

IS THE EXTRAORDINARY BECOMING ORDINARY?

2016 report on outside of plan awards



OUTSIDE OF PLAN AWARDS

continue to represent a significant portion of compensation for executives at public companies in North America. This is concerning given that these awards, by their very nature, are meant to be used only in exceptional circumstances.



Over the past two years, outside of plan awards – including retention awards, severance payments and sign-on bonuses – have amounted to a total of US\$9.3 billion in the US and Canada. This is a significant percentage of the total direct compensation paid to executives, suggesting these extraordinary awards may be turning into a widespread and common component of executive pay. We continue to highlight this issue as we believe the use of outside of plan awards raises concerns over the efficacy of compensation plans that are already intended to attract, retain and incentivize executives.

While we believe that outside of plan awards can be an appropriate form of compensation, we hold boards accountable for these decisions and expect them to provide shareholders with a cogent rationale, explaining why such awards are deemed to be appropriate.

We have now tracked and analyzed all outside of plan awards granted by US and Canadian companies in 2015 and 2016. This report summarizes our findings for 2016 and sets out our observations on year-over-year trends (see the report we released last year “*Outside of Plan Awards in 2015*”).

REPEAT USERS

610 US companies granted outside of plan awards in both 2015 and 2016, making up 52% of all US companies granting these awards in 2016. These repeat users granted 2,330 awards in 2016, worth a total of US\$2.5 billion.



Two for Two

622 US executives received outside of plan awards in both years. 160 executives received a discretionary or retention award two years in a row.



Hello Don't Go

32 executives received a sign-on award in 2015 followed by a discretionary or retention award in 2016.



Growing in Canada

Although Canada is a smaller market and aggregate amounts paid to executives are considerably lower than in the US, the year over year increase in outside of plan awards used by Canadian companies was significant. Total outside of plan awards in Canada amounted to CA\$171 million, an increase of CA\$56 million or 48.1% compared to 2015. This was accompanied by a 47.7% increase in the total number of awards and a 72.5% increase in the total number of companies making awards. These awards represented 8.4% of total direct compensation for Canadian executives in 2016, compared to 5.9% in 2015.



Big, and Getting Bigger

In the US, total outside of plan awards in 2016 amounted to US\$4.8 billion, an increase of 11.4% from 2015. US executives saw a US\$493 million increase in outside of plan awards despite slightly fewer companies granting these awards. Outside of plan awards represent 13.0% of total direct compensation for US executives, compared to 11.4% in 2015.



Same Sectors

Consumer Discretionary, Information Technology and Healthcare were the top sectors using outside of plan awards in both 2015 and 2016. These sectors each granted over US\$900 million in awards. This is significantly more than the US\$240 million average across the other sectors.



The Cost of Hiring from the Outside

A total of US\$2.0 billion was awarded for sign-on and severance payments by US companies, up 16.2% from 2015. The average of all other award types – including retention, discretionary, transaction, promotion and guaranteed awards – was US\$460 million.



Pay without Performance

Use of performance equity has increased, but still remains low at 18% of total outside of plan awards granted in the US in 2016. Most awards were granted in the form of time-based equity (39%), cash (26%) and options (15%).



Taking Action

In 2016, both Ontario Teachers' Pension Plan and Canada Pension Plan Investment Board updated their respective proxy voting guidelines to make outside of plan awards an explicit consideration when voting on say-on-pay proposals. Outside of plan awards were a significant factor in at least 57 say-on-pay proposals that OTPP and CPPIB voted against during the 2016 proxy season. Going forward, we will continue to factor the use of these awards into our voting decisions.



What's Next

We will continue to closely monitor the use of outside of plan awards by companies in the US and Canada. In 2017, we will also be undertaking targeted engagement with boards that have repeatedly granted outside of plan awards without a cogent explanation. We will be looking to understand the board's rationale for the repeated granting of awards that we believe should be reserved for exceptional circumstances, as well as how the structure and quantum were determined.

For more information on our study, please contact us:

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CPP
INVESTMENT
BOARD



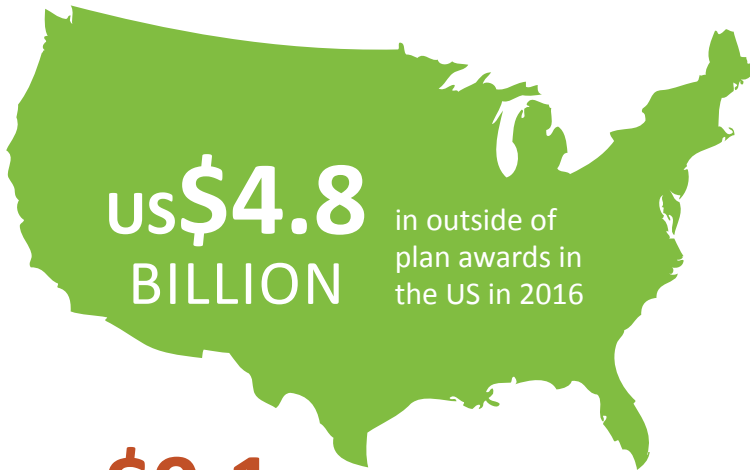
OUTSIDE OF PLAN AWARDS



CPP
INVESTMENT
BOARD



UNITED STATES



US\$9.1 BILLION



granted in outside of plan awards in the US over the last two years

1/2

Becoming a habit
repeat users of outside of plan awards represent over half of total awards in the US (US\$2.5 billion)

1/4

20 companies granted almost one quarter of all outside of plan awards in 2016



Outside of plan awards represented 13% of total direct compensation in 2016

Increase of
US\$493 MILLION



CONSUMER DISCRETIONARY



INFORMATION TECHNOLOGY



HEALTHCARE

continue to dominate the use of outside of plan awards



Executive succession continues to dominate

US\$2.0 BILLION

paid in sign-on and severance in the US in 2016

REPEAT USERS

US\$4.6 BILLION

granted as outside of plan awards in 2015 and 2016 by repeat users



610 US

companies granted outside of plan awards in both 2015 and 2016



622 US

executives received outside of plan awards in both 2015 and 2016

CANADA



CA\$171 MILLION

in outside of plan awards in 2016

48%

YEAR OVER YEAR INCREASE



73%

increase in the number of companies granting outside of plan awards in 2016