

OLD MUTUAL INVESTMENT GROUP **LISTED EQUITY PROXY VOTING POLICY**

DECEMBER 2014



DO GREAT THINGS



OLD MUTUAL
INVESTMENT GROUP

TABLE OF CONTENTS

1. INTRODUCTION	3
2. OLD MUTUAL INVESTMENT GROUP'S APPROACH TO PROXY VOTING	3
2.1 Introduction	3
2.2 Proxy voting procedures	3
2.3 Approach to management engagement and collaboration	3
2.4 Promoting and protecting shareholder rights	4
2.5 Scrip lending practices	4
2.6 Conflicts of interest	4
2.7 Disclosure and transparency	4
3. PROXY VOTING GUIDELINES	4
3.1 Introduction	4
3.2 Board of Directors	5
3.3 Remuneration of Directors	7
3.4 Financial Reporting	8
3.5 Audit Committee	9
3.6 Empowerment transactions	10
3.7 Unissued shares under the control of directors	11
3.8 Shareholder matters relating to capital management	11
3.9 Share repurchases	12
3.10 Changes to memorandum of incorporation	12
3.11 Political donations	13

1. INTRODUCTION

This Policy sets out Old Mutual Investment Group's guidelines for the voting of shareholder resolutions as they pertain to listed equity. The Policy should be read within the broader context of Old Mutual Investment Group's Responsible Ownership Guidelines, which is informed by the Old Mutual Investment Group's Responsible Investment Guidelines, which state:

"Old Mutual Investment Group takes its responsibility as a shareholder seriously; as a result, we aim to ensure that management are accountable for company performance and conduct. We will act as a responsible steward of assets on behalf of our policy holders, clients and shareholders by

- Maintaining a copy of our Listed Equity Proxy Voting Policy on our website
- Voting all proxies in a manner consistent with our proxy policy and specific client guidelines
- Publishing the votes on our website
- Working with other co-investors regarding material ESG issues at investee companies, being mindful of acting in concert
- Reviewing and updating our proxy voting policy annually as required."

This Policy is applicable to the listed-equity boutiques at Old Mutual Investment Group, recognising:

- the unique value proposition of each listed-equity boutique and the independent nature of their investment styles;
- the specific mandates that each boutique has with its respective clients; and
- the mandated responsibility of boutiques to pursue superior risk-adjusted returns on behalf of their clients.

2. OLD MUTUAL INVESTMENT GROUP'S APPROACH TO PROXY VOTING

2.1 INTRODUCTION

As a responsible investment manager, Old Mutual Investment Group's primary aim is to ensure the achievement of superior risk-adjusted returns in line with our client mandates. Aligned with this objective, our proxy voting and engagement activities are an integral part of Old Mutual Investment Group's investment strategy aimed at enhancing long-term value.

We recognise that confidence in the integrity and quality of management is essential to long-term value creation and investor confidence. Old Mutual Investment Group aims to contribute to investment performance by supporting the application of the highest standards of corporate governance in the companies in which it invests on behalf of clients.

Our approach to proxy voting draws on aspects of the King III Code on Corporate Governance; the governance provisions in the South African Companies Act 71 of 2008; the listing requirements of the JSE, as well as international guidelines such as the OECD Corporate Governance Principles (2004); the ICGN Statement on Global Corporate Governance Principles (2005); and the Association of British Insurers Guidelines.

Old Mutual Investment Group understands that clients may have their own proxy voting policies and may wish to opt out of Old Mutual Investment Group's policy. Where this occurs, Old Mutual Investment Group will put in place mechanisms to ensure adherence to the client's proxy voting policy.

2.2 PROXY VOTING PROCEDURES

The actions of Old Mutual Investment Group are always subject to client instruction with regard to the manner of voting. Failing direct instruction, Old Mutual Investment Group will vote using the accompanying proxy voting guidelines. Further to this, in the event that a client has implemented a particular voting policy, Old Mutual Investment Group will abide by specific instructions on specific votes, as it is always within the client's contractual discretion to vote their own shares. However, Old Mutual Investment Group is not in a position to implement broad policy principles proposed by our clients, as there is a risk to the client that Old Mutual Investment Group may misinterpret these.

The recommendation regarding each proxy is determined by the Governance and Engagement Specialist that sits within the central Responsible Investment Team. Where required, the Governance and Engagement Specialist will call on the support of the Research Analyst around company and sector expertise

There are two listed proxy voting areas within Old Mutual Investment Group. The Governance and Engagement Specialist will vote on behalf of all the boutiques except Electus, which conducts its own voting for its clients and votes independently on each company.

2.3 MANAGEMENT ENGAGEMENT AND COLLABORATION

Old Mutual Investment Group's research analysts meet regularly with company management on operational and company specific issues, as well as on issues related to governance.

Old Mutual Investment Group will generally engage with investee companies to ensure that they have a clear understanding of the reasons for voting against resolutions.

Old Mutual Investment Group prefers not to take a public route when seeking change at companies. Our preference is to work constructively with Boards and management behind the scenes to achieve positive change. However, where no progress is made over an extended time period, Old Mutual Investment Group may, as a last resort, use the press and other public forums to drive change. We will normally notify a company in advance of briefing the media when taking this approach.

Where we believe it will be in the best interests of our clients, and where we have exhausted our behind-the-scenes engagement with management, we will seek out opportunities to collaborate with other co-investors on material issues as a means to drive change. Where such collaborative efforts are undertaken we will ensure that conflicts of interest and issues relating to “acting in concert” are appropriately addressed.

Old Mutual Investment Group’s approach to engagement and collaboration is overseen by the Responsible Ownership Working Group in order to ensure a consistent approach.

2.4 PROMOTING AND PROTECTING SHAREHOLDER RIGHTS

Old Mutual Investment Group will seek out opportunities to promote and protect shareholder rights through the participation and development of policy, regulation, and standards governing the listed equity market.

2.5 SCRIP LENDING PRACTICES

Old Mutual Investment Group understands that scrip lending is an important feature of the market and that it has the potential to improve market liquidity, reduce trading risks and provide an additional return to its clients. We also note that scrip lending can increase share price volatility and speculation and can distort the outcome of shareholder votes. As a result, Old Mutual Investment Group will work towards the application of the International Corporate Governance Network Securities Lending Code of Best Practice.

Key elements of the Code include:

- ensuring that scrip that is lent is voted in a manner that is aligned with the Old Mutual Investment Group Responsible Ownership Guidelines;
- providing clear guidance as to when shares can be lent, when they can be recalled, or when they should be withheld from lending;
- ensuring transparency in scrip-lending practices and providing disclosure to clients on request; and
- defining the scope of scrip-lending practices clearly in client mandates.

2.6 CONFLICTS OF INTEREST

Old Mutual Investment Group is mindful that conflict of interest may occur in the course of our work. We define conflict of interest as follows:

“A conflict of interest arises when an actual or a potential interest may influence you to not act fairly, independently and objectively towards your customer.”

Old Mutual Investment Group has implemented a Conflict of Interest policy, which is publically available on the Old Mutual Investment Group website. The purpose of the policy is to set out the parameters for managing any conflicts of interest that may arise in the rendering of financial services to customers. The Conflict of Interest policy is applicable to all of Old Mutual Investment Group and all of its employees, and is reviewed annually or as dictated by changes to legislation.

It has been approved by Old Mutual Investment Group’s Board of Directors, and any major amendments will require Board approval. In addition, it is compliant with the requirements of the Financial Advisory and Intermediary Services Act (FAIS).

Conflicts of interest manifest in a number of ways in the asset management industry. Once a conflict is identified, we either avoid such conflicts or suitably mitigate them. We have identified key conflicts within our business, which we proactively manage and monitor in a number of different ways. These include:

- A Personal Account Trading policy is in place and processes are set to monitor such activity and mitigate any conflict.
- A Giving and Receiving Gifts and Benefits policy governs the giving and receipt of gifts along with a gift register.

In addition, we have implemented a conflict of interest disclosure requirement in a number of our committees and processes as well as a Conflict of Interest register. Lastly, the Conflict of Interest policy forms part of the Old Mutual Investment Group’s Code of Conduct, and is contained in employment contracts and is re-accepted annually by all employees.

2.7 DISCLOSURE AND TRANSPARENCY

Old Mutual Investment Group maintains a copy of the Proxy Voting Policy as well as proxy records on its website. Old Mutual Investment Group will review and update, where necessary, this proxy voting policy annually.

On an annual basis, Old Mutual Investment Group will provide disclosure on its responsible ownership practices. This disclosure will form part of Old Mutual’s Annual Report.

3. PROXY VOTING GUIDELINES

3.1 INTRODUCTION

This section provides an overview of the general principles and guidelines that Old Mutual Investment Group will apply when voting listed equity proxies. These proxy voting guidelines draw on: the King III Code on Corporate Governance; the governance provisions in the South African Companies Act 71 of 2008; the listing requirements of the JSE, as well as international guidelines such as the OECD Corporate Governance Principles (2004); the ICGN Statement on Global Corporate Governance Principles (2005); and the Association of British Insurers Guidelines and CRISA.

Old Mutual Investment Group will exercise each proxy on the merits of the case for each such proxy, and from the viewpoint of the client, without regard to any interests of Old Mutual Investment Group, its staff, officers, directors or its associated companies.

Analysts and portfolio managers may choose to vote in a manner that is contrary to what is presented here. In such instances deviations from the guidelines will be clearly recorded and explained.

Where separate client proxy voting instructions are provided Old Mutual Investment Group will abide by client instructions.

3.2 BOARD OF DIRECTORS

3.2.1 General principles

- Old Mutual Investment Group assesses each proposal on Board composition and responsibilities on a case-by-case basis, taking into account the circumstances of the company, its track record and overall governance framework.
- Old Mutual Investment Group supports the guidelines in King III with regards to Board composition, function and responsibilities, specifically:
 - The Board is accountable for the performance and affairs of the company.
 - It should delegate to management and Board committees, but it retains liability.
 - The unitary Board with a mix of executive and non-executive/independent directors is appropriate to South Africa.
 - The responsibilities of the Board include: providing strategic direction; retaining full and effective control; complying with laws and regulations; defining levels of materiality; identifying and monitoring key risks and key performance areas; and having a written Board Charter and/or Terms of Reference for its various Board committees.
- Old Mutual Investment Group supports Board structures where all the directors are able to act only in the best interests of the company, its shareholders and other stakeholders in an inclusive manner, and where they may exercise independent judgement and decision-making. A fundamental aspect of a well-balanced and well-governed Board is one where the majority of directors are independent non-executives. The Chairperson of the Board should be independent (in accordance with the below assessment criteria). However, if the sole concern in accessing independence is that the Chairperson has a substantial shareholding in the company, we will evaluate his or her position in the context of the best interests of the company.
- For the purposes of evaluating whether directors are independent, the following definition will apply:

The director:

- does not represent and was not nominated by a major shareholder;
- has not been employed by the company or the group in any executive capacity for the preceding three financial years;
- is not an immediate family member of an individual employed by the company or the group in an executive capacity in the preceding three financial years;
- is not a professional advisor to the company or the group other than in the capacity as a director;
- is not a significant or material supplier or customer of the company or the group and is not materially associated with such a supplier or customer;
- has no significant or material contractual relationship with the company or the group (other than as a director);
- is free from any business or other relationship which could be seen to materially interfere with his/her ability to act independently;
- is not a substantial shareholder of the company;
- does not represent any shareholder who has the ability to control or materially influence management and/or the Board;
- is not otherwise associated directly or indirectly with a substantial shareholder of the company; and
- meets any other criteria in terms of applicable legislation.
- Old Mutual Investment Group will consider supporting the election of a director where the term of service is beyond nine years so long as:
 - an independent assessment by the Board concludes that there are no relationships or circumstances likely to affect, or appearing to affect, the director's judgement.
 - every year the independent directors undergo an evaluation of their independence by the chairman and the Board.

3.2.2 Role of CEO and Chairperson

- Recognising the importance of a Board structure where power and authority is not vested in one person, Old Mutual Investment Group will, subject to the second bullet point below, vote against proposals where the role of CEO and Chairperson are combined, based on the following:
 - Listed companies are expected to comply with rule 3.80 of the JSE Listing Requirements: Continuing Obligations, which requires a separation of roles.
- In exceptional circumstances, Old Mutual Investment Group may vote for a combined role in listed companies after taking the following into consideration:

- Overall governance structures of the Board
- A majority of independent Board members with clearly delineated and comprehensive responsibilities
- Establishing that members of the key Board committees are all independent
- Old Mutual Investment Group will generally vote against a proposal that the Chief Executive Officer move into the position of Chairperson following his/her retirement.

3.2.3 Board composition

- Old Mutual Investment Group will generally vote in favour of Boards that are comprised of a majority of independents (the principles of independence outlined above are applicable here).
- Old Mutual Investment Group will generally vote against Board structures and director nominations that will permit a concentration of power to vest in the hands of a small quorum of directors.
- Old Mutual Investment Group will generally vote for Board committees that reflect a level of diversity in terms of skills, race and gender representative of the social transformation agenda of the country.

3.2.4 Election of directors

- Old Mutual Investment Group is of the view that individual directors must commit an appropriate amount of time to Board-related matters and, where appointed, to relevant Board committees. Old Mutual Investment Group, given the circumstances, will decide on the appropriate limit to the number of Board positions held by a particular director given their specific circumstances in order to ensure that the individual is able to satisfactorily fulfil their duties to each particular company.
- Old Mutual Investment Group will not support a full-time executive director of a JSE-listed company holding more than one non-executive directorship (excluding directorships of subsidiary companies).
- Votes on director nominees are made on a case-by-case basis after examining:
 - the composition of the Board and key Board committees
 - qualifications and experience of the directors
 - suitability for participation in Board committees
 - attendance and participation at meetings, in the case of re-elections
 - the corporate governance framework of the Board
 - the overall demographic composition of the Board
 - any other relevant factor pertaining to the nominee.
- Old Mutual Investment Group will vote against nominations where:
 - a director has attended less than 75% of Board and committee meetings unless there are good reasons for this
 - nominees have implemented or renewed any "poison pill" provisions
 - Old Mutual Investment Group will not support the nomination of non-independent non-executive directors to the Audit, Remuneration or Nomination Committee.
- Old Mutual Investment Group will vote against nominations which will cause the Board to have only a minority of independent directors.
- Old Mutual Investment Group will not support directors and Boards who have:
 - enacted or sanctioned poor corporate governance practices or policies; and/or
 - failed to replace management where appropriate, including poorly performing managers.
- Old Mutual Investment Group will vote against proposals that provide that only continuing directors may nominate replacements to fill Board positions. Shareholders must elect replacements for vacant Board positions.
- Old Mutual Investment Group will vote against proposals for the nomination of directors where there is insufficient information to enable shareholders to make an informed decision. Proposals for nominations of directors should include information concerning:
 - experience
 - qualifications
 - other fiduciary commitments (such as other directorships, trusteeships or curatorships)
 - proposed role on the Board,
 - possible conflicts of interest and
 - fulfilment of specific industry compliance requirements.
- Old Mutual Investment Group will vote against resolutions where directors seeking election or re-election are proposed in a single or collective resolution. An individual resolution must exist for each director seeking election or re-election.
- Old Mutual Investment Group will vote against the re-election of any director who has previously failed to comply with the disclosure requirements in respect of JSE listing requirements on share dealings, unless adequately explained.

- Old Mutual Investment Group will vote against the re-election of any director who has dealt in the company securities during a closed period.
- Shareholders are ultimately responsible for electing or removing Board members, and it is in their interest that the Board is properly constituted. Old Mutual Investment Group will thus support changes to Memorandums of Incorporation which ensures that both Executive and Non-executive directors retire by rotation.

3.2.5 Board size

Old Mutual Investment Group will vote for proposals that fix the Board at an appropriate size given the size and complexity of the company.

3.2.6 Board responsibilities, function and performance

- Old Mutual Investment Group supports companies where the Boards have a formalised and systematic process of assessing and evaluating the performance of the Board, its committees and of individual directors. Consequently, Old Mutual Investment Group will vote in favour of proposals to structure Board committees with specific terms of reference and identified responsibilities.
- The responsibilities and levels of performance by Board members must be disclosed to shareholders ahead of annual general meetings and absent such disclosure, Old Mutual Investment Group will vote against director elections where such disclosures do not occur or where the assessment framework is considered inadequate.

3.2.7 Directors and officer indemnification and liability protection

- Old Mutual Investment Group will vote against proposals to entirely eliminate directors' and officers' liability for damages for violating a duty of care.
- Old Mutual Investment Group will generally vote against proposals that extend indemnification for directors for acts such as gross negligence, fraud and breaches of fiduciary duties.

3.3 REMUNERATION OF DIRECTORS

3.3.1 General principles

- Old Mutual Investment Group expects the Board to maintain a Remuneration Committee that is responsible for the direction and oversight of the company's executive remuneration programme and for regularly evaluating the performance of senior management. In order to be effective and avoid conflicts of interest, this committee must be made up entirely of independent directors with company executives attending by invitation as required. Directors who are chief executive officers of other companies should not sit on the committee. Members of this committee should not be nominated or selected by management.
- Remuneration of executives and senior management should be guided by a remuneration policy which should be tabled for a non-binding shareholder vote on an annual basis.
- Remuneration paid to each executive director and non-executive director must be fully disclosed. Such disclosure should include details of base pay, bonuses, share-based payments, granting of options or rights, restraint payments and all other benefits. Disclosure of the maximum and expected potential dilution that may result from incentive awards granted in the current year is also required. In addition, this information must also be disclosed for the three most highly-paid employees who are not directors in the company.

3.3.2 Remuneration Policy

- Director remuneration should be sufficient and appropriate to incentivise and retain excellence on the Boards of companies Old Mutual Investment Group invests in. Remuneration should be structured to ensure the creation of value for the company and shareholders over the long term. While it is difficult to define set remuneration parameters Old Mutual Investment Group will make use of comparative peer analysis to gauge the appropriateness of remuneration packages.
- Executive remuneration must enjoy independent and objective oversight. Consequently, all members of the Remuneration Committee must be non-executive directors and the majority of the members as well as the chairperson must be independent non-executive directors. Executives may attend on invitation, but must excuse themselves when their remuneration is under consideration. Contrary proposals from issuers will not be supported.
- Where a company releases an executive director to serve as a non-executive director in another company, the remuneration report (or such other disclosure to shareholders where a report is not produced) must state whether the director is permitted to retain any remuneration, including share options.

3.3.3 Base Pay and Bonuses

3.3.3.1 EXECUTIVE REMUNERATION

- The majority of executive remuneration should be "at risk" and be linked to both business targets as a whole, and the performance targets of the executive concerned.
- The personal performance targets for executives must include a combination of financial and non-financial targets.
- Business performance objectives may be benchmarked against industry and appropriate competitor performance, as well as fixed or absolute targets; the reasons for setting such targets should be disclosed to shareholders.

- Old Mutual Investment Group will not consider supporting a short-term incentive scheme where the maximum incentive is uncapped unless a clear motivation and full disclosure on the performance requirement is presented in the remuneration report. Upper limits of such schemes should be capped as a percentage of basic remuneration.

3.3.3.2 NON-EXECUTIVE REMUNERATION

- Non-executive remuneration should be merit based, determined by the issuer according to performance standards, and each director should therefore receive an appropriate rate that may be different from other non-executive directors. Remuneration should be directly linked to the time, commitment and expertise of the non-executive director. Old Mutual Investment Group will not typically enquire into the reasonability of the performance standards or the reasons for the differentials but will require confirmation regarding measurements that are defined and objectively based.
- Fees for non-executive directors should be proposed to shareholders for their approval on an annual basis. Explanations for the resolutions provided in the notice of the meeting should clearly indicate the quantum of fees proposed for the Chairman, the Deputy Chairman, Lead Independent director, the Chairman of the Board committees, members of the committees and directors.
- Old Mutual Investment Group will support non-executive directors being paid an attendance fee and will support individual director's fees reflecting attendance levels, as well as participation on board committees.
- Share options for non-executives will not be supported as Old Mutual Investment Group is of the view that it compromises their independence. Old Mutual Investment Group will, however, support a proposal where a portion of director fees is paid in shares, subject to vesting conditions.
- In exceptional circumstances, and only once alternate strategies have been explored and rejected, Old Mutual Investment Group will consider a one-off share option grant to non-executive directors as a specific empowerment strategy and for justifiable commercial reasons, subject to the following:
 - full disclosure of quantum, strike price, time of issue and assumptions on valuation.
 - the grant is linked to business and personal performance targets.
 - the grant has a vesting period of at least three years.
 - the grant is made at market or mid-market price with no discounting.
- The scheme rules require the non-executive director to retain the options for one year after termination of the director's contract.
- The Board is sufficiently independent (by number of people) after issuing the shares to non-executive BEE candidates.

3.3.4 Employment contracts, severance and retirement benefits

- Exit provisions must be monitored to ensure the absence of provisions such as "poison pills" or inappropriately generous "golden parachutes". Specifically, there should be no waiver of financial performance targets should there be a change in control of the company or where subsisting options and awards are "rolled over" in the event of a capital restructuring and/or early termination of a participant's employment – short-term and long-term incentives may, however, be paid on a pro rata basis.
- Pension entitlements often represent a significant and costly item of director remuneration. A company should make informative disclosures identifying incremental value accruing to pension scheme participation, or from any other superannuation arrangements, relating to service during the year in question. This should include the cost to the company, the extent to which liabilities are funded, and aggregate outstanding unfunded liabilities.

3.3.5 Share-based and other long-term incentives

- Old Mutual Investment Group will generally not support repricing or "surrender and re-grant" of underwater share options.
- Old Mutual Investment Group will not support share option schemes where the vesting periods are less than three years and the directors have unrestricted discretion with regards the shortening of vesting periods. Vesting periods may only be shortened in respect of retirement, retrenchment, death or change of control of the company. In the event that the share scheme rules do not provide for a limit on the director discretion, this must be confirmed in writing by the issuing company.
- Old Mutual Investment Group will not support options and grants issued at a discount to the market price – pricing should be set at the market price.
- Old Mutual Investment Group will generally not support share grants priced at a discount to net asset value per share.
- Old Mutual Investment Group will only support proposals where the quantum, strike price, time of issue and assumptions regarding valuation of options and grants have been disclosed.
- The potential dilution of shareholder funds or equity should be limited and the maximum possible dilution (i.e. face value) should be disclosed.
- The group aggregated dilution from a new issue of shares should be limited to 10% of issued share capital in any rolling ten-year period (as adjusted for scrip/bonus and rights issues).
- Old Mutual Investment Group discourages the use of derivative instruments by option participants prior to end of the vesting period.

3.3.6 Remuneration disclosure

Old Mutual Investment Group supports companies that enhance their disclosure. In line with best practice, remuneration disclosure should contain details on the following:

- disclosure of directors' interests, including a director who has resigned during the reporting period;
- disclosure of individual directors' remuneration and benefits, including those of any director who has resigned during the reporting period;
- disclosure of the existence and details of a company's clawback policy;
- basic salary, bonuses and performance – related payments and sums paid by way of expense allowance
- charts comprising company performance and CEO pay;
- any other material benefits received, with an explanation as to what this includes;
- contributions paid under any pension scheme;
- any commission, gain or profit-sharing arrangements;
- detail regarding share options including assumptions made in calculations;
- detail regarding remuneration consultants and fees paid;
- composition of the Remuneration Committee; and
- a statement in relation to votes cast in relation to remuneration at the last AGM. This statement should include reasons for substantial votes against and actions taken in response.

3.4 FINANCIAL REPORTING

- All financial reporting by a company must be prepared in accordance with the International Financial Reporting Standards.
- The Board of a company must present a balanced and understandable view of the company's financial position and the company's ability to continue as a going concern.
- A company's annual report must contain a statement from the Board outlining their responsibility for preparing the accounts and a statement from the company's auditors concerning their reporting responsibilities.
- Where non-financial aspects of reporting have been subject to external valuation or review, this fact must be stated and details provided in the company's annual report.
- Companies should make every effort to ensure that information is distributed to stakeholders via a broad range of communication media and that such information is disseminated to all stakeholders simultaneously, where possible.
- A company's Audit Committee should determine whether or not a company's interim results should be audited.
- Old Mutual Investment Group will vote for proposals to approve financial or directors' reports only if the reports are available to all shareholders before the shareholders' meeting.
- Old Mutual Investment Group will vote in favour of a resolution to approve the annual financial statements of a company where it considers the annual financial statements to be a fair reflection of the company's financial position for the period. In considering its vote, Old Mutual Investment Group will assess whether there has been an audit qualification for the period and whether there has been any material omission of information.
- Should Old Mutual Investment Group not approve the annual financial statements of a company for whatever reason, it will provide an explanatory note outlining its rationale for declining to approve the annual financial statements.

3.5 AUDIT COMMITTEE

3.5.1 General principles

- The Board should establish an Audit Committee of at least three members or, in the case of smaller companies, two members, all of whom should be independent directors. The Board should satisfy itself that at least one member of the Audit Committee has recent and relevant financial experience.
- The Audit Committee should be established with formal and transparent arrangements for considering how they should apply the financial reporting and internal control principles and for maintaining an appropriate relationship with the company's auditors. A company should not allow the same individual to serve as an audit partner for a period of more than five financial years.
- The Audit Committee should have written Terms of Reference dealing adequately with its membership, authority, duties, roles, responsibilities and legislated requirements.
- The chairperson of the Audit Committee should not be the chairperson of a company's Board. The committee chairperson should be knowledgeable about the status and requirements of the role, and must have the requisite business, financial and leadership skills, and should be a good communicator.
- The membership and appointment process of the Audit Committee should be disclosed in a company's annual report, and must indicate whether or not the Audit Committee has complied with its Terms of Reference and the manner in which it did so, and shareholders should be able to obtain a copy of the current Terms of Reference of the company's Audit Committee.
- The Audit Committee should review arrangements by which staff of the company may, in confidence, raise concerns about possible improprieties in matters of financial reporting or other matters.

- The Audit Committee's objective should be to ensure that arrangements are in place for the proportionate and independent investigation of such matters and for appropriate follow-up action.

3.6.2 Membership and appointment

- Old Mutual Investment Group will vote for proposals to create Audit Committees in which all of the members are independent.
- Old Mutual Investment Group will vote against individual directors who are not independent and sit on the Audit Committee.

3.6.3 Auditing and non-auditing services

- The Audit Committee should have primary responsibility for making a recommendation on the appointment, reappointment and removal of the external auditors. If the Board does not accept the Audit Committee's recommendation, it should include this in the annual report and in any papers recommending appointment or reappointment, issue a statement from the Audit Committee explaining the recommendation, and set out reasons why the Board has taken a different position.
- The Board of Directors should have an Audit Committee that is responsible for oversight of the annual external audit of the company.
- Old Mutual Investment Group will support the rotation of audit firms on a six- to ten-year basis.
- A company's Audit Committee should set a code of principles regarding the conditions under which the external audit firm will provide non-audit services.
- There should be separate disclosure in a company's annual financial statements of the amount paid to the external auditors for non-audit services as opposed to audit services.

3.6 EMPOWERMENT TRANSACTIONS

3.6.1 Principles for broad-based black economic empowerment (BBBEE) transactions

- Old Mutual Investment Group will support proposed BBBEE transactions which have a good investment case
- Old Mutual Investment Group will support BBBEE transactions that create meaningful long-term and on-going BBBEE participation in the company. This will be evaluated on a case-by case basis and will focus on mechanisms employed to ensure long-term sustainability of the BBBEE arrangement. Such mechanisms could include but are not limited to minimum lock-in arrangements, limitation on selling of BBBEE equity etc. As a minimum Old Mutual Investment Group is supportive of BBBEE transactions that have a minimum of a seven-year lock-in, with further requirements that sale of equity can only be undertaken to suitably qualified BBBEE parties.
- Old Mutual Investment Group recognises that BBBEE is an important social and business imperative and that BBBEE transactions are important to the success of the companies in which Old Mutual Investment Group invests. Old Mutual Investment Group has a duty to its clients to act in their best interests in evaluating such transactions.
- Old Mutual Investment Group expects that companies would demonstrate the benefits of such a transaction and calculate and disclose the economic implications thereof and impact on key financial metrics.
- Any economic cost will include the cost of any discount to the market price of shares issued or sold to the BBBEE parties and/or the effective cost of any funding or option arrangement. Such economic cost should be calculated using generally accepted financial or option valuation methodologies applicable to the situation. Old Mutual Investment Group will consider whether such costs are fair in relation to the expected benefits and fair in relation to norms in the marketplace. As a guideline, the economic cost should be 3% - 6% for a 10% - 25% stake.
- In the case of BBBEE deals subsequent to the first round BBBEE deal, a 3% - 6% dilution is applicable for 10% - 25% BBBEE stakes in aggregate of all BBBEE deals.
- The structuring and designing of the BBBEE scheme and selection of participants in such a transaction remain the prerogative of a company's management. Full and detailed disclosure by a company needs to be provided on all relevant terms of the BBBEE deal. Old Mutual Investment Group expects management to clearly justify the structure and composition of the BBBEE deal.
- Old Mutual Investment Group favours BBBEE transactions that are sustainable, including those that are reasonably expected to result in a high probability of value realisation for empowerment partners.
- To the extent that a BBBEE transaction is put in place partly to meet BBBEE legislation (such as the Department of Trade and Industry (DTI) Codes), or to meet the requirements of an industry charter, we would expect the company to obtain the necessary sign off, advice (legal or otherwise) and/or evidence that the transaction complies with such legislation or charter; and that such sign-off, advice and/or evidence be disclosed to shareholders. A transaction which does not meet legislative or charter requirements, or where insufficient comfort is provided to shareholders that it does meet such legislative or charter requirements, is likely to be rejected in the absence of other strong reasons, which must be motivated by the company.
- Such legislation or charter may have certain ownership targets in the future, and therefore Old Mutual Investment Group would need to gain comfort on the extent to which the transaction meets both current and future requirements.

3.6.2 Principles applying to BBBEE constituents in transaction consortia

- Each component constituent in a consortium that is introduced should be justified on a cost benefit basis on its own merits. Old Mutual Investment Group favours the composition of a consortium that would add the most value and the least cost to the company concerned. The choice of the constituents and the evaluation of which will add the most value to the company, is the responsibility of management, who will be required to justify their choice in the context of the company.

- Subject to the above, all things being equal, Old Mutual Investment Group favours BBBEE transactions that are as broad based as possible, and therefore will generally support proposals where staff, customers and other stakeholders are included in the transaction deal. We would classify a transaction as broad based if more than 70% of the shares acquired are for the benefit of a broad base of constituents.
- In so far as any component in a BBBEE transaction is not broad based and there is a cost to the company with regard to the transaction, Old Mutual Investment Group would expect such empowerment partners to provide a capital commitment upfront that is material in the context of the BBBEE deal and the empowerment partner's financial position. Old Mutual Investment Group also expects that such partners have suitable performance conditions towards the company and suitable arrangements, including lock-ins and restrictions around competing ownership. Old Mutual Investment Group does not expect a capital commitment for the broad-based elements of the transaction. It is therefore possible that some components of the transaction will provide an upfront commitment whereas other components will not.
- As a corollary to the third point above, where a component is not broad based, but there is no cost to the company as a result of the transaction (i.e. where historically disadvantaged individuals have acquired shares in the market or from the company at full price, and there is no recourse at all to the company), then Old Mutual Investment Group would not expect such further conditions as outlined in the third point above to be imposed.

3.7 UNISSUED SHARES UNDER THE CONTROL OF DIRECTORS

3.7.1 Principles applying to unissued shares under the control of directors

Where a company's unissued shares are placed by a shareholder resolution under the control of the directors of the company, it opens the possibility of the directors abusing their authority by issuing the company's shares in a partisan manner.

3.7.2 Guidance on unissued shares under the control of directors

Old Mutual Investment Group will vote in favour of a resolution that enables the directors to control a portion of the unissued shares, or other voting instruments as defined in terms of relevant legislation, in the share capital of a company that corresponds to a maximum of 5% of the issued shares and/or other voting instruments in the share capital of the company, cumulatively in any financial year. Old Mutual Investment Group considers a maximum threshold of 5% as acceptable to protect its clients' interests and to allow the company sufficient flexibility in executing its strategy with respect to the share capital of the company. Old Mutual Investment Group, in making the above determination, does not distinguish between issued share capital exchanged for cash or for shares in another company as the dilutionary effect is equivalent.

Should a company propose a resolution which places more than 5% of the unissued shares under the control or discretion of its directors but:

- subjects those shares to existing shareholders' pre-emptive rights and to a maximum of 10% , or
- the company has provided a full and reasonable explanation for the necessity of such a resolution,

Old Mutual Investment Group may vote in favour of such a resolution.

3.8 SHAREHOLDER MATTERS RELATING TO CAPITAL MANAGEMENT

3.8.1 Dividend policy

Should a company in which Old Mutual Investment Group has invested declare a dividend, Old Mutual Investment Group will investigate the rationale behind the declaration as well as analyse the effect such dividend, if paid to shareholders, may have on the capital structure and liquidity status of a company.

Thus, Old Mutual Investment Group will consider the reasons given by a company for the declaration of a dividend and determine its voting position given the circumstances.

¹ SA standard is 10%; UK permits 33% of issued share capital or 25% of the enlarged issued share capital

3.8.2 Capitalisation issues

Old Mutual Investment Group will consider the share capital structure before and after such an issue, and form a view as to whether or not it is in favour of such an issue, given the circumstances and possible alternatives that may be available to its clients – for example, the issuing of dividends.

3.8.3 Odd-lot offers

Old Mutual Investment Group will support proposals by a company to "mop up" smaller and odd number shareholdings if it results in a lower administrative burden and expense for the company, and provided that the company has the requisite authority to conduct such offers and such offers are at least at market prices.

3.8.4 Share splits and consolidations

Old Mutual Investment Group will consider a company's proposal to split or consolidate its share capital, given the circumstances.

3.8.5 Reduction in capital

Old Mutual Investment Group will consider a company's proposal to reduce its share capital given the circumstances and provided that a company has the requisite authority to do so and, furthermore, that subsequent to such a reduction, all legislative and regulatory requirements are met by the company.

3.8.6 Issuing shares for cash

Old Mutual Investment Group is cognisant of the JSE Listings Requirements, which place a restriction on issuing shares for cash up to a maximum of 15% of issued share capital. However, Old Mutual Investment Group is of the view that a maximum restriction of 5% is more acceptable to its clients, given the circumstances under which a proposal to issue shares for cash is made. In the event shares are offered at a discount, a small discount of $\pm 5\%$ to 30 day VWAP is considered acceptable.

3.8.7 Preferential voting rights/dual capitalisation

Old Mutual Investment Group does not support the introduction of preferential voting rights/dual capitalisations with regard to a company's share capital. However, should a company have such structures in place, then Old Mutual Investment Group will form a view regarding the different classes of shares when deciding to exercise a vote in relation to those shares which it holds on behalf of its clients.

3.8.8 Provision of financial support in terms of section 49 of the new Companies Act

Old Mutual Investment Group will review each resolution for financial assistance on a case-by-case basis. Old Mutual Investment Group will support resolutions for financial assistance as defined under section 45 of the Companies Act of 2008 where such resolutions are worded in a manner that does not provide blanket powers to the directors, are limited in terms of scope of application, and the form, nature and extent of such financial assistance are clearly defined.

3.9 SHARE REPURCHASES

Old Mutual Investment Group is of the view that share repurchases are an efficient and effective means of returning cash to shareholders and will generally, on behalf of its clients, vote in favour of such proposals by a company, provided that:

- a company has the requisite authority in its memorandum of incorporation to repurchase its shares;
- both before, during and after the share repurchase exercise, a company remains both liquid and solvent, the exercise does not result in a material change to a company's share rating and a company has complied with all other legislative requirements relating to the share repurchase;
- the share repurchase exercise is not used as a means to frustrate or enforce corporate actions or will not result in prejudice to different classes of shareholders;
- a reasonable percentage of the issued shares of a company are subject to the repurchase proposal;
- the share repurchase proposal is used to achieve goals that add value to a company and these goals are specifically stated and explained by a company in its proposal; and
- the share repurchase proposal is in Old Mutual Investment Group clients' best interests.

When a company considers repurchasing its shares, all its shareholders must be given an equal chance to tender their shares, and any mandatory repurchase must apply equally to all classes of shares.

3.10 CHANGES TO MEMORANDUM OF INCORPORATION

3.10.1 Introduction of new share classes

- Old Mutual Investment Group, in considering whether or not to vote in favour of a resolution of a company which proposes splitting a company's share capital into different classes (which classes carry different voting rights and/or dividend rights), will in each circumstance determine if such a split will be in its clients' best interests.
- Old Mutual Investment Group will furthermore assess a company's commercial reasons for proposing such a resolution.

3.10.2 Changes in Board composition

- Old Mutual Investment Group recognises that a company's proposal to amend its memorandum of incorporation to change the composition of its Board may be necessary for any number of commercial reasons and will consider whether such an amendment will be in its clients' best interests given the circumstances.
- Old Mutual Investment Group will also consider the appropriateness of such an amendment in light of both South African and international codes of best practice and its internal corporate governance policy.
- Old Mutual Investment Group will not support changes to memorandum of incorporations that explicitly state that only non-executive directors should retire by rotation.

3.10.3 Directors' indemnification

Old Mutual Investment Group will assess the wording of such resolutions that amend a company's memorandum of incorporation with particular reference to the following:

- whether the proposed indemnity is necessary or appropriate in the circumstances;
- the extent of liability of the persons covered by the proposed indemnity;
- the number of directors, officers or other persons covered by the proposed indemnity;
- the cost to the company of the proposed indemnity;
- the maximum amount by which each person is and by which all persons are covered by the proposed indemnity;
- whether a company itself grants the proposed indemnity or whether a company is considering entering into an agreement with a third-party insurer to provide the proposed indemnity; and
- any other relevant factors.

3.10.4 Borrowing powers of directors

- Old Mutual Investment Group accepts the view that a company may be required to finance its commercial endeavours via debt financing, and that its memorandum of incorporation may place a restriction on the borrowing powers of directors in order to ensure that such financing is achieved in a prudent manner.
- In each case where a proposal is made to amend a company's memorandum of incorporation with regard to the borrowing powers of directors, Old Mutual Investment Group will assess the circumstances under which such proposal is made and the current level of directors' borrowing powers to ensure that a company does not allow reckless borrowing that may place itself in illiquid or insolvent circumstances.

3.11 POLITICAL DONATIONS

Old Mutual Investment Group respects the right of companies to engage with government on policy and other related issues. Where companies make donations to government, intermediaries or trade organisations this must be undertaken in line with local legislation, which in some cases may require shareholder consent by way of an ordinary majority. Notwithstanding this where companies make donations or contributions of a political nature, they should be disclosed and each one fully explained in the annual report including information on the types of organisations supported and the business rationale for supporting these organisations.

