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Deloitte Executive Compensation Report

Shareholder alignment, company performance and executive pay

August 2020

Contents

Preface

Welcome to our fourth executive compensation report. This report covers several topics, including multiple years' worth of executive remuneration disclosure and company performance data of the JSE Top 250 companies.

King IV™ and the requirements that it outlines for executive pay continues to stoke divergent views, even as firms have had a significant amount of time to digest the governance code.

The executive compensation debate has recently taken a dramatic turn with the arrival of the COVID-19 pandemic. COVID-19 is of significant concern to all stakeholders based on its immediate, and lasting impact, on society, the economy, businesses and employees.

At this juncture, AGM's are still taking place, and remuneration policies and practices are still being disclosed and analysed by stakeholders. Disclosures overall pertain to 2019, and the impact of COVID-19 could not have been predicted, let alone reported on.

We trust that this report will be useful in "benchmarking" current practice in executive compensation, while at the same time predicting and to a certain extent reporting on the developments in 2020.

We hope that this report becomes the template against which actual performances and rewards for 2020 (the first year under COVID-19) can be compared to those of pre COVID-19.

Implementation reports will contrast the company performance, executive reward characteristics pre COVID-19 and during / resulting from COVID-19.

Remuneration Policy disclosures should report on the immediate measures taken by companies, and the longer-term revised policies on executive compensation. The efficacy and acceptability of policy revision can be assessed by stakeholders next time round, and in the light then of a more informed view of the pandemic and its implications.

We aspire to offer a balanced overview of the recent past years to inform the debate on executive compensation in the light of events taking place this year.

As we endure our current circumstances and enter a very uncertain future, there is a demand to build an informed benchmark of the recent past. This benchmark should help all stakeholders in the executive remuneration debate, whether they be:

- Company executives who will recognise that their circumstances and rewards will be even more firmly under the spotlight.
- Consultants that take instruction from the company and their governance structures.
- Remuneration Committees who will have to re-imagine their remuneration policies to respond to COVID-19.
- Institutional shareholders whose role are overseeing and influencing both policy and practice:
  - From their own and clients' perspectives, and
  - In terms of King IV™, from a societal view.
- The media and other commentators who play an essential role in exposing the good, the bad and the ugly of executive pay.
- Government and regulators who will feel that executive compensation should be reined in and societal disparities addressed more systematically.

The result of this review focuses in the most part on the disclosure and governance linkages of executive pay. We provide a summary of current practice in the JSE listed companies and attempt to establish the broad linkages between shareholder value creation and company performance, in relation to executive pay over eight years.

Executive pay has been attracting intense media scrutiny both locally and abroad, with considerable focus on the debate around the growing inequality between those at the top of the organisation and the general workforce. The entrance and impact of COVID-19 will only exacerbate and bring more intensity to this debate. Foremost amongst the issues will be:

- King IV™ has engendered increased levels of dialogue between companies and their shareholders. This disclosure has primarily focused on the structure of remuneration policies and the quality of disclosure in implementation reports.
- Remuneration Committees will have to continue to focus on the target setting process to ensure targets are appropriately stretching and on the disclosure of these targets in relation to the pay-outs.
- The derivation of more straightforward, shareholder aligned, and societally oriented structures. This was always going to be the challenge for the future, and COVID-19 has accelerated this requirement.

We believe that the Single Figure metric, as required by King IV™, should be the basis on which all companies position themselves. This approach will allow for objective comparison while still ensuring flexibility in pay mix strategy.

We have seen increased disclosure around malus and clawback arrangements, which should address mal-performance and haul back executive pay where appropriate.

Leslie Yuill
Workforce Transformation Leader
Director
Deloitte Consulting (Pty) Ltd

1. Introduction

The last few years have continued to present 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, particularly 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.
- The demands placed on companies to conform to the principles and guidelines of King IV™ in the stressful situation created by COVID-19.
- The increased requirement for firms to do the "right thing" taking into consideration the broader socio-economic impact of COVID-19.

The disparity in levels of executive pay in relation to those of the 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. In a post COVID-19 environment, the societal issues will likely have a significant impact on the direction of executive pay.

Notwithstanding the above, most of this report confines itself to a qualitative and quantitative review of the nature and disclosure of executive compensation. We have also commented on the likely impact of COVID-19. However, at this stage, its effects and the actions of companies to address it are mostly unknown.

The report updates the findings of the previous report for the "Top 250" JSE listed companies, and the following issues are addressed:

- An analysis of pay and particularly performance variable pay in the context of company performance and shareholder value over the last eight years.
- The views and recent voting records of institutional shareholders in overseeing executive compensation.
- An analysis of guaranteed pay, performance variable pay and total annual pay and its growth over the last eight years with a full examination of its relationship to company size and sectoral orientation.
- A discussion and summary analysis around the debate, surfaced overseas and increasingly emerging here, around executive pay and shareholder alignment.
- The utilisation of a Single Figure approach to pay to assess pay differentials between companies and within companies.
- What firms, and in particular Remuneration Committees, should consider in their response to the current pandemic, and the likely impact and consequences to stakeholders given the variability of outcomes.

The analysis is based mainly on the information disclosed in the past Annual / Integrated Reports and financial accounts of companies in the JSE, as at end December 2019 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 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 employee communications
- Tax assistance, global tax efficient arrangements, tax guides

Contacts

If you would like further information on any of the areas covered in this report or assistance in interpreting and using this data, please do not hesitate to contact any of the names below:

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2. Headline Findings

The following headline findings arise from this report:

2.1. Alignment of Executive Reward to Company Performance and Shareholder Value Creation

- Executive pay in larger companies continues to track the index of shareholder value and top-line performance while still outstripping that of bottom-line performance.
- In smaller companies, there is evidence contrary to what one would expect. Many smaller companies are paying as much as, and often far more than much larger companies.
- Within these overall patterns, one sees considerable variations in performances by company size and by sector. It, however, appears that executive pay has been resilient, more than doubling over the period under review.

2.2. Executive Remuneration as Disclosed

- Generally:
  - The very large, internationally foot-printed, companies pay considerably more than their local counterparts do, and
  - Again, the larger local companies pay more than the second-tier companies.
- Amongst the mid-tier companies and descending into the lowest companies, there is an enormous “scatter” of pay. There is a weak link between executive pay and the size or the complexity of the company.
- If one looks at median pay by company size grouping, one does see a trend, however, the dispersion (“scatter”) of actuals either side of the median dispels the notion that companies are positioning themselves relative to the median.
- Increases in guaranteed pay have slowed over the last year. Increases are closer to the inflation rate, demonstrating an increasing constraint in the most visible, but not most impactful element of pay.
- The differential of the CEO pay above that of the CFO remains significant. It confirms that commentators should be wary of condemning all executive pay policies merely on the trigger of the very visible CEO pay.
- The inclusion of Prescribed Officers/ advisory (third tier) executives indicates a less significant differential.
- There do appear to be some instances where firms do not seem to be disclosing all remuneration. This could potentially relate to the definition of Prescribed Officers. In the case of large firms, it is hard to believe that there could only be 2-3 Executives/Prescribed Officers in the group.

2.3. Performance Variable Pay

- There are still only a few instances over an eight-year period where a CEO or CFO has not earned a bonus. Although the occurrence of share-based payments remains more sporadic, they are still a significant contributor to the total executive pay quantum.
- The dynamic of performance variable pay has changed somewhat with the onset of COVID-19. In the case of firms that have a mid-year annual reporting cycle, we have seen executives either giving up bonuses or not receiving one. A logical question to be posed to those firms that paid or awarded incentives just before the crisis started is:
  - Could they/should they be doing more in this unique environment, especially if they now benefit from aid or are laying employees off?
- The disclosure in Remuneration Reports on pay mix policy is still incomplete (albeit improving with the requirement for Single Figure reporting).
- In the larger companies, it appears that the pay mix for the top position(s) is at one-third (fixed pay) /two-thirds (variable pay) for target and as much as one-quarter/three-quarters for maximum performance.
- Generally, performance variable pay appears to be performance contingent pay, accruing under most circumstances other than the worst case of under-performance. This approach contrasts with performance-driven pay resulting from out-performance against targets set or in comparison to peer groups.

2.4. Shareholder Dialogue

- There are now many well-constructed and informative Remuneration Reports, and in general, the disclosures on policy are increasingly consistent with King IV™ guidelines.
- In several cases, the essential elements of executive pay practice are difficult to discern as there is now almost too much detail in the Remuneration Reports to consider.
- King IV™ stipulates that shareholders should engage with the companies that they are invested in on issues surrounding not only shareholder alignment but also corporate citizenship. Shareholders are increasingly engaging with Boards on the executive pay/ performance/value relationships.
- In terms of corporate citizenship, shareholders, regardless of their stance, are perhaps less equipped to address the issue, given the more obvious COVID-19 implications.

2.5. Fair and Reasonable – a Single Figure Standard?

- In our previous report, we advocated that the Single Figure required by King IV™ should not merely be a metric by which annual pay comparisons are made. Our view is that it should be utilised to:
  - Inform executive pay design,
  - Allow internal and external comparisons to pay, and
  - Inform the shareholder and societal debates around what is “fair and reasonable” in executive pay.
- This approach will allow companies some flexibility to differentiate their executive reward strategies, as they are encouraged to do so in all other business strategies. At the same time, however, their pay strategies should be “governed” by and be accountable to acceptable parameters of executive pay.
- The Single Figure standard could be a way by which all stakeholders could assess the full quantum of executive pay over time, from whatever perspective they view it, whether internally, within the sector and now (very topically currently as a result of COVID-19) in relation to societal scrutiny.

3. Executive Compensation 2020: Current Issues

In our previous report, we raised and commented on several qualitative issues facing executive compensation. These same issues are summarised but not repeated below. All of them will face intense scrutiny and debate in the next few years.

This year the commentary focuses on their relevance in the face of the volatility and bearishness caused by COVID-19.

3.1. The Entrance of COVID-19

COVID-19 has become the major issue confronting the world and its impact, in one way or another, will be long-lasting. Much will depend on how the pandemic develops, is countered and how we recover from it. Currently, we all are concerned about combating the short to medium-term implications, while at the same time contemplating what the longer-term consequences might be.

In the context of executive compensation, there is already evidence that companies are making short-term adjustments to executive pay, on the basis that the economy will eventually recover. The only unknown is whether or not the "recovery" will be a "V style scenario" or a "U style scenario" one in which the base of the "V" is prolonged.

Some commentators are, however predicting that we are heading in the long-term for an "L style scenario", and that life, society and capitalism will change fundamentally.

The decisions companies make about executive compensation in the short-term are unlikely to influence the "scenarios" but assist the companies in surviving whatever scenario unfolds. Companies should adopt a scenario plan around their remuneration policies. Policies should address several potential consequences in terms of local and global outcomes.

3.2. "Skin in the Game"

Shareholders generally hold that top executives should have "skin in the game" to demonstrate their alignment with shareholders with share ownership.

We noted that this supposedly simple concept could be subject to nuances and open to interpretation depending on the nature of the company/sector, the stance of shareholders, and the stage of the company lifecycle.

Whatever the Rationale for "skin in the game" is, if the measure of "skin the game" is the value of shares that are held, whether unencumbered or restricted, COVID-19 will likely have diminished their value. Should the volatility and bearishness caused by COVID-19 translate into a long-term, fundamental bear market, the effects could be far-reaching.

Many companies have formal or informal policies as to the targeted/required value of shares in relation to guaranteed pay. Any sustained fall in share prices will likely challenge these policies.

The hold that restricted share ownership has on executives will diminish, and the alignment that unencumbered share ownership offers will reduce.

Companies may be tempted to offer more shares due to their decreased value in relation to pay. Policies will likely vary depending on the circumstances and the nature of the executive role in the post COVID-19 situation. These could include:

- Professional executives continuing to act as custodians of shareholder value in "blue chip" value investments which have been dented but not destroyed by the COVID-19 impact.
- Entrepreneurial executives spearheading leveraged shareholder "private equity" investments to take advantage of new post COVID-19 opportunities.
- Turnaround troubleshooters picking up the pieces of COVID-19 "near-death value destruction" and charged with resurrecting the floundering company and bringing it back to life.

3.3. Is the System Broken?

Stakeholders are increasingly alleging that executive compensation is too complicated and needs to be:

- Simplified
- Subject to greater regulation
- More societally orientated

In our previous report, we commented on the difficulties in promoting, implementing and policing pay policies for executives to satisfy the needs of shareholders, employees, society and regulators. This often has to be done in a complicated, volatile, ill-informed and sometimes hostile environment.

The main contributory factors have been identified in previous reports. They are summarised and commented on in the context of COVID-19 below:

- Increased disclosure has resulted in there being more information but less insight into the complexity of executive compensation.

- Societal as much as shareholder demands are placing Remuneration Committees in a challenging and invidious position.
- Advice to companies is reliant on surveys and ill-conceived benchmarks in some cases.
- The visibility of top executive pay to the executives themselves has enhanced the demands of executives to be well-positioned vis a vis their peers.

The experience of COVID-19 will likely prompt a re-evaluation of executive pay, in terms of quantum and structure, and there will inevitably be increased demands for more simplicity. Much will depend on the progress of COVID-19 as much as its lasting compact.

There is evidence already that companies are voluntarily cutting executive pay as a gesture rather than for any permanent recalibration in relation to the pay of their employees.

In chapter 9, we comment on the Single Figure Standard that we advocate, and how it progresses from the lowest-paid workers through to the top executives of the top companies that employ these workers.

A curve is shown that brings under the spotlight the increasing disparity as one proceeds along the curve from lowest to highest-paid. Countries have adopted policies of late to "flatten the curve" with respect to COVID-19. It may be that when the COVID-19 nightmare is over, these same countries may take the concept of "flattening the curve" on board and apply it to executive pay.

3.4. What is Fair and Reasonable?

In the light of the comment on "flattening the curve", the debate currently on what is "fair and reasonable" in executive pay comes to the fore.

We noted in previous reports that the answer to the question would depend on whether the issue is posed to:

- Well-paid executives, who already earn well more than enough to provide for their family now and into the future and quite possibly the following generations and are now striving to repair the damage caused by the impact of COVID-19.
- The average person working hard to provide for his family and frustrated at being unable to advance his position or his pay, but thankful that he still has a job and perhaps appreciating (or not) that his job security is dependent on executive retention and performance.
- The union representative striving to address the needs of his constituency for a fair wage, but mindful (or not) that the continued employment of the union members is dependent on executive retention and performance.
- The large number of semi-employed individuals living on or about the bread line who barely survived the economic impact of Covd19.
- The unemployed (both young and old) who barely get by from day to day supporting themselves and their extended families and took a heavy toll and barely survived COVID-19.
- The politicians often deeply concerned about the disparities between the privileged and underprivileged and unemployed. However, 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 only just to sell column inches, but to expose perversity, corruption, and also the disparity between the "haves" and the "haves not".

Most stakeholders will concede that executives should be paid well for their services to shareholders, to business and the economy, and society as a whole. However, what is "fair and reasonable" in the context of executive pay and more importantly, how should it be determined?

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 executive pay. Single Figure comparisons are now made within and between companies.

If the Single Figure standard approach were to provide a framework against which stakeholders can recognise the acceptable parameters of overall executive pay, and look to companies to adhere to them, what then would be "fair and reasonable"?

3.5. How Much is Enough?

We noted in a previous report that "executive leadership" is generally regarded as a scarce commodity and one for which a premium should be paid. Those that have gleaned this commodity through education, experience, innate skills, or a combination of all of these, generally feel that they should be appropriately rewarded. 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.

Post COVID-19 it will not be surprising if there is a general call amongst stakeholders that "enough is enough".

4. Executive Compensation – 2019 Disclosure

4.1. Introduction

The analysis that follows is based on a complete survey of disclosed pay amongst JSE listed companies and has confirmed several of the trends identified in our previous reports.

4.2. Annual Pay Increases

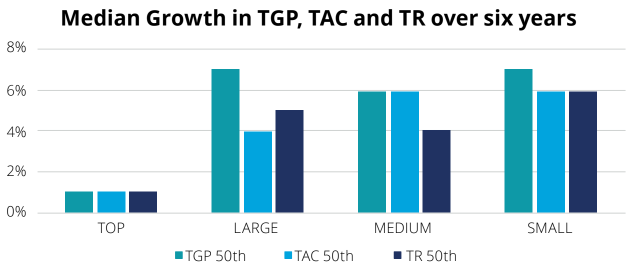
The tables below depict the growth in both TGP, TAC and TR over the last six years and the previous three years, respectively.

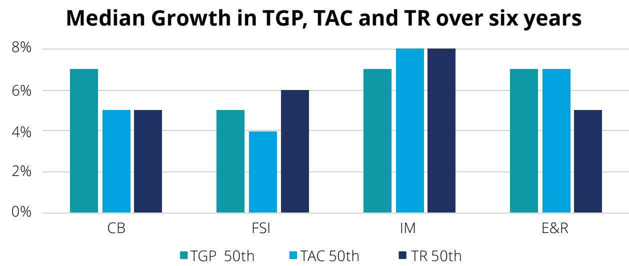
TGP: Total guaranteed pay = Base salary plus allowances & company medical and / or retirement funding.

TAC: Total annual compensation = TGP plus cash bonus.

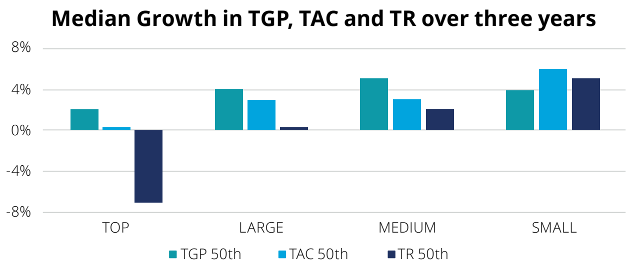
TR: Total remuneration = TAC plus vested value in year from any long-term (share based) incentive.

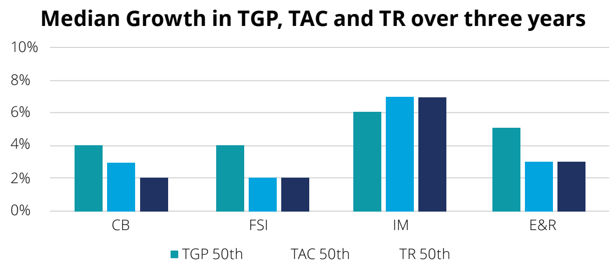
Schematic 1: Growth in TGP, TAC and TR over six years
6 Year Compound Annual Growth Rate (CAGR)





Schematic 2: Growth in TGP, TAC and TR over three years
3 Year Compound Annual Growth Rate (CAGR)





In previous reports, we commented on the occurrence of above-inflation growth over five years, and over three years.

However, current growth over six years and the most recent three-year growth is more in line with inflation. This indicates that in the last two to three years, as one might expect, growth in executive pay is more attuned to the market as well as economic and governance pressures.

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.

However, the question should be asked:

Why do executives get a similar increase to rank and file staff in relative terms, when 5 – 6% of a large number produces a vastly different outcome to a 5 – 6% increase on a small amount?

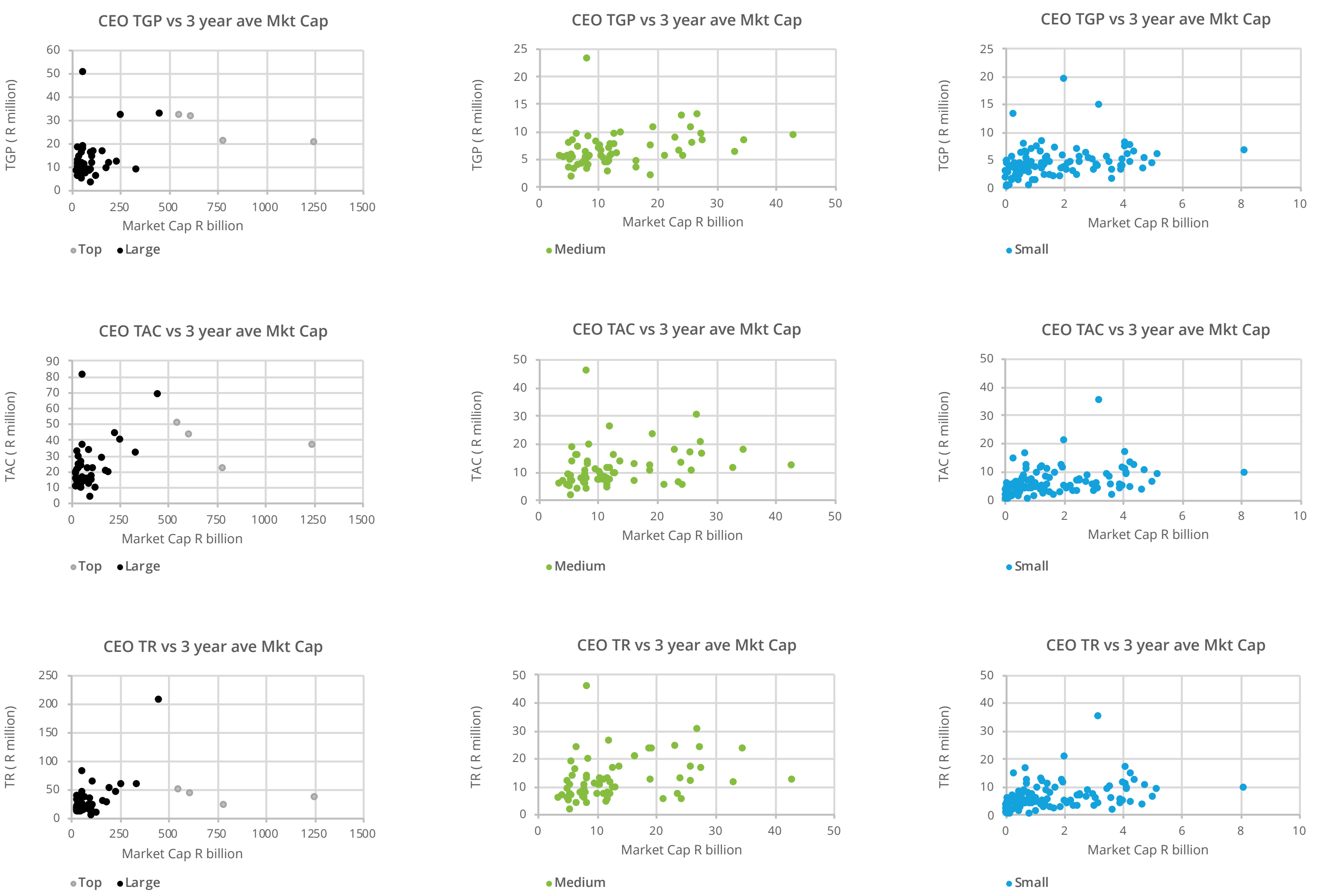
Often, we have seen very little differentiation of relative increases between executive officers and general staff.

4.3. The Scatter of Remuneration Levels

Most commentators support a view that executive pay should reflect the size and complexity of the executive role. As this report comments on the CEO, CFO and Prescribed Officer 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 role.

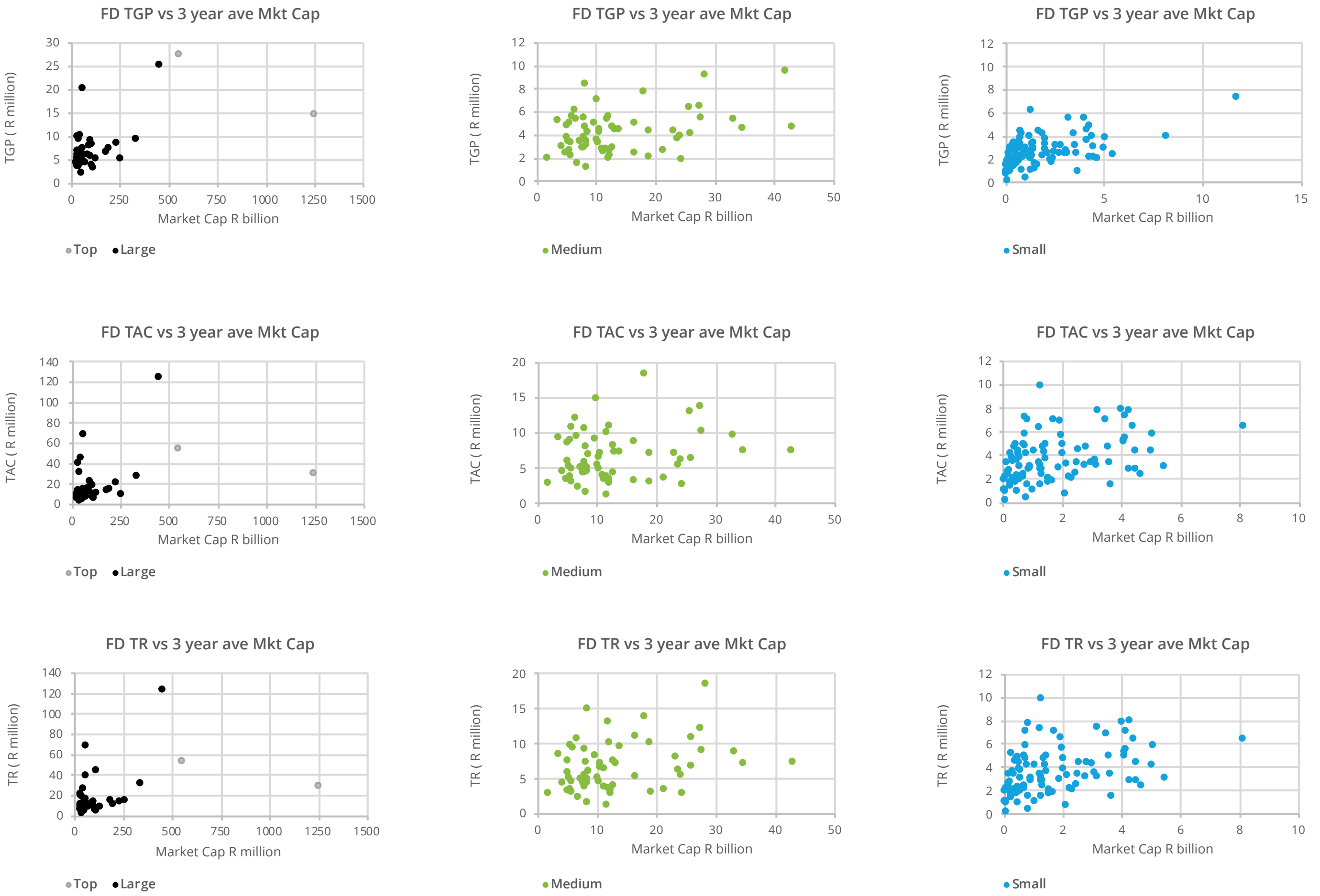
Below are a series of scatter diagrams that show the CEO, CFO and Prescribed Officer remuneration (TGP, TAC and TR) by company size (three-year average of market capitalisation R billions).

Schematic 3: CEO remuneration "scatter" by company size



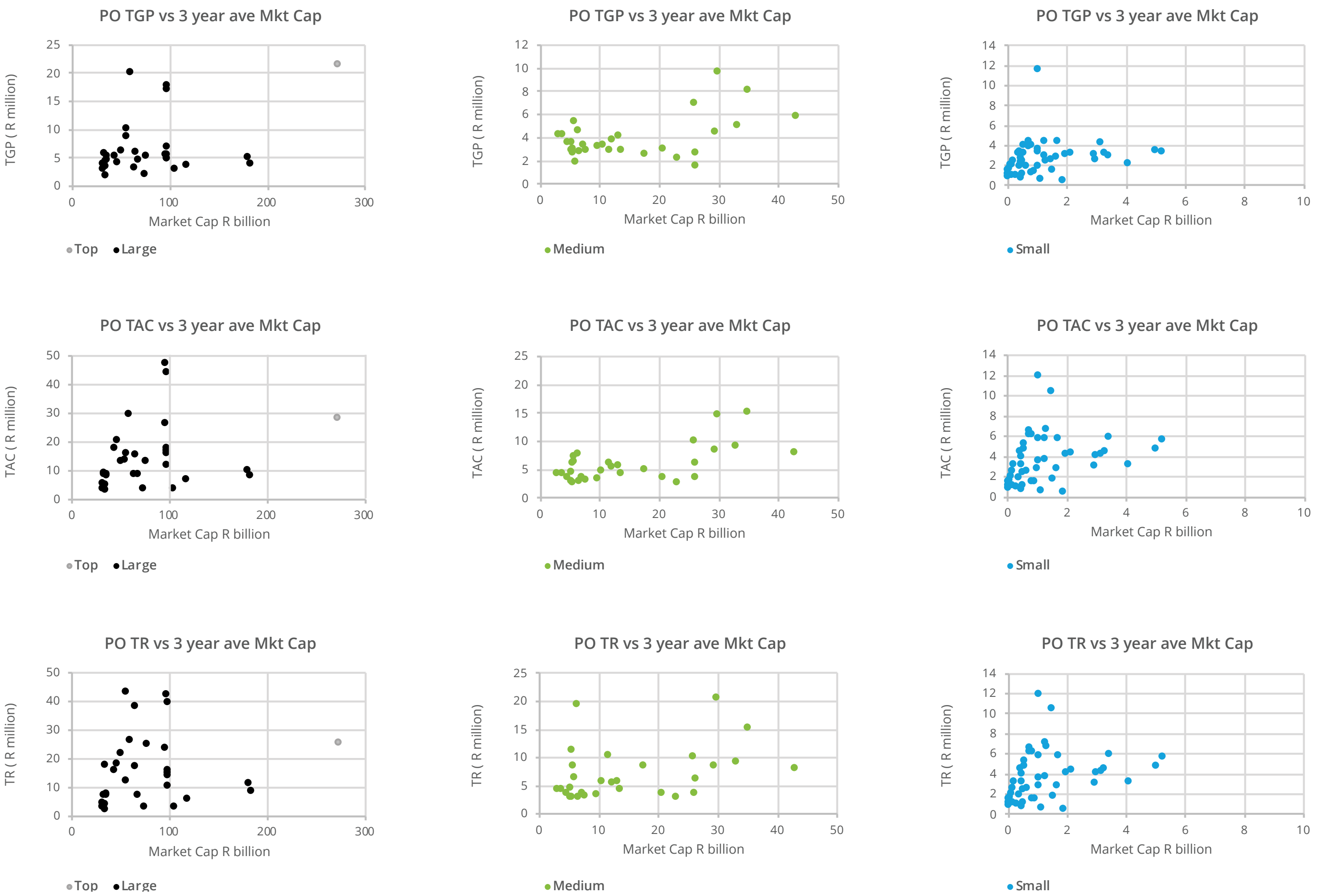
TGP: Total guaranteed pay = Base salary plus allowances and company medical and/or retirement funding.
TAC: Total annual compensation = TGP plus cash bonus.
TR: Total remuneration = TAC plus accrual value in year from any long-term (share based) incentive.

Schematic 4: CFO/FD remuneration “scatter” by company size



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.

Schematic 5: Prescribed Officer remuneration "scatter" by company size



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.

The above depictions for both CEO, CFO and Prescribed Officer show a significant dispersion of remuneration levels and pose the question as to how firms are using benchmarking of executive pay to assist in setting and delivering pay.

Although the benchmarks that follow below appear to indicate a broad correlation between company size and executive pay, this is not borne out by the above depiction, whether one looks at TGP, TAC or TR.

The depictions are for all companies and indicate that many smaller companies are paying as much as and often far more than much larger companies.

So what evidence is there that company size influences top executive pay? Furthermore, how can we be sure that compensation is performance-driven?

5. Executive Compensation by Size and Sector

5.1. Company Sizing for Benchmarking Purposes

The scatter diagrams in the previous chapter plot executive pay by average market capitalisation over three years. Although this is a reasonable surrogate for company size and to a certain extent can accommodate the ebb and flow of company size due to market forces, there are other determinants of company size that should be considered.

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

As much as market capitalisation can be utilised in listed companies, it is only one determinant of size and financial factors such a turnover, total assets and profitability that should be used in conjunction with human capital metrics such as the number of employees and total employment costs.

Schematic 6: Deloitte grid for determining company size

- Small
- Medium
- Large
- Top

THE 2019 / 2020 GRID - FOR THE PURPOSES OF COMPANY / BUSINESS UNIT GRID SIZING

DETERMINING GRID SIZE FOR EXECUTIVE COMPENSATION BENCHMARKING

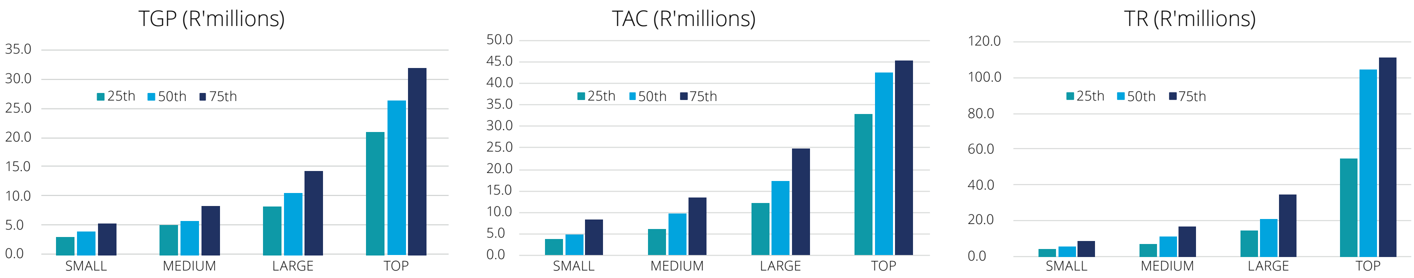
Annual Cost of Employment (R million)

TYPICAL MARKET CAPITALISATION R MILLIONS (LISTED COMPANIES)	TYPICAL TURNOVER (R MILLIONS)	TYPICAL TOTAL ASSETS (R MILLION)	TYPICAL ANNUAL PRE-TAX PROFITS (R MILLION)														
			Basic Salary & Wage Bill R million	Up to R20	R20 to R40	R40 to R80	R80 to R160	R160 to R320	R320 to R640	R640 to R1 280	R1 280 to R2 560	R2 560 to R5 120	R5 120 to R10 240	R10 240 to R20 480	R20 480 to R40 960	R40 960 to R81 920	Over R81 920
			No of Staff (Actual Numbers)	Up to 100	100 to 200	200 to 400	400 to 800	800 to 1 600	1 600 to 3 200	3 200 to 6 400	6 400 to 12 800	12 800 to 25 600	25 600 to 51 200	51 200 to 102 400	102 400 to 204 800	204 800 to 409 600	Over R409 600
			Total cost of Employment (TCOE) R million	Up to R29	R29 to R57	R57 to R114	R114 to R229	R229 to R457	R457 to R914	R914 to R1 829	R1 829 to R3 657	R3 657 to R7 314	R7 314 to R14 629	R14 629 to R29 257	R29 257 to R58 514	R58 514 to R117 029	Over R117 029
	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 to 375	250 to 750	5 to 10	B	B	C	D	E	F	G	H	I	J	K	L	M	N
250 to 500	375 to 750	750 to 1 500	10 to 50	C	C	C	D	E	F	G	H	I	J	K	L	M	N
500 to 1 250	750 to 1 500	1 500 to 3 000	50 to 150	D	D	D	D	E	F	G	H	I	J	K	L	M	N
1 250 to 2 500	1 500 to 3 000	3 000 to 6 000	150 to 360	E	E	E	E	E	F	G	H	I	J	K	L	M	N
2 500 to 5 000	3 000 to 5 000	6 000 to 10 000	360 to 620	F	F	F	F	F	F	G	H	I	J	K	L	M	N
5 000 to 10 000	5 000 to 8 000	10 000 to 16 000	620 to 1 000	G	G	G	G	G	G	G	H	I	J	K	L	M	N
10 000 to 20 000	8 000 to 15 000	16 000 to 30 000	1 000 to 2 000	H	H	H	H	H	H	H	H	I	J	K	L	M	N
20 000 to 30 000	15 000 to 25 000	30 000 to 70 000	2 000 to 4 000	I	I	I	I	I	I	I	I	I	J	K	L	M	N
30 000 to 60 000	25 000 to 45 000	70 000 to 150 000	4 000 to 6 000	J	J	J	J	J	J	J	J	J	J	K	L	M	N
60 000 to 120 000	45 000 to 90 000	150 000 to 300 000	6 000 to 15 000	K	K	K	K	K	K	K	K	K	K	K	L	M	N
120 000 to 500 000	90 000 to 460 000	300 000 to 600 000	15 000 to 30 000	L	L	L	L	L	L	L	L	L	L	L	L	M	N
500 000 to 1 000 000	460 000 to 1 000 000	600 000 to 1 000 000	30 000 to 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

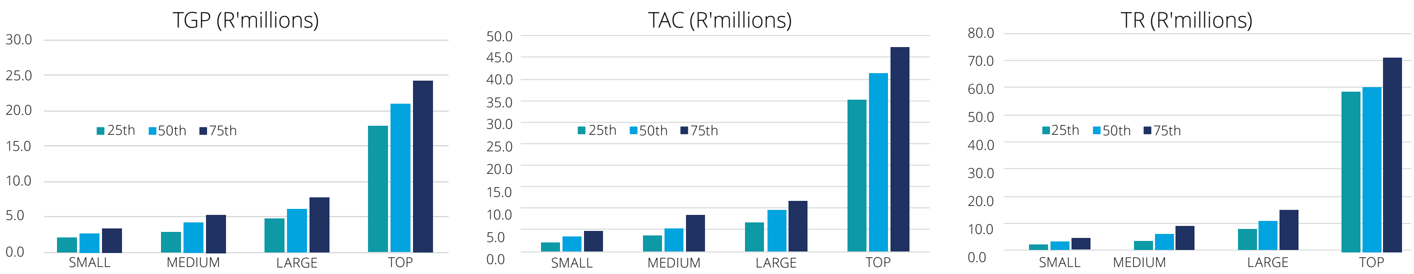
5.2. Remuneration Benchmark Levels by Company Size

The graphs below illustrate 2019 disclosed TGP, TAC and TR statistics for the full complement of JSE listed companies, broken down into four company size groupings as detailed in 5.1.

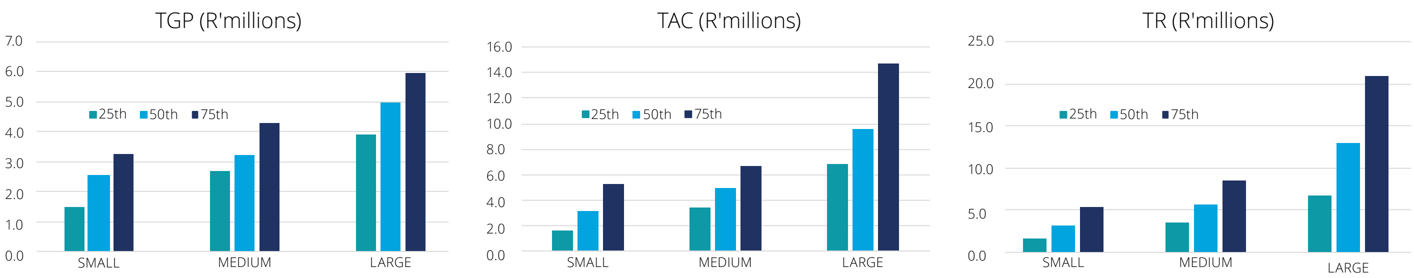
Schematic 7: CEO remuneration percentiles by company size



Schematic 8: CFO/FD remuneration percentiles by company size



Schematic 9: Prescribed Officer remuneration percentiles by company size

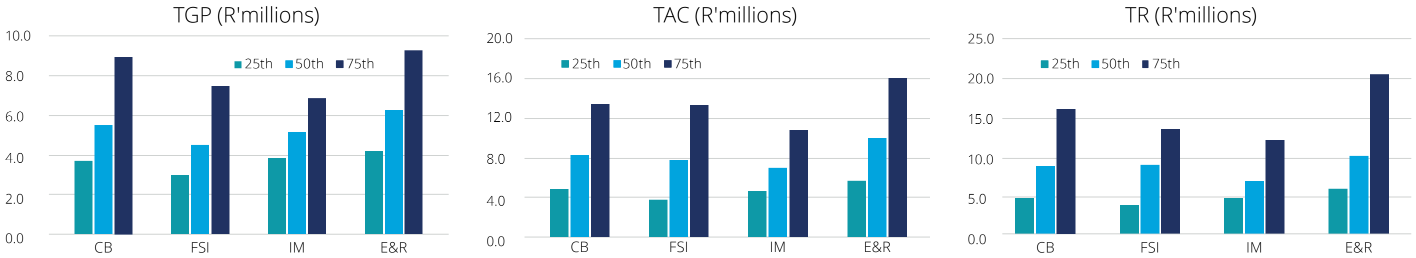


When one reviews in the above schematics, one might be persuaded that there is conformity to be found in the use of benchmarking to position executive pay. Of note, however, is that the interquartile range is significant in relation to the median in all cases. This further confirms the scatter diagrams commented on in the previous chapter.

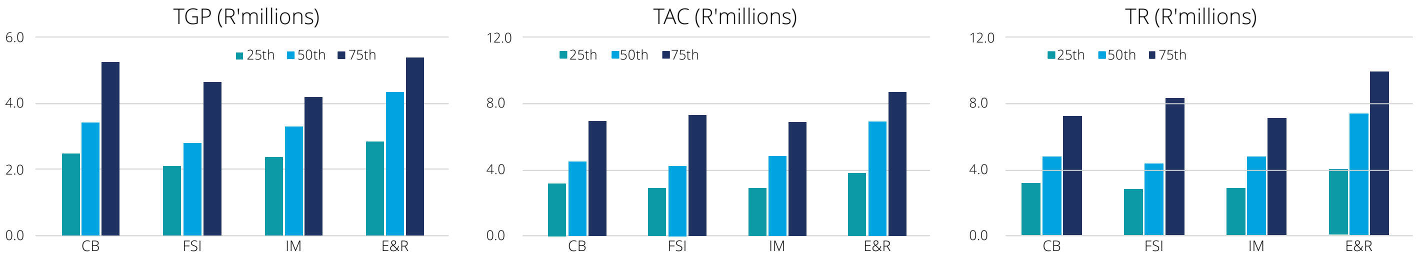
5.3 Remuneration Benchmark Levels by Sector Grouping

The graphs below illustrate 2019 disclosed TGP, TAC and TR statistics for the full complement of JSE listed companies, broken down into four sector groupings.

Schematic 10: CEO remuneration percentiles by sector grouping

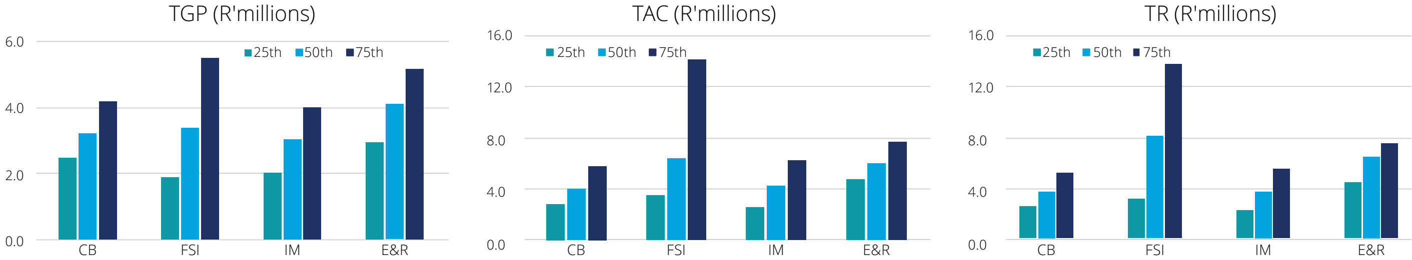


Schematic 11: CFO/FD remuneration percentiles by sector grouping



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 12: Prescribed Officer remuneration percentiles by sector grouping



If one looks at the sectoral analysis of executive pay, it appears that there is a degree of conformity across the sectors, especially for the top two executive roles. In contrast to previous years' analysis, the IM sector is no longer behind the FSI and CB sectors. Again, the interquartile range is significant in each sector, confirming the scatter diagrams depicted in the previous chapter.

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

However, referring to the scatter diagrams in the previous chapter. 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 only weak evidence that company size influences top executive pay, or that statistics such as median and quartiles are used effectively 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, in the sector composition.

Also, the TR figures, and to a certain extent, TAC figures will be influenced year on year by exogenous factors like the market and the state of the economy, which affect sectors differently at any time.

6. Performance / Value Alignment

In previous reports, we contrasted 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 should receive a commensurate reward for their efforts. One would expect to see some correlation between value, performance and pay.

Our analysis considers the indexed growth in these three factors over several years.

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

Although the detailed analysis spans eight years over 250 listed companies covering the two top executive positions in each company, the intention is to provide an overall trend rather than any detailed specifics.

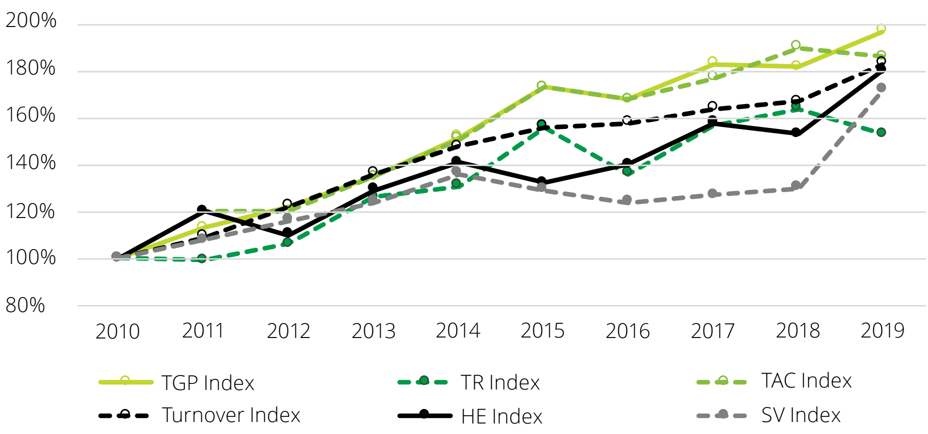
6.1. Overall Contrasts in Return

The schematic below depicts the tracking of the indices visually over time against the pay of the top two executives.

Schematic 13: Indexed pay of top two executives in relation to company performance and shareholder returns

Index	TGP	TAC	TR	HE	Turnover	SV
Overall	197%	186%	153%	180%	183%	172%

Pay vs Performance



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.

Turnover: Revenue achieved from operations.

The growth in annual pay (TGP and 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 sections identify the extent to which the general (composite) trend is made up both by company size based and sectoral performances.

6.2. Contrasts in Return by Company Size

The table below depicts the indices broken down by company size grouping in terms of the Deloitte company sizing grid as detailed in 5.1.

Schematic 14: Summary of indices by company size

Size	TGP Index	TAC Index	TR Index	HE Index	Turnover Index	SV Index
TOP	151%	183%	183%	195%	208%	412%
LARGE	206%	180%	130%	193%	183%	197%
MEDIUM	192%	179%	189%	150%	182%	142%
SMALL	190%	205%	200%	40%	188%	32%
TOTAL EXCLUDING TOP	**197%**	**186%**	**153%**	**180%**	**183%**	**172%**
TOTAL	**195%**	**186%**	**154%**	**184%**	**186%**	**203%**

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

- Annual executive pay (TGP and TAC) has, in all size categories well exceeded or matched the cost of inflation and either matched or well exceeded the cost of debt.
- Only TR in large companies has failed to match the cost of inflation.
- In contrast, earnings from all companies only marginally exceeded the cost of debt, with the mid-tier companies failing to exceed the cost of debt and inflation, 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.
- In the case of shareholder value, the contrast in size and performance is stark. Only the very largest companies (top) deliver higher than the cost of equity, the mid-tier companies only delivering below the cost of debt, and the smaller companies even failing to perform above the cost of inflation.

6.3. Contrasts in Return by Sector

The table below depicts the indices broken down by sector.

Schematic 15: Summary of indices by sector

Sector	TGP Index	TAC Index	TR Index	HE Index	Turnover Index	SV Index
CB	183%	186%	92%	266%	227%	313%
FSI	216%	186%	224%	257%	154%	275%
IM	207%	208%	210%	152%	150%	143%
E&R	191%	186%	249%	140%	180%	133%
TOTAL EXCLUDING TOP	**197%**	**186%**	**153%**	**180%**	**183%**	**172%**
TOTAL	**195%**	**186%**	**154%**	**184%**	**186%**	**203%**

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.

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

- Annual executive pay (TGP and TAC) has in all sectors well exceeded the cost of inflation and either matched or exceeded the cost of debt.
- In FSI and IM, TR has been between the cost of debt and the weighted cost of capital. In the E&R sector, TR is at the weighted average cost of capital.
- In contrast, earnings in CB and FSI have been at or slightly above the weighted average cost of capital, while IM and E&R have been 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 cost of equity in the C. sector, above the weighted cost of capital in the FSI sector, and well, well below the cost of inflation in both IM and E&R sectors.

It is also important to note, that when one excludes the top firms from the analysis, TGP and TAC exceed earnings, turnover and shareholder value on average. The question must be asked – are firms truly differentiating with respect to pay for performance, and how are firms aligning this appropriately?

7. Performance Variable Pay

7.1. Introduction

Performance variable pay is the combination of annual cash incentives, deferred bonuses, and long–term (share or cash) payments. The architecture and delivery mechanisms of performance variable pay were dealt with in considerable detail in previous reports and are excluded in this one. Refer to Appendix 2 for a schematic of typical short and long-term variable pay architectures.

Typically, 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
- **Performance-driven pay.** A portion that results only under circumstances of out-performance against targets, or in comparison to peer groups.

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

With the Single Figure concept gaining greater exposure, it is performance variable pay, and its justifiability, rather than guaranteed pay upon which the spotlight will fall.

7.2. Pay Mix Standards

Pay mix is the targeted relationship between performance variable pay and guaranteed pay. In the case of performance variable pay, it is the relationship between targeted short-term (annual) bonuses and the targeted/expected long-term (three years plus) accruals from long-term incentives.

From a philosophical context:

- The more senior the role, the more pay should be oriented towards performance variable pay (the targeted/expected value of short-and long-term incentive pay); and
- 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.

It is now a requirement for companies to disclose their policies on pay mix from a minimum, target and maximum perspective. Based on our most recent review of Remuneration Reports of the top 100 JSE listed companies, only 68% of disclosures were meaningful enough to infer a pay mix.

The table below shows the pay mixes of the top JSE 100 listed companies.

Schematic 16: Pay mix comparisons

	Pay Mix Proportionality					
	As disclosed in Remuneration Policy					
	TGP%		STI%		LTI%	
	O/T	Max	O/T	Max	O/T	Max
CEO	34%	23%	29%	33%	37%	44%
Top executive	38%	25%	27%	33%	35%	42%
Prescribed Officer	40%	26%	24%	29%	36%	45%

On target proportionality | Max proportionality

Current disclosures on pay mix percentages indicate that companies are targeting a greater orientation towards performance variable pay than they did in the past.

This trend is new and may have resulted from the increased disclosure required by King IV™ and increased shareholder demands and focus on rewarding performance in the challenging market.

A key consideration is what happens to actuals when the market and economic performance turn bullish?

On the flip side, when the market turns, and performances improve, the quantum of pay accruing to executives will further increase if stretching performance targets and hurdles are not managed fastidiously.

7.3. Performance Variable Pay over the last Three Years

In our previous report, we analysed the incidence of annual incentive payments by company size over seven years for the CEO and CFO positions.

Rather than repeat this exercise, we have analysed the last three years and computed an average of three years (in 2019 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 the CEO, CFO and Prescribed Officer roles.

Schematic 17: The CEO relationship between PVP (STI&LTI) and TGP averaged over the last three years.

	The relationship between PVP(STI&LTI) and TGP 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	17.3%	9.6%	1.9%	9.6%	26.9%	23.1%	7.7%	3.8%	0.0%
Medium	21.9%	1.4%	6.8%	12.3%	34.2%	19.2%	4.1%	0.0%	0.0%
Small	13.5%	4.0%	3.2%	15.1%	46.0%	18.3%	0.0%	0.0%	0.0%

Schematic 18: The CFO relationship between PVP (STI&LTI) and TGP averaged over the last three years.

	The relationship between PVP(STI&LTI) and TGP averaged over the last 3 years								
CFO	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	22.4%	8.2%	2.0%	14.3%	22.4%	28.6%	2.0%	0.0%	0.0%
Medium	19.2%	5.5%	11.0%	23.3%	28.8%	12.3%	0.0%	0.0%	0.0%
Small	12.9%	10.5%	16.9%	29.8%	28.2%	1.6%	0.0%	0.0%	0.0%

Schematic 19: The Prescribed Officer relationship between PVP (STI&LTI) and TGP averaged over the last three years.

	The relationship between PVP(STI&LTI) and TGP averaged over the last 3 years								
PO	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	12,0%	4,0%	12,0%	12,0%	20,0%	8,0%	8,0%	12,0%	12,0%
Medium	8,7%	4,3%	4,3%	17,4%	4,3%	34,8%	13,0%	4,3%	8,7%
Small	0,0%	0,0%	0,0%	0,0%	0,0%	20,6%	26,5%	29,4%	23,5%

8. Shareholder Dialogue

8.1. Shareholder Concerns

The following summary attempts to identify the areas where shareholder concerns may lie and what 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 TGP above 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 not including an overall cap, or the absence of individual limits for 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 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 on the extent to which performance targets have been met and the resultant level of vesting; and
  - 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 median performance.
- Significant weighting towards and 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 Non-Executive Directors.
- Note the following are encouraged:
  - Further retention of vested shares.
  - Malus and clawback arrangements.
  - Shareholding requirements of a minimum of 100% of TGP.

8.2. 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.

Before 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:

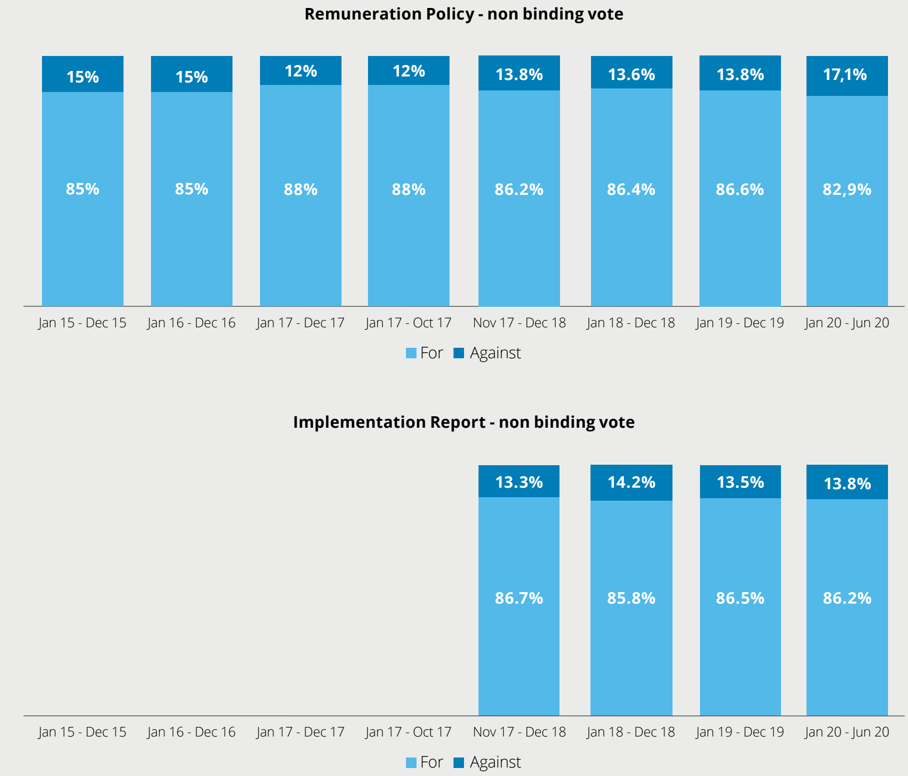
- Financial year 2015 for the period from 1 January 2015 to 31 December 2015.
- Financial year 2016 for the period from 1 January 2016 to 31 December 2016.
- Financial year 2017 for the period from 1 January 2017 to 31 October 2017. This is the period before the requirement to submit a King IV™ compliant Remuneration Report and Implementation Report.
- Financial year 2017/2018 for the period from 1 November 2017 to 31 December 2018. This is the period post the requirement to submit a King IV™ compliant Remuneration Policy and Implementation Report.
- Financial year 2019 for the period from 1 January 2019 to 31 December 2019.
- Financial year to date 2020 for the period from 1 January 2020 to 30 June 2020.

Based on the analysis, the adoption of King IV™ has not had a dramatic effect on the voting behaviour of shareholders around the approval of the Remuneration Policy up until the end of 2019. For the first six months of 2020, there has been a 24% increase in Remuneration Policies that have been voted down by shareholders. It is also interesting to note that shareholder approval of the Remuneration Report aligns with Implementation Report approval up until the end of 2019. For the first six months of 2020, the support of Implementation Reports remains mostly unchanged from previous years.

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 has registered the most significant opposition to the Remuneration Policy and Implementation Report. In contrast, Coronation Fund Managers expressed 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 Institutional Shareholder Services (ISS). In contrast, Coronation Fund Managers' voting aligned most closely with proxy advisor Glass Lewis.

Schematic 20: Voting on Remuneration Policy and Implementation Report

Source: Proxy Insight



Schematic 21: Voting behaviour of large South African 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%
Ninety One	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%
Ninety One	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 1 Jun 20

Implementation Report	For %	Against %	Abstain %	DNV %	ISS Match %	GL Match %
Public Investment Corporation	42,9%	57,1%	0,0%	0,0%	58,7%	53,9%
Ninety One	80,3%	15,6%	4,1%	0,0%	74,1%	72,0%
Old Mutual South Africa	70,6%	28,2%	0,0%	0,0%	88,1%	69,4%
Stanlib Asset Management Ltd	62,5%	37,5%	0,0%	0,0%	63,6%	64,3%
Coronation Fund Managers	84,7%	12,7%	0,8%	0,0%	59,5%	75,3%
Allan Gray Proprietary Limited	79,7%	11,9%	6,8%	0,0%	68,8%	74,5%

Date Period: 1 Jan 19 to 1 Jun 20

Remuneration Policy	For %	Against %	Abstain %	DNV %	ISS Match %	GL Match %
Public Investment Corporation	45,7%	54,3%	0,0%	0,0%	54,3%	59,0%
Ninety One	86,7%	12,0%	1,3%	0,0%	78,6%	84,3%
Old Mutual South Africa	71,7%	27,4%	0,0%	0,0%	90,5%	72,8%
Stanlib Asset Management Ltd	68,4%	31,6%	0,0%	0,0%	30,8%	75,0%
Coronation Fund Managers	85,9%	12,1%	0,7%	0,0%	74,5%	79,1%
Allan Gray Proprietary Limited	84,3%	11,2%	1,1%	0,0%	70,0%	76,8%

8.3. Shareholder and Proxy Advisor's Views on COVID-19

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, all of which offer different questions and issues when it links to executive compensation.

Despite the complexity around this, proxy advisory firms ISS and Glass Lewis have issued clear guidelines on how they will evaluate executive compensation and governance thereon in this fluid environment and firms should assess these together with concerns raised by institutional shareholders to ensure they deliver the best possible outcome:

- Glass Lewis has been quite clear in their principles around the outcomes they expect to see as a result of the pandemic. Citing a recent publication, "alignment is key". That is a high level of correlation between executive experience and those of the shareholders and the firm's employees. They expect to see executives waiving potential salary increases and reducing bonuses for the forthcoming financial year, particularly where the firm has had to cut dividends and/or reduce workforce pay or instigate headcount reductions. Those firms that take early and proactive steps to address any misalignment will most likely be supported.
- ISS has been descriptive in its guidance. They will not support changes to any inflight awards that cover multiple periods (Long - term Incentives). This is not a new stance. ISS has been opposed to any such changes for quite some time with exceptions being looked at on a case by case with a clear rationale and discretion being paramount to garner any support. Furthermore, existing ISS policies are prescriptive around repricing any "out of the money" options, and that a market deterioration is not an acceptable reason for companies to reprice options, pandemics included. In terms of short-term plans, ISS will require clear, detailed rationale as to why firms should adjust metrics and targets and the circumstances that led to these changes. In summation, ISS has been quite clear – their voting guidelines remain primarily unchanged. One can expect that they will require Boards to think proactively around the application of these and the impact it may have on any expected support.
- We have also seen shareholders stress that it is crucial that firms have the right executives in place to navigate through the crisis and that Board's support executives and provide guidance around acceptable outcomes and treatment of employees, shareholders, suppliers and customers, in effect mirroring the general guidance given by the significant proxy advisors such as Glass Lewis who expect executives to share the pain felt by employees and shareholders.
- Some activist shareholders have been more direct, specific and vocal in their recommendations going as far as demanding that executives share the pain and continue to do so by putting others (employees and shareholders) first until the ultimate effects of the pandemic have played out. This may extend many months rather than the cursory three to four months that some executives have taken pay cuts. Boards that do not do those as mentioned earlier could expect a backlash from these activist shareholders should they not display restraint.

9. Towards a Single Figure Standard?

9.1. The Rationale for a Single Figure standard

With the spotlight on executive pay and its relation to the pay 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 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.

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 and companies can differentiate their policy on pay mix, then:

- All stakeholders will understand total pay. It 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.

9.2. Developing a Single Figure standard

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

The Single Figure standard should be built up with the following components into an integrated whole:

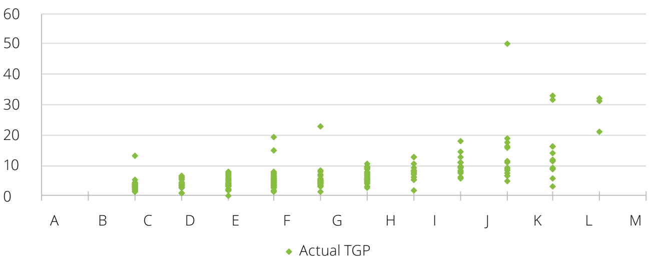
- Total guaranteed pay ("TGP") that reflects the median of the market, for different company size groupings to set the base; and
- Performance variable pay ("PVP"), with its two components of the ACI and LTI that reflect current market practice regarding on-target mix in relation to TGP.

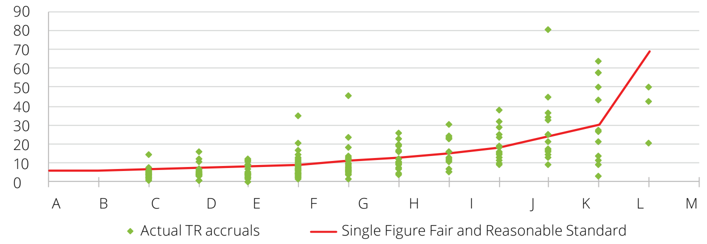
We advocate a more holistic approach to stakeholders when evaluating total executive pay, rather than any micromanaging for conformity within its parts which often leads to a perverse result. The Single Figure should be the primary consideration in targeting or evaluating pay so that informed debate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

We have attempted to establish a Single Figure standard considering the current market for executive pay and in terms of "fair and reasonable" market practice on pay mix.

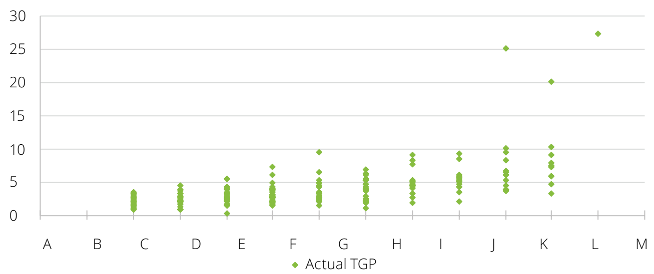
The derivations of a Single Figure "Fair and Reasonable" standard for the CEO, CFO and Prescribed Officer roles by company size are shown schematically below.

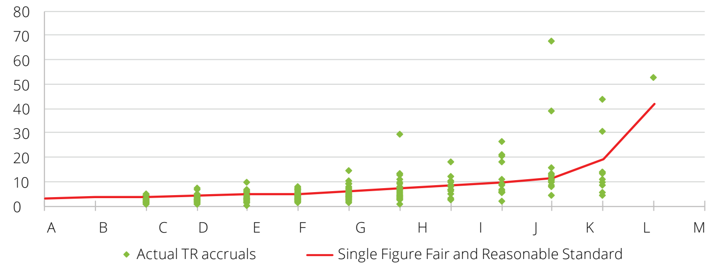
Schematic 22: CEO TGP and Single Figure standard by company size (Rm)



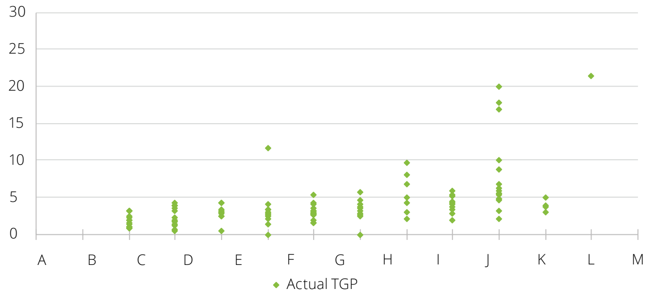


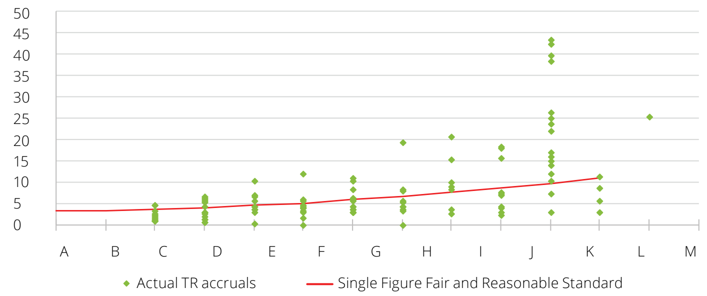
Schematic 23: CFO TGP and Single Figure standard by company size (Rm)





Schematic 24: Prescribed Officer TGP and Single Figure standard by company size (Rm)





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 2019 standards and should be recognised as such by anyone utilising them for any purpose.

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

However, one would expect that over an extended period, there should be some form of correlation between:

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

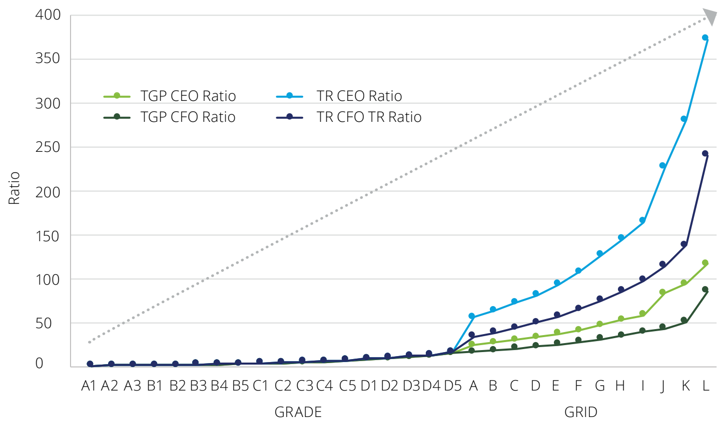
This report does not address this form of analysis. Still, there is some evidence in Chapter 3 on the "Alignment of executive reward to company performance and shareholder value creation" that we are some way away from any such correlation between the Single Figure standard, company performance and shareholder alignment.

9.3. Flattening the Curve

The phrase "flattening the curve" is currently used in relation to COVID-19 and the management of the pandemic. One of the significant issues that were under debate until COVID-19 appeared, and will gain eminence post the pandemic, is the "flattening" of the curve that exists between the lowest-paid workers in organisations and the current levels of executive pay. There is considerable debate about what should or could be done about it.

We have graphed 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 Prescribed Officer). This is to illustrate the disparity in pay and to identify that it is not just a debate around exorbitant or "obscene" executive pay.

Schematic 25: Pay curve from general worker to CEO



The executive levels are spaced out further to illustrate the gradient as executive pay is taken into the realms of increasing company size. The curves are based on 2019 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 is of the view 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.

Societal concerns about unemployment, underemployment, and underpayment in relation to executive pay are real. However, it needs to be put into a perspective when one considers that:

- The deemed "obscenity" of top executive pay is much more of a progression of pay through the ranks of employment than it is the greed of executives for TGP.
- Shareholders expect top executives to deliver on shareholder value and are prepared to pay handsomely when performance is achieved. This is evidenced by the sharp gradient seen in the chart above for TR compared to TGP.
- 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.

Considering the above, we are of the view that unwarranted payment to executives where there is a lack of performance, should be identified and punished. Bonuses should not be the de facto norm, only when actual performance accrues. Reining in normative executive pay that is warranted for performance is not the answer to society's real concerns.

10. Executive Compensation under COVID-19

10.1. Background Implications of COVID-19

COVID-19 is presenting unprecedented disruption and uncertainty for global business as countries struggle to get it under control. At this stage, containment is the primary focus, followed by a future that is hard to predict and almost impossible to plan for.

The extent of the economic fallout and the shape of the recovery is uncertain at this stage. Potential recovery scenarios for countries and individual companies could include:

- **V-shaped:** Sharp, but brief period of economic decline with a clearly defined trough, followed by a robust recovery.
- **U-shaped:** Longer than a V-shaped decline, has a less defined trough. Growth could be depressed for several quarters.
- **L-shaped:** Severe downturn with no return to trend line growth for many years.

As companies contest and hopefully survive the employment, financial and economic implications of COVID-19, they will need to fundamentally address their strategies, policies and practices for an as yet unpredictable future.

10.2. Remuneration committees under COVID-19

The Institute of Directors of South Africa ("IODSA") has recently published a guidance paper entitled Responsible Leadership in responding to COVID-19. The paper states:

"The priorities of the country are changing to respond to address the pandemic, its social impact and the related consequences of managing the crisis. These changes will create significant cultural shifts in terms of what is considered appropriate, socially responsible and supportive of a new economy post COVID-19."

While this advice addresses the broader business and workforce context, it is common cause amongst stakeholders that Remuneration Committees are to debate the impact of business performance on reward across the organisation, with a focus on executive pay policies.

The current turmoil has put billions of Rands of market capitalisation at risk. It has negatively impacted the flow of dividends, which in turn has had an impact on shareholder returns. Views have been expressed by market commentators, shareholders and proxy advisors that the loss experienced by employees and shareholders, should also be shouldered by executives. Remuneration committees have to carefully balance the needs of several stakeholders to assure that they arrive at a fair and balanced result for all stakeholders.

10.3. Remuneration Policy under COVID-19

In its guidance paper, the IODSA states:

"Now is the time for governing bodies to engage with foresight and apply seasoned judgement. With every crisis comes an opportunity to reinvent, rescale and reposition."

"As the COVID-19 crisis stretches South Africans, their communities and businesses to the limit, governing bodies need to be responsive and responsible in ensuring that good governance principles remain at the core of their thoughts, decisions and actions."

The degree of impact will vary by company and sector. Remuneration Committees will, nevertheless, have to consider the effects of COVID-19 in the conception, disclosure and implementation of executive reward policies. Decisions taken by the committee have to be appropriate in the context of the wider business and workforce. We have noted the following short -term adjustments to remuneration policy and practice that have been disclosed or contemplated by South African companies:

- **Affordability and workforce impact –** some companies have undertaken to operate a reduced policy under guaranteed and variable pay elements. In some cases, the approach is consistent across the organisation, while in others, executives are expected to shoulder the most significant reductions in percentage terms.
- **Waiver/deferral of earned bonuses –** several companies are considering or implementing the waiver or payment of earned cash bonuses in shares to support short-term liquidity.
- **Waiver/delay in share-based award grants –** several companies are considering or implementing the waiver or delay in the grant of share-based awards. In addition to this, where permitted, companies could also consider smaller awards of restricted shares that may offer a more straightforward approach during a period of market volatility.

As the year progresses, there will be heightened scrutiny around Remuneration Committee decisions, mainly where judgement and discernment have been employed. Any discretion that has been used must ensure that pay outcomes are aligned with the workforce, investors and broader stakeholder experience. Key factors to consider are:

- Mitigating steps that have been taken to limit the financial impact on the business.
- The use of any positive discretion is likely to be very contentious from a shareholder perspective, and robust explanation of any decision would be required.

- Shareholder experience in relation to employee experience.
- Previous applications of negative discretion.
- Treatment of other employees in relation to executives.

In terms of any executive reward strategy, it is generally recognised that pay levels and structures should be designed and delivered as follows:

- TGP (salary plus benefits) at a level to attract and retain key executive talent. Most companies will likely recognise that their survival and eventual recovery are dependent on the retention of sound leadership. A balance will have to be struck between the retention of key talent and financial sustainability of the company.
- ACIs are to drive short term operational/financial performance. It is likely that the targets, in most cases, will not be met, other than those associated with sustainability measures. As a consequence, in the current year, the bonus should be modest. It may also be waived by some executives/companies as a gesture to stakeholders in "sharing the pain."
- LTIs are to engender shareholder alignment and long-term sustainable performance. Much will depend on the timing of awards and the vesting and performance criteria of past awards. There will be considerable debate and scrutiny about any awards made this year for future vesting.

Any TGP cuts and the payments of ACIs will be open to scrutiny, but the scrutiny of share plan architecture, awards and vesting will be the area potentially of most contention.

Many share plans vesting during the year will have reduced in value, but, perversely, some will still provide significant value to participants, not withstanding low share prices and a lack of financial performance. This is because full value shares do not lose ALL their value and many share plan performance criteria are relative rather than absolute. Going forward, companies should ensure that they have the mechanisms in place to use discretion to reduce or adjust future outcomes under plan documentation to avoid unintended consequences.

10.4. TGP (Guaranteed Pay) under COVID-19

Emerging practice indicates the one or other or a combination of the following strategies is currently being employed:

- Freezing executive salary increases for a period of 6 to 12 months.
- Implementing voluntary executive pay cuts (in the range of 15% to 30%) for the duration of the COVID-19 crisis.
- Deferring a portion of TGP into restricted shares of equivalent value.
- Consider freezing the retirement funding portion of the salary for a fixed period subject to fund rules.

These are being motivated as a gesture of solidarity and, as one commentator puts it, "practising altruism in the form of cutting top executives' basic pay to avoid mass retrenchments."

These pay cuts are being made in the main by companies to be seen as taking the situation seriously and showing to employees and society that companies and their top executives empathise with the plight of their employees.

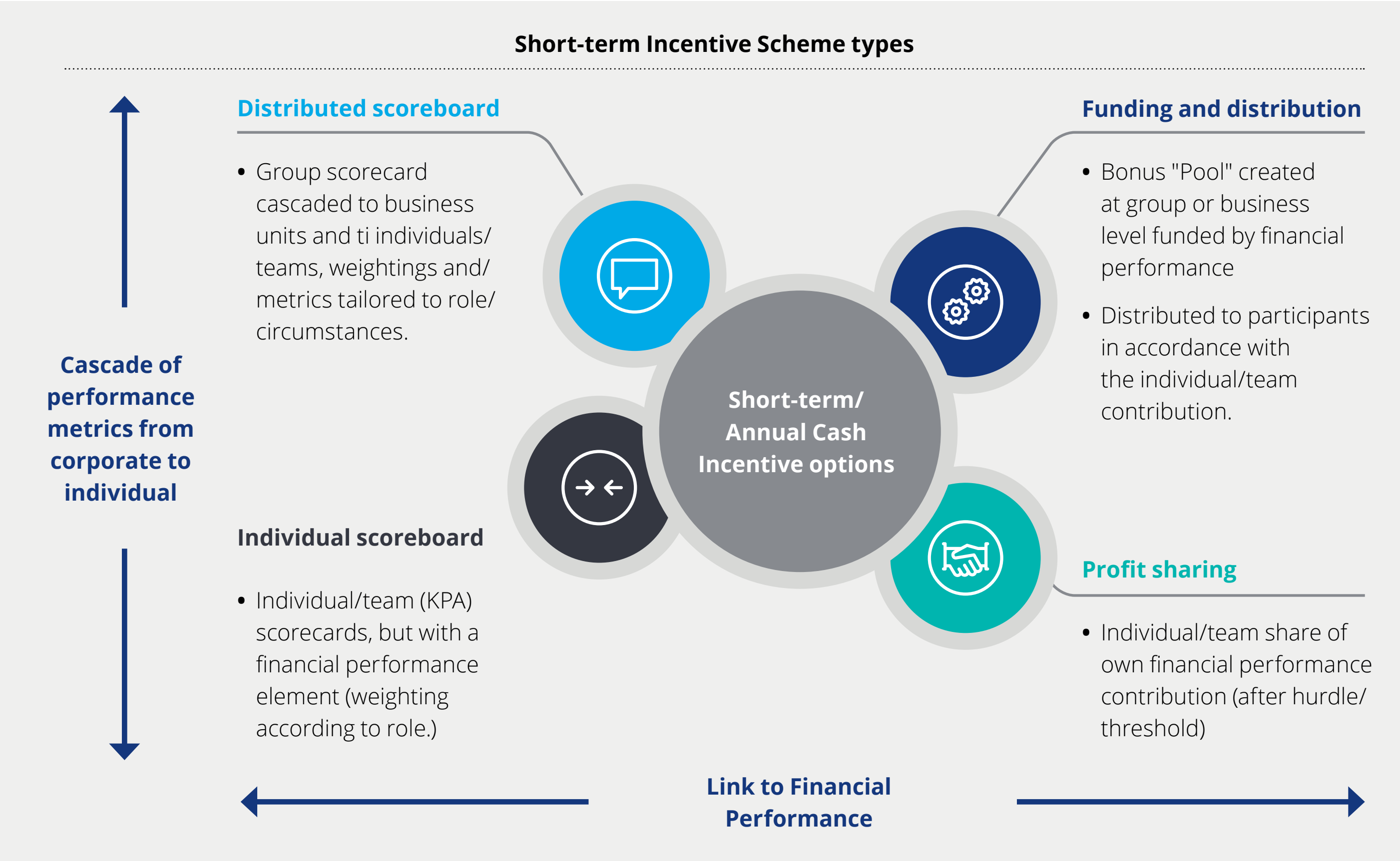
10.5. ACIs (Annual Cash Incentives) under COVID-19

Executive pay in South Africa comprises both TGP and PVP. TGP typically makes up around 25%-50% of an executive's pay packet, while the remaining 50%-75% is targeted variable pay linked to performance.

The most immediate and direct element of PVP is the ACI, and we expect that this element will receive considerable attention under COVID-19.

ACI designs for executives are varied, but four common architectures are seen in practice. These are detailed below.

Schematic 26: Short-term/Annual cash incentive architectures



ACIs should reward a combination of both business and individual performance. There are many designs in place, some of which lend themselves to COVID-19 motivated adjustments and others which will inevitably "flounder" without modification.

In ACIs, business performance is generally measured in terms of one, to a maximum of five, performance indicators, most likely to be financial in nature, but increasingly with non-financial elements being factored in.

Individual performance is usually assessed from a weighted ("balanced") scorecard of key performance areas. The performance management framework generally informs the selection of these.

The more financial, rather than scorecard oriented an ACI is, the more it is likely that the potential bonuses under COVID-19 will be negatively influenced. It will also be harder to set financial targets for the uncertain certain economic future that lies ahead.

Currently, in South Africa, most executive annual bonuses have a substantial component based on targeted company financial performance metrics, but in most cases now there is also an element tied to company sustainability targets (ESG) and/ or individual KPI's.

If one considers the current year, in companies in which financial targets predominate over scorecards, it is unlikely that there will be significant bonuses as targets and/or thresholds will not be met. Only the Remuneration Committee application of discretion or its retrospective recalibration of targets will obviate against this.

In contrast, in those companies in which scorecards addressing sustainability or individual measure, there is a good chance that reasonable bonuses might be paid, as many of the non-financial targets may have been met.

If one considers the selection and targeting of metrics for the following year, in companies where financial targets predominate over scorecards, there will likely be some agonising over the choice of both metrics and targets, given the lack of certainty of the future. The Remuneration Committees' selections and calibrations will be based on predictions of the coming year's financial and economic conditions. Targets may be set in relative rather than absolute terms. Still, there is no doubt that the spotlight of all stakeholders will fall on the decisions made, both at the time they are made and at the time they are translated into bonuses. Those two times, though only a year apart, may be very different!

In contrast, in those companies in which scorecards predominate, targeting sustainability or individual measures, there is a good chance that selection and targeting of metrics may be easier to address. Still, there is no doubt that because of their more qualitative nature, they will receive even greater scrutiny from stakeholders.

It is likely that because of the uncertainty surrounding the following year, many Remuneration Committees will move towards and look to scorecards and metrics that target the company's survival and recovery from the COVID-19 pandemic.

Given the above, one would expect to see disclosed in Remuneration and Implementation Reports evidence of the following:

- There will be NO or minimal bonuses in the current year, as 2020 targets were not met.
- The absence of any discretionary bonuses or recalibration of targets due to the likely furore their disclosure might cause.
- Some recognition in existing individual or sustainability scorecards for having well managed the implications of lockdown and economic turmoil.
- The discretionary or voluntary application of modifiers or gatekeepers to annul any form of bonus payment.
- The more conservative setting of forward-looking financial targets, with a view that judgement will be needed at vesting in considering the extent to which impact was greater or lesser than anticipated.
- The selection of forward-looking performance metrics that do not target the bottom line so much as relative financial performance, cashflow, liquidity and sustainability issues, supply chain, customer interaction, workforce health and motivation, and product quality.

To quote again from the IODSA Guidance Paper:

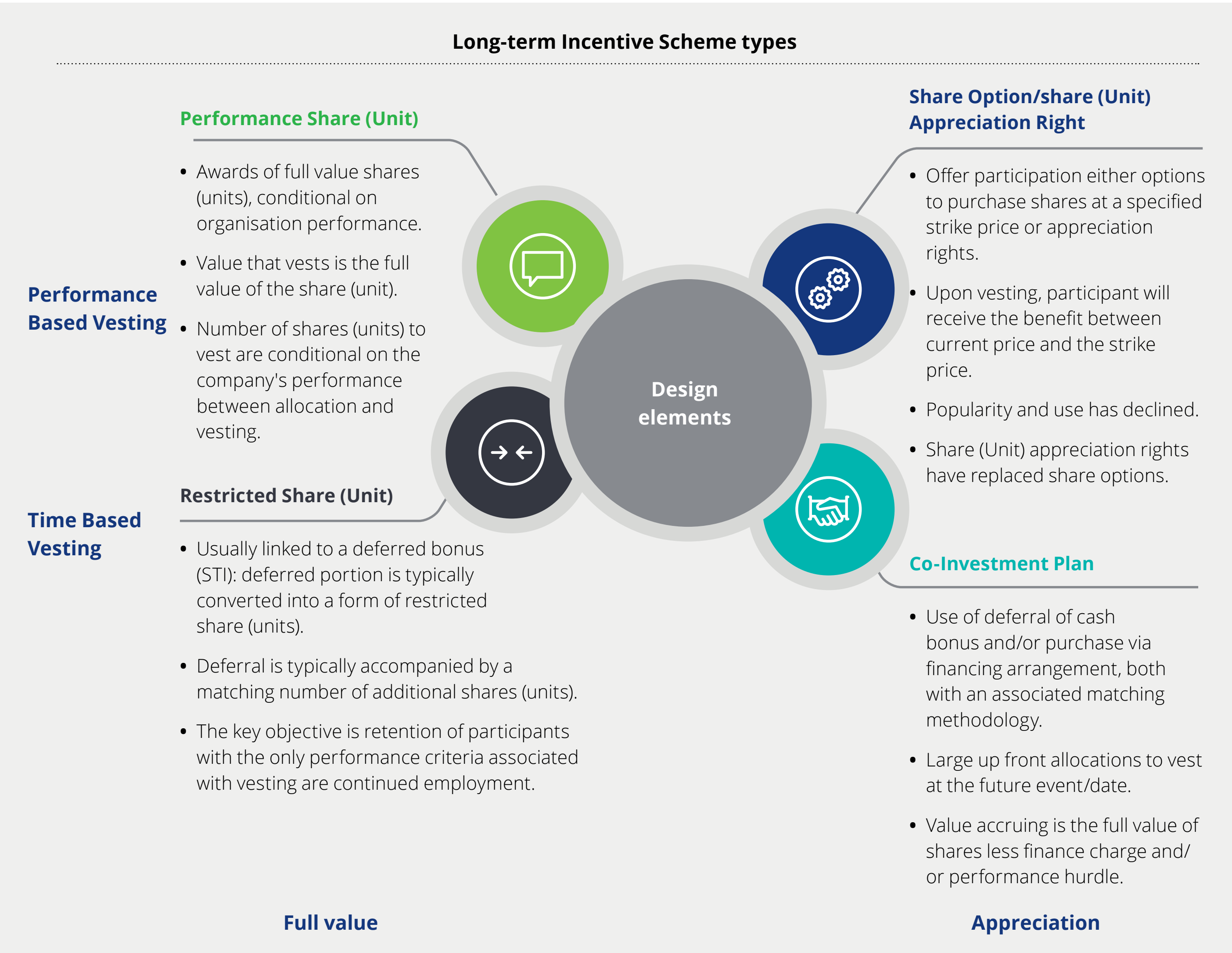
"Governing bodies are encouraged to request management to review performance priorities and metrics and implement metrics that respond directly to the impacts of the crisis. Although some metrics may be short-term to weather the current changing scenarios, this enhances organisational response, adaptability and planning."

"Points to consider CEO (and other executives) performance and additional KPIs related to crisis management, innovation, business continuity and rolling out adaptive business processes and the impact on incentives, bonuses and other rewards."

10.6. Share plan implementation during COVID-19

The broad categories of Long-term (share-based) incentive plans are detailed below.

Schematic 27: Long - term incentive architectures



Each architecture is relatively easy to describe and comprehend, but certain complexities arise when more than one scheme is implemented. This seeming complexity has resulted in calls for more simplicity. Yet, this very complexity is justified because the different architectures lend themselves to different conditions and future scenarios.

Complexity is going to be further exacerbated by unpredictable future company performances, divergent markets and a weak economy.

Remuneration Committees will need to come up to this complexity in their strategies moving forward. It is highly likely that the decisions and the offers that they make will not be the best fit in all scenarios and for all stakeholders. We anticipate that their choices will be critically evaluated when they are disclosed in the Remuneration Report.

We have tried to identify the issues that Remuneration Committees should be mindful of, as these issues are likely to fuel the share-plan debate over the following two years.

Share offers vesting during the current year:

- We anticipate that vesting of performance shares is only likely to the extent that any performance criteria governing vesting were either comparative financial metrics or qualitative, non-financial metrics.
- We expect to see some vesting of performance shares, full vesting of restricted shares, and little value if any, from the vesting of any type of appreciation scheme.
- Remuneration Committees should be extremely cautious in allowing any retrospective recalibration of targets/ metrics to allow for additional vesting of performance shares.

Share offers in the current year:

- If new offers are to be made in the current year, they will likely be scrutinised based on the timing, advisability, quantum/value, and the performance metrics governing future vesting.
- Participants may hope to receive a similar Rand value (likely a larger number due to depressed share prices) and expect that the new performance criteria governing vesting are realistic and achievable in the light of the current circumstances. However, they might reluctantly accept that large new offers to them might be inflammatory and that a holding pattern is necessary for a year or so until the economy and market "V Style" or "U Style" scenarios complete their course. In the interim, they might lobby for a more scorecard-oriented set of performance criteria.
- Shareholders might reluctantly accept that the performance criteria might still require relative and qualitative metrics but will wish to ensure that all metrics are quantifiable and stretch and (most probably) re-oriented towards financial performance. They are unlikely to be persuaded that restricted shares or appreciation unit offers are necessary until a full recovery has been made.
- The above reactions would most probably be predicated on a "V Style" or "U style" scenario perspective.
- Conversely, society might have a view that the "L Style" scenario perspective should be planned for and that companies should look at rethinking executive pay.

Share-based awards/ Long – term incentives:

At this early stage, the advice to Remuneration Committee advice could include:

- **Averaging period –** Investors typically expect a "haircut" in award size where grants are made following a significant share price fall, to prevent "windfall" gains to executives. Consider using the volume-weighted average price (VWAP) for the past year or past three months before the share price collapse to prevent a "windfall" gain at vesting. While ISS has so far indicated they would take a flexible approach where share price fall is solely related to COVID-19, many companies are considering the use of longer averaging period (e.g. 12 months), to ensure awards are not made over an inflated number of shares.
- **Discretion at vesting –** Review of outcomes "in the round" at vesting, ensuring they reflect business performance and broader stakeholder impact. Consideration could be given to extending the vesting period until normal business conditions have returned.
- **Performance conditions –** Performance conditions cannot be altered for awards that have already been made. Future performance conditions (three to five-year time horizon) should consider business recovery. They should avoid "windfall" gains in the case of growth targets as the base would be low.
- **Restricted/Forfeitable Shares –** consider issuing Forfeitable Shares (no performance conditions) instead of salary increases or ACIs. These shares would vest in three to five years, subject to continued employment. Careful consideration should be given to the number of shares granted based on depressed share prices.

11. Conclusion

This report covers a multitude of concepts and scenarios. It is designed to provide the reader with an insight into the complexities of Executive Compensation. It is essential to understand that remuneration is very specific to each firm, and not all firms will, nor should, take the same course of action.

Ultimately, Remuneration Committees would be advised to not 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?

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

If there is an inkling of doubt or uneasiness, it most likely is 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 Compensation and the effective delivery of it will continue to be a critical lever that firms will need to pull, both now and into the future. With stakes becoming increasingly higher for all stakeholders, it is becoming increasingly important for firms to get it right.

Appendices

Appendix 1 – JSE Listed Companies included in the Analysis

Company Name	Grid Size
Absa Group Limited	L
Accelerate Property Fund Limited	F
Adaptit Holdings Limited	E
Adcock Ingram Holdings Limited	G
Adcorp Holdings Limited	E
Adrenna Property Group Limited	C
Advtech Limited	G
AECI Limited	H
African And Overseas Enterprises Limited	C
African Equity Empowerment Investments Limited	F
African Media Entertainment Limited	C
African Oxygen Limited	G
African Phoenix Investments Limited	D
African Rainbow Minerals Limited	I
Afrimat Limited	F
Afrocentric Investment Corporation Limited	F
Alexander Forbes Group Holdings Limited	G
Allied Electronics Corporation Limited	G
Alviva Holdings Limited	F
Andulela Investment Holdings Limited	C
Anglo American Platinum Limited	L
Anglo American PLC	L
Anglogold Ashanti Limited	K
ARB Holdings Limited	E
Arcelormittal Sa Limited	G
Argent Industrial Limited	C
Arrowhead Properties Limited	F
Ascendis Health Limited	G
Aspen Pharmacare Holdings Limited	L
Assore Limited	J
Astral Foods Limited	G

Company Name	Grid Size
Atlatsa Resources Corporation	C
Attacq Limited	H
Aveng Limited	E
AVI Limited	J
Ayo Technology Solutions Limited	G
Balwin Properties Limited	F
Barloworld Limited	I
Bauba Platinum Limited	C
Bauba Resources Limited	C
Bell Equipment Limited	E
Bhp Group PLC	M
Bid Corporation Limited	K
Blue Label Telecoms Limited	H
Bowler Metcalf Limited	D
Brimstone Investment Corporation Limited	C
British American Tobacco PLC	N
Calgro M3 Holdings Limited	E
Capital & Counties Properties PLC	J
Capital & Regional PLC	G
Capitec Bank Holdings Limited	L
Cargo Carriers Limited	C
Cartrack Holdings Limited	F
Cashbuild Limited	G
Caxton Publishers And Printers Limited	F
City Lodge Hotels Limited	G
Clicks Group Limited	J
Clientele Limited	G
Clover Industries Limited	F
Cognition Holdings Limited	C
Comair Limited	E
Combined Motor Holdings Limited	E

Company Name	Grid Size
Compagnie Financiere Richemont SA	M
Conduit Capital Limited	E
Consolidated Infrastructure Group Limited	E
Coronation Fund Managers Limited	I
Crookes Brothers Limited	D
CSG Holdings Limited	D
Curro Holdings Limited	H
Datatec Limited	G
Delta Property Fund Limited	F
Deneb Investments Limited	D
Dipula Income Fund A	F
Dis-Chem Pharmacies Limited	I
Discovery Limited	K
Distell Group Holdings Limited	J
Distribution And Warehousing Network Limited	C
Drdgold Limited	F
E Media Holdings Limited	C
Ecsponent Limited	C
Efficient Group Limited	C
Efora Energy Limited	D
Elb Group Limited	D
Ellies Holdings Limited	C
Emira Property Fund Limited	G
Enx Group Limited	F
Eoh Holdings Limited	H
Epp N.V.	H
Equites Property Fund Limited	G
Esor Limited	C
Europa Metals Limited	C
Exemplar Reitail Limited	F
Extract Group Limited	C

Company Name	Grid Size
Exxaro Resources Limited	J
Fairvest Property Holdings Limited	E
Famous Brands Limited	H
Finbond Group Limited	F
Firstrand Limited	L
Fortress REIT Limited A	I
Gaia Infrastructure Capital Limited	C
Gemfields Group Limited	F
Gemgrow Properties Limited A	C
Glencore PLC	M
Globe Trade Centre South Africa	H
Gold Fields Limited	J
Grand Parade Investments Limited	E
Grindrod Limited	G
Grit Real Estate Income Group Limited	F
Group Five Limited	E
Growthpoint Properties Limited	K
Hammerson PLC	K
Harmony Gold Mining Company Limited	H
Homechoice International PLC	F
Hosken Consolidated Investments Limited	H
Hosken Passenger Logistics and Rail Limited	E
Hospitality Property Fund Limited	G
Hudaco Industries Limited	F
Huge Group Limited	E
Hulamin Limited	E
Hulisani Limited	D
Hyprop Investments Limited	I
Impala Platinum Holdings Limited	J
Imperial Logistics Limited	I
Indluplace Properties Limited	F

Company Name	Grid Size
Ingenuity Property Investments Limited	E
Insimbi Industrial Holdings Limited	C
Intu Properties PLC	J
Investec Australia Property Fund	G
Investec PLC	K
Investec Property Fund Limited	H
Invicta Holdings Limited	G
Italtile Limited	H
Jasco Electronics Holdings Limited	C
JSE Limited	H
Kaap Agri Limited	F
KAP Industrial Holdings Limited	I
Kaydav Group Limited	C
Kore Potash PLC	E
Kumba Iron Ore Limited	K
Lewis Group Limited	F
Liberty Two Degrees	G
Libstar Holdings Limited	F
Life Healthcare Group Holdings Limited	J
Long4life Limited	F
Lonmin PLC	F
Marshall Monteagle PLC	D
Mas Real Estate Inc	H
Massmart Holdings Limited	I
Master Drilling Group Limited	E
Mazor Group Limited	C
Mc Mining Limited	E
Mediclinic International PLC	K
Merafe Resources Limited	F
Metair Investments Limited	F
Metrofile Holdings Limited	E

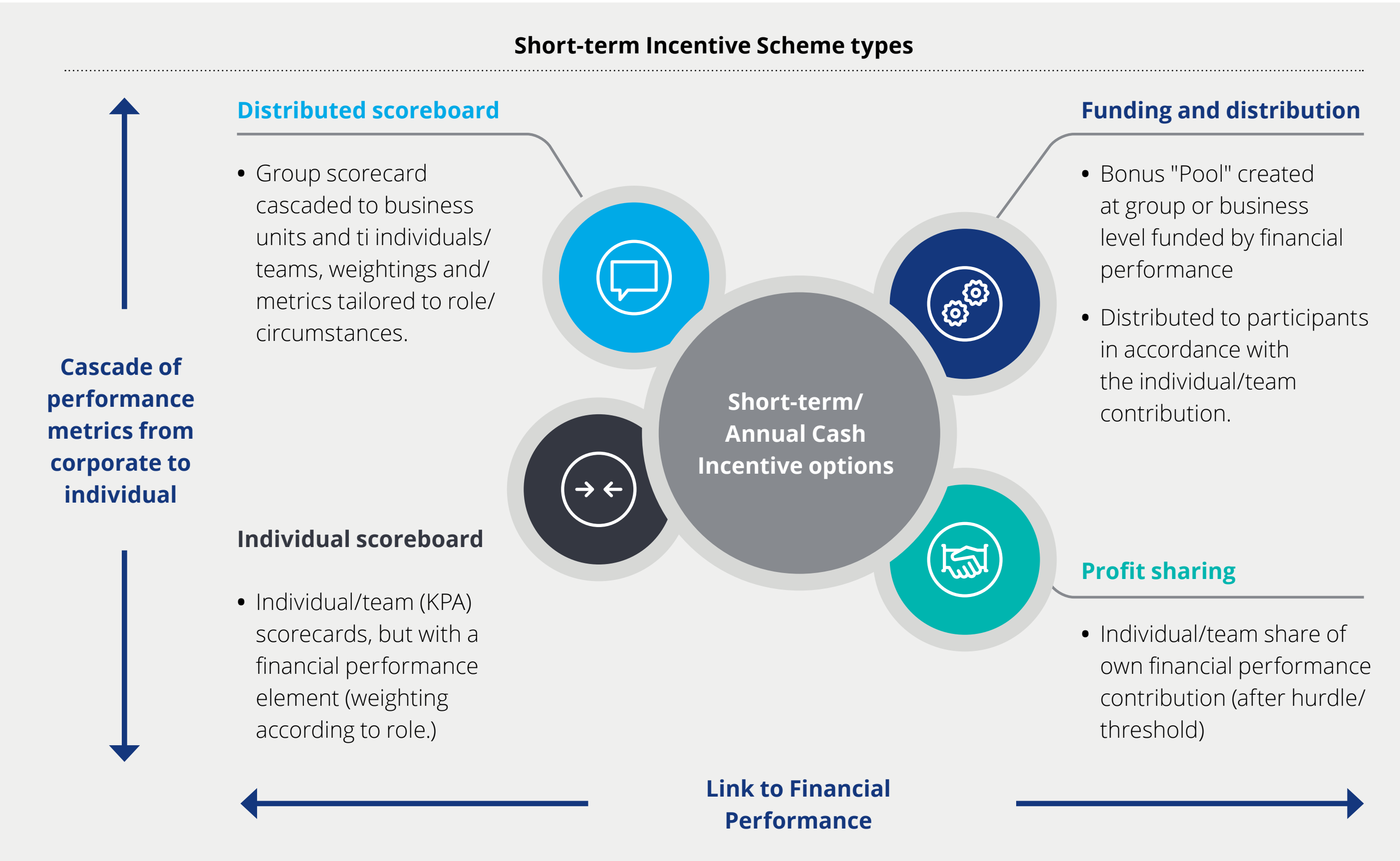
Company Name	Grid Size
Mix Telematics Limited	F
Mmi Holdings Limited	J
Mondi PLC	L
Motus Holdings Limited	H
Mpact Limited	F
Mr Price Group Limited	K
Mtn Group Limited	L
Murray And Roberts Holdings Limited	G
Mustek Limited	C
Nampak Limited	H
Naspers Limited	N
Nedbank Group Limited	L
Nepi Rockcastle PLC	K
Netcare Limited	J
Nictus Limited	C
Niveus Investments Limited	F
Northam Platinum Limited	I
Novus Holdings Limited	F
Nu-World Holdings Limited	D
Oceana Group Limited	G
Octodec Investments Limited	G
Old Mutual Limited	L
Omnia Holdings Limited	G
Onelogix Group Limited	D
Orion Minerals Limited	C
Orion Real Estate Limited	C
Pan African Resources PLC	G
PBT Group Limited	C
Pepkor Holdings Limited	K
Peregrine Holdings Limited	G
Phumelela Gaming and Leisure Limited	E

Company Name	Grid Size
Pick n Pay Stores Limited	J
Pioneer Food Group Limited	I
PPC Limited	G
Premier Fishing And Brands Limited	D
Primeserv Group Limited	C
PSG Group Limited	K
Psg Konsult Limited	H
Purple Group Limited	C
Putprop Limited	C
Quantum Foods Holdings Limited	D
Quilter PLC	J
Randgold & Exploration Company Limited	C
Raubex Group Limited	F
RCL Foods Limited	H
RDI REIT PLC	H
Rebosis Property Fund Limited	F
Redefine Properties Limited	K
Remgro Limited	L
Resilient REIT Limited	I
Resource Generation Limited	D
Reunert Limited	H
Rex Trueform Group Limited	C
RFG Holdings Limited	G
RH Bophelo Limited	D
Rhodes Food Group Holdings Limited	G
RMB Holdings Limited	L
Rolfes Holdings Limited	C
Royal Bafokeng Platinum Limited	G
SA Corporate Real Estate Fund	G
Sabvest Limited	D
Safari Investments (RSA) Limited	E

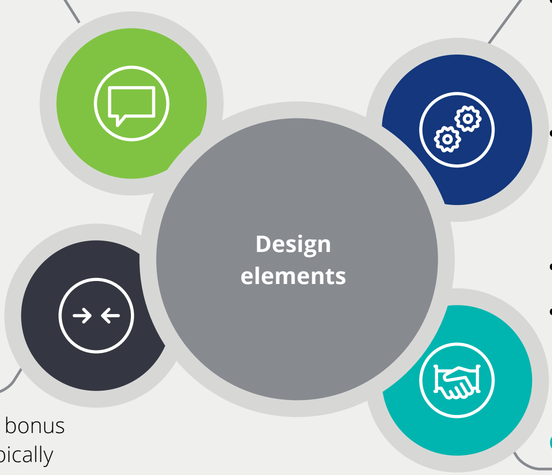
Company Name	Grid Size
Sanlam Limited	L
Santam Limited	J
Santova Limited	D
Sappi Limited	J
Sasfin Holdings Limited	E
Sasol Limited	L
Sea Harvest Group Limited	F
Sebata Holdings Limited	D
Sephaku Holdings Limited	C
Shoprite Holdings Limited	L
Sibanye Gold Limited	J
Sirius Real Estate Limited	H
South32 Limited	L
Spanjaard Limited	C
Spear REIT Limited	E
Spur Corporation Limited	F
Stadio Holdings Limited	F
Standard Bank Group Limited	L
Stefanutti Stocks Holdings Limited	D
Stellar Capital Partners Limited	E
Stenprop Limited	G
Stor-Age Property REIT Limited	F
Sun International Limited	G
Super Group Limited	H
Sygnia Limited	E
Taste Holdings Limited	C
Telkom SA Soc Limited	I
Texton Property Fund Limited	E
Tharisa PLC	G
The Bidvest Group Limited	K
The Foschini Group Limited	J

Company Name	Grid Size
The Spar Group Limited	J
Tiger Brands Limited	K
Tiso Blackstar Group Se	E
Tongaat Hulett Limited	H
Torre Industries Limited	D
Tower Property Fund Limited	F
Tradehold Limited	F
Trans Hex Group Limited	C
Transaction Capital Limited	G
Transpaco Limited	D
Trellidor Holdings Limited	D
Trematon Capital Investments Limited	D
Trencor Limited	G
Trustco Group Holdings Limited	G
Truworths International Limited	J
Tsogo Sun Gaming Limited	I
Tsogo Sun Holdings Limited	I
Unicorn Capital Partners Limited	C
Value Group Limited	D
Verimark Holdings Limited	C
Vivo Energy PLC	I
Vodacom Group Limited	L
Vukile Property Fund Limited	H
Wescoal Holdings Limited	D
Wesizwe Platinum Limited	D
Wilderness Holdings Limited	E
Wilson Bayly Holmes-Ovcon Limited	G
Woolworths Holdings Limited	K
York Timber Holdings Limited	D
Zeder Investments Limited	H

Appendix 2 – Short and Long-Term Incentive Design



Long-term Incentive Scheme types



Performance Based Vesting

Performance Share (Unit)

- Awards of full value shares (units), conditional on organisation performance.
- Value that vests is the full value of the share (unit).
- Number of shares (units) to vest are conditional on the company's performance between allocation and vesting.

Time Based Vesting

Restricted Share (Unit)

- Usually linked to a deferred bonus (STI): deferred portion is typically converted into a form of restricted share (units).
- Deferral is typically accompanied by a matching number of additional shares (units).
- The key objective is retention of participants with the only performance criteria associated with vesting are continued employment.

Share Option/share (Unit) Appreciation Right

- Offer participation either options to purchase shares at a specified strike price or appreciation rights.
- Upon vesting, participant will receive the benefit between current price and the strike price.
- Popularity and use has declined.
- Share (Unit) appreciation rights have replaced share options.

Co-Investment Plan

- Use of deferral of cash bonus and/or purchase via financing arrangement, both with an associated matching methodology.
- Large up front allocations to vest at the future event/date.
- Value accruing is the full value of shares less finance charge and/ or performance hurdle.

Full value | **Appreciation**

Appendix 3 – Useful Websites and References

Professional associations

The Institute of Directors of South Africa ("IoDSA")
https://www.iodsa.co.za/

The South African Reward Association (SARA)
http://www.sara.co.za/HOME.aspx

Legislation and guidelines

The Companies Act 71 of 2008
https://www.iodsa.co.za/page/Companiesact

JSE Listing Requirements
*https://www.jse.co.za/content/JSERulesPoliciesandRegulationItems/JSE%20Listings%20Requirements.pd*f

King IV™
https://www.iodsa.co.za/page/KingIVReport

King IV™ Remuneration Committee Practice Notes
http://www.sara.co.za/sara/file%20storage/Documents/2017/Nov/KingIVGuide_ToTheApplicationOfRemunerationGovernance.pdf

Investor best practice guidelines

The ABI Institutional Voting Information Service ("IVIS")
ABI Principles of Remuneration Board effectiveness – highlighting best practice
www.ivis.co.uk

Institutional Shareholder Services ("ISS")
www.issgovernance.com/policy

Financial Services

Financial Stability Board ("FSB")
www.financialstabilityboard.org

Appendix 4 – Table of Acronyms

ACI – Annual cash incentive	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
B.S.	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
C.B. Consumer Business	Broad sectoral grouping of consumer business including technology companies
EBIT	Earnings before interest and tax
EBITDA	Earnings before interest, tax, depreciation and amortisation
E&R Energy and Resources	Broad sectoral grouping of mining and resources and construction companies
EVA	Economic Value Add, being 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 5
Headline earnings, or HE	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
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	Market capitalisation, being 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
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
S.V.	Shareholder value, being the Indexed value of Market cap and dividends granted during the year
TAC	Broad sectoral grouping of financial and property investment holding companies
Total annual compensation	TGP plus ACI
TGP	Total guaranteed pay = B.S. 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, being 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)

Appendix 5 – Organisation Grid Sizing

- Small
- Medium
- Large
- Top

THE 2019 / 2020 GRID - FOR THE PURPOSES OF COMPANY / BUSINESS UNIT GRID SIZING

DETERMINING GRID SIZE FOR EXECUTIVE COMPENSATION BENCHMARKING

TYPICAL MARKET CAPITALISATION R MILLIONS (LISTED COMPANIES)	TYPICAL TURNOVER (R MILLIONS)	TYPICAL TOTAL ASSETS (R MILLION)	TYPICAL ANNUAL PRE-TAX PROFITS (R MILLION)	Annual Cost of Employment (R million)													
			Basic Salary & Wage Bill R million	Up to R20	R20 to R40	R40 to R80	R80 to R160	R160 to R320	R320 to R640	R640 to R1 280	R1 280 to R2 560	R2 560 to R5 120	R5 120 to R10 240	R10 240 to R20 480	R20 480 to R40 960	R40 960 to R81 920	Over R81 920
			No of Staff (Actual Numbers)	Up to 100	100 to 200	200 to 400	400 to 800	800 to 1 600	1 600 to 3 200	3 200 to 6 400	6 400 to 12 800	12 800 to 25 600	25 600 to 51 200	51 200 to 102 400	102 400 to 204 800	204 800 to 409 600	Over R409 600
			Total cost of Employment (TCOE) R million	Up to R29	R29 to R57	R57 to R114	R114 to R229	R229 to R457	R457 to R914	R914 to R1 829	R1 829 to R3 657	R3 657 to R7 314	R7 314 to R14 629	R14 629 to R29 257	R29 257 to R58 514	R58 514 to R117 029	Over R117 029
	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 to 375	250 to 750	5 to 10	B	B	C	D	E	F	G	H	I	J	K	L	M	N
250 to 500	375 to 750	750 to 1 500	10 to 50	C	C	C	D	E	F	G	H	I	J	K	L	M	N
500 to 1 250	750 to 1 500	1 500 to 3 000	50 to 150	D	D	D	D	E	F	G	H	I	J	K	L	M	N
1 250 to 2 500	1 500 to 3 000	3 000 to 6 000	150 to 360	E	E	E	E	E	F	G	H	I	J	K	L	M	N
2 500 to 5 000	3 000 to 5 000	6 000 to 10 000	360 to 620	F	F	F	F	F	F	G	H	I	J	K	L	M	N
5 000 to 10 000	5 000 to 8 000	10 000 to 16 000	620 to 1 000	G	G	G	G	G	G	G	H	I	J	K	L	M	N
10 000 to 20 000	8 000 to 15 000	16 000 to 30 000	1 000 to 2 000	H	H	H	H	H	H	H	H	I	J	K	L	M	N
20 000 to 30 000	15 000 to 25 000	30 000 to 70 000	2 000 to 4 000	I	I	I	I	I	I	I	I	I	J	K	L	M	N
30 000 to 60 000	25 000 to 45 000	70 000 to 150 000	4 000 to 6 000	J	J	J	J	J	J	J	J	J	J	K	L	M	N
60 000 to 120 000	45 000 to 90 000	150 000 to 300 000	6 000 to 15 000	K	K	K	K	K	K	K	K	K	K	K	L	M	N
120 000 to 500 000	90 000 to 460 000	300 000 to 600 000	15 000 to 30 000	L	L	L	L	L	L	L	L	L	L	L	L	M	N
500 000 to 1 000 000	460 000 to 1 000 000	600 000 to 1 000 000	30 000 to 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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