



**aeon**  
investment management  
long term wealth creation

# Governance Policy



## Governance Policy

### Engagements Policy

#### Description

Aeon Investment Management's engagement policy entails details on the types of engagements we have, the process of engagements and the number of interactions held with company management concerning Environmental, Social and Corporate Governance (ESG) issues. By engaging with company management, we alert them to ESG factors which they should consider in future, should they not be aware of certain risk factors as a result of ESG infractions. Note that at Aeon Investment Management, we do not primarily use ESG factors to make an investment decision but rather to aid our investment decisions. We prioritise collaborative engagements per our exposure, impact to materiality exposure of shares we hold and the shares we might hold in future. We will define specific objectives for their engagement activities and will monitor the actions the companies take following the engagement.

#### Types of Engagements

Aeon Investment Management has three types of engagements namely: (1) Staff Engagements, (2) Collaborative Engagements and (3) Service Provider Engagements. The reason for interacting on ESG issues is to influence corporate practice and to encourage ESG disclosure and trends with companies.

#### Process for Engagements

Aeon Investment Management will define specific objectives for their engagement activities and will monitor the actions the companies take following the engagement. Engagement with staff, investment managers, service providers and/or companies reflect our commitment to the active management of the companies in which we invest. We do acknowledge that our proxy voting activities indirectly influence corporate behaviour. However, we do find meeting with management and independent non-executive directors, by attending annual general meetings "AGMs" to be more effective in providing awareness for management, directors as well as other shareholders on our issues with a company's operations.

In certain exceptional cases, we may make use of independent service providers to engage with companies on our behalf. Where necessary, we will utilise research from external experts to help us understand the issues in more detail.

At Aeon Investment Management, we believe that engagements with staff, companies and/ or other investment managers are important as it would aid our investment decision. Engagements with management and/or site visits to understand how a company is positioning itself to manage an ESG issue can support our decision to invest, divest or reweight a position. Engaging can also help us to make other investors aware of certain issues that may affect our required rate of return.

### **Newsletter**

As at November 2015 we initiated a newsletter. The aim of this newsletter is to make our investment performance known within the industry (Asset consultants, multi managers, retirement fund trustees etc.) and among our institutional clients. It is also to highlight our ESG activities and Aeon Investment Management news-related content.

As at January 2016, Aeon Investment Management started sending this newsletter to our retail clients as well. We added more detail relating to the Aeon Balanced Fund because all our retail clients are invested in this fund.

Aeon Investment Management intends sending this newsletter communication at least twice a year, and on an ad-hoc basis as and when news flow arises.

### **Public Policy**

Asief Mohamed, the Chief Investment Officer (CIO) for Aeon Investment Management offers submissions and proposals to parliament and other regulatory bodies in relation to economic, social and governance issues through his involvement in organisations such as the Association of Black Securities and Investment Professionals (“ABSIP”) and the Financial Sector Transformation Council (“FSTC”). The focus of these proposals is the encouragement of inclusive economic growth, job creation and transformation. Aeon Investment Management believes that by commenting on policies, attending investment management conferences, focused round table discussions, AGMs and corporate events, we can influence public policy by raising issues that hamper ethical behaviour and that can encourage disclosure by companies.

## **Transparency**

Aeon Investment Management discloses bi-annually and annually to its clients and/ or beneficiaries, an ESG Engagement Report to summarise the ESG engagement activities conducted during the period in question. The work summarises the number of engagements, specific goals of the engagement, an assessment of the current status and the outcomes that have been achieved from the engagement. We will be sending out a newsletter on a bi-annual basis to our institutional and retail clients. We will also publish on a quarterly basis our [updated proxy vote summary](#) on our website.

## Proxy Voting Policy

### Description

Aeon Investment Management follows the King IV Code, the Five Principles outlined in the Code of Responsible Investing in SA (“CRISA”) and the Six Principles outlined in the UNPRI when making proxy vote decisions on behalf of our clients. We prioritise collaborative engagements according to our exposure, the shares we hold and the shares we consider holding. Any conflicting resolution is usually voted against if no sufficient justification is provided.

Below is a policy and guide as to how Aeon Investment Management votes and provides an idea of our policies in this regard:

Aeon Investment Management considers its, internally developed, Socially Responsible Investing Framework in its proxy voting policies. Inevitably, most resolutions do not cover the SRI framework, and in this instance, we interact and lobby company management directly on SRI and ESG relevant issues.

The Aeon Smart Multi-Factor Fund shares are selected on a quantitative methodology basis with input of some ESG disclosure factors in the fundamental factor model. We, however, are in the process of developing further methodologies of integrating ESG into the Fund.

### Adoption of Annual Financial Statements

Aeon Investment Management normally votes in favour of the adoption of the financial statements. This resolution would be voted against if we feel certain material information has been omitted from the annual report. This is seldom the case as by its nature, it is difficult to establish this non-disclosure.

### Directors

The King IV Code recommends the board of directors comprise of a majority of independent non-executive directors. Aeon Investment Management therefore sets an independence threshold of roughly 60% when deciding on the re-election of directors. Should this threshold be breached, steps are taken to vote against any non-independent director up for re-election.

Directors perceived to be non-independent by Aeon Investment Management but classed as independent on the annual reports are voted against when up for re-election onto the board and/or committees. The criteria used in our independence assessment of non-executive

directors include but are not limited to board tenure, financial interest in the company and relationships with other companies that may influence their decision-making. The King IV Code recommends that an independent director with a material financial interest in the company and/or tenure on the board greater than nine years should undergo an independence assessment, which should be presented in the company annual report. This requirement is strictly enforced in Aeon Investment Managements' voting policy.

Aeon Investment Management focuses on assessing if the board is effective or not. This may not be easy to do, as we do not have access to board meetings and minutes. It is therefore essential that the board members have at least annual written peer reviews and assessments of each board member. External independent assessments of all board members are also encouraged, including a thorough evaluation process in nominating and appointing new directors. Key findings should be published in the annual and integrated report.

### **Election and Re-election of Directors**

Aeon Investment Management encourages single resolutions for each director's re-election and/or remuneration. We strongly discourage block resolutions for multiple re-elections or remuneration increases, as any conflict will result in us voting against the entire block of directors.

Attendance of board meetings and subcommittee meetings are a key consideration in our re-election decision. Unless there are valid reasons for not being able to attend, we will vote against the director's re-election if less than 75% of meetings were attended. If a director has been on the board in excess of nine years and the director is put up for re-election, we recommend an evaluation be conducted to determine if the director still displays objectivity and sound professional judgement.

Aeon Investment Management also considers the number of external boards each director is on. If a director is on more than three other boards, we will investigate his/her attendance at each of the company's board meetings. If the director has a poor attendance record for either company, Aeon Investment Management will vote against the director's re-election as the directors' commitment to other companies may impair their decision-making ability.

### **Remuneration**

Proposed fee increases and absolute amounts are evaluated alongside the company's relative performance over the past year as well as the fees relative to their main competitors or

relevant peer group. Should the fee increase, or absolute amounts seem excessive compared to their performance and/or competitors', Aeon Investment Management will vote against the resolution.

Share incentive packages, including total remuneration, should be fair to all company stakeholders. The package should contain explicit, appropriate targets for each member of the executive body to ensure bonuses awarded are transparent to all stakeholders. Aeon Investment Management favours long term incentive packages to ensure interested parties' objectives are in line with the long-term sustainability of the company. If we find the package does not include a targeted criteria and/or explicit benchmark or is excessive, Aeon Investment Management will vote against the resolution. Common targets include but are not limited to EPS growth, ROCE, ROIC, Economic profit growth, outperforming specified competitors, HEPS growth etc.

Once-off payments to parties are viewed in isolation. The justifications for the payment as well as the amounts are considered when resolving whether to vote for or against a resolution. Aeon Investment Management does not consider payments to outgoing parties a justifiable explanation as fees/bonuses would have compensated the individual during their tenure.

### **Short-term incentives (STIs)**

Aeon Investment Management will usually vote against the short-term incentives policy if there is no disclosure of executive clawbacks, if there are a few key shortcomings which lead us to oppose the remuneration policy namely, the misalignment between strategy and outcome and the lack of disclosure around benchmarking of STIs. We would recommend management placing a higher weighting on factors under management control. This includes factors such as volume growth, cash fixed cost growth and safety.

### **Approval of non-executive directors' fees**

Aeon Investment Management will usually vote against the approval of non-executive directors' fees if international directors' fees are more than three times higher than their local peers, if the fee increase is above inflationary expectations and/or if no justification has been provided for excessive fee increases. We would vote against the approval of non-executive directors' fees if the board chairman's or sub-committee chairman's remuneration is more than three times that of the other directors on the board. We would also vote against directors' fees that we view as excessive even in the instance where there was a zero percent

fee increase. An example of a guideline or resource that Aeon Investment Management would use in determining if the proposed non-executive fees are excessive is provided in the Institute of Directors in Southern Africa (IoDSA) website. Click [here](#) to view the latest published Non-executive Directors' Fees guide.

We recommend the fee structure for non-executive directors to be split between a base fee and an attendance fee (in line with King IV). Splitting between a base fee and an attendance fee, strikes a balance between accounting for ongoing work and interaction by board members and encouraging attendance.

Aeon Investment Management will vote against the resolution to approve non-executive director fees for sub-committees that are considered in our view irrelevant or futile.

### **Control over issued/unissued shares**

Aeon Investment Management will usually vote against placing unissued shares into the directors' control when no specific reason(s) or limit has been provided by management for raising additional funds. We recommend a limit of 10%. This is to avoid dilution of existing, minority shareholders or shares being used in a proxy battle that may not be in the interest of all shareholders.

### **General authority to acquire (repurchase) shares**

Aeon Investment Management will usually vote in favour of allowing directors to buy-back shares limited to a maximum of 20% (in line with JSE standards) of issued ordinary share capital if there is a large free float and/or no significant shareholders whom may benefit unfairly from the transactions at the expense of other shareholders. Generally, we see share buybacks as a relatively tax efficient mechanism to return capital to shareholders. We will vote against the authority to acquire (repurchase) shares if the share buyback price is excessive and/or inappropriate.

### **Creation and issue of convertible debentures**

Aeon Investment Management will usually vote against the allotment of new debentures if there are no details or accountability. We require that a size limitation of 10% is in place for the right to allot new debentures. Furthermore, we would vote against the issue of debentures if no clarity is provided regarding the criteria attached to their convertibility or the seniority of their claim of the company's residual assets or earnings. We believe that too much uncertainty would exist.

### **Payment of dividend by way of pro rata reduction of share premium**

Aeon Investment Management will usually vote in favour of the payments of dividends as a means to return capital to shareholders in the event that it cannot be productively utilised. However, we will have to foresee if there are any particular solvency or liquidity risks that would alter our view.

### **Scrip Dividend Scheme**

Aeon Investment Management will generally vote in favour of scrip dividend schemes over cash.

### **Amendment of Share Incentive Scheme**

Resolutions to amend a company's Share Incentive Scheme will be voted against if it hampers shareholder interests. However, it will be voted in favour of if shareholders interest and management will be awarded fairly and there is a strong alignment of interest with shareholders. Share option incentives are generally not voted in favour as they provide a one-sided payoff with no downside risk.

### **Auditor Re-Election**

Resolutions to re-elect auditors from reputable audit firms will usually be voted in favour of by Aeon Investment Management. If the proposed audit company is not considered reputable, and if they have been auditing the same company for over five years using the same partner, we would vote against the resolution if there were no valid reasons provided for using the firm. We would vote against this resolution if the audit firm has been appointed as the official auditor for the company for ten consecutive financial years.

### **Authorise directors to fix remuneration of external auditors**

Aeon Investment Management will usually vote against authorising directors to fix the remuneration of external auditors if the audit fees and non-audit fees are not disclosed. Without the disclosures, we cannot make a thorough review on how external auditors' compensation.

Aeon Investment Management will vote against resolutions concerning audit fee increases if the percentage increases are unfair or excessive and not in line with inflationary expectations.

## **Directors' authority to implement special and ordinary resolutions**

Aeon Investment Management will usually vote in favour, as this is an administrative step.

## **Financial Assistance**

Aeon Investment Management will usually vote in favour of aiding a company's subsidiary companies if they have a 100% shareholding in the subsidiary. We will also evaluate the financial assistance in the instance that conflicted minorities are involved. It may be necessary for the company to provide intra-group funding in order to conduct the Group's business or ideal for the company to provide financial assistance to related or inter-related companies and corporations to acquire or subscribe for options or securities or purchase securities of the company or another company related or inter-related to it. We will appreciate it if management provides sufficient detail as to why the relevant parties require the financial assistance, who they are what the terms of the financial assistance are and whether there are any conditions attached thereto.

We will vote against the resolution to approve financial assistance if the resolution applies every two or more years and not every year at the annual general meeting.

## **Disclosure of CEO Succession Plan**

Aeon Investment Management encourages the disclosure of the CEO succession plan, especially in the case of a company with a long-tenured CEO. This will enable the assessment in the appointment of new executive directors.

## **Authority to Make Donations**

Aeon Investment Management discourages the authority of a company to make donations to political organisations and to incur political party expenditure and influence.

## **Notice period for General Meetings**

In the event that a general meeting, other than an annual general meeting, is cancelled, Aeon Investment Management encourages a notice of not less than 14 clear days to be provided.

## **Other Resolutions**

The King IV code, the CRISA, the UNPRI and client mandate restrictions are collectively used to guide our decision-making on resolutions not mentioned above. Aeon Investment

Management also evaluates the resolutions' impact, both positive and negative, on the company and society when deciding on our stance. Should further information be required an effort is made to contact management for clarity.

In the case of internationally listed companies, we will also apply international codes of corporate governance, such as the UK Combined Code on Corporate Governance.

### **Client and/ or Beneficiaries Conflict**

Aeon Investment Management does encourage its clients or asset owners to play a role in the proxy voting process. If a situation arises where we decide to vote in favour of a resolution, but a client wants us to vote against, then we would collaborate with the client and hear their views. In the end, if the client still decides to vote against a resolution, we will vote against the resolution. After all it is the clients' or asset owners' right to do so.

### **Proxy Vote Submission**

Once Aeon Investment Management has completed all the resolutions on the proxy form, we will send the voting instructions through to Corporate Actions at Prescient Fund Services (Prescient Fund Services (PFS) is a wholly-owned subsidiary of [Prescient Limited](#) that offers specialist outsourced administration), who will instruct the custodian and CSDP agent to vote on our behalf.

We also send our voting instructions through to [Curo Fund Services \(Pty\) Ltd.](#)

### **Voting Transparency**

A Proxy Voting Policy, Proxy Voting Records and Proxy Voting Summary can be found on the Aeon Investment Management [website](#) which is updated every quarter. We also report our proxy voting record to clients on a quarterly basis and why we voted against a resolution.

## CRISA Disclosure Policy

### Description

Aeon Investment Management applauds the steps being taken to promote ESG issues in the investment decision process. We believe the Code for Responsible Investing in South Africa (“CRISA”) will encourage Institutional investor to become more proactive in aligning with the interest of all stakeholders. Aeon Investment Management supports the final CRISA code and we currently incorporate all the five principles in our investment decisions as outlined below.

**Principle 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.**

We believe that an analysis of ESG factors, in combination with fundamental research delivers insight that enhances investment decisions and returns. By incorporating ESG factors we have greater conviction in valuation and risk-reward assessment, and we are better able to identify security mispricing. Aeon Investment Management has developed a policy incorporating sustainable considerations into investment decisions on our internally managed assets which all our analysts use as a guideline for integrating ESG issues into investment analysis.

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

Aeon Investment management currently demonstrates ownership responsibilities through proxy voting and engagements with management through letters and/or meetings and presentations. Aeon Investment Management provides a quarterly summary of our voting on the Aeon Investment Management [website](#) .

**Principle 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.**

Aeon Investment Management, where appropriate is open to collaborative approaches to promote the acceptance and implementation of the principles of CRISA. One such approach was our public comment on the CRISA draft code. The comment is available on the IoDSA website.

**Principle 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.**

All Aeon Investment Management employees are CFA institute candidate/ members and are therefore obliged to comply with the CFA Institute's Code of Good Practice. The CFA code encompasses standards for managing conflict of interest.

**Principle 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.**

Aeon Investment Management provides a detailed summary of our proxy voting record and engagement activities on the Aeon Investment Management [website](#).

## Overall Responsible ESG Investment Approach

### ESG integration

Aeon Investment Management's approach to responsible investment is through Environmental, Social & Governance integration. The objective of ESG integration is to protect and enhance the value of our long-term investments. Central to our investment philosophy is the explicit recognition that sustainability factors directly affect long-term business profitability. By incorporating ESG factors, we have greater conviction in valuation and risk-reward assessment, and we are better able to identify security mispricing.

All our Analysts and Portfolio Managers keep track of corporate governance issues of companies listed on the Johannesburg Stock Exchange (JSE). The Analysts and Portfolio Managers report to Asief Mohamed, Chief Investment Officer, who is actively involved in environmental, social and governance engagement. We aim to consider a broad range of ESG issues. The environmental issues we consider include but are not limited to climate risk and change, water scarcity, pollution, packaging, and sourcing of raw materials. The Social issues we consider include but are not limited to diversity, workplace health and safety, product standards, community relationships and staff turnover metrics. The Governance issues we consider include disclosure, director independence, qualification and experience, remuneration benchmarking, board tenure and attendance. Our Analysts also research integrated reports of companies in our coverage and we consider economic, social and governance issues in our valuation methodologies.

### Screening

Aeon Investment Management does not utilise negative screening when assessing companies.

### Active ownership

Aeon Investment Management votes for all proxy resolutions for shares held in our portfolios and we provide full detail of our voting record quarterly on our [website](#).

Aeon Investment Management voting policy covers Corporate Governance, Environmental and Social issues. The policy incorporates principles from the United Nations Principles for Responsible Investment (see below), King IV Code, CRISA (see below), as well as any client mandate restrictions and guidelines.

## **UN PRI Six Principles**

*“Principle 1: We will incorporate ESG issues into investment analysis and decision-making processes.*

*Principle 2: We will be active owners and incorporate ESG issues into our ownership policies and practices.*

*Principle 3: We will seek appropriate disclosure on ESG issues by the entities in which we invest.*

*Principle 4: We will promote acceptance and implementation of the Principles within the investment industry.*

*Principle 5: We will work together to enhance our effectiveness in implementing the Principles.*

*Principle 6: We will each report on our activities and progress towards implementing the Principles.”*

Aeon Investment Management takes advantage of public results presentation and public conference platforms to address matters relating to economic, social and governance issues. We actively research and monitor corporate governance practices and take advantage of platforms that where we encounter management to address economic, social and governance issues. In certain instances, we engage one-on-one with companies’ management teams.

## **Public Policy Influence:**

Asief Mohamed, the Chief Investment Officer (CIO) for Aeon Investment Management also makes submissions and proposals to parliament, in relation to economic, social and governance issues, through a number of organisations that he is affiliated to.

## **Reporting**

Aeon Investment Management discloses its Social Policy and Environmental Policy on the website which is updated every quarter. We also report our proxy voting record to clients on a quarterly basis.