Manulife Investment Management

Executive compensation statement

November 2021

Our approach to assessing executive compensation for public issuers

Executive compensation is a critical pillar of corporate governance that attracts strong business leaders while keeping management aligned with stakeholders over the long term. Through our governance review within our ESG integration process, executive remuneration receives thorough analysis to ensure that executive management teams are properly incentivized based on appropriate and rigorous business metrics. As a global investment manager, we recognize the differences in remuneration standards, practices, and reporting requirements around the world; however, the general principles that guide appropriate executive remuneration structures remain consistent across markets.

We believe a well-structured executive compensation program attracts, retains, and motivates skillful executives and other staff while aligning those managers with stakeholders over the long term through relevant, transparent, and rigorous performance criteria. Ultimately, incentivization of firm leaders is critical to the execution of a company's business strategy and capital accretion. As part of our stewardship practices, we will engage with companies regarding executive compensation, identifying strengths as well as weaknesses of the remuneration incentive structure.

Our expectations of executive compensation in practice

Disclosure

We generally encourage transparency of executive remuneration practices but understand that disclosure requirements and protocols differ across markets and geographies. It is our expectation that, in markets with say-on-pay voting of compensation matters, disclosures clearly explain the executive remuneration philosophy of the company using the viewpoint of the compensation committee. We also prefer companies to disclose metrics, targets, and threshold levels of variable compensation wherever possible so that we can assess the rigor and propriety of those performance schemes. We look for disclosures as part of an annual proxy statement, information circular, or other relevant report for those companies where shareholders are afforded a vote on remuneration.

Compensation committee

A compensation committee consisting of independent directors should oversee the executive compensation program to ensure the program incentivizes executives while protecting and enhancing stakeholder value. Based on their extensive knowledge of the industry and the strategy of the company, this committee is best positioned to assess the appropriate level of compensation and mechanisms to assess performance. Although we are strong proponents of a formulaic approach to compensation, we acknowledge that a compensation committee may need discretion to make decisions that are more qualitative in nature. Any discretion employed, however, must be based on specific and tangible outcomes and should address performance on the downside as well as the upside. A detailed explanation of the discretion used by the committee or any adjustment to formulaic results should be articulated on an annual basis. Understanding how and why the compensation committee sets the quantum, or amount of compensation, and the key performance indicators employed should be explicitly stated in company filings.

While committees may use a compensation consultant to provide market information and best practices, we generally expect a compensation committee to use the analysis and recommendations of any compensation consultant as an input to their decision making process, but not to rely solely on that input.

It is common for compensation committees to use peer groups to assess practices and quantum of compensation. Compensation peer groups should generally represent the markets where an issuer competes for executive talent as well as issuer industry, size, complexity, and country of domicile. Poorly constructed peer groups can lead to inappropriate compensation practices. Using appropriate peers will enable the compensation committee to better understand the market dynamics that shape the competition for talent. We expect compensation committees to recognize and resist the temptation of continuous quantum elevation within an industry driven purely by executive turnover.

We expect compensation committees to remain open to investor dialogue to address potential gaps in the remuneration scheme. The compensation committee should review proxy voting results of say-on-pay proposals, seek to understand the concerns of investors, and respond appropriately. The compensation committee should always remain focused on creating a structure that incentivizes long-term stakeholder value creation.

Quantum

We look for the compensation committee to determine the appropriate quantum of remuneration for named executive officers of the organization. We neither have arbitrary limits on compensation nor try to cap executive compensation at a specific quantum. Changes in quantum should be justified, while increases in quantum during a period of poor company performance will draw increased scrutiny. Where information is available, we may also evaluate changes in quantum relative to changes across the larger employee base and look for companies that understand and appreciate the contributions from the broader organization. We may use metrics such as rate of change for executives versus median employee to assess quantum. We believe that inappropriate quantum reflects poorly on the entire organization and can lead to human capital development challenges for the company.

Structure

We understand that compensation structures can achieve the goals of executive retention and shareholder alignment through many different frameworks. However, we have identified some general practices that we encourage all companies to maintain. First, the structure of the compensation must include variable components that connect remuneration outcomes to actual results. Second, the structure of compensation should align with stakeholder value creation over the long term. Third, we appreciate strong focus on metrics that are reflective of areas management directly controls, rather than seemingly arbitrary or exogenous factors. Finally, as longer-term investors, we also prefer executive compensation tied to longer-term success of the organization through vesting and holding requirements.

Our say-on-pay framework

- We view compensation plans on a case-by-case basis.
- Issuers should explain the philosophy and goals of their remuneration policy.
- Remuneration should generally encourage high standards of performance and align the interests of management with those of long-term stakeholders.
- Disclosure should provide the quantity of overall pay and the committee methodology for determining the amounts.
- Levels of remuneration should be sufficient to attract, motivate, and retain key talent, but should not be excessive by the standards of employment conditions within the company, sector, or the country of domicile.
- Remuneration reporting should also provide the split between cash and equity remuneration, as well as the split between guaranteed and at-risk, or variable, compensation.
- Awards should promote long-term decision-making and align to, and support, the company's values and achievements that iterate the business strategy.
- Compensation committees should choose and disclose remuneration performance metrics and targets that reflect the performance of business fundamentals that are rigorous in nature and incentivize outperformance. Metrics that target relative performance of company share price should be measured against a reasonable peer group or benchmark.
- Long-term awards should generally target a full performance period of three years or greater.
- The compensation policy should include stock ownership guidelines to ensure that executives have meaningful direct equity holdings, aligning their interests with shareholders. Deferment of earned awards can be treated as ownership.
- The compensation policy should include claw-back provisions to mitigate pay-for-failure outcomes.
- Firms should structure termination agreements to avoid excessive payouts and tax gross-ups while ensuring a double trigger requirement exists.
- We encourage companies to have an annual advisory vote on executive compensation.
- We encourage firms to incorporate environmental and social performance metrics into their executive compensation plans that are relevant and material to the firms' long-term outlook.

Engagement and voting on say-on-pay

- We view the voting of proxy items related to executive compensation as a form of engagement and may supplement voting with suggestions to firms of action items to improve the scheme structure.
- We frequently engage with issuers on multiple aspects of executive compensation, striving to have a dialogue that enhances our understanding of the company's perspectives, while articulating our expectations regarding best practices.
- As active shareholders, we generally look to support management. We may, however, use proxy voting to express our dissatisfaction with poorly constructed remuneration schemes, weak disclosure, or inappropriate quantum of remuneration.
- We may consider withholding support for members of the compensation committee, beginning with the committee chair, if after repeated engagements or continuing problematic practices, the firm has not addressed a specific concern related to executive compensation, or if the dilution to shareholders through omnibus stock plans is viewed as excessive.

Manulife Investment Management

Manulife Investment Management is the global wealth and asset management segment of Manulife Financial Corporation. We draw on more than a century of financial stewardship to partner with clients across our institutional, retail, and retirement businesses globally. Our specialist approach to money management includes the highly differentiated strategies of our fixed-income, specialized equity, multi-asset solutions, and private markets teams—along with access to specialized, unaffiliated asset managers from around the world through our multimanager model.

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