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TRUWORTHS INTERNATIONAL LIMITED

http://www.truworthsinternational.com

Annual General Meeting
5th November 2020
Financial Year End: 30th June 2020

Proxies voted
The Ditikeni Trust

The Truworths Integrated Annual Report (Report) is well laid out and easy to follow, with good use of outstanding info-graphics. The company is justifiably proud of its Report and the fact that the Report is well rated in the Ernst & Young Excellence in Integrated Reporting Awards.

For the third year in a row we note our concerns about the wholly inadequate Social and Ethics Committee Report which provides no details of any areas of responsibility of the committee but merely states that it has carried out its duties. Specifically, no information is provided on transformation and, given the demographics of the management team and the target market this is of concern. In addition, no information is provided in that report about the company's use of scarce resources and its carbon footprint. This is especially surprising given the fact that the Company is well ranked in the FSTE4Good ESG index (Environmental, Social & Governance Index), and the company states that it supports the United Nations Sustainable Development Goals.

It has been a difficult trading year but nonetheless it is disappointing that the number of employees declined by 6%. The Report notes that one of the company's objectives was to enhance local production which we applaud but there are no hard figures to back this up.

Board independence is a concern and the composition of the Audit Committee is worrying, we also find Non-executive directors fees continue to increase for the 4th year in a row without a proper motivation. The average fee per director has increased 270% over the last 10 years.
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The Report is laid out in landscape format which is more suitable for a computer screen, however the size is most inappropriate as it has to be reduced to 50% to fit on a laptop screen at which point it is not legible. The Report does have general links to the company website but hyperlinks to different sections of the Report and other reports are absent. We commend the inclusion of the secretary's contact details in the front of the Report.

	Resolution	Rationale	Vote	Outcome of AGM
	Ordinary Resolutions			
1	To receive and adopt the Group and the company Annual Financial Statements (AFSs)	The AFSs have been audited and the auditors' opinion is that they fairly present the results and the financial position of the company.	FOR	FOR 100%
2	Election and re-election of directors	The appointment of individual directors can only be considered after consideration of the overall composition of the board. We consider the following key factors: **Independence**. We are told that all non-executive directors are independent; with 31% of the board as executive directors it is relevant that 4 (a further 31%) of the board have served for more than 9 years – the point at which a directors' independence should be evaluated annually. In fact, those 4 directors have an average tenure of 19 years. In addition, one of those long serving directors was previously an executive director. We commend the board on introducing new directors over the last 2 years, however despite these changes we do not consider this board sufficiently independent. **Continuity**. As noted above, the board has a number of very long serving directors and some newly appointed directors. The average age of the long serving directors is 70 and as such there is a concern that some or all of them will be retiring in the near future. Mr Mark the long serving CEO is now beyond retirement age and despite the statement in the 2018 Report that *Shareholders should be assured that succession planning for key executive roles, in particular the position of CEO, is a high priority*, little progress appears to have been made in this regard as we are now told *The succession for the Chief Executive Officer (CEO) has been an important consideration for the board during the period under review*. Two years on and no progress appears to have been made. The management team comprising executive directors and divisional heads of 17 people has an average age of over 54 and no fewer than 10 are within 5 years of retirement.		

	Resolution	Rationale	Vote	Outcome of AGM
		There appears to be a lack of urgency in addressing succession planning at executive level. **Skills**. As with far too many companies, the board has a high (67%) percentage of non-executive directors with a financial background. Whilst we commend the transformation that has been taking place at board level (including greater diversity of skills) over the past few years, it is time for the company to take its own statement seriously *Diversity and transformation in the boardroom ensure balanced decision-making*. **Diversity**. In 2018 we raised concerns regarding the fact that the board was almost exclusively white men of a certain age. We commend the efforts of the company in diversifying the board. Further refreshment is required but it now comprises 31% women and 23% black directors. Management on the other hand is not faring as well with the 17 (82%) of top managers and executives being male and at least 76% white. We are concerned given the company's exposure and presence in the UK and the problems it is having in that market, it has no British directors.		
2.1	Mr H Saven	Mr Saven, 67, has been a director for 17 years and is the independent non-executive chairman. He is suitably skilled and experienced; however after 17 years his independence is questioned. He holds shares in the company to the value of R 242m at current share prices. We do favour directors having "skin in the game" but such a sum must be material to Mr Saven's wealth and as such he must have a keen interest in the share price but his independence as chairman is questioned. In addition, Mr Saven is chairman of 2 other listed companies, we consider this to be significantly overcommitted.	AGAINST	FOR 67.8%
2.2	Mr DB Pfaff	Mr Pfaff, 55, is the CFO and COO. We were told in 2018 that he was being made COO as part of the succession planning of the company. He is suitably skilled and experienced to fulfil the position he holds.	FOR	FOR 98.6%

	Resolution	Rationale	Vote	Outcome of AGM
2.3	Mr JHW Hawinkels	Mr Hawinkels, 68, was first appointed to the board in 2018. At that point we opposed his appointment as we did not consider it appropriate to appoint another older white man; the board has made a considerable effort at transformation since then. Mr Hawinkels an engineer with experience in the media industry in South Africa and abroad, brings different skills to this board. His attendance record in the year under review was impeccable and he is not overcommitted.	FOR	FOR 95.7%
2.4	Ms M Makanjee	Ms Makanjee, 58, was also first appointed in 2018. She is suitably skilled and experienced and her attendance record in the year under review was impeccable. She is a director of 3 other listed companies; anything beyond this we would consider to be overcommitted.	FOR	FOR 99.1%
2.5	Ms AMSS Mokgabudi	Ms Mokgabudi, 66, is a new appointment to the board. She is suitably skilled and experienced. She is not a director of any other listed companies. We do have a concern that the board as a fashion retailer should be appointing some younger directors.	FOR	FOR 99.8%
3	To renew the directors' limited and conditional general authority over the authorised but unissued and treasury shares, including the authority to issue or dispose of such shares for cash	We are opposed to any general authority to issue or sell shares for cash. However, the company has set out: the limit to this authority (5% of issued shares); the minimum price that would apply to any issue (a discount of no more than 10% of the average price); and most importantly, the limited circumstances under which the directors may exercise this authority – *only for the purposes of allotting or selling such shares in connection with an acquisition or empowerment transaction by the Group, and for no other purpose.* In general, we would still prefer to have specific resolutions for any issue but recognise the need to take advantage of opportunities as and when these may arise. This vote requires approval by 75% of shareholders voting in person or by proxy.	FOR	FOR 72.4%

	Resolution	Rationale	Vote	Outcome of AGM
	Special Resolution			
4	To give a limited and conditional general authority and mandate for the company or its subsidiaries to acquire the company's shares	Most companies present shareholders with this resolution, essentially asking us to sign a blank cheque, few ever cash the cheque and purchase shares. In the case of Truworths, we are told *[t]he board also took advantage of the weaker stock market and repurchased shares totalling R583 million. Since the start of the programme in 2002 the Group has returned R3.8 billion to shareholders through share buy-backs.* The resolution does state that such repurchases will only take place in the event that the company has sufficient liquidity – a requirement. We are concerned that such share repurchases tend to reduce minority interests in the company and oppose this resolution on those grounds.	AGAINST	FOR 97.2%
	Ordinary Resolution			
5	To reappoint Ernst & Young Inc. as auditor	Ernst & Young are one of the major international firms of auditors and as such are capable of performing the required audit. However, they have been auditors for 45 years; after such a long period there is a concern that the auditors' independence may be impaired and that they may take certain matters for granted. Mandatory audit firm rotation will require audit firms to be replaced every 10 years, this requirement takes place in 2023 and a level of disruption can be anticipated when this happens. As such we consider it prudent to rotate the audit firm before such date. The Audit Committee Report states that a tender process will be undertaken in the 2021 financial year to replace the auditors. We do not like the fact that the auditors have been in office for such a long period but given that the process will take place in the coming year to replace them, we support their reappointment for a further year.	FOR	FOR 72.9%

	Resolution	Rationale	Vote	Outcome of AGM

	Special Resolutions			
6	To approve by way of separate resolutions the proposed fees of the non-executive directors	The non-executive directors' fees continue to be a mess with varying increases for the different positions for at least the fourth year in a row. A proper exercise needs to be done to ascertain the appropriate fees and to revise the fees and to present such revised fees and the motivation to shareholders. The Report does note that a benchmarking exercise was done to determine non-executive director fees, this benchmarking exercise was performed by management and comparator companies are not named, and we are puzzled as to why the fees are still out of line after previous years adjustments. The average annual directors' fee has increased from R 252 800 in 2010 to R 679 800 an increase of approximately 270%. During the same period, attributable profit decreased from R 1 604m to R 872m, a decline of 46%. The cumulative inflation for the 10 years from 2010 is 67% per world bank figures. In keeping with many companies, directors' fees have increased at a rate far in excess of inflation and considerably more than the results of company would suggest is appropriate. We are not disposed to favour further increases given the failure to justify increases, the continuing increases each year, the fact that increases are not in step with company results and increases are 4 times the inflation rate over 10 years.		
6.1	Non-executive chairman	The fee increases 9.3% after increases in the last 3 years of 9.7%, 6% and 9%. An increase over the period of approximately 39%.	AGAINST	FOR 99.8%
6.2	Non-executive directors	The fee increases 5.7% after increases in the last three years of 11.1%, 5% and 3%. An increase over the period of approximately 27%. Further, we oppose on the grounds of no attendance fee.	AGAINST	FOR 98.7%
6.3	Audit Committee chairman	The fee does not increase, after increases of 20.7%, 7% and 6% in the last three years. An increase over the period of approximately 37%.	AGAINST	FOR 100%

	Resolution	Rationale	Vote	Outcome of AGM
6.4	Audit Committee member	The fee does not increase, after increases of 4.6%, 6% and 7%. An increase over the period of approximately 19%.	AGAINST	FOR 100%
6.5	Remuneration Committee chairman	The fee increases 10.4% after prior year's increases of 5.5% and 4%. An increase over the period of approximately 21%.	AGAINST	FOR 99.9%
6.6	Remuneration Committee member	The fee doses not increase after increases of 3.2%, 6% and 6%. An increase over the period of approximately 16%.	AGAINST	FOR 100%
6.7	Risk Committee member (non-executive only)	The fee increases 4.5% after increases of 15.8%, 6% and 6%. An increase over the period of approximately 36%.	AGAINST	FOR 99.9%
6.8	Nomination Committee chairman	The fee increases 10.6% after increases of 5.2%, 5% and 5%. An increase over the period of approximately 28%.	AGAINST	FOR 99.9%
6.9	Nomination Committee member	The fee increases 11.1% after increases of 5.2%, 5% and 8%. An increase over the period of approximately 29%.	AGAINST	FOR 99.9%
6.10	Social and Ethics Committee chairman	The fee increases 9.5% after increases of 50%, 8% and 8%. An increase over the period of approximately 92%.	AGAINST	FOR 99.9%
6.11	Social and Ethics Committee member (non-executive only)	The fee increases 11.1% after increases of 89.5%, 9% and 17%. An increase over the period of approximately 168%.	AGAINST	FOR 99.9%
	Ordinary Resolutions			
7	To confirm by separate resolutions the appointment of the following qualifying independent non-executive directors to the company's Audit Committee	As noted under 2 above we do have some concerns regarding the independence of this board. In addition, the Chairman served as chair of the audit committee of another company of which he is also the Chairman which is specifically precluded under the King Code and has been for a long time. We note that he attends all audit committee meetings by standing invitation – this is not recommended practice. As such we take a strong line on independence of the members of this committee. Unfortunately, despite the introduction of new directors to the board, this committee continues to be dominated by long serving directors.		

	Resolution	Rationale	Vote	Outcome of AGM
7.1	Mr RJA Sparks	Mr Sparks, 61, has been a director of the company for 8 years and chairs this committee. He is suitable skilled and experienced to serve on this committee and his attendance record during the year was impeccable. We do have a concern that as chair of the committee he has allowed the Chairman of the company to attend all meetings by standing invitation. Despite this concern we support his reappointment in the interests of continuity.	FOR	FOR 99.7%
7.2	Mr MA Thompson	Mr Thompson 77, has been a director for 16 years. Given the length of his service, we do not consider him sufficiently independent to serve on this committee.	AGAINST	FOR 59.3%
7.3	Mr RG Dow	Mr Dow, 63, has been a director for 22 years. As above, given the length of his service we do not consider him sufficiently independent to serve on this committee.	AGAINST	FOR 57.8%
8	To approve by way of separate non-binding advisory votes the Group's remuneration policy and implementation report			
8.1	Remuneration policy	The Report states that the Remuneration Committee (Remco) comprises independent directors only, however we have concerns regarding the independence of the members of this committee. The <u>average</u> board tenure of members of the Remco is 20 years, and one of them was a former executive director and, given the length of service of the CEO (37years) that director must have worked closely with him. **We are pleased to see a new member is being appointed to this committee but still have doubts regarding its independence.** The CEO attends meetings by standing invitation, **it is not recommended practice to have a standing invitation but rather to only invite executives as needed.**	AGAINST	FOR 77.4%

	Resolution	Rationale	Vote	Outcome of AGM
		The Report states that Guaranteed Pay is benchmarked and a list of retailers used in the benchmarking is provided. We are told this is adjusted for size of company etc. It appears that this benchmarking is done internally although the Report does state that external consultants PWC are used. **The list of comparator companies is provided but we are uncertain whether this is an internal benchmarking exercise.** The STI (Short Term Incentive) bonus pool is based on EBIT (Earnings Before Interest and Tax) with threshold, target and stretch targets. Performance modifiers are applied to the bonus pool, including return on assets (ROA), gross margin, cash realisation rate and short-term strategic goals. Individual performance is measured but we are not told what those metrics are and how they influence the bonus. Total STI for the CEO/other executives is Threshold 50%/30%, Target 100%/60% and Stretch 150%/100% of Guaranteed Pay of the individual. **We do not have a problem with bonus being calculated purely on a financial metric <u>provided</u> appropriate financial and other modifiers are applied to the bonus. However, we are not able to get any idea of what those modifiers are based on the information in the Remuneration Policy Report.** LTIs (Long Term Incentives) make use of share-based schemes and the company operates no less than 5 such schemes. **Share based schemes are appropriate but 5 different schemes is excessive.** LTI awards in terms of the schemes are capped at 130% of GP for the CEO and 110% for any other eligible executives. **This is modest compared to many other companies.** No performance criteria and metrics are listed under the Remuneration Policy Report, these are set out in the Remuneration Implementation Report and **this should be, but isn't cross referenced**.		

	Resolution	Rationale	Vote	Outcome of AGM
		The metrics and their weighting for the 2020 LTIs are: ROA (Return on Assets) 35%; EBIT Growth 35% and Strategic Targets 30%. Actual targets for threshold, target and percentage award applicable for each are set out in a table. **LTI metrics and targets are clearly set out, however the Strategic Targets are not named.** **We commend the company for setting out the LTI metrics and targets for the next financial period.** **We are not satisfied with the independence of the Remco and non-financial targets are not clearly stated. In particular there did not seem to be any customer satisfaction score.** **However, the key issue is we could not see the connection between the company strategy as set out in the Report and executive Remuneration, this is possibly covered under Strategic Targets but we were given no details of those targets.**		
8.2	Implementation report	The Report states clearly that remuneration for management was capped at 5% and for non-management at 6%. However, actually salary increases for executive directors were: CEO 6%, COO 9.1% and Exec Dir 12.9%. We are told that these increases followed *a detailed market analysis*. **These increases are high and given increases to other management and staff seem to be excessive. No details are provided of how the detailed market analysis was carried out.** The EBIT target required for the STIs was not meet and as such no STIs were payable. **No further information is disclosed**. LTI financial targets were not met. LTI strategic targets were considered to be at 125% achievement by the Remco, **we have no way of assessing whether this was appropriate.** **GP increases do not seem appropriate in the current market, and we could not assess the appropriateness of the LTI's as there is insufficient information.**	AGAINST	FOR 81.4%

	Resolution	Rationale	Vote	Outcome of AGM
9	To consider the report of the Social and Ethics Committee	The Social and Ethics Committee Report was most disappointing. It only provides a list of areas which form the responsibility of the Committee and that it has performed its duties. No details are provided. For example, it notes that it monitored the preparation of the company BBBEE scorecard but it does not give us what the company has scored. The company may well have published its BBBEE scorecard on its website but the purpose of this Committee's Report is to pull all that together in one place. A poor report which we do not accept.	AGAINST	FOR 100%
10	To confirm the appointment of the following qualifying directors to the company's Social and Ethics Committee			
10.1	Mr MA Thompson	Mr Thompson as chair of the committee has been opposed by us as a member of the audit committee (7.2 above) on the basis that we are concerned about his independence. We do not have the same level of concern about this committee. However, we do not accept the report of this committee (9 above) and as Mr Thompson is the chair of this committee and signed off that report, we oppose his appointment.	AGAINST	FOR 77.5%
10.2	Ms M Makanjee	Ms Makanjee is one of the newer directors and was only appointed to this committee during the year under review.	FOR	FOR 99.9%
10.3	Mr DB Pfaff	Mr Pfaff is the COO and we are disappointed and concerned that he allowed such an inadequate report on this committee's activities. This is the 3rd year in a row that we have raised our concerns and as such we believe it is time for a new executive to serve on this committee.	AGAINST	FOR 99.8%

	Resolution	Rationale	Vote	Outcome of AGM
	Special Resolution			
	To approve the provision of financial assistance by the company, as authorised by the board, to Group entities	This resolution empowers the board to provide financial *assistance to any related or interrelated company*. We recognise the need to provide financial assistance but insufficient details are provided for us to make an informed decision on this resolution.	AGAINST	FOR 97.0%

AGM OUTCOMES

Attendance at the meeting was good with just under 84% of shares voted. All resolutions were passed but the level of opposition to the reappointment of the Chairman at 33.3% was astounding.

We have reported on the very low level of support for Messrs Dow and Thompson as members of the audit committee and this has now grown to over 40% of shareholders opposing their appointment. It seems that nothing short of voting them off the committee will draw in reaction from this board.

We are appalled at the statement at the AGM that the audit committee does not intend to go ahead with a tender to replace the auditors in 2021 despite their commitment in the audit committee report to do so.