What is Allan Gray's approach to voting at shareholder meetings?

We recommend to clients how we believe they should vote at shareholder meetings of all companies in which either:

- The value of our clients' aggregated holding exceeds 1% of the total value of South African equities under our management at the time; or
- Our clients' aggregate holding exceeds 4% of that company's shares in issue at the time.

We may make recommendations if these thresholds are not met if we believe that special circumstances warrant such action.

The analyst responsible for researching the company and our governance analyst consider the proposed resolutions and make recommendations to the portfolio manager primarily responsible for the share. The portfolio manager reviews these voting recommendations and writes to our clients, stating reasons for dissent, if applicable. If the company concerned accounts for more than 2.5% of the total value of South African equities under our management at the time, then a second portfolio manager is required to review and approve the voting recommendations.

We believe that it is preferable to impose this responsibility on a portfolio manager, as opposed to delegating it to a compliance department, as the portfolio manager will have thorough knowledge of the company concerned and is aligned with our clients in seeking the maximum long-term value. Furthermore, we believe that this reinforces the individual accountability of our portfolio managers for the performance of the assets under their management.

We recognise that just as there is scope for differences of opinion over a company's intrinsic value, there is scope for differences of opinion over whether a resolution proposed to shareholders is in their best interests. Of course, that is why companies seek a vote from all shareholders but only require the approval of a majority (or 75% in some cases) of shareholders for a resolution to be passed. We recognise that we may hold a minority view from time to time. While we may try to persuade the company's directors of our view, we expect them to act in accordance with the wishes of the majority of the company's shareholders.

Nevertheless, we believe that it is important for minority views to be expressed at shareholder meetings. We do not reserve our recommendations to vote against resolutions only for occasions when we sense a groundswell of shareholder opinion that conforms with our view. We recommend votes that we believe to be in the best interests of our clients holding the share, regardless of whether our view falls into the majority or minority. Sometimes we have to make a judgement on the appropriate voting recommendation based on a subjective assessment. We recognise that we may err from time to time, but we will always make voting recommendations which we believe at the time are in the best interests of our clients.

Companies may, prior to a shareholder meeting, request us to undertake that we will recommend to our clients that they vote their shares in a certain manner. We will only do so if we believe the relevant resolutions to be in the best interests of our clients holding the shares, and if by doing so, we materially increase the probability of the relevant resolution being proposed and supported. Of course, we cannot bind our clients to vote in a certain way, and in this case, as in all others, our clients are free to disagree with our voting recommendations and vote in the manner they see fit.

The portfolios under our management can be classified as:

- Segregated portfolios;
- Unit trust portfolios (managed by Allan Gray Unit Trust Management); or
- Institutional pooled portfolios (administered by Allan Gray Life).

The ultimate ownership responsibility for the shares held in segregated portfolios and unit trust portfolios rests with the appointed trustees. For the segregated portfolios, these are the trustees of the relevant client, typically a retirement fund. For the unit trust portfolios, this is the trustee of the unit trust scheme appointed in terms of section 68 of the Collective Investment Schemes Control Act of 2002 and approved by the Registrar of Collective Investment Schemes. In exercising their ownership responsibilities, our clients' appointed trustees will consider our voting recommendations, but they hold and control the voting rights at all times. From time to time, our clients' appointed trustees disagree with our voting recommendations, in which case they may instruct us or their custodians to vote differently.

Although the full economic benefit of the institutional pooled portfolios belongs to the clients (policyholders) of Allan Gray Life, the assets in these portfolios are included together with a matching policyholder liability on Allan Gray Life's balance sheet. The directors of Allan Gray Life thus assume an ownership responsibility and control the voting rights in respect of the shares held in these portfolios. Allan Gray thus fulfils the role of both a service provider and institutional investor (as per the Second Code for Responsible Investing in South Africa) in respect of the pooled portfolios.

We disclose our voting recommendations, together with the outcome of the shareholders' vote on each relevant resolution, quarterly on the Allan Gray website.

Companies' annual general meetings typically require shareholders to vote on the usual "housekeeping" resolutions as well as three matters of substance:

1. Appointment or re-election of directors
2. Executive remuneration
3. Permission to issue or repurchase shares

We consider these matters on a company-by-company basis, taking into account the special circumstances which may be affecting a company at the time. In forming our view on the appropriate voting recommendation, we typically consider the factors discussed below.

1. Appointment or re-election of directors

If we have concerns that the election of an individual director may not be in the best interests of shareholders, we may recommend abstaining from voting on the election or voting against the appointment of that director.

We are not privy to what happens in company boardrooms, which makes it very difficult for us to determine whether an individual director is making a positive, negligible or negative contribution. Thus, we do not require conclusive evidence to recommend voting against a director. If we believe that shareholders could be better served by another director on a balance of probability, then we may recommend voting against the re-election of the incumbent director. In forming these assessments, we may consider the director's performance on other companies' boards and the overall performance and composition of the board of the company in question. If the overall performance of a company's board is disappointing, or we believe that there are too many directors on the board, we may recommend voting against one or several directors.

We keep a record of directors we have previously advised voting against to inform subsequent recommendations. We also screen for politically exposed individuals.

2. Executive remuneration

We believe that a company's remuneration policy should aim to attract and retain competent executives, reward these executives fairly in a way that is consistent with their performance and align the incentives for executives with the best interests of shareholders. We believe that we can play a constructive role in the continued improvement of companies' remuneration schemes, either through engagement or by recommending that our clients vote against policies or implementation reports which have fallen materially behind current best practices. We describe our approach to assessing executive remuneration schemes in our Executive remuneration FAQ.

3. Permission to issue or repurchase shares

The value of the shares held by our clients is derived from their scarcity. We typically recommend voting against resolutions that grant the company's directors general authority to issue new shares, because such a general authority could diminish the scarcity value of the shares held by our clients. Even if the resolution is restricted to the issuing of new shares required for employee incentive schemes, we prefer to recommend voting against resolutions of this type. Unless there are regulatory or tax considerations that complicate matters, we prefer companies to repurchase the shares which are required to fulfil their obligations under employee incentive schemes. This generally makes the cost of such schemes more explicit.

If directors wish to issue new shares for the purpose of an acquisition or some other form of corporate transaction, we prefer to consider their proposal on its merits and, if we agree, recommend that our clients vote in favour of a resolution which grants them a specific authority to issue the shares required just prior to the finalisation of the transaction. We believe that this approach reduces the risk of the value of our clients' shares being diluted by the ill-advised issuing of new shares by company directors.

Our clients' portfolios are invested in shares that trade at a discount to our assessment of intrinsic value. By repurchasing its own shares at a discount, a company increases the intrinsic value of each remaining share to the benefit of our clients. Thus, we typically recommend supporting a resolution which grants a company general authority to repurchase its own shares. In unusual circumstances, where a share in our clients' portfolios is trading at a premium to our estimate of its intrinsic value, we believe that it can still be in our clients' best interest to recommend supporting such a resolution, as the company's buying will increase market demand for the share and improve the probability of us being able to exit our clients' position at a premium to its intrinsic value.

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