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PROXY VOTING POLICY

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Introduction

With respect to segregated institutional clients such as pension funds ('the fund/s"), the responsibility to vote lies with the fund, except where this authority has been delegated to Umthombo Wealth and incorporated into the asset management mandate. Umthombo Wealth recognises the fiduciary responsibility to discharge voting rights on behalf of asset management clients with due care and diligence. To fulfil this requirement, Umthombo Wealth has adopted this set of proxy voting policies which are designed to ensure that proxies are voted in the best economic interests of clients.

These policies were developed by the Umthombo Wealth proxy voting committee with reference to global and domestic best practice. They represent a suite of recommendations that will define how Umthombo Wealth generally votes proxies on behalf of clients. While an attempt is made to define positions in an all-encompassing manner, this is likely impossible. If a proxy vote issue falls outside the ambit of the guidelines Umthombo Wealth will perform an analysis on a case-by-case basis with reference to the principle of protecting the economic interests of clients and develop the proxy voting policy to include emerging issues.

These proxy voting guidelines represent a default position which Umthombo Wealth has adopted on each respective issue. It is envisaged that circumstances may exist whereby deviation from the recommendations set out in this document may be in the best economic interest of clients. In such a case, deviation from a policy delineated in this document is warranted. In this eventuality, Umthombo Wealth will retain a record of the analysis justifying the deviation from the policy in question as well as a written certification confirming the lack of conflict of interest either on the part of the firm or the analyst concerned. Umthombo Wealth reserves the right to use the services of a third party to provide independent proxy voting services including but not limited to proxy voting advisory. If these services are sought, they will be engaged in the context of these guidelines.

Transparency with respect to Umthombo Wealth's voting policy and its individual voting decisions is an important precursor of accountability to its clients. This enables the assessment of whether Umthombo Wealth is fulfilling ownership responsibilities on behalf of their clients in a manner that is prudent, and loyal to the objectives of protecting and enhancing clients’ economic interests. This is consistent with international best practice. Accordingly, Umthombo Wealth will make available to clients its voting record along with a clear explanation of any votes made against the company's proposals or any abstentions.

It is possible that different clients or different accounts for the same client invest in the same company's securities. In this event, it is possible that votes are cast differently on the same issue across clients or even across accounts for the same client. This differentiation would be a function of different investment objectives across different accounts, or/and clients having its own ESG and Proxy Voting Policy being differentiated to other clients and this policy. Given that the responsibility to vote lies with Umthombo Wealth, we may have own proxy voting guidelines different to some of our clients' guidelines. In such cases, Umthombo Wealth will vote according to clients' proxy guidelines in a process where these votes are cast separately, except in cases where issues arise which should be referred back to clients for, inter alia, the following reasons:

- Mergers and takeovers between listed companies, where the client's overall portfolio weighting may differ materially from the portfolio weighting in the Umthombo Wealth portion of the client's portfolio.
- Corporate Actions, such as Black Economic Empowerment deals, where the fund is required to make a policy decision with regard to accepting a proposal that is likely to result in current shareholder dilution.
- Proxy campaigns, where Umthombo Wealth or other asset managers and/or funds initiate campaigns that involve either the raising of resolutions or the use of strategic voting that would require the fund's general support (industry collaboration).
- In any instance where there may be an apparent conflict of interest between Umthombo Wealth and the fund (clients' interests).

Umthombo Wealth will priorities clients' proxy voting policy guidelines; however, Umthombo Wealth will liaise with institutional clients in instances that exhibit extreme contradiction between Umthombo Wealth and clients' policies.

Umthombo Wealth recognises that scrip lending by institutional clients is a practice that contributes additional revenue separate from fund performance. Scrip lending does, however, result in the beneficial owners of the stock losing the ownership rights associated with the investment, including the right to vote. This is deemed a material issue, as the right to vote and engage with the company is fundamental to the enhancement and protection of fund investments. Scrip lending may well mean that the fund is not able to apply its vote in instances where value may be destroyed. The scrip lender, however, tends to be a long-term investor, where issues such as governance are significant value drivers. This is an increasingly significant issue internationally, and Umthombo Wealth will keep abreast with policy developments and ensure that its clients are informed of this issue and formulate appropriate strategies accordingly.

Proxy statements increasingly contain material issues involving shareholder rights and corporate governance, among others, which deserve careful review and consideration. As far as possible, Umthombo Wealth may contact the company, preferably in writing, prior and post the voting, to discuss concerns, explain why Umthombo Wealth is voting in a particular manner, explain the voting policies of the firm, and to request the company to implement a strategy to meet our recommendations, where appropriate. Prior discussions with the company and potentially other shareholders are deemed particularly important where an "Against" vote is being proposed by Umthombo Wealth. The CIO, portfolio managers and relevant analysts will consider and evaluate all voting issues deemed material. The final decision in terms of voting strategy will rest with the CIO and portfolio managers.

These issues require a higher degree of professional judgment on risk with careful consideration of shareholder value. An emerging trend within academic research on many of these governance issues indicates that there is a strong correlation between good practice and lower instances of corporate failure. Shareholders have, through proxy voting and broader engagements with companies, some leverage in influencing desirable behaviour in this regard. Key issues in this regard include leadership, ethical, social and environmental accountability into governance codes and the law. Thus, not only is there a business case, but disclosure and proactive management of these issues is becoming a governance requirement, and thus a duty associated with holding representative office in a company.

Relevance and materiality, however, remain key to engagement and voting with respect to all of these issues.

Agenda issues at Annual General Meetings and covered on Proxy Voting Forms

Ordinary Business

"Approval" of Annual Financial Statements

Section 298 of the Companies Act requires that the company directors approve the annual financial statements. While these resolutions call on shareholders to approve the financial statements, this is not a legal requirement. The resolution indicates that the financial statements are accepted by shareholders in the context of all other resolutions tabled at the AGM. JSE listing requirements dictate that annual financial statements and the notice of the AGM be sent to shareholders at least 15 days before the AGM

A negative vote on this resolution is usually indicative of dissatisfaction with the level of disclosure or assurance attached to the annual financial statements. The votes cast on this issue are largely symbolic in nature intending to register shareholder opposition to some features of the financial reporting to the board and the company.

Voting negatively on this resolution should always be accompanied by a clear explanation as to what the negative vote is related to.

The following situations might give rise to a negative vote:

- Any audit qualification - particularly where an audit opinion is disclaimed or qualified in terms of "going concern".
- Insufficient and/or inconsistent financial and/or non-financial disclosure deemed material without adequate justification
- Non-realistic financial practices related to valuations and impairments policies.
- Negative reputation and track record of the auditor or audit partner

Re-Election of directors

Directors appointed to the board are the most important contact point between shareholders and the asset that they own placing directors at the apex of the corporate governance structures on companies. The relationship between shareholders and directors is therefore largely that of a principal and an agent. Investors delegate the responsibility to the board of directors to operate in their long-term interests. This requires that directors display the integrity, expertise, application and independence required to adequately discharge this fiduciary responsibility. The purpose of the proxy vote in this context is the adequate maintenance of the principal/ agent relationship. Director appointments are required by JSE Listing Requirements to be ratified by shareholders at the next AGM.

In assessing directors' suitability on an ongoing basis, the following issues will be considered:

Policy

Responsibility
Directors should act in the long-term interests of the company as a whole and exercise responsibility towards shareholders. All directors are responsible for the board's actions, and all are equally accountable to the shareholders.

Balance
King V recommends that the board should comprise a majority of non-executive members, most of whom should be independent that shareowner interests (including minority interests) can be protected. Umthombo Wealth does not disregard the fact that non-executive directors who are not regarded as independent make a significant contribution to the board but holds that these directors be adequately categorised as non-independent and there should be a sufficient number of independent directors who can apply oversight to the interests of minority shareholders. Such directors should chair and play a significant role on both the Audit and Remuneration Committees, where they should be in the majority.

While accepting that non-executive directors should comprise the majority of the Board, Umthombo Wealth supports the practice of having a sufficient number of executive directors on the board to provide the board with a clear understanding of the financial and operational situation of the company.

Consideration must be made by South African companies of demographics within the underlying labour force and the country more generally when defining the composition of the board. Consideration of these factors is an important buffer against regulatory and operational risk. Umthombo Wealth acknowledges that skills shortages amongst previously under-represented demographic groups remain but encourages that appropriate steps be taken to identify and develop emerging talent to address this issue over time.

Independence

While it is the function of the board to consider whether a director is independent both in character and judgement, there may be informational barriers preventing a shareholder from making a reasonable judgement in the short term.

Umthombo Wealth acknowledges the context of limited skills and experience with regard to directorship in the system. Thus, for the purposes of determining the independence of directors, Umthombo Wealth will consider independence in terms of the guidelines proposed in King V and the UK Corporate Governance Code.

Notwithstanding these guidelines, Independence is still a subjective consideration whereby Umthombo Wealth, as an agent of its clients, investigates whether retaining the confidence in the board's ability to fulfil its mandate is a reasonable position. The requirements on the board are multi-dimensional to include monitoring and controlling management, providing strategic counsel to management, maintaining linkages between the company and the external environment and ensuring company compliance with relevant laws and regulations.

Umthombo Wealth believes that it is reasonable to expect that any relationships or circumstances that are likely to compromise the director's independent judgement or create the impression that such a conflict of interest exists should be clearly disclosed in the Curriculum Vitae proposed to shareholders prior to a director's election or re-election. These relationships and circumstances include, but are not limited to:

- Having been an executive director of the group in the past 5 years
- Having had a material business relationship with the company either in his/her own capacity or through a related party.
- Receiving remuneration from a company other than a director's fee. This could include the participation in a share option scheme, performance related scheme or is a member of the company's pension scheme.
- Having close family ties with any of the company's advisors, directors or senior employees.

- Having cross-directorships with other directors through involvement in other companies or bodies.
- Representing a significant shareholder or asset management company that holds a significant number of shares on behalf of its clients.
- Having served on the board for more than nine years from the date of first election.
- Having a direct or indirect beneficial interest in the company's shares in excess of 3%
- Having been a significant or ongoing professional adviser to the company, other than as a member of the board

As the entity proposing a director for election or re-election, the onus is on the company to provide sufficient supporting evidence as to the sufficiency of the nominee's skills, experience and expertise and where relevant to the nominee's independence.

No concentration of power

Umthombo Wealth takes the view, guided by the King Code that the board should reflect an appropriate balance of power between executive and non-executive directors and between independent and non-independent directors.

Within this context it is important that mechanisms exist to protect against undue influence and control of the board by a subset of the directorship, either on the board as a whole or in statutory committees.

In pursuit of this objective, Umthombo Wealth supports a continuous process of director refreshment on the board and in committees to ensure that alignment of directors' views to the detriment of effective monitoring and strategy do not occur.

This imperative should be pursued with reference to appropriate gender and racial transformation over time

Umthombo Wealth views favourably the establishment of a nomination committee for this purpose and would support the delegation of constitution of an effective board to the committee (with ultimate oversight and responsibility at board level).

Separate CEO and Chair positions

Umthombo Wealth supports the separation of chairman and chief executive positions, a proposition which has been adopted as part of the JSE Listing Requirements and the King Code.

Umthombo Wealth is of the view that this feature of the board leadership delivers an appropriate division of responsibilities at the head of the company to ensure a balance of power and authority.

Umthombo Wealth is not in support of the practice of Chief Executive Officers moving into the position of Chairman following their retirement. The importance of institutional memory is not under-estimated; however, this function can be well maintained through non-executive directorships. Former CEOs migrating to the Chairmanship skews the balance of power on the board and potentially exacerbates the agency problem.

Given the board's role in holding executive directors and management accountable, the board chairman should be separate from operational responsibilities.

Umthombo Wealth supports the election of an independent non-executive Chairman so that the Board can provide strategic oversight that incorporates the interests of shareholders and other stakeholders.

Umthombo Wealth is in favour of the identification of a Lead Director who is independent in cases where the Chairman is not independent. The lead director should both attend shareholders meetings and make him/herself accessible to shareholders.

Where the Chairman is not independent, there should be a mechanism in place whereby the Lead Independent Director presides over issues where conflicts of interest are a concern. The Lead Independent Director should have sufficient access to management away from the Chairman or Executives so as to be able to perform his duties effectively.

There should be a forum for independent directors to meet outside of the oversight of Executives or Non-independent directors.

Capability & Performance

Consideration should be made of the contribution of each board member and the effectiveness of the board as a whole. A lack of information around the board policies, procedures and discussions may make such an evaluation difficult for shareholders or other external observers. As such it is important that a credible and preferably independent evaluation is done internally on an annual basis and published in the governance section of the annual report.

A balance should be struck with regard to board composition whereby it is important that reference be made to differentiated knowledge, skills, experience, age and gender. These differences act as a proxy for inclusion of different ways on thinking to the board which brings benefits in terms of strategy and risk management.

New members of the board should be inducted as part of a formal induction process which exposes them to information around the roles and responsibilities of membership of the board; the policies and processes that underlie board operation and the strategic and operational imperatives of company performance. Exposure to existing board members should be encouraged initially to facilitate the transfer of institutional memory and the seamless integration of new directors.

Academic research indicates that 40-50 days are required to adequately discharge fiduciary responsibility related to non-executive board membership (120-150 days for Chairmanship). Board members should have enough time to devote to the job. Outside directorships should be clearly outlined in the Integrated Report with particular emphasis on those in the listed space.

Board and Committee membership should be continuously refreshed to bring fresh perspectives to board discussions and retain the ability for independent oversight

Director re-election should take into account board and committee composition, meeting attendance, director tenure and capacity constraints amongst other factors.

Size of boards

Board ineffectiveness can be exacerbated by size, either on excessively large or excessively small boards. Overly large boards may result in the dilution of individual contributions while boards erring on the small size expose themselves to a limited skills set and domination by Executives. Umthombo Wealth considers a board size between 13 and 18 members to be optimal.

The appropriateness of the board size is dependent on the size of the company, the complexity of the industry, the geographical diversity of its operations and the diversity of its lines of business.

Umthombo Wealth will consider the size of boards on a case-by-case basis. Excessively large boards will generally be discouraged by voting in favour of independent non-executive directors over executive directors and non-executive directors. Consideration will be made of the protection of board competency in this exercise. Conversely, smaller boards should discourage over-reliance on a small group of individuals for decision-making, especially where the CEO or founder dominates.

Considerations with respect to the election of directors

The company's policies and procedures with respect to director nominations and appointments should be a matter of public record. These should be overseen by a nomination committee constituted primarily of independent non-executive directors.

Umthombo Wealth generally views more favourably the annual re-election of directors rather than a 3-year rotation that has become commonplace amongst boards, as recommended in the UK Corporate Governance Code. The reasons generally given for staggered rotation (generally to maintain institutional memory and prevent the disruption of excessive board rotation) are insufficiently convincing in the South African context where overwhelming shareholder support for incumbent directors in the norm. We view it as highly unlikely that shareholders would rotate directors to the detriment of their investment performance, but we believe annual elections provide greater accountability for board members. Annual rotation is particularly relevant when directors are over the age of 70.

Umthombo Wealth does not endorse the practice that only non-executive directors stand for re-election at the AGM. Appropriate mechanisms for ensuring accountability for executive directors include that they are subject to shareholder votes related to their re-election.

Umthombo Wealth would be opposed to directors being elected/re-elected through bundled resolutions rather that each director is subject to individual ratification. In the event of a bundled resolution which is determined by Umthombo Wealth to be deficient in some aspect is tabled, Umthombo Wealth may decide to abstain or to vote "no" depending on the seriousness of the deficiency. If bundled resolutions are a repeated practice, Umthombo Wealth will vote against director election subsequent to opposition to the practice being made known to the company.

Umthombo Wealth encourages the monitoring director performance and the role of directors in company performance through all available information (including engagement with the company) and may oppose the re-election of existing directors on the basis of this analysis.

Umthombo Wealth recognises the value of diversity in board strategic decision making as well as risk management. As such, transformation from a racial, gender and age perspective is an important initiative which would generally be supported. Disclosure to shareholders with regard to the extent to which this transformation is integrated into the succession plans of boards is an important avenue for appraisal of risk in this regard. Umthombo Wealth recognises that these imperatives may not be able to be fulfilled in the short term without disruption and related damage to economic interests of shareholders. However, mechanisms should be implemented to expedite the process and ensure minimal disruption.

Outside of their principal commitments, directors should only hold outside directorships to the extent that they do not diminish the ability to appropriately discharge fiduciary responsibility undertaken as director of the company in question. Nomination for election or re-election should be accompanied by full disclosure with respect to the other fiduciary commitments undertaken by the prospective director. A priori, Umthombo Wealth recommends that:

- The Chairman of a JSE/FTSE ALSI100 (''ALSI 100") company should not hold the Chair of any other ALSI100 company, and the chairman of a bank should not hold any other chairmanship positions. A Chairman should hold a maximum of one external non-executive directorship.
- An executive director of an ALSI 100 company should not hold more than one other non-executive directorship.
- A non-executive director, holding no executive positions, should not hold more than 4 ALSI 100 company directorships, and no more than a total of 9 positions with defined fiduciary obligations.

Where these limits are exceeded, Umthombo Wealth should vote against the re- election of the proposed candidate. Where these limits are not exceeded but committee memberships or other fiduciary responsibilities indicate potential risk of over-commitment, votes may be made on a case-by-case basis. Where these limits are not exceeded; but poor attendance (i.e. less than 75%) indicates the possibility of over-commitment, Umthombo Wealth should vote against the candidate.

Board or committee attendance of below 75% should result in Umthombo Wealth withholding its vote for the re-election of that particular director to the respective committee or to the board.

Umthombo Wealth should vote down the election of directors if the governance or accountability policies and procedures of the board or committees are in conflict with the spirit of the proxy voting policy.

The company should nominate directors for election or re-election with reference to their eligibility for office as per the Companies Act.

Remuneration of Directors

King V recommends that the resolutions that are placed before shareholders of companies required to have a social and ethics committee in terms of the Companies Act, table them in accordance with the Act and its regulations. be. The recommended resolutions include separate non-binding advisory votes for the executive remuneration policy and the statutory remuneration disclosures. The contracts proposed for Executives as employees of the company are generally devised by a remuneration committee which may be assisted by external remuneration consultants.

Shareholders are given the right to vote on the introduction or amendment of share-based remuneration schemes for directors. Resolutions are required to authorise the allocation of shares for this purpose or for share buybacks intended to increase treasury stock for the purpose of issuance to recipients of the director share schemes. Appropriate disclosure with respect to remuneration policy is shaped by the requirements of the Companies Act, the JSE Listing Requirements and King V.

Prior to expressing our views relating to particular features of remuneration policies as they relate to proxy voting, it is valuable for us to define a remuneration governance framework which we would broadly support:

- Understandability around the basis for and structure of executive directors' remuneration
- Understandability around the basis for fees for non-executive directors including appropriate features of a fees-based remuneration framework
- The quantum of directors' fees
- The quantum, framework, basis and alignment of executive director fees including base pay, benefits, short term incentives and long-term incentives
- Executive remuneration issues including appropriate levels of disclosure for reasonable judgement to be made, alignment of executive remuneration with defined long-term strategy and with shareholder interests, design and application of option schemes, remuneration committee composition.
- Issues related to voting around the introduction of share-based payment schemes

Umthombo Wealth generally accepts the logic indicating that the quantum of remuneration needs to be sufficient to motivate, attract and retain executives with the requisite skills and experience to deliver on the long-term strategic imperatives of the company. Through the requirements for shareholder approvals around remuneration issues both in terms of quantum and structure, as well as the need for approval around share-based payments, providers of equity capital have a suite of avenues at their disposal to discipline and influence company behaviour in this regard.

Basis & Framework for Executive Remuneration

Umthombo Wealth supports the delegation of decision making around executive compensation to a remuneration committee comprised of a majority (preferably entirety) of independent non-executive directors. This institutional structure mirrors that proposed within the King codes along with a myriad of international counterparts. It is preferable that executive directors are not involved in the proceedings of the committee and necessary that they are absent from discussions of their own remuneration. Where it is deemed appropriate that they attend, this should occur on an invitation basis (not a standing invitation) and invitation should not convey the right to vote.

Remuneration policy and practice should be discharged in compliance with provisions set out in the company's Memorandum of Incorporation, Companies Act and King V.

Continuous undesirable outcomes on remuneration practice call into question the governance function on the remuneration committee and on the board more broadly and as such justify a greater scrutiny around re-election of board and committee members.

Voting on directors' and committee fees that are proposed to shareholders

The fiduciary responsibility of non-executive directors has been estimated to require 40-50 days to discharge in an appropriate manner while Chairmanships require 120-150 days. Umthombo Wealth supports remuneration on non-executives taking into account these requirements with additional benchmarking against companies of a similar size, industry or geographical footprint.

Non-executive director fees should be proposed annually, as opposed to the biannually, as per the legal requirement with the remuneration report providing sufficient detail for shareholders to make informed decisions in this regard. This detail includes the quantum of fees proposed for each different board and committee position.

The fee structure related to committee Chairmanship as well as membership should reflect the time dedication requirement of each respective role.

The remuneration of non-executive directors should be purely fee based to distinguish their incentivisation from executive directors and maintain their independence. Non-executive directors should be excluded from share option schemes and receive no pension benefits or cash compensation related to company performance. Remuneration should be conditional on meeting attendance

Fees for non-executives which fail to comply with the features outlined should be rejected and directors appointed with incentive structures of this kind should be voted down.

Consulting fees, finder's fees, preferentially termed loans or any other remuneration paid by the company to directors should be clearly disclosed even if the amounts are not deemed to be material within the relevant legislation or from an accounting perspective with regard to IFRS.

Voting on remuneration reports for companies that are required to submit them to shareholder advisory vote

Basic Salary Component

Basic salary should adhere to the objective of attracting, maintaining and incentivising a management team sufficiently. Within this context, there should be some reference to basic remuneration levels of companies of comparable size, geographical and business diversity and sector. Where appropriate in terms of rigour of analysis, the use of external consultants is encouraged. Internal disparity in pay between the highest and lowest paid employees should play a role in defining appropriate pay. The entry level salary paid by the company should be disclosed as part of the integrated report. Inflation along with company performance should be consideration with regard to ongoing increases in base pay.

Pension Contributions

Pension contributions should be linked to base pay in their application and basis. The incentive structures created by pension contributions should be in concert with the broader incentive of alignment of the interests of the shareholders with management.

Fringe Benefits

Umthombo Wealth generally supports full disclosure of any additional benefits accruing to directors on account of the company. These include but are not limited to transport allowances, accommodation costs, relocation costs or any other expenses borne by the company for the benefit of directors. If the use of these benefits is excessive in the context of the other features of total remuneration, Umthombo Wealth should vote against the quantum of remuneration for a particular director or the policy depending on the source of the abuse.

Executive Director Contracts

The key features of the contracts of executive directors should be clearly disclosed within the remuneration report so that a clear understanding of the risks therein can be appreciated by shareholders. Notice periods should be shorter than one year unless there is a reasonable explanation for them to be extended. Features which should be disclosed on pain of a no vote on the remuneration policy include the period, conditions, basis for reward, performance criteria and exit clauses. Umthombo Wealth generally opposes any form of golden parachute for early termination of service necessitated by a takeover or where underwhelming company performance was presided over by the executive. Initial contracts for executive directors should not exceed 3 years with subsequent contracts shorter. The implications of early termination of executive directors' contracts in terms of costs should be clearly delineated in remuneration reports

Short-term performance incentives

Umthombo Wealth is broadly supportive of the remuneration mix being evenly split between base pay, short term performance incentives and long-term share-based incentives. Therefore, while giving companies latitude to incorporate strategic considerations into the remuneration design and allowing for variation defined by actual company performance, our preferable base case is for half of short-term remuneration to be base pay and half short-term performance incentive. Umthombo Wealth would express concern if short term incentives constituted more than half of total remuneration on an ongoing basis. Targets for short term incentivisation should be referenced with internally generated operational targets and set to align the incentives of management to those of shareholders. These targets should be staggered to provide a clearly defined link between performance and remuneration and to mitigate the incentive for excessive risk taking. There are a variety of different targets that may be appropriate depending on industry or company but in general, Umthombo Wealth has favourable views on incentivisation which combines investor return metrics such as total shareholder return with operating metrics such as earnings per share, and non-financial/strategic targets like safety or sustainability metrics, particularly in the short term. Whatever metrics and targets are deemed appropriate by the remuneration committee should be clearly identified and explained in the remuneration report.

Long-term performance incentives and share ownership schemes

Long term incentive schemes are the appropriate arena to align the incentives of management with those of the wider stakeholder base and as such express the strategic imperative of long-term business sustainability. Ultimately this more holistic conception of value creation will support firm value and ultimately, long term investment return. This incentivisation of management is most often achieved through deferred share-based payments. These incentive structures often have costs for the company and should be carefully designed to minimize these.

Umthombo Wealth is opposed to options being awarded to directors at a discount to the prevailing market price irrespective of the vesting schedules attached. Disclosure around option granting should include the number of options granted, the grant date, the life span of grants, the strike price of the options, the vesting schedule if applicable, the directors granted options under the scheme and the potential dilutive impact of the exercise of the options granted in the period and of all the options outstanding.

Umthombo Wealth negatively views the granting of options without disclosure of the fair value of the grants including the assumptions made to come to a calculation of that fair value (for the purpose of expensing). Assumptions relate to expected volatility, expected dividends, risk free rate amongst others. Vesting periods for long-term incentives should be no shorter than 3 years and expiry dates no shorter than 10 years. If differentiated long term incentive structures are proposed to more closely align management incentives to business sustainability these should be supported provided that the mechanisms are well explained and shown to promote alignment.

Block allocations of incentives should be opposed in favour of an incremental approach to alignment of interest taking into account changes to the company and the operating environment. Incentivisation of a long-term nature should incorporate key ESG concerns that create long-term risks and opportunities for the company.

Dividends, Capitalisation Issues, Special Dividends, Odd lot Offers, Share Splits and Consolidations

The Payment of Dividends

Umthombo Wealth would generally be in favour of the payment of dividends by companies, particularly in the case where the opportunity set to which the company is exposed is of an unfavourable risk-return profile. Where a dividend, particularly a special dividend would place undue strain on the company's cash resources or on its capital, Umthombo Wealth will generally oppose that dividend. Heightened scrutiny should be made of companies in industries where capital is integral to sustainable business, where capital requirements are regulated and where capital may be quickly eroded because of the nature of the business or the operating environment (e.g. banks and insurers).

If no dividend is declared, there should be a justification from the company referencing business strategy or historical performance, particularly if the lack of dividend represents a change from previously established practice. Umthombo Wealth should interrogate the reasoning provided.

Where no dividend is declared, reasons should be provided on whether this is justified based on historical performance of the company.

Special Dividends: Share Splits; Consolidations & Capitalisation Issues

Umthombo Wealth should assess the appropriateness of a share split; share consolidation; a capitalization issue or a special dividend proposed on a case-by-case basis. With regard to capitalization issues, consideration should be made of the size of the issue and the incentives created by the structure of the capitalization issue proposed as compared to the dividend offered

Odd lot offers

Umthombo Wealth is broadly supportive of efforts to reduce the administrative costs and burden related to the management of a large population of shareholders with minor shareholdings in the company. As such, Umthombo Wealth would generally support offers and related resolutions, although it should be noted that odd lot offers should still be assessed on a case-by-case basis to ensure that ownership and control arrangements that preceded the offer are not altered by its implementation.

Re-Appointment of auditors

The auditing function is an integral part of the governance process and the primary means of ensuring accountability to shareholders. The external audit to which the company is subjected should be structured so that it is independent, objective and thorough both in its appearance and its reality so that confidence in the reliability of company reporting and therefore in the market valuations is maintained. The legal requirements of the audit function should be clearly stated to have been met. The Companies Act requirement for annual re-appointment of auditors through a shareholder vote is reflective of the importance of auditors in providing an unbiased view of a company's financial position and its performance on cash and an accrual basis. This independence and rigour are of paramount importance with the Audit committee tasked with oversight to ensure that it is maintained. The Chairman of the Audit committee should avail himself to answer shareholders' questions in this regard. Audit committees should therefore be entirely constituted of independent directors. There should be a strong emphasis on financial experience among the members of this committee.

The terms of reference for the audit committee as required by the Companies Act should be clearly outlined in a report as part of the governance statement of the company. This report should include the recommendation to shareholders of an auditor who is independent as well as, where appropriate, the appointment of a lead audit partner for the purpose of facilitating audit rotation and the maintenance of independence. The audit fees should be set in a manner consistent with the maintenance of an arms-length relationship between the firm and the auditor and the quantum and basis disclosed clearly in the audit committees report. Any non-audit services including the remuneration paid on their account should be clearly delineated in the governance reporting. Particular emphasis should be paid to the potential for this remuneration to compromise independence, an issue that should be addressed directly by the audit committee report, particularly if audit or non-audit fees are higher than those evident in the market generally. Our preference is for non-audit related services to be granted to auditing firms not directly involved in providing an audit opinion on the company.

Umthombo Wealth is in favour of appointment of auditors with reference to their capacity to fulfil their duties in an independent and rigorous fashion. Thus, the auditor appointed should have sufficient size, geographical capability and industry expertise and the company’s audit fee should not be so large a proportion of the audit firm’s revenue as to compromise the independence of the opinion. An additional factor we take account of when assessing the appointment of an auditor is the reputational risk associated with the auditor.

Instances resulting in a change of auditor should be clearly explained in the governance reporting. If the auditor has resigned, written certification of a lack of material irregularity should be sought while if the auditor is replaced by the firm itself, opportunity should be granted for the auditor in question to engage with shareholders prior to the approval of such a change. Having said that, Umthombo Wealth generally favours both the rotation of audit firms and that of audit partners to maintain the sanctity of the audit function. These rotation timelines should be clearly defined by policy and rotations not carried out on an ad hoc basis. Rotations should be implemented with the minimum possible disruption to audit integrity with rotation preferably managed through a tender process.

Any qualifications after the fact related to prior years’ financial reporting and the auditing thereof should be clearly disclosed and considered when auditor re-appointment is tabled.

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Remuneration of Auditors

Auditors are in effect employed by shareholders to provide an independent view on the financial statements of the company. Shareholder ratification of auditors' remuneration implies that in terms of experience, expertise and independence, the auditors' performance has satisfied the conditions of their mandate.

The auditor's remuneration is generally agreed between the directors (usually those on the audit committee) and the audit firm. This means that the remuneration may not be put to shareholders as part of a separate AGM resolution. If auditors' remuneration is put to a shareholder vote, several key issues should be considered before assent is granted. Remuneration should be assessed relative to the prior year, considering inflation and relative to a comparator group of companies of similar size or those requiring a similar audit in terms of complexity (benchmark). Audit fees should also be compared across the investable universe against revenue and/or market capitalization. Non-audit remuneration should be at a level where independence of the audit function is not brought into question. Umthombo Wealth would not be in favour of non-audit fees in total being more than half of audit fees. Disclosure of relevant information around non-audit fees, the scope and boundary of non-audit services provided as well as the reliability of prior year audit opinions should also influence the case-by-case analysis of a vote around audit fees.

Placing unissued ordinary shares under the control of the directors

As it stands, directors have to seek annual approval from shareholders for the placement of control of unissued shares of the company to be granted to them. Whereas issuing shares for cash requires a supermajority of votes, authority over unissued shares can be granted with a simple majority. Historical examples are common with regard to the use of shares for acquisitive purposes which are value destructive. As such consideration should be made of several issues in the case-by-case analysis of proxies related to granting control of unissued shares. Umthombo Wealth views unfavourably the granting of unrestricted access to unissued shares to directors if it has the potential to dilute existing shareholders. Control over unissued share capital should only be granted on the basis of a specific resolution with details around the reasons why it is appropriate.

Umthombo Wealth positively views proposals to limit the directors' control over unissued share capital to 5% if directors have a historical track record of unlocking shareholder value, particularly through acquisition. Control over unissued shares related to option schemes or to executive incentives should be pursued through a specific and separate resolution. Share issues such as a takeover defence have the potential to damage the value of pre-existing investors' interests and as such should be opposed.

Renouncement of Pre-emptive rights

Resolutions related to the renouncement of pre-emptive rights grant directors the right to issue shares for cash without having to conduct a rights issue to existing shareholders on a pro-rata basis. Umthombo Wealth generally opposes such resolutions if there is opposition to the granting of unissued shares for cash generally.

Extraordinary Majority Resolutions

Providing directors the authority to issue shares for cash

The right to issue shares for cash by directors should be curtailed to prevent the use of unissued shares as a defence against shareholder activism and dilutes the interest of existing shareholders. Even in the event that the issue of shares is legitimate and supportable by shareholders, this should occur on the basis of specific authority being sought through a vote for a clearly delineated purpose rather than a general provision. The JSE Listing Requirements limits the issue of shares for cash to 15% of issued share capital. Umthombo Wealth believes that this is an excessively generous limit and would oppose the issue of shares for cash beyond a 5% ceiling, and then only if the directors have demonstrated repeated ability to drive shareholder value and a history of accountability to shareholders.

Special Resolutions

Changes to the Memorandum of Incorporation

Umthombo Wealth reiterates the need for the Memorandum of Incorporation to, as far as is practicable, be written in simple, understandable language free from unnecessary legal jargon which may limit the ability of shareholders to interact with the document.

Proposals for changes to the Memorandum should be clearly communicated to shareholders who should be provided with the full text as amended both on the company website and on request.

Memorandum changes are necessarily only reasonably considered on a case-by-case basis, but some general guidelines exist to define Umthombo Wealth’s view.

Introduction of new share classes and debt instruments

The issue of different share classes has been used historically to consolidate the voting power and thus the control of companies in the hands of established interest groups to the detriment, particularly, of minority shareholder interests. The concern stems from rights which entrench control structures which deviate the company strategy from that of investors providing capital. There is a particular risk of take-over defences being put in place by owners of higher voting class shares to the detriment of other providers of capital. This could also diminish accountability of management and the company more broadly to the wider shareholder base. These may not be relevant in specific circumstances and thus, proposals for the introduction of new classes of securities should be assessed individually.

Umthombo Wealth is willing to consider the issue of multiple classes of shares is there is a defined timetable for conversion of these structures to ordinary shares in an acceptably short period of time. Although the general unfavorability of differentially voting share classes is clear, it is possible that circumstances could justify a temporary relaxation of this view. A drastic change in share ownership such as a BEE transaction or a large increase in free float of a historically closely held share (e.g. a family-controlled business) may in some cases only be possible if an interim arrangement on multiple share classes is reached. In such cases, temporary allowance is preferable in pursuit of value unlock or necessary empowerment imperatives.

Umthombo Wealth should consider on a case-by-case basis proposals to amend the Memorandum of Incorporation to allow for the introduction of debt instruments.

The facilitation of dematerialisation

Umthombo Wealth should support resolutions that facilitate the electronic transferor shares under STRATE.

Changes to the Memorandum of Incorporation that enable share repurchases

Umthombo Wealth generally views favourably resolutions to enable share buybacks to occur.

Umthombo Wealth should vote against amendments that enable buybacks where the permission for share buy backs of a particular share class are not dependent on the assent of shareholders within that class. The buy backs should not contravene any of the prescripts outlined in the commentary around the issue elsewhere in this document.

Changes in the board size and eligibility of directors

The Memorandum of Incorporation determines both the minimum and, in some cases, the maximum number of board members, qualifications of directors (retiring ages), the procedure and rules relating to alternate directors, and the powers of the directors. The company is bound by its Memorandum of Incorporation, which in turn have to adhere to the provisions of the Companies Act.

As the alterations in respect of this section can be diverse, they will be assessed on an individual basis with reference to appropriate legislation and both international and local best practice codes. Umthombo Wealth would generally support a board size of between 13 and 18 members with potential deviations based on company size, structure, geographical and business line diversity and complexity. Umthombo Wealth is broadly supportive of a mandatory retirement age of 75 years. This is subject to change over time and subject to case-by-case analysis particularly with regard to the nature of the succession plan of the company.

Initiatives to improve board functioning

Resolutions for the use of technology to enhance the participation of board members in meetings thus allowing an increase in the frequency thereof would generally be supported by Umthombo Wealth. These may include the use of video conferencing or teleconferencing to allow meeting "attendance" where this may not have previously been possible and the use of technology for board members to gain information on the company to enhance their strategic insight or monitoring capability. It should, however, be recorded on the director attendance records whether they attended the meeting in person or by teleconference or video conference. Meetings by teleconference or video conference should only be held, however, in exceptional circumstances. Continued non-physical presence at board meetings is not considered to be acceptable.

Initiatives to improve shareholder consultation and voting

Umthombo Wealth will oppose any clauses that require the appointment and vote by proxy to be submitted more than 48 hours before the meeting. Umthombo Wealth supports the voting of all resolutions by poll. Umthombo Wealth will oppose clauses that prohibit proxy holders from raising issues at meetings.

Directors' Indemnification

The legal basis to pierce the corporate veil has been increasingly established both globally and in South Africa in recent year. Given this development, there is an emerging trend of company resources being deployed to indemnify employees, directors or auditors against personal liability from legal proceedings which they successfully defend. In some cases, employee liability has been extended to any action taken on behalf of the company which does not result from negligence or dishonesty.

The evaluation of this issue should be understood in the context of the ability to suitably attract skilled and experienced employees and prescribed officers while leaving them to source expensive indemnity insurance privately. Here may be an unintended consequence of a greater wage or director fee bill in this context.

Thus, these prescriptions should be assessed case-by-case with particular attention paid to the details of the language used to describe the boundaries of liability between the company and the individual director.

In general, Umthombo Wealth should be cautious when considering changes that bind the company to indemnification of directors, other company officers, and employees of the company's auditors. Umthombo Wealth should assess whether an indemnification statement is appropriate, or whether the company should commit to the payment of indemnity insurance for its directors. An advantage of insurance by a third party relative to on balance sheet insurance is that premiums will be determined by the third party's assessment of governance risks. This is in the interests of shareholders as it provides a financial incentive for the company to improve governance and risk management.

Amendment of clauses relating to the borrowing powers of directors

A balance needs to be made between the board's ability to raise debt for expansion and the board putting the company at risk through getting into a situation where the company cannot repay its debts.

Clauses that enable electronic communication and voting

To ensure that shareholders rights are enhanced while at the same time the efficiency and cost effectiveness of company decision making is not impaired Umthombo Wealth generally supports that suitable mechanisms should be investigated to streamline communication and the time consuming and paper intensive process associated with voting. Particularly, Umthombo Wealth is supportive of mechanisms that can be employed that will enhance communication between companies and their shareholders, particularly initiatives that can improve the efficiency of gaining shareholder consensus. These should, however, be subject to standards set by the Department of Trade and industry and the JSE Securities Exchange.

Introduction of share option schemes

Umthombo Wealth does not believe that alignment of management's interests to those of the shareholder is as easily achievable as simply allocation of share options in lieu of long term pay. Consideration must be made of the fact that option valuation is enhanced by volatility of share prices. In the event that this encourages management to act with insufficient attention to risk management, it would not be an appropriate incentive structure given shareholders' interests. Shareholders are best served by a stable upward trend in share prices. Remuneration excessively tied to share price performance may in this case induce excessive risk.

In addition, while shareholder returns are enhanced by dividend payouts, those of option holders are not. In fact, option value may be compromised by the impact on share prices of dividend declaration. As such, excessive focus on option-based remuneration potentially exposes shareholders to skewed incentives on the part of management in terms of retaining capital within the business and therefore to risks of undesirable deployment of that capital. Where share price performance is influenced exogenously from executives' sphere of control, option granting may dis-incentivise management from pursuing sustainable long term business strategy.

As such the design of option granting structures should be the subject of significant importance in eliminating agency costs to the shareholders. In particular, there should be a clearly defined link between corporate performance and awards, with particular attention to transparency and understandability in the disclosure within the remuneration report. The option conditions should be set at a sufficiently challenging level to drive superior company performance given the context of the industry and the company's operational and financial history or any other relevant benchmark. Option granting disclosure should include graduated performance conditions including the justification of these, the costs involved, the maximum quantum of remuneration defined by the structure and the levels of dilution implied by different levels of company performance particularly the maximum and minimum dilution.

Umthombo Wealth generally views efforts to ensure that the options-based remuneration schemes are tax efficient favourably. Having said that, any measures taken in pursuit of this objective should be explained in detail and shown clearly not to be to the detriment of shareholders' economic interests or the alignment of management and shareholders' interests. Ceteris paribus Umthombo Wealth supports simple tax efficiency measures over those which are more complex. A new scheme or change to an existing scheme should be clearly communicated to shareholders clearly prior to the meeting on pain of a "no" vote.

As indicated elsewhere Umthombo Wealth opposes any alignment of the incentivisation of executive and non-executive directors. This extends to opposition of option granting to non-executives. It is imperative that all the beneficiaries of a proposed scheme are clearly delineated. Umthombo Wealth generally opposes the use of more than 10% of the total issued share capital of a company for existing share option schemes and will vote against the use of more than 5% of the issued share capital in senior executive remuneration option schemes. Umthombo Wealth opposes allocation of more than 1% of issued share capital to an individual. Scheme trustees should be entirely consistent of independent persons as a stated policy. As such, Umthombo Wealth would vote against executives, employees or service providers to the company serving in this capacity. Umthombo Wealth favours option vesting periods longer than 3 years and expiry dates shorter than 10 years.

Umthombo Wealth requires all terms of loans granted to employees to be clearly stipulated before assent is granted to option schemes. Umthombo Wealth generally requires that options granted to any individual employed by the company to be automatically cancelled should employment end (besides in the case of disability, retrenchment, retirement or death). This requirement will be applicable to all unvested options and any loans attached to option grants as part of the structures should also be recalled. Umthombo Wealth opposes any option scheme which does not include incentivisation for employment of the recipient for more than 3 years. Umthombo Wealth favours option schemes for alignment of shareholder and management interest as part of a broader push towards shareholder activism.

Schemes with any intentions of potential consequences compromising shareholders' interests should be opposed. Option schemes should clearly disclose clauses that are triggered in the event of change of control. Umthombo Wealth generally favours a pro-rata calculation based on performance and option duration, the details of which should be clearly explained.

Authority to repurchase shares

Share repurchases are generally viewed positively given that they are generally viewed as a shareholder value unlocking initiative which is tax efficient. Having said that, issues around changes in control as well as tradability require closer scrutiny prior to blanket assent for these types of resolutions. Share repurchases which drastically curtail the liquidity of a security would generally be viewed negatively by Umthombo Wealth. This requirement protects existing shareholders from a liquidity discount being applied to holdings, particularly in investee companies or those with an already closely held shareholding. Where permissions for repurchases of multiple share classes are sought as part of a single bundled resolution, Umthombo Wealth would recommend voting to oppose it. Share repurchases should be conducted on a pro-rata basis to maintain existing control arrangements, particularly given holding company or other corporate control arrangements. Umthombo Wealth would consider voting against share repurchases where public ownership represents less than 50% of shares in issue and especially when share repurchases would have a negative impact on the share's free float.

JSE Listing Requirements impose a ceiling of 20% of issued share capital for repurchases. Umthombo Wealth believes scrutiny is necessary for all repurchases irrespective of the size. Umthombo Wealth is of the view that currently proposed repurchases should be viewed for voting purposes in the context of the value unlock provided by previous repurchases. Share repurchases for the purpose of odd lot offers would generally find support from Umthombo Wealth.

Umthombo Wealth will vote against any repurchase where there is disagreement with the structure, conditions and method of allocation of the share option scheme. The negative vote in this respect is complementary to a negative vote against the issue of shares to the share incentive scheme in such an instance, as share repurchases will increase the number of treasury shares that could be used to allocate to option holders

Corporate Actions

Umthombo Wealth will assess all proposals that relate to specific corporate actions such as mergers, the unbundling of assets, takeovers, name changes etc. on a case- by-case basis.

Should Umthombo Wealth have significant objections, and there be reason to believe that long-term shareholder interests have been compromised by such actions, Umthombo Wealth should consider voting against the resolution.