Proxy Voting Policy

March 2020

Introduction

This policy sets out Matrix Fund Managers' guidelines for the consideration, process and implementation of voting shareholder resolutions.

The overriding principle we apply when voting is that we must act in the best interests of our clients to maximise long-term returns.

In general, we will vote all of our proxies, regardless of the position's weighting as a percentage of shares in issue. This document specifies guidelines for fulfilling our fiduciary duty to the beneficial owners of the shares we hold, supporting the use of our discretion in examining each resolution offered, while considering the context within which it applies.

Therefore, there may be instances where shares may not be voted in strict adherence to these guidelines. We believe this is best aligned with our client's interests, as the materiality of resolutions on our realized returns and therefore, impact on client portfolios, is the ultimate consideration in the exercising of our fiduciary duty.

Guidelines

Board composition and directorship

Each proposal on Board composition will be considered in the context of the individual company's overall governance framework; performance history; effectiveness of the board as a whole; delivery on previous performance KPIs on an individual basis as well as relevant experience of new directors proposed.

- Independent directors
    - Board membership should be diverse across race, gender and qualifications, be comprised of a balance of executive and non-executive directors who have broad experience and are able to act independently. We support resolutions that lead to a majority composition of independent non-executives.
    - Board membership exceeding ten years will, in general, be considered non-independent.
    - We will consider opposing the appointment of directors who:
        - Has any business, or other relationship with the company or group which could be seen to materially interfere with his/her ability to act independently,
- Separate Chief Executive Officer and Chairman
    - We support the election of an independent, non-executive Chairperson so that the Board represents the interests of shareholders, rather than the executive management and in keeping with the JSE Listing Requirements (Continuing Obligations), which requires a separation of roles.

  - We will oppose the proposal that the Chief Executive Officer take up the position of Chairperson following retirement.
- Re-election of directors
  - We believe Board members should: be held accountable for the company performance and should retain liability; be responsible for providing strategic direction; retain full and effective control; identify and monitor key risks, while complying with relevant laws and regulations. In the event any Board member(s) are found in negligence of the above duties, we will oppose their re-election.
  - In general, we will consider opposing resolutions that re-elect a number of directors en bloc in favour of resolutions advocating for re-elections or appointments on an individual basis.

Corporate actions

Share capital

- General authority to place unissued shares under the control of the directors or issue shares for cash
  - We will consider opposing resolutions that place an unlimited amount of unissued shares under the control of the directors, or issuing shares for cash, particularly if there is a risk of further issues diluting the existing shareholders' value.
  - Any such actions should rather be specifically motivated to shareholders by calling a general meeting as and when required.
  - We generally support issuance or placement of up to 5% of shares in issue.
- Authority to repurchase shares
  - We will support share repurchases that are deemed to enhance shareholder value. We will consider opposing resolutions that allow share repurchases which materially impact on the 'free float' of the investee company.
  - We will oppose share repurchase proposals deemed a means to frustrate or enforce corporate actions, or which will result in prejudice to different classes of shareholders.
- Dual capitalisation, preferential voting rights
  - We will consider opposing proposals to divide share capital into two or more classes or to otherwise create classes of shares with unequal voting and/or dividend rights on the basis that the effect of these proposals, over time, is to consolidate voting power in the hands of relatively few insiders which power is disproportionate to their percentage ownership of the company's share capital as a whole.
- Any potential dilution of shareholder funds or equity should be limited and the maximum possible dilution should be disclosed.

B-BBEE Schemes

- On a case-by-case basis, we will support the execution of B-BBEE transactions with sound investment cases and which do, in practice, enable long term broad-based empowerment.
- As such, we are supportive of B-BBEE transactions, with further requirements that sale of equity can only be undertaken to suitably qualified BBBEE parties.
- We support the development and implementation of B-BBEE employment equity plans.

Corporate governance recommendations

Shareholder treatment

We support the implementation of structures and practices established within a company to safeguard shareholders' interest – particularly those of minority shareholders - and which enable informed voting.

As such, we guide for the following treatment of shareholder capital:

- We prefer that share repurchases, affecting both high and low voting shares, be proposed on a pro-rata basis.
- High voting class shares may not be used to vote on proposals that will dilute low voting class shares.
- Where preferential voting rights are embedded in the structure, any shareholder resolution that affects the interest of all shareholders should be passed upon the requisite majority being achieved in all (voting) classes of shares.
- Where there are directors who are major shareholders, we will advocate they be precluded from voting on matters which materially affect their shareholding.

Executive Remuneration

We consider Executive Remuneration to be one of the single biggest drivers of mis/alignment between shareholder interests and management focus and execution. Accordingly the levels and structure of remuneration for executives should not only be aimed at attracting, retaining and incentivizing executives, but also to enable the realization of company strategy in the long term.

In this regard, we consider the following, along with our Remuneration Policy framework below, in assessing remuneration policy resolutions:

- Detailed disclosure of director, executive and other employee compensation, particularly where the company does not have a majority independent board.
- The independence of the Remuneration Committee and its recommendations.
- Whether compensation is reasonable, especially with respect to:
    - total compensation to per annum (on a comparable peer and performance basis);
    - 'golden parachutes' for early termination of service' or if triggered by a takeover;
    - long-term performance incentive structures that are aligned with financial and non-financial measures, including those of an ESG nature. Performance targets should incorporate these issues.

We expect the Board to appoint a Remuneration Committee, staffed by a majority of independent non-executives, responsible for the oversight of the company's executive remuneration policy, programme and implementation as well as evaluating the performance of senior management.

In the implementation of our voting rights on remuneration, we are guided by the following policy framework:

- Disclosure should include details of base pay; the peer group comparator used and in what quartile the fixed component of remuneration lies; bonuses; share-based payments; granting of options or rights; restraint payments; maximum and minimum expected awards; clear KPIs and incentive targets with clear links to strategy.

- Performance metrics should be clearly tied to the long term business strategy and encapsulate value drivers within the control of Management.
- We encourage the outright ownership by Management in company shares, outside of awards made by Performance or Restricted Share programmes.
  We may vote against the use of share options rather than shares or other share equivalents, as we believe options create an asymmetric risk reward profile for management and they should share in the downside with shareholders.
- We will consider opposing proposals that allow for the repricing or issuing of options at a discount.
- We prefer and support a total remuneration which is in the top quartile of peers, as long as the above criteria are met and base pay is below the median of peers i.e. top quartile total remuneration is a stretch target for Management.
- We support and encourage the inclusion of "non-financial" targets, where these are forward looking and speak to ESG indicators material to the company's strategy and business environment.
- We oppose performance measures which will be susceptible to short term share price performance or accounting manipulation (earnings, share price, asset sales etc.)
- We support performance measures based on return on capital measures (e.g. ROIC or ROCE), balanced with rewards for value-accretive growth (e.g. FCF, STIs geared to the realization of growth project milestones, LTIs commensurate with the communicated long-term value accretion of long term growth projects). Preference is given to ROCE measures to encourage return of capital to shareholders where value-enhancing growth projects cannot be pursued.
- We further encourage the disclosure of "fair and responsible pay" staff remuneration metrics, namely disclosure of absolute wage and increases based on gender as well differentiated salary increases.

Clawback Provisions

We support and encourage the provision of malus and clawback policies adequately drafted so as to act as a deterrent from executive action which questionably puts shareholder value at risk, as well as a punitive measure in the event of the following:

  - Material reputational damage,
  - Material misstatement of the financial statements of the group, company or material subsidiary of which the executive presides,
  - Deliberate misinterpretation of financial targets,
  - Gross misconduct or material breach of obligations,
  - The group, or a business unit, suffers a material failure in risk management.

In incidences relating to gross misconduct or material misstatements, misrepresentation of financial statements and targets we advocate for clawback provisions to hold for at least 5 years.

Audit Committee and Appointment of Auditors

The external audit of the investee company must be an objective, rigorous and independent process to maintain the confidence of the market. We will consider any issues that may compromise the audit firm's independence and objectivity with respect to the company in determining our vote to retain a firm.

- An investee company should not allow the same lead audit partner to serve as an audit partner for a period of more than five financial years.
- The Audit Committee Chairperson and Company Chairperson should be kept separate, where the former should have recent and relevant financial expertise.
- We will vote against directors who are not independent and are appointed to serve on the Audit Committee.
- We recognize and support the spirit of Mandatory Audit Firm Rotation which will soon become a JSE requirement. While we, therefore, support investee companies who are already voluntarily adopting audit firm rotation, we do not penalize companies who will not be implementing firm rotation ahead of the requirement coming into effect, as long as the above guidelines with respect to Audit committee appointments are met and adhered to.

Environmental, Social and Economic issues

We will support the use of performance measures which support or enable positive outcomes across economic, social and environmental contexts in which the organization operates; and/or all the capitals that the organization uses or affects. The public has a right to know whether a company does or could compromise the environment, health or safety of members of the community within which it operates, and as such:

- We will support investee companies' preparation of general reports describing their environmental management plans, including climate-change related considerations.
- We will support the inclusion of ESG performance indicators in executive remuneration policies.
- We will support the adoption of a policy that makes relevant information accessible to members of the general public for purposes of assessing an investee company's environmental responsibility, current or potential liabilities.
- We support company reporting that covers economic and social issues and which evaluate any potential material impact on the company. This includes issues relating to labour force, customers, suppliers, human rights and the communities in which they operate.