Australian Listed Equities Engagement and Voting Report

January – June 2022

We act as a steward

IFM Investors Responsible Investment Charter - Pillar 5

We own assets on behalf of our investors, 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.

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Aidan Puddy
Global Head of
Listed Equities

A note from the Global Head of Listed Equities

I am pleased to report on IFM Investors' engagement and proxy voting activity in relation to Australian equities for the period 1 January 2022 to 30 June 2022. This report provides a summary of the stewardship activities we have undertaken on behalf of our investors and their members and beneficiaries, who include millions of working Australians like nurses, teachers, construction workers and hospitality staff.

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 that proactive company engagement and voting are critical to encouraging responsible management of ESG risks and opportunities. It is through these activities that we seek to build value in pursuit of our purpose, which is to protect and grow the long-term retirement savings of working people.

Please do not hesitate to contact me to discuss the contents of this report and IFM's approach to engagement and proxy voting.

Key highlights from the reporting period include:

Leveraging our size and shareholder influence to help improve board structures and compensation practices by voting on 488 resolutions. We voted against management in approximately 9% of cases.

Engaging closely with Rio Tinto on its culture challenges and the release of its *Everyday Respect* report, as well as AGL on the demerger vote.

Encouraging more companies to provide shareholders with a 'say on climate' following the example set by BHP in giving Australian shareholders a 'say on climate' at its 2021 AGM and as more ASX100 companies set net zero targets.

Proxy voting summary

Listed Equities voting activity – 1 January 2022 – 30 June 2022

74	488	438	45	5
Number of company AGMs	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.[1]

Summary of voting – proposal categories

Category	With Management	Against Management	Abstain
Director elections	162	5	-
Director fees / grants	67	29	-
Remuneration report	61	8	-
Company statute changes	17	1	1
Capital management[2]	63	-	2
Audit / financials	27	-	-
Board related (other)[3]	7	1	-
Corporate activity[4]	21	-	2
Shareholder proposals - Other[5]	1	-	-
Shareholder proposals - Climate Change	7	-	-
Shareholder proposals - Constitutional Amendment[6]	3	-	-
Say on climate[7]	2	1	-
Meeting administration	-	-	-
Total	438	45	5

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

IFM Investors' searchable record of voting activity is available on our website at: **www.ifminvestors.com/about-us/responsible-investment/stewardship**

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

Summary of activity

Earnings season – a story of ESG

This year's reporting season highlighted that 60% of ASX100 companies have committed to net zero targets, up from ~40% a year ago.[8] ASX300 companies with a collective market capitalisation of $1.74 trillion are now covered by net zero commitments, which represents 94% of ASX300 scope 1 emissions or 35% of companies (up from 14% in 2020).[8]

AGL Energy and Origin Energy both announced that they have brought forward coal fired power generation closure dates, with AGL noting this will reduce emissions by ~90Mt CO2e between FY23 and FY50. These closures will result in an additional ~3 Gigawatt of capacity reduction by 2030, which will need to be met by renewable energy sources.[8]

During the reporting season, many companies highlighted their progress with renewables installations; 19% of ASX100 companies have committed to using 100% renewable energy.

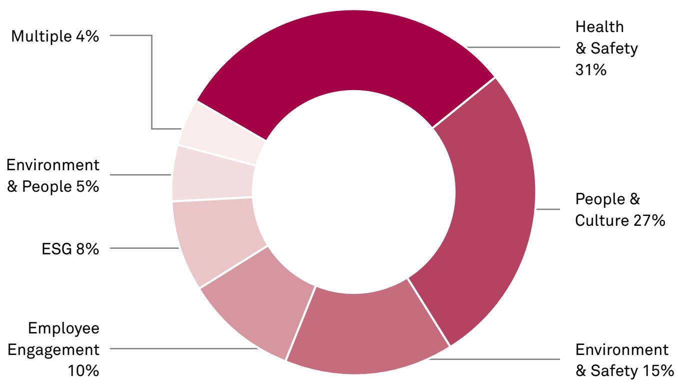
During the period eight new companies introduced ESG metrics into their remuneration structures. This means 180 companies in the ASX300 have some remuneration outcomes linked to ESG metrics, mostly relating to STI payments. The categories of ESG metrics linked to remuneration are shown below in Figure 1. There are only 12 companies that have linked long-term incentives to ESG metrics.

Figure 2 shows ESG-linked remuneration by sector. The sectors most exposed to the energy transition, such as utilities, energy, materials, and mining, have the greatest proportion of companies with ESG-linked remuneration.

Rio Tinto culture

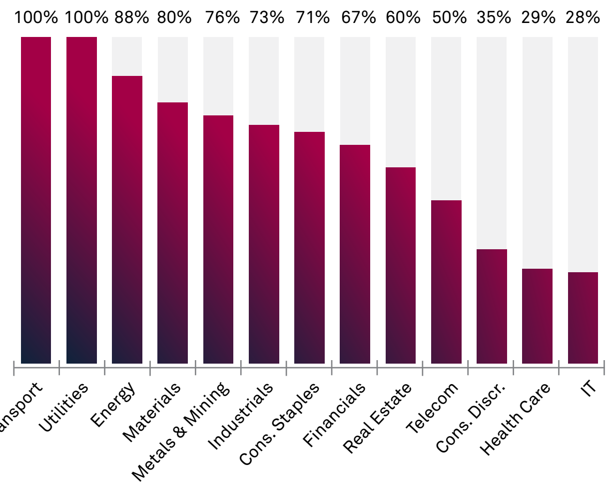
During the year Rio Tinto released the contents of its *Everyday Respect* report that investigated incidences of bullying, sexual harassment and racism throughout its workforce. This investigation was conducted

FIGURE 1 DISCLOSED ESG REMUNERATION CATEGORIES



Source: Macquarie Research

FIGURE 2 SECTOR PERCENTAGE WITH ESG-LINKED REMUNERATION



Source: Macquarie Research

[8] Macquarie Research, Australian ESG Equity Strategy, Reporting Season Wrap: Green Spend Grows.

by Elizabeth Broderick & Co. Ms Broderick is the former Sex Discrimination Commissioner for Australia. The work sought to understand the prevalence of bullying, sexual harassment and racism within the company, understand employees' individual experiences, and determine the most appropriate and effective approaches to prevention.

The report highlighted that instances of these behaviours was widespread throughout the organisation, occurring in corporate offices and remote mine sites. While we applaud Rio Tinto for making the findings of the investigation public, we were disappointed to hear that these activities appear to be a systemic and organisation-wide issue for the company.

We engaged with the company on several occasions following the release of the report and found it to be willing to engage. We had multiple meetings with the CEO and both the outgoing and incoming Chairpersons. We also met with the Chief People Officer, at Rio Tinto's suggestion.

Rio Tinto recognises its cultural problems and is focused on solutions, which include educating staff about acceptable and unacceptable practices and behaviours. The company recognises that some of the behaviours that need to stop have become normalised over time, noting that power imbalances are a common dynamic at play when these incidents occur. Management also noted that it expects to see the number of reported incidents rise following the publication of the report, as staff become more comfortable about raising concerns.

The meetings with Rio Tinto took place over several months, and were useful in helping us to understand the company's evolution in thinking. The initial meetings focused on the company saying what it wanted to change, but without a clear plan as to how it would achieve change. The focus of latter meetings shifted to how the company would measure success. We expressed our expectation for regular communication about the cultural transformation.

We supported the 5% reduction to the STI payment for the entire management team (past and present), as a collective acknowledgement and signal that the entire company is taking the matter seriously.

Our most recent meeting was in late May with new Chairman Dominic Barton. We were pleased to hear that he believes CEO Jakob Stausholm's success in improving the culture within the company will be the measure of his legacy. We were also pleased to see Chairman Barton visit the Juukan Gorge site and spend time with members of the local community during the first week of his new appointment.

AGL Demerger vote

Last year AGL Energy announced its intentions to undertake a demerger, splitting its business into Accel Energy (housing the coal fired power generation assets) and AGL Australia (owning the retail customer relationship as well as renewable energy assets). The demerger was to be subject to a shareholder vote in June 2022.

Prior to the vote, Grok Ventures, a private investment company that was founded by Atlassian co-founder Mike Cannon-Brookes, amassed an ~11% stake in the company, becoming its largest shareholder, and publicly opposed the demerger.

We had multiple meetings with representatives from both AGL and Grok Ventures to understand their respective opinions on the demerger.

Both Grok Ventures and AGL see the transition to net zero as crucial and regard renewables as optimal avenue for this. However, they fundamentally differ in their views about the timing, corporate structure and opportunities for shareholders in the energy transition.

In our view, the key issue was whether the demerger was in the best interests of shareholders, and whether Grok Ventures' vision for AGL was a sufficient argument to influence this view on shareholder best interests.

Before we finalised our voting position, the vote was withdrawn by AGL, which also announced a strategic review alongside the departure of Chairman Peter Botten and CEO Graeme Hunt. Following this announcement, we met with both AGL and with Grok Ventures representatives to understand their respective next steps.

We have also formally communicated to the company that we believe best corporate governance practices would be for the new leadership to have full decision-making authority over the existing assets and operations of the company.

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Say on climate resolutions

During the reporting period, several companies offered shareholders a 'say on climate' at their AGMs. The 'say on climate' is a non-binding advisory vote on a company's climate change policy, actions, targets, and disclosures. It is different to a shareholder resolution relating to climate change as it is brought forward by the company, not shareholders.

We believe that 'a say on climate' is an effective way for companies to gauge investor support for their climate targets and activities by providing an avenue for shareholders to communicate their views. We are in favour of this vote being offered to shareholders on an annual basis.

In our last report we outlined how BHP became the first Australian company to provide a 'say on climate' to shareholders. Early in this reporting season Rio Tinto gave its shareholders a vote on its climate transition plan, which it had announced during the financial year.

Rio Tinto has integrated its decarbonisation and transition strategy within its broader business strategy, which we see as crucial. We were also pleased that its decarbonisation strategy is aligned to a 1.5°C scenario with tangible short, medium and long-term targets to achieve net zero across its scope 1 and 2 emissions by 2050, and scope 3 in respect of shipping. Together with 84% of votes, we voted in favour of the resolution.

Some companies received a significant "against" vote for their 'say on climate' AGM resolutions, such as Woodside, whose shareholders' disappointment was reflected in a decisive 49% against vote. It was one of the most resounding votes against a 'say on climate' for any company globally. At the same AGM, Woodside shareholders overwhelmingly approved the company's merger with BHP Petroleum.

Following the release of its climate report and ahead of the AGM we engaged extensively with Woodside. With an aspiration to be net zero by 2050, the company's climate strategy includes emission reduction targets of a 15% reduction in Scope 1 and 2 emissions by 2025 and a 30% reduction by 2030 (both from 2020 baselines).

Over the long-term, Woodside aims to reduce its reliance on offsets and focus on the avoidance of emissions; however, in order to meet its 2025 and 2030 Scope 1 and 2 targets, the company will rely heavily on the use of offsets.

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Woodside has not set a scope 3 emissions reduction target; however, it has developed a three-point scope 3 plan:

1. Invest in new energy products and lower-carbon services ($5bn target by 2030);
2. Support its suppliers and customers to reduce net emissions; and
3. Promote global measurement and reporting.

Our vote against Woodside's 'say on climate' was based on our view that its strategy did not provide enough clarity on how it is going to achieve its net zero aspiration. We look forward to further engagement with the company to advance this discussion.

Our proxy advisers recommended voting against Woodside's 'say on climate' resolution, reinforcing our view that there was not sufficient information for investors to make an assessment on the company's transition plan.

Shareholder resolutions

Shareholder resolutions continued to be topical over the period, with both Santos and Woodside receiving four identical shareholder resolutions requesting greater disclosure about capital expenditure and plans to decommission assets in the context of the Paris Agreement. It is not unusual for oil and gas companies to receive shareholder resolutions of this nature; however, we did not think the disclosure requests were reasonable, given their commercial nature.

QBE received a resolution asking the company to disclose its targets and plans to reduce investment and underwriting exposure to oil and gas assets. QBE clarified that from 1 January 2030, it will not offer insurance to new gas and oil customers. It will also decline cover for existing customers with more than 60% oil and gas revenues and where the transition pathway is not consistent with achieving the Paris Agreement from this date. This threshold will be reduced to 30% from 1 January 2040. Resolution proponents argue that this plan is inadequate.

QBE is a member of the Net Zero Asset Owners Alliance (NZOA) and also the Net Zero Insurance Alliance (NZIA). It has committed to setting intermediate targets for underwriting exposures within six months of the NZIA publishing its target-setting protocols (expected in January 2023).

QBE aims to continue supporting the Paris Agreement while maintaining "an orderly path to a net-zero economy". The company's current Environment & Social Risk Framework outlines three time-based restrictions (dated 2022, 2030 and 2040) for underwriting oil and gas companies. These restrictions will see the company formally assess an increasing number of companies against the Paris Agreement goals over time.

QBE's membership of the NZAOA and the NZIA commits the company to "transitioning all operational and attributable greenhouse gas (GHG) emissions from its insurance and reinsurance underwriting portfolios to net-zero emissions by 2050, consistent with a maximum temperature rise of 1.5°C". Overall, we support QBE's approach, and we did not support this shareholder resolution.

Other engagement

- We met with one of the largest global mining companies, which sought our feedback on its FY22 sustainability targets, as it looks to refresh them. We provided advice about reporting and measuring funding to support communities, as well as linking this to executive remuneration.
- We engaged with an ASX100 company that was seeking feedback in relation to executive leadership remuneration and how it should reflect some negative developments that took place within the company. We expressed a view that such penalties should extend beyond the CEO's remuneration, and that they should consider the internal cultural impacts of their decisions.
- We engaged with Origin immediately after the announced closure of Eraring. We expect to engage more frequently with the company as we seek to ensure an equitable and just transition for those affected by this announcement. The company also mentioned their 'say on climate' vote later this year and shared their intention to provide an updated climate transition action plan prior to this vote.
- In a meeting with Woolworths the company highlighted that it had identified an incident of modern slavery in its supply chain and is working through the issue. The likely path forward will be terminating the supplier contract and assisting affected workers. We support this approach.

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), 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, Responsible Investment, 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 teams).

The PEC's decision-making process aligns with IFM's Responsible Investment Charter and the voting guidelines stated in IFM's Corporate 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 and consistent with IFM's own responsible investment policies.

IFM maintains independence when exercising its voting power and there are instances where our final voting decisions may 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 Investors Group Environmental, Social & Governance (ESG) Policy available at: www.ifminvestors.com/about-us/responsible-investment

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