

Jim Goodfellow:
Back in March 2020, when Compensation Committees were meeting, the pandemic had just hit, we had lockdown. The S&P 500 just dropped 30%. No-one knew what would happen. At this meeting you had to approve targets and make grants. You didn't know what to do. It was the most challenging time I've ever experienced, and your board approved business plan of two months ago was out the window. You were at sea, in a bad storm.

What did people do then? A study from Stanford University Centre for Corporate Governance looked at Russell 3000 last October, reviewing what companies did in Q1 and Q2 relative to compensation. 462, 16% companies, adjusted the salary, 3% adjusted the bonus and 1% adjusted the relative. The vast majority adjusted nothing, a reasonable decision in Q1/Q2, not knowing what was happening and our companies took this decision. We didn't know and we weren't changing. What happened was, in retail, one group pivoted to eCommerce, click and collect and digitisation, re-engineered supply chains, and were quite successful. Group two struggled, keeping their head above water with the nature of their product, and group three really had trouble.

The first group probably met their original business plan targets or exceeded them, many executives getting paid at or above target. But they asked their frontline workers to risk their personal health, go to work, keeping stores open, running the supply chain, working in meatpacking plants. They offered danger pay solutions, often taking these away by year end, so disparity grew over the year. There are many companies that didn't make it. Regent Cruise Lines got press for grounding all their ships and paying bonuses, which people can't figure out.

Key learnings are keep working on pay for performance and linkage. Ian, reading comp plans for 20 years, my heart goes out to you. They're so complex, so many PSUs, RSUs, options, bonuses, salaries, long, short-term. How can we link pay with performance and understand it? We must keep working. A lot of plans are based on assumption of putting executive pay at risk. If it's at risk, stay at risk. Norwegian frontline workers knew when the ship was grounded, they weren't paid. Executives reap benefits in good years and should take lumps in bad years.

We should rethink the LTIP design. Most LTIPs are three years, not long-term. The lack of focus on capital return is staggering. With alignment, we need to re-engineer the Comp Committees into a Human Management Committee, encompassing compensation, because talent access is critical for business success.

Mark Van Clieaf:
It sounds like you'd like to blow up the existing system.

Jim Goodfellow:

Tweak it a bit.

Mark Van Clieaf:
Some might say it needs significant change. Our next poll is: "Where do integrated ESG performance metrics and integration in long-term incentive designs seem to fit: energy and power utilities, manufacturing, construction, technology, all the above, or none of the above?" Picking up on the panellists' points, a couple of years ago, we recruited one of the top 20 Officers in the world as a Chief Executive Officer of another big company elsewhere. I had one of the biggest executive firms on retainer, paid $1 million consulting fee for this global search. Towards the end, they wanted to make an offer, but the executive said, "Keep me whole on what I've got and I'll be your Chief Executive Officer." Pretty reasonable, except he had a six inch pay binder of pay plans, with no clue what it was worth. One of the smartest executives, an Engineer by background, good mathematically, a top Officer at a top 20 worldwide company, doesn't know what it's worth, nor did the search firm. They gave it back to me to work out, as the board needed to know what to write the cheque for to buy him out. It's a bit more than tweaking. When one of the world's top Officers doesn't know what the pay binder is worth, how motivating is that to executives aligning it?

The poll results are 72% all companies should disclose EESG, as per Justice Chief Strine. Economic, Environment, Social Governance should be integrated, which the majority seem to agree with. Georgina, what type of horror stories and insights you can share?

Georgina Marshall:
It's so interesting. I have some data based on our ISS ESG executive compensation analytics database from companies in Europe, North America and Asia Pacific. The left shows the percentage of companies using at least one environment or social metric and incentive performance. Not highly qualitative, but quantitatively reviewing the use of environmental and/or social metrics, EESG, ESG, whatever. The orange bars show direction of travel and growing use of ENS metrics from 2012, with only 3% using any ENS metric, to just under 25% last year. An early indication of use in 2021 for fewer companies who haven't yet reported their use this year, nearly 28%, but it's a small sample, currently. From 2012, there's been significant growth, but still under 30%.

The blue bars show their prevalence in each market. Germany, Belgium and Italy are named, leading the way in ENS incentive metrics, each with over 50% in the group using at least one ENS performance measure metric. The Netherlands, UK and Australia are in the middle, mid-30%, the US, Finland and Sweden being the lowest, USA being 12%.

Where are they used, short-term incentives (annual bonuses), or long-term incentive design? As we've heard, long-term with quote marks, and the same universe. The answer is it depends, largely, on what country you look at. The blue bars show short-term and orange long-term metrics. On the left, Australia's overwhelming use is short-term, and the USA on the extreme right, 29% of companies using ENS metrics in short-term incentives, but 11% as long-term pay metrics. In the middle, Canada, France, Germany, Italy, The Netherlands, South Africa, UK, we see the reverse, the use much

more in long-term incentives, surprisingly. Even a few years ago it was different, but not necessarily in all countries.

You may ask yourself what types of ENS metrics are used and has the mix changed over time? Over the last seven years, since 2014, this slide analyses the ENS performance metrics in quite broad terms, but it is useful. The blue line is "staff health and safety measures," which was, historically, easily the most used ENS metric. Health and safety is still the mostly widely used, now joined with more balance by CSR measures, staff relations, environmental protection, diversity, climate is sixth, and customer/product responsibility. The mix has changed a lot over the last few years, although from a low base, with increasingly, companies adopting at least once ENS incentive performance metric. We can say there are some green shoots continuing or straggling, but apparently, early days in widespread adoption.

Mark Van Clieaf:
I'm not surprised to see the safety one, having been involved in crafting a long set of incentives for a number of utilities and oil and gas companies. Safety is probably number one, but people now realise it's not the only matter. We need an integrated and balanced perspective which the world is now moving towards, based on your numbers, which is tremendous.

Ian, in this new world of metrics, where are we? Where is the pot going and where do you see that in terms of Net Zero?

Ian Burger:
From the survey results, a great majority are in favour of ESG metrics in comp plan designs. We don't need to convince people. Georgina showed the direction of travel. What's useful to accelerate that direction is how we look at, review and vote on Say on Pay proposals. With pay for performance, what is the plan designed to do? Look forwards, not backwards, which shifts us down the road another three years. Is the plan designed to, or can a result be, that the executives walk away with pocketsful of cash and the business performance is terrible? Nobody wants that.

Moving that to introducing ESG or EESG metrics is exactly where we need to be. We've had discussions with companies and at the start whose strategies were around ESG credentials, their CSR report were impressive. They get great credibility for it, but there's no linkage and a tie-up between the Executive Incentive arrangements, which is clearly a huge motivating factor. What motivates people? Money and imprisonment. Don't put them in prison, give them money. The companies we've spoken to introduced them, but what metrics are they introducing? What is most relevant to them? One size doesn't fit all in a financial or ESG metric. It must be developed for that business, aligned with its strategic direction.

Many companies cite human capital as their most valuable asset, but don't monitor it very well and aren't paid from it. Solidify it in a comp plan, but as per Mark and Jim, the timeframe is misaligned. The three-year timeframe won't give granularity on a business's long-term success. My notion of introducing ESG metrics is looking at the

E and underpinning that ESG metric, often qualitative, to bring in a CFROI, some type of return measure, which has been, for us, hugely successful, thus far.

Mark Van Clieaf:
Why do so many institutional investors seem to be voting for and approving performance periods for named Officers that are so short-term?

Ian Burger:
It's interesting and when my clients asked me about the vote outcome, I said, "It was 5%/8%/9% against." I've said for many years it's significant because the direction of travel, particularly from US investors, arguably with the greater say on the outcome of the vote, particularly in US firms, when opposing comp plans is increasing. It's now starting to come true.

Mark Van Clieaf:
Sam, in North America, what's the TD Asset Management view of EESG and integration?

Samantha Johnson:
We're not surprised at the spike of companies with at least one ENS incentive since particularly 2019. This aligns with the pressure increasingly faced by companies over a few short years, not just shareholders, but stakeholders, for highest levels to take ENS seriously and hold executives accountable on compensation. Based on data and our experiences, North America has a way to go to catch up with more mature ESG markets, like Europe, on tying in executive compensation to TSG factors.

Some big names over here, like Alphabet and Apple, recently announced their tie-in of part of their Senior Executive's compensation to ESG metrics, e.g., inclusion and diversity. D&I will be an issue that will continue gaining momentum in company leadership performance metrics. In Canada, the six largest banks added ESG components to CEO compensation frameworks, which is great, but puts them in a small minority of companies tying executive pay to such measures. Our parent company, TD Bank's, ESG pay plan is tied to public commitments, e.g., a goal of achieving zero carbon dioxide emissions from operations and financing activities in 2050. This should be standard at all companies with publicly announced Net Zero commitments, with so much visibility on the commitments and companies' action plans.

The key challenge is defining clear, transparent and impactful measures. The majority of companies are struggling now, particularly with the Net Zero commitment, with parameters not clear on what is and isn't achievable in different sectors. In energy, the potential trade-offs are in maximising short-term shareholder value, versus transitioning to Net Zero for long-term benefit, juxtapositions which need to be discussed constructively, as the E transition can greatly disrupt the S, e.g., in labour management, job loss and potential increase in social inequalities and needing to invest in upscaled people and new technologies, etc. There are real implications for communities, which is part of the reason engagement at TM is so important to our

strategy, rather than pure divestment, which should be the last resort in transition discussion. It's an interesting space to watch in North America.

From Georgina's slides, we have be mindful of CSR washing. The data shows a significant rise in recent years in TSR metrics or incentives, but how meaningful are these? The Devil's in the details and substance of these metrics and incentives are important. Are they matched to the issues that are financially relevant to the firm? I'm a bit sceptical of what is considered CSR. There is work for companies to be more transparent on these targets and metrics. It's our investor responsibility to ask those questions when engaging with portfolio companies. Are they there to appease external disclosure pressures or are they really strategic to the business? Some of the onus is on us to research to be equipped to ask those questions and move the discussion forward, specifically relating to particular ENS metrics companies are claiming to follow.

Mark Van Clieaf:
In over 30 years in the boardroom, more than once I've had to put a project on hold, whether for CEO succession planning or selection, or long-term incentive plan design. I told them we'd interviewed all members of management and the board and were of the opinion there wasn't an agreed, clear, long-term strategy for the company between board and management. I've had that conversation with Directors more than once and got a round of applause, because the Directors said, "You're right, we don't have a clear long-term strategy." Jim, what is your perspective on where the pot is going?

Jim Goodfellow:
Briefly, it's twofold, ESG metrics and incentive plans in a broad context. It's a really bad idea for companies reaching out to include ESG metrics, putting them into incentive plans to prove you're doing something, with no strategy and not integrating a plan. It requires a lot of work in setting strategy, integrating into a business model, testing, etc., to put something into your incentive plan, before it comes to the Comp Committee to be added.

With Net Zero, companies haven't understood what the impact of Net Zero really means, regarding economic, industry and company impact. In the last two years, Larry Fink said, "It's important to recognise that Net Zero demands a transformation of the entire economy." It's a big impact. Also, "As markets start to price climate risk into the value of securities, it will spark a fundamental reallocation of capital." Capital allocation in companies and a marketplace is huge. Every company's business model will be profoundly impacted by transference to a Net Zero economy.

Yesterday, the PE ratio of the S&P 500, on a trailing 12 month basis over reporting earnings, was 45.11, meaning 45 years' reported earnings are being priced by the market into the value of those companies. 45 years encompasses 2050, so the Net Zero goals within that time horizon, the assumption is these companies all have plans to deal with the major transformation Larry Fink spoke of, a challenge and we need to see the plans. Our big challenge is getting commitment to Net Zero targets, putting a plan out and understanding the fundamental transformation needed, which brings

opportunities and risks. If Larry Fink is right, that this will transform the entire economy, Net Zero means everybody starts at zero. Opportunity is ahead and winners don't have advantages anymore.

Fundamentally, senior management and boards need to look at setting a target, putting the plan in place and recognising that the target is over the tenure of several CEOs. The plan must encompass multiple CEOs and targets must be set when putting the plan together. Regulators must get in place here. We need meaningful targets and plan, because the world will suffer if we don't.

Mark Van Clieaf:
Do you think boards are doing what they need today? From a CEO succession planning point, are we doing the long-term talent pipeline development to build the next five generations of C-Suites required to transform the global economy?

Jim Goodfellow:
One of the serious challenges of boards is time. Board meetings, agendas, etc., are constrained with compliance oriented, regulatory requirements and it's difficult to put sufficient effort into these issues. Boards need to rethink their operations. If Larry Fink and others are right, we're on the front end of a total economic transformation, capital allocation implications are huge, generating and allocating cashflows, and huge implications for human capital management. These are the critical pieces that we must figure out how to approach.

Mark Van Clieaf:
From the Credit Suisse global database analytics, which are very powerful, what we call the Net Zero Transition Cash Risk Ratio tells us if companies can fund their transition to Net Zero internally or if they need capital markets. More than 60% of companies in North America, not including the rest of the world, are not generating enough internal cashflows to fund Net Zero transformation and need capital markets.

Georgina, regarding reward calculation, what did you mean by corporate social responsibility and was it a little abstract?

Georgina Marshall:
It's a great illustration of a point discussed by the panel. It's a very broad term, drawing together companies that describe their measures as based on corporate social responsibility. Some are clear what it is, some are not so clear, at least externally.

Mark Van Clieaf:
Smaller, private equity type companies, have been given equity and it was felt it's acting as an alignment piece. Do Executive Officers have alignment by granting them stock, or is it the six inch pay binder problem when they don't know the worth and what drives them?

Georgina Marshall:

It probably plays back to company strategy and how pay is tied in and recognised for CEOs, and all company management, that's probably more important than incentivising and aligning.

Jim Goodfellow:
Agreed. Your observation may be extreme, but our compensation packages are so complex, with the vehicles used for options, restricted share units, performance share units, long-term, short-term, then total shareholder return modifiers and now we have ESG. In my partnership of 40 years the pay/performance link was a lot clearer. At the end of the year, you had so much money and so many partners and you worked out who got what. Some were happy, some weren't, but next year, if you grew a bigger pot, everybody would be happier, and that linkage gets lost.

Mark Van Clieaf:
Is total shareholder return a really a good metric to use for long-term incentive plan design or should it be better balanced with more strategically aligned operating drivers versus the casino of capitalism and the markets that sometimes have nothing to do with the company performance? Does TSR need to go away or be redefined in the future context?

Ian Burger:
There's no one golden, perfect measure. I've always thought TSR is a reasonable measure that, if correctly calculated over a relevant averaging period, becomes increasingly relevant. If investor capital is following that route, it captures the financial performance, the more nuanced and qualitative areas of performance. With Net Zero, we've seen, over 12-24 months, particularly in energy, lack of preparedness around Net Zero, lack of performance in those sectors. It's captured in DSR, with not necessarily direct correlation, but it's an okay indicator. I like a combination of things, but that doesn't necessarily create complexity. Remuneration Consultants may be incentivised to make things complex.

Jim Goodfellow:
Agreed.

Samantha Johnson:
I have no perspective, as it isn't my area of expertise. Jim, what do you think about board diversity of not just race or gender, but perspectives, and how it impacts developing pay packages, how not having sustainability and environmental expertise translates into comp for executives?

Jim Goodfellow:
It's one of the reasons we need to move the Comp Committee into a human capital management, because you can't attract top talent if you only recruit and promote white guys with moustaches and beards. It must be integrated into a strategy to develop top talent throughout an organisation, starting at the bottom, working upwards.

There are limited board seats and we need to look at getting diverse expertise and make better use of Advisors and people who don't need to be at every meeting waiting for their expertise to be needed. We need to explore the many ways to break down and start a new paradigm.

Samantha Johnson:
Things need to change, but progress is slow.

Jim Goodfellow:
It can't be solely numerical. The Canadian Tire board in Canada has four women, from 16 people. It is criticised, but they are controlling shareholder, Board Chairman, COP Committee Chairman and Audit Committee Chairman, with huge influence and impact on board discussion. We need to get the best talent possible.

Mark Van Clieaf:
Having been in this a long time, are we going in the right direction, when most long-term incentive plan designs have five-year performance periods? We'll see a new measure come to the fore, carbon adjusted return on capital, which has two hurdles. I won't pay my CEOs unless they've accomplished return on capital above cost of capital. If not, they destroy shareholder value and don't create any. They must also be carbon adjusted, meaning getting to Net Zero. If my management and board can't figure this out, I need a new Management Team and a new Board of Directors.