



REUNERT LIMITED

<https://www.reunert.co.za>

Annual General Meeting

15th February 2022

Financial Year End: 30th September 2021

Proxies voted
Labour Research Services
The Ditikeni Trust

The Integrated Annual Report (Report) gives a reasonable sense of the business activities of the company, presentation is similar to last year and is rather uninspired. We deal with the poor use of technology in the Report below.

The number of employees was stable with a very small (1%) decline which is heartening after last year's decline of 7.5% but we note the number of South African employees declined 2.5% with a 16% decline over the past 4 years – a concern in a country with such high unemployment and social discontent. The group minimum wage is set at 25% above the national minimum wage.

Excellent disclosure of the Non-Executive Directors fees but unfortunately that does not extend to the executive remuneration reports where disclosures is not of the best standard. We find that there is no recognition of ESG matters in the executive remuneration other than employment equity (this is not what we expect in general and for a company presented with the opportunities of the energy transition), and there are no customer satisfaction ratings (this despite the Report stating the *group places customers at the centre of its activities*).

The independence of this board has improved over the past 2 years with the retirement of 4 long-serving directors. This does bring into focus the need for continuity but there remain a number of long serving directors. We do have a concern that the board only has 8 non-executives and board committees are large with 5 or 6 members on each committee plus permanent invitees which in some cases include other board members. Committees must report back to the board and as such it is not necessary or efficient to have most of the board attend committee meetings. The Chairman of the board may not be a member of the Audit Committee and we do not like the fact that he attends meetings of that committee.

The Report is presented as it is designed to be printed – this cannot be read as presented on a large laptop screen, tabs are at the top of the page but there are no hyperlinks. A very poor show indeed for a company with divisions in *Electrical Engineering, ICT and Applied Electronics*, one of the few company reports that Active reviews that does not have hyperlinks.

	Resolution	Rationale	Vote	Outcome of AGM
	<p>Presentation of the directors' report, the Audited Annual Financial Statements (AFSs), the Audit Committee Report, and the report of the Social, Ethics and Transformation Committee</p>	<p>The presentation of these reports (most of which form part of the Annual Financial Statements) is as it should be. It is not a requirement for the company to present these for adoption by the members but we believe it is best practice that the AFSs be presented for adoption. The auditors state that the AFSs fairly present the results and financial position of the company.</p> <p>We found no report headed <i>Social, Ethics and Transformation Committee Report</i>. We therefore review the <i>Sustainability Strategy</i>.</p> <p>The company notes that ESG reporting is onerous as there are many competing standards. This should be simpler in future with the JSE having issued its own guidelines on ESG reporting.</p> <p>Reunert is rated AA on the Morgan Stanley ESG rating.</p> <p>The Report says that the company places customers at the centre of its activities but we see no measure of customer satisfaction nor is customer satisfaction included in remuneration metrics.</p> <p>Employee numbers have stabilised after last years sharp drop, the workforce is very stable with average tenure of 10 years. The company reports extensively on its employment equity and training.</p> <p>Scope 1 and 2 GHGs (Green House Gases) are reported on with 5 years figures – good reporting but not Scope 3 emissions reported on. The company's emissions are largely driven by electricity usage which in SA results in high GHGs due to Eskom's reliance on coal.</p> <p>Water usage is also reported on with 4 years figures.</p> <p>The Report mentions the units that can benefit from business opportunities as a result of the energy transition but there is no clear sense that these opportunities are being pursued aggressively.</p> <p>Governance focuses primarily on the board and executive and we have evaluated the board and Audit Committee below.</p>		

	Resolution	Rationale	Vote	Outcome of AGM
	Ordinary Resolutions			
	Election of the board of directors.	<p>We have in the past raised our concern that the Chairman (Mr Munday) could not be considered independent which in itself is not a major concern. However, in instances where the Chairman is not considered independent the board is required to appoint a Lead Independent Director which Reunert did.</p> <p>The problem was that they appointed a director Mr Jagoe who, with 21 years' service, was singularly unsuited to serve as Lead Independent Director. A director's independence is questioned after 9 years' service, thus Mr Jagoe's independence was such that he could not serve as Lead Independent Director.</p> <p>We have also noted that with 2 long serving directors retiring last year and the long service of Mr Munday and Mr Jagoe and the fact that they were both in their seventies, the company could lose much institutional knowledge.</p> <p>Mr Munday and Mr Jagoe will retire from the Board at this AGM. This is not ideal and again we question the succession planning of this board.</p> <p>Mr Husain, the chair-elect of the Board, will succeed Mr Munday, and Mr Hulley will succeed Mr Jagoe as the Lead Independent Director. There are no questions regarding Mr Husain's independence and as such it is not necessary for the appointment of a Lead Independent Director.</p> <p>A relatively small board with 8 non-executive directors and 3 executive directors which puts the executives at 27% of the board – not ideal. One director, Adv Orleyn, has served for 14 years and represents the BEE partners and is not classified as independent. Together with the executive directors, this leaves the board with 36% not independent – acceptable but higher than we would like to see.</p> <p>We do not like the fact that 2 of the directors serve together on the board of another company (Abdool-Samad and Darko are both on this board and the ABSA board and both audit committees).</p>		

	Resolution	Rationale	Vote	Outcome of AGM
		<p>With the retirement of 4 very long serving directors, there has undoubtedly been some loss of institutional knowledge. However, average board tenure remains high at 5 years and the CEO has worked for the company for 24 years.</p> <p>There are no obvious concerns regarding continuity.</p> <p>The board has directors from a variety of backgrounds mostly accounting and legal with only 1 engineer. We have no major concerns with the skills of the board but would prefer to see more technical or engineering skills given the nature of the business.</p> <p>The board is suitably diverse.</p>		
1	Re-election of Ms T Abdool-Samad as an independent non-executive director	<p>Ms Abdool-Samad, 47, has been a director for 7 years. A Chartered Accountant she is suitably skilled and experienced.</p> <p>We are told that attendance at all board and committee meetings for 2021 financial year was 100%, thus her attendance was impeccable.</p> <p>Ms Abdool-Samad serves on the boards of 3 other listed companies, including ABSA – Mr Darko below also serves on that board, this is insufficient reason to oppose her reappointment.</p>	FOR	FOR 98.2%
2	Re-election of Mr AB Darko as an independent non-executive director	<p>Mr Darko, 68, has been a director for 2 years. Another Chartered Accountant he is suitably skilled and experienced.</p> <p>As noted under 1 above attendance was impeccable.</p> <p>Mr Darko serves on the board of 1 other listed company – ABSA alongside Ms Abdool-Samad. We do not like this but it is insufficient reason to oppose his appointment.</p>	FOR	FOR 99.4%
3	Re-election of Mr AE Dickson as an executive director	<p>Mr Dickson, 50, is the CEO and has been a director for 8 years but spent most of his working life with the group with 24 years' service.</p> <p>An engineer he is well qualified to fulfil his responsibilities.</p>	FOR	FOR 99.2%
4	Re-election of Mr LP Fourie as an independent non-executive director	<p>Mr Fourie, 62, has been a director for 2 years, a Chartered Accountant he is suitably skilled and experienced.</p> <p>As noted under 1 above attendance was impeccable.</p> <p>We found no other directorships under his name.</p>	FOR	FOR 99.6%

	Resolution	Rationale	Vote	Outcome of AGM
5	Re-election of Adv NDB Orleyn as a non-executive director	<p>Adv Orleyn, 65, has been a director for 14 years, she is suitably skilled and experienced and her attendance record was impeccable.</p> <p>She is a representative of the BEE shareholders (Peotona) and as such is classified as non-independent director, her long service would also require her to be classified as non-independent.</p> <p>She is a founder, shareholder and director of Peotona, she is also Chairperson of Impala Platinum and Chairperson of BP Southern Africa.</p> <p>We do not support any person holding other directorships who chairs any listed company.</p>	AGAINST	FOR 88.9%
	Re-election of Audit Committee members	<p>We do not have any special concerns regarding the independence of the board or this committee with the retirement of the Chair and Lead Independent Director.</p> <p>We do have a problem with the performance of this committee in so far as we have not been informed what the committee is doing to replace the auditors who, after 36 years' service have a serious question regarding their independence. Mandatory audit firm rotation becomes a requirement from 2023.</p> <p>This committee is large with 5 out of 8 non-executive directors, and has 7 permanent invitees including the Chairperson (who may not be a member of this committee), the CEO and the CFO. We do not favour this and do not consider it best practice. Thus 6 out of 8 non-executive directors attend the committee meetings and 8 out of 11 directors attend the meetings.</p>		
6	Re-election of Mr LP Fourie to the Audit Committee	<p>Mr Fourie is the Chair of the audit committee; which committee makes no mention of the need to rotate the audit firm and we consider the rotation to be long overdue.</p> <p>The audit committee has stated for a number of years that it has considered the IRBA requirement for audit firm rotation but has said no more on this matter.</p> <p>As Chair of this committee, Mr Fourie should have driven this process and we therefore oppose his reappointment.</p>	AGAINST	FOR 99.6%

	Resolution	Rationale	Vote	Outcome of AGM
7	Re-election of Ms T Abdool-Samad to the Audit Committee	<p>Ms Abdool-Samad has been evaluated as a director under 1 above, and as noted under that resolution she serves on the board of ABSA alongside Mr Darko. She and Mr Darko also serve on the audit committee of that company which is a concern as this can lead to a perception of lack of independence.</p> <p>Ms Abdool-Samad was a partner in Deloitte & Touche (the auditors) until her appointment to the Reunert Board, again this can create the perception of lack of independence.</p> <p>We oppose Ms Abdool-Samad's reappointment to this committee given that we have more than one concern regarding her independence.</p>	AGAINST	FOR 97.9%
8	Re-election of Mr AB Darko to the Audit Committee	<p>Mr Darko has been evaluated as a director under 2 above. We have noted that he serves on the board and audit committee of ABSA alongside Ms Abdool-Samad.</p> <p>We know of no other reason not to support Mr Darko's appointment and his service alongside Ms Abdool-Samad is in itself insufficient reason to oppose his appointment.</p>	FOR	FOR 99.6%
9	Re-election of Ms S Martin to the Audit Committee	<p>Ms Martin, 49, has served as a director for 8 years. Her attendance is impeccable and she is suitably skilled and experienced to serve on the board and this committee.</p> <p>She is a director of 2 other companies.</p>	FOR	FOR 99.3%
10	Re-election of Dr MT Matshoba-Ramuedzisi to the Audit Committee	<p>Dr Matshoba-Ramuedzisi, 40, has been a director for 3 years. Her attendance record is impeccable and she is suitably skilled and experienced to serve on the board and this committee.</p> <p>She is a director of 3 other companies.</p> <p>She serves on the board of The Ditikeni Trust, one of the members of Active Shareholder, and we therefore abstain from this vote.</p>	ABSTAIN	FOR 99.6%
11	Re-appointment of external auditors Deloitte & Touche (Deloitte)	<p>Deloitte have been auditors of Reunert for 36 years, this is far beyond what is considered best practice, they will be required to be replaced in terms of the impending regulation regarding the mandatory rotation of audit firms. The Audit Committee makes no reference to the need for the rotation of the auditor, this is most surprising as we would expect the audit committee to at very least have commenced the process of selecting a new audit firm.</p>	AGAINST	FOR 83.4%

	Resolution	Rationale	Vote	Outcome of AGM
12	Appointment of individual designated auditor – Ms N Ranchod	<p>The Audit Committee Report does not report on the length of service of Ms Ranchod as the designated auditor. It is a statutory requirement that the designated auditor be rotated every 5 years and as such we expect that committee to report on the length of service of the designated auditor.</p> <p>We ascertained that Ms Ranchod was appointed designated auditor in 2019 and she is therefore eligible to continue in this position. However, we do oppose the reappointment of Deloitte as auditors and therefore oppose Ms Ranchod’s appointment.</p>	AGAINST	FOR 97.3%
13	Ratification relating to personal financial interest arising from multiple offices in the Reunert Group	<p>This is a most unusual resolution. Section 75 of the Companies Act prevents a director or officer of a company voting on any resolution in which that director or officer <i>has a personal interest</i>.</p> <p>This resolution argues that directors who sit on multiple Reunert group companies require protection from this section of the act as they may vote on resolutions at different company meetings.</p> <p>We fail to see the need or the desirability of this resolution.</p>	AGAINST	FOR 96.4%
	Non-binding advisory votes			
14	Endorsement of the Reunert Remuneration Policy	<p>A very large Remuneration Committee (Remco) with six non-executive directors, Mr Jagoe retires at the AGM and we trust that he will not be replaced on this committee as 6 out of 8 non-executive directors is excessive.</p> <p>We do not favour permanent invitees from the executive team as is the case in this committee. Executives should be invited as and when required and not by standing invitation.</p> <p>There has been a significant improvement in shareholder support since 2018 when 42% and 34% of shareholders opposed the 2 remuneration resolutions (75% approval is required), and the company has not had to consult shareholders since then.</p> <p>Executive remuneration comprises guaranteed package (GP) and a mix of variable pay: STI (Short Term Incentive) and LTI (Long-Term Incentive).</p>	AGAINST	FOR 95.3%

	Resolution	Rationale	Vote	Outcome of AGM
		<p>External remuneration consultants were not engaged during the year with the company performing internal benchmarking using an external salary survey. We are not told if the company uses external consultants for periodic benchmarking.</p> <p>The Report states that every employee <i>will earn at least 25% above the national minimum wage</i>. This is commendable but we are not given information regarding the internal wage gap in the company.</p> <p>A bar chart shows the break-down into GP, STI and LTI for each of the executive directors at below target, on target and stretch. This is helpful but we would like to see the actual percentage of total package each of the remuneration elements represents, we are told that maximum STI amount, as a percentage of annual GP, for the CEO is 140% and other executive directors 130%</p> <p>The STI metrics and weighting are: Financial targets 70% and the only metric applicable to executives is NHEPS (Normalised Headline Earnings Per Share). Strategic targets 30%, these are subject to a profit modifier and there is a cut-off profit below which no strategic target bonus will be payable. Strategic targets are not clearly defined.</p> <p>In addition, a modifier applies based on Employment Equity targets. A rather simplistic STI with ill-defined strategic targets and no ESG component other than employment equity.</p> <p>The LTI consists of CSP (Conditional Share Plan) and DBP (Deferred Bonus Plan). CSPs are awarded as part of the executive LTIs and as part of the retention plan for scarce skills.</p> <p>CSPs are deferred for 4 years which is reasonable although we would prefer some or all of this to be deferred for 5 years as this is a Long-Term award.</p> <p>CSPs under the LTI scheme are limited to 200% of annual GP.</p> <p>Metrics and their weighting for the LTI CSPs are: NHEPS 50%;</p>		

	Resolution	Rationale	Vote	Outcome of AGM
		<p>TSR (Total Shareholder Return) 25%, we are not specifically told this but it appears that this is Relative TSR as the comparator group companies are named. We support the fact that it is Relative TSR; and ROCE (Return on Capital Employed) 25%.</p> <p>We do not like the fact that there are no ESG elements to this bonus either.</p> <p>The targets for NHEPS used as the main metric for both the STI and LTI are set as a percentage of the budget – this makes it very difficult to assess.</p> <p>Strategic targets and their weighting are defined for each of the executives, these will be largely subjectively measured.</p> <p>We find that the metrics for the LTI and STI are heavily dependent on NHEPS – we find the weight attributed to NHEPS a bit heavy and would prefer more market related metrics.</p> <p>There are no elements of ESG included other than employment equity as a modifier of the STI and as part of Strategic Objectives. Companies can no longer ignore their impact on society and the environment and good governance is of course an absolute requirement.</p> <p>No mention or measure of customer satisfaction or service levels appears to exist.</p> <p>No linkage is created between the company strategy and executive remuneration as recommended by King IV.</p>		
15	Endorsement of the Reunert Remuneration Implementation Report	<p>It is difficult to support a remuneration implementation report when we do not endorse the remuneration policy.</p> <p>The CEO was paid out leave pay of approximately 10% of his GP during the year – we are told that the policy has now been amended and this will not be allowed. It is most important that senior executives and staff take their annual leave and return to their duties refreshed.</p> <p>Annual increases for staff and executives were 3.5% which is in line with inflation – we are not told what wage increases were for junior employees.</p>	AGAINST	FOR 90.1%

	Resolution	Rationale	Vote	Outcome of AGM
		We are provided with a table of GP, benefits, STI bonus and LTI but no details are provided of how these bonuses were arrived at, as such we have no way of determining if the policy (which we have not endorsed) has been fairly applied. The remuneration is modest by SA standards but given the lack of detail we cannot support this resolution – a most inadequate report.		
	Special Resolutions			
16	General authority to repurchase shares	This is a precautionary resolution and we are pleased to note that it does state <i>should market conditions and Reunert's share price justify such action</i> ; few companies do acknowledge that the resolution is primarily presented as a defence of the share price. However, we do not support such general authorities to repurchase shares as such resolutions are usually prejudicial to minority interests.	AGAINST	FOR 99.7%
17	Non-Executive Directors' (NEDs) remuneration	Excellent disclosure although it is not all in the same place, we are told what total remuneration for each director for the past 2 years. We are told what proposed fees are and the increase to each fee. The increase of 4.5% is higher than that payable to executives and staff but directors' fees are low for a company of this size. Fees include attendance fees which we consider to be a minimum requirement.	FOR	FOR 99.4%
18	Directors' remuneration for ad hoc assignments	This resolution is not as clear and well presented as resolution 17 above. It does state the maximum amount payable and that this has to be exceptional and unusual work.	FOR	FOR 99.1%
19	Financial assistance relating to share repurchases and share plans	This resolution provides for the provision of financial assistance to any director or officer or any related company for the purposes of purchasing shares in Reunert. The advisory resolutions on remuneration do not provide for the executives to purchase shares as they are awarded shares subject to vesting and certain conditions – thus we do not see the need for this resolution in terms of executives. The need for purchase of Reunert shares by related companies is not explained nor is the limit set on such purchases.	AGAINST	FOR 99.9%

	Resolution	Rationale	Vote	Outcome of AGM
20	Financial assistance relating to securities for the advancement of commercial interests	This resolution provides for Reunert to provide financial assistance to any related company for the purchase of shares in other related companies or subsidiaries. Such purchases must be to advance the commercial interests of Reunert.	FOR	FOR 100%
21	Financial assistance to persons related or inter-related to the Company for advancement of commercial interest	We recognise the need for the company to provide financial assistance from time to time to related companies to pursue their commercial interests and this resolution is limited to such financial assistance.	FOR	FOR 100%
	Ordinary Resolutions			
22	Signature of documents and authority for implementation of resolutions	An administrative matter.	FOR	FOR 100%

OUTCOME OF THE AGM

The AGM was attended by 82% of shareholders and all resolutions were passed.

Support for the auditors remains poor after their 36 years in office, we are surprised that the audit committee is not under pressure to deal with this.