



# IFM Investors Responsible Business Report

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December 2018



# One Purpose. Shared Prosperity.

Established by all-profit-to-members Australian superannuation funds, IFM Investors focuses on delivering competitive net investment returns to members of superannuation and pension funds and like-minded institutional investors around the world.

IFM Investors' distinct ownership drives an alignment with investor objectives, a commitment to investing for the long term, and respect for labour rights and environmental and social responsibility.

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“Our responsible business philosophy and approach underpins our history of strong returns to our investors and enhancing the retirement outcomes of over 15 million working people around the world.”

Brett Himbury  
Chief Executive



## Chief Executive's note

It is with great pride that I present to you the first IFM Investors Responsible Business Report. In this time of global political and economic turbulence, and an environment of increasing mistrust in financial institutions, it is essential that we provide greater transparency for our stakeholders and wider community.

As asset owners, pension and superannuation funds, insurers and sovereign funds are experiencing the most challenging environment in decades as the focus shifts to reducing fees and increasing competitive net returns. Adding to these pressures to gain the best possible returns is the growing expectation these goals be achieved in a way that is responsible, respectful and ethical.

Established by all-profit-to-members Australian superannuation funds, IFM Investors focuses on delivering these competitive net investment returns to members of superannuation and pension funds, and like-minded institutional investors around the world. IFM Investors' distinct ownership drives an alignment with investor objectives, a commitment to investing for the long term, and respect for labour rights and environmental and social responsibility.

How we operate in these changing times is how we will be judged by our investors, stakeholders and ultimately the more than 15 million working people around the world who our investors represent. This report provides an overview of our approach to ensuring our investments, activities and corporate behaviour meet client and public expectations. It also outlines how this behaviour contributes to our performance over the long term.

We have an important role to play as stewards of working peoples' capital, and as a member of the global financial system, to demonstrate leadership in the way we invest. IFM Investors looks to the future and considers the impact of our investments on the local community, wider society and the environment. That is why responsible investment considerations are embedded into all aspects of our decision-making and investment processes. However, investing and operating responsibly is about more than good processes and systems. Our employees embody our philosophy and I acknowledge each and every one of them for their individual contribution and the collective force they represent in achieving competitive returns and impacting society for the better.

The combination of our distinctly aligned ownership model, our like-minded long-term institutional investor clients, and dedicated global team, has delivered excellent returns to our investors and strong growth across the board.

In a challenging environment, it is gratifying to lead a business that is able to focus on returns for working people and positively shape our world.

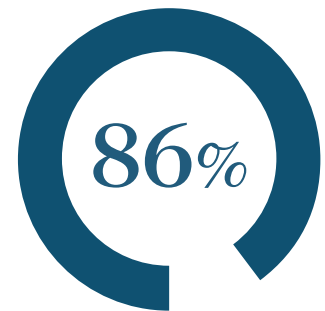
**Brett Himbury**  
Chief Executive

# IFM Investors AT A GLANCE

## One Purpose. Shared Prosperity.

Established by all-profit-to-members Australian superannuation funds, IFM Investors focuses on delivering competitive net investment returns to members of superannuation and pension funds and like-minded institutional investors around the world.

IFM Investors' distinct ownership drives an alignment with investor objectives, a commitment to investing for the long term, and respect for labour rights and environmental and social responsibility.



of products performed at or ahead of stated objectives after tax and management fees on a five-year basis<sup>1</sup>

## Cultural Foundations

Prioritise  
Investors

Achieve  
Excellence

Inspire  
Innovation

Respect  
Each Other

Lead By  
Example

329+

investors in Australia, Asia,  
North America and Europe\*

A\$113  
BILLION

funds under management\*

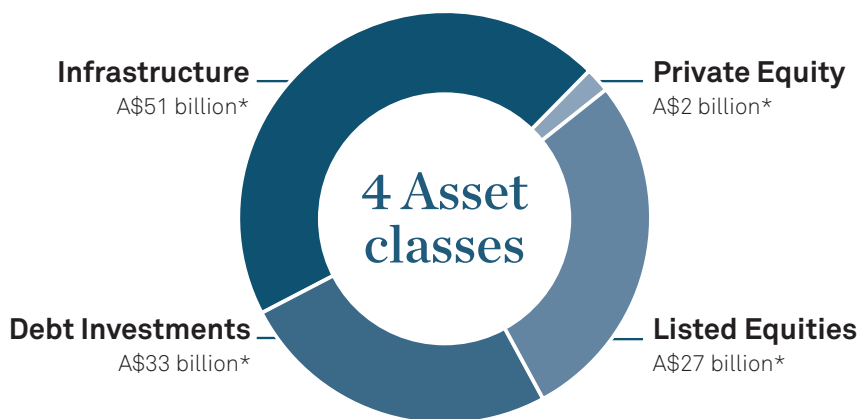
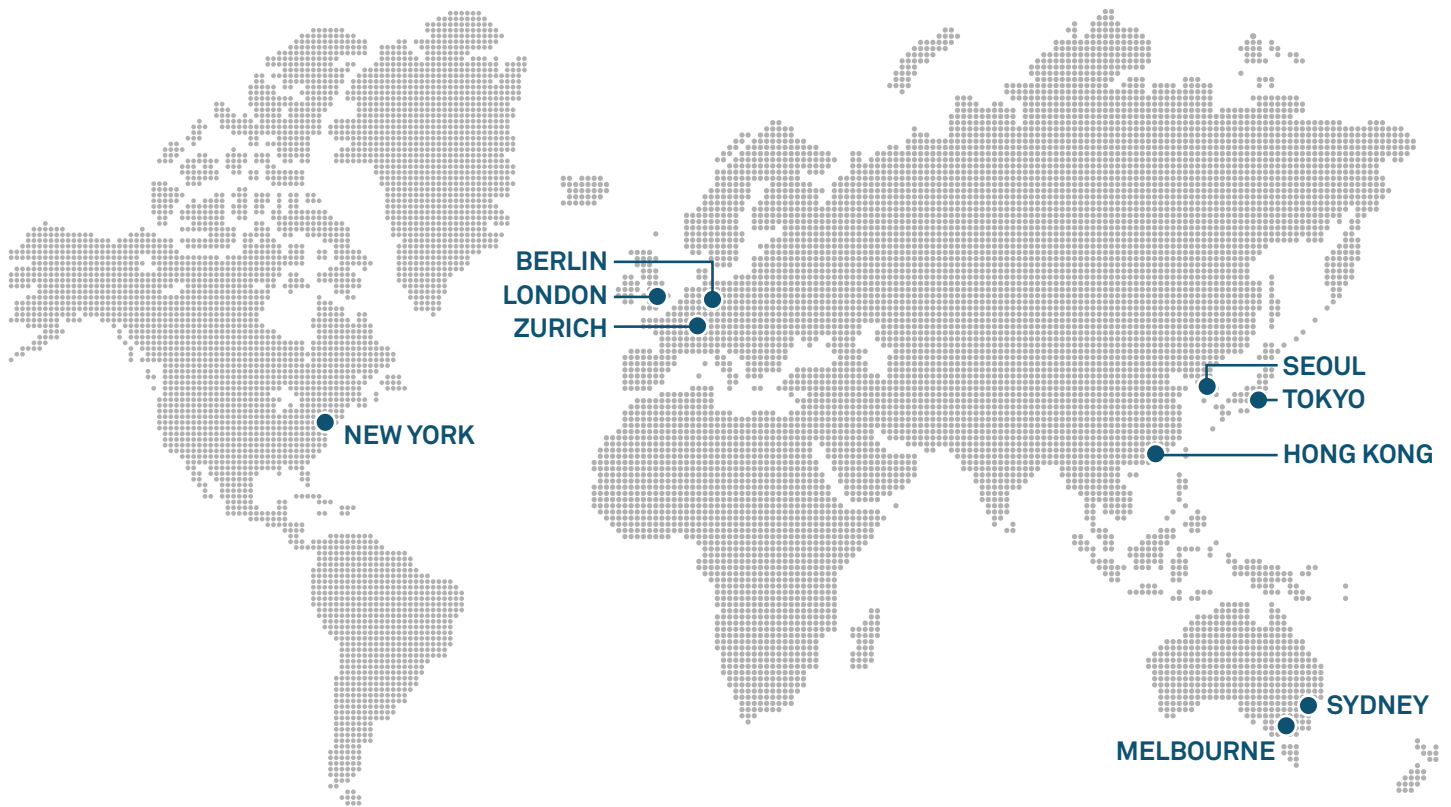
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Australian superannuation  
fund shareholders

\*Data as of 30 September 2018

<sup>1</sup> Past performance does not guarantee future results

# Nine offices globally



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# IFM Investors overview

Established by all-profit-to-members Australian superannuation funds, IFM Investors focuses on delivering competitive net investment returns to members of superannuation and pension funds, and like-minded institutional investors around the world.

IFM Investors' distinct ownership drives an alignment with investor objectives, a commitment to investing for the long term, and respect for labour rights and environmental and social responsibility.

We believe in the power of bold, long-term and sustainable investment commitments and strategies that ultimately enhance the retirement outcomes of millions of working people around the world.

Our distinct ownership liberates us to focus on returns to investors and invest in a way that looks to the future as we consider the impact of our investments on working people, the local community and the environment.



**Our responsible business philosophy holds our singular purpose of shared prosperity at its core and underpins our history of delivering competitive net returns to investors over the long term.**

## A holistic approach to responsible business

Being a responsible business is about choosing to take responsibility for our actions and activities – as an investor and as an employer – and making decisions that have a positive impact on the world around us.

This report defines our holistic approach to conducting our activities responsibly and the frameworks that help inform our actions as they continue to evolve. By holistic, we mean that responsible business practices extend to the very core of our operations and those of our investment partners and assets.

This report contains examples and case studies to demonstrate our principles in practice, broadly and at an asset class level, and outlines how we support our people to engage with our responsible business philosophy.

## Our philosophy

IFM Investors' responsible business approach is built on the solid foundation of our distinct ownership and investor alignment. Our philosophy encompasses our core beliefs that a healthy environment, inclusive society and strong governance are necessary for markets to grow and prosper over the long term.

Guided by these core beliefs, our responsible approach encompasses two elements: our investment activities, and our functional and operational activities.

We believe we can increase net returns to investors over the long term through our positive impact on society, the environment and broader economy. We strive to achieve this through responsible investment and business operation.





**Our philosophy encompasses our core beliefs that a healthy environment, inclusive society and strong governance are necessary for markets to grow and prosper over the long term.**

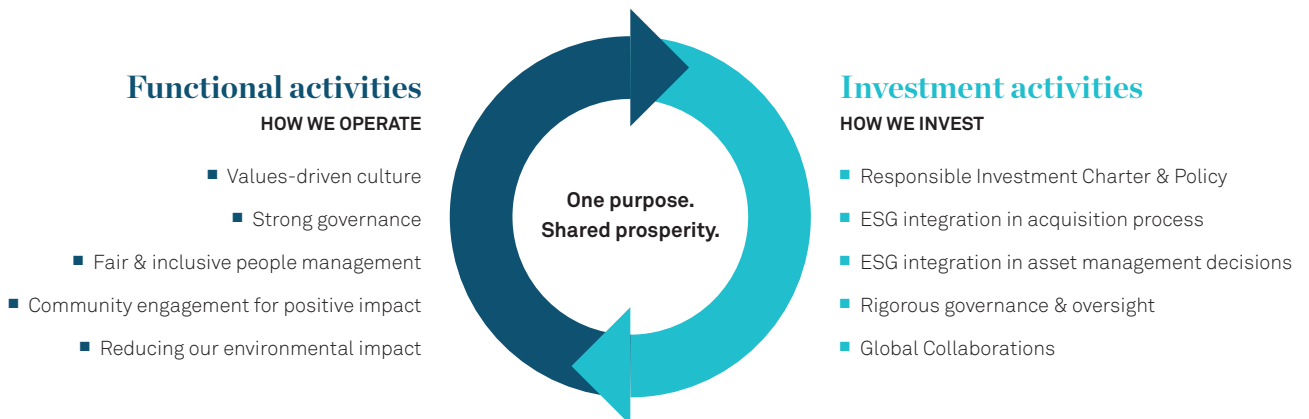
### How we invest

We believe our investment activities represent the greatest opportunity for impact and, ultimately, how we can create shared prosperity. We integrate Environmental, Social and Governance (ESG) data with traditional management and financial data and analysis to inform investment acquisition and asset management decisions. This approach enables a deep and comprehensive understanding of the material ESG risks and opportunities that we believe can impact long-term investment value and returns.

### How we operate

Our functional activities and how we operate as a business represent an opportunity to exercise the same beliefs, principles and behaviours that guide our responsible investment activity, as we aim to strengthen employee engagement, investor and stakeholder trust, and our reputation. We aim to achieve these objectives via a values-driven culture, strong governance, fair and inclusive people management, and by having a positive impact on communities and the environment.

## Our responsible business approach



# Responsible Investment Charter

In early 2017, IFM Investors released its Responsible Investment Charter (RI Charter), setting out our core beliefs, pillars and principles that define our responsible investment behaviours and mindset.

The RI Charter embodies our overarching belief that long-term sustainable returns will be generated if we integrate ESG factors into how we invest and manage our investments over the long term.

## Three Core Beliefs

Investment decisions at IFM Investors are guided by three core beliefs.



Long-term strength and sustainability of the global economy is only possible if we have a healthy environment.



A strong and inclusive society will lead to greater participation in economic markets and provide greater investment growth opportunities.



Strong governance is critical to long-term sustainable economic growth. All participants have an obligation to behave honestly and ethically.

## Six Pillars

To convert our core beliefs into actions and outcomes, our investment philosophy is underpinned by six pillars representing the behaviours that guide our investment activities and underpin performance.



01

We take a long term view



02

We take an agile approach



03

We align our goals



04

We are an informed investor



05

We act as steward



06

We act transparently

## Eight Principles

Our single overarching purpose is to enhance the prosperity of our investors, ensuring their money works in their best interest. This purpose is defined by eight core principles we believe are fundamental to achieving long-term sustainable returns.

1

Engagement with ESG equals discipline

2

Integrity of market is paramount

3

Diversity drives performance

4

Climate change impacts assets

5

Aligned incentives improve results

6

Profit is possible without exploitation

7

Understanding assets drives value

8

Measuring outcomes drives value

# Supporting global responsible business organisations

Our approach to responsible business is closely aligned to the United Nations Global Compact, which enjoys worldwide consensus and supports a set of core principles in the areas of human rights, labour standards, environment and governance. Additionally, since 2008, IFM Investors has been a signatory to the United Nations supported Principles for Responsible Investment (PRI). The principles promoted by these global organisations are reflected in our RI Charter.



**We believe there is power in collaborating with like-minded investors to support responsible investment.**

## Collaboration

We believe there is power in collaborating with like-minded investors to support responsible investment and business principles and, as such, we are also members or signatories to the following organisations and initiatives:



A proud participant of:



Investor Group on Climate Change

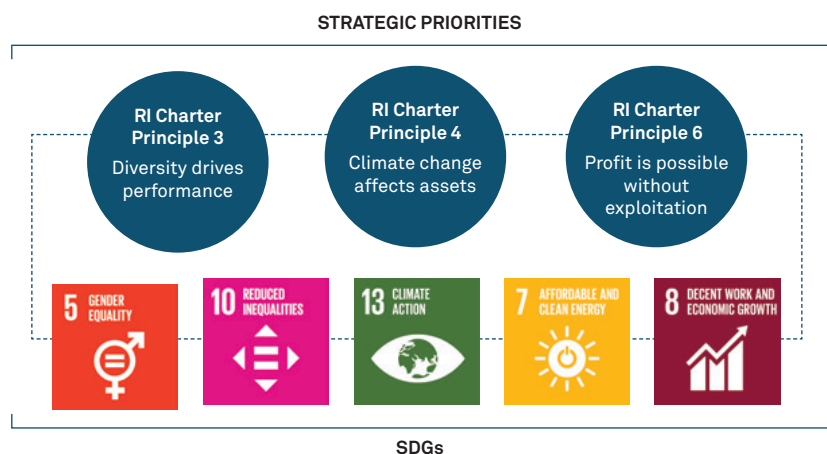


## Inspiration

We also consider global frameworks such as the United Nations Sustainable Development Goals (SDGs) and the call to action they represent in the areas of social, environmental and economic sustainability and development issues.

We have drawn on these goals when developing our RI Charter principles and in the process of identifying which principles will inform our strategic priorities for our post-acquisition asset management activity.

## How our asset management strategic priorities contribute to the SDGs



# Responsible Business governance and oversight

IFM Investors benchmarks its progress as a responsible business against global best practice. But it is the systems and governance throughout the investment decision-making process that gives our approach rigour and accountability.

From the boardroom down to our investment teams, we have structures and policies in place that track and define our responsible business practices.



## IFM Group Board Responsible Investment and Sustainability Committee

At the board level, our responsible investment and sustainability strategy and reporting frameworks are reviewed quarterly by IFM Investors' Board Responsible Investment and Sustainability Committee (BRISC). The BRISC consists of a minimum of three directors, comprising the Chair and two other members of the IFM Investors Board, and it is responsible for monitoring and overseeing progress against key responsible investment and sustainability objectives.

## IFM Investors Investment Committee

The approval of new and follow-on private market investment transactions is the responsibility of the IFM Investors Investment Committee (IC). The IC has oversight of our investment programs and portfolios, as well as the firm's ESG policy, and its approval process includes consideration of ESG factor risks.

## Proxy Voting and Engagement Committee

Oversight of all proxy voting activity on listed securities is the responsibility of IFM Investors' Proxy and Engagement Committee (PEC). The PEC determines our approach to voting and is responsible for approving all proxy voting on listed securities.

The Committee also approves and monitors ESG engagement activities with companies, ensuring investee companies are acting in a way that is consistent with IFM Group Corporate Environmental, Social and Governance Policy.

## IFM Group Corporate Environmental, Social and Governance Policy

Our ESG approach is outlined in our Corporate Environmental, Social and Governance Policy (ESG Policy). This policy is part of the IFM Investors' Group Policy Library and determines our approach to governance of investee entities (listed and unlisted) managed by IFM Investors and our subsidiaries.

The ESG Policy also outlines the ESG principles we require our investment teams to adhere to and the ESG approach adopted by each of our portfolio managers, in addition to providing an overview of our engagement and voting approach.

## Responsible Investment team

Development of IFM Investors' overarching responsible investment and sustainability strategy is the responsibility of the Responsible Investment (RI) team.

These professionals, with diverse skill sets and backgrounds, provide support and specialised advice to investment and asset management teams on their responsible investment and ESG integration approach. The RI team participates in the IC to provide specialist support and opinion.

# Responsible Investment

Our RI Charter and ESG Policy govern how we consider responsible investment issues and ESG considerations.

As IFM Investors' investment teams focus on delivering competitive performance over the long term, our responsible investment beliefs and principles are integral to achieving this goal. They help inform portfolio construction, our investment acquisition and disposal processes, and how we manage our investments over the long term.

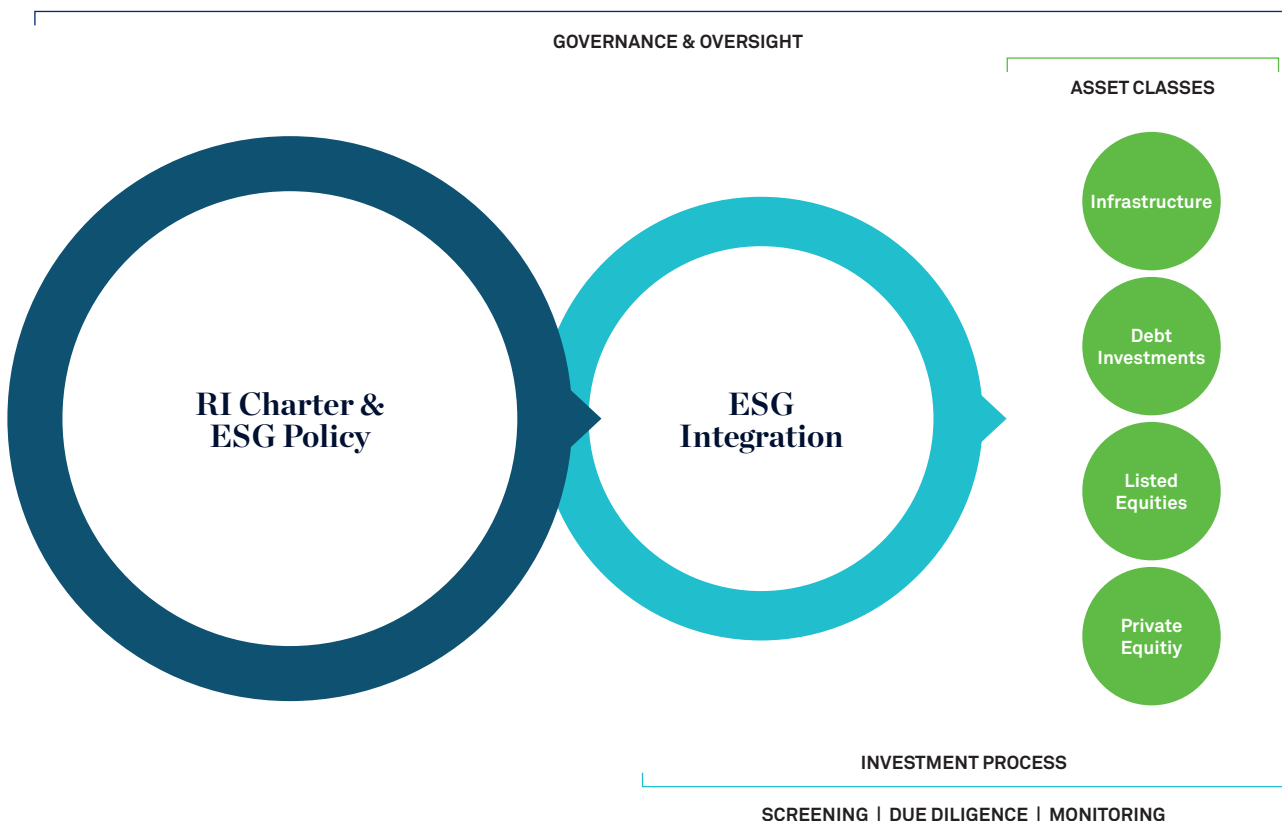
We integrate ESG factors at all stages of the investment process. Alongside traditional management and financial data, ESG data is

considered and shapes our investment decisions and the ongoing management of assets.

We manage investments across four asset classes – Infrastructure, Debt Investments, Listed Equities and Private Equity. Each asset class applies proprietary ESG assessment approaches tailored to their specific strategy.

IFM Investors takes its stewardship role seriously, and aims to improve the performance of investee companies across a range of ESG factors over the long term. This approach enables a deep and comprehensive understanding of the material ESG risks and opportunities that we believe can impact long term investment value and returns.

## Responsible Investment Framework





# Responsible Investment: Infrastructure

IFM Investors is a market-leader and pioneer in Infrastructure, targeting core infrastructure in developed markets on behalf of institutional investors globally.

The long term nature of investing in this asset class lends itself well to our infrastructure team's responsible investment approach, which aims to identify risks and opportunities with potential to impact long-term performance at an asset or portfolio level.

We integrate ESG considerations throughout the investment acquisition phase and in our ongoing asset management activity. This wholly integrated approach in turn helps to build our reputation, leading to more opportunities – a virtuous cycle of responsible stewardship.

## Responsible Acquisitions

IFM Investors has developed a detailed due diligence guide to inform responsible acquisition activities. This guide is based on our infrastructure experience and expertise, and references international benchmarks. The framework supports investment teams to focus on ESG factors that drive value or represent a material risk.

Through the due diligence process we identify opportunities to enhance the ESG capabilities over the life of the asset to drive returns to investors over the long-term.

Decisions on whether to pursue investments in our infrastructure portfolio are determined on a risk-adjusted basis. On many occasions, we have elected not to pursue investments based on the exposure to a collection of risks, including consideration of ESG factors.

## The IFM Investors Infrastructure team's virtuous cycle of responsible stewardship

### NEW PARTNERSHIP OPPORTUNITIES

- IFM Investors is a preferred partner to many governments, regulators and strategic operators recognising our patient and responsible approach

### STEWARDSHIP

- Actively monitor emerging ESG themes to enhance value, mitigate risks
- Dialogue with management to achieve specific ESG outcomes
- Report on our performance metrics – both financial and ESG



### SCREENING

- Initial screening to ensure threshold ESG concerns are met
- Identify long-term investment focus themes

### DUE DILIGENCE

- Embed ESG principles
- Detailed assessment of ESG opportunities and risks and impact on long-term valuation

## 7

### Understanding assets drives value

Value is derived from assessing all elements of an investment. When we screen unlisted infrastructure assets during the acquisition phase, we comprehensively consider ESG factors that have a material financial impact, adjusting the discount rate, forecast and/or developing a mitigation plan. We seek independent advice, as required, to gauge the financial impact of a significant ESG risk.

An example to illustrate this in practice is the acquisition of NSW Ports (Australia), comprising Port Botany and Port Kembla, whereby engineering and environmental advisors were engaged to assess material environmental risks and impacts of climate change on port infrastructure. Where appropriate, such as rectification of contaminated soil, the financial model was adjusted to account for these costs.





## IFM Investors has developed a detailed due diligence guide to inform responsible acquisition activities.

### Stewardship

Every day we are trusted to own and operate critical infrastructure networks that impact the lives of millions of people worldwide. As such, we believe we have a responsibility to improve our assets in a way that allows its consumers, employees, investors and neighbours to benefit from our approach to ESG considerations.

Whether we have a controlling stake or are part of a broader group of owners, in all cases, we seek to provide leadership that delivers on our priority for positive ESG outcomes. Through board representation and membership of management committees, we prioritise establishing governance structures that have appropriate protections and rights in place. Through these mechanisms, we actively engage with our assets, regularly reviewing the status and progress of asset management initiatives from both financial performance and responsible investment perspectives.

Our comprehensive asset management framework and activities are based on an objective to protect, enhance and exceed our target investor returns over the long term. We achieve this through responsible and sustainable business practices.

PRINCIPLES IN PRACTICE

3

Diversity drives performance

We believe diversity across the workplace drives better performance outcomes. In 2018, we undertook a gender diversity study across portfolio companies, globally. The insightful baseline data collected will help us shape a framework to improve gender diversity, working with our assets and co-investors.



Anglian Water (UK) is aiming to improve gender diversity, particularly in professional engineering and scientific roles across all levels of the business. In addition to shorter term strategies such as an equal number of men and women across trainee schemes, Anglian Water is implementing grassroots strategies with longer-term time horizons. The company's grassroots approach aims to inspire and encourage more women and girls to pursue science, technology, engineering, and mathematics (STEM) topics and careers in related fields. Activities include community education events aiming to change perceptions of engineering, scientific and other professional technical roles among students, teachers and parents.

PRINCIPLES IN PRACTICE

6

Profit is possible without exploitation

We believe in the concept of a fair return. This belief underpins the highest priority we place on workplace safety at our infrastructure assets, as well as the safety of customers and communities our assets serve.

Cultivating an exemplary safety culture has been a key priority at Indiana Toll Road Concession Company (ITRCC) since IFM Investors acquired the toll road in 2015. We have worked closely with ITRCC on safety controls, planning and initiatives that have resulted in measurable safety improvements for employees and road users, including:

- 80/90 Push Project, which involved rehabilitating pavement and bridges, and installing the fibre optic cabling that forms the backbone of the Intelligent Transport System (ITS).
- The ITS employs a traffic management platform to provide advanced incident messaging to road users and first responders, while enabling reduced speed limits and monitoring of traffic flows.
- Co-launched the #putthephonedownindiana campaign with key community stakeholders to increase awareness of distracted driving risks.



# Responsible Investment: Debt Investments

Our Debt Investments team invests in specialist credit, infrastructure debt, core bond and cash with current investment interests across Australia, North America and Europe.

We believe well-governed, responsible companies are less likely to face unanticipated risks and, therefore, pose a lower risk of default. The scope to influence company management with respect to ESG considerations is limited for debt investors. As such, our ESG approach is concentrated on managing downside risk and concentrated in the due diligence phase, prior

to acquiring an investment. In addition, ESG integration practices can vary across our debt products and specific investments due to the mixed nature of the assets held.

We integrate analysis of ESG factors into all of our credit assessments. These considerations are included in the Debt Investment team's Credit Assessment Memorandum (CAM). The CAM analysis incorporates ESG information from external credit ratings agencies appropriate to the specific investment, as available. We also consult with, and receive reports from, environmental, legal, commercial and other technical specialists to assist in the detailed due diligence.

With an ESG approach that is largely concentrated in the due diligence phase, we have passed on several debt offerings due to a lack of alignment with our RI Charter and ESG Policy, or due to ownership, governance or other ESG issues of the borrower (or parent of the borrower). We avoid investments that do not meet certain ESG criteria, such as tobacco and munitions. Further examples are listed in the table below:



**We believe well-governed, responsible companies are less likely to face unanticipated risks.**

Debt Issuer	Investment decision and rationale
Privately owned non-Australian conglomerate	We declined on governance grounds with concerns relating to corporate governance regarding ownership structure, vertically integrated business model and controversial development plans. The proposal is considered to carry potential exposure to climate change and reputational risk.
Payday lender	We declined on social grounds with concerns relating to potentially irresponsible lending practices targeting vulnerable customers.
Prison Public-Private Partnership with custodial services	We declined on social concerns underpinned by our view that correctional facilities are better operated and overseen by government authorities.
Property development project	We declined due to multiple concerns relating to redevelopment risks, governance risks and key person risks.
Coal fired power station	We declined on environmental grounds with concerns relating to the investee company's high exposure to coal power generation.
Contract labour hire business	We identified potential issues relating to social factors, specifically the fair treatment of workers. A comprehensive examination of the company's human capital related policies and practices ultimately gave us comfort that the company was operating under market best practice.



Investing with purpose: Infrastructure Debt invested in social housing

PRINCIPLES IN PRACTICE

**1** Engagement with ESG equals discipline

We believe embracing ESG principles demonstrates that we are taking a comprehensive view of our investment responsibilities. As such, ESG analysis is embedded in our investment process as we assess the full range of risks and opportunities during due diligence and across the life of our investments. The following example demonstrates ESG considerations in our Debt Investment team’s due diligence process.

An Australian integrated energy company was seeking to raise A\$200 million in debt from both local and international institutional investors, including IFM Investors.

During the screening stage, the debt investments team identified the key ESG risk as environmental risk, given the company’s exposure to coal-fired power generation.

While the company’s portfolio comprises a lower proportion of coal-fired generation relative to Australia’s three major gentailers, it does have a long-term power purchasing agreement with a major brown coal-fired power station (owned by its parent). Brown coal is a high-emissions fuel and therefore considered a contributor to climate change.

IFM Investors’ teams analysed and debated this environmental risk at several points throughout the investment process:

- At deal screening stage, by the debt investment team;
- At pre-committee stage, by the RI team; and
- During the committee stage, by the IC.

The team determined several factors they believed would help mitigate this environmental risk:

- 1** The company sources a relatively low proportion of its generation from coal with a portfolio concentration well below Australia’s National Energy Market average of 75%;
- 2** The proportion of energy generated from renewable sources in this company’s portfolio is 17% higher than a major competitor; and
- 3** The company has set itself a target to increase its proportion of renewable generation substantially by 2020.

Considering other gentailers’ disclosures in compliance with the Task Force on Climate-related Financial Disclosures (TCFD), the RI team proposed that the Debt Investment team request similar disclosures on a semi-annual basis as a condition of IFM Investors’ investment. The company agreed to engage with IFM Investors on a semi-annual basis to address our ESG and environmental risk concerns.

Ultimately, this investment opportunity was assessed as incompatible with other investment metrics and was not pursued. Nonetheless, this example demonstrates how ESG considerations play a role in our debt investment process.



<sup>1</sup> Vertically integrated energy companies with both generation and retail businesses

# Responsible Investment: Listed Equities

IFM Investors Listed Equities comprises three specialist teams who manage strategies across small and large cap equities, and indexed and quantitative equities, with global capacity. The teams believe ESG factors can impact share price volatility and performance over the long term, and each team has their own approach to integrating ESG considerations.



**ESG factors can impact share price volatility and performance over the long term.**

## Small Caps

Our Small Caps team actively manages small and micro-capital Australian equities strategies for clients through mandate structures.

The team takes a bottom-up, fundamental modelling approach to investment management, incorporating qualitative and quantitative data. It draws on external ESG research and Morgan Stanley Capital International (MSCI) ratings, as well as information gathered via direct company engagement, broker reports and proxy advisers.

The team integrates ESG data and information into fundamental analysis of industry sectors and individual stocks, assessing risks and opportunities for their potential impact on earnings over the long term. An ESG score is determined and together with an overall quality

score helps establish an internal valuation for each company to inform investment selection and management decisions.

## Active Large Caps

Our Large Caps team actively manages Australian and Asian equities strategies for clients through pooled funds and mandate structures. The team does not screen companies based solely on ESG factors, but they do undertake quantitative screening combined with a qualitative fundamental overlay to determine an ‘investable’ universe of stocks.

It uses a two-stage approach to eliminate stocks and draws on MSCI ratings and internal assessments, proxy advice and direct company meetings in this process. This process ultimately ‘knocks out’ unacceptable or extreme risk ESG companies.

This overall portfolio approach maintains a breadth of stocks while still managing our exposure to companies with poor environmental and governance practices. Social practices can be more difficult to evaluate because, in many cases, there is an ethical or moral overlay (i.e. alcohol, gambling) rather than a particular ESG risk factor. Nonetheless, social dimensions such as staff engagement, human capital management, and health and safety controls can impact on share prices and are therefore monitored.

## Indexed Equities

Our Indexed and Quantitative Equities team manages portfolios invested in Australian and global companies through fund and mandate structures. As indexed strategies, we do not negatively screen companies out of the investment universe as the strategies replicate the index. Rather, we adopt a stewardship approach, outlined below, which aims to enhance the ESG performance of investee companies in a manner that is consistent with the strategy’s investment objective and fiduciary duties.

For our Indexed Equity strategies, we also offer segregated mandates that can accommodate client mandated stock and/or sector screens.



## Stewardship

We apply a stewardship approach with respect to ESG factors across all our listed equity strategies. We actively seek to guide and influence the ESG performance of investee companies through direct engagement and by exercising our voting rights.

Our ESG Policy, RI Charter, and the values of our clients and their beneficiaries, determine the stance we take on ESG issues. We support the principles of the Australian Asset Owner Stewardship Code by engaging with publicly listed companies and exercising our proxy voting rights. Our objective is to protect returns and value over the long term for our investors and their beneficiaries.

## Engagement

We believe active company engagement is critical to the advancement and promotion of responsible investment considerations. We have intimate knowledge of our investments and regularly engage with businesses, either directly or through the Australian Council of Superannuation Investors (ACSI).

Over the past 12 months, we have engaged ASX-listed companies on a range of priority issues, including climate change risk management and disclosure, awareness of human rights in the supply chain, board diversity and remuneration. We also frequently engage with regulators, industry associations and the investment community to promote best practice responsible investment standards.

PRINCIPLES IN PRACTICE

6

## Profit is possible without exploitation

In October 2016, IFM Investors initiated an engagement process demanding improved human rights management in the fresh food supply chain, particularly relating to labour hire practices. Two of its primary targets were Australian supermarket chain owners Woolworths Group Ltd. (ASX: WOW) and Wesfarmers Ltd. (ASX: WES). Engagement has been ongoing with IFM Investors seeking two specific actions:

- 1 Greater transparency in reporting; and
- 2 An initiative/standard on industry led pre-qualification for labour hire firms.

This engagement is helping attract the board and management's attention to this important issue that could potentially have significant reputational and investment impacts.

## Proxy Voting

We exercise our rights to vote on company resolutions within our Listed Equities strategies to encourage responsible corporate behaviour and drive ESG initiatives that build shareholder value over the long term. The PEC is responsible for the oversight of all our voting activity. Our process for voting, in order of priority, is:

- In accordance with client directives;
- In accordance with the voting recommendation of ACSI, unless the PEC determines a stance contrary to ACSI; and
- Where there is no recommendation from ACSI, we will seek guidance and input from other advisors and make a final voting decision based on IFM Investors' own voting principles.

PRINCIPLES IN PRACTICE

2

## Integrity of market is paramount

We believe in the importance of protecting and enhancing the integrity of the financial system. Where possible we will engage with management to increase our understanding of business strategy and we will cast our votes against poor governance to protect our investors' interests. For example, we voted against the remuneration report and Employee Loan Plan (ELP) approval for BWX Ltd at the 2018 AGM. In our view, the lack of disclosure of hurdle rates applied to the awarding of the management team's short and long term incentives and the use of a single EBITDA metric for the long term incentive, represents poor alignment with shareholder interests. Furthermore, we believe non-executive directors' ability to participate in equity grants can conflict their independence.



# Responsible Investment: Private Equity

IFM Investors is an active private equity investor globally. Our Private Equity team's current investment activities are focused on direct investment in middle-market growth companies.

It has successfully implemented a pragmatic and commercial approach to responsible investment and the integration of ESG factors throughout the investment process.

High level ESG-related risks and exposures are identified during an initial screening of opportunities. This process includes evaluating sector research to identify relevant sector/industry themes and for insights from similar investments that may exist in IFM Investors' deal database. Opportunities that proceed past the initial screening stage are subject to a detailed ESG analysis during due diligence on ESG risks and factors.

All our Private Equity agreements mandate ESG considerations and we monitor and engage with investee partners on an ongoing basis.

## PRINCIPLES IN PRACTICE

### 6 Profit is possible without exploitation

We believe in the concept of a fair return and aim to ensure this belief is embedded in our investments. The notion of fair remuneration is incorporated in this belief and we engage directly with investee company management teams to ensure related policies and practices align to market best practice.

Payroll compliance has been a key consideration at one of our existing investments, a consumer-facing business with a sizeable casual and part-time staff roster. The company has made considerable efforts to educate its managerial staff, verbally and in writing, on the risks and responsibilities that they hold with respect to payroll compliance. The company is currently trialling a payroll compliance product. It compares time attendance and payroll data against the relevant industry Award schedule to calculate and flag variances between the company's system and the Award. Initial results and analysis of weekly payroll has been encouraging with minor issues identified. The next stage of the project is to analyse a full year's payroll with the aim of running more complex reports to ensure staff are paid their full entitlements.

## PRINCIPLES IN PRACTICE

### 1 Engagement with ESG equals discipline

Good ESG management is a sign of a disciplined organisation. We take a long-term view of the potential ESG impact of any asset we invest in and where there are substantial ESG risks, we work with management to devise a plan to improve performance on material ESG factors. Where ESG risks are determined to be too great, we do not invest.

In mid-2018 our Private Equity investment team conducted due diligence on a potential bolt-on opportunity for an existing portfolio company in the software space. The four key ESG factors to consider were: cybersecurity, labour management/human capital development, corporate governance, and corruption/instability. Further analysis identified a number of themes to be reviewed in greater depth:

- Client Privacy, including policies and practices for the collection, usage and retention of data;
- Data Security;
- System risks and business continuity;
- Employee recruitment development and retention;
- Intellectual property protection;
- Environmental footprint of hardware infrastructure; and
- Disclosure on legal and regulatory fines or settlements.

Although the private equity team did not proceed with this investment due to factors incompatible with other investment metrics, it provided an opportunity to develop a framework to use when assessing future opportunities in the same sector.

# Recognising climate change as a financial risk

IFM Investors believes climate change poses a significant investment risk with the potential to impact value over the short, medium and long term. Climate change is an overarching, complex issue with environmental, social and economic consequences, potentially impacting all geographies and sectors of the global economy. We believe that for markets to grow and prosper

over the long term, we must properly consider the impact of climate change on our investments and, conversely, how our investments impact climate change. We support the Paris Climate Agreement's aim to limit global warming to well below 2 degrees Celsius above pre-industrial levels<sup>2</sup>, and we believe that the Agreement maps a pathway to a safer climate that will maintain economic prosperity.

## 4 Climate change impacts assets

IFM Investors is undertaking a range of activities to assess and mitigate against climate change risk, particularly in our infrastructure portfolio and equities engagement activities.

### At the infrastructure portfolio level, IFM Investors is:

- Collecting carbon emissions information from our infrastructure assets, globally, to inform investors about our financed emissions and our approach to managing climate change at a portfolio level. This data is published in our annual carbon footprint report. Following the inaugural 2017 report, the 2018 report begins to align our reporting more closely to the Task Force on Climate-related Financial Disclosure (TCFD) reporting standards, which we aim to adhere to by 2020.
- Partnering with the Australian Clean Energy Finance Corporation to develop a Carbon Emissions Reduction and Energy Efficiency Framework for our Australian infrastructure assets. Specifically, IFM Investors has committed to establishing an energy consumption and emissions reduction target for each asset, as well as pathways to achieve these targets using sustainable design principles for major capital projects.



### At the asset level, IFM Investors supports innovative initiatives to reduce emissions and increase energy efficiencies.

#### Examples include:

- Supporting onsite solar installations to offset grid electricity purchased. Many assets

have installed “behind the meter” renewable installations. NT Airports (Australia) was the world's first solar-powered airport, and we have overseen substantial solar installations at Brisbane Airport (Australia) and Colonial Pipeline (US), with many other assets, globally, planning new or additional installations.

- Manchester Airport (UK) meets 100% of its energy needs through renewables and is the first airport in the UK to be awarded Level 3+ carbon neutral status.
- NSW Ports (Australia) has introduced emissions reductions incentives in the form of reduced vessel related charges at Port Botany and Port Kembla, for vessels meeting the highest environmental and emissions standards.

### Proxy Voting & Engagement

A key focus issue in our proxy voting and engagement activity is climate change risk management and encouraging companies to commit to adopting TCFD recommendations for future disclosures.

IFM Investors has also joined 289 investors with nearly US\$30 trillion in assets under management in the collaborative program Climate Action 100+ to engage the world's largest emitters of carbon to act on climate change.

IFM Investors is supporting engagement with four of the 10 Australian companies on the 100+ list.

Direct engagement will ask companies to implement stronger governance and oversight frameworks to manage climate change risk; take action to reduce greenhouse gas emissions across their value chain; and provide enhanced corporate disclosure in line with the final recommendations of the TCFD.

<sup>2</sup> The Paris Agreement's long-term goal is to keep the global temperature rise this century well below 2 degrees Celsius above pre-industrial levels and to pursue efforts to limit the temperature increase even further to 1.5 degrees Celsius

# Responsible operations at IFM Investors

We are committed to being an ethical and sustainable business, and a brilliant place for our people to work.

Our functional activities and how we operate as a responsible business represent an opportunity to exercise the same beliefs, principles and behaviours that guide our responsible investment

activity. We aim to strengthen employee engagement, investor and stakeholder trust, and our reputation.

Our drive to achieve these objectives is fuelled by our values-driven culture, strong governance, supporting our people, and initiatives to positively impact communities and the environment.

## Cultivating a values-driven culture

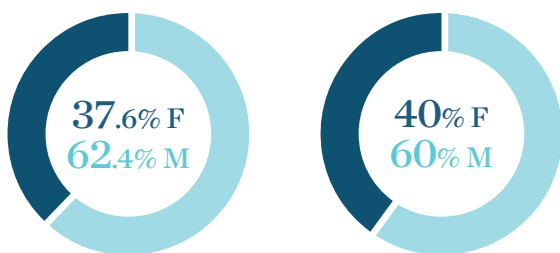
Our cultural foundations define our values and articulate the behaviours that help embed our values across the organisation.



## Diversity & Inclusion

We are committed to promoting a diverse and inclusive workforce. We value and recognise our people for their unique qualities, background and perspectives. We believe no one should be discriminated against because of their differences, such as age, ethnicity, gender or gender identity, religion, ability or sexual orientation. Our current strategy focuses on creating a more gender-balanced workforce.






### IFM Investors gender split as at 29 October 2018:



Overall global workforce

Board

### D&I principles in recruiting

-  **50% gender split** on all recruitment shortlists;
-  Minimum one female **on all interview panels**;
-  50% gender split for **interns and work experience** people;
-  Use of **specialist recruiters** who work with return-to-work & part-time female talent pools; and
-  Explore **flexibility in roles** prior to recruitment (including job share arrangements and part-time work).

## Positively impacting communities & the environment

Through our responsible business operations we have a significant opportunity to expand the positive impact our investment activities have on communities and the environment.

- **29 charities** supported globally via matched workplace giving program
- **Total matched figure** A\$141,320 (FY17/18)
- Two days community **volunteering leave** per employee, annually
- **400+** volunteer hours used by our people (FY17/18)
- Internal register of frequently used **social enterprise suppliers**
- **Green office** recycling initiatives



### Strong governance

is embedded from the boardroom and beyond to our investment, administrative and operational teams, giving our responsible business approach rigour and accountability.



### Board-level Responsible Investment & Sustainability Committee (BRISC)

provides oversight of our responsible business strategy and progress against key objectives.



### Agile and sustainable

risk management via a comprehensive risk management framework.



### 100% of our employees

are aware of their compliance responsibilities via established policy, training and reporting requirements.

## Building engagement with our responsible business philosophy & approach



Periodic employee surveys help us understand what is important to our people, informing our responsible business strategy and programs that enable our people to support the causes that matter most to them in a way that works for them.

### Our people say we can demonstrate a positive social and environmental impact by:\*

1

Investing in projects with positive social and environmental outcomes

2

Assisting assets to operate more responsibly

3

Supporting community organisations through skilled volunteering

## Top 5

The top 5 areas our people are interested in supporting through giving time and money are:\*



Children & youth



Environment & climate change



Education & employment pathways



Helping the disadvantaged



Mental health

\*May 2018 Responsible Business Employee Survey results





# Learning, evolving and advancing our thinking

**W**e recognise trust is something we earn. Maintaining trust is about remaining true to our core purpose and ideals, and ensuring these are reflected in tangible actions. It is about being transparent and disclosing when things go well, but also disclosing when problems arise.

This report represents our ongoing commitment to transparency and disclosure, and demonstrating our responsible business practices as they underpin our focus on generating investor returns.

We live in a dynamic world in which markets must be able to rapidly respond and adapt to community expectations. While we recognise our approach needs to be agile to meet these expectations, we hold steadfast to our belief that driving returns and sustainable social and environmental outcomes are not mutually exclusive.

Over the next year, and beyond, we will continue to demonstrate our responsible business philosophy and approach in how we invest across our four asset classes. We hold ourselves to high standards and will continually learn, evolve and advance our thinking as an organisation.

## Over the next 12 months, we will:

- Refresh overarching responsible investment policy and asset class-specific processes to stay ahead of emerging risks and capitalise on opportunities;
- Drive portfolio assets to deliver on improved sustainability reporting;
- Develop a framework for improving gender diversity across our portfolio, globally;
- Undertake detailed climate change risk assessments for different climate scenarios; and
- Release a framework for developing labour outcomes for working people at our assets.

Our people are highly engaged and motivated to deliver ESG outcomes for our investors and make a positive contribution to society themselves. We are excited about ongoing developments in our people-led and business-led activities as we aim to increase our positive impact on society.

## Over the next 12 months, we will:

- Increase uptake of community volunteering leave;
- Increase enrolment in our matched workplace giving program;
- Launch an organisation-wide corporate travel carbon offset program;
- Devise a socially sustainable procurement strategy; and
- Continue to execute our internal diversity and inclusion strategy to attract and retain the best people.

We are also looking forward to developing closer partnerships with our infrastructure assets, as we pilot a program to support them to create positive social and environmental impact in their communities.

How we invest and operate is how we will be judged by our investors and other stakeholders. We look forward to sharing our journey with our people, our investors, and the millions of working people around the world on whose behalf we invest.

### Chris Newton

Executive Director,  
Responsible Investment

“

We recognise trust is something we earn. Maintaining trust is about remaining true to our core purpose and ideals, and ensuring these are reflected in tangible actions.”

Chris Newton  
Executive Director, Responsible Investments

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