

**Shareholder Alignment, Company
Performance and Executive Pay**
Deloitte Executive Compensation Report

November 2019

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Preface

Welcome to our third executive compensation report. This report summarises and comments on eight years' worth of executive remuneration disclosure and company performance data of the JSE listed companies.

With the full implementation of King IV™ now in place, there is an increasing debate on the design and implementation, the documentation, the communication and the disclosure of executive pay. Deloitte is of the view that the discussion between stakeholders in South Africa requires an authoritative and balanced overview of recent years, in order to inform this debate both now and into the future.

There is a need to establish guidelines and a road map for the future for all stakeholders in the executive remuneration debate, whether they be:

- the company executives and managers, with both internal and external consultants that take instruction from them, or
- the Boards with Remuneration Committees, advised as they mostly are by external and independent consultants, who will have to increasingly take ownership of and direct remuneration policy, or
- the institutional shareholders, who will be, more so than ever, in the role of overseeing and influencing both policy and practice, from their own perspective increasingly now from a societal perspective, or
- the media and other commentators who play an essential role in exposing the good, the bad and the ugly of executive pay, and will be ensuring that the spotlight never dims.

The intention of this report is to identify and comment on the significant issues that all parties to the debate will face in future years. The outcome of this review focuses mainly on disclosure and governance linkages of executive remuneration. We provide a summary of current practice in JSE listed companies and attempt to establish the broad linkages between the growth in shareholder value creation and company performance, both of them in relation to the increase in executive pay over a seven-year period.

As with last year, our analysis has yielded a mixed bag of results across different sectors. Suffice to say that, when considering the general trend rather than the more visible and often disturbing incidences of excess, there is some alignment of executive pay and shareholder value creation, although the alignment with company performance, particularly with the downturn of recent years, is not so discernible.

Executive pay continues to attract intense media scrutiny both locally and abroad. Much of the focus in the debate has been on the growing inequality between those at the top of the organisation and the general workforce.

Our analysis uncovered some key trends that, in our view, definitely provide vitriol to the debate, and are as yet not well addressed or defended in the disclosure in many Remuneration Reports.

King IV™ will engender increased levels of dialogue between companies and their shareholders and this, in turn, should have a positive impact overall both on the structure of remuneration policies and quality of disclosure in Implementation Policies. Remuneration Committees will

have to continue to focus both on the target setting process to ensure targets are appropriately stretching and on the disclosure of these targets in relation to the pay-outs.

In support of this we have developed a detailed guide for Remuneration Committees and Shareholder Representatives who are required to vote on Remuneration and Implementation Policies. Should you wish to obtain a copy of this guide please make contact with us.

The derivation of more straightforward, more shareholder-aligned and yet more societally-oriented structures is still the design challenge for the future with, perhaps, the establishment and implementation of minimum shareholding policy as the pre-eminent design goal.

Deloitte also recommends that the Single Figure metric, required to be reported on by King IV™, could have a broader role in establishing a Standard against which companies can position themselves, and be compared with each other, but still allow individual companies to have flexibility in their pay mix strategy.

In short, we expect to see increased scrutiny from shareholders around the effective implementation of King IV™ and its principles during the 2019 and early 2020 AGM cycles. We also expect to see greater vigilance around malus and clawback arrangements, which, although generally supported as being necessary, are challenging to design, document and practice.

Leslie Yuill
Reward and Well-being Leader
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1. Introduction

The last few years have continued to present a difficult strategic and operating environment for companies, with the initial positive signs of financial and economic growth and optimism associated with “Ramaphoria” being stunted by the realisation of the task at hand and pace of change.

Executive pay, like many other business aspects, has challenged companies, particularly in their pursuit of:

- balancing executive performance and reward;
- effective design and implementation of pay delivery mechanisms; and
- the demands placed on companies to conform to the principles and guidelines emanating from King IV™.

The disparity in levels of top executive pay in relation to those of the lower-paid workers is a societal concern worldwide. This is particularly the case in South Africa, with its additional transformational needs and high levels of unemployment, which contribute to a powder keg of potential dissent and disharmony.

However, this report confines itself to a qualitative and quantitative review of the nature and disclosure of executive compensation, without commenting on its relevance or impact on societal considerations.

This report provides a detailed analysis of the relationship between top executive pay, company performance and shareholder value in JSE listed companies, and a review of company disclosure on remuneration policy and implementation.

It updates the findings of the previous report across 250 JSE listed companies.

The following issues and constructs have been addressed:

- An analysis of pay and particularly performance variable pay in the context of company performance and shareholder value over the last seven years;
- An overview of the current situation and emerging key trends in the governance associated with executive compensation, and in particular the views and recent voting records of institutional shareholders;
- An analysis of guaranteed pay, performance variable pay and total annual pay, and their growth over the last seven years with a full examination of their relationship to company size and sectoral orientation; and
- A discussion and summary analysis around the debate, surfaced overseas and increasingly emerging here, around executive pay and shareholder alignment.

The analysis supporting the commentary is based entirely on the information disclosed in the past Annual / Integrated Reports and financial accounts of companies in the JSE, as at end December 2018 reporting period.

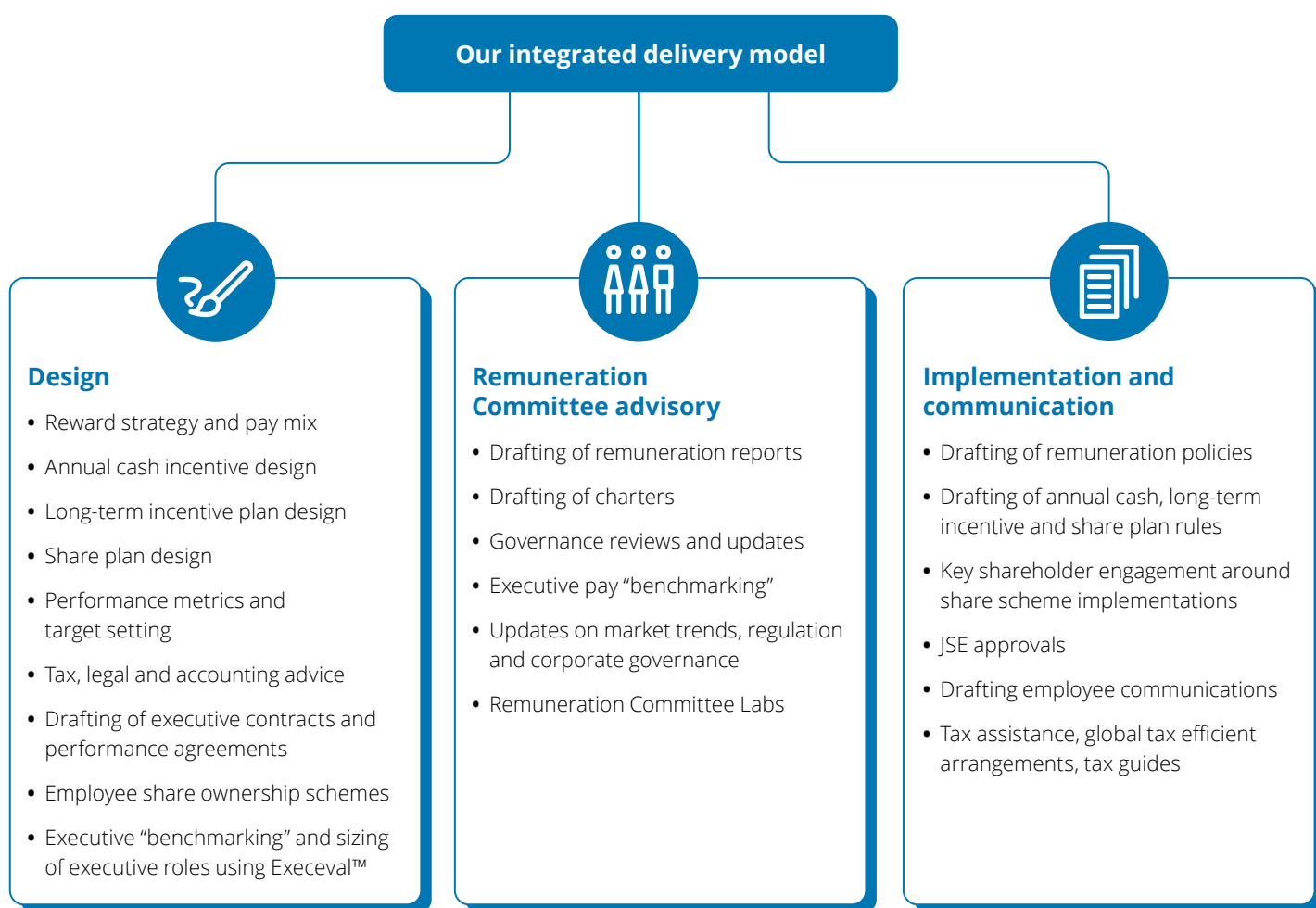


How we can help you?

The Deloitte executive compensation 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 are able to provide advice on all aspects of executive remuneration

with expertise in all areas including implementation, investor relations, corporate governance, accounting, legal and tax issues.

Our offering is built around an integrated model that links all these areas.



Contacts

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2. Table of acronyms

ACI Annual Cash Incentive	Short-term Incentive cash bonus	EVA	Economic Value Add, being the surplus in earnings after allocation of funds to the WACC
AFS	Annual Financial Statements	FSI	Deloitte derived broad sectoral grouping of financial and property investment holding companies
ALSI	A Market Cap weighted index of listed companies, as published by the JSE	Grid Sizing (Grid Size)	Deloitte methodology of grouping companies of similar size based on a grid matrix of financial and employment parameters
ALSI 40	A Market Cap weighted index of the top 40 listed companies, as published by the JSE	Headline earnings, or HE	Earnings after tax as declared in a company's AFS
BS (Base Salary)	Monthly pensionable salary times 12	HEPS	Headline earnings per share
CAGR	Compounded annual growth rate	IM	Deloitte derived broad sectoral grouping of industrial and manufacturing companies
CB	Deloitte derived broad sectoral grouping of consumer business companies, including technology companies	Index	The weighted summation of all data in a particular category as at any point in time
CEO	Chief Executive Officer or top executive director	JSE	Johannesburg Stock Exchange
CFO	Chief Financial Officer or financial director	JSE Top 100	A selection of the 100 plus companies listed on the JSE
Company Return	An Index which is used in this report to identify the summation of any metric addressing company performance	King III	The King Code of Governance Principles for South Africa 2009 (as amended)
E&R	Deloitte derived broad sectoral grouping of mining & resources and construction companies	King IV™	The King IV™ Report on Corporate Governance for South Africa 2016
EBIT	Earnings before interest and tax	Large Companies	JSE listed companies falling in the Market Cap range of R50bn to R300bn
EBITDA	Earnings before interest, tax, depreciation and amortisation	LTI	Long-term incentive

LTIP	Long-term (share-based) incentive plan	SV	Shareholder value, being the Indexed value of Market cap and dividends granted during the year
Market Cap	Market capitalisation, being the product of a company's issued shares and its share price at a point in time.	TAC Total annual compensation	TGP plus ACI
Medium Companies	JSE listed companies falling in the Market Cap range of R5bn to R50n	TGP	Total guaranteed pay = BS plus allowances, perks and company contributions to medical and retirement funding
Pay mix	The proportionality between TGP & PVP, and within PVP between ACI & LTI	Top 100	Deloitte derived list of 100 or so companies, based on the premier 100 plus companies currently listed on the JSE
PVP	Performance variable pay (the sum of ACI and LTI)	Top Companies	JSE listed companies with a Market cap in excess of R300bn
Remuneration Return	An Index which is used in this report to identify the summation of any pay metric	TR	Total remuneration, being TGP, ACI and any LTI vested in a year
ST 150	Deloitte derived list of 150 or so currently listed companies making up the balance of the JSE after removing the Top 100.	TSR	The growth in shareholder value over a period of time, 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
Shareholder Return	An Index, which is used in this report to identify the summation of any metric addressing shareholder value	Turnover	Revenue achieved from operations
Small Companies	JSE listed companies with a Market Cap of below R5bn	WACC	Weighted average cost of capital (equity plus debt)

3. Headline Findings

The following headline findings arise from this report:

3.1 Executive Compensation 2019 Issues

In a break from the past reports, Deloitte provides input into and commentary on five “hot topic” issues currently under debate amongst stakeholders.

- The topic of “skin in the game” is discussed and the suggestion made that there needs to be more clarity on how it is defined, designed and implemented, for shareholder alignment to be achieved under differing circumstances.
- Shareholder alignment through one or another of four share scheme architectures is looked at from the perspective of both the executive and shareholders.
- Comments are made on the subject of whether or not and why the executive compensation system is broken and what should be done to remedy the situation.
- Different perspectives are offered as to what is fair and reasonable in terms of executive compensation.
- Lastly the question of “how much is enough?” is addressed and compared with current levels of executive pay, suggesting that “enough” is mostly provided from guaranteed pay, and therefore performance variable pay should only be countenanced from more than just “acceptable” executive performance.

3.2. Executive Compensation 2018 Disclosure

The analysis of 2018 disclosure again confirms a general view that the very large, internationally foot-printed companies pay considerably more than their local counterparts do, and that the larger local companies pay more than the second tier local companies.

However, the extensive scatter of pay levels if one looks at actual pay points by company size is very obvious, perhaps giving lie to the oft held contention that companies generally position themselves to the median.

3.3. Executive Compensation by Size and Sector

If one submits the scatter to statistical analysis by company size grouping, there is admittedly a discernibly upward trend if one looks at the median pay by company size.

However, there is no apparent sense of top executive pay being linked to the complexity of the sector and role within which it operates.

3.4. Performance / Value Alignment

The previous report’s findings that executive pay in the larger companies over a sustained period had generally tracked the index of shareholder value and of top-line performance, but outstripped that of bottom-line performance, are confirmed by the inclusion of another year’s data.

Within this overall pattern, although one sees considerable variability in actual performances between larger, and second-tier companies and within the four chosen sectors, it appears that executive pay in general has been resilient in the face of these varying company or sector performances.

Although the trends in shareholder value and company performance have been largely dictated by economic and market conditions, this is not the case in executive pay which has essentially doubled over the six / seven-year period.

3.5. Pay for Performance

Performance variable pay is made up of an annual cash bonus supposedly to reward short term operational performance and a longer-term (typically share-based) incentive, supposedly to reward sustained company performance and shareholder alignment.

Disclosure in remuneration reports on pay mix policy has been sourced and analysed and appears to indicate that policy on pay mix has shifted away from the levels previously advocated by Deloitte and an emerging consensus that the target relationship between guaranteed pay and performance variable pay in large companies should be targeted at one third / two thirds for CEO positions and twenty-five / seventy-five as a maximum. This is a material shift in policy but does not yet appear to have manifested itself in recent actual payments.

An analysis of the relationship between performance variable pay and guaranteed pay averaged over the last three years indicates that there are few instances where a small or zero bonus on average was earned and many instances of where large or very large bonuses on average were earned.

In practice, performance variable pay appears to be performance contingent pay, accruing under most circumstances other than the worst case of under-performance. This is in contrast to performance-driven pay resulting from outperformance against targets set or in comparison to peer groups.

Therefore, many an executive is expecting to earn on average at least one times and as much as two times their guaranteed pay in performance variable pay, this despite the bearish economic and market conditions that have prevailed over the last three years.

3.6. Shareholder Dialogue

The implementation of King IV™, and the enhanced platform, it provides for proactive shareholder dialogue rather than the required vigilance and activism of the past, is now challenging executive pay stakeholders.

Institutional shareholders are showing intent to engage with executives on the pay / performance / value relationships pertaining to executives. But King IV™ also requires that they engage with the companies they are invested in on non-financial issues surrounding corporate citizenship, a role for which they are perhaps less equipped to address, whatever their stance may be.

3.7. Reporting Standards

Whilst there is an increasingly large number of well-constructed and informative remuneration reports and pronouncements on policy that are more consistent with King IV™ guidelines, a recent review of JSE listed remuneration reports has revealed divergence in the quality and consistency of reporting with some companies seemingly unaware of the different reporting compliance frameworks required to be complied with.

The essential elements of executive pay practice are still difficult to discern sometimes, as there is now almost too much detail in the reports to consider. This is further complicated by the fact that JSE listed companies need to provide remuneration disclosure in compliance with the following frameworks:

- International Financial Reporting Standards ("IFRS")
- The Companies Act of South Africa, 2008 ("Companies Act")
- The JSE Listings Requirements ("JSE-LR")
- The King IV Report on Corporate Governance for South Africa 2016

Typically, the IFRS, JSE-LR and Companies Act disclosures are included in the annual financial statements and are consistently presented as they are regularly scrutinised by both auditors and regulators. The divergence in consistency and quality of reporting seems to lie in the remuneration reports contained within annual integrated reports. They should be presented in accordance with the King IV™ disclosure requirements and, where applicable, include the JSE-LR disclosures. Many reporters still do not prepare remuneration disclosure tables that are compliant with the "Total Single Figure of Remuneration" concept of King IV. Equally lacking are the King IV™ mandated disclosures of cash equivalents received during the period.

Given that remuneration is highly topical and being closely scrutinised it is vital that remuneration committees, boards and management ensure that reporting and disclosures meet the regulatory reporting requirements but also reflect a suitable level of quality and transparency that is expected by stakeholders.

Furthermore, reporting should be easy for the reader to digest, succinct, and not overly complicated so that interested stakeholders can understand succinctly how the policy is implemented with respect to business performance and the resultant remuneration paid to executives and non-executives. This should engender an increasing emphasis on the nature and content of top executive pay, more so than just its disclosure. There needs to be a move away from the previously noted "checklist" orientation towards a more principles-based, holistic discourse and review of executive pay supplemented with correct reporting.

However, whilst the checklists remain, in order to inform the debate, Deloitte provides a comprehensive list of shareholder concerns which, if not addressed or disclosed appropriately,

may invoke criticism and / or trigger a negative vote.

3.8. Towards a Single Figure Standard

The executive compensation industry has still much to do in providing informed advice and commentary to all stakeholders, such that the executive pay debate is translated into a concerted move towards a balanced and supported solution, but not necessarily one that has all companies conforming to "best practice" norms.

Companies should be allowed some flexibility to differentiate their executive reward strategies, as they are encouraged to do so with their other business strategies. At the same time, however, their pay strategies should be "governed" by and be accountable to acceptable parameters of executive pay.

Deloitte considers that the Single Figure required to be disclosed by King IV™ should not merely be a metric by which annual pay comparisons are to be made. It should be utilised in a proactive as well as a reactive sense and become a Standard to inform executive pay design, allow internal and external comparisons to be made, and most importantly inform the shareholder and societal debates around what is "fair and reasonable" in executive pay. This would allow companies to apply some level of flexibility in pay mix design, whilst staying within an acceptable parameter, rather than being dictated to or feeling compelled to conform to the "benchmarks", which currently are much maligned, misaligned and often misused.

The Single Figure Standard might become a way by which all stakeholders could assess the full quantum of executive pay over time, from whatever perspective, they view it, whether internally, sectorially and / or societally.



4. Executive Compensation - 2019 Issues

A number of “hot topic” issues are currently under discussion in the debate on executive pay. As yet there is no clarity or consensus amongst commentators, but some insights are offered below.

4.1. Skin in the Game

Institutional shareholders emphasise that executive pay should be aligned with shareholder value and contend that, along with targeting financial performance, one of the major determinants of shareholder alignment is that executives own a meaningful stake in the company's shares.

This concept has of late been promoted under the mantle of “skin in the game”. However, this phrase has meant different things to different constituencies at different times. What does “skin in the game” mean?

Broadly “skin in the game” can be interpreted as:

- “Skin in the Game” is a phrase made popular by renowned investor Warren Buffett, referring to a situation in which high-ranking insiders use their own money to buy stock in the company they are running. The aphorism is particularly common in business, finance, and gambling, and is also used in politics.” (Investopedia)
- “To have ‘skin in the game’ is to have incurred risk (monetary or otherwise) by being involved in achieving a goal. In the phrase, ‘skin’ is a synecdoche for the person involved, and ‘game’ is the metaphor for actions on the field of play under discussion” (Wikipedia)
- Nassim Nicholas Taleb, a former options trader with a background in the mathematics of probability and statistics, suggests that “skin in the game” is “having a measurable risk when taking a major decision... necessary for

fairness, commercial efficiency, and risk management, as well as being necessary to understand the world.”

In the context of executive compensation:

- The rationale for “skin in the game” will inevitably vary depending on the context in which an executive and the company shareholders find themselves, varying from
 - Professional executives, acting as custodians of shareholder value in a steady- state, “blue chip”, value investments, to
 - Entrepreneurial executives, spearheading leveraged shareholder “private equity” type investments, to
 - Turnaround trouble-shooters, picking up the pieces of previous “value destruction” and attempting to right foundering companies and bring them back on track
- Depending on the above context, “skin in the game” may vary between:
 - Restricted equity, aimed at retaining the loyalty of the executive;
 - Performance-based equity, aimed at driving the performance of the executive;
 - Leveraged equity, aimed at a high-risk, high-reward alignment of fortune; or
 - Unencumbered equity, demonstrating an executive's voluntary alignment to shareholders.
- In all of the above an executive “invests” in equity through either;
 - the relinquishment or substitution of what might otherwise in the context of an overall pay package be guaranteed pay or a cash bonus, or
 - the actual investment of loan financed funds or own funds derived from a cash bonus or similar accrual.
- In all of the above, the “investment” once made is similarly subject to the fluctuation and volatility of economic and

market conditions as any shareholder investment would experience, and an executive may similarly be a victim or beneficiary of future circumstances.

- However, the various investments differ in the amount of “skin” that is at risk for non- performance or a significant downward correction in the market.
 - With restricted equity, value is lost through share price decline, and there is no opportunity for the executive to exit ahead of any anticipated loss.
 - With performance-based equity, value is lost through both performance and share price decline, and there is similarly no opportunity for the executive to exit ahead of any anticipated loss.
 - In situations of leveraged equity, it is most likely that all investment will be lost, and in some schemes, the executive may need to pay in additionally.
 - Whilst unencumbered equity may demonstrate shareholder alignment, in effect, the risk of loss is mitigated in cases where a prescient or informed executive is able to exit the investment before the fall.

4.2. Shareholder alignment

In the light of the above commentary on “skin in the game”, the future design and implementation of executive compensation, may still need to consider a balance between those schemes which:

- Deliver value in shares that would be forfeited through dismissal or resignation (the “golden handcuffs”), but act as a spur to deliver shareholder value during the period of employment, or
- A form of co-investment by the executive, which investment may be either a high risk / high reward one or less risky for the executive.

The scheme architectures fall into four possible approaches, with the shareholder and executive alignments differing in each, as commented on below.

1. Restricted equity - The value of shares that will vest or be settled well into the future with continued employment, but will lapse or be forfeited should there be a resignation or dismissal (restricted / retention shares with only an employment condition).

Executives will be conscious of a potential loss of expected value resulting from fault termination.

Shareholders may be comforted that the executive will ensure good conduct at least until vesting of these shares, but will be concerned that free shares have been granted that encourage residence but not performance.

2. Performance-based equity - The value and number of shares that will vest or be settled well into the future with continued employment, but more importantly with performance criteria governing any vesting, but will also lapse or be forfeited should there be a resignation or dismissal (conditional / forfeitable shares with performance as well as employment conditions).

Executives will be conscious of a potential loss of expected value resulting from non- performance as well as from fault termination.

Shareholders may be comforted that the executive will do his best to perform until at least the vesting of these shares, but may become concerned if initial under- performance occurs, due to exogenous / uncontrollable factors, likely resulting in zero future vesting for the executive and thus not providing any real incentive to drive performance.

3. Leveraged equity - The value that will accrue to the executive will be based on the positive growth of the share price above the initial offer price, and the price will have an attendant hurdle rate, or the price will have previously been financed with a loan.

Executives will be inspired to achieve performances above the hurdle rate / finance charge, as the reward for outperformance will be lavish, but will be de-motivated should the timing of the offer have been unfortunate or the exogenous / uncontrollable factors combine negatively at an early stage in the investment.

Shareholders may be comforted that the executive will do his absolute best to outperform until vesting of these shares, but may become concerned at the “famine or feast” nature of the investment, particularly retrospectively should a “feast” occur, and vesting / settlement occurs at a high level.

4. Unencumbered equity - The stipulation or encouragement of unencumbered share ownership by executives.

Executives will recognise that it is necessary (or required) to register shareholder alignment through the purchase and retention of shares.

Shareholders will be comforted that the executive is aligned with their own investments as shareholders. They will be able to monitor the level of share ownership annually and should be alerted should there be any share disposal by an executive.

Our research shows that less than 30% of the top 100 JSE listed companies enforce any level of minimum shareholding requirement for the CEO. Typically when these levels are required, they are much lower than what is required of a FTSE 100 CEO.

Similar to clawback arrangements the enforcement of minimum shareholding requirements is a good concept, however the implementation thereof can become complicated.

Remuneration Committees should however apply their minds to what level of unencumbered shareholding is required to align the interests of the CEO in particular to those of shareholders, the policy to achieve this and if there is a requirement for the CEO to hold these shares for a period post their exit from the role.

4.3. Is the system broken, and if so, why?

Increasingly commentators on executive remuneration opine that executive compensation is too complicated and needs to be simplified, or that there needs to be more regulation, or there needs to be a more balanced, or a greater societal orientation for selecting performance metrics, etc.

Is the system broken? Is it out of control? How do we promote, instil and police, reasonable pay for performance of executives, as they strive to satisfy the needs of shareholders, employees, society and the regulators, in what is to many a complicated, volatile, ill-informed and sometimes hostile environment?

Some of the contributory factors to the concerns expressed on executive pay, particularly in the current difficult and challenging market, economic and socio-economic conditions are outlined below. They have been commented on in more detail in previous reports, but the “accusations” made against the executive compensation industry are summarised here:

- Executive compensation is not an easy subject to understand, to learn and to

practice in its totality, it never was, and most likely never will be.

- The increasing disclosure of the architecture(s) and implementation of executive pay has resulted in the unintended consequence of there being more knowledge, but less insight into this complex field and environment.
- Much of the commentary and scrutiny is inevitably imbalanced and ill-informed and relies on “checklists” and “benchmarks”.
- Amongst those advising on executive compensation such as consultants and the like, there is a scarcity of resources and genuine skill/experiential qualifications.
- Remuneration Committees are often ill-advised and are more concerned about form rather than substance, their own personal, reputational risk than what is best for the company.
- The impact of remuneration consultancies selling market surveys and “benchmarks” but providing little design experience or holistic advice.
- The creep inevitably when policy dictates “median” and “upper quartile” positioning, and benchmarks are ill-founded, and can be manipulated.
- The visibility of top executive pay due to its disclosure, and the demands of executives to be well-positioned vis a vis their peers.
- The influence of the headhunter fraternity in advancing the levels of pay as an attraction premium to the market in order to secure their placements.

It would be unfair on any constituency to label it as the primary culprit, and the intention is not to lay or apportion blame. South Africa is an emerging country facing a number of issues. Executive compensation is a relatively minor issue in the context of the broader social-political

background. But it is also a very visible issue, on which most commentators will have a strong opinion one way or another. Is the system broken? The answer is no, but it does need some heavy maintenance!

Should we get rid of it? The answer is an emphatic no. All parties should persevere, striving for improvement, and eradicating the irritations that justifiably lead to criticism. The work of the IODSA and SARA, some institutional shareholders and some consultancies, is showing the way forward.

4.4. What is Fair and Reasonable

With the recent spotlight placed on executive pay and its relation to the pay of lower-level employees, particularly of concern in South Africa, is the question increasingly being asked as to what is “fair and reasonable”?

In South Africa and from a societal as well as a market-related context, the answer to this question will depend on whether the question is posed to:

- Well-paid executives, who already earn more than enough to provide for their family now and into the future, and quite possibly the following generations.
- The average person working hard to provide for their family and frustrated at being unable to advance their position or pay.
- The union representative striving to address the needs of their constituency for a fair wage.
- A large number of semi-employed individuals living on or about the bread line.
- The unemployed (both young and old) who barely get by from day to day supporting themselves and their extended families.
- The politicians, some of them deeply caring about the plight of the poor, but

also, some of them, recognising that it is the growth in commerce and industry that will enhance the economy, and lead the majority away from current penury and into future posterity.

- The columnists, from all sides of the political spectrum, many of them having a strong desire, not just to sell column inches, but to expose perversity and corruption.

Most stakeholders in the debate, albeit some more reluctantly than others, will concede that executives should be paid well for their services to shareholders, to business and the economy, and to society as a whole.

However, what is “fair and reasonable” in the context of executive pay and, as importantly, how should it be determined?

In chapter 10 of this report, Deloitte advocates that, given where we are, and short of a revolution in executive compensation, we should attempt to ensure that there is no further exacerbation of the issues surrounding executive pay, or unwarranted increases, but that a Single Figure approach be established for “benchmarking” pay and this be managed and assessed on an on-going basis, rather than (as currently) being merely reported on.

4.5. How much is enough?

Over the last 20 or 50 years, executive pay in South Africa has evolved to a point where it is reasonably in balance with executive pay internationally. As advocated above and described in more detail in chapter 10 of this report, if we can prevent the often very visible excesses, then a fair and reasonable standard of pay might be attainable and guide executive pay quantum and structuring into the future.

However, the visibility of the pay gap (executive pay to worker pay) in South Africa has long been a major societal concern. So the pressure on executive pay will continue, as will the requirement to justify the quantum of pay, both guaranteed / fixed pay to attract and retain key executive skills, and performance pay to reward performance and drive sustainable value.

Executive leadership is generally regarded as a scarce competency, one not found in many individuals, and one for which it is usually recognised that a premium needs to be paid.

Indeed the level of responsibility and accountability is higher than that of any other role within an organisation.

Those that are skilled enough to have this leadership competency, whether gleaned through education, experience, innate skills, or a combination of all of these, should be rewarded appropriately, if nothing else so that they can live to a certain standard and prepare for the continuation of this standard into their retirement from active service.

Few CEO's survive in any one job for more than five to ten years, but many of them will be able to secure two or three such positions.

The good ones should be able to afford an opulent lifestyle, and comfortable retirement, from such a situation.

So over a 10 – 20 year period between age 45 and age 65 what must a CEO be able to afford in order to attain and sustain his/her standard of living?

Rather flippantly and not ungenerously one could suggest that the following is a justifiable expectation (taking a major metropole domicile as a base):

- Large dwelling within 15-30 mins of CBD or work for his/her family
- Schooling and university education for 2-3 children
- 2-4 cars depending on children ages and transport requirements
- Security & risk insurance
- Own & family & friends' entertainment including annual holiday
- Subsistence, living expenses and home amenities
- Holiday home within South Africa
- Any private staff that are employed
- Retirement funding
- Offshore investments
- Private sports/special interest club membership

This is an academic exercise and we acknowledge everyone's needs, wants and desires are different and firms need to be competitive, but hypothetically assuming the above, the question could be posed "how much is enough to sustain such a living?".

- Using median guaranteed pay being reported across listed companies, it could be argued that a "very comfortable" lifestyle is achievable through the investment of such an executive's guaranteed pay only.
- More than doubling reward through (the additional) performance variable elements of pay should then only be justified and achieved through a high level of performance, well beyond just a barely acceptable one.

- Trebling reward should only be achieved through exceptional performance not often seen.

Consistent pay out of multiples of guaranteed pay without due performance can justifiably be challenged.



5. Executive Compensation - 2018 Disclosure

5.1. Introduction

The management and disclosure of executive remuneration can be and has been extensively researched and analysed.

The analysis that follows, based on the most recent survey of disclosed pay amongst JSE listed companies, has confirmed a number of trends previously identified.

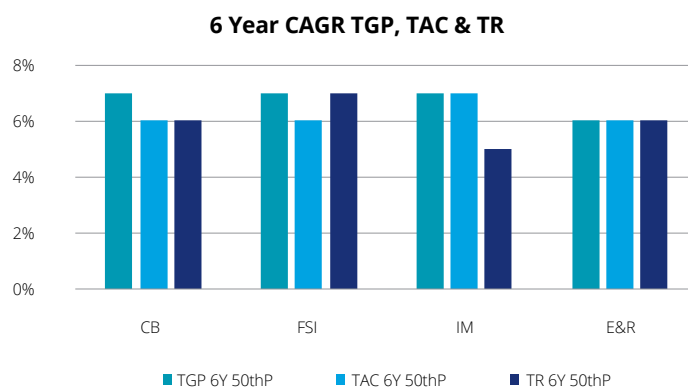
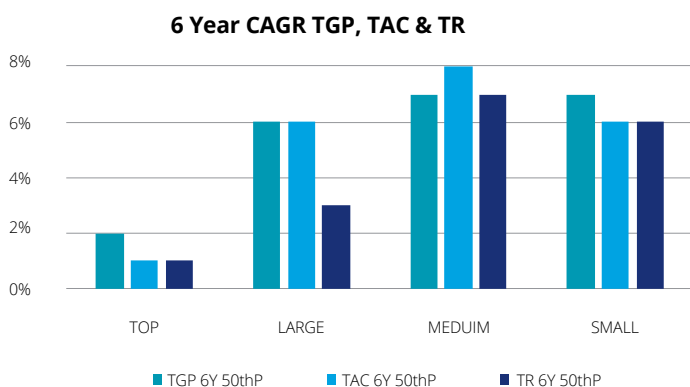
5.2. Annual Pay Increases

Chapter 7 contrasts Remuneration Return for executives with Shareholder Return and Company Return.

The tables below depict the growth in both TGP, TAC and TR over the last six years and over the previous three years.

Schematic 1: Growth in TGP, TAC and TR

6 Year Compound Annual Growth Rate (CAGR)



TGP: Total guaranteed pay = Base salary plus allowances & company medical and / or retirement funding.

TAC: Total annual compensation = TGP plus cash bonus.

TR: Total remuneration = TAC plus vested value in year from any long-term (share based) incentive.



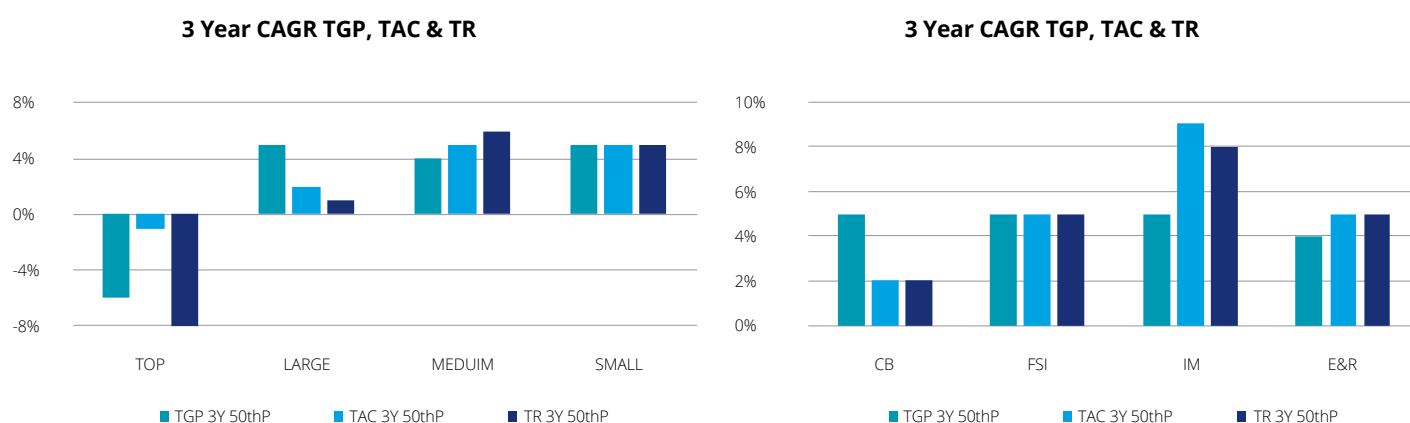
CB: Broad sectoral grouping of consumer business companies, including technology companies.

FSI: Broad sectoral grouping of financial and property investment holding companies.

IM: Broad sectoral grouping of industrial and manufacturing companies.

E&R: Broad sectoral grouping of mining & resources and construction companies.

3 Year Compound Annual Growth Rate (CAGR)



CB: Broad sectoral grouping of consumer business companies, including technology companies.

FSI: Broad sectoral grouping of financial and property investment holding companies.

IM: Broad sectoral grouping of industrial and manufacturing companies.

E&R: Broad sectoral grouping of mining & resources and construction companies.



TGP: Total guaranteed pay = Base salary plus allowances & company medical and / or retirement funding.

TAC: Total annual compensation = TGP plus cash bonus.

TR: Total remuneration = TAC plus vested value in year from any long-term (share based) incentive.

In the previous report, we commented on the preponderance of above-inflation growths over the five-year period, and even the three-year period.

However, the growths over (now) a six-year period, and particularly the most recent three years are more in line with inflation. This indicates that in the last two to three years, as one might expect, growth in top executive pay has more attuned itself to the market, economic and governance pressures. However, with poor shareholder alignment, the question should be asked – why do executive directors get a similar increase to rank and file staff in relative terms when 5-6% of a large number is a big number compared to 5-6% increase on a small number? Often we have seen very little differentiation of relative increases between executive officers and general employees.

5.3. The Scatter of Remuneration levels

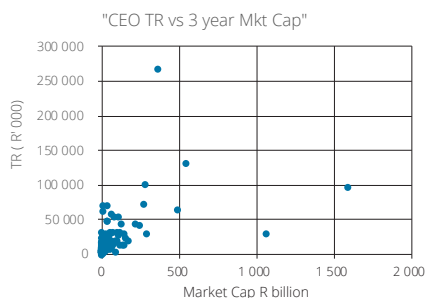
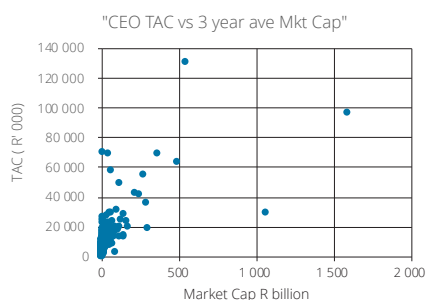
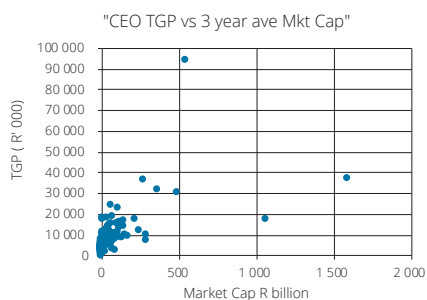
Most commentators support a view that top executive pay should reflect the size and complexity of the executive role. As this report, comments only on the CEO and FD / CFO positions, it is fair to assume that

it is the size of the company and perhaps the operational /financial complexity of the sector in which it operates that defines the value of the role.

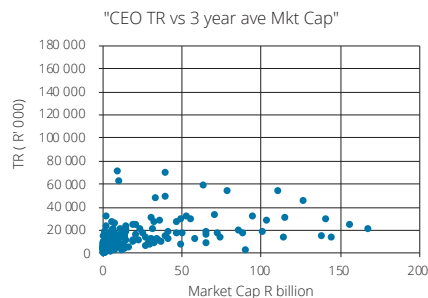
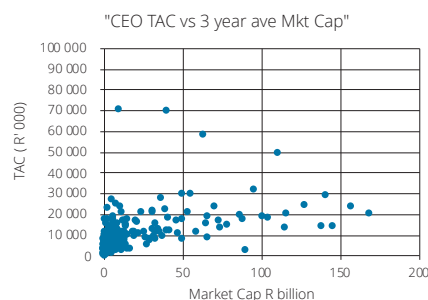
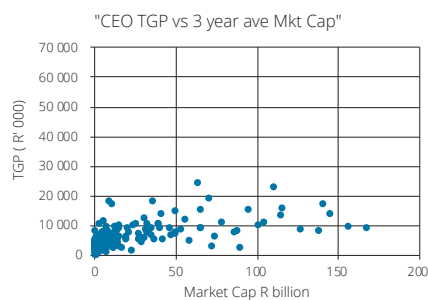
Below are a series of Scatter Diagrams that show CEO remuneration, pay (TGP, TAC and TR) by company size.

Schematic 2: CEO remuneration by Company size

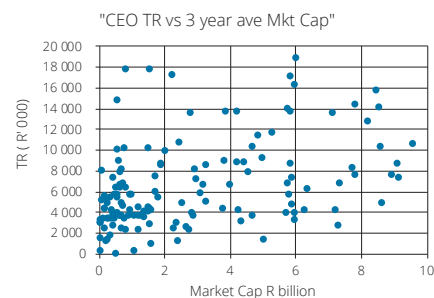
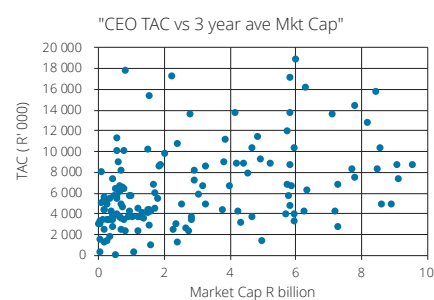
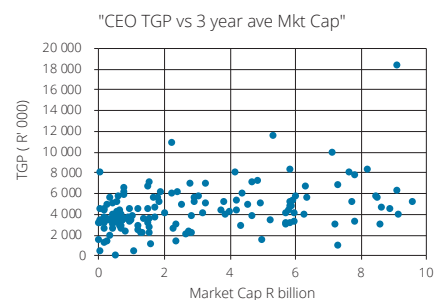
All Companies



0 - R200 bn Companies



Small Companies



TGP: Total guaranteed pay = Base salary plus allowances and company medical and/or retirement funding.

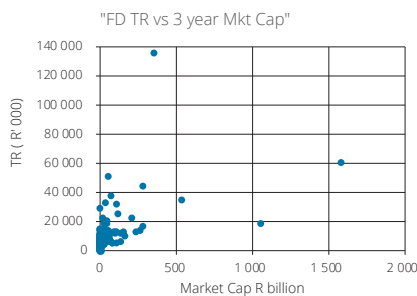
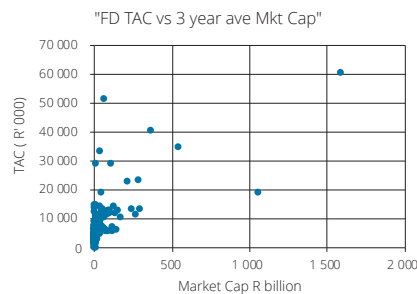
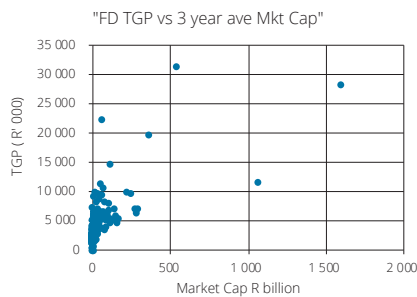
TAC: Total annual compensation = TGP plus cash bonus.

TR: Total remuneration = TAC plus accrual value in year from any long-term (share based) incentive.

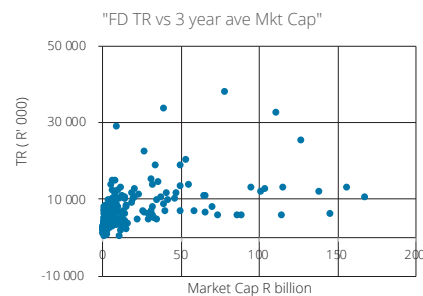
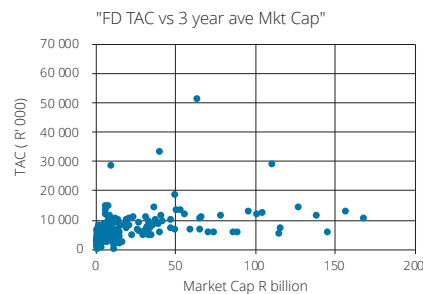
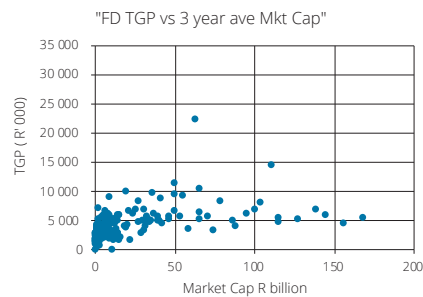
A similar depiction is shown below for the FD/CFO role.

Schematic 3: FD/CFO Remuneration by Company size

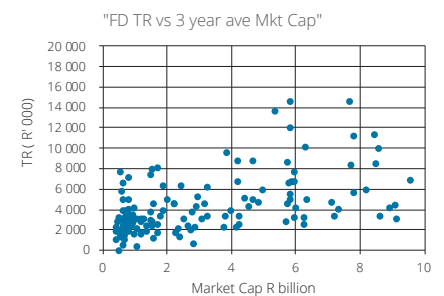
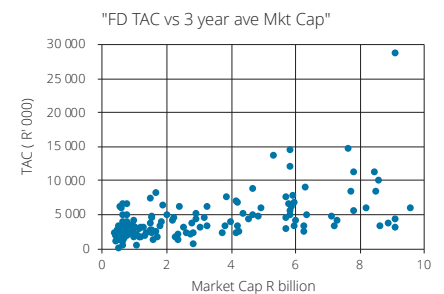
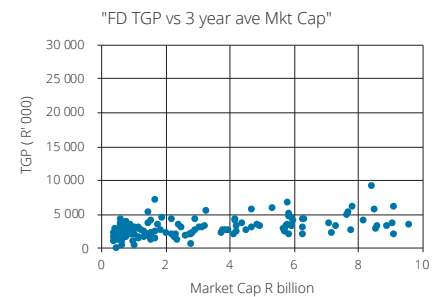
All Companies



0 - R200 bn Companies



Small Companies



The above depictions for both CEO and FD/CFO show a significant dispersion of remuneration levels and pose the question as to whether or not the use of benchmarking executive pay provides any assistance to companies in positioning executive pay. Although the "benchmarks" that follow below appear to indicate a correlation between company size and

executive pay, this is not borne out by the above scatter diagrams, whether one looks at TGP, TAC or TR.

The depictions are for all companies, including the larger companies and the second-tier companies, and indicate that there are many smaller companies paying

as much as and often far more than much larger companies.

So what evidence is there really that company size influences top executive pay?



6. Executive Compensation by Size and Sector

6.1. Company Sizing for “Benchmarking” Purposes

Market cap is one reasonable surrogate for company size and to a certain extent can accommodate the ebb and flow of company size due to market forces, but then are other determinants of company size that could and should be considered in identifying the relative size of companies.

Below is the Deloitte Company sizing Grid that allows for general positioning companies using other financial and human capital metrics.

As much as Market Cap can be utilised in listed companies, it is only one determinant of size and financial

factors such a turnover, total asset and profitability are used, as well as human capital factors such as wage bill, number of employees and total cost of employment.

Schematic 4: Deloitte Grid for determining Company size

[illegible]



TGP: Total guaranteed pay = Base salary plus allowances and company medical and / or retirement funding.

TAC: Total annual compensation = TGP plus cash bonus.

TR: Total remuneration = TAC plus vested value in year from any long-term (share based) incentive.



CB: Broad sectoral grouping of consumer business companies, including technology companies.

FSI: Broad sectoral grouping of financial and property investment holding companies.

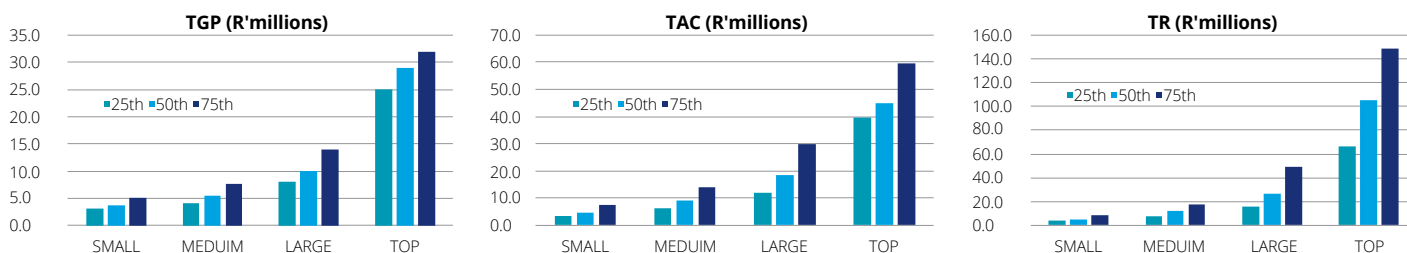
IM: Broad sectoral grouping of industrial and manufacturing companies.

E&R: Broad sectoral grouping of mining & resources and construction companies.

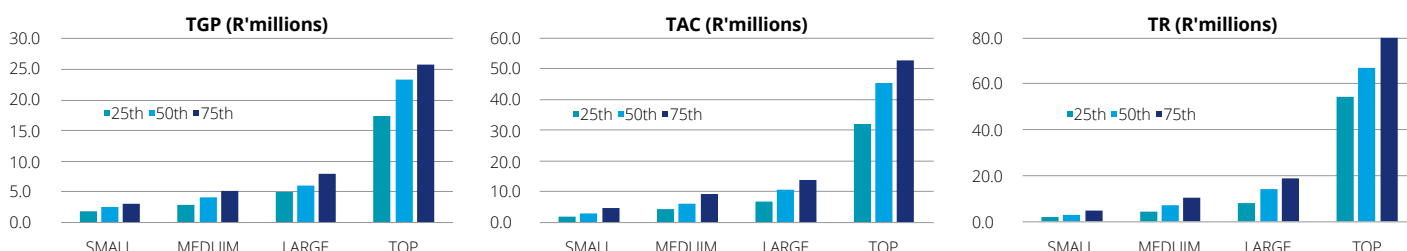
6.2. Remuneration “Benchmark” Levels by Company Size

The following summary tables illustrate 2018 disclosed TGP, TAC and TR statistics for the full complement of JSE listed companies, broken down into company size groupings.

Schematic 5: CEO “benchmarks” by company size grouping (R’millions)



Schematic 6: CFO / FD “benchmarks” by company size grouping (R’millions)

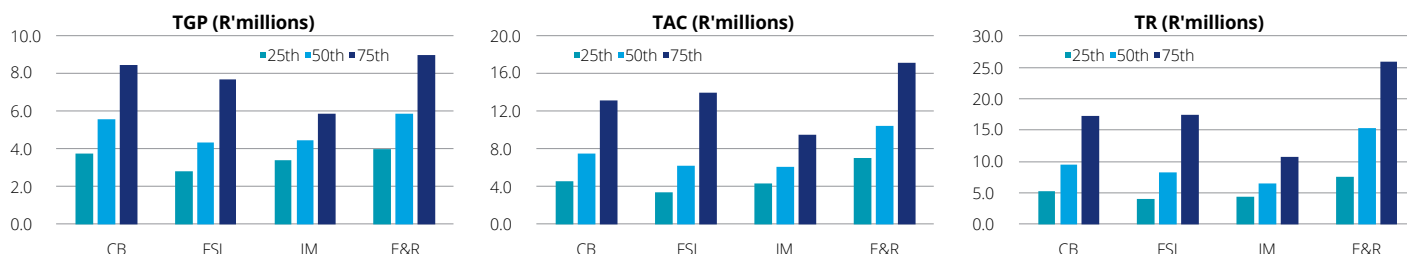


When one reviews in the above schematic the spreads both horizontally (both TGP / TAC / TR and 25th / 50th / 75th) one might be persuaded that there is sense to be found in the use of benchmarking to position executive pay. Of note however is that the intra quartile range is large in relation to the median in all cases. This further confirms the scatter diagrams commented on in chapter 5.3

6.3. Remuneration “Benchmark” Levels by Sectoral Grouping

The following summary tables illustrate 2018 disclosed TGP, TAC and TR statistics, broken down into sectoral groupings, and then for the full complement of JSE listed companies.

Schematic 7: CEO “benchmarks” by sectoral grouping (R’millions)





TGP: Total guaranteed pay = Base salary plus allowances and company medical and / or retirement funding.

TAC: Total annual compensation = TGP plus cash bonus.

TR: Total remuneration = TAC plus vested value in year from any long-term (share based) incentive.



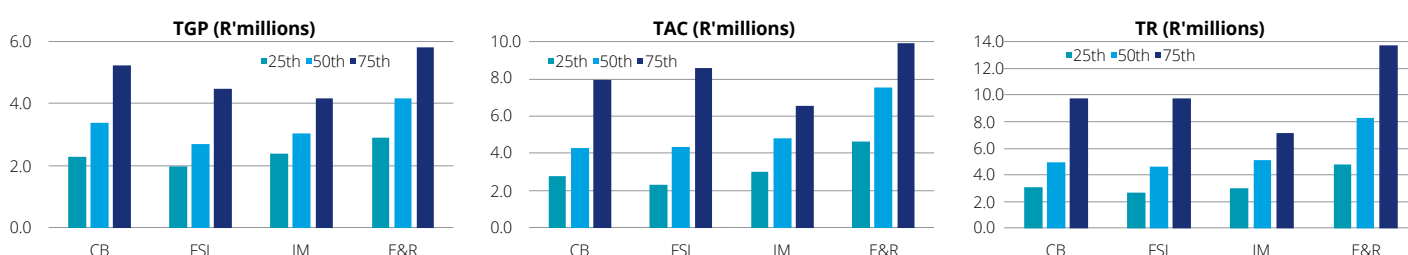
CB: Broad sectoral grouping of consumer business companies, including technology companies.

FSI: Broad sectoral grouping of financial and property investment holding companies.

IM: Broad sectoral grouping of industrial and manufacturing companies.

E&R: Broad sectoral grouping of mining & resources and construction companies.

Schematic 8: CFO / FD “benchmarks” by Sectoral grouping (R'millions)



If one looks at the sectoral analysis of executive pay, beyond the detail, it would appear that, as with last year's analysis, the E&R sector pays significantly higher than the other three sectors. In contrast to last year's analysis, the IM sector is no longer behind the FSI and CB sectors. Again, the intra quartile range is large in each sector, confirming the scatter diagrams depicted in chapter 5.3

From a size of company perspective, one can identify an appropriate trend whereby, as one would expect, very large companies pay their top executives significantly more than do the lower tier companies, and there appears to be a supportable trend as one goes from top to bottom.

However, the scatter diagrams indicate that although one can compute a positive gradient in terms of remuneration by company size, this gradient is by no means as emphatic as the benchmarks might lead us to expect.

There is thus little evidence that company size influences top executive pay, or that statistics such as median and quartiles are either used or useful in setting “benchmarks” for executive pay in JSE listed companies.

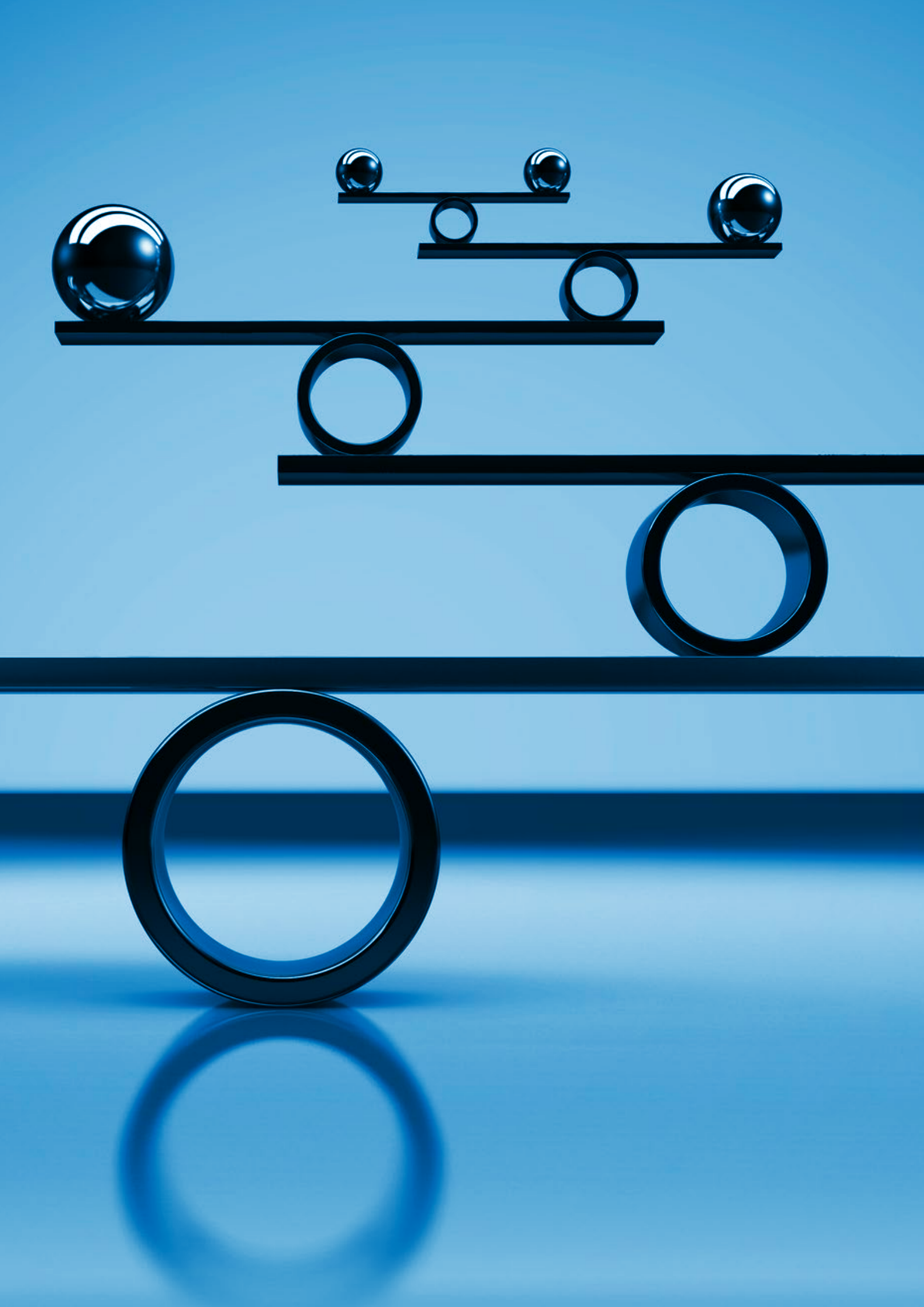
From a sectoral perspective, it is important not to read too much into comparisons as they are materially influenced by the relative number of very large companies, alternatively second-tier companies, in the sector composition.

Also, the TR figures, and to a certain extent, TAC figures will be influenced year by year by exogenous factors, market and economic, differentially influencing the various sectors at any time.

This then brings into question the assertion by most companies in the disclosure of their remuneration reports that pay levels are set in relation to “benchmarks” provided by market survey consultancies. If any such “benchmarks” truly exist and, if

they have indeed been submitted, there is no evidence that they have been in any way adhered to.

One wonders whether the setting and/or provision of “benchmarks” and pay comparison is driven more to address the needs of the executives themselves, for peer parity, rather than the interests of shareholders, or indeed society at large.



7. Performance / Value Alignment

In previous reports, Deloitte has contrasted top executive pay in JSE listed companies in relation to company performance and shareholder value.

Executives are charged to deliver both financial performance and shareholder value over time, and they are to receive a commensurate reward for their efforts. One would expect to see some correlation between value, performance and pay.

In two previous reports, and updated in this report, we analyse and contrast over a number of years the indexed growth in these three factors.

Remuneration Return, Company Return and Shareholder Return are explored and tracked over time, both overall and by company size and sector groupings.

As before, although the detailed analysis in this report spans 8 years, over 250 listed companies, and the two top executive positions in each company, the intention is to provide an overall impression rather than any detailed specifics.

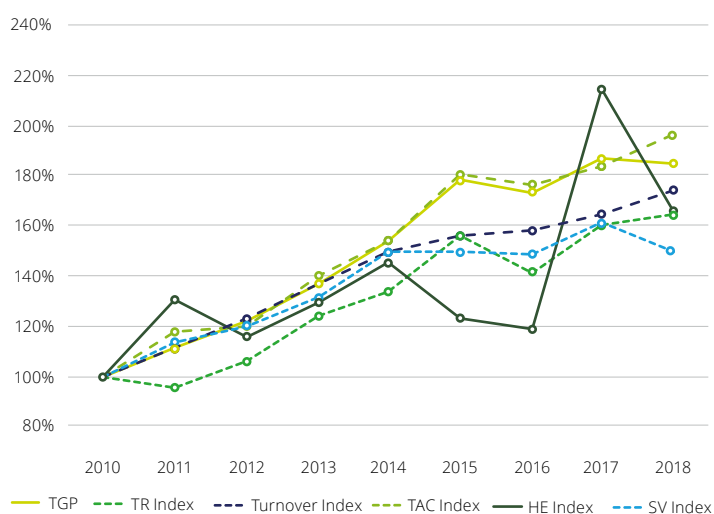
7.1. Overall Contrasts in Return

The schematic below depicts the tracking of the indices over time to their current position(s).

Schematic 11: Indexed Pay of Top Two executives in relation to company performance and shareholder value returns.

Index	TGP	TAC	TR	HE	Turnover	SV
Overall	185%	196%	164%	166%	174%	150%

Pay vs Performance



The above aggregate analysis identifies a general trend of the Remuneration Return outstripping Company and Shareholder Returns.



Remuneration Return: The indexed growth in aggregate executive remuneration over a period of years.

Company Return: The indexed aggregate company financial growth in value over a period of years and shareholder alignment.

Shareholder Return: The indexed increase in aggregate shareholder value over a period of years.



TGP: Total guaranteed pay = Base salary plus allowances & company medical and/or retirement funding.

TAC: Total annual compensation = TGP plus cash bonus.

TR: Total remuneration = TAC plus vested value in year from any long-term (share based) incentive.

HE: Headline earnings.

SV (Shareholder value): calculated as Market Cap., plus the value of dividends accruing in preceding year.

The growth in annual pay (TGP and / or TAC) has exceeded that of both financial performance and shareholder value, with only TR (the addition of long term share based accruals) being closer to parity.

When reviewing the ending points of these indices, it might be worth recognising that:

- Growth at the “cost of inflation” (say 6% per annum) would result in an index of 159%
- Growth at the “cost of debt” (say 8% per annum) would result in an index of 185%
- Growth at a “weighted average cost of capital” (say 12% per annum) would result in an index of 247%
- Growth at the “cost of equity” (say 15% per annum) would result in an index of 306%

The following two chapters identify the extent to which the general (composite) trend is made up both by company size based and sectoral performances.

7.2. Contrasts in Return by Size

The Table below depicts how the general picture in terms of the indices is broken down when one looks more specifically at a company size grouping in terms of the Deloitte Grid Size categorisation.

Schematic 12: Summary of Major Indices by overall size

Size	TGP Index	TAC Index	TR Index	HE Index	Turnover Index	SV Index	Mkt Cap Index
TOP	192%	205%	151%	178%	215%	272%	375%
LARGE	184%	191%	142%	170%	167%	155%	196%
MEDIUM	188%	209%	218%	125%	163%	128%	204%
SMALL	183%	187%	183%	47%	173%	12%	4%
Total	185%	196%	164%	166%	174%	150%	112%

Without going into the detail shown in the above schematic, it is apparent that:

- Annual executive pay (TGP and / or TAC) has in all size categories well exceeded the cost of inflation and either matched or well exceeded the cost of debt.
- Only TR in the largest companies has failed to match the cost of inflation.
- In contrast, earnings in all companies have failed to exceed the cost of debt, with the mid-tier companies failing to exceed the cost of debt, and the smallest companies not even exceeding the cost of inflation.

- However, turnover has grown reasonably well in a range between the costs of inflation and debt.
- It is in shareholder value that the contrast in size is most starkly seen, with only the very largest companies delivering anywhere close to the cost of equity, the mid-tier companies only below the cost of debt, and the smaller companies even failing to perform above the cost of inflation.

7.3. Contrasts in Return by Sector groupings

The Table below depicts how the general picture in terms of the indices is broken down when one looks more specifically at the Sectoral Grouping.

Schematic 13: Summary of Major Indices by Sectoral Grouping

Sector	TGP Index	TAC Index	TR Index	HE Index	Turnover Index	SV Index	Mkt Cap Index
CB	185%	206%	111%	256%	217%	280%	407%
FSI	188%	181%	193%	253%	169%	193%	271%
IM	191%	209%	210%	177%	129%	43%	58%
E&R	180%	187%	250%	91%	154%	92%	35%
Total	185%	196%	164%	166%	174%	150%	112%

Again, without going into the detail shown in the above schematic, it is apparent that:

- Annual executive pay (TGP and / or TAC) has in all sectors well exceeded the cost of inflation and either matched or exceeded the cost of debt.
- TR in the CB has been below the cost of debt, but has been between the cost of debt and the weighted cost of capital on the FSI and IM sectors and more or less at the weighted average cost of capital in the E&R sector.
- In contrast, earnings in the CB and FSI have been at the weighted average cost of capital, whilst the IM has been more or less at the cost of debt, and the E&R well below the cost of inflation.
- Only in the CB sector has turnover exceeded the cost of debt, with the FSI and E&R sectors languishing below the cost of debt and the IM well below the cost of inflation.
- Shareholder value has been above the weighted average cost of capital in the CB sector, just above the cost of debt in the FSI sector, and well, well below the cost of inflation in both IM and E&R sectors.



CB: Commercial, Trading and Technology

FSI: Financial, Property and Investment

IM: Industrial and Manufacturing

E&R: Mining and Resources, Construction

8. Pay for Performance

8.1. Introduction

Performance variable pay is the combination of annual cash incentives, deferred bonuses, and long-term (share-based) payments. The architecture and delivery mechanisms of performance variable pay were dealt with in considerable detail in previous reports and are not dealt with in this one.

Principally, performance variable pay can be distilled into two elements:

- Performance contingent pay, a portion that is expected and semi guaranteed, to accrue under most circumstances other than the worst case of under-performance; and
- Performance-driven pay, a portion that results only under circumstances of outperformance against targets set, or in comparison to peer groups.

In theory, out-performance should be handsomely rewarded, but under-performance should not be rewarded. However, this appears not to be the case in practice, and it is almost as if executives are entitled to expect a generous performance bonus even when one is not warranted by performance.

With the Single Figure concept gaining more exposure, it is performance variable pay, and its justifiability, rather than guaranteed pay which will receive increased scrutiny.

8.2. Pay Mix Standards

Pay mix can be defined as the targeted relationship between performance variable pay and guaranteed pay and within performance variable pay, the relationship between targeted short-term (annual) bonuses and the targeted / expected long-term (three years plus) accruals from long-term (share-based) incentives. In a

philosophical context, as guaranteed pay increases with the increasing size and complexity of the role we could expect:

- The more senior the role, the more total expected pay should be oriented towards performance variable pay (the targeted / expected value from short and long term incentive pay).
- The more senior the role, the more performance variable pay should be oriented towards pay for long-term sustainable performance rather than pay for short-term operational performance.

Deloitte South Africa has for a number of years offered a “house view” on pay mix, depicted in Appendix 3, based on its own consulting work, and its analysis over some ten years of the actual pay mixes disclosed in or interpreted from annual reports of JSE listed companies.

It is now a requirement for companies to disclose their policies on pay mix, minimum, target and maximum. Deloitte has reviewed the most recent remuneration reports of the top 100 JSE listed companies to ascertain what has been disclosed. In only 68% of the companies was the disclosure meaningful, but it was insightful to compare pay mix policy going forward rather than interpret it from actuals as in the past.



The table below compares the pay mix proportionality proffered previously by Deloitte with that now being disclosed by listed companies.

Schematic 14: Pay Mix Comparison

	Pay Mix Proportionality						Pay Mix Proportionality					
	Deloitte House View						As disclosed in Remuneration Policy					
	TGP%		STI%		LTI%		TGP%		STI%		LTI%	
	O/T	Max	O/T	Max	O/T	Max	O/T	Max	O/T	Max	O/T	Max
CEO	45	29	23	29	32	42	34	23	29	33	37	44
Top Executive	53	36	21	28	26	36	38	25	27	33	22	42
Executive / Prescribed Officer	62	46	19	27	19	27	40	26	24	29	36	45

On target proportionality	Max proportionality
---------------------------	---------------------

In the previous report, Deloitte commented that another year of analysis had confirmed its house view was still indicative of prevailing practice.

Now, however, current disclosures on pay mix percentages indicate that this is no longer the case and, whether or not the targeted or maximal performances are being achieved in recent years, company policies on pay mix are targeting a greater orientation towards performance variable pay.

To illustrate the point in general terms, whereas Deloitte has been advocating that guaranteed pay should represent some 40% to 50% of targeted pay and some 30% to 40% of maximum pay, generally disclosed policy would indicate a positioning in the market in which guaranteed pay should represent some 30% to 40% of targeted pay and some 25% of maximum pay.

This trend is new and may have resulted from the increased disclosure prompted by King IV, and increased shareholder demands and focus on rewarding performance in the challenging market. But what happens to actuals when the market and economic performance turn bullish?

Deloitte is not aware of any adverse shareholder comment or criticism on pay mix and yet with these policies in place, when the market turns and performances improve it is likely that the quantum of pay accruing to executives will further increase.

With on target pay mixes being more heavily leveraged towards variable pay for on-target performance together with guaranteed pay levels that already yield a fair and reasonable pay level as commented on in previous sections of this report, the potential for further

enhanced executive pay in the future is considerable.

8.3. Performance Variable Pay in the Last Three Years

In the previous report, we indicated for the full seven-year period, all Top 100 and second-tier 150 companies, both CEO and CFO positions, the incidence of annual incentive payments by size range.

Rather than repeat this exercise, Deloitte has looked at the last three years and computed an average for three years (in 2018 constant money terms) of the relationship between performance variable pay and total guaranteed pay. The tables below identify the relationship (on average over three years) for both the CEO and the FD positions, both overall and by size grouping.

Deloitte Grid Size categorisation as defined in Section 6.1**Schematic 15: The relationship between TGP and PVP (STI & LTI) accruals averaged over the last 3 years for CEOs**

	The relationship between TGP and PVP (STI & LTI) averaged over the last 3 years								
CEO	Incidence range / occurrence of PVP / TGP relationship.								
PVP/TGP Range	>300%	>250% <300%	>200% <250%	>150% <200%	>100% <150%	>50% <100%	>25% <50%	>10% <25%	< 10%
Large (56 cpy)*	10.7%	1.8%	0.0%	7.1%	21.4%	41.1%	10.7%	1.8%	5.4%
Medium (73 cpy)	6.8%	2.7%	2.7%	4.1%	19.2%	30.1%	19.2%	5.5%	9.6%
Small (114 cpy)	0.9%	0.0%	1.8%	0.0%	5.3%	19.3%	28.1%	11.4%	33.3%

*Includes Top Companies

Schematic 16: The relationship between TGP and PVP (STI & LTI) accruals averaged over the last 3 years for CFOs

	The relationship between TGP and PVP (STI & LTI) averaged over the last 3 years								
CFO / FD	Incidence range / occurrence of PVP / TGP relationship.								
PVP/TGP Range	>300%	>250% <300%	>200% <250%	>150% <200%	>100% <150%	>50% <100%	>25% <50%	>10% <25%	< 10%
Large (56 cpy)*	5.8%	0.0%	1.9%	7.7%	15.4%	42.3%	15.4%	3.8%	7.7%
Medium (73 cpy)	3.0%	1.5%	3.0%	7.5%	11.9%	38.8%	20.9%	9.0%	4.5%
Small (114 cpy)	0.0%	0.0%	1.7%	0.0%	1.7%	14.8%	24.3%	20.9%	36.5%

*Includes Top Companies

9. Shareholder Dialogue

The King IV™ Report on Corporate Governance for South Africa 2016 (King IV™), with the IODSA guidelines that inform its implementation, is now entirely in place, and companies are now required to conform.

A full account of and commentary on King IV™ was provided in the previous report and is not repeated. However, the previously identified shareholder concerns are repeated below.

9.1. Shareholder Concerns

The following summary attempts to identify the areas where shareholder concerns may lie, and companies should take care to address.

General shareholder concerns:

- General lack of disclosure.
- Overall increases in total remuneration without acceptable justification.
- Compensation arrangements that are too complex.
- Increases to base salary in excess of inflation.
- Base salary increases above the general increases in the company.
- The granting of increases where past performance has been weak.

Shareholder concerns with respect to performance variable pay:

- Performance targeting that does not support the achievement of long-term growth.
- Incentive arrangements that do not include an overall cap, or the absence of individual

- limits for the long-term and annual bonuses.
- 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 deferral, malus and clawback provisions.
- Increases in potential reward due to the introduction of deferral and clawback.
- Increasing the potential bonus pay-out and uncapped awards.
- 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 to the extent to which performance targets have been met and the resultant level of vesting.
 - Any provision for retesting.

Shareholder concerns with respect to annual cash incentives:

- Lack of a demonstrable link between performance and bonus pay-outs (and mainly when based on personal achievements when overall profit targets are not met):
 - Bonus targets that are not transparent.
 - Pay-outs not aligned with profit.
 - Lack of stretch in targets or insufficiently demanding performance targets.
- Non-disclosure of the extent to which performance targets were met in relation to bonuses paid and share awards that vest.

Shareholder Concerns with respect to long-term (share-based) incentives:

- 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 a median performance.
- Significant weighting and / or lack of transparency of non-financial measures.
- Recruitment arrangements, particularly when awards have no performance conditions.
- 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 which subsequently lapse due to performance targets not having been met.
- Option grants to NEDs.
- Note the following are encouraged:
 - Further retention of vested shares.
 - Malus and clawback arrangements.
 - Shareholding requirements of a minimum of 100% of TGP.

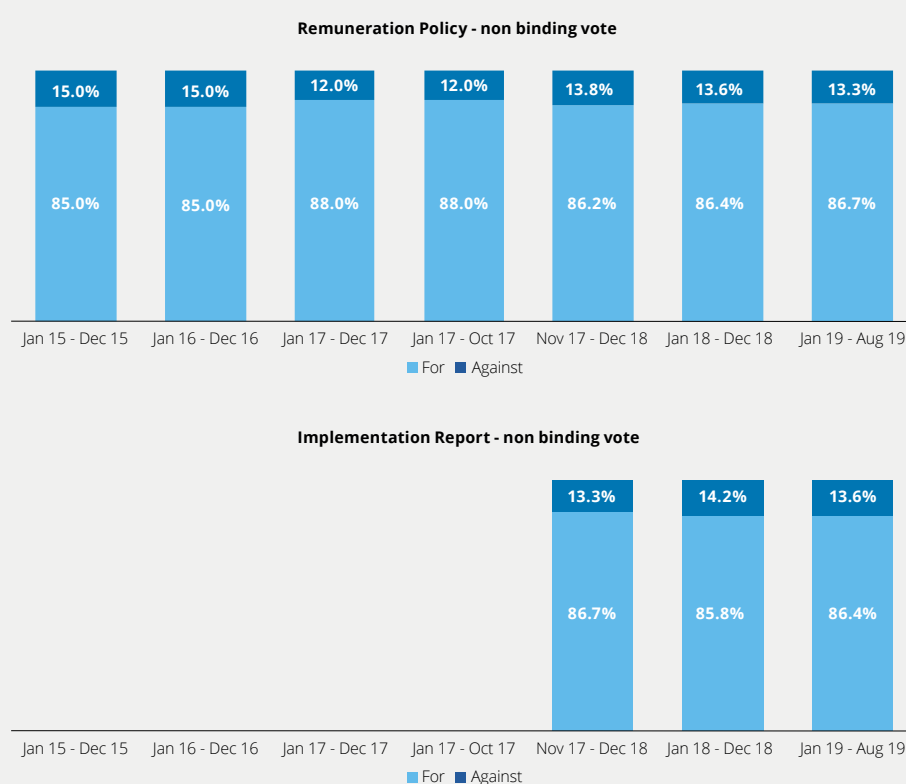
9.2. Shareholder Voting Trends

Following the adoption of King IV™, the JSE required all listed companies with a reporting date post-October 2017 to submit both a Remuneration Policy and an Implementation Report, which would be subjected to a non-binding vote by shareholders. Prior to October 2017 companies were only required to submit their Remuneration Report to be subjected to a non-binding vote. An analysis was undertaken of Remuneration Policy approvals (a non – binding vote of 75% or higher) for the following periods:

- Calendar years 2015 to 2017, prior to King IV™.
- The period from 1 January 2017 to 31 October 2017, just prior to the requirement to submit a King IV™ compliant Remuneration Report and Implementation Report.
- The period from November 2017 to December 2018, post the requirement to submit a King IV™ compliant Remuneration Policy and Implementation Report.
- The period Jan 2019 to August 2019.

Schematic 17: Voting on Remuneration Policy and Implementation Report

Source: Proxy Insight



Based on the analysis, it is clear that the adoption of King IV™ has not had a dramatic effect on the voting behaviour of shareholders around the approval of the Remuneration Policy. It is also interesting to note that shareholder approval of the Remuneration Report aligns with Implementation Report approval.

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 analysis, the Public Investment Corporation has registered the most significant opposition to the Remuneration Policy, and Implementation Report whilst Stanlib registered the

most significant support for both the Remuneration Policy and Implementation Report. At this point it is unclear what the primary reasons were for the Public Investment Corporation's opposition. It is also interesting that Old Mutual's voting aligned more closely to proxy advisor ISS, whilst Investec's voting aligned most closely with proxy advisor Glass Lewis.

Schematic 18: Voting behaviour of South Africa's largest institutional shareholders

Source: Proxy Insight

Date Period: 1 Nov 17 to 31 Dec 18

Implementation Report	For %	Against %	Abstain %	DNV %	ISS Match %	GL Match %
Public Investment Corporation	51.0%	49.0%	0.0%	0.0%	54.2%	57.8%
Investec Asset Management	84.8%	12.9%	2.3%	0.0%	66.3%	77.6%
Old Mutual South Africa	66.5%	33.5%	0.0%	0.0%	90.7%	69.9%
Stanlib Asset Management Ltd	73.3%	24.4%	2.2%	0.0%	63.3%	64.9%
Coronation Fund Managers	86.1%	13.9%	0.0%	0.0%	67.6%	75.5%
Allan Gray Proprietary Limited	74.6%	18.6%	6.8%	0.0%	51.2%	58.8%

Date Period: 1 Nov 17 to 31 Dec 18

Remuneration Policy	For %	Against %	Abstain %	DNV %	ISS Match %	GL Match %
Public Investment Corporation	54.3%	45.7%	0.0%	0.0%	65.7%	64.1%
Investec Asset Management	85.4%	9.3%	4.6%	0.0%	70.1%	78.7%
Old Mutual South Africa	67.7%	31.7%	0.0%	0.0%	88.6%	74.5%
Stanlib Asset Management Ltd	78.9%	14.0%	1.8%	0.0%	65.7%	69.4%
Coronation Fund Managers	80.1%	19.9%	0.0%	0.0%	68.7%	74.4%
Allan Gray Proprietary Limited	74.5%	20.2%	4.3%	0.0%	54.1%	62.7%

Date Period: 1 Jan 19 to 31 Aug 19

Implementation Report	For %	Against %	Abstain %	DNV %	ISS Match %	GL Match %
Public Investment Corporation	37.9%	62.1%	0.0%	0.0%	52.9%	52.4%
Investec Asset Management	81.2%	13.0%	5.8%	0.0%	71.8%	79.5%
Old Mutual South Africa	71.4%	28.6%	0.0%	0.0%	87.2%	69.2%
Stanlib Asset Management Ltd	66.7%	33.3%	0.0%	0.0%	60.0%	66.7%
Coronation Fund Managers	95.8%	4.2%	0.0%	0.0%	64.7%	80.0%
Allan Gray Proprietary Limited	92.9%	3.6%	3.6%	0.0%	82.4%	91.3%

Date Period: 1 Jan 19 to 31 Aug 19

Remuneration Policy	For %	Against %	Abstain %	DNV %	ISS Match %	GL Match %
Public Investment Corporation	37.0%	63.0%	0.0%	0.0%	37.5%	63.2%
Investec Asset Management	90.9%	7.6%	1.5%	0.0%	78.4%	86.0%
Old Mutual South Africa	69.8%	29.2%	0.0%	0.0%	93.3%	61.8%
Stanlib Asset Management Ltd	66.7%	33.3%	0.0%	0.0%	30.8%	71.4%
Coronation Fund Managers	96.8%	3.2%	0.0%	0.0%	80.0%	84.6%
Allan Gray Proprietary Limited	100.0%	0.0%	0.0%	0.0%	88.9%	83.3%

10. Towards a Single Figure Standard

10.1. The Rationale for a Single Figure Standard

With the recent spotlight placed on executive pay and its relation to the pay of lowerlevel employees, particularly of concern in South Africa, is the question increasingly being asked as to 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 (aggregate) 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, and only once the controversy is sparked, is there any attempt to explain or defend the full quantum in terms of its constituent elements.

Year on year Single Figure comparisons are now being made within and between companies, as the Implementation Reports of companies are reviewed and scrutinised by stakeholders.

The establishment of, and general support from stakeholders to, a Single Figure Standard approach could provide a framework against which stakeholders can recognise the acceptable parameters of overall executive pay and look to companies to adhere to them.

If a Single Figure Standard were to be adopted as a parameter within the bounds of which companies can differentiate their policy on pay mix, then:

- Total pay will be well understood by all stakeholders and can be appraised and managed in terms of a widely accepted Single Figure Standard.
- Companies can have the flexibility to position the pay mix within the Single Figure Standard.
- Stakeholders can evaluate the Policy as well the Implementation of executive pay within the framework of a Single Figure Standard.

10.2. Derivation of a Single Figure Standard

The Deloitte view is that “fair & reasonable” can be best established, not by any philosophical approach, but rather by taking a practical and informed view of the current situation and re-engineering a set of standards-based on a responsible positioning within prescribed norms.

The Single Figure Standard should be built up assembling the following components into an integrated whole:

- Total guaranteed pay (“TGP”) that reflects the median of the market, for different groupings by company sizes, as a base for the standard.

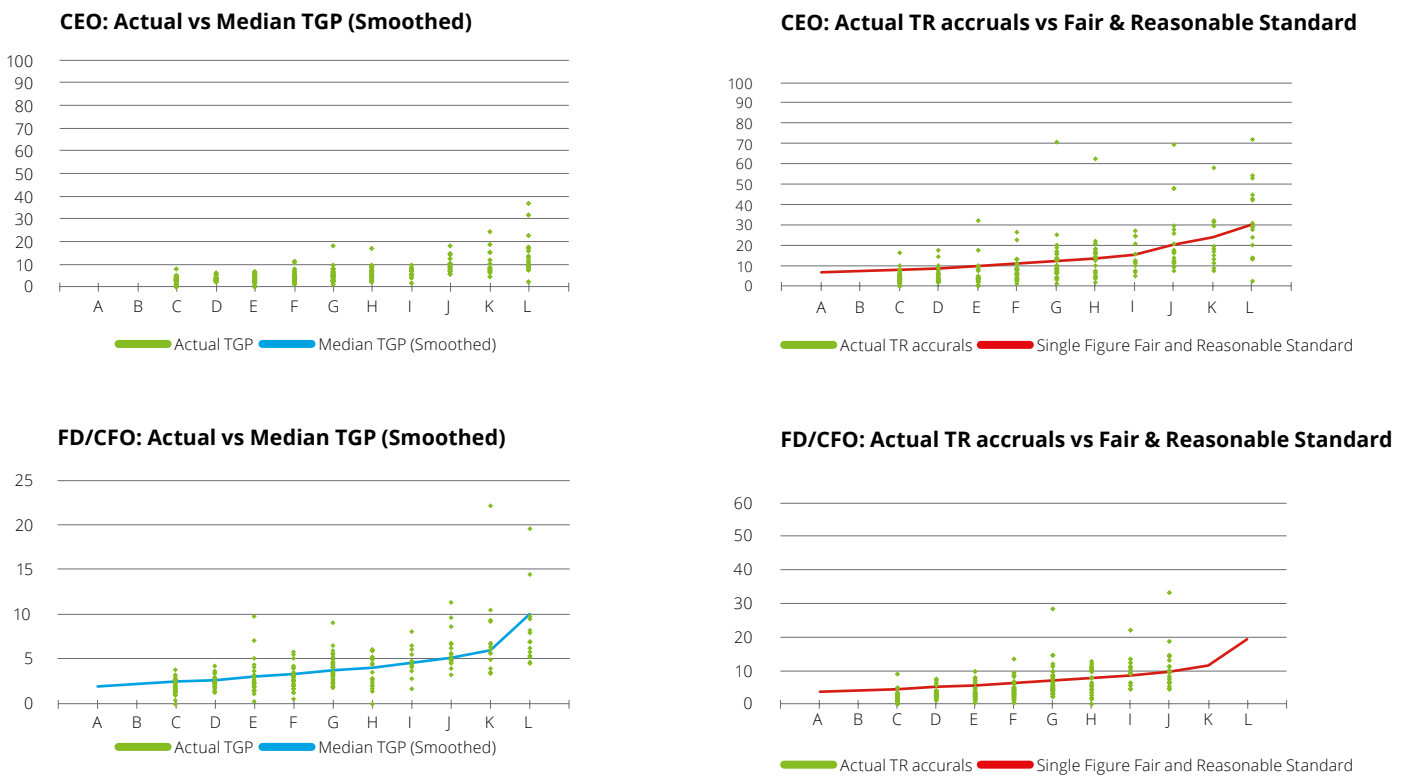
- Performance variable pay, with its two components of STI and LTI that reflect its house view on the responsible on-target mix in relation to TGP.

Deloitte advocates a more holistic approach to stakeholders evaluating total executive pay, rather than any micromanaging for conformity within its parts. The Single Figure should be the primary consideration in targeting or evaluating pay so that informed debate can be couched in terms of the holistic sum of all the components of pay.

Deloitte has undertaken a number of exercises to establish its own Single Figure Standards both in the light of the current market for executive pay and in terms of “fair & reasonable” “house view” on pay mix.

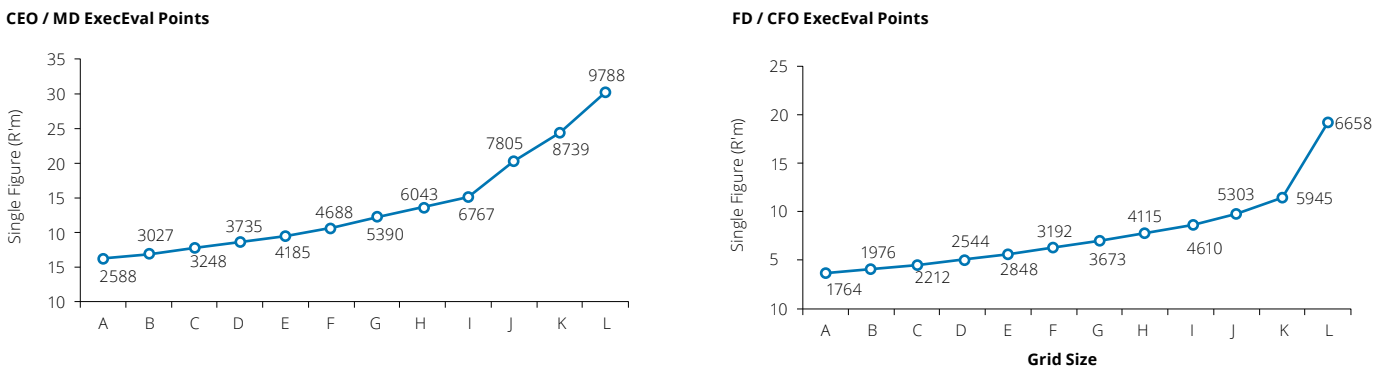
The derivations of the Single Figure Fair and Reasonable Standard for the CEO and FD / CFO positions are shown schematically below.

Schematic 19: Single Figure Fair and Reasonable Standard by Company Size (R'millions)



The application of the above-indicated methodology to the 2017 disclosure of executive remuneration in JSE listed companies results in the following Single Figure statistics by company Grid size.

Schematic 20: Single Figure compared to ExecEval Points by company grid size



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 2018/9 standards and should be recognised as such by anyone utilising them for any purpose.

As a result of the methodology used to derive them, they represent a responsible, and if anything, a conservative view of the current top executive pay market in South Africa.

It is not expected that companies will wish to religiously adhere to any Standard, or that in any one year there will be any correlation between the Standard and the actual pay. Much will depend, as always, on timing, on the performance of the individual, the business, the economy and the market.

However, one would expect that over a three year period there should be some form of correlation between:

- the Single Figure actuals versus the Standard.
- the company's return on capital in relation to its weighted average cost of capital.
- the company's total shareholder return and the cost of equity.

This report does not explicitly address this form of analysis, but there is evidence in Chapter 4 on the "Alignment of executive reward to company performance and shareholder value creation" that we are some way away from any such correlation between the Single Figure Standard, company performance and shareholder alignment.

The Execeleval™ points are normative scores for (respectively) the CEO / MD and the CFO / FD of a company falling into any one of the Grid sizes, A to L. The Single Figure Standard exercise has not been extended to M / N size companies, as the number of companies and their largely international footprints do not lend themselves to any meaningful Standard setting in the South African context. In establishing the Single Figure Standards, and in this full report in general, Deloitte has confined itself to analysing the two positions of CEO / MD and CFO / FD.

Other positions also feature, but their incidence is not so prevalent as to allow for meaningful analysis.

With the disclosure requirement now of not only Directors' pay, but also Prescribed Officers' there will be an opportunity in the future to provide a more granular analysis based on public domain information including the other positions. Additionally, methodologies such as Deloitte's Execeleval™ could allow Single Figure pay lines to be cascaded internally into an organisation, and across major subsidiaries within a large group.



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