



Investments

An investment framework for responsible investing

Proxy voting guidelines



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Our proxy voting guidelines are a set of principles and criteria that guide us in exercising our voting rights. We provide them to asset managers to make informed decisions on how to vote on various corporate matters on our behalf.

The following tables highlight the main categories of resolutions covered and informed by our guidelines. Reference to the 'the client' refers to Alexforbes, in our capacity as asset owners.

The guidelines cover the following five broad categories:

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The guidelines are based on South African requirements, but some international developments and global best practices have been included for reference in certain instances. As dual-listed companies generally apply the higher standard, they should be assessed against such higher standard if different to what is indicated in these guidelines, where applicable.



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Leadership and strategic control

We support the guidelines in the King IV Report for Corporate Governance (King IV) about board composition, function and responsibilities; specifically, its accountability for the performance and affairs of the company. The board should delegate to management and board committees, but retain ultimate accountability and liability (except for the Audit Committee's statutory duties). The unitary board, with a mix of executive, non-executive and independent directors, is appropriate for South Africa.

The financial services provider (FSP) should have the necessary skill to evaluate the following:

➤ **Effective execution and accountability by the board, including, but not limited to:**

- providing strategic direction;
- retaining full and effective control;
- overseeing compliance with laws and regulations;
- defining levels of materiality;
- identifying and monitoring key risks and key performance areas; and
- having appropriate governance frameworks, policies and procedures, including a corporate governance framework, written board charter and terms of reference for its various board committees.

➤ **Minority interest rights** - The FSP should consider the board's equitable treatment of shareholders and the protection of minority shareholder rights.

➤ **General board composition and election**

- Overall skills, experience, diversity, board size, and the impact on board effectiveness and performance.
- Independence: the board should comprise a balance of executive and non-executive directors who have the appropriate skills and experience, and are in a position to act independently. The FSP must be able to assess independence and potential conflicts of interest critically and holistically on a substance-over-form basis. The client supports resolutions that lead to an increase in the number of independent non-executive directors (as defined both in the Companies Act 71 of 2008, as amended in the Companies Act and in King IV), preferably leading to a majority of independent directors on the board.
- A clear balance of power and authority on the board, evidenced by a policy.

- Separate chief executive officer (CEO) and independent chair role, and an appointed lead independent director, if the chair is not independent. The chair leads the board and is responsible for its overall effectiveness in directing the company. We consider a combined chairperson and CEO role to be a governance risk. The client, therefore, supports the election of an independent non-executive chair.
- Appropriateness, fit and proper status and relevance of new directors proposed, for both the board and specific board committees.
- Director tenure and appropriateness of a mandatory retirement age (balancing continuity against renewal).
- Other fiduciary commitments (such as additional directorships and trusteeships) and individual director capacity should be analysed as well.

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> Election or re-election of directors

With respect to the election or re-election of directors, the FSP must consider the:

- Effectiveness of the board as a whole
- Continued appropriateness, relevance, past attendance and performance of directors standing for re-election (including their impact on the overall board effectiveness). Unless reasonable explanations can be provided, the client is of the view that directors must have attended at least 75% of mandatory meetings to be eligible for re-election
- Suitability for participation in board committees
- Company's disclosures, policies and procedures relating to the appointment of directors. Where companies do not disclose or do not have policies on promoting gender and race diversity, the FSP should actively engage and encourage same, failing which, it should consider voting against some resolutions
- Corporate governance framework of the board
- Overall diversity of the board
- Director's past indiscretions
- Potential conflicts of interest
- Founder status of the directors
- Family relations with senior executives or founders
- Servitude of the director as an executive in the previous five years
- Business relations with the company or its executives

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- Shareholding in the company of over 10% of the issued share capital by the director
- Dual-class shares which carry super voting rights

> Effectiveness of the board

The client encourages the performance of the board, its chair, committees and individual directors to be evaluated annually (in accordance with the King IV guidelines regarding formal and informal processes). The directors should also transparently disclose an overview of the process, outcomes, remedial actions and whether the process is improving the board's effectiveness and performance.

> The general establishment of board committees and the election of committee members specifically:

Audit or risk committee (separate or combined)

The audit committee has a crucial role in safeguarding investors' interests, as it is responsible for the integrity of the financial statements, risk management and auditor appointment. Given this key role, we expect audit committees to comprise independent non-executive directors only (as defined in King IV rather than the narrower definition of independence applied by the Companies Act). In addition to the Companies Act requirements regarding the qualifications and experience of one-third of the committee members, all members should have sufficient recent and relevant financial expertise.

Remuneration committee

The remuneration committee is responsible for developing a remuneration policy, which should be comprehensive, fair, consistent with market standards and aligned to the achievement of the company strategy. The remuneration policy and its implementation details should be tabled under separate votes for annual approval at the annual general meeting (AGM) (refer to the next section on compensation). The committee should comprise a majority of independent directors, with an independent director as chair. They ought to be appropriately qualified and skilled in the field of remuneration. The FSP should consider the committee and the chair's ability to evaluate the above and to vote against the chair of the committee should matters not be suitably discharged.

Nomination committee

The nomination committee is, among others, responsible for ensuring that the board comprises diverse, skilled and qualified directors. The committee is tasked with designing and implementing the board's appointment, development, evaluation and succession-planning policies, as well as executive succession planning. The committee should comprise a majority of independent directors, ideally chaired by the board chair. The FSP should consider the committee and the chair's ability to evaluate the above and to vote against the chair of the committee should matters not be suitably discharged.

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Social and Ethics Committee

The social and ethics committee (SETCO) is, inter alia, responsible for monitoring and reporting on the company's social and economic activities, corporate citizenship, environment, health and safety performance, consumer relationships, labour and employment matters, drawing matters to the attention of the board, and reporting to shareholders at the AGM. In monitoring the company's activities, the SETCO should consider compliance with legal requirements and codes of best practice relating to these matters.

> Members of the FSP's investment team as directors on the boards of listed companies

The client believes that FSP's should preserve the independence and impartiality of their investment team and the investment process. Therefore, they should not appoint investment team members to the boards of listed companies. In rare instances, where the size of shareholding by the FSP requires a board seat for influence, this should be raised with the client.



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King IV, Principle 14 guides the client and FSP: “The governing body should ensure that the organisation remunerates fairly, responsibly and transparently so as to promote the achievement of strategic objectives and positive outcomes in the short, medium and long term.”

The client recognises the importance of long-term alignment and looks at it from two main perspectives:

1. Alignment of remuneration with the creation of long-term sustainable value; and
2. Stakeholder relations and the governance system’s ability to understand, monitor and mitigate any environmental, social or ethical risks.

Compensation should consider the alignment between:

- the execution of strategy,
- risks (including those of an ESG nature),
- the board’s long-term oversight role, and
- the direct and indirect impacts and implications of a business’ operations on the supply chain, and its products and services on society and the environment.

The annual governance report of companies should report to stakeholders on such matters using appropriate corporate reporting frameworks.

The client expects that the FSP has the ability to evaluate such matters in the investments made on the client’s behalf and to vote against the remuneration policy and implementation report where such matters show little alignment or are

not met adequately. The overriding principle of a clear link between remuneration and performance, not just of the directors but the executive and management boards, must be a key consideration.

The client further expects the FSP to consider the impact of excessive remuneration.

Global best practice

The introduction of a binding vote on the remuneration policy and implementation report, as well as the disclosure of wage gap ratios are considered best practice. These may form part of future Companies Act requirements, however, it may apply to dual-listed entities already.



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In addition to the considerations above, the FSP should have the necessary skills to evaluate the following:

➤ Remuneration policy

The remuneration policy should be aligned with the King IV recommendations concerning remuneration. It should be structured to ensure the creation of value for the company and its stakeholders over the long term. Incentive plans can be structured in the following ways:

- Guaranteed remuneration (total guaranteed package - base salary and benefits).
- Short-term incentives (variable remuneration) such as annual performance bonuses.
- Long-term incentives (variable remuneration).

We accept that all companies do not necessarily adopt separate structured incentive plans. The client expects that the FSP will holistically assess the policy and its suitability, within the context of the remuneration committee capabilities and the committee's discretion to depart from the policy. The FSP should strongly consider the committee's consideration for how key performance criteria feature in the policy.

- Remuneration should be sufficient and appropriate to attract and retain talent and benchmarked against relevant peers.

- Best practices, like malus and clawback provisions and minimum shareholding requirements, should form part of variable remuneration considerations.
- The policy must record the measures the board commits to take where the policy or implementation report - or both - receive more than 25% of votes against them.

Executive remuneration

Levels of remuneration should attract, retain and incentivise executives appropriately. Given that remuneration has implications for corporate performance and shareholder returns, this is an area in which shareholders have a valid and important role in approving appropriate remuneration policies.

- The majority of executive remuneration structures "at risk" should be linked to both the performance targets of the executives concerned and business targets as a whole.
- Ideally, personal performance targets for executives should be disclosed and should include a combination of financial and non-financial targets. The client expects the FSP to continuously challenge for superior disclosure as far as it relates to the investment case by the FSP.
- Business performance objectives may be benchmarked against industry and appropriate competitor performance and fixed or absolute targets. The reasons for setting such targets should be disclosed to shareholders.

Clawback and malus clauses are contractual provisions that allow a company to reduce or recover remuneration from an employee.

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Non-executive director remuneration

- Non-executive director (NED) remuneration should be informed by appropriate benchmarking.
- It should be determined by the entity according to skills, experience, contribution and performance standards. Therefore, individual directors may receive differentiated rates.
- As required by the Companies Act, NED fees must be proposed to shareholders for their approval on an annual basis.
- The resolution should clearly indicate the quantum of fees proposed for the chair, the deputy chair, the lead independent director, the chairs of the board committees, members of the committees and directors. Benchmarks used or reference to the NED remuneration policy should be included with explanations for any specific increases.
- Share options for NEDs should be seen as compromising the NED's independence. The FSP is expected to vote against the remuneration policy or implementation report and affected director elections or re-elections where independence is compromised.

- Globally, NED remuneration sometimes includes share options and that feature might extend to dual-listed companies. In these instances, we expect the FSP to use its professional judgement to evaluate the competence of the director, the need for their appointment on the board, their ability to ensure accountability and how they contribute to overall board balance.

> Remuneration disclosure

The client supports companies that continuously enhance their disclosure. In line with the Companies Act requirements and best practice, remuneration disclosure should contain details on the following:

- Remuneration policy details, changes to the policy during the year and deviations from the policy
- Disclosure of all directors and prescribed officers' (resigned and current) remuneration on an individual basis, including contributions, allowances, share options, profit share and annual bonuses
- Sign-on bonuses, bonuses for less than a year's performance, exit payments and settlement payments
- Any other director's and prescribed officer's interests or benefits
- The alignment between executive remuneration and company performance, evidenced through relevant and appropriate key performance indicators

- Ideally, fees paid to remuneration consultants. We recognise that local listed entities are not required to provide such disclosure at present. The FSP can apply professional judgement that enhances disclosure
- Payroll cost per average number of employees
- CEO total compensation versus average compensation per employee
- Average compensation paid to executive directors versus average payroll cost per employee
- Average compensation paid to top 5% of employees versus average compensation of bottom 5% employees
- In meeting the remuneration policy requirements regarding the board's commitments in response to a vote by 25% or more against the policy or implementation report, disclosure must include a statement on how the company has engaged with the dissenting shareholders and the actions taken in response.

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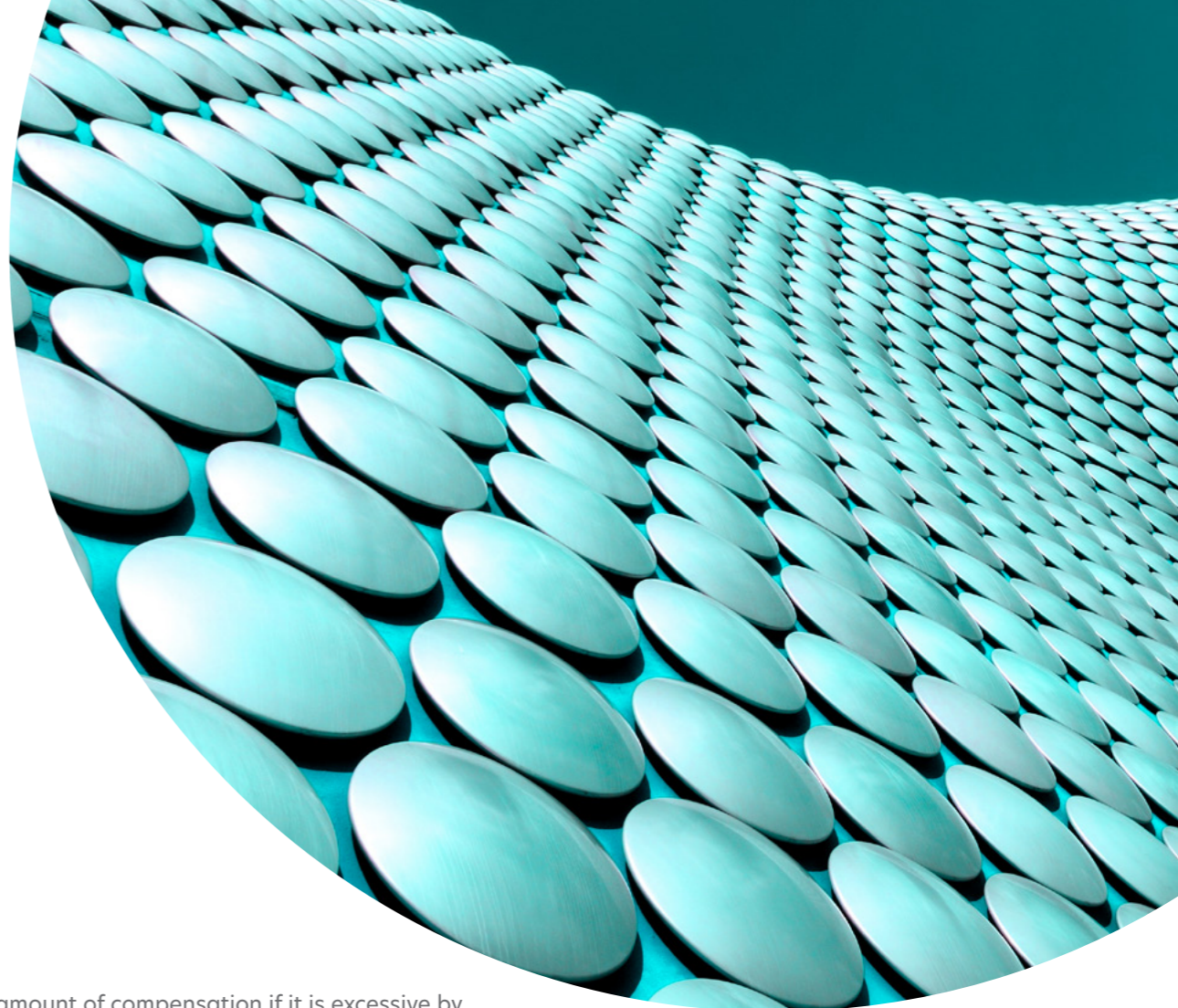
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➤ Although misalignment with any of the above guidelines may suggest a negative vote by the FSP, the client suggests that the following issues may warrant the FSP to consider a vote *against*:

- Policy fails to align remuneration effectively with performance per the guidelines above
 - Excessive focus on short-term performance
 - Insufficient disclosure and concerns of board accountability
 - Remuneration, where it is excessive and bears an unacceptable or disproportionate cost for shareholders
 - Performance targets, if changed retrospectively. (The FSP should apply professional judgement to assess where original targets were insufficient, warranting a retrospective target change or severe and unexpected conditions – like Covid-19 – where various risks are simultaneously considered and managed)
 - Substantial once-off payments without performance criteria or a clear explanation of rationale
 - Golden handshakes and golden parachutes with single triggers
 - Sign-on arrangements and severance packages that exceed market best practices
 - Pension arrangements that are significantly misaligned with the broader workforce
 - Bonus payments when the company is making a loss
- The amount of compensation if it is excessive by country or industry standards
 - Policies that do not adequately address the living wage or wage gap concerns.



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> Appointment of auditors

Audits are among the most important protections for shareholders' capital and the company. Consequently, the client attaches much importance to the audit process's quality and independence. The financial statements' audit offers credibility and comfort to all stakeholders. The board is responsible for presenting a fair, balanced and understandable view of the company's financial position. Therefore, it relies on a robust internal and external audit process and employing an appropriate level of oversight.

An independent audit process is a key component of good governance. The client prefers that the audit committee retain the services of a well-known and reputable auditing firm.

The client accepts the condition that the number of skilled, large audit firms are limited. We also appreciate the role of the auditor in ensuring continuity and building superior audit coverage year on year. This condition must be balanced with audit partner rotation and firm rotation. Mandatory audit firm rotation every 10 years is effective from 1 April 2023 in South Africa and FSPs should ensure that this practice is well entrenched and happens in practice.

In addition to the broad considerations above, the FSP should have the necessary skills to evaluate the following in assessing the vote for the appointment of the independent external auditor:

- Repeated misstatements in financial statements
- Fee from non-audit work not kept at a minimum
- Any matter impacting the independence of the auditor
- Auditor conducts the internal and external audit work

> Annual financial statements

The client expects that the FSP will vote for the approval of financial statements if the disclosure is sufficient and material enough to make informed investment decisions.

The client also expects that the FSP can evaluate vote resolutions on the approval of financial statements and vote accordingly where:

- The audit is qualified
- The company is dismissive or unresponsive to shareholder's requests for additional information
- There are repeated misstatements in financial statements
- There has been an attempt to hide or obscure matters qualitatively or quantitatively
- There are material omissions with respect to the information provided to shareholders

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> Authority to repurchase shares

Generally, the FSP should consider opposing a general repurchase resolution that will allow share repurchases to impact significantly on the “free float” of the company and where the share repurchase could negatively impact liquidity and the company’s value. The client does, however, acknowledge that share repurchases may result in earnings enhancements for a company. There may be instances where shares may not be voted strictly to this guideline.

> Capitalisation issues, share splits, consolidation, reduction in capital and odd-lot offers and specific repurchases

The FSP should consider the capital structure before and after such transactions on a case-by-case basis. Transactions such as these do not lend themselves to a prescriptive approach.

However, matters worth considering include, but are not limited to:

- The impact on shareholders
- Alternative options, such as issuing a dividend
- The cost and administrative burden on the company
- Related party implications

The FSP should consider the appropriate vote after taking the above into account. Consider voting *against* the transaction and/or directors (if applicable) where it concentrates power in the hands of a select few or is prejudicial to shareholders.



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> **Dual capitalisation and preferential voting rights**

The FSP should consider opposing proposals to divide share capital into two or more classes or create classes with unequal voting or dividend rights. The client is concerned that the effect of these proposals would be to consolidate voting power in the hands of relatively few shareholders, disproportionate to their percentage ownership of the company's share capital.

> **Re-pricing or issuing of options at a discount (also consider for remuneration policy and implementation report impact)**

The FSP should consider opposing proposals that allow for the re-pricing or issuing of options at a discount. However, the client acknowledges that not re-pricing certain share options may not align with the interests of management and shareholders. There may be instances in which shares may not be voted in strict adherence to this guideline.

> **Dividend policy**

The FSP should consider the impact of a company's dividend. They should investigate the rationale behind the declaration and analyse the effect such a dividend may have on a company's capital structure and liquidity status.

Limitations on the powers of the director concerning capital structure

> **Placing unissued ordinary shares under the control of the directors**

Generally, the FSP should consider opposing company resolutions that place unissued ordinary shares under the control of the directors, as any further issues would dilute existing shareholders. Any such actions should thus be specifically motivated to shareholders through the calling of a general meeting as and when required.

> **Providing the directors with general authority to issue shares for cash**

Generally, the FSP should consider opposing resolutions that provide directors the blanket authority to issue shares for cash, as any further issues would dilute existing shareholders. We note that local practice by FSP's has recommended against resolutions where the quantum exceeds 5% of shares in issue and, in some instances, marginally higher than 5%. The FSP is to apply professional judgment in this regard in line with their policy, motivated by a valid rationale.

> **Discount on share issues**

The FSP should consider opposing resolutions that issue shares at a discount other than those related to an empowerment transaction. An important consideration of the FSP is assessing the empowerment transaction's merits. It should incentivise a merit-based approach and should not serve to provide blanket authority to directors; it does not go against the diversity objectives if tabled as a shareholder resolution.

> **Bundling of resolutions**

The FSP should consider voting against resolutions that seek to bundle resolutions and engage the company before the meeting to have them separated, such as the group election of directors, even if permitted by the company's memorandum of incorporation (Mol), as well as where the allowance of such bundle resolutions are proposed through a resolution dealing with changes to the company's Mol.

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> Financial assistance

- The FSP should consider resolutions where shareholders' approval is required concerning financial assistance
- The FSP should consider sections 44 and 45 of the Companies Act
- Financial assistance is broadly defined and, inter alia, includes lending money, guaranteeing a loan and securing any debt or obligation
- The FSP should review each resolution for financial assistance on a case-by-case basis and consider supporting the resolutions where conditions have been met
- The client expects the FSP to evaluate the authority needed for approval
- The special resolution approved by the shareholders must be passed before the financial assistance is provided and ratification after the fact is not possible. However, the Act allows the shareholders to give a general authority for providing financial assistance to a particular group of recipients. Therefore, it is possible for the special resolution to cover all types of financial assistance
- Nevertheless, at the least, it is advisable for the board to include maximum limits of financial assistance that may be given under the particular special resolution.



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The client expects that shareholder proposals differ from company to company and in frequency relative to the other special or ordinary resolutions. They are to be reviewed on a case-by-case basis. However, the client strongly encourages voting for proposals aiming to increase transparency on material ESG issues, which enhance long-term shareholder value creation, address material ESG risks and promote diversity on merit.

The FSP should have the necessary skills to evaluate the following in assessing any proposed shareholder resolutions:

Environmental issues

The client considers mitigation of, and adaptation to, climate risk and environmental harm as an essential part of its stewardship approach. Companies' failure to appropriately address environmental externalities may have significant negative consequences for the environment and may negatively impact a company's cash flows or balance sheet. These events increase the likelihood of financial harm, cost and loss for the company and potentially our beneficial owners.

The client encourages the FSP to consider:

- Environmental legislation and the company's adherence to it
- The board and respective business practices concerning the amount of pollution or resultant externality
- Biodiversity impact of business operations

- The usage of water and other resources
- The measurement and reporting of absolute emissions
- The Principles of the Task Force on Climate Change Financial Disclosure (TCFD)
- The commitment of the company to report on financial and non-financial matters
- The alignment of the company's strategy to the remuneration structure, including performance criteria related to incentivising management and executives to manage environmental and social risks.

The FSP is to apply professional judgement on the measurement of the above and the alignment to strategy and key performance indicators. The complexity and changing dynamic around environmental impacts (climate and biodiversity science), its macro-economic impacts and the related corporate disclosure requirements are also fluid at present.



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> Environmental hazards

In considering a shareholder or stakeholder, the client encourages the promotion of transparency concerning environmental hazards, which includes whether a company uses substances that pose an environmental health or safety risk to a community in which it operates. The FSP should support resolutions that require adopting a policy that makes information available to enable the public to assess a company's potential impact. The client encourages a vote *against* issues that negatively impact the environment.

> Environmental reports

The FSP should support resolutions requesting companies to prepare well-considered, decision-useful general reports describing environmental issues such as environmental management plans. The FSP should also encourage companies to disclose current or potential environmental liabilities.

> Climate change disclosure and policy

The client expects boards to be able to demonstrate 'climate competency' through training or hiring. This will assist in their communications with investors and complement the recommendations of the TCFD. Where climate change is identified as a material issue for the business, we expect companies to have sufficient expertise and experience on the board to ensure effective strategic and operational oversight.

The client accepts that the FSP may vote *against* the reports and accounts of companies facing material climate risks where little or no progress has been made in providing the market with investment-relevant climate disclosures. Furthermore, where the FSP deems insufficient action is being taken on the issue of climate change, the FSP might cast a vote *against* the chair of the board or other key directors.

The client also accepts that the FSP may support shareholder proposals that seek to improve disclosures and transparency by companies facing material carbon risks. Just as other shareholder resolutions are considered in the context of the business and its activities, climate-related resolutions should be treated similarly. When reviewing a resolution, the FSP should also consider the progress made to date and commitments already disclosed by the company. It is important to note that the client seeks to support appropriate, relevant, practical resolutions for the company in question and its regional context.

> Socio-economic issues

The client supports resolutions requesting that companies prepare well-considered, useful reports covering economic and social issues. This includes matters relating to the labour force, customers, suppliers, human rights, society and community. The client supports votes *against* issues that negatively impact the above. If the FSP supports all such matters, the client requests that this be disclosed with the reason behind such vote. The client also requires that the company adhere

to laws, guidelines and codes of good practice applicable to them in the country in which they operate.

> Political donations

The client encourages the FSP to consider the impact of political donations made by a company. We think transparency is critical in understanding potential legal reputational and subsequent investment risks which can arise from donations of this nature.

The client encourages the FSP to consider:

- That it has shareholder relevance
- The company strategy
- Transaction to the appropriate authority
- Disclosure of the amount, the political party and business rationale for the support.

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Our experience has suggested that the above guidelines culminate into the following vote categories:

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Election or re-election of executive and independent directors	Directors remuneration	Financial statements and statutory reports	Issuance of shares	Environmental report
Election of members of the audit committee	Remuneration policy and remuneration implementation report	Appointment of auditors	Loan or financial assistance	Climate policy and disclosure
Election of members of the social and ethics committee	Non-executive remuneration	Auditor remuneration	Share buybacks	Socio-economic resolutions
			Share option scheme	Political donations
			Shares under director control	Other
			Dividend-related	

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Disclaimer

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Note

The value of a portfolio can go down, as well as up, as a result of changes in the value of the underlying investments, or of currency movement. An investor may not recoup the full amount invested. All policies issued or underwritten by us are linked policies, under which no guarantees are issued. The policy benefits are determined solely on the value of the assets, or categories of assets, to which the policies are linked. • Past performance is not necessarily an indication of future performance. • Forecasts and examples are for illustrative purposes only and are not guaranteed to occur. Any projections contained in the information are estimates only and are not guaranteed to occur. Such projections are subject to market influences and contingent upon matters outside our control, so may not be realised in the future.

Please be advised that there may be supervised representatives.

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The complaints handling procedure and conflict of interest management policy can be found on our website www.alexforbes.com

