



# Remuneration Strategy & Policy

**October 2016**

(Revision)

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## 1 PURPOSE

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Anchor Group will remunerate its employees in line with the dynamics of the market and the context in which it operates. The business will at all times be managed in line with its strategy. As such, remuneration will play a critical role in attracting and retaining high performing individuals. We acknowledge that remuneration will never be a stand-alone management process, but will be fully integrated into other management processes such as performance management and the overall human resource strategy. This policy document must be viewed in the context of all other applicable policies.

In summary, the remuneration policy has the following purposes:

- It harmonises all the remuneration policies and practices for Anchor Group;
- It reflects the dynamics of the market and the context in which Anchor Group operates;
- It is aligned with the strategic direction of Anchor Group;
- It aims to attract, retain and motivate superior performance;
- It provides clarity and understanding on remuneration issues at Anchor Group.

This policy sets out Anchor Group's guiding principles and the intended application of each component of "reward".

The guiding principles cover all categories of employment i.e. all levels of employees. The policy applies to all permanent employees of wholly owned Anchor Group Subsidiaries' or entities in which Anchor Group has a material shareholding.

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## 2 DEFINITIONS

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The following definitions are applicable in defining Remuneration:

- **Reward** is defined as the recognition an individual may receive for their contribution to the organisation. The reward referred to in this document is typically reflected in the remuneration offered to the individual and can have both cash and non-cash components.
- **Total Cost to Company (TCC)** is the total annual guaranteed cost to the organisation of employing an individual.
- **Comparative Ratio** - The comparative ratio or “Compa Ratio” is simply the actual salary divided by the market reference salary, multiplied by 100, for the appropriate position.
- **Internal equity** refers to the relative grade assigned to different jobs within the organisation. Internal equity can be examined on two levels, namely horizontally, (i.e. between departments) and vertically (i.e. within one department).
- **External equity** refers to the competitiveness of the level of remuneration assigned to each grade and is based on the need to compete in a free market for skills.

**Remuneration quartiles are defined as follows:**

- **10<sup>th</sup> Percentile (10th)** 90% of the sample earns more and 10% earns less than this salary level
- **Lower Quartile (LQ)** 75% of the sample earns more and 25% earns less than this salary level
- **Median** 50% of the sample earns more and 50% earns less than this salary level
- **Upper Quartile (UQ)** 25% of the sample earns more and 75% earns less than this salary level
- **90<sup>th</sup> Percentile (90th)** 10% of the sample earns more and 90% earns less than this salary level

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### 3 REMUNERATION STRATEGY

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Anchor Group's Vision is to provide shareholders with positive returns, both in terms of profit and capital growth.

The Vision is articulated through the strategies and the initiatives associated with the vision, which may be refined from time to time as the organisation develops. This is one of the most compelling reasons to review the remuneration planning process regularly.

Given the above, it is necessary to regularly re-evaluate the current remuneration system, within the context of Anchor Group's strategy, and, if there are any gaps of alignment, design and implement strategies, to close the gaps.

It is the purpose of Anchor Group's reward philosophy to underpin a positive organisational culture, address the key issues facing Anchor Group, and provide the guiding principles on how reward strategies and policies should be formulated.

## Rewards Vision

The rewards vision focuses on providing simple, integrated, holistic solutions within a common message framework. The reason for this, is that Anchor may attract, retain and energise talented, high performing individuals.

The reward strategy is designed to be aligned with organisational strategy and the execution of that strategy. This in turn will maximise the performance and effectiveness of Anchor Group.

### Anchor Group's remuneration strategy is:

"To ensure that Anchor Group is seen as the employer of choice in the industry. It creates the appropriate environment that **attracts and retains** high performing, talented employees, and **motivates** them **to perform at their optimum** in alignment with Anchor Group's goals."

Guiding principles for the reward of Anchor Group staff are:-

- Alignment with organisational strategy
- Alignment with remuneration strategy
- Optimise investment in people
- Motivate and drive outstanding performance
- Fair and equitable reward
- Reinforce teamwork and a culture of belonging with high levels of commitment
- Comply with relevant legislation
- Bear scrutiny by stakeholders
- Utilise experts as required
- Create a culture of earned reward

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## 4 KEY PRINCIPLES UNDERPINNING THE REMUNERATION STRATEGY

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Several key principles are intrinsic to the strategy:

*Principle 1* – We reward for outputs achieved, rather than reward for tasks, duties and responsibilities.

*Principle 2* - Incentive pay will be transparent and based on performance.

*Principle 3* - As pay is increasingly tied to competence, teamwork and performance, the proportion of variable pay to guaranteed pay would increase, thereby offering greater rewards for performers. In line with the higher risk for the employee, so too, should the ability to earn more be increased with higher productivity and performance. This is an important principle for the creation of a high performance culture and the retention of high performing people.

*Principle 4* - The reward structure must be an outcome of sound management practices, not a substitute for it.

*Principle 5* - The successful organisation works on the assumption that the required quality and volume levels are achieved. People should not be paid “additionally” for achieving what they are paid to achieve. Output and quality levels are not voluntary.

### Communication considerations

The Anchor Group is committed to open communication with all its employees regarding the design of remuneration programmes and of ongoing changes to them. Clear statements of what remuneration is designed to achieve will be made. However, Anchor Group will exercise discretion and confidentiality regarding the specific and individual details of remuneration. The remuneration policy is publically available, but will at all times be underpinned and enacted in accordance with the principles set forth in this remuneration strategy document.

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## 5 REMUNERATION MIX

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The reward mix reflects the relative proportions of remuneration represented by **guaranteed** and **variable** pay, and will be meaningfully linked to job type and the nature of expected outcomes. A non-cash portion of reward is considered to be part of the reward mix, although not considered part of the *cash* remuneration mix.

### **Purpose of each component of remuneration:**

- **Guaranteed Pay** (in the form of total cost to company) – Attraction and Retention of talented, high-performing people. This will be pitched at the market median (50<sup>th</sup> percentile) for support staff and the Upper Quartile (75<sup>th</sup> percentile) for Business Imperative and Specialised Skills staff. Identification of these Business Imperative and Specialised Skills staff will be detailed in this strategy. Anchor Group would like to position themselves as employers of choice in their industry. In order to achieve this, the remuneration component of the total employee proposition will need to remain market related.
- **Variable Pay** (Short and Long Term Incentive Schemes) – Attraction, Retention and Alignment with shareholder thinking and strategy i.e. toward achievement of annual strategic goals. Short term incentives will be for all employees while long term incentives will be aimed at senior and executive management.

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## 6 MARKET STANCE AND PAY SCALES

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Within Anchor Group, there are specialist and business imperative skills. Anchor Group has therefore adopted an approach of adopting two pay scales, applicable to them:

**Pay Scale 1 (All Staff)** – In order to find a balance between the need to employ staff at cost effective rates and the need to compete for scarce core skills, the market median is regarded as the most appropriate market reference point for all staff.

**Pay Scale 2 (Specialist Skills and Business Imperative Skills)** – In order to find a balance between the need to employ staff at cost effective rates, and the need to compete for Specialist Skills and Business Imperative Skills”, the market 75<sup>th</sup> percentile is regarded as the most appropriate market reference point for staff in positions designated “Specialist Skills and Business Imperative Skills”. The list of positions deemed “Specialist Skills and Business Imperative Skills” will be proposed by Anchor Group for approval by the Remuneration Committee.

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## 7 GUARANTEED PAY FRAMEWORK

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The following rules and guidelines apply to guaranteed pay, within the context of agreed job levels.

### **Total Cost to Company: Guiding Principles**

- The level of guaranteed pay for an individual will be based on the level of responsibility in the organisation and the size of the job.
- Pay for each job will be based on prevailing market forces and the Anchor Group guiding principle of reward, as stated herein.
- Where appropriate, guaranteed remuneration should recognise competency, technical skills and experience as applied to the job. In other words, Anchor Group will ensure pay that allows for remuneration according to levels of “fit” to job requirements (entry level and progression).
- The Anchor Group defined market position, is ideally the 50th percentile. For Specialist Skills and Business Imperative Skills, Anchor Group will target the upper quartile (75<sup>th</sup> percentile) of the market.
- The market survey data for Anchor Group, will comprise organisations of similar size, complexity and nature.
- Note: It is recognised that the nature of the asset management industry is such that it is difficult to match employees against industry benchmarks as the pay variance for the same defined job can be vast, depending on the contribution of the employee.

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## 8 VARIABLE PAY FRAMEWORK

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### SHORT TERM INCENTIVE

Anchor Group has a short term incentive scheme (bonus pool), which is aimed at sharing the success of the organisation proportionately with employees. The aim of the scheme is to establish competitive earning opportunities that attract and retain high calibre staff, and reinforce organisational performance. It seeks to encourage exceptional performance of employees.

The bonus pool is an annual amount that is calculated, in principle as 30% of the pre-tax profits of the organisation in the financial year. However, taking all factors into consideration, the Remcom has the discretion to adjust the bonus pool, in a range of 10-40% of operating profits. The scheme is self-funding and the potential payout can vary annually.

All employees of Anchor Group are eligible to participate in this scheme, but participation is not a given. Employees who are commission-based will have limited participation in the scheme. Employees who are eligible to participate in the scheme are required to have completed a minimum of three months service and any incentive will be “pro rata”.

The sharing ratios for the bonus pool will be determined by the Remuneration Committee.

Payments are based on the bonus pool principle as well as personal performance measurement against Key Performance Indicators.

Senior employees are required to defer a portion of their bonus and invest this in Anchor Group’s Collective Investment Scheme products for a period of three years. The portion to be deferred will be determined by the Remuneration Committee on an annual basis. The deferred portion can be cashed in each year, over a three year period in equal tranches of  $\frac{1}{3}$  per year.

## **LONG TERM INCENTIVE (LTI): SHARES AND SHARE SCHEMES**

The Anchor Group operates an LTI Scheme that is a discretionary award applied to qualifying key employees, which list is approved by the Remuneration Committee (“Remco”). These employees will be approved for participation based upon, but not limited to, the following criteria:

- Accountability, responsibility and ability to influence the long-term performance of the organization;
- Current performance;
- Future potential;
- Criticality of skill;
- Scarcity of skill;
- Succession planning considerations.

The LTI Scheme provides participants with the opportunity to receive share awards based on predetermined conditions. The share awards can take the form of any, or a combination, of the following, at the discretion of Remco and in line with the share option scheme:

- Options;
- Performance share options;
- Any other form that Remco approves.

In line with the share option scheme rules, the equity awards will vest after years one, two and three in equal proportions. The vesting of these options is time based and not linked to performance; rather the issuing of the options is linked to performance.

## Share Options

For those individuals issued with options, the calculation is the gross value (based on the strike price of shares) of one times cost to company. This will be viewed in the context of the number of unexercised options to which the employee has a right.

With regard to options, the awards will vest as follows: i.e. one third in each of years 1, 2 and 3.

Awards that have vested can be exercised by the participant annually, up until 5 years after the award date, after which all vested but unexercised options will lapse.

Full details of the Share Option Scheme are available in the Listings Prospectus on

[http://www.anchorgroup.co.za/PDF/Anchor\\_Group\\_Prospectus.pdf](http://www.anchorgroup.co.za/PDF/Anchor_Group_Prospectus.pdf)

## Quantum

Where options are awarded, the number of unvested shares, at a point in time, is limited to 10% of the number of shares in issue.

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## 9 SALARY REVIEWS

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The following principles will be followed in conducting comparative benchmarking:-

- Targeting remuneration to identified market levels, will be on the basis of Guaranteed Pay.
- Benchmarking will be considered annually i.e. an external market comparison.
- Expert independent remuneration consultancies may be used to provide the Remuneration Committee with market data to assist in remuneration decisions.

### **Annual Review**

In order for Anchor Group to maintain an appropriate remuneration market comparison vis-à-vis the labour market, remuneration will be reviewed annually.

The overall aim and guiding principle is to continually manage the “position” and pay range per “position”. Internal equity will be a sliding principle.

The organisation will review salaries on an annual basis as it strives to achieve fair remuneration levels taking cognisance of the basic approach set out above, as well as the need to eliminate any unfair discrimination.

The review is directly related to organisational performance, and the operational needs of the organisation. It does not guarantee, nor imply that individual salary adjustments will be made.

Annual remuneration reviews will be informed by:

- Performance of the organisation
- Projected inflation
- Internal equity
- External market
- Affordability
- The performance results of the individual

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## 10 RECOGNITION OF SPECIALIST AND BUSINESS IMPERATIVE SKILLS

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The Anchor Group recognises that the external market will, from time to time, exert pressure on the organisation to make extraordinary decisions regarding two specific skills, namely:

- Specialist Skills – Defined as those skills that are paid a premium against their grade in the general market.
- Organisational Imperative Skills – Defined as those skills that are fundamental to the continued successful operation of Anchor.

Such skills will be determined, from time to time, by management who will present such recommendations to the Remuneration Committee for approval. Specific guidelines will be applied to each circumstance taking the following into account:

- The Remuneration Committee will consider detailed motivations, signed off by at least two Executive Managers, from time to time.
- The identification of Specialist and Organisational Imperative Skills will be reviewed annually after acceptance of the original motivation.
- The implementation of a premium for Specialist and Organisational Imperative Skills will only be applicable to positions that are benchmarked against the 50<sup>th</sup> percentile.

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## 11 DETERMINATION OF SALARY

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All remuneration for new employees must be recommended by the relevant Executive Director and authorised by the Chief Executive Officer.

### **“On Appointment” Salaries**

The determination of the total cost to company of a new recruit or internally promoted employee, (one who has fully met the criteria to qualify for the job), should take place taking cognisance of market ranges, value and what it will require to attract the employee to the new position or the organisational. In order to offset some of the risks associated with the assessment in a relatively short recruitment process, it may be appropriate to remunerate the employee at a lower pay scale and assess competence and performance during the first six months of employment. Newly recruited employees' salaries may therefore be reviewed and adjusted in line with the market in the intervening period prior to the scheduled general staff review.

However, in certain instances it may be necessary to pay a premium in order to attract new skills to the organisation. This will only be done in circumstances where the potential candidate clearly exceeds the minimum requirements for the position.

### **Internal Promotions**

For internal promotions, a general guide is to place employees at the lower quartile of the pay scale. However, where this would be an increase of less than 10% of the employee's pre-promotion salary a 10% increase would be granted.

### **Salary increase criteria**

To be eligible to participate in the Anchor Group salary increase mechanism, employees must comply with the following criteria:

- A pro-rated increase will be paid to employees who were not in the employ of Anchor Group entity for the full financial year to which the annual increase relates.

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## 12 ANCHOR GROUP'S BOARD OF DIRECTORS

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Employee prosperity, including performance bonus payments, depends on the ability of the Anchor Group to achieve its set business objectives, and Board targets, as set from time to time, for a specific financial year.

A Remuneration Committee has been established as an advisory committee to the Board and will make recommendations on all remuneration issues and payments in the Anchor Group.

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## 13 REMUNERATION AND NOMINATIONS COMMITTEE

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The Remuneration and Nominations Committee is contemplated in Appendix A. The purpose of this committee will be to make recommendations to the Board of Anchor Group on the remuneration strategy, (in accordance with the principles contained in this document), and to assist the Board with appointments to the Board, Board committees, and Senior Management appointments and the audit committee.

The Remuneration and Nominations Committee will at all times, act within the framework of the mandates as handed down from time to time by the Board of the Anchor Group.

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## 14 CONCLUSION

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The Remuneration Strategy & Procedure is intended to guide the remuneration philosophy and policy in order to ensure that the remuneration processes support the achievement of the Anchor Group's vision.

This proposed policy should not be read in isolation as it is supported / complemented by the employment contracts and HR policies, and regulations that apply to the Anchor Group.

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## APPENDIX A REMUNERATION AND NOMINATION COMMITTEE MANDATE

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### Remuneration and Nomination Committee Mandate

#### 1. Establishment of a Committee

- 1.1 A Remuneration and Nomination Committee has been established with the powers and duties as set out below.
- 1.2 The Committee is constituted as a standing committee of the Board, in terms of section 72 of the Companies Act.
- 1.3 This committee will report to, and derive its mandated powers from the Anchor Group and conduct all of its proceedings subject to the authority of the Board.

#### 2. Composition

The Anchor Group Remuneration and Nomination Committee shall comprise of:

- 2.1 At least three directors, a majority of whom are independent, non-executive directors.
- 2.2 Members of this Committee and its chairman are nominated by the Board;
- 2.3 The Chairman of this Committee shall be a non- executive director.
- 2.4 The members of this Committee must have sufficient qualifications and experience to fulfil their duties.

The Committee will have access to consultants and experts as required.

### 3. Role of the Committee

The Committee fulfils an independent role, operating as an overseer and a maker of recommendations to the Board for its consideration and final approval.

#### 3.1 Remuneration

The Committee will observe the following guidelines and procedures, subject to exercising its discretion, in the conduct of its activities.

3.1.1 The Anchor Group recognises various elements of remuneration within its definition of the remuneration package, for the purpose of formulating an effective remuneration policy.

3.1.2 To achieve an appropriate balance in the breakdown of the remuneration package, management make recommendations on the fixed elements of pay on the basis of an agreed total annual package amount. It will be the responsibility of the Committee to authorise these packages.

3.1.3 The proportionality of the different elements of remuneration will be compared to a salary survey.

3.1.4 The investigations and research to be conducted, should be initiated timeously to allow sufficient time for the final recommendations and increase mandates to be submitted to the Committee

#### 3.2 Nominations

The Committee fulfils an independent role, operating as an overseer and a maker of recommendations to the Board for its consideration and final approval.

3.2.1 The establishment of and the monitoring of a formal process for the appointment of directors.

3.2.2 Monitor that suitable members for appointment to the Board are identified by conducting reference and background checks of candidates prior to nomination.

- 3.2.3 Ensure that the induction and ongoing training and development of directors takes place.
- 3.2.4 Ensure that formal succession plans for the Board, chief executive and Senior Management are in place.
- 3.2.5 Assist the CEO, as appropriate, in the appointment of Senior Executives.

#### **4. Powers of the Committee**

- 4.1 The individual members of the committee will have full access on request to all financial information contained in the books and records of the Anchor Group, including all of the personnel records relating to any employee in respect of whom the committee will be making its recommendations.
- 4.2 The committee will be empowered to appoint external consultants for the purposes of obtaining information relevant to its scope of duties . The committee will also be entitled to consult with the Anchor Group attorneys where necessary.

#### **5. Proceedings**

- 5.1 The chairperson will be responsible for the convening of the committee.
- 5.2 The Chief Operating Officer is responsible for maintaining of minutes and copies of all reports and data which have been utilised by the committee in making its recommendations, as well as the communication of decisions to the Board where applicable. The Chief Operating Officer shall maintain a minute book and a register of all resolutions of the Committee.
- 5.3 Meetings will be held at least twice a year. Additional meetings may be requested by the CEO or the Board.
- 5.4 A quorum for the meeting shall be two members.
- 5.5 The CEO and relevant senior management shall be invited to attend meetings.

5.6 No invitees shall have a vote at the meetings and may be requested to recuse themselves from certain discussions.

## 6. Responsibilities

The responsibilities of the Committee include a review of, and recommendations on:

### 6.1 Remuneration

- (a) the organisation's Remuneration Policy and framework
- (b) Executive remuneration
- (c) Non-executive director's remuneration.
- (d) Incentive Plans and Benefits programmes
- (e) Annual Integrated Report

#### 6.1.1 Executive Remuneration

In considering the organisation's Remuneration Policy and levels of remuneration for executives, the Committee makes recommendations which:

- 6.1.1.1 motivates to pursue long term growth and success of the organisation within an appropriate control framework;
- 6.1.1.2 demonstrates a clear correlation between senior executives performance and remuneration;
- 6.1.1.3 aligns the interests of key leadership with the long-term interests of the organisation; and

To the extent that the organization adopts a different remuneration structure for executive employees, the Committee shall document its reason for the purpose of disclosure to stakeholders.

#### 6.1.2 Non-Executive Director Remuneration

- 6.1.2.1 In considering the organisation's Remuneration Policy and levels of remuneration for non-executive directors, the Committee makes recommendations to the shareholders to ensure that:

- (a) fees paid to non-executive directors are within the aggregate amount approved by the Board and make recommendations to the Board with respect to the need for increases to this aggregate amount.
- (b) non-executive directors are remunerated by way of fees (in the form of cash);
- (c) non-executive directors are not provided with retirement benefits; and
- (d) non-executive directors are not entitled to participate in equity-based remuneration schemes designed for executives without due consideration and appropriate disclosure.

To the extent that the organisation adopts a different remuneration structure for its non-executive directors, the Committee shall document its reasons for the purpose of disclosure to stakeholders.

#### 6.1.3 Incentive Plans and Benefit Programs

The Committee is to:

- (a) review and make recommendations concerning short and long-term incentive compensation plans.
- (b) ensure that incentive plans are designed around appropriate and realistic performance targets that measure relative performance, and provide rewards when they are achieved; and
- (c) continually review, and if necessary, improve any existing benefit programs established for employees.

#### 6.1.4 Annual Integrated Report

Oversee the preparation and recommendation to the Board of the remuneration report to be included in the Annual Integrated Report and ensure that it is accurate, complete, transparent, provides a clear explanation of how the remuneration policy has been implemented, and provides sufficient forward looking information for shareholders.

## 6.2 *Nominations*

The Committee has the following responsibilities:

- a) Appointment Process
- b) Training and Awareness
- c) Review and Evaluate
- d) Insurance

### 6.2.1 Appointment Process

The Committee is responsible to establish and monitor a formal process for the appointment of directors and audit committee members. This includes the identification of suitable members, conducting reference and background checks prior to nomination, and formalisation of the appointment.

### 6.2.2 Training and Awareness

The Committee is responsible to oversee the development of a formal induction programme for new directors, ensure continuing professional development programmes and updates on changes in the risks, laws and environment in which the company operates.

Consider the performance of directors and take appropriate action.

Ensure that formal succession plans for the Board, CEO and senior management are developed and implemented.

### 6.2.3 Review and Evaluate

The Committee is responsible for the non-executive director performance review process.

Monitor formal succession plans for the Board, CEO, COO and other Executive members.

### 6.2.4 Insurance

The Committee shall monitor the Director and Officer insurance to ensure that cover is maintained.

## 7. Authority and Resource

- 7.1 The Committee acts in terms of the delegated authority of the Board as recorded in these terms of reference. It has the power to investigate any activity within the scope of its terms of reference.
- 7.2 The organisation is to provide the Committee with sufficient resources to undertake its duties. The Committee may seek input from individuals on remuneration policies, but no individual should be directly involved in deciding their own remuneration.
- 7.3 The Committee has the authority, as it deems necessary or appropriate, to obtain advice from external consultants or specialists in relation to the execution of its duties, at the company's cost, subject to following a Board approved process.
- 7.4 The Committee makes recommendations to the Board that it deems appropriate on any area within the ambit of its terms of reference where action or improvement is required.