

Engagement and Voting Report

January – June 2020

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 January 2020 to 30 June 2020. 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. It is through this activity that we seek to build value that underpins delivery of our purpose: to protect and grow returns and investment value over the long term for our investors and the millions of people they represent.

Highlights

- We voted on over 460 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 7% of cases.
- We undertook extensive engagement with Rio Tinto, alongside ACSI and other investors, in response to the destruction of sacred Indigenous sites at the Juukan Gorge in the Pilbara.
- A number of CA100+ companies have made public announcements regarding net zero 2050 targets and/or other targets and measures demonstrating their commitment to a low carbon transition.
- Record shareholder support for climate change related shareholder resolutions at the Santos and Woodside AGMs.
- COVID-19 has had a significant impact on businesses and workers, further highlighting the importance of basic employment stability and labour rights.

CASE STUDY

Destruction at Juukan Gorge is a cultural tragedy that highlights a failure of accountability (ASX: RIO)

On 24 May, blasting by Rio Tinto (RIO) while expanding its Brockman iron ore operation in the Pilbara, destroyed two 46,000 year-old rock shelters in the ancient Juukan Gorge. These actions resulted in a shocking and irreversible loss of cultural heritage.

While RIO's decision to go ahead with the blasts was legal, in our view, it was the wrong thing to do.

More recently, it has come to light that there were other options available to RIO regarding the expansion of mining, but those options were never communicated to the traditional landowners – the Puutu Kuntjirra and Pinikura (PKKP) peoples. This raises the question as to whether “Free, Prior and Informed Consent” principles were ever applied.

The incident sheds light on the limitations of processes currently in place to protect Indigenous cultural heritage both at RIO, and regulatory processes within Australian state and Federal governments.

It also calls directly into question the leadership of RIO at the executive and board level. As yet, no one has been held accountable for the decisions that led to the

blasting of these shelters and the destruction of such a significant Aboriginal heritage site.

IFM has participated in meetings with RIO to better understand the events leading up to the blasting and how the company intends to review cultural heritage approval and Indigenous stakeholder engagement processes. At the time of publication we are not yet satisfied that concerns have been appropriately addressed. As institutional investors, we will continue to engage on, and want to see broad changes to how RIO manages matters of cultural importance so we can be assured that something like this never happens again.

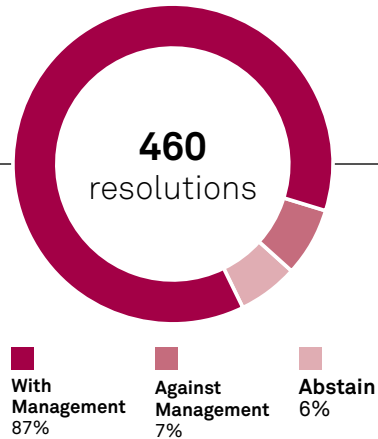
We have also written to the WA Minister of Indigenous Affairs to:

- Encourage completion of the review of the WA Aboriginal Heritage Act 1972, in particular the section 18 approvals process and enact the ensuing legislation;
- Consider reforms to the Act that allow a right to review; and
- Consider introducing a new, financial penalty regime for parties that breach the Act.

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Proxy voting summary

Indexed Equities voting activity 1 January – 30 June 2020	
No. of company AGMs	64
No. of resolutions	460 ¹
Voted with Management	400
Voted against Management	32
Abstained	27
Voted against ACSI recommendation	17



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

IFM Abstained on voting where we participated in placements and, on resolutions relating to Electro Optic Systems remuneration arrangements.

Summary of voting – proposal categories

Category	With Management	Against Management	Abstain
Director elections	155	7	-
Executive remuneration	50	3	-
Remuneration report	43	8	1
Capital management	56	4	21
Change to company statute	18	-	-
Director fees/grants	18	2	5
Audit/Financials	20	-	-
Merger & Acquisition	10	-	-
Board related (other) ²	13	4	-
Shareholder proposals	10 ³	4	-
Other ⁴	6	-	-
Meeting Administration ⁵	1	-	-



IFM Investors' voting guidelines are available in our Group Environmental, Social and Governance (ESG) 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

¹One resolution did not require voting.

²Includes Special Audit Reports; Indemnification of Directors; Severance; Ratification of Board/Management Accounts; Related Party Transactions.

³Seven out of the ten proposals relate to resolutions asking for a Constitutional Amendment - better managed through the regulatory process.

⁴Includes Political donations; Proportional Takeover Provisions; Misc. Management Proposal.

⁵No requirement to vote on one resolution.

Engagement update - “We act as a steward.”

Board Diversity update

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 to aid better decision making that we believe will lead to long term value creation for our investors.

The Australian Institute of Company Directors (AICD) statistics show that at the end of May 2020, the percentage of females on ASX200 boards remains steady at 30.9%⁶. Following the announcement of female board member

appointments to Spark Infrastructure and New Hope Group in June 2020, TPG Telecom, Pro Medicus and Silver Lake Resources Limited are the only ASX200 companies remaining with no female board members.

Diversity will continue to be a focus area for engagement in FY21. IFM Investors will continue to collaborate with ACSI and other investors to encourage companies to further diversify their boards and execute our proxy votes in line with ACSI’s diversity policy. Over this half-year period, no votes were executed against directors on diversity grounds.

Climate Change update

IFM Investors participates in the Climate Action (CA) 100+ initiative and we are pleased that the majority of Australian companies engaged by the program continue to make progress against the initiative’s three goals related to Governance, Action and Disclosure.

Almost all of the companies are improving governance structures and also have committed to public climate change disclosure using the Taskforce on Climate related Financial Disclosures (TCFD) framework. Establishing an executive remuneration link is one of the key asks for companies that have established goals, and engagement is ongoing with individual companies regarding progress.

The following are some of the ‘Actions’ CA 100+ companies are implementing:

- AGL recently released a new Climate Change Statement, which includes a number of FY21 commitments. Executive pay will be linked to climate transition goals such as investing in more renewable energy and selling more “carbon-neutral” power plans. Carbon-neutral offerings will be expanded to all products by the end of 2021, to reduce their Scope 3 impact. AGL will continue to invest and support the development of the new renewable energy sources and flexible generation capacity and will release their updated scenario analysis later this year.
- BHP has committed to provide disclosure of its updated scenario analysis work in 2020 reporting and to develop public goals relating to Scope 3 emissions. From 2021,



emissions reduction goals and targets will be embedded in executive remuneration.

- RIO has set a target to reach net zero emissions across its operations by 2050, with a medium term 2030 target to reduce carbon intensity by 30% and absolute emissions by 15%. RIO has not set Scope 3 targets and claims it is impeded from doing so as this would require it to influence Chinese steel producers who are the main consumers of the company’s iron ore. RIO is, however, partnering to explore ways to improve environmental performance across the steel value chain and has committed \$1 billion of investment for climate related projects.

⁶Australian Institute of Company Directors, www.aicd.companydirectors.com.au/advocacy/board-diversity/statistics

Labour standards update

COVID-19 has had and continues to have a significant impact on the Australian labour force, with large scale job losses in sectors hardest hit by lockdowns including airlines, hospitality, retail and the arts. The Australian Bureau of Statistics reported at least one in five employed people, or approximately 2.3 million people, either lost jobs in the months of April and May or had their hours reduced..

In June, Qantas Airways (ASX: QAN) laid off up to 6,000 workers, 20 per cent of their workforce, in an effort to position the company for several years where revenue will likely be significantly lower. The company has an assistance program in place to help people move into jobs with other employers like Woolworths and Coles, who have expanded employment.

Based on employment statistics and profiles, the pandemic and associated shutdowns will affect women's work lives disproportionately and differently from men⁷. IFM Investors is concerned that many of the sectors in Australia most affected by the crisis have female dominated workforces, including retail, hospitality, tourism, accommodation tertiary education and creative arts and entertainment⁸. These sectors utilise a highly casualised workforce, which in our experience has less access to ongoing employee benefits such as paid sick leave or carers leave⁹.

The pandemic has also exposed the community health risks that stem from aged care facilities reliant on low paid and insecure workers. The OECD found that Australia has the second highest level of part-time aged care workers and the second lowest length of tenure in aged care jobs. The rapid spread of COVID-19 across Victorian aged care facilities has highlighted the industry's reliance on a part-time and casual workforce that forces workers to take jobs across multiple facilities.

It is anticipated that the COVID-19 pandemic will affect all Australian companies' supply chains and workforces and, as a result, company engagement meetings include discussion on the impact of the pandemic and the adequacy of company responses. In line with IFM Investors' approach to the management of its own assets, companies will be asked:

- What cost saving measures are being implemented to avoid/reduce job losses?
- What other measures are companies taking to keep workers employed at the business?
- How are they communicating with workers about the impact of the COVID-19 pandemic on the business?
- What support is being provided to mitigate the impact of COVID-19 on workers?
- What potential risks does the company's staffing model pose for worker and community safety, and what is the company doing to identify and mitigate these?



⁷United Nations, Policy Brief: The Impact of COVID-19 on Women, 2020

⁸<https://pursuit.unimelb.edu.au/articles/who-s-hit-hardest-by-the-covid-19-economic-shutdown>

⁹https://cdn.aigroup.com.au/Economic_Indicators/Fact_Sheets/Where_are_Australias_casual_workers_in_201_8_Oct2018.pdf

Proxy voting case studies

CASE STUDY

Rights issue to directors

Northern Star Resources (ASX:NST)

IFM Investors supported Resolutions 2 to 4, the issue of shares to Executive Chair, Bill Beament, Mary Hackett (NED) and Christopher Rowe (Former NED). This was in contrast to the advice from ACSI to vote against.

The resolutions sought approval to allow the non-pro rata issue of shares (worth AUD\$5m) at a discounted placement price. The rights issue was part of an institutional investor placement used to fund the acquisition of Kalgoorlie Lake View Pty Ltd. ACSI opposed the resolutions on the grounds that the directors were provided an opportunity to mitigate the dilutive impact of the placement - a protection not made available to all shareholders.

IFM Investors supported the issue because we do not think a standard entitlement issue would have been possible within the timeframe required to proceed with the transaction. Raising money in a volatile market may have carried greater risk and taken longer. Conversations with the company confirmed that the placement had been offered to

all institutional investors on a pro-rata basis. We also believe the share purchase plan offered to retail shareholders was appropriately sized with regards to the proportion of shares held by retail shareholders.

While the size of the placement to the Executive Chair was far above the allocation he would receive under the share purchase plan, Bill Beament's shareholding is particularly significant for an individual investor. Both Bill Beament and Christopher Rowe are within the top 150 shareholders, and the company confirmed that all top 150 shareholders were offered their pro rata share.

We acknowledge the director placement appears to have an inbuilt optionality, but think it would be very difficult for this optionality to be exercised in practice. Overall, we believe that all shareholders will benefit from the capital raising and acquisition from Newmont.

IFM Investors abstained from Resolution 1 as we participated in the placement.

CASE STUDY

Voting against excessive remuneration at AMP

AMP (ASX:AMP)

IFM Investors voted against AMP's Remuneration Report. We believe the LTI/transformation incentive awards were excessive and further exacerbated by unchallenging hurdles, which provide 50% vesting to occur at performance below the peer median.

We accept that AMP executives have an extraordinary transformation task ahead, and

that the LTI was seeking to balance performance alongside retention of key executives. However, we cannot accept the awarding of such a high value incentive without challenging performance hurdles. Further, AMP's executives have historically been paid more than peers, despite performance significantly worse than their peers¹⁰. We believe this is out of step with the market and should be adjusted.

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¹⁰Sydney Morning Herald, "AMP faces an investor revolt over 'excessive' remuneration package", April 25, 2020

Climate change shocks at Santos and Woodside AGMs

Santos and Woodside (ASX:SAN|WPL)

IFM Investors voted for the shareholder resolutions, which asked Santos and Woodside to set short, medium and long term targets in line with the goals of the Paris Agreement. We believe both companies face exposure to significant climate change related transition risks, as policy and market sentiment ratchets up under global pressure to increase ambition on climate change. Neither company has established robust policies or targets that demonstrate adequate recognition or mitigation of the risks they face.

While Santos has set a 2050 aspirational net zero operational emissions target and Woodside has set shorter-term targets, neither company has identified any clear plans or a roadmap outlining how they aim to achieve their emissions reduction aspirations. It is also our view that both companies are lagging global oil and gas sector peers with regards to action on climate change.

IFM Investors believes the requested targets would encourage both companies to add additional

rigour to their target-setting process and reassure investors that they are preparing to meet the decarbonisation challenge.

IFM Investors also voted for the shareholder resolutions lodged against Santos and Woodside asking both companies to conduct a review of direct and indirect lobbying activities relating to climate, resources and/or energy policy. Providing disclosure on their lobbying activities relating to climate, resources and/or energy policy would provide shareholders with valuable insight into the company's attitude on a key risk area. Trade association membership is coming under increasing scrutiny in light of the politicisation of climate change action, in Australia, and presents reputational risks for companies.

We did not support the resolution asking Woodside to cease corporate and reputational advertising. Reputation advertising and sponsorship is widely accepted and undertaken across multiple industry sectors and maintains value for shareholders.

Climate change resolutions should consider materiality and progress

QBE (ASX:QBE)

IFM Investors voted against resolution 5B which requested that QBE set short, medium and long-term reduction targets for investment and underwriting of oil and gas assets. We are confident that QBE strategically recognises climate change and has done extensive work to understand the risks to the business, including setting science-based GHG reduction targets and committing to phase out direct investment in the thermal coal industry. Additionally, QBE has already committed to identify metrics to measure and monitor climate-related risks and opportunities relating to its investments and underwriting activities in 2020. QBE notes that the scope of these targets will be portfolio-wide

– not just confined to oil and gas as the proposed resolution asks. Rather, it will develop an action plan and metrics specific to key industries.

We also voted against QBE resolution 6B, relating to world heritage listed Ramsar sites and RIO resolution 24, asking the company to set Scope 1, 2 and 3 targets. In QBE's case, the proponents of the resolution have not established QBE's direct involvement in the Warragamba Dam project. IFM is confident that RIO is taking appropriate steps to reduce its impact (including target setting). IFM will continue to engage with RIO and encourage ongoing review and progress.

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 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 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 exercising its voting power and there are instances where our final voting decisions may differ from ACSI.

From January to June 2020, our voting stance differed from ACSI on 17 resolutions, as outlined below:

- **Capital Management** – 6 resolutions
- **Remuneration** – 9 resolutions
- **Shareholder resolution (Governance)** – 1 resolution
- **Director election** – 1 resolution

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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