ACTIVE SHAREHOLDER

VOTE YOUR SHARES. SECURE YOUR FUTURE

PICK N PAY STORES LIMITED

https://www.picknpayinvestor.co.za/

Annual General Meeting
4th August 2020
Financial Year End: 29th Februrary 2020

Proxies voted
Labour Research Service
The Ditikeni Trust
Social Change Assistance Trust

As previously noted, Pick n Pay is a leading South African brand which will always be associated with the Ackerman family. However, it is no longer a family business but a listed company. It is difficult to balance the requirement for good corporate governance applicable to a public company and at the same time retain the values and drive of the family business. Unfortunately, the required balance at board and board committee level has not been achieved. We are very pleased to see new independent directors are being introduced; this process should have started a number of years ago and been more gradual, it now presents a challenge to maintain continuity and institutional knowledge at board level and introduce an acceptable level of independence and governance.

The B Ordinary shares (effectively the Ackerman family shares) comprise 35% of the voting shares, this is well and good however the board and management need to be sensitive to the views of the other shareholders and act where there is clear dissatisfaction.

The remuneration implementation report requires 75% approval by the shareholders, in 2019, 76% of shareholders approved of the report with 40% of non-family shareholders voting against. It is astounding that the chairman of the Remuneration Committee does not deal with this nor does the company engage with shareholders concerns; instead the Report states *The remuneration committee is satisfied that it has fulfilled its responsibilities…*

The Report has been laid out in landscape format which suits a computer screen, however each view includes 2 pages with the result that the pages are not legible on an average computer screen. Hyperlinks to pages in the Report or subsidiary reports are not provided. If the company wants to do more than pay lip-service to environmental concerns the report needs to be designed for a computer and not as a printed report.

	Resolution	Rationale	Vote	Outcome of AGM
	To Present the audited Annual Financial Statements (AFSs), the Directors' Report and the Audit, Risk and Compliance Committee's Report.	It is not a legal requirement in South Africa for the members to approve the AFSs and reports, but it is a practice which we support. We therefore welcome the presentation of these and the opportunity to ask questions, but would favour a vote thereon.		
	Ordinary Resolutions			
1	RESOLVED that Ernst & Young (EY) Inc. are hereby appointed as the external auditors of the Company.	EY are one of the big four international firms of auditors and are suitably skilled and experienced. They have been auditors of the company for 5 years so we have no concerns about their tenure. The Report states that the audit partner has now completed 5 years in that position and as such a new audit partner is named and will take over. We commend the company for its policy and clear reporting on auditor and audit partner rotation.	FOR	FOR 99.98%
2	Reappointment of directors	We have for a number of years raised our concerns regarding the independence of the board. It is pleasing therefore that the company has appointed some new directors and a new Lead Independent Director. We again consider the following factors before assessing the appointment of individual directors: **Independence:** The company states that after the new appointments, to the 15 person board, 5 will be executive directors (33.3%), 3 non-executive directors (20.0%) and 7 independent directors (46.7%). This is a significant improvement but still falls short of the minimum requirement of 50% independent. Further, Mr Herman (79) is listed as independent after 44 years as a director and previously having served as joint Managing Director with Mr Raymond Ackerman; it requires a great stretch of the imagination to classify Mr Herman as independent. Thus, the number of independent directors is 6 or 40%. The number of non-executive directors at 5 is most extraordinary and in the absence of any explanation, it does appear as though this has been done to accommodate members of the Ackerman family. With the increase in number of directors, the percentage of members of the Ackerman family on the board declines to 27% which is still high. The		

	Resolution	Rationale	Vote	Outcome of AGM
		Chairman (Mr G Ackerman) is clearly not independent and as such the company is required to appoint a Lead Independent Director, a position occupied for many years by Mr Herman. We commend Mr Herman for finally stepping down from this position given the concerns raised about his independence over a number of years. However, the appointment of Mr van Rooyen to this position is not a great improvement; he has an impeccable reputation but has served on the board for 13 years which raises questions about his independence. The Report states that Mr Jakoet has been a director since 2019 but in fact he has served the company for 33 years and was appointed to the board in 2011, it is not correct to state that his appointment is the date on which he became a non-executive, the Report is misleading. **Continuity:** The average tenure of the non-executive directors including the newly appointed directors is 13 years. However, this includes the extraordinary 44 years' service of Mr Herman which does skew this average. We are very pleased that new independent directors are finally being appointed to this board as the long serving non-executive directors have an average age of 68 years. After the new appointments, close to 50% of the board will have served less than 5 years; not ideal. Further Ms Mathole one of the few independent directors with reasonable service (4 years) steps down at the AGM. **Skills:** A table of skills jointly held by the board is provided and skills of each director are listed alongside their profiles. Despite many directors listed as having retail and IT skills, based on the limited information provided in the profiles, we are concerned at the level of combined skills in these sectors is insufficient. **Diversity:** The Report states that 33% of the board are women and 40% are black. The targets of 25% female and 25% black are inappropriately low. **A board that is insufficiently independent and, in addition, is facing a loss of institutional knowledge. We are pleased that changes are finally being made.**		

	Resolution	Rationale	Vote	Outcome of AGM
2.1	Appointment of Hugh Herman as director	Mr Herman, 79, has served on the board for 44 years and is classified as independent. He was until now, the lead independent director. A position which was most inappropriate for him to occupy given his very long service and the fact that he was previously joint MD – it is difficult to see how he could possibly be classified as independent. In addition, Mr Herman chairs the Remuneration Committee and in his report he made no reference to the fact that 24% of shareholders, 40% of non-family shareholders, voted against the remuneration implementation report in 2019. An unacceptable omission.	AGAINST	FOR 91.1% 14.6% of ordinary shares (ords) voted against
2.2	Appointment of Jeff van Rooyen as director	Mr van Rooyen, 70, has been a director for 13 years and has now been appointed Lead Independent Director. There are obvious concerns regarding the independence of this board and given the fact that the Chairman is clearly not independent, it is most important that the Lead Independent Director be seen to be independent. Mr van Rooyen has an impeccable track record but given his length of service and the lack of independence of this board he should not have taken on the role of Lead Independent Director.	AGAINST	FOR 93.1% 11.3% of ords voted against
2.3	Appointment of Gareth Ackerman as director	Mr Ackerman, 62, is the chairman and is appointed to that position by the majority shareholder (the Ackerman family). We recognise their right and the importance of keeping family knowledge in the company and although we deplore the number of family members appointed to the board, we support their right to appoint the chairman.	FOR	FOR 93.5% 11.3% of ords against
2.4	Appointment of Lerena Olivier as director	Ms Olivier, 44, is the newly appointed CFO and has served the company for a number of years.	FOR	FOR 99.2%
2.5	Appointment of Aboubakar Jakoet as director	Mr Jakoet, 66, is the former CFO and served the company for very many years. However, the board has far too many non-independent directors and as such we do not support the appointment of another director who is not independent, Mr Jakoet's reappointment to the board is opposed.	AGAINST	FOR 89.8% 16.8% of ords against
2.6	Appointment of Mariam Cassim as director	Ms Cassim, 38, is one of the new appointees to the board. She is suitably skilled and experienced bringing telecoms and IT experience to the board. We welcome the refreshment of this board.	FOR	FOR 97.6%

	Resolution	Rationale	Vote	Outcome of AGM
2.7	Appointment of Haroon Bhorat as director	Mr Bhorat, 51, is another of the new appointees. He is professor of Economics at UCT and holds various board positions including chairman of another listed company. He is overcommitted, and we oppose any chairman of a listed company holding other directorships.	AGAINST	FOR 99.9%
2.8	Appointment of Annamarie van der Merwe as director	Ms van der Merwe will be appointed at the AGM for the first time. She is suitably skilled and experienced although we are concerned that the board is short on directors with retail experience which she does not have.	FOR	FOR 100%
3	Appointment of audit, risk and compliance committee members for the 2021 annual financial period	Given our concerns regarding the independence of the board it is of particular importance that the audit committee be and be seen to be independent. It is therefore disturbing to see that this is clearly not a concern of the company with the nomination of two directors whose independence is open to question. We are pleased to see one of the new directors appointed to this committee thus starting to develop depth at committee level.		
3.1	Appointment of Jeff van Rooyen as a member of the audit, risk and compliance committee	As noted under 2.2 above, despite Mr van Rooyen's track record, there are concerns regarding his independence given his long service with the company. His appointment is opposed.	AGAINST	FOR 85.6% 23.7% of ords against
3.2	Appointment of Hugh Herman as a member of the audit, risk and compliance committee	It is entirely inappropriate that somebody whose independence is as open to question as Mr Herman's should be a member of this committee. We note that at the last AGM 25% of shareholders other than the Ackerman family voted against Mr Herman's appointment to this committee.	AGAINST	FOR 85.1% 24.5% of ords against
3.3	Appointment of Audrey Mothupi as a member of the audit, risk and compliance committee	Ms Mothupi, 50, is suitably experienced to serve on this committee and as an independent director with 5 years' service she has sufficient institutional knowledge whilst her independence is not questioned.	FOR	FOR 99.4%
3.4	Appointment of David Friedland as a member of the audit, risk and compliance committee	Mr Friedland, 66, is suitably skilled and experienced to serve on this committee and as an independent director with 7 years' service he has institutional knowledge and his independence is not yet questioned.	FOR	FOR 99.6%

	Resolution	Rationale	Vote	Outcome of AGM
3.5	Appointment of Mariam Cassim as a member of the audit, risk and compliance committee	As noted under 2.6 above, Ms Cassim is suitably independent and as a CA(SA) MBA she is suitably skilled to serve on the committee. We support the appointment of a 5th member of the committee given our opposition to Jeff van Rooyen and Hugh Herman above.	FOR	FOR 98.1%
	Advisory Votes			
1	Endorsement of the remuneration policy	The Remuneration Committee (Remco) consists of 5 directors, Mr Herman who we conclude is not independent, Mr G Ackerman who is not independent, Mr Jakoet who is not independent, Mr van Rooyen who has served as a director for more than 9 years and whose independence is questioned and Ms Mothupi who is independent. **The Remco should have a majority of independent directors.** The remuneration resolutions at the 2019 AGM were approved as follows: policy 84.9% of all shareholders with 75.1% of ordinary shareholders (that is not family shareholders) and most disturbingly the implementation report was only approved by 76.0% of all shareholders and 60.5% of ordinary shareholders. These resolutions require 75% approval and under the circumstances it is reasonable to expect that the company would make some reference to the lack of enthusiasm by shareholders for the implementation report in particular, and look to engage with shareholders to understand and address their concerns. **These resolutions were passed but there is clear and significant opposition and the company does not acknowledge this and has not acted on addressing shareholder concerns.** Executives are paid a fixed basic salary plus benefits, a short-term incentive (STI) and long-term incentive (LTI) which is in line with current practices. Basic salary and incentives are bench-marked and the Report states *Independent experts assist with remuneration benchmarking.* **The level of independence of the benchmarking is not clear nor are consultants named. This is of particular concern given that low level of independence of the Remco and the fact that a number of family members are in the executive team.**	AGAINST	FOR 83.2% 27.7% of ords against

	Resolution	Rationale	Vote	Outcome of AGM
		STIs are not payable unless Profit Before Tax and Exceptional Items (PBTAE) targets are met, *at the discretion of the remuneration committee*. If that target is met, individual targets will apply based on a range of metrics. The individual metrics are fairly broad and no details are provided of how they are measured or their weighting. **The non-financial metrics only apply if the financial target has been met, this is perfectly acceptable but a single financial metric (PBTAE) does not seem to provide the necessary balance.** **The level of discretion is not appropriate and is of especial concern given the poor independence of the Remco, the board and the management team.** **The Report does not state what the PBTAE target or other targets are nor does it say how they are arrived at or if the incentive is on a sliding scale based on the level of PBTAE.** LTIs are based on the following metrics: 1. HEPS (Headline Earnings Per Share) 3 year rolling target. 2. ROCE (Return On Capital Employed) is greater than WACC (Weighted Average Cost of Capital). 3. Share price appreciation. 4. PBT (Profit Before Tax). LTI rewards are in the form of a Share Option Scheme and a Forfeitable Share Plan. Shares vest over 3 to 7 years, which is longer term than most companies which is pleasing. **LTI metrics are all financial metrics and other than PBT, we are given no information on targets or how targets are calculated.** **We could not find how the targets translate into awards.** **There is a clear and easy to follow info-graphic of how executive remuneration is aligned with the company's stated long-term plan. This is most helpful and does tie in with the rest of the report, however what is not clear to this reader is how the metrics relate to those targets.**		

	Resolution	Rationale	Vote	Outcome of AGM
2	Endorsement of the remuneration implementation report	The Report states that executive director and senior management increases were on average 5% whereas non-union staff average increases were 6% to 7% and unionised staff increases were 7% to 10%. Actual increases given to executive directors (we could only check those who served for a full year in 2019 and 2020 financial years) were 3.1% to 9.4% with an average of 7.1%. **We do appreciate the fact that lower level staff received higher percentage increases but note that increases were above inflation. It does not generate trust to report increases of management and directors of 5% when in fact directors' increases were higher.** STI targets were for growth of PBTAE of 8% threshold, 12% target and 15% stretch. Threshold was not achieved and as such no STI was payable. **We are concerned that the targets are over ambitious in the current market. The policy report makes no mention of threshold, target and stretch or the rewards at those levels.** LTI targets for HEPS growth of 10% over 3 years were not met as only 4% was met. The committee however has awarded 30% of shares due. **As for the STI we are concerned that 10% pa growth in HEPS appears to be very ambitious. Targets must be achievable to incentivise management.** **We do not favour discretionary awards, especially in a company with family on the committee and family benefitting from the awards.** **The company needs to reconsider its remuneration policy and practice as it is clearly not working with increases being higher than reported and targets not being achieved. A motivated and appropriately remunerated executive is needed to grow the company.**	AGAINST	FOR 76.8% 38.2% of ords against

	Resolution	Rationale	Vote	Outcome of AGM
	Special Resolutions			
1	Directors' fees for the 2021 and 2020 annual financial periods	We commend the directors for forfeiting their increases in light of the hardship many of facing as a result of Covid 19. We favour a fee consisting of base fees and attendance fees, we accept attendance is not the best measure of performance but it is an unambiguous and clear measure.	AGAINST	FOR 78.4% 35.5% of ords against
2	Provision of financial assistance to related or inter-related companies and others			
2.1	Provision of financial assistance to related or inter-related companies	In general, we do not favour broad resolutions which are only limited but the provisions in the companies act and various regulations. We do note that this resolution is very clear that such loans may only be granted to group companies and in keeping with the law, such loans must be on terms which are fair to the company. We further recognise the need for intercompany loans.	FOR	FOR 98.8%
2.2	Provision of financial assistance to persons	This resolution allows for the granting of housing loans to executives and managers. The loans *bear interest at varying rates, subject to a maximum rate of 8% (eight percent), and have varying repayment terms*. We are not told how those interest rates are arrived other than that there is a cap on the maximum interest rate. We need to be told more to ensure that the loans are fair and incentivise key employees but are also fair to the company and subject to proper disclosure.	AGAINST	FOR 94.2%
3	Amendment of Forfeitable Share Plan	In terms of the Forfeitable Share Plan, beneficiaries of the plan are entitled to full voting and dividend rights from the grant date of such awards. The effect of this is that the company is required to issue or purchase such shares at the grant date. The proposed change will allow the Remco to vary such rights. We do not like the proposed change and, without the full document and information, believe it may have been more appropriate to change the document to allow full voting and dividend rights from the vesting date. We do not favour a discretionary limitation.	AGAINST	FOR 99.8%

	Resolution	Rationale	Vote	Outcome of AGM
4	General approval to repurchase Company shares	This resolution empowers the company or any of its subsidiaries to acquire shares in the company subject only to the law and JSE regulations. We do not favour general share repurchases as these tend to be pre-judicial to minority shareholders and this particular resolution is subject to no limitations other than those in the law and JSE regulations.	AGAINST	FOR 98.9%
	Ordinary Resolution			
4	Directors' authority to implement special and ordinary resolutions	An administrative matter.	FOR	FOR 100%

OUTCOMES OF THE AGM

The meeting was well attended, the SENS announcement states that it was attended in person or by proxy by 82% of shareholders, we calculate this at 89.5% with 83.9% of the ordinary shares voted.

We noted in our introduction that this board does not appear to be paying due attention to the growing unhappiness of the ordinary shares. The following resolutions were all passed but would not have been passed if it were up to the ordinary shareholders:

- Remuneration Policy Report passed by 83.2% of shareholders but the 27.7% of ordinary shareholders who voted against would have been enough to reject this report;
- Remuneration Implementation Report passed by 76.8% of shareholders but the 38.2% of ordinary shareholders who voted against would have been enough to reject this report;
- Directors Fees passed by 78.4% 35.5% of shareholders but the 38.2% of ordinary shareholders who voted against would have been enough to reject this resolution.

It is clear to even the most tone-deaf board that the ordinary shareholders are not happy with executive and non-executive remuneration.

A number of appointments to the board and audit committee also faced strong opposition.