Sanlam
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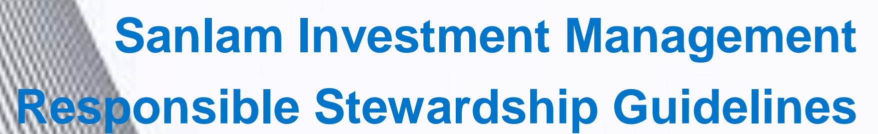

Sanlam Investment Management
Responsible Stewardship Guidelines

Effective 15 June 2021

Investments

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2. SANLAM INVESTMENT APPROACH TO RESPONSIBLE STEWARDSHIP

Sanlam Investment Management ("SIM") advocates Responsible Investment and are active owners. SIM encourages good governance and sustainable corporate practices, which contribute to long-term shareholder value creation. Proxy voting is part of SIM's Responsible Ownership approach. This guideline has adopted written procedures designed to ensure that we vote proxies in the best interests of our clients.

The purpose of these guidelines is to provide a framework regarding our voting responses to company resolutions, which we vote on behalf of clients who have not included their own voting instructions in their investment mandates. The underlying purpose is to protect and grow our clients' equity base by fulfilling their governance obligations as agent.

CONTEXT

One of the most important rights of shareholders is the right to vote. A shareholders' meeting is a company's ultimate decision-making forum. The annual general meeting is a regular forum for shareholders to exercise their rights and to influence the direction of the company.

These guidelines are based on the SA Companies Act of 2008, and the JSE Listings Requirements, which incorporate the King Report on Corporate Governance for South Africa (King IV).

These policies are not applicable to all Sanlam Group businesses, as SIM manages a portion of the Sanlam Group's total assets under management.

SCOPE AND PURPOSE

These guidelines specify the firm's approach to developing and upholding good corporate governance principles and business practices on voting on various resolutions on behalf of our clients in a responsible and sustainable manner. This guideline should be read in conjunction with the Responsible Investing Policy.

These guidelines are not exhaustive nor prescriptive, but reflect our values on shareholder powers and responsibilities which are exercised in consultation with our clients who are the equity owners. We apply them pragmatically. In some cases though, our requirements are more restrictive than the applicable listing requirements or country practice.

COMMITMENT TO RESPONSIBLE OWNERSHIP

We will obtain a mandate from our clients in the form of a written policy on Proxy voting. We will vote on all material shareholdings held on behalf of Sanlam, third parties and collective investment schemes. Where requested or appropriate, we will refer to clients prior to voting.

We will consider resolutions which require the approval of governance policies and implementation - for us to support these resolutions, they should accord with evolving best practices. To do this, we seek to establish constructive dialogue with company Boards, to share views and to discuss areas of potential conflict, should our objectives differ from management's.

TRANSPARENCY AND DICLOSURE

We will report to *clients* on the outcome of our voting activities on their behalf. Because we mostly vote by proxy, we will inform *companies* of our reasons for declining resolutions on behalf of clients. In some cases, we may also signal our intention to decline resolutions in future, should requested changes not be implemented. We will also report to the *public* via our website.

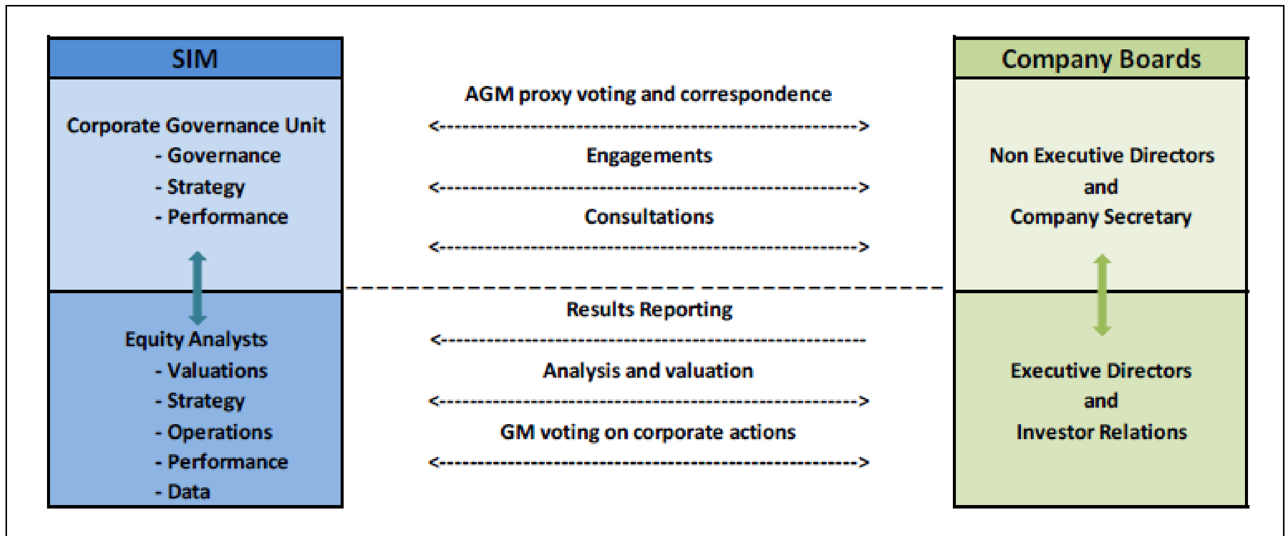
Should we decline a resolution at a shareholder meeting, we will communicate by email to the company secretary, and store such communication on SIM's internal network. We will be transparent to clients on our governance policy and implementation. We will advise clients of all resolutions declined on their behalf and the reasons therefor in their quarterly documents.

SCRIP LENDING PRACTICES

We may lend scrip with the prior written consent of clients. In such cases we explain that we do not vote on shares that are lent out, which means that such clients favour the economic benefit of scrip lending over the loss of voting rights.

GOVERNANCE STRUCTURE

The Corporate Governance Unit (CGU) was formed in 2006 to drive implementation of our Responsible Investment initiatives on behalf of clients, and is a committee comprising senior investment, company secretarial and front office staff. We have increased our points of contact with companies as a result, so that a governance channel complements the established analysis channel, as depicted below:



ESCALATIONS

SIM voting specialists vote on resolutions according to the SIM proxy voting guidelines. Resolutions may be escalated for consideration by the Head of Equity Research to the Chairman of the CGU for final determination. If necessary, due to importance or lack of precedence, resolutions may be escalated further to the full CGU.

Corporate actions, including BBBEE transactions

Analysts vote on resolutions proposing corporate actions. They should escalate such resolutions to the Head of Equity Research, or his/her nominee should they require assistance. In instances where SIM is approached on a confidential basis prior to any proxy voting requirement, the Head of Equity Research, or his/her nominee, will represent SIM clients' interests.

Receipt of inside information will be disclosed by affidavit to Sanlam Investments Compliance by all recipients.

3. PROXY VOTING GUIDELINES

BOARD OF DIRECTORS

The role of the Board is to serve as a link between management and stakeholders, particularly shareholders. Boards also set the appetite for risk, approve strategy and oversee management, to ensure that the company adds value for stakeholders.

King IV requires that every Board should have a formal Charter setting out how it will fulfil its responsibilities. At a minimum, the Charter should confirm the Board's responsibility for the adoption of strategic plans, and monitoring of operational performance and management, as well as determination of policy and processes to ensure the integrity of the company's risk management and internal controls, communications policy, and director selection, orientation and evaluation. The Charter should also express the Board's commitment to ethical standards, to guide the company's relationship with its stakeholders.

The JSE Listings Requirements require that listed companies apply the principles of King IV and make relevant disclosures on an "apply and explain basis". The nature of disclosures "should be guided by

materiality, and should enable stakeholders to make an informed assessment of the quality of the organisation's governance" (King IV). There are a number of factors which are likely to contribute to effective governance by Boards, as detailed below:

SEPARATION OF THE ROLES OF CHAIRMAN AND CEO

The Chairman is responsible for coordinating the activities of the Board and setting the ethical tone. In turn, the Board is responsible for evaluating the performance of the company and its Chief Executive Officer)"CEO"), which responsibility may be devolved upon a sub-committee of the Board. The CEO is responsible for the day-to-day operations and management of the company.

We believe there is an advantage to the company, the CEO, and the directors to have an independent non-executive Chairman, who can deal with matters and oversee management from the Board's point of view. If the Chairman is not independent, we will support the appointment of a Lead Independent Director.

The CEO should be a person other than the Chairman, is responsible for the executive direction of the company, answerable to the Board, including the Chairman, and ultimately to the shareholders.

BOARD INDEPENDENCE AND NON-EXECUTIVE DIRECTORS

'Independence' generally means the exercise of objective, unfettered judgement. A director acts independently if that director:

- expresses opinions, exercises judgment and makes decisions impartially;
- does not have any interest, position, association or relationship which, when judged from the perspective of a reasonable and informed third party, is likely to influence unduly or cause bias in decision-making.

We believe that a Board with a majority of independent directors (as defined in King IV), and whose key sub-committees are comprised of independent directors, is better positioned to direct and support the CEO and also, to critically evaluate management and the performance of the company against set indicators.

We therefore support Boards with a majority of independent directors. We will vote for proposals that the Board comprise of a majority of independent non-executive directors, and that key Board sub-committees are comprised wholly of independent directors.

APPOINTMENT- EXPERTISE, DEVELOPMENT, BALANCE, DEDICATION, CONTRIBUTION

Directors with varying skills and backgrounds bring different perspectives that contribute to a more varied approach and analysis of issues. In order to foster the long-term success of a company, the Board should include directors with a variety of backgrounds and expertise, including people from differing racial, gender, cultural and economic backgrounds.

Where necessary, directors who have limited experience in certain areas, but who are able to make a meaningful contribution in others, should be given the opportunity to develop and learn from their more experienced colleagues, or to receive specialised training. Director training and education are important elements of continuous development.

Director nominations should be confirmed at the next shareholders' meeting. Appointed directors should be able to make a meaningful contribution to the Board through devoting sufficient time, energy and expertise. Indicators include the number of other Boards served on, other positions held and attendance record.

We will vote against the appointment of a director who already has 5 main board appointments, or has executive responsibilities at another company, if their ability to devote sufficient time and expertise is affected, or there is potential for interests to conflict.

RE-ELECTION AND TENURE

- We support director re-election at least every 3 years. Independent directors, prior to standing for re-election, should be evaluated by the Board to confirm their independence.
- We will vote against the re-election of directors who have poor attendance records.
- We support proposals to limit the tenure of directors, either through term limits or mandatory retirement age. We advocate that directors should be re-elected annually after 9 years, and retire after 12 years of service, or once they reach the Board's retirement age.

EVALUATION

We support regular self-evaluations of Board, committee and director functioning (Board reviews), as well as independent evaluations to promote candid responses. The Board Chairman should ensure that evaluations are carried out regularly and that results are reported to shareholders.

To facilitate this process, the Board should consider establishing key performance indicators for itself and its committees, and periodically review and report its performance against them.

BOARD COMMITTEES

Boards appoint sub-committees to facilitate their functioning. Board committees of most interest to shareholders include:

AUDIT AND RISK

The Board must have an audit committee responsible for oversight of the preparation of the integrated report, internal controls and risk management, management information systems, the annual independent audit of the company, and to fulfil statutory duties. (Some Boards may appoint a separate Risk committee). There are now a number of frameworks which may be used to identify which sustainability factors to report on (see SSE Model Guidance p26).

All members of the audit committee must be independent non-executive directors, appointed individually by shareholders. They should be financially literate and collectively capable of discharging their duties. Financial literacy is essential for the committee to oversee the complexities of the annual audit and to deal with the technical aspects of the financial information.

REMUNERATION

Boards should have a remuneration committee comprised of a majority of independent directors, who are knowledgeable in the field of director and senior management remuneration and chaired by an independent non-executive director.

The remuneration committee is responsible for development of remuneration policy. The policy should be comprehensive, fair, consistent with market norms and aligned to achievement of company strategy. The updated remuneration policy, and details of its implementation, should be tabled for approval annually at the AGM.

SOCIAL AND ETHICS

To implement the social responsibilities of Boards, the Companies Act requires listed companies to appoint a Social and Ethics Committee (SEC).

The function of the SEC is to monitor and report on the company's achievement of social and economic goals, draw social matters to the attention of the Board, and report through its nominee to shareholders at the AGM.

In monitoring the company's activities, the SEC should consider compliance with legal requirements and codes of best practice relating to:

- Social and economic development, incorporating gender and racial diversity,
- Good corporate citizenship,
- The environment, health and public safety,
- Consumer relationships; and
- Labour and employment.

In practice, the SEC monitors and measures the achievement of employment equity targets, B-BBEE performance in terms of the Department of Trade and Industry scorecards, and progress in skills and other development programmes, in order to embed legislation and best practices into company policies, values, culture and strategy (V Pillay, 2011).

Summary of guidelines

Board of directors	Policy Guideline	Guideline comment
TERM	Subject to initial election and re-election at 3 year intervals, with annual re-election after 9 years. Maximum tenure of 12 years.	After 12 years of service, the Board should endeavor to replace the director. We should hold the Chairman accountable for independence if not. Exceptions may be made on a case by case basis as we recognize the limited pool of expertise across sectors. Skills transfer with a view to transition is important.
NUMBER OF BOARDS	5 Main Boards maximum.	Consider subsidiary Boards to be akin to Board Committees.
ATTENDANCE	Re-election should be subject to satisfactory attendance of board and sub-committee meetings.	Monitor attendance report in IR, and engage Chairman or vote against re-election where attendance is low (<75% of meetings).
PERFORMANCE	We encourage excellence.	Engage Chairman where see underperformance.
RETIREMENT AGE	Some MOI's may require a maximum age limit. (An internal guide is that directors should retire at age 70).	Exceptions will be granted unless performance or independence becomes a concern.
INDEPENDENCE	Independent non-execs should be truly independent.	Familiarise yourself with the Companies Act (as amended), the JSE Listings Requirement and King IV criteria for independence, by consulting with SI's lawyers.
BOARD CHAIRMAN	We prefer that incumbents be independent.	Where not, insist on Lead Independent Director.

AUDIT PRACTICES

Audit firm

An independent audit process is a condition of good governance. Our preference is that the audit committee retains the services of a well-known and reputable auditing firm. We also prefer that a significant majority of the revenue generated by the auditing firm from the company come from the audit function, in order to preserve independence. Mandatory audit firm rotation every 10 years will commence in 2023.

Audit Committee Membership and Appointment

Audit committees must consist of at least three members, all of whom must be independent non-executive directors (according to King IV). The audit committee must have the relevant financial expertise. Membership should be individually elected and will engage the Board Chairman if there is merit to vote against a member's nomination. All members of the audit committee must be independent non-executive directors.

We vote in favour of the appointment of a non-executive director to the audit committee unless

- The Audit committee is not independent according to King IV
- The director lacks accounting knowledge or auditing experience, and the committee does not have at least one member

Summary of guidelines

Audit	Policy Guideline	Guideline comment
COMMITTEE COMPOSITION (APPOINTED BY SHAREHOLDERS RATHER THAN BOARD)	Audit committees must consist of at least three members all of whom must be independent non-executive directors (according to King IV).	Members should be individually elected. Engage Board Chairman before voting against a member's nomination.
MEMBERSIHP OF BOARD CHAIRMAN	Approve pragmatically for small Boards, or if Chairman has proven expertise.	Board Chairman may become over-dominant.
AUDIT FEES	Authorise payment if fees have been reasonable. (Audit committee should establish reasonableness).	Escalate to CGU if query reasonableness against peer companies, or previous fees.
MIX	Non audit fees should not be more than 25% of total fees paid to auditor/s.	We will be pragmatic in considering the nature of the work done.
RE-APPOINTMENT / ROTATION OF AUDITORS	Re-appoint subject to satisfactory performance and reputation. The audit partner should rotate after 5 years.	Query directors on their policy. Escalate to CGU if have concerns. Mandatory firm rotation every 10 years commences in 2023. This approach is also applicable to subsidiaries. We will vote against when issues regarding tenure, fees and

		independence of the audit are note in line with market best practice.

FINANCIAL STATEMENTS

We will vote for the approval of financial statements if disclosure is sufficient and material enough to make informed investment decisions. We will vote against if one of the following applies:

- The audit is qualified
- There are concerns on reliability of accounts or followed procedures
- The company is unresponsive to shareholders questions for information

Should SIM not approve the annual financial statements of a company, it will provide an explanatory note outlining its rationale for declining to approve the annual financial statements

LIMITATION ON DIRECTORS POWERS

In certain cases, we will seek to limit the powers of directors.

Share issuance for general purposes

We will limit issuance of shares for general purposes to 5% of shares in issue in any one year, either by way of shares issued for cash, or by placing unissued shares under control of directors for placements. (In the case of listed property funds, where earnings are not retained, we will limit issuance of units to 10% in any one year).

Discount on share issues

We will vote against resolutions which provide for new shares to be issued at a price discount of more than 10% (or 5% for listed property funds), other than to facilitate B-BBEE.

Share repurchases

We will limit share buybacks if the majority has abused dominance; or the company has destroyed value in the recent past. We will apply judgement in the light of financial benefits and the company's track record, and will permit the buy-back of shares provided that it meets listings and solvency criteria, and, does not unduly increase the dominance of majority shareholders.

Voting rights

We support one class of shares. We will vote against the creation of further share classes which mis-match voting and economic rights. We will be pragmatic in considering further issuance of existing classes, based on the nature and circumstances of the company and its shareholders.

Financial Assistance

We will generally support resolutions seeking authority to provide financial assistance (normally inter-company loans and guarantees) to *corporate* entities, which include incentive schemes. However, we do not support provision of such assistance to i*ndividuals* by companies, unless to facilitate approved incentivisation or empowerment.

Limitation of director powers	Policy Guideline	Guideline comment
SHARE ISSUANCE FOR GENERAL PURPOSES	Max 5% (10% for property funds) of issued shares may be placed under directors' control or issued for cash, per year.	Authority renewed annually. Prefer to grant specific authority.
DISCOUNT ON SHARE ISSUES	Max discount of 10% on the 30-day VWAP (JSE). (5% for property companies).	Ensure that value is not diluted.
SHARE BUY-BACKS	Process is governed by listings requirements. Max. 20% of issued shares per annum (JSE).	Apply judgement in the light of financial benefit and company's track record. Decline if majority has abused dominance; company destroyed value or over-limited liquidity.
BUNDLING OF RESOLUTIOSN	Vote against all bundling (into single resolutions) and request that resolutions be unbundled prior to voting.	For example, the grouped re-election of directors or committees. Directors should be individually elected.
FINANCIAL ASSISTANCE	Support assistance to company entities (including approved incentive and B-B BEE schemes).	Vote against general financial assistance to staff. Request combined resolutions be split between company and individual assistance.
NOTICE PERIOD	Vote against shortening from 21 days.	Vote pragmatically. (Our voting process is extended and problematic to shorten).

IRREVOCABLES

SIM is from time to time requested to furnish irrevocable undertakings to companies that it would support upcoming resolutions to be tabled at shareholders' meetings. SIM does not, as a general rule, furnish irrevocable undertakings, but may consider furnishing letters of comfort, assessed on a case-by-case basis.

CAPITAL MANAGEMENT

Dividend Policy
Should a company declare a dividend, we will investigate the rationale behind the declaration as well as analyse the effect such a dividend, if paid to shareholders, may have on the capital structure and liquidity status of a company.

Share splits and consolidations

We will consider a company's proposal to split or consolidate its share capital on a case by case basis, given the circumstances

SHAREHOLDER PROPOSALS

We will assess shareholder proposals on a case by case. The following guidelines have been set in place:

- Vote for proposals aiming to increase transparency on material ESG issues
- Vote for proposals which enhance long term shareholder value creation
- Vote for proposals which address material ESG risks, except when management and the board have demonstrated appropriate efforts to mitigate such risks in a transparent way

POLITICAL DONATIONS

Corporate transparency is key in understanding potential legal, reputational and subsequent investment risks which can arise from opaque lobbying practices and political donations. These expenses must be consistent with the company's sustainability strategy and should be aligned with the long-term interests of investors and other relevant stakeholders. Where companies make donations or contributions of a political nature, they should be disclosed and each one fully explained in the annual report, including information on the types of organisations supported and the business rationale for supporting these organisations.

REMUNERATION AND INCENTIVES

We support and assess three levels of remuneration of employees:

- Guaranteed remuneration (total guaranteed package - base salary and benefits);
- Short-term incentives (variable remuneration) – e,g, Annual performance bonus
- Long-term incentives (variable remuneration).

Incentive schemes form part of variable compensation and are used to attract, retain and motivate staff. Their purpose is to foster sustainable performance, or value creation, over the long term, which is aligned with the Company's strategy and which enhances shareholder value. Their main characteristic is that they conditionally promise to deliver value over a future vesting period once performance hurdles are exceeded.

This document sets out our interpretation of current best practice regarding incentive schemes. It is intended to serve as a template for assessing scheme proposals from listed companies. We should ensure that schemes are approved in advance and not retrospectively.

We are guided by King IV, Principle 14: "*The governing body should ensure that the organisation remunerates fairly, responsibly and transparently so as to promote the achievement of strategic objectives and positive outcomes in the short, medium and long term*".

Organisations are accordingly encouraged to make sufficient disclosures in relation to incentive schemes, as specified in King IV.

Participation and limits

Participants should be limited to those individuals who directly influence performance – both executives and key employees. Independent and Non-executive directors must not participate, nor should employees of other companies.

We support schemes that are limited to 10% of shares currently in issue and which have a 10 year maximum lifespan. If there is more than one scheme, the overall (aggregate) limit should be 10%. We apply a pro rata approach to schemes with a shorter life e.g. a five year scheme should be limited to 5% of shares in issue. In addition to the overall percentage and individual limits, the monetary value of the award will also be taken into account in light of company performance, complexity, size and peer benchmarks.

The need for limits, especially in the largest companies, is shown in *Appendix 3.* (We also notice that large companies are starting to find a limit of 5% to be sufficient). Exceptions may be granted to facilitate B-B BEE.

No single individual should be awarded more than 0.5% of shares in issue. (As a measure of concentration, we suggest that the top 5 participants should not be awarded more than 15% of a scheme).

The proposed mix of base, short and long-term incentive pay should be reasonable for executive directors, in terms of quantum and risk-taking. A suggested mix for CEOs is equal thirds in each, so that bonuses and incentive *awards* individually match base pay.

Awards

Awards are made in shares – whether ordinary, forfeitable, restricted or even phantom - or their derivatives such as options or appreciation rights. Options are least favoured, due to non-alignment of risk. They may be settled in shares or cash. If shares are used in settlement, the source, whether new issue or buybacks, should be disclosed – we favour buybacks, provided that makes valuation sense.

Awards should be made frequently. Our preference is that they be made annually in order to incentivise rolling performance, and to smooth receipts (i.e. reduce risk of receiving awards advantageously or disadvantageously). One way to achieve regularity and consistency is to determine the issuance or “flow” rate in advance. So, for a scheme with an 8 year award period, the flow rate could be set at 1,25% of shares in issue (10%/8) per annum. An alternative would be to establish flow rates in terms of award values.

Further conditions of awards should be:

- They should be made at current market value (or 30 day VWAP), not at a premium or discount, nor backdated;
- The valuation methodology and present/face value should be disclosed in advance, together with anticipated/ fair value;
- They should not be geared, nor matched. (For example, 1 option = 1 share);
- no backdating; no repricing or regranting or softening of hurdles. (Further awards should address retention concerns);
- hedging should not be allowed until awards have vested.

Performance Hurdles

Best practice is increasingly to grant shareholder rights to voting and dividends with awards, where appropriate, or pay accumulated dividends on vesting.

100% of awards should be subject to performance hurdles, to. link pay with company (and individual) performance. We pay particular attention to the use of hurdles in long-term incentive schemes, in the belief that this is where shareholders can add the most value.

Companies generally adopt 3 paradigms for performance hurdles: earnings growth, operational returns and shareholder returns. (The last two are sometimes mixed by using change in NAV plus dividends). They may be expressed in relative or absolute terms. Best practice is to use them in combination.

We usually support a combination of 2 hurdles – one an absolute measure, and the other relative – because as capital allocators, we require that companies create value for shareholders over rolling time periods in absolute terms first, and then in relative terms. We suggest that these hurdles be weighted in favour of the absolute criterion.

We recommend that the first hurdle measures operational returns in excess of cost of capital, plus a margin. Appropriate metrics are ROA for banks, ROEV for Insurers, and ROIC for other companies. For companies that do not meet this "economic profit" requirement, a recommended approach is to measure improvement in returns (or average increase for cyclical companies), to retain the important link between earnings growth and capex, or between the income statement and balance sheet. Likewise, measurement of the sub-drivers of value may be more appropriate for specific business models, for example in companies exposed to commodity prices.

The second could be expressed in terms of total return to shareholders (TSR) relative to a benchmark of named peer companies (peers in terms of size or complexity and industry segment, or opportunity cost). The TSR hurdle mainly measures share price performance, which is beyond management's control, but when used on a peer relative basis, it does have the advantage of rewarding outperformance only.

We do not support the popular earnings growth hurdle, as there is no association with the productive use of the capital required to generate it. Alternatively, provided returns are positive, earnings retention alone will produce growth. So could encashment in the short term.

ESG-specific hurdles are likely to be introduced should responsible investing continue to gain momentum. They may be expressed in the form of overriding conditions or "gatekeepers", or of balanced scorecards.

Preferred features of performance hurdles are:

- Performance should be verifiable. Ideally, public information should be used, hence we do not support the use of budgeted figures to construct hurdles;
- They should be relevant (controllable), 'fair and achievable' and long-term in nature;
- Hurdles succeed rather than precede share awards, and are measured over a performance period of at least 3 years;
- They should be scaled and exceeded for vesting to occur;
- They should be approved by shareholders in advance and not be reset or retested (best practice approach).
- Vesting should occur according to a sliding scale, with hurdles for 'threshold', target or 'expected' and 'stretch' performance. By placing achievement at risk, full vesting should be improbable.

Variations: awards without performance hurdles

There are several creative applications of awards which are not conditional on achieving performance hurdles. Amongst them are:

I. <u>Deferred bonuses</u>

Where bonuses in any one year exceed their cap, the excess may be deferred into, and retained in, shares, without further performance hurdles for a holding period.

We prefer that hurdles succeed rather than precede share awards, and that they be measured over a performance period of at least 3 years.

II. <u>Matching shares</u>

To reward staff shareholdings, companies may match shares held for a specified period with further grants.

We prefer that awards are not geared in this way.

III. <u>Allowances</u>

Shares awarded in the form of allowances do not have performance hurdles, but rather extended holding periods. In response to regulations that cap the ratio of variable to base pay, allowances may be deemed not to constitute variable pay.

Because these do not have hurdles, we regard them as being for retention, and so will favour limited use only.

IV. <u>Retention Schemes</u>

We generally do not support retention schemes which are solely time-based and not linked to performance.

Scheme life (performance and vesting periods)

The life of a scheme would ideally be 8-10 years, divided conceptually into performance periods of at least 3 years (this could vary with the operating cycle of the company), and vesting, or exercise, periods. A depiction is shown in *Appendix 2*. There could also be provision for holding periods thereafter, or minimum shareholding requirements.

Awards vest during the vesting period, once the scaled performance hurdles have been exceeded. Where awards are made annually, we favour ‘cliff’ vesting after the performance period, for simplicity. Where awards are irregular, vesting should take place over a reasonable phasing period, normally 3 years, in order to smooth the relationship between benefit and risk, for both participants and shareholders.

We will vote against evergreen schemes that reserve a specified percentage of shares for award into perpetuity. Such awards may maximise transfer of shareholder value and minimize the frequency that companies seek shareholder consent.

Grounds for adjustment (including malus and clawback)

The distinction should be made between ‘good’ and ‘bad’ leavers. If an employee resigns or is dismissed before awards vest, there should be no settlement. Disability and retrenchment are grounds to negotiate settlement.

A change to a company’s capital base may be grounds for adjustment to awards, which should be made to preserve the value of awards, rather than restore the proportion of equity awarded.

In the case of change of control, we favour a rollover of the scheme into a new scheme rather than accelerated settlement (which could influence the judgement of scheme participants). If not possible, the scheme should be settled pro rata to performance and time, in cash.

There should be no scope for companies to change the terms of schemes without shareholder approval, other than to modify vesting terms if the outcome is not warranted, for example by deferral or clawback, or for malus.

“Clawback” is the recovery of sums already paid, for example for fraud or unjustified windfalls, while “malus” is forfeiture of a short or long-term incentive award before it is paid, on grounds of deficient performance. (Source: The Investment Association, UK). The circumstances of each should be disclosed to shareholders.

There should also be limits on the extent of individual participation on vesting. A cap to consider is a multiple, say 3x, of current cost to company of participants. Amounts receivable in excess of this in any one year should be deferred.

Implementation (disclosure and review)

The remuneration committee should ensure that a scheme is ‘justified, correctly valued and suitably disclosed’. Disclosure of long-term incentivisation should form part of reporting on the value of total remuneration awarded

to, and realised by, executive directors per financial year, resulting from implementation of the remuneration policy.

Realised remuneration should be compared with the targeted mix of base pay and short and long-term incentive payments, as well as proportionally against the stretch targets for short and long-term incentivisation. For shareholders to be able to measure and vote on the implementation of long-term schemes, awards, scaled hurdles and the targeted mix should be disclosed from inception, together with amounts received on vesting.

There should be an independent check that hurdles were met and that the scheme did not overlap with other forms of remuneration. The scheme should also be checked for compliance with risk guidelines. Ideally, we propose that company auditors should sign off incentive schemes at the end of their life.

Tax issues

Schemes should be tax-efficient. For example, companies should ensure that charges to the income statement qualify for a tax deduction, especially where payments are made in cash. The scheme rules should also provide for the company to recover all taxes (e.g. PAYE), levies and other costs payable.

Summary approach to Remuneration related resolutions

Summary approach to resolutions	**Issues noted**
Generally supportive of remuneration policy or its implementation unless the following is observed	▪ The remuneration policy does note promote a 'pay for performance' approach and deemed to be excessive and costly to shareholders ▪ Remuneration structure has a large focus towards short term performance and encourages short term behaviour ▪ Disclosure is deemed to be insufficient for market standards (per market practice in which the company operates) ▪ Performance targets are amended retrospectively and insufficient detail is provided to explain the discretion applied; ▪ There is evidence of golden handshakes, sign-on arrangements and severance packages that exceed market best practice;
Vote AGAINST the implementation report if the following is observed	▪ If there is insufficient retrospective disclosure on key performance measures (actual vs target) relating to short term incentives and the vesting of long-term incentive awards ▪ The implementation report may be voted for if there is sufficient detail on how their adopted policy is applied along with retrospective KPI's achieved. A rating, score or reference to budgets are not sufficient. Actual metrics achieved is required.
Generally supportive of non-executive fees unless the following is observed	▪ Non-executive fee is considered excessive by country or industry standards; ▪ Fees include retirement benefits and or share based payments. ▪ Fees includes inappropriate incentives that compromise independence ▪ non-executive director fees may be coupled together for practical reasons however bears the risk of an ***against*** vote if a fee is considered excessive

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