

2018 Proxy Voting Policy Guidelines

Applicable to issuers listed on the JSE and A2X stock exchanges in South Africa only.

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Updates / amendments

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1 Preamble

The reporting framework for issuers whose securities are listed on the JSE is impacted by a number of legal and regulatory aspects, amongst others:

- the Companies Act 2008 ("Act") as amended,
- the Johannesburg Stock Exchange Listings Requirements ("JSE"),
- the King Codes and Reports on Governance for South Africa ("King IV"),
- an issuer's Memorandum of Incorporation ("Mol"),
- regulations issued by the Independent Regulatory Board for Auditors ("IRBA").

Of particular importance was the publication of the King IV Report on Corporate Governance for South Africa 2016 ("King IV") on 1 November 2016, and which is effective in respect of financial years commencing on or after 1 April 2017.

At the typical annual general meeting ("AGM") or general meeting ("GM") of an issuer the shareholders will be asked to consider and approve a number of resolutions.

These are classified as either Ordinary or Special Resolutions, with the voting in respect of Ordinary Resolutions requiring a simple majority for acceptance, while Special Resolutions must secure more than 75% of the voting rights exercised at such meeting, unless the Mol provides for a larger percentage of voting rights (subject to certain limitations).

The Act empowers issuers to call general meetings of shareholders ad hoc, to consider and vote on ordinary and / or special resolutions.

The typical resolutions put before shareholders include those listed hereafter, and our voting policy guidelines in respect of each of these resolutions are dealt with in the pages that follow.

1.1 Ordinary Resolutions:

- Receipt / acceptance of annual financial statements ("AFS");
- Auditor's reappointment (and sometimes also its remuneration);
- Election / re-election of directors;
- Election / re-election of audit committee members;
- Election / re-election of remuneration committee members;
- Authority to issue shares for cash or otherwise;
- Repurchase of issued shares;
- Financial assistance for the subscription of securities;
- Loans or other financial assistance to directors;
- Approval of non-executive directors' fees;
- Approval of remuneration policy (non-binding);
- Approval of remuneration report (non-binding);
- Ratification and execution of approved resolutions of the board (less common).

1.2 Special Resolutions:

- Amendments to the Mol.

2 Receipt of Annual financial statements

2.1 Reporting framework

The Act provides that each year, a company must prepare annual financial statements and call an AGM within six months after the end of its financial year, but no more than 15 months after the date of the previous AGM.

The annual financial statements must be audited, in the case of an issuer listed on the JSE.

The annual financial statements of an issuer listed on the JSE must:

- include an auditor's report;
- include a report by the directors with respect to the state of affairs, the business and profit or loss of the company, or of the group of companies, if the company is part of a group, including-
 - o any matter material for the shareholders to appreciate the company's state of affairs; and
 - o any prescribed information;
- deal with remuneration and benefits received by each director or prescribed officer;
- include pensions paid by the company to its current or past directors or prescribed officers;
- deal with compensation paid in respect of loss of office to current or past directors or prescribed officers;
- cover the number and class of any securities issued to a director or prescribed officer or to any person related to any of them;
- cover details of service contracts of current directors and prescribed officers;
- be approved by the board and signed by an authorised director;
- be presented to the first shareholders' meeting after the statements have been approved by the board; and
- cover the level of compliance by the issuer with the B-BBEE legislation as well as KING IV guidelines with effect from June 2017 in terms of the JSE Listings requirements.

Note that the Act does not require that the annual financial statements be put to a vote.

The Act and the JSE requires that an issuer must deliver a notice of each shareholders' meeting in the prescribed manner and form to all of the shareholders of the company as at the record date for the meeting, at least 15 business days before the meeting is to begin.

2.2 Voting guideline

If put to the vote, we would vote in favour of approval of the annual financial statements including the directors' report and the auditors' report.

However, factors that could influence our decision are:

- An auditor issuing either a disclaimer or qualified opinion.
- Concern expressed about the annual financial statements or accounting provisions/impairments.

3 Auditor's reappointment and remuneration

3.1 Reporting framework

The Act provides that each year at its AGM, an issuer must appoint an auditor. A retiring auditor may be automatically re-appointed at an AGM without any resolution being passed in terms of Section 90(6) of the Act, but we find this to be an unacceptable practice.

The decision on remuneration of the auditor need not be put to a shareholders' vote, and is usually delegated to the audit committee of the board. However, if put to a vote, we would normally vote in favour of such a resolution.

The IRBA on 2 June 2017 issued a Rule prescribing that issuers must comply with mandatory audit firm rotation ("MAFR") with effect from 1 April 2023.

3.2 Voting guideline

The following aspects are taken into consideration:

3.2.1 Tenure

We would vote against the re-appointment of the auditor if they have been the auditor for an uninterrupted period of 10 years or more unless the board went out to tender and the current auditor was again selected and re-appointed on the basis of such tender

3.2.2 Fees

We would vote against its re-appointment if excessive non-audit fees compared to audit-related fees were paid to the auditor, without convincing explanation provided.

3.2.3 Change of listing to another stock exchange

It may happen that an issuer moves the primary listing of its shares to another stock exchange and continues to use the services of the same audit firm.

We will always take into account the number of years over which the same auditor acted in such capacity in respect of the issuer, irrespective of which (or whether any) stock exchange was used for trading of the company's securities.

4 Election / re-election of directors

4.1 Reporting framework

The Act in Section 66 provides that an issuer must have at least three directors, in addition to the minimum number of directors needed to satisfy its MoI, or any requirement to appoint an audit committee or a social and ethics committee.

Each director of an issuer must be elected by the shareholders in general meeting.

The JSE requires that the appointment of all new directors must be put to a vote by the shareholders, and that at least one-third of non-executive directors shall retire by rotation at each AGM.

The JSE and KING IV require that each director be classified as either executive, non-executive and/or independent.

The Companies Act 2008 in section 1 provides that an alternate director is "a person elected or appointed to serve, as the occasion requires, as a member of the board of a company in substitution for a particular elected or appointed director of that company."

Section 66(4)(a)(iii) of the Act provides that an issuer's MoI may provide for the appointment or election of one or more persons as alternate directors of the issuer.

An alternate director could in our view be an alternate to a principal director who is either an independent or a non-executive director of the issuer.

We treat an alternate director in exactly the same way as an independent or non-executive director of an issuer.

4.2 Voting guideline

The following aspects are taken into consideration, and we combine the first-time election and re-election of a director for the purpose of defining our voting guidelines.

4.2.1 Omnibus proposal

We vote against the re-election of directors where a single resolution is put forward in respect of more than one of such individuals.

4.2.2 Age

Directors of SA issuers have traditionally retired at the age of 70 and we would thus normally vote against election or re-election at, or after that age.

However, we will consider an exception if a person over the age of 70 is viewed to be of cardinal importance to the continued success of the company.

A further exception allowed relates to an executive director who is 70 years or older.

4.2.3 Reputation

We may consider voting against the re-election of a director if signs of flagrant breach of reasonable shareholder expectations continue for two years, or in a case of clear material dereliction of duty.

If there is a proven and publicly known taint - such as criminal transgression or a breach of fiduciary duty - that reflects on honesty or reliability, we vote against election or re-election.

4.2.4 Tenure

We vote against re-election of a non-executive / independent director who has been on the board for 15 years.

We do not consider a director to be independent after 9 years on the board; however, we will not vote against such election.

Long tenure prevents rotation and injection of fresh ideas and the tendency to look at things differently. It also displays a lack of succession planning.

Furthermore, any loans to directors in terms of Section 44 of the Act should be disclosed at the time of his/her re-election. We do not consider the person to still have an independent view of the business operations of the issuer under such circumstances.

4.2.5 Over-extended

We vote against re-election if a person is serving on 4 or more boards of JSE listed issuers. Also being a chairperson of such an issuer is in our view equivalent to 2 board memberships.

We also vote against re-election if a person is serving on 4 or more significant unlisted boards such as state-owned entities (SAA, Transnet, DBSA, Eskom, IDC and Landbank) and / or is the chairman of the board of such unlisted entities, even though the number of listed boards of which the person is a director, is below the above threshold.

4.2.6 Full-time CEO

Being the full-time CEO of another listed issuer or significant unlisted company, is considered equivalent to 2 board memberships.

4.2.7 Board attendance

We vote against re-election if a person has attended fewer than 75% of board meetings over the past 2 years without acceptable explanations.

4.2.8 Succession planning

Factors that could influence our decision to vote for the election of a new director, are:

- Recommendation that the individual should also be elected as a member of the audit committee at the same time, or being identified as the chairman of the audit committee when so appointed.
- Lack of available details in published reports regarding the succession planning work being undertaken by the board in respect of the audit committee.

4.2.9 Independence

We vote against the re-election of a director in any of the following circumstances:

- Combined position of chairman and CEO of the issuer;
- Conflicts of interest as director without acceptable explanations.

4.2.10 Fulltime executives returning as non-executive directors

We vote against the election of a person who within the past 3 years served in a fulltime executive capacity on the board of an issuer.

5 Election / re-election of audit committee members

5.1 Reporting framework

The Act provides that the shareholders shall, at each AGM of an issuer, elect an audit committee of the board, comprising at least three members.

5.2 Voting guideline

The following aspects are taken into consideration, and we combine the first-time election and re-election of an audit committee member for the purpose of defining our voting guidelines.

5.2.1 Omnibus proposal

We vote against the re-election of audit committee members where a single proposal is put forward in respect of more than one such individuals.

5.2.2 Independence

We vote against the election of a non-independent (based upon our policy) director to this committee.

5.2.3 Skills

We vote against election of a director who has no identifiable skills such as financial or legal experience, or cannot show audit committee experience of 5 years or more serving on another issuer's audit committee

However, a factor that could influence our decision is:

- Expansion of the audit committee beyond three members, by the election of an additional committee member who is less experienced or lacks the requisite skills.

5.2.4 Tenure

We vote against election of a director as audit committee member with 9 years or more service on the board.

However, a factor that could influence our decision is:

- Non-availability of other skilled or experienced directors to serve on this committee.

- Unplanned-for resignation or disability of an existing committee member.

5.2.5 Committee attendance

We vote against re-election if a person has attended less than 75% of audit committee meetings over the past 2 years without acceptable explanations.

5.2.6 Failure in delegated responsibilities

Factors that could influence our decision to vote for re-election, if an individual was previously a committee member during a period when:

- concerns were expressed about the AFS or accounting provisions,
- audit disclaimers or qualified audit opinions were expressed by the external auditors,
- the auditor reported 1 or more irregularities to the IRBA.

6 Election / re-election of remuneration committee members

6.1 Reporting framework

No requirements exist in the Act in terms of which the election of the remuneration committee must be put to the vote at an AGM. We however consider this to be one of the significant committees of the board, and the board chairman should not serve on it.

The members of this committee have an onerous responsibility and we prefer to include a voting guideline on shareholder resolutions dealing with this aspect.

6.2 Voting guideline

The following aspect is taken into consideration, and we combine the first-time election and re-election of a member of the remuneration committee for the purpose of defining our voting guidelines.

6.2.1 Shareholder support

If 25% or more of shareholders present or represented at an AGM have voted against either the remuneration policy or the implementation report for 2 years in a row, we will vote against re-electing the chair of the remuneration committee as a director.

7 Authority to issue shares for cash or otherwise

7.1 Reporting framework

The Act allows the issuer to seek a general authority from shareholders to issue authorised but unissued shares other than in the form of a rights issue to all shareholders, subject to the provisions of the Mol.

The JSE allows the issuer to seek a general authority from shareholders to issue shares for cash only on a statutory non pre-emptive basis, up to a maximum of 15% of the shares already in issue. A resolution to this effect must attract a minimum of 75% of the votes represented at the meeting.

Issuers sometimes limit the general authority to the treasury shares held, being shares previously acquired from shareholders during a share buy-back scheme.

7.2 Voting guideline

The following aspects are taken into consideration:

7.2.1 Merits of the issue

We are in favour of the shareholders in general meeting considering and ratifying such resolution as and when specifically motivated in respect of a given transaction.

However, we will only vote in favour of such a resolution when the issue and pricing of shares is considered on merit in respect of each transaction, and we regard it to be in the best interests of the shareholders; provided however that this authority is limited to 5% or less of the authorised but unissued shares in the capital of the company.

Where an issuer is highly acquisitive of businesses using this form of financing as a business strategy, we would consider voting in favour, even if the limit of 5% or less does not apply.

8 Repurchase of issued shares

8.1 Reporting framework

The Act allows the issuer to repurchase its shares, subject to the provisions of the Mol.

The JSE also allows a repurchase of shares, subject to certain conditions and subject further to shareholders' approval in the form of a special resolution.

8.2 Voting guideline

The following aspects are taken into consideration:

8.2.1 Merits of the issue

We will vote against such a resolution as we do not consider a share buy-back to be in the best interests of the issuer generally. We are in favour of the shareholders in general meeting considering and ratifying such a resolution as and when required.

8.2.2 Repurchase of shares in previous years

We will vote against the resolution if the board did not utilise the general authority in the period since the previous AGM without acceptable explanations.

9 Financial assistance for subscription of securities

9.1 Reporting framework

The Act in Section 44 provides that subject to the provisions of the Mol, the board may authorise the company to provide financial assistance to any person for the purpose of the subscription or purchase of any option or securities issued or to be issued by the company or a related or inter-related company.

However, the board may not authorise any such financial assistance unless:

- it is pursuant to an employee share scheme which complies with the standards in terms of the Act, or
- pursuant to a special resolution of the shareholders, adopted within the previous two years, which approved such assistance either for the specific recipient, or generally for a category of potential recipients, and
- the board is satisfied that immediately after providing the financial assistance, the company would satisfy the solvency and liquidity test, and
- the terms under which the financial assistance is proposed to be given are fair and reasonable to the company.

9.2 Voting guideline

The following aspects are taken into consideration:

9.2.1 Merits of the issue

We will vote against such a resolution as we do not consider a general authority to provide financial assistance to be in the best interests of the issuer.

We are in favour of the shareholders in general meeting considering and ratifying such resolution as and when specifically motivated.

9.2.2 Financial assistance to directors and members of a company

We will vote against the resolution if the wording of the general authority does not exclude the provision of financial assistance to directors or members of a company other than through a share incentive scheme.

10 Loans or other financial assistance to directors

10.1 Reporting framework

The Act in Section 45 provides that subject to the provisions of the Mol, the board may authorise the company to provide direct or indirect financial assistance to:

- a director or prescribed officer or member of the company, or a person related to any of them, or of a related or inter-related company, or
- a related or inter-related company or corporation,

However, the board may not authorise any such financial assistance unless it is:

- pursuant to an employee share scheme which complies with the standards of the Act, or
- pursuant to a special resolution of the shareholders, adopted within the previous two years, which approved such assistance either for the specific recipient, or generally for a category of potential recipients, and the specific recipient falls within that category; and
- the board is satisfied that immediately after providing the financial assistance, the company would satisfy the solvency and liquidity test; and
- the terms under which the financial assistance is proposed to be given, are fair and reasonable to the company.

10.2 Voting guideline

The following aspects are taken into consideration:

10.2.1 Merits of the issue

We will vote against such a resolution as we do not consider a general authority to provide financial assistance to natural persons to be in the best interests of the issuer. We are in favour of the shareholders in general meeting considering and ratifying such resolution as and when specifically motivated.

10.2.2 Financial assistance to directors

We will vote against the resolution if the wording of the general authority does not exclude the provision of financial assistance to any natural person, as well as to directors of the issuer, other than through a share incentive scheme as defined.

11 Approval of directors' fees

11.1 Reporting framework

The Act provides that the company may pay remuneration to its independent and non-executive directors for their service as directors, provided it is done in accordance with a special resolution approved by the shareholders within the previous two years.

11.2 Voting guideline

The following aspects are taken into consideration:

11.2.1 Omnibus proposal

We vote against approval of directors' fees where a single proposal is put forward in respect of more than one such director.

Provided that all remuneration items are within the fee ranges shown below but dealt with as a single resolution, we would vote in favour but state our concern about the omnibus approach.

11.2.2 Backdated approvals

We vote against any resolution proving to provide backdated approval.

11.2.3 Fees range

We will vote in favour of approval of directors' fees if they fall within the following ranges:

(Amounts expressed in SA Rand excluding VAT)	Low	High
Board:		
▪ Director – not serving on onerous committees	400,000	600,000
▪ Director – serving on onerous committees (inclusive)	600,000	900,000
▪ Lead Independent Director (has to be $\leq 150\%$ of normal director's fees)	550,000	850,000
▪ Chairman (has to be $\leq 250\%$ of normal director's fees)	1,000,000	1,500,000

If the fees are below the minimum range but:

- within 25% of the minimum – call it "Low" but vote in favour
- more than 25% below the minimum – call it "Very Low" and vote against.

If the fees are above the maximum range but:

- within 25% of the maximum – call it "High" but vote in favour
- above 25% over the maximum – call it "Very High" and vote against.

11.2.4 Deputy chairman

We vote against the approval of additional fees payable to a deputy or honorary chairman. We view such a position to be no different to that of a non-executive or independent director and not warranting additional fees to be paid in respect of the title only.

11.2.5 International directors

We do not support a two-tiered remuneration structure that unfairly discriminates against local individuals serving as directors or committee members.

12 Approval of remuneration policy and report

12.1 Reporting framework

King IV requires that the issuer's remuneration policy and report should be tabled separately for a non-binding shareholders' vote at each AGM

Voting on executive remuneration proposals invariably attracts the most attention and we consider it to be amongst the most important matters to be dealt with at an AGM.

The implication of King IV is that shareholders are able to vote for or against either or both of the remuneration policy or report of an issuer.

12.2 Voting guideline

The following aspects are taken into consideration:

12.2.1 Issuer-specific analysis

We prefer to analyse each issuer's remuneration policy and report, based on our scoring method using a range of indicators such as clarity, fairness, reasonableness, alignment to shareholders' interests and consistency.

See our "*Guiding principles of a sound corporate remuneration policy and report*" which is available on our website.

12.2.2 Matters that influence our voting recommendations

The following matters provide an indication of our voting recommendations:

- Level of disclosure in the report is less than what a reasonable shareholder requires to be able to make an informed judgement on possible remuneration outcomes;
- Short-term benefits:
 - Ad hoc / once-off bonuses not linked to performance indicators when the STI policies did not allow the issuer to pay a bonus in a particular year.
- Long-term benefits:
 - not linked to performance indicators,
 - vest in less than 3 years from being awarded, and simply as a consequence of the effluxion of time;
 - dilution under share incentive schemes exceeds 5% of issued shares
- Previous year's voting result was less than 75% in favour yet inadequate attention to and outline of actions are visible from the issuer to address these concerns.
- Level of discretion enjoyed by the Remuneration Committee in making ad hoc decisions considered to be excessive and undermining the policies approved by shareholders.

13 Ratification and execution of approved resolutions of the board

13.1 Reporting framework

The Act does not require the authority from shareholders for the board or the company secretary to implement the resolutions passed at an AGM.

However, there seems to be a trend for some issuers to request the approval and authority of shareholders, by way of an ordinary resolution, for the directors and/or the company secretary to sign the requisite documents and to do all things necessary to give effect to the resolutions passed at the annual general meeting. The point of his type of resolution is moot.

It may also be a requirement or business practice in certain jurisdictions for the shareholders to ratify all the resolutions passed by the board during the past year.

13.2 Voting guideline

13.2.1 Execution of resolutions passed at the AGM

We will vote in favour of this resolution unless we find aggravating circumstances or a severe lack of information in the annual reporting.

13.2.2 Ratification of board resolutions of the past year

We will vote in favour of such a resolution unless we find aggravating circumstances or a severe lack of information in the annual reporting.

14 Approval of amendments to the Mol

14.1 Reporting framework

The Act provides in Section 16(1) that the Mol of an issuer may be amended by special resolution passed at a shareholders meeting.

The JSE also specifies the aspects to be dealt with when amending the Mol.

14.2 Voting guidelines

The following aspects are taken into consideration:

14.2.1 Fair and reasonable

We will review amendments on a case-by-case basis and assess the amendments proposed by the board for fairness and reasonableness to the interests of shareholders.