
	EPPF	
	EFFECTIVE DATE	1 July 2022
	REFERENCE NUMBER	EPPF IMU 005
DOCUMENT TITLE	PROXY VOTING POLICY AND GUIDELINES	

## EPPF PROXY VOTING POLICY AND GUIDELINES

Policy Reference Number	EPPF IMU 005
Version Number	1.2
Effective Date	1 July 2022
Review Date	1 July 2024
Policy Owner	Chief Investment Officer
Signature	
Policy Sponsor	Chief Executive/Principal Officer
Signature	
Date Approved	

	<b>EPPF</b>	
	<b>EFFECTIVE DATE</b>	<b>1 July 2022</b>
	<b>REFERENCE NUMBER</b>	<b>EPPF IMU 005</b>
<b>DOCUMENT TITLE</b>	<b>PROXY VOTING POLICY AND GUIDELINES</b>	

#### Key stakeholders in implementing and monitoring this Policy

Stakeholder	Designation	Approval
Executive Management	Chief Executive / Principal Officer	
Investment Management Unit	Chief Investment Officer	
Finance	Chief Financial Officer	
Risk and Compliance Management	Head: Governance and Assurance	


#### Recommended by Policy Owner

I hereby acknowledge that we have reviewed this Policy and it is not duplicated or in conflict with any other policies

Role	Designation	Approval Signature	Date
Policy Owner	Chief Investment Officer		
Policy Sponsor	Chief Executive		


#### Final Approval

Role	Designation	Approval Signature	Date
Policy Sponsor	Chief Executive/Principal Officer		
Management Investment Committee	Chairman of Management Investment Committee		
Strategic Investment Committee	Chairman of Strategic Investment Committee		
Board of Fund	Chairman of the Board of Fund		
Policy Sponsor	Chief Executive/Principal Officer		

	EPPF	
	EFFECTIVE DATE	1 July 2022
	REFERENCE NUMBER	EPPF IMU 005
DOCUMENT TITLE	PROXY VOTING POLICY AND GUIDELINES	


#### SUMMARY OF VERSION CONTROL

Version Number	Effective Date	Summary Changes
Version 1.0	1 June 2016	- New policy
Version 1.1	1 June 2019	- No material changes
Version 1.2	1 July 2022	- Adding guidance on environmental and climate change issues

	EPPF	
	EFFECTIVE DATE	1 July 2022
	REFERENCE NUMBER	EPPF IMU 005
DOCUMENT TITLE	PROXY VOTING POLICY AND GUIDELINES	

## Table of Contents

1. INTRODUCTION .....	5
2. PURPOSE.....	5
3. IMPLEMENTATION AND PROXY ADMINISTRATION .....	5
4. PROXY VOTING GUIDELINES .....	5
4.1 Indicators of shareholder democracy .....	5
4.2 Rights of proxies .....	6
4.3 Time and location of shareholder meetings.....	6
4.4 Electronic shareholder meetings .....	7
4.5 Meeting formalities .....	8
4.6 Provision of explanations for shareholder resolutions.....	9
4.7 Other business voting items .....	9
4.8 Form of voting.....	9
4.9 Publishing the results of shareholder votes .....	9
5. SUMMARY OF GUIDELINES AND STANDARD RESOLUTIONS.....	10
6. STANDARD RESOLUTION GUIDELINES .....	41
6.1 THE ANNUAL FINANCIAL STATEMENTS AND THE REPORTS OF DIRECTORS .....	42
6.2 ELECTION OR RE-ELECTION OF THE EXTERNAL AUDITOR.....	43
6.3 ELECTION AND/OR RE-ELECTION OF DIRECTORS.....	47
6.4 REMUNERATION ISSUES.....	60
6.5 CAPITAL STRUCTURE .....	67
6.6 OTHER CORPORATE ACTIONS.....	74
6.7 SHAREHOLDER RESOLUTIONS.....	78
6.8 ENVIRONMENTAL AND CLIMATE CHANGE ISSUES IN VOTING.....	79
7. CONCLUSION .....	81

	<b>EPPF</b>	
	<b>EFFECTIVE DATE</b>	<b>1 July 2022</b>
	<b>REFERENCE NUMBER</b>	<b>EPPF IMU 005</b>
<b>DOCUMENT TITLE</b>	<b>PROXY VOTING POLICY AND GUIDELINES</b>	

## **1. INTRODUCTION**

EPPF will exercise its proxy voting in line with the fund's Proxy Voting Policy and these Proxy Voting Guidelines.

## **2. PURPOSE**

This document sets forth the Fund's standard voting positions on a comprehensive list of standard and ad hoc proxy voting matters. These guidelines are developed and continually updated in consideration of prevailing corporate governance principles, industry standards, sustainability trends and the underlying regulatory environment. The guidelines are to be considered in line with the Fund's Proxy Voting Policy.

These guidelines shall apply to all the fund's investee companies where the Fund has voting rights and has a fiduciary duty to vote.


## **3. IMPLEMENTATION AND PROXY ADMINISTRATION**

Where necessary, the Fund will appoint a Proxy Voting Agent to effectively manage its proxy voting program. The Proxy Agent is to administer the Fund's proxy voting process in line with the below Voting Guidelines and EPPF Proxy Voting Policy. Where there are no specific instructions or proxy issues are not outlined in these guidelines the Voting Agent will consult with the Fund.

## **4. PROXY VOTING GUIDELINES**

### **4.1 Indicators of shareholder democracy**

- The principle of one share, one vote - no preferential voting structures.
- The right of shareholders to attend at participate at shareholder meetings.
- The right of shareholders to ask questions at shareholder meetings and to receive immediate and public answers.
- The right of shareholders to nominate directors.
- The right to vote separately on the election of each director.

	<b>EPPF</b>	
	<b>EFFECTIVE DATE</b>	<b>1 July 2022</b>
	<b>REFERENCE NUMBER</b>	<b>EPPF IMU 005</b>
<b>DOCUMENT TITLE</b>	<b>PROXY VOTING POLICY AND GUIDELINES</b>	

- The right to table resolutions for voting at shareholder meetings.
- The right of the press to attend shareholder meetings in the case of JSE-listed companies.
- The right to demand that the election of directors should not be staggered in order to prevent takeovers.

#### **4.2 Rights of proxies**

In terms of the Companies Act 71 of 2008 proxies have the following rights:


- The right to attend shareholder meetings on behalf of the shareholder.
- The right to participate at shareholder meetings on behalf of the shareholder.
- The right to speak at shareholder meetings on behalf of the shareholder.
- The right to vote at shareholder meetings on behalf of the shareholder.
- The right to give or withhold consent on behalf of the shareholder on a decision to be decided by way of a written resolution.

Accordingly, the proxy should be able to speak at the meeting, vote at it, and initiate or join a demand for the vote to be held by a poll instead of a vote by show of hands.

*EPPF will vote AGAINST any amendments to the company's Memorandum of Incorporation that do not grant proxies the right to speak, raise issues and vote by poll or show of hands.*

#### **4.3 Time and location of shareholder meetings**

Shareholders should be given enough time to examine the relevant documentation prior to the meeting. The Companies Act 71 of 2008 provides that a notice of a shareholder's meeting must be delivered in the prescribed manner and form to all of its shareholders at least 15 business days before the meeting is to begin (s62(1)(a)). The company's Memorandum of Incorporation may provide for a longer or shorter notice period (s62(2)). In some instances,

	<b>EPPF</b>	
	<b>EFFECTIVE DATE</b>	<b>1 July 2022</b>
	<b>REFERENCE NUMBER</b>	<b>EPPF IMU 005</b>
<b>DOCUMENT TITLE</b>	<b>PROXY VOTING POLICY AND GUIDELINES</b>	

companies do not fulfil these requirements (or do so over a holiday period, which is deemed inappropriate).

- Shareholder meetings should not be held during weekends or public holidays.
- Companies should always adhere to the minimum notice period of 15 business days or a longer notice period if provided for in the Memorandum of Incorporation.
- Shareholder meetings should be held during normal business hours.
- Shareholder meetings should be held, insofar as possible, in accessible metropolitan centres, where attendance by shareholders may be assured.
- Companies with a listing on a foreign stock exchange, such as the London Stock Exchange, and with a large number of shareholders in South Africa, should make provision by means of electronic screens at their offices in South Africa for shareholders in South Africa to participate at all the meetings that are held in a foreign jurisdiction.

*EPPF will generally vote AGAINST resolutions to authorise the company to provide shareholders with shorter than 15 business days' notice of shareholder meetings.*


*Should there be insufficient time to assess proposals, EPPF should reserve its right to request that the meeting be rescheduled.*

*EPPF will insist on a notice period of at least 15 business days or a longer notice period as may be provided in a company's Memorandum of Incorporation.*

#### **4.4 Electronic shareholder meetings**

EPPF supports the practice of holding shareholder meetings electronically, in line with the provisions of the Companies Act 71 of 2008.

- Electronic meetings should be conducted in a manner that protects shareholder rights, including informed and meaningful shareholder participation in the meetings.

	<b>EPPF</b>	
	<b>EFFECTIVE DATE</b>	<b>1 July 2022</b>
	<b>REFERENCE NUMBER</b>	<b>EPPF IMU 005</b>
<b>DOCUMENT TITLE</b>	<b>PROXY VOTING POLICY AND GUIDELINES</b>	


- Electronic meetings should not be symbolic or merely insulate the board and management from shareholder scrutiny.
- Each meeting should address all the business of the meeting in an effective manner.
- The electronic communication employed must enable concurrent discussion and reasonably effective participation in the meeting by all persons attending.
- The notice of meeting must inform shareholders that the meeting will be held electronically and must provide the necessary information to enable the shareholders or their proxies to access the available medium or means of electronic communication.
- Companies should provide adequate disclosure regarding shareholder participation at electronic meetings, guidelines for shareholder participation and the asking of questions during the meeting as well as the addressing of technical issues related to accessing the electronic meeting.
- Companies should make provision for shareholders to submit questions to the meeting in advance if the shareholders wish to do so and for those questions to be read and addressed during the meeting.
- Companies should also provide for the disclosure of questions or issues raised during the meeting as well as the company's response to those questions and issues.

#### **4.5 Meeting formalities**

Generally, shareholders may be requested to facilitate the proceeding of meetings by approving the following:

- The opening of the meeting
- The presence of a quorum
- The agenda
- Regulatory filings



	EPPF	
	EFFECTIVE DATE	1 July 2022
	REFERENCE NUMBER	EPPF IMU 005
DOCUMENT TITLE	PROXY VOTING POLICY AND GUIDELINES	

- The signing of minutes of the meetings
- The publication of the minutes
- The closing of the meeting

*EPPF will vote FOR routine resolutions listed above to facilitate the conduct of meetings.*

#### **4.6 Provision of explanations for shareholder resolutions**

Resolutions should contain at least the minimum statutory disclosures. Adequate motivations should be provided in support of all resolutions, particularly special resolutions to enable shareholders to cast their votes in an informed manner.

#### **4.7 Other business voting items**

There may be instances where companies table “surprise” resolutions under “other business” without providing accompanying information to shareholders in advance of the meeting.


*EPPF will vote AGAINST proposals placed under “Other Business” without advance information being provided to shareholders.*

#### **4.8 Form of voting**

EPPF will oppose the antiquated system of voting by a show of hands as a significant fault of shareholder democracy. Votes by poll should be taken on all resolutions tabled for shareholder vote at shareholder meetings. Where possible, electronic voting systems should be used at shareholder meetings, especially those of larger companies where there are numerous shareholders attending the meeting.


#### **4.9 Publishing the results of shareholder votes**

The results of all poll counts should be published on the Stock Exchange News Service (SENS) and, if possible, on the company’s website. Any discrepancy in the vote, which is apparent to EPPF, should be raised.


	EPPF	
	EFFECTIVE DATE	1 July 2022
	REFERENCE NUMBER	EPPF IMU 005
DOCUMENT TITLE	PROXY VOTING POLICY AND GUIDELINES	

## 5. SUMMARY OF GUIDELINES AND STANDARD RESOLUTIONS


Resolution	EPPF votes FOR:	EPPF votes AGAINST:
<b>1. Presentation/approval of the company's audited annual financial statements for the year under review and the reports of the directors, the board committees and the auditors</b>	<ul style="list-style-type: none"> <li>▪ If the audit report is not qualified.</li> <li>▪ If there are no significant concerns regarding the correctness and transparency of information on the performance and solvency of the company.</li> <li>▪ If the company has disclosed non-financial ESG (including climate change) information that the Fund considers material to the company.</li> </ul>	<ul style="list-style-type: none"> <li>▪ If the audit report is qualified.</li> <li>▪ If negative issues that shareholder is aware of that should have been part of the financial statements as per IFRS.</li> <li>▪ If the integrity of the annual financial statements or other reports is in issue.</li> <li>▪ If the annual financial statements or other reports have not been issued in compliance with applicable legal requirements.</li> <li>▪ If the company has not disclosed non-financial ESG (including climate change) information that the Fund considers material to the company.</li> </ul>

	EPPF	
	EFFECTIVE DATE	1 July 2022
	REFERENCE NUMBER	EPPF IMU 005
DOCUMENT TITLE	PROXY VOTING POLICY AND GUIDELINES	


Resolution	EPPF votes FOR:	EPPF votes AGAINST:
		<ul style="list-style-type: none"> <li>If the financial statements or other reports have not been made available.</li> <li>Any other relevant and material issues of concern.</li> </ul>
<b>2. Appointment and re-appointment of external auditors</b>	<ul style="list-style-type: none"> <li>If the auditors are free from conflicts of interest.</li> <li>If the audit partner/manager have not been the auditors of the company for more than five consecutive financial years.</li> <li>If the audit firm is deemed to have the size, skills, resources and track record to perform the audit successfully.</li> <li>If audit quality and auditor independence are not in issue.</li> </ul>	<ul style="list-style-type: none"> <li>If the answer to any of the questions in the opposite column is negative.</li> <li>If the tenure of the audit firm or audit partner/manager has not been disclosed.</li> <li>If the company has had material restatements or has delayed the filing of financial statements as a result of fault on the part of the auditor.</li> <li>If there is poor disclosure or lack of transparency in the company's financial statements.</li> <li>If there is evidence</li> </ul>

	EPPF	
	EFFECTIVE DATE	1 July 2022
	REFERENCE NUMBER	EPPF IMU 005
DOCUMENT TITLE	PROXY VOTING POLICY AND GUIDELINES	


Resolution	EPPF votes FOR:	EPPF votes AGAINST:
		<p>of aggressive accounting practices.</p> <ul style="list-style-type: none"> <li>If there is evidence of conflicts of interest on the audit partner/manager or audit firm.</li> <li>If, in the case of joint auditors, two or more audit firms are elected or re-elected by way of a single resolution.</li> </ul>
<b>3. Authorisation of directors to determine the remuneration of external auditors or approval of the actual remuneration payable to external auditors</b>	<ul style="list-style-type: none"> <li>If there has been no previous experience of excessive remuneration of auditors.</li> <li>If the proposed remuneration is reasonable and not excessive in view of the magnitude of the audit.</li> </ul>	<ul style="list-style-type: none"> <li>If the remuneration of external auditors has in the past been an issue and may be in this case.</li> <li>If there is lack of transparency regarding the remuneration of external auditors.</li> <li>If there is lack of clarity regarding once-off payments for corporate actions.</li> <li>If the remuneration for non-audit</li> </ul>

	EPPF	
	EFFECTIVE DATE	1 July 2022
	REFERENCE NUMBER	EPPF IMU 005
DOCUMENT TITLE	PROXY VOTING POLICY AND GUIDELINES	


Resolution	EPPF votes FOR:	EPPF votes AGAINST:
		services is greater than audit and audit-related fees and, as such, poses a conflict of interest.
<b>4. Election and/or re-election of members of the audit committee</b>	<ul style="list-style-type: none"> <li>▪ If the members of the committee are elected and/or re-elected by way of separate resolutions and shareholders are given an opportunity to evaluate each candidate individually.</li> <li>▪ If the member has appropriately been classified as an “independent non-executive director” of the company.</li> <li>▪ If the member has the necessary qualifications or skills and experience to execute his/her duties effectively.</li> <li>▪ If a brief professional profile of the member, including his/her existing professional commitments, has</li> </ul>	<ul style="list-style-type: none"> <li>▪ If all the members of the committee are elected and/or re-elected by way of a single resolution and shareholders have not been given an opportunity to evaluate each candidate individually.</li> <li>▪ If the member is not an independent non-executive director of the company or if the member’s classification as an “independent non-executive director” of the company is not in line with this policy.</li> <li>▪ If the member does not have the necessary qualifications or</li> </ul>

 eppf	EPPF	
	EFFECTIVE DATE	1 July 2022
	REFERENCE NUMBER	EPPF IMU 005
DOCUMENT TITLE	PROXY VOTING POLICY AND GUIDELINES	

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	<p>been disclosed to enable shareholders to evaluate the director.</p> <ul style="list-style-type: none"> <li>If the member's attendance record at the committee's meetings held during the reporting period justifies his/her continued membership on the committee.</li> </ul>	<p>skills and experience to execute his/her duties effectively.</p> <ul style="list-style-type: none"> <li>If no information on the member's background and professional profile is available.</li> <li>If the member's attendance record at the committee's meetings held during the reporting period does not justify his/her continued membership on the committee.</li> <li>If the audit committee has failed to table the resolution for the election of the external auditor for shareholder approval, as required by the law.</li> <li>If accounting fraud occurred at the company whilst he/she was a</li> </ul>


	EPPF	
	EFFECTIVE DATE	1 July 2022
	REFERENCE NUMBER	EPPF IMU 005
DOCUMENT TITLE	PROXY VOTING POLICY AND GUIDELINES	

Resolution	EPPF votes FOR:	EPPF votes AGAINST:
		<p>member of the audit committee.</p> <ul style="list-style-type: none"> <li>▪ If severe accounting irregularities resulting in a qualified audit opinion occurred at the company whilst he/she was a member of the audit committee.</li> <li>▪ If the company's financial statements have been restated due to fraud or negligence whilst he/she was a member of the audit committee.</li> </ul>
<b>5. Election and/or re-election of members of the social and ethics committee</b>	<ul style="list-style-type: none"> <li>▪ If the members of the committee are elected and/or re-elected by way of separate resolutions and shareholders are given an opportunity to evaluate each candidate individually.</li> <li>▪ If, in the case of a member who serves as the chairperson of the</li> </ul>	<ul style="list-style-type: none"> <li>▪ If all the members of the committee are elected and/or re-elected by way of a single resolution and shareholders have not been given an opportunity to evaluate each candidate individually.</li> <li>▪ If, in the case of a</li> </ul>


	EPPF	
	EFFECTIVE DATE	1 July 2022
	REFERENCE NUMBER	EPPF IMU 005
DOCUMENT TITLE	PROXY VOTING POLICY AND GUIDELINES	

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	<p>committee, the member has appropriately been classified as an “independent non-executive director” of the company.</p> <ul style="list-style-type: none"> <li>▪ If the member has the necessary qualifications or skills and experience to execute his/her duties effectively.</li> <li>▪ If a brief professional profile of the member, including his/her existing professional commitments, has been disclosed to enable shareholders to evaluate the director.</li> <li>▪ If the member’s attendance record at the committee’s meetings held during the reporting period</li> </ul>	<p>member who serves as the chairperson of the committee, the member is not an independent non-executive director of the company or if the member’s classification as an “independent non-executive director” of the company is not in line with this policy.</p> <ul style="list-style-type: none"> <li>▪ If the member does not have the necessary qualifications or skills and experience to execute his/her duties effectively.</li> <li>▪ If no information on the member’s background and professional profile is available.</li> <li>▪ If the member’s attendance record at the committee’s meetings held</li> </ul>




	EPPF	
	EFFECTIVE DATE	1 July 2022
	REFERENCE NUMBER	EPPF IMU 005
DOCUMENT TITLE	PROXY VOTING POLICY AND GUIDELINES	


Resolution	EPPF votes FOR:	EPPF votes AGAINST:
		during the reporting period does not justify his/her continued membership on the committee.
<b>6. Election and/or re-election of executive directors</b>	<ul style="list-style-type: none"> <li>▪ If the director has the appropriate qualifications or skills and experience to function effectively as a member of the specific company's board.</li> <li>▪ If the director's attendance record at board and committee meetings held during the reporting period justifies his/her continued membership on the board of directors.</li> <li>▪ If the remuneration package (base salary, incentives and any other means of remuneration) provided by the company to the director is justified.</li> <li>▪ If a brief professional profile of the director,</li> </ul>	<ul style="list-style-type: none"> <li>▪ If the director does not have the appropriate qualifications or skills and experience to function effectively as a member of the specific company's board.</li> <li>▪ If the director's attendance record at board and committee meetings held during the reporting period does not justify his/her continued membership on the board of directors and no sound explanation has been provided for such non-attendance.</li> <li>▪ If no information on</li> </ul>

	EPPF	
	EFFECTIVE DATE	1 July 2022
	REFERENCE NUMBER	EPPF IMU 005
DOCUMENT TITLE	PROXY VOTING POLICY AND GUIDELINES	


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	<p>including his/her existing professional commitments, has been disclosed to enable shareholders to evaluate the director.</p>	<p>the director's background and professional profile is available.</p> <ul style="list-style-type: none"> <li>▪ If the board has confirmed in a statement that it does not support the particular director's or individual's re-election or election.</li> <li>▪ If the director serves as a member on the audit committee, nomination committee and/or remuneration committee of the company.</li> <li>▪ If the external auditor has expressed concern about the board's conduct or individual director's conduct.</li> <li>▪ If there has been a significant deterioration of the investee company's financial and ESG performance as a result of the</li> </ul>

	EPPF	
	EFFECTIVE DATE	1 July 2022
	REFERENCE NUMBER	EPPF IMU 005
DOCUMENT TITLE	PROXY VOTING POLICY AND GUIDELINES	


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		<p>director's conduct.</p> <ul style="list-style-type: none"> <li>▪ If the director's past conduct in his/her capacity as director of the investee company or any other company does not justify his election/re-election, including where a director's conduct has caused significant financial harm to the company, where criminal charges have been brought against the director, where significant legal findings have been made against the director, or where significant legal proceedings have been instituted against the director.</li> <li>▪ If, in the case of re-election of directors of carbon critical sector companies, no short-, medium- and long-term</li> </ul>

	EPPF	
	EFFECTIVE DATE	1 July 2022
	REFERENCE NUMBER	EPPF IMU 005
DOCUMENT TITLE	PROXY VOTING POLICY AND GUIDELINES	


Resolution	EPPF votes FOR:	EPPF votes AGAINST:
		<p>targets are disclosed for at least Scope 1 and 2 greenhouse gas (GHG) emissions.</p>
<p><b>7. Election and/or re-election of independent non-executive directors</b></p>	<ul style="list-style-type: none"> <li>▪ If the director has appropriately been classified as being both “independent” and “non-executive” in line with this policy.</li> <li>▪ If the director has the appropriate qualifications or skills and experience to function effectively as a member of the specific company’s board.</li> <li>▪ If the director’s attendance record at board and committee meetings held during the reporting period justifies his/her continued membership on the board of directors.</li> <li>▪ If the remuneration package provided by the company to the</li> </ul>	<ul style="list-style-type: none"> <li>▪ If the director’s classification as being “independent” and/or “non-executive” is not in line with this policy.</li> <li>▪ If the director does not have the appropriate qualifications or skills and experience to function effectively as a member of the specific company’s board.</li> <li>▪ If the director’s attendance record at board and committee meetings held during the reporting period does not justify his/her continued membership on the</li> </ul>

	EPPF	
	EFFECTIVE DATE	1 July 2022
	REFERENCE NUMBER	EPPF IMU 005
DOCUMENT TITLE	PROXY VOTING POLICY AND GUIDELINES	


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	<p>director is justified.</p> <ul style="list-style-type: none"> <li>▪ If the director is not overcommitted (i.e. does not sit on more than 5 listed company boards) and has sufficient time available to fulfil his/her responsibilities to the company.</li> <li>▪ If a brief professional profile of the director, including his/her existing professional commitments, has been disclosed to enable shareholders to evaluate the director.</li> </ul>	<p>board of directors and no sound explanation has been provided for such non-attendance.</p> <ul style="list-style-type: none"> <li>▪ If no information on the director's background and professional profile is available.</li> <li>▪ If the board has confirmed in a statement that it does not support the particular director's or individual's re-election or election.</li> <li>▪ If the director is overcommitted and does not have sufficient time available to fulfil his/her responsibilities to the company.</li> <li>▪ If the remuneration package provided by the company to the director is unjustified.</li> </ul>

	EPPF	
	EFFECTIVE DATE	1 July 2022
	REFERENCE NUMBER	EPPF IMU 005
DOCUMENT TITLE	PROXY VOTING POLICY AND GUIDELINES	

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		<ul style="list-style-type: none"> <li>▪ If the external auditor has expressed concern about the board's conduct or individual director's conduct.</li> <li>▪ If there has been a significant deterioration of the investee company's financial and ESG performance as a result of the director's conduct.</li> <li>▪ If the director's past conduct in his/her capacity as director of the investee company or any other company does not justify his election/re-election, including where a director's conduct has caused significant financial harm to the company, where criminal charges have been brought against the director, where significant</li> </ul>


	EPPF	
	EFFECTIVE DATE	1 July 2022
	REFERENCE NUMBER	EPPF IMU 005
DOCUMENT TITLE	PROXY VOTING POLICY AND GUIDELINES	

Resolution	EPPF votes FOR:	EPPF votes AGAINST:
		<p>legal findings have been made against the director, or where significant legal proceedings have been instituted against the director.</p> <ul style="list-style-type: none"> <li>If, in the case of re-election of directors of carbon critical sector companies, no short-, medium- and long-term targets are disclosed for at least Scope 1 and 2 GHG emissions.</li> </ul>
<b>8. Election and/or re-election of non-executive directors</b>	<ul style="list-style-type: none"> <li>If the director has the appropriate qualifications or skills and experience to function effectively as a member of the specific company's board.</li> <li>If the director's attendance record at board and committee meetings held during the reporting period justifies his/her</li> </ul>	<ul style="list-style-type: none"> <li>If the director does not have the appropriate qualifications or skills and experience to function effectively as a member of the specific company's board.</li> <li>If the director's attendance record at board and</li> </ul>


	EPPF	
	EFFECTIVE DATE	1 July 2022
	REFERENCE NUMBER	EPPF IMU 005
DOCUMENT TITLE	PROXY VOTING POLICY AND GUIDELINES	

Resolution	EPPF votes FOR:	EPPF votes AGAINST:
	<p>continued membership on the board of directors.</p> <ul style="list-style-type: none"> <li>▪ If the remuneration package provided by the company to the director is justified.</li> <li>▪ If the director is not overcommitted (i.e. does not sit on more than 5 listed company boards) and has sufficient time available to fulfil his/her responsibilities to the company.</li> <li>▪ If a brief professional profile of the director, including his/her existing professional commitments, has been disclosed to enable shareholders to evaluate the director.</li> </ul>	<p>committee meetings held during the reporting period does not justify his/her continued membership on the board of directors and no sound explanation has been provided for such non-attendance.</p> <ul style="list-style-type: none"> <li>▪ If no information on the director's background and professional profile is available.</li> <li>▪ If the board has confirmed in a statement that it does not support the particular director's or individual's re-election or election.</li> <li>▪ If the director is overcommitted and does not have sufficient time available to fulfil his/her responsibilities to the company.</li> </ul>




	EPPF	
	EFFECTIVE DATE	1 July 2022
	REFERENCE NUMBER	EPPF IMU 005
DOCUMENT TITLE	PROXY VOTING POLICY AND GUIDELINES	


Resolution	EPPF votes FOR:	EPPF votes AGAINST:
		<ul style="list-style-type: none"> <li>▪ If the remuneration package provided by the company to the director is unjustified</li> <li>▪ If the director is a member of the audit committee.</li> <li>▪ If the external auditor has expressed concern about the board's conduct or individual director's conduct.</li> <li>▪ If there has been a significant deterioration of the investee company's financial and ESG performance as a result of the director's conduct.</li> <li>▪ If the director's past conduct in his/her capacity as director of the investee company or any other company does not justify his election/re-election, including where a director's conduct</li> </ul>

	EPPF	
	EFFECTIVE DATE	1 July 2022
	REFERENCE NUMBER	EPPF IMU 005
DOCUMENT TITLE	PROXY VOTING POLICY AND GUIDELINES	


Resolution	EPPF votes FOR:	EPPF votes AGAINST:
		<p>has caused significant financial harm to the company, where criminal charges have been brought against the director, where significant legal findings have been made against the director, or where significant legal proceedings have been instituted against the director.</p> <ul style="list-style-type: none"> <li>▪ If, in the case of re-election of directors of carbon critical sector companies, no short-, medium- and long-term targets are disclosed for at least Scope 1 and 2 GHG emissions.</li> </ul>
<p><b>9. Authority to place unissued shares under the control of directors</b></p>	<ul style="list-style-type: none"> <li>▪ If the purpose of the envisaged issue of shares is to raise funds for corporate actions already in the implementation stage</li> </ul>	<ul style="list-style-type: none"> <li>▪ If no compelling reason is provided for the proposal.</li> <li>▪ Issues that are not compelling are:</li> </ul>

	EPPF	
	EFFECTIVE DATE	1 July 2022
	REFERENCE NUMBER	EPPF IMU 005
DOCUMENT TITLE	PROXY VOTING POLICY AND GUIDELINES	


Resolution	EPPF votes FOR:	EPPF votes AGAINST:
	<p>and/or BBBEE deals.</p> <ul style="list-style-type: none"> <li>If the dilutive effect on shareholder value of the envisaged issue of shares will, if future, be compensated for by an increase in shareholder value arising from the particular corporate actions or BBBEE deals.</li> </ul>	<ul style="list-style-type: none"> <li>Provision of flexibility.</li> <li>A need to award an indeterminate number of shares to directors.</li> </ul>
<b>10. Authority to issue shares for cash</b>	<ul style="list-style-type: none"> <li>If the purpose of the envisaged issue of shares is to raise funds for corporate actions already in the implementation stage and/or BBBEE deals.</li> <li>If the dilutive effect on shareholder value of the envisaged issue of shares will, if future, be compensated for by an increase in shareholder value arising from the particular corporate actions or BBBEE deals.</li> <li>If the company informs shareholders that it needs to raise cash</li> </ul>	<ul style="list-style-type: none"> <li>If no compelling reason that will enhance shareholder value is advanced by management.</li> </ul>

	EPPF	
	EFFECTIVE DATE	1 July 2022
	REFERENCE NUMBER	EPPF IMU 005
DOCUMENT TITLE	PROXY VOTING POLICY AND GUIDELINES	


Resolution	EPPF votes FOR:	EPPF votes AGAINST:
	and no other avenue for raising cash is available.	
<b>11. Authority for the company and/or any of its subsidiaries to repurchase or purchase, shares in the company</b>	<ul style="list-style-type: none"> <li>▪ The Fund will generally support proposals to repurchase shares as share repurchases are generally beneficial to shareholders.</li> <li>▪ If the proposed repurchase or purchase of shares is in line with the requirements of the Companies Act 71 of 2008 and the applicable Listings Requirements of the JSE.</li> <li>▪ If there are no worthwhile investable projects available in the opinion of management.</li> </ul>	<ul style="list-style-type: none"> <li>▪ If this is deemed to be against creating shareholder value (this is a very rare occurrence).</li> <li>▪ If the resolution does not comply with the minimum statutory disclosure requirements and the Listings Requirements of the JSE.</li> <li>▪ If the proposal is to repurchase shares off-market and the maximum price at which the company is to purchase such shares has not been specified.</li> </ul>
<b>12. Approval of a new directors' remuneration structure or incentive scheme</b>	<ul style="list-style-type: none"> <li>▪ If it is reasonable and the structure is rational.</li> <li>▪ If there is transparency regarding the terms of the structure or scheme, including adequate disclosure of</li> </ul>	<ul style="list-style-type: none"> <li>▪ If the structure is considered to be biased in favour of management, rather than the alignment of the interests of both shareholders</li> </ul>

	EPPF	
	EFFECTIVE DATE	1 July 2022
	REFERENCE NUMBER	EPPF IMU 005
DOCUMENT TITLE	PROXY VOTING POLICY AND GUIDELINES	


Resolution	EPPF votes FOR:	EPPF votes AGAINST:
	<p>the performance criteria, the specific metrics and targets utilised as well as an explanation for such performance for the performance criteria utilised.</p> <ul style="list-style-type: none"> <li>▪ If it correctly aligns the interests of management and shareholders.</li> <li>▪ If it contains appropriate performance measures</li> </ul>	<p>and management.</p> <ul style="list-style-type: none"> <li>▪ If material information in relation to the rules of the structure or scheme has not been provided.</li> <li>▪ If the structure or scheme gives a lot of discretion to the remuneration committee in regard to the determination of performance-based remuneration.</li> </ul>
13. Approval of the directors' remuneration policy	<ul style="list-style-type: none"> <li>▪ If there is transparency regarding the objectives of the policy on fair, responsible and transparent remuneration and the manner in which the policy seeks to achieve those objectives.</li> <li>▪ If there is transparency regarding all the components of directors' and executive remuneration</li> </ul>	<ul style="list-style-type: none"> <li>▪ If there is lack of transparency in the policy.</li> <li>▪ If the policy fails to properly align the interests of management and shareholders.</li> <li>▪ If the policy does not incorporate ESG (including climate change) targets as key performance indicators.</li> <li>▪ If, in the event that</li> </ul>

	EPPF	
	EFFECTIVE DATE	1 July 2022
	REFERENCE NUMBER	EPPF IMU 005
DOCUMENT TITLE	PROXY VOTING POLICY AND GUIDELINES	

Resolution	EPPF votes FOR:	EPPF votes AGAINST:
	<p>packages and termination payments as well as the fees for non-executive directors.</p> <ul style="list-style-type: none"> <li>▪ If the policy adequately addresses the basis for the determination of the remuneration of directors and executives.</li> <li>▪ If the policy correctly aligns the interests of management and shareholders.</li> <li>▪ If the policy incorporates ESG (including climate change) targets as key performance indicators.</li> </ul>	<p>the policy and/or the remuneration report (implementation report) was voted against by 25% or more of the voting rights exercised during the preceding reporting period, the policy has not appropriately addressed the reasonable concerns raised.</p> <ul style="list-style-type: none"> <li>▪ If the remuneration committee is not constituted in line with this policy.</li> </ul>
<b>14. Approval of the directors' remuneration report (Implementation report)</b>	<ul style="list-style-type: none"> <li>▪ If the report contains all the information that must be disclosed pursuant to the Companies Act 71 of 2008.</li> <li>▪ If there is transparency regarding all the components of the remuneration</li> </ul>	<ul style="list-style-type: none"> <li>▪ If there is lack of transparency regarding all the components of the remuneration packages received or receivable by each executive director or prescribed officer of</li> </ul>


	EPPF	
	EFFECTIVE DATE	1 July 2022
	REFERENCE NUMBER	EPPF IMU 005
DOCUMENT TITLE	PROXY VOTING POLICY AND GUIDELINES	

Resolution	EPPF votes FOR:	EPPF votes AGAINST:
	<p>packages received or receivable by each executive director or prescribed officer of the company during the reporting period.</p> <ul style="list-style-type: none"> <li>▪ If there is transparency regarding the performance measures used in the determination of variable remuneration, including the specific targets used and how the company and each executive director or prescribed officer performed in relation to the targets.</li> <li>▪ If there is transparency regarding any termination payments awarded during the reporting period.</li> <li>▪ If there is transparency regarding compliance with the remuneration policy.</li> <li>▪ If the total remuneration packages received by the directors are fair</li> </ul>	<p>the company during the reporting period.</p> <ul style="list-style-type: none"> <li>▪ If there is lack of transparency regarding the performance criteria used to determine variable remuneration as well as the linkage with the company's strategic objectives, performance and long term value.</li> <li>▪ If there is lack of transparency regarding any termination payments awarded during the reporting period.</li> <li>▪ If there is no clear linkage between the remuneration policy and the implementation report.</li> <li>▪ If the total remuneration packages received by the directors are considered to be</li> </ul>


	EPPF	
	EFFECTIVE DATE	1 July 2022
	REFERENCE NUMBER	EPPF IMU 005
DOCUMENT TITLE	PROXY VOTING POLICY AND GUIDELINES	

Resolution	EPPF votes FOR:	EPPF votes AGAINST:
	<p>and reasonable in view of the company's and individual directors' performance, market trends, peers and good pay-for-performance practices.</p> <ul style="list-style-type: none"> <li>If the remuneration report correctly aligns the interests of management and shareholders.</li> </ul>	<p>excessive in view of the company's and individual directors' performance, market trends, peers and good pay-for-performance practices.</p> <ul style="list-style-type: none"> <li>If the remuneration report fails to properly align the interests of management and shareholders.</li> <li>If, in the event that the policy and/or the remuneration report (implementation report) was voted against by 25% or more of the voting rights exercised during the preceding reporting period, the company has not addressed the reasonable concerns raised.</li> </ul>
<b>15. Approval of non-executive directors' remuneration for their</b>	<ul style="list-style-type: none"> <li>If there is transparency regarding all the fees awarded to individual non-executive directors</li> </ul>	<ul style="list-style-type: none"> <li>If there is lack of transparency regarding all the fees awarded to</li> </ul>




	EPPF	
	EFFECTIVE DATE	1 July 2022
	REFERENCE NUMBER	EPPF IMU 005
DOCUMENT TITLE	PROXY VOTING POLICY AND GUIDELINES	


Resolution	EPPF votes FOR:	EPPF votes AGAINST:
services as directors	<p>and the basis for the computation of such fees during the relevant reporting period.</p> <ul style="list-style-type: none"> <li>▪ If the fees consist of an annual fee and fees for attending the board and committee meetings.</li> <li>▪ If the fees are fair and reasonable in view of the size of the company and the responsibilities of the non-executive directors</li> <li>▪ If the fees are in line with industry norms and those payable by peers.</li> <li>▪ If the fees are not excessive as to compromise the independence and objectivity of the non-executive directors.</li> <li>▪ If the non-executive directors do not receive share options.</li> </ul>	<p>individual non-executive directors and the basis for the computation of such fees during the relevant reporting period.</p> <ul style="list-style-type: none"> <li>▪ If the fees are out of line with industry norms.</li> <li>▪ If the fees are excessive and may influence the non-executive directors' independence and objectivity.</li> <li>▪ If the non-executive directors receive share options.</li> <li>▪ If the non-executive directors receive ad hoc fees.</li> <li>▪ If the fees include ex gratia payments.</li> <li>▪ If the fees include retirement benefits for non-executive directors.</li> </ul>
16. Authority to declare a final dividend	<ul style="list-style-type: none"> <li>▪ The Fund will generally support the board's</li> </ul>	<ul style="list-style-type: none"> <li>▪ If the dividend is deemed to be</li> </ul>

	EPPF	
	EFFECTIVE DATE	1 July 2022
	REFERENCE NUMBER	EPPF IMU 005
DOCUMENT TITLE	PROXY VOTING POLICY AND GUIDELINES	


Resolution	EPPF votes FOR:	EPPF votes AGAINST:
	<p>proposals regarding the payment of dividends.</p> <ul style="list-style-type: none"> <li>▪ If there is sufficient explanation and justification in the event of dividend policy changes.</li> <li>▪ If the dividend payout ratio is supported by the financial performance of the company and is sustainable.</li> </ul>	<p>unjustifiably low.</p> <ul style="list-style-type: none"> <li>▪ If there is no explanation or disclosure when dividend policy changes.</li> </ul>
<b>17. Authority to offer shareholders dividends in shares instead of cash</b>	<ul style="list-style-type: none"> <li>▪ The Fund will generally support scrip dividends as they are beneficial to the company and shareholders.</li> <li>▪ If the shareholders have been given an option to receive the dividend in cash.</li> </ul>	<ul style="list-style-type: none"> <li>▪ If the shareholders have not been given an option to receive the dividend in cash.</li> </ul>
<b>18. Amendments to the Memorandum of Incorporation of the company</b>	<ul style="list-style-type: none"> <li>▪ This depends on the specific issues, be they valuation or otherwise.</li> <li>▪ Inputs from equity managers to be sought if the issues relate to equity valuation or</li> </ul>	<ul style="list-style-type: none"> <li>▪ This depends on the specific issues, the inputs from equity managers as well as the applicable legal and regulatory requirements.</li> </ul>

	EPPF	
	EFFECTIVE DATE	1 July 2022
	REFERENCE NUMBER	EPPF IMU 005
DOCUMENT TITLE	PROXY VOTING POLICY AND GUIDELINES	


Resolution	EPPF votes FOR:	EPPF votes AGAINST:
	<p>directly affect the investment case.</p> <ul style="list-style-type: none"> <li>If the purpose of the amendments is to comply with the law and applicable Listings Requirements.</li> </ul>	<ul style="list-style-type: none"> <li>If the proposed amendments are in violation of, or inconsistent with, the law or applicable Listings Requirements.</li> </ul>
<b>19. Odd lot offers</b>	<ul style="list-style-type: none"> <li>The Fund will generally support odd lot offers.</li> </ul>	<ul style="list-style-type: none"> <li>Generally, the Fund will not vote against these resolutions, unless there are exceptional circumstances.</li> </ul>
<b>20. To authorise the company to provide shareholders with shorter than 15 business days' notice of shareholder meetings</b>	<ul style="list-style-type: none"> <li>There is seldom, if ever, justification to vote in favour of resolutions such as these. There has to be very exceptional circumstances to vote in favour of this resolution.</li> </ul>	<ul style="list-style-type: none"> <li>The Fund will generally vote against these resolutions.</li> </ul>
<b>21. Authority to provide financial assistance</b>	<ul style="list-style-type: none"> <li>If the financial assistance is to be provided to the company's subsidiaries and/or other companies or entities that are related or inter-related to the company</li> </ul>	<ul style="list-style-type: none"> <li>If financial assistance is to be provided to any of the present or future directors or prescribed officers of the company.</li> </ul>

	EPPF	
	EFFECTIVE DATE	1 July 2022
	REFERENCE NUMBER	EPPF IMU 005
DOCUMENT TITLE	PROXY VOTING POLICY AND GUIDELINES	


Resolution	EPPF votes FOR:	EPPF votes AGAINST:
	<p>in compliance with section 45 of the Companies Act 71 of 2008.</p> <ul style="list-style-type: none"> <li>If the financial assistance is to be provided to specified persons for subscription of the company's securities in compliance with section 44 of the Companies Act 71 of 2008.</li> <li>If the purpose of the financial assistance has been specified.</li> <li>If the company has disclosed that the provision of financial assistance complies with the applicable legal and regulatory requirements.</li> <li>If the provision of the financial assistance is in line with shareholder interests.</li> </ul>	<ul style="list-style-type: none"> <li>If the recipients or category of the recipients of the financial assistance have not been specified.</li> <li>If the purpose of the financial assistance has not been specified.</li> <li>If the provision of financial assistance is against the legal and regulatory requirements.</li> <li>If the provision of the financial assistance is not in line with shareholder interests.</li> </ul>
22. To authorise management to implement the	<ul style="list-style-type: none"> <li>If the Fund has voted in favour of the proposals to which this resolution</li> </ul>	<ul style="list-style-type: none"> <li>If the Fund has voted against of the proposals to which</li> </ul>

	EPPF	
	EFFECTIVE DATE	1 July 2022
	REFERENCE NUMBER	EPPF IMU 005
DOCUMENT TITLE	PROXY VOTING POLICY AND GUIDELINES	


Resolution	EPPF votes FOR:	EPPF votes AGAINST:
resolutions tabled at the same meeting	pertains.	this resolution pertains.
23. Debenture Holders scheme meeting as per a High Court ruling	<ul style="list-style-type: none"> <li>This depends on the specific issues, be they valuation or otherwise. Inputs from equity managers to be sought.</li> <li>Refer to specific procedure to be followed.</li> </ul>	<ul style="list-style-type: none"> <li>Same as for in favour.</li> </ul>
24. Authority to issue convertible securities	<ul style="list-style-type: none"> <li>This depends on the specific issues, be they valuation or otherwise. Inputs from equity managers to be sought if it is deemed to be a valuation issue.</li> <li>Refer to specific procedure to be followed.</li> </ul>	<ul style="list-style-type: none"> <li>If this is deemed to be a way for the board to circumvent the Fund's Policy relating to the issuing of shares.</li> </ul>
25. Authority to increase the authorised share capital	<ul style="list-style-type: none"> <li>If the company has provided an appropriate justification for increasing the authorised share capital.</li> <li>If the company wants to have enough shares to enable it to issue</li> </ul>	<ul style="list-style-type: none"> <li>If the company has not provided any appropriate justification for increasing the authorised share capital.</li> </ul>

	EPPF	
	EFFECTIVE DATE	1 July 2022
	REFERENCE NUMBER	EPPF IMU 005
DOCUMENT TITLE	PROXY VOTING POLICY AND GUIDELINES	

Resolution	EPPF votes FOR:	EPPF votes AGAINST:
	<p>shares to finance a transaction that is in the interests of the shareholders and that is in line with the Fund's Policy regarding corporate actions and the issuing of shares.</p> <ul style="list-style-type: none"> <li>If the company wants to have enough shares to enable it to issue shares as scrip dividends.</li> </ul>	
<b>26. Resolutions relating to corporate actions requiring shareholder approval</b>	<ul style="list-style-type: none"> <li>This depends on the specific issues, be they valuation or otherwise. Inputs from equity managers to sought.</li> <li>Refer to specific procedure to be followed.</li> </ul>	<ul style="list-style-type: none"> <li>Same as for in favour.</li> </ul>
<b>27. Resolutions relating to BBBEE deals</b>	<ul style="list-style-type: none"> <li>This depends on the specific issues, be they valuation or otherwise. Inputs from equity managers to be sought.</li> <li>Refer to specific procedure to be followed.</li> </ul>	<ul style="list-style-type: none"> <li>Same as for in favour.</li> </ul>


	EPPF	
	EFFECTIVE DATE	1 July 2022
	REFERENCE NUMBER	EPPF IMU 005
DOCUMENT TITLE	PROXY VOTING POLICY AND GUIDELINES	

Resolution	EPPF votes FOR:	EPPF votes AGAINST:
<b>28. Resolutions relating to environmental and climate change issues</b>	<ul style="list-style-type: none"> <li>▪ If the resolution seeks to promote board oversight of, and accountability for environmental and climate change issues, including disclosure of governance measures related to environmental and climate change issues.</li> <li>▪ If the resolution promotes the development of an environmental and climate change strategy that clearly articulates the company's commitment to addressing climate change, reduction of GHG emissions and management of climate change risks.</li> <li>▪ If the resolution seeks to promote disclosure and transparency on climate change risks and opportunities in line with the guidelines from the Task Force on</li> </ul>	<ul style="list-style-type: none"> <li>▪ If the ultimate oversight and accountability for environmental and climate change issues does not reside with the board of directors.</li> <li>▪ If the resolution does not support the development and adoption of an environmental and climate change strategy that clearly articulates the company's commitment to addressing climate change, reduction of GHG emissions and management of climate change risks.</li> <li>▪ If the resolution is not linked to measurable time-specific GHG emissions reduction targets.</li> <li>▪ If the environmental and climate change</li> </ul>

	EPPF	
	EFFECTIVE DATE	1 July 2022
	REFERENCE NUMBER	EPPF IMU 005
DOCUMENT TITLE	PROXY VOTING POLICY AND GUIDELINES	

Resolution	EPPF votes FOR:	EPPF votes AGAINST:
	<p>Climate-related Financial Disclosures (TCFD).</p> <ul style="list-style-type: none"> <li>▪ If the resolution seeks to promote GHG emissions disclosures and reduction, including requiring the company to adopt GHG emissions reduction targets and goals towards net-zero emissions, in line with global and local climate goals.</li> <li>▪ If the resolution seeks to promote the incorporation of renewable energy and energy efficiency in the company's business strategy.</li> <li>▪ If the resolution seeks to link environmental and climate change targets and/or strategy to executive remuneration and incentives.</li> </ul>	<p>targets are not linked to the governance, strategy, and risk management of the company.</p> <ul style="list-style-type: none"> <li>▪ If the environmental and climate change strategy is not linked executive remuneration.</li> </ul>




	<b>EPPF</b>	
	<b>EFFECTIVE DATE</b>	<b>1 July 2022</b>
	<b>REFERENCE NUMBER</b>	<b>EPPF IMU 005</b>
<b>DOCUMENT TITLE</b>	<b>PROXY VOTING POLICY AND GUIDELINES</b>	

## 6. STANDARD RESOLUTION GUIDELINES

The following are the resolutions that are frequently put to shareholder vote at shareholder meetings:

- i. Shareholder approval of the company's annual financial statements and the reports of the directors.
- ii. Shareholder approval for appointment of auditors.
- iii. Approval of directors' remuneration policy.
- iv. Approval of directors' remuneration implementation report.
- v. Election and/or re-election of directors.
- vi. Election and/or re-election of audit committee members.
- vii. Approval of a new directors' remuneration structure.
- viii. Shareholder approval for unissued shares to be placed under the control of the directors until the next annual general meeting.
- ix. Shareholder approval for the issuing of shares to raise cash.
- x. Shareholder approvals for the company to repurchase shares.
- xi. Dividends, odd lots and capitalization issues.
- xii. Renouncement of pre-emptive rights.
- xiii. Issuing new share classes.
- xiv. Amendment to the Memorandum of Incorporation of the company.
- xv. Providing financial assistance to related or inter-related companies or corporations.
- xvi. Providing financial assistance for subscription or purchase of the company's

	<b>EPPF</b>	
	<b>EFFECTIVE DATE</b>	<b>1 July 2022</b>
	<b>REFERENCE NUMBER</b>	<b>EPPF IMU 005</b>
<b>DOCUMENT TITLE</b>	<b>PROXY VOTING POLICY AND GUIDELINES</b>	

securities

EPPF will vote on these standard resolutions in line with its Voting Guidelines, which should be clear in terms of which way to vote.


## 6.1 THE ANNUAL FINANCIAL STATEMENTS AND THE REPORTS OF DIRECTORS

This is a routine item/s requiring shareholders to receive and approve the company's financial statements and reports of the directors and auditors in the annual report.

Section 30(3) of the Companies Act 71 of 2008 requires that the annual financial statements of a company be approved by the board, signed by an authorised director and be presented to the first shareholders meeting after the statements have been approved by the board. Furthermore, section 61(8) of the Companies Act 71 of 2008 provides that a public company must convene an annual general meeting of its shareholders which must, amongst other things, provide for the presentation of the directors' report, audited financial statements for the preceding financial year, and an audit committee report. Although not required by the Companies Act 71 of 2008, it is common practice for companies to table a resolution calling on shareholders to approve the financial statements. This resolution is usually interpreted to mean that the shareholders have read and considered the statements placed before them and are not voting on other resolutions without having read the financial statements.

The following issues should be considered:

- Is the audit report qualified and/or are there significant concerns regarding the correctness and transparency of information on the performance and solvency of the company?
- If there is a qualification? Does it relate to managerial failures? Or is it one of very rare situations where the audit qualification relates to a matter outside the control of the Board of Directors? Is the audit opinion disclaimed or qualified in terms of "going concern"?
- How does the report of the chairman, the CEO and the financial statements compare

	EPPF	
	EFFECTIVE DATE	1 July 2022
	REFERENCE NUMBER	EPPF IMU 005
DOCUMENT TITLE	PROXY VOTING POLICY AND GUIDELINES	

to that published in the previous annual report and do they realistically relate to the results of the annual financial statements?

- Are the notes and explanations sufficient to judge important issues facing the company or are they designed to skip or to minimize potential issues? Incompleteness affecting material issues that are potentially detrimental to shareholder value may be grounds for a negative vote. This also relates to non-financial information provided to shareholders.
- Have the annual financial statements been prepared in accordance with International Financial Reporting Standards and in compliance with applicable legal requirements?
- Are there any important issues, which may have a materially detrimental effect on the company, hidden away in footnotes?
- Is there any other relevant and material issue where disclosure is lacking?

EPPF will vote FOR the presentation and/or approval of financial statements as well as the reports of directors, committees and auditors if the audit report is not qualified and if there are no significant concerns regarding the correctness and transparency of information on the performance and solvency of the company.


*A vote AGAINST this resolution tends to be a symbolic vote, which is aimed at sending a strong message to the company that there is a significant omission from the financial statements and reports that have been presented to shareholders, or that the statements and reports have been compiled in a problematic manner.*

*A vote AGAINST this resolution should always be accompanied by a clear explanation as to what the negative vote relates to.*

## 6.2 ELECTION OR RE-ELECTION OF THE EXTERNAL AUDITOR

### a) Shareholder approval for the appointment of auditors


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

	<b>EPPF</b>	
	<b>EFFECTIVE DATE</b>	<b>1 July 2022</b>
	<b>REFERENCE NUMBER</b>	<b>EPPF IMU 005</b>
<b>DOCUMENT TITLE</b>	<b>PROXY VOTING POLICY AND GUIDELINES</b>	

Companies Act 71 of 2008 requires the annual reappointment of the company's auditors at an annual general meeting to hold office until the next annual general meeting (s90(1) and s61(8)(c)). The right of shareholders to appoint the auditors is indicative of the fact that the Auditors are appointed by the shareholders to provide them with external opinion with respect to the financial performance and affairs of the company. The audit committee plays a central role in selecting and monitoring the auditors, to ensure that the audit remains independent. In this respect, it is crucial that the audit committee is composed of only independent non-executive directors.

EPPF will take the following matters into consideration when voting on the election or re-election of auditors:

- The competence and capacity of the audit firm to carry out a proper audit, given the nature and extent of the work to be performed (e.g. whether a small or a medium-sized firm has the resources and capacity to manage a quality audit of large company).
- Whether there are relationships between the audit firm and senior members of the company's management team creating actual or potential conflicts of interest.
- Whether the audit firm has a history of audit failures. The most important potential failures facing auditors are threefold:
  - Stating an incorrect audit opinion.
  - Reluctance to state an opinion which reflects negatively on management, but which is essentially a correct audit opinion.
  - Conflict of interest situations because of present and previous relationships.
- Whether the audit committee, in recommending the audit firm to shareholders, followed due process.
- Whether the company previously had material restatements or delayed the filing of its financial statements as a result of fault on the part of the proposed auditor.


	EPPF	
	EFFECTIVE DATE	1 July 2022
	REFERENCE NUMBER	EPPF IMU 005
DOCUMENT TITLE	PROXY VOTING POLICY AND GUIDELINES	

- Whether any one of the audit partners or managers served as director or prescribed officer of the company, or an employee or consultant of the company involved in the maintenance of the company's records or preparation of its financial statements, or a director or officer or employee of the company secretary, or a bookkeeper or accountant of the company at any time during the previous five financial years.
- Whether the audit firm performs any non-audit related work for the company. If so:
- How material is the work in the non-audit work in monetary terms?
- Has this relationship has been disclosed in an adequate and transparent manner.
- Was the tender process for the said non-audit work independent, transparent and fair?
- Whether the tenure of the audit firm or audit partner/manager has been disclosed. There should be a rotation of audit partners. The term of audit partners should be a maximum of five consecutive years (section 92 of the Companies Act 71 of 2008). Thereafter new partners or audit firm should be appointed.
- Where joint auditors are appointed, two or more audit firms should be elected by way of separate resolutions.

**b) Proposal to change auditors.**

Reasons need to be provided when there is a proposal to change a company's auditors. This is particularly pertinent where auditors have resigned or have been removed by the board of directors.

Where the auditor is removed by the board in terms of Section 91(6) read with Section 89 of the Companies Act 71 of 2008, there must be endeavors to ensure that the auditor is given the opportunity to make representations and the company should include a statement in its annual financial statements relating to that financial year setting out the auditor's contention, if any, as to the circumstances that resulted in the removal. A copy of a written notification that the auditors are of the opinion that there were no material irregularities in terms of the requirements of the Companies Act 71 of 2008 should be included in the documentation sent

	<b>EPPF</b>	
	<b>EFFECTIVE DATE</b>	<b>1 July 2022</b>
	<b>REFERENCE NUMBER</b>	<b>EPPF IMU 005</b>
<b>DOCUMENT TITLE</b>	<b>PROXY VOTING POLICY AND GUIDELINES</b>	

to shareholders in the information pack before the meeting.

While changes of the company's auditors are not always negative, the company should provide a clear and appropriate explanation for the change of its external auditor.

#### **c) Remuneration of auditors**

Shareholders' approval on the remuneration of auditors is a symbolic resolution intended to convey to shareholders that they employ the auditor, as the ratification of their appointment would imply. In effect, the remuneration and the terms of engagement of the auditor is determined by the audit committee (s 94(7)(b) of the Companies Act 71 of 2008). Thus, the remuneration of auditors may not be a separate resolution at the AGM. If presented to shareholder vote, a significant message can be sent to the company, and appropriate questions can be raised with respect to the size and components of the audit fee, and the procedure surrounding defining the scope of the audit.

EPPF will take the following matters into consideration when voting on the resolution to approve the remuneration of the external auditor:

Remuneration relative to prior year and other benchmarks (e.g. competitors, similar audits, inflation)

The level of disclosure required for non-audit work performed by the company's auditors.


The remuneration for all non-audit work performed and whether this remuneration is reasonable given its nature and extent.

Whether the audit committee has issued a statement with respect to the scope and extent of non-audit work performed by the auditor, with an undertaking that measures were taken to ensure that conflicts of interest did not occur.

Any issues highlighted during the current year that could call into question the appropriateness of prior audit opinions (e.g. restatement of prior year results due to errors).

#### **d) Indemnification of external auditors**

Companies and their auditors may enter into an indemnity agreement, protecting the auditors

	<b>EPPF</b>	
	<b>EFFECTIVE DATE</b>	<b>1 July 2022</b>
	<b>REFERENCE NUMBER</b>	<b>EPPF IMU 005</b>
<b>DOCUMENT TITLE</b>	<b>PROXY VOTING POLICY AND GUIDELINES</b>	

from liability. The role of the auditor is to remain objective and provide independent professional oversight. An indemnity agreement would, therefore, pose a conflict of interest.

*EPPF will vote AGAINST proposals to indemnify a company's auditors.*

### **6.3 ELECTION AND/OR RE-ELECTION OF DIRECTORS**


Directors have a fiduciary duty to shareholders and the company they serve. Shareholders elect corporate directors to hire, monitor, compensate and, if necessary, dismiss senior management. The board is at the apex of corporate governance. Directors appointed to the board are the most important contact point between shareowners and the assets that they own. As a shareholder, EPPF thus places considerable trust in the board of directors to operate in our long-term interests, and to display the strength, intuition, diligence and independence required to hold this office. For directors to effectively discharge these responsibilities, they must be highly qualified, diligent in the performance of their duties, committed to high ethical standards, and independent of the company management they oversee.

There should be a nominations committee to assist the board with the formal and transparent procedures leading to board appointments; to review and evaluate the board's mix of skills, experience and diversity; and to review and evaluate all board committees and the contribution of each director. The nomination committee should conduct its own research and vetting on possible board candidates, including candidates nominated by a shareholder.

A brief CV of each candidate, indicating relevant experience and qualifications should be provided to shareholders at least 15 business days before the date of the shareholders meeting at which directors are elected. The appointment of any director by the board during a financial year should be confirmed by a resolution of the shareholders at the following shareholders meeting.

#### **a) Responsibility**

Directors should act in the long-term interests of the company as a whole, including the shareholders, as well as taking into account the legitimate and reasonable stakeholder concerns.

	<b>EPPF</b>	
	<b>EFFECTIVE DATE</b>	<b>1 July 2022</b>
	<b>REFERENCE NUMBER</b>	<b>EPPF IMU 005</b>
<b>DOCUMENT TITLE</b>	<b>PROXY VOTING POLICY AND GUIDELINES</b>	

All directors are responsible for the board's actions, and all are equally accountable to the shareholders.

**b) Board composition, balance and diversity**

King IV recommends that the board should comprise a majority of non-executive directors, most of whom should be independent non-executive directors so that the interests of shareholders (including minority shareholders) can be protected.

EPPF does not disregard the fact that non-executive directors who are not regarded as independent make a significant contribution to the board. However, there should be a sufficient number of independent non-executive directors so that the shareholders' interests are adequately protected.

Such directors should chair and play a significant role on the committees of the board, especially the Audit, Nominations and Remuneration Committees.

There should be an appropriate balance between executive non-executive and independent non-executive directors presently on the board and the balance of these in the various board committees.

There should be a sufficient number of directors that qualify to serve on the various committees of the board (Principle 7 of King IV).


The board should have a sufficient number of directors in order to comply with all applicable legal and regulatory requirements.

There should be an appropriate balance of knowledge, skills, experience, diversity and independence in relation to composition of the board for it to discharge its governance role and responsibilities objectively and effectively (Principle 7 of King IV).

The board or the nomination committee must have a gender diversity policy or targets for gender diversity at board level (Paragraph 3.84(k) of the JSE Listing Requirements and Principle 7 of King IV).

There should be a systematic evaluation and rotation of directors as well as board



	<b>EPPF</b>	
	<b>EFFECTIVE DATE</b>	<b>1 July 2022</b>
	<b>REFERENCE NUMBER</b>	<b>EPPF IMU 005</b>
<b>DOCUMENT TITLE</b>	<b>PROXY VOTING POLICY AND GUIDELINES</b>	

refreshment so as to introduce directors with fresh expertise and new perspectives while retaining valuable skills and experience and maintaining the necessary continuity.

*EPPF will FOR resolutions that support or maintain balance and demographic diversity on company boards.*

*EPPF will SUPPORT board mentorship programmes for directors who are inexperienced and from less represented groups.*

*EPPF will vote to maintain a majority of directors on the board and board committees, who are both independent and non-executive.*

*EPPF will oppose the nomination of individual directors that would result in the board not having a majority of non-executive directors, most of whom are independent, or that would undermine the diversity targets relating to the board's composition.*

### **c) Nomination of directors**


Companies should have a mechanism whereby shareholders may nominate candidates for director positions. A clear process for the nomination of directors by shareholders should be laid out in a company's Memorandum of Incorporation.

EPPF will consider nominating a range of independent candidates to a company's board only under exceptional circumstances but may also request the company to put forward additional independent candidates to the nominations committee and/or shareholder vote.

EPPF requires that an abridged CV be included for each of the directors being proposed for election/re-election, along with a clear motivation on the contribution that the director being nominated will make to improving / maintaining the quality of the board.

EPPF will not nominate one of its own staff members or any person directly associated with it. EPPF should have an arm's length relationship with such a candidate, so as to ensure that the candidate is deemed to be fully independent.

Nominations should be considered and/or requested where there is a lack of diversity and independent candidates on the board.

	<b>EPPF</b>	
	<b>EFFECTIVE DATE</b>	<b>1 July 2022</b>
	<b>REFERENCE NUMBER</b>	<b>EPPF IMU 005</b>
<b>DOCUMENT TITLE</b>	<b>PROXY VOTING POLICY AND GUIDELINES</b>	

EPPF will follow due process with regard to such a nomination, firstly by recommending the candidate to the nominations committee of the company concerned. Should this not be successful, EPPF will consider proposing a resolution at a meeting of the company's shareholders in accordance with Section 61 of the Companies Act 71 2008.


#### **d) Independence**

For the purposes of determining the independence of directors, EPPF will consider independence in terms of the guidelines proposed in King IV. Any relationships or circumstances that are likely to affect, or could appear to affect, the director's judgment should be clearly disclosed in the Curriculum Vitae proposed to shareholders prior to a director's election or re- election.

An independent director is a director who has no material interest, position, association or relationship which is reasonably likely to influence the director's independence, objectivity and ability to perform functions and to exercise powers in the best interests of the company. This includes material interests, positions, associations or relationships with the company, persons related to the company, external auditor/s of the company, or other directors of the company. Personal relationships include friendships and family ties.

At a minimum, an independent director is someone who:


- Is not a representative of a shareholder who has the ability to control or significantly influence management.
- Does not have cross directorships which may influence his/her approach to managing this company.
- Receives no remuneration from the company apart from directors' fees.
- Has not been employed by the company or the group of which it currently forms part, in an executive capacity in any of the preceding three financial years.
- Is not a member of immediate family of an individual who is or has been in any of the past three financial years, employed by the company or the group in an executive capacity.

	<b>EPPF</b>	
	<b>EFFECTIVE DATE</b>	<b>1 July 2022</b>
	<b>REFERENCE NUMBER</b>	<b>EPPF IMU 005</b>
<b>DOCUMENT TITLE</b>	<b>PROXY VOTING POLICY AND GUIDELINES</b>	

- Is not a professional advisor to the company or the group other than in a director capacity.
- Has not been a significant supplier to, or customer of the company or group either in own capacity or through a related party for the past three years.
- Has no significant business or contractual relationship with the company or group.
- Does not hold securities in the company, the value of which is material to his/her personal wealth.
- Has not been the designated external auditor of the company or a key member of the audit team of the external firm during the past three years.
- Is free from any business or other relationship, which could be seen to materially interfere with the individual's capacity to act in an independent manner.
- Has not been a member of the board for more than nine years unless his independence has been assessed and confirmed by the board. Independent non-executive directors serving on the board for longer than nine years should be subjected to an assessment of their independence by the board every year and the board should provide a summary of its views on the independence of the particular director (Principle 7 of King IV). Such directors may continue to serve in an independent capacity if the board concludes that the particular director exercises objective judgment and there is no interest, position, association or relationship which is likely to unduly influence their decision making (Principle 7 of King IV). If the board fails to do this, EPPF will raise the matter with the company, with a view to affording the company an opportunity to provide a reasonable motivation for the re- election of the director concerned.

*EPPF will vote AGAINST individual directors who are deemed, either through research or engagement, to have lost their independence or who are not effective in executing their independent position.*

*EPPF will vote AGAINST any executive or non-executive directors who serve on the audit and/or remuneration committees.*

	EPPF	
	EFFECTIVE DATE	1 July 2022
	REFERENCE NUMBER	EPPF IMU 005
DOCUMENT TITLE	PROXY VOTING POLICY AND GUIDELINES	

*EPPF will vote AGAINST the chairman of the nomination committee (or the chairman of the social and ethics committee) if the company has not adopted a gender diversity policy or gender diversity targets as required by the JSE Listing Requirements and/or if the company does not have at least one female director on its board.*

**e) Concentration of power**

- No concentration of power should vest in the hands of a small quorum of directors.
- At least one third of non-executive directors should rotate annually.

*EPPF will vote FOR proposals that support having a majority of independent directors in the board.*

*EPPF will vote AGAINST proposals and directors that seek to concentrate power with a few individuals.*

**f) Blanket election or re-election of directors**

The appointment of each director should be by way of a separate resolution put to shareholder vote.

*EPPF will vote AGAINST any blanket resolutions for the appointment of directors.*


**f) Blanket election or re-election of board committee members**

The appointment of members of committees should be a separate resolution put to shareholder vote.

*EPPF will vote AGAINST any election or re-election of board committee members by single blanket resolutions.*

**g) Independent chair**

The chair of the board should be an independent non-executive director. In order to qualify as independent, the chair should have met the criteria for an independent non-executive director upon appointment and should have continued to do so. The chair should not be a member of the audit committee. Although the chair may be a member of the remuneration, risk and/or social and ethics committees, he/she may not chair these committees (Principle 7 of King IV).

	EPPF	
	EFFECTIVE DATE	1 July 2022
	REFERENCE NUMBER	EPPF IMU 005
DOCUMENT TITLE	PROXY VOTING POLICY AND GUIDELINES	

*EPPF will vote FOR resolutions that support the election of an independent non-executive chair, as this should ensure that the board represents the interest of shareholders, not management.*

*EPPF will vote AGAINST a chair who is not independent or effective.*

#### **h) Separate chair and CEO positions**

Given the board's role in holding executive directors and management accountable, the position of the board chair should be separate from operational responsibilities. The CEO of the company should not simultaneously serve as chair of the board (Principle 7 para 34 of King IV). The board should elect an independent non-executive director as chairman (Principle 7 para 32 of King IV). The separation of the CEO and chair ensure that there is a clear distinction between operations and oversight. The former CEO should not be appointed as the chairman of the same company until the lapsing of three complete years after the end of his/her tenure as CEO (Principle 7 of King IV).

*EPPF will vote AGAINST proposals to combine the role of chair and CEO.*

*EPPF will vote AGAINST the election of a former CEO as chair of the board before three years have lapsed after the end of the CEO's tenure.*


*EPPF will discourage the practice of the CEO moving into the position of chairman following their retirement, and in general will vote AGAINST such proposals.*

#### **i) Lead independent director**

The board should also appoint a lead independent non-executive director (Principle 7 para 32 of King IV), especially where the chair is not independent or is executive. The company should report the appointment of the lead independent non-executive director and the role and responsibilities assigned to the position. The lead independent non-executive director should be able to lead the board in the absence of the chairperson of the board, and to fulfil the functions of lead independent non-executive director in an objective and effective manner. It is preferable, where the chairman of the board is not independent, that a lead independent non-executive director should be accompanied by a majority of independent non-executive directors on the board and key committees of the board. The lead independent non-executive director should also attend shareholder meetings and make him/herself accessible to shareholders.

*EPPF will vote FOR the election of a lead independent non-executive director in cases where the chair is not independent.*

*EPPF will vote AGAINST the chair of the nominations committee where a company has failed to appoint an independent chair or a lead independent director in cases where the chair of the board is not independent.*

 <b>eppf</b>	<b>EPPF</b>	
	<b>EFFECTIVE DATE</b>	<b>1 July 2022</b>
	<b>REFERENCE NUMBER</b>	<b>EPPF IMU 005</b>
<b>DOCUMENT TITLE</b>	<b>PROXY VOTING POLICY AND GUIDELINES</b>	

**j) The structure and composition of board and its committees**

Considerations should include:

- Balance of the board, number of meetings, skills of members and meeting attendance.
- Capability and track record of board members.
- Composition and independence of the audit committee, number of meetings, skills of members and meeting attendance.
- Composition and independence of the remuneration committee.
- Composition and independence of the nominations committee and succession planning.
- Composition and effectiveness of the risk management committee.


The company should provide a comprehensive report in its corporate governance statement on the function of each committee and the guidelines that are followed in respect to these functions. The board committees' terms of reference should be reviewed yearly.

*EPPF will vote FOR proposals that support the creation and maintenance of independent and effective board committees.*

*EPPF will vote AGAINST any proposals that do not support the above considerations.*

**k) Capability and performance**

- The contribution of each board member and the effectiveness of the board as a whole is taken into consideration when evaluating directors or boards.
- Through its engagement program, EPPF will encourage companies to implement a formal and rigorous annual evaluation of the performance of the board, its committees and individual directors.
- The board should be balanced in terms of skills, experience and age as appropriate.
- New members of the board should have a comprehensive induction programme and

	<b>EPPF</b>	
	<b>EFFECTIVE DATE</b>	<b>1 July 2022</b>
	<b>REFERENCE NUMBER</b>	<b>EPPF IMU 005</b>
<b>DOCUMENT TITLE</b>	<b>PROXY VOTING POLICY AND GUIDELINES</b>	

should be mentored by more experienced members of the board.


- Committee membership should be continuously refreshed.
- Directors should attend all directors' meetings, including the annual general meeting.
- The performance of the company over the years since the director was previously put forward for election should be considered.
- Close attention needs to be paid to governance disclosure, strategic planning, stakeholder relationships and financial performance, as well as the committees that the director participated in.

*EPPF will vote FOR the election or re-election of individual directors in the following situations:*

- If the director has the appropriate qualifications or skills and experience to function effectively as a member of the specific company's board.
- If the director's attendance record at board and committee meetings held during the reporting period justifies his/her continued membership on the board of directors.
- If a brief professional profile of the director, including his/her existing professional commitments, has been disclosed to enable shareholders to evaluate the director.

*EPPF will vote AGAINST individual directors if any of the above items are not applied, including in the following situations:*

- If the director does not have the appropriate qualifications or skills and experience to function effectively as a member of the specific company's board.
- If the director's attendance record at board and committee meetings held during the reporting period does not justify his/her continued membership on the board of directors and no sound explanation has been provided for such non-attendance.
- If no information on the director's background and professional profile is available.
- If the board has confirmed in a statement that it does not support the director's or

	<b>EPPF</b>	
	<b>EFFECTIVE DATE</b>	<b>1 July 2022</b>
	<b>REFERENCE NUMBER</b>	<b>EPPF IMU 005</b>
<b>DOCUMENT TITLE</b>	<b>PROXY VOTING POLICY AND GUIDELINES</b>	


individual's re-election or election.

- If the director is associated with poor governance in the relevant company or in other companies.

#### **I) Director commitments**

- Every director should have sufficient time available to fulfil his/her responsibilities to the company. With the growing demands associated with fiduciary responsibilities of boards the effectiveness of some individuals spread across too many boards may be challenged.
- A list of every director's commitments should be disclosed in the annual report. Details of the candidate directors' other fiduciary and professional commitments (such as other directorships, trusteeships and curatorships) should accompany the proposal for their election or re-election. This should also include a confirmation that the candidate concerned has sufficient time available to fulfil the responsibilities as member of the specific board (Principle 7 paras 18-20 of King IV).
- The board should meet regularly (at least once a quarter) and disclose in the annual report the number of board and committee meetings held in the year and the details of attendance of each director (as applicable).
- Non-executive directors should carefully consider the number of professional commitments they assume to ensure that the companies on which they serve enjoy the full benefit of their expertise, experience and knowledge.
- Non-executive directors should preferably not sit on more than five boards of directors of listed companies.
- Executive directors should only hold other non-executive directorships to the extent that these do not interfere with their immediate management responsibilities. Executive directors may sit on the board subsidiary companies of the group. In such a case it would be preferable to only sit on a maximum of two subsidiaries boards.
- The board chair should preferably not sit on more than two of the JSE top 40 listed



	EPPF	
	EFFECTIVE DATE	1 July 2022
	REFERENCE NUMBER	EPPF IMU 005
DOCUMENT TITLE	PROXY VOTING POLICY AND GUIDELINES	

company boards and should be the chairperson of only one.

- Specialised board members such as the chairman of the audit committee should also guard against sitting on too many boards as chairman of the audit committee.

*EPPF will vote FOR the election or re-election of a director if the director is not overcommitted and has sufficient time available to fulfil his/her responsibilities to the company.*

*EPPF will vote AGAINST the election or re-election of individual directors who are deemed, either through research or engagement, to be overcommitted, have a poor attendance record at board and committee meetings, and who are not committed fully to the responsibilities of the specific board on which they serve.*

*Sustained non-attendance of both board and committee meetings will be grounds for the EPPF to vote AGAINST re-election of an individual director.*


#### **m) Size of boards**

EPPF will consider the size of boards on a case by case basis:

- Company boards may be ineffective as a result of having too many (or too few) members. A board that is too large is deemed to reduce the voting power of individual directors, while one that is too small is seen to be lacking in the range of specialties and counsel.
- The appropriateness of the board size and structure should be in line with the relative size of the company.
- The size of boards should be considered on a case-by-case basis. Excessively large boards should be discouraged; priority is placed on ensuring that the board has enough competent and independent members.

#### **n) 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 must be consistent with the provisions of the Companies Act 71 of 2008. As the alteration of a company's Memorandum of Incorporation in respect of this section can be diverse, EPPF will evaluate cases on an individual basis

	EPPF	
	EFFECTIVE DATE	1 July 2022
	REFERENCE NUMBER	EPPF IMU 005
DOCUMENT TITLE	PROXY VOTING POLICY AND GUIDELINES	

with reference to appropriate legislation and best practice codes.

*EPPF will vote AGAINST proposals giving management the ability to change the size of the board.*

*EPPF will vote FOR proposals to decrease the size of large boards if this would not affect a board's independence or introduce other corporate governance concerns.*

**o) Initiatives to improve board functioning**

Such resolutions include obtaining permission for directors' meetings to be conducted remotely or virtually by using teleconference facilities or video conference facilities or other virtual platforms, and for resolutions from such meetings to be valid. Most companies have adopted virtual meetings in view of the Covid-19 pandemic.


*EPPF will vote FOR such resolutions, given that board meetings should be held more frequently, and such initiatives can be used to improve non-executive director participation.*

**p) Directors' indemnification**

With the increased awareness of director personal liability, clauses have arisen in the Memorandum of Incorporation that commit company funds to indemnify any person employed by the company and its auditors against liabilities incurred when defending any proceedings against him/her that he/she successfully defends in a court of law. Furthermore, company employees and officers are indemnified against action that they take on behalf of the company that may result in loss or damage, which has not been caused through negligence or dishonesty.

This is a complex area, as most people would be reluctant to accept a position with a company should it have the risk of such liabilities. Director fees would also be very high if they had to pay their own indemnity insurance.

The wording of such clauses needs to be clearly understood, as there is often a fine line between losses that are a result of "errors in judgment", or "oversight" and losses that are due to gross negligence, which may arise from the failure to conduct proper due diligence or implement control systems.

	<b>EPPF</b>	
	<b>EFFECTIVE DATE</b>	<b>1 July 2022</b>
	<b>REFERENCE NUMBER</b>	<b>EPPF IMU 005</b>
<b>DOCUMENT TITLE</b>	<b>PROXY VOTING POLICY AND GUIDELINES</b>	


The following should be considered:

- As the alterations in respect of this section can be diverse, EPPF will evaluate cases on an individual basis with reference to appropriate legislation and both international and local best practice codes.
- In general, EPPF should be cautious when considering changes to the Memorandum of Incorporation that bind the company to indemnification of directors, other company officers, and employees of the company's auditors.
- EPPF should assess whether an indemnification statement in the Memorandum of Incorporation of a company 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.
- EPPF should review proposals to introduce indemnification into the Memorandum of Incorporation on a case-by-case basis.

**q) Amendment of clauses relating to the borrowing powers of directors**

There needs to be a balance 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. Some restrictions should be in place. This will have to be evaluated on a case-by-case basis. Inputs from financial analysts will be used to make the relevant distinction in the financial policy of the company.

Resolutions that seek to alter the provisions of the Memorandum of Incorporation relating to the borrowing powers of directors should be treated with caution, and EPPF will assess these on a case-by-case basis. Considerations will include the company's current debt level, its ability to service debt and an assessment of the strategies that management proposes to shareholders.

	EPPF	
	EFFECTIVE DATE	1 July 2022
	REFERENCE NUMBER	EPPF IMU 005
DOCUMENT TITLE	PROXY VOTING POLICY AND GUIDELINES	

**r) Clauses in the Memorandum of Incorporation that release executive directors from re-election by rotation**

The office of director is separate from that of employee. It is the shareholders who should bear the ultimate responsibility for monitoring the board's composition.

EPPF will vote AGAINST any resolution releasing any director from re-election while remaining on the board.

## **6.4 REMUNERATION ISSUES**


Companies should prepare and disclose a remuneration report for each reporting period. The remuneration report should be segmented into three parts (i.e. a background statement, a remuneration policy and an implementation report) in line with Principle 14 of King IV and best practice so as to make the report easy to read and comprehend.

**a) Approval of the director's remuneration policy**

Company boards should approve clear and rational remuneration policies which should be disclosed separately in the annual reports. Where only a shortened version or brief overview of the remuneration policy is provided in the annual report, a reference to an electronic link where the full report may be accessed should be provided. The director's remuneration policy should provide guidelines that determine the company's approach to all aspects of fair, responsible and transparent remuneration. The remuneration policy should be tabled every year for a non-binding advisory shareholder vote at the annual general meeting (Principle 14 of King IV).


The following considerations will inform EPPF's vote:

- The remuneration policy should sufficiently disclose the company's objectives on fair, responsible and transparent remuneration and the manner in which it seeks to achieve those objectives.
- The remuneration policy should contain a clear description of all elements of the remuneration package, including the total amount of salary and fees; all benefits; performance related payments and awards; pension related benefits; termination payments; sign-on, retention and restraint payments; commissions and allowances;

	<b>EPPF</b>	
	<b>EFFECTIVE DATE</b>	<b>1 July 2022</b>
	<b>REFERENCE NUMBER</b>	<b>EPPF IMU 005</b>
<b>DOCUMENT TITLE</b>	<b>PROXY VOTING POLICY AND GUIDELINES</b>	

as well as malus and claw-back provisions.

- The remuneration policy should correctly align the interests of company management and shareholders. Appropriate emphasis should be placed on performance-based incentives that are aligned with the company's strategic objectives.
- There should be detailed disclosure of the framework used to assess performance, including the performance measures used, the weighting of the performance measures, and the period of time over which the performance is measured.
- There should be an accompanying explanation for the performance measures applied and the use of remuneration benchmarks.
- The use of performance measures should support positive outcomes across the economic, ethical, social and environmental context in which the company operates.
- There should be a clear illustration, in a graphic or tabular form, of the total remuneration receivable by each executive director in accordance with the remuneration policy under minimum, on-target and maximum performance outcomes.
- The remuneration policy should set out the company's approach to the determination of termination payments, including the details of obligations in contracts of service that could give rise to termination payments and an indication of how each component of the termination packages will be calculated.
- The remuneration policy should adequately address the basis for the determination of non-executive directors' remuneration.
- There should be an explanation of how fair and responsible executive remuneration is addressed in the context of overall employee remuneration.
- If the resolution for the adoption of the implementation policy is not adopted by 75% or more of the voting rights exercised, the company should take steps to address shareholders' concerns, and should disclose in the following year the steps taken to address the shareholders' legitimate and reasonable concerns and should disclose

	EPPF	
	EFFECTIVE DATE	1 July 2022
	REFERENCE NUMBER	EPPF IMU 005
DOCUMENT TITLE	PROXY VOTING POLICY AND GUIDELINES	


the outcomes thereof.

**b) Approval of the director's remuneration report (Implementation report)**


The implementation report should set out, in clear and sufficient detail, how the remuneration policy was implemented during the relevant reporting period. This includes a detailed breakdown of the total remuneration paid and accrued to each director and prescribed officer as well as a clear explanation of how each component thereof has been calculated. The implementation report should be tabled every year for a non-binding advisory shareholder vote at the annual general meeting (Principle 14 of King IV).

The following considerations will inform the EPPF's vote:

- Companies must provide full disclosure of various components of directors' and prescribed officers' remuneration, including fixed and variable short-term and long-term components of the remuneration package as required by section 30(4) of the Companies Act 71 of 2008. This must be done per individual director or prescribed officer.
- There must be full disclosure on all earnings from the company, including those from subsidiaries.
- Assessing executive compensation will include financial indicators as well as social and environmental criteria and performance on the part of both the board and the individual directors.
- Companies must disclose, with respect to performance related payments and awards that have been made, the performance measures used, including their weightings and performance targets. The details of how the company and the individual executives actually performed against the set targets and the resulting levels of awards or payments must also be disclosed.
- The disparities between the salary levels of senior management and lower level employees will be analysed to ascertain whether they are excessive.
- In regard to financial indicators, cognizance should be taken of the relationship between the performance of the firm relative to its competitors in the industry as well as the performance of management relative to the current economic climate.

	<b>EPPF</b>	
	<b>EFFECTIVE DATE</b>	<b>1 July 2022</b>
	<b>REFERENCE NUMBER</b>	<b>EPPF IMU 005</b>
<b>DOCUMENT TITLE</b>	<b>PROXY VOTING POLICY AND GUIDELINES</b>	

- EPPF will assess the appropriateness of the performance measures used and whether a clear link has been established between remuneration and performance.
- EPPF will not support adjustments to performance conditions without clear identification and explanation as well as valid justification.
- EPPF will consider the potential misalignment of remuneration objectives of boards with those of shareholders. Poorly designed, disclosed or implemented remuneration schemes will be opposed.
- EPPF does not support the awarding of options instead of shares. When directors are issued with options these may be subject to financial engineering which defeats the purpose of their issuance. When directors are direct shareholders, their interests are aligned with those of shareholders.
- EPPF will not support the re-pricing of options. In cases where share options have already been issued there should be no re-pricing of the options. Any re-pricing to increase director remuneration from options is counter to the objectives normally stated to justify the awarding of options.
- EPPF will not support share options being issued for bonus purposes. Directors should be issued with shares, which vest over a period of at least three years.
- The implementation report must also disclose termination payments made during the reporting period to any person who has served as a director or prescribed officer of the company.
- In addition to complying with the requirements of section 30(4) of the Companies Act 71 of 2008 regarding termination payments, companies must disclose the total amount of the payment, broken down into each component comprised in that payment, the value of each component and an explanation of how each component has been calculated.
- EPPF will oppose the acceleration of the vesting of unvested incentives of departing directors or executives before the lapsing of the vesting period and without

	<b>EPPF</b>	
	<b>EFFECTIVE DATE</b>	<b>1 July 2022</b>
	<b>REFERENCE NUMBER</b>	<b>EPPF IMU 005</b>
<b>DOCUMENT TITLE</b>	<b>PROXY VOTING POLICY AND GUIDELINES</b>	


the achievement of the required performance.

- There should be transparency regarding the independence and objectivity of the process used to determine remuneration during the reporting period, including the composition and independence of the remuneration committee and any external consultants whose services may have been utilized in making decisions on remuneration.
- There must be disclosure of information regarding compliance with the remuneration policy during the reporting period. Any deviations from a remuneration policy that has been approved by shareholders must be sufficiently disclosed and motivated.
- If the resolution for the adoption of the implementation report is not adopted by 75% or more of the voting rights exercised, the company should take steps to address shareholders' concerns, and should disclose in the following year the steps taken to address the shareholders' legitimate and reasonable concerns and should disclose the outcomes thereof.

Where a share option scheme is already in place the following considerations should be noted:

- The share option scheme beneficiaries should be clearly identified.
- Schemes where the aggregate number of shares that may be used for all existing schemes is in excess of 5% of the total issued share capital will be voted against.
- Any scheme that is earmarked for only the top executive levels of management should not have an allocation of more than 5% of total issued share capital.
- Schemes where more than 1% of total issued share capital is earmarked for one individual will be voted against.
- Any scheme whose trustees are executive directors, employees or service providers of the company, or whose independence may be compromised will be voted against.
- Any scheme where the expiry period is more than ten years and/or the vesting period are less than three years will be voted against.



	<b>EPPF</b>	
	<b>EFFECTIVE DATE</b>	<b>1 July 2022</b>
	<b>REFERENCE NUMBER</b>	<b>EPPF IMU 005</b>
<b>DOCUMENT TITLE</b>	<b>PROXY VOTING POLICY AND GUIDELINES</b>	

- Any scheme where the options allocated to an individual are not cancelled upon that person leaving the employ of the company will be voted against.
- Any scheme that does not stipulate the terms of loans made to employees will be voted against.

Management may be warned in advance of voting to inform them that:

- Votes will be cast against some resolutions, not directly related to the issue of poorly disclosed director's remuneration, as a symbolic vote, due to the lack of alternative to register shareholder displeasure at insufficient disclosure.
- Alternatively, the displeasure of the Fund might be registered with a letter to the board, or discussions with the board on the issue which might be followed up with negative voting on director's appointments for example if the situation does not improve by the following shareholders meeting.


### **c) Approval of non-executive directors' remuneration**

In terms of section 66(8) and (9) of the Companies Act 71 of 2008 a company may, subject to its Memorandum of Incorporation, pay remuneration to its directors for their service as directors. Such remuneration may be paid only in accordance with a special resolution approved by the shareholders within the previous two years. According to King IV, the above provision applies to fees for non-executive directors for their services as directors. It is, accordingly, common for companies to submit the proposed remuneration of non-executive directors for approval by special resolution of shareholders at the annual general meeting.

EPPF will apply the following principles regarding non-executive directors' remuneration, including the non-executive chairman's remuneration:

#### **Non-executive directors' fees**

- The level of transparency with regard to director's fees and the basis for the determination of these fees.
- The fees must be reasonable in view of the role and responsibilities of the non-executive directors.

	<b>EPPF</b>	
	<b>EFFECTIVE DATE</b>	<b>1 July 2022</b>
	<b>REFERENCE NUMBER</b>	<b>EPPF IMU 005</b>
<b>DOCUMENT TITLE</b>	<b>PROXY VOTING POLICY AND GUIDELINES</b>	

- The fees should consist of an annual fee and fees for attending the board and committee meetings.
- There should be an evaluation of board meeting attendance. When remuneration levels do not correspond to attendance of board meetings no full directors fee should be payable. A director should have attended at least 75% of all board meetings during the year under review to receive full director's fees. The fees must be in line with industry norms and those payable by peers.
- The fees must not be excessive so as to potentially compromise the independence and objectivity of the non-executive directors.
- Non-executive directors should not receive ex gratia payments as these may influence their independence and objectivity.

#### **Share options for non-executive directors**


- Non-executive directors should not receive share options and should not be part of any share incentive scheme.
- Participation in share incentive schemes may influence the non-executive directors' independence and objectivity.
- EPPF will vote AGAINST non-executive directors' remuneration that includes share options or shares.

#### **Compensation for loss of office for non-executive directors**

- Compensation for loss of office (termination payments) arrangements may influence the independence and objectivity of non-executive directors.
- EPPF will vote AGAINST non-executive directors' remuneration that includes any compensation for loss of office.

#### **d) Approval of a new director's remuneration structure or incentive scheme**

It is generally difficult to judge these schemes, except for those that are patently unfair to either the shareholders (and by implication the company) or to senior management.

	<b>EPPF</b>	
	<b>EFFECTIVE DATE</b>	<b>1 July 2022</b>
	<b>REFERENCE NUMBER</b>	<b>EPPF IMU 005</b>
<b>DOCUMENT TITLE</b>	<b>PROXY VOTING POLICY AND GUIDELINES</b>	


The following may raise concerns:

- When a new proposed scheme is presented every three to five years. The reason usually provided is that top talent is scarce and that in order to retain talent it is necessary to adopt a new director (and senior executive) remuneration scheme to account for changing circumstances.
- A new scheme coinciding with a new economic cycle. The new scheme being designed to take maximum advantage of the characteristics of the new cycle.
- Capital structures skewed in order to maximise bonus structures.
- Complicated structures - not included in the notice to the Annual General Meeting. Shareholders are usually informed that the complete document is available for viewing at the company's head office or registered office.
- Increases in remuneration, which is excessive in relation to broad economic indicators such as inflation etc.
- The basis for calculating a director's remuneration in any scheme should be transparent and part of the documents forwarded to the shareholders before annual shareholder meetings. Setting up a complicated document, which tends to be to the advantage of management ensuring a bonus irrespective of the financial performance of the company will be opposed.

## 6.5 CAPITAL STRUCTURE

### a) **Placing unissued ordinary shares under the control of the directors**

Generally, the directors do not require permission from shareholders in order to issue shares (s 38 of the Companies Act 71 of 2008). Unlike issuing shares for cash, a general authority to place unissued ordinary shares under the control of the directors is unrestricted. The inclusion of this resolution requires more substantive reasons than providing the board with financial flexibility. Complete control, even only on an annual basis over unissued shares is a key risk area, especially in a weak corporate governance environment.


	<b>EPPF</b>	
	<b>EFFECTIVE DATE</b>	<b>1 July 2022</b>
	<b>REFERENCE NUMBER</b>	<b>EPPF IMU 005</b>
<b>DOCUMENT TITLE</b>	<b>PROXY VOTING POLICY AND GUIDELINES</b>	

The EPPF will take the following matters into consideration:

- Generally, EPPF should vote AGAINST these resolutions, as they provide director's unfettered discretion to issue unissued shares, which as a result dilutes existing shareholders.
- EPPF would require a separate resolution at the time of any further issue of shares with the appropriate motivation provided by the company on a case-by- case basis, rather than providing the directors with a general control over the unissued shares.
- EPPF should consider voting FOR proposals by the company to limit control over unissued shares to 5% of issued share capital, only if the directors have a strong track record of maintaining and enhancing shareholder value. In particular, the company's acquisition track record should be assessed.
- EPPF consider voting FOR this resolution if shares are required for a corporate action approved by shareholders.
- Permission to issue shares to any of the company's directors, prescribed officers or any nominee of, or any person related to, such directors or prescribed officers should be sought by way of a separate resolution as required by s41 of the Companies Act 71 of 2008.
- EPPF should vote AGAINST resolutions where the directors may seek authorisation to issue shares in an effort to avoid a takeover.
- The motivation for the company to issue shares will need to be carefully examined on a case by-case basis.

#### **b) Renouncement of pre-emptive rights**

This resolution is linked to granting directors the right to issue shares and the right to issue shares for cash. Generally, this is not viewed as an optimal situation. It enables the company to avoid having to conduct a rights offer to existing shareholders on a pro-rata basis, as required by both the UK Company Companies Act 2006 and the JSE Listing Requirements.

	<b>EPPF</b>	
	<b>EFFECTIVE DATE</b>	<b>1 July 2022</b>
	<b>REFERENCE NUMBER</b>	<b>EPPF IMU 005</b>
<b>DOCUMENT TITLE</b>	<b>PROXY VOTING POLICY AND GUIDELINES</b>	

EPPF will take the following matters into consideration:


- EPPF should generally vote AGAINST such resolutions if it is voting against resolutions granting directors the authority over issuing unissued shares or the issuing of shares for cash.
- Pre-emptive rights should be taken into consideration when permission is being sought for board control over unissued shares.

#### **c) General authority to issue shares for cash**

EPPF believes that significant restrictions should be placed on a general authority to issue shares for cash as such authority may be abused by directors as a defence mechanism against shareholder bodies and the issue of shares may dilute to current shareholders and the directors should consult with shareholders providing a clear motivation. The resolution seeking authority to issue shares for cash requires more substantive reasons than providing the board with financial flexibility. The resolution needs to have substantive motivation to be considered for a positive vote.

EPPF will take the following matters into consideration:

- Generally, EPPF should vote AGAINST these resolutions, as any further issues would dilute existing shareholders.
- EPPF would require a separate resolution at the time of any further issue with the appropriate motivation provided by the directors, rather than providing the directors with a general control over the unissued shares.
- Currently, the ceiling imposed by the JSE Listings Requirements on issues of shares for cash is 15% of the issued share capital (5.52 (c)(i)). A general authority to issue 15% is deemed to be excessive, and the EPPF should vote AGAINST all resolutions that revert to the ceiling proposed by the JSE.
- Since share issuance dilutes current shareholders, management should only issue shares if there are strategic plans in place to enhance shareholders return with the funds so obtained, for example a specific acquisition or capital investment. In the

	<b>EPPF</b>	
	<b>EFFECTIVE DATE</b>	<b>1 July 2022</b>
	<b>REFERENCE NUMBER</b>	<b>EPPF IMU 005</b>
<b>DOCUMENT TITLE</b>	<b>PROXY VOTING POLICY AND GUIDELINES</b>	

event that such a resolution is approved there should be a definite cap limiting issuance of shares up to a maximum 5% of unissued shares.


**d) Authority to repurchase shares**

Since share re-purchases are permitted in terms of the Companies Act 71 of 2008, virtually all listed companies have made the appropriate provisions in their Memorandum of Incorporation, and as a matter of course seek shareholder authorisation to repurchase shares at every AGM.

A company may buy back its own shares for various reasons, including increasing the company's share price or providing shares for employee share schemes. The company may also utilise share buybacks as a way of distributing excess cash to shareholders. In most instances, share repurchases are not debated. They are viewed as a tax effective way of giving money back to shareholders. There are however significant control and tradability issues that need to be considered prior to voting on such a resolution. This resolution should at least be subject to the provisions of the Companies Act 71 of 2008 and the JSE Listings Requirements relating to share buy backs.

EPPF will take the following matters into consideration:

- EPPF will generally vote for this resolution as share buy backs are often beneficial to the company and shareholders.
- Whether the company will suffer from a material decline in its free float by repurchasing its shares. Where the share repurchase has a material negative impact on liquidity and hence could affect the share's rating, EPPF should consider voting AGAINST such resolutions. This is particularly relevant where a historical pyramid holding company structure remains in place.
- EPPF should vote AGAINST share repurchases where permission is being sought to repurchase both high and low voting shares, and the different share classes are not provided with the opportunity to vote separately.
- EPPF should vote AGAINST share repurchases where there is an existing control, or pyramid structure, unless the repurchase is being done on a pro rata basis.

	<b>EPPF</b>	
	<b>EFFECTIVE DATE</b>	<b>1 July 2022</b>
	<b>REFERENCE NUMBER</b>	<b>EPPF IMU 005</b>
<b>DOCUMENT TITLE</b>	<b>PROXY VOTING POLICY AND GUIDELINES</b>	


- While the ceiling level for repurchases is 20% (JSE Listings Requirements, 5.68), EPPF should review its voting decision with respect to the above issues, should the company apply to repurchase a lower percentage of issued shares.
- EPPF should vote AGAINST share repurchases if it has been demonstrated that no value has been added by prior year repurchases.
- EPPF should vote FOR resolutions to repurchase shares that are connected to resolutions related to odd-lot offers.

**e) Allocation of distributions, dividends and income**

Although this responsibility rests with the board of directors, shareholder approval may be sought for the proposed allocation, which would typically include dividends and special distributions.

When the board proposes a dividend, the following should be considered:

- Whether dividend payment will put undue strain on cash resources and capital base of the company, particularly with respect to material special dividend payments (i.e. could the board be perceived as trading irresponsibly by declaring a dividend under the current circumstances.)
- When no dividends are proposed then management should provide sound reasons why this has not been done, especially if the company's performance does not suggest that a dividend would be detrimental to the company.
- EPPF will apply a case-by-case analysis of the dividend proposals of management at each shareholder meeting where applicable.
- EPPF will generally vote FOR the proposed allocation of income and/or the declaration of a dividend.
- EPPF will vote AGAINST the resolution if information pertaining to the dividend, especially for special distributions, is not adequately disclosed to shareholders.
- EPPF will consider whether management is adopting an appropriate and well-

	<b>EPPF</b>	
	<b>EFFECTIVE DATE</b>	<b>1 July 2022</b>
	<b>REFERENCE NUMBER</b>	<b>EPPF IMU 005</b>
<b>DOCUMENT TITLE</b>	<b>PROXY VOTING POLICY AND GUIDELINES</b>	

motivated dividend policy on a case by case basis.

#### **f) Scrip dividends**

Companies may offer shareholders the option of taking a declared dividend in the form of shares rather than cash (i.e. a scrip dividend). Scrip dividends allow the company to retain more cash and may enhance shareholder value in the long run. Scrip dividends may also benefit shareholders as they are an expedient and cost effective way for them to acquire additional shares in company. Scrip dividends are also common in unbundling and other corporate actions. A scrip dividend may, however, have a dilution effect and therefore needs to be evaluated on a case-by-case basis.

- EPPF will vote FOR scrip dividend proposals if they allow for a cash option.
- EPPF will vote AGAINST scrip dividend proposals if shareholders are not given an option to receive the dividend in cash.

#### **g) Odd lots**


EPPF will generally vote FOR odd lot offers, but each resolution will be evaluated on a case-by-case basis.

#### **h) Related party transactions**

These are usually transactions that occur between the company and its related parties (e.g., subsidiaries or other related/inter-related corporations or directors or prescribed officers of the company).

- EPPF will vote FOR related party transactions if there is adequate disclosure regarding the transactions, if the transactions are routine, if the transactions comply with the minimum regulatory requirements, and if the transactions are considered to be in the best long-term economic interests of the shareholders.
- EPPF will vote AGAINST related party transactions that are only designed to serve controlling shareholders or select parties.



	<b>EPPF</b>	
	<b>EFFECTIVE DATE</b>	<b>1 July 2022</b>
	<b>REFERENCE NUMBER</b>	<b>EPPF IMU 005</b>
<b>DOCUMENT TITLE</b>	<b>PROXY VOTING POLICY AND GUIDELINES</b>	


- EPPF will vote AGAINST related party transactions that do not comply with the prescribed minimum disclosure and regulatory requirements.
- EPPF will vote AGAINST related party transactions that are not in the long term interests of the company and shareholders.

**i) Introduction of new share classes and debt instruments**

The creation of new share classes may affect the interests and rights of the ordinary shareholders. The ordinary shareholders should be given the opportunity to approve the broad terms, rights and preferences associated with the class of shares to be created.

The creation of new share classes will be detrimental to the company as a whole if the effect is to consolidate voting power into the hands of a few persons or institutions to a level disproportionate to their percentage of ownership. The result is usually the blocking of takeovers or the avoidance of accountability to the shareholders who are providing a major part of the funding for the company.

- Generally, however, the introduction of these instruments (equity or debt) should be considered on a case-by-case basis.
- The Fund will vote against proposals to give the board of directors the power to create new share classes and/or determine the terms of such share classes without the approval of the ordinary shareholders.
- The Fund will generally vote against proposals to divide the ordinary share capital into two or more classes with unequal voting and or economic rights.
- EPPF may consider different classes of shares, with different voting and dividend rights if there is an irrevocable undertaking that the class of shares will convert to ordinary shares within a defined time period. Such mechanisms may be used to facilitate Broad Based Black Economic Empowerment and may also present an effective compromise for controlling groups in pyramid and family control structures.
- EPPF should consider on a case-by-case basis proposals to amend the Memorandum of Incorporation to allow for the introduction of debt instruments.

	<b>EPPF</b>	
	<b>EFFECTIVE DATE</b>	<b>1 July 2022</b>
	<b>REFERENCE NUMBER</b>	<b>EPPF IMU 005</b>
<b>DOCUMENT TITLE</b>	<b>PROXY VOTING POLICY AND GUIDELINES</b>	

**j) Changes to the Memorandum of Incorporation**

As a general point, the Memorandum of Incorporation of a company should be written in plain and understandable language. Should the company be adopting a new Memorandum of Incorporation, or substantive changes to the current Memorandum of Incorporation, a copy of the Memorandum of Incorporation identifying the changes from the original should be made available to all shareholders prior to the meeting, either together with the notice of the relevant shareholders meeting or via the company's website.


- Proposed amendments to the Memorandum of Incorporation should always be approached on a case-by-case basis.
- EPPF will vote for proposals to amend the company's Memorandum of Incorporation if all the proposed amendments are considered to be lawful and in the best interests of the shareholders.
- Clauses in the Memorandum of Incorporation enabling electronic communication and voting should be subject to the standards set by institutions such as the JSE. EPPF should vote FOR steps to enhance electronic communication with shareholders and electronic voting.

**6.6 OTHER CORPORATE ACTIONS**

- EPPF should assess all other proposals, and proposals that relate to specific corporate actions such as mergers, the unbundling of assets, takeovers, name changes etc. on a case-by-case basis.
- EPPF should have significant objections and should there be reason to believe that long-term shareholder interests have significantly been compromised by such actions, EPPF should vote AGAINST the re-election of one or both the Chief Executive Officer and the Chairperson of the company.

**a) Unbundling and Spinoffs**

- In the event of an approved unbundling or spin off of a company's division or subsidiary, EPPF will support resolutions to carry out the formalities of reducing

	EPPF	
	EFFECTIVE DATE	1 July 2022
	REFERENCE NUMBER	EPPF IMU 005
DOCUMENT TITLE	PROXY VOTING POLICY AND GUIDELINES	

and cancelling the outstanding share capital by a certain stated amount and creating new shares in the demerged entity.

*EPPF will vote FOR the implementation of spin-offs if shareholder and the relevant regulatory authority has been obtained.*

**b) Forward and Reverse Share splits**

- Companies typically undertake share splits when they would like to place the price of shares in a trading range that may attract investors.

*EPPF should vote AGAINST reverse share splits when there is no accompanying proportionate decrease in common share authorization unless the company is to be delisted.*

*EPPF will vote FOR a forward share split as long as the request is reasonable, and it will not result in an exercise increase in authorized capital.*

**c) Financing Initiatives**

- Companies may employ various methods to finance their operations with cash, debt, equity, and /or private placements. The choice of financing will depend upon the company's financial position and status. An examination of the features of each financing initiative should be assessed to ensure that the economic interests of shareholders are protected.

*The EPPF will vote FOR the adoption of financing proposals if they are in the best economic interests of shareholders.*


**d) BBEE deals and schemes of arrangement**

BBEE deals are often complex and individually structured (including shareholding groupings and financing structures amongst others) and may result in the potential dilution of current shareholders in return for potential long-term value creation. EPPF should consider all elements of the proposed deals on a case-by- case basis.

EPPF will take the following matters into consideration:

**Disclosure on BBEE deals**

Shareholders should be provided with all relevant information that may impact on their ability to make informed decisions in relation to the introduction of BBEE participation. EPPF should vote AGAINST specific resolutions in BBEE deals where acceptable disclosure has

	<b>EPPF</b>	
	<b>EFFECTIVE DATE</b>	<b>1 July 2022</b>
	<b>REFERENCE NUMBER</b>	<b>EPPF IMU 005</b>
<b>DOCUMENT TITLE</b>	<b>PROXY VOTING POLICY AND GUIDELINES</b>	


not been achieved. At a minimum, the following documents should be made available:

- A copy of the explanatory statement of the BBEE scheme of arrangement,
- The shareholders' agreement, including all annexure, between the company and the proposed empowerment partner/s or group/s,
- The profile document of all the proposed empowerment partners or groups,
- A copy of the auditors' report on the financial effects of the BBEE scheme,
- The Memorandum of Incorporation of all parties in the deal,
- The audited financial statements of all parties in the deal,
- A copy of the fair and reasonable opinion of an independent financial advisor, who is not in any way associated with either party to the deal,
- The financial commitment, made by the BBEE participants to the deal,
- Clear disclosure of costs of transactions to the company if it is involved in funding the transaction either directly (i.e. investing capital) or indirectly (i.e. providing guarantees or put options). Each component of the direct and indirect funding support provided should be costed on an independent, arm's length, market-related basis (i.e. what would an independent, disinterested market player charge on the loan funding to the BBEE group) so that the overall impact on the company can be assessed accurately.

### **Principles for consideration**


The increased pace of broad-based black economic empowerment transactions has resulted in a wide range of different schemes being proposed to shareholders. The financial engineering and resultant structures centre on the fact that not many of the empowerment partners can afford to fund deals in total, and schemes have to be devised on the basis of deferred payment, optionality or earn-outs.

As all the schemes differ according to the size, the nature of the empowerment partners and sector, the deals have to be assessed on a case-by-case basis.

	<b>EPPF</b>	
	<b>EFFECTIVE DATE</b>	<b>1 July 2022</b>
	<b>REFERENCE NUMBER</b>	<b>EPPF IMU 005</b>
<b>DOCUMENT TITLE</b>	<b>PROXY VOTING POLICY AND GUIDELINES</b>	

EPPF will take the following matters into consideration:

- The extent to which the deal is “broad-based”, and the structures that have been established to ensure that the “broad-based” structure is sustainable and credible.
- Should shares be provided at a substantial discount or through a company funded scheme, “lock-in” conditions should be considered that restrict the empowerment partner from transferring ownership to another entity that is not considered to be empowerment. Such lock-in conditions should be established for a determined period, which should cover at least the funding/earn-out phase of the deal. While EPPF will support the application of such “lock-in” conditions to such deals, consideration will need to be given as to whether the “lock in” conditions do not affect the sustainability of the empowerment partner.
- EPPF favours an employee ownership dimension to such deals as this has a dual function of retaining staff while also contributing to empowerment at an ownership level. Of importance in this regard are the structures that are put in place to ensure that such employees can use their ownership rights. Employee share ownership programmes should be accompanied by governance structures that ensure that their rights as employees or owners are not compromised.
- While understanding that there are risks associated with ownership, schemes should be established in such a manner so as to mitigate and limit the risks associated with adverse movements in share prices, interest rates, commodity prices or other exogenous factors during the funding/earn-out phase of the deal and do not result in the empowerment partner becoming unable to meet their funding responsibilities.
- EPPF should vote AGAINST deals where funding schemes depend on earnings hurdle conditions that are deemed unrealistic and may result in the deal not being successful.
- Should the deal have an option component to it, there should be comprehensive disclosure from the independent financial advisor on the IFRS 2 (and/or other) disclosure implications of the deal.

	<b>EPPF</b>	
	<b>EFFECTIVE DATE</b>	<b>1 July 2022</b>
	<b>REFERENCE NUMBER</b>	<b>EPPF IMU 005</b>
<b>DOCUMENT TITLE</b>	<b>PROXY VOTING POLICY AND GUIDELINES</b>	

- If the terms of the deal are problematic with respect to the above issues, EPPF should consider voting AGAINST the deal.


### **Election of directors as part of the empowerment deal**

- Separate resolutions should be put forward proposing the director candidates from the empowerment partner.
- The number of nominated directors should be in proportion to the eventual holding. This is consistent with EPPF policy with respect to the balance of the board, as the employees and representatives of a significant shareholder are not considered to be independent non- executive directors, notwithstanding that as non-independent directors they may add considerable value to the board.
- EPPF would vote FOR the introduction of black independent candidates following such deals that would further enhance board diversity. The Fund has the view that independent black directors will play a vital oversight role in ensuring that the overall objectives of transformation beyond transfer of ownership are met.

## **6.7 SHAREHOLDER RESOLUTIONS**

The Companies Act 71 of 2008 provides a wide scope for shareholders to create resolutions regarding any matter and to submit such resolutions for a vote at a shareholders' meeting. The Companies Act 71 of 2008 also empowers shareholders holding at least 10% of the voting rights to call a meeting of the company and to determine the specific agenda to be dealt with at that meeting. The shareholders' rights to call a meeting and to table resolutions for a vote at shareholders' meetings may serve as crucial mechanisms for strengthening corporate transparency, accountability and discouraging inappropriate corporate practices.

- Shareholder resolutions should be clear and specific.
- Shareholder resolutions should be accompanied by sufficient information and explanation to enable the rest of the shareholders to make informed decisions in regard to the resolution.
- Companies should have mechanisms for incorporating shareholder resolutions in

	<b>EPPF</b>	
	<b>EFFECTIVE DATE</b>	<b>1 July 2022</b>
	<b>REFERENCE NUMBER</b>	<b>EPPF IMU 005</b>
<b>DOCUMENT TITLE</b>	<b>PROXY VOTING POLICY AND GUIDELINES</b>	

advance of the meeting and at meetings (within reasonable limits).

- EPPF will evaluate shareholder resolutions on a case-by-case basis.
- EPPF will vote FOR shareholder resolutions that will enhance good corporate governance practices, shareholder rights and shareholder value.
- EPPF will vote AGAINST shareholder resolutions that are against its Voting Policy and Voting Guidelines.
- EPPF will vote AGAINST shareholder resolutions that do not advance the interests of the shareholders as a whole.


## **6.8 ENVIRONMENTAL AND CLIMATE CHANGE ISSUES IN VOTING**

The Fund believes that voting on climate change related shareholder resolutions at a company's shareholder meetings is an important way in which the Fund can exercise its shareholder rights to influence and encourage climate change policy and practice.

EPPF will take the following matters into consideration:

### **a) Board oversight of and accountability regarding environmental and climate change issues**

- The Fund will vote FOR proposals that seek to promote board oversight of environmental and climate change issues, including disclosure of governance measures related to environmental and climate change issues.
- The Fund will vote FOR proposals that seek to hold the board of directors accountable for the company's environmental and climate change commitments and performance.
- The Fund will vote AGAINST the re-election of board members of carbon critical sector companies that do not disclose their carbon emissions and where no short-, medium- and long-term targets are disclosed for at least Scope 1 and 2 GHG emissions in carbon critical sector companies.

	EPPF	
	EFFECTIVE DATE	1 July 2022
	REFERENCE NUMBER	EPPF IMU 005
DOCUMENT TITLE	PROXY VOTING POLICY AND GUIDELINES	

- The Fund will vote FOR proposals that seek to link environmental and climate change targets and/or strategy to executive remuneration and incentives.

**b) Development and adoption of an environmental and climate change strategy**

- The Fund will vote FOR proposals that seek to promote the development and adoption of an environmental and climate change strategy that clearly articulates the company's commitment to addressing climate change, reduction of GHG emissions and management of climate change risks.

**c) Greenhouse gas (GHG) emissions reduction**

- The Fund will vote FOR value-enhancing resolutions proposals that require the company to reduce GHG emissions.
- The Fund will vote FOR proposals that require the company to set GHG emissions reduction targets and goals towards net-zero emissions, in line with global and local climate goals.


**d) Disclosure and transparency**

- The Fund will vote FOR proposals that seek to promote disclosure and transparency on climate change risks and opportunities that are relevant to the company, in line with the guidelines from the Task Force on Climate-related Financial Disclosures (TCFD).
- The Fund will vote FOR proposals that seek to promote GHG emissions disclosures, including requiring the company to disclose GHG emissions reduction targets and goals towards net-zero emissions.
- The Fund will vote AGAINST the presentation of a company's annual financial statements and reports if the company fails to disclose non-financial ESG (including climate change) information that the Fund considers material to the company.

**e) Renewable energy and energy efficiency**

- The Fund will vote FOR proposals that request a company to consider energy efficiency and renewable energy sources in its business strategy.



	<b>EPPF</b>	
	<b>EFFECTIVE DATE</b>	<b>1 July 2022</b>
	<b>REFERENCE NUMBER</b>	<b>EPPF IMU 005</b>
<b>DOCUMENT TITLE</b>	<b>PROXY VOTING POLICY AND GUIDELINES</b>	

## 7. CONCLUSION

EPPF Board of Trustees' commitment to responsible investing through active corporate engagement merges its rights as a long-term shareholder with the duties of a fiduciary. While the bottom line has been, and will continue to be, improved investment / share performance, this imperative need to prudently balance and take account of the socio- economic realities and transformational demands of our country.

South Africa is increasingly showing signs that shareholder passivity is coming to a close. Increasing shareholder activism is leading to the emerging of a new model of the "governed corporation." Under this model, a corporation is governed rather than managed, by its three critical constituencies - managers, directors and shareholders.

The result is improved decision making, healthier corporate governance, and enhanced stakeholder satisfaction. EPPF believes this Policy and its implementation is a critical step in achieving that goal.