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Non-executive directors

Practices and fees trends report

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Contents

Executive summary

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We are proud to introduce the 12th edition of PwC's *Non-executive directors: Practices and fees trends report* to all of our clients, particularly all non-executive board members. There is general consensus that remuneration committees play a vital role in companies. That role, and indeed the purpose of the remuneration committee, needs to be properly interrogated in order to truly realise the value that they can deliver to companies (and society as a whole).

This year, a central theme of the report is the role of the remuneration committee in corporate South Africa, and whether remuneration committees are actually fit for purpose. There is a strong perception among major South African institutional investors that remuneration committees are not approaching shareholder engagement properly, need to do more to upskill themselves to properly execute their duties, and should not place an over-reliance on external consultants and advisors. In this edition we take a closer look at investor views on the role of the remuneration committee in South Africa, and the overall state of pay among listed companies.

We also address the role of sustainable development in the future, and how companies need to do more to engage with the Sustainable Development Goals when crafting their key performance indicators. In this edition, we examine the ethnic and gender composition of non-executive directors on all listed companies. Time and again, international research has shown that diversity and inclusive decision-making yields better financial and strategic results – however, meaningful diversity is not necessarily reflected in the board and management profile of many South African companies.

As we continue with our annual review of fees paid to non-executive directors, we have adapted our methodology by adopting the globally-recognised Industry Classification Benchmark (ICB) standard for categorising companies and securities across four levels of industry classification. Our reporting on fee trends by industry has been revised to follow this classification.

Our analysis shows a noticeable 5.3% median increase in fees for non-executive directors across all sectors on the Johannesburg Stock Exchange (JSE) during the reporting period under review.

Once again this year, we examine non-executive fees paid across seven African stock exchanges, as well as non-executive fees paid to FTSE 100 companies. Our FTSE 100 reporting has also been aligned with the ICB standard.

We trust that you will find this publication of interest and that you will gain insight into matters that affect non-executive directors and boards. We look to all our directors to continue playing a key role in guiding the growth of a socially responsible corporate culture.

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Information used in this report

This publication focuses primarily on the JSE and includes analyses focused on the FTSE 100 and seven African stock exchanges. Data set out here is drawn from information publicly available on 30 November 2018 (the cut-off date) and is valid for the period from 1 December 2017 to 30 November 2018 (the 2018 reporting period).

Information has been extracted from PwC's internal resource base and the 325 (2017: 343) active companies listed on the Main Board of the JSE. The total market capitalisation of these companies on the cut-off date was R12.95 trillion (2017: R16.49 trillion). The market capitalisation of the JSE has increased by 128% from R5.69 trillion in 2007 when the first edition of this publication was released.

This analysis excludes preference shares, special-purpose listings and suspended companies.

Directors' fees

Directors' fees rarely follow a normal distribution curve. For this reason, we have used a quartile/percentile range rather than averages and standard deviations that assume normality.

These forecasts/percentiles are defined as:

- Lower quartile (25th percentile)
  75% of the sample earns more and 25% earn less than this fee level.
- Median (50th percentile)
  50% of the sample earns more and 50% of the sample earns less than this fee level.
- Upper quartile (75th percentile)
  25% of the sample earns more and 75% earn less than this fee level.
- Mean
  Calculated by dividing the sum of the values in the set by their number.

Company size

It is our belief that there is no definitive correlation between market capitalisation, calculated by reference to the number of shares in issue and the prevailing share price, and the remuneration of directors.

However, we are of the view that market capitalisation is a good proxy for size and complexity. It is also an appropriate metric to use for identifying peer groups and for benchmarking purposes. It is against this backdrop that data is analysed in terms of:

- Super-cap
  The top-10 JSE-listed companies, valued by market capitalisation.
- Large-cap
  11 to 40 JSE-listed companies, valued by market capitalisation.
- Medium-cap
  41 to 100 of the JSE-listed companies, valued by market capitalisation.
- Small-cap
  101 to 325 of the JSE-listed companies, valued by market capitalisation.

These companies are listed on the JSE's Main Board.

AltX is an alternative public equity exchange for small and medium-sized companies operated by the JSE in parallel with the Main Board. Our AltX analysis as a stand-alone group refers to 34 (2017: 42) active trading companies with a market capitalisation of R19.109 billion (2017: R81.494 billion). The reduction in market capitalisation in this group is due to certain AltX companies delisting or being suspended.

Industry classification

In this report we have used the Industry Classification Benchmark (ICB) as detailed in the explanatory section below.

Fees paid to chairpersons and non-executive directors appointed to JSE-listed company boards have been analysed under ICB classification.

The sectors are now classified under the following headings:

ICB classification	Classification used in prior editions of this report
Basic materials	Basic resources
Consumer staples	Industrials
Consumer discretionary	Services
Energy	Basic resources (oil & gas producers)
Financials	Financials including real estate
Healthcare	Services
Industrials	Industrials
Real estate	Financials
Technology	Services and Industries
Telecommunications	Services
Utilities	None

There are no utilities listed on the JSE at this time.

Industry classification benchmark (ICB)

An industry classification system allows investors and other market participants to segment and evaluate the global economy in a systematic and holistic way. It provides a standardised framework to research individual areas of the economy, conduct peer group analysis and classify companies on both a top-down and bottom-up basis.

An industry classification system allows users to assign individual companies to both aggregate industry groupings and, with increasing levels of detail, to sectors and subsectors that reflect companies' specialist areas of business.

With approximately 100 000 securities classified worldwide, conformity to a definitive categorisation system for the global investment community has become a necessity.

The ICB is a globally recognised standard, operated and managed by FTSE Russell for categorising companies and securities across four levels of classification.

Each company is allocated to the subsector that most closely represents the nature of its business, which is determined by its primary source of revenue and other publicly available information.

ICB classification used in this publication

Industries	11
Supersectors	20
Sectors	45
Subsectors	171

From this 12th edition onwards, we will represent the analyses of non-executive directors' profiles under the ICB classification. From a global perspective, our new analyses will conform to meet the needs of the investment industry.[1]

There is no like-for-like comparison in any of the new ICB classification and previously reported data in this publication. Except for certain analyses that have commonality to previous editions, such as aggregate values, categorisation in this edition cannot be compared to previous editions, as the granularity in the ICB classification is greater in scope than our previous classifications.

[1] The Global Industry Classification Standard (GICS) and the Industrial Classification Benchmark are two competing schemes for classifying stocks into sectors and industries worldwide. Differences between the two are minor and they each have an industry and sector framework for investment research, portfolio management and asset allocation.

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Right on the money

Institutional investor views on remuneration

Introduction

PwC's People and Organisation team hosted a round table event in October 2018 for major South African institutional investors and governance institutions to gauge their views on the state of executive pay in the country. While some expressed hope that remuneration governance had made significant progress over the past few years, others were dismayed at the current state of executive pay, and called for stronger remuneration committees. The observation was made that remuneration is one of the leading areas of concern among global asset owners, and asset managers are expected to play a greater role in developments in this area.

Representatives at the round table included heads of environmental, social and governance; investment analysts and representatives of governance bodies such as the United Nations Principles for Responsible Investment. They voiced the official views of their respective constituencies, and also shared their experiences engaging with companies on remuneration-related matters in the relatively new King IV™[1] era. The table below summarises what they had to say.

[1] Institute of Directors Southern Africa. "King IV™ Report on Corporate Governance." (2016), available at https://c.ymcdn.com/sites/iodsa.site-ym.com/resource/collection/684B68A7-B768-465C-8214-E3A007F15A5A/IoDSA_King_IV_Report_-_WebVersion.pdf, accessed on 02 November 2016.

In short

The remuneration committee needs to engage with investors directly and continuously, regarding the remuneration policy and implementation report. A cursory conference call after the annual general meeting (AGM) does not constitute meaningful engagement.

Remuneration committee chairpersons should demonstrate full understanding of their companies' remuneration policies and how they are linked to the entity's business strategy, and not rely too heavily on remuneration consultants or executive management.

When conducting benchmarking, there should be a sanity check on the quantum of the fees/pay packages after the benchmarking exercise has been completed.

Non-executive directors should only receive additional fees in exceptional circumstances, and their roles and responsibilities should be clearly documented and understood.

There is no real difference between financial and non-financial performance conditions – all performance conditions inevitably have an impact on the company's financial results, and should lead to sustainable long-term value creation.

Investors spend a lot of time attempting to turn remuneration into a value creation tool, when this effort should not be necessary.

Engaging with shareholders

What is 'meaningful engagement'?

Investors made it clear that the practice of using teleconferences to engage with shareholders regarding the remuneration policy or implementation report has had unintended consequences, and is not supported.

Large institutional investors usually engage with the companies before the AGM, and later explain their reasons for voting against or abstaining from voting on remuneration-related resolutions. Therefore, they do not deem it necessary to engage in a post-AGM teleconference.

Alternative methods of engaging with shareholders, such as one-on-one meetings with the top ten shareholders (in person, via teleconference or videoconference), roadshows and written correspondence (emails or letters) are more acceptable. That said, the method of one-on-one engagement should be tailored to the specific investor's preference, as a face-to-face meeting may not always be practical. The teleconference forum (for multiple investors) may be more appropriate to accommodate investors with smaller shareholdings.

The suggestion was made that pre-AGM engagement (written or face-to-face) with a company's top ten investors should be made compulsory, and companies should thereafter revert to the shareholders with proposed solutions to the concerns raised during the process.

These solutions can be shared with the relevant investor in a private forum after the AGM (see above). The company's response should also acknowledge where they have chosen not to address feedback on a particular aspect of the remuneration policy/implementation report, along with reasons for not doing so.

Continuous engagement with shareholders is key – a brief teleconference or superficial engagement a month before the AGM is insufficient.

One of the suggestions was that a company that receives a dissenting shareholders' vote of 25%, or more, should create an electronic, access-controlled engagement system for dissenting shareholders to make their submissions on the resolutions. It was also suggested that comments from these shareholders should be submitted on this platform within a fixed period of time after the AGM.

The use of proxy advisors by institutional investors was called into question. While the recommendations of these advisors may be taken into account by some investors as a reference point, they do not necessarily follow these recommendations without question.

Further suggestions for improving and fostering continuous shareholder engagement are provided in the next chapter.

Why the CEO should wait in the car

The engagement, whether written or face-to-face, should be conducted by the chairperson of the remuneration committee, not the chief executive officer (CEO) or chief financial officer (CFO). The executive directors often conduct the engagement session with the investors, rather than the remuneration committee chairperson (who should rightfully do so).

This is frowned upon, due to the inherent conflict of interest associated with an executive director motivating his or her own pay structure. A remuneration committee chair that does not engage with shareholders may face a vote from some shareholders against their reappointment to the board.

The remuneration committee chair should demonstrate an understanding of the company's remuneration structures, and properly illustrate how the remuneration policy is linked to the company's overall business strategy.

The role of the remuneration committee

Time to enter the spotlight

The question was raised whether remuneration committees (particularly in listed companies below the JSE Top 40) fully understand their role.

It was agreed that remuneration committees should not over-rely on the use of external remuneration consultants. A proposal for changing the remuneration policy should be put forward to shareholders after it has been properly considered and adopted by the remuneration committee, and not based solely on the word of remuneration consultants. The remuneration committee chair should also be present at the AGM to answer any questions raised regarding remuneration, as part of his or her accountability to the shareholders.

There was consensus that remuneration committee members should be required to undergo proper training in order to fully understand their roles, and that this should form part and parcel of their fiduciary duties.

There was some acknowledgment that a remuneration committee member who is not considered sufficiently knowledgeable of his or her role should be removed or not re-elected, as they are not fulfilling their fiduciary duty.

The point was made that investors and external consultants get more involved in matters relating to remuneration because remuneration committees are not seen as being effective enough. An emphasis was placed on encouraging the development of stronger and more independent non-executive directors.

Investor voting: The remuneration policy/ implementation report

Who cares if a bad remuneration policy is well implemented?

The question was raised whether a vote against the remuneration policy should automatically equate to a vote against the implementation report. Some investors are of the view that if they are unsatisfied with the previous year's policy, they will not support the implementation report in the following year.

Again, the reasons for voting against one of the remuneration-related resolutions will be explained to the company before the AGM. Interestingly, some investors were of the view that the two votes go hand in hand, and if they vote against one remuneration-related resolution, they will automatically vote against the other in order to make their dissatisfaction clear to the company.

Remuneration committee members should be required to undergo proper training in order to fully understand their roles, and this should form part and parcel of their fiduciary duties.

Transaction fees, and golden handshakes (the latter of which are sometimes packaged as a mutually agreed separation agreement) paid by a company in a particular year will usually lead to a negative vote against the implementation report. Similarly, if the implementation report includes awards made or vested in terms of an unsupported long-term incentive (LTI), some investors will vote against the implementation report.

Benchmarking: Executive and non-executive directors' pay

Numbers don't lie...

When it comes to benchmarking, there should be a sanity check on the quantum of the fees/pay packages after the benchmarking exercise. Peer group benchmarking has become problematic, as companies themselves are rapidly diversifying. If it is necessary to select a peer group, the question becomes whether it is wide enough.

When assessing a selected peer group, some investors look at the complexity of the company versus its peers, its market capitalisation, the size of its operations, and its specialisation. Cost-of-living adjustments are important, particularly for companies with international exposure. The use of different currencies when paying international non-executive directors is also important, particularly where they do the same job as their local counterparts.

The remuneration package for executives should be strongly weighted towards variable pay. Guaranteed pay should be set at the median or lower quartile, with paying at the upper quartile only justifiable when the company's level of performance is commensurately high.

Non-executive director fees

Why all the additional meetings?

Ad-hoc fees are becoming increasingly popular, and some investors believe these amount to little more than consulting fees. Furthermore, it is not entirely clear what these fees are paid for.

However, an additional fee is justifiable where there is a large crisis in the company (through no fault of the non-executive directors) that requires a significant investment of time from the non-executive directors to resolve. In such circumstances remuneration committees should engage with investors ahead of the AGM and request their approval of the fee (and its justification).

Clear policies around non-executive director fees which acknowledge the evolving role of the board chair and the non-executive director should be developed. These policies should also acknowledge the need for non-executive directors to become more involved. All-inclusive fees should encompass the non-executive director's entire workload and responsibilities.

While the all-inclusive model is not necessarily perfect (as it does not acknowledge that some non-executives work harder than others), per-meeting fees sometimes act as somewhat perverse incentives to create more meetings or do more consulting work.

The roles and responsibilities of non-executive directors should be clarified, either by a formal policy or in an appropriate level of detail within their letters of appointment. Clear definitions would help resolve any debate about whether or not fees for 'additional meetings' are justified.

Additional fees should not be payable to non-executive directors for attending training – while investors acknowledge that companies benefit from properly skilled directors, they should not be paid for upskilling themselves.

Non-financial performance conditions should lead to the creation of long-term sustainable value for the company.

Performance conditions

Is there any real difference between financial and non-financial performance conditions?

Regarding the selection of non-financial performance conditions, some investors try not to be too prescriptive and leave it to the company to determine appropriate metrics, taking into account the relevant industry and sector. Some investors feel that non-financial performance conditions centred on race and gender transformation must be included in a balanced scorecard.

Regarding short- and long-term incentives, some non-financial conditions are measurable in both the short and long term. These should be credible and objectively measurable and subjectively assessed. Furthermore, the application of qualitative assessments should be disclosed in sufficient detail.

The point was made that, ultimately, there is no real difference between financial and non-financial performance conditions as all performance conditions inevitably have an impact on the financial results of a company. Non-financial performance conditions should lead to the creation of long-term sustainable value for the company.

It was observed that it is difficult to see how the executives in some companies performed against their own key performance indicators (KPIs). Furthermore, some of these measures are very vague, making it difficult for investors to measure them independently.

These conditions run the risk of being perceived as giving executives a 'free lunch', as a portion of the incentive concerned vests based on the achievement of unclear objectives, or targets that are too easily reached. In addition to improving disclosure in this regard, companies should also clarify the quality of execution of these non-financial objectives.

Variable pay that is subject to relative performance conditions should not fully vest at median performance, as this undermines the principle of pay for performance.

Share option and share appreciation right plans are not supported by some investors.

While minimum shareholding requirements are favoured by some shareholders, their enforceability and effectiveness are sometimes questioned. Some investors strongly support their use and effectiveness in prohibiting executives from selling off their vested LTIs.

The point was made that while the focus is placed on executive pay, the pay conditions for lower-income employees are equally important, and these employees should be paid a decent salary.

Final comments

Some investors believe the legislative framework governing directors is not strong enough to hold them to account, and is hard to enforce. The question arose whether there was room in South Africa to introduce a governance code similar to the Dutch Code of Corporate Governance, which could strengthen the enforcement of good governance principles. For example, in two-tier governance structures[2], the supervisory board is required to account for the supervision conducted in the past financial year, reporting on the items referred to in the best practice provisions listed in the Dutch code related to the execution of its duties. Similarly for companies with one-tier governance structures, the non-executive directors are required to render account of the supervision exercised in the past financial year, and should as a minimum report on the same items as the supervisory board in a two-tier structure.

It was also acknowledged that remuneration should add value, and investors spend a lot of time attempting to turn remuneration into a value creation tool by constantly assessing remuneration policies and ensuring that they drive the right behaviours; ultimately, however, it is the duty of the remuneration committee to ensure that the remuneration policy results in outcomes that drive long-term sustainable value creation, rather than the achievement of short-term results at all costs. There should be a proper understanding in companies of how remuneration and risk are interrelated.

Overall, participants believe disclosure and pay practices have improved over the past five years, and that remuneration practices are moving in the right direction.

Adequate remuneration committee training (in particular, the lack thereof) remains one of their most pressing concerns.

[2] Consisting of a supervisory board and management board; see the 2016 Dutch Corporate Governance Code (2016) Monitoring Committee: Corporate Governance Code, available at https://www.mccg.nl/?page=4738 (accessed on 16 January 2019).

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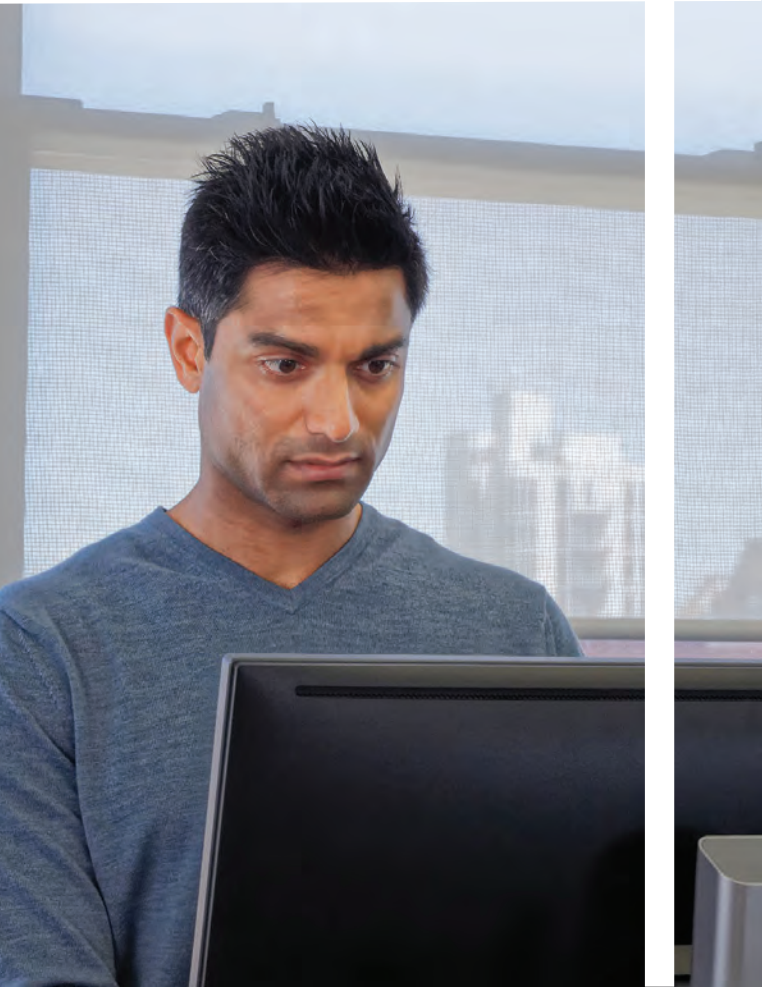
The role of the remuneration committee chairperson and advisors: An investor's view



Introduction

Non-executive directors are being called on to justify their companies' remuneration policies, and the implementation thereof, directly to shareholders. This is expected especially in instances where a company has experienced poor financial performance, but executive pay levels have continued to climb.

Based on this, there is increased pressure on remuneration committee members to have the requisite knowledge and skill to execute their duties to the best of their abilities, for the good of the company and its stakeholders.

Against this backdrop, the role and independence of remuneration committee advisors is often questioned by institutional investors, as well as some remuneration committees' over-reliance on advice provided by these advisors due to the committees' own lack of skill. Similarly, some of the most influential South African institutional investors have expressed frustration with the current standard of engagement with remuneration committee chairpersons.

The remuneration committee: Skills, knowledge and the role of remuneration advisors

The skills and knowledge of remuneration committee members, in particular the chairperson, should be one of the primary factors considered when making appointments to the committee.

To effectively fulfil their roles, remuneration committee members should:[1]

- Be completely independent from the company's management team;
- Have no personal interest in the outcome of the remuneration committee's decisions; and
- Have the recent experience or skills relevant to the remuneration committee's work and be able to add value to the decision-making process.

[1] PwC Human Resource Services "Remuneration Committees: Good practices for meeting market expectations" (2006) PwC UK, at 13.

Every remuneration committee member should also have a good understanding of the company's business strategy and current remuneration structures. In an earlier publication we suggested that a period of 6–12 months should be allowed for a newly appointed remuneration committee member to acquire the necessary level of familiarity with the company's operations and remuneration practices.[2]

Remuneration committee members should not rely solely on the advice provided by advisors, or indeed proxy advisors, due to a lack of skill or knowledge relating to remuneration. Major South African institutional investors have already called for remuneration committee members to avoid an over-reliance on advisors – this trend has already caused some investors to question whether remuneration committee advisors are truly independent.

Furthermore, remuneration committee chairpersons should not put forward proposals to shareholders based only on the recommendations of advisors, nor should they attempt to delegate their responsibilities (in whole or in part) to external consultants or advisors. Institutional investors have also called for remuneration committee members to attend training to equip themselves to execute their mandates, (instead of relying too heavily on external advisors), with the feeling being that doing so should be made compulsory.

The use of remuneration advisors

King IV™[3] does not expand upon the role of remuneration advisors, save for Principle 14, Recommended Practice 33(d) which states that the background statement to a company's remuneration report should state whether remuneration consultants were used, and whether the remuneration committee is satisfied with their independence and objectivity.

The use, or more accurately, the over-use of remuneration advisors is a contentious topic with institutional investors. Where advisers are used, remuneration committee members should properly apply their minds to the advice received and to formulate their own opinions in respect of how to proceed in the best interests of the company. It is furthermore important to have strong, independent non-executive directors who are skilled in the areas in which they need to fulfil their duties.

Ideally, from a governance and independence perspective, the remuneration advisor's primary responsibility should be to the remuneration committee. Management should either retain a separate remuneration advisor (which may not be ideal), or alternatively the remuneration committee advisor can liaise with management on a regular basis, but with permission from the remuneration committee chairperson and with ultimate sign-off by the remuneration committee. In order to ensure the preservation of the independence of consultants:[4]

- The ultimate engagement should be between the independent advisor and the remuneration committee;
- The independent advisor should receive the required authorisation from the remuneration committee chairperson prior to embarking on a new project;
- The independent advisor should have regular access to the remuneration committee;
- Any conflicts of interest should immediately be brought to the remuneration committee chairperson's attention; and
- There should be clear agreement between the remuneration committee chairperson, management of the company and the independent advisor on the advisor's role and the processes to be followed in respect of remuneration matters.

In practice, however, some remuneration committee members and remuneration committee chairpersons lack the background and knowledge in respect of remuneration matters required to perform their duties independently. As such, independent advisors are often approached by management of companies to assist with remuneration-related matters. Independent advisors do have a role to play: they can advise management and remuneration committee members on how best to approach investors, as well as inform them of investor views and attitudes on pay (and this foresight can be very valuable). However, they should not conduct the shareholder engagement process itself, nor should their recommendations be the sole reason why the remuneration committee is considering a new pay proposal.

[2] Supra.
[3] King IVTM Report on Corporate Governance for South Africa (supra).
[4] PwC Human Resource Services "Remuneration Committees: Good practices for meeting market expectations" p31.

The Board, the remuneration committee chairperson and their roles in shareholder engagement

It is clear that limited shareholder engagement at a company's AGM is insufficient. Shareholder engagement should be both proactive in anticipation of the AGM, as well as reactive in addressing issues which may arise during the AGM.

Engagement between shareholders and directors is on the increase in other jurisdictions – in the *PwC's Annual Corporate Directors Survey,* almost half of directors (based in the United States) say that a member of the Board (other than the CEO) engaged directly with investors in the past year.[5] That said, 49% of directors surveyed very much agree that investors have a special agenda, and 43% very much agree that director involvement in shareholder engagement poses too great a risk of mixed messages.

A key question often asked is, who within the company should (or is best placed) to coordinate and engage with shareholders. On issues such as executive remuneration and other corporate governance matters, we believe it is best for the Board chairperson and the remuneration committee chairpersons to engage directly with shareholders.

Overall, the Board chairperson should ensure that members of the remuneration committee possess the required skills and experience in remuneration matters, the company's business and the sector. This is critical for the remuneration committee to be able to set appropriate performance targets that align with shareholder value creation over the long term, and to hold executives accountable for achieving these targets. It is important to note that King IV™ asserts that, although the Board chairperson may sit on the remuneration committee, they may not also fulfil the role of remuneration committee chairperson.[6] This separation of roles is also echoed in corporate governance codes in other jurisdictions.

The remuneration committee chairperson is often regarded as having the ultimate responsibility for ensuring that the remuneration committee exercises its duties. As such, the remuneration committee chairperson is responsible for ensuring the smooth running of the meetings, making sure that the views of each member are heard and that each agenda item receives sufficient attention.[7] Similarly, the remuneration committee chairperson is often held responsible for ensuring that shareholders are properly consulted regarding the remuneration policy, and ensuring that the policy creates sustainable value.

The Board chairperson and the remuneration committee chairperson should both be aware of their respective roles with regards to the execution of the remuneration committee mandate and shareholder engagement. They also need to actively fulfil those roles throughout the year to ensure that they meet their fiduciary duties.

Shareholder engagement: Lessons to be learned from the UK

UK Corporate Governance Code

Principle D of the UK Corporate Governance Code (the Code) states:

> **In order for the company to meet its responsibilities to shareholders and stakeholders, the board should ensure effective engagement with, and encourage participation from, these parties.**

In addition to formal AGMs, the Board chairperson should seek regular engagement with the company's major shareholders in order to understand their views on governance and performance against the strategy of the business.

[5] "PwC's 2018 Annual Corporate Directors Survey." PwC. 2018, available at https://www.pwc.com/us/en/governance-insights-center/annual-corporate-directors-survey/assets/pwc-annual-corporate-directors'-survey-2018.pdf, accessed on 29 November 2018.

[6] King IV™ Principle 7, Recommended Practice 36(b) and (e); Principle 8, Recommended Practice 67.

[7] PwC Human Resource Services "Remuneration Committees: Good practices for meeting market expectations" (supra) at 16.

The remuneration committee chairperson should seek engagement with the shareholders on significant matters relating to remuneration, such as the remuneration policy, the implementation thereof and LTI awards. The Board chairperson must ensure that the Board as a whole clearly understands the views of the company's shareholders. The Board should keep engagement mechanisms under review in order to ensure that they remain effective.

When 20% or more of votes have been cast against a Board recommendation for a resolution, the company should explain, when announcing the voting results, what actions it intends to take to consult shareholders in order to understand the reasons for the result. An update on the views received from shareholders, and the actions taken in response thereto, should be published no later than six months after the shareholder meeting.

Guide on Board Effectiveness

In addition to the Code, the Financial Reporting Council (FRC) also issued an accompanying "Guide on Board Effectiveness" to address shareholder engagement. The Guide states that, in order to ensure engagement with shareholders is as effective as possible, the manner of engagement should be suited to the shareholder. Engagement with smaller shareholders for example could be more efficient by way of group engagement such as investor roundtables, or via webinars.

The Guide advises that the remuneration committee chairperson should be available at the AGM to answer remuneration-related questions.

The Guide also addresses the role of the Board chairperson. The Board chairperson's role includes fostering relationships based on trust, mutual respect and open communication – both in and outside the boardroom – between non-executive directors and the management team. Furthermore, the Board chairperson should ensure that all directors continually update their skills, knowledge and familiarity with the company to enable them to fulfil their roles on the Board and subcommittees.

Methods of shareholder engagement

There are no prescribed shareholder engagement mechanisms in South Africa. Companies can craft their own methods of reaching out and engaging with their shareholder base. These methods can be company-specific and based on aspects such as whether the company has a large contingent of international investors, and on the number of shareholders. The previous chapter contains direct insights from institutional investors about their preferred methods of shareholder engagement.

Effective shareholder engagement implies interaction between parties – i.e. a dialogue or discussion that includes questions, comments, concerns or debates. Presentations alone do not constitute engagement. The company must identify and understand the investor's interest and align the discussions to that area of focus.[8] The quality of engagement is of critical importance.

PwC US's Governance Insights Centre has noted that shareholders would like to hear from directors periodically. Insights from investors could be beneficial to both the management team as well as the Board of directors as they would help with understanding any vulnerabilities identified by shareholders and enable them to address these proactively.[9]

[8] Christopher P. Skroupa "2017 Proxy Season Roll Out – What's Next for Shareholder Engagement" https://www.forbes.com/sites/christopherskroupa/2016/10/11/2017-proxy-season-roll-out-whats-next-for-shareholder-engagement/#61215efe7874.

[9] PwC Governance Insights Centre "Director-Shareholder Engagement: Getting it right", available at https://www.pwc.com/us/en/governance-insights-center/publications/assets/pwc-director-shareholder-engagement-getting-it-right.pdf, accessed on 30 November 2018.

Meetings with investors should also include the right people. For instance, the PwC US's paper recommends that the compensation committee chairperson should attend if executive compensation is the topic of discussion. Similarly, it would be necessary for the nomination and governance committee chairperson or the lead director to attend if the topic of discussion were Board composition.

Companies should consider introducing strong shareholder engagement policies to strengthen the relationship between the Board, the remuneration committee and shareholders. The approach taken to shareholder engagement should be suited to the company's circumstances and shareholder base, rather than adopting a 'one-size-fits-all' approach.

Boards should consider the following in developing a shareholder engagement approach:

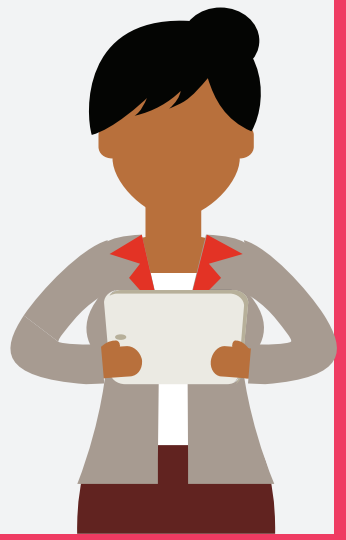
- Know the company's most significant investors and understand the investors' strategy and voting policies.
- Recognise the benefit of engagement.
- Develop a shareholder engagement process that works for the company.
- Ensure that key topics, such as executive remuneration, are tabled for discussion.
- Ensure that the correct representatives of the company are present when engaging with shareholders, and that they are properly prepared.
- Reflect on the feedback received by shareholders.

Subsequent to the engagement, the parties should agree on the next steps to be taken. They should also agree on how to communicate the outcomes of the engagement to those who were not present. There must also be agreement to an annual review of the way the engagements are conducted, with revisions implemented should there be a need.

Conclusion

With a stronger relationship and communication strategy from the company, investors may find that the company is more open to hearing their views and suggestions. From the company's perspective, having the relationship in place could help if an activist investor comes along. Directors will already understand how key shareholders feel about company strategy, Board composition, the management team and other issues.

Essentially, a Board with good shareholder relationships may be able to build up credit that it can draw on if times get tough. In reality, however, South African investors are of the view that many listed companies below the JSE top 40 do not necessarily invest in these relationships, due to their poor approach to engaging with their shareholders on remuneration. As emphasised above, making sure that engagement on the remuneration policy is continuous, and sending the right people to the meetings (i.e. members of the remuneration committee, not executive management), is essential to this process.



5

The board agenda in 2019

Introduction

The suitability of skills, experience and independence of individuals serving on boards are the areas of most concern to South African directors when it comes to general perceptions of governance. They are also the areas directors have been the most negative about in recent years. These are the findings of the *Directors' Sentiment Index Report: 3rd Edition (2018)*[1] and which are echoed by some of the major South African institutional investors, whose views are summarised on page 5 of this report.

Some South African investors have taken a hard-line stance, and gone as far as attempting to dissolve boards of companies they found problematic. We will discuss this trend in more detail, and examine investor voting patterns around board reappointments.

In the previous edition of this report, we highlighted some of the major areas of disruption that would affect boards in 2018. In this edition we go further and examine whether, in order to adapt to a world of rapid disruption, boards should do more to incorporate millennial directors. Similarly, embracing gender and diversity in organisations also remains a pressing agenda item for all boards, and this is covered in more detail on page 19. We also deal with how directors should effectively manage conflicts of interest, as part of their ethical obligations.

[1] "Directors' Sentiment Index™ Report: 3rd Edition" (2018) Institute of Directors Southern Africa, available at *https://www.iodsa.co.za/page/DirectorsSentiment,* accessed on 11 December 2018.

In a nutshell: Matters for the board agenda

The Institute of Directors Southern Africa (IoDSA) released a position paper that sets out some of the key items that governing bodies should be discussing.[2]

Key governance matters

Stakeholder relationships	Accounting/ financial results	Governance and risk management
Strategic planning and risk management	Talent management	The importance of sustainable development
The impact of the economic environment	Technology and information governance and security	Remuneration disclosures and policies

All of these are key matters that boards need to consider. For stakeholder relationships, these include parties who contract with the organisation, parties who have a non-contractual relationship with the organisation (e.g. civil society), and the State as the

[2] "The governing body agenda: What governing bodies should be discussing" (2018) Institute of Directors Southern Africa, available at *https://cdn.ymaws.com/www.iodsa.co.za/resource/collection/05E93ACB-10BE-4507-9601-307A66F34BD8/CGN_Position_paper_15__Governing_body_agenda_web_version.pdf*, accessed on 12 December 2018.

legislator.[3] Another key stakeholder relationship, of course, is that held with the shareholders, and the board should make an effort to communicate with them regularly regarding the company's strategy. Scrutinising accounting and financial results (and the underlying business) is equally important, and in previous editions we have written extensively on the consequences should non-executives fail to do so, and the associated liability resulting from corporate failures. In this publication, we also discuss the importance of sustainable development when developing corporate strategies.

Investor voting patterns: Board reappointments

We have already seen dramatic examples of schisms between investors and boards of listed companies, particularly in the face of stagnant financial performance. We have tracked the voting trends among major South African institutional investors around the reappointment of board members of JSE-listed companies, which are set out below. The voting results capture all board appointments and reappointments from 1 January 2018 to 30 September 2018.

The voting results indicate that major South African investors generally support board appointments and reappointments. However, there have been instances where they have voted against board appointments or reappointments as a result of concerns about the quality of corporate governance. Some investors and proxy advisors have raised concerns about the true independence of directors who are nominated as independent non-executive directors.

Millennial directors

There is a strong case for including millennials on boards of South African companies, as there is a feeling that they have their fingers on the pulse when it comes to emerging trends and risks.[4] South African CEOs are already aware of the shortage of digital skills and talent at a leadership level – in the 2018 *CEO Survey: Talent*,[5] 59% were somewhat concerned about the

[4] "Would you put these people on your board?" (March 2018) Company Director Magazine, available at *https://aicd.companydirectors.com.au/membership/company-director-magazine/2018-back-editions/march/meet-the-millennials,* accessed on 10 December 2018.

[5] PwC's 21st Global CEO Survey: Key findings on talent (2018), available at https://www.pwc.com/gx/en/ceosurvey/2018/deep-dives/pwc-ceo-survey-talent.pdf (accessed on 24 May 2018).

Investor	Assets under management ($ billions)	Meetings (#)	For (%)	Against (%)	Abstain (%)	Withheld (%)	Split (%)
Old Mutual South Africa	276	100	95.7	3.8	0.5	0	0
Public Investment Corporation[#]	157	56	95.1	4.9	0	0	0
Investec Asset Management	92	82	95.7	2.2	2.2	0	0
Sanlam Investments	62	105	98.7	1.3	0	0	0
Stanlib Asset Management	44	30	75.2	12	12	0	0.9
Coronation Fund Managers	41	64	98.9	1	0	0	0
Allan Gray Proprietary Limited	40	50	93.5	3.7	2.8	0	0

[#] Voting results until Q2.

Source: Proxy Insights Limited

[3] The governing body agenda: What governing bodies should be discussing (2018) (supra).

availability of skills in their senior leadership team, and 24% of were extremely concerned. However, some critics are of the view that, although the digital skills that millennial directors can bring are valuable, they should instead sit on a mirror board, rather than the main board.[6]

The experience gap between older and younger directors is particularly important as establishing mentorship relationships between more seasoned board members and incoming millennial directors is essential to the success of the latter group and is beneficial to the former, together with ensuring that younger directors are properly trained and understand their responsibilities. Encouraging them to speak up and voice their concerns and ideas to the board is also important for their development and contribution to the board.

It is difficult to tell the extent to which South African companies have incorporated millennials onto their boards. The most recent *Directors' Sentiment Index*™ Report from the IoDSA found that of the 422 South African directors that participated in the survey (which included executive and non-executive directors), 9% were under 35 years, and 18% were between the ages of 35 and 44.[7]

Other countries have begun to embrace millennial representation on their boards. For example, the Australian Institute of Company Directors quoted research which shows that the age of Australia's directors on the ASX 200 boards is dropping rapidly, particularly in the information technology, telecommunications and utility sectors.[8] There are also a number of millennials on Australian non-profit and community boards, which is traditionally a training ground for new directors.[9]

That said, the need for younger directors is not necessarily acknowledged in all jurisdictions. For example, PwC US' 2018 *Annual Corporate Directors Survey* found that only 6% of directors in the S&P 500 are 50 or younger.[10] Only 21% of the directors that participated in the survey said age diversity was very important on boards, compared to 46% for gender and 34% for racial diversity. The survey also indicates that US boards are under pressure to show a commitment to board refreshment, and diversifying the pool of potential directors.

[6] Ibid.
[7] Directors' Sentiment Index™ Report (supra).
[8] Would you put these people on your board?" (March 2018) (supra).
[9] Ibid.
[10] *https://www.pwc.com/us/en/services/governance-insights-center/library/annual-corporate-directors-survey.html".*

Managing conflicts of interest

Beyond being a fundamental ethical consideration, non-executive directors are obligated in terms of the Companies Act[11] to ensure that they avoid conflicts of interest which may arise. According to the King IV™ Report, "a conflict of interest, used in relation to members of the governing body and its committees, occurs when there is a direct or indirect conflict, in fact or appearance, between the interests of such member and that of the organisation."

This can apply to "financial, economic and other interests in any opportunity from which the organisation may benefit". In King IV™ Principle 1, members of the governing body are called upon to avoid conflicts of interest. In cases where a conflict cannot be avoided, it should be disclosed to the governing body in full at the earliest opportunity, and then proactively managed as determined by the governing body and subject to legal provisions.

The IoDSA's Conflicts of Interest paper refers to King III, which gives an example of a conflict of interest, i.e. a director who is appointed to the board as a representative of a major shareholder or a substantial creditor.[12]

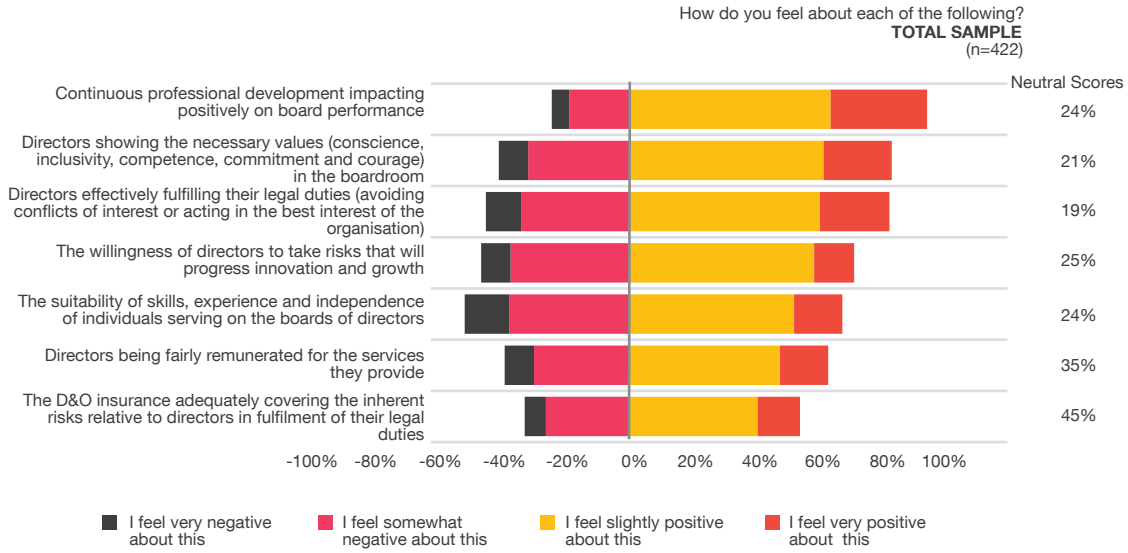
In the case of a conflict between the duties of a nominee director to a company on whose board he sits and the interests of his principal, the duties of the director to the company of which he is a director must prevail.

The chairperson of the board is responsible for managing conflicts of interest, and must go beyond merely keeping a register of conflicting interests; if necessary, he or she must ask the affected directors to recuse themselves from discussions in which they have a conflict, unless their input is necessary, in which case they should not be party to the final decision.

[11] Act 71 of 2008. Section 75 (Director's personal financial interests) and Section 76 (Standards of directors conduct) contain requirements for disclosing, and managing, directors' personal financial interests, and other circumstances that may lead to a conflict of interest.
[12] IODSA FAQs: Conflicts of Interest Institute of Directors Southern Africa, available at *https://cdn.ymaws.com/www.iodsa.co.za/resource/collection/6AFA1967-5252-4F2C-A3B1-08DFA678F43B/Conflicts_of_interest.pdf*, accessed on 29 November 2018.

The IoDSA summarises the general perception on directorship conditions in its most recent *Directors' Sentiment Index*™ Report.

Figure 5.1: General directorship perceptions



Source: Institute of Directors Southern Africa

While the directors surveyed felt more positively about whether directors were effectively fulfilling their legal duties (and avoiding conflicts of interest or acting in the best interest of the organisation) than they did around certain other areas, there was a significant portion who felt somewhat negative about this.

What is clear is that managing conflicts of interest effectively, and disclosing them timeously to the Board chairperson, is important to a well-functioning Board. Looking further afield, the UK Financial Reporting Council identifies a conflict of interest as one of the factors that can distort the judgment of otherwise well-intentioned and experienced leaders.[13]

[13] Guidance on Board Effectiveness Financial Reporting Council (July 2018), available at *https://www.frc.org.uk/getattachment/61232f60-a338-471b-ba5a-bfed25219147/2018-Guidance-on-Board-Effectiveness-FINAL.PDF*, accessed on 29 November 2018.

6

Inclusive diversity in the workplace

Many successful companies regard gender and ethnic diversity and inclusivity as a source of competitive advantage. Inclusive diversity is not only a matter of corporate social responsibility, but is also essential to the company's overall growth strategy.

PwC's 2018 *CEO Survey*: *Talent*[1] asked participants the extent to which their organisations were using certain strategies to build trust between their workforce and senior leadership. It emerged that 53% use their diversity and inclusion policies to a large extent, and 36% used them to some extent.[2] For South African companies, failing to take diversity seriously would be the worst approach to adopt in building a talent pool and credible succession planning.

According to the World Economic Forum's 2018 *Global Gender Gap Report,* South Africa is ranked 19th in the overall global index.[3] The country is ranked 70th for gender representation among overall legislators, senior officials and managers, with only 32.1% female representation. It is ranked 91st in economic participation and opportunity (2017: 89).

The study shows that representation in certain professions still shows a bias towards men and, worryingly, this is also reflected in some of the key professions that will shape the workforce of the future. For example, only 28% of the artificial intelligence workforce in South Africa is female.

According to the study, when it comes to leadership positions globally, companies with top-quartile representation of women in executive committees have been shown to perform better than those with no women representation at the top – by some estimates achieving as much as a 47% premium on average return on equity.[4] Inclusive diversity cannot be ignored since it essentially creates a win-win situation, as companies benefit from increased productivity fostered though a coming together of diverse ideas.

[1] PwC's 21st Global CEO Survey: Key findings on talent (2018), available at *https://www.pwc.com/gx/en/ceosurvey/2018/deep-dives/pwc-ceo-survey-talent.pdf* (accessed on 24 May 2018).
[2] PwC's 21st Global CEO Survey: Key findings on talent (2018) (supra).
[3] The Global Gender Gap Report 2018 (December 2018) World Economic Forum, available at *https://www.weforum.org/reports/the-global-gender-gap-report-2018*, accessed on 18 December 2018.

[4] The Global Gender Gap Report 2018 (supra).

Where are we today?

Research has shown that diversity and inclusive decision-making (i.e. including more diverse employees in business decisions at all levels) yields better business performance.[5]

However, in reality, hiring practices and succession planning do not always reflect this. For example, PwC's US 2018 *Annual Corporate Directors Survey* found that when asked about the role of public companies in workplace diversity, 66% of directors agree that companies should be doing more to promote gender/racial diversity, versus only 9% who said they should be doing less.[6]

That said, 45% of the directors surveyed say their company does a fair and/or poor job of developing diverse executive talent. In the following section, we focus on the ethnic and gender composition of the workforce in companies listed on the JSE; as this is the first time that we have conducted this analysis, there will be no comparison made with data from previous years.

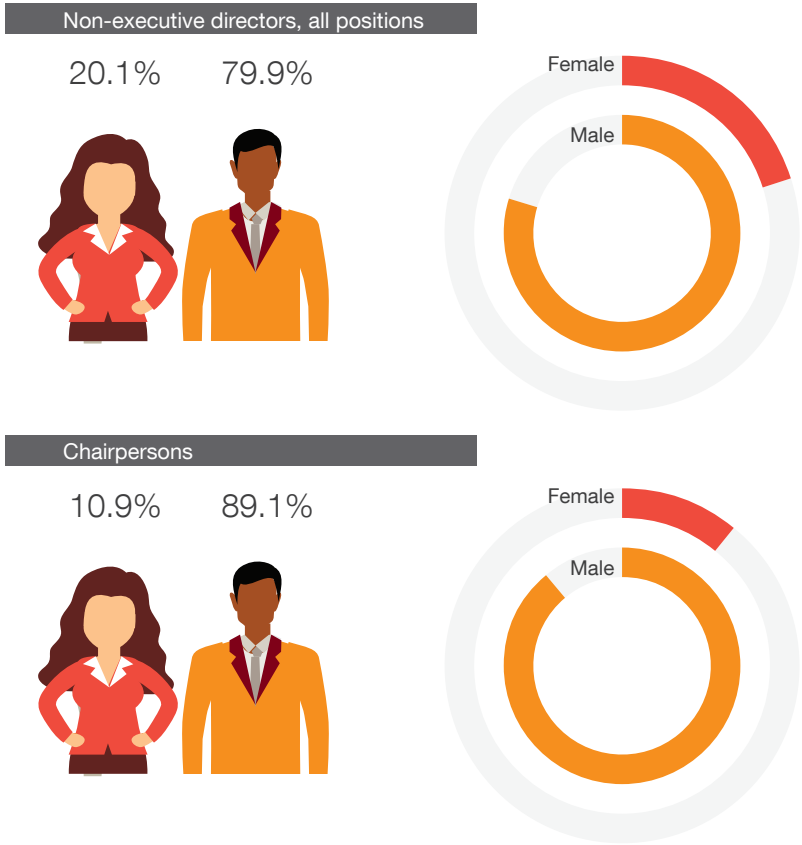
As this publication is focused on non-executive directors, we confined the analysis to non-executive directors, focusing on the gender split, as well as the racial split among African, Coloured, Indian and White incumbents.

[5] "New Research: Diversity + Inclusion = Better Decision Making At Work" (21 September 2017) Forbes.com, available at *https://www.forbes.com/sites/eriklarson/2017/09/21/new-research-diversity-inclusion-better-decision-making-at-work/#3bf3a3454cbf*, accessed on 18 December 2018.

[6] PwC US Annual Corporate Directors Survey (supra).

Gender profile

Figure 6.1: Non-executive directors by gender



Source: PwC analysis

Overall, female representation among non-executive directors remains well below 50%. Despite women making up just over half of the South African population, they remain relatively unrepresented in positions of authority and power.

Racial profile of non-executive directors

Figure 6.2: Non-executive directors, all positions

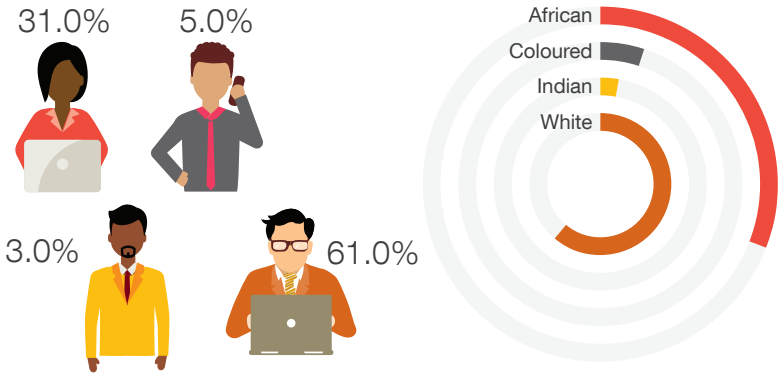


Figure 6.3: Chairpersons

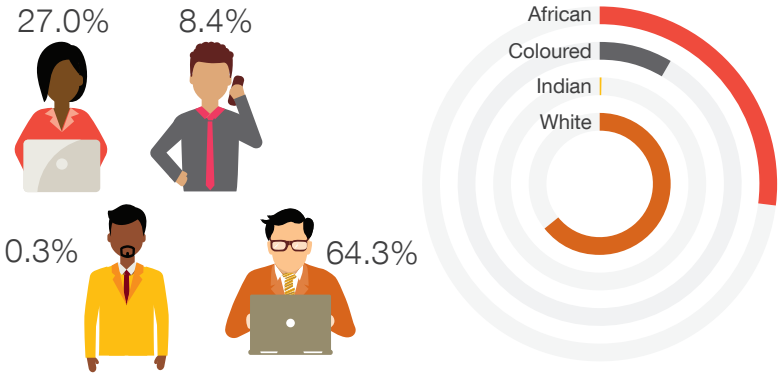


Figure 6.4: Deputy chairpersons

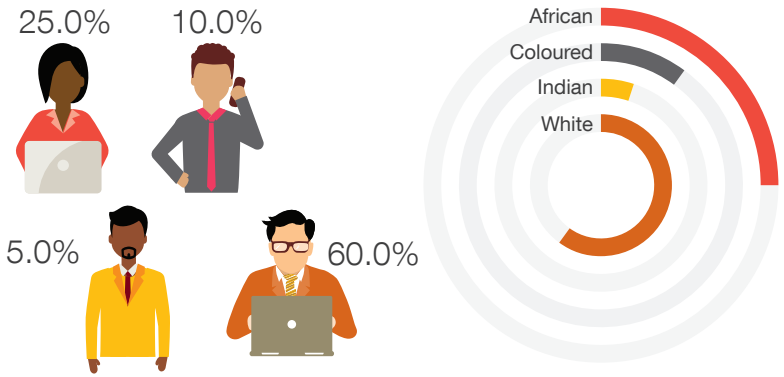


Figure 6.5: Lead independent directors

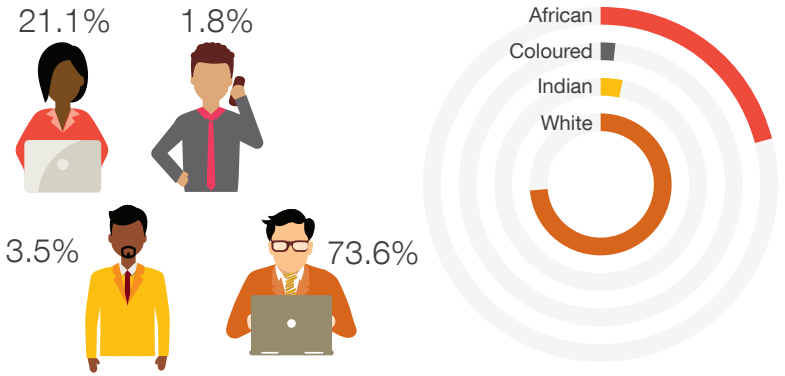
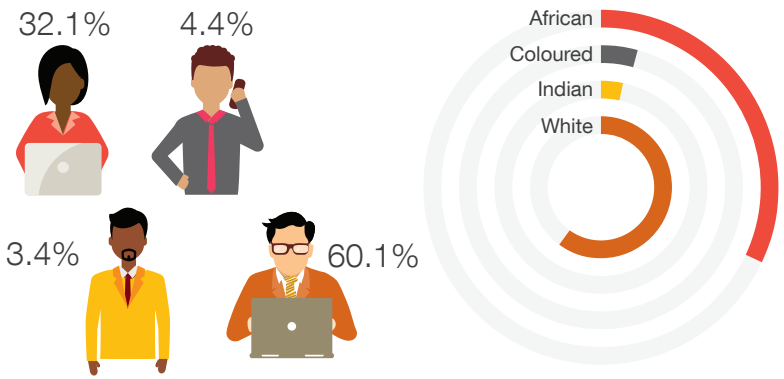


Figure 6.6: Non-executive directors



Source: PwC analysis

The diversification of leadership positions is central to innovation in a fast-changing world. These directors and management incumbents, together with the future pool of management, are the leaders that need to be cultivated and trained.

Diversity in corporate leadership structures is a global imperative, which is recognised in the corporate governance codes of multiple jurisdictions – for example, the Dutch Corporate Governance Code requires supervisory boards to draw up diversity policies for the composition of the management board, the supervisory board and, if applicable, the executive committee.

In previous publications, we have discussed how in the South African context, particularly given the underrepresentation of women and non-white people in the boardroom, the need to actively promote the growth of diverse leadership in the private sector is an even greater imperative.[7]

Gender and ethnic parity, not only in terms of numbers, but also in terms of remuneration, should be an area of major concern and focus for boards. Given the South African social and economic context, and the proven financial and strategic benefits of a more diverse and inclusive boardroom and (of equal importance) corporate culture, boards should set concrete goals to promote diversity throughout their organisations, and pursue them zealously.

[7] PwC South Africa, Non-executive directors: Practices and fees trends report (2016), available at *https://www.pwc.co.za/en/assets/pdf/NED-report-2016.pdf* (accessed on 16 January 2019) at 14.

7

Environmental and social investing

In the 2015 edition of this report we introduced and discussed the need for Boards to consider the importance of the global set of goals, otherwise referred to as 'sustainable development goals' (SDGs), driven by the United Nations, that governments were expected to adopt. When a government signs up for the SDGs it looks to society, and business in particular, for help to achieve them.

The introduction of SDGs heralded a major change for business as governments started measuring and monitoring their progress and managing the effectiveness of their interventions. In turn, businesses need to assess their impact on the SDGs and review their strategies accordingly. This entails collecting, assuring and reporting new data, which makes it necessary for them to evolve their reporting tools.[1]

Link to executive remuneration

In order to allow SDG initiatives to come to fruition, Boards would have to ensure that the relevant metrics find their way onto their executive directors' remuneration scorecards, thereby aligning the organisation's purpose with executive remuneration.

These criteria cover a broad spectrum of often non-financial measures that are hidden from day-to-day accounting, but which have a direct and significant effect on the well-being and future sustainability of the organisation.

In order to have a meaningful purpose that takes account of SDGs, organisations need to bring economic, fiscal, societal and environmental metrics together in a way that is relevant to the organisation and its stakeholders.

[1] "Make it Your Business: Engaging with the Sustainable Development Goals". PwC. 2015. http://pwc.blogs.com/files/sdg-research_final.pdf.

From promise to reality: Does business really care about the SDGs?[2]

Acting responsibly is no longer a choice. It makes sense for organisations to embrace the SDGs and sustainable business practices in general. But just how many are doing so? PwC's latest SDG Reporting Challenge expands on the SDG research conducted in 2017 to understand the SDG priorities of individual companies and analyse the quality of their SDG reporting.

The study included 729 companies from 21 countries and territories across six broad industry sectors. Only 23% disclosed meaningful KPIs and targets related to the SDG goals – suggesting the selection of priority SDGs isn't backed up by meaningful action or monitoring.

Viewing the results as a whole, it appears that while the majority of companies are keen to talk about the SDGs, they have yet to get specific about how they're embedding them into their strategies and actions. Why is this happening?

The report suggests that, while there is a clear appetite for embracing the SDGs, many organisations still lack the strategy, tools and culture needed to transform those commitments into tangible business actions.

This has a knock-on effect in terms of measuring and reporting on their progress in meeting their SDG goals. As a result they are unable to demonstrate to investors, peers and employees how and why the SDGs are helping to improve their overall business, now and for the future.

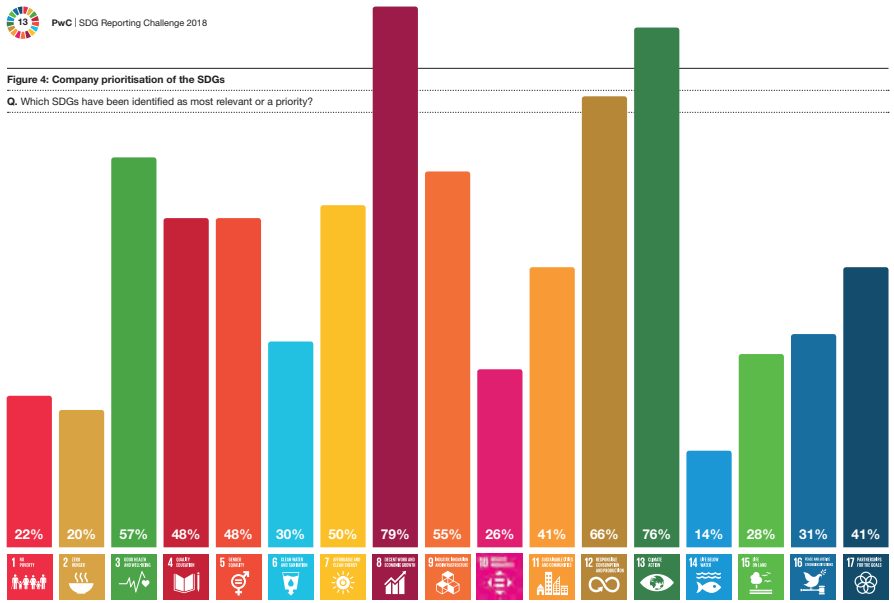
[2] "SDG Reporting Challenge Report 2018." PwC. 2018. https://www.pwc.com/sdgreportingchallenge

A question of priorities

Of the 729 companies studied, 50% have prioritised the SDGs they believe are most important to their business. The most popular priorities remain unchanged from last year's research, with the majority of organisations still focused on three main SDGs:

- Decent Work and Economic Growth (SDG8);
- Climate Action (SDG13); and
- Responsible Consumption and Production (SDG12).

Figure 7.1: Company prioritisation of the SDGs



Base: Companies with priority SDGs (362)
Source: PwC, SDG Reporting Challenge 2018

However, very few go into more detail in terms of concrete KPIs to measure their performance over time. The following are some of the reasons for this superficial engagement:

- **Measurement**
  Companies need more guidance on how to measure positive and negative impacts in key areas, and how these link to the SDGs and their underlying targets. Even before companies can get to measurement, they have to establish those issues that are more or less material for the future of the business, in terms of significant risks and opportunities. These can then be used to identify which SDGs need to be the focus of attention. The importance of this is often well understood, but it can be challenging to achieve in practice.

- **Reporting frameworks**
  Companies also need more clarity about how to make the link between SDGs and established reporting frameworks and standards. This would also help to drive comparability of data between companies. Extensive work has already been undertaken by the United Nations Global Compact (UNGC) and the Global Reporting Initiative (GRI) to identify the key actions and relevant business disclosures for each of the 169 SDG targets, which provides a foundation for this approach.

  The three sustainability frameworks that are most referred to by the companies we spoke to were GRI, International Organisation for Standardisation (ISO) and UNGC – all of which offer different ways of approaching sustainability disclosures, but none of which includes specific or detailed guidance on disclosures for the SDGs.

  As the measurement of SDGs is linked to relevant targets and internationally-accepted standards, company reporting will become more meaningful, comparable and focused on real contribution to achieving the SDGs.

- **Government**
  There are varied levels of uptake and uneven policymaking by governments in relation to the SDGs. Many companies are still waiting for guidance from government, and also need certainty over government policy on SDGs that could impact their investment decisions, before taking action or altering their course.

  However, many governments are preoccupied with other priorities and lack the resources and expertise to engage the business community. Also, there are quite wide variations in how engaged governments have been until now. Three years into the agenda, just 111 of the 193 UN member states have produced reviews of their progress. And while 12 G20 countries have mapped the alignment of existing national strategies to the SDGs, only seven of them (or 35%) have identified official key national statistics to monitor the implementation of the SDGs

- **Turning priorities into business strategy**
  For those forward-thinking businesses that embrace them at a corporate level, the SDGs will be instrumental in delivering business success and growth over the next decades and, in the process, opening new market opportunities.

  The SDGs should help determine where organisations make investment decisions, direct their research and development resources and shape new product offerings.

  When seen through this lens, it becomes clear that prioritising the most relevant SDGs is an essential first step for an organisation to determine where to focus its strategic attention. The next step is to ensure that these are included in the executives' remuneration scorecard.

8

Regulatory update

South Africa is still reeling from large-scale corporate governance failures that have occurred over the past few years. Frontline regulators have taken steps to encourage greater corporate accountability, and this has resulted in proposed amendments to the JSE Listings Requirements and the Companies Act[1] respectively.

We have also had some time to observe how the introduction of the King IV™ Code on Corporate Governance (King IV™), as well as the two-part non-binding vote on the remuneration policy and implementation report, has impacted the corporate landscape.

The following section sets out a high-level summary of remuneration-related developments in South Africa and abroad.

[1] Act 71 of 2008 as amended.

South Africa

Financial regulation: JSE regulatory review consultation paper

In September 2018, the JSE released a consultation paper[2] in response to recent events surrounding listed issuers. The consultation paper was also a response to the issue of trading in securities of the issuers.[3] The release of the consultation paper comes in the wake of corporate scandals over the past year, which have led to a loss of confidence in South African financial systems. It included a number of proposals, some of which will be implemented by the JSE. We have summarised some of them below.

[2] JSE Consultation Paper: Possible regulatory responses to recent events surrounding listed issuers and trading in their shares, 19 September 2018, page 6.

[3] JSE Consultation Paper (supra) at 10-12.

Non-binding advisory vote on corporate governance

In 2016 and 2017 the JSE made amendments to its Listings Requirements focused on corporate governance arrangements, which included rules relating to board diversity and two mandatory non-binding advisory votes on remuneration (as envisaged by King IV™). The consultation paper suggests that there is a need for enhanced focus and accountability in respect of corporate governance.

The JSE is considering, as is the case with a mandatory non-binding advisory vote on remuneration, implementing a mandatory non-binding advisory vote on the issuer's corporate governance report. In similar fashion, as with the mandatory non-binding advisory vote on remuneration, the JSE would require engagement by the issuer if the governance report is voted down by shareholders exercising 25% or more of the voting rights.

The JSE's consultation paper acknowledges that practical issues have been raised around the manner of engagement with the mandatory non-binding advisory vote on remuneration, and has requested suggestions on improving the effectiveness of engagement where a non-binding advisory vote receives significant shareholder opposition.

Amendments to the Companies Act

The Companies Amendment Bill was released on 21 September 2018. Most notably (from a remuneration perspective), the amendments affect existing disclosure requirements in respect of director and prescribed officer remuneration, and introduce the requirement to prepare directors remuneration reports.[4] The amendments are broadly in line with the remuneration report contemplated in King IV™. However the intention behind requiring disclosure in the 'prescribed' manner is unclear. Comments are currently being submitted on the proposed amendments.

[4] Sections 30(4)(a) and 30A of the Companies Amendment Bill, 2018.

Market practice on ad hoc fees for non-executive directors

King IV™ guidance on remuneration governance recommends the inclusion of non-executive director fees in a company's remuneration policy[5]. This is in addition to the basis for setting the fees[6], such as market benchmarks with peer groups utilised being disclosed together with rationale for any changes made to the peer group[7]. In addition, it is recommended that executive management recommend a fee structure for non-executives and for factors influencing these fees to include:

- Level of responsibility;
- Market capitalisation and sector;
- Level of competence required of directors; and
- Time commitment (for attendance and preparation).

Differentiations in fees between resident and non-resident non-executives may be made where the director lives outside the area where the majority of meetings are held.[8]

In terms of market practice, we generally see that non-executive directors' are paid either per meeting or on a retainer basis. Institutional investors in particular have raised concerns regarding the use of ad-hoc fees for additional meetings. Generally, we would suggest that a company clearly define the responsibilities of non-executive directors' and ensure that the retainer covers all these duties, which should largely negate the need for ad-hoc fees. Ad-hoc fees should only be payable in truly exceptional circumstances.

[5] King IV Guide – Recommended practice 30.1(f).
[6] King IV Guide – Recommended practice 34(g).
[7] King IV Guide – Recommended practice 34.6.
[8] Supra.

Australia

Failure to discharge fiduciary duty

In Australia, duty of care requires directors to take reasonable steps to place themselves in a position to guide and monitor the management of the company. Directors that fail to discharge their duty of care, skill and diligence can be sued by their company (including in derivative proceedings) for loss or damage caused by their negligence. They can also be the subject of civil penalty proceedings brought by the Australian Securities and Investments Commission.[9]

[9] "'Why not litigate?' ASIC vows more civil, criminal cases against banks" The Sydney Morning Herald, 09 November 2018, available at *https://www.smh.com.au/business/banking-and-finance/why-not-litigate-asic-vows-more-civil-criminal-cases-against-banks-20181109-p50f1e.html* accessed on 07 December 2018.

United Kingdom

Corporate governance reform

Executive remuneration remains a matter of considerable focus for politicians, the media and the general public in the UK. There is a public perception of a lack of fairness in this area as well as a lack of political will to respond to it.[10]

Arguably, executive remuneration has become one of the signature issues in relation to the erosion of public trust in big business. The government has been considering reforms to the governance of executive pay in an attempt to restore trust in this area, with the revised UK Corporate Governance Code (the Code) issued in September 2018.

There have been some specific changes in the Code that will have implications for UK Remuneration Committees, in particular:[11]

- The composition of board committees;
- Disclosure; and
- Employee voice.

Composition

At least half the board, excluding the chairperson, should be non-executive directors whom the board considers to be independent. This is a change from the old Code, which allowed smaller companies to have only two non-executives on the board. One of the key changes to the Code is that concessions for smaller companies have been removed, in order to encourage sufficient independent challenge.[12]

The board should establish an audit committee of at least three or, in the case of smaller companies, two independent non-executive directors. The chair of the board should not be a member of the committee. Previously, smaller companies were permitted to have the company chairperson as a member of a committee, albeit not the chair.

[10] "Board Discussions: What NEDs have been debating" PwC UK (September 2018).

[11] *https://sites-herbertsmithfreehills.vuturevx.com/37/17701/landing-pages/53027559-5.pdf,* (accessed on 30 October 2018)..

[12] Financial Reporting Council 'Feedback Statement: Consulting on a revised UK Corporate Governance Code' July 2018, available at *https://www.frc.org.uk/getattachment/90797f4b-37a1-463e-937f-5cfb14dbdcc4/2018-UK-Corporate-Governance-Code-Feedback-Statement-July-2018.pdf,* (accessed, on 29 November 2018).

The board should establish a remuneration committee of at least three or, in the case of smaller companies, two independent non-executive directors. In addition, the chair of the board can only be a member of the committee if they were independent on appointment. However they cannot chair the committee.

Employee voice

Three possible methods have been set out in the Code for engaging with employees, which include a designated non-executive director, a formal workforce advisory panel, or a director appointed from the workforce. This is in response to the expectation for boards to establish methods for communicating with the workforce.[13] It has also been indicated that a combination of these can be used or, indeed, something else in addition or instead.

The provisions in the Code continue to apply on a 'comply or explain' basis. However, the introduction to the Code contains a greater emphasis on the importance of 'applying' the principles, and reporting on how the company does so in a meaningful way. Where there has been a deviation from a provision which is intended to be limited over time, the explanation provided by the company should indicate when the company expects to conform to the provision.

[13] *https://sites-herbertsmithfreehills.vuturevx.com/37/17701/landing-pages/53027559-5.pdf,* at page 6, (accessed on 30 October 2018).

Conclusion

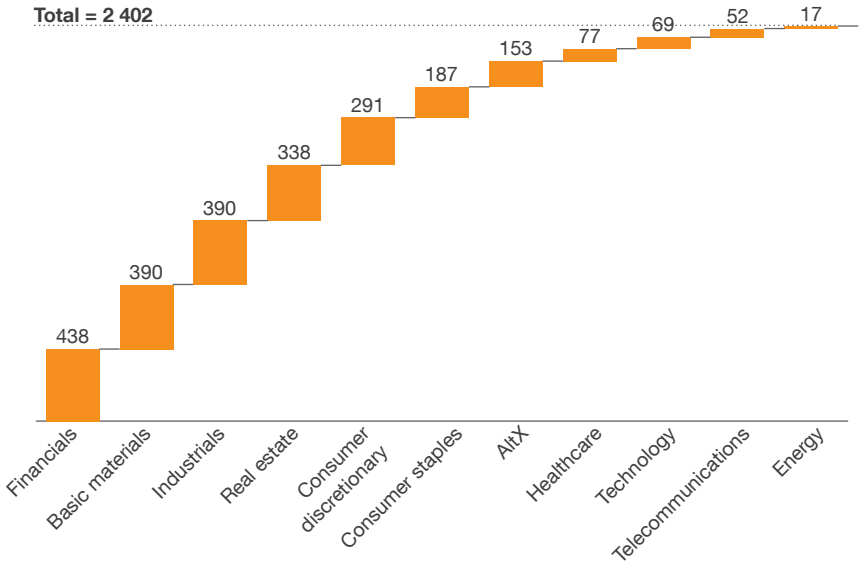
It is becoming more apparent that the role of independent non-executive directors' is vital to maintaining a sound corporate governance framework and, particularly in the field of remuneration, they are held to increasingly higher standards. In turn, their independence and fiduciary responsibilities must be closely monitored. Indeed, in certain jurisdictions penalties are imposed for failure to uphold these duties. In South Africa, this is particularly noticeable in the drive by the JSE to adopt corporate governance principles in its Listings Requirements and the proposed amendments to the Companies Act relating to the disclosure of directors' remuneration.

9

Profile of a non-executive director

At 30 November 2018, the total number of non-executive directors serving on the boards of active companies on the JSE was 2 402, which is 145 more than in the prior reporting period.

Figure 9.1: Number of non-executives by sector, 2018



Source: PwC analysis

There are no utilities listed on the JSE. The utilities sector is a category of shares for utilities such as gas and power. The sector contains companies such as electric, gas and water firms, and integrated providers. In South Africa, all utilities are state-owned.

Board tenure

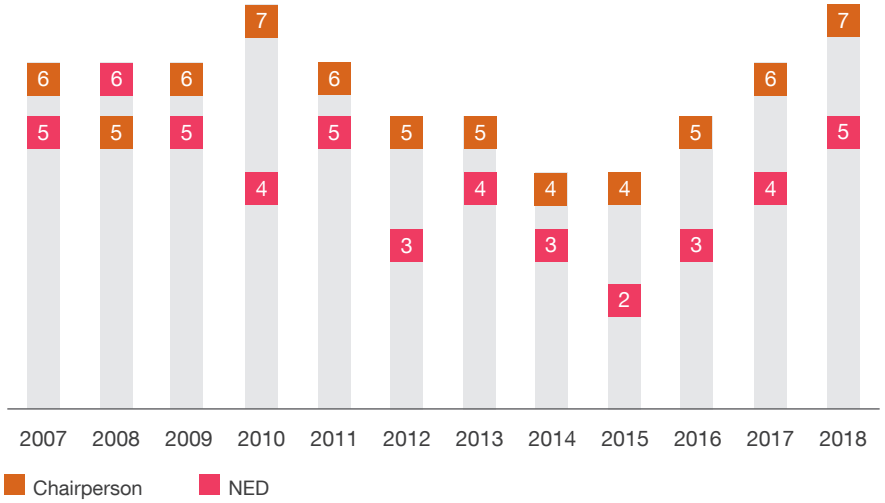
The median board tenure for chairpersons of JSE-listed companies has risen slightly higher to seven years (2017: six). The average tenure for NEDs has also increased slightly to five years (2017: four). The need for board continuity and board refreshment should be considered together, and in the context of a rapidly changing talent pool and business environment. We have already dealt with the potential benefits of increasing millennial representation on boards in a separate chapter. Some practices that have emerged to promote board refreshment in the corporate sector are tenure requirements and mandatory age limits for non-executive directors.

When considering the adoption of mandatory age limits, boards should recognise that waiving the limits often requires disclosure. This decision may result in adverse publicity and even negative vote recommendations.

Global governance and proxy advisory firm Glass Lewis, for example, does not encourage the adoption of what it calls 'inflexible rules' regarding director terms; indeed, its 2016 proxy guidelines endorse the position that length of tenure does not correlate with director performance.

That said, its policy is to consider recommending a vote against directors on the nomination and governance committees if the board waives the company's mandatory term limit, absent explanations and individual circumstances.[1]

Figure 9.2: Median board tenure



Source: PwC analysis

Some institutional investors and activist investors have gone so far as to propose that, after a certain length of tenure, non-executive directors should no longer be considered independent.[2] In summary, this view has both advantages and disadvantages.

First, it would limit the usefulness of a board's most experienced directors by precluding them from serving on the key committees where their expertise may be most valuable. Second, such a ban would impinge upon the board's business judgment and discretion by micromanaging the organisational structure of the board.

However, there are positives to this approach: a case can be made that term limits can play a key role in promoting board refreshment.[3] There is also a concern in certain quarters that directors who have served on the board for a prolonged period of time can grow complacent and not hold executives accountable for their actions to the extent that they should.

King IV™ does not take a hard and fast approach to the length of a non-executive's tenure, and states the following in relation to the effect that tenure can have on director independence:

> **A non-executive member of the governing body may continue to serve, in an independent capacity, for longer than nine years if, upon an assessment by the governing body conducted every year after nine years, it is concluded that the member exercises objective judgment and there is no interest, position, association or relationship which, when judged from the perspective of a reasonable and informed third party, is likely to influence unduly or cause bias in decision-making.[4]**

Although the King IV™ approach is perhaps not as stringent as some would prefer, where the board takes a robust approach when conducting these assessments, it has the potential to prove effective in promoting board refreshment particularly in assessing director independence. That said, where the board does not have a strong corporate governance culture, the assessments may not be conducted in as thorough and effective a manner as they should be.

[1] "Glass Lewis Proxy Paper Guidelines", 2016 Proxy Season, United States.
[2] "The 'New Insiders': Rethinking Independent Directors' Tenure", Posted by Yaron Nili, Harvard Law School, on Tuesday, February 16, 2016.
[3] PwC *Annual Corporate Directors Survey* (2018) (supra).
[4] Institute of Directors Southern Africa. "*King IV™ Report on Corporate Governance*" (2016) (supra).

Independence status

Independence rules generally aim to ensure that directors avoid conflicts of interest that may impede their service to the board. Furthermore, true independence of a non-executive director should certainly steer his or her thinking to make the right decisions and avoid the potential for acting for vested interests. Independence enhances professionalism.

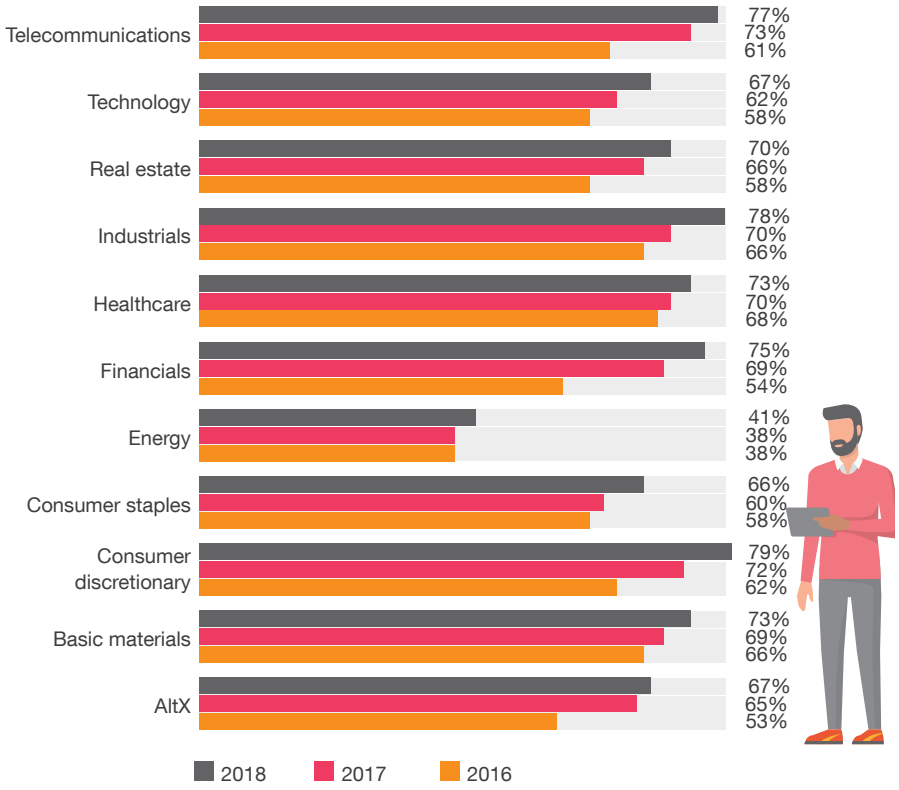
Globally, institutional investors have begun to incorporate director tenure as a consideration used in evaluating investor decisions.[5]

A 2016 survey of 4 000 directors in 60 countries conducted by global executive search and leadership consulting firm Spencer Stuart, found that directors in private companies are significantly less likely to be subjected to limits. This suggests that, without the pressures faced by public companies, private boards choose to maintain latitude regarding board composition including tenure and independence.

In our analysis of the independence of non-executive directors in line with the ICB industry classification, we found independent non-executive directors to be well in the majority, except in the energy sector which is very small in the overall context.

[5] Harvard Law School Forum on Corporate Governance and Financial Regulation © 2019

Figure 9.3: Proportion of independent non-executive directors, 2016–2018

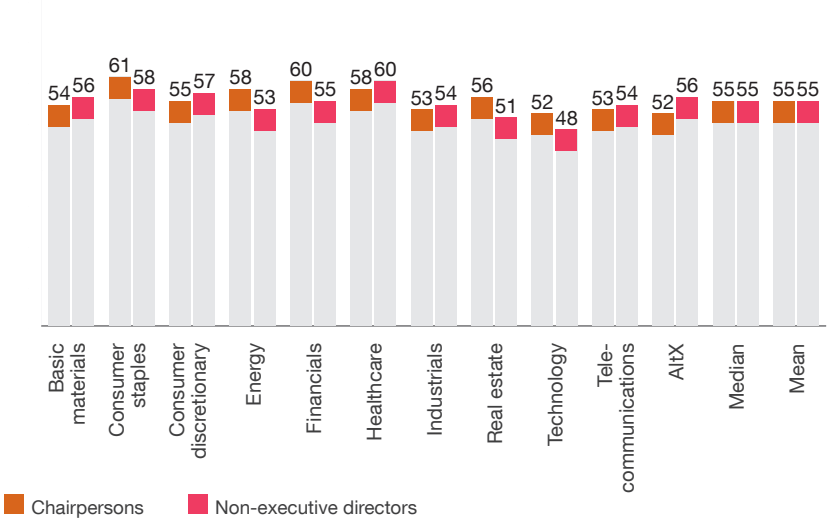


Source: PwC analysis

Age

Both the mean and median age of chairpersons and non-executive directors has remained 55 over the past two years, with some variation across industry sectors.

Figure 9.4: Median age of board members, 2018



Source: PwC analysis

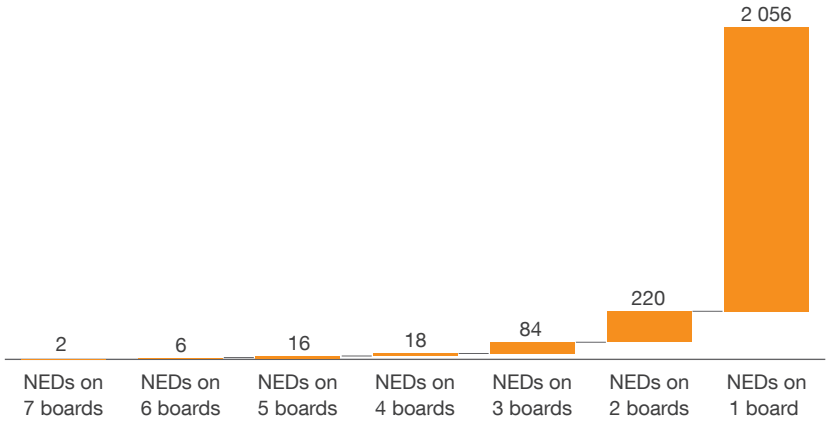
Directorships

How many jobs can a non-executive director handle? Non-executive positions are more burdensome than in the past. Preparation and competent execution are paramount, which requires capacity to address unforeseen circumstances.

Serving on multiple boards in smaller companies may be possible. The data, however, reflects that many non-executive directors serving on numerous boards are also holding different portfolio responsibilities as non-executives on large-cap companies in diverse industries. In this scenario, effectiveness as a non-executive director would be hard to achieve in a complex business environment.

In South Africa, non-executives carry the same personal liability as executive directors. The fact that the non-executives are removed from the coalface realities in the business does not diminish their legal responsibilities.

Figure 9.5: Non-executive directors' membership of multiple boards

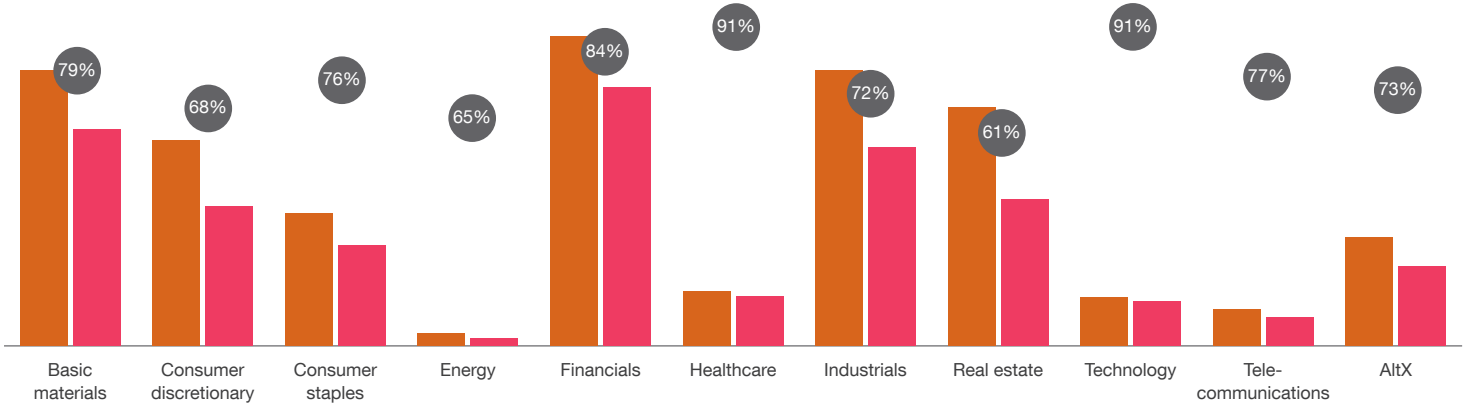


Source: PwC analysis

Qualifications

Qualifications required to hold the post of non-executive director are an enabling factor only if they fit the duties assigned to the incumbent. Many non-executives do not have specialised qualifications, and the shortage of competent and qualified people is a real challenge.

Figure 9.6: Non-executive directors with university degrees or similar tertiary education



	Basic materials	Consumer discretionary	Consumer staples	Energy	Financials	Healthcare	Industrials	Real estate	Technology	Tele-communications	AltX
NEDs	390	291	187	17	438	77	390	338	69	52	153
Tertiary education	307	198	143	11	366	70	281	207	63	40	112
Percent with tertiary education	79%	68%	76%	65%	84%	91%	72%	61%	91%	77%	73%

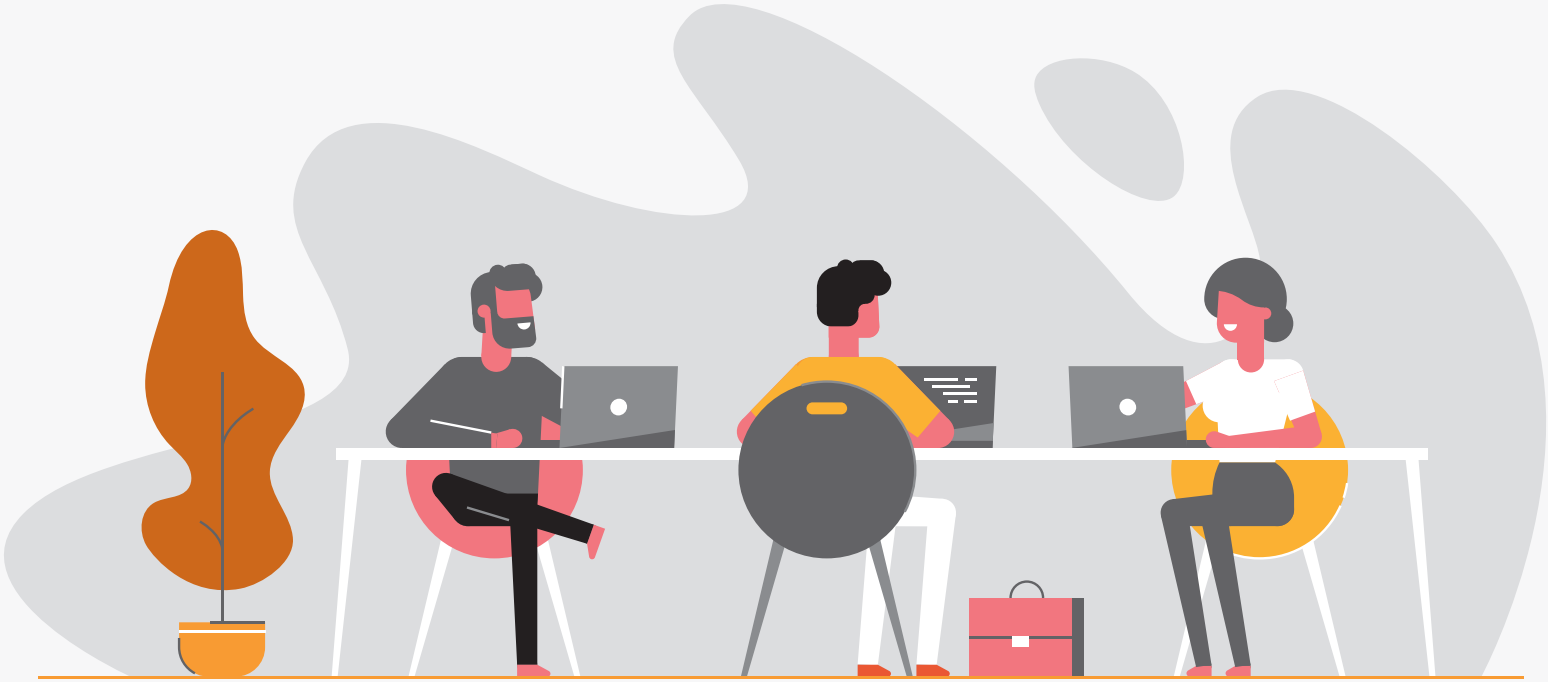
Source: PwC analysis

Average number of meetings held

Number of meetings annually	Board meetings 2016	Board meetings 2017	Board meetings 2018	Exco meetings 2016	Exco meetings 2017	Exco meetings 2018	Audit committee meetings 2016	Audit committee meetings 2017	Audit committee meetings 2018	Corporate governance meetings 2016	Corporate governance meetings 2017	Corporate governance meetings 2018	Nominations committee meetings 2016	Nominations committee meetings 2017	Nominations committee meetings 2018	Remuneration committee meetings 2016	Remuneration committee meetings 2017	Remuneration committee meetings 2018	Risk committee meetings 2016	Risk committee meetings 2017	Risk committee meetings 2018	Sustainability committee meetings 2016	Sustainability committee meetings 2017	Sustainability committee meetings 2018	Social & ethics committee meetings 2016	Social & ethics committee meetings 2017	Social & ethics committee meetings 2018
AltX	4	4	5	7	6	7	5	4	5	2	3	3	2	2	3	3	3	2	3	4	4	2	2	2	2	3	3
AltX	4	4	5	7	6	7	5	4	5	2	3	3	2	2	3	3	3	2	3	4	4	2	2	2	2	3	3
Basic materials	4	4	5	7	6	7	5	5	5	2	3	2	2	1	2	2	3	2	4	4	4	2	2	3	2	3	3
Chemicals	3	4	5	7	6	8	5	5	5	2	3	3	2	1	2	2	3	3	3	4	4	2	1	3	2	3	2
Forestry & paper	3	4	5	7	6	8	5	4	5	2	3	3	2	1	2	2	3	2	4	4	4	2	2	2	2	3	2
Industrial metals & mining	3	4	5	8	6	8	5	5	5	2	3	2	2	2	2	2	3	3	4	4	4	2	2	2	2	3	3
Mining	4	4	5	7	6	7	5	5	5	2	3	2	2	1	2	3	3	2	4	4	4	2	2	3	2	3	3
Consumer discretionary	4	4	5	7	6	8	5	4	5	2	3	2	2	2	2	2	3	3	4	4	4	2	2	3	2	3	2
Food & drug retailers	4	4	5	7	6	8	5	4	5	2	3	2	2	2	3	3	3	3	3	4	4	2	2	2	2	3	2
General retailers	4	4	5	7	6	8	5	4	5	2	3	2	2	2	2	2	3	3	4	4	4	2	2	3	2	3	2
Media	3	4	5	7	6	7	5	4	5	2	3	2	2	2	2	3	3	2	3	4	4	2	2	2	2	3	2
Travel & leisure	3	4	5	7	6	7	5	5	5	2	3	3	2	2	2	2	3	3	4	4	4	2	1	3	2	3	2
Consumer staples	4	4	5	7	6	8	5	4	5	2	3	3	2	1	2	2	3	2	4	4	4	2	1	3	2	3	2
Automobiles & parts	3	4	5	7	6	7	5	5	5	2	3	3	2	1	3	3	3	2	4	4	5	2	1	3	2	3	2
Beverages	4	4	5	8	6	8	5	4	5	2	3	3	2	2	2	2	3	3	4	4	4	2	2	3	2	3	3
Food producers	4	4	5	7	6	8	5	4	5	2	3	3	2	2	2	3	3	2	4	4	4	2	1	2	2	3	2
Household goods & home construction	3	4	5	6	7	8	6	4	5	2	3	3	2	1	2	2	3	2	4	4	4	2	1	3	2	2	2
Leisure goods	3	4	5	6	3	10	5	4	4	1	3	2	2	1	3	3	3	2	3	4	4	2	1	2	2	3	3
Personal goods	4	4	5	7	7	8	5	4	5	2	3	2	2	1	2	3	3	3	4	5	4	2	2	3	2	3	2
Tobacco	4	3	5	7	6	8	4	4	5	2	3	2	2	2	3	2	3	3	4	4	3	2	1	3	2	3	2
Energy	3	4	4	7	7	7	5	4	5	2	3	2	2	2	2	2	3	2	3	3	4	2	1	2	2	3	2
Oil & gas producers	3	4	4	7	7	7	5	4	5	2	3	2	2	2	2	2	3	2	3	3	4	2	1	2	2	3	2
Financials	4	4	5	7	6	7	5	4	5	2	3	2	2	1	2	3	3	3	3	4	4	2	2	2	2	3	3
Banks	4	4	5	7	6	7	5	5	5	2	3	3	2	2	2	3	3	2	3	4	4	2	1	3	2	3	3

Number of meetings annually	Board meetings 2016	Board meetings 2017	Board meetings 2018	Exco meetings 2016	Exco meetings 2017	Exco meetings 2018	Audit committee meetings 2016	Audit committee meetings 2017	Audit committee meetings 2018	Corporate governance meetings 2016	Corporate governance meetings 2017	Corporate governance meetings 2018	Nominations committee meetings 2016	Nominations committee meetings 2017	Nominations committee meetings 2018	Remuneration committee meetings 2016	Remuneration committee meetings 2017	Remuneration committee meetings 2018	Risk committee meetings 2016	Risk committee meetings 2017	Risk committee meetings 2018	Sustainability committee meetings 2016	Sustainability committee meetings 2017	Sustainability committee meetings 2018	Social & ethics committee meetings 2016	Social & ethics committee meetings 2017	Social & ethics committee meetings 2018
Development capital	3	5	4	7	7	9	5	3	5	2	3	3	2	2	3	2	4	2	4	4	4	2	2	3	2	3	2
Equity investment instruments	4	4	5	7	6	8	5	5	5	2	3	2	2	1	3	2	3	3	3	4	4	2	2	2	2	3	3
Financial services	4	4	5	7	6	7	5	5	5	2	3	2	2	1	2	3	3	3	3	4	4	2	2	3	2	3	3
Life insurance	4	4	5	7	6	8	5	4	5	2	3	2	2	1	3	2	3	3	4	4	4	2	2	2	2	3	2
Nonequity investment instruments	3	4	5	7	7	7	5	4	5	2	3	3	3	1	2	2	3	2	3	4	3	2	1	2	2	3	2
Nonlife insurance	3	4	5	8	6	7	5	4	5	2	3	2	2	2	3	2	3	3	3	4	4	2	1	3	2	3	3
Venture capital	4	5	5	9	6	8	6	4	5	2	2	3	2	2	3	2	3	3	3	4	4	2	2	3	2	3	3
Healthcare	4	4	5	7	6	8	5	4	5	2	3	2	2	1	3	3	3	2	3	4	4	2	2	2	2	3	3
Healthcare equipment & services	4	4	5	8	7	7	5	4	5	2	3	3	2	1	3	3	3	2	4	4	4	2	2	2	2	3	3
Pharmaceuticals & biotechnology	4	4	5	6	6	9	5	5	5	2	3	2	2	2	3	3	3	2	3	4	4	2	2	3	2	3	3
Industrials	3	4	5	7	6	7	5	5	5	2	3	3	2	1	3	2	3	2	3	4	4	2	1	2	2	3	2
Construction & materials	4	4	5	7	6	7	5	5	5	2	3	3	2	1	3	3	3	3	3	4	4	2	1	2	2	3	2
Electronic & electrical equipment	4	4	5	6	5	7	5	5	5	2	3	3	2	1	2	3	3	2	3	4	4	2	1	2	2	3	2
General industrials	3	4	5	7	6	8	5	5	5	2	3	3	2	1	3	2	3	2	3	4	4	2	1	3	2	3	2
Industrial engineering	4	4	5	7	6	8	5	5	5	2	3	2	2	2	3	3	3	2	4	4	5	2	2	2	2	3	2
Industrial transportation	4	4	5	7	6	7	5	4	5	2	3	3	2	2	3	2	3	2	4	4	4	2	1	2	2	3	3
Support services	4	4	5	7	6	7	5	4	5	2	3	2	2	1	2	2	3	2	3	4	4	2	2	3	2	3	2
Real estate	4	4	5	7	6	8	5	5	5	2	3	3	2	2	2	3	3	2	3	4	4	2	2	2	2	3	2
Real estate investment & services	4	4	5	6	6	8	5	4	5	2	3	3	2	2	2	2	3	2	3	4	4	2	2	3	2	3	2
Real estate investment trusts	3	4	5	7	6	8	5	5	5	2	3	3	2	2	2	3	3	3	3	4	4	2	2	2	2	3	2

Number of meetings annually	Board meetings 2016	Board meetings 2017	Board meetings 2018	Exco meetings 2016	Exco meetings 2017	Exco meetings 2018	Audit committee meetings 2016	Audit committee meetings 2017	Audit committee meetings 2018	Corporate governance meetings 2016	Corporate governance meetings 2017	Corporate governance meetings 2018	Nominations committee meetings 2016	Nominations committee meetings 2017	Nominations committee meetings 2018	Remuneration committee meetings 2016	Remuneration committee meetings 2017	Remuneration committee meetings 2018	Risk committee meetings 2016	Risk committee meetings 2017	Risk committee meetings 2018	Sustainability committee meetings 2016	Sustainability committee meetings 2017	Sustainability committee meetings 2018	Social & ethics committee meetings 2016	Social & ethics committee meetings 2017	Social & ethics committee meetings 2018
Technology	4	4	5	8	6	8	5	4	5	2	3	3	2	1	2	2	3	2	4	4	4	2	2	2	2	3	2
Software & computer services	4	4	5	8	6	8	5	4	5	2	3	3	2	1	2	2	3	2	4	4	4	2	2	2	2	3	2
Technology hardware & equipment	4	4	6	7	7	8	5	5	6	2	3	2	2	1	3	2	3	2	3	5	4	2	2	2	1	3	2
Telecommunications	3	4	5	7	7	8	5	4	5	2	3	2	2	1	3	3	3	2	4	4	4	2	1	3	2	3	2
Fixed line telecommunications	3	4	5	5	7	8	5	5	5	2	3	2	2	1	3	2	3	2	3	4	5	2	1	2	2	3	3
Mobile telecommunications	3	4	5	7	7	8	5	4	5	2	3	2	2	1	2	3	3	2	4	4	4	2	1	3	2	3	2



10

JSE non-executive directors' fees

Total non-executive directors' fees

We analyse total fees paid to non-executive directors as disclosed in company integrated annual reports published during the 2018 reporting period. The fees paid are reviewed to reflect trends in the amounts paid in quartiles, and we have also added the mean value to reflect the average that is used by many analysts. The main focus, however, is on the median — 50th percentile — against which percentage increases are calculated.

Where non-executive directors receive payment in foreign currency, this is converted into South African rand for standard reporting purposes. Payment in foreign currency may skew the statistics because of fluctuations which are very prominent in the South African currency.

Foreign currency conversion rates are at spot rates at the cut-off date for this report.

Exchange rates

Currency	Exchange rate
AUD	10.026
BWP	1.312
CAD	10.446
CHF	13.859
EUR	15.680
GBP	17.668
NZD	1.000
NAD	1.000
PKR	0.103
SGD	10.074
USD	13.855
ZAR	1.000

Source: PwC analysis

The effects of domicile and foreign exchange

The table below reflects the domicile of non-executive directors on the JSE. Not all foreign domiciled non-executives are paid in foreign currency. The list shows the population sample of non-executive directors holding foreign citizenship. The majority of non-executive directors serving on the JSE Boards are South African citizens (85%).

Of the 325 active companies and 2 402 non-executives serving on Boards, several are South African citizens paid in foreign currency. Conversely, some foreign nationals receive payment in South African rand.

Domicile of non-executive directors of JSE-listed companies

Domicile	2016	% of total	2017	% of total	2018	% of total
South Africa	1 935	86.1%	1 941	86.0%	2 050	85.3%
UK	83	3.7%	88	3.9%	94	3.9%
Australia	41	1.8%	40	1.8%	45	1.9%
USA	38	1.7%	36	1.6%	42	1.7%
China	41	1.8%	49	2.2%	58	2.4%
Germany	18	0.8%	17	0.8%	17	0.7%
Nigeria	20	0.9%	18	0.8%	22	0.9%
Italy	5	0.2%	5	0.2%	5	0.2%
Namibia	11	0.5%	12	0.5%	15	0.6%
Zimbabwe	4	0.2%	3	0.1%	3	0.1%
Brazil	6	0.3%	5	0.2%	5	0.2%
Canada	9	0.4%	7	0.3%	7	0.3%
France	2	0.1%	2	0.1%	1	0.0%
Botswana	18	0.8%	17	0.8%	18	0.7%
Switzerland	3	0.1%	3	0.1%	3	0.1%
Greece	0	0.0%	1	0.0%	1	0.0%
Russia	6	0.3%	7	0.3%	8	0.3%
Japan	3	0.1%	3	0.1%	3	0.1%
Netherlands	4	0.2%	3	0.1%	4	0.2%
New Zealand	1	0.0%	0	0.0%	0	0.0%
Spain	0	0.0%	0	0.0%	1	0.0%
Total	**2 248**	**100%**	**2 257**	**100%**	**2 402**	**100%**

Source: PwC analysis

Our analysis found that 352 non-executives were paid in foreign currency.

Remuneration: All sectors

The four categories of all non-executive Board members examined are:

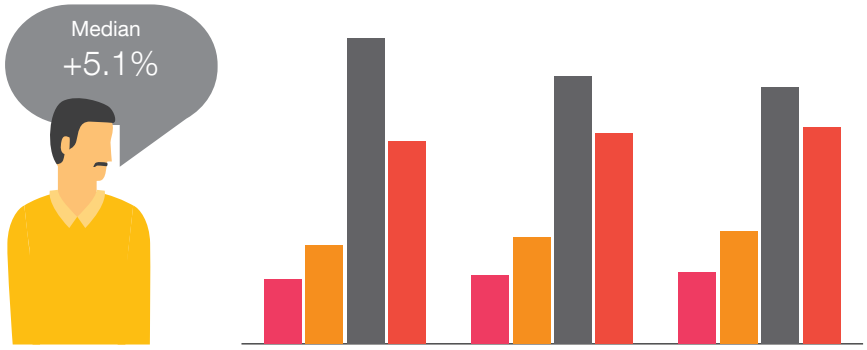
- Chairperson of the Board;
- Deputy chairperson;
- Lead independent director; and
- Non-executive directors.

Chairpersons

The role of a chairperson is time-consuming, as it includes work between scheduled meetings, representing the organisation externally, and interacting with fellow Board members and employees. Chairing a large organisation requires diplomatic leadership skills of a high calibre.

Examination of all fees paid to JSE non-executive directors shows that a 5.1% increase was awarded to chairpersons at median level.

Figure 10.1: JSE all sectors: Chairpersons (R'000s)



	2016	2017	2018
Lower quartile	340	365	377
Median	520	566	595
Upper quartile	1 622	1 419	1 363
Mean	1 075	1 115	1 148

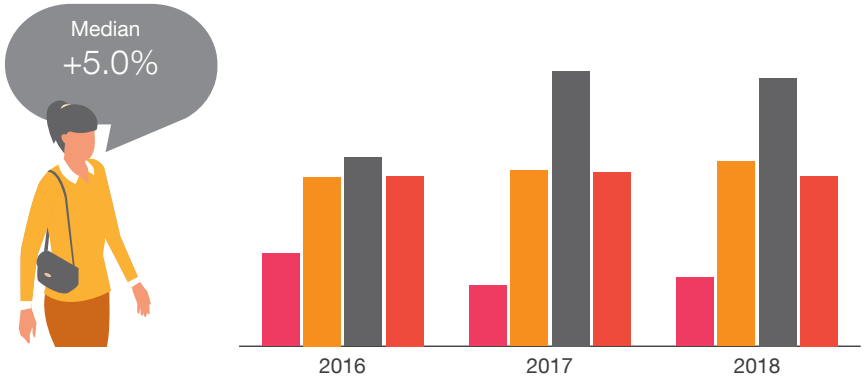
Source: PwC analysis

Deputy chairpersons

Some organisations include a position of deputy chairperson. This person assists the chairperson and fills in if they are unavailable. It is essential that the chair and deputy chair have a good working relationship and understand their roles to ensure that duplication or confused direction does not occur.

Deputy chairpersons received a similar median increase to that of the chairpersons, slightly less at 5%.

Figure 10.2: JSE all sectors: Deputy chairpersons (R'000s)



	2016	2017	2018
Lower quartile	493	321	365
Median	899	933	980
Upper quartile	1 002	1 461	1 422
Mean	904	922	902

Source: PwC analysis

Lead independent directors

The lead independent director must be a member of the Board of directors, and must meet the requirements set out in the Companies Act and King IV™ (read with the JSE Listings Requirements), as well as any other criteria established by the Board to promote objectivity and independence.

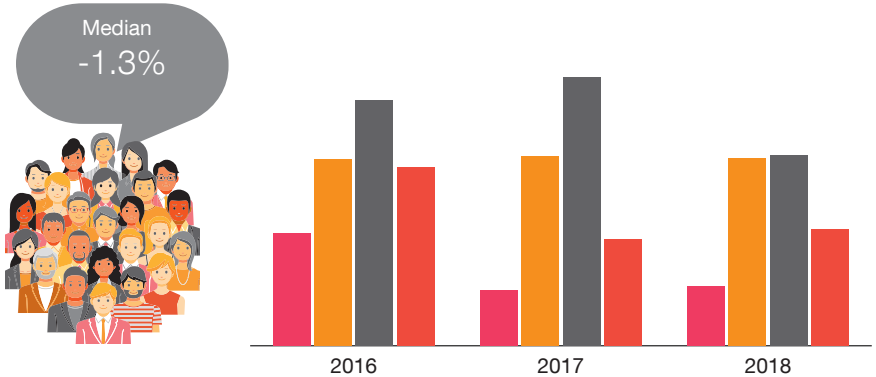
The lead independent director is required to preside at all meetings of the Board at which the chairperson is not present, or where the chairperson is conflicted, including any session of the independent directors.

Their duties include calling meetings of the independent directors, where necessary, and serving as principal liaison between the independent directors and the chairperson. Their responsibilities would also include liaising with major shareholders if requested by the Board in circumstances in which the chairperson is conflicted.

King IV™ confirms the principle that the chairperson should be independent and free of conflicts. They have to set the ethical tone for, and provide leadership to, the Board and the company, and also act as a link between the Board and company.

In the period 2016 to 2018, lead independent directors were not rewarded with an increase at median level and their total fees were reduced by 1.3%.

Figure 10.3: JSE all sectors: Lead independent directors (R'000s)



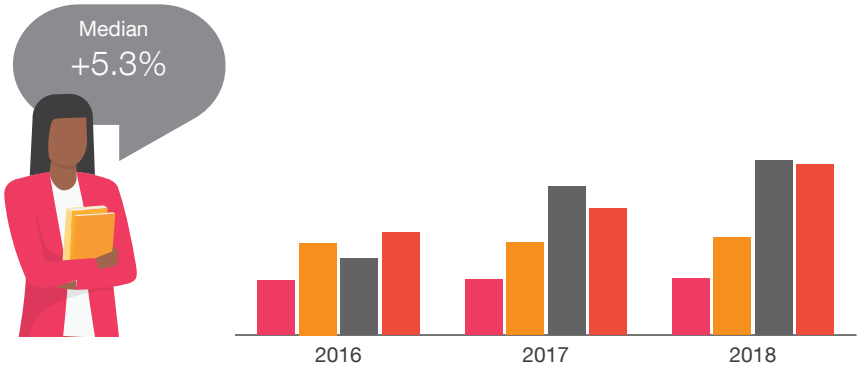
	2016	2017	2018
Lower quartile	599	297	315
Median	987	1 007	994
Upper quartile	1 302	1 422	1 009
Mean	945	566	618

Source: PwC analysis

Non-executive directors

Non-executive directors are required to make up the majority of a Board's membership, and preferably be independent. The median increase in remuneration for non-executive directors in all sectors is above the consumer price index (CPI) by a wide margin.

Figure 10.4: JSE all sectors: Non-executive directors (R'000s)



	2016	2017	2018
Lower quartile	288	296	300
Median	488	492	518
Upper quartile	404	788	928
Mean	543	669	904

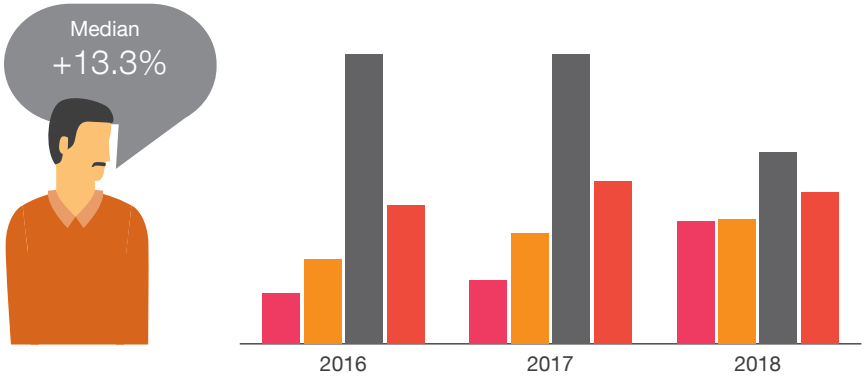
Source: PwC analysis

Remuneration among 'super caps'

In the previous edition of this report, we analysed the status of the top-ten trading companies on the JSE, which were classed as 'super-caps'. We undertook to examine this aspect in greater detail in future publications.

The top-ten companies moved in ranking during the year and our examination of remuneration paid to the non-executives took this into account. Therefore the resultant fee values are smoothed out to give more traction to the data and achieve greater granularity. This was done in order to conduct a proper quartile analysis.

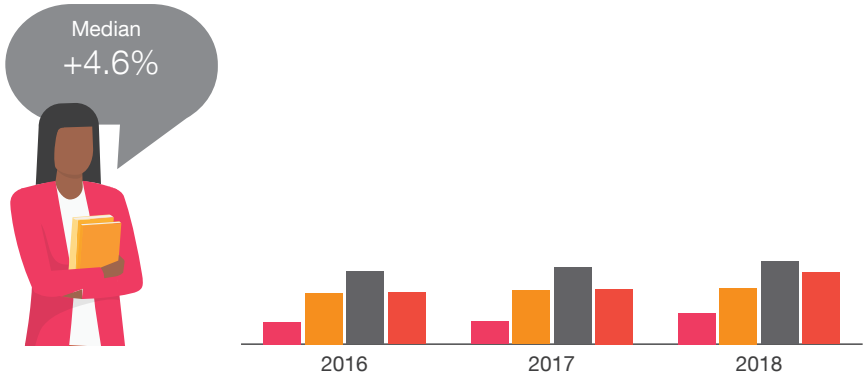
Figure 10.5: Super-cap: Chairpersons (R'000s)



	2016	2017	2018
Lower quartile	2 388	3 001	5 762
Median	4 000	5 190	5 881
Upper quartile	13 630	13 638	9 029
Mean	6 544	7 644	7 148

Source: PwC analysis

Figure 10.6: Super-cap: Non-executive directors (R'000s)



	2016	2017	2018
Lower quartile	1 046	1 055	1 466
Median	2 411	2 534	2 650
Upper quartile	3 422	3 621	3 893
Mean	2 444	2 603	3 392

Source: PwC analysis

Remuneration by sector

JSE market cap composition by sector (%)

Sector	Year 2016	2017	2018
Basic materials	20.3%	22.1%	23.1%
Consumer discretionary	16.3%	15.4%	16.5%
Consumer staples	28.8%	29.1%	29.5%
Energy	0.1%	0.1%	0.2%
Financials	23.3%	18.9%	17.2%
Healthcare	1.7%	1.8%	1.7%
Industrials	3.9%	3.5%	3.0%
Real estate	2.1%	4.9%	5.0%
Technology	0.3%	0.3%	0.3%
Telecommunications	3.2%	3.9%	3.5%

Source: PwC analysis

Total fees: Median increases by Board position (%)

	Year 2016	2017	2018
Chairperson	10.2%	8.8%	5.1%
Deputy chairperson	7.8%	3.8%	5.0%
Lead independent director	6.8%	2.0%	-1.3%
Non-executive director	8.2%	9.3%	5.3%

Source: PwC analysis

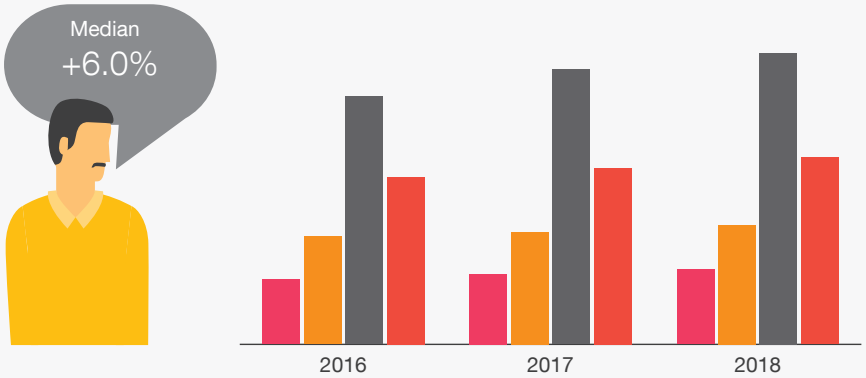
Basic materials

In accordance with the ICB classification, the following sectors fall within the basic materials super sector[1]:

- Mining;
- Industrial metals & mining;
- Chemicals; and
- Forestry & paper.

Chairpersons

Figure 10.7: Basic materials: Chairpersons, large-cap (R'000s)

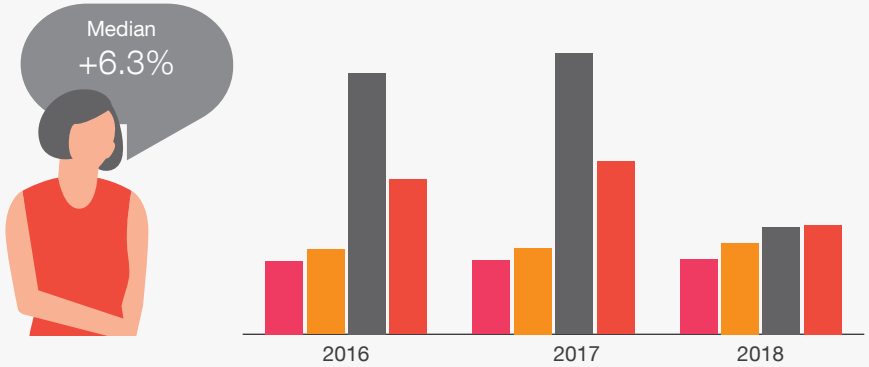


	2016	2017	2018
Lower quartile	1 147	1 247	1 322
Median	1 909	1 986	2 106
Upper quartile	4 384	4 860	5 154
Mean	2 960	3 115	3 304

Source: PwC analysis

[1] Not to be confused with super-cap companies, super sectors are specific to the ICB classification.

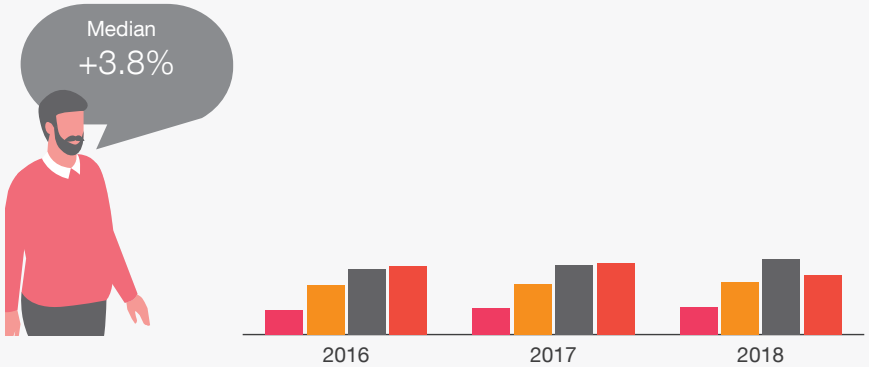
Figure 10.8: Basic materials: Chairpersons, medium-cap (R'000s)



	2016	2017	2018
Lower quartile	1 300	1 308	1 326
Median	1 502	1 522	1 619
Upper quartile	4 622	4 962	1 893
Mean	2 737	3 056	1 931

Source: PwC analysis

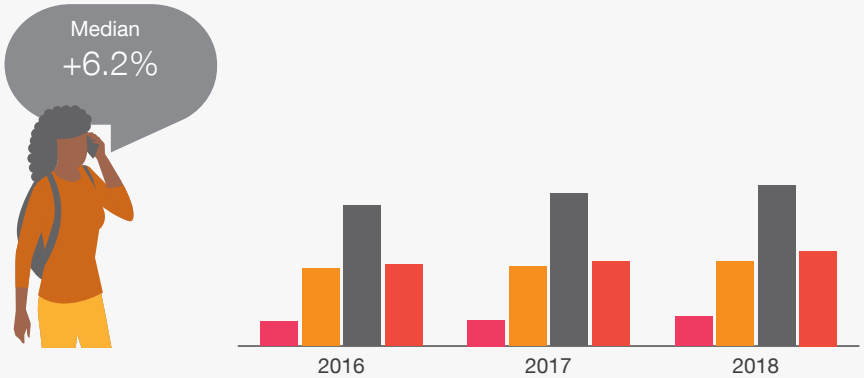
Figure 10.9: Basic materials: Chairpersons, small-cap (R'000s)



	2016	2017	2018
Lower quartile	441	461	480
Median	871	887	921
Upper quartile	1 159	1 228	1 331
Mean	1 209	1 257	1 047

Source: PwC analysis

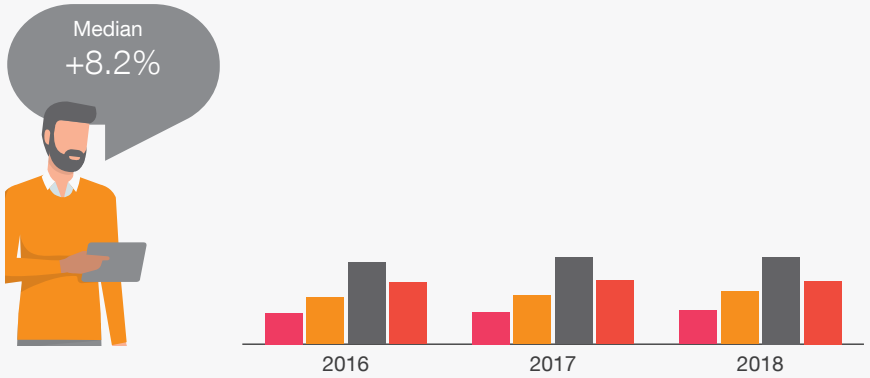
Figure 10.10: Basic materials: Non-executive directors, large-cap (R'000s)



	2016	2017	2018
Lower quartile	442	460	524
Median	1 376	1 401	1 488
Upper quartile	2 477	2 699	2 840
Mean	1 447	1 487	1 680

Source: PwC analysis

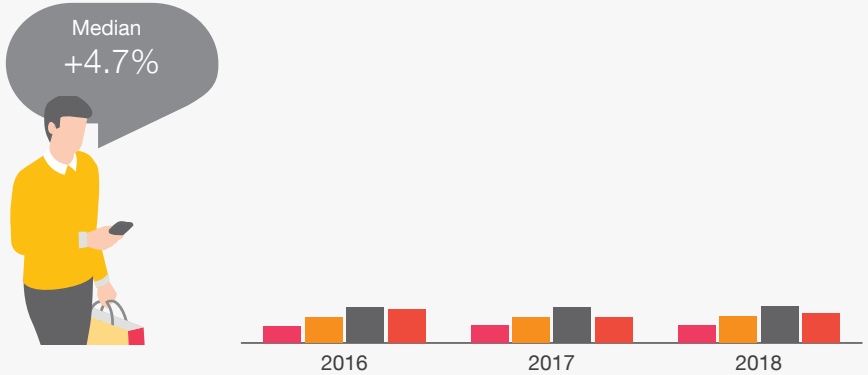
Figure 10.11: Basic materials: Non-executive directors, medium-cap (R'000s)



	2016	2017	2018
Lower quartile	554	568	596
Median	827	858	928
Upper quartile	1 447	1 533	1 544
Mean	1 095	1 128	1 117

Source: PwC analysis

Figure 10.12: Basic materials: Non-executive directors, small-cap (R'000s)



	2016	2017	2018
Lower quartile	291	301	313
Median	459	444	465
Upper quartile	623	633	641
Mean	597	452	530

Source: PwC analysis

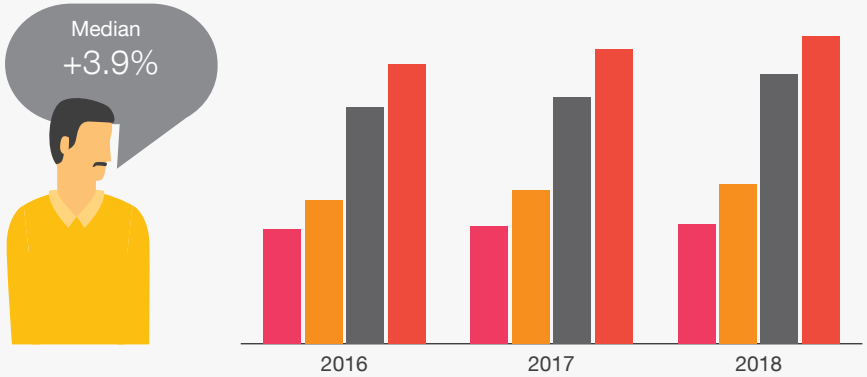
Consumer discretionary

In accordance with the ICB classification, the following sectors fall within the consumer discretionary super sector:

- Travel & leisure;
- Food & drug retailers;
- General retailers; and
- Media.

Chairpersons

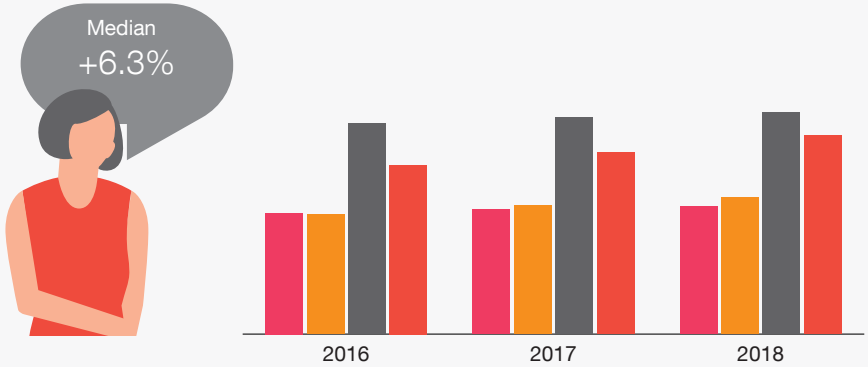
Figure 10.13: Consumer discretionary: Chairpersons, large-cap (R'000s)



	2016	2017	2018
Lower quartile	1 012	1 037	1 058
Median	1 272	1 354	1 407
Upper quartile	2 095	2 179	2 386
Mean	2 467	2 601	2 722

Source: PwC analysis

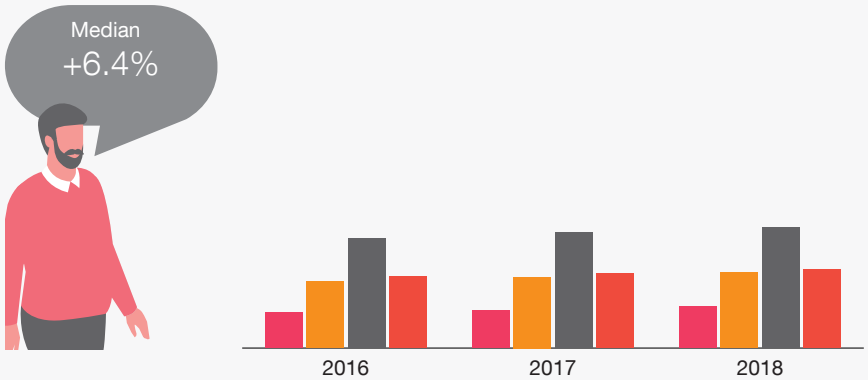
Figure 10.14: Consumer discretionary: Chairpersons, medium-cap (R'000s)



	2016	2017	2018
Lower quartile	1 071	1 104	1 128
Median	1 057	1 138	1 210
Upper quartile	1 859	1 915	1 961
Mean	1 496	1 604	1 756

Source: PwC analysis

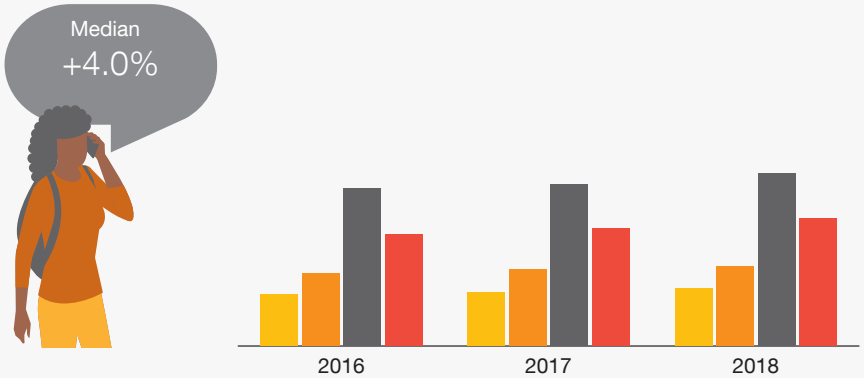
Figure 10.15: Consumer discretionary: Chairpersons, small-cap (R'000s)



	2016	2017	2018
Lower quartile	315	333	366
Median	585	628	668
Upper quartile	972	1 024	1 063
Mean	631	662	696

Source: PwC analysis

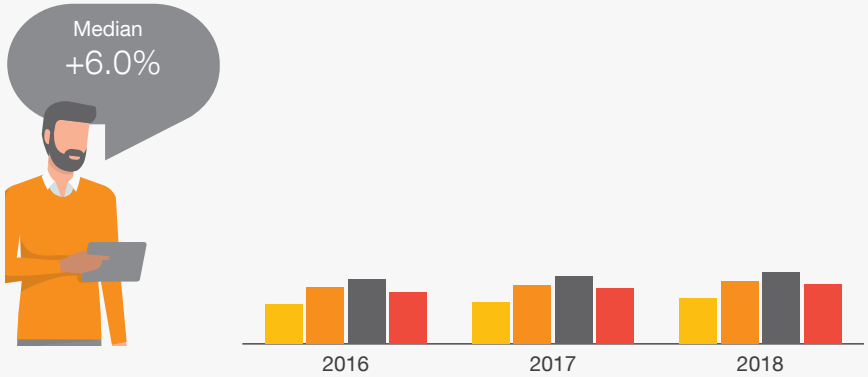
Figure 10.16: Consumer discretionary: Non-executive directors, large-cap (R'000s)



	2016	2017	2018
Lower quartile	457	477	509
Median	644	677	704
Upper quartile	1 390	1 427	1 521
Mean	986	1 040	1 127

Source: PwC analysis

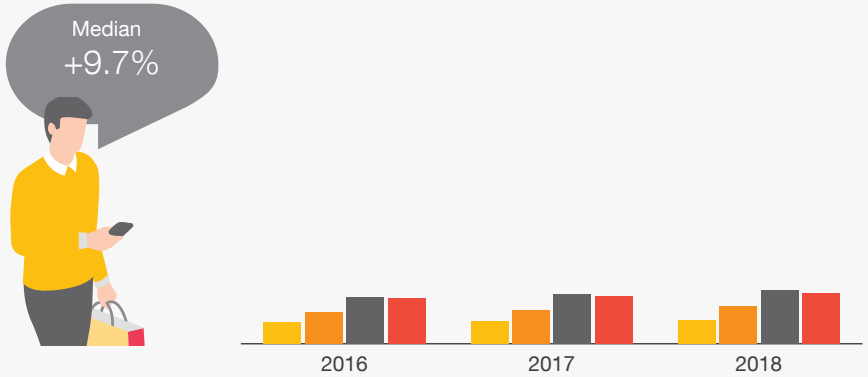
Figure 10.17: Consumer discretionary: Non-executive directors, medium-cap (R'000s)



	2016	2017	2018
Lower quartile	347	365	400
Median	498	518	549
Upper quartile	573	597	636
Mean	457	487	529

Source: PwC analysis

Figure 10.18: Consumer discretionary: Non-executive directors, small-cap (R'000s)



	2016	2017	2018
Lower quartile	194	203	211
Median	279	299	328
Upper quartile	413	442	477
Mean	402	419	444

Source: PwC analysis

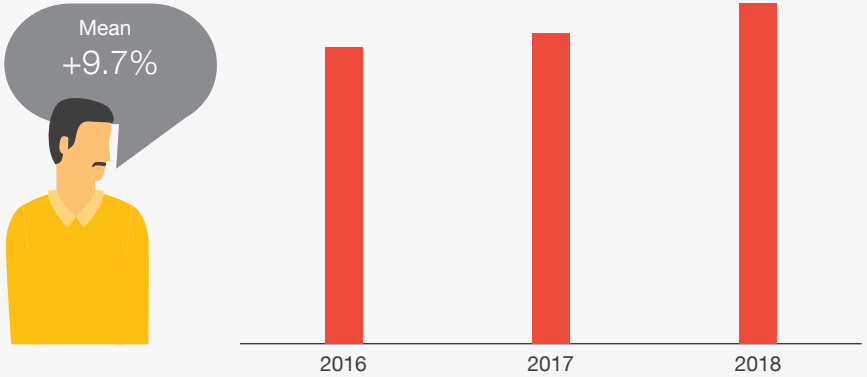
Consumer staples

In accordance with the ICB classification, the following sectors fall within the consumer staples super sector:

- Beverages;
- Food producers;
- Household goods & home construction;
- Tobacco;
- Personal goods;
- Leisure goods; and
- Automobiles & parts.

Chairpersons

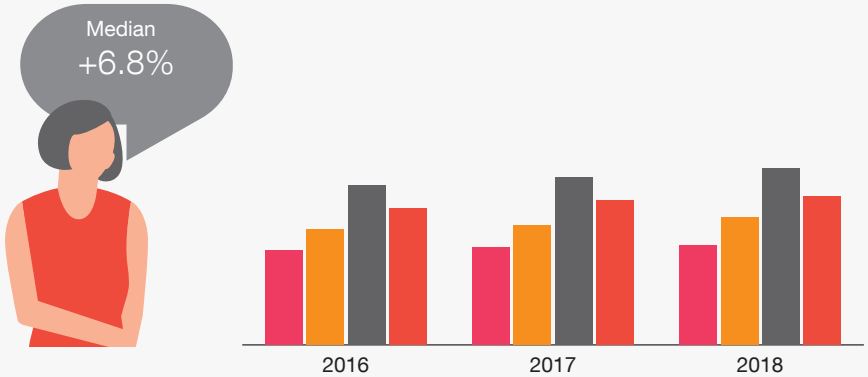
Figure 10.19: Consumer staples: Chairpersons, large-cap (R'000s)



	2016	2017	2018
Mean	1 746	1 827	2 004

Source: PwC analysis

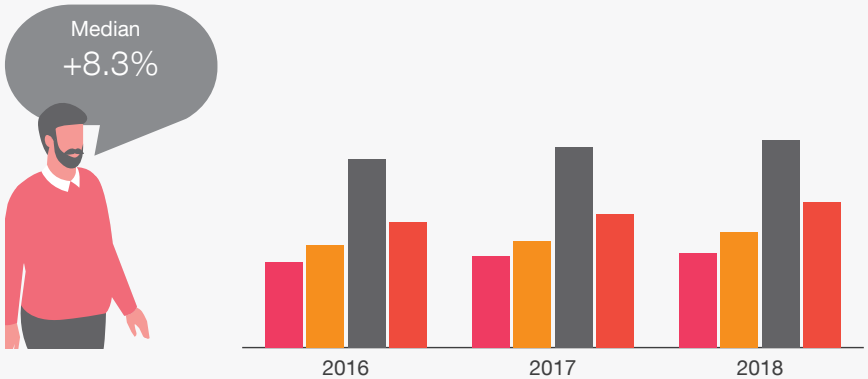
Figure 10.20: Consumer staples: Chairpersons, medium-cap (R'000s)



	2016	2017	2018
Lower quartile	559	573	586
Median	682	703	751
Upper quartile	939	986	1 040
Mean	805	854	875

Source: PwC analysis

Figure 10.21: Consumer staples: Chairpersons, small-cap (R'000s)

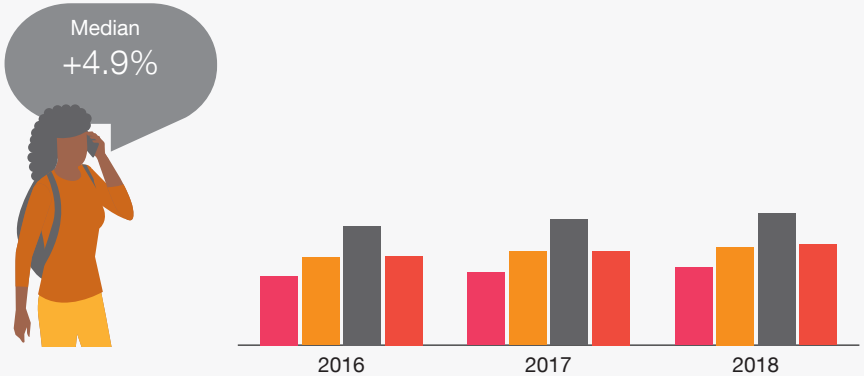


	2016	2017	2018
Lower quartile	506	538	554
Median	606	629	681
Upper quartile	1 113	1 181	1 221
Mean	737	788	855

Source: PwC analysis

Non-executive directors

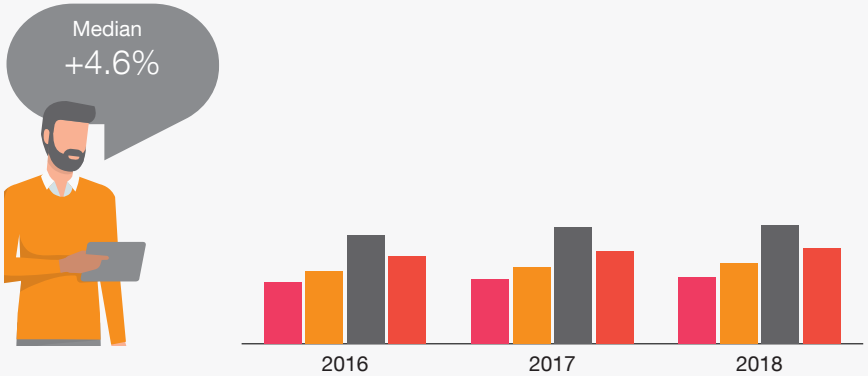
Figure 10.22: Consumer staples: Non-executive directors, large-cap (R'000s)



	2016	2017	2018
Lower quartile	408	429	456
Median	517	551	578
Upper quartile	702	740	779
Mean	525	555	595

Source: PwC analysis

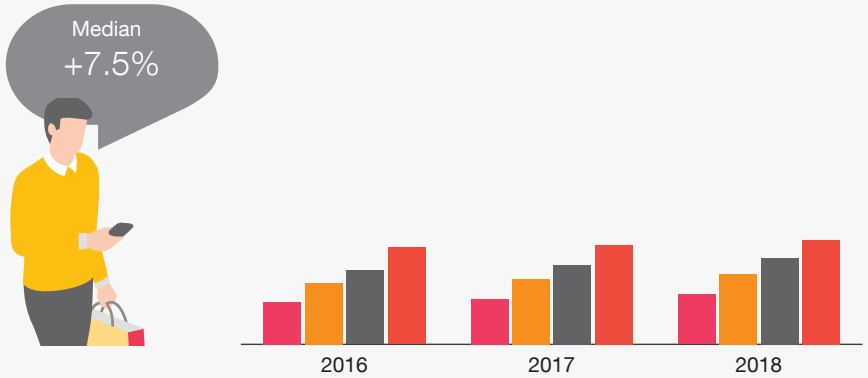
Figure 10.23: Consumer staples: Non-executive directors, medium-cap (R'000s)



	2016	2017	2018
Lower quartile	360	381	394
Median	425	452	473
Upper quartile	640	686	701
Mean	516	548	562

Source: PwC analysis

Figure 10.24: Consumer staples: Non-executive directors, small-cap (R'000s)



	2016	2017	2018
Lower quartile	250	268	294
Median	362	386	415
Upper quartile	435	467	509
Mean	570	587	615

Source: PwC analysis

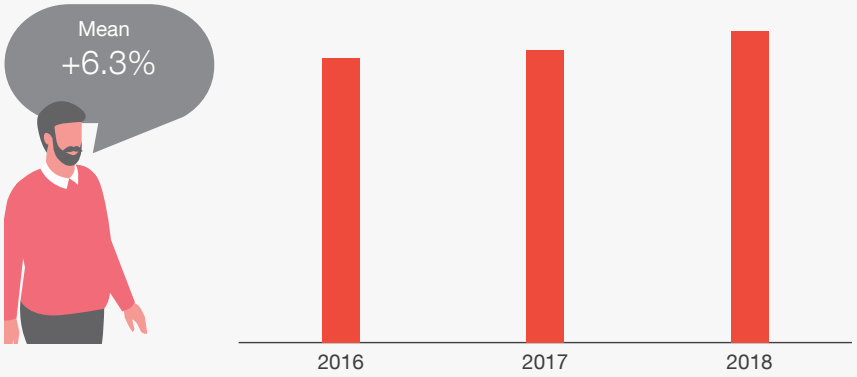
Energy

In accordance with the ICB classification, the following sectors fall within the energy super sector:

- Oil & gas producers.

Chairpersons

Figure 10.25: Energy: Chairpersons, small-cap (R'000s)



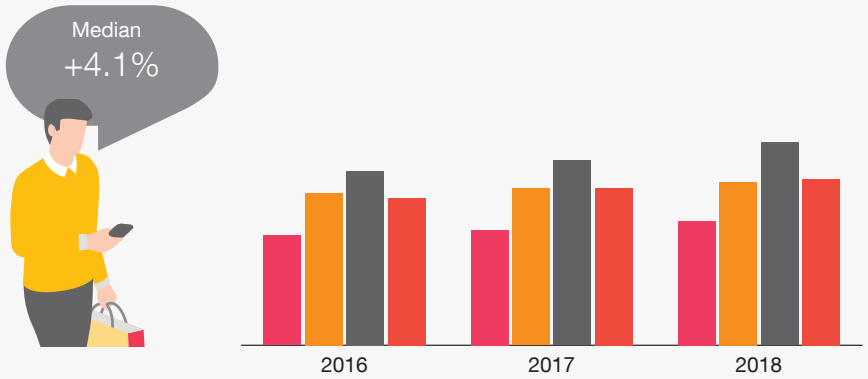
	2016	2017	2018
Mean	764	787	837

Source: PwC analysis

There are insufficient incumbent chairpersons in the energy sector to calculate quartiles.

Non-executive directors

Figure 10.26: Energy: Non-executive directors, small-cap (R'000s)



	2016	2017	2018
Lower quartile	291	306	329
Median	404	416	433
Upper quartile	462	490	538
Mean	391	417	441

Source: PwC analysis

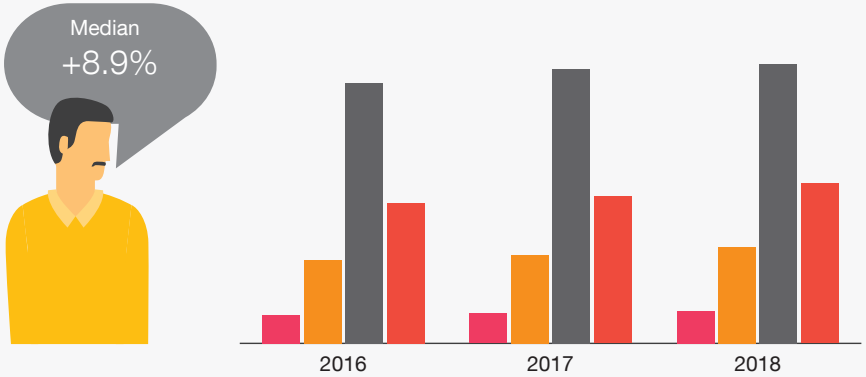
Financials

In accordance with the ICB classification, the following sectors fall within the financials super sector:

- Banks;
- Development capital;
- Equity investment instruments;
- Financial services;
- Life insurance;
- Non-equity investment instruments;
- Non-life insurance; and
- Venture capital.

Chairpersons

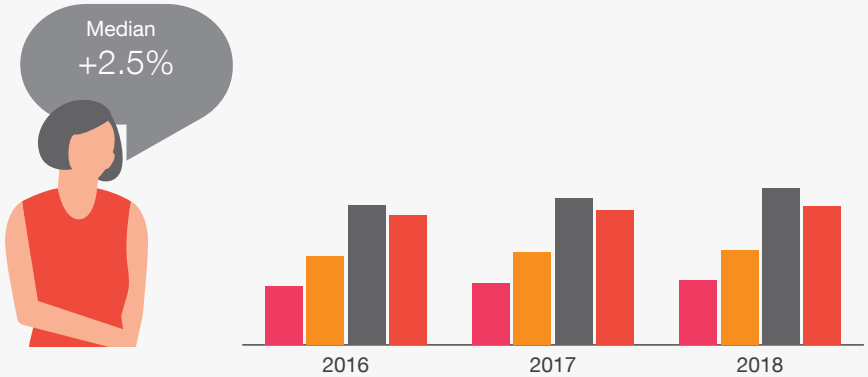
Figure 10.27: Financials: Chairpersons, large-cap (R'000s)



	2016	2017	2018
Lower quartile	503	529	578
Median	1 475	1 568	1 707
Upper quartile	4 610	4 849	4 934
Mean	2 480	2 598	2 826

Source: PwC analysis

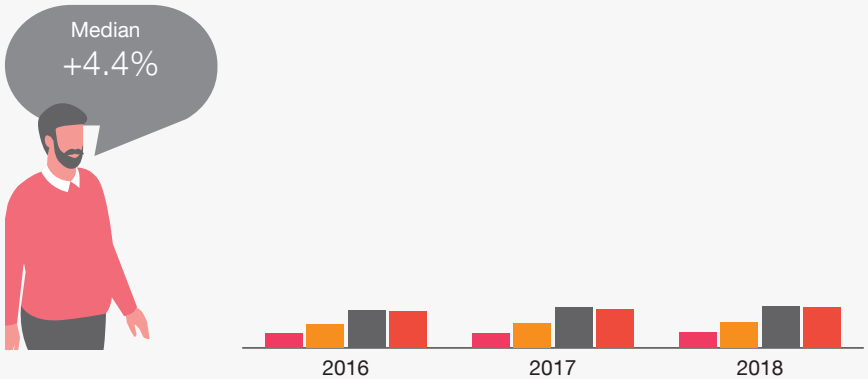
Figure 10.28: Financials: Chairpersons, medium-cap (R'000s)



	2016	2017	2018
Lower quartile	1 030	1 089	1 148
Median	1 560	1 638	1 679
Upper quartile	2 466	2 597	2 766
Mean	2 293	2 382	2 450

Source: PwC analysis

Figure 10.29: Financials: Chairpersons, small-cap (R'000s)

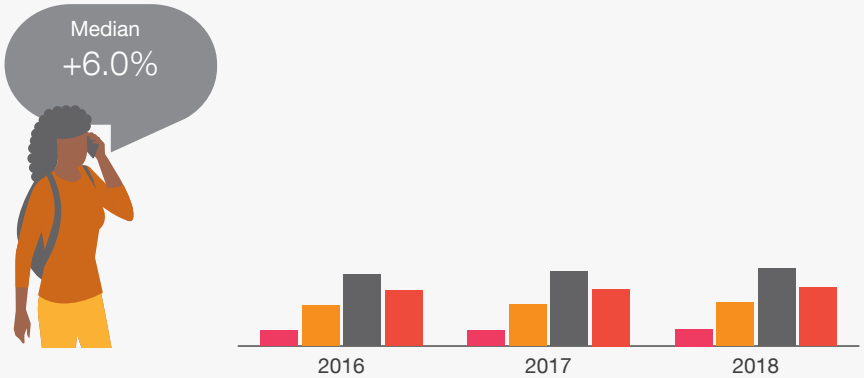


	2016	2017	2018
Lower quartile	251	263	269
Median	418	436	455
Upper quartile	661	710	734
Mean	652	678	721

Source: PwC analysis

Non-executive directors

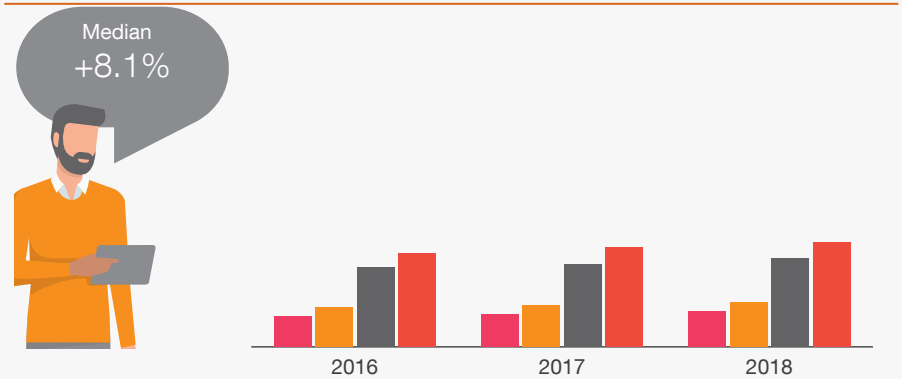
Figure 10.30: Financials: Non-executive directors, large-cap (R'000s)



	2016	2017	2018
Lower quartile	272	281	301
Median	711	731	775
Upper quartile	1 258	1 320	1 373
Mean	981	1 008	1 030

Source: PwC analysis

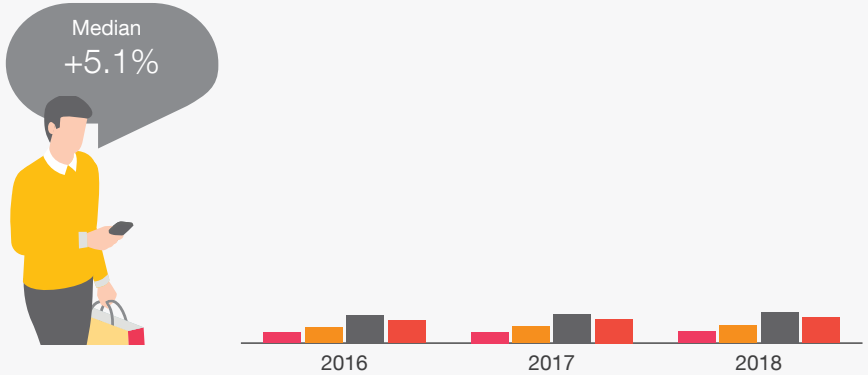
Figure 10.31: Financials: Non-executive directors, medium-cap (R'000s)



	2016	2017	2018
Lower quartile	541	580	628
Median	703	732	791
Upper quartile	1 409	1 453	1 572
Mean	1 649	1 757	1 845

Source: PwC analysis

Figure 10.32: Financials: Non-executive directors, small-cap (R'000s)



	2016	2017	2018
Lower quartile	188	195	207
Median	273	294	309
Upper quartile	481	513	550
Mean	405	426	456

Source: PwC analysis

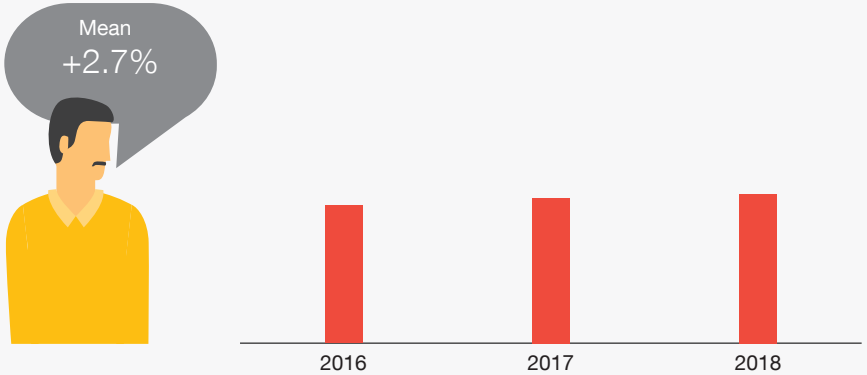
Healthcare

In accordance with the ICB classification, the following sectors fall within the healthcare super sector:

- Healthcare equipment & services
- Pharmaceuticals & biotechnology

Chairpersons

Figure 10.33: Healthcare: Chairpersons, large-cap (R'000s)

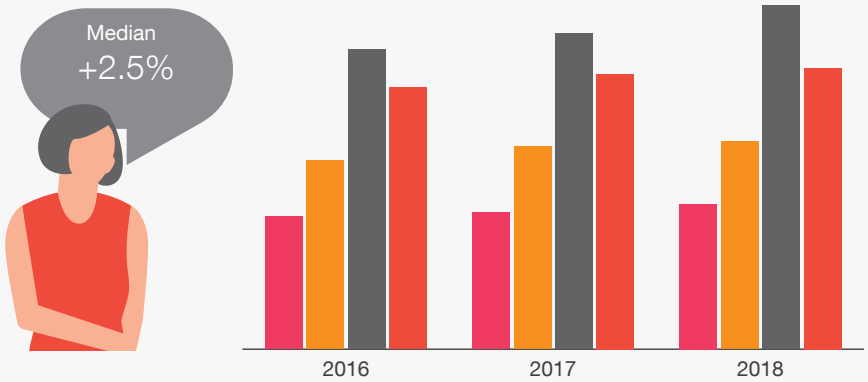


	2016	2017	2018
Mean	1 015	1 069	1 098

Source: PwC analysis

There are insufficient incumbent chairpersons in the large-cap healthcare sector to calculate quartiles.

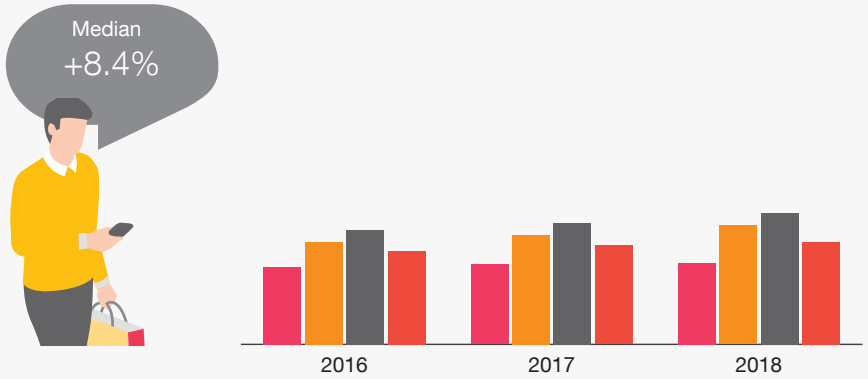
Figure 10.34: Healthcare: Chairpersons, medium-cap (R'000s)



	2016	2017	2018
Lower quartile	978	1 009	1 070
Median	1 392	1 493	1 531
Upper quartile	2 210	2 325	2 531
Mean	1 928	2 027	2 071

Source: PwC analysis

Figure 10.35: Healthcare: Chairpersons, small-cap (R'000s)

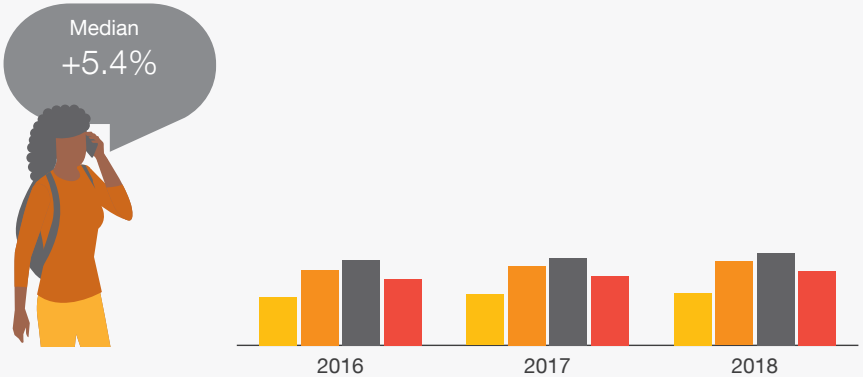


	2016	2017	2018
Lower quartile	570	588	602
Median	754	807	875
Upper quartile	842	892	968
Mean	688	729	755

Source: PwC analysis

Non-executive directors

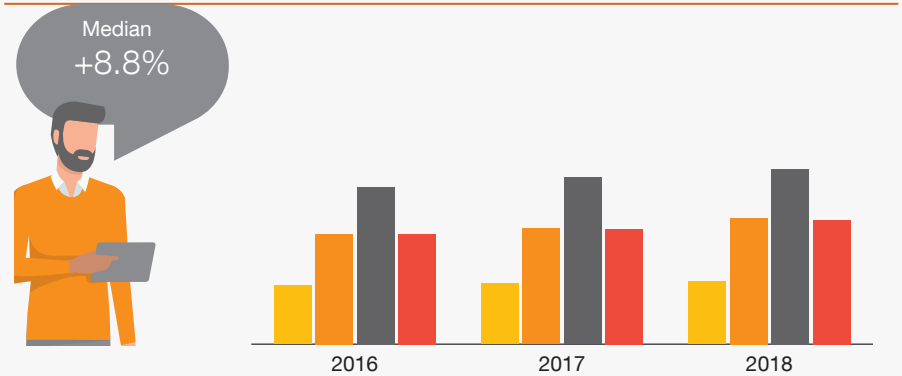
Figure 10.36: Healthcare: Non-executive directors, large-cap (R'000s)



	2016	2017	2018
Lower quartile	356	374	385
Median	554	586	618
Upper quartile	627	645	681
Mean	488	511	548

Source: PwC analysis

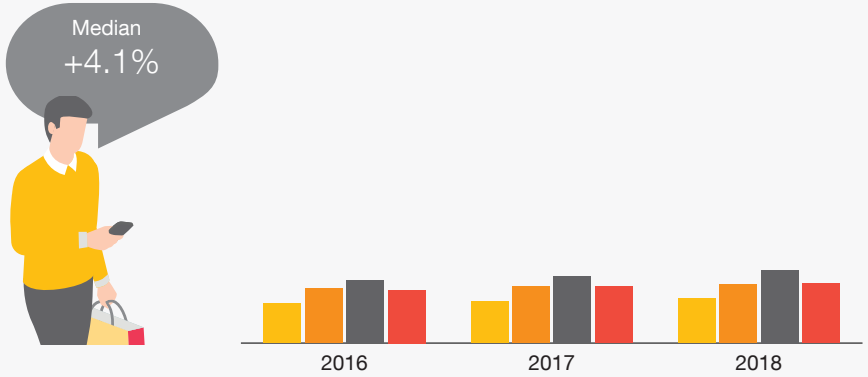
Figure 10.37: Healthcare: Non-executive directors, medium-cap (R'000s)



	2016	2017	2018
Lower quartile	433	448	461
Median	812	854	929
Upper quartile	1 158	1 230	1 290
Mean	811	848	915

Source: PwC analysis

Figure 10.38: Healthcare: Non-executive directors, small-cap (R'000s)



	2016	2017	2018
Lower quartile	291	306	329
Median	404	416	433
Upper quartile	462	490	538
Mean	391	417	441

Source: PwC analysis

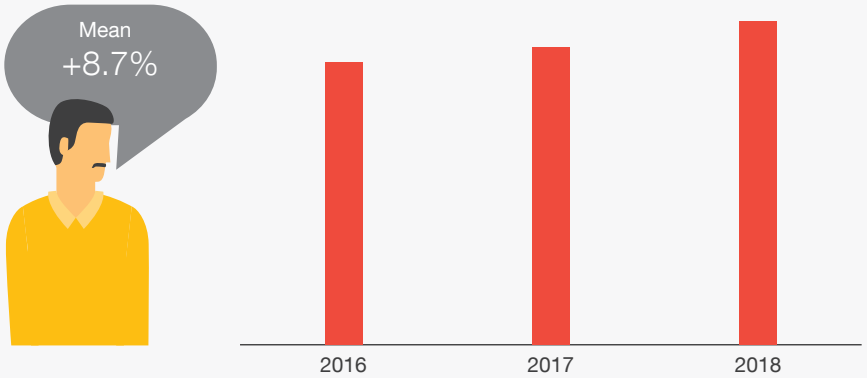
Industrials

In accordance with the ICB classification, the following sectors fall within the industrials super sector:

- Construction & materials;
- Electronic & electrical equipment;
- General industrials;
- Industrial engineering;
- Industrial transportation; and
- Support services

Chairpersons

Figure 10.39: Industrials: Chairpersons, large-cap (R'000s)

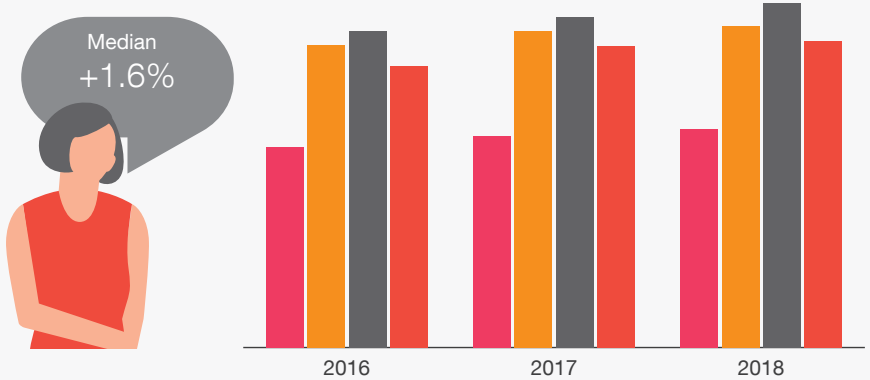


	2016	2017	2018
Mean	1 248	1 316	1 430

Source: PwC analysis

There are insufficient incumbent chairpersons in the large-cap industrials sector to calculate quartiles.

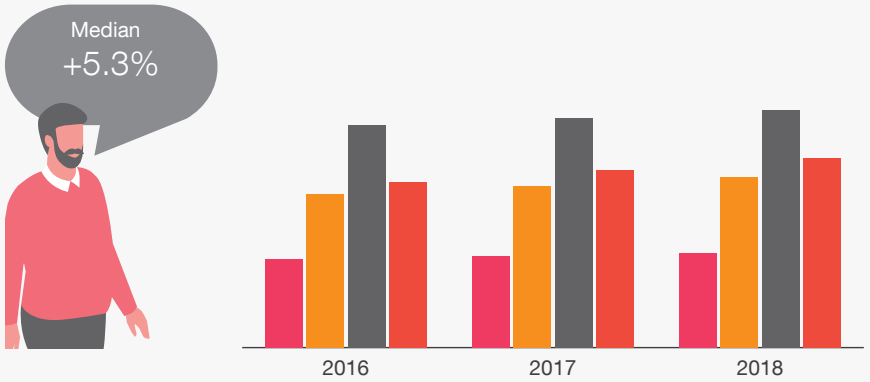
Figure 10.40: Industrials: Chairpersons, medium-cap (R'000s)



	2016	2017	2018
Lower quartile	885	933	965
Median	1 335	1 401	1 423
Upper quartile	1 399	1 460	1 523
Mean	245	1 333	1 354

Source: PwC analysis

Figure 10.41: Industrials: Chairpersons, small-cap (R'000s)

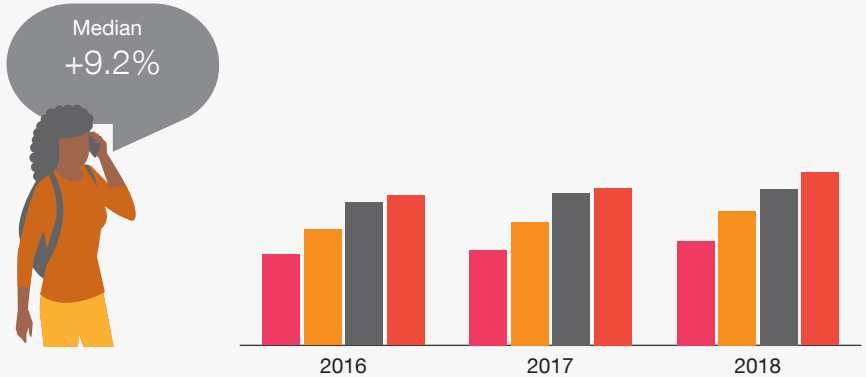


	2016	2017	2018
Lower quartile	390	404	416
Median	679	716	754
Upper quartile	983	1 014	1 050
Mean	730	785	837

Source: PwC analysis

Non-executive directors

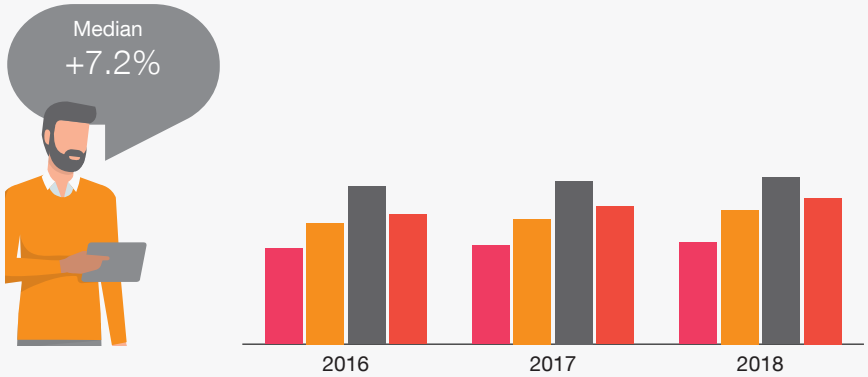
Figure 10.42: Industrials: Non-executive directors', large-cap (R'000s)



	2016	2017	2018
Lower quartile	402	420	460
Median	512	545	595
Upper quartile	631	672	691
Mean	662	697	764

Source: PwC analysis

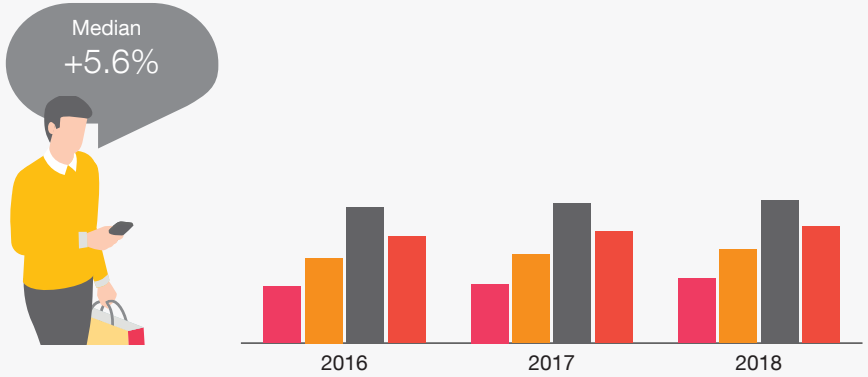
Figure 10.43: Industrials: Non-executive directors, medium-cap (R'000s)



	2016	2017	2018
Lower quartile	422	437	450
Median	536	554	594
Upper quartile	696	721	738
Mean	573	608	647

Source: PwC analysis

Figure 10.44: Industrials: Non-executive directors, small-cap (R'000s)



	2016	2017	2018
Lower quartile	249	261	284
Median	376	390	412
Upper quartile	598	619	630
Mean	472	493	515

Source: PwC analysis

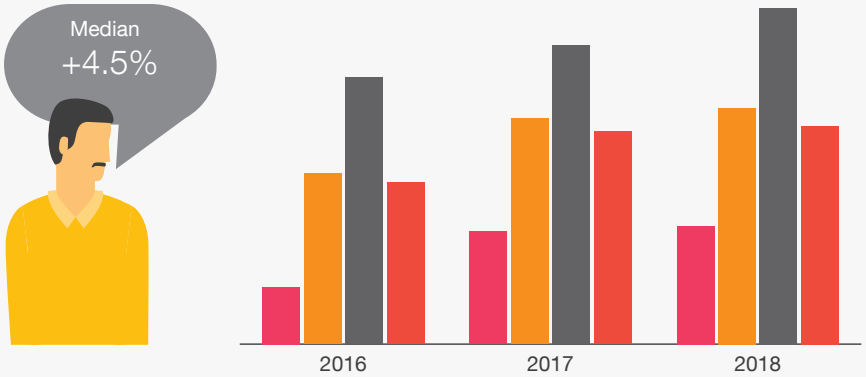
Real estate

In accordance with the ICB classification, the following sectors fall within the real estate super sector:

- Real estate investment & services
- Real estate investment trusts
- Real estate

Chairpersons

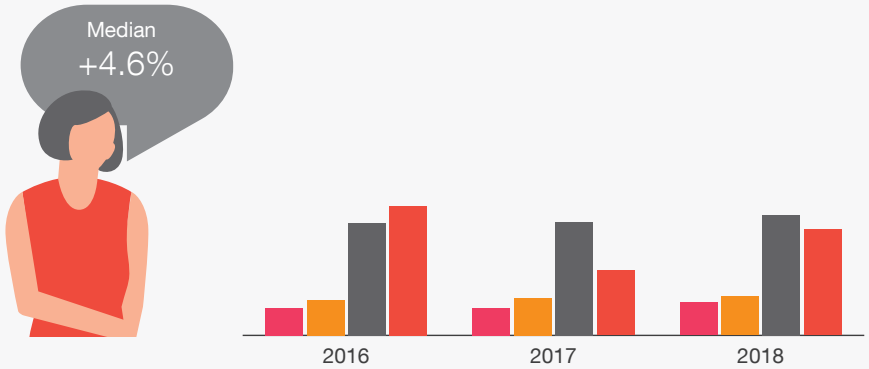
Figure 10.45: Real estate: Chairpersons, large-cap (R'000s)



	2016	2017	2018
Lower quartile	1 008	1 987	2 090
Median	3 012	3 994	4 174
Upper quartile	4 712	5 277	5 941
Mean	2 855	3 755	3 858

Source: PwC analysis

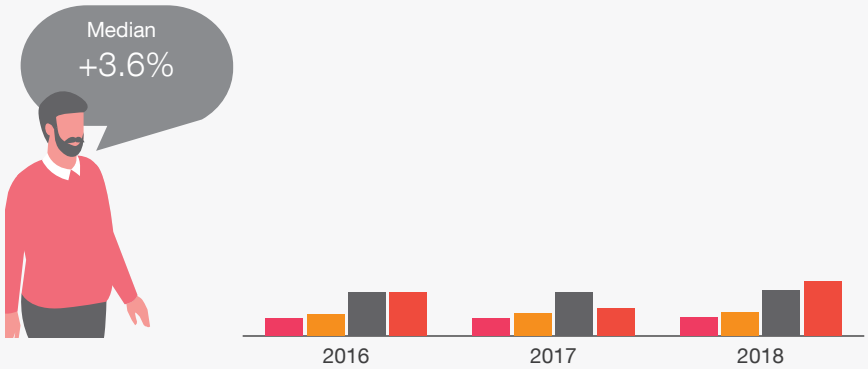
Figure 10.46: Real estate: Chairpersons, medium-cap (R'000s)



	2016	2017	2018
Lower quartile	489	485	582
Median	622	656	686
Upper quartile	1 984	2 007	2 130
Mean	2 293	1 148	1 874

Source: PwC analysis

Figure 10.47: Real estate: Chairpersons, small-cap (R'000s)

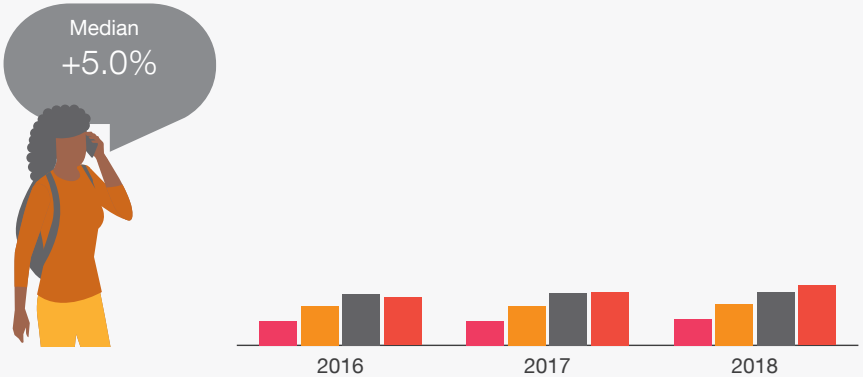


	2016	2017	2018
Lower quartile	302	311	325
Median	387	398	412
Upper quartile	772	764	805
Mean	766	491	959

Source: PwC analysis

Non-executive directors

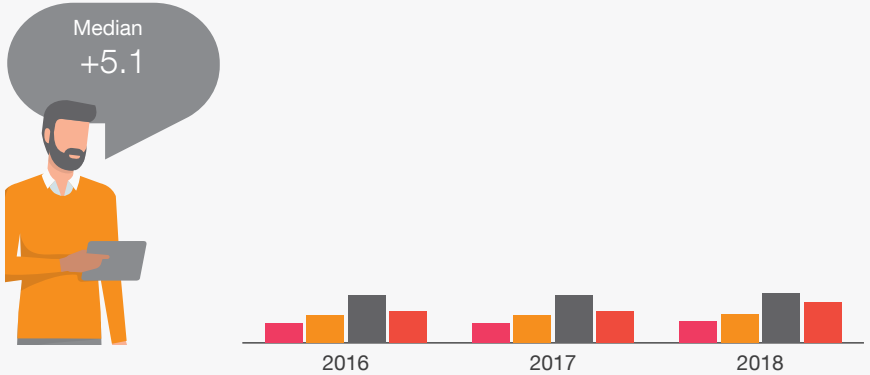
Figure 10.48: Real estate: Non-executive directors, large-cap (R'000s)



	2016	2017	2018
Lower quartile	432	428	472
Median	699	701	736
Upper quartile	914	923	945
Mean	847	942	1 060

Source: PwC analysis

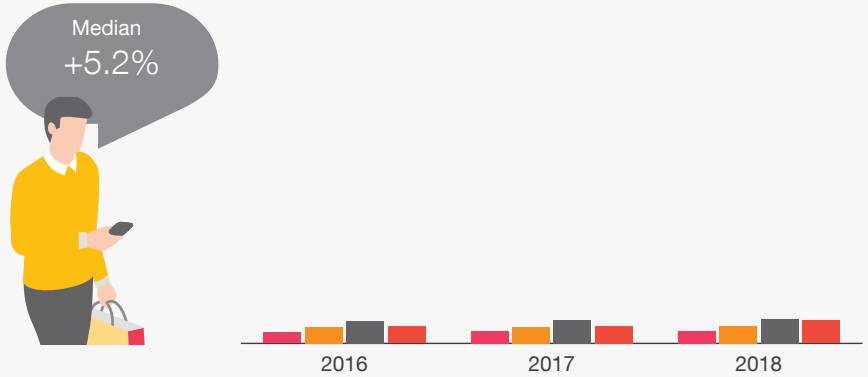
Figure 10.49: Real estate: Non-executive directors, medium-cap (R'000s)



	2016	2017	2018
Lower quartile	342	349	382
Median	480	487	512
Upper quartile	836	844	867
Mean	556	560	715

Source: PwC analysis

Figure 10.50: Real estate: Non-executive directors, small-cap (R'000s)



	2016	2017	2018
Lower quartile	194	219	221
Median	287	290	305
Upper quartile	400	409	425
Mean	299	306	403

Source: PwC analysis

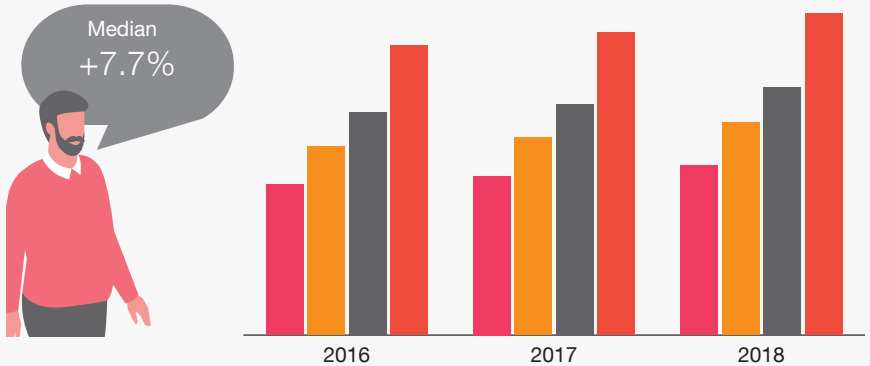
Technology

In accordance with the ICB classification, the following sectors fall within the technology super sector:

- Software & computer services; and
- Technology hardware & equipment.

Chairpersons

Figure 10.51: Technology: Chairpersons, small-cap (R'000s)

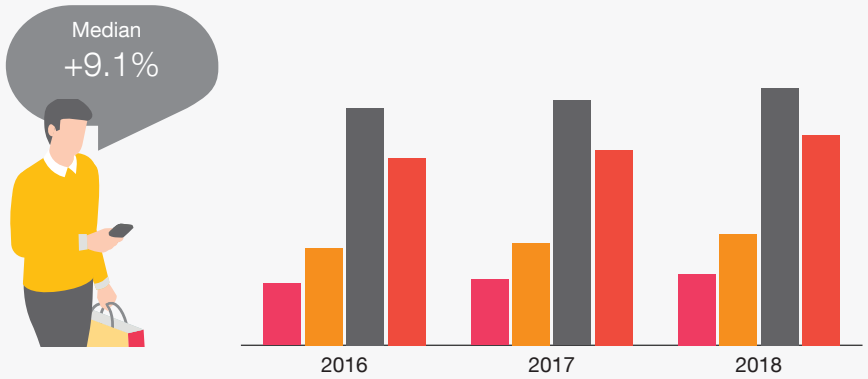


	2016	2017	2018
Lower quartile	355	375	399
Median	444	465	501
Upper quartile	526	545	583
Mean	683	713	758

Source: PwC analysis

Non-executive directors

Figure 10.52: Technology: Non-executive directors, small-cap (R'000s)



	2016	2017	2018
Lower quartile	146	155	168
Median	229	241	263
Upper quartile	560	577	606
Mean	441	460	496

Source: PwC analysis

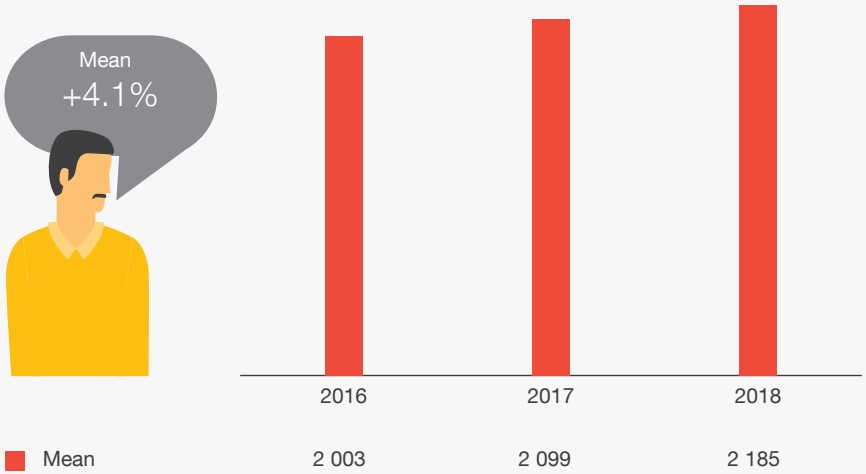
Telecommunications

In accordance with the ICB classification, the following sectors fall within the telecommunications super sector:

- Fixed line telecommunications; and
- Mobile Telecommunications.

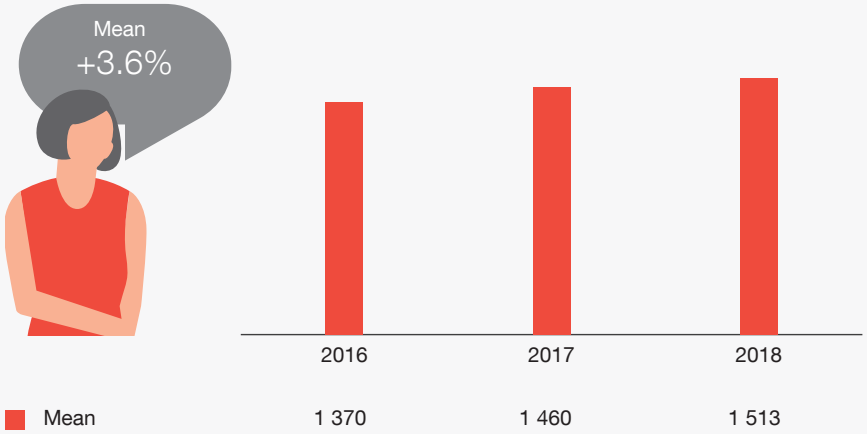
Chairpersons

Figure 10.53: Telecommunications: Chairpersons, large-cap (R'000s)



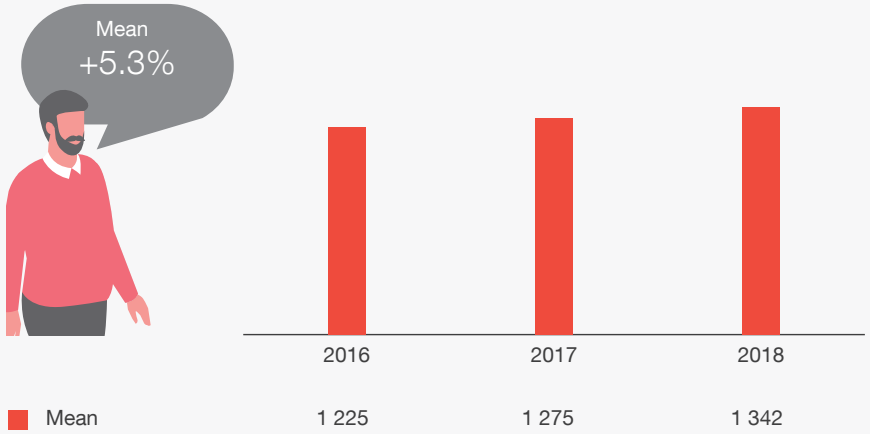
Source: PwC analysis

Figure 10.54: Telecommunications: Chairpersons, medium-cap (R'000s)



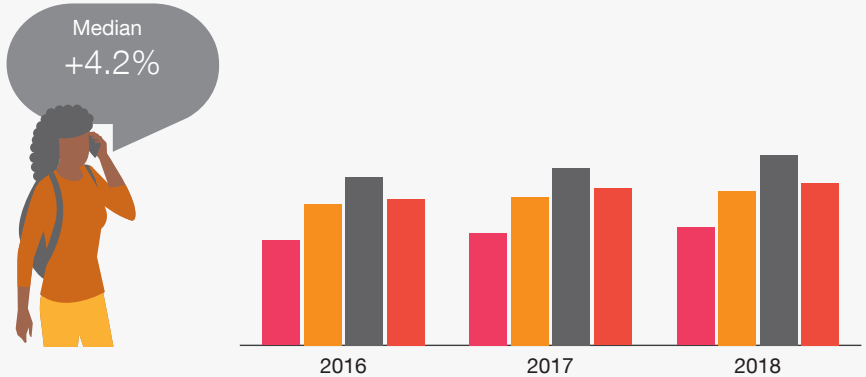
Source: PwC analysis

Figure 10.55: Telecommunications: Chairpersons, small-cap (R'000s)



Source: PwC analysis

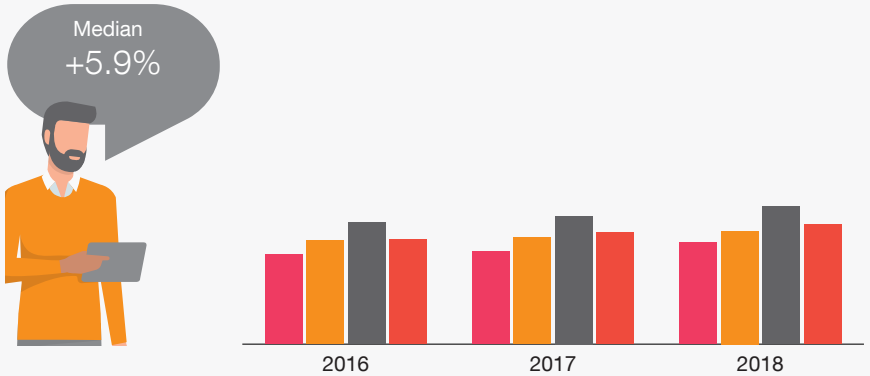
Figure 10.56: Telecommunications: Non-executive directors, large-cap (R'000s)



	2016	2017	2018
Lower quartile	618	664	694
Median	835	873	910
Upper quartile	992	1 047	1 121
Mean	864	924	957

Source: PwC analysis

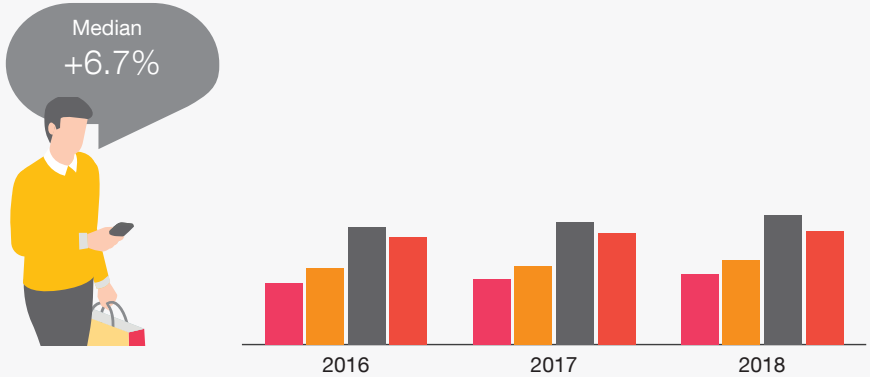
Figure 10.57: Telecommunications: Non-executive directors, medium-cap (R'000s)



	2016	2017	2018
Lower quartile	530	546	598
Median	612	629	666
Upper quartile	719	756	810
Mean	618	657	706

Source: PwC analysis

Figure 10.58: Telecommunications: Non-executive directors, small-cap (R'000s)



	2016	2017	2018
Lower quartile	360	382	412
Median	447	463	494
Upper quartile	688	719	761
Mean	633	652	668

Source: PwC analysis

AltX

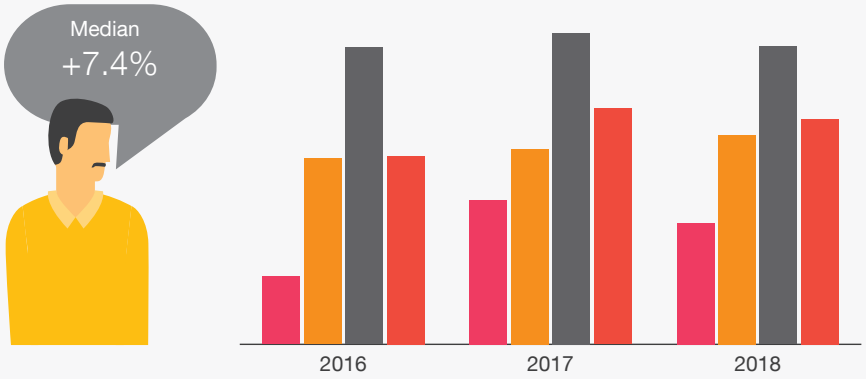
Well-established small and medium-sized companies that are not yet ready to list on the JSE Main Board can list on the JSE's alternative trading platform, AltX, in order to achieve the following:

- Issue new shares;
- Raise capital;
- Widen their investor base; and
- Make shares available for trading on a regulated market.

AltX companies trade in many sectors, but with fewer than 50 companies currently listed on the bourse, it is not practical to analyse remuneration at an industry or sector level. Our analysis therefore focuses on chairpersons' and non-executive directors' fees for AltX as a whole.

Chairpersons

Figure 10.59: AltX: Chairpersons (R'000s)

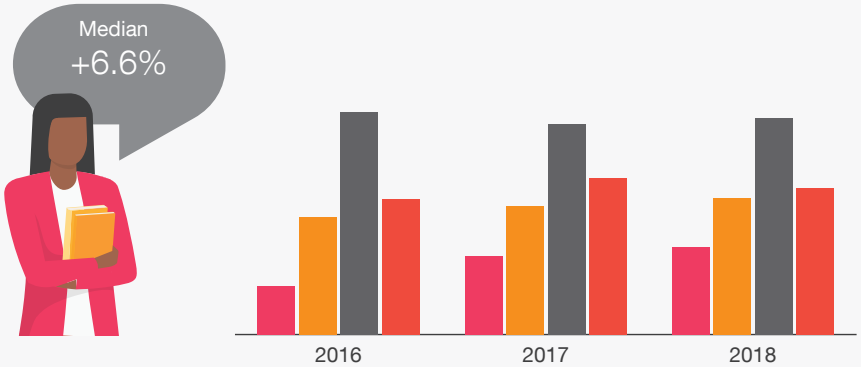


	2016	2017	2018
Lower quartile	80	170	143
Median	219	230	247
Upper quartile	350	367	351
Mean	222	278	266

Source: PwC analysis

Non-executive directors

Figure 10.60: AltX: Non-executive directors (R'000s)



	2016	2017	2018
Lower quartile	57	93	103
Median	138	151	161
Upper quartile	262	248	255
Mean	160	184	173

Source: PwC analysis

11

London FTSE 100

This section provides a trend analysis of the total fee levels paid to non-executive directors of FTSE 100 companies in the United Kingdom.

Data set out in this publication was drawn from information publicly available on 30 November 2018 (the cut-off date) and is valid for the period from 01 December 2017 to 30 November 2018.

Our trend analysis in this chapter, as in previous years, is expressed in US dollars. The pound/dollar exchange rate reflects significant volatility due to Brexit negotiations, which has affected the exchange rate throughout 2018. The volatility still exists, but in line with past publications, we have used the interbank rate at midnight on 30 November 2018, GMT time.

Exchange rates

	£/$	$/£
30 November 2017	1.353	0.739
30 November 2018	1.276	0.784
Currency appreciation/depreciation	-5.71%	6.07%

Source: PwC analysis

The following roles are covered:

- Chairperson;
- Deputy chairperson;
- Lead independent director; and
- Non-executive director.

FTSE 100 industry classification benchmark by industry (sector)

The ICB classification has been used for FTSE sectors analysed in this publication.

ICB classification

Industries	11
Supersectors	20
Sectors	45
Subsectors	171

This report analyses the total annual fees paid to non-executive directors serving on the boards of the FTSE 100 companies at the cut-off date, 30 November 2018.

Total non-executive fees have been analysed under the following ICB industry classifications:

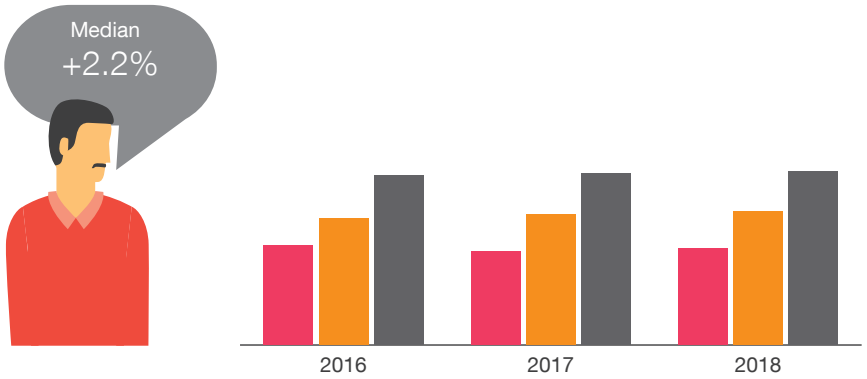
- Basic materials
- Consumer staples
- Consumer discretionary
- Energy
- Financials
- Healthcare
- Industrials
- Real estate
- Technology
- Telecommunications
- Utilities

FTSE 100 companies at the cut-off date		
3i Group PLC	GVC Holdings PLC	Rentokil Initial PLC
Admiral Group PLC	Halma PLC	Rightmove PLC
Anglo American PLC	Hargreaves Lansdown PLC	Rio Tinto PLC
Antofagasta PLC	HSBC Holdings PLC	Rolls-Royce Holdings PLC
Ashtead Group PLC	Imperial Brands PLC	The Royal Bank of Scotland Group PLC
Associated British Foods PLC	Informa PLC	Royal Dutch Shell PLC "A"
AstraZeneca PLC	InterContinental Hotels Group PLC	Royal Dutch Shell PLC "B"
Aviva PLC	International Consolidated Airlines Group S.A.	Royal Mail PLC
BAE Systems PLC	Intertek Group PLC	RSA Insurance Group PLC
Barclays PLC	ITV PLC	Sage Group PLC
Barratt Developments PLC	Johnson Matthey PLC	Sainsbury (J) PLC
Berkeley Group Holdings (The) PLC	Just Eat PLC	Schroders PLC
BP PLC	Kingfisher PLC	Scottish Mortgage Investment Trust PLC
British American Tobacco PLC	Land Securities Group PLC	Segro PLC
British Land Co PLC	Legal & General Group PLC	Severn Trent PLC
BT Group PLC	Lloyds Banking Group PLC	Shire PLC
Bunzl PLC	London Stock Exchange Group PLC	Smith (DS) PLC
Burberry Group PLC	Marks & Spencer Group PLC	Smith & Nephew PLC
Carnival PLC	Melrose Industries PLC	Smiths Group PLC
Centrica PLC	Micro Focus International PLC	Smurfit Kappa Group PLC
Coca-Cola HBC AG	Mondi PLC	SSE PLC
Compass Group PLC	Morrison (Wm) Supermarkets PLC	ST James's Place PLC
CRH PLC	National Grid PLC	Standard Chartered PLC
Croda International PLC	Next PLC	Standard Life Aberdeen PLC
DCC PLC	NMC Health PLC	Taylor Wimpey PLC
Diageo PLC	Ocado Group PLC	Tesco PLC
Direct Line Insurance Group PLC	Paddy Power Betfair PLC	TUI AG
easyJet PLC	Pearson PLC	Unilever PLC
EVRAZ PLC	Persimmon PLC	United Utilities Group PLC
Experian PLC	Prudential PLC	Vodafone Group PLC
Ferguson PLC	Randgold Resources Ltd	Whitbread PLC
Fresnillo PLC	Reckitt Benckiser Group PLC	Wood Group (J) PLC
GlaxoSmithKline PLC	RELX PLC	WPP PLC
Glencore PLC		

Remuneration: All sectors

Chairpersons

Figure 11.1: FTSE 100: Chairpersons (US$'000s)

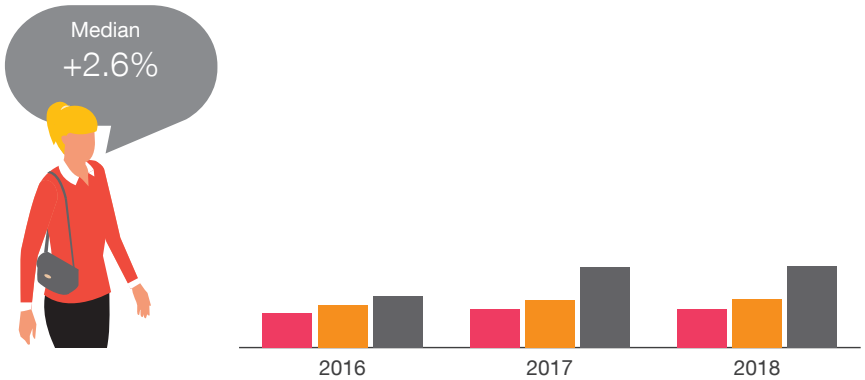


	2016	2017	2018
Lower quartile	410	386	398
Median	521	540	552
Upper quartile	701	709	716

Source: PwC analysis

Deputy chairpersons

Figure 11.2: FTSE 100: Deputy chairpersons (US$'000s)

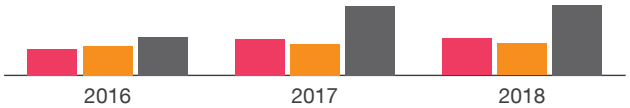


	2016	2017	2018
Lower quartile	142	157	159
Median	175	194	199
Upper quartile	212	331	335

Source: PwC analysis

Lead Independent directors

Figure 11.3: FTSE 100: Lead independent directors (US$'000s)



	2016	2017	2018
Lower quartile	109	149	152
Median	120	129	132
Upper quartile	159	286	291

Source: PwC analysis

Non-executive directors

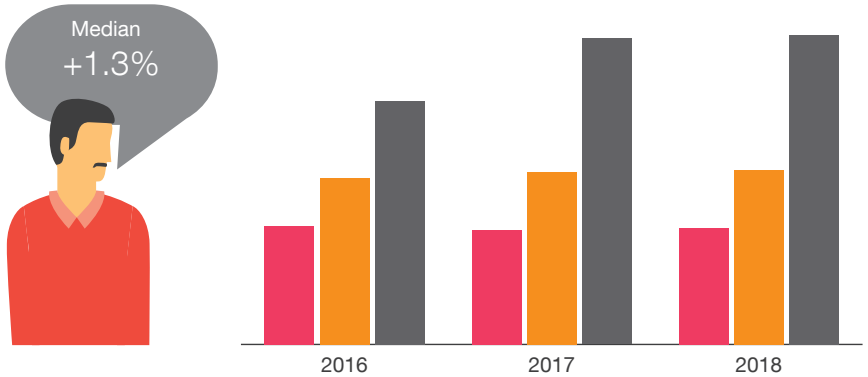
Figure 11.4: FTSE 100: Non-executive directors (US$'000s)

	2016	2017	2018
Lower quartile	90	92	93
Median	133	142	145
Upper quartile	173	155	160

Source: PwC analysis

Basic materials

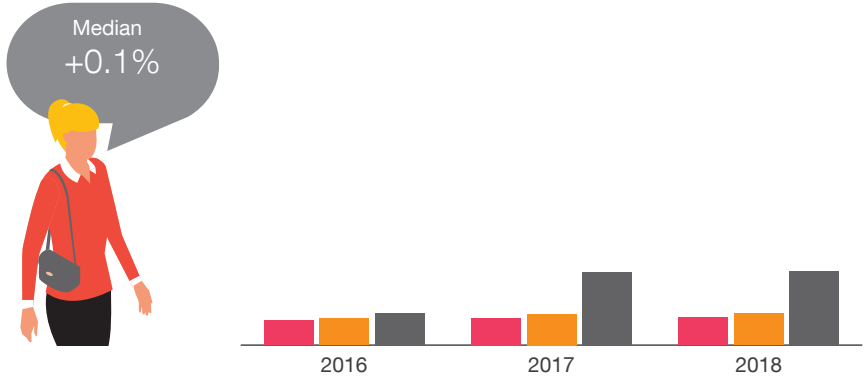
Figure 11.5: Basic materials: Chairpersons (US$'000s)



	2016	2017	2018
Lower quartile	490	471	480
Median	687	710	719
Upper quartile	1 006	1 262	1 275

Source: PwC analysis

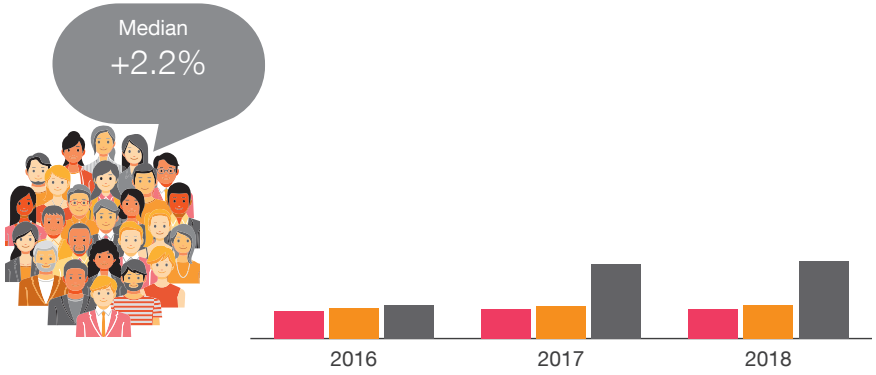
Figure 11.6: Basic materials: Deputy chairpersons (US$'000s)



	2016	2017	2018
Lower quartile	102	112	114
Median	111	128	129
Upper quartile	130	301	304

Source: PwC analysis

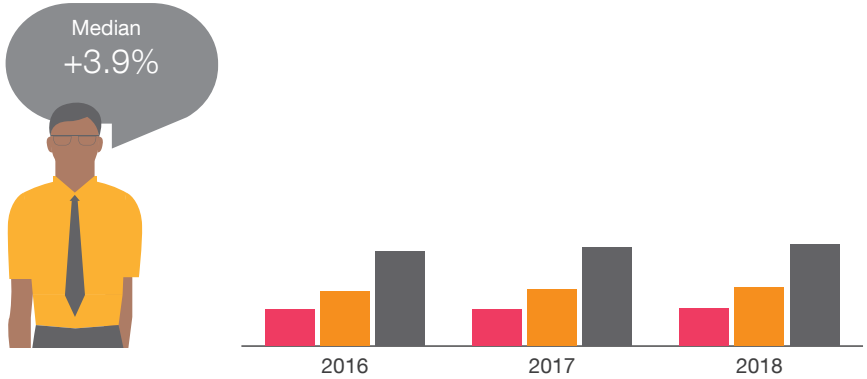
Figure 11.7: Basic materials: Lead independent directors (US$'000s)



	2016	2017	2018
Lower quartile	112	122	123
Median	126	136	139
Upper quartile	138	309	319

Source: PwC analysis

Figure 11.8: Basic materials: Non-executive directors (US$'000s)

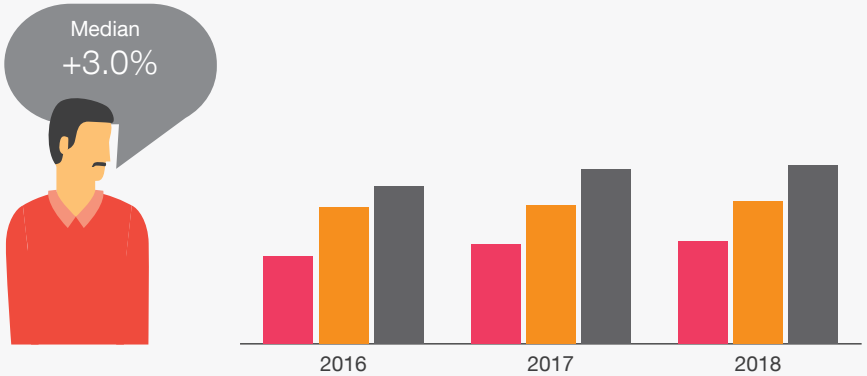


	2016	2017	2018
Lower quartile	150	152	155
Median	224	232	241
Upper quartile	391	408	420

Source: PwC analysis

Consumer discretionary

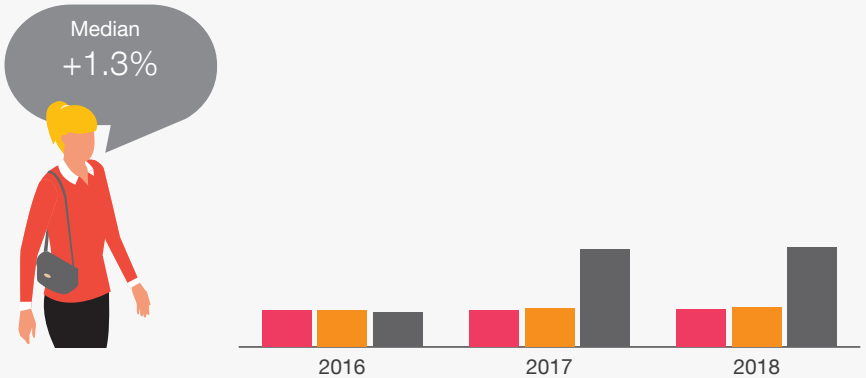
Figure 11.9: Consumer discretionary: Chairpersons (US$'000s)



	2016	2017	2018
Lower quartile	361	409	422
Median	562	572	589
Upper quartile	650	721	736

Source: PwC analysis

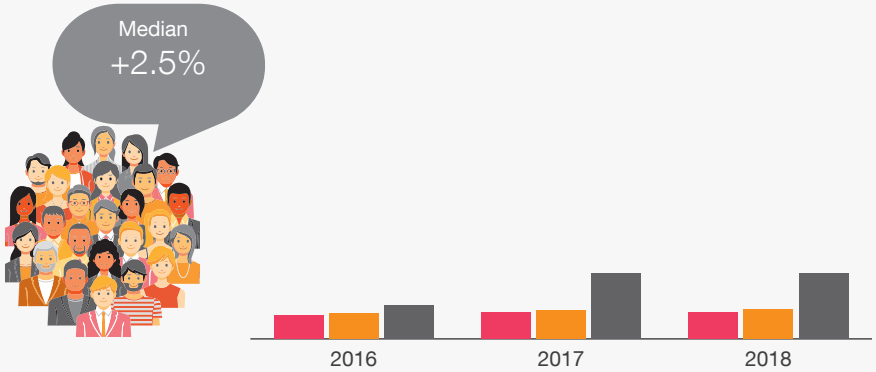
Figure 11.10: Consumer discretionary: Deputy chairpersons (US$'000s)



	2016	2017	2018
Lower quartile	152	152	153
Median	149	160	162
Upper quartile	144	403	411

Source: PwC analysis

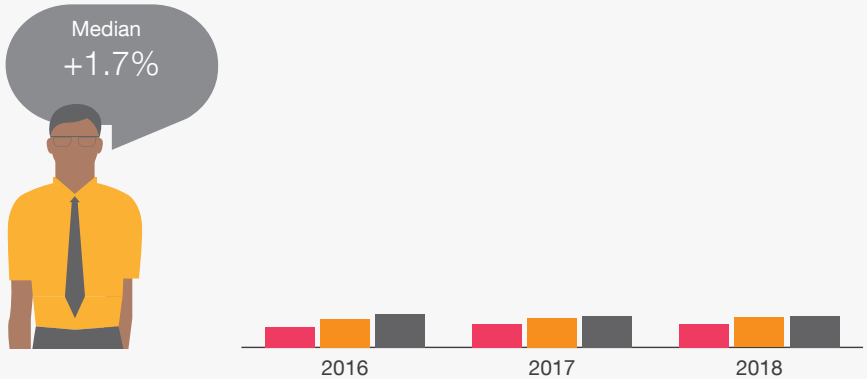
Figure 11.11: Consumer discretionary: Lead independent directors (US$'000s)



	2016	2017	2018
Lower quartile	99	109	110
Median	107	118	121
Upper quartile	137	270	272

Source: PwC analysis

Figure 11.12: Consumer discretionary: Non-executive directors (US$'000s)

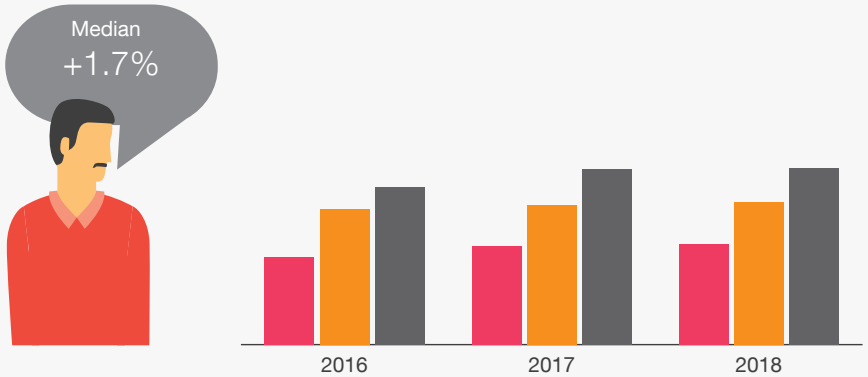


	2016	2017	2018
Lower quartile	83	95	97
Median	117	121	123
Upper quartile	139	130	131

Source: PwC analysis

Consumer staples

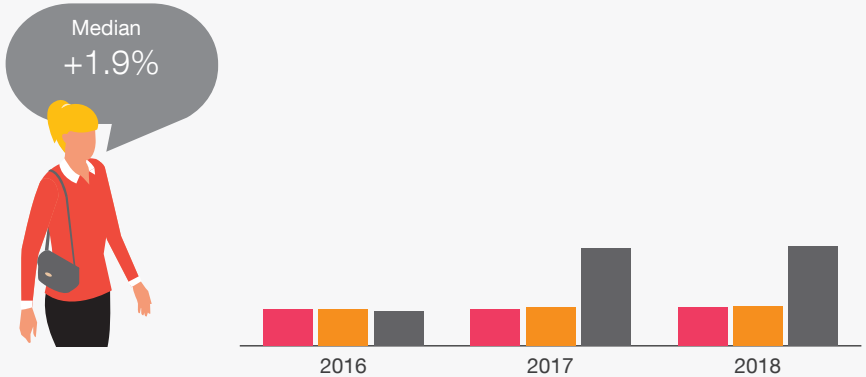
Figure 11.13: Consumer staples: Chairpersons (US$'000s)



	2016	2017	2018
Lower quartile	361	407	415
Median	561	576	586
Upper quartile	649	723	730

Source: PwC analysis

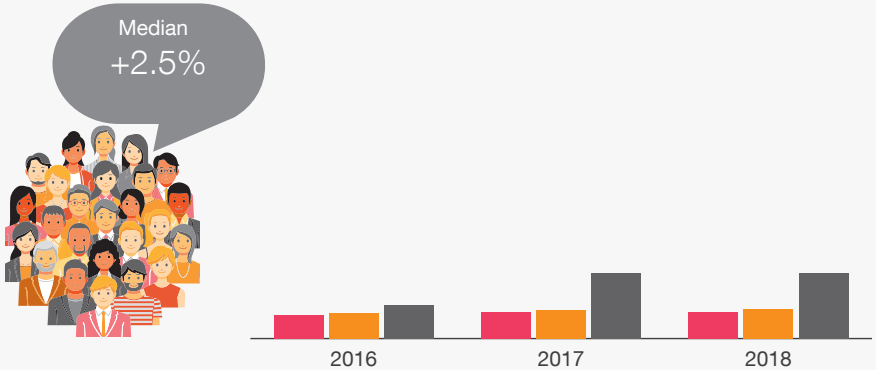
Figure 11.14: Consumer staples: Deputy chairpersons (US$'000s)



	2016	2017	2018
Lower quartile	151	152	157
Median	149	160	163
Upper quartile	144	404	412

Source: PwC analysis

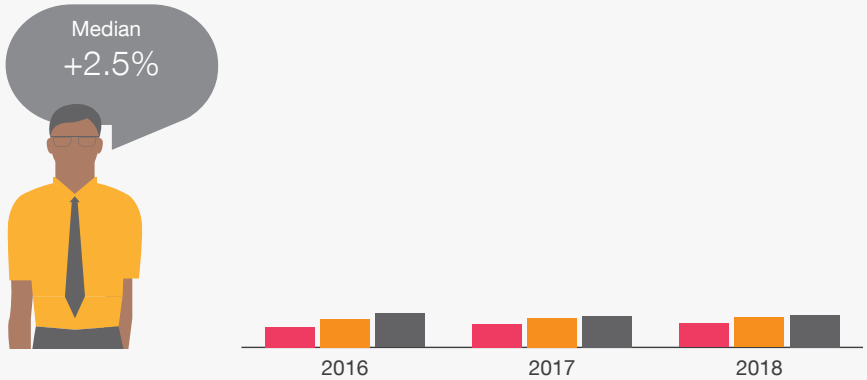
Figure 11.15: Consumer staples: Lead independent directors (US$'000s)



	2016	2017	2018
Lower quartile	99	109	110
Median	107	118	121
Upper quartile	137	270	272

Source: PwC analysis

Figure 11.16: Consumer staples: Non-executive directors (US$'000s)

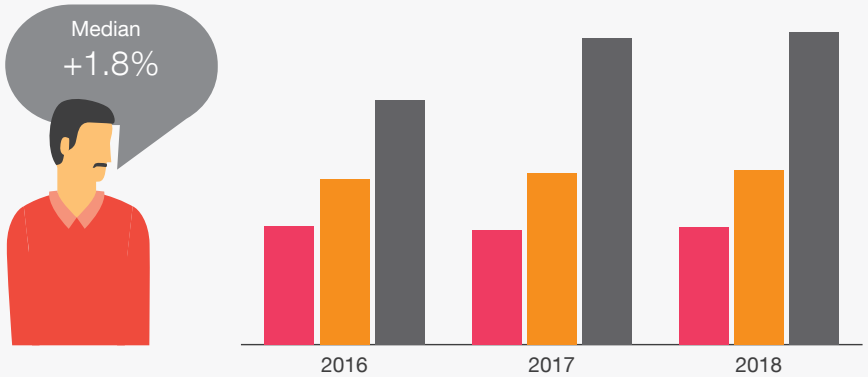


	2016	2017	2018
Lower quartile	83	96	99
Median	116	120	123
Upper quartile	140	130	134

Source: PwC analysis

Energy

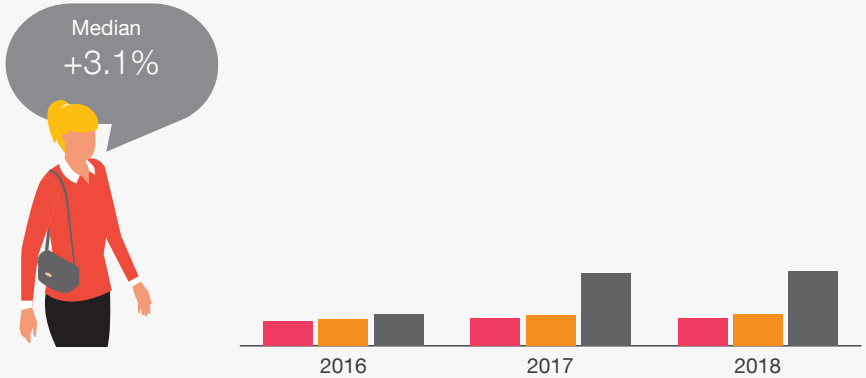
Figure 11.17: Energy: Chairpersons (US$'000s)



	2016	2017	2018
Lower quartile	488	471	485
Median	684	707	720
Upper quartile	1 008	1 264	1 289

Source: PwC analysis

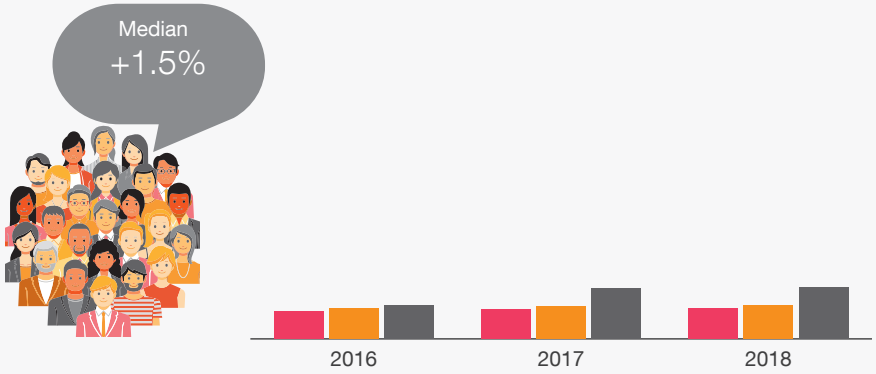
Figure 11.18: Energy: Deputy chairpersons (US$'000s)



	2016	2017	2018
Lower quartile	102	112	114
Median	111	127	131
Upper quartile	129	301	307

Source: PwC analysis

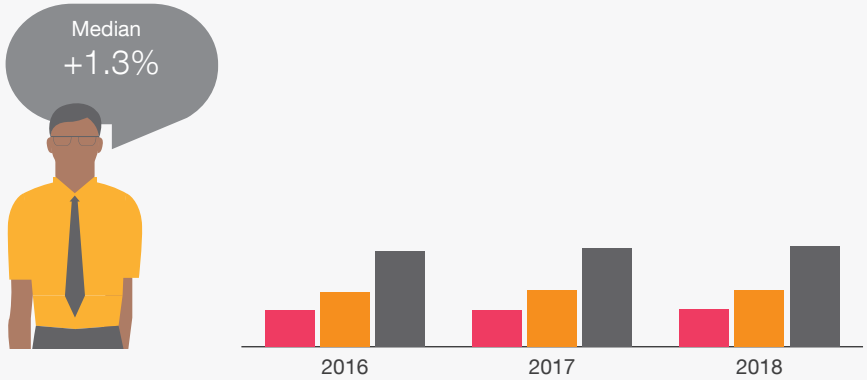
Figure 11.19: Energy: Lead independent directors (US$'000s)



	2016	2017	2018
Lower quartile	112	121	124
Median	126	136	138
Upper quartile	139	209	214

Source: PwC analysis

Figure 11.20: Energy: Non-executive directors (US$'000s)

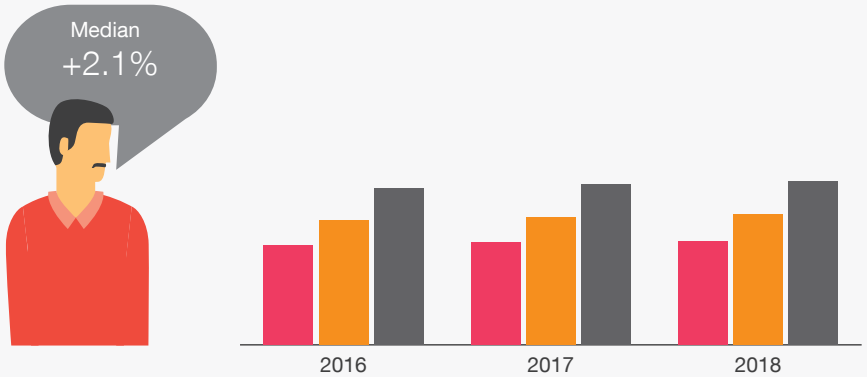


	2016	2017	2018
Lower quartile	150	151	154
Median	223	232	235
Upper quartile	392	407	415

Source: PwC analysis

Financials

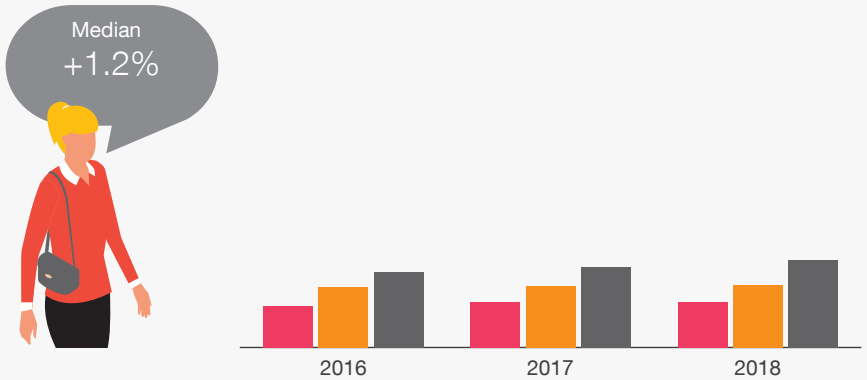
Figure 11.21: Financials: Chairpersons (US$'000s)



	2016	2017	2018
Lower quartile	412	423	427
Median	512	527	538
Upper quartile	645	663	676

Source: PwC analysis

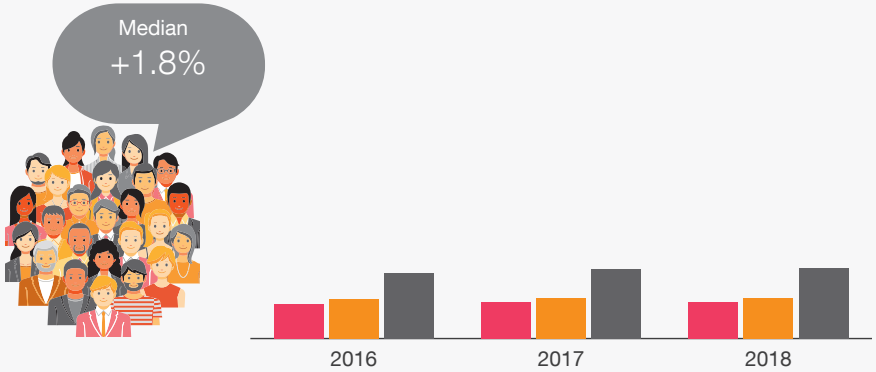
Figure 11.22: Financials: Deputy chairpersons (US$'000s)



	2016	2017	2018
Lower quartile	170	187	189
Median	248	254	257
Upper quartile	311	332	360

Source: PwC analysis

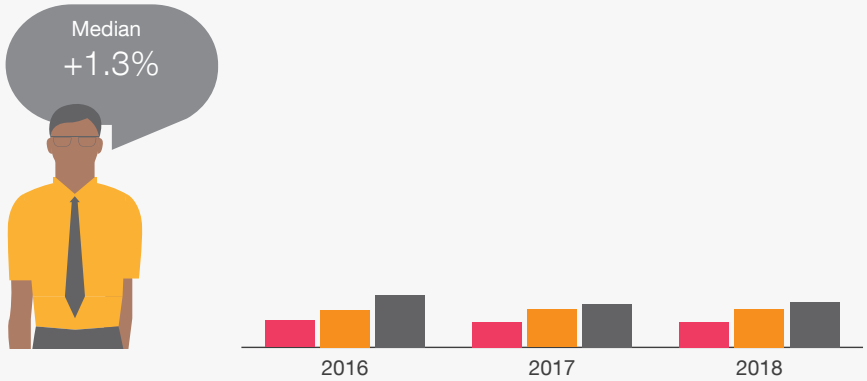
Figure 11.23: Financials: Lead independent directors (US$'000s)



	2016	2017	2018
Lower quartile	144	151	152
Median	162	166	169
Upper quartile	270	286	289

Source: PwC analysis

Figure 11.24: Financials: Non-executive director (US$'000s)

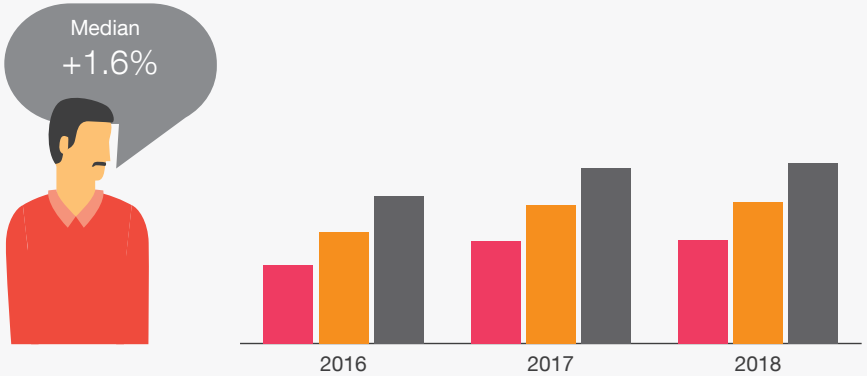


	2016	2017	2018
Lower quartile	111	105	106
Median	153	156	158
Upper quartile	216	180	186

Source: PwC analysis

Healthcare

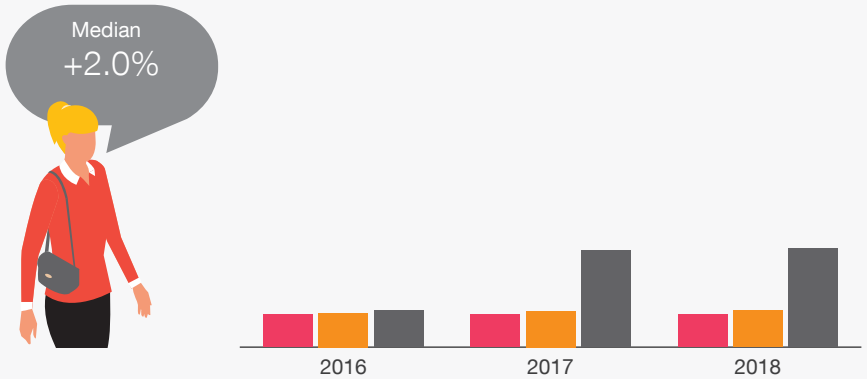
Figure 11.25: Healthcare: Chairpersons (US$'000s)



	2016	2017	2018
Lower quartile	323	422	427
Median	458	573	582
Upper quartile	610	723	744

Source: PwC analysis

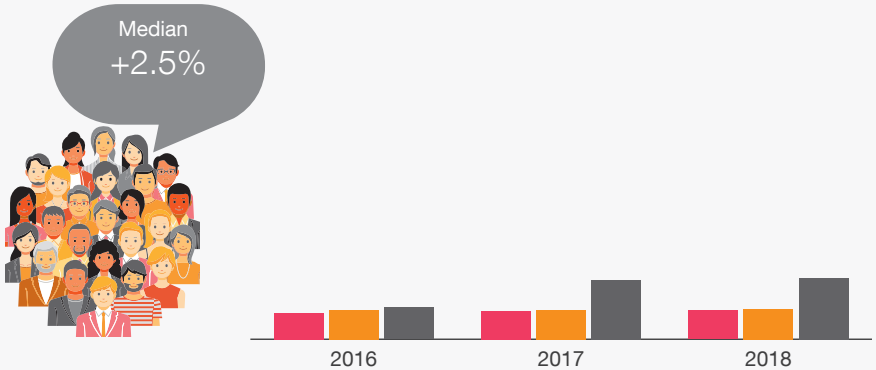
Figure 11.26: Healthcare: Deputy chairpersons (US$'000s)



	2016	2017	2018
Lower quartile	134	134	135
Median	141	149	152
Upper quartile	152	399	407

Source: PwC analysis

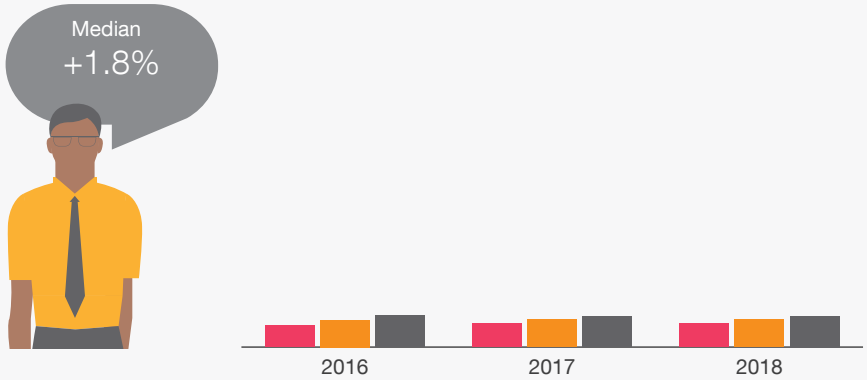
Figure 11.27: Healthcare: Lead independent directors (US$'000s)



	2016	2017	2018
Lower quartile	108	116	118
Median	121	121	124
Upper quartile	131	244	252

Source: PwC analysis

Figure 11.28: Healthcare: Non-executive directors (US$'000s)

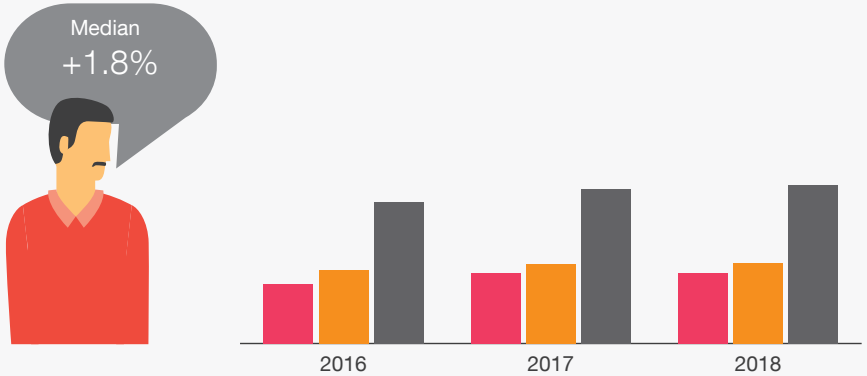


	2016	2017	2018
Lower quartile	89	97	99
Median	112	113	115
Upper quartile	130	125	128

Source: PwC analysis

Industrials

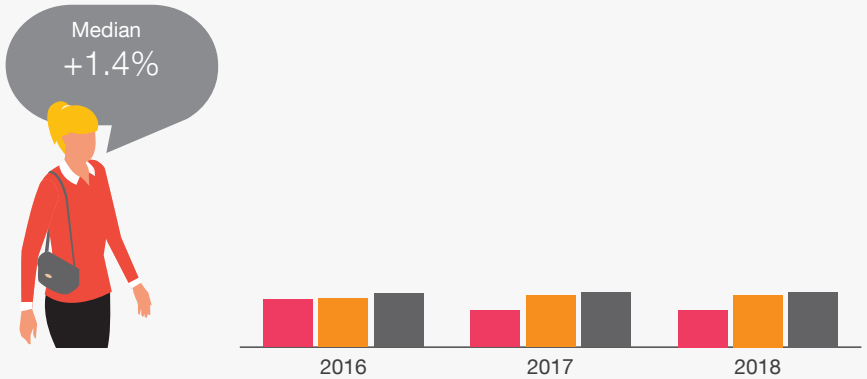
Figure 11.29: Industrials: Chairpersons (US$'000s)



	2016	2017	2018
Lower quartile	245	289	292
Median	304	327	333
Upper quartile	583	636	655

Source: PwC analysis

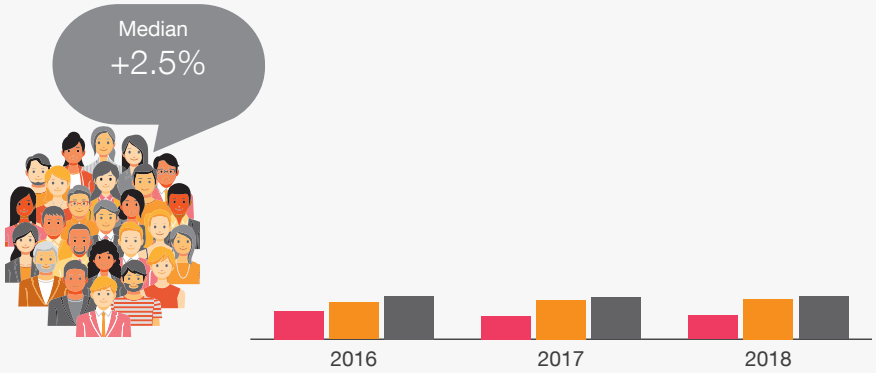
Figure 11.30: Industrials: Deputy chairpersons (US$'000s)



	2016	2017	2018
Lower quartile	198	151	153
Median	201	212	215
Upper quartile	221	224	228

Source: PwC analysis

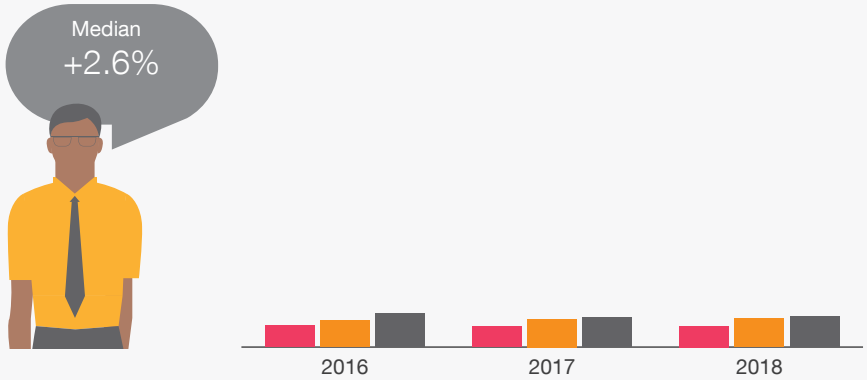
Figure 11.31: Industrials: Lead independent directors (US$'000s)



	2016	2017	2018
Lower quartile	117	96	97
Median	152	162	166
Upper quartile	178	173	177

Source: PwC analysis

Figure 11.32: Industrials: Non-executive directors (US$'000s)

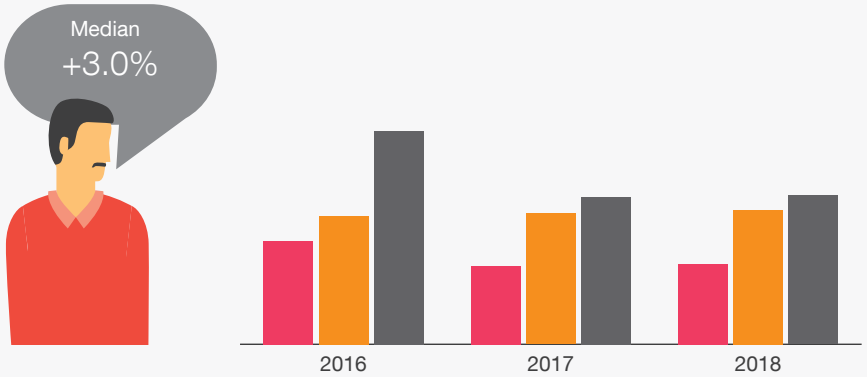


	2016	2017	2018
Lower quartile	88	84	87
Median	111	116	119
Upper quartile	139	122	125

Source: PwC analysis

Real estate

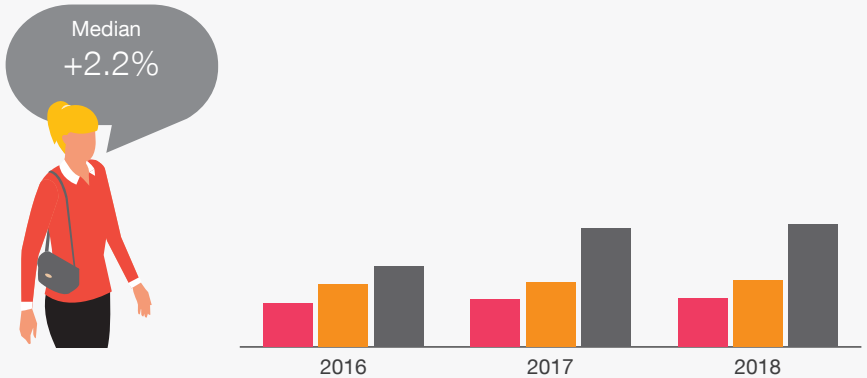
Figure 11.33: Real estate: Chairpersons (US$'000s)



	2016	2017	2018
Lower quartile	425	324	331
Median	530	539	555
Upper quartile	881	607	613

Source: PwC analysis

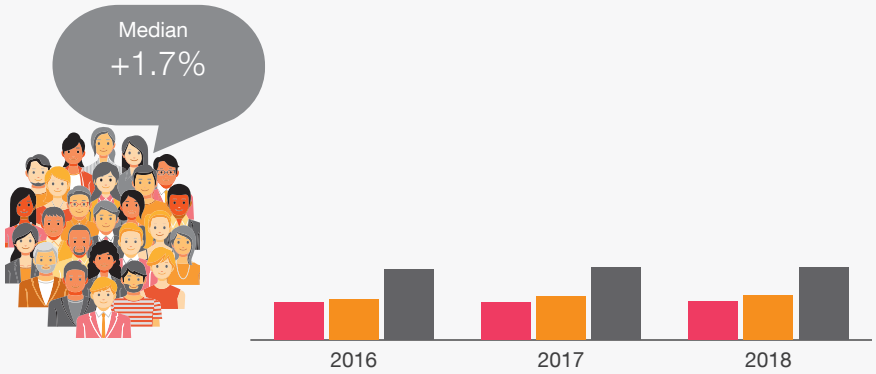
Figure 11.34: Real estate: Deputy chairpersons (US$'000s)



	2016	2017	2018
Lower quartile	179	198	200
Median	256	267	273
Upper quartile	331	490	505

Source: PwC analysis

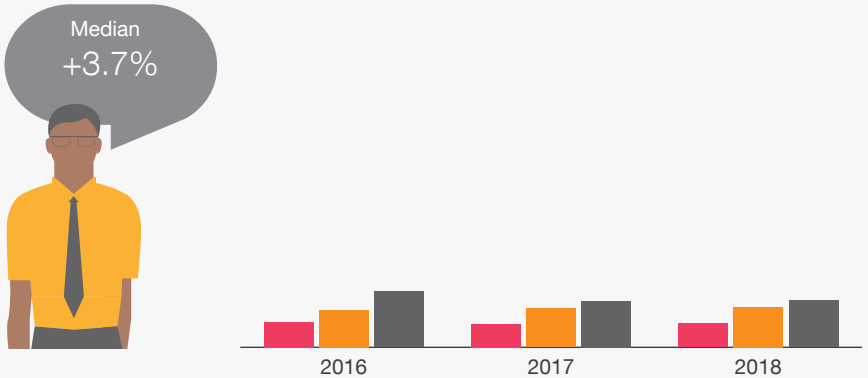
Figure 11.35: Real estate: Lead independent directors (US$'000s)



	2016	2017	2018
Lower quartile	154	154	157
Median	169	180	183
Upper quartile	289	298	301

Source: PwC analysis

Figure 11.36: Real estate: Non-executive directors (US$'000s)

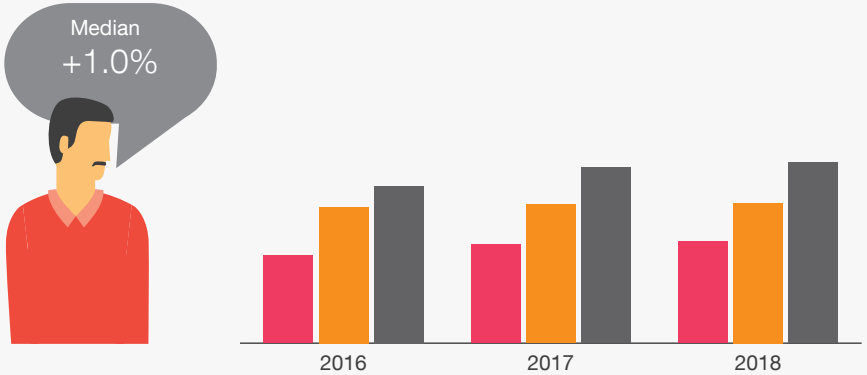


	2016	2017	2018
Lower quartile	104	96	99
Median	154	160	166
Upper quartile	230	191	193

Source: PwC analysis

Technology

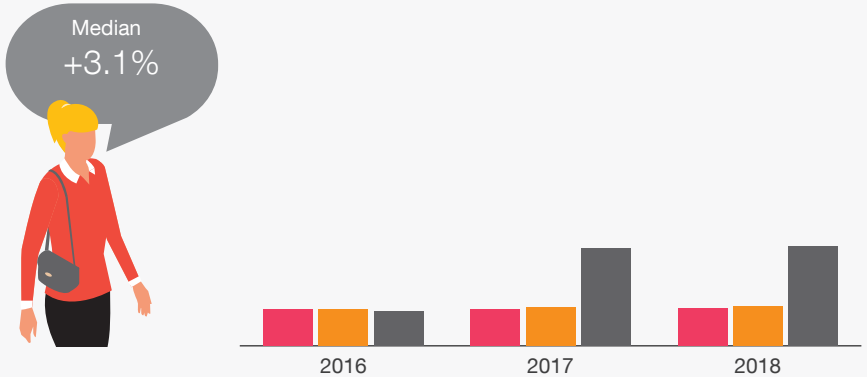
Figure 11.37: Technology: Chairpersons (US$'000s)



	2016	2017	2018
Lower quartile	361	408	420
Median	562	572	578
Upper quartile	648	724	745

Source: PwC analysis

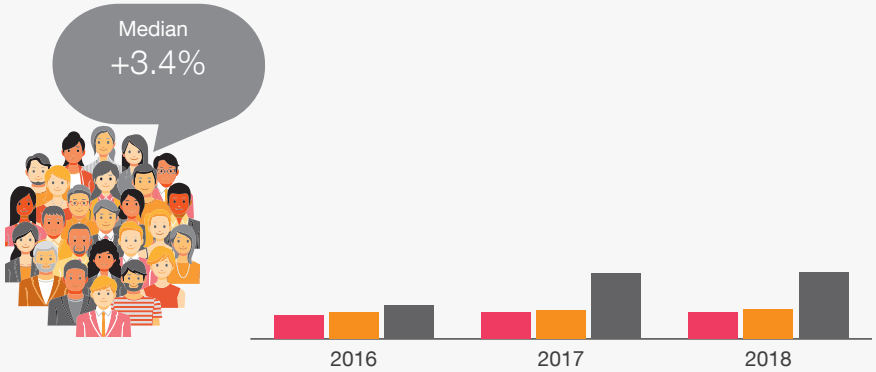
Figure 11.38: Technology: Deputy chairpersons (US$'000s)



	2016	2017	2018
Lower quartile	152	151	156
Median	149	159	164
Upper quartile	143	402	410

Source: PwC analysis

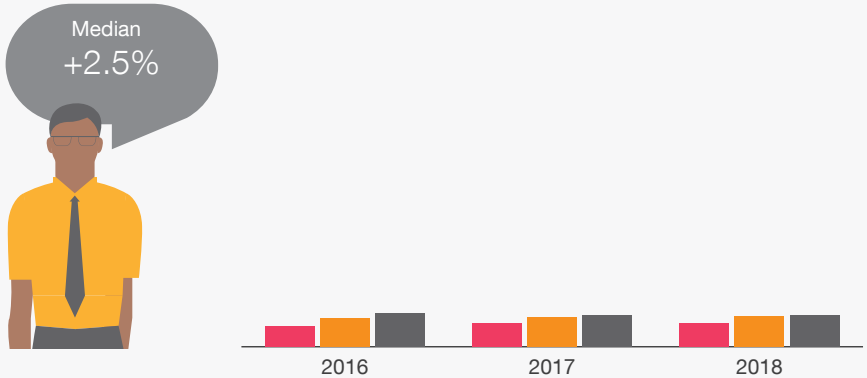
Figure 11.39: Technology: Lead independent directors (US$'000s)



	2016	2017	2018
Lower quartile	99	109	111
Median	108	117	121
Upper quartile	137	270	276

Source: PwC analysis

Figure 11.40: Technology: Non-executive directors (US$'000s)

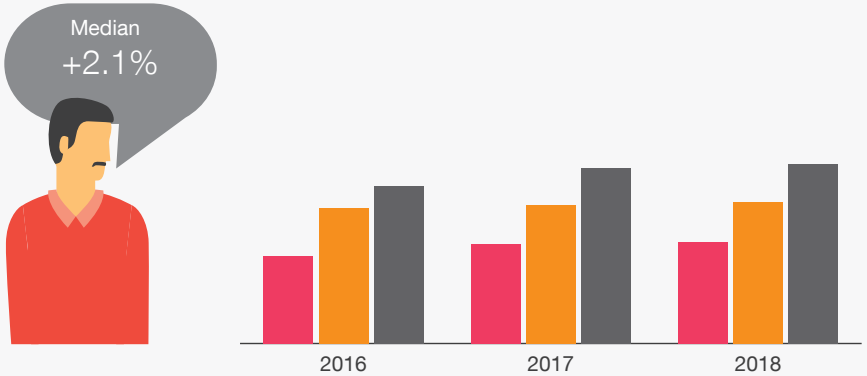


	2016	2017	2018
Lower quartile	83	95	96
Median	117	121	124
Upper quartile	139	129	130

Source: PwC analysis

Telecommunications

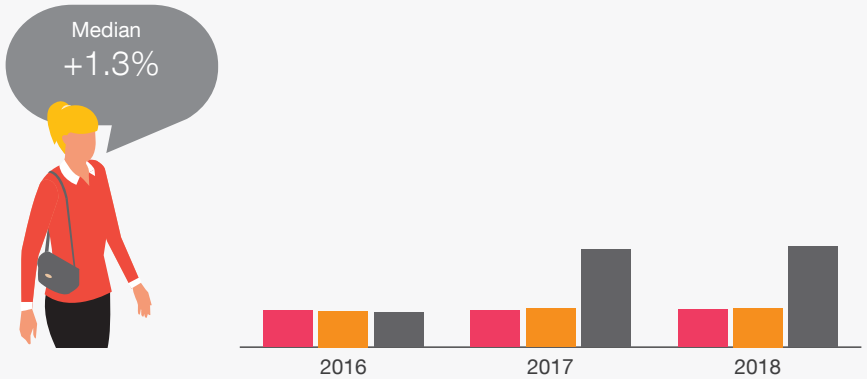
Figure 11.41: Telecommunications: Chairpersons (US$'000s)



	2016	2017	2018
Lower quartile	360	409	417
Median	561	572	584
Upper quartile	648	726	740

Source: PwC analysis

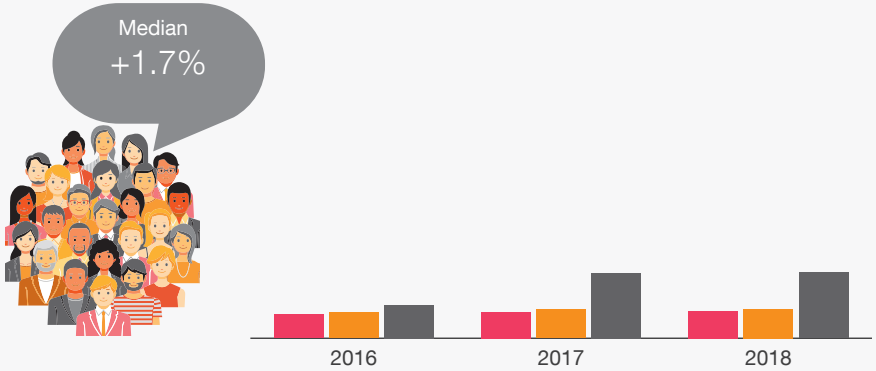
Figure 11.42: Telecommunications: Deputy chairpersons (US$'000s)



	2016	2017	2018
Lower quartile	152	152	156
Median	149	159	161
Upper quartile	143	403	415

Source: PwC analysis

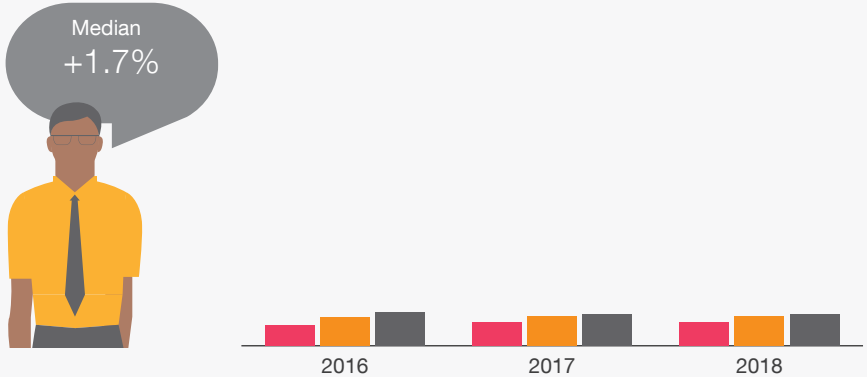
Figure 11.43: Telecommunications: Lead independent directors (US$'000s)



	2016	2017	2018
Lower quartile	99	109	112
Median	107	118	120
Upper quartile	137	269	272

Source: PwC analysis

Figure 11.44: Telecommunications: Non-executive directors (US$'000s)

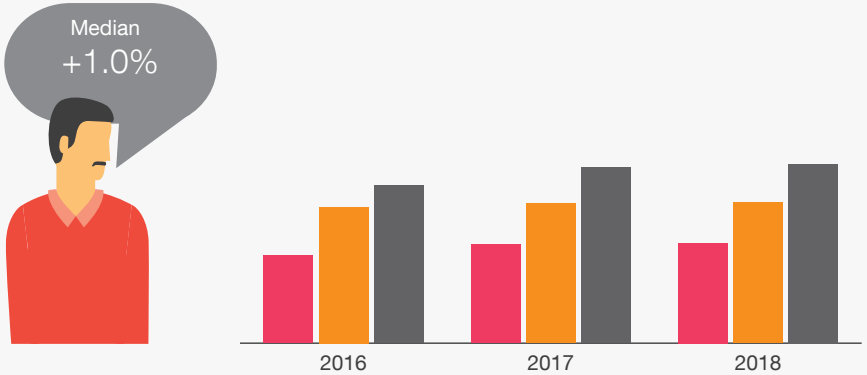


	2016	2017	2018
Lower quartile	83	95	98
Median	117	121	123
Upper quartile	139	130	131

Source: PwC analysis

Utilities

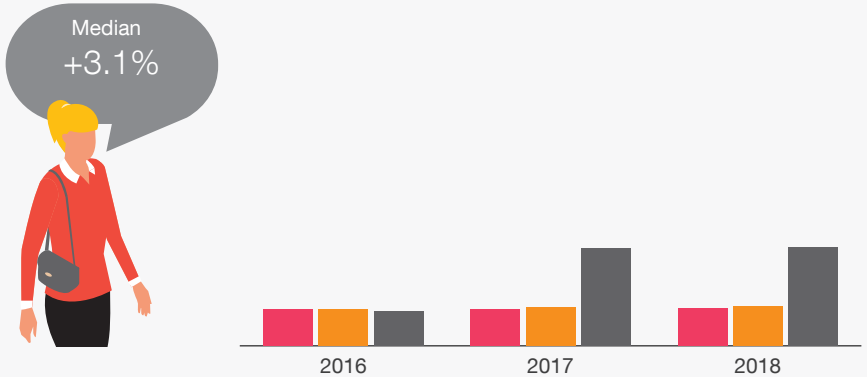
Figure 11.45: Utilities: Chairpersons (US$'000s)



	2016	2017	2018
Lower quartile	361	408	413
Median	562	575	581
Upper quartile	650	724	739

Source: PwC analysis

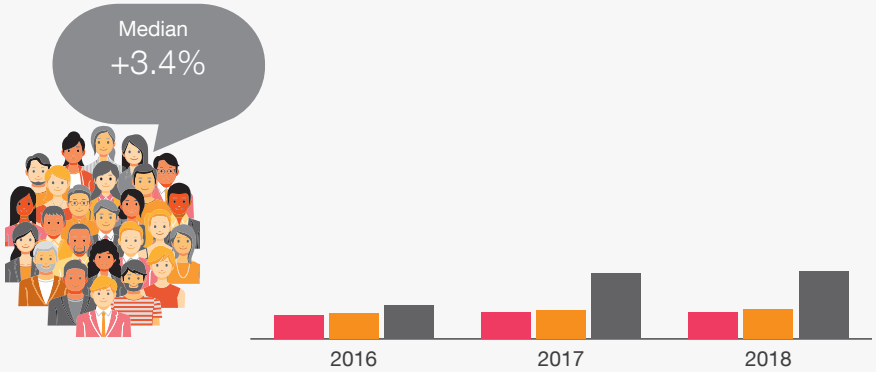
Figure 11.46: Utilities: Deputy chairpersons (US$'000s)



	2016	2017	2018
Lower quartile	151	152	156
Median	149	159	164
Upper quartile	144	402	406

Source: PwC analysis

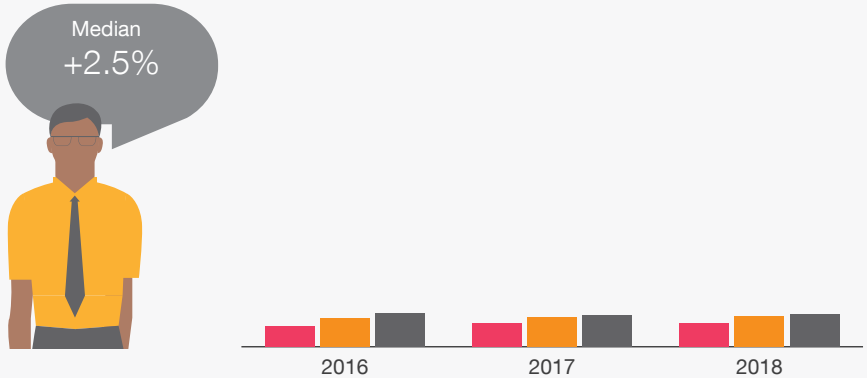
Figure 11.47: Utilities: Lead independent directors (US$'000s)



	2016	2017	2018
Lower quartile	99	108	110
Median	107	118	122
Upper quartile	137	269	277

Source: PwC analysis

Figure 11.48: Utilities: Non-executive directors (US$'000s)



	2016	2017	2018
Lower quartile	83	95	98
Median	117	121	124
Upper quartile	140	130	134

Source: PwC analysis

12

African stock exchanges

African capital markets offer an underreported growth opportunity for those with a particularly long investment horizon. The obvious opportunity in African markets is the reward profile found in most emerging markets.

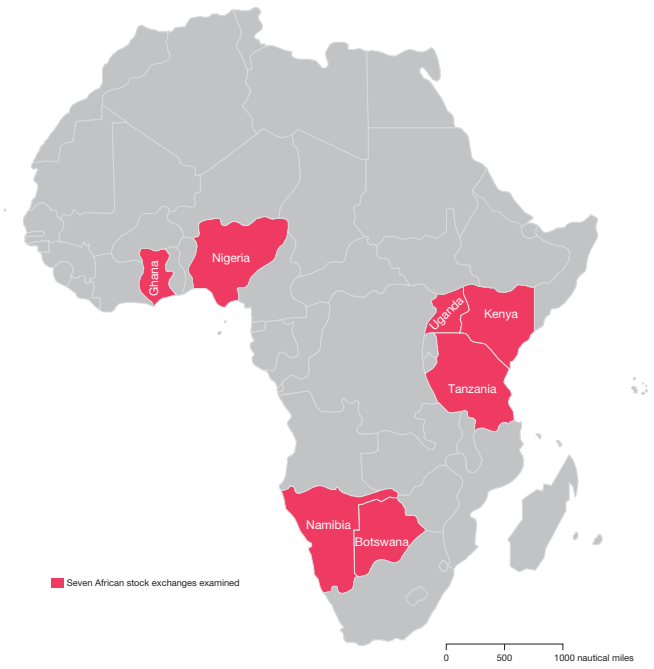
Sources of information

Of Africa's 54 independent states, 29 have equity or commodity exchanges. These bourses represent the capital and commodities markets of 39 countries. The majority of African stock exchanges represent fledgling markets, some with as few as eight listed companies. Others are regional exchanges and serve markets in specified regions.

Here, we analyse trends in non-executive directors' remuneration in sub-Saharan Africa, excluding South Africa. Seven stock exchanges are included in our research.

Information is extracted from global resources, PwC's internal resource base and companies listed on African stock exchanges in the countries highlighted in the map on the right.

Seven African stock exchanges analysed



The seven markets analysed have a total of 1 966 (2017: 1 824) non-executive directors drawn from 410 (2017: 390) companies. In most cases, fees paid to non-executives are not disclosed in line with corporate governance best practices. Moreover, data reported for Africa that is available in the public domain is thin. While we have obtained sufficient information to reflect total fees paid to non-executive directors and to present a trend analysis, readers should use the figures reported with caution.

All data set out in our analysis was drawn from information available on 30 November 2018 (the cut-off date) and is valid for the period from 1 December 2017 to 30 November 2018 (the 2018 reporting period).

Fees paid to non-executive directors are mostly reported as a single line item on the African operations' income statements. This aggregate may include expense payments, benefits and share issues, which are indeterminable.

In many cases, tribal and community leaders are appointed as non-employee directors with added benefits that are not board fees. Unless a definitive total fee value is extractable, the company is not included in our trend analysis. On average, 64% (2017: 59%) of all published financial statements examined provided usable data.

All values have been converted from local sub-Saharan and other currencies into US dollars at the interbank closing rate at midnight on 30 November 2018, as with other exchange rates used in this publication.

The following table explains the level of good data obtained from the seven African stock exchanges.

Listed company profile of selected African bourses

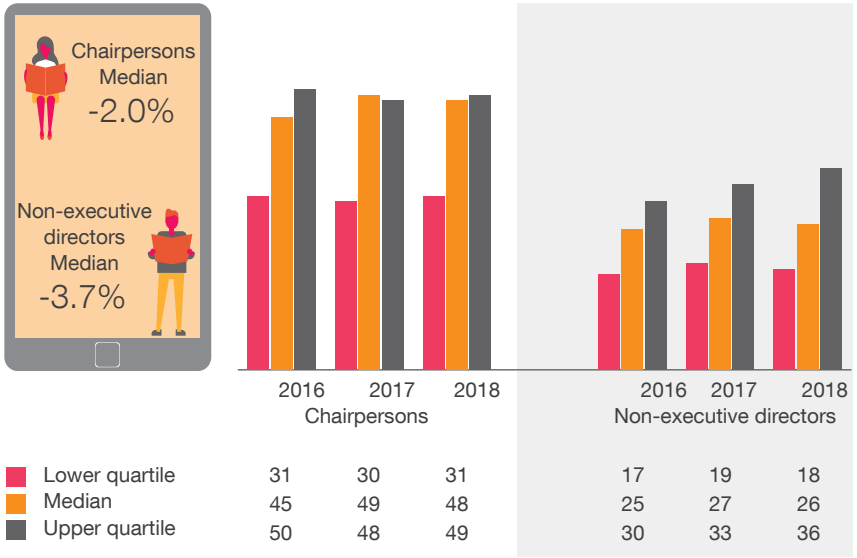
Bourse	Companies 2018	Total non-executive directors	Chair-persons	Non-executive directors	% available usable data
Botswana	33	176	33	133	74%
Ghana	43	247	42	205	67%
Kenya	65	364	65	296	77%
Namibia	39	187	38	149	64%
Nigeria	187	817	164	653	64%
Tanzania	26	107	17	90	58%
Uganda	17	68	10	58	42%
Total	410	1 966	382	1 584	64%

Source: PwC analysis

Non-executive directors' total fees

Although non-executive directors received reasonable increases overall, the impact of currency weaknesses against the US dollar has once again limited the increases in US dollar terms.

Figure 12.1: Remuneration of non-executive directors for seven selected sub-Saharan African exchanges (excluding South Africa)



Source: PwC analysis

Non-executive directors' total fees by country

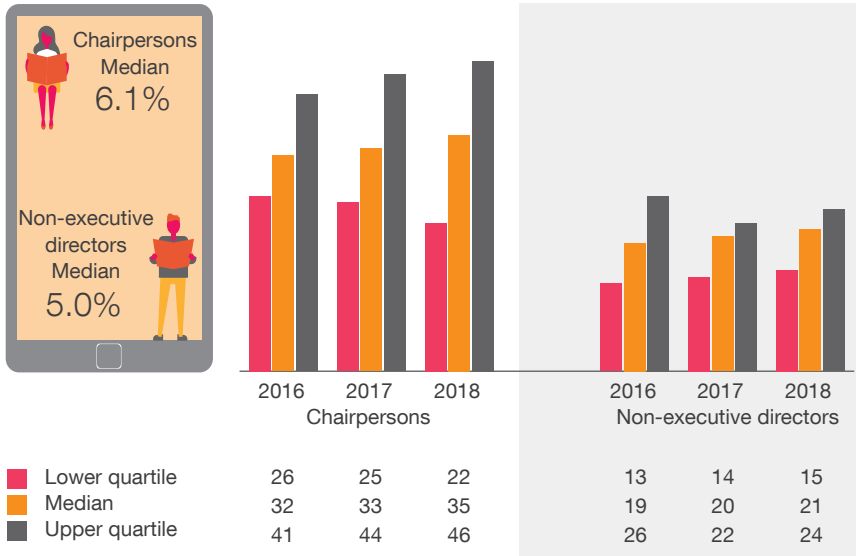
Each bourse has also been examined separately. In the charts that follow, total non-executive directors' fees are shown for non-executive chairpersons as well as for non-employee board members. The fees are expressed in US dollars per annum.

Botswana

Economic growth is expected to rebound in 2019 supported by higher diamond sales, a stable macroeconomic environment, and higher government spending. In this regard, medium-term prospects are favourable, assuming a decisive and prompt implementation of key fiscal policy measures and market-friendly reforms that enable private-sector development, lower unemployment, reduce income inequality, and diversify exports into selected sectors.

Real GDP growth decelerated to 2.4% in 2017/2018 owing to declines in copper and nickel production and lower activity in construction and trade. While the fiscal and external accounts were nearly balanced, inflation was about 3%. Furthermore, the exchange rate was stable, the financial sector remained sound and well capitalised, and public debt continued to be low at about 19% of GDP.[1]

Figure 12.2: Botswana: Remuneration of non-executive directors (US$'000s)



Source: PwC analysis

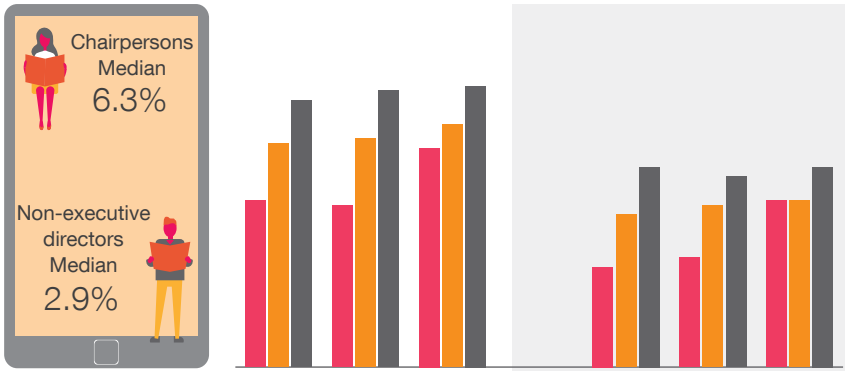
[1] "IMF and Botswana discuss policies to increase economic growth." YourBotswana. https://yourbotswana.com/2018/06/10/imf-and-botswana-discuss-policies-to-increase-economic-growth/

Ghana

According to the World Bank's latest estimates, economic growth in Ghana will be rise to 7.6% in 2019, but will gradually decline to about 5.1% by 2023.[2]

Ghana's current account position will, however, remain negative, and lower than before. Projections show a current account of -4.1% of GDP in 2018, and -4.0% of GDP in 2019.

Figure 12.3: Ghana: Remuneration of non-executive directors (US$'000s)



	Chairpersons 2016	Chairpersons 2017	Chairpersons 2018	Non-executive directors 2016	Non-executive directors 2017	Non-executive directors 2018
Lower quartile	35	34	46	21	23	35
Median	47	48	51	32	34	35
Upper quartile	56	58	59	42	40	42

Source: PwC analysis

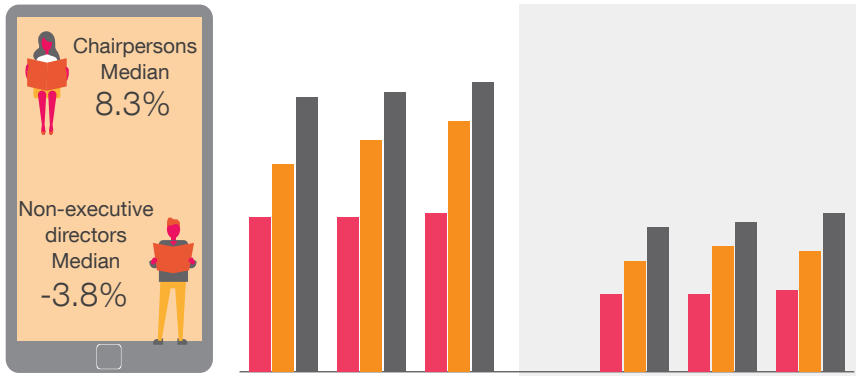
[2] https://www.ghanaweb.com/GhanaHomePage/business/IMF-cuts-Ghana-s-GDP-growth-to-6-3-691923

Kenya

Kenya's economy has continued to perform well, with real GDP growth accelerating to 5.7% in the first quarter of 2018, from 4.9% in 2017. Growth is being driven by strengthened confidence following the conclusion of the prolonged election period, favourable weather conditions, and a continued recovery in tourism.[3]

The banking sector in aggregate remains well-capitalised and liquid. However, non-performing loans remained high at 12% in June 2018, though declined in recent months. Higher non-performing loans have been driven by weaker economic activity, and delayed payments from the government and private sector.[4]

Figure 12.4: Kenya: Remuneration of non-executive directors (US$'000s)



	Chairpersons 2016	Chairpersons 2017	Chairpersons 2018	Non-executive directors 2016	Non-executive directors 2017	Non-executive directors 2018
Lower quartile	32	32	33	16	16	17
Median	43	48	52	23	26	25
Upper quartile	57	58	60	30	31	33

Source: PwC analysis

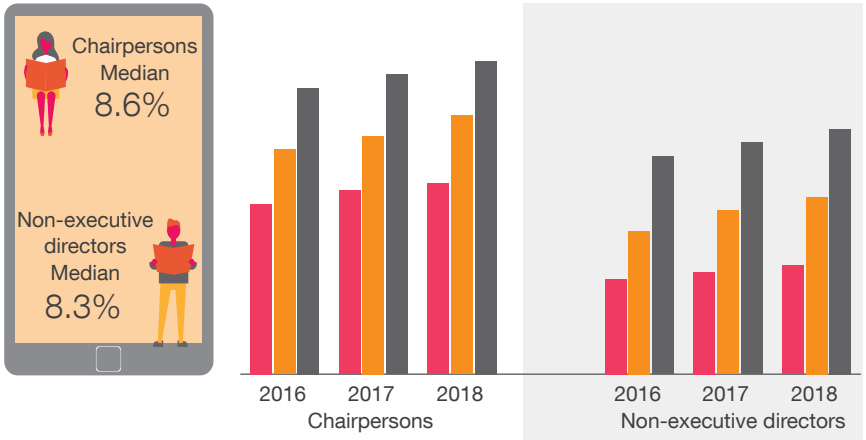
[3] IMF Staff Concludes Visit to Kenya. https://www.imf.org/en/News/Articles/2018/08/02/pr18327-imf-staff-concludes-visit-to-kenya

[4] https://www.imf.org/en/News/Articles/2018/08/02/pr18327-imf-staff-concludes-visit-to-kenya

Namibia

The International Monetary Fund projects that Namibia's GDP contracted in 2018, and will turn positive in 2019.[5] It pushed out its forecast for growth to next year when the country will see support from strong mining production and a rebound in construction activities[6].

Figure 12.5: Namibia: Remuneration of non-executive directors (US$'000s)



	Chairpersons 2016	Chairpersons 2017	Chairpersons 2018	Non-executive directors 2016	Non-executive directors 2017	Non-executive directors 2018
Lower quartile	25	27	28	14	15	16
Median	33	35	38	21	24	26
Upper quartile	42	44	46	32	34	36

Source: PwC analysis

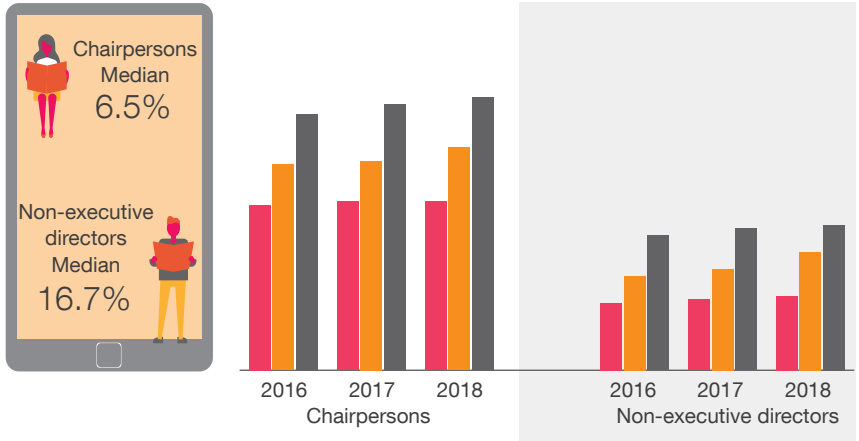
[5] End-of-Mission press release of IMF staff teams that convey preliminary findings after a visit to a country – 8 November 2019.

[6] IMF sees Namibia's GDP contracting in 2018 | Reuters. https://www.reuters.com/article/us-namibia-economy/imf-sees-namibias-gdp-contracting-in-2018-idUSKCN1NF0BS

Nigeria

The Nigerian economy is slowly exiting recession, but remains vulnerable. Rising oil prices, new foreign exchange regulations,[7] attractive yields on government securities, and a tighter monetary policy have contributed to better availability of foreign currencies. The rising oil prices have also increased reserves to a four-year high and contained inflationary pressures. Growth has been driven mainly by recovering oil production. However, these improvements have not boosted non-oil and non-agricultural activity, improved inflation or reduced unemployment.[8]

Figure 12.6: Nigeria: Remuneration of non-executive directors (US$'000s)



	Chairpersons 2016	Chairpersons 2017	Chairpersons 2018	Non-executive directors 2016	Non-executive directors 2017	Non-executive directors 2018
Lower quartile	49	50	50	20	21	22
Median	61	62	66	28	30	35
Upper quartile	76	79	81	40	42	43

Source: PwC analysis

[7] IMF: Nigeria: dated 2018 Article IV Consultation-Press Release; Staff Report; and Statement by the Executive Director for Nigeria 7 March 2018.

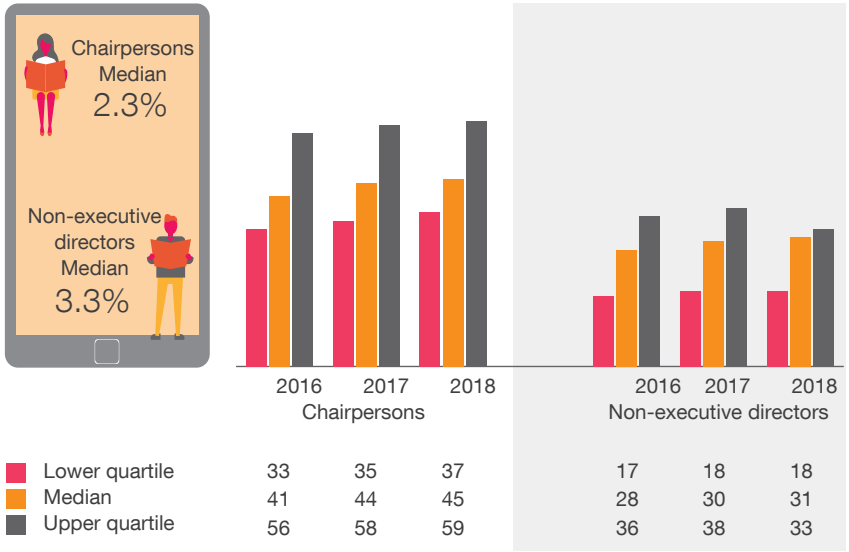
[8] Nigeria : 2018 Article IV Consultation-Press Release available at https://www.imf.org/en/Publications/CR/Issues/2018/03/07/Nigeria-2018-Article-IV-Consultation-Press-Release-Staff-Report-and-Statement-by-the-45699

Tanzania

Tanzania's economic programme supported by the IMF's 2014–18 Policy Support Instrument (PSI) has been marked by relatively strong macroeconomic performance, but implementation of structural reforms have been uneven.

Recent economic performance has been mixed. Although GDP data points to continued strong growth, other data suggests a weakening in economic activity. Tax revenue collections are lower than expected and credit growth has stagnated, reflecting in banks' rising non-performing loans. Inflation remains moderate, and international reserves have increased substantially.[9]

Figure 12.7: Tanzania: Remuneration of non-executive directors (US$'000s)



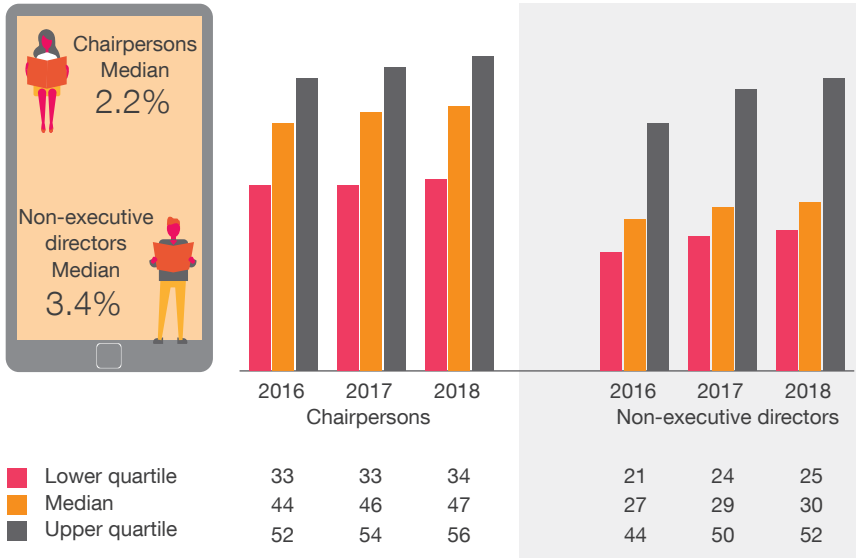
Source: PwC analysis

[9] https://www.imf.org/en/News/Articles/2018/01/11/pr1801-imf-executive-board-completes-seventh-psi-review-for-tanzania file:///Users/Dave/Downloads/cr1811.pdf - United Republic Of Tanzania Seventh Review Under The Policy Support Instrument; Staff Report

Uganda

Uganda has progressed well in setting economic policy objectives for 2018/2019 and in the medium term. Fiscal policy seeks to keep public debt at a sustainable level. This requires raising tax collection and prioritising spending needs, while protecting key infrastructure projects and social expenditures. Monetary policy targets core inflation of 5%. The Bank of Uganda aims to maintain international reserves at 4–4½ months of imports.[10]

Figure 12.8: Uganda: Remuneration of non-executive directors (US$'000s)



Source: PwC analysis

[10] https://www.imf.org/en/News/Articles/2018/05/31/pr18205-imf-staff-concludes-visit-to-uganda

13 Appendices

The South African marketplace

AltX (34)

Basic materials (49)

- Chemicals (7)
- Forestry and paper (4)
- Industrial metals and mining (5)
- Mining (33)

Consumer discretionary (40)

- Food and drug retailers (6)
- General retailers (19)
- Media (5)
- Travel and leisure (10)

Consumer staples (20)

- Automobiles and parts (1)
- Beverages (2)
- Food producers (13)
- Household goods and home construction (1)
- Leisure goods (1)
- Personal goods (1)
- Tobacco (1)

Energy (2)

- Oil and gas producers (2)

Financials (54)

- Banks (7)
- Development capital (1)
- Equity investment instruments (10)
- Financial services (27)
- Life insurance (5)
- Non-equity investment instruments (1)
- Nonlife insurance (2)
- Venture capital (1)

Healthcare (8)

- Healthcare equipment and service (5)
- Pharmaceuticals and biotechnology (3)

Industrials (54)

- Construction and materials (13)
- General industrials (12)
- Industrial engineering (4)
- Industrial transportation (8)
- Support services (11)
- Electronic and electrical equipment (6)

Real estate (48)

- Real estate investment and services (16)
- Real estate investment trusts (32)

Technology (11)

- Software and computer services (9)
- Technology hardware and equipment (2)

Telecommunications (5)

- Fixed line telecommunications (1)
- Mobile telecommunications (4)

Utilities (0)

FTSE 100 marketplace

Basic materials (10)

- Chemicals (2)
- Forestry and paper (1)
- Industrial metals and mining (1)
- Mining (6)

Consumer discretionary (23)

- Food and drug retailers (1)
- General retailers (7)
- Media (6)
- Travel and leisure (9)

Consumer staples (12)

- Automobiles and parts (0)
- Beverages (2)
- Food producers (3)
- Household goods and home construction (4)
- Leisure goods (1)
- Personal goods (0)
- Tobacco (2)

Energy (4)

- Oil and gas producers (4)

Financials (19)

- Banks (5)
- Development capital (0)
- Equity investment instruments (0)
- Financial services (7)
- Life insurance (2)
- Non-equity investment instruments (1)
- Nonlife insurance (4)
- Venture capital (0)

Healthcare (5)

- Healthcare equipment and service (2)
- Pharmaceuticals and biotechnology (3)

Industrials (12)

- Aerospace & defence (2)
- Construction and materials (1)
- Electronic and electrical equipment (0)
- General industrials (3)
- Industrial engineering (1)
- Industrial goods and services (5)
- Industrial transportation (0)

Support services (0)

Real estate (3)

- Real estate investment and services (2)
- Real estate investment trusts (1)

Technology (5)

- Software and computer services (5)
- Technology hardware and equipment (0)

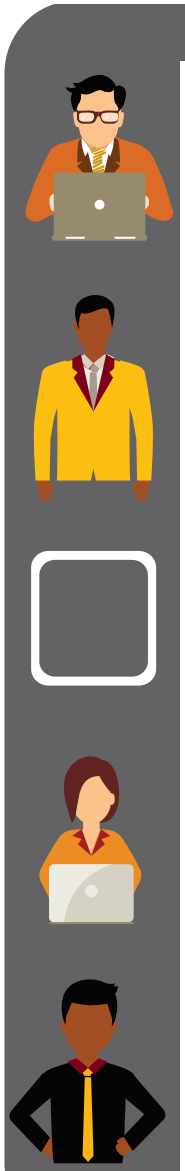
Telecommunications (2)

- Fixed line telecommunications (1)
- Mobile telecommunications (1)

Utilities (5)

- Electricity & gas (3)
- Water & sewage (2)

Africa marketplace



	Total		Financials		Industrials		Services		Basic resources	
	2019	2018	2019	2018	2019	2018	2019	2018	2019	2018
Botswana	33	34	15	16	3	3	6	6	9	9
Ghana	43	41	16	14	14	14	6	6	7	7
Kenya	65	63	23	22	20	20	16	15	6	6
Namibia	39	39	20	20	8	8	4	4	7	7
Nigeria	187	171	72	62	60	59	26	25	29	25
Tanzanian	26	26	12	12	4	4	5	5	5	5
Uganda	17	16	7	8	5	3	5	5		
	410	390	165	154	114	111	68	66	63	59

About PwC

At PwC, we apply our industry knowledge and professional expertise to identify, report, protect, realise and create value for our clients and their stakeholders.

The strength of this value proposition is based on the breadth and depth of the firm's client relationships. Networks are built around clients to provide them with our collective knowledge and resources. We use our international network, experience, industry knowledge and business understanding to build trust and create value for clients.

We are committed to making PwC distinctive through consistent behaviours that enable the success of our clients and people. We call this the PwC Experience and it shapes the way in which we interact with clients, with one another and with the communities in which we operate. This, along with our core values of Teamwork, Leadership and Excellence – and our strong Code of Conduct – guides us in all that we do.

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- PwC UK
- PwC US
- Karen Crous – Independent contractor
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