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Year-End Briefing | December 9, 2021

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YEAR-END BRIEFING

Risk, the Board and Compensation

One in 100-year events are happening with increasing frequency, and these Black Swans have added increasing challenges to the board's role in evaluating and overseeing risk management and compensating senior management for successful risk mitigation. Any non-financial metric used in an incentive plan has to earn its way there. Where should climate risk factor in, if at all? Where does it fit into the overall risk portfolio? And if it's important, how do you design compensation to incent appropriate senior management behaviors?

This session will:

Examine the risk environment facing boards in general • Discuss the board's evolving role in managing those risks

Evaluate climate risks—and where they into overall risk • Compensating around risk—including climate risk

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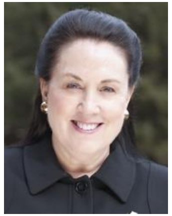

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Boards are increasingly acknowledging that:

- We are operating in a world of increasing uncertainty and risk
- Governance of Risk is a core part of the board's job

The probability of “one in a hundred year” events happening is surprisingly high

- Any large organization faces a large number of risks
- Each risk has some version of a terrible downside: a 1/100 year event
- One org: Probability of a 1/100 year event happening in a 10 year period: 63%
- Interdependence of risks increases probability

Risk and performance must be managed and balanced to create value

Risk is one of the meta-factors driving the intense interest in ESG

Effective governance is essential to guide decisions and results in Environmental and Social initiatives

Boards’ responsibility for E and S reflects the expanding purpose of the corporation to serve all stakeholders

Risks can be enumerated, categorized, quantified and prioritized

Q.2 How likely is this to [occur / significantly impact ABC] within the next 10 years? (1–5)

Q.3 [If this did occur] How severely could it impact ABC? (1–5)

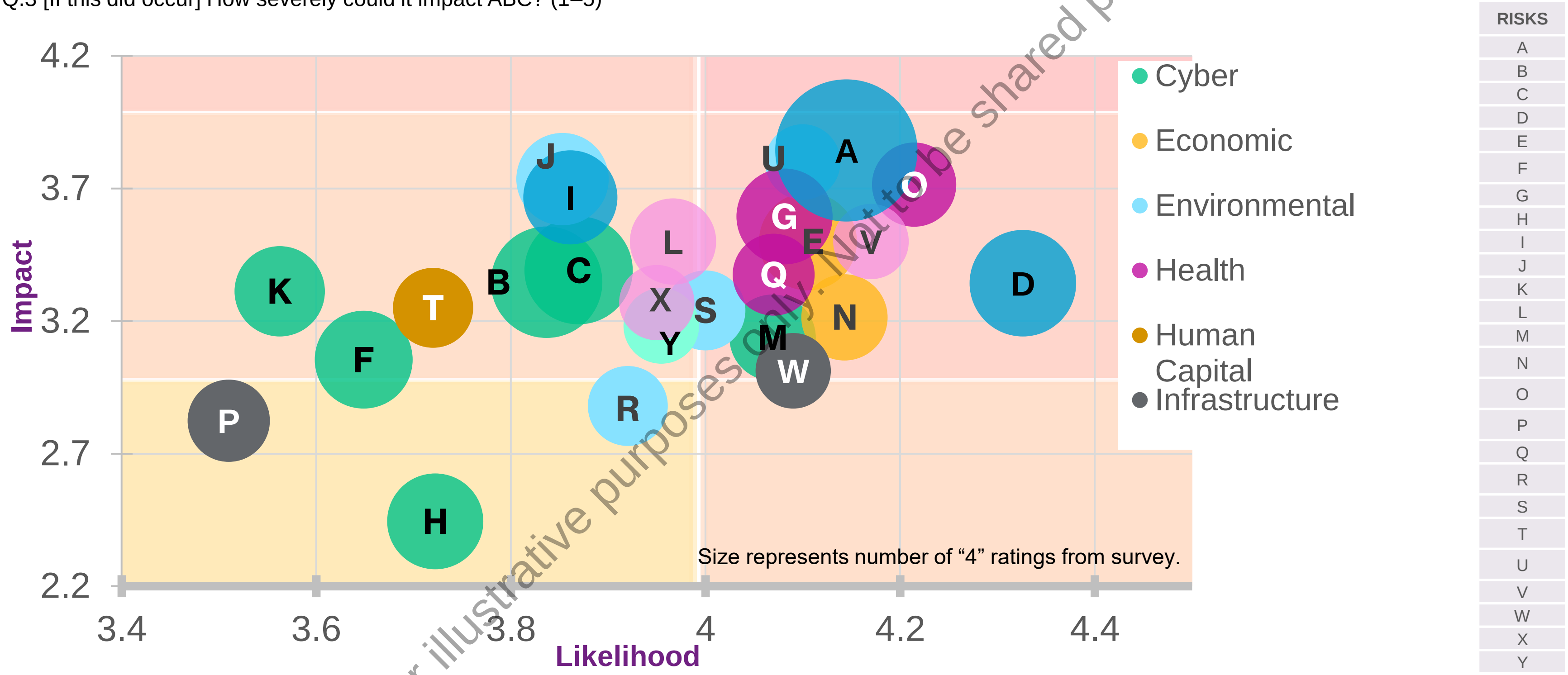

Chart above displays results of survey—survey risks do not exactly match the risk register

ESG risks are an important subset of the broader array of risks

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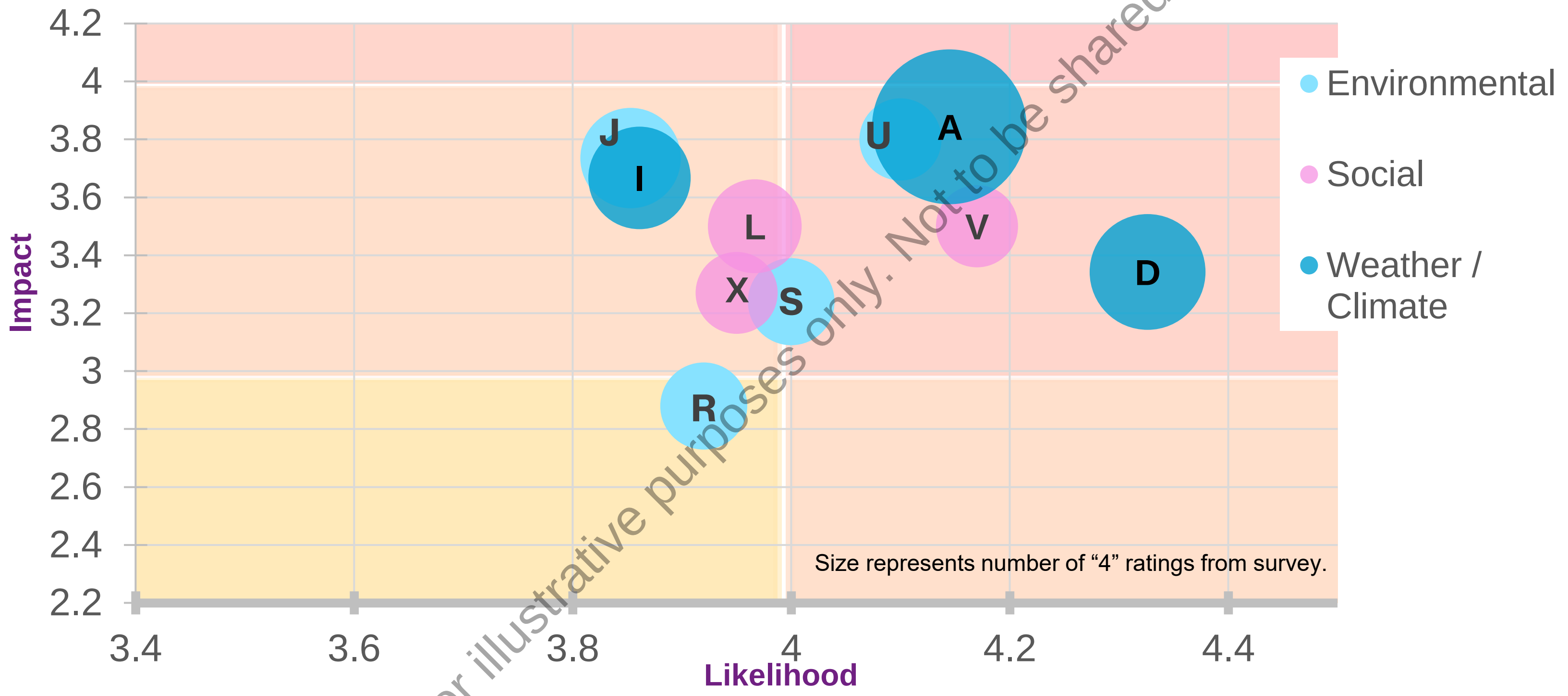
Q.3 [If this did occur] How severely could it impact ABC? (1–5)



RISKS
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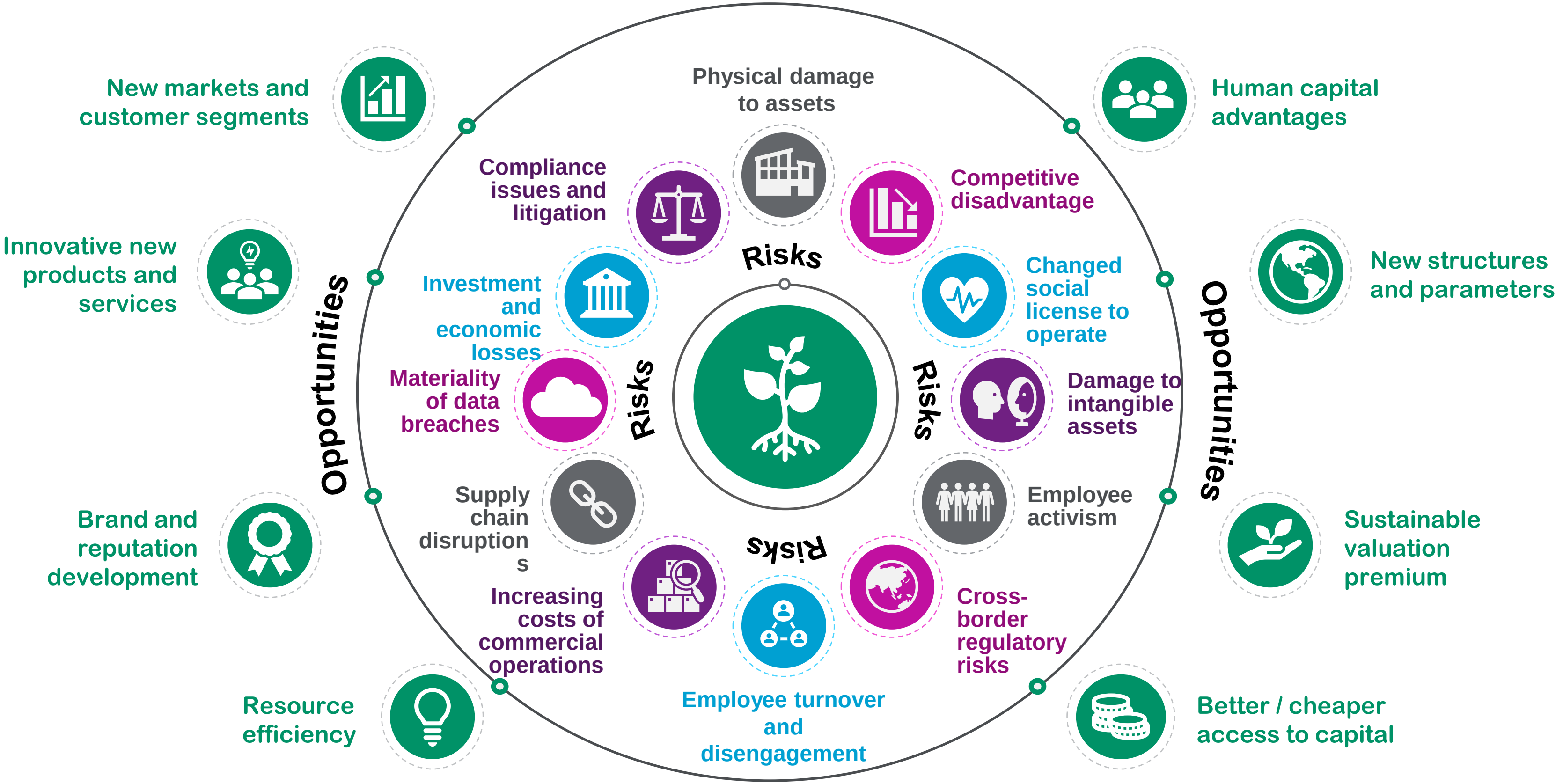
V

Chart above displays results of survey — survey risks do not exactly match the [risk register](#).

ESG captures both risks and opportunities



Exposure to downside risk and upside opportunity

Assessment findings

	Risk Name	Risk	Opportunity
1	**Policy & Legal**	**2030**	
a	Pricing of GHG Emissions	**2**	
b	Enhanced Emissions-Reporting Obligations	**1**	
c	Emissions Offset	**2**	**1**
d	Climate Change Litigation	**3**	
2	**Market**	**2030**	
a	Increased Cost of Raw Materials	**1**	
b	Changing Customer & Consumer Behavior	**4**	
c	Cost of Capital	**1**	
d	Cost and Availability of Insurance	**1**	
3	**Reputation**	**2030**	
a	Investment Risk	**3**	**1**
b	Employee Risk	**3**	**3**

Risk Impact Scale

1	2	3	4	5
< $100M	$100 - $900m <1%)	$900m - $4.5b <5%)	$4.5b - $9b <10%)	> $9b > 10%)
	Minor	*Moderate*	*Substantial*	*Severe*
Minimal or no impact	*Budget or unit production cost increase / financial, legal and/or reputational impacts*			

Opportunity Impact Scale

1	2	3	4	5
< $100M	$100 - $900m <1%)	$900m - $4.5b <5%)	$4.5b - $9b <10%)	> $9b > 10%)
Minimal or no impact	*Budget saving or unit production cost saving*			

Additional scale detail is provided in Appendix B

	Risk Name	Risk	Opportunity	Risk	Opportunity
4	**Technology**	**2030**		**2050**	
a	Unsuccessful Investment in Lower Emissions Technology	**2**		**4**	
b	Substitution of Existing Products and Services with Lower Emission Options	**2**	**2**	**5**	**5**
c	Unsuccessful Roll-out of Sustainable Aviation Fuel	**2**		**4**	

A practical approach to selecting the appropriate metrics

1. Prioritize the spectrum of issues the company needs to be addressing
2. Determine approach and level of oversight required at the Board vs. Committee level
3. Collaborate with Management on strategy and plan for addressing ESG priorities
4. Educate investors and the public on the issues — why addressing them is key to ensuring sustainability and long-term value creation, and how the company plans to deliver on its goals
5. Demonstrate commitment to initiatives by incorporating metrics that are specific and measurable and goals that are stretch but achievable, and time-bound

Step-by-step guide to driving net-zero ambitions through executive pay

1 Align ESG priorities with business strategy

2 ESG goals tied to the overall vision (e.g., net-zero transition)

3 Select the right metrics

4 Fit-for-purpose executive compensation design

5 Tell the story with disclosures

6 Evolve and learn over time

The board's governance role is to challenge management each step of the way and ensure engagement of all key stakeholder groups

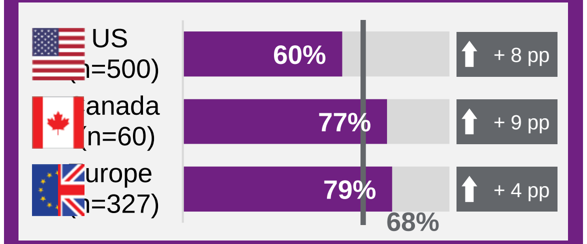
Prevalence of ESG metrics in executive incentive plans

Overall prevalence of ESG metrics in the US, Canada and Europe — a regional comparison

All plans

68%

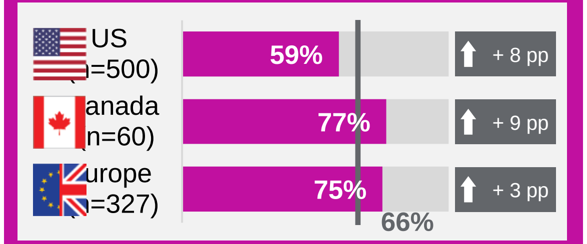
of **companies** incorporate ESG metrics in their incentive plans



STI plans

66%

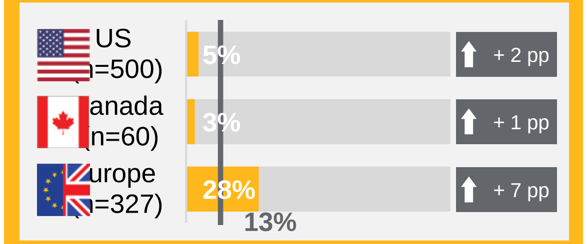
of **companies** incorporate ESG metrics in their STI plans



LTI plans

13%

of **companies** incorporate ESG metrics in their LTI plans



- With increasing investor focus, overall use of ESG metrics within incentive plans rose to 68%, up 6 percentage points over the prior year (62%)
  - STI plan usage is up 6 percentage points from 60% in the prior year. Most of the growth relates to an uptick in usage in Canada and the US, where companies have traditionally lagged in prevalence compared to Europe. ESG STI use in Canada now exceeds that of Europe (77% vs. 75%)
  - LTI plan usage is up 3 percentage points from 10% in the prior year. As with adoption and usage of ESG in STI plans, Europe leads the use and growth trend in LTI as well, where ESG metrics are now included in more than one quarter (28%) of all European companies

n = number of companies

QUESTIONS?

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