

MERCER NORTH AMERICA EXECUTIVE REWARDS

ENVIRONMENTAL, SOCIAL, AND
GOVERNANCE (ESG) INCENTIVE
PLAN METRICS: **SPOT SURVEY**

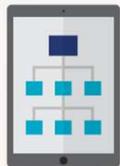
SURVEY OVERVIEW

BACKGROUND

With growing expectations for organizations to operate in an environmentally and socially conscious way, Environmental, Social and Governance (ESG) incentive plan metrics are increasingly being considered as effective tools to reinforce positive actions. Mercer conducted this survey in May 2019 to capture a snapshot of this trend by examining the prevalence and types of ESG metrics used in incentive plans, including environmental, employee engagement, and diversity & inclusion. 135 organizations from across Canada and the United States participated.

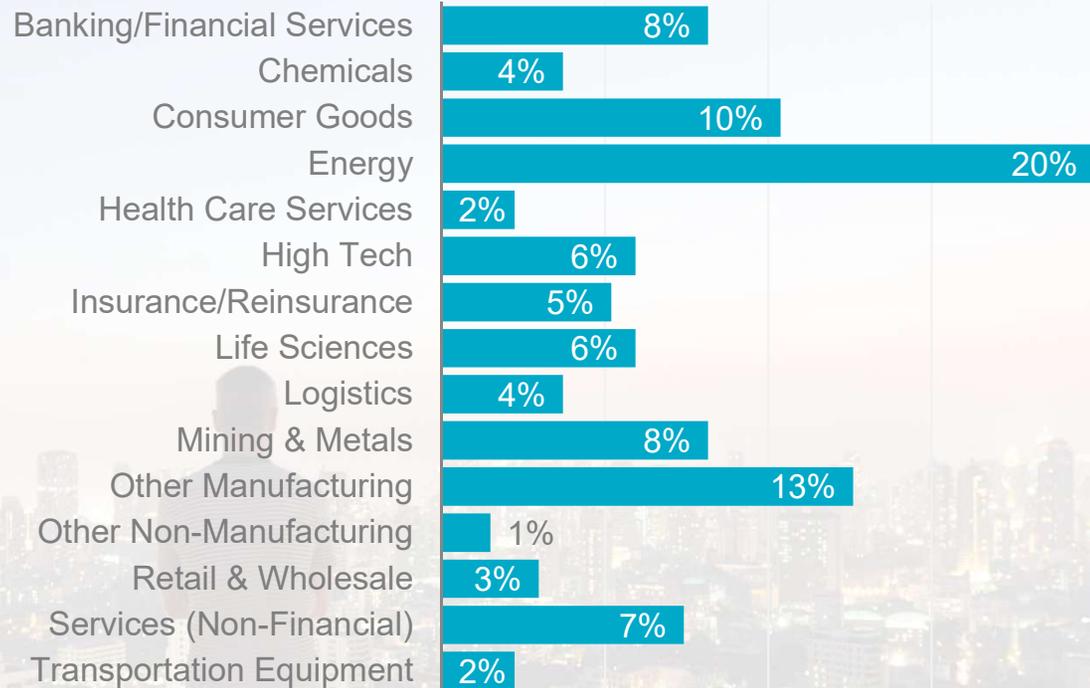


- 85 United States-based
- 50 Canada-based

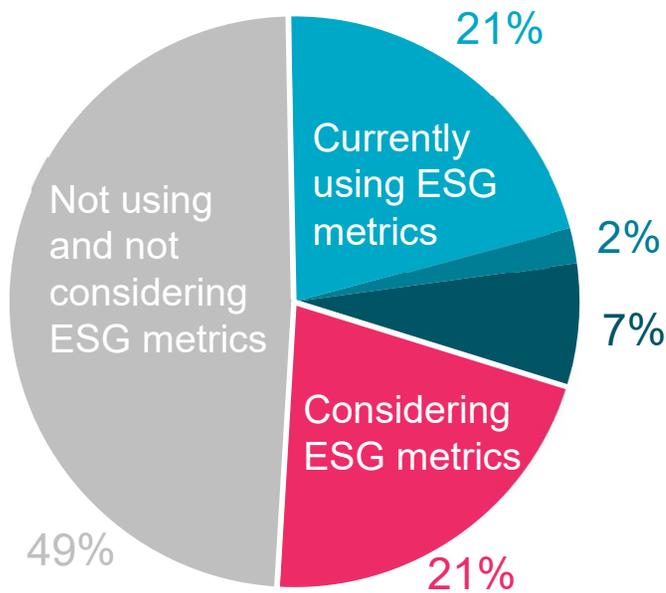


- 93 publicly traded
- 33 privately held
- 9 not-for-profit / public sector

PARTICIPATION BY SECTOR



SURVEY OVERVIEW HIGHLIGHTS



51% of respondents either use ESG metrics in their incentive plans (30%) or are considering doing so (21%)



ESG metrics are more likely to be measured quantitatively than qualitatively



Short-term incentive plans: 21%
Long-term incentive plans: 2%
Both short- and long-term incentive plans: 7%



It's most common for ESG metrics to apply to all incentive plan participants, rather than just senior executives



The Mining & Metals and Energy sectors are generally more likely than other sectors to use ESG metrics in incentive plans, with a heavy emphasis on environmental metrics



Canadian respondents are more likely than US respondents to use ESG metrics in their incentive plans

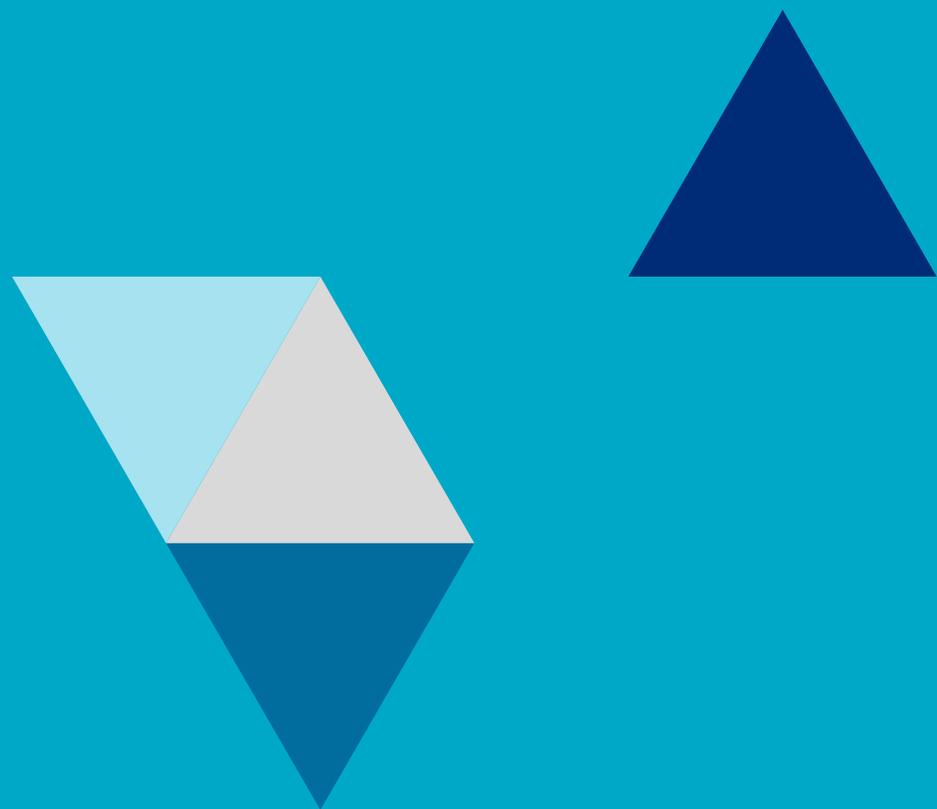


Weighting of ESG metrics as a percentage of all plan metrics is typically 5% or less

The survey's results may be skewed by the significant number of respondents in the Energy sector (20% of survey respondents compared to 6% of the S&P 500), as the Energy sector is generally more likely than other sectors to use ESG metrics in incentive plans. Similarly, the comparison of Canada vs. the United States may be skewed due to the large number of Energy companies in the Canadian economy.

Due to rounding, numbers presented throughout this report may not add up precisely to the totals indicated.

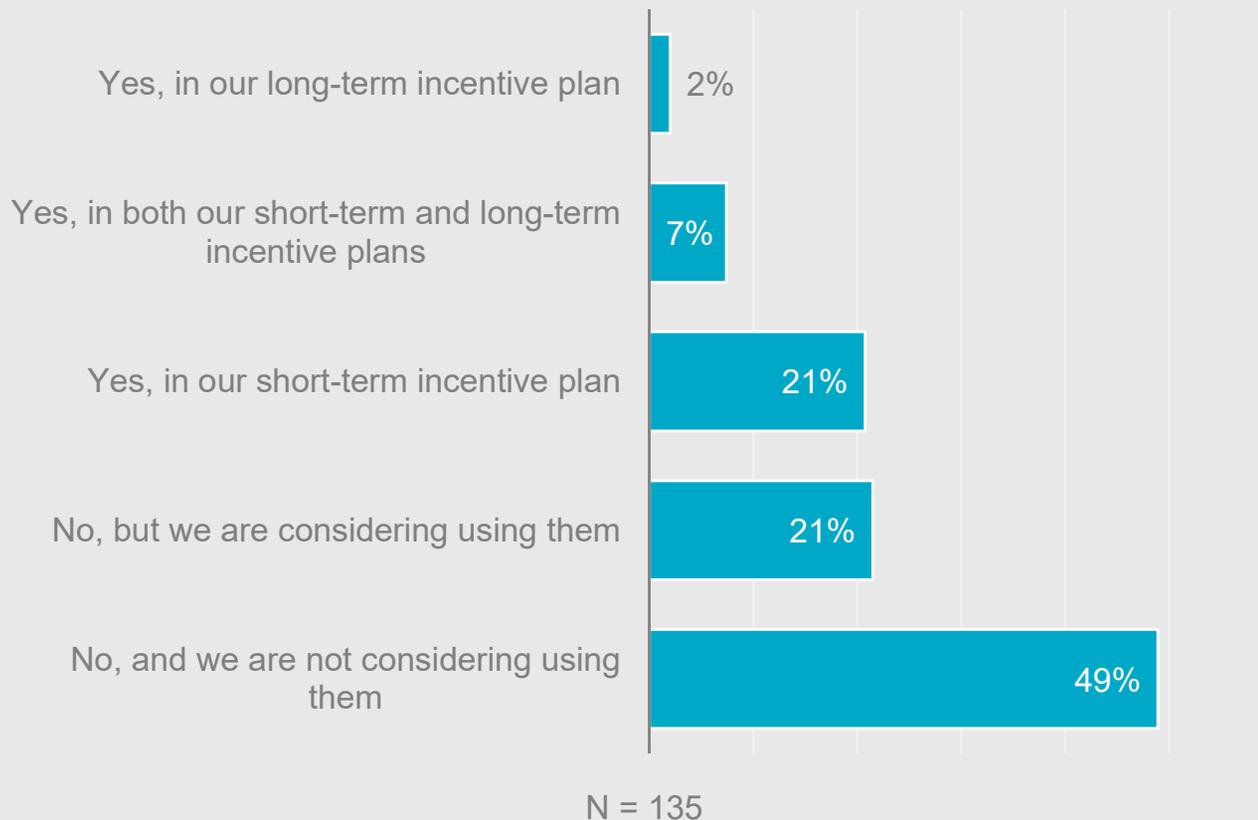
SURVEY RESULTS



SURVEY RESULTS

OVERALL PREVALENCE

Do you include any metrics related to Environmental, Social, or Governance (ESG) issues in your incentive plan, such as diversity & inclusion, employee engagement, or environmental?



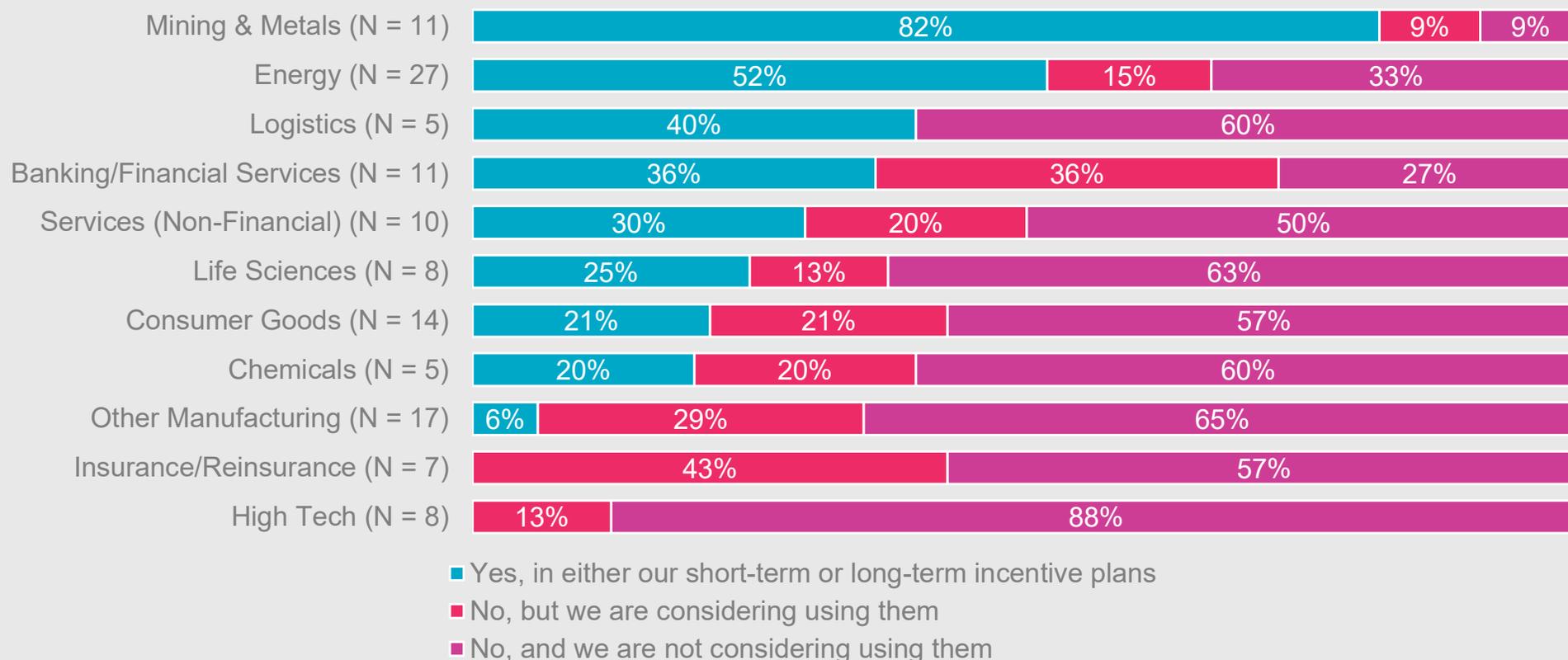
- Just over half (51%) of respondents reported that they are either currently using ESG metrics in their incentive plans (30%) or are considering using them in the future (21%).
- ESG metrics are used more often in short-term incentive plans (28% of respondents) than in long-term incentive plans (9% of respondents).

SURVEY RESULTS

OVERALL PREVALENCE

ESG metrics usage has the highest prevalence among respondents in the Mining & Metals and Energy sectors.

ESG METRIC PREVALENCE BY SECTOR

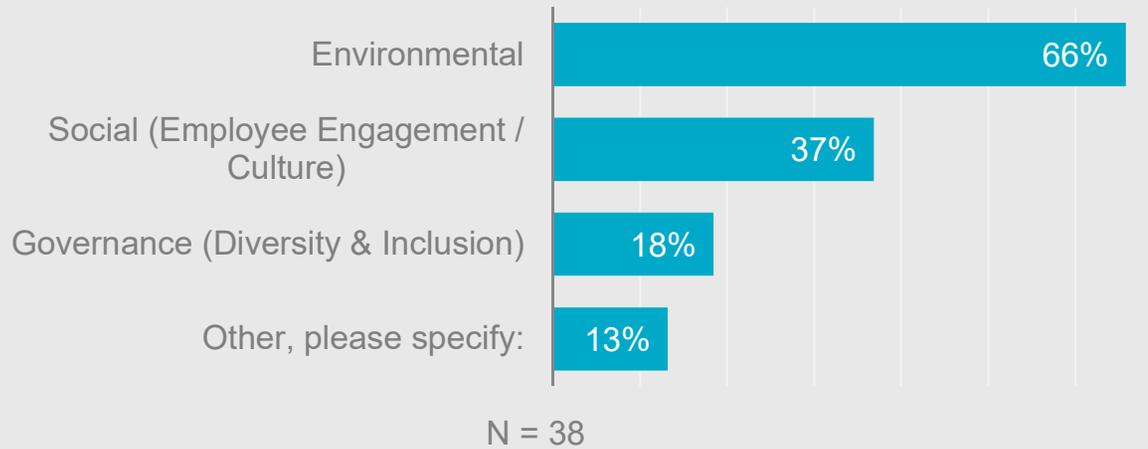


Note: Health Care Services, Other Non-Manufacturing, Retail & Wholesale and Transportation Equipment Sectors are not shown due to a limited number of responses.

SURVEY RESULTS

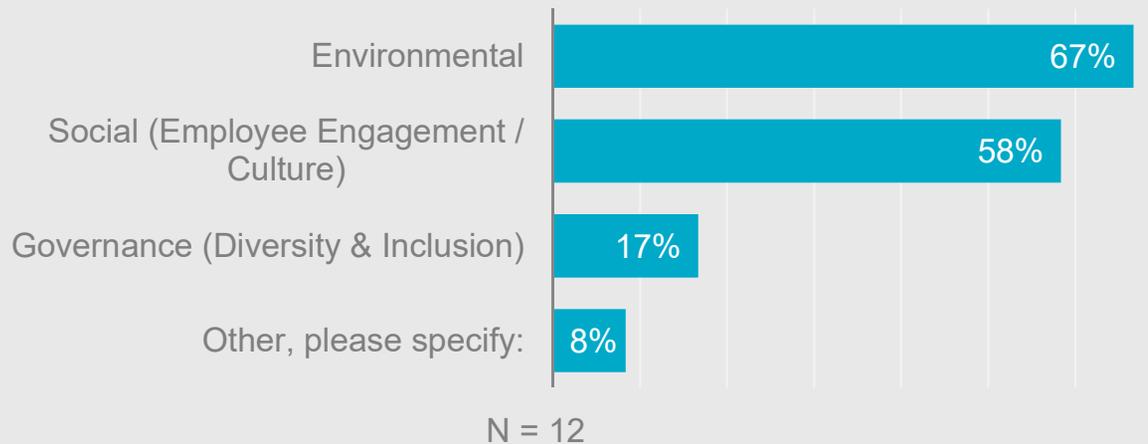
METRIC CATEGORIES

Which ESG metrics do you include in your short-term incentive plan?



- Environmental metrics are the most prevalent ESG metric in respondents' short-term incentive plans by a wide margin.

Which ESG metrics do you include in your long-term incentive plan?



- Environmental metrics are the most prevalent ESG metric in respondents' long-term incentive plans, followed closely by Employee Engagement / Culture.
- The most prevalent Other responses include metrics around employee health and safety.

SURVEY RESULTS

METRIC CATEGORIES

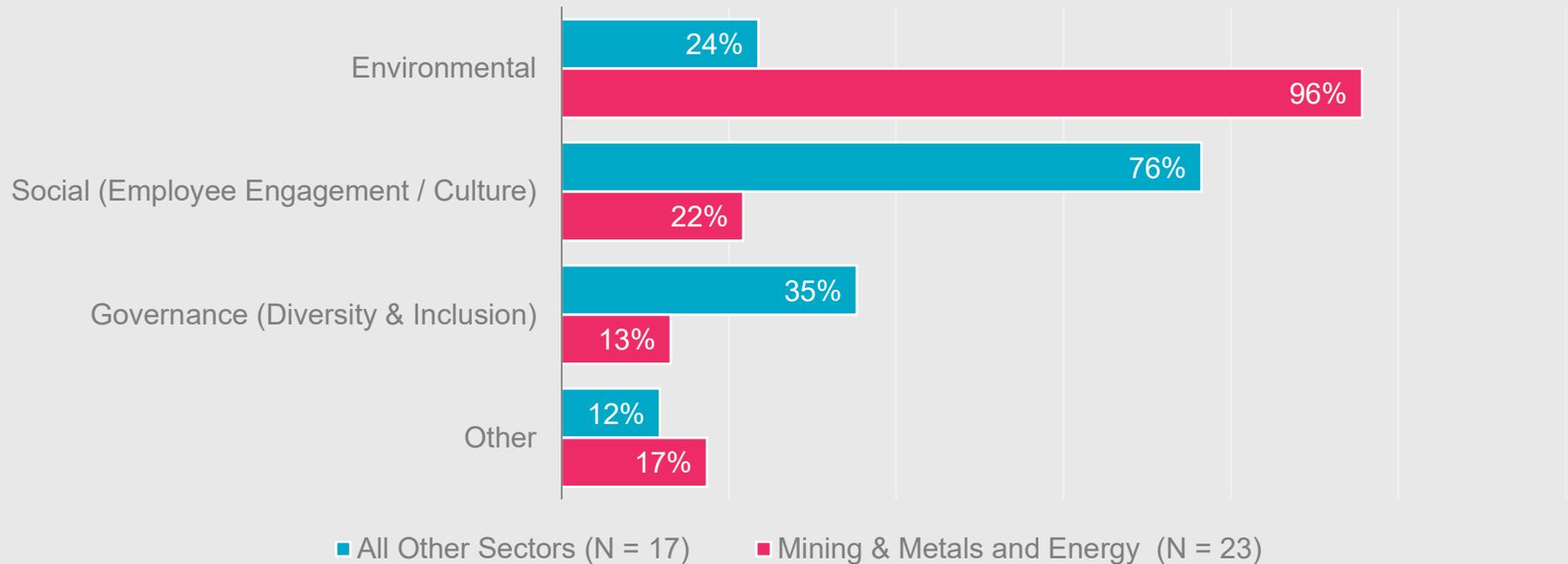


Compared to respondents in other sectors that use ESG metrics in their incentive plans, respondents in the Mining & Metals and Energy sectors are far more likely to use an Environmental metric (96%).



Employee Engagement / Culture is the most prevalent metric for respondents in all other sectors (76%), followed by Diversity & Inclusion (35%).

METRIC CATEGORY PREVALENCE: MINING & METALS AND ENERGY VS. ALL OTHER SECTORS



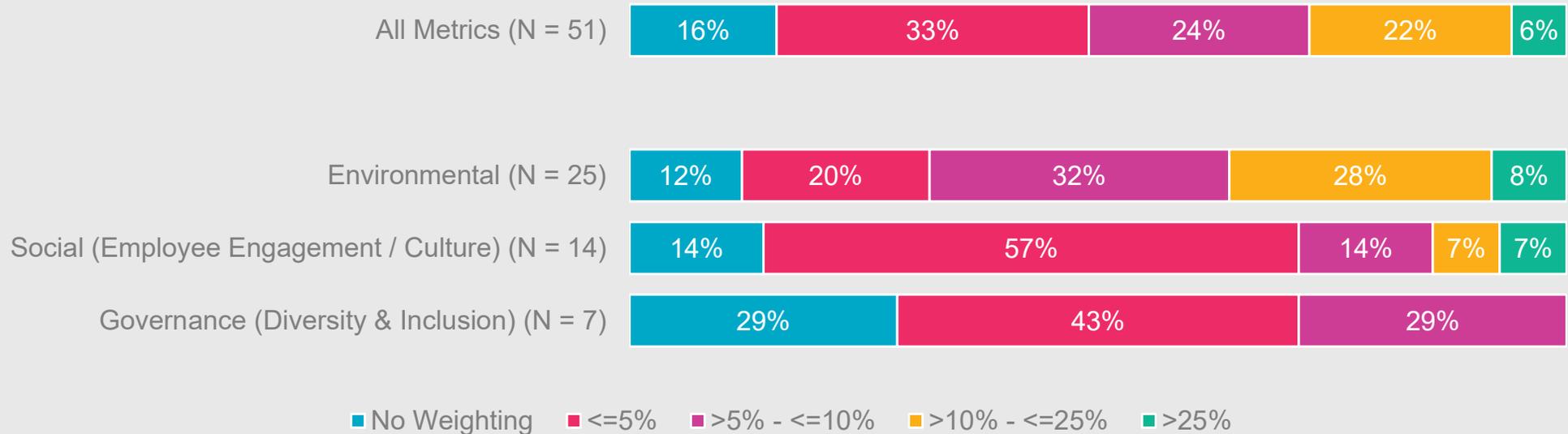
Note: These prevalence figures are based on the 40 respondents that use at least one ESG metric in either their short- or long-term incentive plans.

SURVEY RESULTS

METRIC WEIGHTINGS – SHORT-TERM INCENTIVES

What is the weighting of the ESG metrics as a % of total metrics in your short-term incentive plan?

- One-third of ESG metrics used in short-term incentive plans are assigned a weight of 5% or less; an additional 16% don't assign any weight.
- Compared to other ESG metrics, Diversity & Inclusion metrics are more likely to have no specific weighting and be included as part of nonfinancial metrics (29%).
- Compared to other ESG metrics, Environmental metrics are more likely to be assigned a weighting of more than 10% of the overall short-term incentive plan (36%).



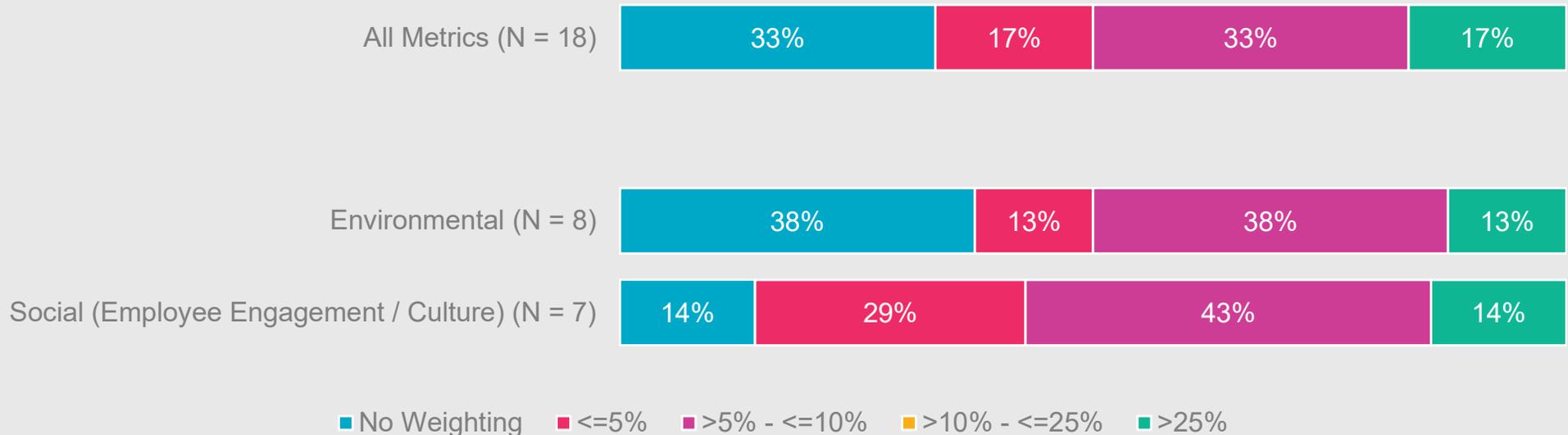
Note: Metrics included in the "Other" category are not shown due to a limited number of responses.

SURVEY RESULTS

METRIC WEIGHTINGS – LONG-TERM INCENTIVES

What is the weighting of the ESG metrics as a % of total metrics in your long-term incentive plan?

- One-third of ESG metrics used in long-term incentive plans have no specific weighting and are included as part of nonfinancial metrics.
- Half of ESG metrics used in long-term incentive plans have a weighting of 10% or less.

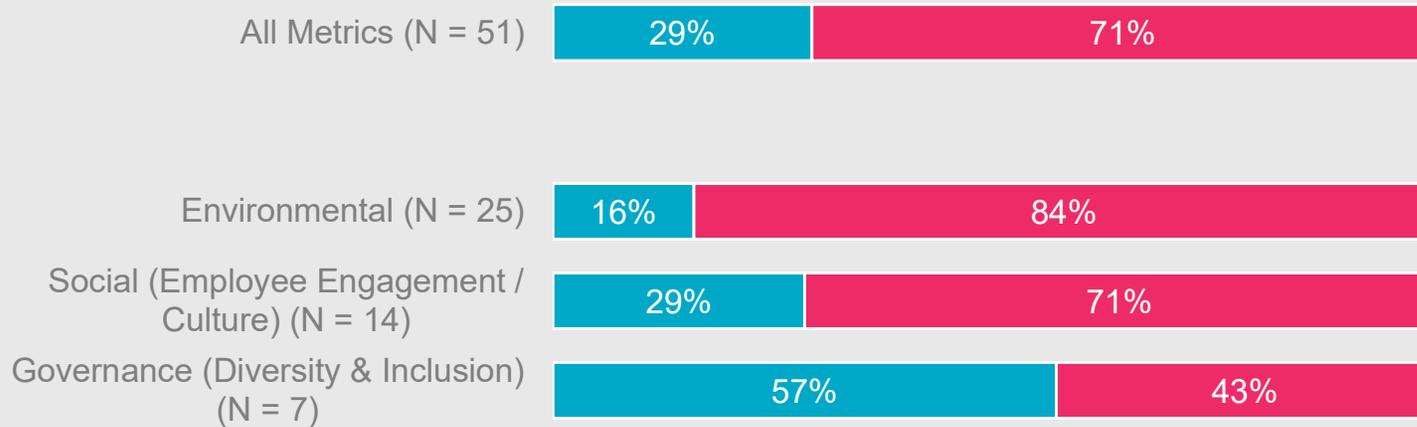


Note: Metrics included in the Governance and "Other" categories are not shown due to a limited number of responses.

SURVEY RESULTS

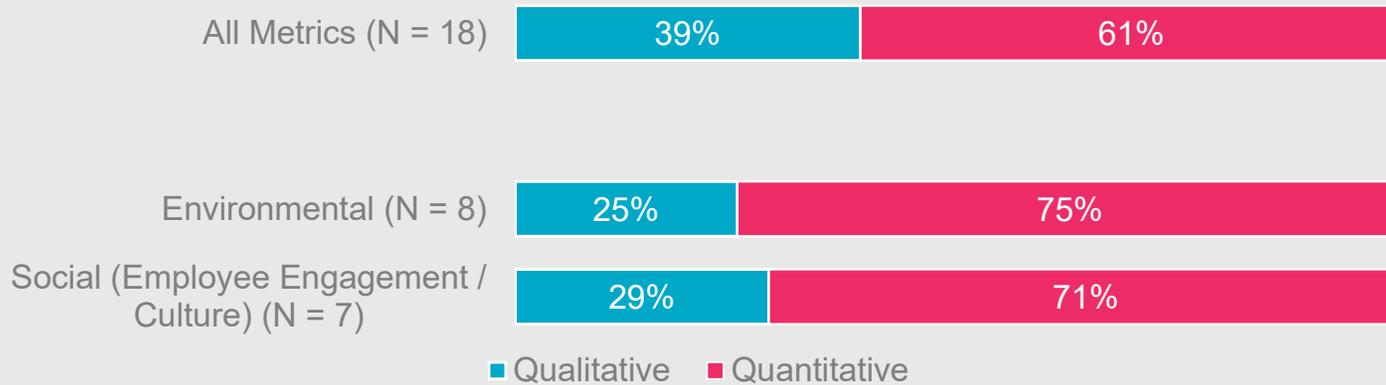
METRIC MEASUREMENT

Are the ESG metrics in your short-term incentive plan qualitative or quantitative?



- With the exception of Diversity & Inclusion in short-term incentive plans, ESG metrics used in both short- and long-term incentive plans tend to be measured on a quantitative basis.

Are the ESG metrics in your long-term incentive plan qualitative or quantitative?

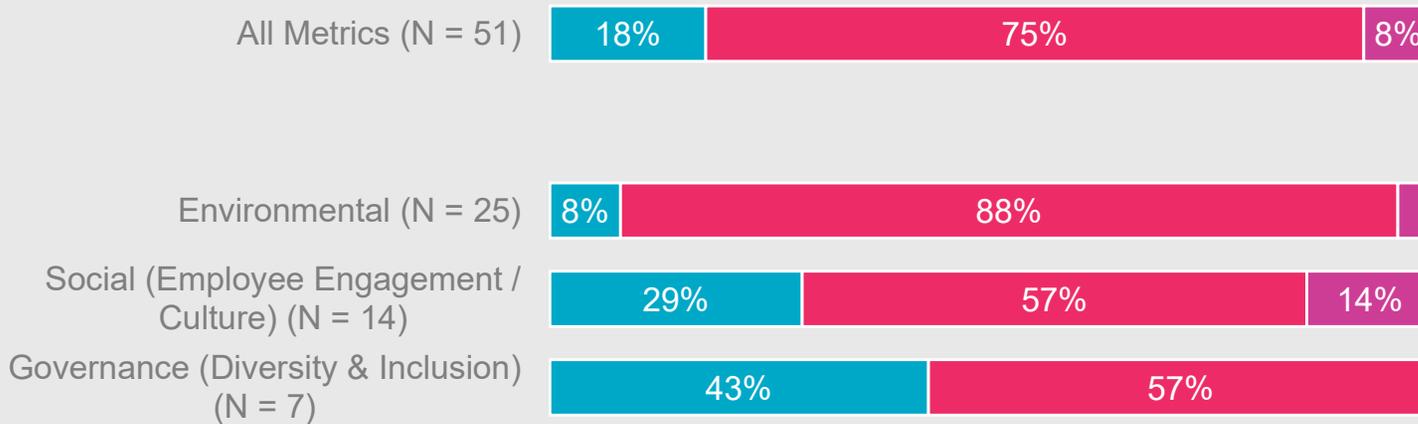


Note: Metrics included in the Governance (long-term incentive plan only) and "Other" categories are not shown due to a limited number of responses.

SURVEY RESULTS

PARTICIPATION LEVELS

Which employees do the ESG metrics apply to in your short-term incentive plan?



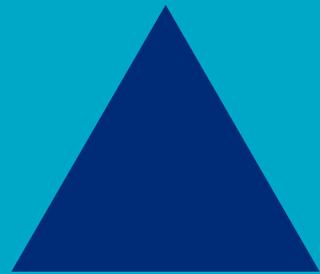
- ESG metrics used in both short- and long-term incentive plans generally apply to all incentive plan participants.

Which employees do the ESG metrics apply to in your long-term incentive plan?



Note: Metrics included in the Governance (long-term incentive plan only) and "Other" categories are not shown due to a limited number of responses.

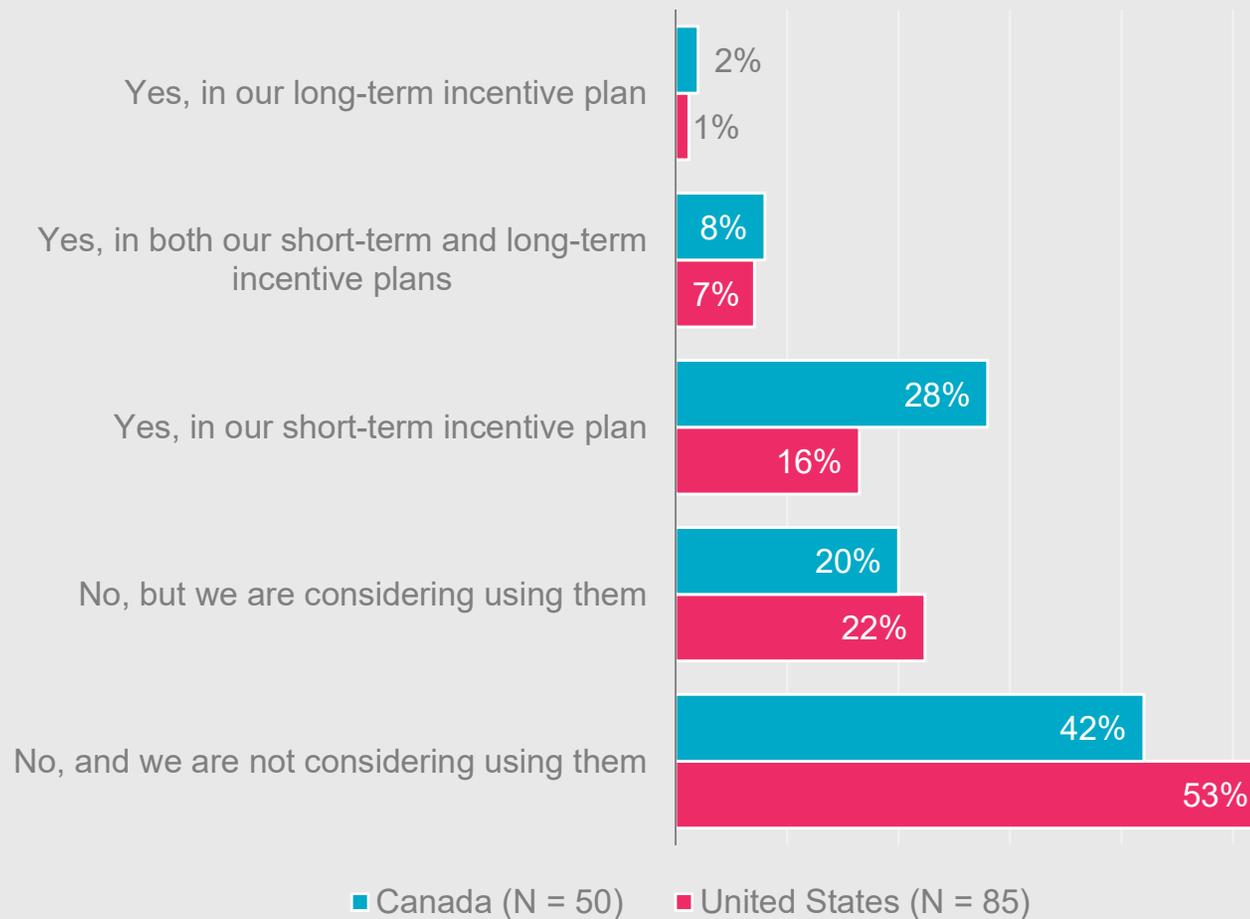
CANADA VS. UNITED STATES COMPARISON



CANADA VS. UNITED STATES COMPARISON

OVERALL PREVALENCE

Do you include any metrics related to Environmental, Social, or Governance (ESG) issues in your incentive plan, such as diversity & inclusion, employee engagement, or environmental?

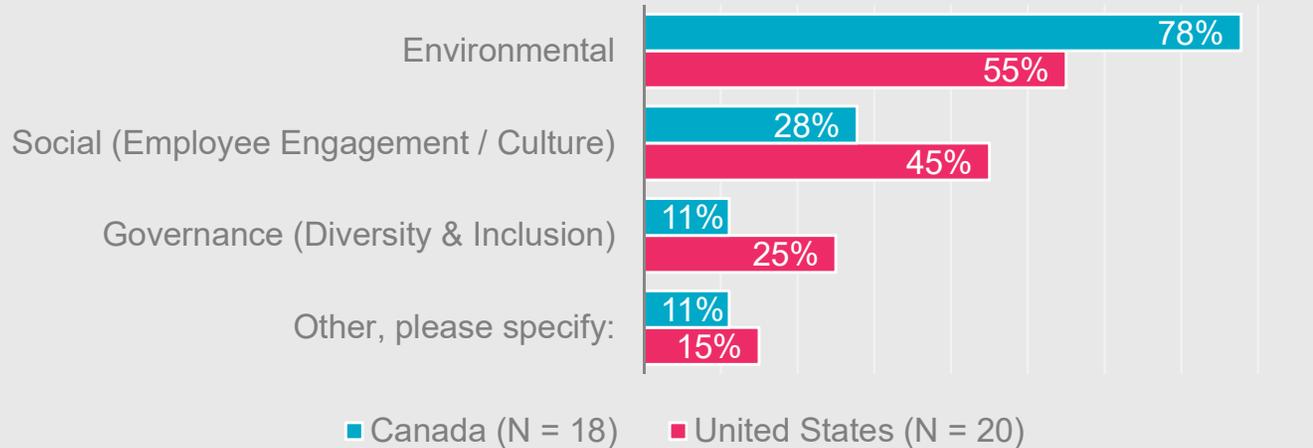


- Canadian respondents are more likely than US respondents to use ESG metrics in both short- and long-term incentive plans (38% vs. 24%).

CANADA VS. UNITED STATES COMPARISON

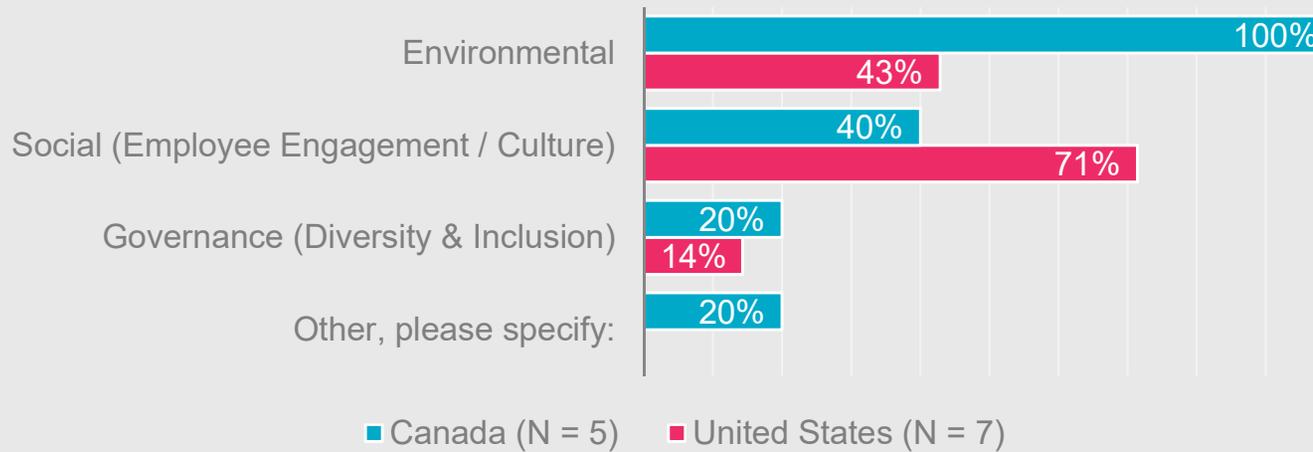
METRIC CATEGORIES

Which ESG metrics do you include in your short-term incentive plan?



- In both short- and long-term incentive plans, Environmental metrics are more prevalent among Canadian respondents than US respondents; Employee Engagement / Culture metrics are more common among US respondents.

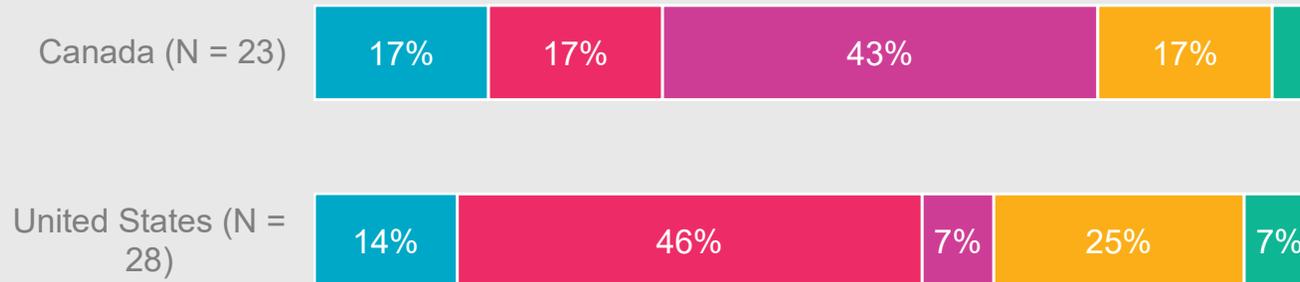
Which ESG metrics do you include in your long-term incentive plan?



CANADA VS. UNITED STATES COMPARISON

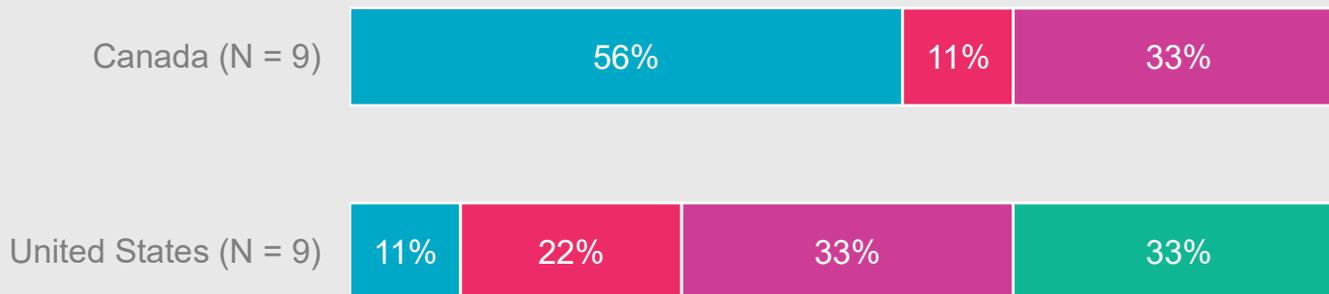
METRIC WEIGHTINGS – SHORT-TERM INCENTIVES

What is the weighting of the ESG metrics as a % of total metrics in your short-term incentive plan?



- Canadian respondents place more weight on ESG metrics in their short-term incentive plans, while US respondents place more weight on ESG metrics in their long-term incentive plans.

What is the weighting of the ESG metrics as a % of total metrics in your long-term incentive plan?



■ No Weighting ■ <=5% ■ >5% - <=10% ■ >10% - <=25% ■ >25%

CANADA VS. UNITED STATES COMPARISON

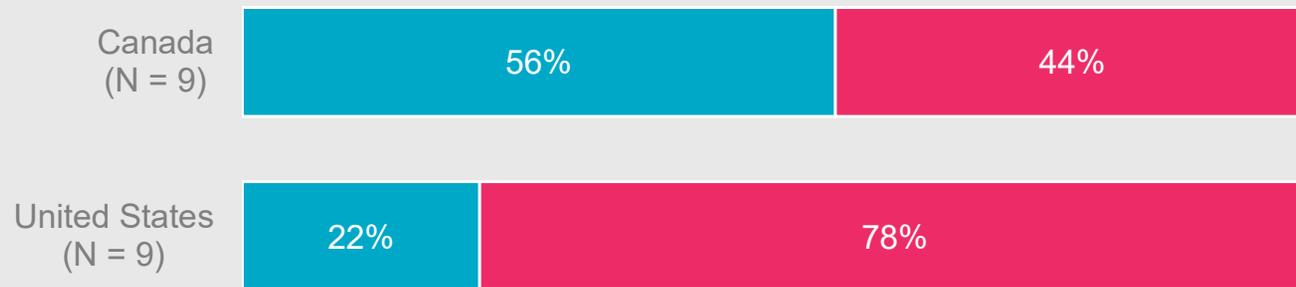
METRIC MEASUREMENT

Are the ESG metrics in your short-term incentive plan qualitative or quantitative?



- Canadian respondents are more likely than US respondents to use quantitative ESG metrics in their short-term incentive plans, while the reverse is true for long-term incentive plans.

Are the ESG metrics in your long-term incentive plan qualitative or quantitative?

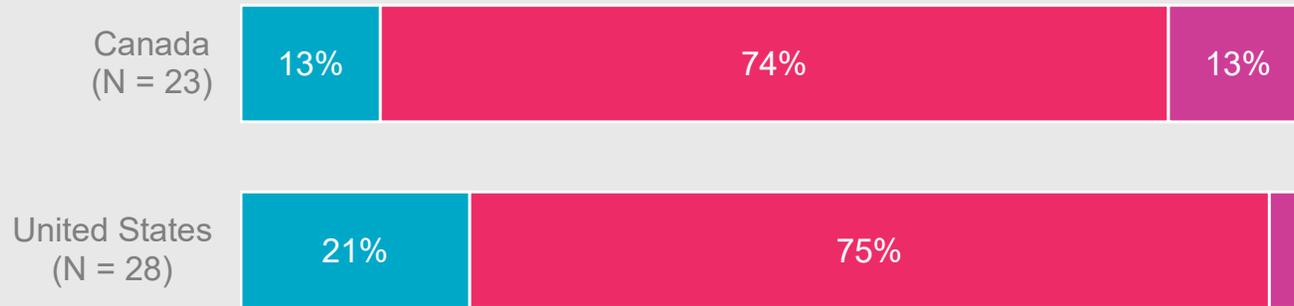


■ Qualitative ■ Quantitative

CANADA VS. UNITED STATES COMPARISON

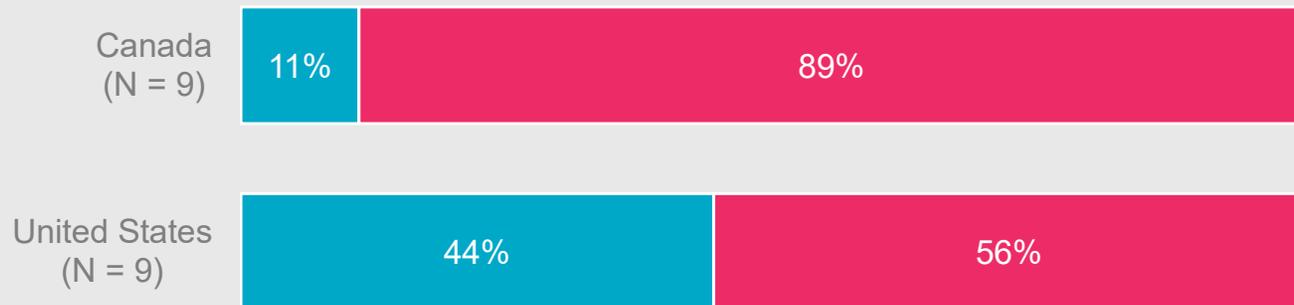
PARTICIPATION LEVELS

Which employees do the ESG metrics apply to for the short-term incentive plan?



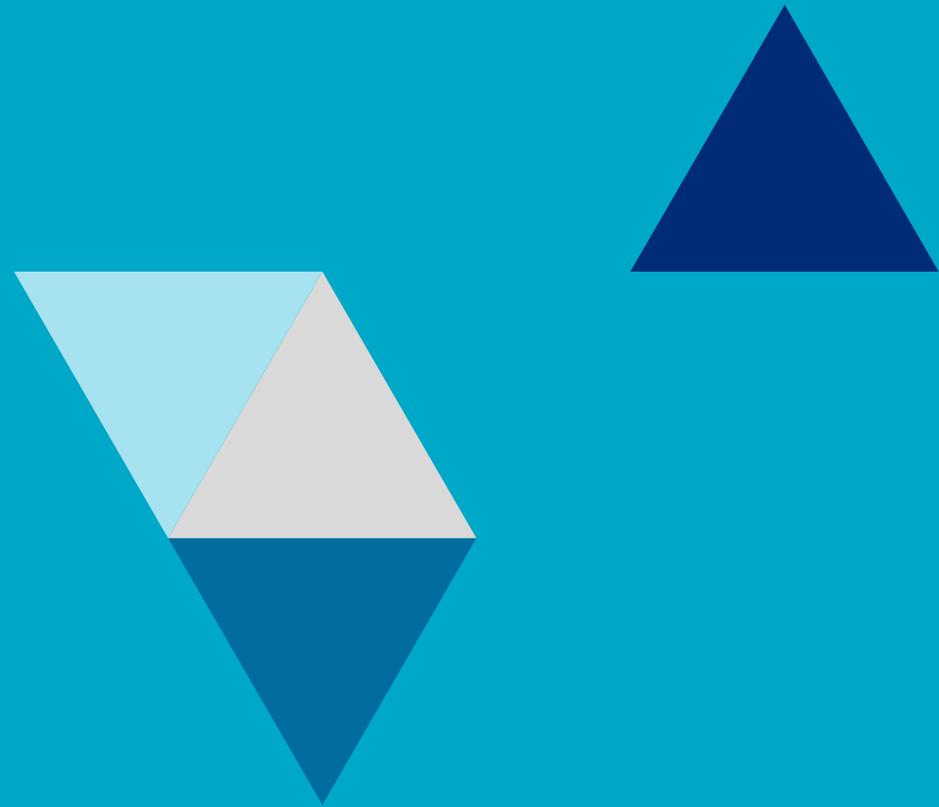
- ESG metrics are more likely to apply to all incentive plan participants, rather than just senior executives, among both Canadian and US respondents.

Which employees do the ESG metrics apply to for the long-term incentive plan?



■ CEO and other senior executives ■ All incentive plan participants ■ Other

ADDITIONAL PARTICIPANT DEMOGRAPHIC INFORMATION



SURVEY OVERVIEW

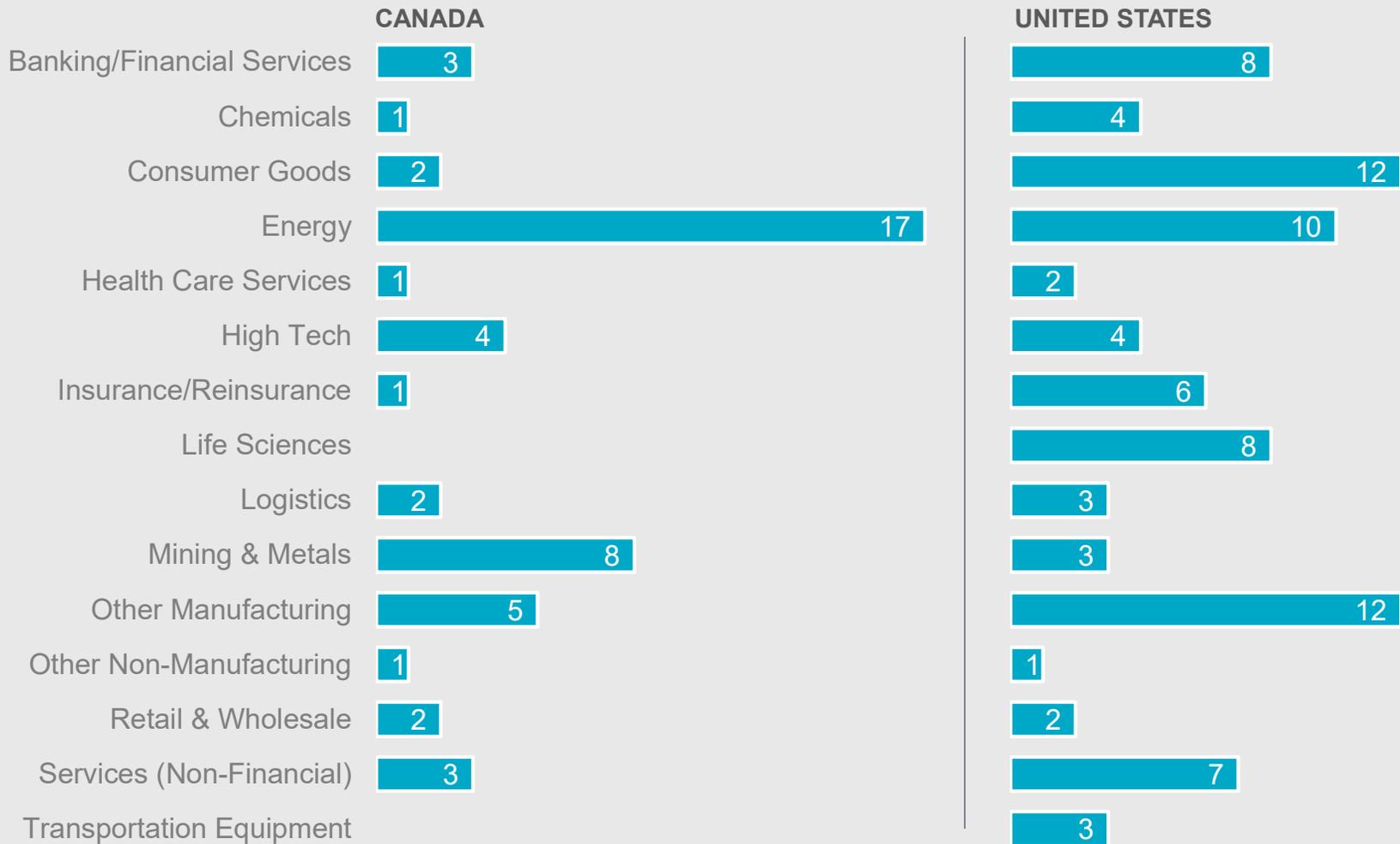
PARTICIPANT INFORMATION

- Overall ESG metric prevalence was based on a sample of 135 organizations
 - 28 respondents use ESG metrics in their short-term incentive plan only
 - 2 respondents use ESG metrics in their long-term incentive plan only
 - 10 respondents use ESG metrics in both their short- and long-term incentive plans
- Individual ESG metric prevalence was based on
 - 38 short-term incentive plans consisting of 51 individual ESG metrics
 - 12 long-term incentive plans consisting of 18 individual ESG metrics

SURVEY OVERVIEW

PARTICIPANT INFORMATION

PARTICIPATION COUNTS BY SECTOR





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