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THE FOSCHINI GROUP LIMITED

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Annual General Meeting
2nd September 2021
Financial Year End: 31st March 2021

Proxies voted
Labour Research Services
The Ditikeni Trust

The company has a relatively young CEO and CFO with 6 and 2 years' service respectively, as such some continuity at board level is desirable. However, the Chairman cannot be considered independent, and with average Non-Executive Director service of 13 years, the independence of the board is not as it should be.

The number of employees in South Africa has grown considerably but this is after the purchase of Jet. From the information available it appears that employment in South Africa has remained flat although the company does say it *safeguarded* the Jet employees' jobs. Non-Executive Directors fees continue to increase at far higher rate than executive pay or wages. If these fees are out of line then they should be adjusted, if necessary over a number of years but they should not otherwise need to have high increases over a number of years.

The Social and Ethics Report (as we have noted before) focuses largely on issues which affect the company's BBBEE score card, this is all good but the company can move beyond that and in particular its reporting on environmental matters is simply not good enough.

It does state that *We are proudly invested in South Africa, and remain committed to increasing our local manufacturing capabilities and supply chain to promote job creation*. We applaud this objective, and note the reporting of achievements against targets – we would find it helpful to include prior year actuals enabling users of the report to see the progress in hard numbers. We are also pleased to see the attempt at creating learnerships for unemployed youth even if this is an extremely small number of learnerships – follow up reporting on how many of those remain in the company or move on to gainful employment would be good.

We again note that the Report lay-out, although in landscape format, has 2 pages in portrait alongside one another – this makes it extremely difficult to read on a computer screen. Although there are tabs, there are no hyperlinks, and the index (contents) is most inadequate. A poor effort on the part of a company which prides itself on its up-to-date technology.

	Resolution	Rationale	Vote	Outcome of AGM
	Ordinary Resolution			
1	To receive and adopt the Annual Financial Statements (AFSs) of the company and the Group	It is pleasing that the company presents the AFSs for shareholder approval. This is not a legal requirement but we consider it best practice to do so. The auditors state that the AFSs fairly present the results and financial position of the company. We support the adoption of the AFSs.	FOR	FOR 99.9%
2	To reappoint Deloitte & Touche as auditors of the company and Mr J H W de Kock as the designated partner.	Deloitte & Touche have been auditors for 4 years which is well within the impending compulsory rotation period of 10 years. We have no reason to doubt their independence and as one of the major audit firms they have the necessary expertise. The audit partner will change in the new year which is before the mandatory audit partner rotation period of 5 years. We support their reappointment.	FOR	FOR 99.1%
	Appointment of directors.	In considering the appointment of individual directors, it is appropriate to first consider the composition of the board. The key matters we consider are the Independence, Continuity, Skills and Diversity. We have in the past noted our concern that the board is far too cosy and insufficiently independent. The board comprises 12 directors of whom 9 are classified as independent by the company, 1 is classified non-executive and 2 are executives. With average non-executive director service of 13 years, we cannot agree with the classification of 5 directors as independent, all of whom have served for more than 10 years. The Chairman has served for 32 years as a director and his father was previously chairman. The former CFO with 22 years' service has now been classified as independent. The Chairman, former CFO and former CEO all hold shares which are material to their wealth, we do value directors having "skin in the game", but material investments in the company may affect a director's independence. The fact that 3 directors were former partners in the same audit firm adds to the sense that this board is cosy and insufficiently independent.		

	Resolution	Rationale	Vote	Outcome of AGM
		No changes are proposed to the board other than the retirement of one very long serving director. With such long serving directors, a second-generation chairman and both the former CFO and CEO sitting on the board, there is little danger of a loss of continuity. Skills are heavily weighted to "Business Leadership" with a good contingent of accountants. However, it is sadly lacking in IT skills. Diversity has not been taken seriously by the company with 73% white men on the board. Management fairs slightly better with 71% white and 57% women. The company needs to consider the nature of its primary target market and ensure sufficient representation at management and board level. **This board desperately needs refreshment and some new directors to be brought in to ensure future continuity and independence, and increase the spread of skills.**		
3	To reappoint Ms B L M Makgabo-Fiskerstrand as a director of the company	Ms Makgabo-Fiskerstrand, 47, is suitably skilled, her attendance record at meetings was impeccable, and she does not appear to be overcommitted. She has been a director for 9 years, as such she has reached the point at which her independence is questioned. We are concerned about her potential loss of independence due to her long service particularly in light of our concerns regarding the overall independence of this board. We however support her reappointment in the interests of continuity and diversity.	FOR	FOR 89.4%
4	To reappoint Mr E Oblowitz as a director of the company	Mr Oblowitz, 64, has been a director for 11 years and as such the board is required to consider his independence. We are told that the board has considered all directors with long service and concluded that they are suitably independent. We take a stricter view of this. We also note that Mr Oblowitz and 2 of his fellow directors were partners in the same audit firm for an extended period further raising our concerns regarding his independence.	AGAINST	FOR 89.5%

	Resolution	Rationale	Vote	Outcome of AGM
		We find that our concerns regarding his and the boards independence outweigh our concern regarding continuity and therefore oppose his reappointment.		
5	To reappoint Prof. F Abrahams as a director of the company	Prof Abrahams, 58, has been a director for 18 years and as with Mr Oblowitz the board is required to consider her independence and has concluded that she and other long serving directors are independent. Again, we take a stricter view given her lengthy service. We do need to consider diversity and continuity but in the case of Prof Abrahams we find these do not outweigh our concern regarding her loss of independence.	AGAINST	FOR 75.9%
6	To elect Mr E Oblowitz as a member of the Audit Committee	Mr Oblowitz is insufficiently independent to serve on and to chair this committee.	AGAINST	FOR 90.8%
7	To elect Ms B L M Makgabo-Fiskerstrand as a member of the Audit Committee	We support Ms Makgabo-Fiskerstrand's reappointment to the board above and given that her length of service is only just at the point at which we question it, and we have no other issues with her we support her appointment to this committee.	FOR	FOR 88.6%
8	To elect Mr R Stein as a member of the Audit Committee	Mr Stein is classified as an independent director, however he is the former CFO, has served on the board for 22 years and has shares in the company which are material to his wealth. We question his decision to stand for election to this committee and oppose his appointment.	AGAINST	FOR 57.6%
9	To elect Ms N V Simamane as a member of the Audit Committee	Ms Simamane, 62, has been a director for 12 years and as such her independence is questioned. Her length of service is now well past the point at which we question independence (9 years). Given our overall concern regarding independence we oppose her appointment to this committee.	AGAINST	FOR 60.6%
10	To elect Mr D Friedland as a member of the Audit Committee	Mr Friedland, 68, has been a director for 8 years and as such we are not yet raising a concern regarding his independence based on the length of service. We do note that he was a partner alongside 2 other directors in an audit firm which does raise a concern regarding his independence. We support his appointment to this committee for further year.	FOR	FOR 99.9%

	Resolution	Rationale	Vote	Outcome of AGM
11	To endorse, by way of a non-binding advisory vote, the company's remuneration policy	Shareholders resistance to the remuneration advisory resolutions has been growing for the past 3 years. Actual support for the policy and implementation resolutions for the 3 years was 79.3% and 77.9% in 2018; 50.3% and 78.2% in 2019; and 52% and 63.9% in 2020. In the event that 25% or more of shareholders do not support a resolution, the company is obliged to consult shareholders. It has therefore been required to consult shareholders for last 2 years. As with far too many companies, TFG believes that consultations with major shareholders meets that requirement. Other shareholders are invited to submit their concerns. The chairman of Remco (Remuneration Committee) notes that one of the highlights of his year was his decision *to institute extensive and ongoing engagements with our major shareholders*. We note that these engagements are only with major shareholders and others are not invited to attend such engagements. This is not in accordance with principle 14 of the King IV report and the notes issued by that committee on remuneration consultations. Based on those engagements the Report lists the issues which are of concern to those shareholders and what Remco has done to remedy those issues. The Remco Chairman closes his report with a statement that having consulted major shareholders he is counting on them to pass these resolutions. **We favour open and proper consultations and deplore the practice of private or group meetings with major shareholders only**. Remco notes that it *Used its discretion to approve a "Thank You Gift"* for eligible TFG Africa staff. We do not approve of discretionary bonuses of this sort which may be seen as patronising and favour a living wage with appropriate rewards based on criteria the employees can understand.	FOR	AGAINST 36.1%

	Resolution	Rationale	Vote	Outcome of AGM
		Remuneration for executive directors consists of fixed pay and variable pay. For 2022, the STI (Short-Term Incentive) and LTI (Long-Term Incentive) will be replaced by a single incentive plan. Fixed pay and increases for executives are based on the 50^{th} percentile of the market and a comprehensive list of retail and non-retail companies is provided which is used as the comparator group. **We are not told if this comparison is done externally or internally and the statement that an individual's increase *depends on individual performance and contribution in their role* confuses benchmarking with merit increases.** The single incentive plan will be paid 40% in cash on award and 60% in deferred shares which vest after 3 and 4 years in 2 equal tranches. The executive has the right to defer their cash award in shares in which case the company will increase that amount by 40%. **Vesting after 3 years is a relatively short term, to meet longer term objectives we would prefer to see a longer spread to the vesting period.** Targets for the single figure award are based on fixed pay and are within industry and country norms given that this is both STI and LTI. On achievement of target payments are set at 190% and 130% for the CEO and CFO respectively, reducing at threshold and increasing for stretch. **One of the effects of this change is to increase variable rewards at threshold and reduce variable rewards at stretch with target remaining the same**. **We do not favour this shift in the balance between threshold and stretch.** The single remuneration metrics and their weighting for executive directors are: HEPS (Headline Earnings Per Share) 45%; ROCE (Return on Capital Employed) 25% and Strategic Objectives at 30%. The target for the 2 financial metrics is set at 80% of 2020 actual figures – **we are concerned that setting a target at less than previously achieved is insufficiently ambitious or challenging**.		

	Resolution	Rationale	Vote	Outcome of AGM
		Strategic Objectives are broken down into Omnichannel (the digital stock solution) 10%; people and transformation 10%; and procurement 10%. **We are pleased that there is a direct link to the company strategy of digitalising its operations, in addition youth employment and local procurement are key goals of their social programme. However, we would like see a more direct environmental metric, we do recognise the environmental and social impacts implicit in the targets.** A personal modifier is applied which can adjust the single remuneration reward by 75% to 125%. **We support this modifier but no details of performance measures are provided nor are details of how executives are assessed.** No performance metrics apply to the vesting of the shares, the only requirement being that the executive is still in the employ of TFG. Presumably Remco believe the share price is sufficient incentive. **We favour performance conditions applying to the vesting of any shares.** It is appropriate that a minimum shareholding requirement has been introduced and executives are required to achieve this within 5 years. The minimum holding for the CEO is 200% of base pay and for the CFO 100% of base pay. In terms of the share awards, the Report states *shares entitle the participant to dividend and voting rights from the award date*. **We do not favour the awarding of dividends from the award date and maintain these should be paid from the vesting date only.** We note that in closing the report states that in the event that the resolution is not passed then *the Remco will engage with TFG's shareholders (in particular, the dissenting shareholders)*. We trust it will do so and not just engage with major shareholders. **We are pleased that the policy has been significantly simplified and more closely aligned with shareholder experience by looking at HEPS rather than EBIT. We approve the more restricted range of the personal modifier and the inclusion of social issues in**		

	Resolution	Rationale	Vote	Outcome of AGM
		targets. We do not favour the vesting of shares with no performance conditions and do not like the shift to greater reward at threshold and lower reward at stretch. **Despite our reservations, we tentatively support the new policy and will assess it more fully once we have rewards based on this policy.**		
12	To endorse, by way of a non-binding advisory vote, the company's remuneration implementation report	The Report notes that employees were granted average increases of 5% and that executive increases were lower than this. We commend the attempt to close the wage gap but **no details are provided of executive director increases**. The measurement of the financial target for the STI being EBIT (Earnings Before Interest and Tax) has been adjusted by the writing back of R 2.7b impairment of the UK business due to Covid and the inclusion of R 709m inclusion in EBIT on the bargain purchase price of JET. Thus, although EBIT was a negative R 719m the stretch target of positive R 730m was met. **We do not like this sort of discretionary adjustment by Remco – perhaps they should not have used EBIT as the primary metric, but having chosen that it must be followed.** We are told that targets were set *at a time when there was low visibility as to the future outlook and the impact of the pandemic*. Thus, targets were very soft and TFG Africa's EBIT was more than 300% of the target EBIT. The non-financial targets set being more difficult for comment were all exceeded and management were awarded a multiplier of 160%. We note the new policy has a maximum multiplier of 125%. LTI share vesting conditions were not met and we are told that *Remco has decided instead to award new retention shares to partially compensate* executives for the failure of their shares to vest as targets were not met. The CEO signed a new retention agreement and was *350 000 shares on 23 November 2020 with a market value of R36,9 million*. **Overall, we find that the base pay of the CEO and CFO is market related although we are not told what their increases were. It is**	AGAINST	AGAINST 44.2%

	Resolution	Rationale	Vote	Outcome of AGM
		difficult to evaluate the variable pay given that the policy has changed and the measures clearly were not robust and excessive discretion by Remco was applied. Perhaps this had something to do with the failure of last year's policy to reach the necessary level of approval at that AGM. **We do not approve of the level of intervention and discretion that Remco felt was necessary to adjust variable remuneration, including the awarding of retention agreement shares.**		
13	To do all such things necessary in connection with the ordinary and special resolutions	This is an administrative matter.	FOR	FOR 100%
	Special Resolutions			
1	To approve the remuneration to be paid to non-executive directors	The Report states that PWC performed an independent assessment of directors' fees and includes a full list of comparator companies used in the assessment. **We support independent assessments and the full disclosure of comparator companies.** We take note that some media reports state that there is a tendency of such assessments to push directors' fees up. We further note that many of the companies used in the comparator group are considerably bigger than TFG. As a result of the assessment, the Chairman of the Board and the Remco Chairman fees both increase by 30% and board fees increase by 17%. All committee fees increase by 5%. Fees were not increased in 2020 during the Covid pandemic but in 2019 increases were between 5% and 15%, and in 2018 between 4.8% and 38.2%. It is rather insensitive to be increasing fees by such large margins in the current climate and given the social unrest in our country. In addition, average increases for employees were 5% and executives we are told will be given lower increases	AGAINST	FOR 97.6%

	Resolution	Rationale	Vote	Outcome of AGM
		We also are concerned that the large increases should come to an end and not continue from year to year as they have done barring 2020. Nevertheless, the new fees are comparable to other companies of a similar size. Fees are paid on a flat fee basis, we believe that fees should include an attendance component or other measure of performance. We oppose the fees based on the increases awarded being higher than staff or management, that fees continue to be increased on on-going basis together with the fact that there is no attendance or other variable element to fees.		
2	To approve the provision of direct or indirect financial assistance to a related or interrelated company or corporation	We are given very little information on this resolution and no information on the potential effects of the resolution or the reasons therefore (the fact that a company is required by law to present something to the shareholders is insufficient as a reason for the resolution). We recognise and support the right of the board to provide financial assistance to related or interrelated companies in the course of business and support that. However, this resolution provides for the provision of financial assistance to those companies for the purchase of shares in the company (TFG), which we do not support based on the inadequate information provided.	AGAINST	FOR 97.6%

OUTCOME OF THE AGM

The AGM was well attended with 83% of shares voted in person or by proxy. Not all resolutions were enthusiastically supported, it is perhaps not surprising that support for the long serving directors is not overwhelming with 24% voting against Prof Abraham's reappointment to the board and 44% voting against Mr Stein's appointment to the Audit Committee.

Both the Remuneration Policy and Remuneration Implementation failed to garner the necessary 75% support. This will be the third consecutive year that one or both of these resolutions were not approved. Rather than take on board the genuine concerns of the shareholders and arrange proper consultations, we are told *The responsibility of shareholders is to act as a responsible investor and vote at the AGM on an informed basis*. We believe we have acted responsibly and on an informed basis.