IFM Investors

July – December 2023

Australian Listed Equities Stewardship Report

We act as a steward

We seek to engage with companies and exercise our proxy voting rights on material sustainability issues. We believe that proactive company engagement and voting are critical to encouraging robust management of sustainability risks and opportunities. It is through these activities that we seek to build value in pursuit of our purpose, which is to invest, protect and grow the long-term retirement savings of working people.

Glossary

IFM	"IFM", "we" and "our" refer to IFM Investors Pty Ltd (see https://www.ifminvestors.com/en-au/about-us/) and its subsidiary undertakings. IFM Investors Pty Ltd acts in a capacity as a diversified portfolio adviser or manager and any references to IFM acting as an "asset manager" or references to "our investments", "our portfolios", "IFM's portfolios" or equivalent should be read as understood to be in this capacity.
stewardship	Refers to IFM's use of various strategies, including the responsible allocation, management and oversight of capital with the aim of creating long-term value for clients and beneficiaries, leading to sustainable benefits for the economy, the environment and society.
sustainable investment or SI[1]	Refers to IFM's approach to integrating sustainability factors into investment analysis, decision-making, ongoing management and oversight of investments, recognising the impacts these can have on investment performance, as well as wider society and the environment. Our sustainable investment approach is tailored to asset classes, tenure of holding and degree of influence we have as owners.
sustainability factors	Factors that relate to society and the environment, such as worker safety, inclusion and diversity and climate change. These factors, and how they are integrated into investment processes, can give rise to investment risks, opportunities and impacts that may be financially relevant and ultimately affect investment performance. References to "sustainability opportunities" and "sustainability risks" shall be construed as opportunities and risks associated with such sustainability factors (as applicable).

[1] This definition differs from, and is not intended to refer to, the technical definition of "sustainable investment" in Article 2, point (17) under the European Union's Sustainable Finance Disclosure Regulation (SFDR).

Aidan Puddy
Global Head of
Listed Equities

A note from the Global Head of Listed Equities

I am pleased to report on IFM Investors' (IFM) stewardship activity in relation to IFM's Australian Listed Equities portfolio for the period 1 July to 31 December 2023. This report provides a summary of the stewardship activities we have undertaken on behalf of our clients and their members and beneficiaries, who include millions of hard-working Australians such as nurses, teachers, construction workers and hospitality staff.

In alignment with IFM's Group Environmental, Social & Governance (ESG) Policy, the Australian Asset Owner Stewardship Code, and the UK Stewardship Code, we engage with companies and exercise our proxy voting rights on material sustainable investment issues. We believe that proactive company engagement and voting are critical to encouraging responsible management of sustainable investment risks and opportunities. It is through these activities that we seek to build value in pursuit of our purpose, which is to invest, protect and grow the long-term retirement savings of working people.

If you have feedback on the contents of this report or IFM's approach to engagement and proxy voting please email **investorservices@ifminvestors.com**

Key highlights from the reporting period include:

1. Leveraging our size and shareholder influence to help improve board structures and compensation practices by voting on 1444 resolutions. We voted against management in approximately 11.7% of cases.
2. Voting against two Perenti directors due to the company's poor safety record. This was the first time IFM has taken such a voting position due to the persistence of poor safety outcomes.
3. Taking a stronger stance on remuneration outcomes following fatalities at ASX 20 companies Woolworths and South32.
4. Supporting shareholder proposals at major Australian banks which seek credible transition plans to be put in place for their fossil fuel clients.
5. Voting against company directors due to inadequate female representation on company boards and formally communicating our rationale and expectations to companies.
6. The publication of an industry superannuation blueprint to accelerate investment in the energy transition.
7. Achieving signatory status under the UK Stewardship Code.

Proxy voting summary

Listed Equities voting activity – 1 July 2023 – 31 December 2023

255	1444	1268	170	6
Number of company meetings	Number of resolutions	Voted With Management	Voted Against Management	Abstained

See table below for additional detail on 'Against' votes.
IFM abstained from voting on resolutions where we participated in placements.[2]

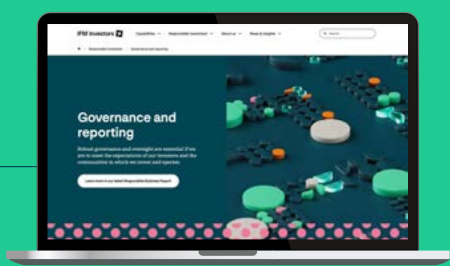
Summary of voting – proposal categories

Category	With Management	Against Management	Abstain
Audit / financials	28	-	-
Board related (other)[3]	28	9	-
Capital management[4]	78	12	6
Company statute changes	16	4	-
Corporate activity[5]	50	-	-
Director elections	547	35	-
Director fees / grants	283	55	-
Remuneration	207	53	-
Say on climate[6]	2	-	-
Shareholder proposals - Director elections	23	-	-
Shareholder proposals - Climate Change	2	2	-
Shareholder proposals - Constitutional Amendment[7]	4	-	-
Total	1268	170	6

LEARN MORE →

IFM Investors' voting guidelines are available in our Group Environmental, Social and Governance Policy, which is available on our website here.

IFM Investors' searchable record of voting activity is available on our website here.



[2] Not included in count of Votes Against Management.
[3] Relates to board spills, post-employment agreements, indemnification of directors, related party transactions.
[4] Relates to stock issuance and share repurchase, etc.
[5] Relates to divestiture/spin offs, takeover provisions.
[6] Non-binding vote on climate policy proposed by the company.
[7] Proposals related to facilitating nonbinding proposals. IFM believes the regulatory process is a more suitable means for addressing this concern.

Summary of activity

During the year we engaged with companies in a variety of forums. This included one-on-one meetings with management, collaborative engagements alongside superannuation fund representatives who are members of the Australian Council of Superannuation Investors (ACSI), and together with other shareholders via our membership of various investor-led initiatives.

Key activities for the period are summarised in the following pages.

Say on climate

'Say on climate' resolutions have been a feature of Australian company AGMs for the last two years, since BHP became the first company to offer shareholders this vote at their 2021 AGM.

This AGM season there were only two companies to offer shareholders a 'say on climate' (and three for the calendar year), with both these companies (Orica and Westpac) at the tail end of the season.

This is by no means a reflection of a reduced focus by companies or investors on the issue, but rather the frequency of the vote. Companies who have offered a 'say on climate' in the past have said they will generally offer this vote every three years, or when their climate strategy meaningfully changes. In the years where there is no update to a company's climate strategy, our preference would be for an annual vote so we can use this mechanism as a way to communicate our view on the progress of the company's implementation of its climate strategy.

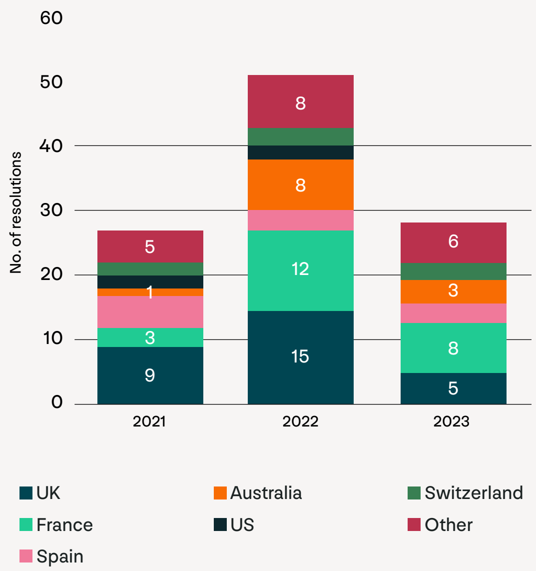
This reduction in the number of 'say on climate' votes offered is also a trend seen globally. This chart from Macquarie Research shows the significant reduction in the number of 'say on climate' votes in 2023 in other jurisdictions.

In 2024 both BHP and Woodside will be the first two Australian companies to offer a second 'say on climate' vote to shareholders. In BHP's case it will be 3 years since its first 'say on climate' vote, while in Woodside's case it is due to a commitment they made to shareholders at last year's AGM. We have been dissatisfied with Woodside's climate strategy for some time and in H1 2023 we voted against two director re-elections on climate grounds. The company has said it will offer a 'say on climate' at its 2024 AGM, which will be two years since its last one.

This season we supported both Orica and Westpac's 'say on climate' votes as an endorsement of their climate strategies. It is worth noting that Westpac is the first Australian bank to offer this vote to shareholders. While the climate strategy of a bank is different from that of a high-emitting company or one operating in a hard-to-abate sector, banks like Westpac have an important role in decarbonising our economy. This can take many forms such as emission reduction targets and lending approaches to high-emitting companies, to the facilitation of sustainable finance lending. 92% of shareholders supported the 'say on climate' for Westpac, as well as for Orica.

FIGURE 1

'SAY ON CLIMATE' RESOLUTIONS



Source: French SIF, Company Data, Macquarie Research, December 2023
International Say on Climate resolution numbers as at June 2023

Shareholder resolutions - Banks

This AGM season Market Forces lodged shareholder proposals at two of the four major banks, NAB and Westpac, asking whether their transition plan requirements that are currently in place for lending to oil and gas companies will extend to other fossil fuel companies, and whether these transition plans will be assessed for alignment with a 1.5-degree Paris aligned pathway.

The major banks have made positive strides in their lending criteria to fossil fuel companies and other high-emitting sectors, having recently all signed onto the Net Zero Banking Alliance and also updating their climate strategies. We decided to support the NAB and Westpac shareholder proposals as we felt that the ask was not too onerous for these companies. The resolution wasn't asking the banks to stop lending to fossil fuel companies, only that they have transition plans in place prior to lending, and that these plans are assessed for their credibility and Paris alignment. We believe this is good business practice and will seek to further understand the approach to financing fossil fuel companies or projects, as well as managing stranded asset risk.

Shareholder support for these resolutions was quite strong, with more than 21% of Westpac shareholders supporting the resolution and 29% of NAB shareholders supporting the resolution. We see this as a strong signal by shareholders to these companies to undertake the asks as set out in the resolution, and will be following up with the company regarding its response.

Companies offering a 'say on climate' will not preclude shareholder resolution proposals. If anything, a company's 'say on climate' vote may make the proponent of a shareholder resolution more targeted and specific in their ask. In Westpac's case, more people voted for the shareholder proposal than voted against the climate plan. In other words, shareholders supported the climate plan but also wanted to see the company do more on the requirement for transition plan assessments for the remainder of its fossil fuel company exposure.

We see this as an interesting case study in how these two types of resolutions can co-exist. This is the first time a bank has had both types of proposals at an AGM so we will watch with interest what happens to other companies in the future.

> **We felt there is insufficient board oversight and accountability for the persistence of inadequate safety performance**

Spotlight on safety

Perenti Ltd is a mining services company with over 10,000 employees and operations in over 10 countries. During the year the company announced two fatalities at the Dugald River Underground Mine in Queensland. This took the tally to an unacceptable seven fatalities in the last four years.

IFM voted against the remuneration report due to the lack of material impact on bonus outcomes despite continued poor safety outcomes and consecutive years of workplace fatalities, and this remuneration report received a 33% against vote. We didn't feel this sent a strong enough signal to the board of our dissatisfaction with the safety performance of the company, so we also voted against the two directors who were up for re-election at this year's AGM, including the Chair. We felt there is insufficient board oversight and accountability for the persistence of inadequate safety performance and we communicated this to Perenti in a formal letter after the AGM. We have already received a reply from the company and we look forward to engaging with them during 2024 and beyond.

Perenti was not the only company where IFM voted against remuneration reports due to incentive outcomes being misaligned with safety performance, and we took this stance with two companies that are in the ASX 20, being Woolworths and South32.

During the year both companies tragically had fatalities. In Woolworths' case there were two in the one year (their first in several years). South32 also had two fatalities during the year, and this took the number of years with at least one fatality to seven in the last eight years. In both these situations we took the view that incentive outcomes did not sufficiently reflect these events and that a vote against the remuneration report would signal this to these companies. We also wrote to the boards of both companies to formally communicate this.

While our decision to vote against the remuneration report contrasted with the proxy advice we received regarding South32, we are particularly concerned with the company's safety record and hope that this is addressed immediately.

In Woolworth's case, to reflect these fatalities there was a 10% reduction applied to the scorecard outcome which is used to determine bonus payments at the firm. However, given the safety component paid out in full and this was the biggest driver of the short-term incentive (STI) payment to executives and far exceeded the impact of the scorecard reduction that was applied, we felt an against vote towards the remuneration report was warranted.

Remuneration

This AGM season 33 companies received a strike on their remuneration reports, taking the total 2023 tally to 39, which was a new record. The below chart from ACSI puts this into context and shows not only the record for an AGM season, but also the main contributor to 2023 being a record number of remuneration strikes.

Shareholders voiced their displeasure at remuneration outcomes that they felt were too generous, or not punitive enough to reflect specific situations at companies. The average against vote was around 45% over the course of the year, and some of these against votes were significant. For example, Link Group, Qantas, and Harvey Norman all received greater than 80% of votes against their remuneration reports, which is a very strong signal of investor dissatisfaction. We hope all companies reflect on the voting decisions of their shareholders and seek to improve remuneration outcomes in the future.

In Link Group's case it is the third year in a row it has received greater than 30% of votes against its remuneration report; a signal that investor concerns have existed for some time which are not being adequately addressed.

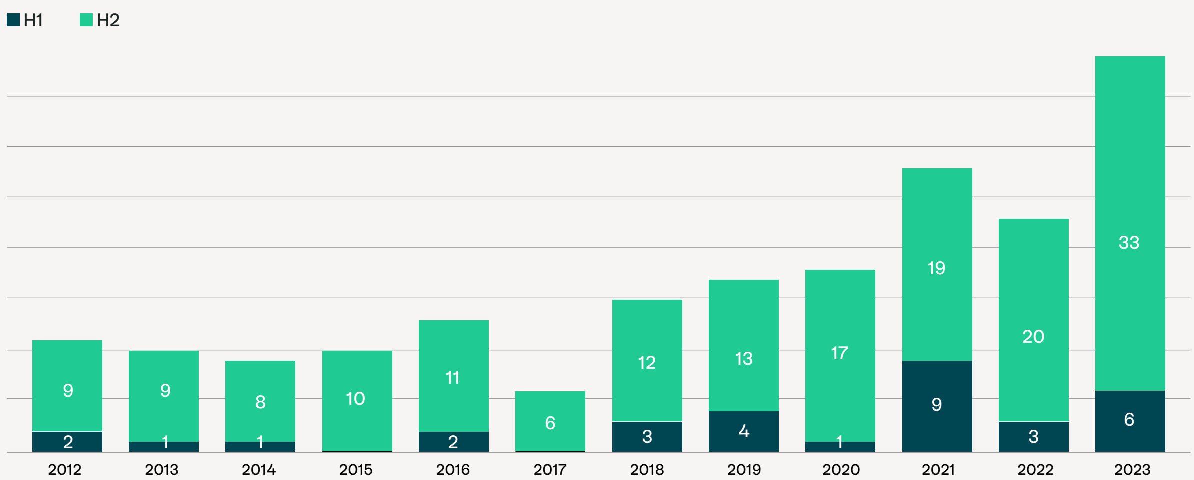
In a lot of cases where there was a significant (eg. greater than 50%) vote against the remuneration report, there was also a significant vote against a director re-election. This demonstrates that investors are using their voting rights and escalating their concerns beyond non-binding remuneration reports, and striking the board where it matters most – its composition.

Magellan, Harvey Norman, Lovisa, Terracom, and Qantas were all companies that had a greater than a 50% vote against their remuneration reports and at least a 15% vote against a director re-election.

Shareholders (including IFM) exercising their full suite of voting rights appears to be a growing trend and we expect this will continue.

FIGURE 2

REMUNERATION STRIKES AT ASX 300 COMPANIES



Source: ACSI

Spotlight on Qantas

During the year Qantas was the subject of significant investor backlash over a number of issues including poor customer service, the High Court finding it illegally sacked almost 1700 workers, the ACCC's legal action alleging the sale of tickets for ~800 flights despite these flights being cancelled, the Chair approving the sale of ~90% of CEO Joyce's shareholding while still CEO and while the ACCC were conducting their investigation, and suggestions of anti-competitive behaviour such as cancellations with the benefit of slot-hoarding. This led to the early retirement of long-standing CEO Alan Joyce and announcement of the Chair Richard Goyder's retirement ahead of the 2024 AGM.

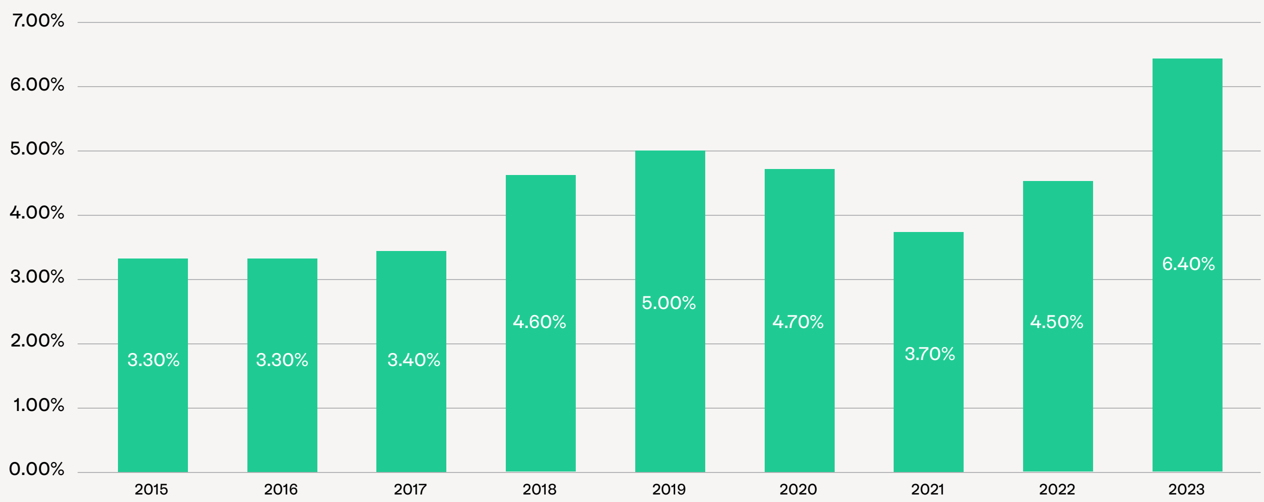
We decided to vote against incumbent director Todd Sampson's re-election and also the remuneration report. The way the company had treated customers and its workers was below an acceptable standard and there needed to be accountability for its actions as well as a demonstration of what will change in the business going forward. IFM took the view that Sampson had heightened responsibility for this collapse, even acknowledging the board's collective responsibility, due to his tenure on the board and experience in marketing and brand management. Further, in the context of reputational damage, legal proceedings and other matters, we voted against the remuneration report as it was not aligned with customer outcomes and shareholder experience.

Although Todd Sampson was re-elected, he received a significant vote against of 34%, which far exceeds the average against vote. According to Macquarie Research, the average against vote for a director re-election for the ~250 companies they cover increased this year and stands at over 6%, as illustrated in Figure 3.

The outcome of these votes is a strong signal to the Qantas board and management of shareholder discontent over the multiple issues facing the airline. IFM will continue to engage with Qantas, including having written to the board to communicate our voting rationale at the AGM.

FIGURE 3

AVERAGE % OF "AGAINST' VOTES FOR DIRECTOR RE-ELECTIONS



Source: Company data, Macquarie Research, December 2023

Modern slavery

IFM is a member of the Investors Against Slavery and Trafficking Asia-Pacific (IAST-APAC) initiative. We see great benefit in collaborating with other investors through this initiative on important sustainable investment initiatives relating to modern slavery and human rights. During the period, we commenced an engagement program with an ASX listed company and we are a support investor working alongside the lead investor and one other support investor in this collaborative engagement.

We had a very productive initial meeting which took place following the release of the company's 2023 Modern Slavery report. We discussed its approach to 'find it, fix it, and prevent it', and following the meeting we presented the company with some time-bound requests that we would like it to address.

Of particular interest was the discussion around whistleblowing and how the company was concerned about the very few instances of the hotline being used. We have requested the company review its whistleblowing policy in 2024 with supporting grievance mechanisms being put in place.

In addition, we are seeking a commitment to broader modern slavery-related training for staff, and to the company utilising its industry position to work with other market participants to improve practices in supply chains.

The company has been responsive to date, and we look forward to further progress and engagement in 2024.

Diversity

A key focus in our stewardship approach for 2023 was gender diversity. According to ACSI, board gender diversity in the ASX 300 is accelerating, with women representing now almost 37% of all board directors. This year we saw the highest ever female appointment rate, with women accounting for 47% of all directors appointed to ASX 300 boards.

We continue to expect the companies in which we invest in to adopt strong governance protocols and to have diverse boards, comprising at minimum 30% female representation and with targets to reach male/female gender balance which we define as 40% of people who identify as male, 40% who identify as female, and 20% to allow for any gender. Where companies are not meeting our standards, we may vote against AGM resolutions such as director re-elections and/or communicate formally with the company. In the 2023 AGM season we increased our efforts, writing to 11 companies to encourage better board diversity and policy adoption. This included four companies that have an all-male board, falling well short of our expectations.

We believe companies should set a timebound commitment within which they will achieve diversity targets as well as measurable gender objectives, and a failure to do so may result in votes against directors. We endeavour to take a balanced approach, noting that for some companies which are new to the ASX 300 index, a grace period should be provided. For such companies, we may write to the board to communicate our expectations regarding board composition.

For other companies, after repeated engagement, we will escalate our action. For one company where we had previously written to the board following last year's AGM, expressing our desire regarding improved board gender balance, our concerns were not addressed. We subsequently voted against a director re-election at the 2023 AGM and again wrote to the board to signal our growing concerns. This was disappointing given our engagements during the year indicated this would be addressed by the company.

We are also members of 40:40 Vision which is seeking gender balance at the executive level of ASX 300 companies. According to their research women remain significantly underrepresented in executive leadership teams across the ASX 300, comprising 29% of all executive leadership team roles in the AS X300; up from 27% last year. Disappointingly, 36% of ASX 300 companies are yet to set gender composition targets for their executive leadership teams.

The body of research evidencing diversity in the workplace as a powerful driver of business growth and performance continues to grow.[8] Diversity can have a material benefit to company performance and strengthen business decision-making. Diversity takes many forms, not just gender, including diversity of thought, culture, age, ethnicity, skills, experience and other characteristics. We plan to continue focusing our stewardship and engagement activities on this issue and incorporate consideration of these other dimensions of diversity in 2024 and beyond.

While there has been demonstrable improvement on board level gender diversity across ASX 300 companies, there remains more to be done at both board level and executive team level to create truly diverse boards and leadership teams.

UK Stewardship Code

Testament to our stewardship approach and activities, IFM became a signatory to the UK Stewardship Code (the Code) in August 2023, following a successful submission in April 2023 for FY22.

The Financial Reporting Council, which administers the Code, defines stewardship as, 'the responsible allocation, management and oversight of capital to create long-term value for clients and beneficiaries leading to sustainable benefits for the economy, the environment and society."

The Code sets high standards for those investing money on behalf of UK savers and pensioners, and those that support them. It is voluntary and comprises a set of 12 'apply and explain' Principles for asset managers and asset owners investing in a range of asset classes. The 12 Principles relate to purpose and governance, investment approach, engagement and exercising rights and responsibilities.

Our 2023 UK Stewardship Code submission is available here.

> **Diversity can have a material benefit to company performance and strengthen business decision-making.**

[8] McKinsey & Company May 2020 Diversity wins: How inclusion matters. Accessed 10 Dec. 2022 https://www.mckinsey.com/featured-insights/%20diversity-and-inclusion/diversity-wins-how-inclusion-matters.

Accelerating investment in the energy transition[9]

On the advocacy and public policy front, during the period IFM partnered with AustralianSuper, ART, CareSuper, Cbus, HESTA, Hostplus, Rest Super, and UniSuper to release an industry superannuation blueprint to accelerate investment in the energy transition: *Super-powering the energy transition in Australia: A policy blueprint to facilitate superannuation investment*.

The blueprint makes a series of policy recommendations for Commonwealth and state governments that could help enable investment that delivers returns, and help Australia achieve its net zero targets faster.

The recommendations focus on a range of potential areas for investment and complement the recent expansion of the Commonwealth Government's Capacity Investment Scheme, which is a significant and welcome contribution to improving investment certainty for renewable energy generation and storage.

Faster approvals for transmission projects, removing regulatory barriers to battery projects and the development of a local Sustainable Aviation Fuel (SAF) industry are some of the key recommendations the blueprint sets out to support the energy transition in Australia, while delivering returns to superannuation members now and protecting their retirement savings in the future.

Policy blueprint recommendations

Roll out transmission lines to renewable energy zones by:

- Opening up competition for investment in greenfield transmission projects of sufficient size and scale
- Reducing the impact of new transmission infrastructure on consumers' energy bills through concessional finance or availability payments for new projects

Accelerate investment in batteries by:

- Delivering the expanded Capacity Investment Scheme
- Incentivising investment in community and distribution level batteries through regulatory change.

Develop a local sustainable aviation fuel (SAF) industry by:

- Introducing a production tax credit to help catalyse investment in a domestic industry
- Establishing a sustainable aviation fuel certification framework
- Developing a market which enables sustainable aviation fuel credits to be recognised and traded.

In addition to these key recommendations, the report provides further insight and recommendations on:

- Providing longer-term certainty for investment in renewable energy generation
- Supporting more equitable and accessible electric vehicle charging infrastructure
- Supporting the growth of net zero industries, investment opportunities and the creation of good jobs with fair labour standards through effective, long-term policy

If Australia doesn't get this right, the costs now and into the future will be significant. For households and businesses, a slower and disorderly energy transition will mean higher costs. This will be felt not only through increased impacts of climate change on people's lives and livelihoods but also through higher energy bills and a more unreliable energy supply. For communities at the front line of Australia's energy transition, it will mean the lost opportunity to develop industries that could sustain our national prosperity in the decades to come, especially when other countries are moving quickly to establish industrial capacity, skills, markets, supply chains and trading relationships. Superannuation funds and their members have a stake in this too, of course, with the impacts of climate change presenting material risks to long-term investment returns.

We look forward to continuing to engage with Australian governments on policy settings that will enable investment in Australia's energy transition.

Learn more about the report *Super-powering the energy transition in Australia: A policy blueprint to facilitate superannuation investment* here.

[9] The content in this section contains excerpts from the November 2023 report, *Super-powering the energy transition in Australia: A policy blueprint to facilitate superannuation investment.* You can read the full report here.

Proxy voting policy

IFM's approach to engagement and voting is guided by the OECD Guidelines for Multinational Enterprises, the Guiding Principles on Business and Human Rights, the United Nations-backed Principles of Responsible Investment (PRI), the UK Stewardship Code, and the Australian Council of Superannuation Investors (ACSI) Governance Guidelines.

IFM's voting guidelines are closely aligned with the ACSI Governance Guidelines, and we are part of the Governance Guidelines working group that reviews the guidelines every two years. An IFM representative sits on the ACSI Member Council.

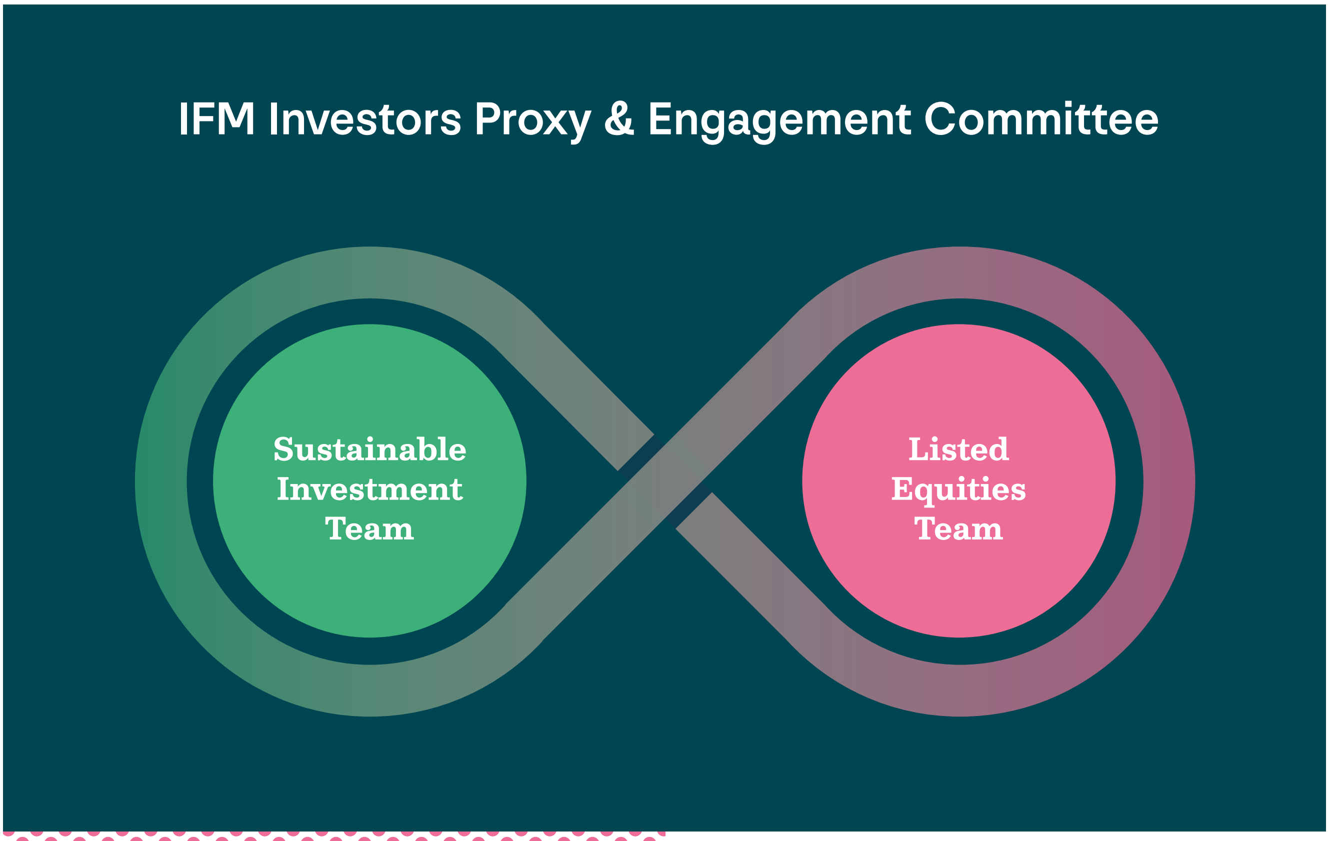
Our voting activity is overseen by IFM's Proxy Voting and Engagement Committee (PEC), which is headed up by our Executive Director, Head of Sustainable Investment, Australia, working in conjunction with the Global Head of Listed Equities (who manages the Indexed & Quantitative Equities, Small Cap Active Equities and Large Cap Active Equities investment teams).

The PEC's decision-making process aligns with the voting guidelines stated in IFM's ESG Policy. In addition to input from IFM's equities teams, this process also considers advice from independent, external research firms and proxy advisers.

In all instances, the PEC aims to ensure that any proxy advice and voting recommendations adopted are aligned with IFM's own sustainable investment policies and in the in best interests of our investors.

IFM maintains full independence when exercising its voting power as a trustee, and there are instances where our final voting decisions differ from proxy advice.

More information on our approach to engagement and voting, our individual voting records, and our high-level Voting Guidelines are disclosed in the IFM ESG Policy available at www.ifminvestors.com.



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Environmental, Social, and Governance ("ESG") strategies may take risks or eliminate exposures found in other strategies or broad market benchmarks that may cause performance to diverge from the performance of these other strategies or market benchmarks. ESG strategies will be subject to the risks associated with their underlying investments' asset classes. Further, the demand within certain markets or sectors that an ESG strategy targets may not develop as forecasted or may develop more slowly than anticipated. Sustainability- and ESG-related practices differ by region, industry, and issue and are evolving accordingly. As such, an investment's sustainability/ESG performance and practices, or IFM Investors' assessment of such performance or practices, may change over time. Similarly, new and evolving sustainability requirements imposed by jurisdictions in which IFM Investors does business and/or in which its funds are marketed may result in additional compliance costs, disclosure obligations, or other implications or restrictions on IFM Investors. Under such requirements, IFM Investors may be required to classify itself, its funds, or an individual investment therein against certain criteria, which may be open to subjective interpretation. IFM Investors' view on the appropriate classification may develop over time, including in response to statutory or regulatory guidance or changes in industry practices or approaches to classification. A change to the relevant classification may require further actions to be taken, such as requiring further disclosures by the relevant fund or new process to be set up to capture data about the relevant fund or its investments, which may lead to additional costs. It should not be assumed that any investment will be profitable or avoid losses.

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