

# Australian Equities Engagement and Voting Report

July – December 2020

SUMMARY REPORT

# 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.

# Overview

IFM Investors is pleased to report on its engagement and proxy voting activity in relation to Australian equities for the period 1 July 2020 to 31 December 2020 (reporting period). This report provides a summary of the stewardship activities we have undertaken on behalf of our investors and their members and beneficiaries.

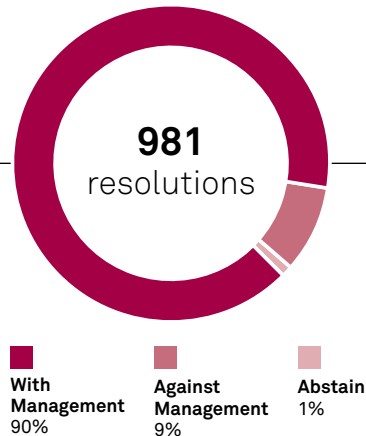
In alignment with our Responsible Investment Charter and the Australian Asset Owner Stewardship Code, we engage with companies and exercise our proxy voting rights on material environmental, social and governance (ESG) issues. We believe that proactive company engagement and voting is critical to encourage responsible management of ESG risks and opportunities. It is through this activity 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.

## Highlights

- We voted on over 980 resolutions during the last six months, leveraging our size and shareholder influence to help improve board structures and compensation practices. We voted against management in approximately 9% of cases.
- A number of companies that Climate Action 100+ (CA100+) engages with made public announcements regarding net zero 2050 targets and/or other targets and measures that demonstrate commitment to a low carbon transition.
- For the year ending 31 December 2020, there was an increase in support for shareholder resolutions that were primarily related to climate change. Average support for such shareholder resolutions was 23% of votes in 2020 vs 13.7% in 2019.
- COVID-19 continued to have a significant impact on businesses and workers, further highlighting the importance of employment stability and fair and equitable standards for working people.
- We voted against management 18% of the time on remuneration reports.

# Proxy voting summary

Indexed Equities voting activity	
1 July – 31 December 2020	
Number of company AGMs	163
Number of resolutions	981
Voted With Management	881
Voted Against Management	88
Abstained	12
Voted against ACSI recommendation	13



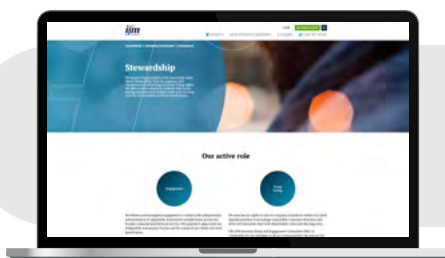
See table below for additional detail on 'Against' votes. IFM abstained from voting on resolutions where we participated in placements. These have not been counted as Votes Against Management.

## Summary of voting – proposal categories

Category	With Management	Against Management	Abstain
Director elections	406	28	-
Director fees / grants	190	24	-
Remuneration report	128	29	-
Company statute changes	45	-	-
Capital management <sup>1</sup>	29	3	12
Audit / financials	24	-	-
Board related (other) <sup>2</sup>	17	-	-
Corporate activity <sup>3</sup>	17	-	-
Shareholder proposals - Other <sup>4</sup>	10	3	-
Shareholder proposals - Climate Change	6	-	-
Shareholder proposals - Constitutional Amendment <sup>5</sup>	9	-	-
Meeting administration	-	1	-
<b>Total</b>	<b>881</b>	<b>88</b>	<b>12</b>

Refer to Proxy voting case studies on page 7 for more information on shareholder proposals.

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

<sup>1</sup> Relates to stock issuance and share repurchase, etc.  
<sup>2</sup> Relates to board spills, post-employment agreements, indemnification of directors, related party transactions  
<sup>3</sup> Relates to divestiture/spin offs, takeover provisions  
<sup>4</sup> Shareholder proposals regarding cultural heritage, industry associations and the election of dissident board members  
<sup>5</sup> Proposals related to facilitating nonbinding proposals. IFM believe the regulatory process is a more suitable means for addressing this concern.

# Engagement update

## Board Diversity

One of the investment principles in our Responsible Investment Charter states, “Diversity drives better performance”.

We recognise the value of harnessing a diversity of viewpoints and opinions to support decision making that helps to create long-term value for our investors and their members and beneficiaries. Gender diversity in boards and executive leadership teams of listed companies is a key stewardship focus area for IFM.

The Australian Institute of Company Directors (AICD) statistics show that at the end of December 2020, the percentage of females on ASX 200 boards was 32.4 per cent, up from 30.9 per cent in May 2020.<sup>6</sup> At 31 December 2020, Silver Lake Resources Ltd. and Kogan.com Ltd were the only remaining ASX 200 companies with no female board members, following appointments at TPG Telecom and Pro Medicus in July 2020. IFM voted against the re-election of a male director at both Silver Lake Resources and Kogan.com in the last six months, in line with our gender diversity principle and ACSI’s Diversity Policy.

Diversity at the board level and within executive leadership teams, particularly with respect to gender, will continue to be a focus area for our engagement in 2021. IFM will continue to collaborate with ACSI, the 30% Club and other like-minded investors to encourage companies to further diversify their boards.



To further extend our engagement on this theme, IFM became an inaugural signatory to 40:40 Vision in September 2020. 40:40 Vision is an initiative led by HESTA focusing on gender diversity in ASX 200 company executive leadership teams. The initiative aims to encourage these companies to set medium and long-term gender diversity targets and commit to achieving gender balance by 2030.



**Gender diversity in boards and executive leadership teams of listed companies is a key stewardship focus area for IFM.**

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<sup>6</sup>Australian Institute of Company Directors, [www.aicd.companydirectors.com.au/advocacy/board-diversity/statistics](http://www.aicd.companydirectors.com.au/advocacy/board-diversity/statistics)

## Climate Change

In October 2020, IFM committed to reducing greenhouse gas emissions across its asset classes targeting net zero by 2050.

As the majority of our listed equities portfolio is invested passively, we are particularly focused on engaging with the largest emitters in the index. Engaging with these companies to encourage robust climate risk management strategies, including setting targets, will be a key component of our emissions reduction strategy.

IFM participates in the CA100+ initiative. We are pleased with the progress that most of the Australian companies that the CA100+ engages with continue to make against the initiative's three key goals relating to governance, emissions reduction and disclosure.

Almost all of these companies are making improvements to their governance structures and have committed to public climate change disclosure using the Taskforce on Climate related Financial Disclosures (TCFD) framework. Establishing links to executive remuneration is one of the key recommendations for companies that have established goals. Our engagement in 2021 will focus on understanding whether companies' climate goals and strategic growth priorities are truly aligned and supported by their incentive structures.

During 2021, CA100+ investor members will assess the progress of target companies' use of the CA100+ Net Zero Company Benchmark criteria. The first round of company scorecards will be completed during the first quarter of 2021 – an exercise that aims to evaluate the companies against a set of defined climate action indicators. The scorecards will provide CA100+ members with a report on the status of each company as a base for further engagement.

### 2020 progress of CA 100+ focus companies:<sup>7</sup>

- BHP (ASX: BHP) made a significant enhancement in its approach to industry associations and lobbying on climate. The enhanced approach aims to improve the climate policy positions of industry associations where it has membership and improve real-time disclosure on misalignment and escalation. The company also set a medium-term target to reduce operational emissions by 30 per cent by 2030.
- AGL Energy (ASX: AGL) set a target of reducing carbon emissions to net zero by 2050. It also set out plans to increase investment in renewable energies and tested the resilience of its plans against a 1.5°C climate scenario.
- Woolworths (ASX: WOW) set a medium-term science based target to reduce its operational emissions by 63 per cent and scope 3 emissions by 19 per cent by 2030, which was endorsed by the Science Based Targets Initiative.<sup>8</sup>
- Qantas Airways (ASX: QAN) announced an emissions reduction target of net zero by 2050. It is the first airline in the world to do so and plans to cap its emissions at 2019 levels. The company also invested \$50 million in advanced biofuels research and development.

<sup>7</sup> <https://www.climateaction100.org/progress/progress-report/> Companies listed in call out box have been assigned to the CA100+ engagement working group that IFM is a member of.

<sup>8</sup> <https://www.mainstreamingclimate.org/sbti/>

## Fair and equitable standards for working people

While the COVID-19 pandemic has had a widespread impact on the Australian workforce, there are workers in some industries and demographic groups who have been disproportionately affected.

Industries most heavily affected by government-imposed trading restrictions aimed at curbing the health impacts of COVID-19 include Accommodation and Food Services and Arts and Recreation, with overall job losses of 17.4 per cent and 12.9 per cent respectively for the period 14 March to 3 October 2020.<sup>9</sup> The ages of workers most affected during this time period fall between 20-29 years and 50 years and over and these industries also employ a relatively high proportion of female workers.<sup>10</sup>

Company engagement meetings in which IFM has participated have included discussions about the pandemic's impacts on working people and the adequacy of company responses.

During the 2020 AGM season, a number of companies reported on their efforts to manage the pandemic crisis and the steps they have taken to help ensure continuity of operations and workforce safety. Mining companies South 32 and BHP also reported on their actions to support the safety and wellbeing of communities in the areas they operate.

With increased pressure on supermarket supply chains during COVID-19, IFM has continued to engage with Woolworths, Coles and industry bodies on agricultural supply chain issues. During the reporting period, companies reported limited capacity to undertake supply chain audits of workers' health and safety. We expect these companies to recommence their audit processes in 2021, when pandemic-related restrictions ease and enhanced safety protocols are established.

While the vaccine rollout in Australia has commenced, it will take some time before it is widely administered to the majority of the population. So we remain vigilant in our engagement with companies on the impact

of COVID-19 on conditions and standards for working people, and we continue to expect and request company disclosures on the impact. While many companies have safety measures in place for their workforce, we believe the road to recovery will likely be a long and challenging one to navigate.

Promoting fair and equitable standards for working people will continue to be an engagement focus area for IFM in the second



**Promoting fair and equitable standards for working people will continue to be an engagement focus area for IFM in the second half of FY20/21.**

half of FY20/21. This will include collaborating with the Investors Against Slavery and Trafficking Asia-Pacific (IAST APAC) initiative, which IFM joined in September 2020. This investor-led initiative engages with companies in the APAC region in which we invest. IAST-APAC aims to promote actions to find, fix and prevent modern slavery, labour exploitation and human trafficking. The working group for this initiative will commence engagement in early 2021.

<sup>9</sup> [https://parlinfo.aph.gov.au/parlInfo/download/library/prspub/7616491/upload\\_binary/7616491.pdf](https://parlinfo.aph.gov.au/parlInfo/download/library/prspub/7616491/upload_binary/7616491.pdf)  
Data for period 14 March 2020 – 3 October 2020

<sup>10</sup> <https://pursuit.unimelb.edu.au/articles/who-s-hit-hardest-by-the-covid-19-economic-shutdown>; <https://mckellinstitute.org.au/research/articles/the-impact-of-covid-19-on-women-and-work-in-victoria/>; and [https://cdn.aigroup.com.au/Economic\\_Indicators/Fact\\_Sheets/Where\\_are\\_Australias\\_casual\\_workers\\_in\\_2018\\_Oct2018.pdf](https://cdn.aigroup.com.au/Economic_Indicators/Fact_Sheets/Where_are_Australias_casual_workers_in_2018_Oct2018.pdf)

<sup>11</sup> ACSI, "In three years to 30 June 2020, following the Headwaters acquisition, Boral's TSR has been negative 36% and the market capitalisation of the company fallen by -43%".

# Proxy voting policy

IFM’s 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.

In our experience, change is best effected by acting as part of a collective and voting in line with like-minded investors. 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. IFM’s Executive Director, Responsible Investment, is a member of 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 Heads of Indexed & Quantitative Equities, Small Cap Active Equities and Large Cap Active Equities, and delegated representatives from each team.

The PEC’s decision making process aligns with IFM’s Responsible Investment Charter and the voting guidelines stated in the IFM’s Corporate ESG Policy. In addition to input from IFM’s equities teams, this process also incorporates advice from independent external research firms and proxy

advisers, with whom IFM Investors maintains strong relationships.

In all instances, the PEC aims to ensure that ACSI’s guidance and voting recommendations are aligned and consistent with IFM’s own responsible investment policies before adopting ACSI’s voting recommendations.

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

From July to December 2020, our voting stance differed from ACSI on 13 resolutions, as listed below:

Category	Against ACSI
Director elections	6
Remuneration report	3
Director fees / grants	2
Meeting administration	1
Shareholder proposals - other	1
<b>Total</b>	<b>13</b>

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](http://www.ifminvestors.com/about-us/responsible-investment)

## IFM Investors Proxy & Engagement Committee



<sup>13</sup> Does not include resolutions where IFM abstained from voting.



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