Vunani Fund Managers

Proxy Voting Policy

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VUNANI FUND MANAGERS

1. GENERAL

Vunani Fund Managers' (VFM) Proxy Voting Policy ("The Policy"), read together with client stipulated guidelines and VFM Responsible Investing Policy, outlines voting procedures on company resolutions on behalf of the clients. The Policy is supported by VFMs commitment to advocate for good corporate governance principles in investee companies and it forms part of VFM's broader Environmental, Social and Governance (ESG) responsibilities. VFM endorses the King IV Corporate Governance Code and supports the UN Principles for Responsible Investing (UNPRI) and the South African Code for Responsible Investing (CRISA).

VFM manages assets on behalf of its clients, and it understands fully the responsibility placed upon it in exercising voting rights on behalf of clients. Our overriding principle when voting is that we act in the best long-term interests of our clients to maximise investor value. Proxy statements increasingly contain material issues involving investor rights and corporate governance, among others, which deserve careful review and consideration. VFM views its responsibility to exercise voting authority over securities that form part of its clients' portfolios seriously. VFM maintains accurate proxy voting records and reports are sent to clients on request and published on VFM's website.

In the key proxy voting guidelines that are given below, the word 'share' is to be used interchangeably with 'unit', 'preference share', 'warrant', 'debenture' and 'bond'. The word 'director(s)' refers to both executive and non-executive directors, except where specific reference is made to independent directors.

The rest of this document is organised as follows:

- Section 2 pertains to board composition.
- Section 3 refers to the remuneration of directors.
- Section 4 pertains to financing.
- Sections 5 and 6 list additional guidelines.

2. DIRECTORATE COMPOSITION

VFM strives to ensure that companies are headed by effective boards. Directors should act in the long-term interests of the company, its shareholders, and stakeholders. All directors are responsible for the actions of the board, and all are equally accountable to shareholders and stakeholders.

2.1 Election of directors

VFM to be cognisant of:

- electing directors by means of individual resolutions (as opposed to a collective resolution), with a detailed CV in the notice of the AGM.
- the effectiveness of the board when electing directors.
- annual elections as opposed to "staggered" election procedures.
- the knowledge, skills, resources, diversity, and demographics of the overall composition of the board
- the number of other board (or similar) positions held by directors as well as board committee responsibilities.
- the relevant experience of new directors proposed. VFM should encourage companies to send their new directors on board-orientation and development programs where necessary.

- the past attendance record of directors. It is recommended that the board meet at least quarterly and attend the annual general meeting of shareholders.
- whether the attendance register of board meetings is published in the company reports
- the fact that King III advocates that a third of directors retire each year.
- there be a process of retiring by rotation, with those longest in office retiring first.
- the financial performance of the company during the director's tenure on the board
- the fact that each candidate should have appropriate skills that complement rather than duplicate the existing skill set on the board.

<u>VFM to vote as follows:</u>

- oppose the voting of investment team members (analysts, portfolio managers, CIO) that have an interest in the company onto the board of listed companies. The insider trading rule must be adequately applied.
- oppose the election of a director with a poor meeting attendance record, even with apologies given.
- oppose the election of a director with more than ten years on the board (interrupted or not) without motivation of the director's independence or considering whether he/she is a founding member, part of a founding family or a previous executive member, allowing him/her to add experience to the board.
- oppose voting in favour of approving the board collectively and not individually.
- oppose voting in favour for directors that are the chairman/women of more than one board.
- consider opposing voting in favour of directors that have more than 4 directorships (not including executives that chair the boards of subsidiaries) or serve on numerous board committees.

2.2 Independent directors

<u>A director is independent if he/she:</u>

- is not a representative of a shareholder who has the ability to control or significantly influence management.
- has not been employed by the company or the group of which it currently forms part for the preceding three years.
- is not a member of the immediate family of an individual who is or has been in any of the past three financial years employed by the company or group in an executive capacity.
- is not a professional advisor to the company or group, other than in a directorship capacity.
- is not a significant supplier to or customer of the company or group or is a director or employee of the group.
- has no significant contractual relationship with the company or group.
- is free from any business or other relationship that could be seen to interfere materially with the
- individual's capacity to act in an independent manner.
- is not disqualified because of the length of service.

<u>VFM to be cognisant of:</u>

- whether non-executive directors are involved in day-to-day company management and are full- time salaried employees of the company or its subsidiaries. Negative replies to both are preferred.
- the boards or the appointed nominations committee responsibility to ensure the fit and proper status

of a director with respect to the JSE Listing Requirements, the Banks Act, the Companies Act, and the Financial Advisory and Intermediary Services Act

- whether board membership is comprised of a balance of executive directors (who have in-depth knowledge of the firm) and non-executive directors (who have broad experience and can act independently).
- whether the board is comprised of a majority of non-executive directors, with most of these directors being independent. It is in the best interests of all stakeholders that there be a strong core of independent board members, with a preference for more independent non-executive directors.
- whether previous executive directors are a small percentage of independent non-executive directors.

<u>VFM to vote as follows:</u>

- support resolutions that may lead to an increase in the number of independent non-executive directors, preferably leading to a majority of independent directors.

2.3 Separate CEO and chair positions

<u>VFM to be cognisant of:</u>

- the board's role in holding executive management accountable. The board’s chairman should be separated from operational responsibilities. The motivation for this is that there should be a clear distinction between management and the supervision of management, and between setting the strategy and executing this strategy.
- the number of chairmanships held in total at other firms, with a preference for one in total.

<u>VFM to vote as follows:</u>

- support the election of an independent non-executive chairman so that the board represents the interests of shareholders and stakeholders, not executive management. Reasons for non- separation of these positions should be carefully examined and this decision should be justified each year in the annual report.
- support the appointment of a lead independent director to the board where an executive chairman is appointed or where the chairman is not independent or is conflicted.

2.4 Audit committee.

<u>VFM to be cognisant of:</u>

- the formal terms of reference detailing the function and responsibilities of the committee.
- whether the committee is made up of only independent non-executive directors, with the requisite expertise, resources, and experience.
- whether the committee includes at least three independent non-executive directors.
- whether the committee meets at least twice a year.
- whether the committee is comprised of at least three members.
- whether the external auditors of the company can hold discussions with the audit committee without any member of management being present
- whether the chairperson of the committee, to be appointed by the board, is an independent non-executive director who is not the chairman of the board, whilst taking account of our own assessment of the independence of the appointee.

- whether the company secretary shall be the secretary of the committee.
- whether audit committee members were senior members of the audit firm of the company

VFM to vote as follows:

- oppose the election of directors who are not independent or who are not deemed independent.
- oppose the election of directors with recent relationships with the audit firm.

2.5 Remuneration committee

VFM to be cognisant of:

- the formal terms of reference detailing the function and responsibilities of the committee.
- whether this committee is comprised of at least three members.
- whether the majority of members are independent non-executive directors
- whether the committee meets at least once each year.

VFM to vote as follows:

- oppose the election of executive directors onto this committee that would result in the committee not comprising a majority of independent non-executive directors.
- support the election of an independent chairperson, even if this is the chairperson of the board.

2.6 Nominations committee

VFM to be cognisant of:

- whether such a committee exists, except if the company is small.
- the formal terms of reference detailing the function and responsibilities of the committee.
- whether the majority of directors are non-executive and independent
- whether the committee meets at least once a year.
- whether the appraisal of the board and its directors (by the nominations committee or as a self - evaluation) is conducted at least annually.
- whether there is a formal mechanism that allows shareholders to nominate candidates for the board.

VFM to vote as follows:

- oppose the election of executive directors onto this committee.
- support the election of the chairperson of the board as the chairperson of the committee, provided he/she is an independent non-executive director, failing which an independent non-executive director should be appointed.

2.7 Indemnification

VFM to vote as follows:

- support a company committing funds to indemnify any person employed by the company against liabilities incurred when defending any proceedings against him/her. The wording of such clauses needs to be very clear, as there is often a fine line between losses that are a result of “errors in judgement” and losses that are owing to gross negligence, which may arise from failure to conduct proper due diligence or to implement control systems.

3. APPROVAL OF REMUNERATION POLICY AND INPLEMENTATION REPORT

3.1 Remuneration of executive directors

VFM to be cognisant of:

- whether levels of remuneration are sufficient to attract, retain and incentivise directors.
- whether all aspects of directors' remuneration are determined by an independent and properly constituted remuneration committee.
- whether there is detailed disclosure of director and employee compensation, particularly where the company does not have a majority independent board.
- whether compensation is reasonable, especially with respect to:
    - total compensation to CEOs per annum
    - "Golden parachutes" for early termination of service or if triggered by a handover/change in control or lengthy notice periods for executives.
    - executive severance package (particularly where the company performance was poor during said executive's tenure).
    - Claw-back and Malus provisions (long and short-term incentives)
- whether there is adequate reporting and explanations of executive severance pay
- whether remuneration is capped where share options have been issued, since these do not carry the same downside risk faced by a shareholder in the company.

VFM to vote as follows:

- oppose re-election of the remuneration committee in instances of poor corporate governance
- oppose the issuance of share options to non-executive directors because of guidelines within the King Code
- oppose compensation deemed excessive and not in line with company performance and the individual performance of the director.
- oppose executive service contracts that are not accompanied by detailed disclosures pertaining to period, conditions, basis for reward, performance criteria and exit clauses.
- oppose the endorsement of the remuneration report if the company does not meet the requirements of 3.2 to 3.4.

3.2 Performance incentives

VFM to be cognisant of:

- the fact that share options do not align management to the downside risks faced by shareholders. As a result, we prefer share schemes over share option schemes.
- the dilution effect of share schemes and share option schemes (limited to 10% shares in issue) and the spread of the options or shares within the company.
- performance incentives that are aligned with shareholder value creation, including but not limited to:
    - social and environmental concerns (for example, does the company use substances that pose an environmental, health or safety risk to a community in which it operates?)
    - issues related to HIV/AIDS, healthcare, and safety.

- empowerment advancement
- ethics and corporate reputation.

- the need for at least 75% of the CEO, CFO and EXCO (if applicable) performance incentives to be related to objectives that are clearly measurable.
- Claw-back provisions absent from remuneration policy.

3.2.1 Short term performance incentives

VFM to be cognisant of:

- the establishment of upper limits for these incentives
- the KPAs being appropriate to ensure value creation for shareholders.
- the targets that need to be achieved (a balanced mix between earnings and return measures)
- targets and measures that are not adjusted to consider impairments, acquisitions and divestments.
- KPAs that reward management for performance that they don't control.
- assessments of the targets achieved.
- overall performance of the company sensitivities to conditions elsewhere in the firm.
- preference for short term incentive that have a component that are deferred into forfeitable shares for executives.

VFM to vote as follows:

- oppose resolutions where performance targets are not clearly disclosed or are deemed to be undemanding.
- oppose awards deemed to be excessive. Specifically, we will not approve of any short-term incentive that constitutes more than 200% of the annual fixed salary.

3.2.2 Long-term performance incentives

VFM to vote as follows:

- oppose remuneration:
  - where non-executive directors are included in the share or share option schemes
  - that do not disclose the dates of issue, number of share options/scheme shares issued, the times to expiry and exercise prices.
  - where share options have been issued with an exercise price at a discount to the market share price
  - where share options have been issued with vesting periods of fewer than three years and expiry dates of more than ten years
  - where the awards are not based on clearly defined performance targets
  - where participants of the scheme do not forfeit all options that have not vested if they leave the company, unless this is owing to ill health, retirement, retrenchment, or death.
  - where the trustees of the share scheme are not independent
  - where the rules of the share scheme allow trade in the options
  - where the scheme potentially dilutes value significantly for existing shareholders.
  - where no claw-back and malus provisions are disclosed
  - where no alignment between the KPI targets and strategy of the company is present
- oppose resolutions to re-price options at a discount, considering, however, that not re-pricing these options could result in misalignment of management and shareholder interests.

3.3 Remuneration of non- executive directors

VFM to be cognisant of:

- no incentives or share options being issued to non-executive directors.
- the fee being split between a fixed fee and an annual retainer.
- instances where a consulting fee is being paid to a director that could compromise his/her independence.
- whether non-executive directors are paid primarily in cash, and if shares are incorporated into their remuneration, then whether the vesting periods are at least three years.
- the absolute amounts given the size and performance of the company.
- the increase relative to the previous year.

3.4 Remuneration policy and remuneration implementation report

VFM to vote as follows:

- oppose any remuneration policy and implementation report that does not disclose the following:
  - all benefits paid to directors.
  - all benefits paid to prescribed officers.
  - the policy on base pay.
  - participation in share incentive schemes.
  - the use of benchmarks.
  - comparator companies for benchmarking.
  - incentive schemes used to encourage retention.
  - justification of salaries above the appropriate median.
  - material payments that are ex-gratia in nature.
  - policies regarding executive employment the maximum expected potential dilution.
  - clear measurement of targets that were met to justify the performance incentives.
  - minimum shareholder requirements for executives.

4. FINANCING

The equitable treatment of shareholders/investors, in particular, minority shareholders/investors, is one of the foundations of corporate governance. We highlight the following key areas:

4.1 Control of unissued shares

VFM to be cognisant of:

- resolutions tabled, and disclosure made in respect of the control over unissued shares and the conditions pertaining to the issuance of new shares, requiring specific motivation for each.

VFM to vote as follows:

- oppose such resolutions as a result of the dilutionary effect on existing shareholders (if more shares are issued)
- oppose the granting to the board of authority over treasury shares. These shares should be excluded from the voting process to ensure that the board is seen to act independently and that share buybacks are done in the interests of shareholders, not those of executive management. This includes treasury shares warehoused in independent companies or subsidiaries.

- oppose the granting of control of more than 5% of shares without specific motivation.
- approve the issue of shares if awarded for previously approved share schemes.

4.2 Authority to issue shares for cash

VFM to be cognisant of:

- The existence of a requirement for a separate resolution at the time of any further issue, with the appropriate motivation provided by management.

VFM to vote as follows:

- oppose these resolutions, as any further issuance of shares would dilute existing shareholders.
- support the issue of shares required for BEE deals.

4.3 Authority to repurchase shares

VFM to be cognisant of:

- the impact of share repurchases on:
  - the "free float" of the company
  - potential earnings enhancements for the firm
  - non-controlling interest shareholders (due to the effective increase in ownership of the firm by a majority shareholder).
  - Financial position of the company and future capital expenditure requirements

VFM to vote as follows:

- support share repurchases:
  - done on a pro-rata basis when a controlling shareholder exists.
  - applied equally across all classes of voting shares.
  - where the board may not claim the proxy vote rights relating to treasury shares
  - where the repurchase does not impact negatively on the capital structure of the business
  - where the repurchase does not increase the financial risk in the company to unacceptable
  - levels.
- oppose share repurchases where these could have a material negative impact on liquidity and hence could affect the share's rating.
- oppose the share repurchase of more than 10% of shares without specific motivation in companies with low liquidity.
- oppose share repurchases in companies with large controlling shareholders.

4.4 Dual capitalisation and preferential voting rights

VFM to vote as follows:

- oppose proposals to divide share capital into two or more classes, or to otherwise create classes with unequal voting and/or dividend rights.
- oppose proposals to disapply pre-emption rights.

4.5 Dividend (and special dividend) policy

VFM to be cognisant of:

- the fact that dividends form a crucial part of returning cash to shareholders.
- whether the dividend policy is appropriate and well-motivated.
- the consistency and transparency of the dividend policy.
- whether a dividend payment will put undue strain on the cash resources and capital base of the company.
- the fact where no dividend is declared, reasons should be provided on whether this is justified, based on company performance.

VFM to vote as follows:

- support capitalisation issues (dividends paid in shares), provided the company offers a cash dividend as an alternative.
- support the declaration of a final dividend, where the company has sufficient cash to do so.

4.6 BEE deals

VFM to be cognisant of:

- whether the BEE partner(s) is clearly identified, profiling not only the investment company, but also the persons involved in that company.
- whether a copy of an independent auditor's report has been presented, detailing the financial effects of the transaction.
- whether a copy of the fair and reasonable statement of an independent opinion has been presented, as per JSE listing requirements.
- whether the BEE partner(s) must remain classified as BEE entities during the term of the agreement.
- whether the BEE partner is entitled to board representation.
- whether all parties to the deal have made available their:
    - memorandum of incorporation
    - audited financial statements.

VFM to vote as follows:

- oppose a transaction that is not in compliance with the relevant industry charter and the BEE codes of good practice published by the Department of Trade and Industry.

4.7 Shares in related entities

- Where a client's segregated portfolio holds shares in Vunani Limited or related company we will abstain from voting our shares. Where a client's segregated portfolio holds shares in its parent or related company, we will abstain from voting our shares.

5. ADDITIONAL GUIDELINES

5.1 Shareholder meetings

VFM to be cognisant of:

- whether shareholder meetings are to be held during normal business hours
- whether the notice of any shareholder meeting states, in clearly understandable language, the purpose and effect of every resolution to be voted on.

VFM to vote as follows:

- support a notice period of at least 21 days for any shareholder meeting.

5.2 Appointment of auditors

Auditing is a fundamental element of accountability to investors. The audit process must be objective, rigorous, and independent to maintain the confidence of the market.

VFM to be cognisant of:

- any issues that could impair or could have impaired the independence of the audit firm,
- whether the auditor is in the employ of management
- whether the fees paid to the auditors are reasonable relative to the size and complexity of the audit
- whether there is disclosure of non-audit services and the size thereof relative to the audit fees
- whether there has been an audit failure in the company's history
- whether the audit firm shows the necessary commitment towards social transformation
- tenure of audit firms and audit firms need to be rotated every 10 years.
- whether there is a rotation of the audit partner (every five years).

5.3 Independence of auditors

VFM to be cognisant of:

- any issues that may have compromised the audit firm's independence and objectivity with respect to the company over the past year, particularly whether any non-audit work may have impacted on the independence of the audit.

5.4 Remuneration of auditors

VFM to be vigilant concerning auditors' fees. VFM needs to encourage companies to disclose a split in auditors' fees between audit fees and other fees for non-audit services.

5.5 Share splits and consolidations.

VFM to vote as follows:

- oppose such resolutions unless:
  - they are properly motivated.
  - the share split does not turn the share into a "penny stock" (a share value of less than R2 per share)
  - the consolidation is not likely to impair trade and liquidity in the share.

5.6 Odd lot offers.

VFM to vote as follows:

- support odd lot offers that clean up the share register and reduce the company's administrative costs, provided that the offer:
  - is made at a fair market price (A premium of ten percent above ruling price as guideline for lot offers.)
  - is not timed to take advantage of a temporary setback in the share price.
  - does not result in a change in control or significant influence.

5.7 Changes to the articles of association and approval of new Memorandum of Incorporation (MOI) in terms of the new Companies Act

VFM to vote as follows:

- support resolutions to change the articles of association when the reasons for such changes are properly formulated. The approval of a new MOI must not dilute the shareholders' rights from previous arrangements.

5.8 Loans to related parties

VFM to vote as follows:

- support such resolution, provided:
  - it excludes loans to directors and companies related to the directors, unless the loan is made to a subsidiary of the company, or an approved share scheme of the company directed at employees of the loan entity.
  - the resolution states clearly that it is granted in the best interests of the firm, and/or is fair and reasonable to the firm.

5.9 Environmental hazards

The public has a right to know whether a company uses substances that pose an environmental, health or safety risk to a community in which it operates.

VFM to vote as follows:

- support resolutions that ask for the adoption of a policy that makes information available to enable the public to assess a company's potential impact.

5.10 Environmental reports

VFM to vote as follows:

- support resolutions asking companies to prepare general reports describing environmental management plans. It should also encourage companies to disclose current or potential environmental liabilities. Emphasis should be given to pollution prevention and reporting, use of renewable fuels, greater use of recycled materials in products and packaging, and energy efficiency.

5.11 Empowerment/equality

VFM should encourage the development of an employment equity plan and reporting on empowerment, with specific focus on:

- shareholders
- the board of directors
- executive and senior management
- the labour force.
- suppliers and contractors.

5.12 HIV/AIDS

VFM should encourage reporting on HIV/AIDS with respect to:

- companies declaring their AIDS policy and strategy with respect to their workforce.
- education of staff
- community education
- recruitment policies
- treatment of infected staff
- long-term strategic planning to combat the disease.
- potential future liabilities because of the disease.

6. Disclosure of voting records

VFM in compliance with the UNPRI and CRISA principles of responsible investment publishes our proxy voting records on our website. Our voting records are also available on request.

7. Controls to ensure voting according to this policy.

A senior portfolio manager will ensure that all voting is in line with this policy and needs to sign all proxy voting documents. A senior portfolio manager must also review quarterly reporting to ensure that the voting was carried out in accordance with this policy.

8. KING REPORT ON CORPORATE GOVERNANCE

VFM supports the principles and intentions as laid down in the King IV Report on Corporate Governance (a report by the Institute of Directors in 2017), the Companies Act and JSE listing requirements. We also support and align our policies according to international best practice. Where issues arise that are not addressed or are insufficiently covered in this policy, VFM will be cognisant of the principles and intentions of the King IV Report on Corporate Governance and other international guidelines and principles.