momentum investments

responsible investing

Policy on proxy voting

Our purpose

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 its long-term success.

We believe in active ownership as one of the important levers to successfully integrate responsible investment practices into our investment processes, as well as an important component of good risk management. This policy is designed to make sure proxy voting is conducted in an appropriate manner, consistent with clients' best interests, and consistent with our other relevant policies.

The scope and review of the policy

The policy describes our overarching proxy voting policy through its views and commitments and applies to the following Momentum Investments regulated financial services providers:

- Momentum Asset Management (Pty) Ltd
- Momentum Global Investment Management Ltd
- Momentum Outcome-based Solutions (Pty) Ltd
- Momentum Investment Consulting (Pty) Ltd
- Momentum Alternate Investments (Pty) Ltd
- Momentum Collective Investments (RF) (Pty) Ltd

This policy is approved by our executive committee and practically implemented and maintained by the relevant business areas.

The executive committee will review this policy at such time as it sees fit to revise the policy.

The voting principles serve as guidelines for the discretionary assets where we may vote. It should be noted that this policy will be applied on a best-effort basis, given regional and regulatory differences.

For the MGIM financial services provider, the funds administered on the Russell platform will use the Russell proxy voting guidelines, which is well aligned with the principles stated in this policy.

Proxy Voting guidelines

Shareholder meetings

We support an adequate notification period for shareholder meetings. Shareholders must be granted enough time to give due consideration to the resolutions in question.

Meetings must be held during business hours, either face-to-face or via virtual conferencing. We may want to further engage with a company regarding a specific resolution before the meeting.

If there is a lack of public information and accessibility to the investor relations team, it may lead to a vote against the resolution in question.

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

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 serve as an oversight and governing function of its executive management team. Shareholders must hold the board responsible to successfully make sure it is a sustainable company. 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 helps to ensure that the interests of shareholders and directors remain aligned. 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 a 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 personal relations with the company's executive directors or senior employees.
- The person has cross directorships with other directors through involvement in other companies, bodies or business enterprises.
- The person has served for nine consecutive years. The person must be subject to a rigorous review of his/her independent character and judgement. This review may lead to an additional representation of three 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 as the absolute maximum length of tenure for this board subcommittee.
- We do not support donations to political parties.

Neutral initiatives that work to positively contribute towards democracy would be considered.
- To address unexpected vacancies, company management should prioritise in advance, diversity and the required skills of potential candidates to maintain an emergency succession plan.
- We support the age limit of 75 years and older for the board members. Comprehensive succession planning is necessary to ensure continuity and stability within the board.

Non-executive directors who serve on multiple boards may run the risk of not devoting enough time to the business.

European-listed companies have the practice of including resolutions discharging management at every annual general meeting. This will be approached on a case-by-case basis, as in some European countries this does hinder any subsequent legal recourse by shareholders against previously committed fraudulent/criminal acts by management, and in other cases it does not. We will not support these resolutions if they prevent any such recourse by shareholders in future.

Board structure

We use the following criteria to assess if board structures are independent and competent to fulfil their fiduciary duty:
- The board of a publicly listed company on an international securities exchange should consist of mostly independent non-executive directors.
- The board should be independent from dominant shareholders and executive management.
- The company should demonstrate the promotion of gender, racial and skills diversity on the board. This assures a range of perspective and expertise and strengthens decision-making.
- The board and its committees should 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 should 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 should 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

The chairman of the audit committee should always be an independent, non-executive member of the board with the requisite skills and experience. This person should 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 a member or chairman, it may undermine the independence of the audit committee.

The committee should be made up of independent, non-executive directors with financial, legal, and ESG 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 audit committee should have the authority to initiate an investigation into the company, without the approval of company management.

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.

If a company has appointed the same audit firm for more than ten consecutive years, we will not support 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 should:

- 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.
- 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.

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

Remuneration of directors

The remuneration policy of a company should align with management and shareholder objectives. This alignment will help to facilitate optimal capital allocation and sound corporate governance.

The annual report publication that reflects the remuneration policy should 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
- Performance-based assessment

Peer-relative comparisons and analysis should not be the primary driver of performance or remuneration processes.

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 incentivise 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 should 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.

We will support remuneration structures that reflect a company's commitment to their sustainable and climate strategy and should be tied to their executive pay.

The company should preferably have a mechanism for clawback 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 is warranted.

A so-called retention bonus at the discretion of the board will likely attract a negative vote, as this may be a way of awarding a bonus when company performance does not warrant such a bonus.

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 must never be part of an incentive, remuneration or income scheme. 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.

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 must 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.

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

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.

Any resolution put before shareholders requesting unrestricted share issuance must need shareholder approval in a general shareholder meeting.

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, acquisitions or black-economic empowerment (BEE) deals, etc. we agree with, this limit may be raised substantially. 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 defense mechanism against groups of shareholders.

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, it 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 earnings per share, 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.

Climate change

Organisations, and more specifically governing bodies, have to play their part, not only through compliance but through a serious commitment to demonstrate how and what they do and will do to positively impact climate change. Climate consideration has moved from policies to more practical applications encapsulated in shareholder resolutions.

The following important points should be considered when voting on company resolutions in this regard:

- Companies should align their company climate disclosures with their annual financial statements and integrated annual report. Assets and liabilities should be measured taking into account the impact of climate change.
- Companies should appoint climate change specialists, and at least one board member should have ESG knowledge and experience.
- A company should comply with climate change legalities, soft and hard.
- ESG metrics should be robust, with threshold, target and stretch metrics that should be included in the remuneration policy, with a minimum weighting of 5% to 10%.
- Methodologies should be in place to calculate carbon emissions.
- A company should address their climate change impact of the environment and wider society, eg joining climate change initiatives and explaining the impact the company made over the financial period. More examples include using renewable gas and low carbon hydrogen, increasing renewable power generation capacity, and upgrading buildings, equipment and introducing innovative technology.

Economic, social and environmental considerations

Shareholder resolutions mostly relate to governance considerations of the company in question. However, it still translates to the company's considerations on economic, social and environmental factors.

We support fair labour practices, safe working conditions and alignment with international human rights standards. We believe the most proactive 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 a 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 click here for more information on the goals.

Conclusion

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.

Document universe

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.

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.