

An aerial photograph of a large, brightly lit atrium with a light-colored tiled floor. Several people are walking in various directions. A large, semi-transparent purple circle is overlaid on the bottom right portion of the image, containing the title and date.

# Australian Listed Equities Engagement and Voting Report

July – December 2021

# 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.



**Chris Newton**  
 Executive Director,  
 Responsible  
 Investment  
 Chair, IFM Investors  
 Proxy Voting and  
 Engagement  
 Committee

# Proxy Voting and Engagement Committee Chair’s Note

I am pleased to report on IFM Investors’ engagement and proxy voting activity in relation to Australian equities for the period 1 July 2021 to 31 December 2021. 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 encouraging 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.

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 1500 resolutions. We voted against management in approximately 9% of cases.



A record number of shareholder resolutions were voted on during the AGM season with a large proportion relating to climate change.



BHP was the first company to give Australian shareholders a ‘Say on Climate’ at their 2021 AGM, and we expect other companies to follow suit.

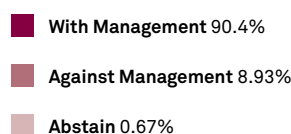


The Federal government announced new regulations regarding the delivery of proxy advice.

# Proxy voting summary

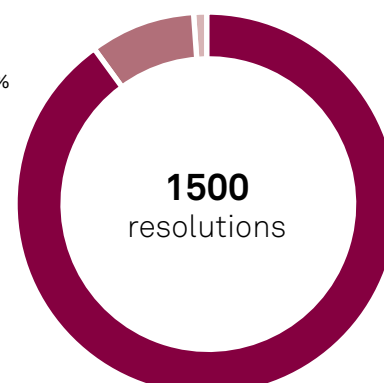
## Listed Equities voting activity

1 July 2021 – 31 December 2021	
Number of company AGMs	237
Number of resolutions	1500
Voted With Management	1356
Voted Against Management	134
Abstained	10



See table below for additional detail on 'Against' votes.

IFM abstained from voting on resolutions where we participated in placements.<sup>1</sup>



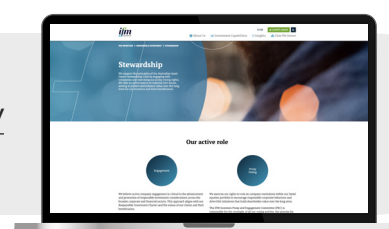
## Summary of voting – 1 July 2021 - 31 December 2021 – proposal categories

Category	With Management	Against Management	Abstain
Director elections	549	23	-
Director fees / grants	284	42	-
Remuneration report	233	35	-
Company statute changes	28	22	-
Capital management <sup>2</sup>	128	6	10
Audit / financials	27	-	-
Board related (other) <sup>3</sup>	38	4	-
Corporate activity <sup>4</sup>	40	-	-
Shareholder proposals - Other <sup>5</sup>	3	2	-
Shareholder proposals - Climate Change	13	-	-
Shareholder proposals - Constitutional Amendment <sup>6</sup>	11	-	-
Say on climate <sup>7</sup>	1	-	-
Meeting administration	1	-	-
<b>Total</b>	<b>1356</b>	<b>134</b>	<b>10</b>



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

# Summary of activity

## Company engagement highlights

During the period, the federal government announced its roadmap for Australia to achieve net zero carbon emissions by 2050. The government also announced an upgrade to its emission reduction projections for 2030, from the original 26-28% above 2005 levels to between 30-35%. This announcement was made ahead of the highly anticipated 26th Conference of the Parties – COP26 – event held in Glasgow in November, where country and business leaders from across the globe met with the aim of enhancing carbon reduction commitments.

These announcements and events were the backdrop for a number of engagements IFM had with companies over the period, as outlined below.

- Key insights gained from meetings with senior representatives of all four major banks included their different approaches to financing high carbon emitting companies and projects, which include lending caps, as well as lending targets for renewable energy and other forms of sustainable financing. Other topics discussed included energy transition strategies, scenario analysis and temperature rise assumptions used in internal modelling. Our overall impression is that there has been notable progress, but there remains a lot more to do.
- Climate risk and the energy transition was a key engagement topic with mining companies over the past six months. In some cases, company management teams were actively considering the events and commitments announced at COP26 to assist in decision making (e.g. Whitehaven Coal), while others pushed ahead with a focus on decarbonising operations and creating additional revenue sources (e.g. Fortescue). We also engaged

with companies, including Woodside, regarding their approval of the Scarborough project, and with AGL, regarding its proposed demerger.

- During the period, BHP released its updated Climate Action Plan which included a 30% Scope 3 reduction target by 2030 and a goal of net zero scope 3 emissions by 2050. We recognise the significant and practical challenges in achieving such a target, but we applaud the company for announcing activities that will contribute to this. These activities include targets for net zero operational emissions from direct suppliers and the maritime transport of their products. We met with the company regarding these announcements and ahead of their “say on climate” resolution (see below section for more information).
- Beyond the climate theme, we continued to engage with major grocery retailers on their efforts to improve human rights in their supply chains, and also in light of state government-imposed lockdowns around the country and their impacts on the workforce. Executive remuneration was topical and we met with numerous company representatives ahead of remuneration report votes at AGMs. We were particularly pleased with a decision by the Coles Board to downsize the short-term incentive (STI) payment for its CEO. The decision was made based on the positive gains the lockdowns had on the business, primarily due to increased product demand.
- Given the large number of shareholder resolutions, we met with proponents of the resolutions to gain further insights into the motives behind them. See below section on shareholder resolutions for further details on this.



## AGM season highlights

### Gender diversity and board composition

We were pleased to note that Silver Lake Resources and Chalice Mining both appointed female board members during the period. As a result, all ASX200 company boards now have at least one female board member. Australian Institute of Company Directors (AICD) diversity statistics for the end of December 2021 indicate the percentage of females on ASX200 boards had increased to 34.2%, up from 33.6% in June 2021. The percentage of females on ASX300 boards at the end of December 2021 was 32.7%, up from 31.6% in June 2021.

Despite all ASX200 company boards having at least one female member, one-third of ASX200 boards still have less than 30% female board representation. There is more work to be done by corporate Australia to improve gender diversity at this most senior organisational level.

During the period we assessed two companies where, due to the size of their board, we would expect there to be more than one female board member. These companies were ARB Corporation and Reece Group. Following their respective AGMs, we followed up both companies with direct communication and outlined our expectations regarding board composition.

### Executive remuneration

The outcome of votes on remuneration reports at company general meetings are non-binding and advisory only, however, if a company receives a strike against their remuneration report over two consecutive AGMs it can trigger a motion to spill the entire board, with every board member up for re-election. A strike is classified where more than 25% of votes are cast against the remuneration report.

How company boards elected to structure remuneration packages for key executives as the pandemic continued into its second year was always going to be an interesting aspect of the 2021 AGM season.

In the 12 months to 31 December 2021, the incidence of strikes against a company remuneration report increased from 7.9% to 8.8%.<sup>8</sup> In the ASX100 there were 21 companies which received a strike, including firms such as Westpac, Rio Tinto, Crown, Dexus, and IAG. There were ten companies where votes against the remuneration report exceeded 50%, including Dexus, IAG, Rio Tinto, Scentre Group, and Whitehaven Coal. In the spectre of the



**Despite all ASX200 company boards having at least one female member, one-third of ASX200 boards still have less than 30% female board representation.**

Royal Commission, Crown received their second strike, however, shareholders voted against the board spill, likely due to the new senior leadership team that had only recently joined the business.

Our general impression of remuneration outcomes was that they were broadly consistent with our expectations, with the exception of two themes.

The first relates to instances where boards were recommending significant bonuses being paid to senior executives in spite of poor shareholder experience or a major incident at the company. We did not support such payments.

The second relates to the structure of bonus packages, including low hurdle rates, single metrics, or the lack of sufficient disclosure of metrics used to determine management performance. In these instances, they were not consistent with our expectations and we duly voted against these remuneration reports and incentive payments.

### Shareholder resolutions

Shareholder resolutions have become increasingly prominent over the last few years in the Australian AGM season. In Australia, groups of at least 100 shareholders (regardless of the total combined size of the shareholding), or those with at least 5% of the votes are able to propose shareholder resolutions. These resolutions are non-binding in nature, meaning that the company in question is not obliged to implement the resolution in the event the resolution is supported.

For a shareholder resolution to be binding

<sup>8</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)

<sup>9</sup> Australian ESG Equity Strategy AGM Wrap: Climate focused resolutions grow, 23 December 2021, Macquarie Research

there needs to be an amendment to the constitution of a company allowing this. A special resolution regarding the constitutional amendment is put to shareholders at the same time as the shareholder resolution, and this special resolution requires 75% support for it to be carried. To date, the average support for these special resolutions has been around 5%.

The figure 1 illustrates the growth in shareholder resolutions over the past five years, particularly on the theme of climate change. Support for shareholder resolutions has grown with average support of 34% in 2021 vs. 23% in 2020.<sup>10</sup>

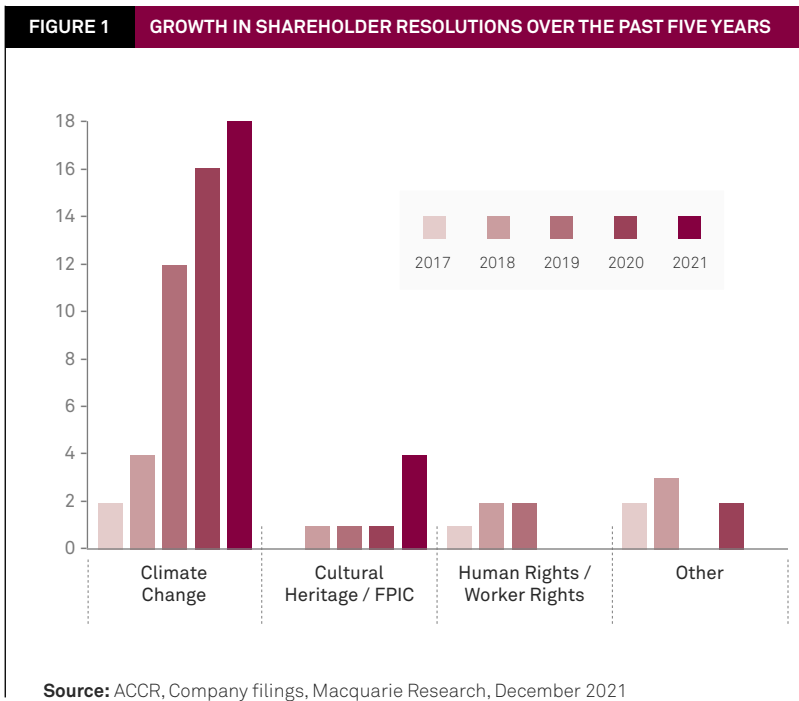
The majority of shareholder resolutions fell into two broad themes this AGM season: climate change and indigenous affairs.

**Climate change**

Shareholder resolutions relating to climate change centred on Paris-Agreement-aligned targets and expenditure, industry lobbying and transition planning disclosure. Resolutions involving disclosure of how capital expenditure is aligned with the goals of the Paris Agreement were lodged for a number of companies, including AGL, Origin and Incitec Pivot, with AGL and Incitec Pivot also receiving a related request to disclose emissions reduction targets. While we support enhanced disclosure that will enable investors to better assess the preparedness of the firm for a net zero carbon world, IFM did not support these particular resolutions due to our assessment that current disclosure is adequate or commitments from management to provide this disclosure in 2022.

Industry lobbying resolutions were seeking to ensure that the industry associations a company maintains membership of are aligned with the goals of the Paris Agreement, as well as being consistent with public commitments the company has made regarding the energy transition. Companies such as Origin Energy, South32 and BHP were recipients of such resolutions. It was noteworthy that both BHP and South32 boards recommended voting in favour of these proposals, which IFM did.

Finally, transition planning disclosure resolutions were lodged for the major domestic banks: ANZ, CBA, NAB, and Westpac. Proponents were seeking these banks halt their lending to fossil fuel projects and announce targets to reduce exposure to fossil fuels consistent with net zero by 2050. While IFM is supportive of actions that are aligned with a net zero by 2050



economy, we feel that lending policies need to take into account a broad set of stakeholders and considerations. During our engagements with these companies we received commitments to further progress lending policies consistent with these objectives.

**Indigenous affairs**

Two companies received indigenous affairs shareholder resolutions: Origin Energy and Fortescue.

Origin had received a number of resolutions relating to cultural heritage in reference to its activities in the Beetaloo region in the Northern Territory, with the proponents focusing on issues such as free prior and informed consent (FPIC) by native title holders to undertake activities on land, including the recognition of sacred sites and significance of cultural water flows. In Fortescue’s case, the proponents were asking the company to support calls for the West Australian government to pause the enactment of an Aboriginal Cultural Heritage bill so that the bill could be co-designed with traditional owners and their representatives.

**Say on climate**

The “say on climate” is a non-binding advisory vote on the climate change policy, actions, targets, and disclosures of a company. It is different to a shareholder resolution relating

<sup>10</sup> Australian ESG Equity Strategy AGM Wrap: Climate focused resolutions grow, 23 December 2021, Macquarie Research



to climate change as it is brought forward by the company, not shareholders.

In late 2021, BHP became the first Australian company to provide shareholders the opportunity to have a “say on climate”. This say on climate resolution received 84% support at the Australian AGM.

A number of other companies have announced their intention to include a say on climate resolution in their AGMs in 2022 and this includes AGL (both AGL Australia and Accel, should the demerger proceed), Origin Energy, Rio Tinto, South32, Santos, and Woodside.

As long-term investors, we are pleased that these companies have taken the lead in terms of giving investors a voice on this important issue.

As we wrote in our last report, we believe that this is a suitable avenue by which companies can gauge investor support for their targets and activities, as it relates to the energy transition. We see the adoption of such a resolution as a positive, as it provides shareholders with a forum to communicate their views on the climate change activities of a company.

It remains to be seen whether companies that offer shareholders a say on climate will not receive climate related shareholder resolutions, regardless, we would like to see this resolution appear annually as part of a company’s general meeting and we will be encouraging these and other companies to do so.

**Transparency on proxy advice**

IFM’s approach to proxy voting is guided by standards of business practice outlined in

international and domestic frameworks. At all times we seek to have all votes that we cast aligned and consistent with IFM’s responsible investment policies, and we maintain independence when exercising our proxy voting obligations.

We believe change is best effected by acting as a collective and voting in line with like-minded investors, and our voting guidelines are closely aligned with the Australian Council of Superannuation Investors (ACSI) Governance Guidelines. We are a member of ACSI and receive its proxy advice, along with advice of other 3rd parties, including Glass Lewis and Ownership Matters.

However, the recommendations and the opinions of proxy advisers are only one of multiple inputs into our proxy voting process.

During the year IFM provided a submission in response to the consultation on greater transparency of proxy advice conducted by the Treasury (please see our submission here - [https://treasury.gov.au/sites/default/files/2021-12/c2021-169360-ifm\\_investors.pdf](https://treasury.gov.au/sites/default/files/2021-12/c2021-169360-ifm_investors.pdf)). The consultation was designed to consider the adequacy of the current regulatory regime for proxy advice and developing reform options that would strengthen the transparency and accountability of proxy advice.

In December 2021 the government announced new regulations, which result in changes for the providers of proxy advice in areas such as licensing requirements, ownership structures, and communication of voting recommendations to the company in question.

We will keep our clients informed as to the impact this will have on our proxy advisers.



**Virtual only AGMs**

During this AGM season there were a number of companies which gave shareholders the opportunity to vote on a change in their constitution to enable virtual-only AGMs.

In an initial response to the COVID-19 pandemic, companies were allowed to hold virtual AGMs without breaching the Corporations Act. This temporary measure was put in place to provide flexibility in a challenging business environment and is effective until 31 March 2022. In 2020, Treasury released draft legislation proposing all meetings be held on a permanent virtual or hybrid basis. Under this draft proposal, the option of ‘virtual only’ general meetings would be permitted if companies expressly stated it in their constitutions and some companies sought shareholder approval to be able to do this.

IFM’s view is that a hybrid model of both in-person and virtual provides the best forum for all shareholders to engage in the AGM process and we voted against these resolutions.





# 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. 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 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 incorporates advice from independent external research firms and proxy advisers, with whom IFM Investors maintains close relationships. For example, on occasion, we receive input from Mr Mark Zirnsak, Senior Social Justice Advocate, Synod of Victoria and Tasmania, Uniting Church in Australia on critical social factors relating to ASX-listed companies.

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

## IFM Investors Proxy & Engagement Committee



<sup>9</sup> Does not include resolutions where IFM abstained from voting.

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HEAD OFFICE

Level 29 | Casselden | 2 Lonsdale Street | Melbourne | VIC 3000  
+61 3 8672 5300 | [www.ifminvestors.com](http://www.ifminvestors.com) | [investorrelations@ifminvestors.com](mailto:investorrelations@ifminvestors.com)