

## Our policy on proxy voting and engagement

### Background

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We are in a privileged position to be a fiduciary for our clients and stakeholders. Responsible investing (RI) is part of our core beliefs, and sustainable and responsible investment practices are material factors underpinning our long-term success.

We believe in active ownership as one of the important levers to successfully integrate RI practices into our investment processes. Therefore, we use our market presence, through shareholder activism, to contribute towards creating a well-balanced economy for our investors.

The proxy voting and engagement policy is also inherent to our process of risk management.

We are in the process of signing agreements with all our discretionary third-party investment managers to cede

the rights for proxy voting to us on all shares belonging to us, but managed by these third-party investment managers. This will enable us to make uniform decisions on proxy voting. Internal portfolios, such as the smart beta, property and transition accounts, are automatically included in this agreement.

This policy is applicable to the following Momentum Investments authorised financial services providers in terms of the Financial Advisory and Intermediary Services Act, 2002 (Fais) and registered entity:

- Momentum Asset Management (Pty) Ltd (FSP 623)
- Momentum Outcome-based Solutions (Pty) Ltd (FSP 19840)
- Momentum Alternate Investments (Pty) Ltd (FSP 34758)

### Shareholder meetings

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We support a notification period of 15 business days for shareholder meetings. The Companies Act of 2008 stipulates 15-days' notice, in writing, when special resolutions are tabled (s62 (1) (a)). Shareholders must be granted enough time to give due consideration of the resolutions in question.

Meetings must be held during business hours in city centres or, alternatively, electronic conferencing should be set up to allow engagement in real time. Companies in

other countries with substantial South African shareholding are encouraged to do the same.

We may want to further engage with a company regarding a specific resolution before the meeting. If there is lack of public information and accessibility to the investor relations team, it may lead to a vote against the resolution in question.

Proposed amendments to the agenda must be communicated 15 business days before the meeting.

The only short-notice change allowed to the meeting's agenda is the withdrawal of a resolution.

Resolutions to be voted on must always be clearly explained to shareholders and accompanied with the appropriate supporting documentation. Any revision or amendment to the Memorandum of Incorporation regarding shareholder rights must be

closely investigated. Any changes must be indicated explicitly and published on the company website. It is important that shareholders maintain their right to attend, engage and vote at shareholder meetings. Members of a board or a spokesperson of a board must allow shareholders to engage and provide answers to their questions, especially at shareholder meetings.

## Board, director and company resolutions

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The board of directors has a fiduciary duty to its shareholders and the company it serves. Directors are elected by the shareholders of the company to represent and manage the company on their behalf. The board of directors of a company serves as an oversight and governing function of its executive management team. Shareholders must hold the board responsible to successfully ensure a sustainable company (financially and economically). It is expected of the board to manage the company in an ethical manner and to enhance shareholder value and meet stakeholder obligations.

Independent representation on the board leads to better decision making within a company and leads to creating sustainable growth for its shareholders. Therefore, we want the majority of the board to consist of independent non-executive directors. The performance of a director, as well as the collective performance of the board, may be taken into account when voting for director candidates. It is important to us that the appointed directors at least participate at 70% of board meetings held. The company's attendance register will be checked before voting on director resolutions.

The board of the company is expected to appoint independent, non-executive directors who are independent in character, thought and judgement. Below are some guidelines to help identify whether a director's independence may have been compromised:

- The person was an employee of the company within the past five years
- The person was a full-time employee and was involved with strategic planning within the company
- The person had a material business relationship with the company, in personal capacity or through a related party within the past three years

- The person is on the company's payroll, which could include participation in incentive schemes, consulting fees or being a member of the company's retirement fund (this excludes the director's fee)
- The person has close family and friendship relations with the company's advisers, directors, senior employees or business relations
- The person has cross directorships with other directors through involvement in other companies, bodies or business enterprises
- The person represents a material stakeholder of the company
- The person has served for nine consecutive years. (The person must be subject to rigorous review of his/her independent character and judgement. This review may lead to an additional representation of three years. However, we will not be in favour of an independent representation of more than 12 consecutive years.)
- The person has served on the audit committee for nine consecutive years (independent representation is key on the audit committee. Therefore, nine years is regarded the absolute maximum length of tenure for this board sub-committee.)

Non-executive directors who serve on multiple boards may run the risk of not devoting enough time to the company business. Therefore, the following points serve as guideline when evaluating the optimum number of directorships:

- The person is board chairman of one of the largest-40 listed companies and should not be the chairman of another listed company
- The person is an executive director of one of the largest-40 listed companies and should not hold more

than one independent directorship (excluding subsidiaries)

- The person is a non-executive director, holding no executive position(s), and should not hold more than five non-executive director positions

Companies listed in Europe are required to include resolution to discharge management from liability that relates to the previous financial year of that company.

While it is understandable that these companies table such resolutions, it will always be voted against.

We believe it is our right to keep management accountable.

When political donations occur in resolutions, we endorse all the principles and institutions that support a free and democratic society. However, it does not make donations to or in favour of any political party.

## Board structure

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We use the following criteria to assess if board structures are independent and competent to fulfil their fiduciary duty:

- The board must consist of mostly independent non-executive directors
- The board must be independent from dominant shareholders and executive management
- There must be adequate complementary skills and diversity on the board
- The board and its committees must be independent bodies from each other
- The audit committee should be able to operate independently and use company resources to fulfil its function without undue interference from executive management
- The corporate governance report in each company's annual report must explain the function or at least

abbreviated terms of reference for each board committee

- The nomination committee is the only committee where the independent chairman of the board may serve as a member
- The terms of reference should be subject to regular review
- The position of chairman and chief executive officer of the board must be held by two separate individuals

Shareholders have the right to vote on each member of a board and board committee. We will therefore not support resolutions that represent a collective vote for directors.

## Audit committee

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The chairman of the audit committee must always be an independent, non-executive member of the board with the requisite skills and experience. This person must be independent of the chairman of the board, to whom it reports back to. If the chairman of the board or lead independent director was involved with the audit committee as member or chairman, it may undermine the independence of the audit committee.

The committee must be made up of independent, non-executive directors with financial or law qualifications with relevant experience. The committee is responsible for nominating external auditors for approval by shareholders and to ensure an internal audit function reports to them.

The external audit firm recommended and appointed by the audit committee must provide assurance of the financial performance and affairs of the company. The appointment should have taken into account the audit firm's capability skill set.

With regards to auditor rotation, proxy votes will be casted in line with guidelines of the Independent Regulatory Board for Auditors (IRBA). If a company has appointed the same audit firm for more than ten consecutive years, there will be a vote against appointing that audit firm from the eleventh year onwards. In cases where joint auditors are appointed, only the services of one may be terminated in a single financial year.

The appointed external audit firm must disclose to shareholders all contracts or services rendered to the company, which are material and may affect the independence of the audit. It includes additional non-audit-related work, which includes fees higher than a 30% proportion to the current year's audit fee.

We are aware of the following points of consideration when it comes to external audit remuneration:

- It should be compared on a relative basis to its peer companies and prior year's costs
- If the non-audit work expenses match the nature and extent of the work done
- Any other relevant issues that could have affected the audit fee during the current year

The internal audit function that reports into the audit committee must:

- Report functionally (not administratively) to the audit committee
- Evaluate the company's governance process
- Objectively assess the effectiveness of risk management and the internal audit framework

## Remuneration of directors

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The remuneration policy of a company must align management and shareholder objectives. This alignment will lead to optimal capital allocation and sound corporate governance.

The annual report publication that reflects the remuneration policy must explain the following:

- Philosophy and motivations of the remuneration committee
- Incentive payments to executive management
- Bonuses paid to executive management
- Implementation of the remuneration philosophy

A document on philosophy, which translates into a policy, which gives the remuneration committee and the board discretion on what remuneration and incentive payments are received by the executive, will be voted against.

The remuneration policy should always show the following three principles:

- Transparency
- Accountability

- Have an internal audit plan that is informed by strategy and risks
- Be independent from the company's executive management
- Provide a written assessment on the effectiveness of the company's system of internal controls and risk management
- Provide a written assessment of the internal financial controls to the audit committee
- Follow a risk-based approach to its plan
- Attend all executive committee meetings and develop a quality assurance and improvement programme

The audit committee should have the authority to initiate an investigation into the company, without the approval of company management.

Members of executive committee should only attend audit committee meetings by invitation. Standing invitation to executive members will compromise the independence of the audit committee.

- Performance-based assessment

Peer-relative comparisons and analysis should not be the primary driver of performance or remuneration processes. This may result in an ever-increasing upward remuneration spiral in industries, which may not correlate with expected measured performance.

Performance aligned with shareholder interests, rather than peer remuneration, should always be the primary driver.

Companies should provide clear and full explanations linking performance to remuneration, enabling stakeholders to analyse those correlations in public documents. Alignment should not give rise to unintended consequences or be incentivised for short-term manipulation of accounting data. Short- or long-term bonuses or remuneration should never be purely 'at the discretion of' the remuneration committee or board, as this would negate the concept of a remuneration policy.

The company must disclose the performance scorecard with a clear indication of what is considered threshold, on-target and outperformance in terms of the scorecard, and the extent to which actual results have met these performance criteria.

The company should preferably have a mechanism for claw back or cancellation of deferred payments for bonuses paid in cases where previous financial results have been subject to errors and subsequent restatement, which can be linked to the actions of the management that benefited from such misstatement in the form of bonuses.

Total incentive payments should be based on metrics that can be measured from the company's published financial statements for at least two thirds of their total remuneration package. A shareholder should be able to calculate from information in the annual report whether the remuneration of the executive directors are warranted. A so-called retention bonus at the discretion of the board will almost certainly attract a negative vote, as this may be a way of awarding a bonus when company performance does not warrant such a bonus. This behaviour does not serve to align shareholder and management interests, which is always the basis for providing incentive schemes to management.

The composition, processes, authority and resources of a remuneration committee form a very important part of the remuneration process. The remuneration committee should be seen to be independent and must have all the required resources available to discharge their duties. Remuneration committees should always consist of independent, non-executive directors.

Non-executive directors should never be part of an incentive, remuneration or income scheme. To include non-executive director fees as part of the former would establish an inherent conflict of interest in the arm's length oversight role of executive directors. In addition, non-executive director fees should be approved in advance by shareholders at the company's annual general meetings. Their remuneration structure must not

be subject to any provision or structure that may affect their independent thinking and decision making. Non-executive director fees are usually a reflection of the company's size, operational complexity, business risk environment and, to a much lesser extent, company performance. The quantum of fees should be evaluated in that context on a case-by-case basis. For example, chairmen of banking boards are usually well remunerated because of the scale, complexity and risk inherent in a bank's operations. In addition, being chairman of the board is regarded as a full-time job in the banking industry.

Payments to exiting executives must be in terms of the rules of incentive schemes and should not include any payments made in terms of the acceleration of performance-based long- and short-term incentives.

Benefits of share schemes should be predominantly based on performance (ie linked to preferably multiple financial measures) and retention.

### **Use of options**

Approval of share option schemes should always be sought from shareholders in advance. Options should not be re-priced. The strike price or expiry date should not be revised. New options should also not be issued under a new scheme while the old scheme is still in operation, if the previous targets have not been met. This is re-pricing by stealth.

The company should preferably have a minimum shareholding requirement for key executives to ensure better alignment with shareholder interests. The company must disclose the maximum individual annual allocation for the share scheme.

It is recommended that shares, rather than options, be awarded to the executive. They will, of course, vest over a certain period (which should not be less than three years). If a share trust is established, the share incentive scheme should not have any directors, past or present, as trustees.

The value of share options granted should be taken into account in the setting of the total remuneration package.

## Capital structures and other corporate actions

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Corporate actions are of a financial nature and are found in different resolutions. The guidelines mention some main examples below.

The evaluation of the resolution between dividends and income will be subject to the dividend policy, the financial position of the company and, if sufficient information is available, regarding the dividend declaration.

When the company wants to place unissued and ordinary shares under the control of directors, it is important to assess if the action would lead to excessive dilution of the shareholding of shareholders.

The JSE-listing requirements state that for any resolution put before shareholders where the mandate requested by directors is unrestricted, the following statement should be included:

*"No issue of these shares, however, is contemplated at the present time and no issue will be made that could effectively transfer the control of the company without the prior approval of shareholders in a general meeting." (JSE listing requirement 11.34).*

Resolutions issuing debt instruments that are convertible to shares should be studied closely to ensure they don't lead to an unwanted dilution of proportional "shareholders interest.

As a guideline, we will generally oppose resolutions requesting a share issuance beyond a 5% limit of issued shares. If company management requires shares for share incentive schemes, corporate actions or black-economic empowerment (BEE) deals, etc. We agree with, this limit may be raised substantially. In the case of property companies, consultation with the our property analyst will be done, as issuances of up to 25% may be required for upcoming property acquisitions. These resolutions will always be treated on a case-by-case basis.

Restrictions should be placed on a general authority to issue shares for cash, which may also result in dilution of current shareholder value. Directors may also use issuance of shares for cash as a defence mechanism

against groups of shareholders. We will only approve the issuance of a small percentage of shares (maximum 5%) for cash for all companies, except property companies (PUT and loan stock), where the limit can be higher. Property companies have to be dealt with on a case-by-case basis. Unlike other companies, their acquisitions are primarily funded by the issuance of linked units. The quantum of issuance generally, but not always, depends on the size of the acquisition(s) relative to the current market capitalisation of the company."

The renouncement of pre-emptive rights avoids the necessity for the company to conduct a rights offer to shareholders on a pro-rated basis. Typically, the vote will be against such resolutions. However, exceptions may occur when management clearly informs shareholders of the special circumstances. Examples of such circumstances may be BEE deals or a company with financial issues that need new external investors.

Authority to repurchase shares is usually seen as a way of returning capital to shareholders. This applies especially in an environment where company management is of the opinion that there are not any value-adding investment opportunities available that would benefit shareholders. We will always consider the following points before voting:

- Is the free float of the company relatively small? It could shrink the free float further.
- If the resolution is for issuing large numbers of shares and repurchasing shares, management's strategic plans for the coming year must be clear.
- An assessment should be done to establish if previous share repurchases added any value.
- Share repurchases that are undertaken to reduce odd-lot resolutions should generally be supported.
- If we have a material issue with the incentive scheme or structure of the company, we will vote against the repurchase of shares to prohibit the feed to the required shares of the incentive scheme or structure.
- If substantial management bonuses are predicated on an increase of earning per shares, care should be taken that share buy backs are not above normal levels for that industry.

When a company grants loans to related parties, it is important to note that those parties' details must be disclosed. The purpose will usually be supported if it is for financial assistance, share incentive schemes, BEE deals, etc. Each resolution will be evaluated on a case-by-case basis.

Differential shares in equity lead to a distortion of shareholder democracy and, therefore, will most probably not be supported.

## Economic, social and environmental considerations

Shareholder resolutions relate to governance considerations of the company in question. However, it still translates directly to the company's considerations on economic, social and environmental factors. We believe the most pro-active approach to address these factors is through direct company engagement.

It is important that companies reflect economic, social and environmental factors in their annual integrated reports that will enable all stakeholders to have a better quality conversation regarding potential problem areas within a company. These factors have a direct effect on

the bottom line of the company. We expect management to pay attention and manage these considerations to ensure sustainable returns for the investor.

We use the Sustainable Development Goals (SDGs), which were developed through the UN Global Compact, as guideline to engage and vote for or against resolutions. The SDGs define global sustainable development priorities and aspirations for 2030 that seek to mobilise global efforts around a common set of goals and targets. Please refer to the following link for more detailed information on the goals: <https://sdgcompass.org/sdgs/>.



## Engagement policy

We use our market presence to influence and encourage companies to improve their management of environmental, social and governance (ESG) factors. This will lead to sustainable financial performance for the investor in the long term.

Examples of engagement opportunities are:

- Resolutions for upcoming board meetings that are contrary to our policies
- Before shareholder meetings to discuss the relevant resolutions

- Concerning news regarding a company in the media
- Assist companies to improve their corporate governance
- Engage regarding economic, social or environmental considerations of the invested company

### Engagement methods

We aim to have an understanding of the unique characteristics and circumstances of a company and the materiality of the issues before engagement and would typically, among others, use the following methods:

- Private meeting with company management
- Teleconference meeting (with agenda items communicated before the meeting)
- Addressing concerns through a formal letter

### Escalation

Companies that do not respond to our engagement attempts will be subject to the following escalation process:

- Proxy vote, withhold support
- Address concerns at the shareholder meeting
- Complete a shareholder resolution

### Conclusion

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All the above are guidelines to be followed by us in evaluating resolutions put before shareholders by management. They are guidelines, which do not supersede common sense and business principles. They are designed to promote ethical and honest behaviour of company leadership, irrespective of the size or influence of the company.

- Issue media statements
- Formal complaint to the regulator
- Divest

### Evaluating outcomes

All engagement activities are recorded in our engagement register. It is important to keep track of the progress of companies after engagement. There are five key elements to help us assess this, which were developed by the PRI Clearinghouse:

- Management awareness (companies become aware of concerns)
- Acknowledgement (companies are open to discuss concerns with shareholders)
- Policy and strategy (companies develop a strategy, policy and targets to address issues)
- Implementation (companies implement policy or strategy)
- Disclosure (companies publicly acknowledge the issue and disclose relevant policies)

Good corporate governance with its characteristics of transparency and accountability will force boards of directors to concentrate on their main function, which is to promote shareholder value and good corporate citizenship.

### Document universe

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This policy is not a standalone document and is supported by:

- Responsible investment policy
- Our related-parties policy (available on request)

These documents support the principles and operational procedures to this policy.

