

# The RAITH Foundation's Investment Stewardship Policy, Strategy and Action Plan

June 2016

## PART ONE: POLICY

### **Background**

The RAITH Foundation's operations are funded through the income generated by its ownership of investments. The Foundation is keen to avoid contradictions between the social justice outcomes it seeks to achieve at the programme level and the conduct of the companies in which it is invested.

The Foundation has previously acted to negatively screen out investments in alcohol, tobacco and gambling, which it considers a good foundation for the development of a responsible investment strategy.

RAITH is concerned that its investment strategy is still not fully consistent with its programme approach because it is not actively involved in monitoring the conduct and behaviour of the companies in which it is invested. As a result, the Foundation has limited knowledge of what is being done in those companies and it is not in a position to take an active stance on key strategic matters on which it is asked to vote.

### **RAITH's understanding of responsible investment and stewardship:**

Responsible investment can be understood to be an investment strategy that seeks to generate both financial and sustainable value. It consists of a set of interlocking investment approaches that integrate environmental, social and governance (ESG) and ethical issues into financial analysis and decision-making. RAITH's approach places an emphasis on good corporate citizenship.

A key element of a responsible investment strategy is stewardship (the responsibility to take care of something in one's keeping), which aims to promote the long-term success of companies in such a way that the ultimate providers of capital also prosper.

Stewardship entails monitoring, engaging and intervening - if appropriate - on matters that may affect long-term value, and on the companies' activities in social, environmental and other governance areas. (In this context, engagement is understood to be purposeful dialogue on these matters and issues that are the subject of votes at general meetings.)

This approach recognises that asset owners, such as RAITH, as the providers of capital, set the tone for stewardship and can influence behavioural changes that lead to better stewardship by asset managers and companies.

At its Board meeting on 13 June 2015, the RAITH Foundation adopted a Responsible Investment Strategy. The Strategy encourages the RAITH Foundation to take the steps to become an active shareholder and ultimately practice a responsible investment strategy.

Practically, the Foundation seeks to (over time) comply with the UK Financial

Council's Stewardship Principles, which requires that the Foundation:

1. Publically disclose a policy on how it discharges its stewardship principles
2. Have a publically disclosed policy on the management of conflicts of interest (which is a provision not applicable to the Foundation)
3. Monitor companies in which it is invested
4. Adopt clear guidelines on when and how stewardship activities will be escalated
5. Indicate a clear willingness to act collectively with other investors when appropriate
6. Adopt a clear policy on voting and disclosure of voting activity
7. Report periodically on stewardship and voting activities.

**Objective of this R.I policy**

This policy statement indicates the overall approach to be taken by the RAITH Foundation in implementing its investment Stewardship Policy and details the timelines to be followed. This policy statement applies to the portion of the RAITH assets on which it has voting rights.

It also provides clear direction on how the Foundation will approach key Environmental, Social and Governance issues in exercising its rights as an asset owner. The emphasis at this stage is on governance issues and the approach to social and environmental issues will deepen during implementation.

**Overall approach:**

As noted above, RAITH is applying the UK Stewardship Code, which entails monitoring, engaging and intervening, if appropriate, on matters that may affect long-term value, and on the companies' activities in social, environmental and other governance areas. In its approach, RAITH recognises that asset owners (such as itself) set the tone and influence behavioural changes that lead to improved stewardship by asset managers.

In its implementation of this approach, RAITH will use persuasive language to inform asset managers and/or investees of its views. There will also be a phasing-in of certain parts of the policy to ensure a gradual approach based on engagement with relevant stakeholders.

RAITH's implementation of the principles of the Stewardship Code will be undertaken as follows:

<p><b>Principle One: Public disclosure of our Stewardship Policy</b></p>	<p>The principle calls for public disclosure of the RAITH stewardship policy (which will be done via our website). We accept that some form of transparency as to our policies is appropriate and might lead to inform others on their own approach to responsible stewardship. We also accept that responsibility has an outward-facing facet in that it is not only desirable to be good stewards, but also to be seen to be good stewards.</p> <p>Our original position was to delay this aspect for 18 months, since as the policy matures amendments would become necessary. These have been made and the policy is now ready for public release once approved by the RAITH Board.</p>
<p><b>Principle Two: Managing conflicts of interest</b></p>	<p>The principle calls for a robust policy on managing conflicts of stewardship interest.</p> <p>The Stewardship Code includes this principle because it was written to include institutional investors, where different clients might have different objectives that thus might be in conflict with one another. This does not apply to RAITH.</p>
<p><b>Principle Three:</b></p>	<p>The principle calls for monitoring of investees on governance issues (including the social and environment dimensions.)</p>

<p><b>Monitoring investees</b></p>	<p>RAITH already has clear rules on unacceptable investor involvement in the manufacture of alcohol and tobacco and investees in which the primary operations involve gambling. (Note though that a material proportion of the Foundations' holdings – initially approximately 30% - are in equity funds in which the Foundation is a passive investor and cannot exercise a vote and therefore has no say in their involvement in these areas. The Board may wish to revisit this practice.)</p> <p>These aspects are monitored continually, along with a focus on the governance, social and environment issues (together with the overall governance aspects) on both a weekly basis through SENS announcements, and at the time of the publication of integrated and other reports in preparation for the AGMs or special shareholder meetings.</p> <p>This monitoring has been ongoing for over a year now.</p>
<p><b>Principle Four: Guideline for escalation of stewardship</b></p>	<p>The principle calls for a determination of the method and timing of escalation of our activities to protect and enhance stakeholder value (including shareholder value).</p> <p>Given that RAITH is now in a position to be informed at an early stage of aspects that our investees have made public, we will be able to determine whether, and how, we take action that we deem to be appropriate in order to interact (engage) with the asset manager and possibly with the investees. Our approach will be to persuade rather than oppose. Such interaction methods will be chosen and presented to the Trustees over time with the intention to finalise them and reach resolution with regard to their timing, sometime during early 2016.</p> <p>Possible methods could include some or all of the following:</p> <ul style="list-style-type: none"> <li>• Analysis of a matter and selection of a stance appropriate for RAITH, with Trustee approval</li> <li>• Informal discussion with service providers such as our asset manager</li> <li>• Formal discussions with service providers such as our asset manager</li> <li>• Presentation of a position paper on a matter</li> <li>• Interaction between RAITH representatives and the management of the investee (usually in the person of the CEO or CFO)</li> <li>• Interaction between RAITH representatives and the board of directors of the investee (usually in the person of the chairperson)</li> <li>• Attending the AGM to pose questions and initiate a discussion</li> <li>• Collective action with others who are allied with our views</li> <li>• Make the RAITH position known publicly</li> <li>• Divest of the holding in the investee.</li> </ul> <p>Since these interactions are new to RAITH, our planned approach is to venture cautiously, and not necessarily with all of the options set out above. This principle will commence in 2016 and further details in this regard are provided in the Action Plan in Section 3 of this document.</p>
<p><b>Principle Five: Collective Action</b></p>	<p>The principle calls upon RAITH to determine a policy on possible collective action with other stakeholders.</p> <p>The Stewardship Code envisages collective action with other shareholders and asset managers, when regarded necessary. In RAITH's case 'other stakeholders' is more likely to imply our grantees but could be expanded over time to include foundations with similar objectives to our own and even other general shareholders. Our asset manager could also be part of or assisting with the collective action.</p> <p>Again, since these possible actions are new to RAITH, our planned approach is to</p>

	venture cautiously as described in Section 3 of this document.
<b>Principle Six: Voting disclosure</b>	<p>The principle calls upon RAITH to determine a clear policy on voting at investee shareholder meetings. This policy is provided below and has been approved by the RAITH Board. Several amendments are proposed in this version and where changes have been made, they are highlighted.</p> <p>Whereas the original intention was to engage with our asset manager on our views, in order to initiate discussion of them and entertain different perspectives, this approach has been replaced by one in which RAITH votes its own shares on its own behalf, using its custodian to do so. An engagement with our custodian will be initiated in order to verify that voting directions by the Foundation are implemented as instructed.</p>
<b>Principle Seven: Reporting</b>	<p>The principle calls upon RAITH to report on our stewardship and voting activities.</p> <p>We originally proposed a very gradual process of reporting on our stewardship and voting activities given our overall approach. Our Trustees have received all detail as a part of our normal reporting and we propose that once approved by the RAITH Board, we:</p> <ul style="list-style-type: none"> <li>• Make our strategy, voting policy and action plan public via the RAITH website and</li> <li>• Make our voting positions on individual votes public from November 2016 onwards.</li> </ul>

<b>RAITH's amended Voting Policy</b>		
<b>Types of resolution where RAITH would consider voicing concern or voting against</b>	<b>Voice concern</b>	<b>Vote NO</b>
<b>Annual financial statements:</b>		
If there are onerous qualifications in the audit report ('onerous' as in casting doubt on the sustainability of the company, or as in casting material doubt on the reliability of financial results or position) then voice concern AND voice concern against re-election of current directors	<b>X</b>	
<b>Election of directors (General): Also see comments under 'Annual Financial Statements'.</b>		
We would seek to ensure: Appropriate balance on boards, e.g. in respect of age, gender, ethnic aspects, culture, perspective, tenure and retaining a majority of non-executive directors;	<b>X</b>	
Real independence of at least some directors, while not ignoring that non-independent directors might bring substantial benefit to the board, especially in terms of experience (independent means (1) never having been an executive of the company, (2) not holding significant equity [i.e. more than 5% of voting or 10% of non-voting shares]; (3) not having had a professional advisory relationship with the company other than as a director, within the previous 3 years; (4) not being or representing a shareholder that could control or significantly influence management or the board; (5) not having been a director for more than 9 years)	<b>X</b>	
<b>Election of directors (Specific):</b>		
Chair: We do not vote for a person designated as chairperson, if that person does not fit our definition of independence. This includes being a chairperson for over 9 years		<b>X</b>
We do not vote for a chairperson who is also a chair of another large listed company		<b>X</b>
<b>Non-executive directors:</b>		
If a director has already been on a board for 9 years or more, we voice concern against re-election unless there is stated to have been an external board review of his or her performance and a useful indication of the result as part of the motivation for re-election	<b>X</b>	
We see no reason for a non-executive director to be on the board for longer than 15		<b>X</b>

years uninterrupted and if this is the case will vote against him regardless of external board evaluation result		
Sitting on many boards: We vote against a director who sits on more than four large boards; or more than three listed boards plus three significant boards (ignoring personal companies or smaller honorary appointments). All SOCs are treated as listed companies. Being Chairperson of a listed company is treated as the equivalent of two directorships.		X
Concern about reliability or honesty: If a court of law has placed a person's commercial reliability or honesty in question		X
Re-election on rotation basis: We voice concern if after 3 years the board has not stated that it has had an external board review of performance	X	
Attendance at meetings:		
If <75%, then check previous year for serial offender	X	
If <50% then vote against re-election		X
If there is repetition of <75% attendance for two years, we vote against even if the attendance were not below 50%.		X
Audit committee election:		
We vote against non-independent directors (normal rules plus over 9 years' tenure)		X
We vote against directors with no identified relevant skills (financial or legal, or audit committee experience of over 5 years elsewhere)		X
Remuneration committee:		
We voice concern against directors with no identifiable skills relevant to the task	X	
Vote against re-election of members of RemCom if the company does not put a remuneration policy to a vote. (New provision).		X
Non-executive remuneration: We regard as reasonable: Ordinary director, no Audit/Risk committees: R350k – R400k Ordinary director, with one or more onerous committees: R550k – R650k Chairs (Board or Committee): up to 200% of ordinary director		
Unreasonable:		
Up to 50% <u>below</u> figures above, for ordinary director	X	
More than 50% <u>below</u> figures above, for ordinary director		X
Up to 25% <u>above</u> figures above, for ordinary director	X	
More than 25% <u>above</u> figures above, for ordinary director		X
Chair more than 200% of ordinary director		X
In all cases, we prefer separate resolutions for – Ordinary director remuneration, board only; Ordinary director remuneration, committees; Chair remuneration, board only; Chair remuneration, committee		X
If all remuneration items are within 'reasonable' limits and yet all on one resolution, we vote FOR but state our concern about the bunching together of different decisions		X
Non-executive remuneration should be approved by shareholders <u>in advance</u> . If not, we vote against		X
Remuneration policy:		
We vote against the non-binding advisory approval of the remuneration policy if:		
There is a lack of disclosure transparency		X
Bonus payments are based on less-than-stretching targets		X
There are significant base pay increases		X
Incentive schemes for executives are misaligned with the interests of long-term shareholders		X
There are no specified targets (key performance indicators)		X
Key performance indicators are not split into financial and personal categories		X
The policy is vague		X

The policy is brief to the point of telegraph style		X
Auditor:		
Tenure of over 10 years without a tender process		X
Financial assistance to directors etc:		
Under Section 45 of Companies Act		X
Other issues		
Authority to issue unissued shares for cash - we prefer that shareholders authorise as and when required. An exception is be made where banks might wish to issue non-redeemable, non-participating preference shares that are in effect loan capital which could be required for capital adequacy purposes at short notice.		X
Authority to issue unissued shares: We vote against unless specifically motivated; prefer that shareholders authorise as and when required		X
Share buy-backs: We do not find such transactions to be in the company interests generally. An exception is be made where banks might wish to issue non-redeemable, non-participating preference shares that are in effect loan capital.		X

## PART TWO: Strategy

**Aim and purpose of the RI strategy** This strategy aims to allow the RAITH Foundation to take the steps required that will allow it to become an active shareholder and to ultimately practice a responsible investment strategy.

**Results to be achieved** RESULT ONE: In the first instance, the Foundation will demonstrate the intention to pursue **responsible ownership** by developing an Investment Stewardship Policy and adopt it along with a clear timetable for implementation.

RESULT TWO: The Foundation will then make positive and negative investment screening decisions consistent with its policy statement. Through implementation of the Stewardship policy, RAITH will become a **responsible investor**.

RESULT THREE: Over time, RAITH will also be able to develop sufficient knowledge and expertise to allow it to engage in sober and responsible **investor activism**, in all likelihood through discreet engagements with companies where appropriate.

RESULT FOUR: Finally, RAITH will develop the ability to use the information and knowledge it gains to collaborate with its grantees and others on campaigns initiated and designed by them or by RAITH.

### Activities to be undertaken

#### Result

#### Activities

**ONE:** Consult relevant advisers and draft a Stewardship Policy for presentation to the RAITH Board, after which it will be revised and presented for adoption. This has been completed and is contained in this document.

**TWO:** This will be on-going and sustained work that will entail scrutinising the documents provided by companies in which RAITH is invested for voting at Annual General Meetings and voting according to our Board-approved voting policy.

**THREE:** Activities in this area will only follow once RAITH has developed expertise and competence and has a good understanding of the social justice issues in the portfolio of its investments. However, as noted above, these activities are likely to take a very discreet form and will involve closed-door meetings with companies when deemed appropriate.

**FOUR:** As with Result Three, these activities will only arise later in the implementation phase and will vary depending on the nature of the issues to be addressed. However, RAITH will only ever play a relatively discreet role and will be unlikely to act as a public face on any campaigns.

**Implementation approach:**

This is not an area in which the Foundation office has capacity and so specialist capacity has been contracted in to provide technical assistance, initially for Result One, which has been completed and on an on-going basis for Result Two.

The service provided for Result Two entails:

- Reviewing all voting proposals provided to RAITH by its asset manager, including providing comments on remuneration policy proposals that have potential incendiary societal impact;
- Monitoring SENS (the JSE Stock Exchange News Service) on a weekly basis to keep track of investees' conduct and activities;
- Monitoring annual or integrated reports for social and environmental information that might flag the need for further analyses;
- Reviewing the King III compliance register in respect of each investee, to monitor the application of principles, especially in social and environmental areas.

### 3. ACTION PLAN FOR 2016

**Process followed to develop this action plan:**

This action plan was developed in consultation with a group of RAITH partners and grantees including:

- Benchmarks Foundation
- Centre for Environmental Rights
- CorporateGovernance.Pro and the
- Alternative Information Development Centre.

The planning session was held in May 2016 and led to the identification of the priorities outlined below.

**Aim of RAITH's actions:**

Activities to be undertaken by the Foundation will seek to provide access to information on companies in which RAITH is invested to enable stakeholders to exercise their rights and effect positive changes.

**Target of RAITH's actions:**

RAITH will be focusing its corporate actions on the 5 mining companies in which it is invested and whose actions have social justice implications (usually from a human rights or environmental justice perspective. These companies are:

- Implats,
- ARM,

- South 32,
- BHP Billiton and
- Sasol.

RAITH will be focusing on taking action around the issues listed in item 3 in the table below or will be responding to significant human rights-related incidents involving the companies anywhere in the world (such as the Brazilian tailings dam disaster involving BHP Billiton).

Actions to be undertaken:	WHAT	WHEN
	1. The RAITH Foundation will create a publicly visible page on its website dedicated to its Responsible Investment work. The page will contain this document (i.e. the Foundation's policy and strategy documents), minutes of GMs and AGMs will be provided in order for stakeholders to keep track of these engagements as they arise. Audio recordings will be provided on request when they are available.	June 2016
	2. Consolidated information derived from a periodic review of company reports such as CEO remuneration will be posted to the web page.	July 2016
	3. RAITH will create a table of AGM issues that have been raised by the Foundation or its partners so that action in addressing them can be tracked either by RAITH or its partners. RAITH will also prioritise making information available on: <ul style="list-style-type: none"> <li>• Social and Labour Plans,</li> <li>• Operating licences in water and coal</li> <li>• Profit shifting, as a special area of interest in which the question will be focused around how revenues are distributed and</li> <li>• PAIA requests made by our grantees that have not been resolved.</li> </ul>	Ongoing
	4. RAITH will follow an escalation approach that will start with writing to companies in which it is invested asking for relevant information and posting it to its site if and when received. If the information is not provided, RAITH will request meetings with the company official responsible and then raise these concerns at AGMs. Where appropriate community members will be invited to AGMs to raise these concerns.	
	Should companies seek to engage with the RAITH Foundation, these requests will be responded to by the Executive Director using this policy as a framework for her responses.	
	5. RAITH will make PAIA requests for information that it	

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| deems necessary in order to meet its Responsible Investment commitments.                               | Ongoing                  |
| 6. RAITH will also brief media partners and provide regular updates on progress as and when necessary. | Periodically             |
| 7. Learning Briefs based on RAITH's experiences will be developed and posted on the page.              | Ongoing quarterly briefs |