Government Employees Pension Fund

Long Term Incentive Scheme Rules

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Document Versions

Version	Revision Date	Prepared / Revised by	Business Unit	Status
1	December 2017	Siyanda Dyeshana	Human Resources	Approved
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1. BACKGROUND

This document sets out the rules of the Government Employees Pension Fund (GEPF) long term incentive (LTI) scheme. This scheme is aligned to the Total Rewards Strategy of the GEPF and forms part of the overall Employee Value Proposition. The scheme is team-based whereby participants will only benefit if the organisation has performed to standard. This is aligned to the principles of private sector share based schemes whereby benefit is derived from corporate share price.

The primary purpose of the LTI scheme is as follows:

- to induce behaviour that will achieve results that are congruent with the long-term goals of the organisation;
- to attract and retain skilled and competent human resources; and
- to motivate participants.

2. DETAILED SCHEME DESIGN

The Human Resources and Remuneration Committee (HRR-C) exercises oversight over the LTI scheme and makes recommendations to the Board of Trustees (BOT) for their approval.

The organisation conducts a Critical Talent Segmentation analysis every second year. In the process, it categorises roles that are mission critical, Divisional Critical, Business Unit Critical, Critical Scarce / Specialised skills, professional / Specialist and transactional in nature. It defines its mission critical roles as those roles which add a proportionally higher value to the execution of the organisation's strategy. This process will be one of the tools for selecting participants for the LTI scheme. Categorisation of a role as critical will not automatically result in the individual fulfilling the role being invited to participate in the LTI scheme. Individual performance will also be a consideration as will organisational affordability. The Board of Trustees approves the results of the categorisation annually.

Participants in the LTI scheme will be notified of their participation in the LTI scheme through an award letter wherein the terms and conditions of the award will be clearly stated.
The scheme is cash-based that is dependent upon the attainment of organisational long-term performance measures as set out in this document.

2.1 Scheme participation:

Each employee who is invited to participate will receive a letter setting out the terms and conditions of the award: measures, vesting period, general rules and potential benefit. The participant must sign the letter within 21 days of receipt and return it to the HC Officer.
Every second year, the Executives recommend participants to the Human Resources and Remuneration Committee for endorsement and onward recommendation to the Board of Trustees for approval. The guidelines that the Executives use for making recommendations are as follows:

- The Critical Talent Segmentation process which categorises roles in line with business priorities and needs, which could change from time to time and asserts that some roles may be segmented differently for the purposes of meeting the business needs, objectives and priorities at a particular point in the life of the organisation;
- Employees who contribute significantly to the strategic direction of the organisation;
- Employees who demonstrate exceptional talent and who the organisation wants to retain in terms of succession planning;
- Employees with skills that in competitor organisations would result in their participating in those organisations LTI schemes, therefore, to attract these employees they must be offered the opportunity to participate in the LTI scheme; and
- Employees that are within the Support Service Roles who are deemed critical and those who are deemed specialists to the achievement of the GEPF Strategy or Divisional Strategy, i.e. those employees contributing directly to the different levels of strategy as set out in the Critical Talent Segmentation Document.

The recommended participants are:

- The PEO and Executive roles given that they strongly influence the organisation's strategic direction and performance by virtue of their roles;
- Senior Management roles due to the nature of the proximity of these roles to strategy. These are typically graded as Paterson D – Upper (i.e. D3 – D5);
- Individuals who fulfil mission critical roles and meet the performance requirements of these roles;
- Employees who possess a set of critical skills, although criticality may change over time, and have sought after knowledge required by the GEPF; and
- Employees who when they join the GEPF request participation in the LTI scheme as an employment condition and this condition has been upheld by the GEPF. Typically, this will be employees who were on an LTI scheme at their previous employer. For the purposes of attracting critical talent, the GEPF may consider the period an employee already served in the previous company as an LTI award participant to determine the appropriate vesting period of the LTI for the new employee instead of obligating the employee to serve three (3) years for the LTI vesting period.

The GEPF aspires to enhance the retention of these individuals because the particular skills inherent in these roles are often scarce and take longer to source in the labour market. The organisation's focus on enhanced retention is to ensure an adequate leadership pipeline exists for the future and for other organisational opportunities that may arise.

2.2 Vesting:

This refers to the point in time at which performance against pre-determined long-term measures is made. Vesting takes place three years from the commencement of the measurement period which is aligned to the organisation's financial year.

As an example, the scheme commencing 2017 will be evaluated in 2020, and the scheme commencing 2018 will be evaluated 2021. (The scheme shall be implemented in alignment with the GEPF's financial year). Any payment due to a participant will only be made at the end of the three-year period.

A new vesting model has been adopted (50%/25%/25%) which means payout will take place in tranches to ensure the objective of long-term retention of key and critical talent.

2.3 Value of award:

The participants can earn incentives as follows:

Table 1: Incentives as a % of annual CtC (national market and DPE guidelines)

Position	**Maximum Annual LTI as a % of CTC**	**Incentive at threshold as a % of CTC (50%)**
PEO	65%	32,5%
Executives – E band	50%	25%
Snr Management – D band	35%	17.5%

2.4 Performance criteria:

The long-term cumulative performance measures are set out in table 2. These measures will be reviewed annually and amended if appropriate. The measures are aligned to the long-term strategic direction of the organisation.

For each measure, there is a point from which threshold is achieved (50% of maximum LTI earned) and stretch is achieved (100% of LTI earned). The measures are cumulative. At the end of year three (3), an assessment will be made of performance against these measures and any incentive earned will be paid as per the rules.

It is envisaged that as the organisation matures in respect of internalising a culture of performance excellence, that the threshold point for the organisation's scorecard will be reviewed over time.

Table 2: Performance measures

Description	Measure	Weight	**Point from which earn threshold**	**Point from which earn maximum**
			30%	**100%**
GEPF BSC	%	**50%**	80%	95%
Return on investment	SAA Returns	**25%**	SAA Returns +0.25%	SAA Returns +0.75%
GPAA SLA	%	**25%**	70%	80%

Notes:

The above-mentioned measures also take into account the strategic asset allocation according to an approved transition plan (i.e. cumulative performance attribution over time) to help manage any deviations.

The GEPF Balance Score Card (BSC) – the score is the three-year average annual organisational score.

Return on investment – Strategic Asset Allocation (SAA) refers to the returns attributable to the asset allocation in the benchmark. This is a measure that the GEPF has control and influence over. The average three-year return would be calculated and annualised per annum.

GPAA SLA - the score is the three-year average annual score attained through the SLA measurement.

The GPAA SLA score is determined quarterly and is reported in the Quarterly Administration Report provided by the GPAA. The score utilised for performance assessment will be the weighted average of key operational categories:

- Member Benefits,
- Member Interaction,
- Member Administration,
- Fund Financial Management, and
- Good Governance and Compliance.

This aggregate score is designated as the "All" score within the administrative report.

1.1 Where there are changes in the categories assessed in future reports, the weighted average will adapt to reflect these changes, maintaining the relevance and integrity of the scoring mechanism.

1.2 In instances where the administration reports provide both a minimum and a target measure for the scores, the minimum score shall be utilised for calculating the GPAA SLA score. This will ensure consistency and fairness in the assessment.

1.3 For each financial year, the annual GPAA SLA score will be calculated by averaging the four quarterly "All" scores documented in the Quarterly Administration Reports of that year.

1.4 The cumulative performance measure, relevant for the three-year rolling period of the LTI scheme, is determined by calculating the average of the annual GPAA SLA scores over the three preceding financial years from the date of calculation. A rolling average is adopted as it smoothens annual fluctuations and provides a more stable basis for performance evaluations.

2.5 Payment rules:

The award is subject to Income Tax which is payable on date of payment. Payment is made at the end of the third year after the audited financial statements have been met and all the measures validated. The LTI award will be calculated using the prevailing Cost to Company (CtC) as at the end of third financial year (i.e. 31 March)

Where an employee has been promoted during the three-year period, the calculation shall be based on the period in the various roles and the applicable LTI quanta during those period. The Executives will prepare all the necessary documents to confirm the performance measures scores. These will be reviewed by HRRC and signed off by the Board of Trustees.

2.6 Modifiers:

There are two modifiers:

- If the most recent actuarial valuation reflects less than 100% actuarial funding level, any incentive earned will lapse and have no further value. At the end of each year, a check will be made on the latest actuarial valuation. The latest valuation is the statuary valuation in the year in which a statutory fund valuation is conducted. In other years, a roll forward valuation (using assumptions as at the date of assessment) will be used.

  If the funding is below 100% then any incentives that have been calculated to be paid out at that date will be disqualified, they will lapse and have no further value even if the next valuation is above 100%.

- Any participant who averages a performance score less than 3.6 over the three-year period up until vesting will be disqualified from receiving any reward due

3. RULES

These rules cover administrative, procedural and other changes in circumstances that may arise.

3.1 Change in structure

Where there is a change in the organisation's structure, the Board of Trustees will review the scheme and as a rule will not permit early vesting but will look to re-configure the scheme so as not to prejudice participants. The principle that will be applied will be fairness to both employer and employee however the final decision will reside with the Board of Trustees.

3.2 Dispute

Should a dispute arise with respect to moderated performance scores and consequent incentive outcomes it will be handled as follows:

- The Executives/PEO in respect of an employee below executive level;
- The HRRC in respect of the participating Executives; and
- The HRRC may recommend a matter that may need to be directed to the Board of Trustees based on the limits of authority. In certain instances, the HRRC will approve a dispute if it is within the limits of authority of the PEO and notify the Board of Trustees of the matter and its outcome.
- Any individual matter which is disputed beyond the boundaries of the performance scores and its outcomes, will be managed through the internal grievance policy and procedure of the organisation.

3.3 Disciplinary action

Any participant who is the subject of a disciplinary enquiry which could result in their dismissal will have any payment due, suspended until the disciplinary enquiry has been completed. If the participant is dismissed, they will forfeit any amount due and all outstanding awards will lapse with immediate effect. If they are not dismissed, then the amount due will be paid out once the enquiry has been completed.

3.4 Clawback

If prior to vesting it is found that there has been material misrepresentation of information influencing the value of awards, the unvested awards can be forfeited as determined by the Board of Trustees.

If material misrepresentation of information influencing the value of the pay-out is evident, then the Executives and members of the Executive Committee can be asked to refund amounts already received.

3.5 Termination

<u>Fault termination</u> – this refers to dismissal(s) based on misconduct and incapacity as a consequence of poor work performance and resignation – the unvested awards will lapse and be of no further value, unless:

- The last day of employment is after the vesting date – the award will vest as per the rules of the scheme.

<u>No-fault termination</u> – this refers to retirement, death, incapacity due to illness, retrenchments for operational reasons, and expiry of fixed term employment contract – that will not automatically trigger early vesting of awards. With regard to death, any benefit will be paid to the estate. The final decision as to whether there will be any early vesting will be based upon a recommendation by the HRRC for approval by the Board of Trustees. The amount that would be recommended for payment will be on a pro-rata basis.

Fixed term contract employees – participation in the scheme will expire automatically with the expiration of the employment contract and this would trigger the payment of awards already vested. Any early vesting of unvested awards may be considered by the HRRC for the Board of Trustees consideration and approval. The amount that would be recommended for payment will be on a pro-rata basis.

3.6 Condition of Employment:

New employees – as a rule they will be invited to join on an annual basis when a review of all participants is undertaken. If special circumstances dictate, the HRRC can recommend to the Board of Trustees that an interim award is made to a participant.

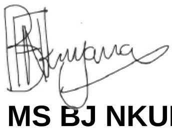
The scheme is not a condition of employment and participation in one year is not an entitlement to participate in future years.

There is no entitlement to any incentive scheme payment and the approval for this rests entirely with the Board of Trustees.

3.7 Restriction on scheme participants

Although the Critical Talent Segmentation process will be followed to assist in selecting scheme participants, there is a financial restriction on the scheme cost that will impact the number of future participants. The sum of the projected maximum pay-out (table 1) of all scheme participants based upon CtC at commencement of each award must not exceed 30% of the annual payroll at commencement of each award.

RECOMMENDED ~~/ NOT RECOMMENDED~~



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CHAIRPERSON: HUMAN RESOURCES AND REMUNERATION COMMITTEE
DATE: 2024-06-26

APPROVED ~~/ NOT APPROVED~~

MR AD MOGAJANE
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DATE: 2024-06-26
