

Responsible Investment at MFG Asset Management

Stewardship 2023 Proxy and Engagement Review

GLOBAL SUSTAINABLE STRATEGY



CONTENTS

Executive summary	3
Stewardship is integral to our investment process	5
Key engagement and voting themes – FY23	11
Engagement outcomes – FY23	15
Proxy voting outcomes – FY23	24



EXECUTIVE SUMMARY

Dear Valued Client,

We are pleased to provide an update on MFG Asset Management Limited's Proxy and Engagement for the year to 30 June 2023. This Review sets out MFG Asset Management's philosophy and implementation of our stewardship activities along with the primary details and statistics on our engagement and proxy voting activities.

MFG Asset Management is committed to responsible investment and believes that successful investing is about identifying and owning companies that can sustainably generate excess returns on capital for years to come. We aim to act as responsible stewards of our clients' investments by integrating Environmental, Social and Governance (ESG) issues into our investment process, exercising our proxy voting rights and having open dialogue with portfolio companies on a broad range of issues. MFG Asset Management's investment process considers the cash flow and valuation materiality of ESG risks and opportunities over our longer-term investment horizon.

Our investment team diligently engages with companies on these risks and opportunities with the aim of strengthening our conviction in portfolio risk management and improving investment outcomes. Whilst this Review highlights case studies of positive outcomes from our engagements and voting, we acknowledge positive outcomes can be a result of many stakeholder's voices including regulatory and customers. Examples include one company's commitment to a more explicit link to ESG targets in remuneration, another company is working towards externally verified science-based, carbon emission reduction targets, while another has responded to shareholder feedback to commission an independent external third-party review of diversity, equity and inclusion (DEI) practices. We will continue to engage with portfolio companies as we endeavour to progress both acknowledgement of materiality of issues raised and progress towards our expectation as investors to manage this risk. Where progress is not achieved, we will consider invoking our ladder of escalation.

FY23 Global Sustainable Strategy: Engagement and voting statistics

PROXY VOTING SUMMARY	2023	2022	ENGAGEMENT SUMMARY	2023	2022
Meetings voted	25	26	Total engagements	160	202
Proposals	423	433	Engagements with Board	12	5
Proposals voted against company recommendation	5%	3%	Engagements with C-Suite	22	45
Proposal Meetings with a vote against company recommendation	48%	27%	Engagements with other executives	79	108
Shareholder proposal	78	64	ESG topics discussed	259	248
Voted with shareholder proposal	15%	9%			

Last year MFG Asset Management committed to the Net Zero Asset Manager initiative (NZAMi) and became a member of the Investor Group on Climate Change (IGCC). Following this, a significant focus for the year has been meeting the commitments of the NZAMi. In the last 12 months, we have enhanced the assessment of the alignment of our portfolio companies to net zero emissions using the Net Zero Investment Framework (NZIF). This is a key input into the prioritisation of our stewardship activities, outlined in a climate-specific stewardship strategy, with a clear engagement, escalation and voting approach. We are pleased to share this with clients on our website.

This will support our new climate targets set under our commitment to NZAMi, which are outlined on page 12 in this document. The targets are set to ensure credible alignment of the portfolio companies with net zero by 2050 with minimum engagement thresholds and a 2030 emission reduction target. This complements our Low Carbon Framework which has been a key feature of this strategy since inception.

Further, we have extended our framework to assess modern slavery risks in our portfolio companies and their supply chains. This has been supported by internal and external training for the investment team.



We continue to broaden our collaboration in the Responsible Investment industry, which is an important tool to support change for systemically important topics such as human rights and climate change. Industry collaboration also provides additional input to the investment team to enhance ESG integration and engagement. Examples include working groups with IGCC, the Responsible Investment Association Australasia (RIAA) and contribution to a Principles of Responsible Investment (PRI) report on Strengthening Effective Stewardship in Australia. We are pleased to be named a Responsible Investor by RIAA in 2023.

Within this Review we will bring to life some real-world examples of our stewardship with portfolio companies and we continue to share regular updates, thought pieces and insights on our [Responsible Investment website](#). We welcome and will respond to any feedback, which can be emailed to esg-team@magellangroup.com.au.

Kind regards,

The MFG Asset Management team

ALAN PULLEN
PORTFOLIO MANAGER



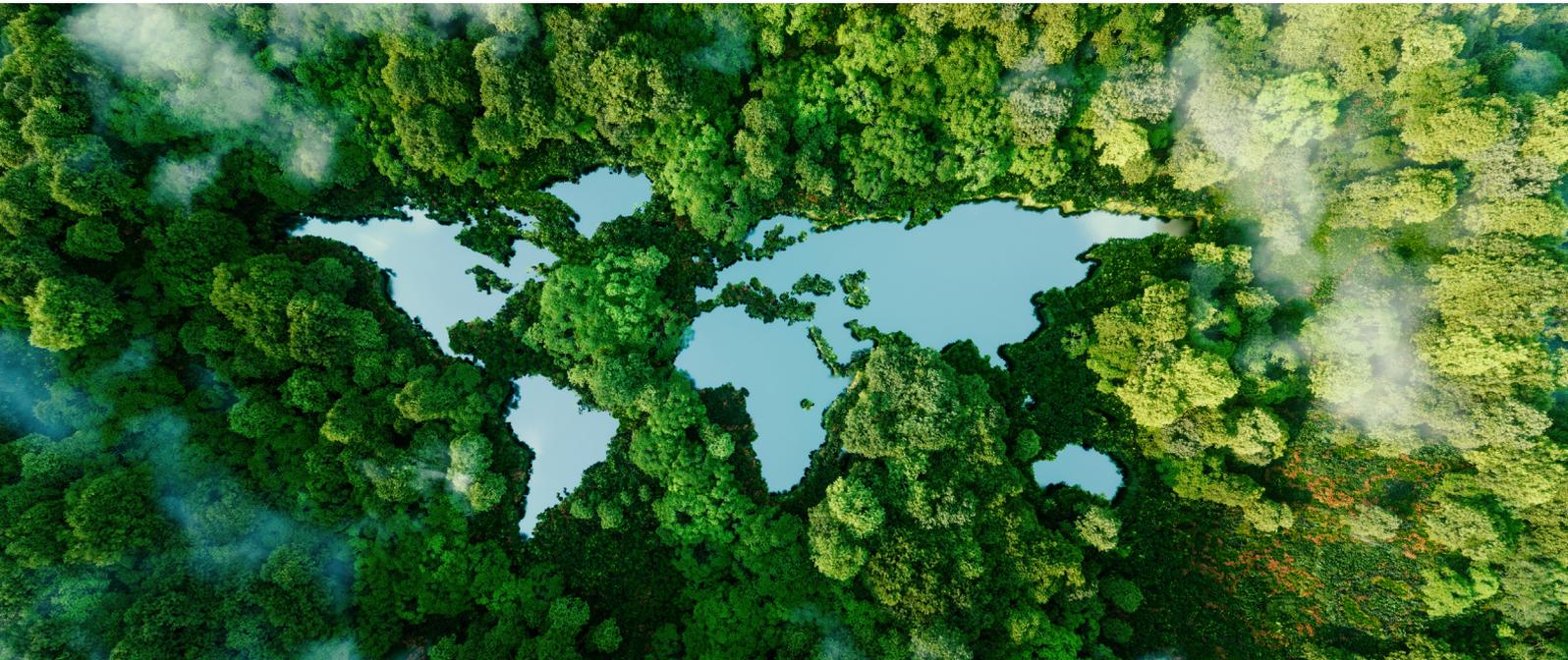
ELISA DI MARCO
PORTFOLIO MANAGER
CORE INTERNATIONAL & CORE ESG,
ESG TEAM



AMY KRIZANOVIC
HEAD OF ESG



JACQUELINE STOKES
ESG ANALYST



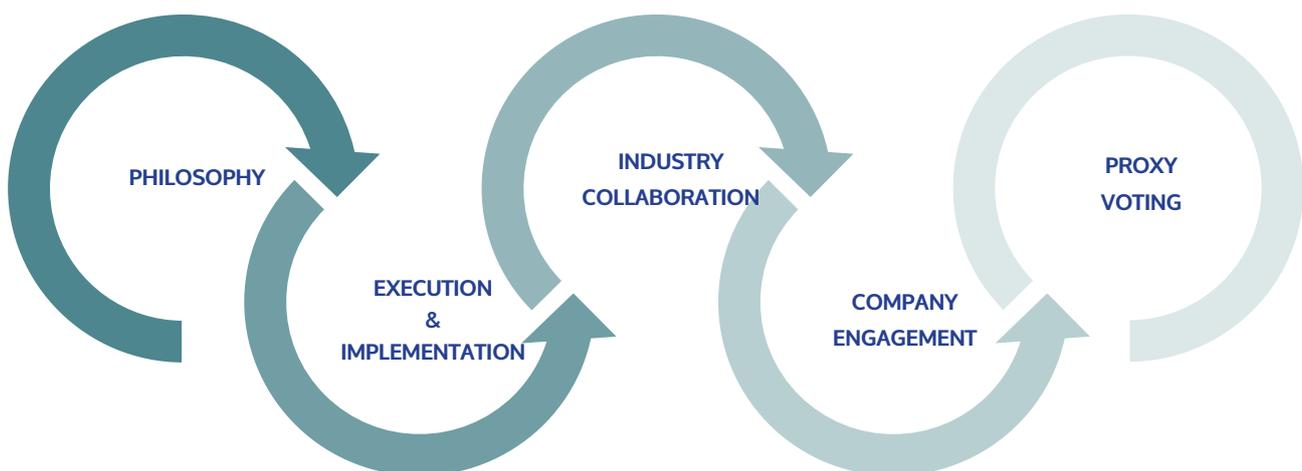
STEWARDSHIP IS INTEGRAL TO OUR INVESTMENT PROCESS

The focus of this Review is on MFG Asset Management’s stewardship activities related to our proxy voting and engagement activities, within the ‘management’ and ‘oversight’ components of this industry-accepted definition of stewardship. These activities enhance long-term value for our investors by seeking to reduce risks and enhance opportunities both prior to investing and during our period of ownership.

“ Stewardship is the responsible allocation, management and oversight of capital to create long-term value for clients and beneficiaries leading to sustainable benefits for the economy, the environment and society¹. ”

Our portfolio managers’ capital allocation decisions to purchase stocks also incorporate stewardship considerations. From time to time, and if risks are considered unacceptable, the allocation decision may result in divestment.

Stewardship is a critical element of MFG Asset Management’s investment process. Stewardship is the foundation that underpins MFG Asset Management’s investment objectives, starting with our investment philosophy. The five elements of stewardship within our investment process are outlined below:



“It is critical that we deliver on our existing ESG commitments and continue to build upon them in the future. These objectives underpin our commitment to responsible and sustainable investment practices, and demonstrate our dedication to reducing risk in our portfolios for our clients.”

Andrew Formica, Executive Chair

¹ The UK Stewardship Code – The Financial Reporting Council Limited



A. PHILOSOPHY

From the beginning, MFG Asset Management's stewardship philosophy has been to focus on all material factors, considering both risks and opportunities, that may influence cash flows and valuations of our investments within our investment time horizon.

We firmly believe that long-term investors need to consider material ESG factors to form a holistic perspective on the risks and opportunities that may bear upon cash flows and the valuation of investments. MFG Asset Management aims to engage with portfolio companies on a broad range of themes as identified by the ESG Team and investment analysts and assessed as material to those companies.

MFG Asset Management's long-term investment horizon, and typically long-term relationships with companies in our investment universe, enhance our ability to engage with companies over an extended period on material issues, work closely to achieve positive outcomes and thereby influence to protect and create shareholder value.

Our philosophy is documented and approved by MFG Asset Management's Investment Committee (IC). While our stewardship philosophy has remained unchanged since implementation in 2009, we are constantly learning and listening to industry experts, responsible investment associations, companies and our clients to evolve our thinking to ensure our philosophy is in sync with the forefront in the industry.

B. EXECUTION AND IMPLEMENTATION

At MFG Asset Management, we execute our stewardship philosophy throughout our investment process. Implementation can be summarised into a five-step cycle:

- 1. Fit for investment universe:** We review candidate stocks for the strategy's Approved list for material factors. If the factors present excessive risks, then stocks will not progress to approval. Factors reviewed for materiality include ESG factors outlined in our [policy](#) (for example, climate risk and opportunities, labour management, safety, waste management and board composition). The coverage analyst is responsible for the investigative work, which is then tested by colleagues and subject to review by the MFG Asset Management IC.
- 2. Low carbon framework and exclusions:** The MFG Asset Management Sustainable strategy incorporates a proprietary low carbon framework and exclusions. The proprietary low carbon emissions overlay is based on the globally agreed climate goals such as those defined in the 2015 Paris Agreement. The Investment Manager incorporates this overlay by:
 1. Limiting the overall carbon emissions of the portfolio through a portfolio carbon emissions intensity cap.
 2. Screening out companies based on their carbon emissions intensity. Both these caps will be revised over time to remain in line with evolving carbon reduction goals.
 3. Excluding companies with any exposure to the extraction or mining of fossil fuels. Companies with indirect revenue exposure to fossil fuels, such as generation, are also excluded from the universe subject to specific revenue thresholds.

The strategy also excludes companies which we view to be detrimental to society. These include a 0% revenue tolerance to tobacco production, manufacturing of controversial weapons and nuclear weapons. In addition we exclude companies with more than 5% of revenues linked to the production of alcohol, operation of gambling facilities, sale of tobacco, sale of conventional weapons or civilian firearms.

- 3. Risk and opportunities assessment:** Stocks on the Approved list are regularly assessed and monitored by the coverage analyst across material ESG risks and opportunities. Analysts use MFG Asset Management's proprietary ESG risk assessment framework to assess and score those risks and opportunities. We believe our analyst's knowledge of companies and industries provides a deeper level of analysis with regards to materiality of the risk and the impact to cash flows. The framework considers companies' exposures to risks and opportunities and how companies are managing those exposures. The assessments and scores are reviewed by the MFG Asset Management IC with a member of the ESG team always an active participant at the IC meetings. The ESG team undertake to provide internal and external training on relevant topics to continue to enhance this assessment.
- 4. Portfolio construction:** Our portfolio managers consider ESG scores and qualitative assessments of ESG risks and opportunities when considering the purchase, sale, and sizing of stock positions within the portfolio. All else being equal, a more positive ESG assessment would typically result in a larger portfolio position and vice versa.



For example, the Global Sustainable strategy invests in United Health (UNH US). UNH is the largest private health insurance and managed care provider in the United States. We view that managed care organisations have a key role in the evolution of the US healthcare system towards one that better balances high quality and cost effective care.

Consideration for inclusion in the portfolio is determined by our assessment of UNH’s quality assessment. We view UNH is the clear leader in the sector’s transition to Value Based Care and benefits from important first mover advantages in shifting towards a vertically integrated care delivery model. The regulated medical loss ratio prevents any over-earning at the expense of policyholders/patients in the core Health Insurance business and helps with broader societal access to healthcare.

5. Active stewardship: We generally engage with companies prior to the purchase decision to discuss our assessment of material risks and opportunities. Once we invest in a company, we increase our engagement and ensure management’s understanding of our stewardship policies. The main purposes of these engagements are to deepen knowledge of the company’s approach, provide our perspectives, and seek to positively influence the management of risks and opportunities, as appropriate. We also review all proxy voting items at General Meetings.

We expect elements of this execution process to change from time to time, incorporating best-practice learnings from industry associations as well as rapidly evolving regulatory requirements. Notwithstanding this, it is important to note that the overarching goals, as encapsulated by our stewardship philosophy, will remain true to protecting and enhancing our clients’ wealth.

The principles and details of MFG Asset Management’s stewardship processes are codified in the following documents²:

- Responsible Investment Principles
- ESG Policy
- Proxy Voting Policy
- Corporate Governance Principles

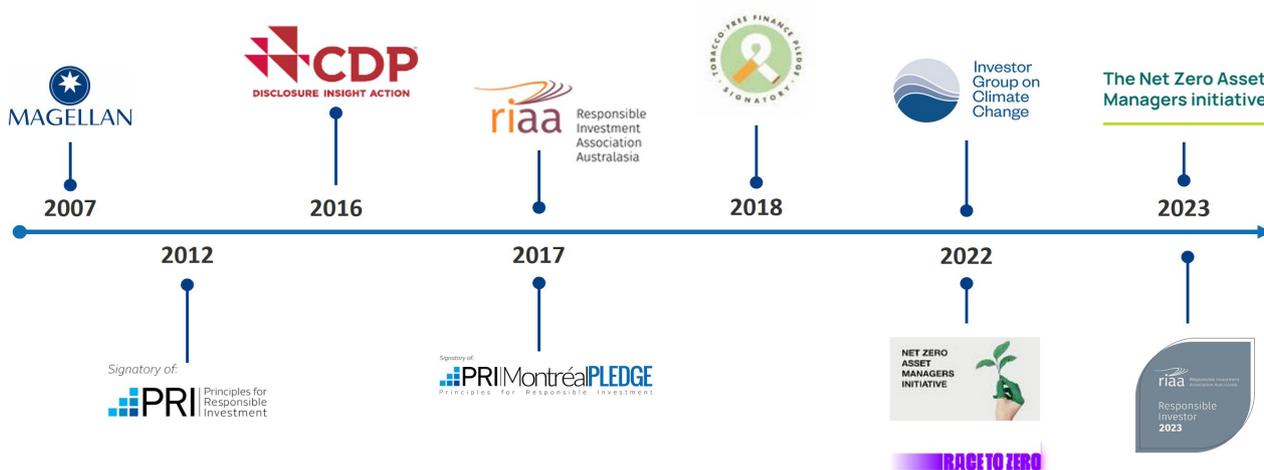
Our ESG team is responsible for oversight of the implementation of stewardship execution. This process is reviewed regularly, with minor enhancements made as required. Major enhancements are discussed with and signed off by the Head of ESG, the IC and portfolio managers before implementation. We continue to enhance our approach and this year we have updated our [ESG policy](#), [Proxy voting policy](#) and developed a [Climate Stewardship strategy](#).

C. COLLABORATING FOR INVESTMENT OUTCOMES

Magellan is a signatory to a number of industry initiatives and associations that support our commitment to responsible investment, transparency to stakeholders and ability to elevate key company and industry issues such as climate change.

By joining these collaborative initiatives our company and industry research are enhanced, our clients benefit from broader stakeholder perspectives, and influence is enhanced by joining with others who have similar objectives.

Best Practice Leadership and Collaboration



² For further detail, see our ESG policy <https://www.mfgam.com.au/about/responsible-investing/>



As members of PRI our stewardship efforts were reviewed by PRI, under their extensive review process. For their 2021 assessment, the Principles for Responsible Investment (PRI) shifted from alphabetical to numerical (1 to 5 stars). We have submitted our 2023 PRI report and await the results.

We were very pleased by their overall assessment as summarised in the following table. We have continued to noticeably improve and expand our stewardship efforts in the subsequent two years.

CATEGORY	ASSESSMENT	DESCRIPTION*
2021		
2021 Investment & Stewardship Policy	4 out of 5 stars	<ul style="list-style-type: none"> • RI, ESG, stewardship policy • Roles & responsibilities • Advocacy • Climate scenario analysis • Client reporting
2021 Active fundamental incorporation	4 out of 5 stars	<ul style="list-style-type: none"> • Materiality analysis • ESG incorporation and risk management • Client reporting
2021 Active fundamental voting	3 out of 5 stars	<ul style="list-style-type: none"> • Voting policy • Disclosure of vote and rationale
2020		
2020 Strategy & Governance	A	<ul style="list-style-type: none"> • Policy • Roles & responsibilities • Collaboration • Advocacy • Communication
2020 Listed equity incorporation	A+	<ul style="list-style-type: none"> • ESG incorporation (screening, integration, thematic)
2020 Listed equity active ownership	A	<ul style="list-style-type: none"> • Engagement & voting

*Summary of key elements of the assessment. For more detail see www.unpri.org/reporting-and-assessment/investor-reporting-guidance/5373.article#policy

D. ENGAGEMENT WITH COMPANIES

MFG Asset Management’s long-term investment horizon gives us the opportunity to engage with companies over an extended period on issues that are important to protecting and creating shareholder value. MFG Asset Management aims to engage with portfolio companies on a broad range of ESG themes, as identified by the ESG Team, that investment analysts assess to be material to those companies within our proprietary ESG risk and opportunities assessment framework.

Engagement has two primary objectives, designed to have a positive impact on shareholder returns over time:

- 1. Risk assessment and management:** Continue to expand our knowledge and understanding of the risks and opportunities through discussions. As long-term investors, we build up knowledge and insight, which we discuss, and challenge management during engagements. These discussions further deepen our understanding within and across industries.
- 2. Influence:** Encouraging and supporting change to a company’s approach or the setting of targets as required. As long-term investors, we build constructive relationships that better enable us to drive positive change at the company.

The investment team identify key risks and opportunities at the company level. These are then aggregated to identify common themes at industry and portfolio level.

The level of engagement is also considered in the context of the relative size of MFG Asset Management’s investment. We will seek a deeper level of engagement with firms when we own a greater portion of a firm’s equity, and we therefore have greater sway, and responsibility to engage.

In cases where engagement has been ongoing, without any progress on an issue that is considered a material risk to future cash flows and company valuation has been limited, the portfolio managers and ESG team will consider an escalation path. This may include:



E. PROXY VOTING AT MFG ASSET MANAGEMENT

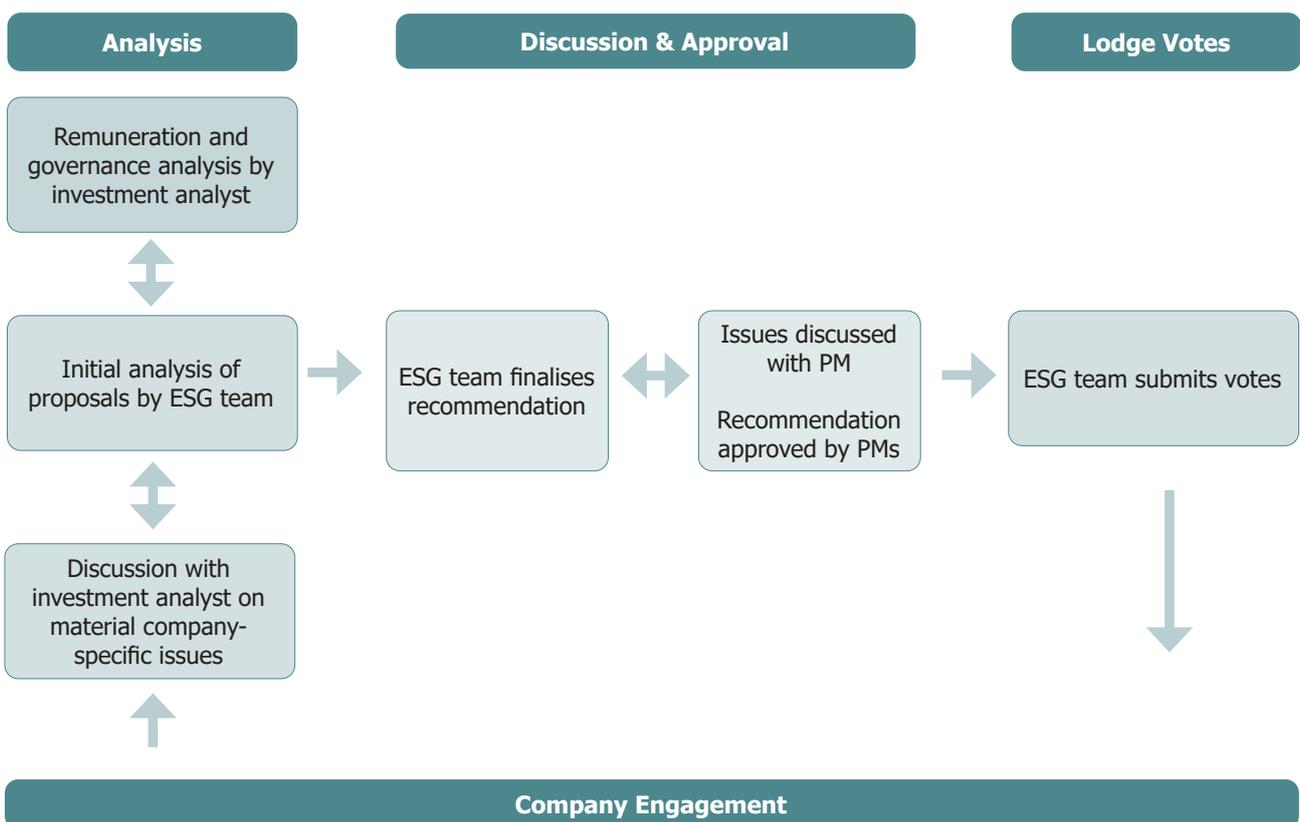
At Annual and Extraordinary General Meetings, MFG Asset Management is typically tasked by its strategies' clients to vote on meeting agenda items on their behalf. These proxy votes, on behalf of our investors, are incredibly important and underpin the strongest of our stewardship powers – the power to vote for or against agenda items – and may result in specific changes within a company.

When votes are exercised diligently, they can enhance client returns. Given this importance, we do not outsource our voting; rather, we consider all voting matters in house. We undertake proxy voting with the same deep due diligence as other aspects of our investment process.

Our ESG Team is responsible for the analysis of proxy proposals assisted by the investment analysts. Each proposal is reviewed carefully by the ESG team together with the analysts. We consider the validity of the proposal, whether the risk identified is sufficiently material to either the company or industry to warrant the proposal, how the Board and executives manage the risk and whether the proposal enhances the transparency, management or understanding of the risk.

The ESG team consults the investment analysts and other industry experts, as well as the proponent where necessary, and drafts recommendations for approval by the strategy's portfolio managers. Following review and approval by the portfolio managers, the ESG team will submit the votes. This process is outlined in our Proxy voting policy on our [website](#). The investment analysts provide detailed input into the proxy voting analysis.

MFG Asset Management Proxy Voting process



Engagement with portfolio companies is undertaken throughout the voting process to better understand shareholder proposals put forward and management perspectives on how they are managing the risks and opportunities being considered within the proposals. Ongoing engagement is also important as change can take time, and so includes communicating votes that differ from the company recommendation and following up on issues raised throughout the year.

KEY ENGAGEMENT AND VOTING THEMES

MFG Asset Management’s long-term investment horizon gives us the opportunity to engage with companies over an extended period on issues that are important to protecting and creating shareholder value and ‘matters important to MFG Asset Management’s investment process’. As part of our ESG assessment of company risks and opportunities, we consider multiple categories. Below we outline the key ESG focus areas for the MFG Asset Management portfolio, together with the discussion points and targets considered and advocated for during the 2023 year.

	CLIMATE CHANGE	CIRCULAR ECONOMY
ENVIRONMENT	<p>Climate Change is both a risk and an opportunity.</p> <p>We consider:</p> <ul style="list-style-type: none"> • Company strategy and alignment with the Paris Agreement • Exposure of the company to risks and opportunities as a result of the transition of the global economy towards net zero emissions • Net zero targets • External validation of targets • Physical climate risk, mitigation and adaptation 	<p>We choose companies that look for opportunities in the circular economy, reduce waste and improve recycling can benefit their brand and ultimately reduce the burden on natural capital, while supporting biodiversity and emissions reductions.</p> <p>We consider a company’s approaches and commitments to:</p> <ul style="list-style-type: none"> • Zero waste targets and initiatives • Recycling targets and initiatives • Removal of single-use plastic
SOCIAL	DIVERSITY, EQUALITY & INCLUSION	SUSTAINABLE DIGITALISATION & CONTENT
	<p>Diversity, equity and inclusion can improve decision making and innovation, and broaden the labour pool.</p> <p>We consider:</p> <ul style="list-style-type: none"> • Diversity at the Board, management and company level • Pay equity • Culture that supports all employees to speak up 	<p>We look for use of technology that is responsible, ethical and sustainable.</p> <p>We consider:</p> <ul style="list-style-type: none"> • Oversight of content • Cybersecurity • Social inclusion • Personal information misuse • Automation • Artificial Intelligence
	SOCIAL LICENCE TO OPERATE	
	<p>The social licence to operate or the perceptions of the customers, community and other stakeholders of whether a company is meeting their expectations has become important to build trust. Unmanaged, these issues could have a negative impact on brand or sales or lead to a rise in regulation.</p> <p>We consider:</p> <ul style="list-style-type: none"> • Board and management oversight of customers • Role of franchisor, including education and oversight related to employees and the supply chain • Board and management response to controversies • Actions related to geopolitical events 	



SOCIAL	LABOUR MANAGEMENT	MODERN SLAVERY* / FORCED LABOUR
	<p>Employees are often core to the success of a company executing their strategy. Employees who feel safe at work, who are paid fairly and supported by a positive culture can be more productive and likely to stay with the company.</p> <p>We consider:</p> <ul style="list-style-type: none"> • Workplace safety data and policies • Compensation in line with employment legislation • Initiatives to support retention and attraction 	<p>Modern slavery* includes eight types of serious exploitation: trafficking in persons; slavery; servitude; forced marriage; forced labour; debt bondage; deceptive recruiting for labour or services; and the worst forms of child labour.</p> <p>We consider:</p> <ul style="list-style-type: none"> • Sector and industry exposure • Product and services exposure • Geographic exposure • Company-specific risks <p>*Australian Law requires MFG Asset Management under the Modern Slavery Act 2018 to assess modern slavery risk within our portfolio.</p>
GOVERNANCE	EXECUTIVE REMUNERATION	GOVERNANCE & OVERSIGHT
	<p>Well-structured compensation should motivate, incentivise and retain key management personnel. It should also align with shareholder experience and support the delivery of the strategy.</p> <p>We consider:</p> <ul style="list-style-type: none"> • Quantum relative to peers • Performance metrics and hurdles (financial, environmental and social) • Equity alignment • Use of stock options 	<p>A well-governed company makes decisions in the best interests of all stakeholders, which should ultimately protect and enhance shareholder value.</p> <p>We consider:</p> <ul style="list-style-type: none"> • Chair and CEO separation • Chair and Board independence • Decisions aligned with shareholders • Oversight of key business risks • Board and executive ownership requirements

SPOTLIGHT ON CLIMATE

The Net Zero Asset Managers initiative

In 2022

Magellan joined The Net Zero Asset Manager Initiative ([NZAMi](#)), a global group of asset managers committed to supporting the goal of net zero greenhouse gas emissions by 2050 or sooner.

In 2023

Magellan enhanced the assessment of the alignment of our portfolio companies to net zero using the Net Zero Investment Framework (NZIF) including training for the investment team. This is supported by a new Climate Stewardship strategy.

As many countries have committed to transition their economies to net zero by 2050 and expectations from stakeholders, including investors, regulators and governments increase, MFG Asset Management wants to ensure that companies in our portfolios remain resilient and take advantage of opportunities.



Net Zero Asset Manager Initiative (NZAMi)

Measuring alignment using NZIF

The NZIF framework outlines climate risk management practices that ‘high impact’³ and ‘low impact’ industries should consider. It is important to assess companies by their potential ‘impact’, and have a higher expectation for ‘high impact’ companies given the challenges associated with decarbonisation. The table below highlights these expectations and our assessment criteria.

	Net zero target	Interim target	Performance	Disclosure	Strategy	Capex alignment	Credibility
Achieving Net Zero	✓		✓	✓	✓		✓
Aligned: High impact	✓	✓	✓	✓	✓	✓	✓
Aligned: Low impact		✓	✓	✓			✓
Aligning		✓		✓	✓		✓
Committed	✓						✓
Not Aligned							
							MAGELLAN VIEW

The Net Zero Investment Framework assesses companies across:

Ambition: A commitment to net zero emissions by 2050

Targets: Near- and medium-term emissions reduction targets with a preference for external validation

Emissions Performance: Performance relative to targets

Disclosure: Disclosure of Scope 1, 2, and material Scope 3 emissions

Strategy: Alignment to reporting in accordance with the Taskforce for Climate-related Financial Disclosures (TCFD) and a credible strategy to achieve targets

Capital Allocation (Capex) Alignment: Consistency of capital investment with achievement of net zero emissions by 2050.

Magellan consider these commitments represent prudent risk management in a transitioning economy to net zero emissions by 2050. In addition to the above assessment, Magellan support linking remuneration where climate change is a material risk for the company to ensure management is incentivised to drive positive change and mitigate climate risk.



Targets – Strategies to be managed in line with attainment of Net Zero emissions by 2050

TARGET 1	<p>MFG Asset Management target (% AUM managed in line with net zero)</p> <p>Alignment of companies in the portfolio to net zero 80% AUM invested in assets in high impact material sectors that are ‘aligned’ or ‘aligning’ to net zero (using NZIF)</p>
TARGET 2	<p>Engagement with companies on increasing alignment to net zero By 2030, at least 90% of financed emissions in high impact material sectors are either assessed as net zero, aligned with a net zero pathway, or the subject of stewardship actions.</p>
TARGET 3	<p>Carbon emission reduction target By 2030, 40-45% reduction in Scope 1 & 2 emissions</p>



Stewardship Strategy – Climate ⁴



Magellan stewardship strategy –
climate related risks and opportunities

August 2023

MFG Asset Management’s long-term investment horizon gives us the opportunity to engage with companies over an extended period on issues that are important to protecting and creating shareholder value. This includes the risks and opportunities that arise from climate transition risk and physical climate risk. In 2023 we developed a climate-specific stewardship strategy to prioritise engagement and escalate voting.

⁴<https://bit.ly/MagellanClimate>

ENGAGEMENT OUTCOMES IN FY23

Over the financial year, the MFG Asset Management investment team engaged with a range of stakeholders relevant to our investable universe. This included companies within the portfolio, potential new investments, companies within industries of interest, industry experts and regulators.

These discussions typically encompassed company strategies, risks and growth factors interlinked with ESG topics such as climate change, DEI, data privacy and security as well as governance issues such as executive remuneration.

Across the entirety of our engagements, over 282 were specifically on ESG.



While the investment team do engage with the broader investable universe, the key focus is on companies that are held in the MFG Asset Management Sustainable strategy with most companies in the portfolio across more than 150 meetings in FY23. Most interactions were mainly with the senior leadership team, including the CEO, CFO, other executives, corporate responsibility officers and other relevant senior team members. However, where companies had not made progress on a particular ESG topic, we escalated the issue to the Board of Directors.

2023 Engagement by Theme and Focus Areas:



EXAMPLES | Positive outcomes from engagement

Environment

Climate



Objective: Set externally verified emission reduction targets.

We have been engaging with Eversource, a US energy utility company, regarding their carbon emission reduction targets for several years. Eversource Energy has made a corporate commitment to reduce Scope 1 and 2 greenhouse gas emissions from operations and reach carbon neutrality by 2030.

Outcome: In November 2022, Eversource committed to setting a science-based target within the next two years, which will expand its emissions reduction efforts to include indirect Scope 3 sources.

In engagement, we gained additional comfort with the company's commitment and progress to achieving these goals given the public announcement of the external verification of targets. The announcement of these targets will be a focus for future engagements.

Climate



Objectives: 1) Encourage to set a net zero emissions target.
2) Assess the credibility of the climate strategy.

In the year we met with members of the sustainability and investor relations teams to discuss these objectives.

The company stepped Magellan through the four pillars of its climate strategy to reduce Scope 1-3 emissions by 50% (Food and Supply Chain, Logistics, Material and Waste and Restaurants) by 2030. It supported the credibility of the strategy with examples provided of improved equipment in existing stores and innovative responsible restaurant design. We see Chipotle's operating model as providing an opportunity to be a leader relative to Quick Service Restaurant peers.

Outcome: We gained additional comfort in the credibility of the actions and initiatives in place at Chipotle to achieve its externally verified, science-based emission reduction targets and the rationale for not yet announcing a net zero emissions target so far. We were also pleased to see the subsequent announcement of the responsible restaurant design.

This is an example of our active engagement given the detailed discussion on the actions that underpin their targets. An important input into assessing the alignment to net zero in addition to monitoring climate targets is assessing the credibility of its strategy.

We will continue to encourage Chipotle Mexican Grill to set a net zero emission target and monitor progress towards its current emission reduction targets.

Chipotle unveils all-electric restaurant design



Circular Economy



Objective: Ensure Reckitt has a sustainable packaging strategy to meet consumer expectations, increasing regulatory requirements and their own company targets.

A material risk for manufacturers is the need to reduce waste and move towards a circular economy. We have been engaging with Reckitt to better understand how it is investing to manage this risk and benefit from opportunities. This is increasingly important given the European Commission is moving to regulate packaging standards.

Reckitt has set packaging targets of:

- 100% of plastic packaging to be recyclable or reusable by 2025;
- 25% recycled content in our plastic packaging by 2025;
- 50% reduction of virgin plastic in packaging by 2030.

The engagement with Reckitt increased our conviction on the credibility of the packaging strategy to meet their targets. We also have a better understanding of the internal packaging design calculator and the product innovation metrics which are included in remuneration. One example of innovation includes a fully recyclable paper-based Finish dishwasher tablet packaging. This will save over 2,000 tonnes of plastic per year, the equivalent of 50 million one-litre bottles. The packaging is 75% responsibly sourced paper.

While they are progressing towards their targets and examples were provided of reduced plastic usage, there is more work to do to ensure they meet the new regulations.

Outcome: We view Reckitt as well placed to reduce plastic usage, improve recycling and reuse, with a clear strategy, targets and progress reported each year. We will continue to engage with Reckitt regarding the recycled content in plastic packaging to encourage further innovation across other products to meet their own targets and regulatory changes.



Social

Diversity, Equity and Inclusion



Objective: Encourage McDonald's to commit to an independent external third-party review on Diversity, Equity and Inclusion (DEI) policies and practices.

McDonald's, a large employer with multiple stakeholders, has a responsibility to support diversity and culture. As an investor, we see this as important for the attraction and retention of employees, social licence to operate and ultimately supporting growth. We are supportive of the inclusion of DEI metrics aligned to remuneration and continue to monitor metrics and outcomes.

There have been some controversies linked to McDonald's over alleged concerns from employees, franchisees and suppliers regarding the company's DEI practices.

We engage regularly with McDonald's on these controversies and in 2022 we voted for the shareholder proposal requesting a third-party audit. We acknowledge that McDonald's is proactive with respect to policies, strategy and accountability but view that more work could be done to assess the effectiveness of these policies.

Outcome: Following strong support from many shareholders for the proposal, McDonald's in its 2023 Proxy statement committed to a third-party audit of the impact of policies and practices on the civil rights of stakeholders. This is not just the result of our engagement but many investors focusing on DEI.

Governance

Transparency and Risk Management



Objective: We have been engaging with Unilever since late 2021 regarding their growth objectives and their competitiveness in geographies such as Western Europe, Indonesia, and North America. In FY23, we specifically sought to encourage the following:

- 1) Remuneration and alignment: Encourage the company to improve the growth targets, specifically regarding the stretch of the hurdles, for short term and long-term incentives of the key executives.
- 2) Governance - Turnover and succession: encourage a new management team to steward Unilever's strategy to improve its market share and growth.

Prior to the 2023 AGM, we highlighted to the company that some of the current metrics and lack of stretch in growth hurdles, led to inappropriate remuneration outcomes for executives. This was across both the financial and sustainability metrics the board chose for its remuneration structure. Improving the metrics and hurdles, in our view, will contribute positively to the creation of long-term shareholder value and encourage better alignment with shareholders.

Following turnover of Chair, CEO and CFO at Unilever we are encouraged by the steps the company is taking to prioritise profitable growth. We are most encouraged with the early signs of the company prioritising premiumisation in developed markets and improving innovation cycles in developing markets.

Outcome:

- 1) On remuneration, we will continue to engage and review whether the remuneration targets are aligned to strategy ahead of the 2024 AGM. There has been no change or positive outcome to date.
- 2) Governance: Following engagement, we left incrementally positive that the incoming CEO would encourage positive change for all stakeholders at Unilever, while acknowledging it will take time. We are further encouraged that the board has frozen the base salary of the CEO for a period of two years so that he is appropriately incentivised to achieve the turnaround strategy and aligned with shareholders.



EXAMPLES | Further work required and ongoing engagement

Environment

Climate

- Engagement to encourage commitment to long-term, net zero emission targets. As an example: Chipotle.
- Prioritisation of companies in high-impact material sectors to ensure alignment with net zero emissions by 2050 and progress towards interim targets. As an example: Eversource.

Social

Diversity, Equity and Inclusion

- Encouraging companies to improve disclosure to drive action; for example, unadjusted median pay equity. The benefit of transparently disclosing the median pay gap for underrepresented groups is to look into the reason for the gap and ultimately incentivise companies to promote, train and recruit diverse candidates into more technical or managerial roles. As an example: Amazon.

Content and data privacy

- Ensuring the longevity of the moat and sustainability in the business that is dependent on trust in the platform.
- Increased focus this year regarding the risks with the growth in generative AI. These risks include misinformation, copyright, data privacy, security, labour, and human rights and environmental impacts. The focus is on Microsoft and Alphabet with consideration for the corporate users of this technology in terms of risks and opportunities.

Role of Franchisors

- Ensuring the management, education and oversight of employees, supply chain and social licence within the franchisees. We see the franchisors as having a role to play to provide sufficient training and support to franchisees to attract and retain employees. An example includes the provision of sick leave where we supported a shareholder proposal for Yum! Brands.

Governance

Board structure

- Continuing to engage with companies to improve Board structure encouraging improved independence overall, an independent Chair or a lead independent director at a minimum. We supported shareholder proposals for Eversource and Visa to encourage the separation of Chair and CEO. We are pleased with the engagement and subsequent announcement from Visa in October 2023 that the lead independent director has been appointed as the new Independent Chair.

Executive remuneration

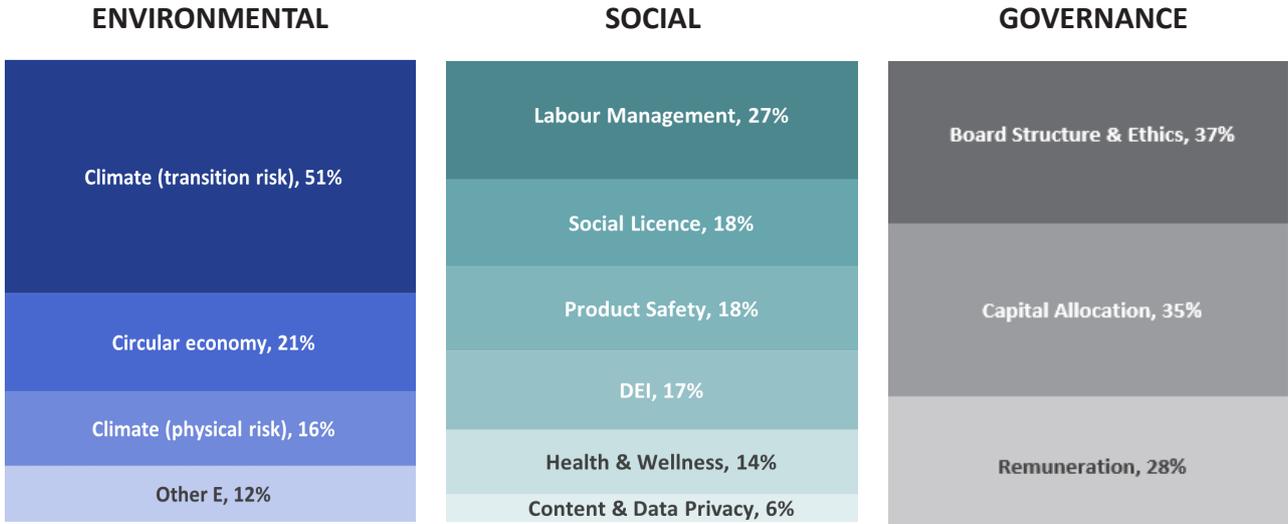
Continuing to engage regarding:

- remuneration structures to increase performance hurdles that appear insufficiently challenging and ensure alignment to sustainable growth
- structure of remuneration including the balance between performance-linked incentives vs time-based incentives and options
- the inclusion of meaningful incentive targets related to emissions reduction or social initiatives where relevant.

We are advocating for change at Amazon, McDonald's, Walmart and Unilever.

Global Sustainable – ESG Focus Areas

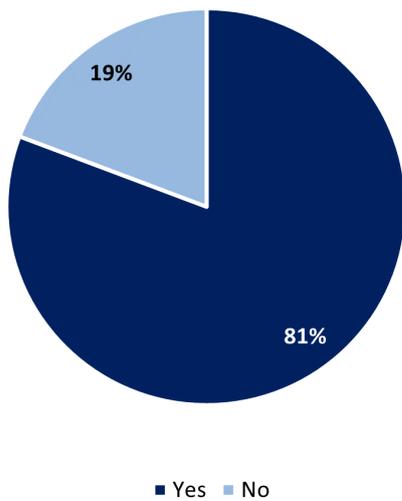
Throughout the FY23 engagements, 17% focused on environmental issues, 46% on social issues and 37% on governance issues.



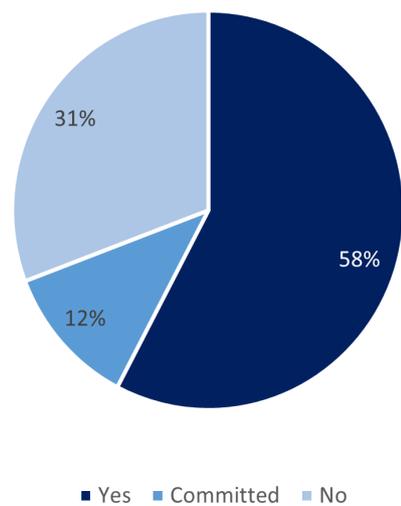
Environment

There was a continued focus on climate transition risk with discussions on company climate strategy, including short-, medium- and long-term targets and projects. These were key inputs into the assessment of alignment to net zero using the Net Zero Investment Framework to prioritise engagement with companies.

Global Sustainable:
% companies with net zero target



Global Sustainable:
% companies with science-based targets



* Science-based targets <https://sciencebasedtargets.org/companies-taking-action>



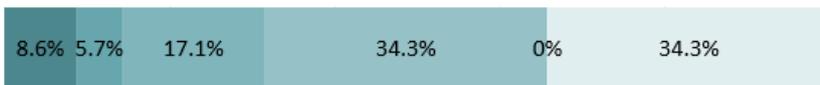
Social

There were various focus areas within the social space; these are typically industry-specific. For example, areas of ongoing monitoring and engagement include:

- An increased focus on labour management within the Restaurants sector. This included the role of the franchisor in oversight and education of franchisees to support the retention and attraction of employees.
- In the Internet and eCommerce sector, content and data privacy, particularly with the growth in generative AI.

% split of social issues discussed across Magellan sectors

Health Care



Diversity, Equity, and Inclusion

Social License

Labour Management

Health & Wellness

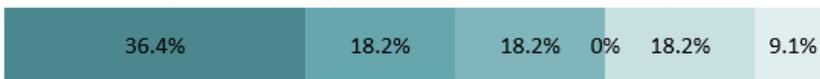
Content & Data Privacy

Other S (inc. product safety and social opportunities)

Restaurants



Internet & eCommerce



Financials (Inc. Payments)



Governance

Engagement on governance issues, as in prior years, has focused on the following key areas:

- Encouraging separation of the Chair/CEO roles, which clearly demarcates the Chair being answerable to shareholders and the CEO being answerable to the Board. Unfortunately, many companies, particularly those headquartered in the United States, combine the role. This practice in our view obfuscates the nature of the roles and concentrates power with the CEO.
- Ensuring the mix of remuneration components and the nature of targets on discretionary components align with shareholder interests.
- Lobbying companies to include appropriate ESG-related targets as components of executive compensation, which should encourage serious long-term cultural change and implementation of ESG from the executive through to all levels of organisations.



PROXY VOTING OUTCOMES – FY23

Annual General Meetings (AGMs) give our investee companies the opportunity to present their performance and give shareholders the opportunity to vote on ballots, which are comprised of both company proposals and shareholder proposals. This year we supported more shareholder proposals where the ask of the resolution was aligned with our engagement objectives.

Shareholder meetings (25)	
Proposals (423)	
Company Proposals (345) Votes against company (2% of ballots)	Shareholder Proposals (78) Votes against company (15% of ballots)
Voted against company (5% of ballots; 48% of meetings)	

Company proposals are generally routine in nature; for example, auditor approval, guides on compensation and voting to reappoint directors. In contrast, shareholder proposals tend to be more contentious and often include topics related to ESG.

It is important to note that as long-term investors we have already carefully assessed the risks associated with stock ownership and therefore we are generally satisfied with a company's management and risks at the time of stock purchase.

Therefore, it shouldn't be surprising that our votes on ballots are often in line with the Board's recommendations.

Nonetheless, we often do have perspectives that risks and opportunities can be further improved and in these instances we do vote against company recommendations. However, before voting against a company we reach out to the company to ensure we understand their perspective and that we communicate our views and voting intentions.

As noted in the Engagement section, proxy voting is an important rung on our 'ladder of escalation'. It is, however, not the first step. As long-term investors we believe that engagement with constructive and open relationships with companies are more likely to drive better outcomes.



Proxy Voting Statistics In Detail – FY23

The Global Sustainable strategy voted on 423 proposals. MFG Asset Management voted against the company’s recommendations on ~5% of all proposals and cast a vote against the company’s recommendations on at least one proposal item at ~48% of shareholder meetings. Over the year, some of the reasons we voted against company recommendations included to improve transparency, to improve Board structure, to better align remuneration with shareholder interests and to improve risk management on material ESG topics.

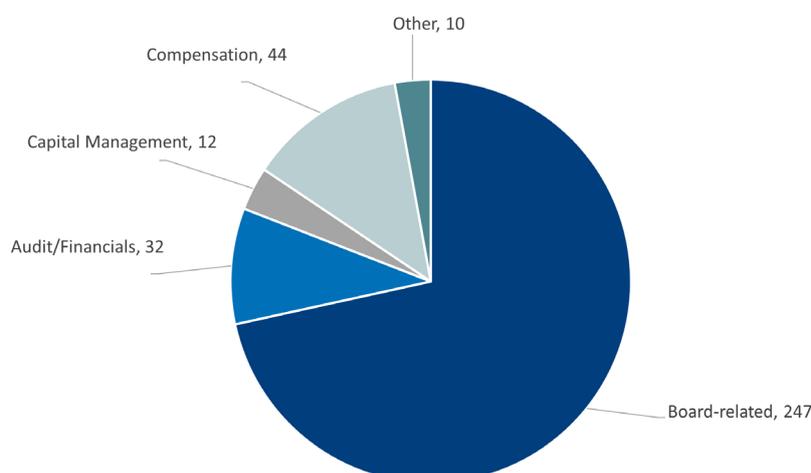
MFG Asset Management did not vote at two meetings where the market restrictions (share blocking) may have impacted client objectives.

CATEGORY	NUMBER OF PROPOSALS	WITH THE COMPANY	AGAINST THE COMPANY
Company Proposals	345	98%	2%
• Board Related	247	99%	1%
• Compensation	44	91%	9%
• Capital Management	12	100%	0%
• Audit/Financials	32	97%	3%
• Other	10	100%	0%
Shareholder Proposals	78	85%	15%
• Environmental	8	100%	0%
• Social	46	91%	9%
• Governance	24	67%	33%
Total Proposals	423	95%	5%

Votes on company proposals

When voting on company proposals, we consider MFG Asset Management’s Corporate Governance Principles with regards to Board director elections and compensation structures. In 2023, we included additional focus on shareholder rights and Board skills particularly on subcommittees, when considering independence and the re-election of the auditor. We saw positive outcomes from some companies such as Yum! Brands, outlined below, while a lack of improvement in the structure of remuneration for another company resulted in votes against the incumbent members of the compensation committee in line with our ladder of escalation.

Company Proposals





CASE STUDY: YUM! BRANDS

ONGOING IMPROVEMENTS IN REMUNERATION STRUCTURE AND INCLUSION OF ESG METRICS

Objective: We have been engaging with Yum! Brands on their remuneration structure for multiple years. Engagement included discussions and letter with Board and C-Suite, investor relations.

In 2023, we engaged with Yum! Brands to encourage a more explicit inclusion of material ESG factors in remuneration. We followed up with a letter to the Board, outlining our principles for assessing ESG metrics in remuneration, including consideration for inclusion in STI or LTI, metric selection, hurdles, weighting and Board discretion. Examples of peers were provided to highlight the characteristics we would like considered. This is while noting that the metrics and structure should be determined by the Board and aligned to strategy.

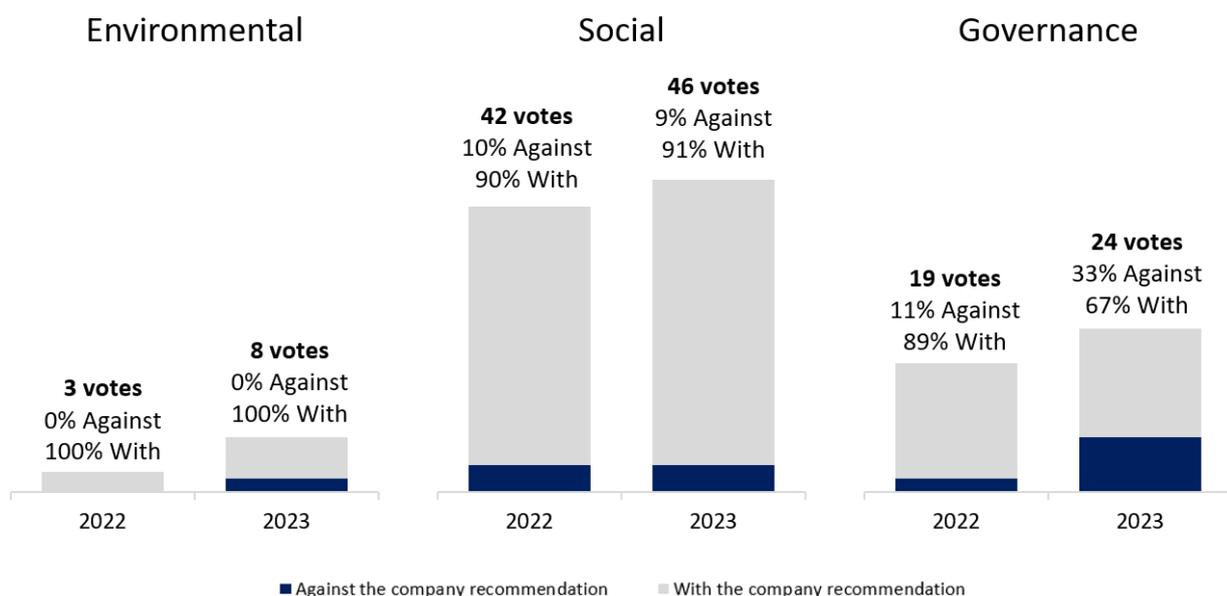
Outcome: At the 2023 AGM, we were pleased to see the comment *“beginning in 2023, the individual performance factor within annual incentives will include more targeted, quantitative ESG metrics relating to people, food and planet commitments previously captured within other broader strategic goals. The company noted this is a change supported by a significant number of shareholders”*.

This followed positive improvements on reducing the weighting of stock options within the remuneration structure in previous years following multiple engagements and we determined to support the remuneration report.

Votes on shareholder proposals

The Global Sustainable strategy considered 78 shareholder proposals, with 15% of votes against the company recommendation, up from 11% in the prior year. Engagement prior to the AGM on shareholder proposals is a key part of our process. Consideration is given for the ‘ask’ of the resolution, the materiality of the issue to the company and the actions or response of the company. Shareholder proposals on material ESG topics where it was determined to vote with the company were followed up with the company to ensure progress and prioritisation from management.

Votes on shareholder proposals





CASE STUDY: MCDONALD'S

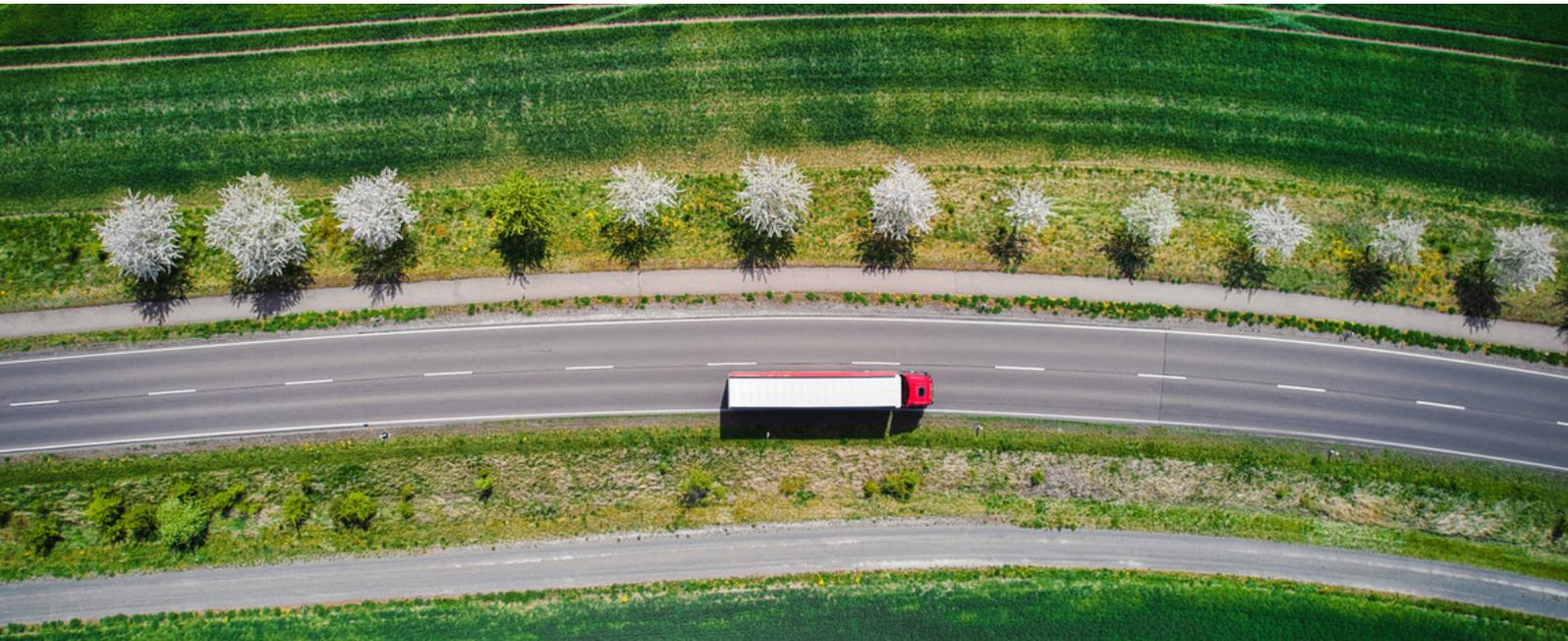
ENGAGING WITH ALL STAKEHOLDERS

In 2023, we supported the shareholder proposal regarding Policy on Use of Medically-Important Antibiotics in the Beef and Pork Supply Chain.

In determining our vote, we not only engaged with McDonald's but also the proponent of the shareholder proposal, we reviewed peers, regulations and World Health Organization guidelines.

McDonald's, as one of the largest purchasers of protein products globally, has an important role to play in managing this risk that could be devastating to global health. While we acknowledge the progress made by the company in the poultry supply chain, there is more work to do with beef and pork suppliers. With our investor perspective, we considered this a risk that should be better managed by McDonald's considering the focus on the health of consumers and prioritisation from regulators.

We would like to see McDonald's take more of a leading role in managing this risk. This may include proactive education across the supply chain to drive changes to farming, collaborating with peers to accelerate change at the industry level, setting interim quantifiable targets, and working with suppliers and third parties on monitoring and data collection. These steps, and improved transparency to shareholders, would give us greater confidence in the management of this risk.



Examples of company and shareholder proposals over 2023

COMPANY	PROPOSAL	COMPANY RECOMMENDATION	MAGELLAN VOTE	RATIONALE
Management Proposal				
Yum! Brands	Advisory Vote on Executive Compensation	For	For	We view that management have made positive steps with regard to the structure of executive compensation in recent years including responding to feedback on options and ESG metrics in remuneration.
Chipotle	Advisory Vote on Executive Compensation	For	Against	Chipotle's remuneration structure has not changed and outcomes are above our threshold for stock options. We will continue to engage to improve alignment between management and shareholders.
Shareholder Proposal				
Yum! Brands	Shareholder Proposal Regarding Paid Sick Leave	Against	For	While we acknowledge that the franchisee needs some level of autonomy, we believe Yum! Brands has an important role to play as the franchisor. Yum! Brands should ensure franchisees are providing sufficient employment benefits to attract and retain employees. Paid sick leave protects fellow employees and customers as customer-facing staff can stay home when they are sick. Yum! Brands needs to manage a reputational/ brand risk.
Amazon	Shareholder Proposal Regarding Report on Customer Due Diligence	Against	Against	The Board provides a detailed explanation of changes made over time to enhance protections against negative use of its technologies and products while also seeking to maintain the very real benefits of the same technologies. Amazon also appear quite proactive in recognising their responsibilities in this area, obtain third-party perspectives and participate in broader community and regulatory discussions on these technologies.
Amazon	Shareholder Proposal Regarding Just Transition Reporting	Against	Against	Amazon already provides extensive disclosure on climate risks and management, and also provide extensive training and upskilling opportunities to the employee force.
Amazon	Shareholder Proposal Regarding Median Gender and Racial Pay Equity Report	Against	For	We agree the proposition of reporting the unadjusted median shows the starting point of demographic inequality between gender/ethnicity and over/under-representation across job classes and salary bands. The benefit of transparently disclosing the median pay gap for underrepresented groups is to look into the reason for the gap and ultimately incentivise companies to promote, train and recruit diverse candidates into more technical or managerial roles.
Visa	Shareholder Proposal Regarding Independent Chair	Against	For	We view that separation of Chair/CEO is best practice. Role separation allows for independence of thought and improved accountability. This is in line with Magellan Corporate Governance Principles.

MORE INFORMATION

For more information on any of MFG Asset Management's stewardship activities, please visit our website

<https://www.mfgam.com.au/about/responsible-investing/>

Contact the MFG Asset Management ESG team esg-team@magellangroup.com.au

This Stewardship Review ("Review") is published by Magellan Asset Management Limited ABN 31 120 593 946 trading as MFG Asset Management, AFS Licence No. 304 301 ('Magellan'). This Review does not constitute an offer to sell or a solicitation of an offer to subscribe or purchase or a recommendation of any securities and may not be distributed in any jurisdiction except in accordance with the legal requirements applicable in such jurisdiction. Opinions expressed in this Review are subject to change without notice. This Review does not contain all the information necessary to fully evaluate the potential of an investment in any investment strategy, security, fund or other investment product and does not take into account the investment objectives or financial circumstances of the recipient and, as such, no reliance should be placed on its contents.

No person is authorised to give any information or to make any representation not contained in this Review in connection with the matters described in this Review, and, if given or made, such information or representation may not be relied upon as having been authorised. This Review and its contents are confidential to the person to whom it is delivered and must not be reproduced or distributed, either in whole or in part, nor may its contents be divulged by such persons to any other person without the prior written consent of MFG Asset Management.

Past performance is not an indication of future performance and MFG Asset Management does not guarantee the performance of or return of capital from any investment in any security, fund or other investment product. In addition, if this Review relates to an investment, (a) the investor is subject to investment risk including possible delays in repayment and loss of income and principal invested and (b) none of MFG Asset Management or any related body corporate of MFG Asset Management guarantees any particular rate of return on or the performance of the investment, nor do they guarantee repayment of capital in respect of the investment.

MFG Asset Management has prepared this document on the basis of sources believed to be reliable. The accuracy of such information (including all assumptions) has been relied upon by MFG Asset Management and has not been independently verified by MFG Asset Management. Nothing in this Review constitutes accounting, legal, regulatory, tax or other advice. Prospective investors should conduct their own independent investigation and assessment and should seek independent advice as to the validity of the information contained in this Review, and the economic, financial, regulatory, legal, taxation, stamp duty and accounting implications of that information, including the merits of and any risks relating to any investment. MFG Asset Management and its respective directors, officers, employees, agents and consultants make no representation or warranty as to the accuracy or completeness of the information contained in this Review and take no responsibility under any circumstances for any loss or damage suffered as a result of any omission, inadequacy, or inaccuracy in this Review. This Review may contain certain forward-looking statements, forecasts, estimates, projections and opinions ("Forward Statements"). No representation is made or will be made that any Forward Statements will be achieved or will prove to be correct. A number of factors, in addition to any risk factors stated in this Review, could cause actual future results and operations to vary materially from the Forward Statements. Similarly, no representation is given that the assumptions disclosed in this Review upon which Forward Statements may be based are reasonable.

Any third party trademarks contained herein are the property of their respective owners and MFG Asset Management claims no ownership in, nor any affiliation with, such trademarks. Any third party trademarks that appear in this material are used for information purposes and only to identify the company names or brands of their respective owners. No affiliation, sponsorship or endorsement should be inferred from the use of these trademarks. MC428

