

Musharaka Capital

Policy Regarding the Exercise of Voting Rights Arising From the Assets of the Fund

Effective October 01, 2014

1- Introduction

Musharaka Capital Company (CJSC) (Musharaka or the fund manager) acts as the Investment Manager to the schemes of Musharaka Prudential Mutual Fund (“the Fund”). Some of the schemes of the Fund have invested or will be investing in securities of companies (“investee companies”) carrying voting rights. These securities carry (or will carry) voting rights that can be exercised at meetings of shareholders, through postal ballots or through Electronic Voting using Tadawulaty official website. Musharaka, as the Fund Manager, is authorized to exercise, or to abstain from exercising, the rights on behalf of the unitholders of the investor schemes. This note sets out the general policy to be followed by Musharaka in deciding on whether and how to exercise the voting rights vested in it as the Fund Manager. The policy takes into account the relevant regulatory guidelines issued by Saudi Capital Market Authority, specifically investment fund regulations.

2- General Provisions

- 2.1 This policy provides the voting policy in relation to the shares or other securities which grant a voting right belonging to the assets of the investment funds managed by Musharaka.
- 2.2 The exercise of voting rights is one of shareholders’ rights and main engagement tools available to investors. Musharaka exercises voting rights where necessary, in its own name and on behalf of the investment funds and in accordance with the best interests of the investment funds and their investors.
- 2.3 Prudent use of voting rights should in the long term, provide positive financial gain to the funds and their investors. Through exercise of voting rights, better corporate governance and corporate accountability are promoted. Through exercise of voting rights, companies are influenced into increasing transparency and disclosure of information.
- 2.4 Hereby policy is reviewed at least annually.

3- Monitoring Important Events Regarding the Shares

- 3.1 Important events regarding the shares are monitored by the Custody Officer on the basis of information provided by the investee companies or posted by them, forwarded to the unit responsible for investing the funds’ assets (Mutual Investment Fund Unit).
- 3.2 In addition to shares, the provisions of hereby clause are also applicable to other securities from which voting rights arise.

4- Exercise of Voting Rights

- 4.1 **Musharaka exercises voting rights in relation to a share belonging to the assets of the investment funds separately for each fund, pursuant to the provision of clause 6.3. The voting rights are exercised in the best interests of the investors of the investment funds, considering the investments policies and objectives of the funds.**
- 4.2 **When deciding on the exercise of voting rights a procedure similar to that of making an investment decision is followed. Every case is assessed separately, taking into account the provisions of clause 4.7.**
- 4.3 **Policy regarding the exercising voting rights arising from the assets of the fund Effective as of October 01, 2015.**
- 4.4 **The members of the fund's board shall be entitled to exercise the voting rights arising from the assets of the investment fund.**
- 4.5 **The fund's board shall authorize the portfolio manager of the mutual investment fund or another employee or a person providing proxy voting services to exercise the voting rights arising from the assets of the mutual investment fund.**
- 4.6 **Musharaka may decide not to exercise the voting rights when the costs associated with the exercise of voting rights (including the cost of any analysis to be conducted relating thereto) would be excessively high provided that such a decision is not detrimental to the interests of the investors of the investment fund.**
- 4.7 **Musharaka shall not be obliged to assess the necessity of the exercise of voting rights when the number of shares owned by the fund is insignificant.**
- 4.8 **Voting rights allow shareholders to participate in annual general and special meetings and in the decision-making process relating to important corporate events. By investing in collective undertakings, investors do not retain their voting rights, and are therefore relying on the fund manager to act on their behalf. It is therefore Musharaka's duty to act in the best interest of funds when casting votes.**
- 4.9 **The compliance department of Musharaka shall keep the registry on the specifics of the exercise of voting rights.**

5- Exercise of Voting Rights in Standard Situations

In case of the following standard agenda items of ordinary and extraordinary general Meetings Musharaka shall vote in the following manner:

Agenda item	Vote for	Vote against	Depends on the situation	Remarks
Approval of annual report with positive auditor's opinion			√	
Amendments / changes to the memorandum and articles of association			√	The reasons for the proposed change (especially of the objects clause) and its likely impact on the investee company's character, business operations and financial condition shall be taken into consideration while determining the voting decision.
Implementation of take-over defenses			√	
Abolition of take-over defenses			√	
Enhancing adherence to applicable regulations and laws			√	
Delisting from stock exchange			√	
Optimization of capital structure through:				
dividend payment			√	
Return of capital to investors			√	
Raising capital			√	Proposals to increase the capital, whether through a rights issue or other means, should be examined to see why it is needed, and if it would have a significant impact on the existing shareholders' rights and their existing or potential value. It should also be examined
Raising capital through private placement			√	

				how the additional capital infusion would be leveraged.
Supervisory Board:				
Removal of supervisory board members			√	<p>The board of directors of a company shoulders the primary responsibility for managing it in such a manner as would protect or enhance shareholder value while also ensuring that the company complies with statutory and regulatory requirements and adopts good corporate governance practices. The board should, therefore, comprise individuals who can be expected to help the board perform its role satisfactorily.</p> <p>While considering a proposal for appointment or reappointment of a director of an investee company, the Mutual Investment Fund Manager (the Fund's Portfolio Manager) shall take into account such factors as the person's qualifications and relevant experience, any instances of his misconduct as would reflect on his ability to function effectively as a director, any history of legal proceedings against him, and (in the case of an independent director) the degree of independence that he could be expected to bring to his tasks. The Mutual Investment Fund Manager (the Fund's Portfolio Manager shall normally not vote against such proposals unless there are strong factors in the knowledge of the Mutual Investment Fund Manager (the Fund's Portfolio Manager that militate against the appointment or reappointment.</p>
Election of new supervisory board members			√	
Adding of independent supervisory board members			√	
Changes in the remuneration of supervisory board and management			√	

				<p>Manager will consider such factors as the company's business volume, income, and profits, statutory or regulatory limits, and comparable industry practices.</p> <p>It is clearly in the interests of shareholders that an investee company should have the ability to attract and retain personnel of high quality. Employee remuneration levels should reflect market-based judgment taking into account the nature, size and complexity of the business of individual companies and industry practices.</p> <p>The Mutual Investment Fund Manager (the Fund's Portfolio Manager) would normally support proposals for remuneration of the chief or senior executives linked to the company's long-term performance, as reflected in enhanced shareholder value. Employee stock-option and stock-incentive plans that result in excessive dilution of shareholder value, or are considered to be excessively generous, shall not be supported. Further, any record of unsatisfactory performance or misconduct by personnel who will significantly benefit from approval of such proposals shall be kept in view.</p>
Mergers and corporate restructuring			√	<p>The Mutual Investment Fund Manager (the Fund's Portfolio Manager) shall analyze a proposal for merger, or other corporate restructuring, to assess its short- and long-term financial and strategic implications for the company and its shareholders, and support those that are considered to be in the interests of the unitholders and vote against those that are considered to be prejudicial to their interests.</p>
Appointment of statutory auditors			√	<p>While considering proposals for the appointment/reappointment of statutory auditors,</p>

				<p>the Mutual Investment Fund Manager (the Fund's Portfolio Manager) shall give due consideration to factors such as the auditor's performance vis-à-vis the company, independence, its overall experience and track record, and any known instances of professional misconduct.</p>
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6- Conflicts Of Interest

The prevention and management of conflict of interests

- 6.1 Prior to the exercise of voting rights, Musharaka establishes any possible conflict of interests situations that may occur between the interests of the investors of the funds, Musharaka and the person exercising the voting rights.
- 6.2 When assessing the conflict of interests, Musharaka shall establish the following:
- 6.2.1 whether Musharaka or the person exercising the voting rights may have a personal interest in respect to a particular voting result, taking into account the following:
- 6.2.2 whether the person exercising the voting rights owns securities issued by the company or is in any other way tied to the company;
- 6.2.3 whether the company in relation to which voting rights are exercised, owns units of an investment fund managed by Musharaka;
- 6.3 If a security with regard to which the voting right is exercised belongs to the assets of more than one investment fund managed by Musharaka, it shall be assessed whether a conflict of interests may arise between unit-holders of different funds.
- 6.4 In case a material conflict of interests situation occurs, the voting rights shall be exercised following a special procedure developed by the fund's board.
The fund's board may authorize a special committee comprising of mutual investment fund unit employees on the exercise of voting rights to the or require the exercise of voting rights in accordance with the decision of an objective third party to whom the situation of conflict of interests and the investment objectives and principles have been explained.
- 6.5 If after the assessment of all the relevant aspects, the fund's board reaches a conclusion that the conflict of interests cannot be managed by using the measures specified above or any other applicable measures, the voting right arising from the respective securities shall not be exercised.
- 6.6 The compliance department shall keep a registry of the established conflict of interests situations and specific circumstances related thereto. The following information shall be entered into the registry:
- A- Name of the company which has issued the shares or securities belonging to assets of the investment funds in relation to which Musharaka has a voting right;
- B- Policy regarding the exercising voting rights arising from the assets of the fund Effective as of October 01, 2015
- C- Date of the exercise of voting right;
- D- The essence of the conflict of interests;
- E- The measures taken to prevent or manage the conflict of interests.

7- Recordkeeping

7.1 The Mutual investment fund manager (the fund's portfolio manager who is authorized to vote) is required to document its basis for decision of any voting decision made and have such documentation available at any time for the fund's board upon request. Such documentation must contain at least: subject matter, anticipated consequences of voting (business rationale) and voting decision. Records of the voting history for all Funds will be kept for a period of at least 10 years in accordance with the regulatory requirements.

7.2 The compliance department of Musharaka shall also keep the registry on the specifics of the exercise of voting rights.

8- Reporting

8.1 The investment fund manager have the responsibility to regularly provide reporting to fund's board on their voting activity.

9- Disclosure

9.1 Upon request by an investor of the investment fund, Musharaka discloses specific measures taken under hereby policy to the investor, free of charge.

9.2 Musharaka will keep the record of the exercise of voting rights at the disposal of investors, which may consult the voting history of the Funds upon request.