FIRST AVENUE
INVESTMENT MANAGEMENT

ESG AND PROXY VOTING POLICY

PREPARED BY : NADIM MOHAMED

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EXTERNAL REFERENCE DOCUMENTS	
Document Number	**Document Title**
1	United Nations Principles for Responsible Investing
2	Code of Responsible Investing in South Africa

ACTIVITY 2.5.1	**ACTIVITY DESCRIPTION**	
Objectives	The provision of guidelines for the incorporation of ESG into First Avenue Investment Management's investment process	
Scope	**Environment, Social and Governance considerations within the investment process**	
Responsible person(s)	**Nadim Mohamed** **Jorge Haynes**	
Internal Documentation & References	**Name:**	Document Number:

1 OVERARCHING PRINCIPLES

First Avenue acknowledges the importance of integrating sustainability issues (such as environmental, social and governance issues) into our investment analysis and long term investment strategy. We believe that these factors have an important impact on investment performance and, therefore, insufficient consideration of these factors could lead to incorrect investment decisions being made. For this reason, we view initiatives such as the United Nations Principles for Responsible Investing (UNPRI) and Code of Responsible Investing in South Africa (CRISA) as beneficial to our industry.

We currently incorporate all five principles of CRISA into our research process as follows:

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.

ESG is a core issue that is fully integrated into our research process. We do not rely on third party ESG ratings / integrated reports that are widely available and prefer to investigate these factors independently. As a representative example, First Avenue studied the performance incentives used to determine management bonuses in the SA platinum sector for large producers. Our conclusion was that there was insufficient focus on core issues such as safety of the work environment. In addition, management earned more than 3,000 times the salary of a mineworker. Our conclusion was that this was unsustainable in the longer term and would lead to sub-optimal outcomes both for workers and investors in the long term. Detailed analysis of this is included in our thoughtpiece on Mining in South Africa: A Tragedy of The Commons.

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

This principle is firstly actioned through our votes (for or against company) resolutions related to ESG. We keep a full record of these votes and this can be made available upon request.

Furthermore, we believe greater impact can be achieved through activism within the companies we hold. Where necessary, we write letters or engage with management in order to highlight our concerns around sustainability / ESG-related issues. We also will not hold companies where there is any evidence of corruption or poor governance as this increases the uncertainty of our investment case.

We also apply internal controls to prevent insider trading when engageing with companies as required by the Securities Services Act No 36 of 2004.

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.

When necessary, First Avenue is open to collaborating and engaging with other investors on the implementation of principles that relate to ESG. We also may engage with our larger clients in order to gain their support for our initiatives and / or requirements of sound governance. In certain circumstances, we may also collaborate with our large institutional investors to affect the necessary change required from investee companies.

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

First Avenue strives to identify any circumstances and relationships that could lead to a conflict of interest situation. Our staff are required to disclose such conflicts of interest. Furthermore, it is our view that our principle of 'investing alongside our clients' will reduce the chances of such situations occurring.

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.

This information is available upon request. First Avenue is open to any discussion on our policies, processes or voting records.

2 PROXY VOTING GUIDELINES

The purpose of this guideline is to create consistency of practice in proxy voting activities within First Avenue Investment Management. The policy aims to create alignment with the King II corporate governance principle of 'holding a balance between economic and social goals'.

The key guiding principles for proxy voting activities are as follows:

- Independence – sufficient checks and balances must be in place to balance the power of the executive team
- Accountability – outsiders and the board must have the ability to view and scrutinise corporate actions in a transparent fashion
- Social Responsibility – decision should not be made in isolation of environmental, social, governance, human rights and the wellbeing of other stakeholders
- Ethics – the board needs to display a high degree of ethics and act in a responsible way so as not to maximise their gains but to also protect shareholder and stakeholder interests

With respect to these principles, proxy voting requirements are focused on the following areas:

2.1 Board Composition

The board needs to have a balance between executives and non-executives with no particular individual having too much power. Also, board members seats need to come up for re-election at sufficient intervals to ensure independence and objectiveness. The number of directors needs to be appropriate for the size and complexity of the business and much have the right mix of skills and experience to ensure good decision making and governance. Ideally, there should be a diverse mix of skills within the board and appointments should not be on the basis of family or other relationships with executive directors. Board members need to also display a sufficient level of dedication to the position which is demonstrated through attendance, conflicts of interest, number of board he/she sits on and history of ethical conduct. The chairperson of the board needs to strongly represent the above requirements and be an individual with substantial experience and capability. The above together with the performance of the company during a board members' tenure will be taken into account when voting for or against the election of a particular member.

2.2 Remuneration and Remuneration Committees

Remuneration and incentive schemes need to be determined by an independent board structure. Bonus and incentive structures need to represent the 'triple bottom line' and cannot be focused solely on financial performance. Examples of considerations include employee safety, environmental impact and ethical behaviour. Incentive structures should encourage retention of key staff members and reward long term performance using an appropriate measurement framework. All remunerations structures need to be approved by shareholder vote. Non-executive directors and people not employed by a company must be excluded from share option schemes. Option structures must be carefully analysed to ensure that they stretch over multiple years, are not repriced and are not issued at a substantial discount. We generally prefer schemes that require an employee to contribute own shares into the scheme.

2.3 Risk Management

The board must have sufficient insight into the risk appetite of the firm through a transparent reporting structure. This framework should be displayed in the annual report and demonstrate an adequate system for risk identification, risk mitigation, value at risk and internal controls.

2.4 Shareholder Treatment

All shareholders, regardless of size, must be treated equally. For this reason, equity capitalization structures with preferential voting rights are not preferred. Share repurchases need to also not provide additional benefits to high voting shares over and low voting shares and should not be used as a mechanism to dilute the voring risks of low voting class shares. In addition, pyramid structures designed to multiply voting power of a controlling shareholder at the top of the structure are looked upon negatively. Ideally, the principle of 'one share, one vote' should be followed.

2.5 Treasury Shares

The board should not be given the proxy over treasury shares. These should be excluded from the voting process to ensure that the board act independently and that buy-backs are in the interest of shareholders and not executive management. This includes independent companies or subsidiaries.

2.6 Reporting Standards

The company needs to comply will all applicable accounting standards and all changes need to be communicated explicitly. Adherence to a closed period from one month prior to the end of the financial period end is required.

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2.8 Share Repurchases

Share repurchases are encouraged is they do not impair the tradability of the shares to the extent that it impacts negatively on the rating of the share or the share's weighting in the FTSE/JSE Free Float Index. Repurchases should not impact on the control structure of a group and is applied equally across minority and controlling sharehodlers. Repurchases are to also not impact negatively on the capital structure of the business and must not create unacceptable levels of financial risk.

2.9 Authority to Issue Shares for Cash and Placing Unissues Shares In The Control of Directors

JSE listing requirements prohibit share issues for cash in excess of 15% of current shares in issue. Such an authority, if exercised, carries the risk of potentially diluting existing shareholders in terms of the value of their investment as well as voting rights. We will only support such an authority if there is sound motivation or it is required as part of a BEE deal. In terms of placing shares under the control of directors, we support this if, as required by the JSE, no issue of shares is contemplated at the time of the resolution and no issue will be made that could effectively transfer control of the company without prior approval of shareholders. Unfettered access to unissued shares is looked upon negatively in general.

2.10 Dividends

We generally prefer a steady, consistent and transparent divident policy. In general, a company should on average not retain more cash than is required to satisfy growth requirements. If a dividend places undue strain on cash resources and liquidity or increases gearing, we will vote against the dividend. We would favor special dividends that return excess cash to shareholders. In general, we prefer paying dividend in shares instead of cash where applicable.

2.11 Share Splits and Consolidations

Such resolutions need to be properly motivated and must not turn a stock into a 'penny stock' with value less than R1. Consolidation must not impair tha liquidity of a share.

2.12 Odd-lot offers

In general, we favour such actions if the offer is made at a fair price and does not enable a change in control or significant influence.

3 ESG METRICS

Where available / applicable, the following metrics should be considered in addition to custom analysis of ESG performance for an investment case. These are generally available through information systems such as Bloomberg.

Environmental

Greenhouse Gas Emissions
Energy Efficiency Policiy Available?
Waste Reduction Policy Available?
Climate Change Policy Available?
Biodiversity Policy Available?

Social

Employee Turnover Rate
% Women in workforce
% Minorities in workforce
BBBEE Rating
BBBEE Score
Fatalities or Major Safety Incidents / 1,000 employees
CSI or Enterprise Development Spend relative to sales
Employee training expenditure

Governance

Size of board
Employee representatives on board
% board that are independent non execs
% independent directors
# Women on board
% Female executives
Diversity of board
Board duration
Board committee and meeting attendance
Directors attending less than 75% of meetings
Size and number of independents on audit committee
Number of audit committee meetings
External compensation advisors?
Size and number of independents on nomination committees
ESG Linked compensation for board and execs
Clawback provision for executive compensation

Exec & Director Compensation

Total compensation paid to execs
Total salaries and bonuses paid to execs
Total compensation paid to CEO
Total salaries and bonuses paid to CEO
Total compensation paid to Board