GLASS LEWIS

United States & Canada

Pay-for-Performance Methodology 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 analyses that enable our clients to understand how compensation packages are linked to company performance outcomes. Our proprietary pay-for-performance methodology, which serves as the foundation for our compensation 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 for our clients to determine how, and how closely companies link executive compensation to their performance relative to relevant peer companies. While companies that demonstrate a weaker link (an overall rating of "Severe Concern" or "High Concern") may be more likely to receive a negative say-on-pay recommendation, other qualitative factors are considered in developing our recommendations. We review each company on a case-by-case basis, considering additional factors that include, but are not limited to, overall incentive structure, trajectory of the program and disclosed future changes, and the operational, economic and business context for the year in review.

Glass Lewis recognizes that many of the factors that affect a given company's performance will also affect the rest of the industry. Therefore, we believe executive compensation should be closely tied to a company's track record of performance relative to its peers. That is, management should be especially rewarded for directing the company in a manner that outperforms its peers. As such, a majority of the tests in our methodology review company performance against a peer group generated using our proprietary methodology, and more general market benchmarks.

To enable analysis of companies relative to their peers, we use a proprietary methodology to generate peer groups for the companies included in our coverage universe. Our proprietary methodology begins with considerations of a company's self-disclosed peers and peers of peers, while also considering both market and industry peers. 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, which affects the resulting analyses in turn.

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

- Granted CEO Pay vs. TSR
  - Relative compared to Glass Lewis peers.
  - Five-year weighted average measurement period (three years minimum)
- Granted CEO Pay vs. Financial Performance
  - Relative compared to Glass Lewis peers.
  - Five-year weighted average measurement period (three years minimum)
  - See below for a breakdown of financial metrics.
- CEO STI Payouts vs. TSR
  - Relative to general market-based benchmarks.
  - Measured over five one-year periods and averaged.
- Total Granted NEO Pay vs. Financial Performance
  - Relative compared to Glass Lewis peers.
  - Five-year weighted average measurement period (three years minimum)
  - See below for a breakdown of financial metrics.

- US - CEO Compensation Actually Paid ("CAP) vs. TSR
  - Ratio of five-year aggregate CEO CAP and TSR ranked against market capitalization peers.
  - Aggregate of five-year CEO CAP and the reported five-year cumulative TSR (based on Pay versus Performance disclosure as mandated by the SEC)
- CAN - Realized CEO Pay vs. TSR
  - Relative to Glass Lewis peers
  - Five-year weighted average measurement period (three years minimum)
- Qualitative Test
  - Any one-off awards granted?
  - Any upward discretion exercised?
  - Is fixed pay greater than variable pay?
  - Are incentives unlimited/ not disclosed?
  - Is maximum LTIP payout potential excessive?
  - Is there a short vesting period for LTIs?
  - Are any performance goals not disclosed?

Frequently Asked Questions

Coverage

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

The Glass Lewis Pay-for-Performance universe comprises companies listed in certain stock indices for each supported region. This universe is reviewed and rebalanced by our Research team twice a year.

Country	Index
United States	S&P 500, Russell 3000
Canada	S&P TSX Composite

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 significant merger or acquisition.
  - Are part of a spin-off.
- Voluntarily delist from the relevant index.

In addition, North American companies within the coverage universe must generally meet the following criteria:

- They must have three consecutive years of comparable compensation data available.
- They must have three consecutive years of comparable financial data available, covering a minimum of four financial metrics, including TSR plus three metrics from among ROE, ROA, EPS, Revenue, OCF, TBV, and FFO.
- They must have at least 10 peer companies (as selected by Glass Lewis) that fulfill the same compensation and financial data requirements.

Moreover, the following ineligibility conditions apply:

- The company has recently changed its financial year-end by more than a few days; eligibility for a score will resume after three full years of reporting for the new fiscal year-end.

Glass Lewis updates its coverage list for North America twice a year, after the peer group submission windows are closed, and after the Russell 3000 is reconstituted.

Methodology

Which named executive officers' total compensation is taken into consideration?

The top five highest paid executives, including the CEO.

How does Glass Lewis define total compensation?

Glass Lewis captures the sum of all cash paid and equity compensation granted to the five highest paid NEOs, including the CEO, in their roles as executives, net of certain severance payments and director fees. Glass Lewis performs its own stock and option valuations and excludes any cash severance or changes in pension value. For more information on methodology, please see our Methodology document.

Why does Glass Lewis focus predominantly on the CEO's pay in its pay-for-performance analysis?

Our focus on CEO pay is primarily a result of market norms, investor feedback, and discussion. Moreover, CEO pay is generally the highest in terms of quantum, and the focus of most scrutiny. However, our model does include a test specifically regarding total NEO pay, which compares the pay of the top five highest paid NEOs (including the CEO) to financial performance. This provides a comprehensive view of executive compensation practices and their relationship to performance.

Why does Glass Lewis use granted values for equity-based long-term incentives instead of realized values?

We use granted figures, as this reflects market norms and the most readily available, consistent disclosures in the North American region. Moreover, because the compensation committee/board determines compensation levels, the committee/board has the most control over granted figures. Meanwhile, realized compensation is more outcome-orientated, over which the committee does not have the clearest line of sight. Additionally, granted amounts provide the clearest window into the committee's intention when determining executive pay packages.

However, our model does contain two components that evaluate other measures of compensation. One test compares STI pay outcomes as a percentage of target versus TSR performance against market benchmarks. The second test considering other measures of compensation varies by country. For companies covered by the US model, the CEO Compensation Actually Paid ("CAP) test provides further insight towards realized and realizable pay. For Canada, the Realized Pay test provides a similar additional viewpoint.

How does Glass Lewis value equity awards?

For equity awards, we perform our own stock and option valuations.

- Time-based full value awards are valued based on actual shares granted multiplied by closing stock price on grant date (or the preceding date if grant date is not on a trading day).
- Performance-based full value awards are valued based on target shares granted multiplied by closing stock price on grant date (or the preceding date if grant date is not on a trading day). When the target is not disclosed or applicable, we will use the average of threshold and maximum. If the threshold is also not disclosed, then we will use maximum.
- Stock options and SARs are valued using Black-Scholes-Merton modeling with standard assumptions. The underlying assumptions are not disclosed. If these awards are performance-based, then they will be valued at target, when disclosed.

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

If a company changes CEOs during the year in review, compensation paid to the outgoing and incoming executive is partially pro-rated for time served and aggregated as compensation paid for the position of CEO for the year. Specifically, cash-based payments are pro-rated based on time served as CEO, while equity intended to be compensation for the CEO role is aggregated. Cash severance is excluded.

For instances of co-CEO structures, the total amount paid for the CEO role is captured. This means the total granted amounts for each CEO are aggregated.

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

We capture total amounts paid for the CEO role for each year in review. Thus, if there was a CEO change, the aggregate CEO granted compensation would be a mix of all those who served in the role during the timeframe being reviewed.

How does Glass Lewis account for disclosures made in different currencies?

Equity awards are normalized using the grant date exchange rate, and cash compensation data is normalized using the fiscal year-end exchange rate.

What data does Glass Lewis use for companies with shareholder meetings early in the year for whom up-to-date peer data has not yet been publicly disclosed?

We use the most recent publicly disclosed data, generally through Annual Reports for financials and through the proxy statement or management information circular for compensation data. For our model, the performance year must correspond to the compensation year for each company. We do not mix since we are intending to assess how a company paid its executives given its performance over the same period. This approach ensures we are not assessing how a peer company paid in its fiscal year given its performance in the reference company's fiscal year.

What financial performance metrics does Glass Lewis use to assess company performance?

The pay-for-performance model evaluates five indicators of business performance:

- All sectors metrics: Revenue growth, return on equity and return on assets
- Sector-specific metrics:
  - Banks/Financials/Mortgage REITs (excluding payment systems GICs): Annualized TBV per share and EPS growth
  - Most equity REITs and specialized REITs (excluding timber REITs and communication tower REITs): FFO growth and operating cash flow growth
  - All other sectors: EPS growth and operating cash flow growth

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What timeframes are company performance measures based on?

With the exception of return on assets (ROA) and return on equity (ROE), performance measures are based on a weighted average of one-year, two-year, three-year, four-year, and five-year annualized growth rates.

ROA and ROE are calculated over a single year, specifically as a weighted average of the annual ROA and ROE figures.

How are the pay-for-performance metrics, years, and/or tests weighted?

Glass Lewis does not publicly disclose the specific weightings applied to its pay-for-performance metrics, timeframes, or tests within its proprietary model.

How do mergers or acquisitions affect the model's analysis?

Glass Lewis may exclude a company's pay-for-performance analysis or growth rate calculation if there are M&A transactions that would impact the consistency of the financials used to calculate growth rates.

Where does Glass Lewis source a company's financial performance data?

Financial performance data is provided to us by S&P Capital IQ.

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 a company's pay and performance alignment. This information is considered alongside other qualitative factors, including but not limited to the company's compensation structure, the compensation-related decisions made in the past year, changes to the program going forward, lingering impact of previous pay practices, context, such as the company's operations and other unique circumstances.

If a company receives a "Severe Concern" rating in the pay-for-performance model, will Glass Lewis automatically recommend Against the company's say-on-pay proposal?

No. A company that receives a concern level of medium or below will not automatically receive an "against" recommendation on its say-on-pay proposal. Likewise, a company that receives a favorable rating will not automatically receive a "for" recommendation on its say-on-pay proposal. As noted above, Glass Lewis' approach to analyzing advisory votes on executive compensation is based on both a quantitative and qualitative assessment of the company's compensation practices.

Why are the figures in the CEO Compensation Breakdown table different from the Summary Compensation Table figures or the Pay-for-Performance Analysis?

The CEO Compensation Breakdown table reflects compensation granted but not necessarily earned in the year in review. It also excludes changes in pension value and non-qualified deferred compensation earnings ("NQDCE"). When there is a significant discrepancy between the figures displayed in the CEO Compensation Breakdown table and the Summary Compensation Table, it is often due to: (i) differences in when long-term cash is accounted for; (ii) substantial changes in pension value or NQDCE; or (iii) companies that grant long-term incentives for the year in review following the fiscal year end. The Pay-for-Performance Analysis also makes adjustments on a consistent basis, including the revaluation of all equity awards and proration for a single "CEO pay" figure in years of top executive transitions.

Peers

How are peer companies selected?

Glass Lewis generates peer groups using our proprietary methodology based on a mixture of a company's self-disclosed peer group, a network of related peers, and Glass Lewis' investor peer groups based on industry and market. The top 15 peers are used in our pay-for-performance analysis. However, we need a minimum of 10 peers in order to run our analysis.

When does Glass Lewis update its market peers?

Glass Lewis updates peers twice a year.

The peers listed for my company are not accurate, who should I contact?

Company representatives may submit updated peer groups to Glass Lewis via our website at regular intervals. If you believe there is an error or omission in the compensation data, we encourage you to report it immediately through our issuer portal.

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