Stewardship Report
2022

First Sentier Investors

Contents

Introduction from our CEO

Welcome to the First Sentier Investors Stewardship Report 2022. This document outlines the way we act as stewards of our clients' capital, with a focus on investment excellence that seeks to deliver strong investment performance in conjunction with positive, real-world outcomes.

At the heart of FSI's stewardship is a commitment to transparency and collaboration. We seek to provide clear information and robust data about our engagement, voting and investment activities, so that clients and other stakeholders can understand our decision-making.

We also recognise that as allocators of capital, we have more influence when working together – with the companies we invest in, and with other investors. For this reason, we approach stewardship with a spirit of collaboration.

I am personally involved in our responsible investment (RI) and stewardship strategy and activities and over the past year we have strengthened our capability by expanding the global RI team, further detail of which can be found in Section 2: Governance, resources and incentives.

We live during a time of wide reaching social change, where the attitudes of clients, consumers and the wider public are being reflected in new and proposed regulation. As responsible stewards of our clients' capital, we have provided feedback on these new pieces of regulation through public consultations and broader policy advocacy, which you can read about on pages 28-29.

Ultimately, we believe that good stewardship is at the core of responsible, active investment, and is an important driver of investment outcomes.
This report demonstrates the ways in which we put this into action across our investment teams. It outlines our approach and activities globally, and also aligns to the specific Principles set out in the UK Stewardship Code 2020.

As always, we welcome your feedback on our work. If you have any questions or comments, please contact stewardship@firstsentier.com.

Mark Steinberg
CEO, First Sentier Investors

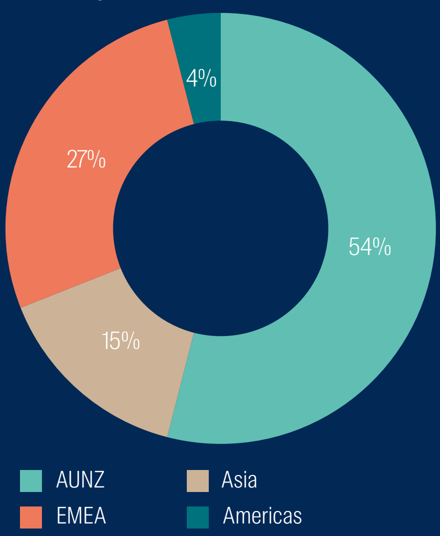
About us

First Sentier Investors (FSI) is an investment management business and the home of investment teams FSSA Investment Managers, Igneo Infrastructure Partners, Realindex Investments and Stewart Investors.

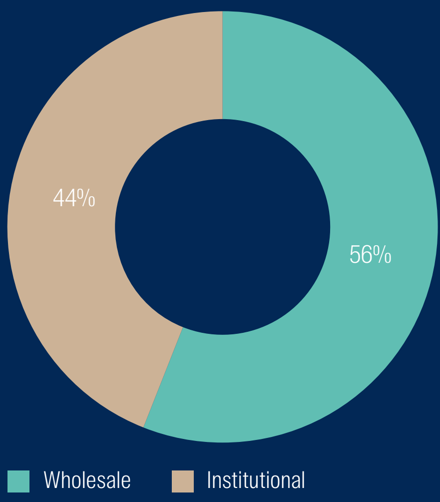
We are stewards of assets under management (AUM) of GBP121.5 billion (as at 31 Dec 2022) across listed equities, fixed income and direct infrastructure on behalf of institutional investors, pension funds, wholesale distributors and platforms, financial advisers and their clients.

All of our investment teams operate with discrete investment autonomy and investment processes, in line with their investment objectives. Each team integrates environmental, social and governance (ESG) considerations in a way that is suited to their investment philosophy and style, meaning that teams may approach the same issues in different ways. This tailored approach allows the teams to make decisions in line with their fund objectives, while still benefiting from the resources and governance structures provided by the wider business.

AUM by region*



AUM by client segment*



* As at 31 December 2022


Frankfurt
Paris
London
Edinburgh
Dublin
Hong Kong
Singapore
Sydney
Melbourne
Tokyo

Global investment capabilities by AUM

31 December 2022 (bn)	AUD	USD	GBP	EUR
Australian Equities				
Growth	14.4	9.7	8.1	9.1
Small and Mid-Cap Companies	4.2	2.9	2.4	2.7
Emerging Companies	0.7	0.5	0.4	0.5
Equity Income	0.5	0.3	0.3	0.3
Total	**19.8**	**13.4**	**11.1**	**12.6**
FSSA Investment Managers				
Asia Pacific, Global EM, Greater China, India and Japan				
Total	**44.7**	**30.3**	**25.2**	**28.4**
Stewart Investors				
Asia Pacific, Europe, Global EM, Indian Subcontinent and Worldwide				
Total	**26.2**	**17.8**	**14.8**	**16.7**
Property and Infrastructure				
Global Property Securities	1.8	1.2	1.0	1.1
Global Listed Infrastructure	12.0	8.1	6.7	7.6
Igneo Infrastructure Partners*	24.4	16.5	13.8	15.5
Total	**38.2**	**25.9**	**21.5**	**24.3**
Fixed Income				
Asia Fixed Income	5.3	3.6	3.0	3.4
Global Fixed Income	0.6	0.4	0.4	0.4
Global Credit	2.3	1.6	1.3	1.5
Australian Fixed Income	8.7	5.9	4.9	5.5
Cash Management	42.7	29.0	24.1	27.1
Total	**59.7**	**40.5**	**33.7**	**38.0**
Multi Asset				
Objective-based investing Advisory services**				
Total	**5.2**	**3.5**	**2.9**	**3.3**
Systematic Equities				
Realindex				
Total	**26.5**	**17.9**	**14.9**	**16.8**
Total AUM	215.5	146.2	121.5	137.0

**Is reported one month in arrears and excludes any undrawn commitments.*
***AUD$4.7bn / USD$3.2bn / GBP$2.7bn / EUR$3.0bn invested in other FSI capabilities. MAS AUM relates to the objective based strategy.*
Source: First Sentier Investors as at 31 December 2022. Numbers have been rounded. In order to avoid double counting the FSI Total AUM does not include Multi Asset funds that are invested in other FSI capabilities.

1: Purpose, strategy and culture

At First Sentier Investors, our vision is to be a provider of world-leading investment expertise and client solutions, led by our responsible investment principles. Our purpose is to deliver sustainable investment success for the benefit of our clients, employees, society and shareholder. We work together across multiple global markets, with over 1,000 employees collaborating to achieve our vision.

Our philosophy and culture are based on a set of shared values:

- **Care** - We care about our clients, society and each other
- **Openness** - We are open with each other and to different ways of thinking
- **Collaboration** - We collaborate to deliver the best solutions
- **Dedication** - We are dedicated to being experts in our respective fields

Strategy

Our strategy is to accelerate growth by offering our clients differentiated investment capabilities and innovative thinking.

We are enabling this by simplifying our business and energising our people to succeed today, while reimagining tomorrow.

In 2022, we set out a strategy to achieve this by executing on the following five pillars:

- **Energise** our people by creating an inclusive culture which attracts and retains talent who feel valued and supported to succeed
- Invest to **accelerate** growth by investing in sustainable and complementary capabilities both organically and via acquisition
- **Differentiate** our organisation as a leading advocate of, and performer in, responsible investing and corporate sustainability
- **Simplify** the way we do business, for our people and clients
- **Reimagine** client experience to ensure we are well placed in an increasingly digital world

Source: First Sentier Investors, as at 31/12/22

Culture

We believe having a strong culture of stewardship requires an engaged workforce, comprising of individuals who understand our vision and purpose, and apply it to their day-to-day activities.

Our Energise strategic pillar includes a range of initiatives to build an engaged workforce. It seeks to do this through a comprehensive program of competitive pay and benefits; diversity, equity and inclusion initiatives; learning and development options; and a focus on building a positive culture starting with the leadership team.

Corporate Sustainability

Given that FSI expects high ESG standards from the companies in which we invest, we are also focused on meeting those standards within our business. Our Corporate Sustainability function was set up in 2022 to manage FSI's ESG impacts from our own operations. It fosters a culture of accountability through activity across four priority areas:

Environment

- FSI is committed to net zero emissions[1] by 2030 (or sooner) for our business operations.
- Our offices in London, Sydney and Singapore are powered by 100% renewable electricity or purchase Renewable Energy Certificates (RECs), and in our other office locations, we are actively planning the transition to renewable energy in consultation with our building management.
- Our company headquarters are based at Barangaroo, Australia's first large-scale carbon-neutral community.[2]
- We identified and mapped material climate risks across the organisation and have incorporated this into our firm-wide Task Force on Climate-related Financial Disclosures (TCFD) reporting.

Supply Chain and Modern Slavery

- We publish an annual Modern Slavery Statement and our Modern Slavery Taskforce works to improve on our efforts to combat modern slavery.

Diversity, Equity and Inclusion (DEI)

- We are committed to fostering an inclusive and equitable culture where diversity can thrive.
- We focus on creating an inclusive culture program, reviewing pay equity, and expanding regional employee DE&I communities. This is supported by our policy and process updates.
- In 2022, we conducted our second diversity census. The census provides a picture of our global workforce, and helps shape the execution of our DE&I strategy.

Employee Engagement Survey

- In 2022, 84% of our employees completed our annual Employee Engagement Survey. Based on the feedback it gathered, we developed four 'Listening into Action' workstreams, with the aim of collaboratively engaging our employees to improve in our lower scoring areas.

Community (Philanthropy)

- The First Foundation, founded in 2012, is FSI's philanthropic initiative, aiming to make a difference to local, national and international communities by promoting charitable time and giving.
- We support employee donations via matching, make staff-led grants and encourage volunteering through our 3-day volunteering leave policy.
- During 2022, the First Foundation facilitated several initiatives including: a global matching campaign to support the humanitarian crisis in Ukraine; a Christmas campaign in the US to support New York Cares; and a Global Momentum challenge to mark 'World Mental Health Day'.

Taken together, these initiatives play a crucial role in shaping the firm's culture.

B Corp Certification

In 2022, First Sentier Investors became a globally Certified B Corporation (B Corp). B Corp certification is conferred by B Lab, a global non-profit network founded in 2006 with a belief that the power of business can be a force for good and business could lead the way towards a new, stakeholder-focused economy. B Lab verifies social and environmental performance, public transparency and legal accountability to consider impacts on all stakeholders.

B Corp Certification provides a framework for assessing our operations against, to gain assurance that our business is operating to high standards from an ESG point of view, as well as to identify areas where we can enhance and improve. To receive B Corp certification, a B Impact Assessment (BIA) was conducted, covering FSI's practices and policies across five categories: governance, workers, community, environment, and customers. As a B Corp certified company, we will be verified every three years to confirm that we are continuing to meet the rigorous, evolving standards.

Internal Capability Building

FSI believes that to build a strong stewardship culture and mindset, through knowledgeable and engaged people, our people need access to quality education. To achieve this, our ESG Learning Pathways is continually being expanded.

During 2022, we worked on plans to expand the scope and depth of this program for 2023 and beyond. The **ESG Pathways Program** is an overarching learning and development program that was launched internally, and is based on four key pillars.

1 This commitment covers our Scope 1, 2 and 3 emissions. Scope 3 is limited to our corporate travel activities.
2 Certified by the Australian Government's Climate Active certification scheme.

- **ESG Foundations:** After reviewing market options, we are developing a program to be delivered via both online modules and in-person facilitation of more complex and / or engaging topics. This will be rolled out in 2023.

- **Functional Learning:** FSI staff have been segmented into learning groups which includes a high-level set of learning objectives and potential skill gaps. The objective of this exercise was to ensure functional accountability of ESG issues across the organisation. While ad hoc modules were delivered in 2022, a structured program will be delivered in 2023.

- **Further ESG Learning:** We have endorsed a series of formal training programs that employees from all groups can use their training budget to complete as part of their personal development planning. The complexity, cost and time commitment of the courses varies and we have outlined learning outcomes, topics, costs, and target audience for each, in order to facilitate a useful reference for staff looking to develop their ESG knowledge.

- **Early Careers:** Two ESG-focused pathways have been established for Graduates to be piloted for the 2023 Australian graduate intake. This is before considering other locations.

Responsible Investment & Stewardship

RI is a whole of business issue, and a key pillar of our investment approach. ESG standards are important to our investment process, security selection, and portfolio construction.

Our ESG investment beliefs

We first agreed our ESG investment beliefs in 2017 with support from the WTW Thinking Ahead Institute. We reviewed these beliefs in 2022 with input from all investment teams, and agreed that three core beliefs underpin our approach:

- As a global investment manager, we have the opportunity and responsibility to allocate our clients' capital in a way that drives what we believe to be positive social and environmental outcomes within the context of our investment strategies.

- Incorporating ESG considerations as sources of long-term risk and opportunity into our investment approach can help us make better decisions, which can lead to stronger long-term investment performance for our clients.

- As active investors, we can create better outcomes on behalf of our clients and broader society.

Our Approach to Engagement

We acknowledge that we have a wider responsibility to contribute to a sustainable economy and society through our investment activities and business operations.

As allocators of capital, stewards of our clients' assets and active shareholders in companies, we believe that the individual and collective decisions we make as investors can have real-world impacts.

Against this background, we believe in active engagement and active ownership. Ongoing dialogue with the companies we invest our clients' capital in improves our understanding of the issues that they face, helps us drive improvements and, ultimately, seeks to protect or enhance the value of our clients' investments.

We share a commitment to achieving the best possible outcomes over the long term for our clients. Our culture prioritises acting in our clients' best interests and we structure our business to align our interests with theirs. For example, remuneration structures incentivise teams to deliver strong investment performance over the long term.

Effective, responsible active ownership has long been part of our fundamental approach to investment. We actively exercise voting rights and engage on issues related to factors like strategy, risk, performance, climate change, human rights and governance, as outlined in this report.

Assessment of Value

As required by the UK's Financial Conduct Authority (FCA), each financial year all authorised fund managers must carry out an Assessment of Value (the AoV or the Assessment) for the share classes in funds they operate. For FSI, the 2022 Assessment in relation to First Sentier Investors ICVC (the OEIC) covered the twelve-month period to 31 July 2022 and was undertaken by the board of directors of First Sentier Investors (UK) Funds Limited, acting in its capacity as Authorised Corporate Director (ACD) of the OEIC. The AoV considers and evaluates the sub-funds of the OEIC against the following seven criteria; Performance, Quality of Service, Classes of Units, Authorised Fund Manager (AFM) Costs, Economies of Scale, Comparable Market Rates and Comparable Services. There is a further holistic overlay overseen by the board of the ACD, which aims to ensure, for each share class, that fees and profitability can be justified relative to the overall value delivered. A Red/Amber/Green (RAG) rating has been applied to each of the criteria, which translate to:

- **Green** - The share class offers value to investors

- **Amber** - The share class, has opportunities for improvement

- **Red** - The share class has been identified for remedial actions and we are currently considering options for addressing them

Each of the OEIC's sub-funds is reviewed and analysed across all share classes. Of the 92 share classes outstanding on 31 July 2022 (date of the Board meeting to discuss all 7 pillars and the profitability of the funds), the following ratings were applied:

- **81** (88%) share classes rated Green overall. In the 2021 Assessment these were 82 (88%)
- **9** (10%) share classes rated Amber overall. In the 2021 Assessment these were 11 (12%)
- **2** (2%) share classes rated Red overall. In the 2021 Assessment no share classes were rated Red

We look to ensure our investment strategies remain competitive and current and we have made alterations to products as a result of the ACD's AoV analysis. For example, following the recommended action from the 2021 Assessment a review was undertaken to determine whether the additional expense cap (the Cap) of 25bps (plus 8 bps for hedged share classes) remained appropriate. The ACD concluded that the Cap should be reduced to 20bps (plus 8bps for hedged share classes), and the change was implemented in Q4 2022. The Cap works by limiting the additional expenses payable by shareholders over and above the Annual Management Charge (AMC) for share classes that are small.

If you wish to read the full AoV Report, it can be found on our website.

These beliefs are underpinned by the following aspirations at a firm and investment team level.

Our firm aspirations

- To engage in public policy debates and collaborate through industry initiatives
- To communicate openly and clearly with our clients regarding ESG issues
- To hold ourselves as a business to the same standards as those we expect of the companies we invest in
- To foster a culture that supports principles of stewardship and responsibility
- To adhere to all relevant regulatory requirements and industry codes

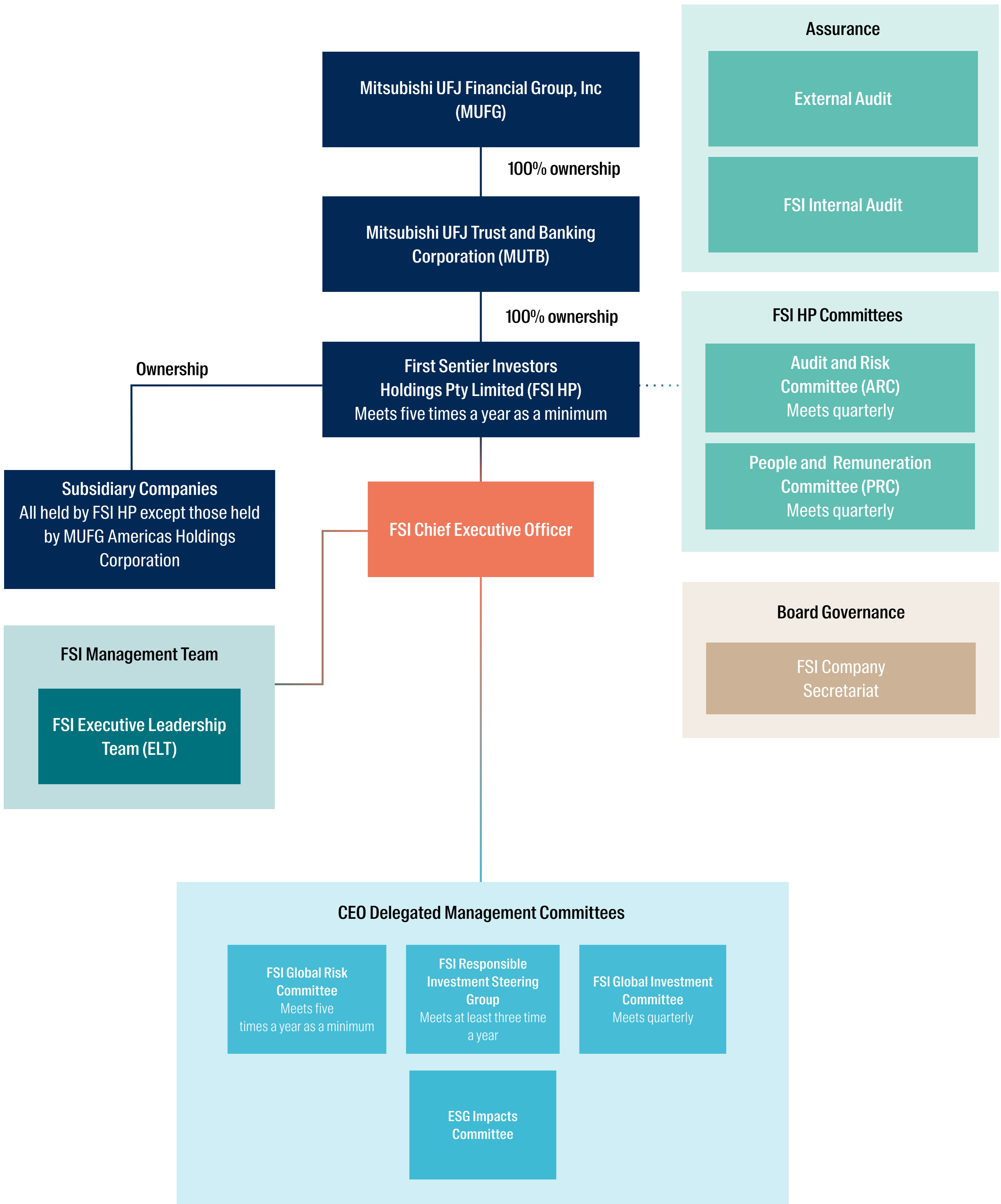
Our investment team aspirations

- To assess and monitor on an ongoing basis our investments for relevant ESG risks and opportunities
- To engage in an active dialogue with companies and entities that we invest in
- To document engagement activities and any issues raised to be followed up and reviewed periodically
- To develop an engagement strategy with escalation points where a company is not recognising or addressing ESG concerns
- To exercise our right to vote whenever possible
- To measure and report on the ESG outcomes of our investments as evidence of our approach to RI
- Not to invest in certain companies on ethical grounds*

**A list of our exclusions is available on our website.*

2: Governance, resources and incentives

Our Governance framework is wide-ranging and in-depth



Governance Framework

We have built our stewardship and responsible investment strategy on a strong governance framework that helps us align all our practices and initiatives across our entire firm. It also enables us to make the most of the diverse resources and expertise of our different teams. Ultimately, it equips us to make informed decisions that aim to improve outcomes for clients. In 2022, we reviewed and enhanced our global ESG governance, reporting and monitoring arrangements in consideration of emerging regulations globally. This included introducing an expanded ESG governance structure and updating key policies and business processes in areas such as product governance, marketing and portfolio management.

Descriptions of relevant committees to support the governance structure are below:

Global Investment Committee

The Global Investment Committee (GIC) is the main forum for oversight of investment performance and risk within FSI. The GIC is chaired by the CEO, meets quarterly and is responsible for monitoring the management of investment risks, including ESG risks and matters related to all of FSI's investment teams and portfolios excluding Igneo Investment Partners (see information below on this team's governance structure).

Global Risk Committee

The purpose of the Risk Committee is to assist and advise the CEO in the governance, optimisation and effective management of risks assumed by FSI in the course of carrying on its business, with particular focus on the identification, measurement, management and reporting of risks. The scope includes all businesses within FSI, and covers the broad categories of strategic, market, operational, information technology, data loss, legal and financial risk (oversight of investment risk is addressed at the Global Investment Committee).

Responsible Investment Steering Group

Chaired by our CEO, Mark Steinberg, this group meets at least three times per year. It includes our Global Head of Investment Management and a number of senior leaders including some of our investment team heads. The group sets our top-down direction and strategy for RI and approves the RI and Stewardship policy framework for the business.

ESG Impacts Committee

This active knowledge-sharing forum focuses on issues – like climate change and human rights risks – that cut across multiple investment teams. It identifies research areas that will deepen our understanding of how ESG issues affect investment and business performance. Its membership comprises representatives from each investment team. The RI representatives are a key pillar of our governance strategy. The represented teams also integrate ESG into their investment processes in various different ways.

Note: This structure was reviewed in late 2022 and some changes made. These will be outlined in our 2023 report.

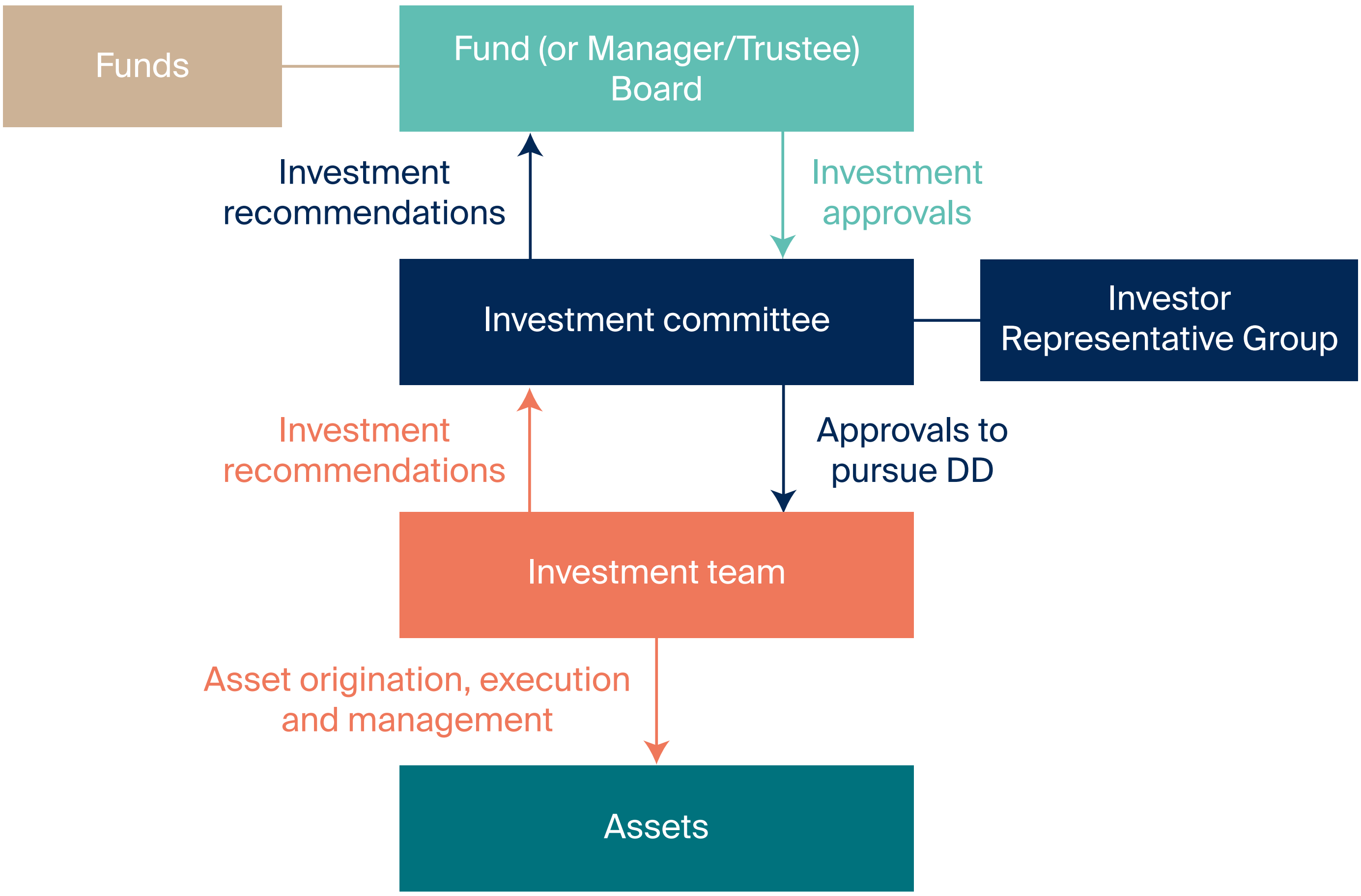
Governance structure: Igneo Infrastructure Partners

The funds managed or advised by Igneo Infrastructure Partners have a different governance structure, which reflects the unique nature of the asset class. Each of the funds has a board or similar top-level governing body, where ultimate investment decision-making responsibility resides. For the majority of the Igneo funds, these boards are comprised of independent directors as well as FSI representatives. This body is ultimately responsible for portfolio and risk management, including with respect to ESG and the stewardship of the companies in the portfolios.

Each fund has an Investment Committee, which is independent of FSI's Global Investment Committee. It is responsible for evaluating investment opportunities (including ESG risks and opportunities) and making investment recommendations to the board. The funds also have an Investors' Representative Group, a group of investors which plays a role during the investment process.

As with all investment teams in FSI, Igneo is subject to the FSI Group wide Global Responsible Investment and Stewardship Policy and Principles. It has also developed specific guidelines for how this policy including the execution of stewardship responsibilities is implemented in their funds. Oversight and assurance is provided by Igneo's Investment Committees as well as the Alternative Investment Fund Manager (AIFM) (for the European funds) and the Board of the relevant Manager or Trustee (for the international funds).

The below provides a simplified diagram of the governance arrangements for all Igneo funds:



Global Responsible Investment and Stewardship Policy and Principles

FSI's Global Responsible Investment and Stewardship Policy and Principles ("the RI Policy") articulates our approach to RI and stewardship, and includes a set of guiding principles for investment team members as well as specific criteria in relation to ESG integration, corporate engagement, proxy voting and investment screens.

Through the RI Policy we communicate our approach to systemic issues such as climate change, nature and biodiversity, human rights and modern slavery, and diversity.

While the RI Policy was initially approved in April 2020, the pace of regulatory change has been rapid, with different focuses and requirements in different countries. For this reason, we made significant changes in the course of 2022, to provide clarity to internal and external stakeholders on topics including:

- **Our methods of engagement:** engagement means different things to different people, and we wanted to be clear about the expectation for meaningful, ongoing engagement.
- **How engagement is prioritised:** given the varying nature of the asset classes we manage, the geographies in which they operate and the size of our holdings, this looks different for different teams, but we wanted to be clear on the factors that are considered when prioritising and determining the scope of engagement activities.
- **What standards are we implementing:** there is a growing list of standards that relate to and inform our RI activities, which we felt was important to recognise.
- **Remuneration of investment team members:** integrating ESG risks and opportunities into the investment process has been part of (either implicitly or explicitly) our remuneration framework for some time, but we are trying to be more transparent about this.
- **How we monitor companies on an ongoing basis for ESG risks and opportunities:** as ESG risks evolve, so do the risks and opportunities faced by the companies we invest in.

The updated RI Policy was finalised in 2022.

Specialist RI Team

The RI team engages with the business to deliver the RI strategy and support ESG integration for investment teams. Its work involves a significant amount of internal engagement, communication and training globally across multiple topics. The team's profiles (as at 31 December 2022) are listed below.

Kate Turner, Global Head of Responsible Investment
Regional focus: Global
Thematic focus: Human rights and modern slavery

Kate Turner is a leading figure in the responsible investment and sustainable finance space and was appointed Global of Head of RI at First Sentier Investors in October 2022, moving from the role of Deputy Global Head of RI when Will Oulton stepped down (see below). Sydney-based Kate combines an impressive legal background with significant experience in structuring sustainable finance deals and advising investment professionals on applying an RI lens to their strategies.

Kate's dedication to acting on critical issues including climate change and modern slavery has made her a well-known figure in the investment sector. This includes her role as Chair of the Steering Group for Investors Against Slavery and Trafficking APAC – a forum in which she has been a driving force.

Will Oulton, Responsible Investment Advisor to First Sentier Investors

Will is the former Global Head of Responsible Investment at First Sentier Investors, based in the UK. He held the role until October 2022, after which time he took an advisory role. Until the end of 2022, he Chaired the First Sentier MUFG Sustainable Investment Institute. Before joining FSI, Will was Head of Responsible Investment for Mercer Investments across EMEA, advising institutional asset owners on environmental, social and corporate governance. Before that, he was Director of Responsible Investment at FTSE Group, leading the development of FTSE's global sustainability services. He has over 20 years' experience in sustainable and responsible investment. In December 2015, he was appointed Chairman of the European Sustainable Investment Forum (EUROSIF). He is a fellow of the Royal Society of Arts, an Honorary Associate Professor at Nottingham University Business School's International Centre for Corporate Social Responsibility, Expert Panel Member of the Prince's Accounting for Sustainability Project (A4S), and sits on a number of investment industry advisory boards and committees. He is also a Trustee Director of the UK's Marine Conservation Society.

Ken Mitsutani, Director, Responsible Investment

Ken was based in the UK until April 2023, and held a dual role split between FSI and the First Sentier MUFG Sustainable Investment Institute until that time. Ken's direct involvement with the Institute helped to further develop its strategy, operations and management. Prior to this Ken was Head of Responsible Investment, for EMEA supporting EMEA-based investment professionals, as well as distribution and client-facing teams in order to promote FSI's RI capabilities. He joined FSI from Mitsubishi UFJ Trust and Banking Corporation (MUTB) where he held a variety of investment and business roles, including Chief Manager of the Global Asset Management Business Division of MUTB, based in Tokyo. During a career that spans more than 20 years, he's been particularly focused on global asset management businesses. Ken holds a Bachelor of Economics from The University of Tokyo and certificates in ESG Investing, and Climate and Investing from CFA UK.

Finian Power, Head of ESG Policy and Regulation
Regional focus: Global
Thematic focus: new and ongoing ESG regulation and policy

Based in Dublin, Finian is responsible for developing the firm's understanding of current and emerging ESG/sustainability policy and regulatory issues globally. Finian also supports policy analysis and advocacy across the organisation. Prior to joining FSI, Finian was Head of Investment Management Oversight at Prescient Fund Services and has previously held roles at Waystone as a Director in their Dublin and Cayman Islands offices, BNY Mellon and JPMorgan in Dublin.

Finian studied Business at Dublin Institute of Technology, is a Chartered Alternative Investment Analyst and holds certificates in ESG Investing, and Climate and Investing from CFA Institute and CFA UK respectively.

Joanne Lee CFA, Responsible Investment Specialist
Regional focus: Asia
Thematic focus: Nature and biodiversity
Teams supported: FSSA, Asia Fixed Income, Stewart Investors

Joanne Lee is a sustainable finance expert with over 13 years of relevant professional experience. As a RI Specialist at FSI, Joanne works on the strategic development and implementation of the firm's RI initiatives with a focus on environmental issues. She is leading FSI's work on natural capital and biodiversity. Based in Hong Kong, she engages with Asia-based investment teams, Asia Fixed Income, FSSA and Stewart Investors, as well as products, distribution, compliance, risk, marketing, HR and RFP teams.

Prior to joining FSI, Joanne was a Sustainable Finance Specialist at WWF, driving the research and advocacy on net-zero portfolio alignment, natural capital and green financial solutions. She also worked on renewable energy financing at the International Renewable Energy Agency (IRENA) in Abu Dhabi and climate consultancies in the US. Joanne is a CFA Charterholder with a Master's degree in Environmental Studies from the University of Pennsylvania.

Bjorn De Smedt, Responsible Investment Specialist
Regional focus: Australia
Thematic focus: Climate change
Teams supported: Australian Equities Growth, Australian Small and Mid Cap Companies, Global Listed Infrastructure Securities, Realindex, Stewart Investors

Bjorn De Smedt is a Responsible Investment Specialist at First Sentier Investors' RI team with a particular focus on climate change action. Bjorn supports the governance of responsible investment and integration of ESG factors across the firm's investment, as well as building internal and external stakeholder relationships. Based in Sydney, Bjorn is the first point of contact for Australian Equity Growth, Australian Equity Small and Mid-Cap companies, Global Infrastructure Securities, RealIndex and Stewart Investors. Prior to joining First Sentier Investors, Bjorn was an Associate Director at ISS Australia leading its business development in Australia and New Zealand and Asia Pacific ex Japan, and has previously held roles at Fortis Commercial Finance and Euroclear Bank in Brussels and BNP Paribas Securities Services in Paris.

Rhys Foulkes CFA, Responsible Investment Specialist
Regional focus: EMEA
Thematic focus: Engagement, climate change
Teams supported: Fixed Income ex-Asia, Igneo Infrastructure Partners

Rhys Foulkes has over 15-years' experience in the asset management industry. The majority of this time has been spent as a Credit Analyst in Fixed Income, but his strong interest in responsible investing saw Rhys move internally within FSI to the RI Team. As a RI Specialist at FSI, Rhys is focused on supporting the firm's strategic development and implementation of the RI initiatives with a focus on assisting FSI's autonomous investment teams in their engagement activities. Based in London, Rhys is the first point of contact for the Fixed Income and Igneo investment teams. Prior to joining FSI, Rhys worked as a Credit Analyst at ECM and Threadneedle, covering a variety of non-financial sectors. Rhys is a CFA Charterholder, who has obtained the CFA's Certificate in ESG Investing, with a BSc (Hons) in Economics from the University of Bath, UK.

Will Bartlett CFA, Responsible Investment Analyst
Teams supported: Multi-Asset Solutions, Property Securities, Emerging Companies

Will is a Responsible Investment Analyst in the RI team. He supports the team across asset classes and themes with analysis and research, content development and reporting. He manages ESG data and contributes to the integration of ESG factors across the organisation. He also supports engagements with clients and stakeholders. Based in Sydney, Will is the first point of contact for investment teams Multi-Asset Solutions, Property Securities and Emerging Companies. Before he joined our team, Will was an Associate at Westpac Institutional Bank, supporting the Sustainable Finance and ESG teams in transaction origination and execution, sustainability reporting and the broader ESG strategy. Prior to this, Will was a Fund Analyst at Charter Hall. He is a CFA Charterholder with a Bachelor of Commerce (Liberal Studies) from the University of Sydney.

Remuneration and Incentives

Our Global Code of Conduct reinforces our commitment to operating with the highest standards of professionalism to protect our investors' interests, and to behave ethically and responsibly as a firm. The Code sets out what we expect from everyone who works with our clients and other stakeholders. Our people confirm they will maintain our standards when they join the business, and annually from then on.

We have an established Remuneration Policy to ensure that an appropriate remuneration framework exists to support our vision, purpose and strategy.

Our remuneration policy and frameworks aim to motivate employees to achieve individual and corporate performance outcomes that deliver long-term sustainable results, to the benefit of our clients, employees, society and shareholder. The Policy adheres to legal and regulatory requirements, promotes sound and effective risk management (including sustainability risks[3] for investment professionals) and avoid conflicts of interest.

FSI's Remuneration Policy, principles, frameworks and policies:

- meet all applicable regulatory and legal requirements
- align with our vision, values and strategy
- align with the interests of our clients, employees and the community
- encourage responsible behaviour that supports long-term sustainability
- promote sound, effective risk management and encourage responsible behaviour that supports long-term sustainability, including for investment professionals, the effective management of sustainability risks
- avoid conflicts of interest
- support a diverse and inclusive workforce

Compensation at FSI includes Base Remuneration and Variable Remuneration. Base Remuneration is set at market competitive levels, while Variable Remuneration outcomes are differentiated in line with performance. We provide various forms of Variable Remuneration, depending on the role and seniority level.

For Investment professionals, Variable Remuneration is provided to ensure both short term and long term stability of the Investment team and performance. The Short Term Incentives (STI) structure for Investment Professionals are based on portfolio performance benchmarks over 1, 3 and 5 year performance, achieving broader corporate objectives and individual performance including demonstrating our values and meeting risk requirements of their role.

The long-term incentives (LTI) of most of the firm's investment professionals are structured through co-investment instruments aligned to the underlying team funds. This arrangement encourages long-term alignment with clients' interests. It also incentivises investment professionals to reinforce the team's investment philosophies and processes, which include assessing the sustainability risks that may affect investment performance.

We actively manage risk associated with measuring and delivering short-term and long-term performance. All activities are carefully managed within our risk framework. Individual Variable Remuneration outcomes are reviewed and may be adjusted in light of any associated performance and risk outcomes specific to an individual's performance, the performance of the business unit and the performance of the business as a whole.

Performance adjustments of individual Variable Remuneration outcomes may include (but is not limited to) malus and claw-back.

Performance and risk management is built into our remuneration framework by ensuring that all employees are assessed against risk and behavioural standards, that are considered upon allocation of short term and long term incentives and again upon vesting of deferred incentives to confirm they have appropriately demonstrated our values.

This assessment ensures that Variable Remuneration outcomes are based on what was achieved (goals) and how it was achieved (values), with adjustments for risk outcomes applied where required. The values assessment includes an expectation of care for our clients and society in how we operate.

As part of our commitment to employees' learning and development, we encourage regular and open feedback throughout the year in addition to a formal annual performance review. The formal review process includes:

- Risk assessment: to assess an employee's ability to manage risk effectively; and/or where a negative risk outcome occurred, to find out whether it stemmed from individual actions and/ or behaviours
- Values assessment: to assess an employee's behaviour across the values of Care, Collaboration, Dedication and Openness
- Business outcomes: to assess key performance indicators related to clients, business and people, as well as role-specific metrics

3 "Sustainability risk" means an environmental, social or governance event or condition that, if it occurs, could cause and actual or potential material negative impact on the value of the investment. As per EU Regulation 2019/2088.

3: Conflicts of interest

All our employees must understand conflicts of interest and how to manage them, and we have a clear policy and process for this.

Conflicts of interest can arise from the interaction between different business units and affiliates of FSI, their clients, external parties and personal conflicts with employees. Conflicts can also occur between FSI and our shareholder, Mitsubishi UFJ Trust and Banking Corporation, a wholly-owned subsidiary of Mitsubishi UFJ Financial Group, Inc ("MUFG"). We have an overarching commitment to always work in the best interests of our clients, which is particularly relevant in a conflict of interest situation.

The following scenarios illustrate where perceived or potential material conflicts may arise in the ordinary course of our business:

- FSI clients who may be issuers of securities or proponents of shareholder resolutions.
- Strategic business partners, critical vendors or key distributor clients who may be issuers of securities or proponents of shareholder resolutions.
- Non-executive directors of our investment trust clients who may also serve as non-executive directors of investee companies.
- Employees/investors who may have a family, personal or professional association with an investee company.
- Securities of MUFG or FSI investment funds held in portfolios managed by FSI.
- MUFG or FSI board members who may serve as senior executives of investee companies.
- Significant MUFG investors or clients who may be issuers of securities held in funds managed by FSI.

FSI maintains several Conflicts of Interest Registers, which identify actual and potential conflicts of interest that exist within the firm and the procedures and controls that have been designed to manage these conflicts. These registers are subject to annual review and approval by FSI's internal governance committees.

It is the responsibility of each employee to identify and report potential conflicts as laid out in the firm's **Global Conflicts of Interest Policy and Global Code of Conduct**. Each employee must submit an annual declaration to confirm they have adhered to the firm's Global Code of Conduct. Training is provided on the Conflicts of Interest Policy during employee inductions and annually thereafter.

Where there are possible conflicts of interest that may arise through proxy voting, we apply our Global Responsible Investment and Stewardship Policy and Principles. These are designed to protect and enhance the economic value of the companies in which FSI invests on behalf of clients.

In the event that a Material Conflict is identified, the Business Head/Managing Partner or his/her nominee determines how to vote the proxy in consultation with Regulatory Compliance, and in such cases must keep adequate records to demonstrate that the resulting vote was not the product of the Material Conflict(s).

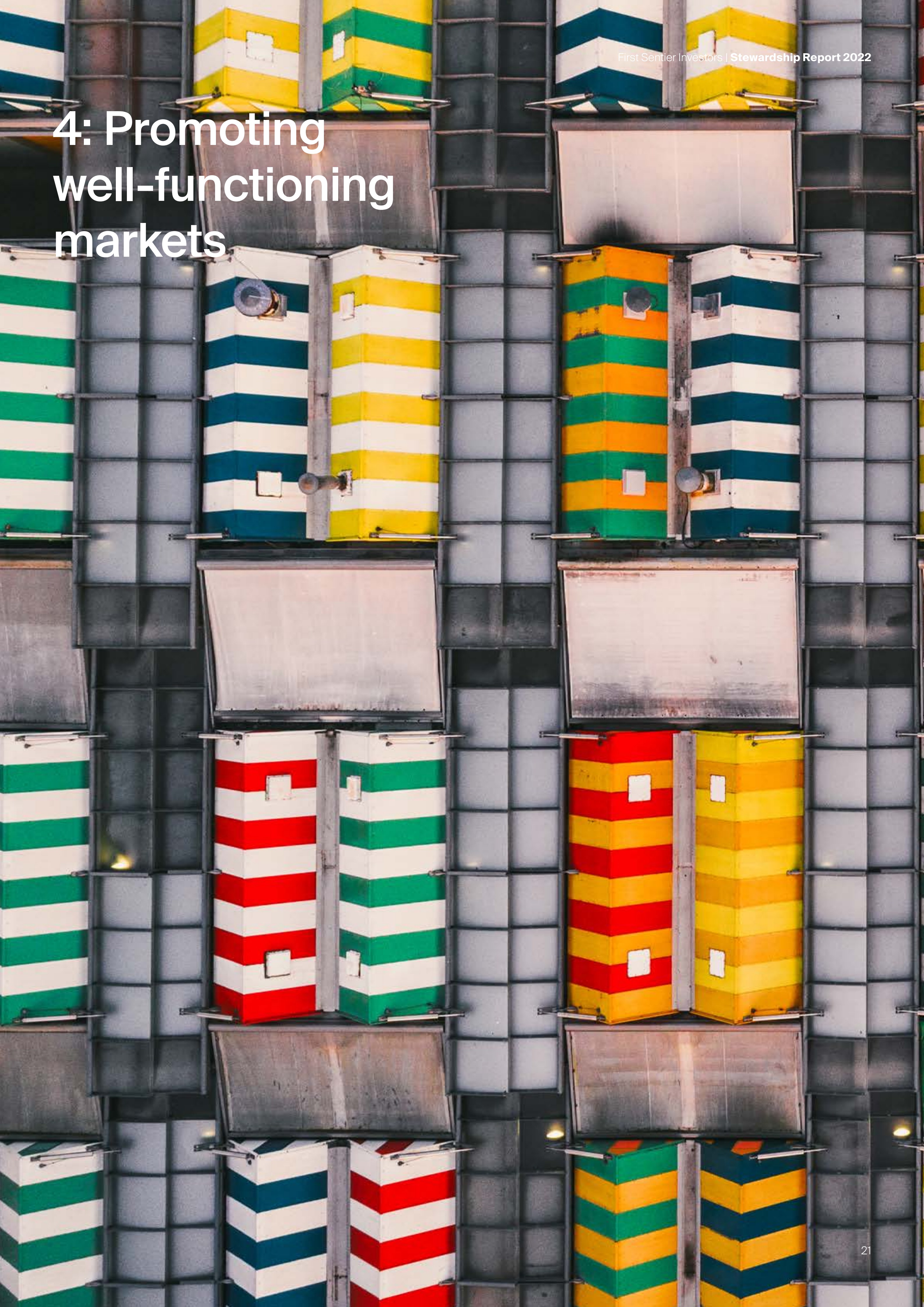
A practical example of the process in action:

- There are financial rewards available to firms from branding their products as delivering ESG outcomes, which could lead to false claims. This conflict is managed by maintaining a defined list of terms for use in marketing literature together with oversight from Regulatory Compliance and Investment Product Research and Assurance.

Below are two examples of conflicts that occurred and were managed in the course of 2022.

- A conflict arose after First Foundation (FSI's internal philanthropic initiative) met with a charity to discuss potentially providing a donation. However, this charity is also a client of one of the investment teams, presenting a potential conflict of interest. The request was presented to Regulatory Compliance, leading to controls to be documented to manage the conflict which includes an independent review from Regulatory Compliance, and regional committees having responsibility for approving or rejecting any charitable requests that are presented by employees.
- Qualifying team members may invest into a fund managed by Igneo Infrastructure Partners meaning a potential conflict of interest could arise on voting matters. To manage this, units held by qualifying team members are non-voting as specified in the Partnership Agreement, which is made available to all investors.

4: Promoting well-functioning markets



Identifying and responding to market-wide and systemic risks.

Market-wide systemic risks are clearly important considerations for investment managers, particularly as these risks are diverse and often difficult to mitigate through diversification. In 2020, our Responsible Investment Steering Group (outlined on page 12) made a decision that at firm-level we would focus on the risks outlined below. The group reviewed this decision in 2022 and determined that we would continue to focus on these fundamental risks as they remain consistent, and drive our approach to RI, engagement and ESG integration. We are also cognisant that we cannot solve any of these issues alone, and therefore we need to collaborate with stakeholders.

A key concept that is evolving in our thinking about risk is the notion of 'double materiality'. Single materiality is a reporting approach that accounts for how sustainable factors affect the financial value of a company, whereas double materiality takes not only this into account but also how that company impacts the world around it. This is an increasingly important challenge for companies and investors, who are at different levels of understanding globally on the importance and relevance of single and double materiality.

Double materiality is a core concept in the EU's Sustainable Finance Disclosure Regulation (SFDR) and Corporate Sustainability Reporting Directive. The 'Principal Adverse Impact on sustainability factors' concept measures how a company's activities negatively affect the environment and society in general. FSI is in the early stages of systematically building this into our investment processes, and it will be a focus for research and thinking going forward.

Climate change

One of the greatest systemic risks we face is climate change, and this is a major focus for FSI. The negative impacts of climate change affect the availability of resources, the price and structure of the energy market, the vulnerability of infrastructure and the valuation of companies. Beyond its direct effects, climate change often acts as a multiplier of other risks and opportunities that investors have traditionally managed. For example, while companies have always had to manage impacts of extreme weather events, climate change is making these more frequent and intense. Similarly, while technological disruption has always occurred, the urgency and scale of changes needed to shift to a low-carbon economy are unprecedented.

The urgent need to transition to a low-carbon and more resilient economy requires companies to adjust their business models. Those that fail to take action on climate change will face increased transition risk such as regulatory and reputational risk as governments, communities and market players shift towards a low-carbon future.

Alignment with investments

In this context, during 2022 we announced our net zero target, updated our TCFD-aligned **Climate Change Statement**, and put in place a detailed **Climate Change Action Plan**.

Meeting our net zero commitment is a whole-of-business issue for First Sentier Investors. We have committed to reducing greenhouse gas emissions across our investment portfolios in line with a target of net zero emissions by 2050 (or sooner), and across our business operations by 2030 (or sooner). Investment teams have developed a range of targets at team, portfolio and/or company level that they have committed to pursue over the short, medium and long term, which are available on individual teams' websites. We aim to increase the proportion of assets covered by formal net zero commitments (by 2050 or sooner) over time.

Our formal net zero transition strategy is articulated in the Climate Action Plan, and more broadly, climate change is a key feature of our group-wide responsible investment strategy. Our governance structures and strategy have been designed so that they are flexible enough to cater to the needs of our diverse investment capabilities, while remaining clear and practical.

Given the diversity of our investment capabilities, and consequently the range of risks and opportunities posed by climate change, we believe this integrated approach is the most effective way forward.

For the majority of our assets under management, we have based our target-setting methodology on the alignment maturity scale recommended by the Paris Aligned Investment Initiative Net Zero Investment Framework Implementation Guide, applying our own weights and scoring methodology to calculate interim targets for 2025 and 2030.

Our investment teams are positioned to play a central role in transitioning our portfolios towards net zero: each one has articulated their own net zero strategy, providing autonomy and control in how they achieve their decarbonisation goals.

Company engagement is a key tool to drive net zero alignment within portfolios. Investment teams state their expectations around reducing emissions, and where a company is not on track to meet the climate expectations, they can use other means such as proxy voting, as per our company engagement escalation process. Case studies of climate change engagement can be found in Section 10.

Industry initiatives and stakeholder collaboration

FSI is an active participant in industry initiatives focused on climate change. In 2022, we contributed to Climate Action 100+, actively participated in the Investor Group on Climate Change, made submissions on climate policy issues, and joined the Net Zero Asset Managers initiative.

Challenges and progress

A key challenge for investors has been the rapidly evolving regulatory environment on mandatory climate disclosure across many global markets. While most initiatives are aligned to the TCFD, most local disclosure frameworks have unique requirements, and some are significantly more prescriptive than others. As a global investment manager, we need to comply with a multitude of different disclosure requirements. Although this is challenging, we have welcomed the additional guidance, and the opportunity to uplift our approach globally.

The quality and availability of data reported by investee companies and collated by ESG data providers remains a challenge for investors. For example, Oil and Gas reporting entities disclose Scope 1 emissions based on either operational control, equity share or both. Individual data providers choose one of these, which can make it difficult to compare. Another example is that reporting entities may disclose different or inconsistent emissions data in different materials, such as annual reports, sustainability reports and regulatory disclosures.

We therefore welcome further guidance from the TCFD and the Partnership for Carbon Accounting Financials (PCAF) to create a more standardised industry approach and have worked closely with our data providers on these topics in 2022.

We have made progress by setting net zero targets at a firm-wide and team level, and now we need to focus on monitoring alignment to these – which is a challenge given the data limitations outlined above.

Nature and biodiversity

Nature is the foundation of our economy, societies and life itself. Biodiversity supports human and all other life on the planet. Companies that fail to adequately identify and manage their impacts and dependencies in relation to nature and biodiversity may face financial, reputational, legal and other consequences. Protecting nature is in our clients' best interests as it is crucial to achieve a net-zero and climate resilient future, and for a stable global economy. Indeed, it is estimated that over half of global economic output – US$44tn of economic value generation – is moderately or highly dependent on nature.[4]

Alignment with investments

In 2022, we convened a Nature and Biodiversity Working Group made up of members across FSI investment teams globally, conducted an assessment of sectoral water and deforestation risk for Working Group members, and developed a framework for company engagement.

We also increased awareness of biodiversity internally and developed a knowledge base for our staff, in particular investment and distribution teams.

Industry initiatives and stakeholder collaboration

We became a member of the Taskforce on Nature-related Financial Disclosures (TNFD) Forum, along with 900 other institutions. As a member, we support a shift in financial flows toward nature-positive outcomes in following the development of target-setting methodologies and metrics by the TNFD and Science Based Targets Network.

FSI also joined the Responsible Investment Association of Australasia (RIAA) Nature Working Group, which brings together investors and other NGOs focused on this issue, to share information and work on solutions. FSI provided technical input in developing the Nature in a Nutshell resources and shared our journey with other financial institutions.

Throughout the year, we also continued our engagement with commercial and domestic washing machine manufacturers and policy makers alongside other investors on the issue of plastic microfibre pollution.

4 New Nature Economy Report by the World Economic Forum in 2020.

Challenges and progress

Quality data continues to be a major challenge. In the absence of solid company-level data on nature, our assessment relies on external data providers that are specialised in specific topics of nature such as water and deforestation. However, physical risk and company-level location data are not robust or comprehensive enough to connect company responses and practices with their exposures.

Engaging with companies on issues such as biodiversity, climate change and human rights cannot be done in isolation. We need to assess companies holistically and acknowledge that these issues do not exist in a vacuum, for example mining copper in primary forests to support the rapid manufacturing of electric vehicles or solar panels may have significant adverse consequences for indigenous communities within those forests. We believe that we need to better understand this nexus and set up a more holistic engagement framework, which we are planning to address in the future.

Despite the challenges, we have been moving forward. In 2021 we signed the *Finance for Biodiversity Pledge* – an agreement initiated by a group of financial institutions calling on global leaders to protect and restore biodiversity through their finance activities and investments. As part of this commitment, we continue to monitor our progress under each commitment (see table below for more details).

Commitments under the Finance for Biodiversity Pledge

Commitment	Progress made to date
Collaboration and knowledge sharing	• Joined Taskforce on Nature-related Financial Disclosures (TNFD) Forum. • Contributed to RIAA Nature Working Group. • Held internal sessions to increase team members' technical knowledge around nature and biodiversity. • Part of the content in the Toolkit (defined below) relevant to the finance industry will be publicly available, as a way for us to share our framework and lessons learned with our stakeholders more broadly.
Engaging with companies	• In the process of finalising a Nature and Biodiversity Toolkit (internal resource) that will form the basis of company engagement on the issue for all relevant teams. • Teams are in the process of identifying priority targets for engagement using the information provided in the Toolkit.
Assessing impact	• Assessed sectoral water and deforestation exposure as a baseline for future analysis. • Conducted an initial assessment of impact assessment tools and services offered by third parties.
Setting targets	• A firm-level approach to key nature-related topics and sector guidelines is in development. This will be accompanied by monitoring, progress reporting, and our assessment of various nature-related commitments made by investee companies.
Reporting publicly	• We will continue to report on progress in our annual RI Report and other specific reports where appropriate.

Human rights and modern slavery

In September 2022, the 2021 Global Estimates of Modern Slavery reported that there are an estimated 49.6 million people globally living in situations of modern slavery, an increase of around 10 million people since the previous estimates were released in 2017.[5]

The catalysts for modern slavery are diverse but involve increasingly transient populations, sustained poverty and displacement due to global conflicts. COVID-19 and the escalation of armed conflicts, including between Russia and Ukraine, have exacerbated many of these factors, increasing worker vulnerability.

As stewards of our clients' assets, we believe we have a responsibility to identify and act to eliminate human rights abuses, including, but not limited to, modern slavery. This is part of a wider societal responsibility that impacts the performance of our investments. In a highly connected world, evidence of corporate malpractice, whether the use of child labour, living conditions of migrant workers or human trafficking, is rapidly disseminated. Reliance on these practices is not a sustainable business model, and the reputational damage for the companies involved can be substantial and the value of an investment significantly impaired.

Alignment with investments

In 2022, we updated our Human Rights Toolkit to provide additional guidance for investment teams on the human rights implications of armed conflict, and arranged for human rights experts from an advisory firm, Pillar Two, to provide our investment teams with training on this topic. We have since engaged with several companies on the issue (see the feature in Section 10: Collaboration and escalation), as well as with clients.

Investment teams continue to engage with companies on modern slavery, using the Modern Slavery Toolkit principles, as outlined in Section 10.

Industry initiatives and stakeholder collaboration

In 2022, FSI continued our collaborative efforts on modern slavery through Investors Against Slavery and Trafficking APAC (IAST APAC), which is a group of investors working to help end modern slavery, focusing on the Asia-Pacific region. FSI is proud to convene and Chair the initiative, which comprises 37 investor organisations with AU$7.8 trillion in assets under management (AUM), together with the Australian Council of Superannuation Investors (ACSI), Walk Free and the Finance Against Slavery and Trafficking (FAST) initiative.

This collaborative engagement initiative is outlined in more detail Section 10.

FSI is also leading a RIAA Working Group on Human Rights and Armed Conflict, to develop an investor toolkit outlining the issues, risks and considerations for investors. It is expected that the toolkit will launch in 2023.

Challenges and progress

Despite the efforts of many, the number of estimated victims of modern slavery worldwide continues to rise. While the numbers quoted in the Global Estimates of Modern Slavery are concerning, the report has made a number of recommendations to action between now and the 2030 target date for eradicating modern slavery.

As responsible investors, we need to set expectations that investee companies find, fix and prevent modern slavery within their operations and supply chains, as well as engage with policy makers and broader stakeholders including survivors, civil society organisations and ESG data providers. This is why ongoing engagement is so important.

In our own firm we have developed a Modern Slavery Roadmap, that sets out the specific actions we plan to take to address the risks of modern slavery in our own operations and supply chains in 2023 and 2024. The roadmap will be published in our 2022 Modern Slavery Statement by July 2023.

5 Global Estimates of Modern Slavery 2021

Research by First Sentier MUFG Sustainable Investment Institute

The First Sentier MUFG Sustainable Investment Institute (the 'Institute') is designed to explore a range of issues, challenges and risks facing investors, companies and the broader community.

The Institute commissions and produces research on sustainability-related topics seeking to enhance investors' knowledge and contribute to industry debate. The aim is to help investors, individuals, companies, policy makers and regulators better understand how their decisions can contribute to more positive outcomes for the environment and society. We believe this is important as many investors are trying to understand the plethora of sustainability-linked topics including market-wide and systemic risks, and how they impact not only the performance of their investments, but also society and the environment at large.

The Institute is supported by FSI and Mitsubishi UFJ Trust and Banking Corporation, a consolidated subsidiary of MUFG. However, the Institute is separate from FSI and MUTB's investment teams, allowing it to consider topics from a wider investor perspective. Enhancing its quality of research, it has an external Academic Advisory Board providing guidance on the Institute's research agenda and adds academic rigour to its research output.

The Institute's reports are available online on its dedicated website. In 2022, the Institute focused on two prominent concerns in the sustainable investment space: governance of sustainable investment funds and global ESG regulatory developments. Both of these topics present significant challenges to the asset management industry and have been attracting the attention of a wide range of stakeholders. FSI are considering what was learned in these reports, and will report on any progress in the 2023 Stewardship Report.

Sustainable investment – navigating the challenges for fund governance

- This report, produced for the Institute by the Fund Boards Council, covered the key challenges faced by sustainable funds boards. The importance of this topic is underlined by the significant growth of sustainable investment volumes in the past three to five years, accompanied by increased regulatory activity.
- Fund governance arrangements vary across legal structures and jurisdictions, however there is a broad consistency in the core objectives of fund oversight. The report considers fund board responsibilities within the following four areas of governance:
  - Delivery of the fund's commitments to its investors
  - Compliance with laws and regulations
  - Risk management
  - Board composition
- While the inclusion of sustainability considerations in investment decisions arguably does not change the fundamental responsibilities of fund boards, it does add another layer to the implementation of these responsibilities. The report aims to help fund boards fulfil their oversight duties of sustainable investment funds by highlighting the existing challenges and providing suggestions on how to address them.
- The report is focused on retail investment funds in six jurisdictions (the United Kingdom, Ireland, Luxemburg, Japan, Hong Kong and Australia).

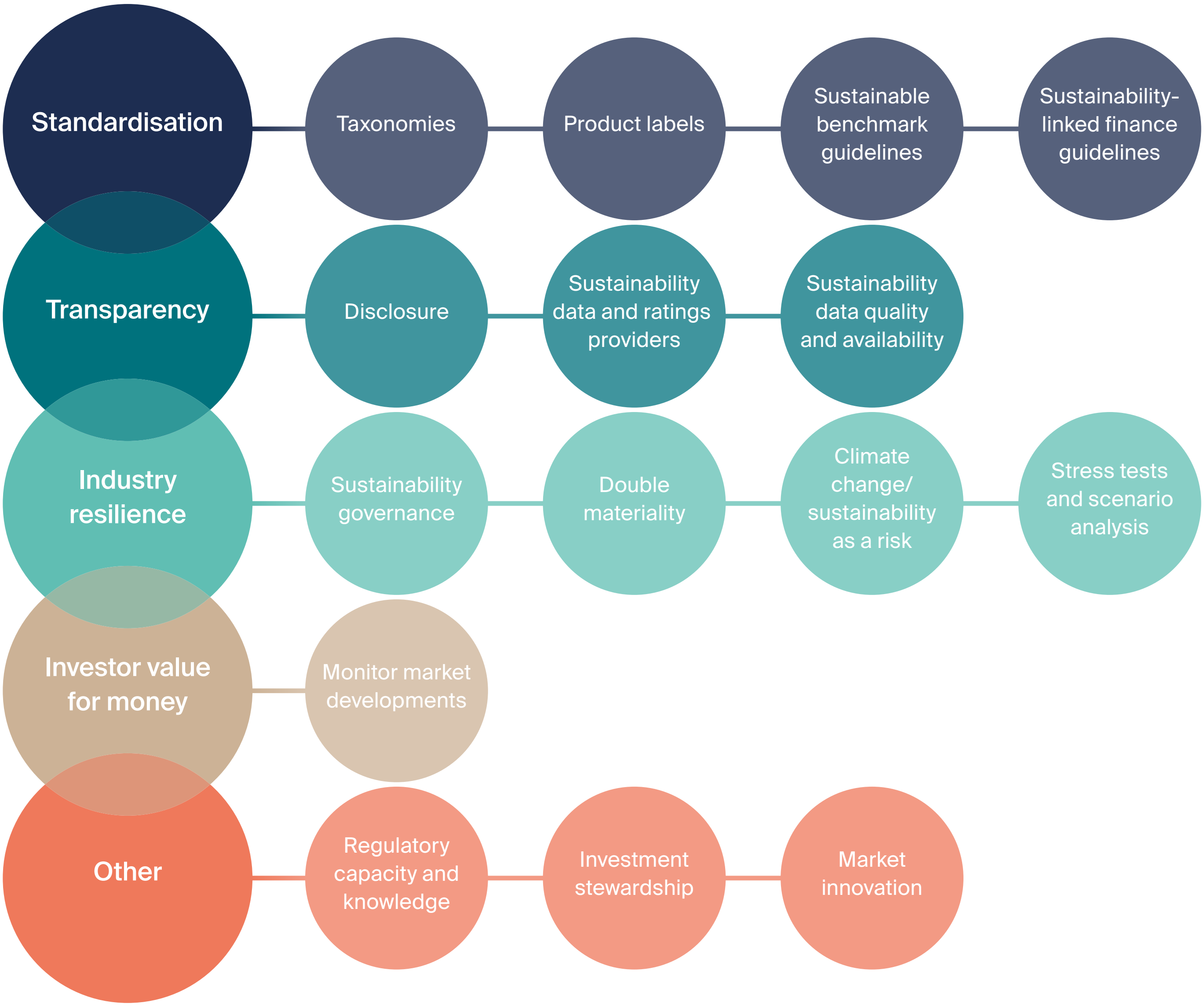
General fund board duties	Sustainability-driven challenges	Current practice	Suggested actions for the boards
Delivery of the fund's commitment to investors	Limited clarity on fund board's role on sustainability and its oversight	63% of respondents see limited oversight of sustainability performance	• Review/approve sustainability policy • Understand and have confidence in the sustainability assessment approach • Include sustainability features in fund performance monitoring
Compliance with laws and regulations	Some boards are remote from the regulatory frontline		• Understand sustainability integration into product governance • Understand applicability of controls on fund documentation and reporting • Provide adequate scrutiny of product approvals • Be aware of data used, its limitations and data integrity controls
Risk management	A multi-angle approach needed – investment, operational, reputational risks	Greenwashing largely seen responsibility of the asset manager	• Consider if any sustainability risks exist • Update risk management frameworks • Consider if risks are addressed by all relevant functions (1st to 3rd line) • Consider if true to label controls can address greenwashing risk
Board composition	Limited knowledge of key regulations and sustainable investment approaches	>70% of respondents rate board knowledge low-medium, concentrated at executive members	• Perform board skills assessment to identify any skill gaps • Address any identified gaps (training or recruitment)

A moving target: the developing regulatory landscape of sustainable investing

- This paper takes stock of the growing volume of regulatory activity (from 2020 to November 2022) in the field of sustainable investing and identifies key areas of regulators' concern in the following jurisdictions: the European Union, the United Kingdom, Australia, Singapore, Hong Kong and Japan. It sets out to highlight the objectives, approaches and definitions of regulators, in order to assist investors in their regulatory compliance approaches.

- The regulatory developments are presented alongside a number of regulatory focus areas and/or outcomes in order to provide context for the purpose and role of those regulations in the market. The regulatory focus areas are as follows:

  - Standardisation
  - Market transparency
  - Industry resilience
  - Value for money for investors



Source: Sustainable Investment Institute, as at 31 Dec 2022

Policy and wider industry engagement

During 2022, the investment sector saw continued growth in ESG- and sustainability-related regulation, with the EU SFDR Level 2 and EU Taxonomy regulations coming into force from 1 January 2023. During 2022, we finalised our product level SFDR pre-contractual documentation. Early in 2023, we will prepare and file our SFDR periodic reports including entity level Principal Adverse Impact Statement.

We welcome such regulation where the objective is to provide increased confidence to investors in relation to sustainable investment and minimising the risks of "greenwashing", thus allowing them and their advisers to make informed choices in order to meet their investment, social and environmental goals.

With these aims in mind, we take an interest in regulatory developments by actively participating in industry forums, contributing to policy consultations and in meeting regulators directly. On the following page, we detail some of our activities over 2022.

ESG Regulation Analysis

In the latter part of 2022, the First Sentier MUFG Sustainable Investment Institute undertook a detailed analysis of current and planned ESG/Sustainable finance regulation and regulatory actions (further details in following section). The diagram below provides a helpful summary of the many regulatory developments FSI is managing across Europe, the UK, the USA, Australia, Hong Kong, Singapore and Japan.

A snapshot of current and planned regulations and regulatory actions

Mandatory regulation | Draft/in consultation | Voluntary guidance | Some action by Regulator

Regulatory focus	Regulatory response	EU	UK	US	AUS	HK	SG	JP
Standardisation and market transparency	**Generally applicable**							
	Definitions of sustainability (taxonomies)	Mandatory regulation	Draft/in consultation		Draft/in consultation	Some action by Regulator	Draft/in consultation	
	Sustainability disclosures	Mandatory regulation	Mandatory regulation	Draft/in consultation	Some action by Regulator	Mandatory regulation	Some action by Regulator	Some action by Regulator
	Definitions of sustainable investment/ESG funds	Mandatory regulation	Draft/in consultation	Draft/in consultation		Mandatory regulation		
	Guidance on regulation implementation	Some action by Regulator	Mandatory regulation		Some action by Regulator	Some action by Regulator	Mandatory regulation	Some action by Regulator
	Monitor regulation implementation and enforcement	Some action by Regulator		Some action by Regulator		Some action by Regulator		Some action by Regulator
	Monitor and analyse market developments	Some action by Regulator		Some action by Regulator		Some action by Regulator		
	Product specific guidance/standards							
	Product labels	Draft/in consultation	Draft/in consultation					
	Sustainability-linked finance (e.g. bonds)	Draft/in consultation	Some action by Regulator				Some action by Regulator	Voluntary guidance
	Sustainability-related benchmarks	Mandatory regulation	Mandatory regulation	Some action by Regulator				
	Sustainability-related data and ratings quality	Some action by Regulator	Some action by Regulator			Some action by Regulator		Draft/in consultation
	Sustainability-related data (availability and quality)	Some action by Regulator	Some action by Regulator				Some action by Regulator	Some action by Regulator
Industry resilience	Relevant governance	Some action by Regulator	Some action by Regulator				Mandatory regulation	Some action by Regulator
	Climate change as investment risk		Mandatory regulation		Some action by Regulator	Mandatory regulation	Mandatory regulation	Voluntary guidance
	Sustainability as investment risk	Mandatory regulation	Draft/in consultation					
	Investment risk vs. impact of investments (double materiality)	Mandatory regulation	Draft/in consultation					
	Stress tests and scenarios analysis	Some action by Regulator	Some action by Regulator			Some action by Regulator	Some action by Regulator	Some action by Regulator
Value for money for investors	Market trends review	Some action by Regulator	Some action by Regulator					Some action by Regulator
Other	Investment stewardship	Some action by Regulator	Voluntary guidance				Voluntary guidance	Voluntary guidance
	Regulators' capacity and knowledge	Some action by Regulator	Some action by Regulator			Some action by Regulator	Some action by Regulator	Some action by Regulator
	Support market innovation	Some action by Regulator				Some action by Regulator	Some action by Regulator	

Source: First Sentier MUFG Sustainable Investment Institute analysis as of November 2022

EUROSIF

We held the chair of the European Sustainable Investment Forum and are regular attendees and contributors to the Public Policy Forum. This constitutes the main forum for Eurosif members to share information and formulate common policy positions. Discussions initiated in 2022 included the European Supervisory Authority's consultations on Greenwashing and ESMA's Proposed Guidelines for the use of ESG/Sustainability-related terms in Fund names.

UKSIF

We are a member firm of the UK Sustainable Investment and Finance Association with participation on committees and working groups. UKSIF exists to bring together the UK's sustainable finance and investment community and support our members to expand, enhance and promote this key sector.

UK Investment Association

FSI is an active member of the UK Investment Association's Sustainability and Responsible Investment Committee and through this group, we have met on a number of occasions with the FCA in relation to contributing to the discussions concerning the development of the UK's Sustainability Disclosure Regulation (SDR), which is the equivalent of the EU's SFDR. In 2022 FSI participated in and provided direct responses to the SDR consultation paper.

Global Policy Responses

A number of jurisdictions outside of the UK and Europe have been developing regulatory and reporting standards for their respective national markets. These include Hong Kong, Singapore and Taiwan. Drawing on the experience of working with regulators and industry bodies in the UK and Europe on similar regulations, FSI has been providing input into consultations on new regulatory standards across these markets where relevant and where we feel we can add value.

Australian taxonomy

In October 2022, we made a submission to the Australian Sustainable Finance Initiative on Paper 1 of the Australian Taxonomy – Scoping of International Taxonomies. We will make a similar submission in 2023 to paper 2 - Australian framing paper: Designing Australia's Sustainable Finance Taxonomy.
Towards the end of 2022, the Australian government published its consultation on Climate-related financial disclosure which FSI will also respond to in 2023.

Modern slavery & human trafficking

In 2022 the Australian Federal Government undertook a review of Australia's Modern Slavery Act 2018 (Cth) (Modern Slavery Act). This provided an opportunity to reflect on what was working under the legislation and how all stakeholders can do better to address this issue. FSI believes that investors have an important role to play in this review process, and we made submissions on our own behalf, and contributed to the submissions of IAST APAC, RIAA and the Financial Services Council.

Next steps for Policy Advocacy

We recognise the need for clear and ambitious policy covering both sustainable finance regulation and real economy policy outcomes. As such, we are currently developing principles for policy advocacy which will set out our rationale for engaging with policy makers. These principles will define our engagement approach across the policy life cycle: inception, design, consultation, implementation and revision. We will seek to identify direct and collaborative opportunities to engage with policy makers on issues where we can add value.

5: Review and assurance

Three Lines of Defence: Assurance and Risk Management

FSI reviewed our RI Policy in 2022, and this is outlined in detail in the section on 3.

FSI's approach to risk management is based on the 'three-lines-of-defence' model as documented under its Risk Management Strategy. This underpins the controls assurance framework, and supports the delivery of our stewardship strategy, including meeting regulatory and legal requirements (where they apply).

Our approach is summarised below, including an illustration of how the model applies to climate-related risks within our business operations and within our investment strategies:

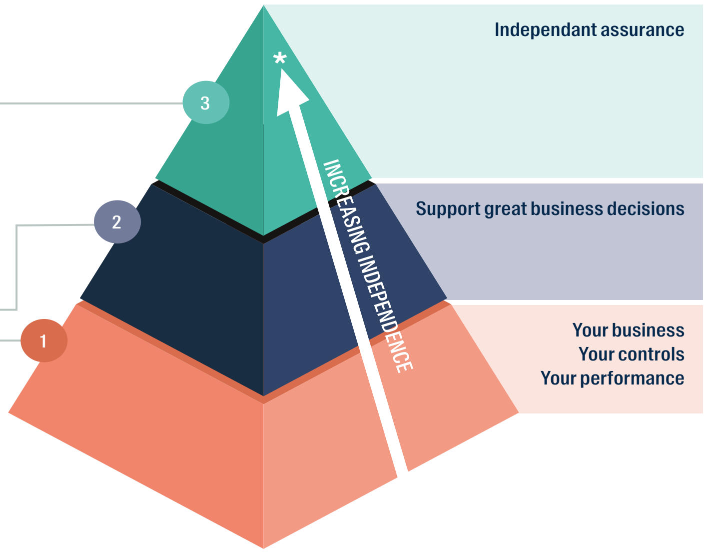
FSI's risk culture is based on doing the right thing by our clients, employees, society and our shareholder. The FSIH Board, senior management and employees are expected to be risk-aware, and understand the role they play in managing risks, and the value that effective risk management adds to the organisation.

FSI's philosophy with respect to responsibilities for risk management can be articulated in the *3 Lines of Accountability/Defence Model*:

Line 1: Business Management: Responsible for identifying and managing risks and ensuring their activities are compliant with legal, regulatory, industry code and organisational requirements.

Line 2: Risk Support Functions (e.g. Risk Management, Compliance, Investment Product Research and Assurance): Support the business in managing risks and achieving compliance, monitoring risk and compliance levels in the business and reporting on risk and compliance matters to management and governance forums.

Line 3: Internal & External Audit: Provide independent assurance on risk management systems and quality of implementation.



This model applies to climate-related risks within our business and investment strategies as follows.

	Climate-related operational risks	Climate-related investment risks
Line 1	Corporate Sustainability	Investment teams
Line 2	Risk Management Compliance	Investment Product Research and Assurance
Line 3	Internal and external audit	

First line of defence

Risk controls for investment teams

Our investment teams are the first line of defence. They are required to implement a control environment that is designed, constructed and executed in a manner consistent with the FSI RI and Stewardship Policies and regulatory obligations.

In accordance with FSI's supporting Operational Risk Management Framework (the "Framework"), investment teams are required to establish a risk profile and complete regular risk and control self-assessment (RCSA); conduct periodic testing of controls; and report/escalate incidents, issues or breaches in accordance with FSI's established Framework.

Second line of defence

Independent oversight of investment activities

FSI's Risk Management team sits within the second line of defence and they oversee the investment teams as they manage their risks. This includes facilitating the regular review of the RCSAs, conducting independent controls assurance, and monitoring and reporting on risk matters.

Also within the second line of defence, FSI has a specialist function called Investment Product Research and Assurance (IPRA). This team conducts independent risk oversight of our investment activities across all of our investment teams (with the exception of Igneo Infrastructure Partners).*

This includes a combination of quantitative and qualitative assessments, involving independent analysis to assess the risk and return characteristics of the underlying portfolios and adherence to the stated investment approach. Industry standard methodologies are utilised to investigate and report on a number of investment risk and return characteristics, including evolving standards relating to ESG and responsible investment.

Role of Investment Product Research and Assurance

Constructively challenge investment teams

IPRA's quantitative reviews are reinforced by qualitative assessments with the team conducting regular 'challenge' meetings with the investment teams to fully explore the investment approaches followed.

IPRA collaborates closely with the RI team to ensure relevant ESG issues are identified and investigated with investment teams.

Comprehensive ESG evaluation

The breadth of ESG risks that IPRA evaluates across different categories to form its overall Sustainability assessment of each investment team is comprehensive, including:

- ESG integration
- Engagement
- Proxy voting
- Climate change
- Net Zero commitments
- Modern slavery

Report results to oversight committee

Once IPRA has concluded its quantitative and qualitative investment assurance activities, it presents a quarterly report to FSI's Global Investment Committee (GIC).

The report summarises the analysis undertaken on each investment portfolio, with commentary on key observations from IPRA on each investment mandate and pooled fund assessed.

The GIC actively evaluates and challenges the ongoing "true to label" assessments of FSI's investment offerings. Any matters identified for further investigation or action are escalated via this forum with the relevant investment teams. The key results and findings from the quarterly GIC meetings are also shared with our boards of directors.

Continuous enhancements of IPRA's Sustainability oversight process since 2020 has provided a foundation and appropriate "building blocks" to support the development of a more robust Sustainability Assessment Framework.

Regulatory Compliance

The Regulatory Compliance team ensures that the business continues to act in clients' best interests, through the ongoing development of a regulatory compliance culture in the business and meeting the relevant global and local regulatory standards and compliance obligations in respect of, for example, business conduct, fair treatment of customers, marketing standards, client take on, trading and dealing, product governance and financial crime. It is responsible for developing and maintaining the firm's regulatory compliance policies and procedures and managing regulatory relationships. The team also advises and trains the business on regulation and regulatory change and leads specific regulatory-based activities and change projects, and ensures that regulation is considered as appropriate in all other business projects. The team is also responsible for reporting on compliance matters to committees and boards.

Investment Compliance

The role of the Investment Compliance function is to ensure that there is an appropriate investment compliance strategy to support the investment teams in all regions, and to design, develop and implement and maintain the global framework whilst driving globally consistent practices within the regional teams. The framework includes management of the investment compliance process via the Charles River and Aladdin order management systems to ensure that investment activity is carried out in compliance with regulatory and client restrictions and internal guidelines.

FSI uses Charles River to manage and trade equity portfolios and Aladdin for fixed income securities. FSI has chosen a software vendor as a service model, rather than hosting and managing in-house. This model minimises risk and ensures robust and full support for FSI's growing business. Upgrades to the systems are undertaken regularly, to ensure that the most up to date versions of the software are used, and that FSI is able to take advantage of the latest enhancements.

* The Igneo ESG governance model is described page 13.

IPRA Evolution: Sustainability reporting for the GIC

2020

- Carbon Dashboard and carbon footprint analysis
- Voting and engagement review

2021

- Sustainability Metric
- Proxy voting review
- Modern Slavery Risk analysis
- Climate Change and Climate Risk analysis

2022

- SFDR Principal Adverse Impacts reporting
- Modern Slavery update
- Voting and engagement review
- Sustainability Assessment Framework

Third line of defence

Internal Audit (IA) provides independent and objective assurance over risk management, control and governance processes. Audits of the control environment are selectively performed on a risk-based approach across areas of FSI globally. IA assesses the adequacy and effectiveness of controls implemented by management and reports its findings to the First Sentier Investors Holdings Pty Limited ("FSIH") Board, the Audit and Risk Committee, Subsidiary Boards and the Enterprise Leadership Team.

Role of Internal Audit for stewardship activity

IA assesses stewardship activity and checks how each investment team aligns with our RI Policy and how our control processes monitor alignment with the RI Policy. IA then reports its findings to relevant stakeholders across FSI to ensure continuous improvement.

In 2022, IA conducted an audit of the Responsible Investment - Governance Framework. The rationale for the audit was a recognition of the increase in global RI regulatory expectations, particularly the arrangements supporting SFDR. The objective of the audit was to provide assurance that there is an adequate framework in place to support the delivery of the commitments that FSI has made in the RI Policy.

The scope of the audit included the Responsible Investment Governance Committees; their processes for reviewing Responsible Investment Policies; and the effectiveness of the assurance activities of the first line and second line of defence processes that support those Committees. Action items identified in the audit are designed to assist FSI to continuously improve its stewardship processes and controls. The status of action items are reported to the FSIH Board, the Audit and Risk Committee, Subsidiary Boards and the Enterprise Leadership Team.

Assurance review of Stewardship Report

We are committed to ensuring our stewardship reporting is both accurate and a genuine representation of our philosophy on stewardship matters. We have used case studies throughout this Stewardship Report to articulate our approach in a relatable and easy-to-understand manner.

This report has been reviewed and approved by the following governing bodies: the Global Responsible Investment Executive Committee (formerly the Responsible Investment Steering Group) and the Global Investment Committee. Additionally the content was reviewed and verified by multiple, relevant internal stakeholders in accordance with an appropriate verification process. The steps we have taken include: full review from the legal team (in addition to existing global compliance reviews), reviewing our use of language, and introducing an enhanced verification process. As part of the enhanced verification process, the RI team worked with legal, regulatory compliance, finance and IPRA to:

- Review all content to determine what statements need to be verified and classifying them as lower, medium or higher risk.
- Engaging with investment teams and other contributors to the report to provide a verification statement that the relevant statements are accurate, not misleading, up to date and supported by written evidence.

6: Client and beneficiary needs

For a breakdown of our AUM by region, client segment and investment capabilities, please refer to 'About Us' on pages 02-04.

Product Design

FSI is committed to developing and managing investment products that are, and remain, high quality and are relevant to our clients. We have a high quality product development process to ensure our range is well managed. We seek to foster a culture of innovation across our business and investment teams to maximise the number of new commercial ideas that may help us to meet an even broader range of client investment needs and requirements taking into consideration the investment horizons that are appropriate to our diverse client base.

Client Communication

As a global business with diverse clients, we are focused on meeting their varying needs in terms of communication.

FSI recognises the importance of open, transparent communication that meets the needs of clients. We aim to be at the forefront of high-quality reporting and disclosure for the benefit of our clients and their advisers.

Good reporting helps us demonstrate to our clients how we execute our responsible investment obligations and act stewards of their capital. It means they can hold us accountable for our performance and outcomes.

As responsible stewards of our clients' capital, we recognise the need to explain the investment decisions we are making, and why. Below are some of the features that underpin our client experience.

- **Regular and frequent reporting:** On-demand, monthly, quarterly and annual reporting, on specific funds and from individual teams, is supplemented by in-person and virtual dialogue with clients throughout the year. Investment teams frequently meet with clients and are available to answer their queries on an ad-hoc basis.

- **Availability of comprehensive data:** we provide quarterly reporting on different ESG areas, including a carbon reporting dashboard for all our listed equities investment teams as well as live recording of our proxy voting activity. We can also tailor client reporting to their particular needs, leveraging FSI's internal data warehouse used by investment teams.

- **Focus on technology:** This is captured in the 'Reimagine' business strategy pillar launched in 2022, with the goal of reimagining client experience in an increasingly digital world. During 2022, FSI began its journey towards providing a digital client experience for some of our Australian pooled funds and clients.

- **Continuous improvement:** A number of groups that meet internally enable us to evaluate and respond to evolving client needs. These forums capture views and insights from all parts of our global business with remits including client experience, governance, product development and investment operations. The work of these bodies is informed through continuous client engagement, particularly by distribution and client relationship teams.
This process ensures the investment solutions we offer remain both relevant and effective.

- **Responsive to needs:** We also use metrics to assess and evolve our communication strategy. For example, a particular FSSA strategy released monthly commentaries, but had lower readership on average than the quarterly commentary for FSSA's other strategies. As a result, the commentary was changed to quarterly and saw a rise in readership. This is an example of taking indirect client feedback and using it to evolve our communication strategy.

- **Evidence-based:** We use real case studies across our reporting and wider client communications. We believe these are often the best vehicles to illustrate how we embed RI principles in practice across our investments. Our website has over 140 engagement case studies, while our RI Report, which has been published for the past 15 years, details how ESG is integrated at a practical level across our investment process. We also report on stewardship activities in this report at a firm level, and some teams provide additional reporting to their clients. For example, Igneo Infrastructure Partners publishes an annual ESG Report. See the feature on the following page for an example of Stewart Investors' approach to ongoing improvement in client communication.

- **Accessible to a broad audience:** FSI invests significant resources in facilitating investment teams to communicate with current and potential clients, at both in-person events and via online webinars. In the EMEA region, our investment teams presented in over 40 webinars in 2022– some hosted by third parties and others by FSI.

Stewart Investors Portfolio Explorer – climate solutions update

Stewart Investors uses Project Drawdown to help understand the role companies can play in climate solutions. It maps investee companies to Project Drawdown's collection of climate solutions, which if scaled up, can deliver the Paris Agreement's 1.5oC temperature goal.

In mid-2022, Project Drawdown announced 11 new solutions to their collection related to ocean resources, food production, methane management, and materials manufacturing and use. Bringing the total numbers of solutions in their framework to 93.

As a result, Stewart Investors reviewed portfolio companies for alignment to these new solutions and included them on the Q4 2022 Portfolio Explorer update. This process mapped 26 companies to 6 of these solutions.

Following client feedback, the team also simplified how it defines company contributions to Project Drawdown climate solutions and removed Indirect (companies that are involved in and around the solution) as a measure. Contributions are defined as either Direct (directly attributable to products, services or practices provided by that company) or Enabling/Supporting (supported or made possible by products, technologies or practices provided by that company).

Client Experience Governance

Oversight of client-related activities is essential to ensure good governance and compliance with key regulatory requirements and best business practices, as these relate to clients. Our Client Experience & Distribution Governance Committee in EMEA is responsible for ensuring key business activity in EMEA is viewed from a client's perspective, and making sure the treatment of clients is always considered and balanced. Its remit in EMEA includes:

- Handling client complaints
- Product/service performance relative to sales messaging and specifications
- Private placement activities
- Portfolio liquidity in relation to client concentration
- Key value assessment metrics
- Identifying and managing conflicts of interest relevant to marketing of pooled funds

Improving client communication: external review

Following a remedial action from the 2021 Assessment of Value on the UK OEIC, First Sentier Investors engaged the Wisdom Council in 2022 to undertake a client satisfaction survey, with a particular focus on what customers value, regardless of whether these customers are accessing FSI funds directly or via a platform. The Wisdom Council is an external body, providing independent perspective to the financial services sector. FSI's objective was to engage both direct and intermediated investors and a sample of our marketing and product related materials were sent to a range of client types by the Wisdom Council. It is worth noting that, due to time constraints, a sample of the UK OEIC's actual direct investors could not be arranged; as such, the community chosen was a representative panel of individual retail investors. The key findings were that customer service needs and expectations tend to depend on investor sophistication. Of the documents sampled, the factsheets and key investor information documents were scored very highly by all investors, across all levels of experience, with only minor comments. The corporate action letter results show that significant improvements are needed in order to simplify them making them easier to read and understand. Results were published as part of the 2022 AoV report. The next steps include a review of all corporate action letters, including more parties in the review and writing of these letters. In addition, the Wisdom Council have been re-engaged by FSI as part of our work on Consumer Duty. This engagement will involve the review of more recent corporate action letters and other marketing materials.

7: Stewardship, investment and ESG integration

Given the variety of asset classes we manage, the number of countries we operate across and the size of our holdings, we apply a bespoke approach to assessing each individual investment, as ESG integration and stewardship varies significantly depending on context. For example:

- **Policy settings:** engagement on modern slavery with a UK based company that reports under the Modern Slavery Act 2015 will vary significantly from engagement with an Asian company that is being introduced to the term 'modern slavery' for the first time.

  Similarly, climate change regulation will influence the type of transition risk a company is facing. A European utility is going to decarbonise at a different rate to a US or Australian utility and this must be taken into account when engaging with a company on this issue.

- **Escalation:** our listed equities teams have the right and responsibility to vote, which forms a key part of their escalation toolkit. Our fixed income and credit teams do not have voting rights, so when escalating issues, they need to focus on different tools, such as collaborative engagement. However, in addition to engagement with companies, our fixed income and credit teams have opportunities to engage with counterparties, credit rating agencies, and government, semi-government and supra-national issuers.

- **Company size:** Smaller companies may have less resources to devote to sustainability disclosure, so our teams need to engage extensively with them to help them grow sustainably.

- **Other asset class considerations:** our Igneo Infrastructure Partners team takes significant ownership stakes in portfolio companies, which can involve board representation. This enables the team to engage directly with all portfolio companies and proactively contribute to the management of aspects of the business, including ESG performance. Systematic and multi-asset strategies that take a top-down approach, are particularly focused on exercising their ownership rights in relation to proxy voting and collaborative engagement.

We believe that the range of approaches taken by our diverse investment teams are key strengths in achieving their RI objectives, as they can match their tactics to the specific challenges of each asset class. Below is a summary of each team's ESG integration approach.

Asia Fixed Income

Given ESG risks influence companies' ability to service their long-term debt obligations, ESG assessments form an integral part of the team's research process. ESG risks are identified as part of the bottom-up credit research process. Asian issuers, particularly those in more carbon intensive economies, also face both physical and transition risks that factor as an important feature of any ESG assessment. Against a fast-evolving ESG landscape in Asia, the team emphasises both qualitative and quantitative research in arriving at an ESG assessment. Such research is attained via a combination of sources such as company engagements, company reports and third-party research. Material risks are identified by credit analysts as part of their fundamental analysis, and their assessment on issuers' resiliency and ability to adapt against identified ESG risks determine investment decisions across portfolios, both in terms of security selection and portfolio positioning.

Australian Emerging Companies

The team seeks to generate strong long-term performance with consideration of ESG issues where relevant. Where available, ESG information is considered for companies under research and investee companies to provide an understanding of the financial and reputational impact ESG may have on businesses.

Australian Equities Growth

The long-term investment horizon and focus on quality, growth companies fundamentally requires sustainability in their business models and practices and is inherently well suited to strong ESG outcomes. The team's belief is that ownership and engagement for change is more effective and adds more value for clients than negative screens. By maintaining an open mind, the team retains the ability to engage on all stocks – with the aim of participating in collaborative discussions with management and the board that influences continuous improvement over time. Identified risk factors are used to assist in developing the quantitative and qualitative assumptions of our analysts in their assessment of industries and stocks. ESG analysis and proprietary ESG rating system has the potential to impact potential portfolio weights.

Australian Equity Income

The team works in partnership with other investment teams within the firm. As part of this approach, the team draws upon the analyst research from various investment teams, which includes the identification of any relevant ESG issues.

Australian Small and Mid Cap Companies

ESG considerations influence the team's investment decisions, given that Sustainability is one of the six key criteria used to evaluate companies (the others being Management, Financials, Industry/Company Position, Valuation, and Market Factors). ESG issues are frequently raised with senior management and board members during the team's extensive engagement with companies. These discussions make an important contribution towards the team's investment view. Where ESG factors are determined to have a material impact on profitability, these considerations can ultimately influence the active positioning of stocks in the portfolio.

Fixed Income, Short Term Investments and Global Credit

ESG issues can have a significant bearing on default risk. Historically, poor corporate and regulatory governance have been recognised contributors in most corporate failures. Consequently, ESG risks are identified as part of Fixed Income's bottom-up credit research process to help manage default risks in bond portfolios. The Fixed Income team's ESG assessment has an important bearing on proprietary internal credit ratings that are assigned to every credit it reviews, in turn influencing portfolio construction decisions. The ESG assessment is also a factor in determining whether portfolios participate in a new bond issue. As well as this bottom-up research, ESG factors are considered as part of its position sizing discipline.

FSSA Investment Managers

To FSSA, ESG and sustainability are not just labels, but a set of values by which they operate. Their investment universe consists of countries that are among the most vulnerable to environmental challenges, suffer from severe inequality, and can be highly susceptible to corruption. For these reasons, since the inception of the team, the focus has been on identifying quality companies and management teams that address these challenges head-on and, as a result, the team believes it can deliver better outcomes for all stakeholders. FSSA invests in companies that it considers to have the management foresight, technology and ideas to address changing societal and environmental expectations. Companies that do not deliver sustainable value for their customers, employees, suppliers and the larger community are unlikely, in FSSA's view, to be rewarding long-term investments. It is the responsibility of each analyst to identify ESG opportunities and risk and incorporate into bottom-up company analysis, valuations, stock selection and engagement.

Global Listed Infrastructure

The team views ESG issues as fundamental to infrastructure companies, given they have significant service obligations and moral accountability to the communities in which they operate. As long-term investors, the team takes an active approach to proxy voting to convey their views to boards and management on important ESG topics including board composition, remuneration packages and corporate governance. It participates in industry groups such as Climate Action 100+ to help deal with difficult issues such as energy transition and the path to net zero. Through company engagement, the team seeks to better understand risk in the portfolio, highlight areas for potential improvement, encourage disclosure on ESG issues, and support companies that are making progress in this area.

Global Property Securities

Responsible Investment has been deeply ingrained in the team's culture for over a decade. ESG considerations are directly embedded into two parts of its investment process. Firstly, the team aim to mitigate ESG risks in the initial screening of its investment universe. Secondly, ESG factors directly feed into its valuation methodology, whereby securities with better ESG scores achieve higher intrinsic valuations and are therefore favoured in its stock selection process. While the team use third party and in-house research, direct engagement with companies remains the most important source for ESG information, given the team's intricate understanding of the global property securities sector.

Igneo Infrastructure Partners

Igneo Infrastructure Partners' strategy is to build a portfolio of mature, operating infrastructure assets that it believes can deliver stable returns over the long-term for our investors. The team has long recognised that managing ESG risks and opportunities is key to protecting and enhancing value. Investment decisions, the asset management approach, and strategic analyses are therefore all examined in the context of ensuring long-term sustainability, with ESG considerations forming an integral part of the investment process. The team has the distinct advantage of being able to engage directly with its portfolio of companies via board representation and workshops with management, giving it the opportunity to provide input into ESG targets, develop initiatives and help drive cultural change.

Multi Asset Solutions

The team's approach to responsible investment is integrated within the investment process of the objective-based funds and can be incorporated into bespoke mandates. The RI approach encompasses ESG considerations as well as the use of ethical screens based on numerous themes which can exclude specific 'red flag' companies or industries, such as those involved in fossil fuels. These screens are applied consistently across all asset classes according to these themes. Furthermore, the team incorporate ESG considerations when voting on all company resolutions where possible.

Realindex Investments

Responsible investment and stewardship principles are important to Realindex's approach to investment management. The team integrates ESG considerations through a 'four pillar' approach based on: risk controls (mainly through carbon reduction controls); using ESG data to identify alpha sources; stewardship activities including voting and engagement; and exclusions, as per FSI's exclusion policy and/or client mandates.

Stewart Investors

Stewart Investors' first strategy was launched in 1988 and its first dedicated sustainability strategy was launched in 2005. The team manages long-only equity portfolios investing in Asia (including and excluding Japan), Global Emerging Markets, Europe (including and excluding the UK), the Indian Subcontinent and Worldwide. Stewart Investors aims to generate strong long-term risk-adjusted returns by investing in high quality companies that are well positioned to contribute to, and benefit from, sustainable development. A focus on sustainability is a natural extension of having a long-term investment horizon. It is integral to how the team thinks about risk and return, and is embedded in the investment process through bottom-up company analysis and mapping company contributions to credible frameworks like Project Drawdown's climate solutions and the team's Human Development Pillars. The team seeks to improve sustainable outcomes by investing in companies contributing to what it believes are positive solutions, avoiding businesses linked to harmful activities, and engaging and voting for change.

Exclusions

All FSI investment teams (across all products, regions and asset classes) are prohibited from investing in entities that either:

- derive any revenue (0% revenue threshold) directly from the manufacturing of tobacco or tobacco products. Tobacco Products include traditional cigarettes and other tobacco products (including cigars and chewing tobacco). Vaping or e-cigarette products are not considered for exclusion.
- derive any revenue (0% revenue threshold) directly from the manufacture of controversial weapons. Controversial weapons include: anti-personnel mines, cluster weapons, biological and chemical weapons, depleted uranium, white phosphorus munitions and nuclear weapons produced in support of the nuclear weapons programs of non-nuclear weapon State Parties and non-signatories to the Treaty on the Non-Proliferation of Nuclear Weapons.
- own more than a 50% interest in entities that derive any revenue directly from the manufacture of Controversial Weapons or Tobacco Products (as per the above definitions).

In addition, investment teams are prohibited from investing in entities identified by our Global Sanctions screening, which excludes companies flagged under UN, US, EU or Australian sanctions (as per FSI compliance feed).

The implementation of these firm-wide exclusions is dependent on information relating to either reported revenues (within financial statements) or revenue estimates provided by reputable third party research providers (based on segment reporting or an analyst assessment). Where such information turns out to be inaccurate or there are delays in accessing such information, the implementation of these firm-wide exclusions may in turn be delayed, particularly where there has been material changes in the nature of certain investments.

The list of excluded companies is based on our investment universe, research from credible third parties and review and approval by our RI Steering Group. Both our RI and Compliance teams work together to implement this policy and update the list of excluded companies on an annual basis. This list is available on our website. In addition, some teams have their own policies which include the above but go above and beyond in their own investment approach.

Using ESG Data

We subscribe to ESG research from a range of third-party information providers including;

- Sustainalytics - ESG Risk Ratings research, Product Involvement research, Global Standards Screening, Country Risk Ratings, SFDR Principle Adverse Sustainability Impacts research and EU Taxonomy research
- MSCI - governance and carbon research
- Institutional Shareholder Services (ISS) - carbon data and climate research
- RepRisk – provider of intelligence on ESG controversies
- Glass Lewis - provider of governance services including proxy vote management
- Ownership Matters - provides proxy voting research and recommendations on S&P ASX 300 companies
- Qontigo - maps companies' business activities to the Sustainable Development Goals (SDGs)

This information is used by different teams in different ways. We integrate ESG research and data from our external research providers into our data warehouse and investment systems, including into our ESG Portfolio Monitor tool. We also make this data available to investment teams through third-party systems that the teams use wherever possible, such as FactSet, Aladdin and Bloomberg.

While third-party information is available to and widely used by our teams, our primary information source is the analysis done by our investment teams. For our active equity teams, each one has its own tailored process for identifying and assessing the relevance and materiality of ESG issues, and how that could affect investment value, particularly over the long term.

8: Monitoring managers and service providers

As mentioned previously, FSI subscribes to ESG research from a range of third-party providers including Sustainalytics, MSCI, RepRisk Glass Lewis, Ownership Matters, Qontigo and ISS ESG.

In addition to subscription services, our investment teams may access ESG information from other sources such as:

- Sell-side broker research
- Reports, conferences and webinars hosted by industry specialists
- Reports by other interested parties such as regulators, government agencies and Non-Governmental Organisations (NGO)

Regarding NGOs, we continue to source data from the Global Slavery Index and KnowTheChain benchmark data, which are key inputs into our modern slavery risk assessments.

Proxy Advisers

We use a selection of proxy voting advisers: currently Glass Lewis and Ownership Matters. All submissions are made via Glass Lewis to deliver our proxy votes. However, all voting and all company engagements are undertaken directly by our investments teams, and they retain full control of voting decisions and may decide not to follow recommendations made by these advisers. A very small number of our clients wish to vote directly themselves, however often these clients will ask our advice prior to exercising their vote.

Portfolios are on-boarded to Viewpoint, our proxy voting system offered through Glass Lewis. While Glass Lewis will provide a recommendation on how to vote, the voting decision is made by the investment manager for each portfolio who has direct access to the proxy voting system. All securities held in FSI managed funds are maintained by external custodians who monitor these shares. Corporate action decisions are notified to portfolio managers via the Northern Trust portal.

Each investment team is responsible for reviewing voting resolutions and making an appropriate and consistent recommendation in line with corporate governance guidelines and principles. With every portfolio we manage in Glass Lewis, we can readily monitor voting decisions to ensure these are fully in line with our policies.

We undertake quarterly monitoring, including measurement against key performance indicators, on Glass Lewis ensuring they are performing in line with agreed KPIs. As part of this process, we review our proxy voting advisers on various metrics including security and cyber security, compliance and risk, governance, disaster recovery and business ethics. Further to this monitoring we held discussions with Glass Lewis regarding proxy recommendations and policy review. Glass Lewis continue to perform very well against their KPI's, with no material service issues.

A particular focus is confirmation that stewardship best practice is being reflected in our voting record, particularly with regard to ESG issues. This oversight is strengthened by asset class heads who additionally review our voting activity to verify this alignment is in place.

Quality of service is measured referencing a set of key performance indicators (KPIs). The proxy service provider is assessed on a variety of metrics including:

- Timely notification of meetings requiring manager review
- Ensuring all ballots are voted on (excluding specific client instruction)
- Report any votes against policy to the client
- New account setup within 10 days of receipt of instruction
- Timely production of client reports
- 24 hour response timeframe for all client inquiries

These quarterly KPI-based meetings are in addition to regular Supplier Due Diligence assessments we conduct.

9: Engagement and escalation

We believe that it is important that we engage in an active dialogue with all companies or entities that we invest in, as it provides opportunities to improve our understanding of their business; monitor material business issues including strategy, capital allocation, financials and ESG approach; and hold a dialogue with management where we share our perspective on best practice, and encourage adoption of them.

Engagement issues are identified through: investment teams' proprietary research processes, which is a predominantly bottom-up and fundamentally driven process; company disclosure and services providers.

The investment teams' engagement activities seek to support changes which will improve the quality of the companies they invest in, reduce risks, and enhance long-term returns for clients.

The breadth, depth and frequency of engagement can vary significantly based on a variety of factors, including the risks and opportunities faced by the company; the opportunity and the company's willingness to engage; and the size or nature of the investment.

Given the varying nature of the asset classes we manage, the geographies in which they operate, and the size of our holdings, each investment team's engagement approach is tailored to individual companies and the specific issues in question. In all cases, there is a focus on material ESG issues that could impact on investment value over all periods, but particularly over the long term.

Investment teams record engagement activity conducted throughout the year, and these engagement logs are the source of our case studies on pages 46-53, 56-61, 67-70.

As with all engagement activities, it can be difficult to accurately attribute success or failure to specific engagements. For example, other investors may well be engaging with management on the same issue at the same time, the timeframe between engagement commencing and resolving can be long, and the engaged company may claim any changes we were advocating were already in motion but not publicly disclosed. Nevertheless, we strongly believe that engagement is an important part of the investment process given our position as long-term stewards of investors' capital.

Listed Equities

For all active equity teams, company engagement is a key source of insight into ESG risks and opportunities. Analysing and assessing a company's ESG issues helps the investment teams to identify risks that may not show up in its financial statements.

Each team's approach to ESG engagement and escalation is bespoke to the characteristics of their investment philosophy and process. Where a potential impact on a company's sustainability is identified, investment teams engage with that company, in line with the commitments described in the active ownership section of our Responsible Investment and Stewardship Policy and Principles.

If the initial engagement isn't met with a satisfactory response, the investment teams have a number of escalation options:

- Report the issue to the RI team who will escalate internally, for example by reporting to the Global Investment Committee and/or RI Steering Group
- Write to or meet with company management or Board
- Vote against directors they feel are not providing appropriate oversight
- Consider filing or supporting a relevant shareholder proposal
- Engage collaboratively with other investors
- Make their views public
- Reduce or divest the holding of the issuer

Fixed Income

Ongoing engagement forms a critical part of the research process as they seek to understand and where relevant influence issuers on ESG, strategy and treasury policies. Any ESG concerns are logged within their proprietary Investment Opinion Network, a database available to the entire Fixed Income team globally and informs investment decisions.

In addition to engaging directly with company management and investor relation departments, the team has opportunities to engage with counterparties, credit rating agencies, and non-government entities.

Engaging with government, semi-government and supra-national issuers can be more challenging than engaging with corporate issuers as debt investors are not their primary concern, and may be wary of private institutions being seen to have an undue influence over the democratic process. The Fixed Income team is nevertheless proactive in engaging with those parties who can influence long-term investment outcomes.

Unlike listed equities, our fixed income teams do not have voting rights, so when escalating issues, they need to focus on different tools, such as collaborative engagement, and providing feedback at industry events, along with roadshows for new debt offerings and investor days. On an internal basis, escalation could result in a deteriorating ESG rating, which feeds into the internal credit rating, and therefore influences the relative value assessment and position sizing in portfolios. As a last resort, the team may divest fully from bonds issued by a particular entity.

Direct Investment - Igneo Infrastructure Partners

Igneo Infrastructure Partners typically acquires significant ownership stakes in portfolio companies, often with lead or co-lead shareholder roles and in some cases 100% ownership. This can involve board representation and enables Igneo to engage directly with portfolio companies at the Board level and/or workshops with management. This direct involvement not only allows the team to influence cultural change and provide input into ESG KPIs, it also enables them to maintain an open dialogue between managers and owners so that they remain aligned with respect to long-term value creation and protection. In a normal year, it also visits business sites in its capacity as owner, board member and/or board committee member.

The following section provides examples of how we have put engagement principles into action in 2022.

Case study

MVV: Decarbonising in Line with the Paris Agreement and validated by SBTi

Team
- Igneo

Issue type
- Climate Change

Relevant SDG
- SDG 13 – Climate Action

MVV Energie AG is a German regional integrated utility that operates along the full energy supply chain, producing and distributing electricity, gas and district heating, as well as acting as a service provider to retail customers. Igneo Infrastructure Partners manages a 45.1% stake in the business.

Like many regional utilities in Germany, MVV has traditionally relied on conventional fossil fuels to generate power and heat for its customers. Its emissions currently include those produced by gas and coal-fired co-generation plants. MVV was one of the first among its peers to recognise the importance of transitioning to net zero, but a key challenge lay in finding ways to replace conventional heat generation used in district heating with local, green heat generation sources.

After months of detailed planning, in October 2021, and supported by MVV's two major shareholders, the City of Mannheim and Igneo Infrastructure Partners, the company published a new target to reach net zero by 2040 (its aim was previously 2050). The company also committed to the following interim goals:

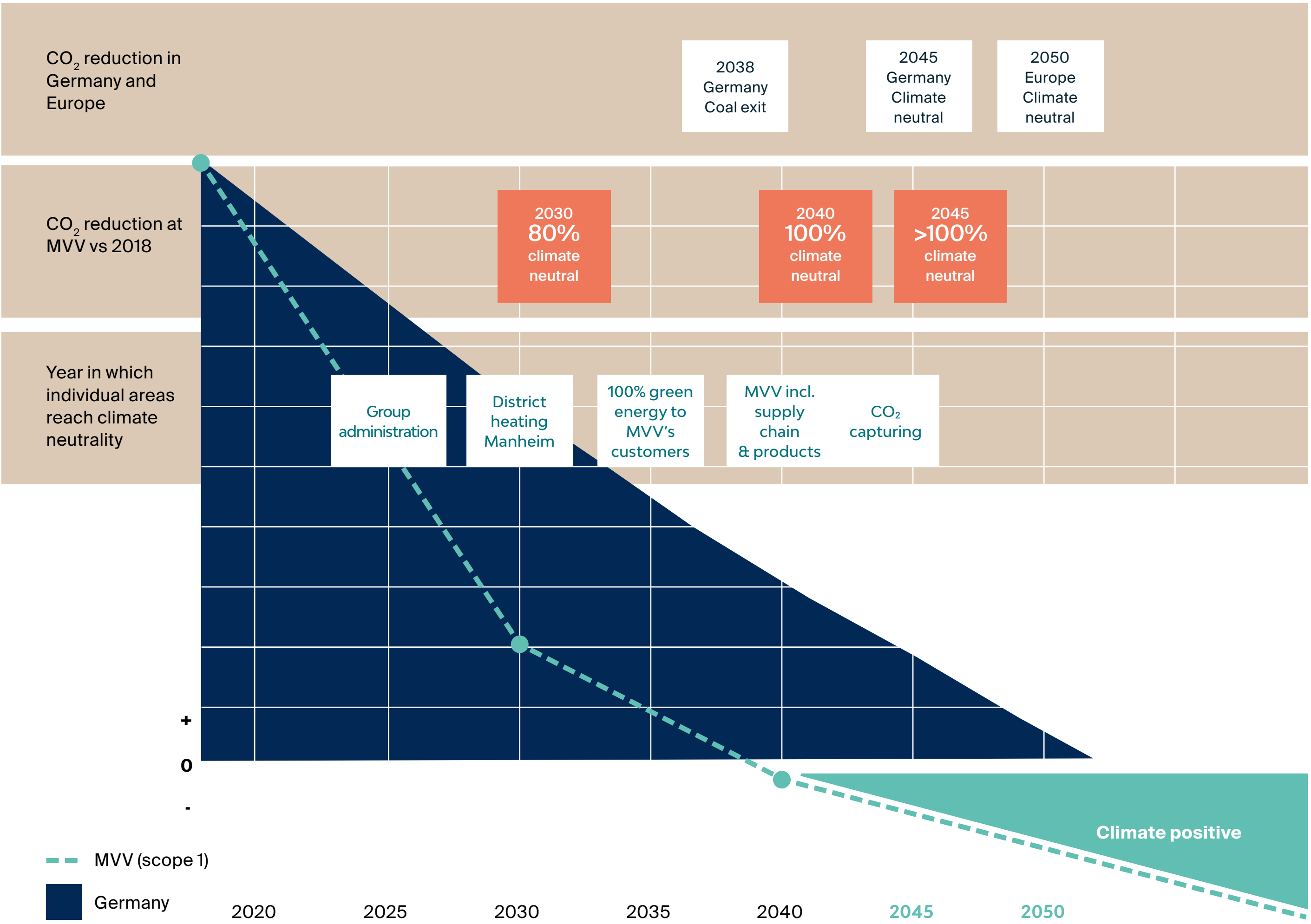
- Reduce scope 1 emissions by 80% by 2030 from a 2018 baseline.
- Reduce scope 2 and scope 3 emissions by 80% by 2035 from a 2018 baseline.

The plan to achieve these targets builds on a detailed, bottom-up replacement of MVV's fossil-fuel heat generation capacity with green sources such as biomass, river heat pumps and geothermal energy, enabling a full exit from coal by 2030 (previously planned for the mid-2030s).

In November 2021, MVV became the first German energy company to have its targets validated by the Science-Based Targets initiative according to a 1.5°C pathway. MVV's CEO Dr Georg Müller and Chairman Lord Mayor Dr Peter Kurz were invited to present the company's approach to a global audience at COP26 in Glasgow. In further recognition of MVV's efforts, especially in decarbonising district heating, MVV was awarded the "Energiewende Award" (Energy Transition Award) in the prize category Heat in October 2021. MVV was one of 4 recipients out of 1,800 eligible utilities for this prize in the Germany/Austria/Switzerland region.

Igneo continued to engage with the company on climate change in 2022, with further progress being made including the start of construction of a 20MW river heat pump to help decarbonise Mannheim's district heating generation, and a joint venture with City of Mannheim to install solar panels on all eligible public buildings.

Graphical Representation of MVV's Path to Net Zero and beyond[6]



6 Taken from Strategy section of MVV website

Chart source: https://www.mvv.de/en/about-us/strategy/mannheim-model

Case study

New Zealand Debt Management Office (DMO) – climate change policy

Team
- Fixed Income

Issue type
- Climate Change

Relevant SDG
- SDG 13 - Climate Action

Background

The New Zealand government recently announced the creation of The New Zealand Sovereign Green Bond Programme. We wanted to better understand the steps that the New Zealand Government has taken towards Climate Change and how it intends to structure this new program. Although the details will not be announced until later in the year when the first bond is issued, we looked further into the current steps taken by the Government.

Objectives

We wanted to understand the framework of the new Green Bond Programme and to engage with the Debt Management Office (DMO) to see what climate change policy has already been enacted by the Government.

Process

A comprehensive questionnaire was supplied to the DMO prior to a meeting scheduled for the 8 August 2022. During the meeting we discussed many of the topics in the questionnaire and communicated our thoughts on the potential Framework of the programme. Once the completed questionnaire was returned, we further developed our next step process around understanding the bond framework.

Outcomes

Once the Green Bond Programme Framework was published, we were then able to understand what metrics it will be judged under and what reporting will be supplied for review.

Next steps

We continue to monitor the NZ DMO on net zero progress and other material ESG issues, given we remain invested in bonds across its bond curve.

5 GENDER EQUALITY

Case study
Gender diversity in leadership teams

Team
- Stewart Investors

Issue type
- Diversity

Relevant SDG
- SDG 5 - Gender Equality

Background
Diversity, equity and inclusion is an important part of our investment approach. We believe a company's approach to diversity, equity and inclusion is an important driver of long-term success and forms part of our quality assessment of each company. This engagement is part of a broad program of engagement with companies that could improve their approaches to diversity (particularly relating to gender) and is aligned to our engagement policy and statement on diversity.

Objectives
To encourage the company, a supplier of precision test and measurement instrumentation, to increase the number of women in senior management and on the Board.

Process
We commissioned a research report with the University of Technology Sydney on 'Improving Gender Diversity in Companies' in 2019. This report formed part of our response to the lack of diversity on a number of Boards and management teams across our investable universe. At this point, all seven directors of the company and 18/19 of the senior management team were male. We initiated our engagement by writing to the company. We then had a held a meeting with management to learn more about their perspective on the issue and plans for improvement. We shared the research report with them and requested that they put a plan in place.

Outcomes
The company acknowledged the need and demonstrated a willingness to improve its approach to diversity. In the company's 2022 Annual Report, it committed to setting targets for the next re-election of directors and disclosed the gender of executives in their leadership team. The company is establishing an ESG team to help support progress and set targets.

Next steps
We will review progress at the firm, including the nominations of the company's next board election. We will continue to engage with the company to ensure that appropriate improvements are made once their ESG team is established.

Case study

Ansell – exposure to high-risk industries in Malaysia

Team
- Australian Small and Mid-Cap Companies

Issue type
- Modern Slavery

Relevant SDG
- SDG 8 – Decent Work and Economic Growth

Background
Malaysia is the world's largest producer of rubber gloves and an important manufacturing and sourcing location for health care companies who supply personal protective equipment (PPE). The PPE industry in Malaysia relies heavily on low-skilled, migrant labour, which can lead to heightened risks associated with human rights and modern slavery. In addition, US Customs and Border Protection has previously announced Withhold Release Orders (WROs) against several Malaysia-based disposable glove suppliers, alleging that their products were produced using forced labour.

Objectives
Through continued engagement, the team wishes to seek assurance that Ansell is successfully managing modern slavery risk in its supply chain, especially with respect to disposable glove suppliers in Malaysia.

Process
The team has held ongoing discussions with Ansell's senior management around modern slavery risk and other ESG matters for a number of years.

Outcomes
Ansell has established comprehensive measures to mitigate the risk of modern slavery. Among these is the company's Supplier Management Framework (SMF), which seeks to drive meaningful change in the company's third-party supply chain. Its objective is to undertake a risk-based approach and assign appropriate measures and activities to target risks.[7]

Over the years, the team has noted the improvement in the direction of health care companies and the PPE industry in Malaysia more broadly. Ansell has improved its practices significantly and we consider it to now be one of the leading operators with regards to supply chain management.

In addition to progress made by health care industry, FY22 saw steps taken by the Malaysian Government to initiate industry-wide change, including the introduction of a 'forced labour' offence, which can carry a monetary fine or imprisonment.

Responsible Glove Alliance
Ansell is one of seven founding members of the Responsible Glove Alliance (RGA), which is a collective effort established by purchasers and producers of rubber gloves from Malaysia that aims to protect workers and reduce the risk of forced labour. RGA members commit to continuous improvement through the implementation of extensive due diligence and responsible recruitment practices within their owned facilities, supply chains, and worker recruitment channels.[8]

Next steps
The team will continue to engage closely with Ansell on the steps it is taking to manage heightened supply chain risk, along with the management of other ESG risks.

7 Source: Ansell 2022 Sustainability Report
8 Source: Responsible Glove Alliance website March 2023

Case study

Woolworths – exposure to high-risk horticultural sector

Team
- Australian Equities Growth

Issue type
- Modern Slavery

Relevant SDG
- SDG 8 – Decent Work and Economic Growth

Background

Woolworths is a large Australian supermarket chain. Modern slavery risks are high across its products. While we have discussed modern slavery with the company generally, we have also focused on one particular risk for the last five or so years, being the risk of worker exploitation in the Australian horticultural sector. Fruit and vegetable picking and sorting is typically low skilled manual labour carried out by seasonal workers or migrant workers on temporary visas. Workers are often paid piece rates, which can be harder to quantify than a standard hourly rate, the hours can be long, and the working conditions can be tough. These factors make workers particularly vulnerable to exploitation.

Objectives

To understand how Woolworths assesses the risks of modern slavery in its horticultural supply chain and encourage best practice in the management of those risks. This includes understanding the vulnerability of workers and minimising the risk that these vulnerabilities are exploited.

Process

We have been meeting the management team, the board, or members of Woolworths' ESG team at least twice a year since 2018. We have discussed how Woolworths has been managing the risk of worker exploitation in the horticultural sector since then and have encouraged industry-wide solutions including working with growers and workers to make sure they understand worker rights, and to better detect instances of exploitation. One of the most effective ways of empowering workers and educating growers is working with other large players in the industry and the unions that represent the workers.

Outcomes

In May 2022, Woolworths announced that it had formally joined forces with the Retail Supply Chain Alliance, an alliance of unions set up in 2019 to tackle worker exploitation in the Australian horticultural sector. This is a really pleasing step forward and we will encourage others in the industry to join the Alliance.

Next steps

We will continue to encourage Woolworths to consider other industry-wide initiatives in this sector. We will also encourage other industry participants to join the Alliance. We will seek regular updates on initiatives from the Alliance and will encourage disclosure of instances of worker exploitation in this sector.

Case study
Engaging on ESG policies and actions

Team
- Global Listed Infrastructure

Issue type
- ESG integration

Background

The team invests in France-based international company specializing in the storage, distribution and sale of petroleum, liquefied petroleum gas (LPG), food and chemical products. The company has operations across 40 countries in three geographical zones: Europe, Africa and the Caribbean.

We identified a number of ESG issues including:

- The need for additional clarity around the company's carbon intensity reduction measures
- A lack of transparency in ESG-related remuneration targets
- Modern slavery risks

Objectives

We met with management to better understand ESG considerations from their perspective, and to raise concerns where potential gaps in ESG performance were identified.

Process

We met with the company seven times during the year, including a dedicated meeting in December 2022 to discuss sustainability and corporate governance issues. The meeting was held with the Corporate Social Responsibility (CSR) Director and Governance Director. We followed this up with a letter to management to better understand how they identify modern slavery risks.

Outcomes

Carbon intensity measures: The company has been slow to implement specific carbon intensity reduction measures. Their core business as a supplier and transporter of energy means the majority of their emissions are generated by customers using the products sold by Rubis (i.e. scope 3B emissions). The company has therefore separated scope 3B emissions from their carbon footprint assessment. In 2022, the company increased its carbon CO2 emissions reduction target (excluding scope 3B) from 20% to 30% by 2030. The company is also a signatory to the UN Global Compact. While these are positive steps, the company still lags European peers on carbon intensity reduction goals. We encouraged the company to set carbon reduction targets across their entire business.

Remuneration: We sought to better understand what ESG metrics are included in remuneration policies. For the Short Term Incentive (STI) component, 20% is based on CSR indicators such as workplace safety and climate transition goals. Long Term Incentive (LTI) payments include 15% for gender equality and 10% for CDP water ratings. We provided feedback that the STI indicators looked fair but that the LTI targets were too easy to achieve.

Modern Slavery: From a modern slavery perspective, we believe the company's global footprint, with a large contractor workforce and complex supply chains, means it is inherently more exposed to modern slavery risks than many other companies in our opportunity set. The company acknowledged they have limited visibility over the working conditions of suppliers and contractors in many countries where they operate. They also recognised that their current processes are not set up to assess this risk. We followed this meeting by writing to management, to better understand how they identify modern slavery risks, what policies they have in place and what procedures would be followed in the event of an incident arising.

Next steps

We will continue to engage with the company on these important ESG issues.

Case study
ICICI Bank – net zero commitments

Team
- FSSA

Issue type
- Climate Change

Relevant SDG
- SDG 13 – Climate Action

Background

ICICI Bank previously known as the (Industrial Credit and Investment Corporation of India) is a leading private sector bank in India, which offers Netbanking services & Personal banking services like Accounts & Deposits, Cards, Loan, etc.

ICICI Bank was part of FSSA's first set of companies to assess their net zero maturity. Almost one-third of FSSA's holdings are in the financial sector and we believe it has an important role to play in addressing climate change. ICICI Bank was highlighted as a laggard in our initial net zero assessment completed in late November 2021.

Objectives

The purpose of the engagement was to better understand the company's approach to the issue and push for change specifically on its poor disclosure (only scope 1 and scope 2 greenhouse gas emissions have been disclosed since 2019) with few other metrics and the lack of a tangible decarbonisation strategy.

Process

Over the past four years, we have had several meetings with the CEO, Sandeep Bakhshi, and most of the bank's senior managers. Over time, the bank's culture and governance standards have improved, allowing us to build a close relationship and engage on various matters.

We first raised the topic of net zero with the CEO in Q2 2022 and we found their initial response underwhelming. We reached out again in August sharing a 2021 WWF-produced sustainable banking report which summarises the environmental and social progress (and/or regression) of 36 ASEAN* banks. The hope was that ICICI could take the lead in India. They offered an ESG-focused call in November to cover various topics.

Outcomes

The meeting provided a good overview of their activities, challenges and projects in motion. For example, they have significantly increased their onsite solar production (by 70% from fiscal year 2020 to 2021 alone) and are trying to keep emissions intensity flat. Specifically, we asked about an ESG lending framework which at the date of our discussion did not exist. We learned the team is exploring the many facets this involves (it is also being pushed by the Indian government). The team was quite open to sharing and recognised they have been slow in communicating to stakeholders. An important factor in our engagement was having the support of the CEO, who believes that ESG is central to the success of the business.

Next steps

We will continue to engage at least annual on this matter until goals and progress are evident. We've added a follow-up for midyear 2023.

* Association of Southeast Asian Nations

10: Collaboration and escalation

Direct engagements are our most common approach to engagement activities.

They involve our investment teams meeting with senior company management, members of the board, or investor relations. These are most often in-person meetings with senior management, typically at CEO, CFO or head of investor relations level after an initial letter setting out our concerns/ objectives has been sent. In-person meetings can often make it easier to evaluate the strength of commitment by company management. However, when circumstance such as geography or the need to involve team members from different locations dictates, we conduct meetings virtually.

In certain circumstances, however, active engagement is more likely to produce positive outcomes when undertaken as part of a wider group. We collaborate when we believe we can amplify our message in a larger group. This is particularly true for large, systemically important issues such as climate change, human rights, biodiversity and diversity. Collaboration takes place with other parties, normally including industry groups, other investors, NGOs and civil society groups, where we believe group engagement will be more effective. We have participated in collaborative engagements spanning many aspects of ESG. The approach is generally similar in style to that of direct engagement, but the scope is generally much larger.

Our record of collaborative engagement with other global investors covers a number of important topics, such as:

- Microfibres (as it impacts oceans)
- Human trafficking and modern slavery
- Conflict minerals
- Climate change

Below are examples of how we have put engagement principles through collaboration into action in 2022.

Case study
Microfibres

Team
- First Sentier Investors

Issue type
- Biodiversity

Relevant SDG
- SDG 14 - Life Below Water

Background

More than 8,000 million tonnes of plastic have been manufactured since the 1950s, but only 9% of it has been recycled.[9] Plastic is designed to be durable, so it lingers for years after it is no longer needed. Around 80% of all the plastic ever produced is now in landfills[11] or the broader land and marine environment. More than 10 million tonnes of plastic are estimated to enter our oceans each year[10], and up to a quarter of that is from primary microplastics – typically defined as being smaller than 0.5 mm in any dimension when they enter the environment. These tiny plastic particles have significant and long-lasting consequences for the health of the world's land and sea ecosystems – and on human health.

The main sources of primary microplastic pollution include synthetic textiles, erosion from vehicle tyres and road markings, 'city dust', and personal care products. The largest proportion – 35%[11] - comes from microfibres shed from synthetic fabrics during manufacture, care or use.

The use of synthetic fabrics in clothing and other textiles is expected to grow further as global textile production and consumption continue to expand. These materials release microfibres when used or washed. One item of machine-laundered clothing can produce more than 1900 fibres in a single wash, and it is estimated that some 9 trillion fibres[12] are released in a single week in the UK alone. The ingestion of microplastics by marine organisms has been shown to negatively impact feeding behaviour, growth, development, reproduction and lifespan.[13]

A Solution

Globally more than 840 million domestic washing machines are in use[14], manufactured by around 30 companies. One kilogram of washing is estimated to be able to release up to 1.5 million fibres.[15] Across the UK, for example, 9.4 trillion fibres could be released in one week alone.[12] With the advent of technological solutions to fit microfibre filters in washing machines, there are now solutions to prevent this serious pollution risk which are not in widespread use by the industry.

Engagement Objectives

In 2021, First Sentier Investors convened a group of 29 institutional investors to collaborate to engage portfolio companies that were in the business of manufacturing washing machines. Twelve companies in which members of the group are invested were identified as targets for engagement. The group have also enjoyed the input and advice from marine scientists from leading UK NGO, the Marine Conservation Society

The objectives of the collaborative engagement program are twofold to:

Influence the target companies to commit to having factory fitted plastic microfibre filters fitted as standard in all new machines by the end of 2023.

To use investor interest in this matter to influence policy makers to implement legislation prohibiting the sale of new machines without filter mechanisms built in. We note that the progress outlined below cannot be directly attributed to FSI's engagement, but is the result of a concerted stakeholder effort.

Industry Progress to Date

The world's first washing machine with a built-in microfibre filtration system to combat aquatic plastic pollution is the FiberCatcher - designed and patented by Arçelik and launched in 2021. It reports that the system catches more than 90%[16] of synthetic fibres lost from garments during washing.

In 2022, Electrolux, another one of our companies, launched a filter mechanism that can be fitted to its Electrolux, Zanussi and AEG branded machines.

In January 2023, Samsung announced a partnership with Patagonia to develop machines with filters for launch in 2023.

The Microplastic Filters (Washing Machines) Bill in the United Kingdom is currently going through debate in parliament and would mandate washing machine manufacturers to include microplastic-catching filters as a standard feature on all new machines for sale or use in England and Wales by 1 January 2025.

This bill is very similar to the already passed French law that will mandate the same requirements for manufacturers selling into in France from January 2025.[17]

9 IEMA Just 9% of discarded plastic recycled since 1950s. 2017.
10 J.R. Jambeck, R. Geyer, C. Wilcox, T.R. Siegler, M. Perryman, A. Andrady, R. Narayan, K.L. Law, Plastic waste inputs from land into the ocean
11 Article 79 of the law. First Sentier MUFG, Sustainable Investment Institute. Microfibres report.
12 National Federation of Women's Institutes. In a spin: How our laundry is contributing to plastic pollution. 2018.
13 Zara L.R. Botterell, Nicola Beaumont, Tarquin Dorrington, Michael Steinke, Richard C. Thompson, Penelope K. Lindeque,Bioavailability and effects of microplastics on marine zooplankton: A review. Environmental Pollution, Volume 245, 2019
14 ResearchGate. Bottom-up scenario calculations for 10 world regions reveal worldwide efficiency potentials of about 50 % for refrigeration and washing. 2013.
15 De Falco, F., Di Pace, E., Cocca, M. et al. The contribution of washing processes of synthetic clothes to microplastic pollution. Sci Rep 9, 6633 (2019)
16 Grundig, fibre catcher
17 Article 79 of the law 2020-105 (new art L . 541-15-11 in the French Environmental Code)

8 DECENT WORK AND ECONOMIC GROWTH

Case study

IAST APAC – modern slavery across the value chain

Team
- First Sentier Investors

Issue type
- Modern Slavery

Relevant SDG
- SDG 8 – Decent Work and Economic Growth

IAST APAC (Investors Against Slavery and Trafficking – Asia Pacific) was launched in 2020 as an investor initiative to promote effective action by companies to find, fix and prevent modern slavery, labour exploitation and human trafficking across the value chain.

The initiative is open to investors only and has a steering committee of First Sentier Investors (chair), Australian Super, Aware Super, Fidelity International, Ausbil Investment Management Limited, and the Australian Council of Superannuation Investors (ACSI). The secretariat of the initiative is provided by Walk Free in partnership with the Liechtenstein Initiative for Finance Against Slavery and Trafficking (FAST). IAST APAC currently represents AU$7.8 trillion (US$5.4 trillion) in funds under management across 37 members in June 2022.

The initiative is divided into two work streams. The first work stream centres on investor advocacy with a focus on policy advocacy and improved access to data. In 2022, IAST APAC focused on providing feedback on the Australian Modern Slavery Act review process, outlined on page 29 of this report.

Workstream 2 was established in January 2021 to support the work of Workstream 1. Its purpose is to enable investors to work collaboratively towards a common goal of mitigating modern slavery risks in investee companies across the Asia-Pacific region. Workstream 2 invites investors to nominate as either a lead or support investor. Each investor group is allocated a focus company and all investors play an active role in engaging directly with the focus company. Due to the complexity of issues related to human rights in the supply chain, it is anticipated that this will be a multi-year initiative.

During FY 21/22, IAST engaged with 24 focus companies across the consumer discretionary, consumer staples, technology and healthcare sectors. Companies are listed on the following exchanges: Australia, Hong Kong, Japan, Malaysia, the Philippines, Singapore, South Korea, Taiwan and Vietnam. Looking ahead, investors will be using the engagement plans for multi-year engagements with the selected companies and will continue to share knowledge and best practice.

We envisage that the work under this workstream can also assist members (where they are reporting entities or reporting voluntarily) to address the mandatory criteria of measuring the effectiveness of actions taken, under the Act, by tracking progress against the engagement plan.

IAST-APAC is strongly focused on industry collaboration – in the spirit of the Modern Slavery Act – including shared knowledge and tools to address risk, taking inspiration from the investor initiative ‘Find it, Fix it, Prevent it’ in the UK. It also engages with civil society, including Walk Free and FAST as well as investor briefings on specific risks by labour rights experts.

Further information on IAST APAC can be found in the Footsteps forward Investors Against Slavery and Trafficking Asia Pacific Annual Report 2021–2022, available on the website.

Case study

Tackling conflict mineral content in the semiconductor supply chain

Team
- Stewart Investors

Issue type
- Human Rights

Relevant SDG
- SDG 8 – Decent Work and Economic Growth

Background

Tantalum, tin, tungsten, gold and cobalt (referred to collectively as conflict minerals) are vital materials and building blocks of the semiconductor industry. The poor traceability of these minerals along complex supply chains, including smelting and refining, can obscure the provenance of these minerals. This can lead to the inadvertent financing of armed conflict and the abuse of human rights. Demands for a greener future necessitates more semiconductors and therefore more mineral mining.

Objectives

As long-term investors, we believe that robust labour practices and good environmental management are complementary to delivering attractive shareholder returns. As regulators and consumers are increasingly focused on the challenges of mineral sourcing within the semiconductor supply chain, we believe there is an opportunity for companies to take a lead in the development of conflict mineral-free supply chains.

Process

Following specific company discussions and two commissioned research reports, in 2021, Stewart Investors launched an industry engagement initiative: Tackling conflict mineral content in the semiconductor supply chain. The initiative was supported by 160 signatories, collectively representing US$6.59 trillion in AUM. With regulators and consumers also increasing their attention on the challenges of mineral sourcing within the semiconductor supply chain, the collaboration effort has attracted greater interest from a number of large financial institutions. In 2022, Stewart Investors increased engagement efforts with: (1) Companies, the team met with a number of companies in response to the initial letter; (2) Industry bodies, at the Responsible Minerals Initiative (RMI) annual conference; and (3) civil bodies, having met with Global Witness to discuss the findings of field research recently carried out and published in their ITSCI Laundromat report.

Outcomes

These engagements revealed the issue of improperly sourced minerals and associated human rights abuses to be more severe than initially anticipated, and progress has stalled due to companies' challenges from reliance on third-party audits, the concentration of minerals in high-risk countries and a lack of sustained effort by companies. However, NGO pressure and geopolitical tensions are increasing governments' focus on supply chain transparency leading companies to refocus their efforts on full supply chain mapping.

Stewart Investors has raised the profile of investors' concerns about this issue with key companies in the supply chain. Following the engagement some companies have committed to improving transparency and one company has for the first time published a full list of the smelters and refiners they use. The engagement has also raised the profile of investors' concerns with the main industry body and civil bodies which has helped bring the issue to a wider audience and provided scope for further collaboration. It is extremely early days for this multi-year engagement but it is clear that tracing mineral provenance is an extremely complex challenge for companies. Progress is slow. While there is a unanimous desire to improve practices, some companies are more eager and able to meet this challenge than others.

Next steps

Stewart Investors is now seeking to:

- Attract more signatories to underline a deepening commitment to this issue;
- Write again to all companies to assess and encourage progress;
- Formulate investor guidelines to deepen the quality of company engagements; and
- Attend industry functions to learn and improve the quality of our engagement.

Case study

Russia Ukraine conflict – enhanced scrutiny of human rights policies

Team

- Fixed Income Credit / RealIndex / MAS / Asia Fixed Income

Issue type

- Human Rights

Background

The war in Ukraine has enormous humanitarian consequences, as well as long lasting economic, social and environmental repercussions. The sanctions imposed on Russia, as a result of its invasion, are unprecedented in scope and severity at state level as well as for corporates. In this period of geopolitical risk, ESG frameworks can help investors to navigate these challenges and also to meet their obligations under Principle 13 of the UN Guiding Principles on Business and Human Rights (UNGPs), the key standard for businesses to follow. The responsibility to respect human rights applies across the whole value chain, and the focus should be on risks to people, not just the business.

Objectives

We wished to gain a deeper understanding of the nature of the target companies' involvement in Russia and the Ukraine, and to then assess the risks from this continued involvement. This includes how the company is enhancing its due diligence to identify, prevent, and mitigate heightened human rights risks, and what measures the companies are taking to ensure they rely and act upon robust monitoring of the situation, including through consultation with workers, affected communities, human rights groups, and/or humanitarian organizations. We also wanted to know how they are mitigating risks and tracking effectiveness to ensure their business relationships, products, services, operations, or other actions do not contribute to Russian military activities or occupation in Ukraine. Finally, are they taking any other actions to promote respect for humanitarian law, human rights, democracy, and peace in Ukraine?

Process

Investor letters were drafted by the Responsible Investment team in collaboration with the relevant investment teams, requesting information regarding their assessment of the risks, how they planned to mitigate risks and track effectiveness of those actions, and how they would exercise leverage to promote human rights in the region. These were sent to the investor relations department at each engaged company.

Outcomes

To date, responses have only been received from two of the seven companies engaged with. Of the two responses received, we consider their answers to be generic and incomplete.

Next steps

We are following up with the companies yet to respond. Without this information, it is difficult to ensure that they are acting in accordance with UN Guiding Principles on Business & Human Rights. We are also engaging with the two companies which did respond, requesting further information.

Case study

NextEra Energy – A Climate Action 100+ engagement

Team
- Global Listed Infrastructure

Issue type
- Climate Change

Relevant SDG
- SDG 13 – Climate Action

Background

NextEra Energy (NextEra) is a Florida-based integrated regulated utility, and the US' largest renewables developer and owner. Climate change mitigation and adaptation are key investment opportunities for this company, which is playing a leading role in moving to decarbonise and generate affordable clean energy.

Objectives

Despite its strong position in this area, and being well ahead of peers in terms of emissions reductions, NextEra was relatively slow to set a net zero target. We therefore engaged with the company to encourage them to set a formal target or pathway.

Process

We engaged with NextEra Energy on this topic individually, and also collaboratively as part of Climate Action 100+, an investor-led initiative to ensure the world's largest corporate greenhouse gas emitters take necessary action on climate change. The First Sentier Global Listed Infrastructure team has been part of the Climate Action 100+ working group for NextEra since 2019.

Outcomes

In June 2022, following engagement on this topic with Climate Action 100+ for several years, NextEra announced an updated climate strategy with a goal of achieving "Real Zero" by 2045. The announcement sets an industry-leading goal of eliminating carbon emissions from its operations. Real Zero is the most ambitious carbon emissions reduction goal ever set by an energy producer, and the sector's only one to not require carbon offsets for success. The company has set interim milestones every five years, adding visibility and accountability to this long-dated target.

Next steps

As long-term investors in listed infrastructure assets, we look forward to continued engagement with NextEra, both directly and via Climate Action 100+, to ensure they meet their decarbonisation goals.

Industry collaboration

Each year, we review the various initiatives that we have been involved with. We do this to ensure their purpose aligns with our clients' interests and that we have the capacity to make a meaningful contribution. The initiatives that we actively support and engage with are listed here:

Global

Principles for Responsible Investment (PRI)
- Signatory

Cambridge University's Investment Leaders Group
- Founder Member
- Chair of Working Group

Climate Action 100+
- Supporting Investor for 3 companies

Tobacco Free Portfolios Pledge
- Signatory and Pledge Stamp Member

Task Force on Climate-Related Financial Disclosures
- Supporter

Finance for Biodiversity pledge
- Signatory

Asia Pacific

Financial Services Council
- Director of the FSC Board
- Member of the Fund Management Board Committee
- Member of the Investment Expert Group
- Chair of the ESG Working Group

Investor Group on Climate Change
- Member

Responsible Investment Association Australasia
- Member of the Nature Working Group
- Member of the Human Rights Working Group

30% Club Australia
- Investor Working Group Member

40:40 Vision
- Steering Group Member
- Investor Working Group Member

Women in Sustainable Finance
- Committee Member

Investors Against Slavery and Trafficking APAC
- Chair

Japan Sustainable Investment Forum (JSIF)
- Signatory

Japan Stewardship Initiative (JSI)
- Signatory

Hong Kong Green Finance Association
- Member

EMEA

UK Sustainable Investment Forum
- Board Member

EUROSIF
- Chair

Institute of Chartered Accountants in England and Wales (ICAEW)
- Member of the Corporate Governance Committee
- Member of the Sustainability Committee

Prince's Accounting for Sustainability (A4S)
- Expert Panel Member

UK Investment Association
- Member of the Sustainability & Responsible Investment Committee
- Chair of the Standards & Definition Working Group

London Stock Exchange Group
- Member of the Sustainable Investment Committee
- Member of the ESG Advisory Committee

11: Exercising rights and responsibilities

Voting

We believe that voting rights are a valuable asset. Indeed, these rights (together with other share-related rights such as pre-exemption rights) should be afforded the same attention and diligence as any other assets we manage for our clients.

Making well-informed decisions regarding proxy voting is crucial. To assist with this, we consult respected external proxy voting advisers (outlined in Section 8: Monitoring managers and service providers). It should be noted, however, that we do not automatically accept such recommendations – our investment teams retain control over voting decisions where they have authority to do so. On occasions, some of our segregated mandate clients may give us a direct instruction on how to direct their vote on a particular issue.

We seek to ensure company resolutions are properly considered and appropriate and consistent voting decisions are made in alignment with the corporate governance guidelines and principles detailed in this document. The responsibility for this rests with the investment team head (or delegate).

Details of all votes we have cast can be found on our website.

Monitoring our shareholdings and voting rights

All securities held across FSI managed funds are monitored and maintained by external custodians. The custodian informs our portfolio managers of all corporate actions requiring a response via an online portal. This process ensures managers receive prompt notification of all corporate actions. Subsequently, many clients delegate proxy voting to us, their investment manager.

With proxy voting responsibility for the majority of our portfolios, we on-board every portfolio to our Proxy Voting system, Glass Lewis. Portfolio managers have access to this system in order to monitor our voting and ensure it remains in line with FSI policy. Whilst Glass Lewis make recommendations, individual portfolio managers can override a recommendation where appropriate. It is rare for us to abstain/not vote, but where there is a conflict of interest e.g. regarding an affiliate holding, we will do so.

Our commitment to putting clients' interests first. We seek to do the following:

- our investment teams seek to exercise their right to vote on all company resolutions where they have the authority to do so.
- we will seek to engage with company management prior to an intention to vote against a company's recommendation on a substantial or contentious issue. Our rationale will be communicated in an effort to secure a satisfactory outcome.
- voting decisions will be made with the best long-term interests of unit holders and clients being paramount.
- we will document the reasons for any vote against a company proposal in the voting system.
- an objective assessment of the merits of all resolutions will be made by the investment teams, irrespective of whom is proposing the resolution.
- on occasions where there are multiple parts to a resolution, due consideration will be given by the investments teams to the merits of each part in addition to the impact of the resolution as a whole.

Securities Lending Policy

In general, we don't initiate or actively take part in securities lending across our FSI pooled funds, with the exception of the Australian Small and Mid Caps team. In rare instances, this team's shares may be on loan, and given the small size of the holdings, there is no recall process in place for voting purposes.

Voting on environmental and social issues

The most effective approach to secure positive outcomes on ESG issues is to engage directly with company management. Where this engagement fails to deliver a satisfactory outcome, the investment teams will consider supporting shareholder resolutions related to the specific issue and/or voting against company management. In addition, investment teams may decide to directly file or co-file an appropriate shareholder resolution themselves.

Fixed Income lack the right to vote, but they do have rights related to bond documentation

Credit analysts and portfolio managers review the bond transaction documents – which include the prospectus, information memorandum, term sheet and security trust deeds – for all bonds bought for our active portfolios and for most of our bonds in passive funds.

We review key terms which include:

- The events of default, its priority in the event of a default (and, for bonds issued by banks, 'bail-in' provisions)
- The presence or absence of change of control clauses
- Coupon step-ups or step-downs if external credit ratings change
- Cross default provisions
- Limitation to asset sales
- Financial covenants
- Early rights to redemption (by issuer or the bondholder)
- The structure of parent company or group guarantees

For Green bonds we review the terms and conditions around the ring-fenced assets, conditions for the application of proceeds and the frequency and standard of reporting required for these bonds. For Sustainability Linked Bonds (SLB's), we carefully (i) review the level of ambition of the SLB's outright targets, ii) evaluate the SLB's targets (Sustainability Performance Targets) relative to the company's stated long term ESG goals, and relative to SLB goals set by the company's peers, and iii) assess the appropriateness of any penalties or incentives (coupon step ups and/or step downs) linked on the company's performance of these targets on the test date.

We prefer green and sustainability linked bond documents to be certified or prepared by a reputable third party. We also value reputable Second Party Opinions that provide verification of the accuracy and integrity of a sustainable bond, loan or framework.

If we're not satisfied with the documentation, we'll give this feedback, along with our recommended changes, to the banks co-ordinating the bond transaction. We often look to add further conditions/protections for bondholders. These might include reporting frequency and specific data for green bonds and those issued by private institutions. For companies we consider to be of weaker quality, we might recommend cross default, change of control clauses and coupon step-ups on external ratings downgrades. If the changes we ask for don't happen, or we're still not satisfied with the supporting documentation even after amendments, we won't invest in the bond.

Our voting practices and voting record

We use Glass Lewis and Ownership Matters providers governance services, to advise on and deliver our proxy votes to the companies we invest in.

Our active listed equity teams voted on 58,042 resolutions at company meetings between 1 January 2022 and 31 December 2022. This represents 95% of resolutions. We aim to vote on all resolutions where possible. We don't vote in certain share blocking markets or where there's a conflict of interest.

We have a 'live' voting tool on our website. This gives us information on our voting decisions immediately after each company meeting. We also give each investment team relevant statistics online for inclusion in their respective team profiles.

A comprehensive guide detailing our voting approach regarding major issues can be found in Appendix 1, 'Proxy voting guidelines'.

Digging deeper into the numbers, we see that votes on director and board elections was the category most likely to see a vote against management, accounting for 40% of all votes against management recommendation. This is consistent with the trend in votes against proxy advice, with director and board elections accounting for 50% of total votes against the proxy advisor. The votes against mostly related to insufficient female representation, nominees sitting on too many public company boards and director interdependence. The proportion of votes against, however, is consistent with the proportion of votes for director and board elections accounting for 49% of total votes cast. Allowing for this, we see only 9% of votes on director and board elections went against management recommendations, and 9% against the proxy advisor.

On the same basis, the category most likely to witness a vote against management advice was shareholder proposals, with 57% of total votes against management advice and 40% of total votes against proxy advice. Shareholder proposals were more likely to be supported by our investment teams if they felt, following engagement, that the company was not making adequate progress and particularly where proposals advocated for additional disclosure or reporting on an issue.

The next category most likely to see a vote against management recommendation was Audit/Financials at 22% of total votes against management, similar to the 21% of total votes against proxy advice, driven by differing views about the appropriate tenure of an auditor.

Our proxy voting record by category

	Abstain	Against	For	Total
Audit/Financials	35	762	2789	3586
Capital Management	44	231	3916	4191
Director election	76	2559	25610	28245
Director renumeration	19	62	1389	1470
Executive renumeration	1	462	3007	3470
General business	96	189	3177	3462
Governance related	174	596	6517	7287
M&A	3	16	285	304
Renumeration related	3	407	2478	2888
Shareholder proposal	27	570	837	1434
Shareholder rights	5	193	1506	1704
Other			1	1
Total	483	6047	51512	58042

Proxy voting information is as at 31/12/2022
Source: First Sentier Investors / CGI Glass Lewis

Voting autonomy

The figures to the right show the number of times our active listed equity teams voted against management recommendations, our proxy advisor recommendations, or against both during 2022. These illustrate the independent judgement which is applied by the teams when making voting decisions:

- Against proxy adviser 3,829 (7%)
- Against management 6,429 (11%)
- Against both 2,940 (5%)

Case study
Mapletree Commercial Trust – negative merger proposal

Team
- Global Property

Issue type
- Governance

Background
In December 2021, Mapletree Commercial Trust (MCT) management announced its plan to merge with MNACT (Mapletree North Asia Commercial Trust) – a Singapore- listed Real Estate Investment Trust (REIT) - with real estate exposure to Japan, South Korea, Hong Kong and China. MCT was added to our portfolio in early 2021 as we believed the stock was well positioned to benefit from the re-opening trade in Singapore, where the Government was pro-active in its strategy on pandemic management. This REIT is also one of only a handful of pure domestic Singapore REITs left in the sector.

We viewed the planned merger as negative, believing that the current investment grade portfolio would be diluted by exposure to emerging market factors in China, and in weak property fundamentals markets namely Hong Kong retail mall, Japan retail and China suburban office.

While we could also see the positive side of this merger plan in creating a larger scale REIT, we didn't agree that a larger scale would add much value to the REIT, which had been performing solidly, with stable sponsor and manager, and reasonable access to capital market.

Objectives
We were not satisfied with the merger proposal, thought it would not be aligned with shareholders interest and did not want to see the proposal passed.

Process
During the period leading up to voting date, we had three one-on-one meetings with management and also participated in a number of small group meetings. We communicated our negative views toward the merger plan in an open, transparent manner, and indicated that we would vote against the proposals as we consider them not in the best interest of our unitholders;

We voted against the board and the Glass Lewis recommendation. We did not support the merger and believed that it was not in the best interest of the our unitholders.

Outcomes
The management changed its equity issue proposal to 100% under-written rights issue by the REIT's sponsor at a fair price. The vote was passed and share price recovered subsequently, at which point we exited our position.

Next steps
We exited the position and adjusted ESG score downward in our stock model.

Case study
Tenure of auditors

Team
- Stewart Investors

Issue type
- Other governance

Background
We believe that it is good practice for companies to change their auditors at least every 10 years to manage the risk of over-familiarity and complacency. We vote against the appointment of auditors whose tenure exceeds 10 years of continuous service. This is in alignment with our investment approach which focuses on good governance and high-quality management and financials. This example demonstrates how we vote and engage constructively with companies in alignment with these principles.

Objectives
The appointment of a new auditor at the company, replacing the incumbent one, who had exceeded the 10-year limit we recommend.

Process
We voted against the auditor at the company's recent AGM and sent a letter to the CEO/President explaining our voting decision.

Outcomes
No changes have been made. The resolution to re-appoint the auditor was supported and passed by shareholders at the company's AGM in May 2022.

Next steps
We will discuss the topic with the company during our next meeting and encourage them to appoint a new auditor. We will continue to vote against the auditor's appointment until a rotation is proposed.

Case study

Goodman Group - long term incentives voted on at the 2022 AGM

Team
- Australian Equities Growth

Issue type
- Executive Remuneration

Background

Goodman Group develops, owns and manages industrial property. The overall pay potential for executives at Goodman has been large for some time, mainly because a significant portion of equity is subject to performance measurement over three to 10 years. While we acknowledge the large pay potential for executives, we were pleased that the company responded to shareholder concerns about quantum, with the aggregated value of the 10-year LTI awarded to 22 executives in 2022 being 40% lower. We support the 10-year performance period, in the Australian market. It results in a significant skew to the long term for the CEO. We were comfortable with the LTI target – it is in line with guidance and we believe the year's hurdle (operating earnings per share [EPS]), would be challenging to meet.

In addition, the CEO does not receive a cash bonus and his salary is relatively low for a company of Goodman's size. For all of these reasons, we decided to support the remuneration report and the grant of long-term incentives voted on at the 2022 AGM. However, we remain disappointed with the company's decision to exclude share-based payments, which is a large accounting expense, from the hurdle used to calculate long term incentives (operating EPS).

Objectives

We have been encouraging the Goodman Group board to align executive pay with the shareholder experience while also retaining key executives, particularly the founder and CEO Greg Goodman. For the most part, this is a balance they have achieved. On the exclusion of share-based payments (it is a much longer period of deferral than the three to five year period performance typically seen) from the hurdle used to calculate long term incentives (operating EPS), we have expressed our disappointment with this approach and will continue to raise this with the relevant non-executive directors.

Process

We discuss any concerns we have with the size and alignment of executive pay with the company chair and members of the remuneration committee ahead of the AGM each year.

Outcomes

We were pleased with the company's response to shareholder feedback on the size of potential vesting for executives' LTI parcels in 2022. We will continue to discuss the accounting treatment of share-based payments in the accounts.

Next steps

Continue discussing executive pay and remuneration structure with the board.

Case study

AGL – strategy post departure of senior leaders

Team
- RealIndex

Issue type
- Company leadership

Background

After the failed demerger of their business and subsequent departure of some senior leaders, we had some questions about the strategy of the company as well as the proposed new chairman, CEO and other directors. There was a high-profile minority shareholder (GROK) who had driven the failed demerger vote. We also had questions about how much influence they would have on the forward strategy and vacant positions with a shareholding of approx. 11% of the company's share register.

Objectives

The objectives were to better understand this strategy given they were no longer going to split the company. We were also interested to know how they were going to deal with the transition to a net zero world, given the emissions-intensive nature of their business, and we wanted to know who they were looking to appoint into the vacant roles.

Process

In order to understand the issues from all sides we engaged with management on a number of occasions. We wanted a better understanding of their strategy and their thoughts on the director's proposed by GROK. We also engaged with GROK a number of times to discuss what strategy they were seeking to achieve and why they had put forward the directors for election.

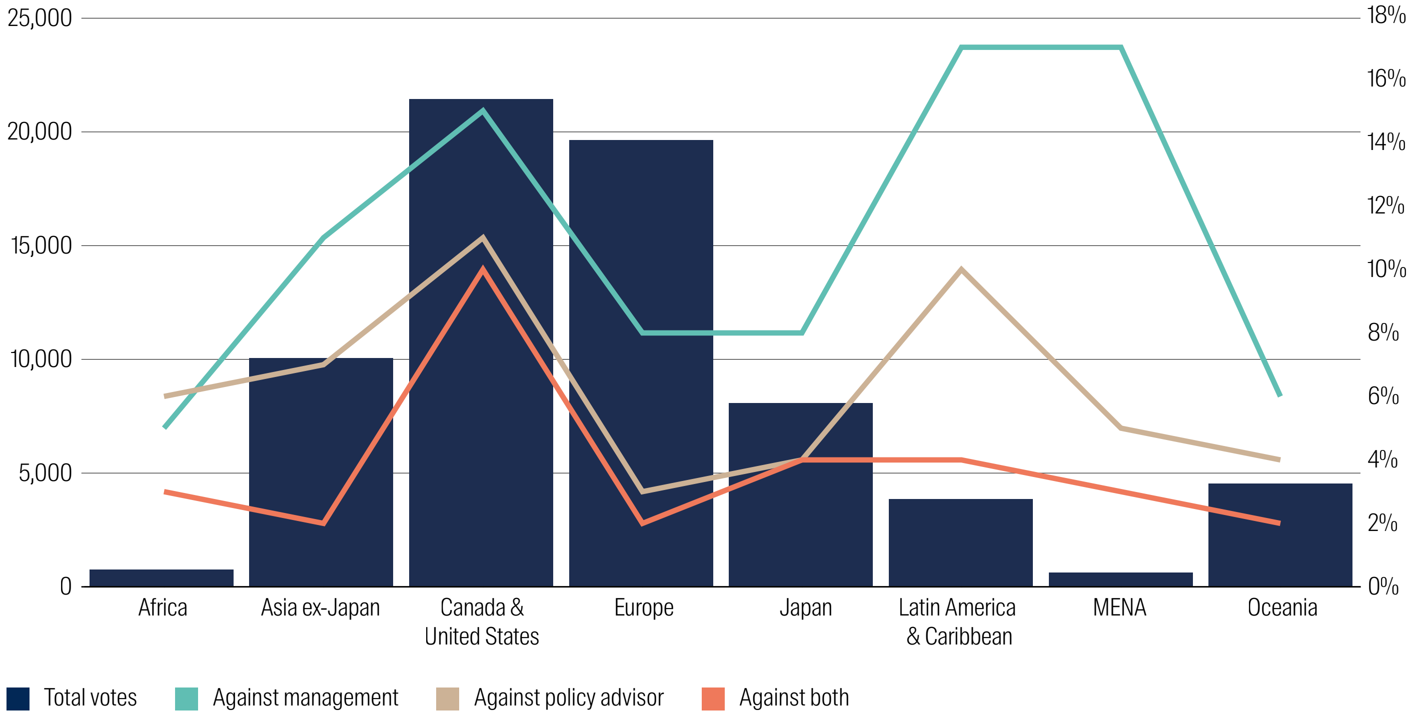
Outcomes

The four directors proposed by GROK were elected. On discussion with management, we had decided not to support all the proposed directors in order to give management a chance to implement their strategy and candidates as proposed.

Next steps

Next steps will be to continue to monitor the current directors as well as the forward strategy for the transition to net zero.

Our proxy voting record by region



Source: First Sentier Investors, as at 31 December 2022

What we voted against and why

Topic: Audit/financials

Our primary reasons: Length of the auditors' tenure

Votes against management: 796

22%

Topic: Capital management

Our primary reasons: Not enough disclosure, the level of dilution and excessive debt

Votes against management: 275

7%

Topic: Director elections and re-elections

Our primary reasons: Not enough female representation, Nominee sits on too many public company boards, and director interdependence

Votes against management: 2592

9%

Topic: Executive or Director remuneration, compensation, bonuses and share plans or other remuneration-related issues

Our primary reasons: Excessive compensation and poor compensation design

Votes against management: 918

12%

Topic: Governance related

Our primary reasons: Auditors' tenure, and supervisors' and statutory auditors' independence

Votes against management: 546

7%

Topic: Shareholders' proposals

Our primary reasons: Management not making enough progress on the issues raised (mainly proposals for additional reporting and disclosure on an issue)

Votes against management: 822

57%

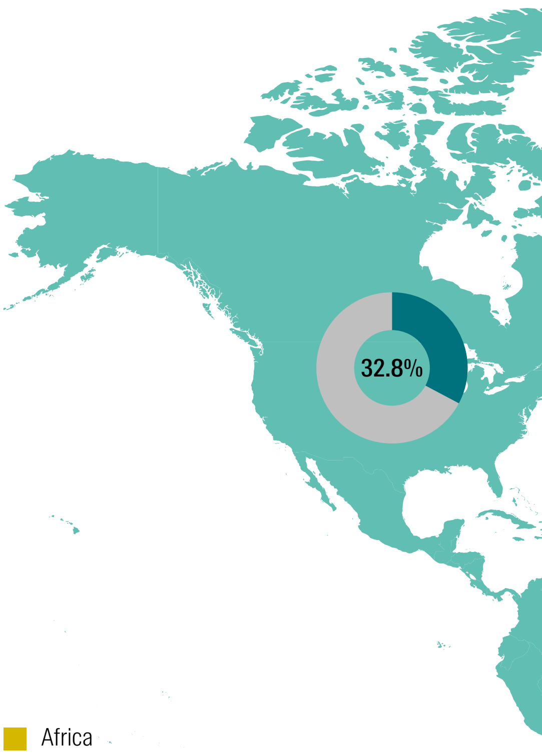
Topic: Shareholder rights around authority to issue shares without pre-emptive rights

Our primary reasons: Excessive issuance and poor disclosure

Votes against management: 198

12%

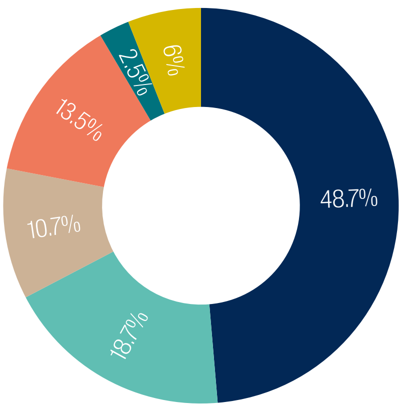
Geographical breakdown of proxy votes



- Africa
- Asia ex-Japan
- Canada & United States
- Europe
- Japan
- Latin America & Caribbean
- MENA
- Oceania

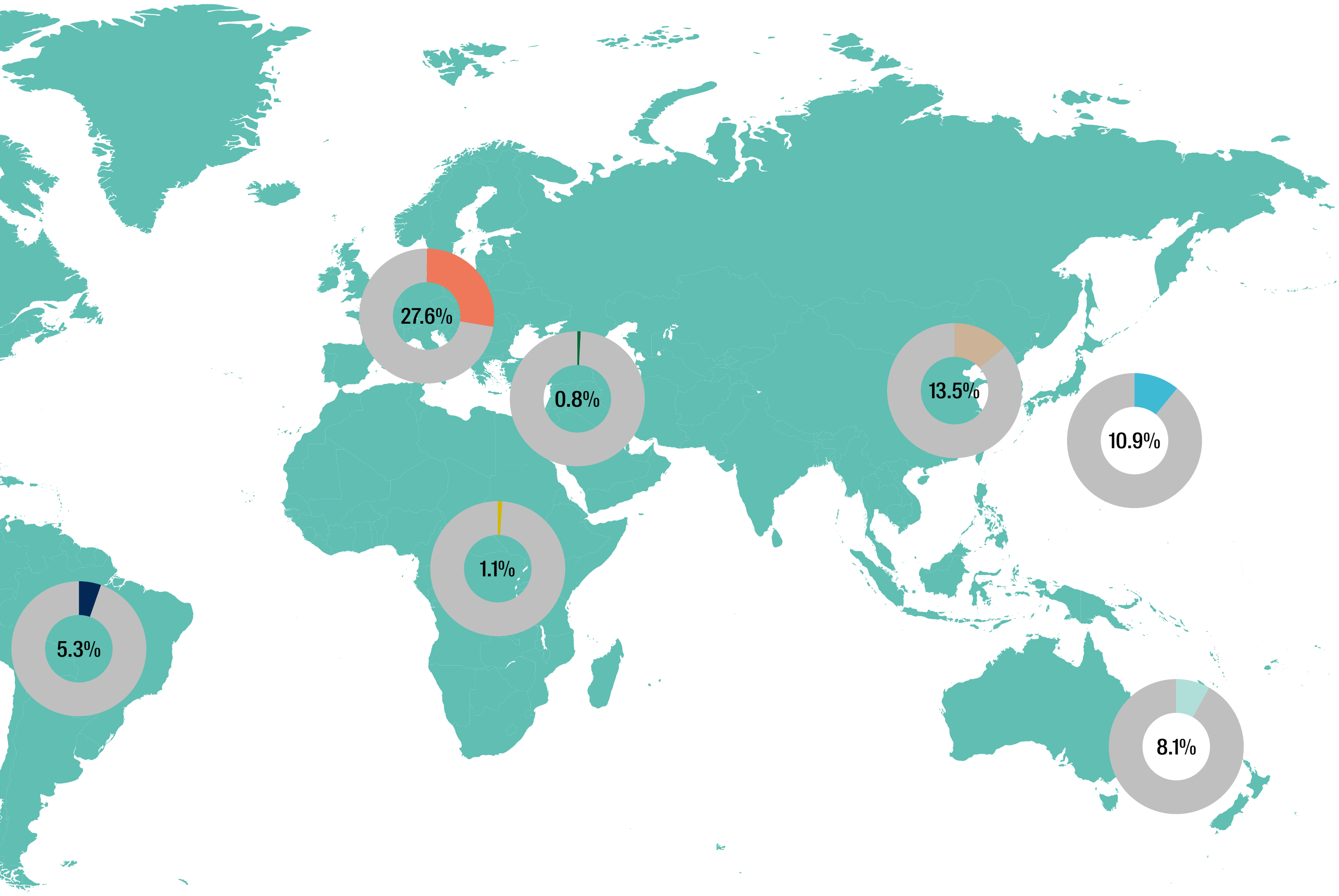
Where we used our voice most

Total

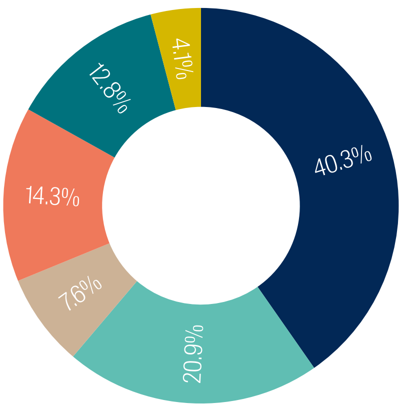


Director & board | Governance | Capital mar

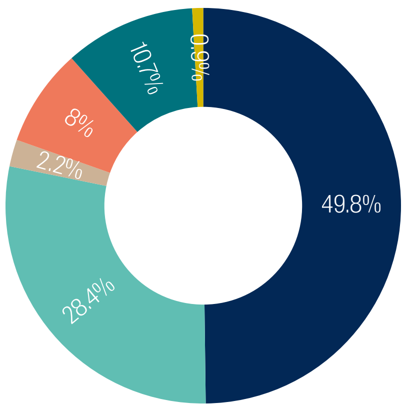
Proxy voting information as at 31/12/2022. Source: First Sentie



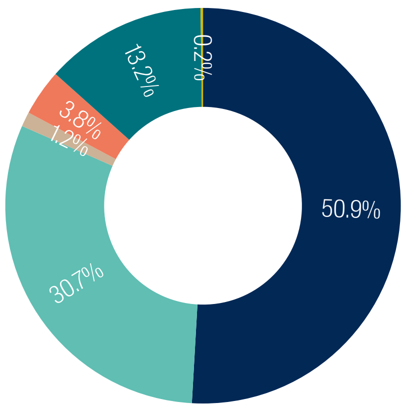
Against management



Against proxy advisor



Against both



agement Remuneration Shareholder proposal General business and others

er Investors/CGI Glass Lewis

Appendix 1

Proxy voting guidelines

The following is a non-exhaustive list of illustrative examples of voting issues and our current position:

Board

- **Directors/non-executive directors** – we prefer companies with boards comprising of a majority of independent non-executive directors. We consider independence of a non-executive director to mean that the relevant individual has not been a former executives of the relevant company for a minimum of five (5) years and does not have a family or close personal relationship with an executive of the company.

- **New directors** – there should be a formal and transparent procedure for the appointment of new directors to a board. The Chairman and a majority of the members of the Nomination Committee should be non-executive, independent directors.

- **Number of board appointments** – non-executive directors must balance their number of board appointments with their personal ability to provide a meaningful contribution to each board. Similarly, executive directors who have outside directorships need to ensure that their contribution to their current employer is not diminished.

- **Removal of directors** – we will vote against changes to company constitutions that we consider weaken the position of non-executive directors on the board.

- **Retirement by rotation** – with the exception of the Chief Executive, we expect all directors to seek re-election, with one third seeking election each year.

- **Division of roles** – the role of Chairman and Chief Executive should in our view be split. We will vote against board changes involving the Chief Executive becoming Chairman or executive directors becoming non-executive unless there is a clear majority of independent directors.

- **Executive/board misconduct** – we will vote against the appointment of a new director or the re-appointment of an existing director to a board, where we consider their qualifications and experience are inadequate or for instances of executive misconduct.

- **Diversity** – we expect that companies are able to demonstrate diversity of gender, age, ethnicity, sexuality and thought across their organisation and at board level. We are a member of the 30% Club Investor Working Group in Australia and our investment teams engage with companies with a view to helping achieve the objectives of this group - to ensure Boards are comprised of at least 30% women. In a number of markets, where a company has no female directors, following unsuccessful engagement we will generally vote against any newly appointed male directors.

- **Audit and remuneration committees** – members of audit and remuneration committees should be non-executive directors. Members of both committees should be listed in annual reports and identified on the notice of re-election of directors.

Ownership & shareholder rights

- **Political donations** – we do not support companies making political donations and will vote against any donations made to political parties.

- **Shareholder rights** – in general, we will not support resolutions that propose: changes to the corporate structure that curtail shareholder rights (for example, the right to call a special meeting, a shortened notice period for meetings or the right to nominate director candidates), or changes to the capital structure that could dilute shareholders' voting and/or economic rights.

- **Remuneration** – we expect remuneration structures to be simple, long-term oriented, and aligned with shareholder value/return, so as to encourage responsible risk taking and, to the extent relevant, embrace broader notions of 'success' (for example, contribution to corporate culture and sustainability outcomes).

- **Disclosure** – we support the principle that there should be full disclosure of directors' total remuneration packages, including share options, fringe benefits and retirement benefits. We expect appropriate justification for levels of remuneration and the link of these to company objectives and performance from the Chairman of the Remuneration Committee.

- **Termination payments** – we believe that payments on termination of executive directors' contracts should not be excessive. In the case of poor performance, a statement of justification should be given. We may write to the Chairman of the Remuneration Committee to ask for details of compensation payments to departing executives if they are not published. Disclosure of any contingent liabilities should be made.

Environmental and social risks

- **Environmental and social risks** – we believe that well governed companies have appropriate environmental and social risk policies and management procedures in place. As part of the governance process, we expect boards to have oversight of these risks and policies, and executive management to be able to publicly report on these risks and their management and indicate where appropriate the potential impact on company earnings.

- **Climate change** – we support the global transition to net zero emissions in line with the goals of the Paris Agreement. We expect companies to enable and support the transition to a low carbon economy and be transparent about how they are preparing for this outcome. We will support climate-related proposals that request actions or additional disclosure in line with these statements where we feel that the company is not making sufficient progress.

- **Lobbying** – we will vote against the Chair of companies that actively lobby against climate policy in support of the Paris Agreement. We will also vote against company memberships of organisations, trade groups and think tanks that deliberately and systematically lobby against climate policy in support of the Paris Climate goals.

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