

# BALONDOLOZI

Investment Services



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**CODE FOR RESPONSIBLE INVESTING IN SOUTH AFRICA  
(CRISA):  
Application Disclosure Document**

**Balondolozzi Investment Services (Pty) Ltd**

Prior to 2017, Balondolozzi used to follow a predominantly qualitative approach as we believed that qualitative issues are reflected in security prices. The firm strives to incorporate environmental, sustainability and governance issues in its investment processes though it is always difficult to incorporate qualitative issues in a quantitative process. This document discloses how Balondolozzi has applied (or not applied) the principles and recommendations of the Code for Responsible Investing in South Africa (CRISA).

**Principle 1: An institutional investor should incorporate sustainability considerations, including ESG, into its investment analysis and investment activities as part of the delivery of superior risk-adjusted returns to the ultimate beneficiaries.**

At Balondolozzi, we believe that qualitative information on any security is incorporated in its price so any negative (or positive) feature in a company will be reflected there in. Thus, we do not conduct due diligence procedures on the quality of the company's reporting dealing with the long-term sustainability since this is not part of our core philosophy. However, we believe that any negative issues surrounding integrated reporting on sustainability will be reflected by lower prices/earnings.

Dependence on market data, rather than financial statements and interviews with management, ensures that our investment process will not be influenced by accounting standards and management opinions that may be far from economic reality. Since our research avoids accounting metrics, companies' efforts to alter financial statement figures such as intangible assets do not influence our investment decisions.

**Principle 2: An institutional investor should demonstrate its acceptance of ownership responsibilities in its investment arrangements and investment activities.**

The company's adherence to this principle is summarised below;

**PROXY VOTING AND CORPORATE GOVERNANCE**

Proxy statements increasingly contain material issues involving shareholder rights and corporate governance issues, among others, which deserve careful review and consideration. Therefore in voting proxies, Balondolozzi, on a case-by-case basis, will consider those factors that may affect directly or indirectly the value of the clients' investments.

The following corporate governance guidelines are followed internally and in voting proxies.

**Board Composition & Directorship**

Board membership should comprise a balance of executive and non-executive directors who have broad experience and are in a position to act independently. Balondolozzi will support the election of an independent non-executive Chairman so that the Board represents the interests of shareholders, not executive management.

Internally, to preserve the independence and flexibility of the investment process, Balondolozzi will not appoint investment team members to the board of listed companies.

**Share Capital**

Balondolozzi will generally oppose:

- Placing unissued ordinary shares under the control of the directors that would dilute existing shareholders.

- Resolutions that provide directors the authority to issue shares for cash, as any further issues would dilute existing shareholders.
- Resolutions that allow share repurchases to impact on the "free float" of the company and where the share repurchase could have a material negative impact on liquidity.
- Proposals to divide share capital into two or more classes or to otherwise create classes with unequal voting and/or dividend rights.
- Proposals that allow for the re-pricing or issuing of options at a discount.

### **Environmental Issues**

The public has a right to know whether a company uses substances that pose an environmental health or safety risk to a community in which it operates. Balondolozzi will support resolutions asking companies to prepare general reports describing environmental management plans and to disclose current or potential environmental liabilities.

### **Remuneration**

Levels of remuneration should attract, retain and incentivise directors to perform in the best interests of the shareholders. Items that Balondolozzi will consider include:

- Detailed disclosure of director and employee compensation, particularly where the company does not have a majority independent board.
- The independence of the Remuneration Committee and its recommendations
- Whether compensation is reasonable especially with respect to total compensation to CEOs per annum; "golden parachutes" for early termination of service or if triggered by a takeover; executive severance pay (particularly where the company performance was poor during the said executive's tenure).

### **Appointment of Auditors**

The audit process must be objective, rigorous and independent to maintain the confidence of the market. Balondolozzi will pay serious consideration to any issues that may have compromised the audit firm's independence and objectivity with respect to the company over the past year.

### **Empowerment/Equality**

Balondolozzi will encourage development of an employment equity plan and reporting on empowerment with specific focus on:

- Shareholders;
- Board of Directors;
- Executive and senior management;
- Staff/labour force;
- Suppliers/Contractors

### **King Report on Corporate Governance**

Balondolozzi supports the principles and intentions as laid down in the King II Report on Corporate Governance.

To ensure that proxy votes are in-line with the guidelines above, any proxy statements considered are discussed in investment meetings prior to a vote being cast and the portfolio managers are responsible for this.

Balondolozzi Personal Account Trading Policy addresses how insider trading is controlled in our internal processes.

**Principle 3: Where appropriate, institutional investors should consider a collaborative approach to promote acceptance and implementation of the principles of CRISA and other codes and standards applicable to institutional investors.**

To promote the acceptance and implementation of the principles of CRISA, Balondolozzi seeks to join a network of firms which subscribe to the principles of CRISA and it has publicly disclosed its acceptance on its website. Staff also attends conferences and seminars on governance issues (when they are invited) to ensure that they have knowledge of the current trends in environmental, sustainability and governance issues. Governance issues can be included as topics when trustee training is requested by pension funds.

To encourage awareness of fiduciary duties in the organisation, management write regulatory exams coordinated by the Financial Services Board. More so, the firm has contracted an external compliance officer to keep track of updates in the Code of Conducts as defined by the financial services board.

**Principle 4: An institutional investor should recognise the circumstances and relationships that hold a potential for conflicts of interest and should pro-actively manage these when they occur.**

Balondolozzi has a policy document that identifies potential events, actions and/or activities that could lead to a conflict of interest. The policy document has been drafted in order to bind all the employees, directors and relevant stakeholders to the policy and therefore actively manage the compliance thereof.

The policy document (Balondolozzi Conflict Of Interest Management Policy Document) further goes into procedures and manners to avoid conflicts of interests and disclosures and/or notifications of such events that must be done in writing to the client as well as the relevant management team.

Every staff member possesses their own copy of the policy document, which is revised regularly to be compliant with standard market practices, and it is therefore imperative that everyone be compliant. Misconduct of the policy will be subject to disciplinary actions taken against the liable person which could lead to dismissal if found guilty.

At Balondolozzi, we believe in conducting business in the best ethical way and therefore require transparency with all members in order to safeguard all stakeholders involved in the business.

**Principle 5: Institutional investors should be transparent about the content of their policies, how the policies are implemented and how CRISA is applied to enable stakeholders to make informed assessments.**

Balondolozzi has publicly declared its compliance with CRISA on its website and this document (together with the supporting policy documents) is available to the public upon request. More so, this document details how Balondolozzi has applied (or has not applied) the principles encoded in CRISA. During presentations to clients, Balondolozzi will disclose its compliance to CRISA and discuss any queries addressed if needs be.