

Engagement and Voting Report

January – June 2019

We act as a steward

IFM Investors Responsible Investment Charter - Pillar 5

We own assets on behalf of our clients, embedding environmental, social and governance (ESG) principles without compromising long-term returns.

IFM Investors believes the integration of environmental, social and governance considerations into our investment decisions creates value for our investors over the longer term.

Overview

IFM Investors is pleased to report on its engagement and proxy voting activity in relation to Australian equities for the period 1 January 2019 to 30 June 2019. The report provides a summary of stewardship activities we have undertaken on behalf of our investors and their beneficiaries.

In alignment with our Responsible Investment Charter and the Australian Asset Owner Stewardship Code, we engage with companies and exercise our proxy voting rights on material environmental, social and governance (ESG) issues. We believe proactive company engagement and voting is critical to encourage responsible corporate behaviour and drive ESG initiatives that build shareholder value over the long term.

Highlights

- We voted on 447 resolutions during the last six months, capitalising on our size and influence to help improve board structures and compensation practices. We voted against management in approximately 9% of cases.
- We wrote to each of the ASX200 and ASX300 companies with zero or one female director to communicate our expectation that female board appointments continue.
- We attended a workers forum in Shepparton, Victoria, to listen to workers in the supermarket supply chain share their insights and concerns relating to labour rights abuses on farms and in warehouses across Victoria.

CASE STUDY

Loss of shareholder value due to AMP Life sale

AMP Limited (ASX:AMP)

We voted against the re-election of David Murray at the 2019 AGM, in opposition with the guidance issued by proxy advisors. Our decision was taken on the basis that the AMP Life sale eroded the capital value of the business and the value of the index, primarily due to its sale to a private company outside the index. As an index investor, the erosion of value is a key concern.

It was also our opinion that AMP's board demonstrated poor governance in not seeking shareholder approval for the sale of AMP Life, a core part of AMP's business. Despite the life business not meeting the 50% threshold requirement (for shareholder permission) in 2017, AMP Life was the original core business and the board would have been aware that shareholders would have concerns in relation to the sale, given the significance of AMP

Life to the Company by revenue, EBITDA, segment profit and total assets.

Regardless of the fact that the ASX listing rules did not require AMP to seek shareholder approval for the sale, IFM Investors expects ASX listed companies to follow good governance practices and consider shareholder concerns.

Finally, despite Mr. Murray joining the AMP board in June 2018, IFM Investors held Mr Murray primarily accountable for the poor outcome to shareholders. We believe Mr. Murray, in his capacity as Chair, had the opportunity to insist on a shareholder vote and/or request an independent expert review the deal.

As other directors with over 12 months board tenure come up for re-election, IFM Investors will take into account the sale of AMP Life when considering our position.



Proxy voting summary

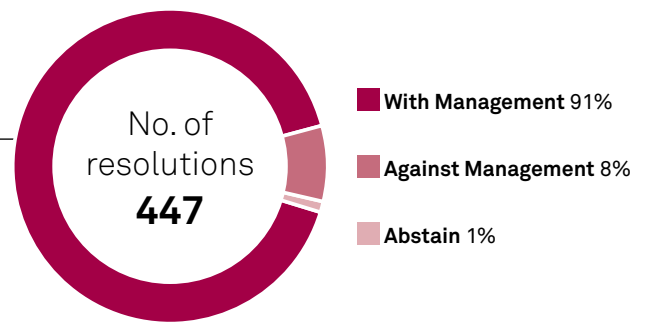
IFM Investors voted on a total of 477 resolutions put forward at 76 company meetings. In the majority of cases (91%), we supported management’s recommendation. However, we chose to vote against management in 8% of cases and abstained on 1% of resolutions, due to our participation in a placement.

The majority of ‘against’ votes related to

executive/NED remuneration (41%) and remuneration reports (35%), signifying the importance we place on the alignment of remuneration with shareholder interests.

IFM Investors’ voting guidelines are available in our Group Environmental, Social and Governance (ESG) Policy available at: www.ifminvestors.com/about-us/responsible-investment

Indexed Equities voting activity (1 January – 30 June 2019)	
No. of company AGMs	76
No. of resolutions	447
Voted with Management	405
Voted against Management	37
Abstained	5

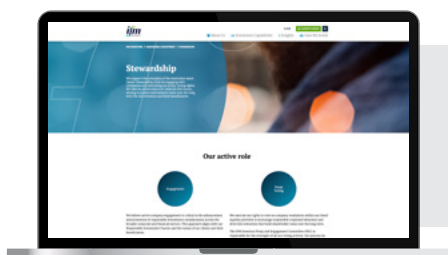


Summary of voting – proposal categories

Category	With Management	Against Management	Abstain ¹
Director elections	148	6	-
Executive remuneration	72	15	-
Remuneration report	39	13	-
Capital management	73	1	3
Change to company statute	15	-	-
NED remuneration	11	1	-
Audit/Financials	21	-	1
Merger & Acquisition	8	-	-
Board related (other) ²	14	1	1
Shareholder proposals	4	-	-

¹Capital management – IFM participated in the placements; Audit/Financials – insufficient information provided for decision; Board related – Amendment to articles. The company domiciled outside Australia and voting followed proxy advisor guidance.

²Includes related party transactions, political donations, board spill, supervisory board acts, directors/officers indemnification, post-employment agreements & meeting administration



Note that a full record of IFM Investors voting activity is available on our website at: www.ifminvestors.com/about-us/responsible-investment/stewardship



2019 AGM Season – what should investors look out for?

The key themes and issues that will spark the interest of investors over the upcoming AGM season:

- Alignment of executive remuneration with shareholder outcomes;
- How remuneration frameworks are incorporating ‘social licence to operate’ (behaviour gateways, clawback provisions, longer deferral periods for variable pay);
- Performance expectations for variable pay – how much is really ‘at risk’?;
- The structure of combined incentive plans – striking the balance between simplicity and rewarding performance over the long term;
- Appropriate use of non-financial indicators and hurdles; and
- A record number of environmental and social shareholder resolutions are expected, relating to supply chain, industry association and lobbying, human rights, expenditure alignment with the Paris climate goals, transition planning disclosure, fossil fuel exposure and emissions reduction targets.

CASE STUDY

More protection needed for vulnerable workers

Ongoing engagement on labour conditions highlights continuing issues for workers in Victoria’s fresh food supermarket supply chain.

IFM Investors attended a National Union of Workers-organised forum of agricultural workers in Shepparton. Our attendance was part of our ongoing engagement activity to better understand labour conditions and promote workers’ rights in Australia’s fresh food supply chain.

The forum comprised approximately 100 pickers and packers, both permanent and contract-based, who shared their work experiences and insights from farms and warehouses that are part of supermarket supply chains across Victoria.

Grievances aired related to pay and incentive structures, working conditions and shift structures, which continue to be issues for pickers and packers in Victoria’s fresh food supply chain.

A key theme that emerged from discussions was workers’ inability to have a genuine voice in their

workplace, with no clear avenue to raise concerns with management. Workers also see a critical need to better understand their rights and protect themselves against the unlawful activities that some labour hire firms continue to engage in.

IFM Investors Executive Director, Responsible Investment, Chris Newton had an opportunity to address the forum, outlining why human rights issues in the fresh food supply chain pose a potential risk for investors. He also highlighted IFM Investors’ continued call for transparency and improved human rights management in the fresh food supply chain, particularly relating to the use of labour hire.

Read the full investor briefing here.



Board Diversity update

Principle 3 of our Responsible Investment Charter acknowledges our belief that “diversity drives better performance”. We recognise the value of ensuring a diversity of views, cultures and opinions in the way we assess investments and make decisions.

As a member of the 30% Club Investor Working Group, we are actively seeking an increase in female company board appointments. As at 30 June 2019, there are still four ASX200 companies with no female board directors: Hub24, Emeco Holdings Limited, NRW Holdings and TPG Telecom Limited. In line with ACSI’s Diversity Policy, we intend to vote against directors seeking re-election to these boards unless provided with sufficient grounds not to do so.

The Australian Institute of Company Directors (AICD) statistics show that at end June 2019, the percentage of females on ASX200 boards remains at 29.7%.

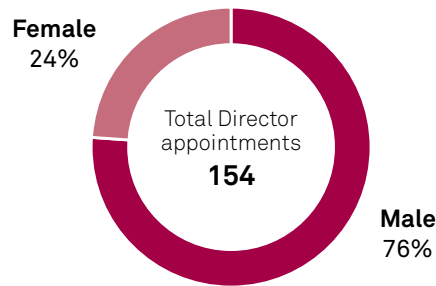
The data also shows there are forty-eight ASX200 boards with only one female director, and extending to the ASX201-300, twenty-seven boards remaining without female director representation.

Over the period we have written to each company with boards comprising zero or only one female, to communicate our expectation that companies continue to work toward the goal of 30% female representation on all boards. Board and workforce diversity is also a key focus area within IFM Investors and the unlisted companies we are invested in.

With regards to director elections over the six months, females represented 28% (20) of director elections and 21% (17) of re-elections over the 6 month reporting period. Females represented 24% of total appointments with IFM Investors voting in support of all of these appointments.

Director elections and re-elections

(January – June 2019)



While gender diversity on boards is not sliding backwards, the figures haven’t shifted since December 2018 and clearly more work needs to be done”.

Angus Armour, AICD CEO and Managing Director

Gender diversity on Boards – more work to be done

4

ASX 200 companies
Zero females

48

ASX 200 companies
One female

27

ASX 300 companies
Zero females





Progress on climate change

QBE Insurance Group (ASX:QBE)

We voted against the climate related shareholder resolutions 7a and 7b lodged at the QBE Insurance Group 2019 AGM. On resolution 7a we determined that the rights of shareholders to submit and vote on nonbinding shareholder resolutions would be better managed via regulatory changes.

Resolution 7b related to carbon exposure reduction targets. Following engagement with QBE to understand their current commitments and

intended progress, we believe that QBE has made significant progress in terms of their risk assessment and management and related disclosure. QBE has also made commitments to disclose their 1.5 degree scenario analysis, metrics and targets, over the coming year. The publication of their Energy Policy in March 2019 puts their actions in line with peers. As a result of the progress gained, we were not convinced of any additional benefit the resolution would provide.

Boards should plan for succession and renewal

Australian Pharmaceutical Industries (ASX:API) and Cimic Group (ASX:CIM)

While we do not draw a hard line in the sand with regards to director tenure, we believe that a director's time on one particular board should be limited in an effort to encourage renewal and maintain independence. While we recognise there are circumstances where it may be beneficial to a company to maintain a long serving director, we expect this is only relevant to a small number of cases.

We voted against the re-election of Robert Millner to the Australian Pharmaceutical Industries board on the grounds that he has been serving since 2000. We acknowledge Mr. Millner's experience in the pharmaceutical industry, but we believe board

renewal would be beneficial to the company. Mr. Millner also holds directorships on six other ASX listed company boards, five of which he is the Chair which in our opinion, is over-boarded.

IFM Investors also voted against the re-election of David Robinson who has served on the Cimic Group Board for almost 30 years. Mr. Robinson is a nominee and director of Hochtief Australia Holdings Limited, which owns 73% of shares. Hochtief was fined for insider trading in 2016. In addition to a very long tenure, we believe Mr. Robinson bears a degree of accountability for the issues at Hochtief.

IFM Investors' proxy voting policy

IFM Investors' approach to engagement and voting is guided by the standards of business practice outlined in international and domestic frameworks, including the OECD Guidelines for Multinational Enterprises, the Guiding Principles on Business and Human Rights, the United Nations-backed Principles of Responsible Investment (PRI) and the Australian Council of Superannuation Investors (ACSI) Governance Guidelines.

We believe change is best effected by acting as part of a collective, and voting in line with like-minded investors. IFM Investors' voting guidelines are closely aligned with the ACSI Governance Guidelines and IFM Investors is part of the Governance Guidelines working group that reviews the Guidelines every second year. Our Executive Director, Responsible Investment is a member of the ACSI Member Council.

Our voting activity is overseen by IFM Investors' Proxy and Engagement Committee (PEC), headed by the Executive Director, Responsible Investment, working in conjunction with the Global Co-Heads of Listed Equities (who manage the Indexed & Quantitative Equities, Small Cap Active Equities and Large Cap Active Equities teams).

The PEC's decision making process aligns with IFM Investors' Responsible Investment Charter and Voting Guidelines stated in the IFM Investors

Group Corporate ESG Policy. In addition to input from our internal equities teams, this process also incorporates advice from independent research firms and proxy advisers, with whom IFM Investors maintains strong relationships.

In all instances the PEC ensures that ACSI's guidance and voting recommendations are aligned and consistent with IFM Investors' own responsible investment policies before adopting ACSI's voting recommendations.

IFM Investors maintains independence when exercise its voting power and there are instances where our final voting decisions may differ from ACSI.

Over the January to June 2019 period, our voting stance differed from ACSI on 3 resolutions:

- **AMP Limited** – Director election (accountability for loss of shareholder value)
- **Australian Pharmaceutical Industries Limited** – Director re-election (tenure and heavy workload)
- **Cimic Group** – Director re-election (long tenure – misalignment with minority shareholders)

More information on our approach to engagement and voting and our high level Voting Guidelines are disclosed in the IFM Investors Group Environmental, Social & Governance (ESG) Policy available at: www.ifminvestors.com/about-us/responsible-investment

IFM Investors Proxy & Engagement Committee



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