



## BARLOWORLD LIMITED

<http://www.barloworld.com>

### Annual General Meeting

11<sup>th</sup> February 2021

Financial Year End: 30<sup>th</sup> September 2020

Proxies voted
Labour Research Services
The Ditikeni Trust

The Integrated Annual Report (Report) is reasonably comprehensive if a bit dull in presentation, and again focuses strongly on its BEE credentials, the response to the global pandemic, the company strategy etc. It does make mention of its *Active Shareholder Model* a number of times but it does not give a clear picture of the underlying businesses, and the reader is left wondering if this model has in fact taken root.

The Social and Ethics committee report is not presented as an agenda item, readers are told that it is included in the Report. The Report does give a good highlight of natural resources used and carbon emissions, noting that the reduction is due to the down-turn in activity as a result of Covid.

The total number of employees in South Africa declined 23% from 12 352 to 9 543, there were 2 work related fatalities and the injury frequency down time rate improved slightly to 0.53. This follows the 6% decline in employees in 2019 of which there was no explanation.

The Report is not designed for reading on a computer – it is presented in portrait format rather than landscape and makes frequent use of double page spreads which cannot be read on a normal computer screen. It is pleasing that an email address is provided for feedback. The Report makes use of icons to cross-reference or refer to more information but unfortunately there are no hyper-links embedded.

	Resolution	Rationale	Vote	Outcome of AGM
	<b>Ordinary Resolutions</b>			
1	Presentation and acceptance of the Annual Financial Statements	<p>Few companies present their Annual Financial Statements (AFSs) for the approval of shareholders, it is therefore pleasing to see that Barloworld does.</p> <p>The independent auditors state that they have conducted the audit in terms of international and local standards and are satisfied that the AFSs fairly present the position of the company and the group.</p>	FOR	FOR 100%
	Election and re-election of the directors	<p>In order to assess the appointment of individual directors it is appropriate to first consider the composition of the board as a whole. The key factors we consider are: Independence, Continuity, Skills and Diversity.</p> <p>There are 11 directors of which 2 are executive directors, average tenure is 4.5 years which is not of great concern but is rather short. One director has served for more than 9 years and as such his independence is questioned. We do not have a concern regarding independence of the board.</p> <p>We have a slight concern that continuity is not as we would like to see it with 7 out of the 11 directors having served for 3 or less years.</p> <p>The board lists the range of skills of the board but we find with 9 out of 11 directors having accounting qualifications that the skills set is rather narrow and we would favour a broader set of qualifications.</p> <p>Diversity has been a major focus of the board with a female chair, a majority of female directors and a majority of black directors (we do not agree with the Report's classification of foreign black directors as black as we follow the DTI classification of previously disadvantaged individuals).</p> <p><b>Overall, we do not have any major concerns regarding the composition of the board, our greatest concern being concentration of skills and relatively short tenure of many of the board.</b></p>		

	Resolution	Rationale	Vote	Outcome of AGM
2	Ms HH Hickey be and is hereby re-elected as a director	Ms Hickey, 66, is suitably skilled and experienced – one of the many CA's on the board. She has served for 5 years and her attendance record for the year was impeccable. She is a former partner of Ernst & Young who were appointed auditors at the previous AGM , we do not like this but this insufficient reason to oppose her reappointment. She is a director of Cashbuild Ltd, Northam Platinum Ltd, and Pan African Resources PLC as well as Barloworld. We are concerned about her level of commitment, but at this stage it is insufficient to oppose her appointment.	FOR	FOR 75.3%
3	Ms NP Nxasana be and is hereby re-elected as a director	Ms Nxasana, 64, is suitably skilled and experienced – again one of the CA's on the board. She has served for 3 years and her attendance record for the year was impeccable. She is a director of Blue Label Telecoms Ltd, Arcelor Mittal Ltd, Wescoal Holdings, Industrial Development Corporation, HBZ Bank as well as Barloworld. We consider this level of overcommitment excessive and sufficiently so to oppose her reappointment as we are concerned that she cannot give sufficient focus to the company.	AGAINST	FOR 76.0%
4	Mr P Schmid be and is hereby re-elected as a director	Mr Schmid, 58, as with all our other nominees for the year, is a CA and is suitably skilled and experienced. He has served for 3 years and his attendance record was impeccable for the year. We did not find him to be a director of an excessive number of companies.	FOR	FOR 99.7%
	Election and re-election of the Audit Committee	We do not have a particular concern about the independence of the Barloworld board and this committee. We are more concerned that there should be sufficient institutional knowledge with the relatively short tenure of many of the directors.		
5	Ms HH Hickey be and is hereby elected as a member and chair of the audit and risk committee	Ms Hickey has been evaluated as a director and we report in summary on this under 2 above. We find her suitably skilled and experienced to serve on and chair this committee, and have no concerns regarding her independence.	FOR	FOR 74.8%

	Resolution	Rationale	Vote	Outcome of AGM
6	Mr MD Lynch-Bell be and is hereby re-elected as a member of the audit and risk committee	Mr Lynch-Bell, 67, has been a director for 3 years and his attendance record for the year was impeccable. He is suitably independent, skilled and experienced to serve on this committee and we found he was a director of 3 other companies which is a concern, but insufficient to oppose his appointment.	FOR	FOR 80.3% Abstained 18.9%
7	Ms NP Nxasana be and is hereby re-elected as a member of the audit and risk committee	We oppose the reappointment of Ms Nxasana as a director under resolution 3 above.	AGAINST	FOR 75.6%
8	Mr HN Molotsi be and is hereby elected as a member of the audit and risk committee	Mr Molotsi, 54, has only been a director for 1 year and his attendance record for the year was impeccable. He is suitably independent, skilled and experienced to serve on this committee. We did not find him to be overcommitted.	FOR	FOR 99.4%
9	Resolved that Ernst and Young, in a shared arrangement with SNG – Grant Thornton, be appointed as the external auditors of the company	We are puzzled by the shared audit arrangement and would like the audit committee to clarify this. We further have a concern that two of the directors, who are also members of the audit committee, were partners in Ernst and Young and SNG respectively. Ernst and Young have been auditors for 1 year, the audit partner is named and as one of the large international firms they are suitably skilled and experienced to carry out the audit.	FOR	FOR 99.9%
10	The company's remuneration policy, Be and is hereby endorsed by way of a non-binding advisory vote	The company strategy <i>Seeks to create value by balancing our long term growth ambitions while focusing on achieving acceptable returns for our shareholders in the medium term.</i> It is perhaps a rather generic statement and we are concerned that this may not be sufficiently clear for management, and the changes in investment strategy regarding Avis Fleet and the acquisition of the starch business of Tongaat Hulett is perhaps an indication of uncertainty of strategic direction. At the 2020 AGM shareholders were less than enthusiastic about the Remuneration Policy although this was passed with 76.3% of shareholders supporting it, however the Remuneration Implementation Report was not approved with only 56.0% of shareholders supporting it (a 75% majority is required). Consequently, the company engaged with shareholders and a table of issues and responses is provided in the	AGAINST	FOR 75.2%

	Resolution	Rationale	Vote	Outcome of AGM
		<p>Report. However, Active Shareholder took part in the March consultation at which we were told our questions would be answered in due course, a number of requests for answers were sent but no answers were provided. These questions related to specific calculations and increases.</p> <p>The table is helpful and informative but does not adequately answer all questions, specifically the suggestion that dividends on vested shares only vest on the delivery of agreed outcomes is not answered.</p> <p>The Remuneration Committee (Remco) is made up of 5 independent directors and we have no issues with the independence of this committee.</p> <p>The independent remuneration consultants are named.</p> <p>Guaranteed Pay (GP) includes benefits and is subject to annual benchmarking. We are told that in the case of executive remuneration; affordability, inflation and performance are also factors considered when making increases.</p> <p>The list of companies used for comparative purposes is provided.</p> <p>The metrics and weighting of STIs (Short Term Incentives) for executives are: Individual Scorecard 35%, Diversity and Inclusion 10% and Financial 55%. This is a relatively low weighting given to Financial metrics and we need to understand Individual Scorecard in more detail.</p> <p>The Individual Scorecard increased in weighting from 25% to 35% and as such is of greater importance that details of such individual scorecards are provided but no such details could be found.</p> <p>As previously noted, we are pleased to note that the company looks at Diversity and Inclusion and not just at diversity, however a closer look at the targets appear to ignore inclusivity. Perhaps this is very hard to measure but then it should not be included.</p> <p>Critically no details are provided on the Individual Scorecard with the Report only stating <i>Individual/personal scorecard metrics are aligned to team and business performance and include Barloworld Business Systems (BBS), safety, customer service, leadership, and other role-based non-financial elements.</i> This is not satisfactory given the high level of the STI devoted to this metric.</p>		

	Resolution	Rationale	Vote	Outcome of AGM
		<p>The Financial Metrics are: Economic Profit 30%, Free Cash Flow (FCF) 30%, Return on Equity 25%, and HEPS (Headline Earnings Per Share) 15%. Divisional executives metrics include divisional targets. The STI is capped at 200% of GP. No STI is paid at threshold, but kicks in at amounts above that.</p> <p>A financial multiplier is used which ensures that if no financial metrics are met then no STI is payable. However, as we see in the Implementation Report a STI is payable even if only 1 financial metric is met so even in a year such as the last with financial results which nobody can be pleased with an STI is payable.</p> <p>It is most pleasing that the targets for 2021 are disclosed but we note with concern that economic profit target threshold is R 2.9b loss, whilst this is a marginal improvement on the 2020 actual of R3.0b loss it can hardly hope to achieve the objective stated in the strategy of <i>To sustainably double the intrinsic value of our business every four years.</i></p> <p>The LTI (Long Term Incentive) consists of 2 share based schemes: Conditional Share Plan (CSP) makes up 70% of the LTI and the award and the dividends are conditional and awarded at the end of the vesting period; Forfeitable Share Plan (FSP) makes up the remaining 30% of the LTI and dividends are paid from the date of the awarding and we understand this to mean dividends are not subject to vesting or conditions. We do not support the payment of dividends that are not subject to conditions or vesting.</p> <p>The CEO and CFO are awarded LTIs equivalent to 129% or 97% respectively of their GP. However, vesting is based on achieving targets and can be as high as 250% of the award – ie. up to 322% and 242% of GP for the CEO and CFO respectively.</p> <p>The FSP and the CSP have the same metrics and weighting are: HEPS 25%, FCF 35% and Return On Invested Capital (ROIC) 40%. Threshold and Target details are provided but there are no Stretch benchmarks for the FSP.</p> <p>Vesting of both the FSP and CSP is 3 years with a prohibition of trading in the CSP shares for a further 2 years.</p>		

	Resolution	Rationale	Vote	Outcome of AGM
		<p>Certain of the FSP and CSP are retention shares and there are no performance conditions attached to these shares.  Shares will be purchased on the open market and malus and clawback provisions shall apply.  Executives are required to have a minimum shareholding, expressed as a percentage of GP this is 200% for the CEO and 150% for the CFO.</p> <p><b>In general we find the disclosure is good and the policy is fair and on this basis we supported the policy last year. However, we now have the advantage of seeing the effects of this policy in a year which produced very poor financial results and yet executives are due an STI in terms of the policy (Remco overruled this).</b></p> <p><b>The company strategy is so broad that it is difficult to see how the remuneration policy links to this despite the most helpful table provided this year. In particular there is no measure of customer satisfaction despite the policy mentioning the vision is <i>to delight our customers</i>.</b></p> <p><b>The target for profit for 2021 bonuses is a significant loss and we cannot be reconcile this to the company strategy.</b></p> <p><b>We do not favour the LTI awards which are not subject to any performance conditions and believe more appropriate retention strategies should be implemented.</b></p>		
11	The company's remuneration implementation report, be and is hereby endorsed by way of a non-binding advisory vote	<p>Due to the effects of Covid no increases in basic salary for executives were granted and all employees from supervisors up had salary reductions which were intended to be for a full year but the sacrifices were not continued for the full year but applied for 7 months.  Executive sacrifices were 25% or an annualised basis 14.6%.  In terms of STIs Economic Profit was not met, FCF was met 100% awarded, Return on Equity was not met, and HEPS was not met.</p>	AGAINST	FOR 75.2%

	Resolution	Rationale	Vote	Outcome of AGM
		<p>This performance together with Diversity and Individual performance scorecards resulted in the STI for the CEO being 40% of GP and the CFO being 43% of GP.</p> <p>However, no STI was paid per the Remco decision. We note with concern that executives were due STIs despite the very poor performance of the company – clearly in this instance the poor performance was not due to the management but clearly it would be a problem if the executives did deliver such poor results not as a result of external factors such as Covid and were due an LTI.</p> <p>The LTI awards during the year were zero for the FSP and CSP with performance conditions but retention shares were awarded and dividends were paid.</p> <p><b>As stated, there were no increases in Guaranteed Pay of executives and in fact their pay was reduced as agreed with all staff. No STI was payable although an amount was due in terms of the policy (see above we vote against the policy) and the only LTI payable was the retention portion, we do not agree with the payment of LTI's without any performance conditions and oppose the resolution on that basis.</b></p>		
	<b>Special Resolutions</b>			
1	The fees payable to the non-executive directors for their services to the board and committees of the board be revised by a separate vote in respect of item.	<p>No increases in directors' fees are proposed, their fees were reduced by 25% for 3 months in contrast to the salaries of executives and staff which were reduced for 7 months.</p> <p>The fees are compared to the listed group of comparative companies and we are told the comparison was noted.</p> <p>The audit and risk committees have been combined and thus these fees have been increased, the effect of this is a reduction in the amount paid to the chairman, a fee payable to members equal to that if they had attended both committees and a substantial increase in the combined amount that was paid to foreign members without taking into account</p>		



	Resolution	Rationale	Vote	Outcome of AGM
		the exchange rate. We can see no reason for the dramatic increase in foreign directors' fees. Fees are paid for membership of the board or committee and do not comprise an attendance component. We do not support this policy and consequently oppose fees other than the fee of the chairman of the board.		
1.1	Chairman of the board	R 1 575 000 per annum	FOR	AGAINST 25.7%
1.2	Resident non-executive directors	R 412 905 per annum	AGAINST	FOR 99.9% Abstained 19.9%
1.3	Non-resident non-executive directors	£ 66 864	AGAINST	FOR 99.9% Abstained 19.9%
1.4	Resident chairman of the audit and risk committee	R 460 883 In 2019 the chair of the audit committee was paid R 348 845 and the chair of the risk and sustainability committee was paid R 235 302 This represents a reduction in cost of R 123 264	AGAINST	FOR 99.9% Abstained 19.9%
1.5	Resident members of the audit and risk committee	R 279 680 In 2019 the members of the audit committee were paid R 167 456 and members of the risk and sustainability committee were paid R 112 038 This represents no real change with members paid as though they attended both committees	AGAINST	FOR 99.9% Abstained 19.9%
1.6	Non-resident members of the audit and risk committee	£ 25 323 In 2019 the members of the audit committee were paid £ 7 143 and members of the risk and sustainability committee were paid £ 4 991 This represents a significant increase of 108% before taking into account the exchange rate. An explanation is called for.	AGAINST	FOR 99.9% Abstained 19.9%

	Resolution	Rationale	Vote	Outcome of AGM
1.7	Non-resident chairman of the remuneration committee	£ 20 000	AGAINST	FOR 99.9% Abstained 19.9%
1.8	Resident chairman of the remuneration committee	R 259 505	AGAINST	FOR 99.9% Abstained 19.9%
1.9	Resident chairman of the social, ethics and transformation committee	R 201 468	AGAINST	FOR 99.9% Abstained 19.9%
1.10	Resident chairman of the strategy and investment committee	R 158 229	AGAINST	FOR 99.9% Abstained 19.9%
1.11	Resident chairman of the nomination committee	R 181 963	AGAINST	FOR 99.9% Abstained 19.9%
1.12	Resident members of each of the board committees other than the audit and risk committee	R 112 038	AGAINST	FOR 99.9% Abstained 19.9%
1.13	Non-resident members of each of the board committees other than the audit and risk committee	£ 4 991	AGAINST	FOR 99.9% Abstained 19.9%

	Resolution	Rationale	Vote	Outcome of AGM
2	Approved fees payable to the directors for strategic projects	These are new fees as previously no fees were paid for such assignments		
2.1	Resident chairperson of the ad hoc committee	R 29 869	AGAINST	FOR 75.7% Abstained 19.9%
2.2	Resident member of the ad hoc committee	R 20 908	AGAINST	FOR 75.7% Abstained 19.9%
2.3	Non-resident chairperson of the ad hoc committee	£ 2 706	AGAINST	FOR75.7% Abstained 19.9%
2.4	Non-resident member of the ad hoc committee	£ 1 894	AGAINST	FOR75.7% Abstained 19.9%
3	The directors are empowered, to authorise the company to provide direct or indirect financial assistance to any company, which is related or inter-related to the company	This is an extremely broad resolution with no details provided. No reason or effect are provided for the resolution as required.	AGAINST	FOR 98.6%
4	The company and any subsidiary of the company be authorised, to acquire/repurchase, ordinary shares non-redeemable cumulative preference shares of the company.	Active Shareholder does not support general share acquisitions as these can be prejudicial to minority shareholders. No reasons or explanations are provided for this resolution.	AGAINST	FOR 99.9%

	Resolution	Rationale	Vote	Outcome of AGM
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**OUTCOME OF THE AGM**

The AGM was well attended with approximately 84% of shares voted in person or by proxy, however it is concerning to note that approximately 20% of shareholders abstained from a number of the resolutions. Further, a number of resolutions as detailed below, were passed by very slim majorities – there is clearly some dissatisfaction with the management and board.

There are clearly a number of unhappy shareholders as:

- 1 The Special Resolution to approve the Chairman’s fee was NOT APPROVED with over 25% of shareholders voting against this;
- 2 The Remuneration Implementation and Remuneration Policy reports both only received just over the required 75% approval;
- 3 The reappointment of Ms Hickey and Ms Nxasana to the board and the audit committee both only received approximately 75% approval;
- 4 The appointment of Mr Lynch-Bell to the audit committee only received 80% support with a further 20% abstaining.

We trust the board will take this to heart and we will see some changes next year.

Subsequent to this, the company has announced that the Chairman will be stepping down.