

Engagement and Voting Report

July - December 2018

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 July 2018 to 31 December 2018. The report provides a summary of activities we have undertaken on behalf of our investors and their beneficiaries in our role as a steward of their capital.

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.

Reporting period highlights

- We exercised our right to vote on 1,439 resolutions over the last six months, capitalising on our size and influence to help improve board structures and compensation practices. We voted against management in approximately 10% of cases.
- We voted against the Remuneration Reports of the National Australia Bank, ANZ, Westpac and IOOF due to inappropriate bonus payments in light of misconduct highlighted during the Royal Commission into Misconduct in the Banking, Superannuation and Financial Services Industry (Hayne Royal Commission). We also voted against the re-election of board directors who, in our view, failed to provide adequate oversight of management's handling of issues negatively impacting customers.
- IFM Investors supported the human rights and labour related shareholder proposal at the Woolworths AGM. IFM Investors is committed to protecting workers rights and conditions. We believe that having a pre-qualification scheme giving workers access to education and effective grievance mechanisms is the only way to protect vulnerable workers.

Our 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.

These activities were 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).

IFM Investors Proxy & Engagement Committee



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Proxy Voting

Voting is an important ownership responsibility and one that IFM Investors proudly exercised on 1,439 resolutions at 271 shareholder meetings for ASX listed companies from July to December 2018.

IFM Investors is an active investor in Australian equities and a passive investor in Australian and Global listed equities.

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.

IFM Investors' Proxy Voting Policy – Australian Listed Equities

IFM Investors' proxy voting policy is closely aligned with the position of ACSI, as stated in their Governance and Reporting Guidelines. We believe change is best affected by acting

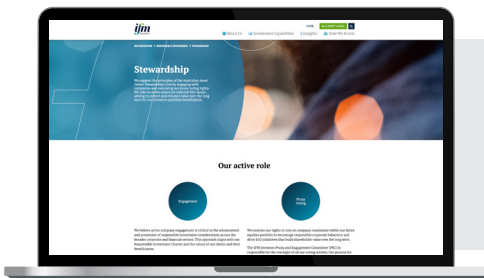
as part of a collective, and voting in line with like-minded investors. Our Executive Director, Responsible Investment is a member of the ACSI Member Council.

Membership of ACSI provides us with valuable independent research and advice on ESG risks and practices of the Australian listed equities we invest in, in addition to proxy voting services and advice.

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 the recommendations.

IFM Investors will exercise its voting power where appropriate, and our recommendations may sometimes differ from ACSI's.

In the second half of 2018, our voting stance differed from our proxy advisors - ACSI or Glass Lewis - on 79, or 5.4%, of individual resolutions. In the majority of cases, our voting decisions differed with respect to remuneration reports, director elections or executive grants.



Note that a full record of IFM Investors voting activity for 2018 is available on our website at: www.ifminvestors.com/about-us/responsible-investment/stewardship

Overboarded director

Healthscope (ASX:HSO)

Paula Dwyer sought re-election at HSO's AGM held in October 2018. Dwyer is an independent non-executive director (NED) and has been HSO's chair since June 2014. Dwyer is also Chair of Tabcorp Holdings and Chair of ANZ's Audit Committee, and collectively, these three roles amount to a substantial workload. Additionally, Dwyer has held directorships on other ASX listed companies which are currently facing considerable public scrutiny for misconduct.

ACSI recommended supporting Dwyer's re-election for board stability purposes. HSO's major

shareholders have expressed interest in acquiring the business, despite it being a poor performer since re-listing in 2014.

Upon review and discussions by PEC, IFM Investors voted against Dwyer's re-election on the basis that she is over committed. Despite a good attendance record, we believe Ms Dwyer will not be able to dedicate the required attention as Chair to these multiple company boards. Further, as a NED, we believe it is important she retain some capacity to deal with unplanned events that may unexpectedly arise and require priority.

Proxy voting summary

The IFM Investors Equities team voted on a total of 1,439 resolutions put forward at 271 company meetings.

In the majority of cases (88%), we supported management's recommendation. However, our equities team chose to vote against management in 10% of cases and abstained on 2% of resolutions.

The majority of 'against' votes related to director elections (31%), executive/NED remuneration

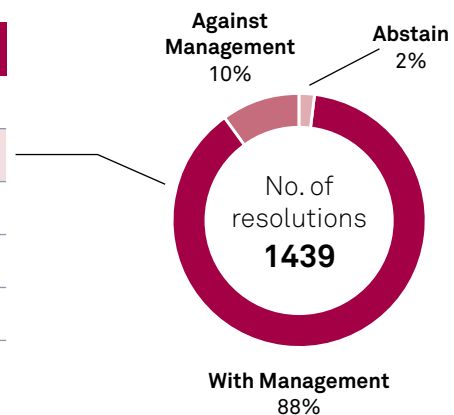
(32%), and remuneration reports (30%), signifying the importance we place on compensation being aligned to shareholder interests.

Of the 2% of resolutions we abstained from voting on, most were due to our participation in a placement. The other instances of voting abstinence related to Eastern Goldfields (applicable to several resolutions) who did not release its Annual Report prior to the voting deadline.

Indexed Equities voting activity (1 July - 31 December 2018)

No. of company AGMs	271
No. of resolutions	1439
Voted with Management	1269
Voted against Management	136
Abstained	34

Note that 1 resolution included in the count above was withdrawn



Summary of voting – proposal categories

Category	With Management	Against Management	Abstain
Director elections	501	42	1
Executive remuneration	246	37	4
Remuneration report	177	41	2
Capital management	131	-	27
Change to company statute	57	-	-
NED remuneration	53	7	-
Audit/Financials	38	-	-
Merger & Acquisition	29	3	-
Board related (other)*	24	-	-
Shareholder proposals	13	3	-

* includes related party transactions, board spills, post-employment agreements

Aligned incentives and Board Governance

STAND OUT ISSUES FROM THE HAYNE ROYAL COMMISSION

The final report for the Royal Commission into Misconduct in the Banking, Superannuation and Financial Services Industry (Hayne Royal Commission), handed down in early February, called for wide spread changes to the Australian banking sector. The report highlighted a pursuit of profits and personal gain, and an overt focus on financial risks over non-financial risks, as root causes of the systemic misconduct illuminated in the Royal Commission hearings.

Key themes of the report's seventy-six recommendations focused heavily on governance, executive remuneration and culture. The report highlighted the need for boards to have a more focused and proactive approach to dealing with non-financial risks to reduce misconduct. On executive remuneration, recommendations included limiting the use of financial metrics relating to long-term variable remuneration; regular board assessments of remuneration system effectiveness; and greater oversight by the Australian Prudential Regulation Authority (APRA) to ensure significant reductions in variable executive remuneration for poor performance. The report also highlighted the need for financial services entities to regularly assess their culture and governance, focusing on mitigating misconduct and protecting the consumer from misconduct.

IFM Investors' voting activity during the period July 2018 to December 2018 reflected similar concerns relating to executive remuneration, governance and board accountability. We voted against the remuneration reports of three of the four large banks.

In IFM Investors' opinion, disclosure of individual variable pay reduction outcomes lacked transparency and were inadequate in light of the issues raised during the hearings. We do not believe that reported adjusted pay outcomes adequately reflected the systemic nature of the issues or the financial and reputational impacts on the institutions concerned.

The chief executives of ANZ, National Australia Bank and Westpac received 83%, 45% and 78% of their respective annual bonuses. The Commonwealth Bank was the only financial institution which appropriately

acted on the conduct issues raised, by not awarding bonuses to the new or former CEO, and cancelling deferred incentives for a large number of executives.

High variable remuneration outcomes for bank executives more broadly served to highlight underlying systemic issues with bank remuneration schemes and raised the question as to whether current executive remuneration structures genuinely place short term incentives at risk.

IFM Investors voted against the re-election of bank board directors who had served on boards for over 12 months. The Royal Commission hearings provided adequate evidence of misconduct and systemic disregard for customer outcomes. IFM Investors assessed the individual circumstances of directors, including other director roles and past involvement in corporate controversies. Our view, reinforced by the final Royal Commission report, is that directors should maintain oversight of a range of issues, including non-financial issues of conduct and culture, and be accountable for issues that occur on their watch. Where a director had served under 12 months, IFM Investors supported re-election. A consistent approach was applied in relation to IOOF Holdings and AMP Limited.*

IFM Investors will be actively pursuing the implementation of the findings of the Royal commission with listed companies in Australia.



*Note that AMP Limited AGM was in first half 2018 and outside the applicable voting period for this report.

Striking out at remuneration

IFM Investors' beliefs on remuneration include:

- 1 Structures need to be designed to encourage management and employees to implement strategies and programs that achieve long-term company value;
- 2 It is good practice for companies to ensure remuneration structures are clearly disclosed; and
- 3 Simple and clear disclosure helps shareholders understand and assess the basis on which remuneration is paid and whether payments align appropriately with the company's performance over the year.

Over the reporting period IFM Investors voted against more than 18% of company remuneration reports. The majority of 'against' votes were based on factors such as overly complicated structures, poor disclosure, unchallenging performance hurdles, and paid out bonuses not commensurate to performance and/or shareholder outcomes.

There were five companies in IFM Investors' equity portfolio where more than 50% of shareholders voted against the remuneration report: Harvey Norman, Mineral Resources, National Australia Bank, Telstra and Westpac. IFM Investors voted against each of these companies in addition to a number of other company reports that narrowly missed a strike.

CASE STUDY

A long time to bid farewell

AGL Energy (ASX:AGL)

In 2018, AGL made an announcement that CEO Andy Vesey will be paid in lieu of 12 months' notice from December 2018 when he formally ceased employment, rather than from the date of his announcement of departure four months earlier. This decision meant Vesey was paid 16 months' notice and an additional \$813,000 cash payment.

IFM Investors voted against AGL's remuneration report. In our view the additional payment was unnecessary and excessive, especially taking into

account Vesey's performance as CEO over the past year. While this issue alone does not necessarily justify a vote against, we also considered our previous year voting decision where we deemed Vesey's remuneration package to be excessive, and accordingly voted against.

Further we were not fully satisfied with the company's explanation that Vesey's experience and knowledge was needed during the on boarding of new CEO Brett Redman.

Management and board held to account

Commonwealth Bank (ASX:CBA)

IFM Investors voted for CBA's remuneration report – the only bank remuneration report we supported. The cancellation of the former and new CEO bonuses; outstanding long-term incentives held by former CEO, CFO and CRO; and unvested deferred incentives for a wide group of former and current executives, was an appropriate response in light of issues within the banking sector.

Despite the Board acting appropriately in holding management to account, we voted against the re-election of director Catherine Livingstone. We

acknowledge that Ms. Livingstone has led significant board renewal at the bank and initiated a number of positive changes to the executive team, risk processes and incentives. However, in light of her position on the Board during the time when issues of misconduct were occurring at CommInsure, we believe her experience should have led to closer board scrutiny, greater urgency, and a better response to issues occurring at CBA before the Hayne Royal Commission commenced.

Shareholder resolutions are on the rise

Thirteen shareholder resolutions were out to vote at the 2018 AGM season. Seven of these related to environmental or social issues; IFM Investors supported three of them.

Origin Energy: Three proposals lodged including climate change advocacy and lobbying; compliance with human rights standards; and environmental reporting and targets.

After engaging in dialogue with Origin and the proponents of the resolution, IFM Investors voted for the advocacy and lobbying resolution. We believe our vote will signal the importance of having greater oversight and management of industry relationships. We voted against the human rights resolution as we believe the concerns raised arise from legislative deficiencies as opposed to any mishandling on the company's part. Our vote against short term emission reduction target setting was based on our view that Origin has already taken adequate steps in establishing a long term emissions reduction target; an interim emissions target is unlikely to add benefit.

Whitehaven Coal: Two proposals lodged including climate risk disclosure and strategic alignment with the Paris Agreement. IFM

Investors voted in favour of climate risk disclosure, however, we believe it is the board and management's role to determine strategic direction. Improved disclosure is adequate in that it will allow investors to make informed judgements on their own.

Qantas: IFM Investors voted against the resolution that asked Qantas to disclose how its processes for involuntary passenger transfer ensured compliance with international human rights standards. Following discussions with the proponents and Qantas, we don't believe the request that Qantas cease passengers transfers until completion of a process review was reasonable. In addition, we are not convinced that Qantas is in a position to assume full control over passenger transfers undertaken on behalf of the Australian Government. We note positively that Qantas responded promptly to investor requests for improved public disclosure on their process relating to involuntary passenger transport.

Woolworths: We supported the shareholder proposal relating to alleged human rights and labour rights abuses in Woolworths' supply chain. See page 11.

CASE STUDY

Satisfied with qualitative outlook guidance

Brambles Limited (ASX:BXB)

ACSI recommended shareholders vote against equity plan allocations to the CEO and CFO on the basis that performance hurdles had not been disclosed. Based on our analyst's engagement with BXB's Chair and an in-depth knowledge of the company and the value drivers underpinning the company, IFM Investors voted for the equity allocations, giving consideration to:

- 1 The multi-year turnaround nature of this capital intensive business;
- 2 The importance of the IFCO divestment to long term plans and value; and
- 3 BXB's management has been transparent with its plans and have followed through with commitments

to clean up underperforming businesses and arrest the earnings trajectory of the group.

While we acknowledge that hurdles are ideally disclosed prior to the AGM, we are confident in the company's assurances that they will be disclosed post-AGM. BXB is currently undergoing a phase of significant change with two new executives (CEO and CFO), the sale of a large but underperforming business, and a large capital investment program in their core business, which will enable them to grow earnings. In our view, the new executives are performing well and making solid improvements to the business in a turbulent time.

Board Diversity

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.

Women represented 72 (36%) of the 197 new director appointments over the 6 month reporting period. IFM Investors voted in support of 70 of the new female director appointments.

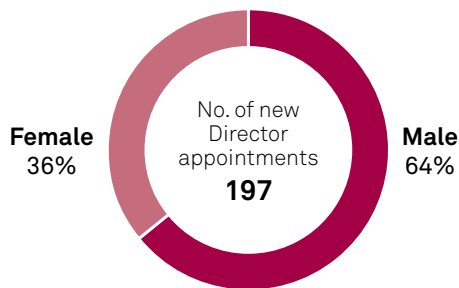
As at 31 December 2018, there were four companies on ASX 200 board with no women on their boards: AMP Limited, ARB Corporation, Emeco Holdings Limited and TPG Telecom Limited¹. Furthermore, there is still a significant number of ASX200 boards (51 in total) with only one female director.

IFM Investors is a member of the 30% Club Investor Working Group, which meets quarterly to achieve a more coordinated approach to gender diversity. In particular, the group aims to explain the investment case for more diverse boards; encourage investor engagement on the issue of board diversity with chairs and management teams; and consider diversity when voting on the appointment and re-election of board members.

Over the coming year IFM Investors will seek to engage directly with each ASX 200 company that has no female board representation, and we will send written correspondence to companies across the ASX 300 with zero or only one female board member and seek assurances that they are actively seeking female candidates for future board roles. We will also include board diversity in the topics for discussion with ASX 300 companies in the year ahead.

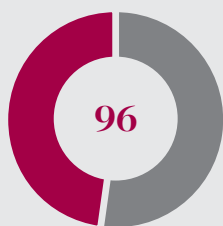
New Director Appointments

(July – Dec 2018)

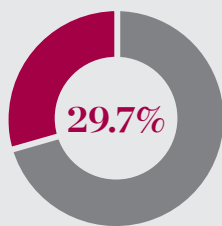


Women on Boards

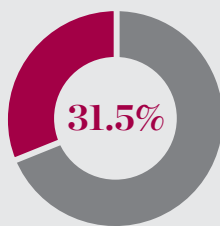
at 31 December 2018



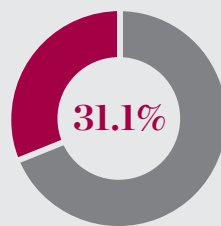
ASX 200 Boards met the **30%** target



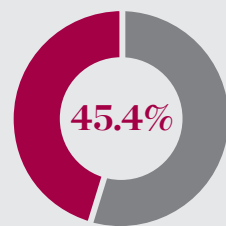
Total of female directors on **ASX 200** boards



Total of female directors on **ASX 100** boards



Total of female directors on **ASX 50** boards



Proportion of female director appointments in 2018

¹ Australian Institute of Company Directors website, see <http://aicd.companydirectors.com.au/advocacy/board-diversity/gender-diversity-on-asx200-boards-hit-all-time-high>
² Australian Institute of Company Directors, 30% by 2018: Gender diversity progress report, December 2018, Volume 14.

Company Engagement

As a large institutional investor who represents the interests of hundreds of asset owners and beneficiaries, we believe we have a responsibility to use our position to actively engage with Board and senior management on issues that are relevant for long term sustainability and company value.

This approach is clearly articulated in our Responsible Investment Charter, which mandates that where we hold a significant stake in an asset, we engage directly with company management to raise specific ESG concerns.

We focus our engagement activity on key issues within the portfolio relating to climate change, human and labour rights, and diversity. Our aim is to encourage change in current practices and/or better understand a company's response to a thematic issue that could affect other companies or an industry sector, potentially impacting long term value creation.

Over the past six months, IFM Investors has participated in a number of collaborative

engagements coordinated by ACSI in addition to the direct company engagement undertaken by the Equities team. The ACSI engagements we attend tend to be those where we have a particular governance concern or where the company has a material exposure to one or more of our focus issues. Our engagement meetings are generally aimed at finding out more about how the company is managing the particular issue and encouraging companies to improve relevant public disclosure.

In 2018, we focused our direct engagement activity on labour rights in the supply chain and held multiple engagements with Wesfarmers and Woolworths directly and via round table briefings for our investors. We also engaged with Origin Energy and Qantas in relation to their human rights shareholder resolutions. We participate in the Climate Action 100+ collaborative engagement initiative alongside a number of Australian investors. Our 2019 engagement priority topics and company list is currently being developed.

CASE STUDY

Remuneration structure needs to improve

BWX Limited (ASX:BWV)

ACSI recommended shareholders vote for BWX Limited's remuneration report and employee loan plan on the basis that new CEO and CFO had lower fixed pay than the previous team, and although NED's had equity grants that were yet to vest, director remuneration was reasonable. This was despite concerns remaining in relation to the structure of the long-term incentive (LTI) and short-term incentive (STI) – including a short vesting period; single EBITDA metric; the ability for the board to make adjustments

to EBITDA (such as declaring a one-off expense item); poor disclosure of hurdles for the STI, and the availability of NED incentives under the employee loan plan.

Based on our stock analyst's history of engagement with the BWX board we were not comfortable with the NED equity incentives in place, nor the poor disclosure of STI hurdles or the ability to make discretionary adjustments to the hurdle measurements. Accordingly we voted against both of the resolutions.

Labour rights abuses alleged at Woolworths

At the most recent Woolworths (ASX:WOW) AGM, the Australian Centre for Corporate Responsibility (ACCR), the National Union of Workers (NUW) and LUCRF Super lodged a two-limbed shareholder resolution relating to labour rights in Woolworths' fresh food supply chain.

The aim of the resolutions was to have Woolworths commit to implementing a Labour Hire pre-qualification program to improve labour hire providers' compliance with labour and human rights standards. The resolutions also sought agreement to involve trade unions in worker rights education activities and grievance procedures, to ensure that vulnerable workers are afforded adequate education in relation to workplace rights and protection when raising concerns.

IFM Investors has been engaging with both Wesfarmers and Woolworths in relation to supply chain concerns for well over 18 months. In relation to the 2018 shareholder resolution, we had direct individual meetings with each of the proponents listed above, and we attended an investor briefing session organised by ACSI. Following these engagements and reflecting on the objectives listed in our Responsible Investment Charter, we voted in support of resolution 6b for the following reasons:

1 Effective protection of highly vulnerable workers (such as those engaged in the agricultural supply chain) can only be achieved if workers

are guaranteed access to education and an independent grievance mechanism,

- 2** A supplier-based SpeakUP service is not adequate for this class of worker as these workers are unlikely to approach a union representative themselves and have very little understanding of their rights in the first instance,
- 3** Mandating trade union involvement in worker education and grievance procedures does not contravene the principle of freedom of association so long as workers are not required or coerced into joining a union,
- 4** Woolworths' proposed labour-hire criteria and assessments all rely on third party auditors or federal government programs to monitor labour-hire providers. This system has not proved adequate protection for workers in the past, and
- 5** Supporting the implementation of a pre-qualification system by Woolworths will raise the bar for others in the sector. This may also serve to bring agricultural supply chain standards closer to the standards applicable to garment workers. At present these standards and protections are inconsistent.

IFM Investors' position remains the same in supporting the development of a pre-qualification program for Labour Hire firms that involves unions and community organisations. Having multiple parties at the table allows alternative views and voices to be heard.

ANZ Banking Group and displacement of Cambodian farmers

In November 2018, IFM Investors wrote to the Chair and CEO of ANZ seeking assurances over the adequacy of the bank's screening and monitoring processes when lending to companies involved in the development of agricultural plantations in developing nations.

Our action followed the findings handed down by the Australian National Contact Point (ANCP), the organisation responsible for overseeing a nation's corporate commitments through the OECD Guidelines for Multinational Enterprises, that ANZ had breached its own human rights standards through its financing of Phnom Penh Sugar Co. Ltd. in 2011.

The Cambodian sugar farming operation was linked to forced evictions, child labour and workplace deaths

according to Australian government investigations. IFM Investors has monitored the situation closely over a number of years and had previously met with some of the aggrieved farmers in 2017. Confirmation of the breach from the ANCP as well as suggestions that ANZ should have been well aware of the risks of the loan, prompted our follow up communication.

In addition to asking ANZ about the changes they have made to ensure greater compliance with their credit assessment process, IFM Investors also asked about actions the company proposed to take to remedy situations where actions of the bank, in breach of their own standards, have negatively impacted on a community.

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