



A TALE OF TWO BANKS

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ABOUT THE AUTHOR

Neelash is responsible for analysing companies within the financial sector. He is also a portfolio manager for the Old Mutual Financial Services Fund (unit trust).

KEY TAKEOUTS

- STANDARD BANK'S REMUNERATION STRUCTURES SUFFICIENTLY ALIGNED WITH SHAREHOLDERS' INTERESTS.
- ENGAGING WITH ABSA GROUP ABOUT EXECUTIVES' LONG-TERM INCENTIVE PLANS AND REMUNERATION STRUCTURE AFTER BARCLAYS PLC DECOUPLING.
- IT'S OUR FIDUCIARY ROLE TO ENSURE REMUNERATION POLICES ALIGN TO A COMPANY STRATEGY THAT CREATE SHAREHOLDER VALUE.







As a long-term investor, we believe that incorporating relevant environmental, social and governance (ESG) factors into our investment and ownership decisions ultimately leads to improved risk-adjusted returns for our clients. Identifying issues that currently or at some point in the future may materially impact the long-term value of a company, gives us insight into a business's ability to grow sustainably. As shareholders on behalf of our clients, we regularly engage with companies' executive teams as well as actively exercising our voting rights. With me being a financial services sector analyst, Robert Lewenson (Head of ESG Engagement) and I engage with companies across this sector, specifically on governance issues. Given that a significant portion of financial services companies' expenses is remuneration, it is our responsibility to ensure that the remuneration policies of companies in which we invest are aligned to shareholders by being appropriate, transparent and set against clearly defined and sufficiently challenging targets. By way of example, two financial services companies with which we have had numerous engagements are Standard Bank and ABSA. While these discussions have been constructive, we have not always voted in favour of their remuneration policies.

STANDARD BANK is the largest South African banking group ranked by assets and earnings. It has a strong market position in corporate and investment banking, and in retail banking and operations in 20 African countries. It has a controlling stake in Liberty Holdings. Given the diverse nature of the business, we need to clearly understand remuneration, compliance and policy decisions taken by its remuneration committee.

ABSA GROUP is one of Africa's largest diversified financial services groups. It has a presence in 12 African countries. The group offers a range of retail, business, corporate and investment, and wealth management solutions. Apart from the share's current extremely low valuation and its solid dividend yield, the investment case also lies in the benefit of Barclays plc no longer being a controlling shareholder. We believed this move would give management greater scope to drive growth without the constraint of the parent company.

STANDARD BANK ENGAGEMENTS

Over the years, we have met with Standard Bank to better understand a number of key remuneration issues, including special incentives, performance-related pay targets and adjustments to targets relative to profits. The outcome of these engagements influenced how we voted at the AGMs as follows:


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- 2015**  **QUALIFIED VOTE IN FAVOUR**
The performance measurements for the long-term incentive plan seemed easily attainable over the near term, but we concede that over the longer term this may not be the case.
Action: To monitor the stretch of the metrics over the next year.
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- 2016**  **QUALIFIED VOTE IN FAVOUR**
Our concerns listed in 2015 remain.
Action: Continue to actively engage with the company on these issues.
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- 2017**  **VOTED IN FAVOUR**
Appropriate changes were made to the stretch of performance targets.
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- 2018**  **VOTED IN FAVOUR**
Our concerns were satisfactorily addressed in the remuneration policy.
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We appreciate the frankness with which Standard Bank responded to our queries and the consequent amendments it has made to its remuneration policy and reports. We continue to view Standard Bank as a valuable holding in our client portfolios and are comfortable that its remuneration structures are sufficiently aligned with shareholders' interests.

ABSA ENGAGEMENTS

We have engaged with the bank both under the Barclays plc brand and, subsequently, as an Africa-only organisation. Our engagements have largely concerned executives' long-term incentive plans and revisions to its remuneration structure after decoupling from Barclays plc (ABSA was previously constrained by the UK regulatory framework, which calls for role-based pay). Specific issues addressed with ABSA include clarity on performance targets, the appropriateness of the stretch criteria used and the calculations used for short-term incentives. The outcome of these discussions influenced how we voted at the AGMs as follows:

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- 2015**




VOTED AGAINST

We were concerned by the lack of disclosure on key performance criteria for the long-term incentive plans.

Action: Continue to engage with the company to improve disclosure and better understand how incentives link to company strategy.

 - 2016**




QUALIFIED VOTE IN FAVOUR

While the long-term incentive targets were disclosed, they were unclear in some respects. The company explained that the remuneration policy would change after its separation from Barclays plc.

Action: Monitor changes to the remuneration policy post the separation.

 - 2017**




QUALIFIED VOTE IN FAVOUR

Our concerns listed in 2016 remained.

Action: Actively engage with the company for greater clarity on targets post the separation from Barclays plc.

 - 2018**



VOTED AGAINST

Previous remuneration concerns were not addressed.

Action: Review the performance criteria that were disclosed to ensure remuneration targets align to performance.

We understood that when Barclays plc was the majority shareholder, UK legislation bound its remuneration policy. However, we expected amendments to be made thereafter. We viewed the separation from Barclays as a significant change that provides opportunity to unlock value over the longer term, as it is now in control of its own destiny. It gives ABSA management full control of the company's risk appetite and frees the bank up to lend more appropriately to drive growth. As such, we are keen to see remuneration that is better aligned to management achieving these growth targets.

In conclusion, I must stress that our engagements as shareholders are not an attempt to run the companies, but I do believe that we have a role to play in working with management to ensure remuneration policies are realistic and aligned to a company strategy where value is created for shareholders, being you, our clients.

This case study first appeared in our 2019 Responsible Investment Report, titled The Future Matters. For the full report, with more case studies, visit www.oldmutualinvest.com.