GLASS LEWIS

2019-2020

PROXY PAPER™

GUIDELINES

AN OVERVIEW OF THE GLASS LEWIS APPROACH TO PROXY ADVICE

SOUTH AFRICA

Table of Contents

GUIDELINES INTRODUCTION 1
THE SOUTH AFRICAN GOVERNANCE LANDSCAPE 2
Investor Protection in South Africa 2
King IV 2
Right of Shareholders to Call a Special Meeting 3
Application of These Guidelines 3

TRANSPARENCY AND INTEGRITY IN FINANCIAL REPORTING 4
Accounts and Reports 4
Appointment of Auditor and Authority to Set Fees 4
Income Allocation (Distribution of Dividend) 5

A BOARD OF DIRECTORS THAT SERVES THE INTEREST OF SHAREHOLDERS 6
Election and Removal of Directors 6
Boards 6
Board Size 6
Independence 7
Separation of the Roles of Chair and CEO 8
Director Term Limits and Mandatory Retirement Provisions 8
Conflict of Interest 9
Experience 9
Performance 10
Board Committees 10
Audit Committee 10
Remuneration Committee 12
Nominations Committee 13
Social and Ethics Committee 13
Controlled Companies 14
Broad-Based Black Economic Empowerment ("BEE") 14

REMUNERATION ... 16
Remuneration Voting ... 16
Executive Remuneration ... 17
General Approach ... 17
Structure and Policy ... 18
Disclosure ... 18
Elements of Executive Remuneration ... 18
Performance Measures ... 19
Deferred STI and Clawback Provisions ... 20
Board Discretion ... 20
Option Exchanges and Re-pricing ... 20
Dilution Limits ... 20
Share Ownership Guidelines ... 20
Treatment of Dividends on Unvested Securities ... 21
General Employee Share Plan ... 21
Contracts ... 21
Smaller Companies ... 21
Remuneration of Non-executive Directors ("NEDs") ... 21
Structure of NED Pay ... 21
Options to NEDs ... 22
Smaller Companies ... 22

GOVERNANCE STRUCTURE AND THE SHAREHOLDER FRANCHISE ... 23
Amendments to the Memorandum ... 23
Capital Structure ... 23
Increase in Authorised Shares ... 23
Preference Shares ... 23
General and Specific Authority to Issue Shares ... 23
Repurchase of Shares ... 24
Approval of Financial Assistance ... 24
Broad-Based Black Economic Empowerment ("BEE") ... 25
Authorisation of Legal Formalities ... 25
Environmental and Social Policies ... 25
Code for Responsible Investing in South Africa (CRISA) ... 25
Labour and Human Resources Practices ... 26
E&S Custom Proxy Voting Policy ... 26

Guidelines Introduction

SUMMARY OF CHANGES FOR THE 2019-20 POLICY GUIDELINES

Glass Lewis evaluates these guidelines on an ongoing basis and formally updates them on an annual basis. For 2019/2020, we have made some key revisions, which are summarized in this section but discussed in greater detail in the relevant sections of this document.

NON-EXECUTIVE DIRECTOR ("NED") COMMITMENTS

As stated in our 2018/2019 guidelines, non-executive directors who serve on more than six major public company boards may be considered overcommitted and may receive "against" voting recommendations on that basis.

The role of directors has continued to evolve overtime and, as a result of regulatory and investor pressure, these roles more demanding than ever before. As a result, we have revised our approach and we will now consider a director to be overcommitted when serving on more than five major public company boards instead of more than six.

APPOINTMENT OF AUDITOR & AUTHORITY TO SET FEES

We have revised our approach to our analysis of the ratification of the auditor and/or authorizing the board to set auditor fees to include a negative recommendation in the case where the Company fails to disclose the fees paid to the auditor or a specific breakdown of audit versus non-audit fees.

AUDIT COMMITTEE PERFORMANCE

We have updated our policy for assessing the decisions and actions of the audit committee, and we will recommend voting against the audit committee chair if the audit committee did not meet at least four times during the previous financial year. We believe a committee with responsibilities as crucial as those of the audit committee should have a minimum of four meetings a year.

RISK COMMITTEE

In reflection of a King IV requirement to allocate the oversight of risk governance to a dedicated board committee, or adding it to the mandate of another board committee, we have updated our policy for assessing the risk committee, and, as a result, will typically recommend voting against the board chair if no separate risk committee or joint audit and risk committee is established, or against the committee chair if the committee is not comprised of a majority of NEDs.

HOUSEKEEPING CHANGES

Lastly, we have made several minor edits of a housekeeping nature, including the updating of outdated references, in order to enhance clarity and readability.

The South African Governance Landscape

INVESTOR PROTECTION IN SOUTH AFRICA

Listed entities in South Africa are governed by the Companies Act No. 71 of 2008 (the "Companies Act 2008") and the Johannesburg Stock Exchange ("JSE") Listing Requirements. We note that the Companies Act 2008, as amended, came into effect on May 1, 2011. In the past, companies in South Africa were encouraged to follow an "apply or explain" approach to the King III Code of Governance 2009 ("King III"). With effect from April 1, 2017, entities listed in South Africa are encouraged to follow an "apply and explain" approach to the King IV Code of Governance ("King IV"), which replaced King III in its entirety.

KING IV

In January 2015, the King Committee on Corporate Governance in South Africa recommended that the King III be updated with a focus on enhancing the accessibility and implementation, particularly for smaller entities and non-profit entities.[1]

The Institute of Directors in South Africa released the King IV Report on Corporate Governance for South Africa, 2016 on November 1, 2016. Disclosure on the application of King IV is effective in respect of financial years starting on or after April 1, 2017, but the King IV encouraged immediate transition.

An "apply and explain" approach is based on the view that it is often not a case of whether to comply or not, but rather to consider how the principles and recommendations can be applied. As with earlier versions of the King Code, JSE requires listed companies to include in their annual reports an explanation of how they have applied the principles set out in King IV.

The foundation of King IV is based on the following concepts: Ethical leadership; The organization in society; Corporate citizenship; Sustainable development; Stakeholder inclusivity; Integrated thinking; and Integrated reporting. Based on these overriding concepts, King IV has reduced the number of principles under the King Code from 75 Principles in King III to 17 Principles in King IV.

In comparison to prior iterations of the King Codes, the most significant change brought in by King IV is the enhanced accountability on remuneration. King IV includes more definitive disclosure requirements relating to remuneration practices – namely that remuneration should be disclosed in three parts:

i. a background statement;

ii. an overview of the remuneration policy; and

iii. an implementation report.[2]

Further, King IV advocates that shareholders be given the opportunity to pass separate non-binding advisory votes on the policy and implementation report.[3] Should either or both proposals receive 25% or more votes against, King IV emphasizes the company's responsibility to engage and address objections and concerns in future remuneration reporting.[4]

1 http://www.iodsa.co.za/?page=AboutKingIV.
2 King IV Principles 14.33-35.
3 King IV Principle 14.37.
4 King IV Principle 14.39.

Finally, the Code of Responsible Investing in South Africa ("CRISA") was released in July 2011, to formally encourage institutional investors to integrate environmental, social and governance ("ESG") factors into their investment decisions. CRISA is a non-mandatory market-based code of governance that applies to institutional investors.

RIGHT OF SHAREHOLDERS TO CALL A SPECIAL MEETING

In South African incorporated companies, one or more shareholders holding 10% or more of voting capital can call a special shareholder meeting.

Glass Lewis evaluates shareholder proposals on a case-by-case basis. We generally favour proposals which are likely to increase shareholder value and/or promote and protect shareholder rights. We typically prefer to leave decisions regarding day-to-day management of the business and policy decisions related to environmental, social or political issues to management and the board, except when we see a clear and direct link between the proposal and some economic or financial issue for the Company.

We believe shareholders should not attempt to micromanage the business or its board and executives through the initiative process. Rather, shareholders should use their influence to push for governance structures which protect shareholders, and then put in place a board they can trust to make informed and careful decisions which are in the best interests of the business and its owners. We believe shareholders should hold directors accountable for management and policy decisions through the election of directors and we will recommend shareholders vote against the re-election of one or more members of the board if we consider they have not handled key issues effectively.

APPLICATION OF THESE GUIDELINES

These Guidelines form the basis of the Glass Lewis approach to proxy advice for the 2019-2020 proxy season. We may refer to best practice; however, Glass Lewis agrees with the "apply or explain" analytical framework set out by King IV and applies the Guidelines accordingly.

Glass Lewis' South African policy guidelines take into account not only the recommendations of King IV, the Companies Act 2008 and JSE Listing Requirements, but also what we view as overall general policies for corporate governance best practices.

These guidelines are reviewed annually to ensure they remain appropriate with market practice and the ever-evolving standards of corporate governance.

Transparency and Integrity in Financial Reporting

ACCOUNTS AND REPORTS

In South Africa, companies must submit the annual financial statements, director reports and independent auditor's reports to shareholders at the AGM. We will recommend voting for these proposals except when there are concerns about the integrity of the statements/reports. However, should the audited financial statements, auditor's report and/or annual report not be published at the time of writing of our report, we will recommend shareholders abstain from voting on this proposal. Lacking sufficient information prevents shareholders from making an informed decision.

APPOINTMENT OF AUDITOR AND AUTHORITY TO SET FEES

We believe the role of the auditor is crucial in protecting shareholder value. Shareholders rely on auditors to ask tough questions and to provide thorough analysis of the company's books to ensure that the information ultimately provided to shareholders is accurate, fair and a reasonable representation of the company's financial position. The only way shareholders can make rational investment decisions is if the market is equipped with accurate information about the financial health of the company.

Shareholders should demand the services of objective and well-qualified auditors at every company in which they hold an interest. Like directors, auditors should be free from conflicts of interest and should assiduously avoid situations that require them to make choices between their own interests and the interests of the public they serve.

King IV also recommends that tenure of an audit firm needs to be disclosed.

Voting Recommendations in the Case of Appointment of Auditors and Authority to Set Fees:

We generally support management's recommendation regarding the selection of an auditor[5] and granting the board the authority to fix auditor fees, except in cases where we believe the independence of a returning auditor or the integrity of the audit has been compromised.

Some of the reasons why we may not recommend ratification of the auditor and/or authorising the board to set auditor fees include:

- When the company has failed to disclose the fees paid to the auditor or a specific breakdown of audit versus non-audit fees.
- When audit fees added to audit-related fees total less than the tax fees and/or other non-audit fees. We are also mindful of one-time corporate finance transactions and due diligence work for mergers, acquisitions or disposals.
- When the company has demonstrated aggressive accounting policies.

5 Section 61(8)(c)(i) of the Companies Act 2008 requires shareholders appoint the auditor at each AGM for the ensuing financial year.

- When the company has provided poor disclosure or lack of transparency in its financial statements.
- Where the auditor limited its liability through its contract with the company.
- When there have been recent material restatements or late filings by the company where the auditor bears some responsibility for the restatement or late filing (e.g., a restatement due to a reporting error).
- When there are other relationships or issues of concern with the auditor that might suggest a conflict between the interest of the auditor and the interests of shareholders.
- When the auditor performs prohibited services such as tax-shelter work, tax services for top executives, or contingent-fee work, such as a fee based on the percentage of economic benefit to the company.

INCOME ALLOCATION (DISTRIBUTION OF DIVIDEND)

Occasionally, South African companies may submit the allocation of income for shareholder approval. We will generally recommend voting for such a proposal. However, we will give particular scrutiny to cases where the company's dividend payout ratio is exceptionally low or excessively high by our standards and the company has not provided a satisfactory explanation. We generally recommend abstaining from dividends with payout ratios of less than 10% or more than 200%. We abstain rather than vote against to ensure that shareholders are able to express their concerns regarding the payout ratio, yet still receive a dividend. We will support uncovered dividends when we believe such payouts are justified and will not negatively impact the financial health of the company in the long-term.

A Board of Directors that Serves the Interest of Shareholders

ELECTION AND REMOVAL OF DIRECTORS

Most South African boards are staggered with one-third of the board elected each year, and proposals to repeal staggered boards are uncommon. Additionally, many South African companies exempt the chief executive officer from having to face re-election. Glass Lewis believes staggered boards are less accountable to shareholders than boards that are elected annually.

BOARDS

The purpose of Glass Lewis' proxy research and advice is to facilitate shareholder voting in favour of governance structures that will drive performance, create shareholder value and maintain a proper tone at the top. Glass Lewis looks for talented boards with a proven record of protecting shareholders and delivering value over the medium and long-term. Boards working to protect and enhance the best interests of shareholders typically possess the following three characteristics:

- Independence,
- Breadth and depth of experience and diversity, and
- A record of performance.

BOARD SIZE

South African public companies are required to have a minimum of three directors. We do not believe there is a universally applicable optimum board size; however, we do believe boards should have a minimum of five directors in order to ensure there is a sufficient diversity of views and breadth of experience in every decision the board makes.

Voting Recommendations on the Basis of Board Size:

We do not typically recommend against any board members in the case where there are fewer than five directors, as their removal from the board would not serve the intended purpose. Subsequently, we will typically recommend abstaining from the chair of the nominations committee for a board with fewer than five directors (four for smaller companies outside the JSE 40).

We also believe boards whose size exceeds 20 will typically suffer under the weight of "too many cooks in the kitchen" and have difficulty reaching consensus and making timely decisions. With boards consisting of more than 20 directors, we typically recommend voting against the chair and/or all members of the nomination committee.

INDEPENDENCE

We look at each individual on the board and examine his or her relationships with the company,[6] the company's executives, and with other board members. This inquiry is to determine whether pre-existing personal, familial, business or financial relationships might impact the decisions of that board member. The existence of personal, familial,[7] business or financial relationships can make it difficult for a director to put the interests of all shareholders above the director's own interests or those of the related party.

We classify directors in three categories based on the type of relationships they have with the company:

1. **Independent Director** — An independent director has no current material familial, financial or business relationship with the company, its executives or other board members, except for board service and standard fees paid for that service.

2. **Affiliated Director** — An affiliated director has (or within the past three years, had) a material familial, financial or business relationship with the company, its executives or other board members, but is not an employee of the company. Scenarios that would cause us to consider a director to be affiliated include, but are not limited to:

    - **Former employee** — The director has been an employee of the company within the last three years. Further, a NED who has been employed by the company as a senior executive is not considered to be independent unless there has been a break of at least three years between leaving that employment and becoming a NED of the company.

    - **Material business relationship** — The director has or had within the past three years a material[8] business relationship with the company.

    - **Familial relationship** — The director has a familial relationship with any of the company's key personnel.

    - **Significant beneficial ownership** — The director controls 5% or more of the company's voting shares or is a senior executive or other representative of a company that owns or controls 5% or more of the company's voting shares. Where a NED is a representative of such a substantial shareholder and remains on the board after that substantial shareholder ceases ownership, and in the absence of any other relationship between the company and the NED or the former substantial shareholder, we will reclassify the NED as independent. Similarly, where a NED resigned from his/her role with a substantial shareholder, and in the absence of any other relationship between the company and the NED or the substantial shareholder, we will reclassify the NED as independent.

    - **Company classification** — If the company classifies the director as non-independent but the reason for the director's non-independent status cannot be discerned from the company's documents, we will classify the director as affiliated and footnote the director in the board table as "Not considered independent by the Company". In all other cases, we will footnote the reasons or circumstances for the director's affiliated or insider status.

    - **Board interlock** — The director holds cross-directorships or has significant links with other directors through involvement in other companies or bodies.

---

6 "Company" includes any parent or subsidiary in a consolidated group with the company or any company that merged with, was acquired by, or acquired the company.

7 "Familial" includes a person's spouse, parents, children, siblings, grandparents, uncles, aunts, cousins, nieces and nephews, including in-laws, and anyone (other than domestic employees) who shares such person's home.

8 "Material" as used herein means a relationship where the dollar value exceeds: (i) R500,000 (or where no amount is disclosed) for NEDs who personally receive remuneration for a service they have agreed to perform for the company, outside of their service as a director, including professional or other services; (ii) R1,000,000 (or when no amount is disclosed) for those NEDs employed by a professional services firm such as an accounting firm, consulting firm, law firm or investment bank, where the firm is paid for services, but not to the individual directly.

- **Board tenure** — The director has served on the board for a period, which, in the view of Glass Lewis, might impair the NED's independence (see "Director Term Limits and Mandatory Retirement Provisions" below).[9]

- **Broad-Based Black Economic Empowerment** (see "BEE" section below) **relationship** — The director is an executive, employee or has an interest in a BEE entity that is a related party to the company.[10]

3. **Inside Director** — An inside director is an employee of the company.

SEPARATION OF THE ROLES OF CHAIR AND CEO

The usual practice for JSE-listed companies, supported by King IV and the JSE listing rules, is for the roles of the chair and CEO to be separated.[11]

Glass Lewis believes that separating the roles of corporate officers and the chair of the board is typically a better governance structure than a combined executive/chair position. We do not, however, normally recommend shareholders vote against CEOs who chair the board, but we do typically encourage our clients to support a separation between the roles of chair and CEO, whenever that question is posed in a proxy, as we believe that in the long-term this is in the best interests of the company and its shareholders.

In companies which have a combined CEO/chair, Glass Lewis strongly supports the existence of a presiding or lead independent director with authority to set the agenda for the meetings and to lead sessions outside the presence of the insider chair.[12]

DIRECTOR TERM LIMITS AND MANDATORY RETIREMENT PROVISIONS

While Glass Lewis believes periodic director rotation is appropriate, we also accept accumulated experience in a company over a substantial period or business cycles may be a valuable resource to a board and investors in the company. Nor do we believe the number of years served on a board is necessarily an accurate indicator of independence. However, the longer the period of service, the more likely it is that the independence, and possibly also the contribution, of a NED will be blunted. Further, in today's fast-changing business environment, there is a risk that a long-serving NED's particular skill set and experience could diminish in value to the board.

Glass Lewis, in line with recommendations set out in King IV, applies the principle that, after 9 years of service, we will review the classification of the NED and, unless we are satisfied from our review that the NED remains demonstrably independent, we will cease to classify the NED as independent.

Voting Recommendations on the Basis of Independence:

In general, at least a majority of the members of the board should consist of appropriately qualified independent directors.[13] If 50% or more are affiliated and/or inside directors, we will consider recommending shareholders vote against the election or re-election of one or more of the affiliated and/or inside directors in order to satisfy the independent majority; however, we will continue to consider such issues as the size of the board, the board skills mix, the shareholding mix (see "Controlled Companies" below) and other factors as appropriate.

We also apply heightened scrutiny to avowedly "independent" chair and lead directors. We believe they should

---

9 King IV Principle 7.29 stipulates that any independent director serving longer than nine years may continue to serve in an independent capacity following an assessment by the governing body conducted every year after nine years.

10 Glass Lewis will exclude BEE directors from the board independence calculation

11 King IV Principle 7.34. JSE Listing Requirement 3.84(c) states that the positions of chief executive officer and chair must not be held by the same person. A former chief executive should not go on to be the chair of the same company until three years have lapsed.

12 King IV Principle 7.32 also supports the appointment of a lead independent director where the chair is not independent.

13 King IV Principle 7.8 states that the board should comprise a majority of NED, most of whom should be independent.

be unquestionably independent or the company should not tout them as such.

CONFLICT OF INTEREST

Voting Recommendations on the Basis of Conflicts of Interest:

Regardless of the overall presence of independent directors on the board, we believe that a board should be free of people with an identifiable conflict of interest. Accordingly, we typically recommend shareholders vote against the election or re-election of directors in the following cases:

- **Overcommitted NEDs —** NEDs who presently sit on an excessive number of boards. NEDs who serve on more than five major boards[14] will usually receive "against" voting recommendations. Depending on the NED's workload, including on other boards, and capacity, we may also recommend voting against a NED who serves on more than four major boards. For this purpose, we believe service as non-executive board chair is equivalent to two ordinary non-executive directorships, given the amount of time needed to fulfil the duties of chair. This is reflected in the increased fees paid to non-executive company chairs (typically between two and three times the ordinary NED's fee). We may also note a director's private entity commitments, particularly those serving as senior executives or directors of large unlisted entities.

- **Additional executive role —** NEDs who serve as an executive of any public company (or large unlisted company) while serving on more than two other public companies (or large unlisted companies), unless the director is in a publicly disclosed transition from an executive to a non-executive career.[15] We make an exception when the NED is an executive of a substantial shareholder of the company and is serving on the board of the company as a representative of the substantial shareholder. We may also make an exception when the executive is a NED of a listed company in conformity with a disclosed policy of the executive's employer permitting the executive to be a NED of another listed company.

- **Professional services relationship —** NEDs who provided material professional services at any time during the past three years (or if their immediate family members or professional services firms of which they are a current or recent member provided such services). Such directors may unnecessarily have to make complicated decisions that may pit their interests against those of the shareholders they serve. Given the pool of director talent and the limited number of directors on any board, we think shareholders are best served by finding individuals who are not conflicted to represent their interests on the board.

- **Commercial relationship —** A director, or an immediate family member, who engages in commercial, real estate or other similar deals, including perquisite type grants from the company. We believe a director who receives these sorts of payments from the company will have to make unnecessarily complicated decisions that may pit their interests against those of the shareholders they serve.

EXPERIENCE

We look carefully at the backgrounds of individuals who are up for election or re-election to the board to ensure they contribute appropriate skills and diverse backgrounds. We also look at the backgrounds of those who serve on the key committees of the board to ensure they have the required skills and diverse backgrounds to make informed and well-reasoned judgments about the subject matter for which the committee is responsible.

Voting Recommendations on the Basis of Experience:

We typically recommend shareholders vote against the election or re-election of directors who do not meet the above criteria.

---

14 This means boards of listed companies or other large unlisted companies that may take up a significant portion of a director's time.

15 We will similarly note if an executive director serves as a NED of another major board.

PERFORMANCE

Voting Recommendations on the Basis of Performance:

We disfavour directors who have a track record of poor performance in fulfilling their responsibilities to shareholders at any company where they have held a non-executive or executive position. We typically recommend shareholders vote against the election or re-election of directors who have served on boards or as executives of companies with a track record of:

- Poor attendance;[16]
- Poor audit or accounting related practices;
- Poor nomination process;
- Poor remuneration practices;
- Poor risk management practices;
- Poor management of environmental and social issues; and/or
- Other indicators of poor performance, mismanagement or actions against the interests of shareholders.

BOARD COMMITTEES

AUDIT COMMITTEE

We are firmly committed to the belief that only independent directors should serve on an audit committee, which is also stipulated in King IV.[17] Further, King IV specifies the chair of the board should not serve as a member/chair of the audit committee. Additionally, we believe a committee with responsibilities as crucial as those of the audit committee should have a minimum of three members.[18] Alternate directors may serve on the audit committee, so long as they are subject to election by shareholders as members of the audit committee.

The Companies Act 2008 requires public companies in South Africa to submit the members of the audit committee for election at each annual general meeting ("AGM").[19] We will recommend voting against the chair of the audit committee if the company fails to put the members of the audit committee up for election, with the following exceptions:

- Companies classified as banks under the Banks Act No. 94 of 1990 - section 64(4) of the Banks Act stipulates that the directors of a bank are not required to submit the members of the audit committee for shareholder approval as a stand-alone proposal at the AGM, if such bank is a member of a group of companies in respect of which group annual financial statements are required to be made out in terms of section 288(1) of the Companies Act, provided an audit committee has been appointed for the holding company in that group and such audit committee has assumed the responsibilities of an audit committee in respect of all the banks in that group.
- A company that is a subsidiary of another company is exempt from this requirement if the parent company has an audit committee and this audit committee will perform the functions of the audit committee on behalf of that subsidiary company.

16 A director who fails, without an acceptable explanation, to attend at least 75% of the board meetings and respective committee meetings. However, where a director has served for less than a full year, we will not recommend voting against the director for poor attendance.

17 King IV Principle 8.56.

18 Also required by section 94(2) of the Companies Act 2008.

19 Section 61(8)(c)(ii) of the Companies Act 2008.

Voting Recommendations in the Case of Audit Committees:

If the company has submitted the election of audit committee members as a slate proposal and we have identified issues with some of those members of the audit committee under the election of director proposal, we will typically express our concerns and recommend shareholders abstain from voting on the slate proposal, unless the concerns are particularly egregious in which case we will recommend against the slate. We favour proposals to elect members of the audit committee as individual proposals, as we believe this allows shareholders to hold individual members of the audit committee accountable without the need to vote against other members that they would otherwise support, under a slate proposal.

When assessing the decisions and actions of the audit committee, we typically defer judgment to the members of the committee; however, we will typically recommend voting against the audit committee chair and/or its members if any one of the following occurred:

- If there is a risk that the nature of work undertaken by the audit firm is likely to create a conflict of interest between the company and the audit firm or otherwise likely to impair the independence of the auditor.

- If the fees paid for audit and audit related services are less than 50% of all fees paid to the audit firm. Glass Lewis will review the nature and level of the non-audit work to determine if the non-audit work may impact on the independence of the audit firm: Audit + Audit-Related < 50% x (Audit + Audit-Related + Tax + Other).

- If the chair of the board is a member or chair of the audit committee.

- The audit committee chair if the audit committee did not meet at least four times during the previous financial year.

- If the audit committee did not put the selection of the auditor up for shareholder approval.[20]

- If the Company fails to disclose the fees paid to the auditor or a breakdown of audit versus non-audit fees.

- If an executive or a person who is not subject to election by shareholders is a member of the audit committee.

- All members of an audit committee where non-audit fees include fees for tax services for senior executives of the company or involve services related to tax avoidance or tax shelter schemes.

- If the nature and level of non-audit work is not disclosed.

- If the committee does not have at least one member who has a demonstrable financial background sufficient to understand the financial issues unique to public companies.

- If an audit committee member sits on more than three public company audit committees, unless the audit committee member is a chartered accountant, certified practising accountant or a retired CFO, in which case the limit will be four committees.

- If accounting fraud occurred at the company.

- If financial statements had to be restated due to negligence or fraud.

- If the company repeatedly fails to file its financial reports in a timely fashion.

20 Section 61(8)(c) of the Companies Act 2008 requires a company to submit both the auditor and the audit committee for a shareholder vote at each AGM.

In the event we recommend against members of the audit committee who are up for election to the board, or if we would recommend against directors but they are not up for election due to any governance issue (including issues unrelated to the audit committee), we will generally recommend against those directors if they are up for election to the audit committee.

King IV also stipulates that the audit committee should disclose a statement as to whether the audit committee is satisfied that the external auditor is independent and the statement should also address the tenure of the external audit firm.[21] We will note if a company failed to provide this information, and may recommend against the chair of the audit committee in the future years.

RISK COMMITTEE

King IV considers the rising complexity of risk to necessitate a strengthened oversight, and hence requires allocating the oversight of risk governance to a dedicated committee, or adding it to the responsibilities of another committee, mainly the audit committee. King IV further recommends that the risk committee comprise a majority of non-executive directors so as to ensure that independent judgement is brought to bear.

When assessing a Company, we will typically recommend voting against the board chair if no separate risk committee or joint audit and risk committee is established, or against the committee chair if the committee is not comprised of a majority of NEDs.

REMUNERATION COMMITTEE

King IV stipulates that all members of the committee for remuneration should be NEDs, with the majority being independent.[22] Additionally, the chair of the board may sit on the remuneration committee, but should not serve as the chair of the committee.

We also believe the remuneration committee performs a key service to the company and that the associated workload cannot be satisfactorily performed by fewer than three members (two members for smaller companies).

Since April 2017, King IV stipulates that shareholders should pass a non-binding advisory vote on the company's yearly remuneration policy and implementation report.[23]

Voting Recommendations in the Case of Remuneration Committees:

When assessing the decisions and actions of the remuneration committee, we typically defer judgement to the members of the committee; however, we may recommend voting against the remuneration committee chair and/or its members if any one of the following occurred:

- If the remuneration policy and implementation report is not put up for shareholder approval at the AGM.
- If the chair of the board also serves as chair of the remuneration committee.
- If the committee is not comprised of a majority of independent NEDs with an independent chair.
- If in the opinion of Glass Lewis, the remuneration report or other remuneration disclosure published by the company provided materially inadequate disclosure or remuneration plans or other arrangements were introduced or applied by the company that, without an acceptable explanation, departed materially from accepted best practice.

21 King IV Principle 8.59a.
22 King IV Principle 8.66.
23 King IV Principle 14.37.

- If, in our view, the committee otherwise failed to demonstrate adequate competence in the handling of its remit on remuneration matters.

- If the remuneration committee did not meet during the year, but should have (e.g. executive remuneration was restructured).

- If an executive is a member of the remuneration committee (taking into account the composition and structure of the remuneration committee and/or board).

NOMINATIONS COMMITTEE

King IV stipulates that all members of a committee for nominations should be NEDs, with the majority being independent.[24] We believe, however, that this committee should comprise of a majority of independent NEDs with an independent chair. We also believe the nomination committee should have at least three members (two members for smaller companies).

Where an executive serves as a member of the nominations committee, we will urge the company to address the composition of this committee and may recommend against the chair of the nominations committee in future years.

Voting Recommendations in the Case of Nominations Committees:

We will consider voting against the nomination committee chair and/or its members if any of the following occurred:

- If the committee is not comprised of a majority of independent NEDs with an independent chair.

- If, in the opinion of Glass Lewis, the composition of the board reflects material succession planning, renewal or other composition deficiencies over a period of time.

- If the committee nominated or renominated an individual who had a significant conflict of interest or whose past actions demonstrated a lack of integrity or inability to represent shareholder interest.

- If the nominating committee did not meet during the year, but should have (i.e. new directors were nominated).

- If the board consists of more than 20 directors (see “Board Size”) above.

SOCIAL AND ETHICS COMMITTEE

The Companies Amendment Act stipulates that certain companies (including listed public companies) should have a social and ethics committee.[25] The social and ethics committee monitors the company’s activities, having regard to any relevant legislation, other legal requirements or prevailing codes of best practice, with regard to:

- Social and economic development.

- Good corporate governance.

- The environment, health and public safety, including the impact of the company’s activities and of its products or services.

- Consumer relationships, including the company’s advertising, public relations and compliance with consumer protection laws.

24 King IV Principle 7.61.

25 Section 47 of the Companies Amendment Act 2011 and section 43 of the Companies Regulation 2011.

- Labour and employment.

King IV recommends that the social and ethics committee comprise a majority of non-executive directors so as to ensure that independent judgement is brought to bear.

CONTROLLED COMPANIES

Controlled companies present an exception to our normal independence recommendations.

Where major shareholders effectively control a company, either with a majority of the voting shares or a substantial holding that is sufficient to confer effective control. Glass Lewis will accept the composition of the board reflecting the makeup of the shareholder population (i.e., the proportion of the independent element of the board should be roughly equal to the proportion of the public equity in the company).

Ideally, if the chair is not independent, which is common in South African controlled companies, an appropriately qualified lead independent director should be appointed.

We accept that the controlling shareholder, who is often the founder or a member of the founding family of the company, can be of crucial importance to the company and often has substantial personal wealth invested in the company. Consequently, we will rarely recommend shareholders vote against the re-election of the founder or other key principal of the controlling shareholder of a controlled company ("Controlling Director").

We do not, however, extend that approach to the audit committee of a controlled company. We believe audit committee should consist solely of independent directors. Regardless of the company's controlled status, the interests of all shareholders must be protected by ensuring the integrity and accuracy of the company's financial statements. Allowing affiliated directors to discharge the duties of audit oversight could present an insurmountable conflict of interest.

Ideally, the other key governance committees of a controlled company should be structured with an independent director as committee chair and independent directors as a majority of committee members.

Glass Lewis will normally support boards of controlled companies which give effect to the foregoing and otherwise respect the interests of public investors.

BROAD-BASED BLACK ECONOMIC EMPOWERMENT ("BEE")

Broad-based BEE legislation is a government policy aimed at advancing economic transformation and enhancing economic participation of historically disadvantaged peoples in South African economy. The Department of Trade and Industry's ("DTI") underlying strategy includes a focus on broadening participation, equity and access to redress for all economic citizens, especially those previously marginalised. The DTI administers the BEE Act, No. 53 of 2003, which provides a legislative framework for the promotion of Broad-based BEE.

On October 11, 2013, the South African Government published amendments proposed to the BEE Act. The primary purpose for the new BEE framework is to introduce new penalties in certain circumstances. Specifically, the new BEE Act will:

- Establish a BEE Commission.
- Introduce various criminal offences for misrepresenting or providing false information regarding a company's BEE status or engaging in a company's BEE status or engaging in a "fronting practice".[26]
- Introduce a statutory right for Government and public companies to cancel any contract or "authorisation"

26 A BEE fronting practice is defined under section 1(e) means *"a transaction, arrangement or other act or conduct that directly or indirectly under-mines or frustrates the achievement of the objectives of [the BEE Amendment Act] or the implementation of any of the provisions of [the BEE Amendment Act]..."* words.

awarded due to false information on BEE status.

- Impose an absolute obligation on Government and public companies to take the Codes of Good practice on BEE ("Codes") into account in their procurement policies and in issuing licences and authorisations.
- Impose an obligation on listed companies to provide a report to the BEE Commission on their compliance with BEE.
- Introduce new weightings for measuring a BEE status.

The amendments took effect on October 11, 2014 with an impact on specific companies' BEE rating from May 1, 2015.

Typically, we will refrain from recommending against directors who are deemed affiliated solely due to their involvement in a BEE transaction (refer to section on "Broad-based Black Economic Empowerment ("BEE Transaction") below). We believe that given the unique historical circumstances in South Africa, the benefits of the BEE program outweigh the potential drawbacks of an independence imbalance on the board stemming in part from the presence of a BEE-affiliated director. In the future, we believe companies should appoint additional independent directors to counterbalance the appointment of BEE-mandated directors.

However, in relation to key governance committees, we are firmly committed to the belief that only independent directors should serve on a company's audit committee.[27] In addition, we believe only NEDs, a majority of whom are independent, should serve on the company's remuneration and nomination committees.[28]

27 King IV Principle 8.56.

28 King IV Principle 8.66 and Principle 7.61, respectively.

Remuneration

We believe each listed company should design and apply specific remuneration policies and practices that are appropriate to the circumstances of the company and, in particular, will attract and retain competent executives and other staff and motivate them to grow the company's long-term shareholder value. The guidelines in this section reflect our views on best practice generally, with specific regards to South Africa.

REMUNERATION VOTING

In South Africa, investors are provided with several platforms to demonstrate approval or register concerns regarding executive remuneration packages. From 2009, the King III Code required South African companies to present its remuneration policy for shareholder approval on a non-binding, advisory basis annually.[29] Under the King IV Code, South African companies will be required to submit separately its remuneration policy and implementation report for shareholder approval on a non-binding, advisory basis annually.[30]

The policy report sets out the objectives of the policy and way the policy seeks to accomplish these. The policy report should include the following:[31]

- The remuneration elements and design principles underpinning the company's executive remuneration arrangements (and for other employees at a high level).

- Details of obligations in executive employment contracts which could result in termination payments.

- A description of the framework and performance measures used to assess the achievement of strategic objectives and positive outcomes, including relative weightings of performance measures and performance periods.

- Providing single, total figures of potential remuneration outcomes for minimum, on-target and maximum performance outcomes.

- An explanation of how the policy addresses fair and responsible remuneration for executive management in the context of overall employee remuneration.

- The use and justification of remuneration benchmarks.

- The basis for setting of fees for NEDs.

- Providing public access to an electronic version of the full remuneration policy.

We believe that policy reports and implementation reports should provide clear disclosure of an appropriate framework for managing executive remuneration. While this framework will vary for each company, it should generally provide an explicit link to the company's strategy, setting appropriate quantum limits along with structural safeguards to prevent excessive or inappropriate payments and particularly any reward for failure; whilst providing sufficient flexibility to allow boards to manage matters of recruitment, severance and professional development as they arise to avoid the necessity of seeking shareholder approval for policy amendments or special payments outside the policy.

29 King III Principle 2.27.
30 King IV Principle 14.37.
31 King IV Principle 14.34.

If the company has failed to sufficiently disclose the terms of its policy, we may recommend shareholders vote against the remuneration policy proposal solely on this basis.

The implementation report, which includes the remuneration disclosure in terms of the Companies Act,[32] should reflect the following:[33]

- The remuneration of each member of executive management, which should include in separate tables:
    - A single, total figure of remuneration, received and receivable for the reporting period, and all the remuneration elements that it comprises, each disclosed at fair value;
    - The details of all awards made under variable remuneration incentive schemes in the current and prior years that have not yet vested, including the number of awards; the values at date of grant; their award, vesting and expiry dates (where applicable); and the fair value at the end of the reporting period; and
    - The cash value of all awards made under the variable remuneration incentive schemes that were settled during the reporting period.
- An account of the performance measures used and the relative weighting of each, as a result of which awards under variable remuneration incentive schemes have been made, including the targets set for the performance measures and the corresponding value of the award opportunity; and for each performance measure, how the organisation and executive managers, individually, performed against the set targets.
- Separate disclosure of, and reasons for, any payments made on termination of employment or office.
- A statement regarding compliance with, and any deviations from, the remuneration policy.

We believe the Implementation Report vote provides shareholders with an important opportunity to support or oppose remuneration policies and practices; as such our voting recommendations may reflect ongoing structural concerns as well as remuneration decisions and outcomes during the past financial year. In assessing implementation during the year under review, particular attention is paid to the alignment between performance and pay outcomes, and the committee's level of disclosure regarding any application of discretion.

Under King IV, where a company receives 25% or more votes cast against either or both the remuneration policy and implementation report, companies should provide disclosure on the engagement processes and steps taken to address shareholder concerns and objections.[34]

In the case of companies that maintain poor remuneration policies year after year without any apparent steps to address the issues, we may also recommend that shareholders vote against the chair and/or other members of the remuneration committee. In addition, we may recommend voting against the entire committee based on the practices or actions of its members, such as approving large one-off payments, the inappropriate use of discretion in determining variable remuneration, or sustained poor pay-for-performance practices.

EXECUTIVE REMUNERATION

GENERAL APPROACH

The guidelines in this section reflect our developing views on best practice regarding remuneration in South Africa. Glass Lewis continues to review our policies each year to emphasise a case-by-case pragmatic and on-balance approach to analysis and recommendations on remuneration matters.

32 Section 30(4) to (6) of the Companies Act 2008.

33 King IV Principle 14.35.

34 King IV Principles 14.38-39.

STRUCTURE AND POLICY

These guidelines are founded on the premise that institutional investors have no objection to rewarding highly successful executives, but take great exception to high levels of remuneration being paid for average or below average performance.

Each listed company should design and apply specific remuneration policies and practices that are appropriate to the circumstances of the company and, in particular, will attract and retain competent executives and other staff and motivate them to grow the company's long-term shareholder value.

Where those specific policies and practices are consistent with best practice, Glass Lewis will support the company's approach without further explanation by the company. If those specific policies and practices depart materially from best practice, we will likely not support the company's approach unless the logic for those departures is transparently addressed and cogently explained in the remuneration report, notice of meeting leaflet or other relevant public disclosure.

DISCLOSURE

Glass Lewis expects companies to provide a clear, comprehensive narrative of the company's remuneration policies and practices in the annual report.

Disclosure in the annual report of the prior year's remuneration policy and package does not satisfy those information needs. Elements of the current policy and package may differ materially from those of the prior year. In any event, the current elements will have to be disclosed in the next annual report. There is no reason to not disclose all pertinent information at the time that shareholders are required to make a rationally informed decision on one or more elements of an executive's remuneration. The remuneration report should also disclose the company's performance relative to the performance measures used in any security-based plan.

ELEMENTS OF EXECUTIVE REMUNERATION

Some of the issues we will consider when analysing directors' remuneration policies and implementation reports, and in particular when considering a vote against these proposals, are as follows:

- **Excessive remuneration**. Fixed remuneration and variable remuneration opportunities are relatively high without a cogent explanation of the divergence in the remuneration report.

- **Inappropriate short-term incentive ("STIs")**. STI outcomes are not demonstrably tied to performance. Where a short-term bonus has been paid, Glass Lewis will expect disclosure of the extent to which performance has been achieved against relevant targets, including disclosure of the actual target achieved, unless non-disclosure is cogently justified.

- **Inappropriate incentive plan terms**. We do not believe the terms of incentive schemes are appropriate, including (i) performance and vesting periods; (ii) performance measures that are not consistent with the nature, maturity or strategy of the company; and (iii) "cliff vesting" of awards.

- **Adjustments to performance conditions or vesting terms**. Performance targets, periods and/or measures have been altered without cogent explanation, identification and justification.

- **Poor pay for performance**. Executive pay is comparably high, as compared with the company's peers, and we do not believe such pay has been linked to outstanding company performance over the period.

- **Unchallenging performance hurdles**. Performance targets, periods and/or measures appear not sufficiently challenging, are absent or provide for high potential payouts without justification.

- **Ex-gratia, sign-on and/or retention payments**. Ex-gratia, sign-on, retention or other non-contractual payments have been made and the reasons for making the payments have not been fully explained or the explanation is unconvincing.

- **Excessive termination benefits**. Abnormally high termination payments have not been fully explained and justified. Of particular concern is where unvested variable incentives are allowed to vest without respect of time elapsed or performance achieved.

- **Change of control provisions**. Automatic vesting of equity awards in the event of a change in control or termination.

- **Re-testing**. Unless there is appropriate justification, we normally have concerns with re-testing provisions under long-term incentive structures because they may allow executives to have 'multiple bites at the same cherry'. However, we will conduct a thorough examination of the structure of any re-testing provisions, especially compound annual growth/performance rates, to see if such provisions provide proper alignment with shareholders.

- **Disclosure of employment contracts**. Failure to disclose service contracts or longer-term obligations entered into to compensate an executive who has voluntarily left the company, and this has not been fully disclosed and justified.

- **NED equity grants**. Equity awards are granted to NEDs on the same terms and conditions as those granted to executives, including continued employment conditions, and have not been fully explained and justified.

PERFORMANCE MEASURES

Glass Lewis expects all companies to disclose terms and conditions of its incentive plans (if utilised under executive remuneration structure), including details of metrics used to measure performance. We assess the appropriateness of such measures on a case-by-case and fit-for-purpose bases, in the context of the company, its business strategy and rationale provided in the remuneration report.

In September 2015, we published a white paper "Executive incentives: motivate me?" in conjunction with Macquarie Securities (Australia) Limited, in which we examined the relationship between the use of relative total shareholder return ("RTSR"), earnings per share ("EPS") and return-style (e.g., return on equity, return on invested capital, return on capital employed, etc. "ROE") measures for LTI awards and companies' ultimate financial and TSR performance.[35] The results of this research indicate that the use of RTSR neither drives outperformance nor incentivises behaviour. This undermines the utility of RTSR as an appropriate LTI performance measure other than to facilitate alignment with shareholder outcomes.

As a result, Glass Lewis expects the companies with RTSR measure incorporated in their incentive plans to provide additional cogent explanation and rationale for this measure in its remuneration reports, including mechanisms used to prevent excessive vesting in years of poor absolute performance.

We note that King IV recommends the use of performance measures that support positive outcomes across the triple context in which the company operates (i.e. financial/commercial, environmental and society), and/or all the capitals that the company uses or affects (out of financial, manufactured, human, intellectual, natural and social and relationship capital).

King IV also recommends that executive remuneration should be fair and responsible in the context of overall employee remuneration and companies should address this area in their disclosure.

35 A copy of this white paper can be requested via email to info@glasslewis.com.

DEFERRED STI AND CLAWBACK PROVISIONS

In accordance with best practice, we support, but do not expect, the deferral of a significant portion of STI awards for a period of years (typically two to three), with the ability of the remuneration committee to claw back all or some of the STI awarded until performance can be suitably validated over time. We note that malus and clawback can also be applied to other types of incentive awards (i.e., long-term arrangements).

BOARD DISCRETION

Glass Lewis also accepts that there may be circumstances where threshold performance measures have not been achieved due to unforeseen circumstances and the board in such cases may wish to use its discretion to reward an executive. In such circumstances, the remuneration report should provide a cogent explanation for any awards where, prima facie, performance has not been achieved.

OPTION EXCHANGES AND RE-PRICING

Glass Lewis views option repricing plans and option exchange programs with great scepticism. Shareholders have substantial, real downside risk in owning shares and we believe the employees, officers and directors that receive share options should be similarly situated to align their interests with shareholder interests.

There is one circumstance in which re-pricing or option exchange program is acceptable: if the macroeconomics or industry trends, rather than specific company issues, cause a stock's value to decline dramatically and the re-pricing is necessary to motivate and retain employees. In this circumstance, we think it's fair to conclude that option grantees may be suffering from risk that was not foreseeable when the original "bargain" was struck. In such a circumstance, we will recommend supporting a re-pricing only if the following conditions are true:

- Officers and board members cannot participate in the program;
- The share decline mirrors the market or industry price decline in terms of timing and approximates the decline in magnitude;
- The exchange is value-neutral or value-creative to shareholders using very conservative assumptions and with a recognition of the adverse selection problems inherent in voluntary programs; and
- Management and the board make a cogent case for needing to motivate and retain existing employees, such as being in a competitive employment market.

DILUTION LIMITS

For companies with established businesses, plan rules should require prior shareholder approval if any grant or series of grants, together with grants already made under all executive and employee plans, would exceed 5% of total issued share capital.

For developing companies, higher limits may be reasonable, typically up to 10% of issued share capital. A compelling rationale should be provided to shareholders before the plan is introduced or, in the case of an initial public offering, should be contained in the prospectus or other public disclosure statements.

SHARE OWNERSHIP GUIDELINES

Companies should require key executives and NEDs to acquire, if necessary, over a reasonable time, and hold throughout their employment meaningful shareholdings in the company. The annual remuneration report should disclose that policy and the shareholdings of key executives and NEDs.

Regardless of any share ownership requirement, key executives and NEDs acquiring or selling company shares on market should take care to avoid transactions that fall afoul of the letter and spirit of insider trading laws

TREATMENT OF DIVIDENDS ON UNVESTED SECURITIES

Dividends on performance-based equity should only vest to participants if the relevant performance targets have been achieved. If a company uses an equity vehicle that accrues dividend entitlements (e.g., performance shares instead of rights), we would expect a thorough and compelling explanation for any dividend payouts to participants prior to the achievement of the relevant performance targets.

GENERAL EMPLOYEE SHARE PLAN

Companies may have equity plans, which are open to full and part time employees with more than one year of service. Such plans are justified if they align the interests of employees with those of shareholders and do not unduly dilute the holdings of the owners (see "Dilution Limits" above).

CONTRACTS

Executive employment contracts that run for a multi-year period for the purposes of recruitment should not extend longer than an initial three-year period and should revert to a not more than one-year contract after the initial period. Within this, the remuneration committee should pursue a policy of mitigation to minimise post-employment expenses of the company to executives.

Executive employment arrangements should not guarantee salary increases, bonuses or other incentives such as equity grants.

Companies should disclose the main terms of employment agreements with key executives, including severance arrangements, changes in control provisions and any other material contractual commitments. Disclosure should include a description of the agreements with sufficient detail of all material factors so that shareholders fully understand those terms. Companies should provide estimated payments under specific scenarios so that shareholders can determine the potential payouts under each agreement.

SMALLER COMPANIES

Companies which are in an exploration, development or similar stage, usually not yet generating significant operating profit and/or earning income substantially from interest on capital subscribed ("Smaller Companies"), may merit different approaches to their remuneration policies and practices from those of more established companies. In particular, greater use of equity-based remuneration may be appropriate both to preserve capital and to retain and incentivise key executives.

We acknowledge some smaller companies may grant ad-hoc equity awards to executives where there are no performance hurdles (or a pure share price hurdle) and/or a short vesting period. In such cases, subject to adequate disclosure of terms and valuations, we may be prepared to support such grants if we believe the company is in its exploration/development phase, the grant is in lieu of cash and overall remuneration (including the value of ad-hoc grants) is reasonable.

REMUNERATION OF NON-EXECUTIVE DIRECTORS ("NEDS")

STRUCTURE OF NED PAY

The non-executive element of the board is there to monitor the strategy, performance and pay of the executive arm of the company and to safeguard the interests of shareholders in general. In order to do so effectively, best practice dictates:

- NEDs should receive adequate remuneration to attract and retain the requisite talent and to encourage them to carry out their role diligently;

- The structure of that remuneration should align the interests of NEDs with the interests of public investors and should not provide any disincentive to independent action by a NED, including the ultimate warning sign to public investors – the NED's resignation from office; and

- The executive arm (and major shareholders) should have no capacity to influence NEDs on the matter of their remuneration.

OPTIONS TO NEDS

Glass Lewis does not usually support the practice of granting options as part of the remuneration of NEDs because, to align the interests of NEDs with the interests of public investors, equity participation by NEDs should share a similar risk profile to that of public investors. Such an objective is not achieved by share options that provide the NED with a risk-free equity incentive not available to public investors.

SMALLER COMPANIES

Smaller companies which are in an exploration, development or similar stage, usually not yet generating significant operating profit and/or earning income substantially from interest on capital subscribed, may merit different approaches to their remuneration policies and practices from those of more established companies. In particular, greater use of equity-based remuneration, including options, may be appropriate to pay NEDs and thereby preserve capital.

To protect the independence of NEDs, however, NED options should vest immediately and not be subject to performance hurdles. NED options should also be appropriately valued and the value of options granted and any cash received should be in line with NED remuneration levels for market index peers. In the absence of a cogent explanation to the contrary, NEDs should each receive the same number of options, except for the chair who should receive an appropriately greater amount. The remuneration report or explanatory notes should clearly explain that NED options have been granted in lieu of cash.

Vote Recommendations on the Basis of NEDs' Remuneration Issues:

Glass Lewis will generally support a proposed increase in the NEDs' fees. However, in the absence of an explanation for substantial year-on-year increases, or where a chair, deputy chair and/or lead independent proposed fees are substantially larger than other board member fees, we may consider recommending against the proposed increases in NEDs' remuneration.

Governance Structures and the Shareholder Franchise

AMENDMENTS TO THE MEMORANDUM

We will evaluate proposed amendments to a company's memorandum of incorporation on a case-by-case basis.

We are opposed to the practice of bundling several amendments under a single proposal because it might force shareholders to vote in favour of amendments that they might otherwise reject had they been submitted as separate proposals. In such cases, we will analyse each change separately. We will recommend voting for the bundled proposal only when we believe all of the amendments are in the best interests of shareholders.

CAPITAL STRUCTURE

INCREASE IN AUTHORISED SHARES

Glass Lewis recognises adequate share capital is important to the operation of a company. We will generally support proposals to increase the cap when a company could reasonably use the requested shares for financing, share splits and share dividends. Further, it is also important to note that an increase in authorised share capital, standing alone, does not dilute current shareholders. These shares are not issued to the public and are not counted in the "outstanding" share count. Instead, only share issuances would result in the dilution of the ownership interests of current shareholders.

PREFERENCE SHARES

Typically, Glass Lewis believes the creation and the terms of any new class of capital are matters for the ordinary shareholders to decide. Shareholder interests are affected, and their rights could be limited. We strongly oppose measures that give directors a blanket right to issue new classes of capital and to set the terms without shareholder approval. We have yet to see a cogent case made that such an abdication of shareholders is necessary.

Glass Lewis believes shareholders should both retain control of new classes of capital and set a cap, in both time and dollar amount, on the approved new class which directors can issue without reference to shareholders. If boards wish to introduce preference shares for flexibility, they should ask shareholders to approve both the broad terms of the class of preference shares envisaged and such a cap.

We consider the absence of such restrictions to pose a sufficiently material risk to shareholders. As such, we will recommend against a proposal to create and issue preference shares without safeguards for current shareholders.

GENERAL AND SPECIFIC AUTHORITY TO ISSUE SHARES

Under the Companies Act 2008, the directors have broader authority to issue shares.[36] Issuing additional shares can dilute existing shareholders. To this end, South African companies often seek annual shareholder

36 Generally, subject to section 36, the board may issue shares under section 38 without shareholder approval or seek shareholder approval under section 41 if the voting power of the class of shares that are issued will exceed 30% of the voting power.

approval to issue shares on both a pre-emptive and a non-pre-emptive basis under a single and general authority at each AGM. We will generally support the general authority (on both a pro-rata and non-pro-rata basis) to issue shares up to 15% of the number of shares currently issued in any one year.[37]

REPURCHASE OF SHARES

A company may want to repurchase its own shares for a variety of reasons. A repurchase plan is often used to increase the company's share price, to distribute excess cash to shareholders or to provide shares for equity-based remuneration plans for employees. In addition, a company might repurchase shares in order to offset dilution of earnings caused by the exercise of stock options.[38]

We will recommend voting in favour of a proposal to repurchase shares when the plan includes the following three provisions:

- A maximum number of shares which may be purchased (typically not more than 20% of the issued share capital);[39]
- A maximum price which may be paid for each share (as a percentage of the market price); and
- That the company will satisfy the "solvency and liquidity" test under the Companies Act 2008.[40]

APPROVAL OF FINANCIAL ASSISTANCE

Under the Companies Act 2008, South African companies must obtain shareholder approval by special resolution before providing any direct or indirect financial assistance to any related or inter-related company or corporation, or any person related to such a company or corporation.[41] Further, companies must also seek shareholder approval before providing any financial assistance for the purpose of subscription for securities in the company.[42] A company may only provide financial assistance in accordance with a special resolution approved within the previous two years.

We note that the Companies Act 2008 offers shareholder protection, as it requires that the directors are satisfied that immediately after the time of providing the financial assistance, the company would satisfy the solvency and liquidity test in the Companies Act 2008 and that the terms of the financial assistance are fair and reasonable to the company. Further, if the financial assistance (for purposes other than the subscription for securities in the company) transaction exceeds 1% of one-tenth of the company's net worth, the company is also required to give written notice to shareholders within 10 business days after the board adopts the resolution; or within 30 business days after the end of the financial year, in any other case.

Glass Lewis will generally support these proposals absent a sign of illegal or egregious conduct, as we believe members of management and the board are in the best position to determine the company's optimal capital management, strategy and financing arrangements and decisions associated with business operations, within the context of legal requirements and corporate governance best practice. Subject to the above, we believe the directors can be held accountable on these issues when they face re-election.

37 JSE Listing Requirement 5.52 permits a company to issue up to 15% of its issued share capital for cash under a general authority in any one financial year.

38 Pursuant to the JSE Listing Requirements 5.67 (B), a company must obtain shareholder approval for any non-pro-rata repurchase of shares from its shareholders. A repurchase of a company's shares must be in accordance with section 48 of the Companies Act 2008.

39 JSE Listing Requirement 5.68 permits a company to repurchase up to 20% of its issued share capital through a general repurchase in any one financial year.

40 Section 4 of the Companies Act 2008.

41 Section 45 of the Companies Act 2008.

42 Section 44 of the Companies Act 2008.

BROAD-BASED BLACK ECONOMIC EMPOWERMENT ("BEE") TRANSACTIONS

In 2003, the South African government passed the BEE Act as a means to redress the country's historical inequalities. The BEE Act requires businesses wishing to contract with any government enterprise or organ of the state to comply with the Codes. The Codes identify seven elements used to evaluate BEE compliance: ownership, management control, employment equity, skills development, preferential procurement, enterprise development and a sector-specific residual element.

Glass Lewis will generally support these BEE transactions, as they are mandatory for companies to remain compliant with the Codes of Good Practice regarding the BEE program. When analysing these transactions, we will typically consider the board's rationale, costs as a percentage of the company's market capitalisation, dilution and specific targets for that sector, as set out in the sector-specific transformation charters.

AUTHORISATION OF LEGAL FORMALITIES

Many South African companies seek the authority for the board to complete any legal formalities necessary to give full force and effect to the resolutions passed at the AGM. This is a fairly routine proposal and we generally defer judgment to the board to complete any legal formalities.

ENVIRONMENTAL AND SOCIAL POLICIES

CODE FOR RESPONSIBLE INVESTING IN SOUTH AFRICA (CRISA)

The Code for Responsible Investing in South Africa ("CRISA") was released in July 2011, following the implementation of the Stewardship Code in the UK in 2010, to formally encourage institutional investors to integrate into their investment decisions sustainability issues such as environmental, social and governance ("ESG") concerns. CRISA is a non-mandatory market-based code of governance that applies to institutional investors such as pension funds and insurance companies.

The five key CRISA principles are as follows:

1. An institutional investor should incorporate sustainability considerations, including environmental, social and governance, into its investment analysis and investment activities as part of the delivery of superior risk-adjusted returns to the ultimate beneficiaries.

2. An institutional investor should demonstrate its acceptance of ownership responsibilities in its investment arrangements and investment activities.

3. Where appropriate, institutional investors should consider a collaborative approach to promote acceptance and implementation of the principles of CRISA and other codes and standards applicable to institutional investors.

4. An institutional investor should recognise the circumstances and relationships that hold a potential for conflicts of interest and should proactively manage these when they occur.

5. Institutional investors should be transparent about the content of their policies, how the policies are implemented and how CRISA is applied to enable stakeholders to make informed assessments.

Glass Lewis believes companies should behave ethically and have regard for the environment and society as a whole. We consider environmental and socially responsible behaviour as part of the management process that companies should undertake in order to maximise shareholder value in the long-term.

Companies face significant financial, legal and reputational risks resulting from poor environmental and social practices, or negligent oversight thereof. Therefore, Glass Lewis views the identification, mitigation and management of environmental and social risks as integral components when evaluating a company's

overall risk exposure. We believe boards should ensure that management conducts a complete risk analysis of company operations, including those that have environmental and social implications. Directors should monitor management's performance in managing and mitigating these environmental and social risks in order to eliminate or minimise the risks to the company and its shareholders.

Voting Recommendations on the Basis of E&S Issues:

While Glass Lewis recognises most environmental and social concerns are best addressed via avenues other than director elections or proxy proposals, when a substantial environmental or social risk has been ignored or inadequately addressed, we may recommend voting against certain members of the board who, in our opinion, have had some influence over these practices (particularly those responsible for risk oversight in consideration of the nature of the risk and the potential effect on shareholder value).

LABOUR AND HUMAN RESOURCES PRACTICES

Glass Lewis believes labour and human resources policies usually are best left to management and the board, absent a showing of egregious or illegal conduct that might threaten shareholder value. It is our opinion that management is in the best position to determine appropriate practices in the context of its business. Shareholders can hold directors accountable for company decisions related to labour issues through the election of directors.

E&S CUSTOM PROXY VOTING POLICY

Early in 2016, Glass Lewis announced partnership with Sustainalytics to integrate ESG factors directly into proxy voting and engagement process. Sustainalytics is a global leader in sustainability research and analysis, serving investors and financial institutions around the world, with 20 years of local experience and expertise in the Responsible Investment and Socially Responsible Investment markets.

Glass Lewis and Sustainalytics also teamed up to integrate ESG factors into the proxy voting and issuer engagement process. Glass Lewis will incorporate Sustainalytics' ESG research and ratings into our Proxy Papers.

DISCLAIMER

This document is intended to provide an overview of Glass Lewis' proxy voting policies and guidelines. It is not intended to be exhaustive and does not address all potential voting issues. Additionally, none of the information contained herein should be relied upon as investment advice. The content of this document has been developed based on Glass Lewis' experience with proxy voting and corporate governance issues, engagement with clients and issuers and review of relevant studies and surveys, and has not been tailored to any specific person.

No representations or warranties express or implied, are made as to the accuracy or completeness of any information included herein. In addition, Glass Lewis shall not be liable for any losses or damages arising from or in connection with the information contained herein or the use, reliance on or inability to use any such information. Glass Lewis expects its subscribers possess sufficient experience and knowledge to make their own decisions entirely independent of any information contained in this document.

All information contained in this report is protected by law, including but not limited to, copyright law, and none of such information may be copied or otherwise reproduced, repackaged, further transmitted, transferred, disseminated, redistributed or resold, or stored for subsequent use for any such purpose, in whole or in part, in any form or manner or by any means whatsoever, by any person without Glass Lewis' prior written consent.

© 2019 Glass, Lewis & Co., Glass Lewis Europe, Ltd., and CGI Glass Lewis Pty Ltd. (collectively, "Glass Lewis"). All Rights Reserved.

North America

UNITED STATES

Headquarters
255 California Street
Suite 1100
San Francisco, CA 94111
+1 415 678 4110
+1 888 800 7001

44 Wall Street
Suite 503
New York, NY 10005
+1 212 797 3777

2323 Grand Boulevard
Suite 1125
Kansas City, MO 64108
+1 816 945 4525

Europe

IRELAND

15 Henry Street
Limerick
+353 61 292 800

UNITED KINGDOM

80 Coleman Street
Suite 4.02
London, EC2R 5BJ
+44 207 653 8800

GERMANY

IVOX Glass Lewis
Kaiserallee 23a
76133 Karlsruhe
+49 721 3549622

Asia Pacific

AUSTRALIA

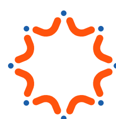
CGI Glass Lewis
Suite 5.03, Level 5
255 George St
Sydney NSW 2000
+61 2 9299 9266

www.glasslewis.com

@GlassLewis

@CGIGlassLewis

Glass, Lewis & Co.


GLASS LEWIS