Your Guide:
Director and Prescribed Officer remuneration at JSE listed companies

September 2021

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1. Overview

Most remuneration committees have finalised their first year-end decisions in the context of the societal and economic impact of COVID-19, the pressures of which have been exacerbated by the recent social unrest across South Africa. Boards are navigating the accelerated pace of change, and executive pay continues to drive unfavourable media headlines. Is this a golden opportunity for boards to challenge and innovate remuneration policy and performance management frameworks?

The impact of the pandemic varies widely by company and sector, and investors and proxy advisors are closely scrutinising executive pay outcomes. The media and society will further ensure they reflect the shareholder and employee experience. Remuneration committees are expected to use judgement and demonstrate fair, appropriate, and consistent decisions within the broader workforce experience. At the same time, committees will be looking to set reward frameworks that incentivise leaders to deliver business resilience and recovery in the year(s) ahead.

Whilst shareholder rejection of the remuneration policy and implementation report has remained relatively static over the last three years, there have been clear reduction in shareholder support for the implementation report during the 2021 AGM season. There has also been an increase in negative vote recommendations by both Glass Lewis and ISS during the 2021 AGM season year to date. Both Glass Lewis and ISS have been clear in their expectation that remuneration outcomes for executives should reflect of the broader employee and investor experience.

Executive pay will continue to be intensely scrutinised in the year ahead, and continued shareholder vigilance around voting is expected. Investors and proxy advisors have been clear that they do not expect remuneration committees to adjust performance conditions for in-flight annual bonuses or long-term incentive awards to account for the impact of COVID-19, and discretion and judgement should be used to ensure that any pay outcomes reflect the broader stakeholder experience. A key challenge for committees will be balancing the need to attract and incentivise the leadership required to drive South African business recovery in the context of a growing focus on building a fairer society.

In the wake of the COVID-19 pandemic, the world faces significant environmental and social issues. There is growing pressure on governments, businesses, and individuals to drive meaningful change. Executive pay can play a part in focusing the board's attention on driving Environmental, Social and Governance (ESG) ambitions and delivering a "tone from the top". It is heartening to see that over 60% of the JSE Top 50 now incorporate ESG metrics into executive incentive plans. A further shift is expected during 2021 and 2022 as remuneration committees look to further align strategic priorities with remuneration frameworks. We have explored this topic in some detail in this report and provide some ideas as to how boards and remuneration committees can use executive pay to leverage this crucial topic to benefit society as a whole.

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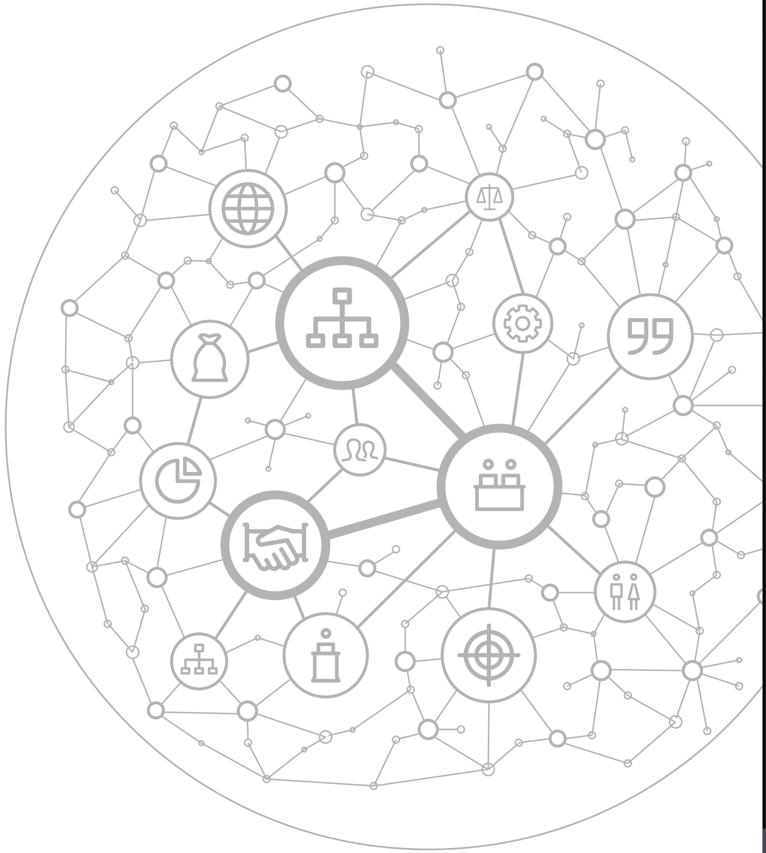

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2. Introduction

Welcome to the latest edition of Deloitte's Executive Remuneration Report. The last few years have presented an uncertain strategic and operating environment for companies. There were emerging signs of economic and financial rejuvenation, but the impact of COVID-19 has dashed these hopes.

More so than ever now, executive pay, like many other business aspects, will challenge companies in their pursuit of:

- Balancing and positioning, executive performance and reward in a changing economic environment;
- Reformulating the design and implementation of pay delivery mechanisms; and
- The increased requirement for companies to do the "right thing" considering the broader socio-economic impact of COVID-19.

The disparity in executive pay levels in relation to lower-paid workers is a societal concern worldwide. This disparity is exacerbated in South Africa, with its additional transformational needs and high levels of unemployment. The recent social unrest and looting are testament to just how fragile the situation is. In an ongoing COVID-19 environment, societal issues will likely have a significant impact on the direction of executive pay. It is encouraging to see how companies are starting to grasp the nettle of pay disparity.

Notwithstanding the above, most of this report confines itself to a qualitative and quantitative review of the nature and disclosure of executive remuneration. The report updates the findings of the previous report for the Top 250 JSE listed companies, and addresses the following issues:

- An analysis of pay and particularly performance variable pay in the context of company performance and shareholder value;
- The views and recent voting records of institutional shareholders in overseeing executive remuneration;
- An analysis of guaranteed pay, performance variable pay and total annual pay and its growth, with an examination of its relationship to company size and sectoral orientation;
- The utilisation of a Single Figure approach to pay to assess pay differentials between companies and within companies;
- What companies, particularly remuneration committees, should consider in their response to the global imperative to ensure that their actions are to the benefit of all stakeholders.

The analysis is based mainly on the information disclosed in the past annual/integrated reports and financial accounts of companies in the JSE, up to and including 31 March 2021.

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How can we help you?

The Deloitte executive remuneration team covers all aspects of executive remuneration and share scheme design and advisory services.

Our team includes remuneration, share plan, tax and accounting specialists, governance experts and lawyers. We can provide advice on all aspects of executive remuneration, including implementation, investor relations, assurance, corporate governance, accounting, legal and tax issues.

Our integrated delivery model

Design

- Reward strategy and pay mix
- Annual cash incentive design
- Long-term incentive plan design
- Share plan design
- Performance metrics and target setting
- Tax, legal and accounting advice
- Drafting of executive contracts and performance agreements
- Employee share ownership schemes
- Executive "benchmarking" and sizing of executive roles using Execeval™

Remuneration committee advisory

- Drafting of remuneration reports
- Drafting of charters
- Governance reviews and updates
- Executive pay "benchmarking"
- Updates on market trends, regulation and corporate governance
- Remuneration committee labs

Implementation and communication

- Drafting of remuneration policies
- Drafting of annual cash, long-term incentive and share plan rules
- Key shareholder engagement around share scheme implementations
- JSE approvals
- Drafting of employee communications
- Tax assistance, global tax efficient arrangements, tax guides

Contacts

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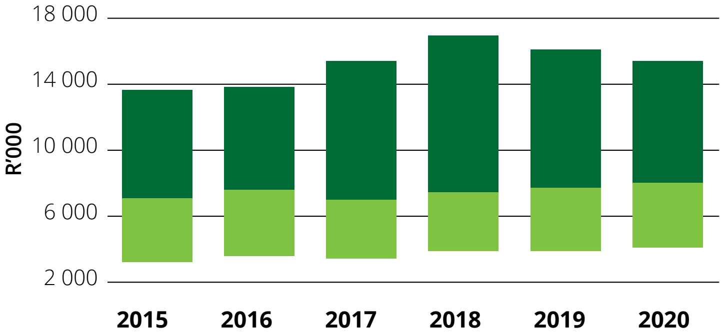
3. Headline Findings

Pay levels and out-turns

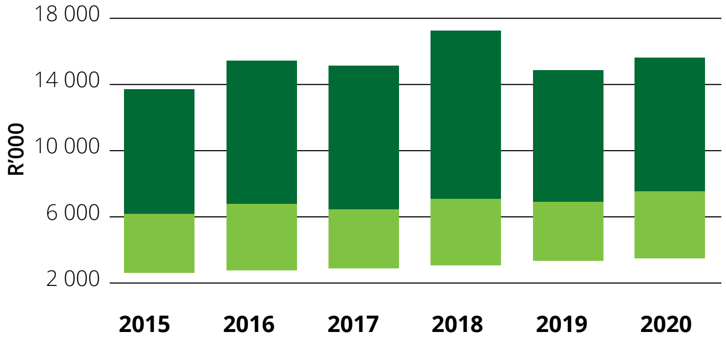
CEO TR (Single Figure): All Companies



Movement in CEO TR from 2019 to 2020 by percentile

	All Companies	Top Companies	Large Companies	Medium Companies	Small Companies
25th	1.29%	33.71%	-14.60%	6.09%	9.80%
50th	**7.09%**	**20.64%**	**-18.25%**	**-6.15%**	**-3.76%**
75th	-4.18%	12.43%	-17.31%	-5.97%	2.74%

CFO TR (Single Figure): All Companies



Movement in CFO TR from 2019 to 2020 by percentile

	All Companies	Top Companies	Large Companies	Medium Companies	Small Companies
25th	3.61%	2.27%	-6.07%	12.10%	5.95%
50th	**7.70%**	**-2.04%**	**-12.24%**	**-3.18%**	**7.13%**
75th	4.69%	2.22%	-36.85%	-3.75%	-2.51%

- Median CEO Total Remuneration (TR) (Single Figure) has increased by 7.09% from 2019 to 2020. This has been largely driven by increases at Top JSE listed firms (top 5 dual listed firms on the JSE). CEOs at Large, Medium and Small JSE listed firms have seen a reduction in their TR between 2019 and 2020.
- Median CFO TR (Single Figure) has increased by 7.7% from 2019 to 2020. CEOs at Top, Large and Medium JSE listed firms have seen a reduction in their TR between 2019 and 2020.
- Overall, there is some correlation between CEO and CFO TR and the shareholder experience for 2020.

34% of the JSE Top 50 CEOs* did not receive an increase in 2020

Average increase granted to the JSE Top 50 CEOs* who did receive an increase was between 1% and 2%

20% of Top 50 CEOs* did not receive an Annual Cash Incentive (ACI) in 2020

Average ACI granted to the JSE Top 50 CEOs* who did receive an ACI was 67% of target. 45% of the Top 50 applied discretion when awarding ACIs to the CEOs

Median Headline Earnings drop for the JSE Top 50* was -27% vs a -11% drop in ACI pools

Median LTIP vesting for CEOs was at 53% of target for the JSE Top 50* in 2020

* Excluding Top Companies

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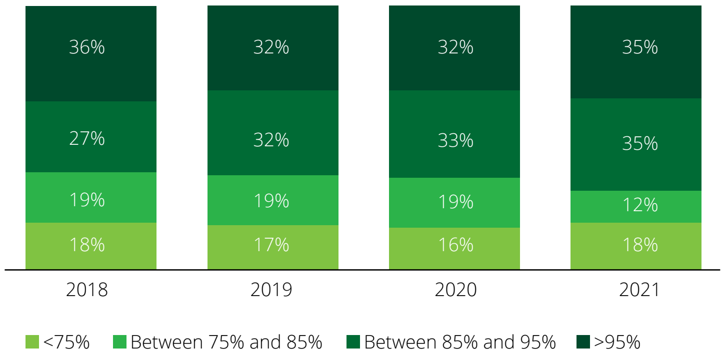
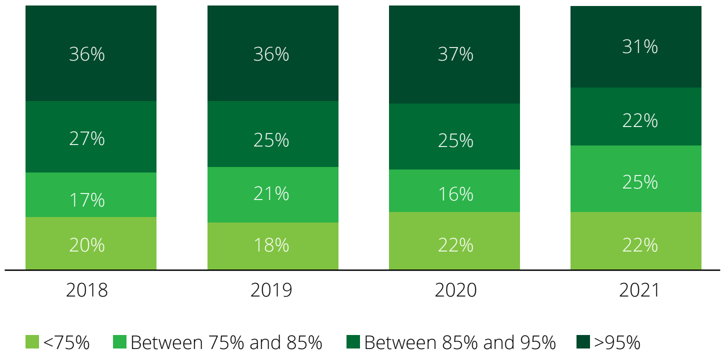
Shareholder environment and voting

- Shareholder support for JSE company's remuneration policies has remained fairly consistent since the introduction of King IV™.
- During the 2021 AGM season (June YTD), there has been a downward trend in shareholder support for the implementation of the policy. Companies receiving more than 85% of shareholder support dropped from 62% in 2020 to 53% in 2021 YTD.
- Both Glass Lewis and ISS have increased their negative voting recommendations for the implementation report during the 2021 YTD AGM season:
  - Glass Lewis has moved from 21% in 2020 to 28% in 2021 YTD.
  - ISS has moved 31% in 2020 to 40% in 2021 YTD.
- Both Glass Lewis and ISS have issued detailed COVID–19 guidance:
  - Pay outcomes should favour non-executive employees.
  - Avoid changing conditions linked to in-flight long-term incentive plan (LTIP) awards.
  - Support schemes linked to the turnaround of the company.
  - Any discretion applied by the remuneration committee should be clearly articulated.





Areas of shareholder concern: remuneration policy:

- Insufficient disclosure of policy
- Insufficient/no minimum shareholding requirements for executives
- Early vesting of LTIPs
- No performance conditions linked to executive LTIPs

Areas of shareholder concern: implementation report:

- No discernible link between corporate performance and executive reward
- Changes to in-flight LTIP conditions
- Poorly defined remuneration committee discretion
- Excessive increases

4. Total Guaranteed Pay (TGP)

Summary findings

- Median guaranteed **pay levels continue to increase**
- **Increases in 2021 appear to be more muted**
- **Increases are below broader sector increases** seen in the market but above inflation
- A large dispersion is in **evidence with wide interdecile ranges**
- **Chair Fees increased** in line with CEO TGP
- **Chairman Fees are 18% of CEO TGP**

Proxy and investor guidance

"Shareholders expect companies to show continued restraint. Increases to salary, if necessary, should be in line with changes to the wider workforce. Investors will continue to look closely at how any increases to basic salary or variable pay opportunity are justified and will expect remuneration committees to show restraint in relation to overall quantum."

The Investment Association

Questions for remuneration committees

1. What are the proposed salary adjustments for the wider workforce, including lowest-paid workers?
2. How have wider company stakeholders been impacted?
3. Were there any planned increases for prescribed officers (e.g. glidepath on appointment)?

Acronyms used in this section

TGP	Total guaranteed pay = Base Salary (BS) plus allowance, perks and company contribution to medical and retirement funding
IQR	The interquartile range is a measure of statistical dispersion, being equal to the difference between the 75th and 25th percentiles.
CB	Broad sectoral grouping of consumer business including technology companies
E&R	Broad sectoral grouping of mining and resources and construction companies
FSI	Broad sectoral grouping of financial and property investment holding companies
IM	Broad sectoral grouping of industrial and manufacturing companies

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Salary increases

Increases in Total Guaranteed Pay (TGP) have garnered heightened interest over the past few years. Proxy advisors, shareholders, and activists have started to push for larger increase awards to general staff in relation to the executive. This approach has merit as a similar increase percentage on a relatively meagre salary versus one of multiple millions generates different results on absolute quantum. In addition, executives are generally eligible for numerous incentive rewards across both the short and long-term spectrum compared to the rank and file who are not.

Figure 1 shows headline Consumer Price Index (CPI) as reported by Statistics SA over the past ten years compared to the median pay level growth across the JSE for the top two executive levels combined (CEOs and CFOs).

In addition to the above, TGP increases across the formal sector are juxtaposed with increases for executive staff. Change in median TGP for all employees has outpaced inflation over the last ten years. Increases across the formal sector have tended to outpace those seen for executive staff over the previous five to six years. On balance, pay increases for executives generally appear to be more muted than those across the general rank and file – the inference here is that firms appear to be trying to manage the dynamic between general staff and executive increases. Focus should rather be placed on the relative size of guaranteed pay levels using misinterpreted benchmarks and remuneration policies that exasperate the overall outcomes. Some firms have very high guaranteed pay levels as well as very aggressive variable pay mix strategies that yield total Single Figure outcomes that generate inflammatory pay outcomes.

What was projected compared to what transpired for year-end 2020 and what were increases in 2021?

In late 2020, Deloitte sent out a snap survey and collected insights from several top South African companies across various industry sectors on company decisions relating to fixed pay and incentives in light of the COVID-19 pandemic.

Figure 2 summarises key findings from the survey. It gives a snapshot of how companies approached remuneration at different levels.

Of those companies that were able to plan for an increase in 2021:

- The majority of executives and senior managers were expected to get an increase of 3% and lower.
- The majority of management and specialists can expect a 3-5% increase.
- Skilled and bargaining unit staff can expect relatively higher increases, with the majority at >4% and more than a third of bargaining unit employees getting more than 5%.

Figure 1: Trends in TGP over ten years

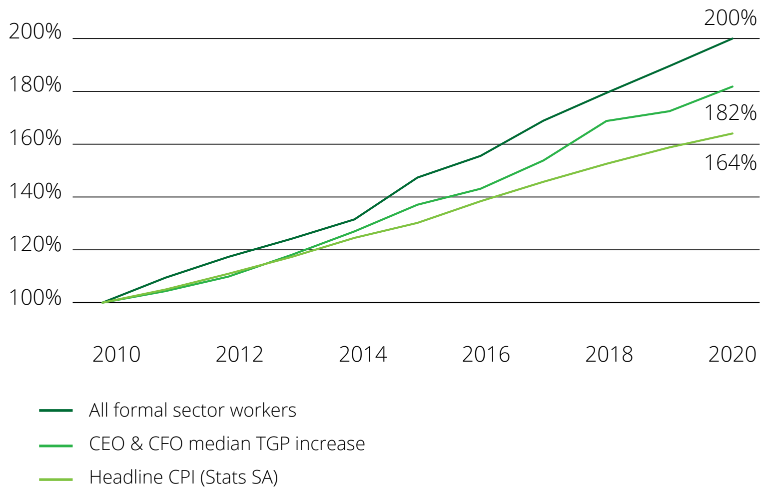
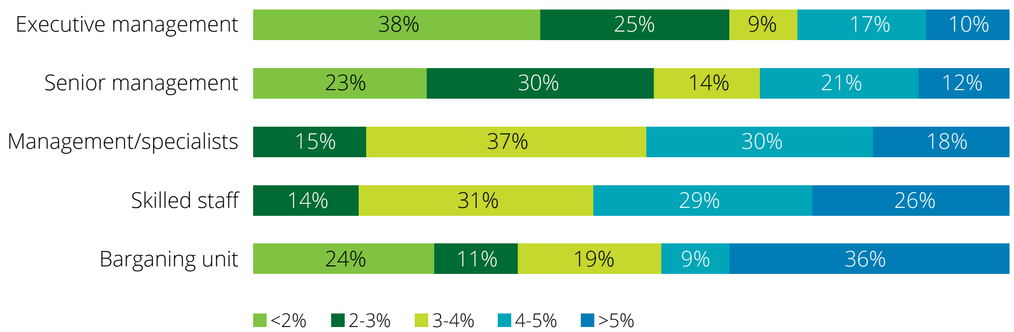


Figure 2: Planned increases for 2021



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What has transpired through the year-end process for executive pay, and what increases have materialised in 2021?

Of those companies that reported increases for the 2020-21 period, 34% of the JSE Top 50* did not award an increase to their CEO. A concerning trend is that >20% of the Top 50 did not disclose the increase awarded to their CEO. Should this increase not align with the broader employee experience or overall business performance, there is a risk of a shareholder or proxy advisor pushback at the next AGM.

In the coming months, remuneration committees will be considering guaranteed pay levels for the year ahead, and investors have indicated that they expect to see continued restraint in this area.

Where increases are awarded, higher increases have been awarded to the lowest-paid workers, particularly those in front line or critical worker industries.

Summary of guaranteed pay trends for executives in 2020-21:

- As evidenced by the JSE Top 50 listed companies that have reported their annual remuneration outcomes, early trends show that executive TGP has increased on average 1-2% in line with expectations.
- A large proportion of executives are getting no increase (>1/3rd).
- Many companies are silent on pay increases for guaranteed pay for 2021 onwards.
- Higher increase percentages for non-executive staff if increases are granted.

Figure 3: JSE Top 50 CEO increases for 2021

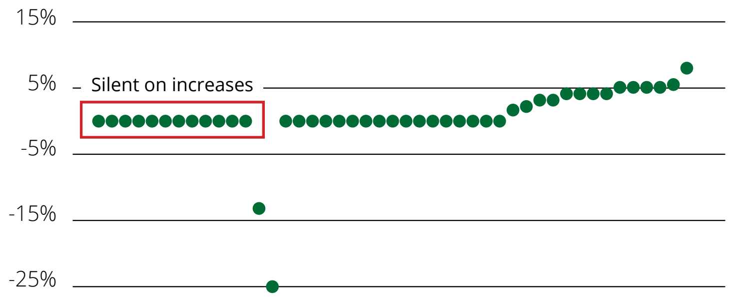
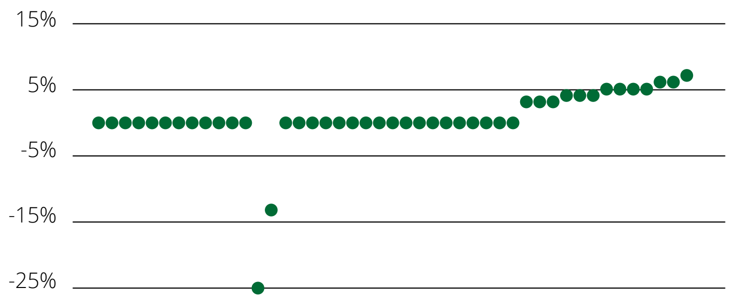


Figure 4: JSE Top 50 CFO increases for 2021



* Excluding Top Companies

The following analysis shows the levels of TGP seen over the past six years for the CEO and CFO, up until year-end December 2020.

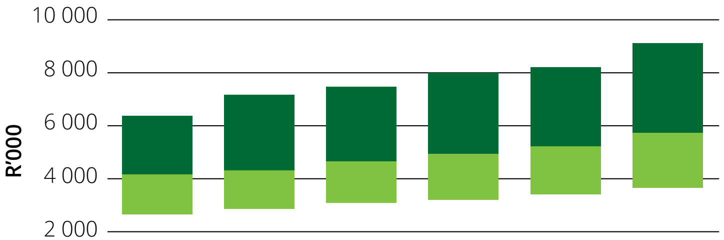
These are broad medians and show the general TGP dispersion across the interquartile ranges, overall TGP levels, and the general TGP trajectory over time.

Any benchmarking of a specific executive role should take cognisance of the correct comparator group and the company's relative size across several sizing factors, including market capitalisation. The process should also consider the scarcity of the skillset, the company's remuneration philosophy, and relevant discretion. Remuneration is indeed an art, backed by science and data points rather than only pure science. There are many complexities at play.

While most companies have a "pay at the 50th percentile philosophy", this may not always be the right strategy for attracting the right skills or driving performance. For example, a firm with cash constraints in a turnaround cycle or a market with high growth potential, but where the firm is cash-constrained, may want to adopt a philosophy of paying at the 25th percentile for guaranteed pay and at the 75th for total performance-driven pay once all incentives are bedded in, so long as the incentives are self-funded. A firm should not be penalised for having a remuneration strategy and philosophy that differs from the norm if the board deems this as fit for purpose.

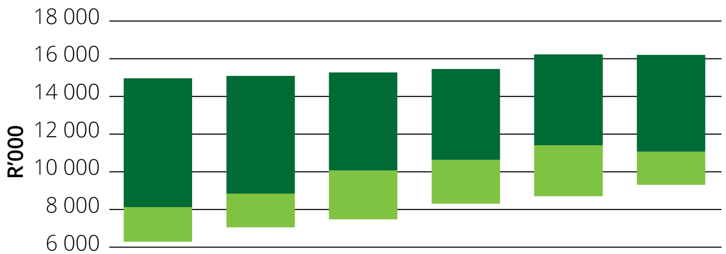
Figures 5-16 illustrate the interquartile range (IQR) of TGP for the CEO, CFO, and CF across the JSE and split between Top, Large, Medium, and Small Companies. For a definition of the various size categories of JSE companies, please refer to **Appendix 1 and 2.**

Figure 5: CEO TGP: All Companies



TGP R'000	2015	2016	2017	2018	2019	2020
25th	2 552	2 827	2 980	3 149	3 336	3 628
50th	4 067	4 235	4 570	4 889	5 200	5 660
75th	6 246	7 000	7 357	7 903	8 108	8 946
IQR	3 694	4 173	4 377	4 754	4 772	5 318

Figure 6: CEO TGP: Top and Large Companies



TGP R'000	2015	2016	2017	2018	2019	2020
25th	6 235	7 000	7 423	8 242	8 632	9 244
50th	8 057	8 775	10 000	10 560	11 328	10 992
75th	14 865	14 994	15 167	15 349	16 122	16 093
IQR	8 630	7 994	7 745	7 107	7 490	6 849

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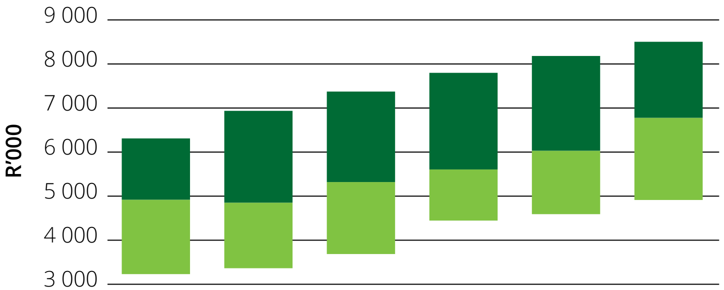
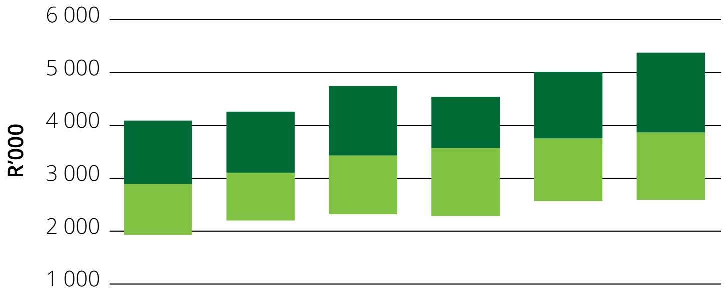
Figure 7: CEO TGP: Medium Companies



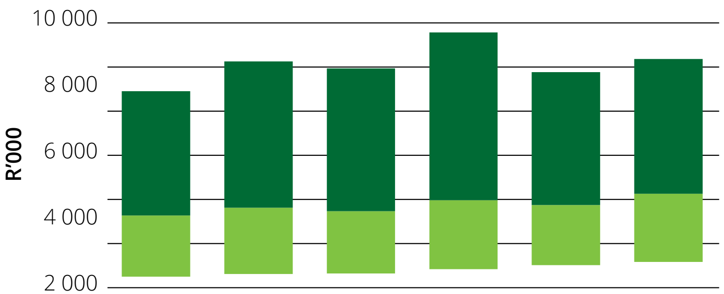
TGP R'000	2015	2016	2017	2018	2019	2020
25th	3 250	3 383	3 699	4 449	4 594	4 917
50th	4 918	4 854	5 318	5 601	6 017	6 756
75th	6 299	6 912	7 350	7 766	8 149	8 462
IQR	3 049	3 529	3 651	3 317	3 554	3 545

Figure 8: CEO TGP: Small Companies



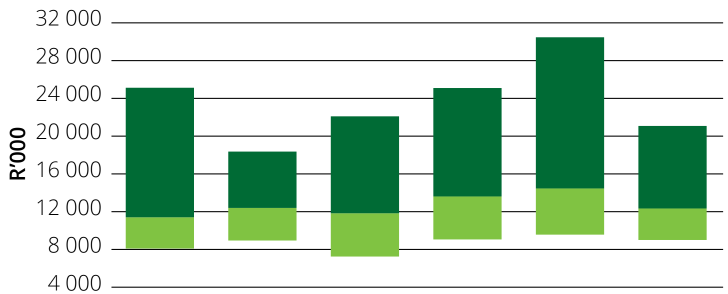
TGP R'000	2015	2016	2017	2018	2019	2020
25th	1 983	2 243	2 360	2 325	2 599	2 623
50th	2 909	3 116	3 427	3 563	3 742	3 850
75th	4 067	4 226	4 695	4 498	4 951	5 302
IQR	2 084	1 983	2 335	2 173	2 352	2 680

Figure 9: CFO TGP: All Companies



TGP R'000	2015	2016	2017	2018	2019	2020
25th	2 302	2 384	2 402	2 529	2 652	2 748
50th	4 134	4 360	4 261	4 588	4 440	4 782
75th	7 841	8 733	8 525	9 592	8 407	8 801
IQR	5 539	6 349	6 123	7 062	5 754	6 053

Figure 10: CFO TGP: Top and Large Companies



TGP R'000	2015	2016	2017	2018	2019	2020
25th	8 091	8 934	7 244	9 043	9 543	8 990
50th	11 358	12 353	11 778	13 564	14 385	12 307
75th	24 973	18 266	21 959	24 933	30 263	20 968
IQR	16 882	9 332	14 715	15 890	20 720	11 979

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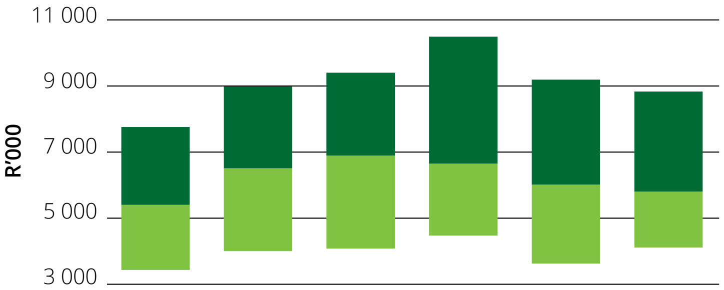
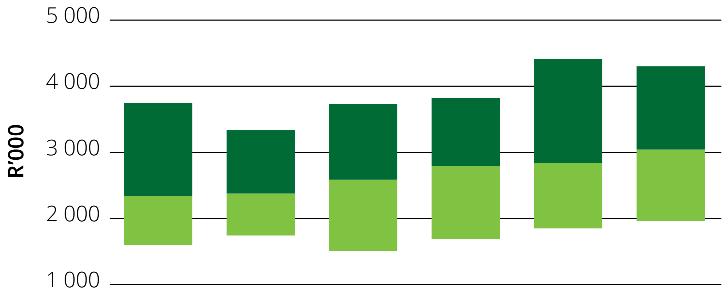
Figure 11: CFO TGP: Medium Companies



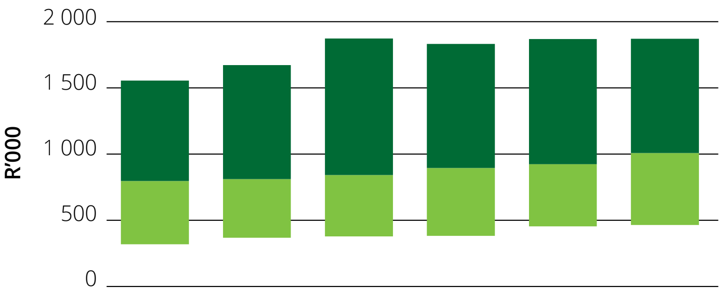
TGP R'000	2015	2016	2017	2018	2019	2020
25th	3 591	4 133	4 206	4 580	3 778	4 235
50th	5 470	6 529	6 901	6 663	6 053	5 861
75th	7 720	8 892	9 293	10 337	9 092	8 751
IQR	4 130	4 759	5 087	5 758	5 314	4 516

Figure 12: CFO TGP: Small Companies



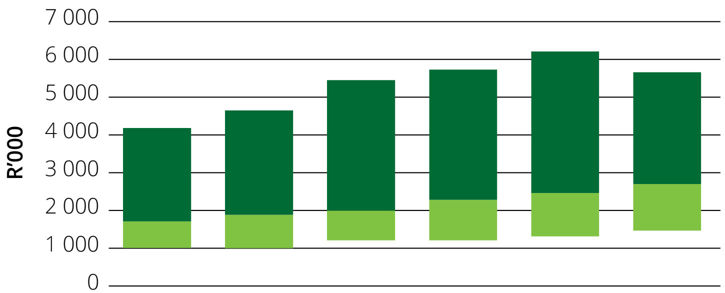
TGP R'000	2015	2016	2017	2018	2019	2020
25th	1 642	1 784	1 552	1 737	1 888	2 000
50th	2 372	2 404	2 609	2 817	2 854	3 058
75th	3 741	3 342	3 728	3 823	4 397	4 286
IQR	2 099	1 558	2 176	2 087	2 509	2 287

Figure 13: Chair Fee: All Companies



TGP R'000	2015	2016	2017	2018	2019	2020
25th	338	388	397	402	471	481
50th	806	820	851	902	930	1 012
75th	1 547	1 661	1 857	1 818	1 852	1 855
IQR	1 209	1 273	1 461	1 416	1 381	1 374

Figure 14: Chair Fee: Top and Large Companies



TGP R'000	2015	2016	2017	2018	2019	2020
25th	1 010,00	997,50	1 210,50	1 208,00	1 314,25	1 461,50
50th	1 707,50	1 883,00	1 992,00	2 275,00	2 457,50	2 694,00
75th	4 165,14	4 632,50	5 428,20	5 710,50	6 182,26	5 639,57
IQR	3 155	3 635	4 218	4 503	4 868	4 178

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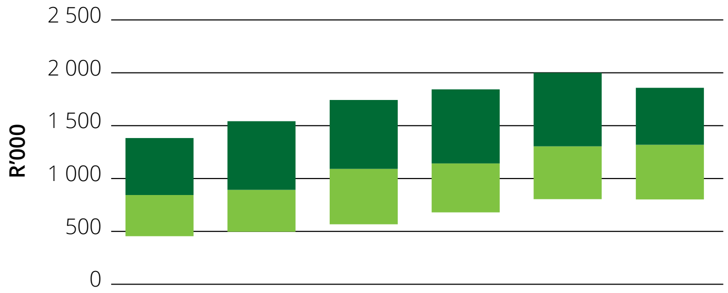
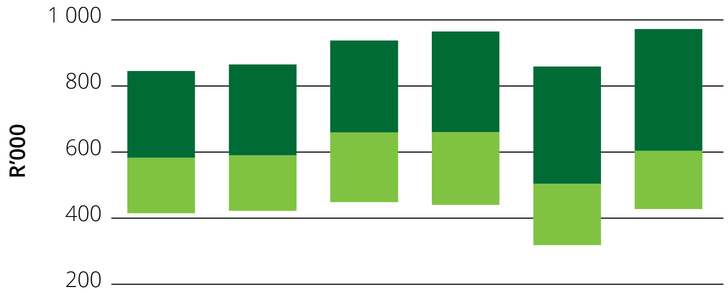
Figure 15: Chair Fee: Medium Companies



TGP R'000	2015	2016	2017	2018	2019	2020
25th	449	492	566	681	807	805
50th	847	898	1 100	1 152	1 318	1 334
75th	1 398	1 560	1 767	1 870	2 028	1 883
IQR	949	1 068	1 201	1 189	1 221	1 079

Figure 16: Chair Fee: Small Companies



TGP R'000	2015	2016	2017	2018	2019	2020
25th	250	263	266	291	338	351
50th	410	423	467	500	516	520
75th	840	860	929	954	854	961
IQR	590	597	663	664	516	610

The charts above confirm a broad correlation between the size of the company and levels of TGP. However, the wide interquartile ranges do raise questions about how companies apply benchmarks and market data to determine an appropriate TGP level relative to the size and complexity of the role.

There may be cases where a company has targeted a low TGP. In that case, one could fully expect it to have a philosophy of higher variable pay. Still, too often, it is the combination of both which yields perverse outcomes and generates salacious headlines or, in some cases, the erroneous application of benchmarks.

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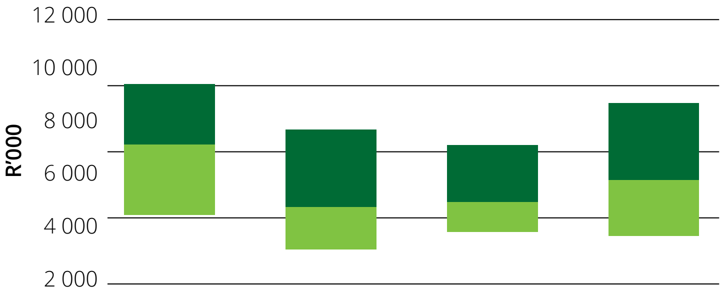
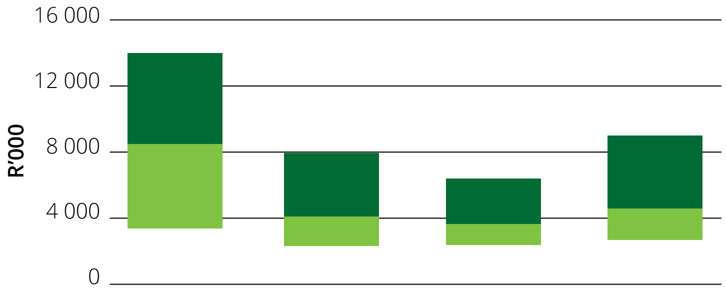
The chart below illustrates the IQR of TGP for the CEO, CFO, and CF across the JSE and split by industry. While these are useful as a reference point, caution should be applied due to several large listed companies' skew on the data in specific industries.

Figure 17: CEO TGP by industry sector



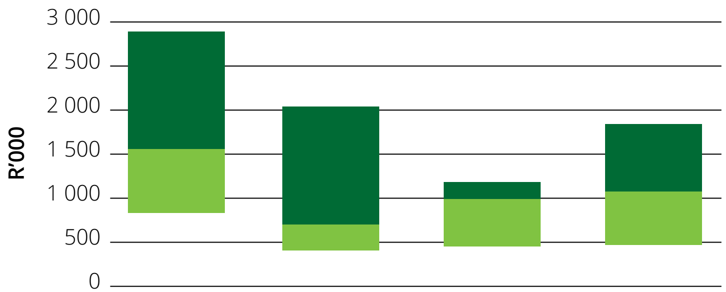
TGP R'000	E&R	FSI	IM	CB
25th	4 460	2 997	3 731	3 560
50th	7 473	4 810	5 021	5 961
75th	10 066	8 125	7 435	9 235
IQR	5 606	5 128	3 704	5 675

Figure 18: CEO TGP by industry sector



TGP R'000	E&R	FSI	IM	CB
25th	4 933	3 675	4 048	4 015
50th	9 896	6 707	6 121	7 452
75th	18 298	12 001	9 922	13 044
IQR	13 365	8 326	5 874	9 028

Figure 19: Chair Fee: by industry sector



TGP R'000	E&R	FSI	IM	CB
25th	830	410	451	471
50th	1 558	702	989	1 075
75th	2 888	2 037	1 181	1 836
IQR	2 058	1 627	730	1 365

5. Annual Cash Incentives (ACI)

Summary findings

- **45%** of companies applied either discretion or changed the scorecard/ adjusted metrics for annual incentive outcomes
- Total Annual Compensation (TAC) of executives continues to outstrip the **performance of the JSE ASI**
- **The average bonus out-turn is 67%** of the target for the Top 50 JSE companies
- **Almost 80% of the Top 50 JSE companies paid a bonus**
- **60%** of Top 50 JSE companies have an **ESG metric in their incentive plan**
- **Broad correlation** between headline earnings growth across the JSE and annual incentive pay-outs

Proxy and investor guidance

"Shareholders expect that financial metrics will comprise the significant majority of the overall bonus. Companies should demonstrate how personal objectives are linked to long-term value creation and should not be for actions which could be classed as 'doing the day job." *The Investment Association*

"Bonuses should reflect the wider employee experience. Companies may also consider whether a higher portion of the bonus should be deferred into shares." *The Investment Association*

"Remuneration committees are expected to retain a level of discretion to ensure that remuneration outcomes for executive directors align with company performance, as well as shareholder and employee experiences. Glass Lewis may recommend that shareholders vote against the remuneration report where there is substantial misalignment in this regard in the past fiscal year." *Glass Lewis*

Questions for remuneration committees

1. How has the dividend policy been impacted?
2. What has been the impact on incentives throughout the organisation?
3. Have there been redundancies linked to the impact of COVID-19?
4. How has the remuneration committee taken account of any direct or indirect government or shareholder support measures?
5. Does the level of bonus deferral remain appropriate?
6. What are the key performance indicators for business sustainability and success in the coming year?
7. How do targets align with market consensus forecasts?

Acronyms used in this section

ACI	Annual cash incentives
TGP	Total guaranteed pay = Base Salary (BS) plus allowance, perks and company contribution to medical and retirement funding
TAC	Total annual compensation = TGP plus ACI
LTIP	Long-term (share-based) incentive plan
IQR	The interquartile range is a measure of statistical dispersion, being equal to the difference between the 75th and 25th percentiles.
CB	Broad sectoral grouping of consumer business including technology companies
E&R	Broad sectoral grouping of mining and resources and construction companies
FSI	Broad sectoral grouping of financial and property investment holding companies
IM	Broad sectoral grouping of industrial and manufacturing companies

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Annual Cash Incentives

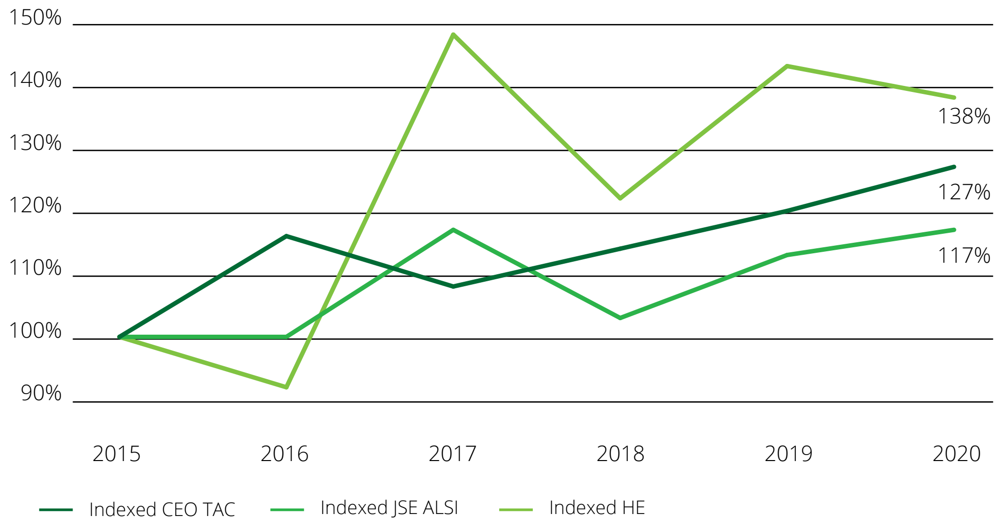
Annual Cash Incentives (ACIs) or short-term Incentive plans are common across most companies with variations on a theme depending on the industry, firm size and firm remuneration philosophy. The purpose of an annual incentive is principally to reward short-term performance and retain and attract talent by offering a competitive remuneration outcome.

This philosophy is predicated on the notion that senior employees drive performance. Hence, linking a large portion of their incentive outcome to performance-driven pay is the logical and sensible strategy to employ. The more senior an employee is, and the larger the company is, the higher the incentive potential. There should be an asymmetry between the performance of the company and the reward reaped by the senior executives.

Previous reports noted that performance variable pay for executives in the form of ACIs appears to be performance-contingent rather than performance-driven in many cases. This means that a large portion of performance variable pay seems to accrue under most circumstances other than the absolute worst case of underperformance. This approach points to either the selection of inappropriate metrics and/ or soft targets or an outcome incongruent with the shareholder experience or the majority of employees.

Figure 20 illustrates the trend in median TAC for the CEO and overall performance for all companies across the JSE denoted by the All Share Index (ALSI) and an index of comparable headline earnings (HE) growth over the period. Whilst there is a broad correlation, it is evident that the TAC of executives continues to outstrip both ALSI returns and headline earnings growth.

Figure 20: Indexed CEO TAC vs ALSI vs HE



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Furthermore, looking at the latest results for the Top 50 JSE firms, many firms paid an ACI, and almost 33% of firms paid more than 100% of target. This effectively means that 33% of these firms significantly outperformed their targets. Whilst this may be the case, and executives should be applauded and rewarded for driving performance, it begs the question: have these metrics been set appropriately, and are these outcomes a result of performance by the executive or movements in variables outside of the executive's control (such as resource prices, pandemic developments, etc.) ? Relevancy of metrics is crucial both now and in the future.

Almost half of firms applied either discretion or changed the scorecard/adjusted metrics for annual incentive outcomes for annual incentive out-turns in 2020.

Figure 22 considers the correlation between year-on-year HE and total Prescribed Officer (PO) ACI pools for the JSE Top50. There is a correlation between the two data sets. However, there are elements of noise in the numbers due to varying business and industry-specific conditions. Overall median total PO's ACI pools were down 11%, and earnings were down 27%. There does appear to be a mismatch between the relative experience for the shareholder and executives in this regard.

Figure 21: CEO ACI out-turns as % of target

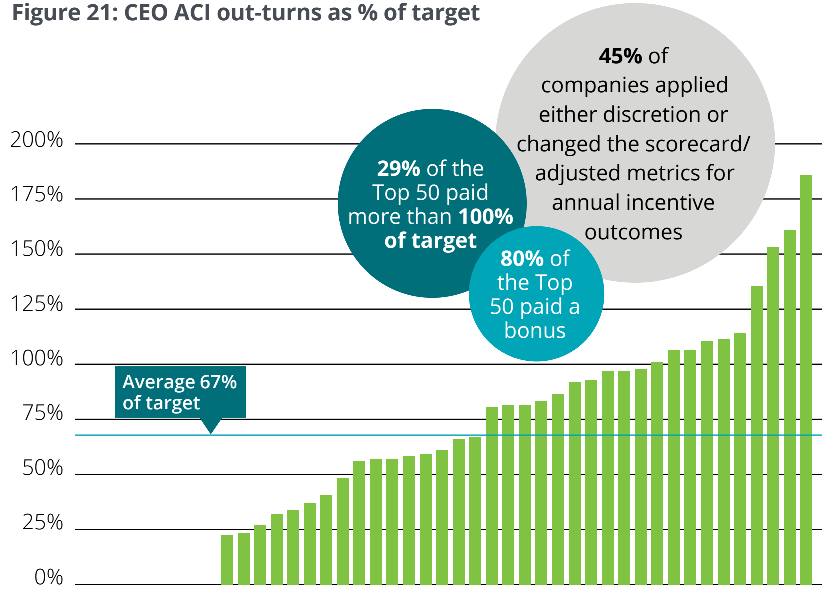
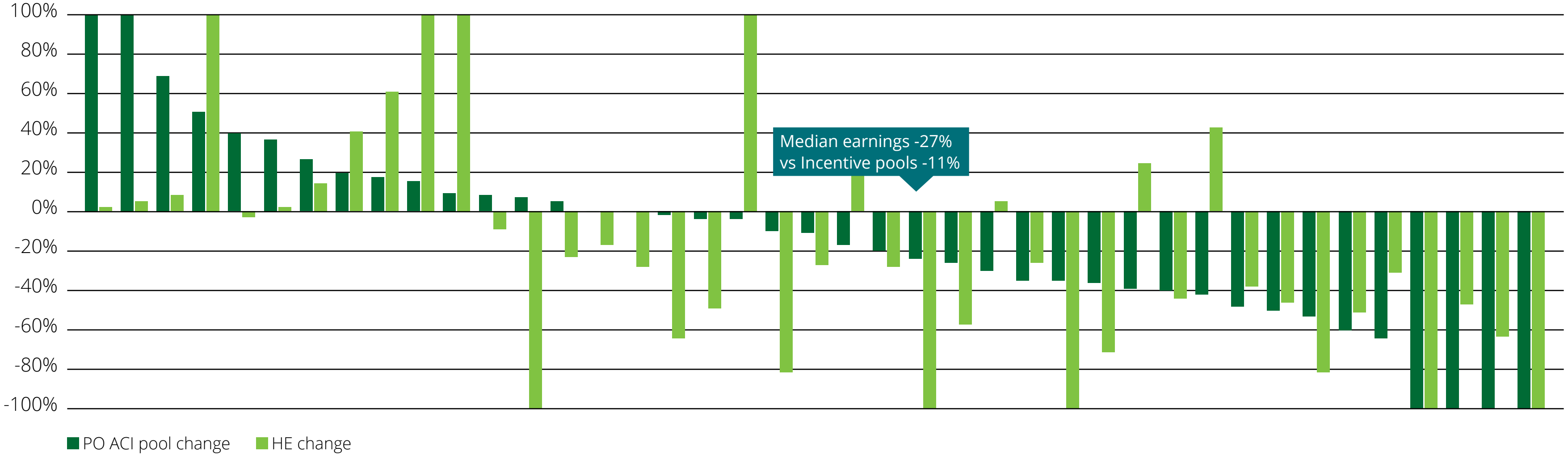


Figure 22: Relationship between year-on-year change in ACI pool vs HE change for the JSE Top 50



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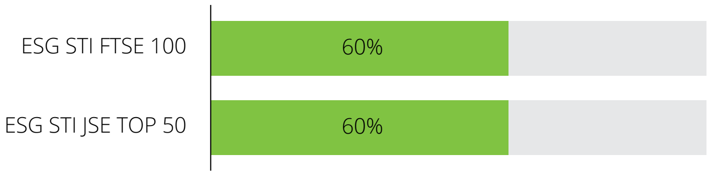
Furthermore, to compensate for the lack of incentives paid, there has been an upswing in companies issuing restricted shares to executives without performance conditions or adjusting in-flight performance conditions. Often the justification for this approach has been to retain a scarce skillset. This has resulted in shareholder pushback in several cases.

How does one balance the interests of all stakeholders?

Are executives as mobile and scarce as we are led to believe?

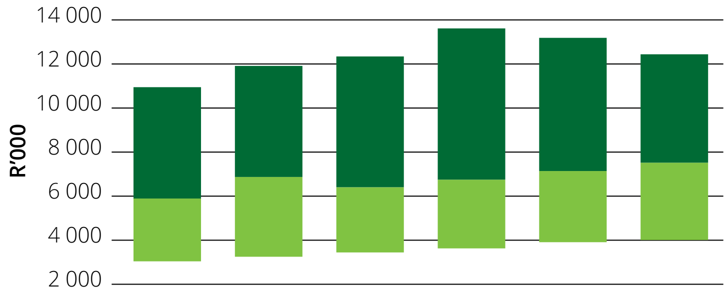
ESG metrics are now seen in 60% of plans in the Top 50 firms and are becoming increasingly prevalent. Interestingly, this is in line with the FTSE 100. The challenge firms have is to ensure that performance metrics are value accretive to the firm and its shareholders. Furthermore, targets need to be stretching, taking into account current business realities. ESG metrics require careful consideration to ensure that they are value accretive and not a proxy so executive retention in the event of financial non-performance. These require careful consideration and review each year.

Figure 23: UK and SA Companies applying ESG metrics to their ACI



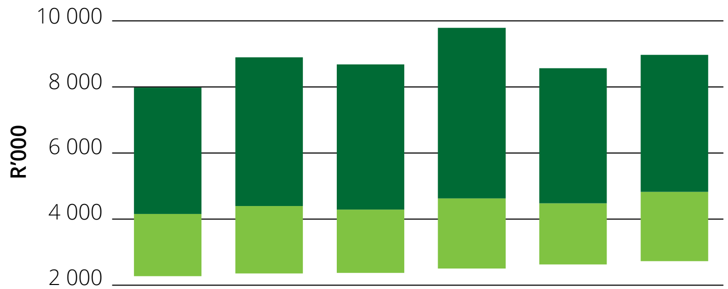
Figures 24 and 25 show the TAC paid to the CEO and CFO over the past six years. Interestingly, the CEO TAC remained relatively flat in 2020. The interdecile range has narrowed, suggesting firms are applying restraint at the top end. Equally, there has not been significant movement in pay levels for the CFO, and the IQR has remained relatively consistent.

Figure 24: CEO TAC (TGP + ACI): All Companies



TGP R'000	2015	2016	2017	2018	2019	2020
25th	3 205	3 413	3 600	3 780	4 060	4 153
50th	6 006	6 974	6 509	6 851	7 236	7 603
75th	10 970	11 924	12 341	13 583	13 162	12 432
IQR	7 765	8 511	8 741	9 803	9 102	8 280

Figure 25: CFO TAC (TGP + ACI): All Companies



TGP R'000	2015	2016	2017	2018	2019	2020
25th	2 302	2 384	2 402	2 529	2 652	2 748
50th	4 134	4 360	4 261	4 588	4 440	4 782
75th	7 841	8 733	8 525	9 592	8 407	8 801
IQR	5 539	6 349	6 123	7 062	5 754	6 053

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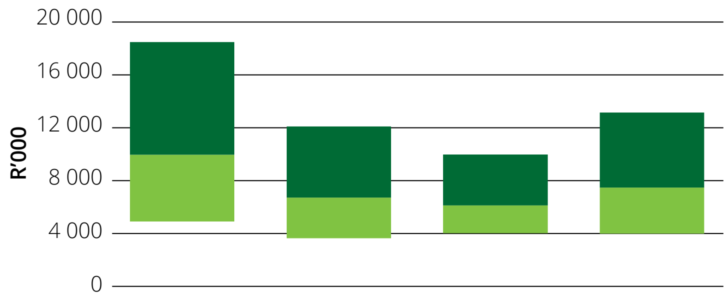
When looking at the IQR by industry we see that there has been material change in 2020, with E&R achieving significantly larger out-turns at the top end than in the previous two years. As expected, there has been a tightening in the range for industries where there has been a more pronounced impact from Covid 19. However, the median cash out-turns continue to be remarkably resilient across all industries.

In summary, ACI out-turns will be a primary area of focus for investors in the 2021/22 AGM season, and remuneration committees will be expected to demonstrate how incentive outcomes reflect the wider stakeholder and employee experience. At the end of 2020, investors and proxy advisors issued guidance for remuneration committees when considering ACI out-turns in relation to broader workforce impact and where there has been additional capital raising or suspended dividends.

When companies face significant business uncertainty and struggle to set annual performance targets, the remuneration committee could consider splitting the ACI into two six-month performance measurement periods. Remuneration committees would be expected to use judgement and discretion at the end of the year to ensure outcomes appropriately reflect the stakeholder experience over the year as a whole. Findings show that 45% of the JSE Top 50 applied discretion when awarding an ACI to their CEO. Companies are advised to consult with shareholders in advance and explain why any adjustment/discretion is appropriate where exceptional circumstances have been identified.

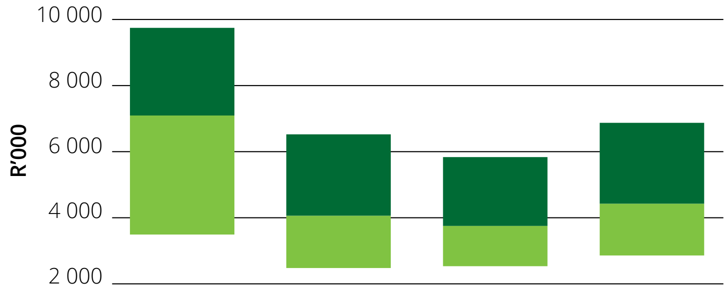
Investors and proxy advisors have indicated that enhanced disclosure is also expected when companies adjust performance measures due to exceptional circumstances.

Figure 26: CEO TAC (TGP + ACI): by industry sector



TGP R'000	E&R	FSI	IM	CB
25th	4 933	3 675	4 048	4 015
50th	9 896	6 707	6 121	7 452
75th	18 298	12 001	9 922	13 044
IQR	13 365	8 326	5 874	9 028

Figure 27: CFO TAC (TGP + ACI): by industry sector



TGP R'000	E&R	FSI	IM	CB
25th	3 470	2 432	2 494	2 821
50th	7 157	4 059	3 742	4 428
75th	9 872	6 575	5 872	6 930
IQR	6 402	4 143	3 379	4 109

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6. Long-term Incentive Plans (LTIPs)

Summary findings

Approximately 20% of JSE Top 50 firms awarded enhanced, restricted or performance shares

77% of firms awarded usual LTIP awards

Median vesting at 53% of target

Almost 50% of firms have **ESG as a metric** in their LTIP plans

Approximately 15% of firms adjusted either in-flight **metrics or targets for historic LTIP awards**

Proxy and investor guidance

"Remuneration committees need to be pro-active in determining the appropriate LTIP award size given sustained share price falls. Making awards at maximum opportunity in cases where share prices have fallen substantially is to be discouraged.Committees should consider reducing LTIP grants to reflect the shareholder experience." *The Investment Association*

"Bonuses should reflect the wider employee experience. Companies may also consider whether a higher portion of the bonus should be deferred into shares." *The Investment Association*

"Committees will have to consider the appropriate performance metrics and stretch of targets. This may lead to a reduction in the performance target range or a wider performance range. It will be important for committees to disclose the process it has been through to set the targets including the use of internal budgets and consensus estimates." *The Investment Association*

Questions for remuneration committees

1. How do LTIP awards reflect the shareholder experience and what powers exist for the committee to exercise judgement and discretion at the end of the vesting period?
2. What are the key performance indicators for business sustainability and success over the performance period?
3. How do targets align with market consensus forecasts?

Acronyms used in this section

TGP	Total guaranteed pay = Base Salary (BS) plus allowance, perks and company contribution to medical and retirement funding
TAC	Total annual compensation = TGP plus ACI
LTIP	Long–term incentive plan
IQR	The interquartile range is a measure of statistical dispersion, being equal to the difference between the 75th and 25th percentiles.
CB	Broad sectoral grouping of consumer business including technology companies
E&R	Broad sectoral grouping of mining and resources and construction companies
FSI	Broad sectoral grouping of financial and property investment holding companies
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Long–term Incentive Plans (LTIPs)

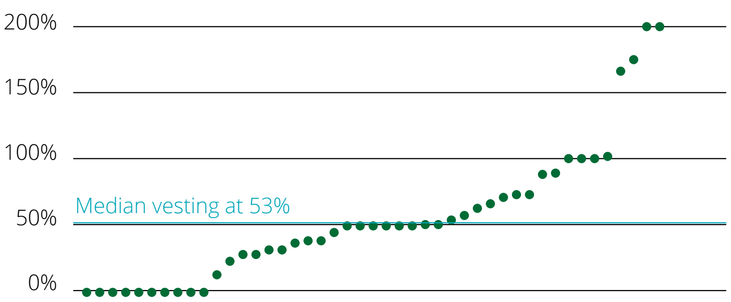
Over the past few years, the overwhelming trend has been towards the prevalence of performance-based LTIPs conditional on performance hurdles being achieved to receive any benefit.

The events and impact of COVID-19 have wreaked havoc on many of these awards. The result is that many awards are unlikely to vest or hold any value, mirroring the broad experience of the shareholder. The question remains as to "what to do next and how to make relevant awards and drive shareholder and executive alignment?". Executives should not be rewarded for not delivering against the targets that were set. Still, equally, in the future, a balance needs to be struck to ensure that talented executives that manage to deliver long-term value are rewarded appropriately.

Over the coming year, remuneration committees will assess performance regarding awards made under LTIPs in 2018. While we are yet to see the full impact of COVID-19 on LTIP vesting levels, it is anticipated that many in-flight awards will continue to be "underwater" at the current time.

Of the JSE Top 50, around 20% of LTIP awards have lapsed at the end of the performance period, with median vesting of 53% of target, which is lower than in recent years. To cater for this, there has also been an uptick in the use of restricted share awards. Restricted awards in place of or supplemented to current LTIPs are generally

Figure 28: CEO LTIP vesting as % target



viewed with a high degree of scepticism from investors and proxy advisors, and rightly so. Perhaps a neater solution is to defer a portion of the ACI into restricted shares, achieving both a retention element and a further benefit of growth to the executives should the firm prosper.

Furthermore, investors and proxy advisors have clarified that they do not expect to see adjustments to performance conditions for in-flight LTIP awards. Where any adjustments are proposed, these should be subject to shareholder consultation. By and large, as evidenced below, South African companies appear to be getting this right, with fewer than 15% of firms in the Top 50 actively changing metrics or adjusting targets for in-flight awards.

Figure 29: Changes to in-flight LTIP awards

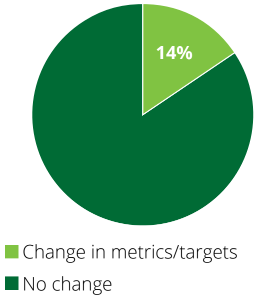
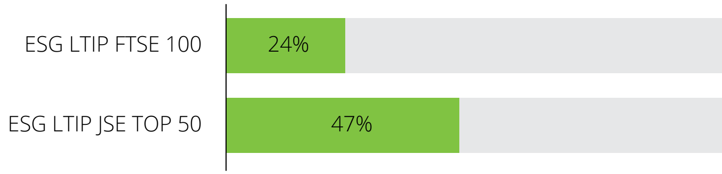


Figure 30: UK and SA Companies applying ESG metrics to their LTIP



Most of the JSE Top 50 have made "normal awards" for 2020-21, but 20% of firms have awarded additional performance or restricted shares. Of interest is that almost 50% of firms now incorporate ESG metrics and targets within their LTIPs, which is significantly higher than in firms listed on the FTSE. These will continue to attract scrutiny by investors and proxy advisors to ensure they are both relevant and value accretive and not a soft measure dressed up as retention payments.

Where firms have implemented enhanced awards of performance or restricted awards, companies should commit to using discretion and judgement at the end of the vesting period. This will ensure that remuneration outcomes reflect the broader stakeholder experience and executives have not benefited from "windfall gains".

In this regard, remuneration committees should ensure that plan documentation allows the discretion at vesting and explain their approach in the remuneration report.

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7. Shareholder Dialogue and Executive Pay

Shareholder and proxy advisor considerations

COVID-19 has presented unique and unprecedented complexities for boards and remuneration committees. The pandemic has had varied effects on firms from a performance perspective, offering different questions and issues regarding executive remuneration. Both shareholders and proxy advisors have issued specific guidance concerning COVID-19 and the economic uncertainty created by the pandemic. The preceding sections have shown the out-turns and trends in evidence across all elements of executive remuneration. This section focuses on COVID-19 specific guidance and general advice that the remuneration committee should consider concerning remuneration as a whole and each constituent of remuneration.

COVID-19 guidance

Shareholder guidance

ACIs

- Companies that have received support from shareholders (via additional capital or suspended dividend) or implemented staff redundancies should not be paying bonuses.
- Achieving a threshold level of financial performance should be a prerequisite for the delivery of any bonus.
- Shareholders may vote against policies and their implementation if weighting on personal/strategic measures is high and metrics are not meaningful/quantifiable or sufficiently explained.
- Shareholders do not generally support the setting of targets at a level below the previous year's out-turn. However, suppose the remuneration committee believes it is appropriate to set lower targets due to exceptional circumstances. In that case, they expect to understand why the new targets are equally stretching. Without such explanation, investors would expect a reduction in the award size to reflect the reduction in targets.

Long-term incentives

- Where a company has experienced a significant fall in the share price since the last award was made, a reduction in the size of the new award is expected. The remuneration committee should apply clear vesting discretion to avoid windfall gains if this is not the case. This should, in turn, be linked to the remuneration philosophy and strategy of the company.

Proxy advisor guidance

Glass Lewis

- Year-on-year movements in executive remuneration should reflect how the company has been affected by the crisis.
- A clear rationale should be given when upward discretion has been applied to executive remuneration arrangements.
- Pay decisions should favour non-executive employees.
- Companies should not deviate from their remuneration policy if not affected by the crisis.

ISS

- Extensive shareholder consultation is required where changes to executive remuneration arrangements are contemplated.
- Changes to targets or metrics linked to in-flight LTIP awards are not generally supported.
- Executive remuneration plans that focus on recovery are encouraged.

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General guidance

Shareholder guidance

TGP

- TGP increase percentages for executives above general staff increases should be avoided.
- The granting of increases to executives where performance over the preceding year has been weak should be avoided.

Variable pay

- Performance targeting that does not support the achievement of long-term growth.
- Short and long-term incentive arrangements that do not include an overall cap.
- The use of the same performance metrics in more than one plan.
- Any discretion applied to bonus payments or the vesting of share awards to allow a higher pay-out than would have otherwise been made.
- The absence of malus and clawback provisions.
- Lowering of performance targets in either short-term or long-term incentives without a commensurate reduction in the bonus potential or size of the share award:
  - No disclosure on the extent to which performance targets have been met and the resultant level of vesting; and
  - Any provision for retesting.

ACIs

There must be a demonstrable link between performance and bonus pay-outs (mainly when based on:

- Personal achievements when overall profit targets are not met);
- Bonus targets that are not transparent;
- Pay-outs that are not aligned with financial performance; and
- Lack of stretch in targets or insufficiently demanding performance targets.

LTIPs

- Insufficient disclosure of performance criteria/conditions attached to long-term share plans.
- Long-term share plans with performance periods of less than three years.
- High level of vesting at median performance.
- Significant weighting towards and lack of transparency of non-financial measures.
- One-off retention or transaction awards, which have not been adequately justified.
- Provisions for early vesting of share awards where prorating for time and performance is not applied.
- Change in control provisions triggering earlier and/or larger payments and rewards.
- Termination arrangements, either exit payments made or policy on termination payments.
- Dividends paid on shares that subsequently lapsed due to performance targets not having been met.

The following are encouraged:

- Further retention of vested shares; and
- Minimum shareholding requirements.

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Shareholder voting trends

Since the introduction of King IV™, shareholders have been reasonably consistent over the last three and a half AGM seasons in their non-binding approval of company remuneration policies and implementation reports. However, a shift has started to occur. Although the overall support for the remuneration policy has dropped marginally in 2021, we have witnessed a more concerning trend during the 2021 AGM season: an overall drop in relative shareholder support for policy implementation.

During the 2020 AGM season, 62% of companies received over 85% of shareholder support for the implementation of their policies. In the 2021 year-to-date AGM season, only 53% of companies received more than 85% shareholder support. A further concerning data point is the increase in negative voting recommendations by Glass Lewis for the 2021 AGM season. Considering the drop in shareholder support for the implementation of the remuneration policy over the 2021 AGM season to date, a significant increase in negative voting recommendations by Glass Lewis and ISS for the implementation report in 2021 and a sustained and often negative focus on executive pay in South Africa's business publications, we expect to see companies facing a tough AGM season for the balance of 2021 and beyond.

The economic uncertainty created by the pandemic, together with the social, political and investor uncertainty created by the unrest in July, means that remuneration committees will have to navigate a fine line to ensure that all stakeholders feel that they have been treated fairly.

Figure 31: Shareholder non-binding approval of the remuneration policy

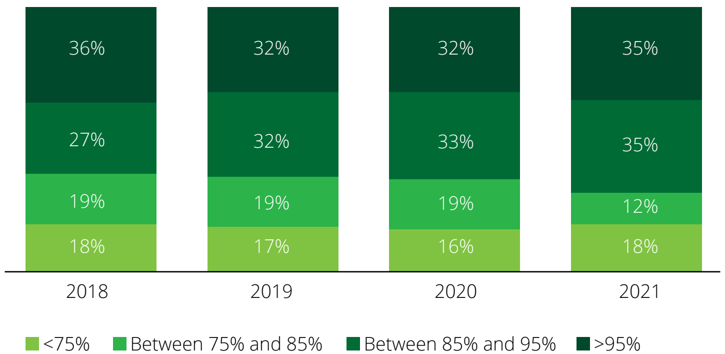

Figure 32: Shareholder non-binding approval of the implementation report

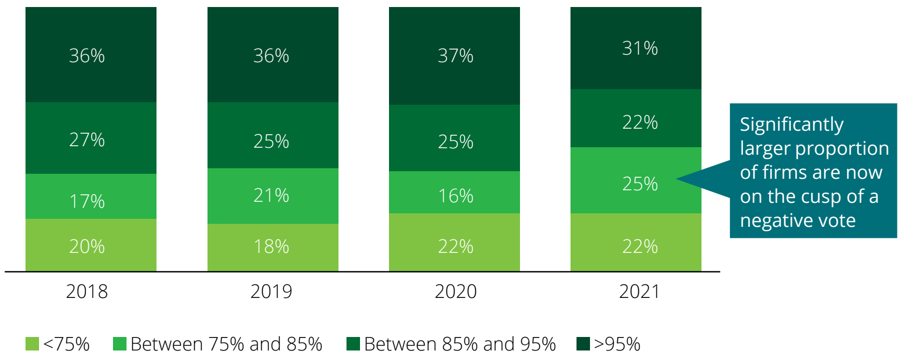

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Figure 33: Proxy advisor recommendations for the approval of the remuneration policy

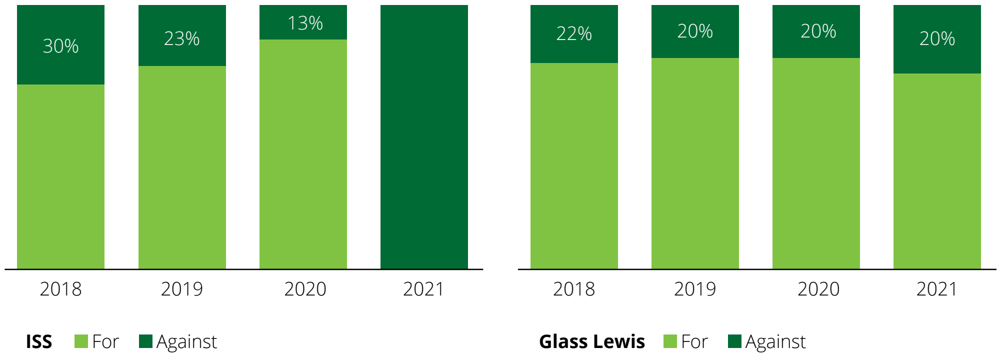
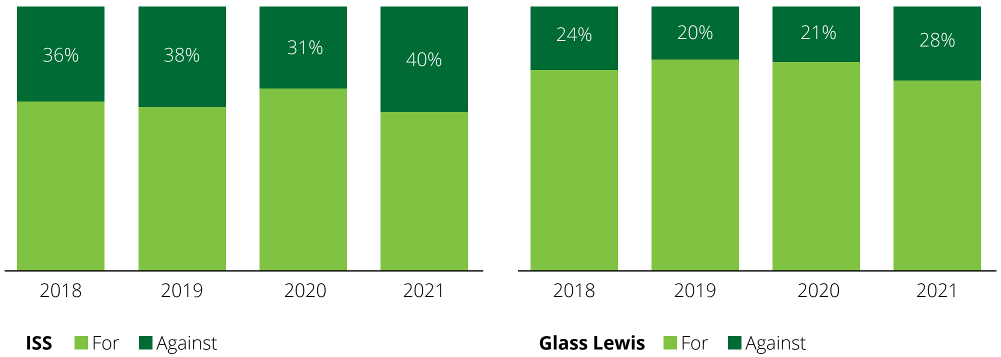


Figure 34: Proxy advisor recommendations for the approval of the implementation report



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A second analysis was undertaken to understand the voting behaviour of South Africa's largest institutional shareholders following the implementation of King IV™. Based on the review, the Public Investment Corporation (PIC) has registered the most significant opposition to the Remuneration Policy and Implementation Report in FY 19 and FY 20. No data was available for the PIC for FY 21 at the date of publication of this report. For FY 21, YTD South African shareholders have broadly supported both the Remuneration Policy and Implementation Report. This suggests that international shareholders and the PIC are responsible for the growing trend in negative votes.

Figure 35: Large South African shareholder non-binding approval of the remuneration policy over the last three AGM cycles

Remuneration policy : FY 19	For %	Against %	ISS Match %	GL Match %
Public Investment Corporation	51.8%	48.2%	59.5%	66.1%
Ninety One	87.7%	10.5%	76.1%	83.7%
Old Mutual South Africa	68.1%	30.7%	92.9%	69.5%
Coronation Fund Managers	88.3%	10.0%	73.8%	80.6%
Allan Gray Proprietary Limited	84.3%	10.0%	63.4%	84.9%
Remuneration policy : FY 20	**For %**	**Against %**	**ISS Match %**	**GL Match %**
Public Investment Corporation	56.5%	40.3%	65.3%	62.7%
Ninety One	87.3%	11.9%	87.5%	82.1%
Old Mutual South Africa	73.9%	22.5%	98.0%	75.0%
Coronation Fund Managers	83.3%	13.9%	65.3%	62.7%
Allan Gray Proprietary Limited	85.9%	11.5%	87.5%	82.1%
Remuneration policy: FY 21 YTD (June)	**For %**	**Against %**	**ISS Match %**	**GL Match %**
Ninety One	88.9%	7.4%	65.3%	62.7%
Old Mutual South Africa	87.5%	0.0%	87.5%	82.1%
Coronation Fund Managers	93.0%	2.3%	90.9%	71.1%
Allan Gray Proprietary Limited	83.3%	8.3%	100.0%	60.0%

Figure 36: Large South African shareholder non-binding approval of the implementation report over the last three AGM cycles

Implementation report: FY 19	For %	Against %	ISS Match %	GL Match %
Public Investment Corporation	50.4%	49.6%	56.6%	60.3%
Ninety One	82.5%	14.0%	70.8%	73.9%
Old Mutual South Africa	72.5%	26.3%	88.0%	71.8%
Stanlib Asset Management Ltd	62.5%	37.5%	58.3%	64.3%
Coronation Fund Managers	85.7%	11.8%	63.2%	77.1%
Allan Gray Proprietary Limited	70.4%	22.2%	62.1%	57.8%
Implementation report: FY 20	**For %**	**Against %**	**ISS Match %**	**GL Match %**
Public Investment Corporation	59.4%	37.6%	60.4%	65.5%
Ninety One	82.4%	14.3%	76.6%	72.4%
Old Mutual South Africa	69.3%	30.7%	94.0%	69.8%
Coronation Fund Managers	80.6%	17.5%	70.3%	72.7%
Allan Gray Proprietary Limited	69.5%	23.2%	66.7%	65.7%
Implementation report: FY 20	**For %**	**Against %**	**ISS Match %**	**GL Match %**
Ninety One	78.6%	19.0%	73.3%	60.0%
Old Mutual South Africa	61.9%	38.1%	93.3%	70.3%
Coronation Fund Managers	90.6%	9.4%	62.5%	79.3%
Allan Gray Proprietary Limited	83.3%	16.7%	100.0%	72.7%

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8. ESG – A Hot Topic in Executive Remuneration

The continued emergence of ESG and the impact on executive remuneration

Across the globe, there is an awakening to environmental and societal issues and growing pressure on governments, businesses and individuals to drive meaningful change. In the corporate world, momentum has been building towards adopting Environmental, Social and Governance (ESG) practices.

The 2008 financial crisis prompted a shift from ideation and debate to implementation of improved governance practices, with global role players – governments, Non-Government Organisations (NGOs), regulatory bodies, stock exchanges and investor activist organisations – refocussing on board oversight, accountability and responsiveness to shareholders.

In the latter half of the 2010s, pressure to implement sustainable business practices increased following a rash of corporate crises that drew global attention and underlined a need for environmental stewardship and social responsibility; this fuelled a greater sense of urgency surrounding ESG thought leadership and policy development.

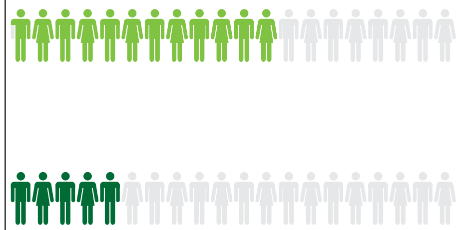
Global crises have set the stage for significant change. COVID-19, allied with local rioting and unrest, has business poised to take the next great leap. During the 2020s, we expect to see the widespread adoption of comprehensive corporate disclosure of environmental, social and governance factors. It is encouraging to see so many businesses starting to take meaningful action.

Larry Fink is the Chairman and CEO of BlackRock, the world's largest asset manager, with over $9.4 trillion in assets under management. In his 2021 letter to CEOs, he writes, "*I believe that the pandemic has presented such an existential crisis – such a stark reminder of our fragility – that it has driven us to confront the global threat of climate change more forcefully and to consider how, like the pandemic, it will alter our lives. It has reminded us how the biggest crises, whether medical or environmental, demand a global and ambitious response*."

Climate change is not the only ESG item on BlackRock's agenda. Fink has repeatedly emphasised the importance of a diverse board – a

60%
of the 750 executives surveyed globally see the world at a **tipping point on climate change***

nearly 25%
of executives plan to **accelerate their climate actions** despite the economic downturn



mantra taken up by numerous other influencers over large pools of capital. At the largest scale, governance advisers such as Glass Lewis and ISS advise voting against boards that are not diverse. Both Glass Lewis and ISS offer voting policies on climate.

Regarding remuneration governance in South Africa, the Proxy Voting Guidelines Benchmark Policy Recommendations (South Africa) published by ISS and the 2020-2021 Proxy Paper Guidelines (South Africa) published by Glass Lewis provide some insights into the general direction of pressure being applied through voting. These practices have been highlighted in the previous section.

In South Africa, climate change risk and governance (public and private sector) is front and centre, with mounting pressure for disclosure and mitigation action. A case in point: the activities of Just Share, a shareholder activist organisation driving South African banks to implement more stringent policies on financing activities related to thermal coal, are forcing an extensive scaling up of renewable energy generation for the African continent.

Financial institutions are also confronting ESG issues head-on – Nedbank has recently halted direct funding of new oil and gas exploration actions and has committed to aligning its business with the terms of the Paris Climate Agreement. Standard Bank's recent AGM had the bank confirm a commitment to publishing a climate strategy and targets for reducing fossil fuel exposure; the spotlight was also placed on Standard Bank's proposed financing of the East African Crude Oil Pipeline by activist shareholders from Uganda and Tanzania.

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Coronation Fund Managers recently announced that it would be adopting a stronger viewpoint on ESG on the back of engagements with almost 90 JSE listed companies and having found a lack of consistent reporting frameworks for climate-related risk.

Coronation reports that its central ESG themes range from carbon emissions, climate change, energy efficiency and water management to poverty, employment, anti-corruption, board independence and ethics.

JSE sustainability index

The JSE's Responsible Investing Indices (FTSE/JSE RI Indices) provide a mechanism for investment in locally listed companies implementing positive ESG practices. The rating model used to select companies for inclusion covers:

- **Governance** – anti-corruption, corporate governance, risk management and tax transparency;
- **Environmental** – biodiversity, climate change, pollution and resources and water security; and
- **Social** – labour standards, human rights and community, health and safety, customer responsibility and social supply chain.

Doing good while doing well: Is there a premium to be paid for ESG performance?

Conventional thinking may assume that restricting the pool of investment options to those that pass ESG screenings must necessarily hinder investment performance. However, aside from traditional "economic sense", literature on the relationship between an ESG focus and financial results is vast. The findings are, in some cases, contradictory. However, a growing body of evidence supports the somewhat counter-intuitive perspective that focussed management of ESG performance and disclosure leads to lower cost of capital, improved operational performance, and increased shareholder returns.

Analysis and insights from the past decade reveal a trend for ESG fund returns to generally outstrip traditional funds.[1]

A potential reason for that for investment managers to include funds in ESG portfolios, the underlying corporate characteristics (including, very importantly, governance practices and the like) need to be scrutinised. This adds to the level of due diligence performed by the investment manager. In other words, investors who consider ESG measures are looking at a fuller information set, including substantive issues that may affect long-term viability.

Other proposals as to causality here are:

- The strong performance of the comparatively high number of tech stocks included in ESG funds;
- The relative sheltering of ESG investments from fossil fuel volatility, which will not always lead to outperformance of ESG, but when considering data covering the April 2020 oil and gas plunge, may indeed skew study results; and
- Perhaps, more intuitively, companies focused on leveraging corporate reputation are better at managing non-financial assets, which may be seen in outperformance in the medium and long-term.

Disclosure of ESG objectives and results signals to stakeholders that the company sees the link between its mission, core competencies, strategies, pay, and sustainability. It aims to operate in the interest of corporate, environmental, and societal good. This, in turn, satisfies increasing investor demand and is a crucial part of building credibility with stakeholders.

Do motives matter?

In previous reports, we have noted an increasing proportion of South African executive annual bonuses tied to company sustainability targets, ESG and/or individual KPIs, in addition to targeted company financial performance metrics. A marked increase in companies incorporating (or planning to incorporate) non-financial measures based on ESG factors in their incentive plans has been noted again in the 2020 financial year.

1 Lembit, G., (2020) 'What do you care about: The personal edition', Perpetual Client Insights and Analytics, released 13 August 2020 https://www.morningstar.com.au/funds/article/responsible-investment-funds-notch-up-decade/205345, https://www.morganstanley.com/ideas/esg-funds-outperform-peers-coronavirus

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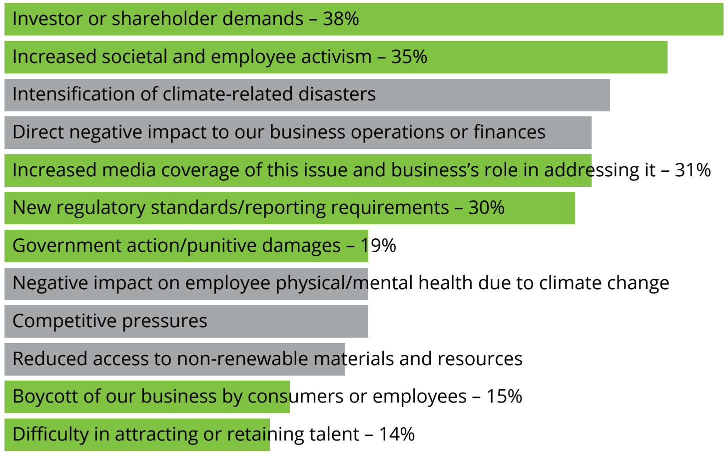
Considering the influence wielded by proxy advisors, shareholder activist groups and other societal role players, the apparent consensus that ESG measures should be included in executive remuneration is unsurprising. Should the idea that the trend for their inclusion is, at least in part, a stakeholder pressure-driven shift be cause for concern? (In other words, do motives for ESG metric inclusion in pay matter?)

Yes. The reasons for including ESG metrics in performance variable pay should be used to inform the selection of the metrics themselves and make choices about how they are designed into incentive schemes.

Environmental sustainability initiatives primarily driven by stakeholder pressure*



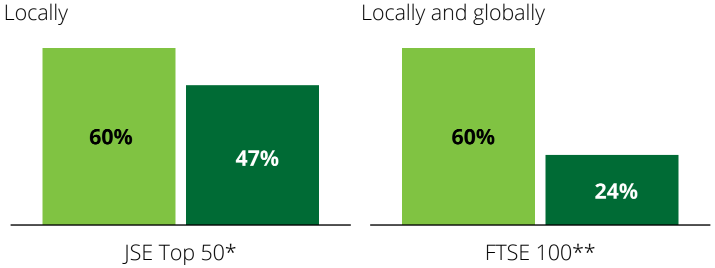
*Deloitte Climate Check survey 2021

The premise that ESG initiatives lead to long-term shareholder value creation is a recurring theme in remuneration report narratives; this alignment between "societal good" and "financial good" can be actioned in two distinct and seemingly contradictory approaches to executive remuneration:

1. **Incentivise ESG performance directly to stimulate long-term value creation.** The metrics chosen must be measurable, material, and within the sphere of influence of the roles to which they are being applied.
2. **Shift incentives to focus on longer-term company performance.** If the ESG pays for itself in the long-term, then by shifting the determinants of variable pay to longer-term measures, the company will indirectly incentivise ESG performance without including direct ESG targets in scorecards.

What is the current practice?

ESG in incentive plans: % of firms using ESG metrics



- ESG inclusion in ACIs
- ESG inclusion in LTIs.

* Based on Top 50 JSE September to March year-ends
** Based on FTSE 100 September to December year-ends

The JSE Top 50 firms survey shows that 60% of firms (with September 2020 to March 2021 year-ends) incorporate ESG metrics into ACIs, and 47% incorporate them into LTIPs.

To date, ESG measures in long-term incentive schemes have focused mainly on **environmental targets** (CO_2 emissions, water efficiency, plastic use, and renewable energy consumption). The weighting of shareholder interests, coupled with the relatively high measurability of environmental indicators, has perhaps been a reinforcer of this trend. With a growing Millennial and Gen X representation in the economically active population of South Africa, environmental targets increasingly pose an opportunity to attract new investors and create new investment strategies.

Social targets have emerged in annual bonus and long-term incentive schemes, with the concepts of community and civic responsibility being driven from the top. The organisational imperative to address inequalities and create more fundamental cultural change is increasingly recognised. So it should be in a South African context.

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Governance targets typically contribute to annual incentives, focussing on risk (building a resilient organisation) and health and safety. Governance failures and their impact on institutions and investor confidence have been brought starkly to the fore in the past two to three years in the state capture enquiries and the large corporate failures locally and internationally.

ESG metrics – the pitfalls

Designing ESG metrics and incorporating them into pay requires a carefully considered evaluation of potential outcomes in terms of incentivised behaviours or decisions and possible reward outcomes. In addition, while the sentiment surrounding ESG is developing apace, reliably quantifiable measures of material ESG results are still difficult to define.

How should ESG be incorporated into pay plans?

Returning to the idea of achieving long-term shareholder value creation through ESG activities: the first way in which pay might be aligned more closely with ESG is by balancing shorter-term financial performance measures with rewards focussed on longer-term performance.

It is reasonable to expect that the achievement of a company's core purpose will influence the variable pay of executives and that performance measures will reflect key elements of organisational strategy. If the organisation identifies ESG targets as contributing directly to the achievement of its purpose, then these would be reflected in executive performance measures. The cascading of priorities in such a manner draws lines of accountability and signals the company's value creation intentions to stakeholders.

Financial metrics remain central to evaluating and rewarding executive performance; however supplementing financial targets with ESG metrics in performance scorecards may allow for organisational outcomes that are more nuanced, more agile and that contribute more value and respond to the demands of a broader set of stakeholders.

Incorporating ESG into pay plans begins with identifying ESG risks and opportunities for the company, adopting a multi-stakeholder perspective. The aim is to pinpoint the levers over which executives have influence. Although "non-financial" in nature, these may nevertheless impact the bottom line in the longer term.

The Investment Association (November 2020) suggests that "ESG measures should be material to the business and quantifiable. The materiality of ESG criteria will differ from one industry to the next and from one organisation to the next. Numerous frameworks are available to aid in identifying sustainability issues most likely to affect the financial condition or operating performance of companies in given industries"

Once identified, the most impactful business-specific sustainability issues can be used to set measurable short and long-term targets that support the organisation's mission.

A recommendation from The Investment Association (November 2020) is to use general, values-based ESG performance targets as modifiers of incentive awards rather than to provide additional reward. Where companies have specific ESG objectives beyond those embedded in organisational culture, values, and organisational philosophy, these may lend themselves to setting specific incentivised performance targets. Perhaps maximum remuneration outcomes can only be achieved when a financial and ESG performance hurdle is achieved. Indeed, too often, LTIP awards are given at the maximal level instead of at target levels. Why not flip the narrative?

Executive pay can play a part in focusing the board's attention, driving ESG ambitions and delivering a "tone from the top". As already discussed, an increasing number of JSE listed companies are reporting ESG measures in executive incentive plans. A further shift is expected in the latter half of 2021 as remuneration committees align strategic priorities with remuneration frameworks. It is critical to ensure that the metrics tackle and improve issues that are relevant to the company and the environment in which it operates.

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The rationale for a Single Figure standard

With the spotlight on executive pay and its relation to the remuneration of lower-level employees, the question increasingly is being asked:

What is "fair and reasonable"?

There is increasing recognition, supported by the principles of King IV™, that total pay rather than any one component of pay should be used in assessing and comparing executive pay. The Single Figure of actual pay in a year (and possibly the previous year) tends to be the immediate spur for any controversy over a seemingly excessive pay quantum. Only once a debate is sparked is there any attempt to explain or defend the total quantum in terms of its constituent elements.

Year-on-year Single Figure comparisons are now being made within and between companies. Companies' implementation reports are reviewed and scrutinised by stakeholders.

A Single Figure standard approach could provide a framework against which stakeholders can recognise the acceptable parameters of overall executive pay and then look to companies to adhere to them.

If a Single Figure standard were to be adopted where companies can differentiate their policy on pay mix, then:

- **All stakeholders will understand total pay** which can then be assessed and managed in terms of a Single Figure standard.
- **Companies can have the flexibility** to position the pay mix within the Single Figure standard.
- **Stakeholders can evaluate the policy and implementation** of executive pay within the framework of a Single Figure standard.

Developing a Single Figure standard

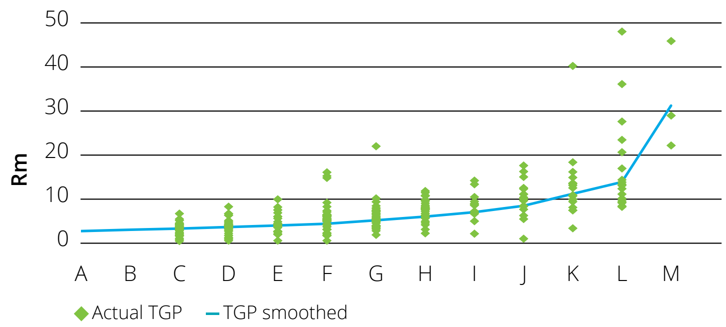
Deloitte's view is that "fair and reasonable" can be best established by analysing the current situation and developing a set of standards based on a responsible positioning within defensible norms.

The Single Figure standard should build the following components into an integrated whole:

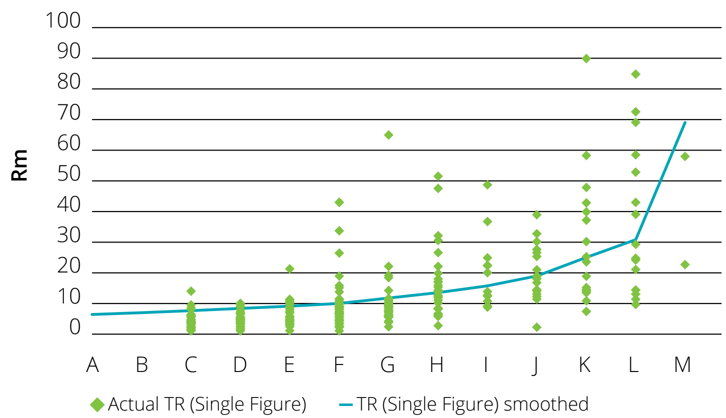
- TGP that reflects the median of the market, for different company size groupings to set the base; and
- Performance variable pay (PVP) that has two components, ACI and LTIPs, that reflect current market practice regarding on-target mix in relation to TGP.

Figure 37: CEO TGP and Single Figure (TR) standard by company size (Rm)

CEO: TGP Standard by company size



CEO: TR (Single Figure) by company size



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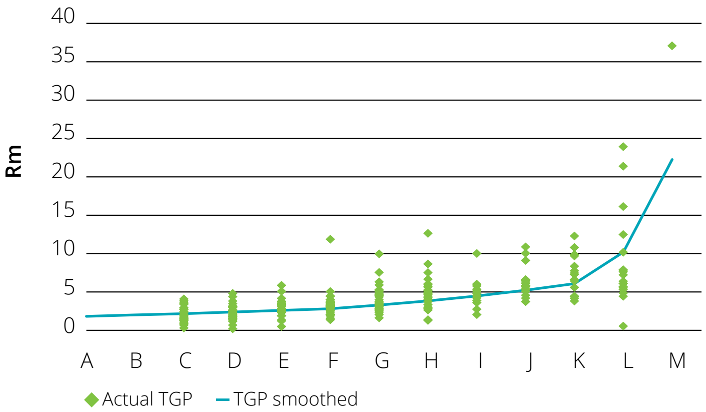
We at Deloitte advocate a more holistic approach to stakeholders when evaluating total executive pay, rather than micromanaging for conformity within its parts, which often leads to a perverse result. The Single Figure should be the primary consideration in targeting or evaluating pay. An informed debate can be couched in terms of the holistic sum of all the parts.

Deloitte has attempted to establish a Single Figure standard considering the current market for executive pay and "fair and reasonable" market practice on pay mix.

The derivations of a Single Figure "fair and reasonable" standard for the CEO, CFO and PO roles by company size are shown below.

Figure 38: CFO TGP and Single Figure (TR) standard by company size (Rm)

CFO: TGP standard by company size



CFO: TR (Single Figure) by company size

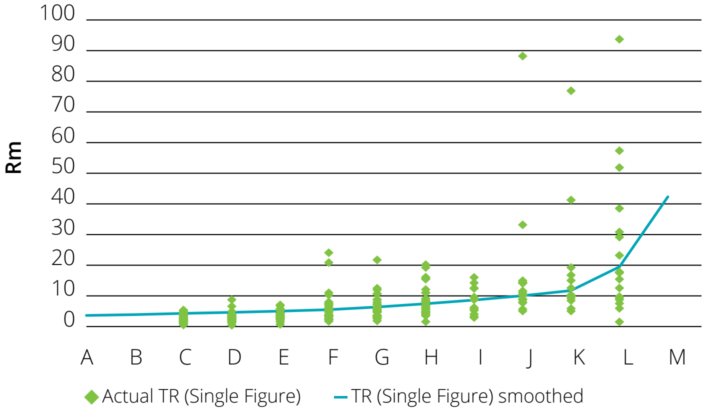
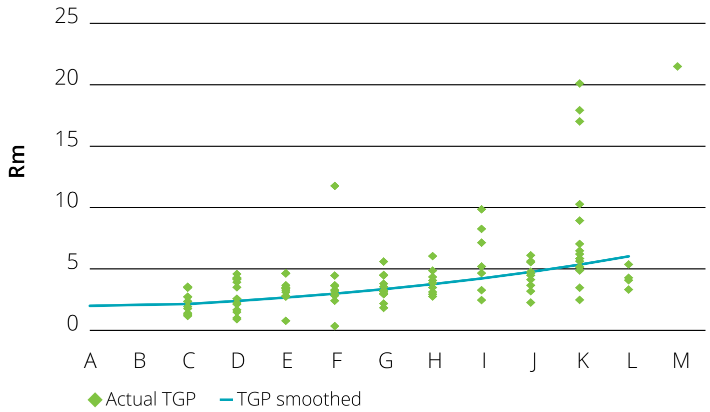
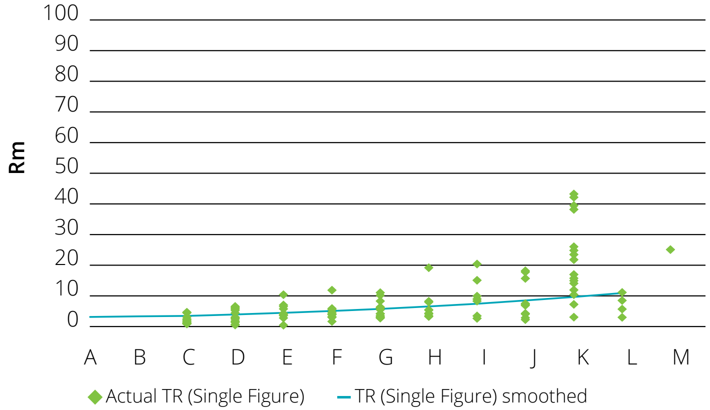


Figure 39: PO TGP and Single Figure (TR) standard by company size (Rm)

PO: TGP standard by company size



PO: TR (Single Figure) by company size



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The above Single Figure standards by company size result from the same data used in the other chapters of this report. They are there for 2020 standards and should be recognised as such.

Companies are not expected to adhere to any standard religiously nor will there be any correlation between the standard and the actual pay in any one year. Much will depend on timing, the performance of the individual, the business, the economy, and the market. However, there should be some form of correlation between the Single Figure actual and the standard over an extended period.

Mind the gap

During his May 2021 budget vote speech, comments made by Ebrahim Patel, South Africa's Minister of Trade, Industry, and Competition, triggered renewed speculation about the future of pay gap reporting in the country. Patel announced that the drafting of a new version of the Companies Act Amendment Bill is nearing completion. Companies will be required to disclose remuneration differentials publicly.

> "A further amendment to company law is required to tackle the gross injustice of excessive pay."
>
> **Ebrahim Patel, South Africa's Minister of Trade, Industry, and Competition**

The strengthened transparency measures will offer stakeholders a new view of already controversial levels of executive remuneration. Disclosure of ratios between highest and lowest-paid employees is thought to discourage excessive executive pay and address the pay level inequalities for which South Africa is notorious. An increasing number of countries require reporting of these ratios. If enacted, the amendments will bring South African legislation into line with international corporate governance trends.

The devil's in the detail

In the already complex realm of executive pay, published numbers can be misleading. Without precise definition and contextual clarification, publishing pay gap ratios on a per-company basis could result in a distorted picture of inequality between high and low earners. This is of particular concern when these ratios are evaluated in isolation. There is a risk that this will not result in a better understanding of the dynamics of executive pay. The focus should be on remuneration committees managing the situation based on thorough analysis, due care, and thought.

Countries that have already implemented pay ratio reporting have seen a vast disparity in the reported ratios themselves and the methodologies for calculating the ratios. This has prevented valid comparisons between peers and even within industry groupings. Nevertheless, media coverage has sensationalised observed trends and outliers, and this has not generated meaningful change.

Although the finer technical details of the disclosure requirements are as yet unknown, one of several known models will most likely be chosen by a NEDLAC committee. The Palma ratio is commonly used to measure pay differentials. It compares the top 10% of earners with the bottom 40%. Other widely used formulae compare executive pay to the median wage to arrive at a ratio.

Changes are needed – but is the CEO pay ratio the right tool to effect change?

The importance of context in pay ratio reporting is clear in the wildly differing results shared by three companies.

Market Cap: $186bn	Market Cap: $183bn	Market Cap: $176bn
Revenue: $84bn >500 000 Employees 220 Countries	Revenue: $72bn >200 000 Employees 40 Countries	Revenue: $20bn >200 000 Employees 100 Countries
CEO: Median Employee Pay Ratio 323:1 (2020)* 243:1 (2019)*	CEO: Median Employee Pay Ratio 274:1 (2020)** 550:1 (2019)**	CEO: Median Employee Pay Ratio 1189:1 (2020/1) 1931:1 (2019/20)
CEO Pay $14m (2020) | $18m (2019)	CEO Pay $20m (2020) | $36m (2019)	CEO Pay $11m (2020) | $18m (2019)

* Significant changes then head count between 19-20 yielded materially different results.

** Sign on restricted shares awarded to new CEO in 2019. Formal sector pay as published by Stats SA (excl. Agric).

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Several unofficial versions of the Companies Amendment Bill of 2018 have been seen since it was initially published for comment in the *Government Gazette* in September 2018. The bill's most recent (unofficial) version provides for companies' public reporting on the gap in pay between high- and low-paid employees and the gap between the average pay of the highest-paid 5% of employees and the lowest-paid 5% of employees.

Observing the trends in disclosed ratios over time will likely prove far more valuable than the absolute ratio obtained by a given company each year. Disclosure will also provide a way to identify outliers – companies whose ratios are outrageously skewed towards high executive pay, and for them to explain, self-correct, or face pressure. Perhaps in some cases, investigations into abnormal ratios may point to dramatic under-remuneration of lower-level employees.

Why the gap?

Prescribed Officers have the clearest line of sight and arguably the most direct influence over organisational outcomes of all employees. This creates a powerful lever for the board: crafting executive packages with significant short and long-term incentives aligns executives' interests with those of shareholders and ensures that executives have a lot of "skin in the game."

The linking of executive incentives to profitability indicators softens the impact of the affordability argument: you create value for us, we'll give some of that value back to you – a win-win scenario for all stakeholders, including the millions of people invested directly in companies through their pension funds. This thinking cannot be used to the same degree at lower levels of the organisation because the link between individual performance and the value created is not as tangible. The contribution per employee at that level is far more dilute. The argument would be stronger if the real impact of top jobs on organisational outcomes could easily be isolated from exogenous variables and quantified. Still, present methods do not allow for this.

Another perspective on the packages offered to executives is that market rules of supply and demand apply to the recruitment and retention of talent (in other words, you get what you pay for). Top executives compete for positions on an international stage. Suppose listed companies in a developing economy like South Africa must vie for talent with global monolithic corporations. In that case, it is expected that when we compare South African executive packages with those of average South African workers (who can be attracted and retained locally, relatively cheaply), we will find a growing divide.

Is pay ratio reporting the answer?

While greater transparency around executive pay may lessen the vehemence with which investor activist groups and others shout "excessive pay," the concern is that any state interference beyond disclosure requirements will impair South Africa's attractiveness, both as a destination for investment and skilled workers in global demand. Arguments against pay ratio reporting are many and varied but tend to focus on the following themes:

1. **Invalid comparisons:** Using ratios to disclose pay differentials gives the impression that comparing one company's ratio with another would be "comparing apples with apples." However, even within a single industry, variations in operating model, organisation size, footprint, remuneration offerings, levels of automation, and other organisational characteristics will significantly influence the remuneration of its median employee versus its top-earners. This was palpably seen in the example above.
2. **Cost and complexity:** The intricacies of the reporting itself place a burden on companies to accurately identify the relevant data. It may not appear an insurmountable task for smaller organisations, but consider multi-national organisations that will undoubtedly need to approach the analysis as a fully-fledged project in its own right.
3. **Unintended consequences:** Efforts to report "friendlier" ratios may lead organisations to focus more heavily on cash-based remuneration for employees and to spend less on learning and development, environmental, social, and governance activities, and other programmes which, while not included in reporting on ratios, might offer greater societal and employee value and meaning. Organisations might also consider employing fewer lower-paid employees, opting instead to automate or outsource internationally.

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4. **Effects on pay-for-performance:** Executive pay is typically variable, and the trend of late has been to weigh company performance more heavily than individual performance in determining executive incentive outcomes. This means that the variable pay of the majority of executives participating in STI and LTI schemes will tend to be higher in a good year and lower in a poor-performing year. Median employee pay tends to be less directly related to company performance, which means that executive variable pay outcomes will destabilise pay ratios.

Between the JSE listing requirements and King IV™'s terms, South African companies already have advanced executive remuneration governance tools in place. King IV™ recommends two non-binding advisory votes by shareholders at each AGM – one on the remuneration policy and one on the implementation report. It further advises that, in the event of more than 25% of votes being cast against either, the board should engage with dissenting shareholders to understand their concerns and objections. These non-binding advisory votes afforded to shareholders indicate to the board that there has been a misalignment between shareholder interest and the board's policy and execution and should prompt meaningful engagement with dissenting shareholders.

Moreover, King IV™'s requirement that "the remuneration of executive management should be fair and responsible in the context of overall employee remuneration. It should be disclosed how this has been addressed. This acknowledges the need to address the gap between the remuneration of executives and those at the lower end of the pay scale" is a clear signal that remuneration committees should understand the factors impacting remuneration and be willing and able to articulate their position and decisions in this regard to fulfilling their duties. Whether or not there is sufficient will always to do this is questionable – but also something over which shareholders hold sway, considering their say in non-executive appointments to the board.

What is the solution?

Perhaps a mixture of two approaches is necessary: both enhanced disclosure, where a company has to report on the initiatives it has undertaken to improve the ratio, and the board signing off this on a relative basis as well as a binding vote on remuneration and in particular the implementation of policies. Indeed, policies are often comprehensive and well thought out. Still, it is the implementation thereof that is often the hardest to execute and undoubtedly the most important to get right.

Arguments for transparency

- **From a governance perspective:** Accountability and good governance are increased through transparency. Without a more concrete way to measure the pay gap, it is unlikely that it can or will be addressed.
- **From a talent management perspective:** A low pay ratio signals a willingness to invest in a skilled and motivated workforce.
- **From an economic perspective:** Less well-distributed earnings lead to less money entering the economic cycle and higher economic vulnerability of the broader population.
- **From a social justice perspective:** Pay ratios are an indicator of fairness. Lower pay ratios suggest that management shares the benefits of success with employees and that average employees' contributions to a company's success are recognised and valued.

What about flattening the curve?

Graphing the curve of general worker pay through the ranks from lowest-paid worker to junior, middle, and senior management and then on to executives (CEO, CFO, and PO) illustrates the disparity in pay and shows that it is not just a debate around exorbitant or "obscene" executive pay.

The executive levels are spaced out further in Figure 40 to illustrate the gradient as executive pay is taken into the realms of increasing company size. The curves are based on 2020 median guaranteed pay levels. They, therefore, represent the norms of pay rather than any outliers that are often exposed in the media.

The gradient of the curve at the lower levels, and even at the lowest of the three executive levels in the increasing size of listed companies, is understandable if one believes that pay levels should increase with the growing size and scope of the role. Otherwise, why strive for promotion?

It is in the top executive roles in listed companies that the gradient takes off. What should also be borne in mind is that the pay curves do not include any performance variable pay (typically doubling or trebling total pay). If they were included, the pay disparity would be even greater.

Societal concerns about unemployment, underemployment, and underpayment in relation to executive pay are real. However, other factors can put pay ratios in perspective:

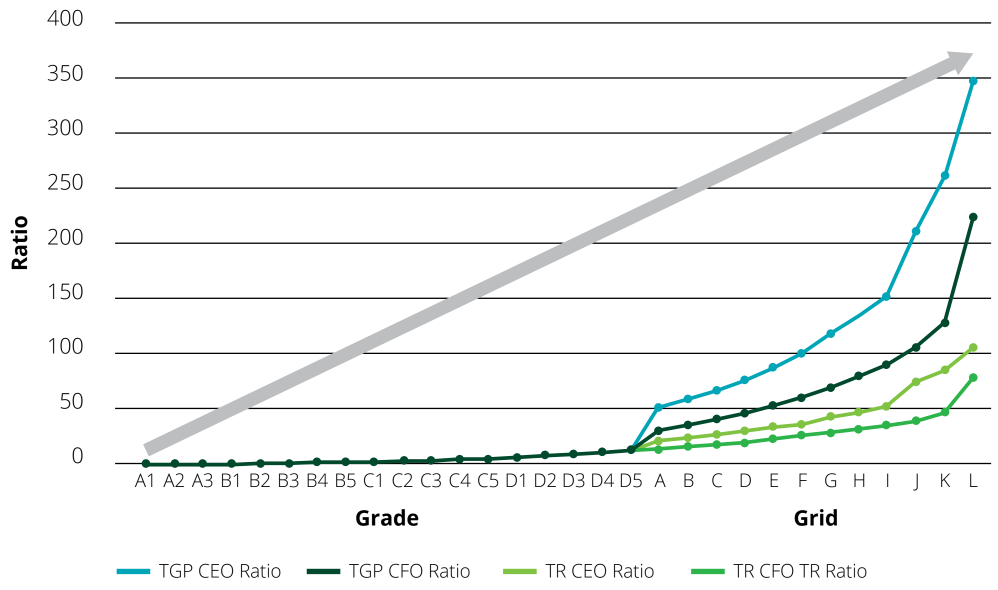
- The deemed "obscenity" of top executive pay is much more of a progression of pay through the employment ranks than the greed of executives for TGP.
- Shareholders expect top executives to deliver on shareholder value and pay handsomely when performance is achieved.
- Society would be alarmed, emphasised by the current COVID-19 crisis, if companies or their top executives were to fail, resulting in a further loss of jobs.
- Society will fail if business fails to support and drive the economy.

We have also considered the relationship between formal sector pay published by Stats SA and the median CEO and CFO pay increases over the past ten years and juxtaposed this with inflation as seen in the chapters above. It is evident that increases across the formal sector have tended to outpace those seen for executive staff in TGP over the last five to six years, which is encouraging.

However, the overall pay gap and perception around the pay gap is that it is still not shrinking. Many firms are getting it right. It is often only a few firms with headline-grabbing incentives from poorly defined incentive plans, inappropriate benchmarks, or unwarranted discretion applied by firms to pay executives for lack of performance that has pushed the overall performance trend in executive pay upwards. Indeed, this has resulted in overall executive pay being inelastic downwards but often very elastic upwards.

Considering the above, remuneration committees should ensure that under-performing executives should not receive unwarranted payments. Bonuses should not be the de facto norm, only when actual performance accrues. However, reining in normative executive pay for performance is not the answer to society's concerns.

Figure 40: Pay curve from general worker to CEO



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This report was designed to provide the reader with an insight into the complexities of executive remuneration. It is essential to understand that remuneration is very specific to each firm, and not all companies will, nor should, take the same course of action.

Ultimately, remuneration committees would be advised not to be overly scientific in their approach to executive pay in response to the current pandemic, but instead, display discretion and good judgement and continually ask the questions:

Does this feel right, reasonable, and fair given the current circumstances?

and

Have we looked at all constituents and consulted upon all potential avenues and outcomes?

If there is an inkling of doubt or uneasiness, it is likely the wrong course of action, and a negative view from proxy advisors and all shareholders and other stakeholders will be the likely outcome. In any case, any changes to executive pay, particularly if incongruent with the broader stakeholder landscape, will require clear, distinct disclosure and in-depth rationale – crisis or no crisis.

Executive remuneration and its effective delivery will continue to be a critical lever that companies will need to pull, both now and in the future. With stakes becoming increasingly higher for all stakeholders, it is essential for companies to get it right. The decision-making framework provides the remuneration committee with an integrated set of questions to ensure that a company's remuneration out–turns take all stakeholders into account.

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Appendix 1 – Organisation Grid Sizing

This grid was created for the purpose of company/business unit grid sizing for executive remuneration benchmarking.

Small
Medium
Large
Top

			Basic salary & wage bill R Million	Up to R20	R20 - R40	R40 - R80	R80 - R160	R160 - R320	R320 - R640	R640 - R1 280	R1 280 - R2 560	R 2560 - R5 120	R5 120 - R10 240	R10 240 - R20 480	R20 480 - R40 960	R40 960 - R81 920	Over R81 920
			No of staff (actual numbers)	Up to 100	100 - 200	200 - 400	400 - 800	800 - 1 600	1 600 - 3 200	3 200 - 6 400	6 400 - 18 200	12 800 - 25 600	25 600 - 51 200	51 200 - 102 400	102 400 - 204 800	204 800 - 409 600	Over 409 000
			Total cost of employment (TCOE) R Million	Up to R29	R29 - R57	R57 - R114	R114 - R229	R229 - R457	R457 - R914	R914 - R1 829	R1 829 - R3 657	R3 657 - R7 314	R7 314 - R14 629	R14 629 - R29 257	R29 257 - R58 514	R58 514 - R117 029	Over R117 029
Typical market capitalisation R Millions (Listed Companies)	Typical turnover (R Million)	Typical total assets (R Million)	Typical annual pre-tax profits (R Million)														
	Up to 120	Up to 250	Up to 5	A	B	C	D	E	F	G	H	I	J	K	L	M	N
Less than 250	120 - 375	250 - 750	5 - 10	B	B	C	D	E	F	G	H	I	J	K	L	M	N
250 - 500	375 - 750	750 - 1 500	10 - 50	C	C	C	D	E	F	G	H	I	J	K	L	M	N
500 - 1 250	750 - 1 500	1 500 - 3 000	50 - 150	D	D	D	D	E	F	G	H	I	J	K	L	M	N
1 250 - 2 500	1 500 - 3 000	3 000 - 6 000	150 - 360	E	E	E	E	E	F	G	H	I	J	K	L	M	N
2 500 - 5 000	3 000 - 5 000	6 000 - 10 000	360 - 620	F	F	F	F	F	F	G	H	I	J	K	L	M	N
5 000 - 10 000	5 000 - 8 000	10 000 - 16 000	620 - 1 000	G	G	G	G	G	G	G	H	I	J	K	L	M	N
10 000 - 20 000	8 000 - 15 000	16 000 - 30 000	1 000 - 2 000	H	H	H	H	H	H	H	H	I	J	K	L	M	N
20 000 - 30 000	15 000 - 25 000	30 000 - 70 000	2 000 - 4 000	I	I	I	I	I	I	I	I	I	J	K	L	M	N
30 000 - 60 000	25 000 - 45 000	70 000 - 150 000	4 000 - 6 000	J	J	J	J	J	J	J	J	J	J	K	L	M	N
60 000 - 120 000	45 000 - 90 000	150 000 - 300 000	6 000 - 15 000	K	K	K	K	K	K	K	K	K	K	K	L	M	N
120 000 - 500 000	90 000 - 460 000	300 000 - 600 000	15 000 - 30 000	L	L	L	L	L	L	L	L	L	L	L	L	M	N
500 000 - 1 000 000	460 000 - 1 000 000	600 000 - 1 000 000	30 000 - 100 000	M	M	M	M	M	M	M	M	M	M	M	M	M	N
Over 1 000 000	Over 1 000 000	Over 1 000 000	Over 100 000	N	N	N	N	N	N	N	N	N	N	N	N	N	N

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Appendix 2 – JSE Listed Companies included in the Analysis

Company Name	Ticker	Grid size	Category
BHP Group PLC	BHP	M	1. Top
British American Tobacco PLC	BTI	N	1. Top
Compagnie Financiere Richemont SA	CFR	M	1. Top
Glencore PLC	GLN	M	1. Top
Naspers Ltd	NPN	N	1. Top
Absa Group Ltd	ABG	L	2. Large
Anglo American Platinum Ltd	AMS	L	2. Large
Anglo American PLC	AGL	L	2. Large
Anglogold Ashanti Ltd	ANG	K	2. Large
Aspen Pharmacare Holdings Ltd	APN	K	2. Large
AVI Ltd	AVI	J	2. Large
Bid Corporation Ltd	BID	K	2. Large
Capital & Counties Properties PLC	CCO	J	2. Large
Capitec Bank Holdings Ltd	CPI	L	2. Large
Clicks Group Ltd	CLS	J	2. Large
Discovery Ltd	DSY	L	2. Large
Distell Group Ltd	DST	J	2. Large
Exxaro Resources Ltd	EXX	J	2. Large
Firstrand Ltd	FSR	L	2. Large
Gold Fields Ltd	GFI	J	2. Large
Growthpoint Properties Ltd	GRT	K	2. Large
Hammerson PLC	HMN	K	2. Large
Impala Platinum Holdings Ltd	IMP	J	2. Large
Investec PLC	INP	K	2. Large
Kumba Iron Ore Ltd	KIO	K	2. Large
Liberty Holdings Ltd	LBH	J	2. Large
Life Healthcare Group Holdings Ltd	LHC	J	2. Large
Mediclinic International PLC	MEI	K	2. Large
Mondi PLC	MNP	L	2. Large
Mr Price Group Ltd	MRP	K	2. Large
MTN Group Ltd	MTN	L	2. Large
Multichoice Group Ltd	MCG	J	2. Large
Nedbank Group Ltd	NED	L	2. Large

Company Name	Ticker	Grid size	Category
NEPI Rockcastle PLC	NRP	K	2. Large
Netcare Ltd	NTC	J	2. Large
Old Mutual Ltd	OMU	L	2. Large
Pepkor Holdings Ltd	PPH	K	2. Large
Pick n Pay Stores Ltd	PIK	J	2. Large
PSG Group Ltd	PSG	K	2. Large
Quilter PLC	QLT	J	2. Large
Rand Merchant Inv Hldgs Ltd	RMI	K	2. Large
Redefine Properties Ltd	RDF	J	2. Large
Remgro Ltd	REM	L	2. Large
RMB Holdings Limited	RMH	K	2. Large
Sanlam Ltd	SLM	L	2. Large
Santam Ltd	SNT	J	2. Large
Sappi Ltd	SAP	J	2. Large
Sasol Ltd	SOL	L	2. Large
Shoprite Holdings Ltd	SHP	L	2. Large
Sibanye-Stillwater Ltd	SSW	L	2. Large
South32 Ltd	S32	L	2. Large
Standard Bank Group Ltd	SBK	L	2. Large
Steinhoff International Holdings NV	SNH	L	2. Large
The Bidvest Group Ltd	BVT	K	2. Large
The Foschini Group Ltd	TFG	J	2. Large
The Spar Group Ltd	SPP	J	2. Large
Tiger Brands Ltd	TBS	K	2. Large
Truworths International Ltd	TRU	J	2. Large
Vodacom Group Ltd	VOD	L	2. Large
Woolworths Holdings Ltd	WHL	K	2. Large
Adcock Ingram Holdings Ltd	AIP	G	3. Medium
Advtech Ltd	ADH	G	3. Medium
AECI Ltd	AFE	H	3. Medium
African Oxygen Ltd	AFX	G	3. Medium
African Rainbow Capital Investments Ltd	AIL	G	3. Medium
African Rainbow Minerals Ltd	ARI	I	3. Medium

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Alexander Forbes Group Holdings Ltd	AFH	G	3. Medium
Allied Electronics Corporation Ltd	AEL	G	3. Medium
Arcelormittal SA Ltd	ACL	G	3. Medium
Ascendis Health Ltd	ASC	G	3. Medium
Astoria Investments Ltd	ARA	G	3. Medium
Astral Foods Ltd	ARL	G	3. Medium
Attacq Ltd	ATT	H	3. Medium
AYO Technology Solutions Ltd	AYO	G	3. Medium
Barloworld Ltd	BAW	I	3. Medium
Blue Label Telecoms Ltd	BLU	H	3. Medium
Brait PLC	BAT	H	3. Medium
Capital & Regional PLC	CRP	H	3. Medium
Cashbuild Ltd	CSB	G	3. Medium
City Lodge Hotels Ltd	CLH	G	3. Medium
Clientele Ltd	CLI	G	3. Medium
Coronation Fund Managers Ltd	CML	I	3. Medium
Curro Holdings Ltd	COH	H	3. Medium
Datatec Ltd	DTC	G	3. Medium
Dis-Chem Pharmacies Ltd	DCP	I	3. Medium
Emira Property Fund Ltd	EMI	G	3. Medium
EOH Holdings Ltd	EOH	H	3. Medium
EPP NV	EPP	H	3. Medium
Equites Property Fund Ltd	EQU	G	3. Medium
Famous Brands Ltd	FBR	H	3. Medium
Fortress REIT Ltd A	FFA	I	3. Medium
Globe Trade Centre South Africa	GTC	H	3. Medium
Grindrod Ltd	GND	G	3. Medium
Harmony Gold Mining Company Ltd	HAR	H	3. Medium
Hosken Consolidated Investments Ltd	HCI	H	3. Medium
Hospitality Property Fund Ltd	HPB	G	3. Medium
Hyprop Investments Ltd	HYP	H	3. Medium
Imperial Holdings Ltd	IPL	I	3. Medium
Imperial Logistics Ltd	IPL	I	3. Medium

Company Name	Ticker	Grid size	Category
Investec Australia Prop Fd	IAP	G	3. Medium
Investec Property Fund Ltd	IPF	H	3. Medium
Invicta Holdings Ltd	IVT	G	3. Medium
Irongate Group	IAP	G	3. Medium
Italtile Ltd	ITE	H	3. Medium
JSE Ltd	JSE	H	3. Medium
KAP Industrial Holdings Ltd	KAP	H	3. Medium
Kibo Energy PLC	KBO	G	3. Medium
Liberty Two Degrees Limited	L2D	G	3. Medium
MAS Real Estate Inc	MSP	H	3. Medium
Massmart Holdings Ltd	MSM	I	3. Medium
Momentum Metropolitan Holdings Ltd	MTM	I	3. Medium
Motus Holdings Ltd	MTH	H	3. Medium
Murray & Roberts Holdings Ltd	MUR	G	3. Medium
Nampak Ltd	NPK	H	3. Medium
Northam Platinum Ltd	NHM	I	3. Medium
Nvest Financial Holdings Ltd	NVE	G	3. Medium
Oceana Group Ltd	OCE	H	3. Medium
Octodec Investments Ltd	OCT	G	3. Medium
Omnia Holdings Ltd	OMN	G	3. Medium
Pan African Resources PLC	PAN	G	3. Medium
PPC Ltd	PPC	G	3. Medium
PSG Konsult Ltd	KST	H	3. Medium
RCL Foods Ltd	RCL	H	3. Medium
RDI REIT PLC	RPL	H	3. Medium
Resilient REIT Ltd	RES	I	3. Medium
Reunert Ltd	RLO	H	3. Medium
RFG Holdings Limited	RFG	G	3. Medium
Rhodes Food Group Holdings Ltd	RFG	G	3. Medium
Royal Bafokeng Platinum Ltd	RBP	G	3. Medium
SA Corporate Real Estate Fund	SAC	G	3. Medium
Sirius Real Estate Ltd	SRE	H	3. Medium
Stenprop Limited	STP	G	3. Medium

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Sun International Ltd	SUI	G	3. Medium
Super Group Ltd	SPG	H	3. Medium
Telkom SA SOC Ltd	TKG	I	3. Medium
Tharisa PLC	THA	G	3. Medium
Tongaat Hulett Ltd	TON	H	3. Medium
Transaction Capital Ltd	TCP	G	3. Medium
Trencor Ltd	TRE	G	3. Medium
Trustco Group Holdings Ltd	TTO	G	3. Medium
Tsogo Sun Gaming Ltd	TSG	H	3. Medium
Tsogo Sun Holdings Ltd	TSH	H	3. Medium
Tsogo Sun Hotels Ltd	TGO	H	3. Medium
Vivo Energy PLC	VVO	I	3. Medium
Vukile Property Fund Ltd	VKE	H	3. Medium
Wilson Bayly Holmes-Ovcon Ltd	WBO	G	3. Medium
Zeder Investments Ltd	ZED	H	3. Medium
4sight Holdings Ltd	4SI	D	4. Small
Accelerate Property Fund Ltd	APF	F	4. Small
Accentuate Ltd	ACE	C	4. Small
Acsion Ltd	ACSE	F	4. Small
Adaptit Holdings Ltd	ADI	E	4. Small
Adcorp Holdings Ltd	ADR	E	4. Small
Advanced Health Ltd	AVL	C	4. Small
African And Overseas Enterprises Ltd	AOO	D	4. Small
African Equity Empowerment Investments Ltd	AEE	F	4. Small
African Media Entertainment Ltd	AME	C	4. Small
Afrimat Ltd	AFT	F	4. Small
Afristrat Inv Hldgs Ltd	ATI	C	4. Small
Afrocentric Investment Corporation Limited	ACT	F	4. Small
AH-Vest Ltd	AHL	C	4. Small
Alaris Holdings Ltd	ALH	C	4. Small
Alviva Holdings Ltd	AVV	F	4. Small
Anchor Group Ltd	ACG	C	4. Small
ARB Holdings Ltd	ARH	E	4. Small

Company Name	Ticker	Grid size	Category
Arden Capital Limited	ACZ	D	4. Small
Argent Industrial Ltd	ART	C	4. Small
Arrowhead Prop Ltd A	AHA	F	4. Small
Aveng Ltd	AEG	E	4. Small
Balwin Properties Ltd	BWN	F	4. Small
Bauba Platinum Ltd	BAU	C	4. Small
Bauba Resources Limited	BAU	C	4. Small
Bell Equipment Ltd	BEL	E	4. Small
Bowler Metcalf Ltd	BCF	D	4. Small
Brikor Ltd	BIK	D	4. Small
Brimstone Investment Corporation Ltd	BRT	C	4. Small
Calgro M3 Holdings Ltd	CGR	E	4. Small
Capital Appreciation Ltd	CTA	E	4. Small
Cartrack Holdings Ltd	CTK	F	4. Small
Castleview Property Fund Ltd	CVW	C	4. Small
Caxton CTP Publishers And Printers	CAT	F	4. Small
Choppies Enterprises Ltd	CHP	F	4. Small
Chrometco Ltd	CMO	D	4. Small
Cognition Holdings Ltd	CGN	C	4. Small
Combined Motor Holdings Ltd	CMH	E	4. Small
Conduit Capital Ltd	CND	E	4. Small
Consolidated Infrastructure Group Ltd	CIL	E	4. Small
Crookes Brothers Ltd	CKS	D	4. Small
Delta Property Fund Ltd	DLT	F	4. Small
Deneb Investments Ltd	DNB	D	4. Small
Dipula Income Fund A	DIA	F	4. Small
DRDGOLD Ltd	DRD	F	4. Small
E Media Holdings Ltd	EMH	C	4. Small
Ecsponent Ltd	ECS	C	4. Small
Efora Energy Limited	EEL	E	4. Small
ELB Group Ltd	ELR	D	4. Small
Ellies Holdings Ltd	ELI	C	4. Small
ENX Group Ltd	ENX	F	4. Small

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Company Name	Ticker	Grid size	Category
EPE Capital Partners Limited	EPE	E	4. Small
Etion Ltd	ETO	D	4. Small
Europa Metals Limited	EUZ	C	4. Small
Exemplar Reitail Ltd	EXP	F	4. Small
Fairvest Property Holdings Ltd	FVT	E	4. Small
Finbond Group Ltd	FGL	F	4. Small
Gemfields Group Limited	GML	F	4. Small
Grand Parade Investments Ltd	GPL	E	4. Small
Grindrod Shipping Holdings Ltd	GSH	E	4. Small
Heriot REIT Ltd	HET	E	4. Small
Homechoice International PLC	HIL	F	4. Small
Hosken Passenger Logistics And Rail Ltd	HPR	E	4. Small
Hudaco Industries Ltd	HDC	F	4. Small
Huge Group Ltd	HUG	E	4. Small
Hulamin Ltd	HLM	E	4. Small
Hulisani Ltd	HUL	D	4. Small
Imbalie Beauty Ltd	ILE	C	4. Small
Indluplace Properties Ltd	ILU	F	4. Small
Insimbi Industrial Holdings Ltd	ISB	C	4. Small
Insimbi Refractory & Alloy Supplies Ltd	ISB	C	4. Small
ISA Holdings Ltd	ISA	C	4. Small
Jasco Electronics Holdings Ltd	JSC	C	4. Small
Jubilee Metals Group PLC	JBL	E	4. Small
Kaap Agri Ltd	KAL	F	4. Small
Kaydav Group Ltd	KDV	C	4. Small
Kore Potash PLC	KP2	E	4. Small
Labat Africa Ltd	LAB	C	4. Small
Lewis Group Ltd	LEW	F	4. Small
Libstar Holdings Ltd	LBR	F	4. Small
Lighthouse Capital Limited	LTE	F	4. Small
London Finance & Investment Group PLC	LNF	C	4. Small
Long4life Ltd	L4L	F	4. Small
Luxe Holdings Ltd	LUX	C	4. Small
Mahube Infrastructure Ltd	MHB	C	4. Small
Marshall Monteagle PLC	MMP	D	4. Small
Master Drilling Group Ltd	MDI	E	4. Small
Mazor Group Ltd	MZR	C	4. Small
MC Mining Limited	MCZ	D	4. Small
Merafe Resources Ltd	MRF	F	4. Small
Metair Investments Ltd	MTA	F	4. Small
Metrofile Holdings Ltd	MFL	E	4. Small
Mettle Investments Ltd	MLE	D	4. Small
Mine Restoration Investments Ltd	MRI	C	4. Small
Mix Telematics Ltd	MIX	F	4. Small
Mpact Ltd	MPT	F	4. Small
Mustek Ltd	MST	C	4. Small
New Frontier Properties Ltd	NFP	D	4. Small
Newpark REIT Ltd	NRL	C	4. Small
Nictus Ltd	NCS	C	4. Small
Ninety One Ltd	NY1	F	4. Small
Novus Holdings Ltd	NVS	F	4. Small
Nutritional Holdings Ltd	NUT	C	4. Small
Nu-World Holdings Ltd	NWL	D	4. Small
Oasis Crescent Property Fund	OAS	D	4. Small
Onelogix Group Ltd	OLG	D	4. Small
Orion Minerals Limited	ORN	C	4. Small
PBT Group Limited	PBG	C	4. Small
Phumelela Gaming And Leisure Ltd	PHM	E	4. Small
Premier Fishing And Brands Ltd	PFB	D	4. Small
Primeserv Group Ltd	PMV	C	4. Small
PSV Holdings Ltd	PSV	C	4. Small
Purple Group Ltd	PPE	C	4. Small
Putprop Ltd	PPR	C	4. Small
Quantum Foods Holdings Ltd	QFH	D	4. Small
Randgold & Exploration Company Ltd	RNG	C	4. Small
Raubex Group Ltd	RBX	F	4. Small

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Raven Property Group Ltd	RAV	E	4. Small
Rebosis Property Fund Ltd	REB	F	4. Small
Renergen Ltd	REN	D	4. Small
Resource Generation Ltd	RSG	D	4. Small
Rex Trueform Group Ltd	RTO	C	4. Small
RH Bophelo Ltd	RHB	D	4. Small
Safari Investments (Rsa) Ltd	SAR	E	4. Small
Santova Ltd	SNV	D	4. Small
Sasfin Holdings Ltd	SFN	E	4. Small
Schroder European REIT PLC	SCD	E	4. Small
Sea Harvest Group Ltd	SHG	F	4. Small
Sebata Holdings Ltd	SEB	D	4. Small
Sephaku Holdings Ltd	SEP	C	4. Small
Silverbridge Holdings Ltd	SVB	C	4. Small
South Ocean Holdings Ltd	SOH	C	4. Small
Spanjaard Ltd	SPA	C	4. Small
Spear REIT Ltd	SEA	E	4. Small
Spur Corporation Ltd	SUR	F	4. Small
Stadio Holdings Ltd	SDO	F	4. Small
Stefanutti Stocks Holdings Ltd	SSK	D	4. Small
Stellar Capital Partners Ltd	SCP	E	4. Small
Stor-Age Property Reit Ltd	SSS	F	4. Small
Sygnia Limited	SYG	E	4. Small
Telemasters Holdings Ltd	TLM	C	4. Small
Texton Property Fund Ltd	TEX	E	4. Small
Tower Property Fund Ltd	TWR	F	4. Small
Tradehold Ltd	TDH	F	4. Small
Transcend Residential Prop Fd Ltd	TPF	F	4. Small
Transpaco Ltd	TPC	D	4. Small
Trellidor Holdings Ltd	TRL	D	4. Small
Trematon Capital Investments Ltd	TMT	D	4. Small
Union Atlantic Minerals Ltd	UAT	C	4. Small
Universal Partners Ltd	UPL	E	4. Small

Company Name	Ticker	Grid size	Category
Value Group Ltd	VLE	D	4. Small
Visual International Holdings Ltd	VIS	C	4. Small
Vunani Ltd	VUN	C	4. Small
Wescoal Holdings Ltd	WSL	D	4. Small
Wesizwe Platinum Ltd	WEZ	D	4. Small
Workforce Holdings Ltd	WKF	E	4. Small
York Timber Holdings Ltd	YRK	D	4. Small
Zarclear Holdings Ltd	ZCL	D	4. Small

Appendix 3 – Useful Websites and References

Professional associations

- The Institute of Directors of South Africa ("IoDSA")
- The South African Reward Association

Legislation and guidelines

- The Companies Act 71 of 2008
- JSE Listing Requirements
- King IV™
- King IV™ remuneration committee Practice Notes

Investor best practice guidelines

- The ABI Institutional Voting Information Service ("IVIS")
  ABI Principles of Remuneration board effectiveness – highlighting best practice
- Institutional shareholder Services ("ISS")

Financial Services

- Financial Stability board ("FSB")

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Appendix 4 – Table of Acronyms

ACI	Annual cash incentive – a short–term (annual) incentive cash bonus
AFS	Annual financial statements
ALSI	A market capitalisation weighted index of listed companies, as published by the JSE
ALSI 40	A market capitalisation weighted index of the Top 40 listed companies, as published by the JSE
BS	Base Salary – monthly pensionable salary times 12
CAGR	The compounded annual growth rate
CEO	Chief Executive Officer or top executive director
CFO	Chief Financial Officer or financial director
Company Return	An index which is used in this report to identify the summation of any metric addressing company performance
CB	Broad sectoral grouping of consumer business including technology companies
CPI	
EBIT	Earnings before interest and tax
EBITDA	Earnings before interest, tax, depreciation and amortisation
E&R	Broad sectoral grouping of mining and resources and construction companies
ESG	Environmental, Social and Governance
EVA	Economic Value Add – the surplus in earnings after allocation of funds to the WACC
FSI	Broad sectoral grouping of financial and property investment holding companies
Grid Sizing (Grid Size)	Deloitte methodology of grouping companies of similar size based on a grid matrix of financial and employment parameters. Refer to Appendix 1
HE	Headline earnings – after tax as declared in a company's AFS
HEPS	Headline earnings per share
IM	Broad sectoral grouping of industrial and manufacturing companies
Index	The aggregate summation of all data in a category as at any point in time
IQR	The interquartile range is a measure of statistical dispersion, being equal to the difference between 75th and 25th percentiles
IODSA	Institute of Directors of South Africa
JSE	Johannesburg Stock Exchange
JSE Top 100	A selection of the 100 plus companies listed on the JSE

King IV™	The King IV™ Report on Corporate Governance for South Africa 2016
Large Companies	JSE listed companies falling in the market cap range of R50bn to R300bn
LTI	Long–term incentive
LTIP	Long–term (share-based) incentive plan
Market Capitalisation	The product of a company's issued shares and its share price at a point in time.
Medium Companies	JSE listed companies falling in the market cap range of R5bn to R30bn
NED	Non-executive director
Pay mix	The proportionality between TGP & PVP, and within PVP between ACI & LTI
PO	Prescribed Officer
PVP	Performance variable pay (the sum of ACI and LTI)
Remuneration Return	An index which is used in this report to identify the summation of any pay metric
Small Companies	JSE listed companies falling in the market cap range up to R5bn
SOE	State-Owned Enterprises
ST 150	Deloitte-derived list of 150 or so currently listed companies making up the balance of the JSE after removing the Top 100
Shareholder Return	An index which is used in this report to identify the summation of any metric addressing shareholder value
SV	Shareholder value, the indexed value of market cap and dividends granted during the year
TAC	Total annual compensation = TGP plus ACI
TCOE	Total cost of employment
TGP	Total guaranteed pay = Base Salary plus allowance, perks and company contribution to medical and retirement funding
Top 100	Deloitte-derived list of 100 or so companies, based on the premier 100 plus companies currently listed on the JSE
Top Companies	JSE listed companies with a market cap above R300bn
TR	Total remuneration = TGP, ACI and any LTI accrual in a year
TSR	The growth in shareholder value over a period, being the growth in market value on the assumption that dividends are re-invested. Can be expressed as a percentage of the share price, or in Rands terms
Turnover	Revenue achieved from operations
WACC	The weighted average cost of capital (equity plus debt)

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