



# Stewardship in Focus: Executive Compensation

## Our Five Global Principles

- **Robust alignment between pay awarded to executives and long-term value creation**
- **Clear link between performance metrics and a company’s strategy**
- **Strong emphasis on at-risk pay awarded over the long-term**
- **Complete and comprehensible disclosure of all aspects of executive pay**
- **High level of responsiveness to shareholder concerns**

## Introduction

Executive compensation plays a central role in shaping corporate behavior, influencing strategic decision-making, and aligning the interests of company leadership with those of long-term shareholders. The design and disclosure around executive pay programs across different markets continue to come under heightened scrutiny as investors, regulators, and other stakeholders seek to assess whether compensation frameworks are effectively promoting sustainable value creation.<sup>1</sup> Against this backdrop, Northern Trust Asset Management (NTAM) believes it is important to provide clarity on the aspects of compensation design that are most critical from an investment perspective and which drive alignment between the interests of company leadership with those of long-term shareholders.

The underlying principle of our approach to executive compensation is that total pay to executives should align with long-term value creation. Poor alignment can result in executives who are less impacted by periods of underperformance, and are also less incentivized to improve that performance. In such instances, NTAM firmly believes it is in the best financial interest of our clients to encourage companies to implement clear, performance aligned remuneration schemes.

We ideally believe that effective compensation programs follow these five principles:

1. Robust alignment between pay awarded to executives and long-term value creation;
2. Clear link between performance metrics and a company’s strategy;
3. Strong emphasis on at-risk pay awarded over the long-term;
4. Complete and comprehensible disclosure of all aspects of executive pay; and
5. High level of responsiveness to shareholder concerns.

The following summary outlines NTAM’s global principles for executive compensation, with the aim of articulating our overarching philosophy, outlining the behaviors and practices we support and encourage, and explaining how we apply these principles in practice through our engagement dialogue with portfolio companies and our voting decisions. In providing this summary we aim to enhance transparency for companies, clients, and other interested stakeholders regarding our expectations and priorities in this critical area of corporate governance.

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<sup>1</sup> For example, see the Security and Exchange Commission’s (SEC’s) [2025 Roundtable of Executive](#)

[Compensation Disclosure Requirements](#).

NTAM applies these principles globally, but recognizes that executive pay structures, disclosure regimes, and shareholder accountability mechanisms vary across markets. Accordingly, the expectations in this paper are applied with appropriate local context. We also take a holistic approach to evaluating executive compensation. While we regard robust alignment between pay awarded to executives and long-term company performance as the most critical to an effective compensation program, we do not evaluate a plan on this single principle, and no single aspect of a scheme overrides any of the others. Each principle plays an important role in promoting sound compensation design and aiding in our assessment of pay proposals.

Finally, executive compensation design and disclosure is an ever-evolving field, and we regularly monitor the landscape for developments.<sup>2</sup> Clear disclosure of pay and performance alignment (the “what”) will remain our key priority in assessing compensation, but we may adjust our Global Principles to better reflect changes in norms, practices, and regulations (the “how”).

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## Robust Alignment Between Pay Awarded To Executives and Long-Term Value Creation

Executive compensation plans should incentivize long-term, sustainable value creation for the companies they manage. A pay program should not reward executives for under-performance, nor should it be structured in a way that prioritizes short-term gains or encourages excessive risk-taking.

While there is widespread agreement among investors and issuers on this foundational principle, there is less consensus over *how* to structure or measure long-term, sustainable performance.<sup>3</sup> Performance Share Units (PSUs), which tie stock awards against pre-set performance metrics, have emerged as the mechanisms most commonly employed by compensation committees to align pay and long-term performance. In the US, a substantial number of companies utilize PSUs, with total shareholder return (TSR)<sup>4</sup> being the most prevalent metric utilized within PSUs.<sup>5</sup> However, TSR is far from the only metric used to measure performance, and a long-term incentive plan (LTIP) often consists of a mix between PSUs, restricted stock, and stock options. There is currently no consensus across investors, companies, or industries on which metrics are best to measure performance<sup>6</sup>, or on what constitutes the optimal blend between stock awards. There is also growing debate as to the effectiveness of PSUs.<sup>7</sup>

Given the evolving nature and complexity of long-term incentive design, NTAM affords a high degree of discretion to boards while also maintaining clear expectations. While there are other measures that can be used, NTAM may consider relative TSR (rTSR)<sup>8</sup> when assessing long-term performance, although we do not expect all companies to rely on this metric in their compensation plans. Additionally, we don’t advocate for the inclusion of any specific metric (including TSR, rTSR, or operational metrics), and we are neutral on the use of performance shares. Instead, we maintain expectations around *rigor, timing, complexity* and *transparency* of metrics used for both LTIPs and Annual Incentive Plans (AIPs)/Short-Term Incentive Plans (STIP).<sup>9</sup>

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<sup>2</sup> For example, on May 19, 2026, the SEC proposed scaled-back disclosure requirements for executive compensation, among other things. These changes are not final and are subject to a notice and comment period. NTAM will continue to monitor these proposed rules and the impact they may have on executive compensation disclosure for US companies. More information can be found here: [Proposed rule: Enhancement of Emerging Growth Company Accommodations and Simplification of Filer Status for Reporting Companies](#).

<sup>3</sup> For example, [the report](#) from Pay Governance shows “long-term incentives (LTI) remain the primary driver of CEO compensation” for S&P 500 Index companies and [the report](#) on key ISS and Glass Lewis benchmark voting policy updates highlights the proxy advisor’s focus on long-term horizons when evaluating executive compensation.

<sup>4</sup> TSR is defined as the sum total of what a stock returned to investors, inclusive of price appreciation, capital gains, dividends, special distributions, stock splits, and warrants (when applicable).

<sup>5</sup> As of 2025, 93% of S&P 500 companies and 69% of Russell 3000 companies included PSUs in their compensation plans. Furthermore, TSR was used to measure PSU performance among 75% of S&P 500 companies and 60% of Russell 3000 companies. Source: Toenello, M. “[CEO and Executive Compensation Practices in the Russell 3000 and S&P 500](#).” The Conference Board. December 31, 2025.

<sup>6</sup> For example, there are two common criticisms regarding the use of TSR. First, since it assumes that all dividends and other distributions are reinvested in company stock, not all investors will realize the full TSR amount. Second, macroeconomic conditions can influence a company’s stock performance, and are largely outside the control of that company’s management.

<sup>7</sup> For example, see: Hodak, Marc. “[Are Performance Shares Shareholder Friendly?](#)” Journal of Applied Corporate Finance 31, 126-130, September 26, 2019.

<sup>8</sup> Relative TSR measures a company’s TSR against a set of peers, such as a group in the same sector or a broad index like the S&P 500.

<sup>9</sup> In most cases, the terms AIP and STIP are interchangeable and focus on one-year performance periods.

## Rigor

Careful attention is given to the stretch of the metrics in variable compensation — whether absolute or relative. Examples of specific elements we focus on are:

- Downward year-over-year (YOY) revisions of performance thresholds;
- Repeated years of executives achieving maximum levels of performance while the company exhibits poor stock performance;
- Changes in the metrics utilized — from return on invested capital (ROIC) to earnings per share (EPS), for example — or a change in the weighting of metrics without a compelling rationale;
- Setting target operational or financial performance levels below a company's historical performance; and/or
- Relying on a rTSR peer group that does not adequately match that of the company, as measured by relevant financial and shareholder return metrics.

## Timing

We prefer that a performance period for equity awards in the long-term incentive plan should cover at least three years. We generally discourage the use of one- and two-year performance periods for these types of awards, as well as revisions to performance goals during the performance period. For annual bonus awards, performance should be measured over the most recent financial year.

We also encourage companies to extend the standard performance window to five years or longer where appropriate within long-term incentive plans, as there is a growing body of research suggesting that these extended time horizons help overcome the volatility and unpredictability sometimes seen in TSR performance over the one-, two-, and three-year periods.<sup>10</sup>

## Complexity

We encourage companies to avoid unnecessary complexity and use a manageable set of metrics clearly linked to business strategy. The appropriate number and granularity of metrics will vary by market and company context. However, a high number of metrics may give the impression that executives are not properly focused on the most material factors in generating sustainable value. Where broader scorecards are used, NTAM focuses on target strength, transparent weighting and clear disclosure of outcomes.

## Transparency

The majority of metrics in an incentive plan should be *quantitatively* assessed as these provide much more insight and clarity on performance than qualitative metrics. It should also be clearly specified which metrics apply to each named executive officer (NEO). We encourage the disclosure of *retrospective* goals and their corresponding levels of achievement. NTAM understands the role qualitative goals can play in a compensation plan, but it should be clear what those goals are measuring. To that end, it is helpful to see the inputs to these goals, or the elements that the compensation committee focuses on when determining achievement levels. This can often be done by listing specific accomplishments that support qualitative goals.

We expect transparency and disclosure when additional discretion is exercised outside of a defined performance assessment that has an impact on executive pay outcomes. We will evaluate their magnitude, rationale, and frequency in conjunction with company performance and broader context. Added transparency around these discretionary adjustments can aid in our analysis.

Finally, we believe that a variety of financial metrics can be additive, including material sustainability metrics, which may be critical for a company's long-term viability.<sup>11</sup> NTAM analyzes these metrics in the same way that we analyze more traditional metrics, considering their rigor, transparency, and tie to company strategy.

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<sup>10</sup> Source: Denning, S. "Why The 10-Year TSR Is The Premier Metric For Long-Term Value Creation," Forbes, October 28, 2025.

<sup>11</sup> Source: da Cunha et al. (2025). [A systematic review of ESG indicators and corporate performance: proposal for a conceptual framework](https://doi.org/10.1186/s43093-025-00539-1). Future Business Journal, 23(106), <https://doi.org/10.1186/s43093-025-00539-1>. May 5, 2025.

## Clear Link Between Performance Metrics and a Company's Strategy

While it is critical that compensation plans link executive pay with long-term performance, it is also important that these plans align with the company's strategy. Failure to do so may impact long-term value creation.

NTAM does not seek to micromanage or dictate company strategy, nor do we aim to determine exactly which metrics a company includes in its compensation plan. However, we will analyze the link between those chosen performance metrics and a company's stated strategy. This is especially the case for the metrics included in a company's Annual or Short-Term Incentive Plans.

As part of this process, we may compare metrics used in executive compensation plans with those used by the company for other purposes. For example, we may cross reference whether the metrics selected for executive compensation are similar to those highlighted in the company's annual report, or those used to describe the company's strategy during earnings calls and investor conferences. The metrics included in the executive compensation plan should clearly support the company's and board's strategic visions. Compensation programs should not incentivize activity that does not appear to contribute to long-term performance.

Companies with clear deficiencies are targeted for engagement, with clear objectives set from the beginning, aimed at the company strengthening their management and/or disclosure practices with progress tracked in line with NTAM's milestones framework. We generally escalate our engagements when companies fail to make adequate progress on objectives without a sufficient rationale. If sufficient progress is not made within our timeline, we may escalate our actions. This can include supporting shareholder resolutions, voting against the re-election of specific directors, or making investment adjustments. Such adjustments may involve reducing our holding or considering divestment, in line with client instructions.

## Strong Emphasis on At-Risk Pay Awarded over the Long Term

A majority of a CEO's pay should be awarded in the form of contingent or "at-risk" pay *and* that a majority of pay should be awarded over the long-term.<sup>12</sup> For purposes of executive compensation, we define long-term as being three years or longer.

At a minimum, this principle holds for the CEO, although NTAM encourages similar pay arrangements for all NEOs, with the expectation that the CEO will have the largest portion of his or her pay at-risk. Furthermore, the LTIP should consist entirely of stock awards, provided in the form of RSUs, PSUs, or options. We do not seek to mandate strict thresholds for the mix between RSUs, PSUs and options; however, we discourage pay plans that provide only options and no PSUs or RSUs as these arrangements may encourage excessive risk-taking by executives.<sup>13</sup>

We also discourage the inclusion of awards in the LTIP that fully vest in less than three years. Award vehicles can vest ratably within that three-year window but should not *fully* vest before then. Additionally, we typically expect the performance period for any PSUs to be a minimum of three years. Inclusion of performance periods of less than three years, or adjustments to performance criteria during the performance period, may be viewed negatively.

NTAM encourages the use of longer vesting periods, preferably over a five-year horizon or longer. We advocate for this in part because of the aforementioned research showing that longer horizons can help smooth the volatility in stock performance often experienced during shorter vesting periods and also because longer vesting horizons may promote the retention of important executive talent.

Companies should maintain clear stock ownership requirements for the CEO and other senior executives, as these requirements engender the owner mentality we encourage.

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<sup>12</sup> At-risk may also be referred to as "variable at-risk".

<sup>13</sup> Source: Minor, D. "CEOs with Lots of Stock Options Are More Likely to Break Laws," Harvard Business Review. May 26, 2016.

An exception may be warranted in cases where a CEO already owns a substantial amount of company stock (typically more than 3x base pay), but boards should implement ownership requirements following the appointment of a new CEO who may not currently meet the ownership threshold. Additionally, remuneration structures should seek to carefully balance the importance of generating an ownership mentality among executives with the possible dilutive impact that significant stock issuances might have on the company's shareholders.

## Complete and Comprehensible Disclosure of all Aspects of Executive Pay

We expect a company's proxy statement to contain the necessary information to evaluate all components of its executive compensation plan. The emphasis of this principle is not on abundant disclosure, but rather on *relevant*, *clear* and *comprehensive* disclosure. When analyzing any given pay package, the underlying question we seek to answer is: For all pay granted to an executive, in what form did that pay come and what conditions, if any, were attached to those payments? The following sub-questions help us arrive at a satisfactory answer:

- What proportion of the plan is divided into a short-term (or annual) component and a long-term component?
- What proportion of the plan is divided into fixed vs. at-risk pay?
- What performance metrics are employed? Are they qualitative or quantitative? Are performance thresholds and retroactive achievement levels disclosed?
- Were any one-time awards provided during the performance period? How are those awards structured?
- What are the vesting and holding periods for stock awards?
- How does the company benchmark pay against its peers? What peers does it select for its peer group?
- What perquisites were offered during the performance period?

A company's disclosure should make it clear how all forms of granted pay are broken down, as well as how the breakdowns and outcomes differ by NEO.

## High Level of Responsiveness to Shareholder Concerns

When a compensation plan receives less than 75% support from non-affiliated shareholders, this is typically a sign that a critical mass of shareholders has identified a significant misalignment between pay and performance, or the strong likelihood of future misalignment. Therefore, the compensation committee should re-evaluate that plan and work to identify the causes of shareholder concern, increasing its outreach to shareholders and soliciting feedback. It can also be helpful in the subsequent proxy statement to list the main viewpoints they heard from shareholders, along with any actions taken in response.

That said, while we consider *disclosure* of shareholder outreach and engagement efforts to be important, we do not measure the adequacy of responsiveness based solely on the quantity and quality of that disclosure, for a few reasons. Firstly, we are primarily interested in seeing if any pay-for-performance misalignments are being resolved. A company may hear from a large base of investors and subsequently adjust their plan, but if a misalignment persists, this can indicate that the outcomes of the company's outreach process were incomplete or insufficient. Secondly, focusing on company disclosure in isolation can disadvantage smaller and/or younger companies that lack the resources to provide the same level of disclosure as larger, more established firms. Finally, while it may generally be the case that low shareholder support indicates pay-for-performance misalignment, this may not always be true. Some smaller companies may have a more limited set of shareholders and the voting decisions from a concentrated set of shareholders may skew the voting outcome. Some investors may also vote against a compensation plan as a "protest"

vote against certain directors or executives, or their vote may be part of an escalation strategy following unresolved engagement efforts. Where appropriate, we may take these factors into consideration when determining the level of responsiveness we expect from the company.

We want companies to maintain regular lines of communication with their shareholders on their pay practices, even outside situations of low support. There are a range of factors influencing an investor's decision to either support or oppose a pay plan. Engagement between shareholders and issuers can provide additional context behind these voting decisions. At NTAM, we may support a plan even if we have reservations about certain elements. Conversely, we may withhold support for a plan even though there are components that are well structured. We value the opportunity to engage in both instances.

## Other Pay Considerations

### One-Time Awards

Moving beyond the global principles, it is important to call attention to a practice that NTAM believes could have a strong potential to disrupt pay-for-performance alignment: "one-time" or "special" awards. These awards can take different forms, but they are typically employed with the goal of either retaining existing talent or attracting new talent. Common forms include succession awards, promotion awards, retention awards, and sign-on awards.<sup>14</sup>

NTAM recognizes that one-time awards can play an important role in securing the right talent and generating long-term shareholder value. However, these awards can raise questions relating to a company's executive compensation design. In evaluating one-time awards, we will carefully analyze the following factors:

- Size of the award (e.g. what is the total amount of the one-time award? How does it compare to historic compensation levels?)
- Frequency of the award (e.g. does the company have a history of granting one-off awards regularly?)
- Form of the award (e.g. is the award delivered primarily in cash or shares, are there performance conditions attached?)
- Rationale for award (e.g. what is the company's current and future strategic context, how have award recipients been chosen or assessed?)
- Company performance (e.g. is the potential pay aligned with historic or expected company performance?)

### Peer Grouping

NTAM may, in certain cases, scrutinize the peer group that a company selects for its overall pay plan, given that peer group construction is a significant factor in determining overall levels of pay (also known as quantum). Generally speaking, we believe the board is best positioned to select its peers. However, we may seek to engage with a company where peer group selection drives materially higher pay outcomes without commensurate performance or is misaligned with the company's scale and sector. We understand the role that "aspirational peers" can play in attracting top talent, but an excessive number of these in the peer group can lead to outsized pay outcomes without adequate shareholder returns and value creation.

### Safeguards

Finally, NTAM believes that a compensation plan should also include safeguards against excessive risk-taking behavior, severe misconduct, or large windfall payments during corporate transactions, with the aim of protecting long-term shareholder interests. These safeguards may include the following:

- Hedging and Pledging Policies
- Clawback/Malus Provisions
- Change-in-Control Agreements

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<sup>14</sup> These are not strict definitions. One-time awards can go by several different names, and they can be awarded for multiple reasons simultaneously. For example, a one-time payment can be granted in cases of leadership succession *and* exceptional executive performance

## Conclusion

NTAM's approach to executive compensation is grounded in a clear and consistent focus on long-term value creation, supported by rigorous, transparent, and strategically aligned pay structures. While recognizing the diversity of market practices and the evolving nature of compensation design, we emphasize the importance of balanced judgment across multiple principles rather than reliance on any single metric or framework. NTAM seeks to promote compensation practices that reinforce accountability, mitigate undue risk, and align executive incentives with sustainable shareholder outcomes. Ultimately, we view robust disclosure and meaningful shareholder responsiveness as essential to fostering trust, enabling informed voting decisions, and supporting well-functioning capital markets.

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