PSG GROUP LIMITED

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Annual General Meeting
17th July 2020
Financial Year End: 29th February 2020

Proxies voted
SCAT (Social Change Assistance Trust)

The Integrated Annual Report (Report) is a no-frills report which includes only the minimum required information. It is easy to follow and clear with minimal jargon, which we appreciate. However, the report errs on the side of brevity and insufficient detail is provided.

The Report states that PSG *is a leading South African investment company*, and in referring to its investments, states *Sound corporate governance is non-negotiable*, as such we expect PSG's corporate governance to be impeccable. Unfortunately, board independence per the company is only 50% (5 directors), however of the independent directors 60% (3 directors) have served for a combined 56 years or an average service of 19 years. The CEO and one of the non-executive directors are brothers and sons of the founder of the company further exacerbating our concerns about the independence of this board.

There is no report from the social and ethics committee but there is a Environmental, Social and Governance Report, which we are pleased to note states *PSG Group has intentionally not invested in businesses engaged in the production of harmful products*. This report deals fairly extensively with the company's and its investee companies' corporate social investment programmes, and the governance section notes that it is satisfied with board independence and diversity. There is no adequate reporting on environmental issues considered by the company or its investee companies.

The Report is laid out in landscape format which suits a computer screen, however two pages are laid alongside each other which reduces the size to such an extent that it is not possible to read this on a computer screen, most unsatisfactory. The report does not include hyper links or links to the company website.

	Resolution	Rationale	Vote	Outcome of AGM

	Ordinary Resolutions			
	Election and re-election of members of the board	In considering the appointment of individual members of the board, it is important to not only look at the individuals but to consider the composition of the board as a whole. We consider the following: **Independence:** The minimum required level is for 50% of the board to be independent. The Report states that 3 directors are executives, 2 are non-executives and 5 are independent. On the face of it they have therefore achieved the <u>minimum</u> requirement of independence. However, per King IV recommendations we need to examine the independence of any director who has served for more than 9 years. Tenure per the Report is <5 years' service 2 directors, 5 to 10 years' service 1 director with 7 directors having served for more than 10 years. The Report states *The Board is satisfied with the independence of all the non-executive directors classified as being independent, including …, who have served on the Board for more than nine years.* The average tenure of the non-executive directors is 12 years, the Chairman has served for 12 years and the Lead Independent Director has served for 19 years. A board that is far too cosy and whose independences must be questioned. **Continuity:** There were natural concerns regarding continuity when Mr Jannie Mouton the founder of PSG stepped back from his role in the company. However, it is nearly 2 years since he retired and longer since he started handing over the reins. The board includes his 2 sons and as noted above a number of long serving directors. Continuity of the board is not a concern at this point. **Skills:** The Report states that directors are qualified in: 6 in accounting, 2 in law, 1 in maths and 1 in PR. **Diversity:** The board and management are insufficiently diverse by today's standard, we note that both the recently appointed directors are black women. All other directors are men, we had insufficient detail to further assess diversity. Directors CV's are extraordinarily brief and uninformative.		

	Resolution	Rationale	Vote	Outcome of AGM
1	To re-elect Mr PE Burton as director	Mr Burton, 67, has served on the board for 19 years and as such we are concerned that his independence may be impaired. This concern is compounded as he is the Lead Independent Director and is one of the 3 members of the nominations committee all of whom have very long service with the company. Mr Burton sits on all the board committees other than the executive committee and chairs a number of them. His appointment is opposed on the grounds of lack of independence.	AGAINST	FOR 75.5%
2	To re-elect Ms B Mathews as director	Ms Mathews, 50, is 1 of 2 newly introduced directors having served on the board since 2016. Her attendance record in 2019/20 financial year was impeccable but committee meeting attendance figures are not provided. Ms Mathews is suitably qualified and our search found she is a director of 4 listed companies, as such her level of commitments is becoming a concern.	FOR	FOR 99.9%
3	To re-elect Mr JJ Mouton as director	Mr Mouton, 45, is a non-executive director. He is the son of the founder and brother of the CEO. Given our overall concerns regarding the independence of this board, Mr Mouton's reappointment is opposed.	AGAINST	FOR 94.3%
	Election of members of the Audit and Risk Committee	We have raised concerns regarding the independence of the board, as such it is especially important that the Audit and Risk Committee be and be seen to be, independent.		
4	To re-appoint Mr PE Burton as a member of the audit and risk committee	Mr Burton cannot be considered as sufficiently independent to chair this committee after 19 years on the board.	AGAINST	FOR 76.4%
5	To re-appoint Ms AM Hlobo as a member of the audit and risk committee	Ms Hlobo, 44, is suitably skilled and experienced. Her attendance record for board meetings was impeccable but committee meetings attendance is not provided. She is full-time lecturer at the University of Johannesburg and this is her only board appointment per Bloomberg, as such there is a minor concern regarding her independence.	FOR	FOR 99.9%

	Resolution	Rationale	Vote	Outcome of AGM
6	To re-appoint Ms B Mathews as a member of the audit and risk committee	Ms Mathews has been evaluated under 2 above and we further find she is suitably skilled to serve on this committee.	FOR	FOR 99.9%
7	To re-appoint Mr CA Otto as a member of the audit and risk committee	Mr Otto cannot be considered as sufficiently independent to serve on this committee after 25 years' service on the board. A full third of shareholders opposed Mr Otto's appointment to this committee last year, it appears the directors are not listening to shareholders concerns.	AGAINST	FOR 67.9%
8	To re-appoint Pricewaterhouse Coopers Inc. as auditor	Pricewaterhouse Coopers have been auditors for the company since its inception, a total of 24 years. As such, their independence is brought in to focus, given our concerns regarding the independence of the board and the fact that no mention is made of auditor rotation, we oppose their reappointment. Compulsory auditor rotation will be introduced in 2023 and as such it is prudent to commence the process before then, we need to know that this is not just receiving the committee's attention but when the committee is going to act on this.	AGAINST	FOR 77.4%
9	Non-binding endorsement of PSG Group's remuneration policy	The Remuneration Committee (Remco) consists of 3 directors classified as independent. However, their individual board tenure is 19, 12 and 25 years and as such their independence is questionable. **Our assessment of the board is that it is very cosy and insufficiently independent and this committee composition is problematic from an independence perspective.** The company does not operate a Short Term Incentive (STI) scheme but 30% of executive directors base pay is deferred for 12 months and the payment of that amount is subject to performance conditions and subject to malus and clawback. Other staff receive discretionary bonuses. Deferred pay attracts interest at SARS (South African Revenue Services) rates and is dependent on the executive still being in the employ of the company and the following non-financial metrics. The weighting of the metrics for the CEO/CFO respectively follow each metric: 1 Strategy 40%/25%; 2 Assessing investment opportunities 20%/5%; 3 Implementation of investment decisions 0%/5%;	AGAINST	FOR 82.4%

	Resolution	Rationale	Vote	Outcome of AGM
		4 Corporate governance 10%/20%; 5 Financial Reporting and communication 5%/15%; 6 Investor Relations 10%/5%; 7 Capital structure and returns 15%/25% **Metrics are all non-financial and assessment is entirely subjective.** The Report notes that the as an *investment holding company… It has limited day-to-day operations and its primary focus is to make and help grow investments that will procure long-term value creation for shareholders.* As such the primary focus of executive remuneration is on long-term growth. The Long Term Incentives (LTIs) consist of share options awarded in terms of the share incentive scheme. LTI share options vest over a 5 year period in 4 equal tranches after, 2, 3, 4 and 5 years. **Which, starting at 2 years is not very long term.** All the metrics are financial, their weighting of the metrics is 50% each: 1 Recurring Earnings per Share. The target is CPI plus GDP growth plus 3%; and 2 Return on Equity exceeding cost of equity for the preceding 5 years. Executive directors are required to hold a minimum shareholding in the company at least equal to 500% of base salary for the CEO and 400% of base salary for other executives. In addition they must have achieved their non-financial metrics as detailed under deferred income. **Financial metrics are clear and understandable. The rewards based solely on the financial metrics.** **The report is refreshingly clear and readable unlike many remuneration reports. We appreciate that PSG Group is a small company and has very few employees, and may not be able to produce the depth of information which larger companies provide. However, the report is short on key information and we are concerned that: long-term incentives are insufficiently long-term, non-financial metrics are entirely subjective and the assessment is done by a committee whose independence we doubt**		

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10	Non-binding endorsement of PSG Group's implementation report on the remuneration policy	Our concern noted above is that the board in general and the Remco in particular are far to cosy and have all served for a very long time. This concern is exacerbated by the fact that non-financial targets appear to be assessed subjectively, with Remco concluding that the CEO and CFO performance of non-financial targets is 100%. A perfect performance by both executive directors. Base pay increases were approved at 5% by the Remco being inflation plus 1%. The executives have voluntarily decided not to take increases in these exceptional times. This is commendable. Deferred income is paid out in full to all executives, we could not ascertain how these are assessed. The target, details of the calculation of this and actual achieved for the LTI are clearly disclosed. **As with resolution 9 above, the report is clear other than for the calculation of the deferred income reward**		FOR 93.0%
11	General authority to issue ordinary shares for cash	This resolution empowers the directors to issue shares in cash at their discretion subject to a maximum of 5% of the issued shares, at a discount of no more than 10%. The resolution shall stay in place until the next AGM. We do not support resolutions which are so broad and entirely at the discretion of the directors.	AGAINST	FOR 93.9%
	Special Resolutions			
1	Remuneration of non-executive directors	We commend the board for its decision to forego any increases in remuneration for the year. Fees are modest and the balance between the different fees is appropriate. However, we consider an attendance fee component as a minimum measure of performance and as such we oppose the fees.	AGAINST	FOR 99.8%
2	Inter-company financial assistance	This resolution empowers the directors to make loans to related or inter-related companies on such terms as the board may determine. We recognise and support the right of the board to make loans and provide financial assistance to related and inter-related companies, but we need to ensure that this is managed and not grant unlimited rights to the board.	AGAINST	FOR 97.5%

	Resolution	Rationale	Vote	Outcome of AGM
3	Financial assistance for the subscription and/or purchase of shares in the Company or a related or inter-related company	This resolution provides for the company to provide financial assistance to related or inter-related organisations or persons to purchase shares in the company or its subsidiaries. We recognise the need for provision of such support from time to time but the wording of this resolution is so broad and we consider there are insufficient checks and balances, as such we cannot support it.	AGAINST	FOR 78.2%
4	Special resolution number 4: Share repurchases by PSG Group and its subsidiaries	We are concerned that share repurchases may lead to dilution of minority interests and as such oppose this resolution.	AGAINST	FOR 95.9%

ANNUAL GENERAL MEETING OUTCOMES

The meeting was not very well attended with 70% of shares voted in person or by proxy.

All resolutions were passed although there was strong opposition for a number of resolutions, with a quarter to one third of shareholders voting against two members of the audit committee and one of those director's reappointment to the board. It would be nice to know that the board is acting on this level of dissatisfaction.

There was also significant opposition to the reappointment of the auditors and for the special resolution to provide financial assistance (number 3 above).