

Corporate Activity,
Shareholder Activism and
Corporate Governance
Policy

Introduction

As a responsible Financial Services Provider, Kagiso Asset Management (Proprietary) Limited ("KAM") is committed to high standards of corporate governance. Further, KAM owes its clients a fiduciary duty to ensure, as far as reasonably possible, that the structures and practices of the companies in which KAM invests on its clients' behalf ("investee companies") are committed to similar corporate governance standards. KAM takes the view that the disciplined and consistent exercising of voting rights is at the heart of sound corporate governance.

KAM must determine whether the long-term interests of its clients would be best served by avoiding positions in companies that are considered to be poorly governed, or to become more actively involved in the company through discussions with management by making its views public, exercising its proxy voting right or through any other means in order to enhance shareholder value.

The advancement of high corporate governance standards in itself is no guarantee of better investment returns. However, financial services providers are in a critical position to ensure that companies remain directly accountable to their shareholders.

It is not KAM's intention to become involved in the daily management issues of the investee companies nor is it our intention to be involved on a long-term basis with an investee company. Instead, our overriding intention in this regard is to exercise voting rights to, at all costs and consciously, avoid potential conflicts of interest or perceived conflicts of interest and ensure investee companies act in the best interests of their shareholders.

Definition of terms

In the interests of sound corporate governance and participation in the investment management process, KAM is required, in accordance with the guidelines contained in this Corporate Activity, Shareholder Activism and Corporate Governance Policy ("the Policy"), to consider and vote on all proxies for investee companies in which KAM holds shares on behalf of its clients.

The guidelines underlying KAM's proxy voting principles are attached as Annexure A.

While this Policy serves as a guideline, KAM's fiduciary duty to the beneficial owners of the shares it holds, requires it to examine each resolution offered and the context in which it applies. For this reason, there may be instances in which shares may not be voted in strict adherence to these guidelines.

Investment analysts and/or portfolio managers must use their skills and experience to assess and consider the nature of the issues being voted upon before voting, and must always exercise their vote in the best interests of the ultimate shareholder. Unusual or contentious issues, such as hostile takeovers or proposals not considered to be in the interests of the shareholders, shall be discussed with the chief investment officer and other senior investment managers before being voted upon. In addition, investment analysts and/or portfolio managers shall adhere to the client-specific reporting requirements.

Any decision to vote against the management of the investee company shall be followed up by a letter or telephone call to the concerned management explaining and giving reasons for doing so.

The proxy voting procedures are attached as Annexure B.

Bi-annual disclosure

The holding of any non-KAM group directorships must be included in every staff member's bi-annual declaration together with any personal shareholdings.

Annexure A: Proxy voting principles

General

The guidelines are made up of three components, namely:

- voting guidelines;
- corporate governance recommendations; and
- the investment mandate.

The guidelines further enunciate principles which we believe are important considerations in furthering and advancing the interests of sound corporate governance in South Africa.

Voting guidelines

We take a serious view and approach towards our responsibility to exercise voting authority over securities that form part of our clients' portfolios. Agendas for shareholders' meetings increasingly contain material issues involving shareholder rights and corporate governance issues. These issues deserve careful review and consideration. With this in mind, this document, in addition to the King Report and Code on Corporate Governance for South Africa, 2009 (King III), is intended to provide guidance on how (and when) to vote on certain resolutions on behalf of our clients.

The overriding principle we apply when voting is that we must act in the best interests of our clients in order to maximise long-term returns. As such, we are obligated to assess, on a case-by-case basis, those factors that may affect the value of our clients' investments which we manage.

In addition, the notion of fiduciary duty requires us to examine each resolution tabled in the context in which it applies. For this reason, there may be instances in which shares may not be voted in strict adherence to these guidelines.

Applicability

The guidelines apply in the following instances:

- We shall vote the holdings in our top 30 investee companies.
- In circumstances where our combined shareholding in an investee company is less than 0.5% of the investee company's shares in issue, we need not initiate voting.

However, the investment analyst or portfolio manager has the discretion to decide to vote any holding falling outside of these circumstances if deemed necessary.

General

We shall vote at shareholder meetings according to the guidelines set out below

- Irrespective of the number of votes we may hold, we need not initiate or undertake voting in respect of certain standard matters which are the subject matter of common resolutions presented at the annual general meetings of shareholders (see comments below).
- In the absence of a specific mandate, our votes, on behalf of our clients, shall not be committed in advance and unconditionally to third parties nor shall our votes be placed in voting pools which

bind clients to predetermined voting positions or compel them to follow the “common” consensus in voting.

- Any voting rights attaching to securities which have been lent out will have been lost in terms of any arrangements pertaining to securities lending. In such an instance, the client reserves the right to request the recall of such securities should it wish to exercise its voting rights and provided that such request is given to us timeously in writing.
- If we require our clients to consider the question of voting and in this regard sufficient information and clear motivation of our voting proposal will be timeously provided to the concerned clients.
- We will not abstain from proxy voting in respect of companies related to the Kagiso Group, as this may not necessarily be in the best interests of our clients. The proxy voting decision must be arrived at through the normal procedures documented below and must not be influenced in any way by either our management or directors. To avoid any perceived conflicts of interest, non-investment team management and all KAM group directors are prohibited from discussing the matter with the investment team members tasked with arriving at the proxy voting decision.

Annual general meetings

Board composition and directorship

- Independent directors
Board membership should comprise a balance of executive and non-executive directors who have broad experience and are in a position to act independently. We support resolutions that lead to the appointment of such directors.
- Separate chief executive officer and chairman
We support the election of an independent, non-executive chairman so that the board represents the interests of shareholders, rather than the executive management. We further expect listed companies to adhere to the JSE Securities Exchange listing requirements in this regard.
- Re-election of directors
In general, we shall consider opposing resolutions that re-elect a number of directors en bloc in favour of resolutions advocating for re-elections or appointments on an individual basis.

Share capital

- General authority to place unissued shares under the control of the directors
We shall consider opposing resolutions that place unissued shares under the control of the directors, particularly if there is a risk of further issues diluting the existing shareholders’ value. Any such actions should rather be specifically motivated to shareholders by calling a general meeting as and when required.
- General authority for the directors to issue shares for cash
We shall consider opposing resolutions that provide directors with the authority to issue shares for cash, as further issues could dilute the existing shareholders’ value. We prefer a separate resolution at the time of any further issues coupled with the appropriate motivation provided by management as opposed to providing management with a general control over the unissued shares.
- Authority to repurchase shares
We shall support share repurchases that enhance shareholder value. We shall consider opposing resolutions that allow share repurchases which impact on the “free float” of the investee company

or which have a material and negative impact on liquidity, net asset value or earnings of the investee company or allow major shareholders the opportunity to gain control of the company.

○ Special dividends and capitalisation issues

We are in favour of special dividends that return excess cash to shareholders, provided this does not impair the company's cash resources and capital structure. We should support capitalisation issues provided the company offers a cash dividend as an alternative, failing one should refer the capitalisation issue (with a recommendation) on a case by case and merit basis.

○ Financial assistance for the acquisition of shares in terms of Section 44

We are only in favour of companies providing financial assistance by way of loan, guarantee, the provision of security or otherwise to any person for the purpose of, or in connection with, the subscription of any option, or any securities, issued or to be issued by the company, provided that there is assurance that the company will not provide financial assistance to Directors and other prescribed officers in their personal capacity other than pursuant to an employee share incentive scheme as contemplated in Section 44. These issues should still be voted on a case by case basis.

○ Financial assistance in terms of Section 45

We are only in favour of companies providing, in the ordinary course of business, loan financing, guarantees and other support to related or inter-related companies in terms of section 45 of the Companies Act, provided that there is assurance that the Company will not provide financial assistance to Directors and other prescribed officers in their personal capacity other than pursuant to a share incentive scheme as contemplated in Section 45. These issues should still be voted on a case by case basis.

Corporate actions

Share capital

○ Dual capitalisation, preferential voting rights

We shall consider opposing proposals to divide share capital into two or more classes or to otherwise create classes of shares with unequal voting and/or dividend rights on the basis that the effect of these proposals, over time, is to consolidate voting power in the hands of relatively few insiders which power is disproportionate to their percentage ownership of the company's share capital as a whole.

○ Repricing or issuing of options at a discount

We shall consider opposing proposals that allow for the repricing or issuing of options at a discount except in instances where the repricing of certain share options aligns the interests of management and shareholders.

○ Black Economic Empowerment transactions

We support the advancement of Black Economic Empowerment and are conscious of the fact that employment equity is guided by legislation. The BEE Commission Report 2001 states that Black Economic Empowerment transactions attempt to "redress the imbalances of the past by seeking to substantially and equitably transfer and confer the ownership of the country's financial and economic resources to the majority of its citizens".

The Financial Sector Charter on shareholder activism records that pension fund trustees, asset managers and consultants play a critical role in influencing the flow of funds, and further states that initiatives should be developed to enhance trustees' understanding of investments and participation in targeted investments and financing of Black Economic Empowerment transactions so as to make a contribution to shareholder activism.

Due to the economic imbalances of the past, many black economic empowerment transactions require innovative and unconventional funding mechanisms. The principles of corporate governance still apply, however, with the understanding that the focus, in this instance, is on sustainability and long-term wealth creation rather than short-term considerations.

If the economic cost to shareholders is greater than 3% then the analyst must motivate why the transaction should be approved.

In addition:

- if the recipients of the transaction are not 'broad based' (where 'broad based' is as defined in the relevant Sector Charter); or
- if the shareholders, and not the financier, are to assume the risk where there is a delayed payment.

Other issues for consideration:

- There should be full and detailed disclosure of all the relevant terms of the deal to make an assessment on the fairness of the transaction. The BEE partner(s) should be clearly identified, profiling not only the investment company, but also the persons involved in that company.
- The transaction should create a meaningful long-term BEE share in the company.
- The empowerment partner should be entitled to board representation and should be able to add value to the transaction in terms of skill and revenue generation.
- The transfer of ownership should preferably not be subject to any conditions that may undo the transaction at a later stage.
- The transaction should be in compliance with the relevant industry charter and the BEE codes of good practice published by the Department of Trade and Industry.

Corporate governance recommendations

Directors

Election or re-election of directors

With respect to the election or re-election of directors, we should consider the:

- effectiveness of the board as a whole;
- relevant experience of new directors proposed;
- past attendance record of directors; and
- multiple directorships
 - In view of the time and dedication required to fulfil the duties required of a director it is important that non-executive directors do not hold any more directorships than is reasonable for the them to exercise due care.
 - We recommend a reasonable number of directorships to be four directorships of listed companies.
 - If an individual holds more than four directorships of listed companies, we recommend initiating engagement with the board on the matter to ensure the board has applied its mind on the matter.

Representation on the boards of listed companies

We are of the view that we should preserve the independence and flexibility of our investment team and processes. As such, representation on the boards of other companies is not encouraged and shall only be considered in exceptional circumstances. Prior approval for such representation must be obtained from the chief investment officer, chief executive officer and compliance officer.

The following types of board representation will be considered:

- Representation that is short term in nature for purposes of achieving a certain objective, which is deemed to be in the best interests of our clients.
- Representation that involves an employee being invited to sit on the board of an investee company that we would not ordinarily analyse or invest in and there is no risk of an actual or potential conflict of interest arising.
- Representation where an employee sits on the board of a small business (eg a family business) that he/she is involved in, and where he/she has made prior disclosure of his/her involvement in the business and in respect of which involvement the board of directors of KAM has given its approval.

Should circumstances require us to be represented on a board, the individual representing our company shall be declared an 'insider' within KAM. This will involve an internal announcement being made stating that he/she is prohibited from talking about the investee company, being involved in any discussions concerning the investee company, or answering any questions relating to the investee company.

Shareholder treatment

The equitable treatment of shareholders, in particular minority shareholders, is one of the foundations of corporate governance. This principle should manifest in two ways – indirectly, through the structures and practices established within the company to safeguard shareholders' interest; and directly, in the way the company enfranchises shareholders, so that they may vote in an informed manner and according to interest.

- We prefer that share repurchases, affecting both high and low voting shares, be proposed on a pro-rata basis.
- High voting class shares may not be used to vote on proposals that will dilute low voting class shares. Where preferential voting rights are embedded in the structure, any shareholder resolution that affects the interest of all shareholders should be passed upon the requisite majority being achieved in all (voting) classes of shares.

Remuneration (please refer to the separate remuneration guidelines)

The levels of remuneration for directors should be aimed at attracting, retaining and incentivising directors. Given that remuneration has implications for corporate performance and shareholder returns, shareholders have a valid role to play in the area of approving remuneration policies that have been established through formal and independent procedures.

We should consider the following in this regard:

- detailed disclosure (in line with the Johannesburg Stock Exchange Limited Listing Requirements as a minimum) of director and employee compensation, particularly where the company does not have a majority independent board;
- the independence of the Remuneration Committee and its recommendations;
- remuneration structure that creates alignment between executive management and shareholders;
- we prefer executive remuneration schemes that place a higher weighting on deferred incentives that are performance based with reasonable stretched targets; and
- whether compensation is reasonable, especially with respect to:
 - the total compensation to CEOs per annum;
 - "golden parachutes" for early termination of service or if triggered by a takeover;
 - executive severance pay; and

- long-term performance incentive structures that are aligned with financial and non-financial issues including those of an ESG nature. Targets should incorporate these issues.

Appointment of auditors

To maintain the confidence of the market, the audit of the investee company must be an objective, rigorous and independent process to. We shall consider any issues that may have compromised the audit firm's independence and objectivity with respect to the company over the previous financial year.

Employment equity and Broad-based Black Empowerment reporting

We shall encourage the development and subsequent implementation of an employment equity plan and reporting on Broad-based black empowerment with specific focus on:

- shareholders;
- board of directors;
- executive and senior management;
- staff/labour force; and
- suppliers or contractors.

Investment mandate

We should be averse to investing in investee companies with no sound track record in health, safety and environmental management issues. As a signatory to both the CRISA Code and the UNPRI, we have made significant progress towards integrating ESG issues and responsibilities into our investment process. As part of the investment process, we shall carefully monitor and assess a company's performance in relation to 'triple bottom line' reporting before deciding to invest in such a company. Once we have taken a decision to invest in the company, this monitoring process shall be conducted on a regular basis.

Environmental issues

Environmental hazards

The public has a right to know whether a company uses substances that threaten the environmental health or safety of members of the community within which it operates. We shall support resolutions that ask for the adoption of a policy that makes relevant information accessible to members of the general public for purposes of them assessing an investee company's environmental responsibility.

Environmental reports

We shall support resolutions requiring investee companies to prepare general reports describing environmental management plans. We should also encourage investee companies to voluntarily disclose current or potential environmental liabilities.

Annexure B: Proxy voting procedures

- Notifications relating to upcoming meetings at which we may exercise proxy voting are sourced from the custodians (if they hold shares in the investee company as a nominee on behalf of our clients) and these notifications are sent to the Implementation Unit.
- The Implementation Unit shall, after receiving a notification, distribute the proxy form to the relevant investment analyst of the investee company for consideration.
- Thereafter, the investment analyst shall, in accordance with this policy, decide on how to exercise the vote and further complete and sign the draft proxy form accordingly. The analyst may elect not to exercise the vote where the holding is not significant (please refer to guidelines) and if there are no contentious issues, in which case this fact will be recorded.
- The investment analyst shall return the completed draft proxy form timeously to the Implementation Unit. The Implementation Unit shall proceed to fax completed draft proxy form to Maitland and keep the original on file.
- Maitland shall determine the identity of custodians of KAM's clients ie we shall determine who the custodians holding shares as nominee on behalf of our clients are. Maitland shall then advise such custodians of our voting decision.
- The custodians shall aggregate the beneficial holders' or investment managers' decisions for all of the shares registered in their name as nominee and advise the Transfer Secretary in writing of the number of shares voted for or against each resolution.
- The transfer secretary shall finally summarise all the proxy forms received directly from shareholders and from the custodians for a particular meeting.