

### ESG metric classification

#### How WTW's internal metric definitions fit the broader ESG framework



Issues connected to environmental sustainability, like responsible use of natural resources, global warming, energy usage, pollution and the like

waste reduction

reduce carbon intensity

customer satisfaction

reduce number of environmental incidents

## **Environment & Sustainability**

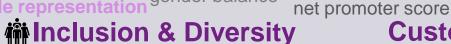
energy reduction reduce greenhouse gas emission





Factors such as how a company treats its workers and customers. health and safety considerations, inclusion & diversity and consumer rights and protections

gender balance female representation



**Customer Service** 

employee engagement

food safety incident rate



talent retention

People & HR managerial skills

Governance



A focus on topics including business ethics, board structure and independence, engagement for society, reputation and risk management

human and labour rights along the supply chain

Governance

participation in sustainability index

stakeholder engagement

Corporate Social Responsibility



**Human Capital metrics are part of the Social category** 



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



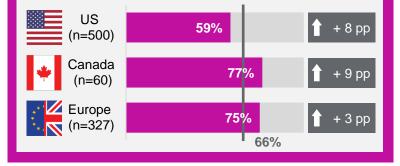
All plans

Data sample and highlights



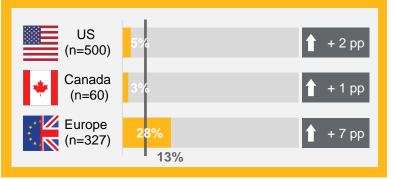
STI plans

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



\_TI plans

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

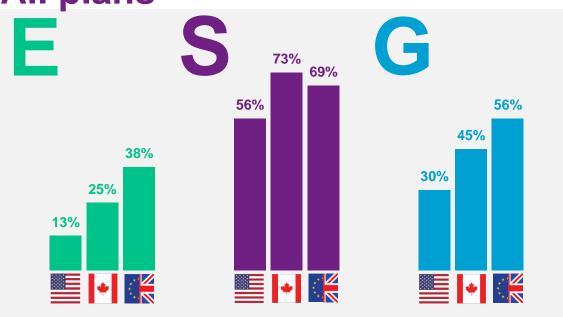
### Data sample and highlights

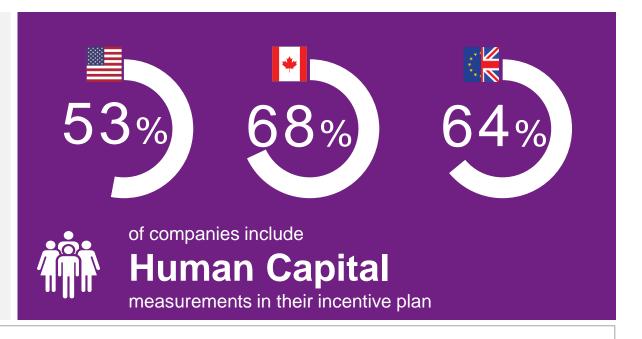
# Prevalence of ESG metrics in executive incentive plans



Which ESG metrics are incorporated into executive incentive plans – a regional comparison

All plans





**Social** is comprised of multiple metric categories that encompass Human Capital Management goals, and is ubiquitous among companies with ESG incentive plan metrics.

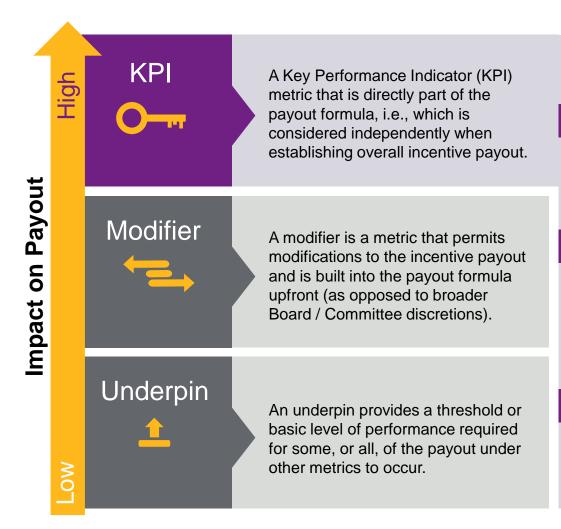
Customer Service metrics are included under Social but are not included within the determination of Human Capital metric usage.

All percentages are expressed as % of all companies in the sample

# Impact of ESG metrics on payout – Methodology

## How ESG metrics are incorporated into incentive plans





Based on disclosure, each metric identified as a KPI is further classified into one of these 3 groups:

#### Stand-alone ESG metric

A metric falls within this group if it is disclosed as a separate, stand-alone metric. In plans with additive payout formulas, these metrics usually come with their own distinct weighting.

#### Part of an ESG metric bundle

A metric falls within this group if it is part of a bundle of metrics which solely includes ESG metrics. Weightings for the specific metrics are usually not available, but the weighting of the bundle can be used to determine the overall weighting of ESG metrics within a plan.

#### Part of a broader metric bundle

A metric falls within this group if it is part of a broad bundle of metrics which contains ESG as well as non-ESG metrics. A weighting for the ESG portion of the bundle is usually not available.





This section is based on disclosures from the companies listed in the S&P 500



#### **United States**

#### 500 companies

The S&P 500 index measures the large-cap segment of the U.S. equity market.

		_
LQ	\$ 15,346	
Median	\$ 26,973	
UQ	\$ 58,241	MARKET CAP
LQ	\$ 4,251	
Median	\$ 9,603	
UQ	\$ 19,555	REVENUES
1.0	0.005	••••
LQ	9,025	
Median	18,988	TTT
UQ	52,221	EMPLOYEES

Distribution among industries			
Industrials		15%	
Information Technology		15%	
Financials		13%	
Health Care		13%	
Consumer Discretionary		12%	
Consumer Staples		6%	
Real Estate		6%	
Materials		6%	
Utilities		6%	
Communication Services		4%	
Energy		4%	



- Market capitalization as per December 31, 2020; displayed in million US\$.
- Revenues are displayed in million US\$. Companies from the financial sector are excluded from the revenue statistics.
- Sector breakdown is based on the 11 Global Industry Classification Standard (GICS) sectors.

# **ESG Highlights in the United States**



## **Overall prevalence of ESG metrics**



60%

of companies use at least one ESG metric in their **incentive plans** (STI or LTI or both)



59%

of companies use at least one ESG metric in their **STI plans** 



5%

of companies use at least one ESG metric in their **LTI plans** 

## **Prevalence by ESG category**



of companies use at least one





of companies use at least one





of companies use at least one

Governance metric

## **Focus on Human Capital**

of companies include
Human Capital
metrics in their plans

40%

People &

Diversity & Inclusion

21%

22%

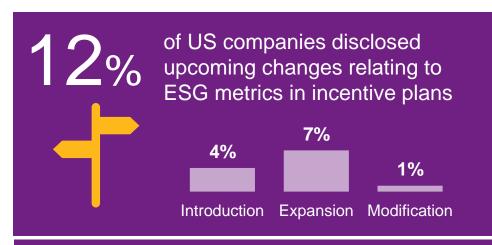
Health & Safety

# Data sample and highlights

# **Outlook: forward-looking ESG trends**

## Expected changes to ESG metrics in incentive plans in the United States





#### Introduction

A company which did not have any ESG metrics in STI or LTI will add at least one ESG metric in future

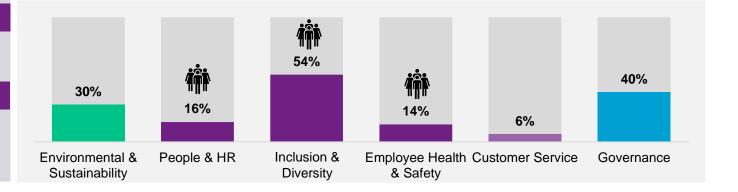
#### Expansion

A company that already had ESG metrics in STI or LTI plans adds additional ESG metrics or increases the total ESG weighting

#### Modification

A company that already had ESG metrics in place is modifying them (for example by switching the type of ESG metrics, switching ESG metric weightings between categories or is reducing or dropping ESG metrics)

- Forward-looking data represents only companies which disclosed upcoming changes within their current proxy filings
- Of those companies that are adding ESG metrics (through introduction or expansion), 32% are adding them as modifiers, while 14% are adding them as part of a metric bundle. 16% are adding ESG measures as stand-alone metrics with weightings ranging between 5% and 15%. The remainder did not disclose how the metrics will be added
- 54 out of 57 companies are adding the ESG metrics as part of their **STI plan**
- See the chart below for an analyses of the type of ESG metrics that are added either through introduction or expansion. Percentages are expressed as % of companies that have disclosed to add at least one ESG metric
- Note that any one company may be planning several types of change.
- The governance category includes generic or undisclosed "ESG metrics"









Overall prevalence of ESG metrics in the United States



All plans

Data sample and highlights

of companies in the S&P 500 incorporate ESG metrics in their incentive plans.



This number increased by + 8 pp since previous year STI plans

of companies in the S&P 500 incorporate ESG metrics in their STI plans.



This number increased by + 8 pp since previous year LTI plans

of companies in the S&P 500 incorporate ESG metrics in their LTI plans.



This number increased by + 2 pp since previous year

- The year-over-year changes reflect the S&P 500 companies that were analyzed in 2020 (for Fiscal Year 2019) and in 2021 (for Fiscal Year 2020) so there may be some variance due to companies being added or falling out of the S&P 500 index.
- A handful of S&P 500 companies which did not have a prior ESG metric in the previous year added a COVID-related goal (primarily Customer Service or Health & Safety related) to their incentive plans as part of their response to the pandemic, but most companies that added ESG metrics relating to COVID-19 already had an ESG metric in place. Most of these changes occurred in STI plans.



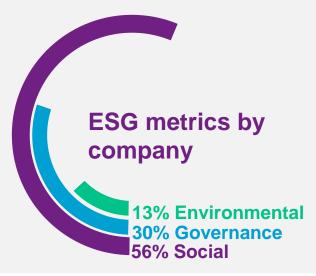
n = number of companies



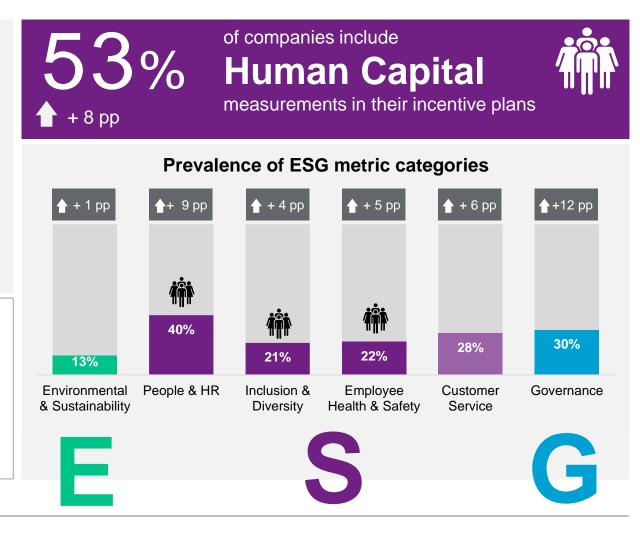
Which ESG metrics are incorporated into executive incentive plans in the United States



All plans



**Social** is comprised of multiple metric categories that encompass Human Capital Management goals, and is ubiquitous among companies with ESG incentive plan metrics. 65% of companies that use Social metrics do so across multiple categories.

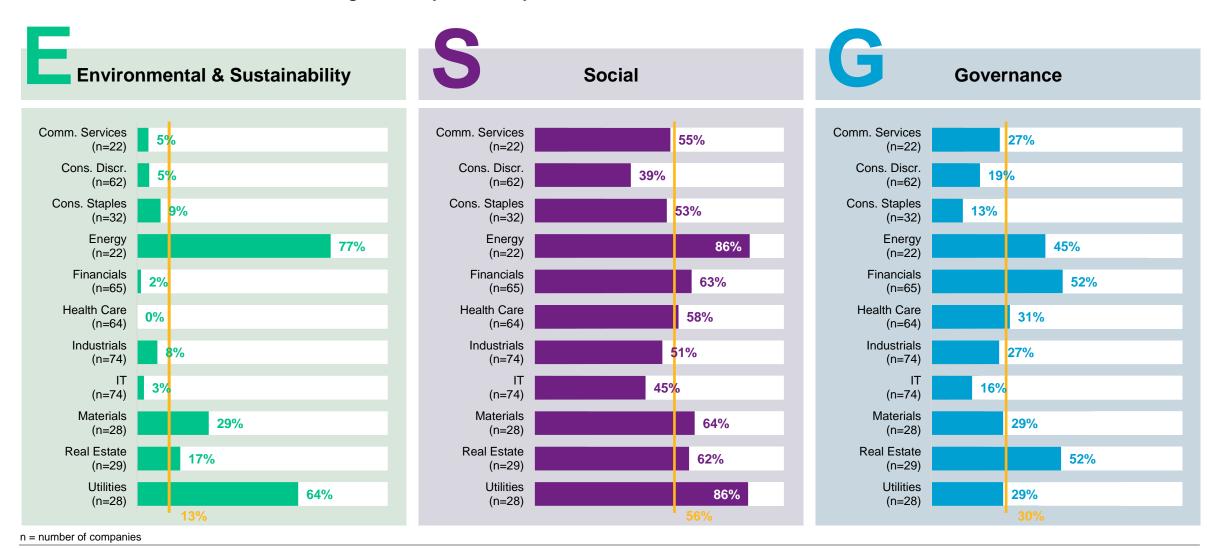


All percentages are expressed as % of all companies in the sample



Breakdown of ESG metric categories by industry in the United States







#### Number and combination of ESG metrics in the United States



Data sample and highlights

44%

**E** only – 1%

**S** only – 38%

**G** only – 4%



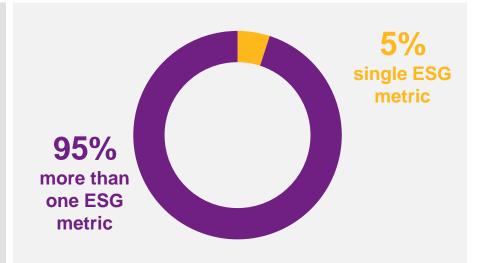
4 %



of companies use a combination of all three ESG categories.







Most companies use several stand-alone ESG metrics or combine them as part of ESG or broader bundles; only 5% of companies use a single (stand-alone) ESG metric.

All percentages are expressed as % of all companies that have at least one ESG measure in place

<sup>\* &</sup>quot;ESG categories" refers to either Environmental, Social or Governance

# Impact of ESG metrics on payout

How ESG metrics are measured incentive plans in the United States

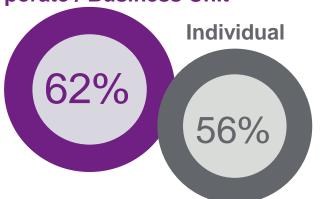


# All plans



of all companies with ESG metrics are measuring at least one of them **quantitatively** 

#### **Corporate / Business Unit**

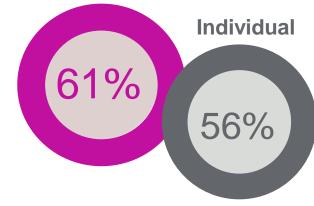


# STI plans



of all companies with ESG metrics in their STI plans are measuring at least one of them quantitatively

#### **Corporate / Business Unit**

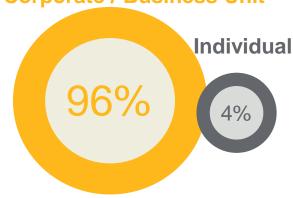


# LTI plans



of all companies with ESG metrics in their LTI plans are measuring at least one of them quantitatively

#### **Corporate / Business Unit**



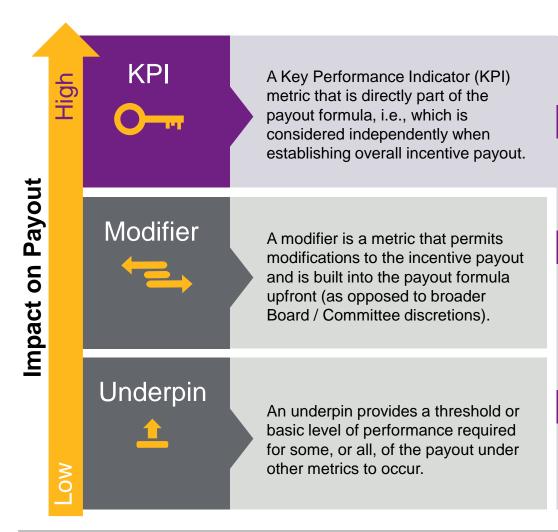
All percentages are expressed as % of companies with at least one ESG metric (in all plans / STI plans / LTI plans)



# Impact of ESG metrics on payout – Methodology

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# Impact of ESG metrics on payout

How ESG metrics are incorporated into incentive plans in the United States



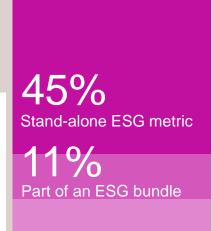


Data sample and highlights













The **median** overall weighting\* of ESG metrics in STI plans is

15%

















The **median** overall weighting\* of ESG metrics in LTI plans is

The median overall ESG weighting is based on all plans where a distinct weight of ESG metrics could be determined, i.e. it is comprised of the stand-alone ESG metrics as well as the pure ESG bundles. The broader bundles that contain ESG and non-ESG metrics have not contributed to this statistic.

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