United States & Canada

Pay-for-Performance Methodology Overview

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 the most consistent framework for our clients to determine how well companies link executive compensation to relative performance. Companies that demonstrate a weaker link are more likely to receive a negative recommendation; however, other qualitative factors are considered in developing our recommendations as we review each company on a case-by-case basis. These additional factors include, but are not limited to, overall incentive structure, trajectory of 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 an industry. Therefore, 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.

This focus on relative compensation and performance makes peer group selection a critical and highly scrutinized aspect of Glass Lewis' executive compensation analysis. As a result, Glass Lewis developed its peer group methodology in consultation with a large body of investor clients in addition to using the results of over 3,000 interactions and formal engagements with corporate issuers, consultants and advisors to help inform our approach. Please see the "Peer Group Selection Process" section for more details.

Scoring

Our methodology takes a scorecard-based approach in evaluating pay-and-performance alignment. Performance against each test in our scorecard results in points being added to the overall alignment score for the reference company. The weightings of each test are not disclosed. Overall scores and ratings range as follows:

- Severe Concern: 0 to 20 points
- High Concern: 21 to 40 points
- Medium Concern: 41 to 60 points
- Low Concern: 61 to 80 points
- Negligible Concern: 81 to 100 points

We aim for scoring in our universe to fall in a negatively skewed distribution (left-skewed), whereby the majority of companies will receive a score in ranges that indicate low or negligible concern. This distribution intends to more closely align with our recommendation rate for "say-on-pay" proposals, and is subject to refinement.

Compensation Treatments

Granted Pay

Granted pay is the sum of all cash and equity compensation paid to the CEO and/or the top five NEOs, including the CEO.

- For cash, we use the actual base salary paid, short-term cash bonus payouts and all other compensation payments, excluding cash severance, change in pension value/ non-qualified deferred compensation earnings and director fees.
- For equity, we perform our own stock and option valuations.
    - Time-based full value awards are 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 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 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.
    - We consider long-term cash awards based on target performance, when disclosed.
- With regard to incremental fair value, we include the value disclosed by the Company in our total granted compensation valuation.

Realized Pay

Realized CEO Pay is the sum of actual cash payouts, exercised options and SARs, and vested full value awards (values are taken as disclosed in the proxy statement or management information circular). We exclude severance, change in pension value/non-qualified deferred compensation and director fees. Base salary, short-term incentives, and other payments and benefits are recorded in respect to the fiscal year for which they were earned. Realized deferred and long-term incentives are recorded as disclosed by the company to ensure a complete analysis of the actual performance outcomes relevant to the rewards.

Canadian Peers

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

CEO Transitions

If a company changes CEOs in the year in review, 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 compensation amounts for each CEO is aggregated.

Tests

Our methodology consists of a total six tests, all of which receive a concern rating (ranging from severe to negligible) that will be combined to generate an overall pay-for-performance alignment score. As informed by point distributions during our testing, score ranges for each rating may differ between tests, and may be refined as time progresses.

Not all tests are mandatory and when a test is not able to be run, it does not negatively impact the overall scoring. The weighting of tests and performance periods used in tests are not disclosed.

CEO Granted Pay vs. TSR Performance

This test evaluates the gap between granted pay and TSR performance relative to the company's Glass Lewis peers. Specifically, it is comparing the percentile rank of five-year weighted average of granted CEO pay to the company's percentile rank of five-year weighted average of annualized TSR growth. Glass Lewis uses the outcomes of these comparisons to evaluate whether the company's CEO has been paid in line with the company's relative TSR performance.

Alignment of pay and performance occurs when the gap between compensation and performance ranking is not significant, when the gap is due to higher relative performance levels and relatively lower pay levels, or when a company's pay ranking is notably less than its performance ranking. These instances result in higher points being delivered to the company's overall score. A disconnect is identified when there is a significant deficit between a company's performance ranking relative to pay, leading to less points being awarded to the company's overall score. Generally, this occurs when a company pays more than its peers but does not perform better.

Score ratings are as follows:

- Negligible Concern: 90 to 100 points
- Low Concern: 70 to 89 points
- Moderate Concern: 51 to 69 points
- High Concern: 35 to 50 points
- Severe Concern: 0 to 34 points

Total granted CEO pay is based on a weighted average of each year over five years, with the most recent year weighted most heavily. TSR is based on a weighted average of one-, two-, three-, four- and five-year annualized growth rates. When five years of data is not available, the test will revert to a three-year weighted average period for both pay and performance.

This test is mandatory to generate a pay-for-performance score.

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CEO Granted Pay vs. Financial Performance

This test evaluates the gap between granted pay and financial performance relative to Glass Lewis peers. Specifically, it is comparing the percentile rank of five-year weighted average of granted CEO pay to the company's percentile rank of five-year weighted average of an array of financial metrics. Glass Lewis uses the outcomes of these comparisons to evaluate whether the company's CEO has been paid in line with the company's relative performance.

Alignment of pay and performance occurs when the gap between compensation and performance ranking is not significant, when the gap is due to higher relative performance levels and relatively lower pay levels, or when a company's pay ranking is notably less than its performance ranking. These instances result in higher points being delivered to the company's overall score. A disconnect is identified when there is a significant deficit between a company's performance ranking relative to pay, leading to less points being awarded to the company's overall score. Generally, this occurs when a company pays more than its peers but does not perform better.

Score ratings are as follows:

- Negligible Concern: 90 to 100 points
- Low Concern: 70 to 89 points
- Moderate Concern: 51 to 69 points
- High Concern: 35 to 50 points
- Severe Concern: 0 to 34 points

Granted CEO pay is based on a weighted average of each annual period within the overall five-year measurement period, with the most recent year weighted most heavily. When five years of data is not available, the test will revert to a three-year weighted average period for both pay and performance.

The financial metrics are as follows:

- All sector metrics: Revenue growth, return on equity ("ROE") and return on assets ("ROA")
- Sector-specific metrics:
  - Banks/Financials/Mortgage REITs (excluding payment systems GICs)
    - Annualized tangible book value per share ("TBV growth per share") and earnings per share growth ("EPS growth")
  - Most equity REITs and specialized REITs (excluding timber REITs and communication tower REITs)
    - Funds from operations growth ("FFO growth") and operating cash flow growth ("OCF growth")
  - All other sectors
    - EPS growth and OCF growth

Performance measures other than ROA and ROE are based on a weighted average of one-, two-, three-, four- and five-year growth ratios. The longest period is weighted the most heavily. ROA and ROE are based on a weighted average of five one-year periods. The most recent year is the most heavily weighted. The specific weightings of each metric and each measurement period are not disclosed.

A minimum of three viable metrics are needed to run the test. Please see the "Performance Treatments" section for a list of reasons for why a metric may be excluded from this analysis. If a five-year measurement period is not possible, we will revert to three years (one-, two- and three-year growth ratios). The weighted averages will be adjusted accordingly.

This test is mandatory to generate a pay-for-performance score.

STI Payouts vs. TSR Performance

This test compares a CEO's STI payout percentage with its TSR for a given year, measured against broad market benchmarks. Specifically, the percentile rank of a CEO's STI payout (as a percentage of target) is compared to its TSR percentile rank. STI payouts and TSR are measured over five, one-year periods. Note that STI payout is measured based on a percentage of payout, not an absolute dollar value. Final scoring is the weighted average of all five years. If five years of data is not available, then the test will default to three years. Years must be consecutive. If mandatory tests are measured over three years, then this test will default to three years as well.

Scoring is based on a matrix comparing the Company's percentile rank in payout versus TSR. There is a higher penalty when the percentile rank for payout is above the median when TSR percentile rank is below median. The severity of the penalty increases depending on the discrepancy between the payout percentile and TSR percentile rank. When the payout percentile rank is below median, there is no penalty.

Scoring ratings are as follows:

- Negligible Concern: 80 to 100 points
- Low Concern: 51 to 79 points
- Moderate Concern: 36 to 50 points
- High Concern: 21 to 35 points
- Severe Concern: 0 to 20 points

This is not a mandatory test. If this test must be excluded, there is no negative impact to the Company's overall score. Common reasons for this test to be excluded:

- Non-disclosure of target or actual STI payout levels for the CEO
- CEO does not participate under the STIP

Benchmarks for this test are updated twice a year, along with our peer groups.

NEO Granted Pay vs. Financial Performance

This test evaluates the gap between total NEO granted pay and financial performance relative to Glass Lewis peers. Specifically, it is comparing the percentile rank of five-year weighted average of granted NEO pay to the company's percentile rank of five-year weighted average of an array of financial metrics. Glass Lewis uses the outcomes of these comparisons to evaluate whether the company's executives have been paid in line with the company's relative performance.

Alignment of pay and performance occurs when the gap between compensation and performance ranking is not significant, when the gap is due to higher relative performance levels and relatively lower pay levels, or when a company's pay ranking is notably less than its performance ranking. These instances result in higher points being delivered to the company's overall score. A disconnect is identified when there is a significant deficit between a company's performance ranking relative to pay, leading to less points being awarded to the company's overall score. Generally, this occurs when a company pays more than its peers but does not perform better.

Scores ratings are as follows:

- Negligible Concern: 90 to 100 points
- Low Concern: 70 to 89 points
- Moderate Concern: 51 to 69 points
- High Concern: 35 to 50 points
- Severe Concern: 0 to 34 points

The top five highest paid executives, including the CEO, are aggregated to determine total NEO pay. Total pay is based on a weighted average of each annual period within the overall five-year measurement period, with the most recent year weighted most heavily. When five years of data is not available, the test will revert to a three-year weighted average period for both pay and performance.

The information and stipulations of financial performance for this test mirror the CEO granted pay vs. financial performance test. Please see the above for details.

This test is mandatory to generate a pay-for-performance score.

Compensation Actually Paid vs. TSR

This test is specific to U.S companies. It compares the five-year aggregate CEO compensation actually paid "CAP"-to-TSR ratio against peers based on market capitalization. The ratio is calculated by aggregating the CEO CAP figures for each period in the past five years and dividing this aggregated figure by the reported TSR disclosed for the most recent year. Scoring is based on the percentile ranking of the company's ratio against the ratios of market capitalization peers. In cases of CEO transitions, we will use the year-end CEO's pay. For co-CEO structures, we will use the aggregate of both CEOs.

CAP is taken as disclosed by the Company in its most recent proxy statement. Reported TSR reflects the year-end value of an initial fixed $100 investment at the start of the required reporting period under SEC Pay Vs Performance (PVP) disclosure rules.

A company will perform poorer in this test if its CEO CAP-to-TSR ratio places well above median of market capitalization peers, with scores worsening depending on relative magnitude against the median. Penalties occur when the Company is more than 50% above the median of market capitalization peers. There is no penalty when the Company's ratio places at or below the median of its market capitalization peers.

Bands for market capitalization are fairly broad as the more peers in a band, the more meaningful the comparison for this test. Approximately 150 to 300 companies fall in each band. The bands for market capitalization peers are as follows:

- $0 to $1 billion
- $1 to $2.5 billion
- $2.5 billion to $7 billion
- $7 billion to $35 billion
- $35+ billion

Score ratings are as follows:

- Negligible Concern: 81 to 100 points
- Low Concern: 66 to 80 points
- Moderate Concern: 51 to 65 points
- High Concern: 31 to 50 points
- Severe Concern: 0 to 30 points

CAP is a measurement that adjusts Summary Compensation Table data by reflecting changes in actual value of stock awards and defined benefit pension benefits during the covered year. Specifically, it is accounting for the following:

- the year-end fair value of outstanding equity granted during the year in review
- the year-over-year chang in outstanding equity awards granted in previous years
- the vesting date fair value of equity awards that were granted and vested during the year, and
- the change in value of previously granted awards that vested during the year.

It provides helpful context of the change in realized and realizable pay over a given period. This provides a multidimensional view of compensation, as it also takes into account stock price and performance for equity. Multiple studies and our own statistical analysis have shown a clear and strong linkage between CAP and performance.

This is not a mandatory test. If the mandatory tests must reverted to three years of data, this test will be excluded. This test requires five-years' worth of data. If this test must be excluded, there is no negative impact on the Company's overall score.

Data for the market capitalization bands in this test are updated twice a year, along with our peer groups.

Realized CEO Pay vs. TSR

This test is specific to Canadian companies.

This test evaluates the gap between realized CEO pay and TSR performance relative to the company's Glass Lewis peers. Specifically, it is comparing the percentile rank of five-year weighted average of realized CEO pay to the company's percentile rank of five-year weighted average of annualized TSR growth. Glass Lewis uses the outcomes of these comparisons to evaluate whether the company's CEO has been paid in line with the company's relative TSR performance.

Alignment of pay and performance occurs when: i) the gap between compensation and performance ranking is not significant, ii) the gap is due to higher relative performance levels and relatively lower pay levels, or iii) when a company's pay ranking is notably less than its performance ranking. These instances result in higher points being delivered to the company's overall score. A disconnect is identified when there is a significant deficit between a company's performance ranking relative to pay, leading to less points being awarded to the company's overall score. Generally, this occurs when a company pays more than its peers but does not perform better.

Score ratings are as follows:

- Negligible Concern: 81 to 100 points
- Low Concern: 66 to 80 points
- Moderate Concern: 51 to 65 points
- High Concern: 31 to 50 points
- Severe Concern: 0 to 30 points

Realized CEO pay is based on a weighted average of each year over five years, with the most recent year weighted most heavily. TSR is based on a weighted average of one-, two-, three-, four- and five-year annualized growth rates. When five years of data is not available, the test will revert to a three-year weighted average period for both pay and performance.

This is not a mandatory test. If this test must be excluded, there is no negative impact on the Company's overall score.

Qualitative Features

This test acts as a downward modifier, in that it may only reduce the Company's overall score, not increase it. Answers are based on disclosure for the year in review. Depending on the answer to the following questions, a company is penalized to varying degrees if answered yes:

- Were there any one-time awards granted (excluding cash severance)?
- Was upward discretion exercised?
  - Increasing payouts above formulaically calculated outcomes
  - Lowering performance goals partially through the year
  - Pro-rating a performance period retroactively (ex: Payouts will solely be based on the first half of the year, rather than the full year.)
- Is fixed pay greater than variable pay?
- Are incentives unlimited or are limits not disclosed?
- Is the maximum LTIP payout potential excessive?
  - This limit is informed by reviewing the 75th percentile of maximum potential LTI payouts for companies in our coverage list and is based on a percentage of base salary.
- Is there a short vesting period for long-term incentives?
- Are any performance goals not disclosed for granted awards?
  - Includes any applicable threshold, target or maximum performance goal for short-term and/or long-term incentives granted during the year in review

Score rating are as follows:

- Negligible Concern: 91 to 100 points
- Low Concern: 81 to 90 points
- Moderate Concern: 71 to 80 points
- High Concern: 61 to 70 points
- Severe Concern: 0 to 60 points

Performance Treatments

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

Growth metrics will be excluded from our analysis when there are less than two viable performance periods' annualized growth numbers for the metric. As is standard in financial analysis, growth calculations are not considered meaningful, and potentially even misleading, in the presence of: i) year-over-year sign changes; or ii) consistent negative values for each year. We will also eliminate performance periods when it is deemed that the growth calculation is not meaningful, such as when the base figure is essentially breakeven.

Additionally, metrics may not be used if they were not provided to us by our data provider.

We use GAAP (US) and IFRS (Canada) figures. If there are substantial changes in financial reporting standards (GAAP or IFRS), we will review such changes. Depending on the degree of impact, this may result in the exclusion of effected metrics until a minimum of three years of comparable financial data is disclosed.

Peer Selection Process

Our peer methodology begins by building a peer universe for each company in the Russell 3000 and S&P/TSX Composite. The universe for a company contains its self-disclosed peers, peers of the self-disclosed peers, reverse peers and top peers from its industry and market. Glass Lewis refers to the industry and market peers as the investor peer groups.

Reverse peers are firms who have referenced a subject company as a peer, but that company has not referenced them. Industry peers are determined by a company's 6-digit GICS classification, and market peers include similarly-sized firms based in the same country. Industry peers are more heavily weighted than market peers in order to emphasize firms with similar business environments. While less heavily weighted, market peers still provide a good view of company complexity, using market and firm size as a proxy.

The peer universe is then reduced through a variety of size and strength of connection tests to the 15 firms that comprise the final peer group for the subject company.

Ranges for market capitalization, revenue and assets are used to measure size. Mutual peer relationships and multiple peer group inclusions are used to measure strength of connection. Size metrics are also subject to a certain "floor" value so as to provide a sufficiently-sized group of comparators. These tests ensure that a firm is most likely to be included in a given company's peer group if it is comparable in size, in the same industry, and is mutually selected as a peer with the subject company.

Prior to 2020, the peer methodology selected peers without any consideration for firm size. These new tests were added in order to reduce the inclusion of aspirational peers with higher pay levels, the inclusion of smaller companies with less complex businesses, and the exclusion of larger competitors with similar businesses. Importantly, these criteria are reviewed on a blended basis rather than via simple one-strike elimination to avoid removing potentially meaningful comparisons.

Peers are updated twice a year, based on publicly available information only. For both periods, Glass Lewis will accept submissions of self-disclosed peers from issuers. For additional information please review our North American Peer Group Methodology document.

Glass Lewis may also exclude peers from consideration if the peer falls into one or more of the following categories:

- Has not been publicly disclosed;
- Has less than three years of trading history from the most recent fiscal year end;
- Has been privatized, acquired or delisted;
- Is a non-US company or foreign private issuer;
- Is externally managed or otherwise does not disclose compensation details;
- Does not have three full, consecutive years of compensation data that aligns with the years that it has been publicly traded;
- Has changed the company's fiscal year end, such that the consistency of the financials used to calculate growth rates would be impacted; or
- Has experienced M&A transactions that would impact the consistency of the financials used to calculate growth rates.

Say-on-Pay Analysis

Glass Lewis' approach to say-on-pay consists of two main components: (i) a qualitative assessment of the structure of a company's compensation program and the accompanying disclosure; and (ii) a quantitative assessment reflected in our pay-for-performance score. As a result of this approach, a poor score in our pay-for- performance analysis will not automatically result in a negative recommendation, and a favorable score does not guarantee a positive recommendation. Our peer methodology does not affect Glass Lewis' consideration of qualitative factors not captured by a retrospective look at compensation levels and firm performance.

The quantitative approach is derived from the Glass Lewis pay-for-performance model, explained in the previous sections. The relationship between relative executive compensation and relative performance is the basis of the pay-for- performance model. The model performs multiple tests in order to generate a score that indicates how well a company has aligned pay with performance. In comparing the outcome of these analyses, Glass Lewis is able to evaluate whether the company's executives have been paid in line with the company's relative performance through multiple lenses.

Since the peer group used is based on an independent, proprietary technique, it will often differ from the one used by the company which, in turn, will affect the resulting analyses. While Glass Lewis believes that the independent, rigorous methodology it uses provides a valuable perspective on the company's compensation program, the company's self-selected peer group may also be presented in the Proxy Paper for comparative purposes and for supplemental analyses.

In considering the qualitative merits of a compensation program, Glass Lewis reviews a range of factors including industry, company size, maturity, financial position, historical pay practices and any other relevant internal and external factors. Any compensation-related decisions or features that may be detrimental to shareholders' interests will be highlighted, and any significant gaps in the information will be noted as well.

The review of a company's practices also takes into consideration the compensation committee's response to previous say-on-pay votes. When a company receives low support for its say-on-pay proposal (e.g. below 80% support from disinterested votes cast), Glass Lewis believes the compensation committee should provide some level of response to shareholders' concerns, including engaging with large shareholders to identify the concerns driving the opposition. Shareholders should also expect adequate disclosure of any such engagement and any resulting feedback or changes being made to address outstanding concerns.

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