

Strong Pay for Performance on the TSX 60 Since 2004

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January 2013

Pay for Performance Since 2004

In 2012, the Clarkson Centre for Board Effectiveness (CCBE) completed a study examining changes in CEO pay at issuers listed on the S&P/TSX 60 Index (TSX 60)¹ relative to TSR over the 8-year period between 2004 and 2011. For 81% of the issuers we studied, pay and performance moved in the same direction, which is an indication of good pay/performance alignment. Moreover, TSR outpaced CEO pay change by a wide margin at most firms, suggesting that even in times of good performance, CEO pay typically moves at a relatively conservative pace compared to market performance. Looking at the TSX 60 as a whole, TSR was 91% between 2004 and 2011 while the total dollars paid to TSX 60 CEOs increased by 14%.

In Figure 1 below, each TSX 60 issuer is represented by a blue circle. CCBE considers issuers in the top-right and bottom-left quadrants to have 'aligned' pay and TSR, while the bottom right indicates decreased pay for positive performance, and the top left indicates increased pay for negative performance. A majority of issuers (9 of 10) that fell outside of the aligned quadrants landed in the bottom right, meaning pay decreased while TSR increased. In some cases, these firms posted TSR of up to eight times the TSX 60 average, while CEO pay stayed stable or even decreased.

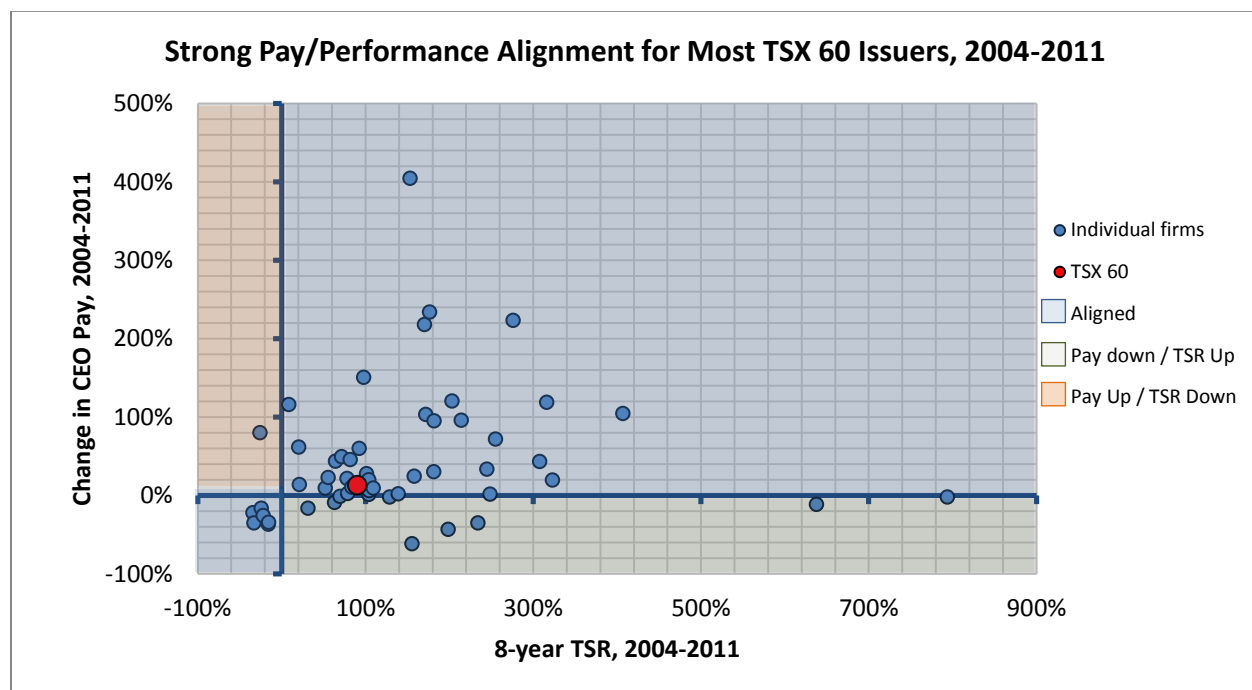


Figure 1 – S&P/TSX 60: Most constituents' CEO pay and shareholder returns are aligned over time

¹ For the purposes of this study, we excluded five issuers (CVE, PWT, SLW, THI, YRI) that did not have sufficient historical data to perform an 8-year analysis. In addition, ARX, BAM and SNC were excluded for external reasons. This left us with a sample size of 52 issuers.

The only issuer that fell into the top-left quadrant, where pay increased while TSR decreased, was Thomson Reuters (TRI). TRI is an unusual case, however, as their entire management team received large one-time RSU awards in 2008 following the integration of Reuters, thus causing a significant imbalance in pay/performance alignment as a result of a single outlying year. As such, CCBE does not believe that this result is representative of TRI's overall compensation philosophy, which has typically been relatively conservative. In general, CCBE has observed very few instances of systemic pay/performance misalignment. Additional analysis of the individual issuers in our study can be found on the [CCBE website](#).

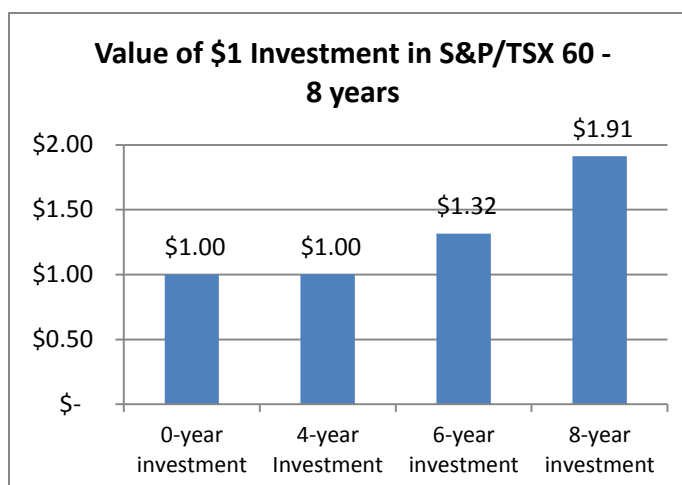


Figure 2 – TSX 60 total returns since 2004

Shifts in Compensation Philosophy – More Equity-Based Pay

The composition of CEO pay has changed significantly since 2004 as well. Most notably, immediate cash-based compensation has decreased from 51% of total pay to 36%, while mid- and long-term equity pay now make up more than half of the average CEO's compensation (see Figure 3 below). For the purposes of this study, we measured the value of CEO pay at the time of grant. This increased focus on equity-based pay, however, may help to increase alignment between *realized* pay and performance over time as well.

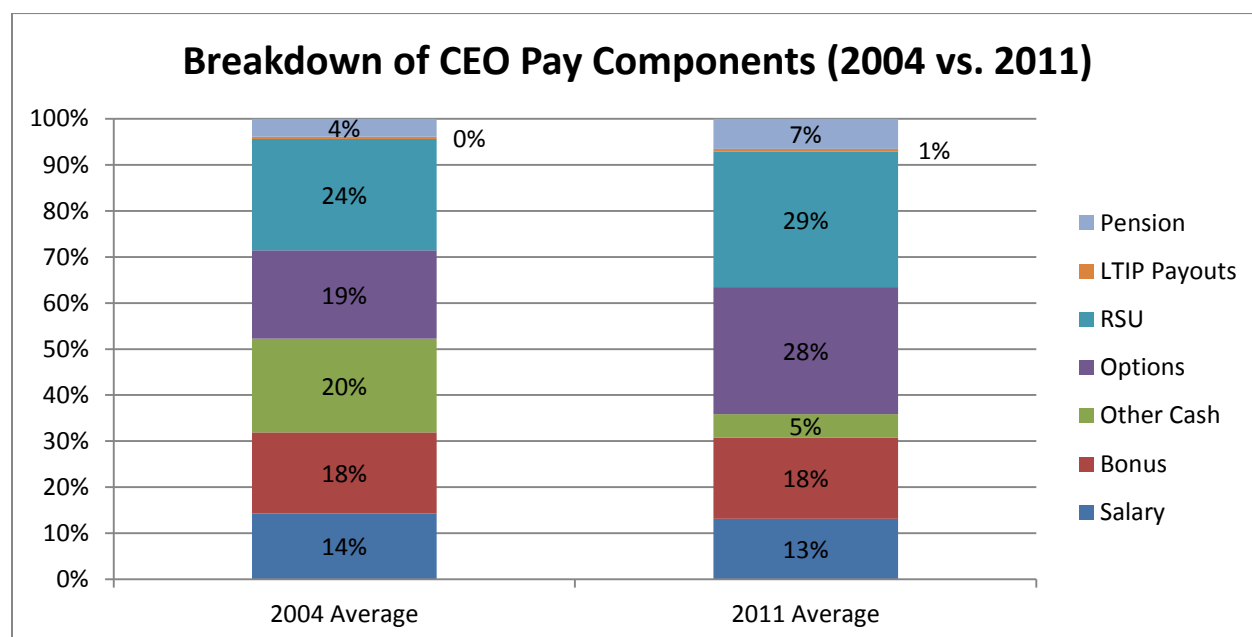


Figure 3 – Focus on equity-based pay (RSU and Options) has increased significantly since 2004