GLASS LEWIS

AUSTRALIA

Pay-for-Performance Overview

Executive pay is closely examined by institutional investors to ensure company practices are aligned with long-term shareholder interest. For this reason, Glass Lewis is committed to providing consistent, data-driven pay assessments that enable our clients to understand how remuneration packages are linked to company performance outcomes. Our proprietary pay-for-performance methodology, which serves as the foundation for our remuneration analysis, was developed based on our ongoing dialogue with institutional investors, issuers and other market participants to more comprehensively evaluate pay alignment.

This quantitative analysis provides a consistent framework and historical context for our clients to determine how well companies link executive remuneration to relative performance. Companies that demonstrate a weaker link (an overall rating of "Severe Concern" or "High Concern") are more likely to receive a negative recommendation; however, other factors are considered in developing our recommendations as we review each company on a case-by-case basis and may identify elements that mitigate our concerns. These additional factors include, but are not limited to, overall incentive structure, significant forthcoming changes, the overall quantum of remuneration being paid, and the operational, economic and business context for the year in review.

Glass Lewis recognises that many of the factors that affect a given company's performance will also affect the rest of the industry. Therefore, executive remuneration should be closely tied to a company's track record of performance relative to its peers. That is, management should be rewarded for outperformance against peers, and not for 'free kicks' that are industry tailwinds. As such, the majority of the tests in our methodology review company performance against peers.

Glass Lewis utilises a proprietary methodology that considers both a 'broad-based' peer group and a 'bespoke' peer group. Each component is considered on a weighted basis and is subject to size-based ranking and screening. Since the peer group used is based on an independent, proprietary technique, it will often differ from the one used by the company.

Our pay-for-performance model takes a scorecard-based approach using five tests. Brief descriptions of the tests are as follows:

- CEO STI Payout vs. TSR
    - STI payout in percentage of maximum opportunity
    - Relative TSR compared to Glass Lewis peers (broad-based and bespoke)
    - Measurement period: Most recent financial year
- CEO LTI Payout vs. TSR
    - LTI payout in percentage of maximum opportunity
    - Relative TSR compared to Glass Lewis peers (broad-based and bespoke)
    - Measurement period: Performance period of most recent LTI that vested

- CEO STI Payouts vs. TSR (Track Record)
    - STI payout in percentage of maximum opportunity
    - Relative TSR compared to Glass Lewis peers (broad-based and bespoke)
    - Measurement period: Five-year weighted average (three years minimum)
- CEO LTI Payouts vs. TSR (Track Record)
    - LTI payout in percentage of maximum opportunity
    - Relative TSR compared to Glass Lewis peers (broad-based and bespoke)
    - Measurement period: Five-year weighted average (three years minimum)
- Qualitative Test
    - Any one-off awards granted?
    - Any upward discretion exercised?
    - Is fixed pay greater than variable pay?
    - Are incentives unlimited?
    - Does the Company pay more cash than equity?

Frequently Asked Questions

Coverage

For which markets does Glass Lewis produce Pay-For-Performance scores?

The Australian Pay-For-Performance universe comprises the S&P ASX300 index constituents, with some exclusions as detailed below. This universe is reviewed and rebalanced by our Research team twice a year.

Glass Lewis typically does not calculate Pay-For-Performance scores for externally managed companies given that they do not directly compensate their executives. This includes:

- Closed-end funds
- Investment trusts
- Alternative investment funds

Further, companies may be excluded from the Pay-For-Performance universe during the rebalancing process if they:

- Fall out of one of the coverage indices due to:
    - A drop in market capitalization.
    - Insufficient liquidity.
    - Regulatory non-compliance.
    - Financial performance.
- Undergo Corporate Actions:
    - Go private.
    - Are part of a merger or acquisition.
    - Are part of a spin-off.
- Voluntarily delist from the relevant index.

In addition, Australian companies' must generally meet the following criteria to be included in our Pay-For-Performance universe:

- Has disclosed at least three years of remuneration data, including incentive outcomes.
- Has a CEO or CEO equivalent who participates in performance-based incentive plans.
- Operates a short-term incentive plan and discloses a maximum opportunity under that plan.
- Is primarily listed on the ASX.
    - Note: If that primary listing is on an international exchange, the company may be eligible for a Pay-For-Performance score using a non-Australian regional methodology.
- Has maintained a consistent financial year. In the event of a change, eligibility for a score will resume after one full year of reporting under the new financial year.

Methodology Summary

For detailed Methodology documentation, please submit a request.

Which executive personnel's incentive outcomes are taken into consideration?

Our pay-for-performance analysis focuses on the incentive outcomes of the company's CEO or CEO equivalent. Where the company operates without a CEO, we may instead assess the highest-paid executive.

Why does Glass Lewis focus predominantly on the CEO's pay?

We focus primarily on CEO remuneration due to prevailing market practice and investor expectations. The CEO's incentive outcomes should be reflective of the Company's overall performance and are subject to heightened scrutiny.

How does Glass Lewis account for more than one CEO in a given financial year?

If there was a change in CEO during the year in review, we will focus on the incentive outcomes of the individual who served in the role for a longer period.

For instances of co-CEO structures, we will take the average incentive outcomes of both individuals.

How does Glass Lewis treat CEOs who have been in position for fewer than three years?

We capture the incentive outcomes for the CEO role for each year in review. Thus, if there was a CEO change, the CEO incentive outcomes considered would be a mix of all those who served in the role during the timeframe being reviewed.

Why doesn't the model assess the overall quantum of CEO pay?

This model focuses on incentive outcomes rather than total pay levels. In the Australian context, scrutiny of pay quantum typically happens at key decision points – such as at appointment or when there's a material increase. For ongoing analysis, especially during AGM season, the focus shifts to incentive outcomes: how much of the available bonus opportunity the executive actually received, and whether that outcome aligns with company performance and shareholder returns. Quantum is still considered elsewhere in our analysis, but it's not the focus of our Pay-For-Performance score.

Why does the model rely solely on TSR, rather than financial metrics such as profit or EPS?

The model uses Total Shareholder Return (TSR) as a proxy for company performance because it offers a clear, consistent, and comparable measure of shareholder outcomes. TSR reflects the actual return delivered to investors and is widely used in incentive plans across the ASX.

While financial metrics like profit or EPS are important, they differ significantly across companies and are often subject to adjustments or selective disclosure. An in-depth, case-specific analysis of financial performance may feature elsewhere in our broader assessment where relevant—but this model focuses on TSR to enable a standardised, investor-aligned view of pay-for-performance outcomes.

TSR captures total return to shareholders—including share price movement and dividends—over the relevant performance period. We use this data to compare each company's performance against a tailored peer group, generated using a proprietary methodology. Peer group construction is discussed in more detail below.

Where is the TSR data sourced from?

TSR data is sourced from S&P Capital IQ.

What TSR timeframes are used?

We align TSR timeframes with the performance periods of the incentives being assessed. For example, if the LTI that vested was based on a three-year performance period, we calculate TSR over the same three-year span for the company and its peers.

How was the scoring determined?

The scoring framework is designed to assess the level of concern based on how incentive outcomes align with TSR performance. High concern is only triggered where there is clear misalignment, typically in outlier cases where the CEO receives high incentive payouts despite TSR underperformance. This approach ensures that the model highlights the most material disconnects, rather than penalising marginal misalignments or normal variation.

What is the goal of the lookback tests?

The lookback tests assess the consistency of pay-for-performance alignment over time. Rather than focusing on a single incentive outcome, they evaluate the board's track record in assessing the CEO's performance. This helps identify patterns, such as persistently high payouts despite weak performance, or, consistent alignment of payouts with performance.
What LTI outcome is considered for the year under review?

What LTI outcome is considered for the year under review?

Given the timing of public filings and the testing of LTI grants, Australian companies typically disclose in their remuneration reports the vesting outcome of the LTI grant tested either during or immediately following the year under review. Accordingly, for each year under review, we will record the vesting outcome of the LTI grant that was the primary focus of the relevant remuneration report.

Where multiple LTI grants have vested within the same year, we will calculate the average vesting outcome.

How are combined incentives treated (e.g. blended STI/LTI awards or hybrid structures)?

As combined incentive or hybrid schemes are generally tied to an annual performance scorecard, we will treat these plans in the same manner as STIs within our Pay-for-Performance model, irrespective of whether vested awards are subject to additional performance conditions.

How does Glass Lewis treat other forms of remuneration (e.g. severance payments, retention awards, etc.)?

The Pay-for-Performance model focuses primarily on performance-based outcomes and, as such, excludes awards granted outside a company's formal incentive framework that lack performance conditions—such as severance payments, sign-on bonuses and retention awards. However, the model will consider additional incentives in the final assessment where such awards are subject to performance-based hurdles.

What influence does a company's Pay-For-Performance score have on Glass Lewis vote recommendations?

The pay-for-performance analysis provides a quantitative view of the alignment between CEO incentive payouts and shareholder outcomes. This assessment is considered alongside a range of qualitative and quantitative factors, including but not limited to, overall incentive structure, significant forthcoming changes, the overall quantum of remuneration being paid, disclosure, and the operational, economic and business context for the year in review.

As a result, a company that receives a favourable rating will not automatically receive support for its remuneration report proposal. Similarly, an unfavourable rating will not automatically lead to opposition.

Peers

How are peer companies selected?

The TSR comparison will be conducted using two peer groups:

- a bespoke peer group comprising companies selected by Glass Lewis, and
- a broad, index-based peer group consisting of ASX300 companies (subject to exclusions).

In general, the bespoke peer group will be given greater weight than the index-based peer group. However, selecting an appropriate TSR peer group in Australia poses challenges due to the market's size and structure. As a result, where it is not possible to identify a sufficient number of suitable bespoke peers, we will rely solely on the index-based peer group for comparison.

The bespoke peer group is constructed to include ASX-listed companies with comparable business models and share price drivers to the reference company. Potential peers are typically drawn from the same or similar industries, but where appropriate, the bespoke peer group may include companies from more distant industries, provided they exhibit sufficiently relevant drivers of share price performance.

Correlation analysis of share prices may be used as a reference tool in peer group selection but will not be relied on exclusively. Similarly, TSR peer groups disclosed by the reference company may inform but will not determine the final peer group composition.

When does Glass Lewis update its market peers?

Glass Lewis updates peers twice a year.

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