IFM Investors

IFM Investors UK Stewardship Report

As of end June 2022

David Neal
Chief Executive, IFM Investors

Foreword

As an institutional fund manager, IFM has a fiduciary duty to maximise returns over the long term for the benefit of our investors. It is becoming increasingly clear to us that fulfilling this duty – now and in the future - depends on the health of the broader system in which we invest and operate.

As universal owners, large institutional fund managers like IFM cannot avoid systemic issues that affect the entire economic system, such as climate change, just transition and inequality. These risks are impossible to diversify away from and have the potential to result in lower investment returns over the long-term.

We believe universal owners have a role to play in helping to drive the transition to a low carbon world and promote fair, safe and inclusive workplaces and communities, which ultimately contribute to long-term investment returns. For us, this means being a responsible investor and actively managing environmental, social and governance risks within our investment processes.

For the past three years, we have published an annual Responsible Business Report, but this is the first year that we have done a submission to the UK Stewardship Code. It provides an overview of our approach to responsible investment and stewardship, an update on these activities over the year to June 2022 and details of the progress we have made in developing and implementing strategies that address our priority responsible business themes of climate change, workplace leadership and inclusion and diversity.

In summary, we have continued to expand the processes we use to assess ESG risks and opportunities across the different asset classes over the past year. This includes working to encourage or support portfolio companies in their transition to the new clean economy and launching new products that aim to harness investment opportunities presented by the global energy transition, while supporting our investors to meet their net zero aspirations.

We observed the increasing engagement within the investment community on how to manage the 'S' – or social factors – within ESG. This includes labour rights, health and safety, modern slavery, inequality and inclusion and diversity, which all carry investment risks and opportunities. At IFM, we have an active program to assess social factors across our listed and unlisted asset portfolios and we are committed to continuing to develop our skills in this area.

We implemented our voting and engagement strategy across listed equities, leveraging our size and shareholder influence to help improve board structures, compensation practices and climate change policies and to engage with companies on important social issues such as just transition and modern slavery.

As part of our workplace leadership strategy, in recognition of the impact of the transition on a net zero economy, we started developing our approach to a just transition for workers and communities of our infrastructure portfolio companies. We are committed to engaging with stakeholders on this issue. Our firm-wide inclusion and diversity (I&D) strategy continued to take shape, including programs focusing on fostering greater diversity in leadership and across the whole IFM team.

Across Australia, the US, Europe and UK, we actively engaged with political, government and industry stakeholders to advocate for policy outcomes that we believe will strengthen the investment, pension and financial systems in which we operate. These engagements included highlighting opportunities to mobilise pension capital for clean energy projects that support economies and working people.

We also remain involved in a number of collaborative initiatives that aim to promote responsible business principles and outcomes globally. Collaboration is a strong theme in our active ownership activities. As we increasingly look to strengthen the broader system, we believe that a collaborative approach will help to bring faster and more impactful positive change.

We are committed to further evolving our responsible investment and stewardship practices in the future to help ensure that we continue to meet the growing expectations of our investors. I look forward to working to meet these challenges in close alignment with our shareholders, investors and other stakeholders.

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Principle 1:
Purpose, investment beliefs, strategy, and culture

About Us

IFM Investors (IFM) was established nearly 30 years ago to invest, protect and grow the long-term retirement savings of working people. Our purpose drives our strategic approach to our investment and corporate practices.

Today we invest on behalf of more than 625 like-minded institutions worldwide, including pension, superannuation and sovereign wealth funds, universities, insurers, endowment funds and foundations.[1] The A$199bn entrusted to us by these investors incorporates the retirement savings of more than 120 million working people worldwide.[2]

Operating from ten offices globally, we seek to maximise long-term returns to these tens of millions of working people worldwide. Given the potential for our investments to have social and economic impacts on the wider community, we go about maximising our long-term returns with consideration of such risks and opportunities.

We look to achieve this by investing on behalf of our clients in Infrastructure (equity), Debt, Listed Equities and Private Equity (PE), and through active engagement in the management of our essential infrastructure portfolio assets, which include 39 portfolio companies with operations spanning more than 20 countries.

FIGURE 1

IFM'S PURPOSE AND STRATEGIC PILLARS

Our Purpose

To invest, protect and grow the long term retirement savings of working people

Our Strategic Pillars

We are owned by Australian profit-to member industry super funds. Our shareholders and investors are aligned and invest alongside each other.

We are a global private markets specialist with a strong multi-asset capability in Australia.

We are responsible stewards of the investments we manage, distinguished by our respect for the environment, working people and local communities.

1 As at 30 June 2022

2 Funds under management at 30 June 2022

How we manage our portfolios and operations

As a global asset manager, we play multiple roles as a steward of working people's retirement savings, as a global employer and as a corporate citizen. We see these roles as mutually reinforcing as we carry them out in ways that aim to create shared economic and social value for a broad range of stakeholders, in addition to our investors.

Our responsible investment and business approach is underpinned by a series of activities and risk management practices across five key areas: ESG integration, stewardship, collaboration and advocacy, corporate sustainability and transparency and reporting. These areas are described in more detail later in this Principle.

First and foremost, IFM seeks to invest in a manner that meets our fiduciary obligation – to maximise investment returns for our institutional investor clients. To help us meet this obligation, we incorporate or integrate environmental, social and governance (ESG) considerations across our investment process, alongside a wide range of other financial and investment risk factors.

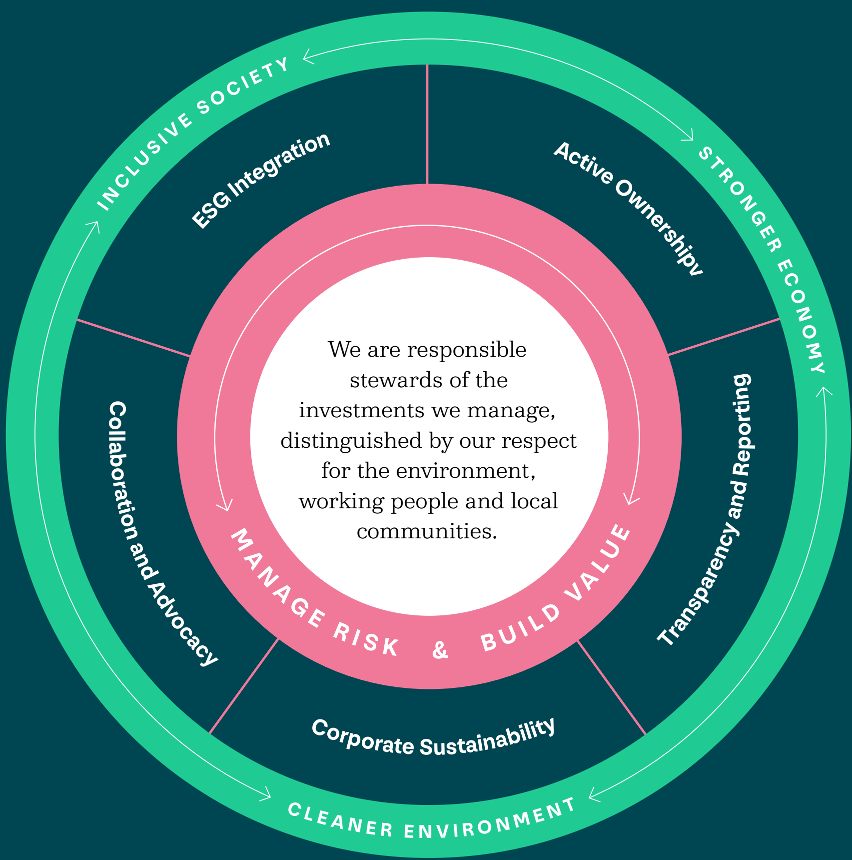
This means we consider the impact of material[3] ESG factors in our pre and post investment processes for infrastructure, debt, PE and active listed equities, noting that our approach across the different asset classes will differ and depend on the nature of the investment. This assessment helps us to identify and manage a broader set of risks to protect and maintain the longer-term value of our investment portfolios. We also believe that the consideration of ESG issues in the way we invest contributes to the overall sustainability of financial markets and provides our social licence to operate. We also embed ESG consideration within our own operations and in our corporate practices.

We have three priority themes that we believe we must address to help deliver on our purpose which are:

- Managing the long-term risks of global climate change and transitioning to a low carbon economy.
- Workplace leadership with a focus on promoting fair, safe and inclusive standards for working people.
- Championing inclusion and diversity.

FIGURE 2

OUR RESPONSIBLE BUSINESS APPROACH



[3] In this report, the term "material" in the context of ESG factors refers to our assessment of whether an ESG factor is significant for IFM and has the potential to affect the value drivers of our portfolio investments

ESG integration

As described above, our investment teams consider ESG issues alongside financial and other investment considerations in our investment decision making and monitoring processes. As part of this approach, we identify, understand and manage a broad range of investment risks and opportunities that can materially impact the short, medium and long-term value of an investment.

Our approach to some of the more material ESG risks is captured in our ESG policy. Our investment teams work closely with our Sustainable Investment team to help ensure practices align with our ESG Policy and that they continue to evolve over time.

Stewardship

Given the strong linkages between material ESG risks and the long-term value of our portfolio assets, we are active as an owner in seeking to ensure that our portfolio companies have the necessary risk oversight, data and reporting to manage those ESG risks and provide their respective Boards and shareholders (like us) the appropriate line of sight on ESG risks and performance. Where possible, we use our shareholder position to positively influence corporate behaviour and drive a more strategic understanding of ESG risks and opportunities.

Each investment team tailors its stewardship or active management approach to meet client needs and match the needs of its specific strategy, the tenure of holdings and the degree of influence we have as owners. Information about our stewardship activities is publicly available on the Stewardship page of our website.

Collaboration and advocacy

We participate in collaborative industry forums and work with other investors, civil society and government to promote responsible investment objectives; contribute to the development of best practice standards; and advocate for policy development that supports long-term market resilience and helps to address macro challenges. Our active participation in collaborative engagements to promote sustainable and responsible investment globally is outlined in Principle 10. Our advocacy activities that focus on promoting policy outcomes that we believe strengthen the investment, superannuation /pension and financial systems in which we operate, are outlined in Principle 4.

Transparency and reporting

In addition to this FY22 Stewardship Report, we provide our investors and other stakeholders with a range of reporting, thought leadership and insights, that aim to provide transparency about our approach, practices and outcomes. Further details are provided in Principle 6.

Corporate responsibility

Acting in the long-term best interests of investors, their members and communities requires us to conduct ourselves and operate in a responsible and sustainable manner. Our own practices as a global employer, business and corporate citizen reinforce our investment-focused capabilities and provide us with further opportunities to build stakeholder trust and contribute to the strength of the broader system in which we operate.

Our focus on fostering a diverse and talented team with a respectful and inclusive culture further motivates and supports our stewardship activities.

A purpose-led inclusive culture

Cultivating a unifying and purpose-aligned culture across the organisation is central to our success. We strive for an inclusive culture that motivates high-performance, accountability, openness, learning and collaboration. The cohesion and engagement of our workforce remains important as we embed our hybrid working practices and navigate ongoing uncertainty and volatility in the environments in which we live and work. Our Cultural Foundations (values), together with our purpose continue to guide our people and offer meaningful direction.

OUR CULTURAL FOUNDATIONS

- Prioritise Investors
- Achieve excellence
- Respect each other
- Inspire innovation
- Lead by example

INSIDE IFM

Fostering inclusion and diversity (I&D)

We believe our approach to I&D in our corporate practices makes a significant contribution to attracting and retaining a talented global team that works collaboratively to develop, execute and improve our stewardship approach and outcomes. We are committed to creating a truly inclusive lived experience for our people and we aim to embed I&D into their experience of working with IFM.

Our Inclusion Index aims to help us track and measure the inclusive experience of our people over time. In our 2022 employee pulse survey, our overall Inclusion Index positive response score was 75%, which is 3% above the Global Diversified Financials benchmark average. Responses indicated that our people think IFM values I&D, and that our work environment supports diverse perspectives and ways of thinking.

Gender Diversity

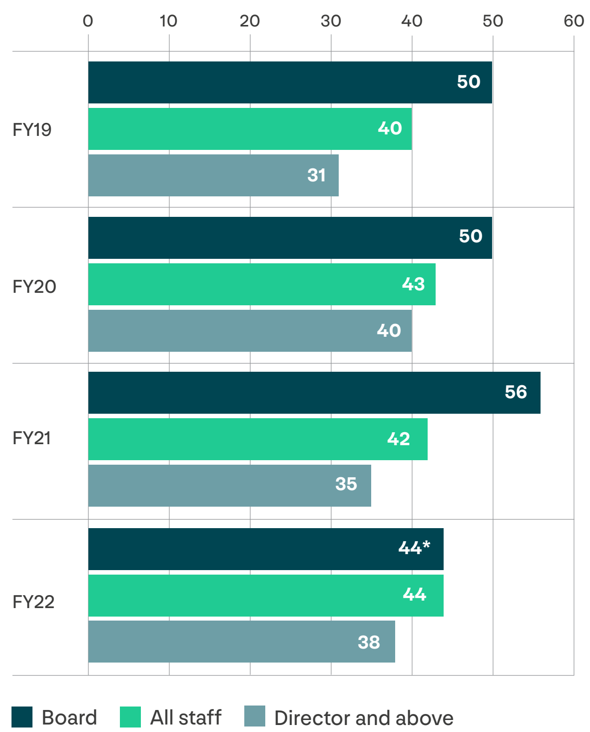
Our continued focus on achieving greater gender diversity has included refreshing our approach to setting targets to support our aspirations. We set a firm-wide longer-term target of 45% of any gender at the all-staff level and 45% of any gender at the director and above level by 2026. In the first half of 2022, all business units set longer-term gender diversity goals, recognising that each business unit has a different starting point and commercial challenges to achieve this goal. Importantly, our business units have tailored strategies that incorporate enabling drivers for the attraction, retention and development of diverse talent. They also provide periodic updates to the IFM Group Board.

THE FIVE PILLARS OF INCLUSION AND DIVERSITY AT IFM

- Cultural & Ethnic Diversity
- Mental Health & Wellbeing
- Ability
- LGBTQI+
- Gender

FIGURE 3

FEMALE REPRESENTATION (%) AT IFM†



LEARN MORE →

Please read our 2022 Responsible Business Report for details about our I&D programs and outcomes.

* During FY22, one female board member retired, and one male board member joined (four female, five male directors at 30 June 2022).

† Figures are as at 30 June for each financial year listed.

Principle 2: Governance, resources and incentives

As we pursue our purpose, responsible business governance and oversight remain essential.

IFM's overarching responsible investment and sustainability strategy is established and monitored at the Board level. Management is responsible for the execution of this strategy, ensuring material ESG risks are reflected in our risk management frameworks, investment analysis, stewardship and corporate-level activities.

We believe the systems and governance throughout our investment decision-making processes support rigour and accountability in our approach. From the boardroom to the investment committee and our investment teams, we have structures and policies in place that define, integrate and track our responsible business practices and stewardship.

Our ownership structure

Our ownership structure is quite distinct within the funds management industry, and it underpins our approach to stewardship. IFM was established in 1994 and is wholly owned by Industry Super Holdings Pty Ltd (ISH), which itself is owned by a collective of 17 profit-to-member Australian industry superannuation funds. IFM operates as a separate business entity, with a focus on institutional funds management for aligned investors. A key differentiator to other fund and asset managers for IFM is our philosophical alignment with the interests of investors.

Our priority is to maximise net investor returns in a way that aligns to the broader ESG objectives of our owners, many of which are also our clients and invest with us on behalf of their members.

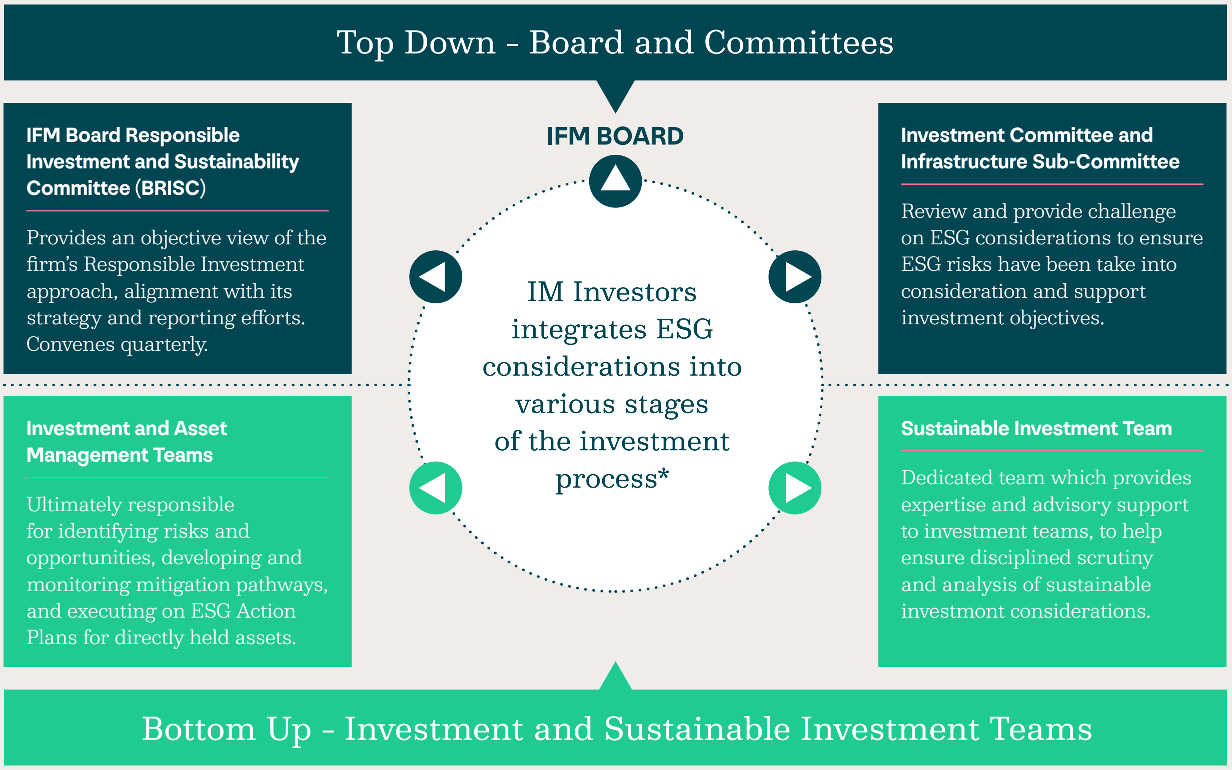
We also invest on behalf of other like-minded clients that are seeking to maximise long-term net returns through a patient, responsible investment approach. IFM does due diligence on potential clients which includes consideration of the guidelines outlined in our Like-Minded Investor Approval Process. This process assesses clients on the basis of factors such as whether they are institutional, investment tenor, alignment with IFM's purpose, reputational risks, structure and operational complexity. This assessment helps ensure that we are fully aligned with the interests our client base. Our due diligence process is reviewed on an ongoing basis to ensure our suitability assessment remains robust and aligned with our strategy.

Governance

Responsibility for oversight of IFM's approach to ESG integration and Stewardship sits with the Board, Executive and a series of committees, as well as individual teams who take IFM's top-down strategy and tailor it to their individual asset classes. The interaction of these governance structures is illustrated in Figure 4.

FIGURE 4

RESPONSIBLE INVESTMENT AND ESG GOVERNANCE



* Applicable to direct and active portfolios

Board and BRISC

The significant focus placed on responsible investment and the focus on sustainability at IFM necessitated the formation of the Board Responsible Investment and Sustainability Committee (BRISC) in 2019. The BRISC assists the IFM Group Board by providing an objective, non-executive view of the effectiveness of IFM's responsible investment, stewardship, sustainability strategy and reporting framework. The BRISC is responsible for monitoring and overseeing progress against key responsible investment and sustainability objectives, as well as endorsing and providing guidance on ESG strategies proposed by management. The BRISC convenes on a quarterly basis and also receives written updates between sessions, as required.

Executive Management

The Global Heads of our investment teams for each asset class and the Global Head of Asset Management (Infrastructure) are accountable for the execution and implementation of IFM's ESG Policy in the investment and asset management process. They are supported in this process by their investment teams who are responsible for implementing policies. IFM's ESG Policy provides guidance to teams regarding our ESG integration and stewardship process. Each investment team is responsible for considering ESG issues and undertaking stewardship in their respective investment and asset management processes.

Board Investment Committee, Investment Committee and Sub-committees

IFM's Board Investment Committee, Management Investment Committee and sub-committees (ICs) have oversight of our investment programs and portfolios, helping to ensure that our responsible investment strategy and ESG policy is appropriately factored into new acquisition decisions and ongoing portfolio management. The ICs are responsible for reviewing and approving new and follow-on private market investments and the approval process includes review and, where appropriate, challenge on ESG assessments to help ensure ESG risks have been properly considered in support of investment objectives.

Proxy Voting and Engagement Committee (PEC)

The Proxy Voting and Engagement Committee (PEC) provides oversight of all proxy voting activity on listed securities. The PEC comprises Executive Directors from each of the Listed Equities teams and the Sustainable Investment team. While the PEC delegates authority for day-to-day engagement and voting on listed securities to representative members in the team, it is responsible for reviewing and approving votes cast in relation to shareholder proposals.

Sustainable Investment Team

The Sustainable Investment Team is responsible for the development of IFM's overarching responsible investment and corporate responsibility (CR) strategy. The team provides consultation and specialised advice and works collaboratively with investment teams on their ESG integration and stewardship approaches. Team members have diverse skill sets and backgrounds, as outlined on the following page.

The team is headed by the Executive Director, Sustainable Investment who works closely with each Global Investment Head, the Global Head of Asset Management (Infrastructure), and their teams to provide execution support for the sustainable investment strategy, including ESG integration and Stewardship.

The Sustainable Investment Team also coordinates knowledge sharing between portfolio assets, and regularly attends conferences, forums and signatory working group sessions to build knowledge and share information with investment teams and management on sustainability and ESG-related trends and developments.

FIGURE 6

SUSTAINABLE INVESTMENT TEAM

IFM has ESG capability in its investment teams and a central team of professionals

Serena de Kretser
Executive Director
Joined IFM in 2018

- Assumed leadership of the team in July 2022
- Previously responsible for project managing and providing specialist subject matter expertise to IFM's firm-wide climate change strategy
- Oversees and implements IFM's approach to managing climate change risks and opportunities
- Fifteen years experience in ESG analysis, implementation, research and stewardship.

Ashley Kopczynski
Director
Joined IFM in 2021

- Leads company engagement and stewardship activities on behalf of listed equitie
- Assists responsible investment integration by investment teams leads proxy voting process in collaboration with listed equities
- Previously worked for over ten years in a fixed income team with a focus on company analysis and ESG integration.

Hiroka McGregor
Associate Director
Joined IFM in 2018

- Oversees and manages IFM's firmwide modern slavery response and risk management activities
- Supports key corporate responsibility programs and ESGin tegration initiatives
- Almost ten years of work experience in corporate sustainability, consulting and forensic accounting.

Samantha Hutton
Senior Associate
Joined IFM in 2022

- Supports on company engagement and proxy voting, asw ell as ESGin tegration support for the listed Equities team
- Project support, research and analytics for all members of the RI team
- 5 years experience working with Mercer in the UK and Australia, as a sustainability investment analyst.

Lauren Owens
Senior Associate
Joined IFM in 2021

- Manages IFM's corporate responsibility programme around philanthropic initiatives, workplace giving and volunteering
- Responsible for overseeing the implementation of IFM's business operations emissions strategy
- Close to twenty years' experience working in Sustainability with large Australian and UK based companies.

Current vacancies:

- Global Head of Sustainable Investment (UK)
- Director, Sustainable Investment (UK)
- Senior Associate,Sustainable Investment (UK)
- Associate Director, Sustainable Investment (AUS)
- Senior ESG Reporting Manager (AUS - commencing March 2023)

Implementation of our Stewardship program

Whist all our investment teams take ESG considerations into account in their due diligence, the implementation of our Stewardship program is distinctly tailored to each of our four asset classes to help ensure that it appropriately accounts for differences in the types of investments, ownership structures, geographic locations and underlying portfolio assets/companies in which we invest. More details on our specific approaches to direct portfolio assets/companies (infrastructure and PE), listed equities and debt investments are provided below.

Engagements and initiatives led by the investment teams are generally bottom up at the asset/company level, whereas engagements led by our Sustainable Investment team are generally top-down and focused on a particular thematic. Sustainable Investment team engagements are conducted directly or collaboratively with others. Regardless of who is undertaking engagement, there is ongoing communication and collaboration between the central sustainability team members and the investment teams.

All our teams draw on research and data from external brokers, ESG research and data service providers (see Figure 7) and learn from peers and best practice insights drawn from our participation in investor collaborations and industry organisations (see Principle 10).

Infrastructure and PE direct portfolio assets

The Infrastructure and PE Teams are responsible for executing their stewardship plans and priorities. Once engagement priorities are determined, members of the investment and asset management teams determine the objectives, time frames and the appropriate process of engagement. They also execute the program and obtain support from the Sustainable Investment team.

Within the infrastructure asset class, IFM has an Asset Management Specialist team (AMST) that is comprised of circa 25 individuals based in Australia, the UK and the US. This team is designed to introduce professionals with deeper operational, governance and sustainability experience and focus within the investment team itself. This team plays an important governance function that aims to monitor our portfolio assets‘ performance and help ensure that we are actively managing material risks, including ESG-related risks. Through board representation and membership of management committees in our portfolio assets, we seek to establish appropriate governance structures, protections and rights, taking into account the limitations of holding various investments as minority interests. This process includes identifying which infrastructure assets have responsible investment-related policies and procedures in place and working with those that do not, to ascertain whether such policies would be appropriate. This proactive approach to asset management has added value across strategic initiatives, financial management, capital expenditure and regulatory improvements.

Our PE team is based in Australia and currently manages a portfolio of four companies. The PE team integrates ESG considerations pre- and post-acquisition to identify material risks and opportunities. When a deal reaches the Investment Committee, the team has identified and clearly articulated the company’s key environmental or social objective; discussed ESG risks and incorporated mitigations into the first 100-day plan; and set up tracking of the first-year ESG deliverables in the bi-annual portfolio review process. During the ownership phase, responsible investment objectives are established as part of the value-creation plan for individual investments and the PE team works in partnership with company boards to drive and monitor outcomes and value. Key themes include progress towards carbon neutrality, I&D, Improved employee and customer engagement and best practice governance.

Listed Equities

Our stewardship activity in Listed Equities primarily focuses on Australia as the majority of our equity portfolios are invested in Australian listed companies. We engage both directly and indirectly through service providers, with Australian companies and actively exercise our voting rights to influence positive change. More information on our approach to voting is outlined in Principle 7 and Principle 12.

We also participate in several thematic engagement initiatives alongside other major Australian shareholders through industry collaborations such as Climate Active 100+. Our Active Australian equities teams also engage directly with companies’ management on business strategy and performance. IFM does not have any Listed Equities teams outside Australia, so our international engagement and voting efforts are limited. For international voting IFM follows the Glass Lewis default voting policy in most cases.

Debt

In Debt Investments, our engagement on ESG issues is typically concentrated in the due diligence phase when we have the best ability to engage with our borrower companies on relevant ESG matters. The debt investment team leverages a range of tools to inform our ESG due diligence and works closely with the Sustainable Investment team, to identify material risks and opportunities. Where appropriate, we seek to influence pre-investment the ESG credentials of our borrower companies, to help better manage and/or mitigate risk over the life of the investment. One element of this is requesting additional ESG data from the issuer so we can more deeply consider ESG risks in our due diligence (see case study on page 24); and the other is by seeking to influence the terms of the loans we negotiate so ESG risks can be better managed and monitored during the investment period (see case study on page 41). More information on debt engagement can be found in Principle 7.

Incentives

All IFM employees have KRAs known as Goals that are established to align with their key responsibilities. These are assigned on an annual basis. Goals relating to ESG strategy, projects and commitments are typically relevant for the Sustainable Investment Team, Heads of Asset Classes, Portfolio Managers, Asset Managers, and Investment Analysts.

- 100% of Sustainable Investment team member Goals are ESG, sustainability or culture related.
- 74% of Infrastructure Investment team members at Director level and above have a specific ESG/Sustainability goal (excluding any diversity goal). The average weighting assigned is 27% of their total goals.

Examples of ESG-related Goals include maintaining or improving relevant asset class PRI assessment score; completion of annual RI training; a measured improvement RI/ESG disclosure and investor communication; goals relating to company engagement; external investor annual survey ESG scores and feedback; ESG integration process improvements. The achievement (or not) of these Goals impacts relevant employees' variable compensation.

External resources and tools

All IFM's portfolios are managed internally, and we rely on both internal and external resources to undertake ESG research and stewardship. For Infrastructure and PE, we are typically able to access ESG data and information directly from portfolio assets/companies and engage directly with them to seek to influence change and drive performance. However, we also engage external consultants to provide support on transactions, undertake more specialised environmental or social assessments and to assist with particular pieces of research or analysis. Our Infrastructure team also uses InFRAMETM, which is a proprietary risk management system that enables the team to analyse the underlying revenue streams that drive the performance of infrastructure assets.

We also use several tools that help us store, manage and consolidate ESG data. For example, our PE team uses PathZero to measure, analyse, and reduce the carbon emissions associated with portfolio companies in order to encourage them to set emissions reduction goals and commitments.

We subscribe to the MSCI ESG Manager portal to access ESG ratings and underlying carbon data and analytics for our listed universe of companies. This helps us assess company level performance across a wide range of ESG issues. These data points help us identify companies that are lagging behind their peers on sustainability issues, and define the issues we may target for engagement.

Climate change research and data are obtained from multiple sources, especially through our membership of a number of investor bodies which are focused on climate change, as well as analysts' research, and participation in climate-focused working groups and round tables. We also commission climate assessments related to our infrastructure portfolios from external providers such as Arup, ERM, 427 (now owned by Moodys) and Pollination.

In addition to our own direct stewardship, we also engage the services of the Australian Council of Superannuation Investors (ACSI) and Glass Lewis to supplement our internal resources and help execute our voting decisions. ACSI engages with Australian (ASX300) companies on our behalf and provides us with company research and proxy voting recommendations. Glass Lewis also provides us with proxy voting research and recommendations, and we use the Glass Lewis Viewpoint online platform to manage all our proxy voting activity.

CASE STUDY

ACSI – Tackling modern slavery on behalf of investors

ACSI continues to focus on the progress of Australian companies' in managing modern slavery risk.

In 2022, ACSI engaged with 21 companies on modern slavery. One of the companies that stood out in relation to its reporting efforts was Woolworths Group, which was one of the first Australian companies to disclose and discuss an actual instance of modern slavery. In addition to identifying the incident, Woolworths also reported on its remediation strategies. ACSI views this as a necessary step towards companies addressing modern slavery in supply chains, and it believes that the Woolworths report has set a new high standard for reporting by a listed company under the Act.

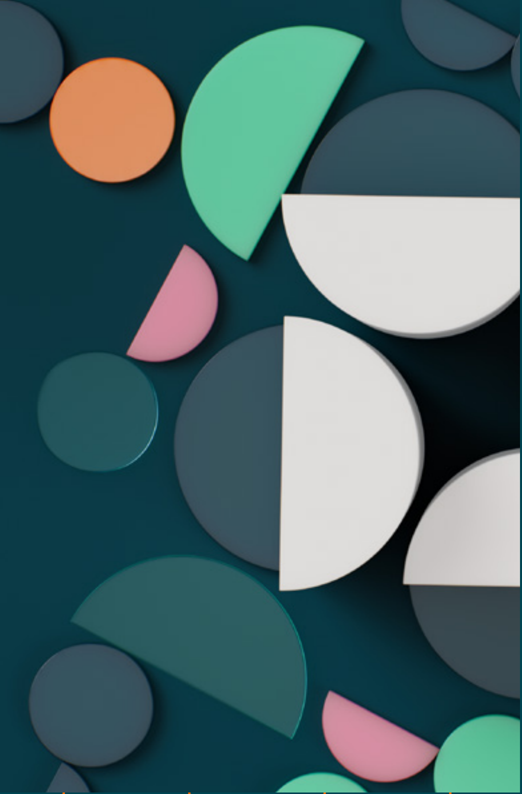
ACSI is also encouraging other ASX200 companies to use it as a guide to their own reporting.

IFM continues to work with ACSI and other investors to monitor compliance and quality of modern slavery reporting across ASX 200 companies, as applicable. As outlined in a case study on page 57, we are also collaborating with investors via Investors Against Slavery and Trafficking in the Asia Pacific Region (IAST-APAC) to promote effective action to 'find, fix and prevent' modern slavery, labour exploitation and human trafficking in company supply chains.

FIGURE 7

KEY THIRD-PARTY DATA AND PROVIDERS THAT SUPPORT OUR ESG INTEGRATION AND STEWARDSHIP ACTIVITIES

Service provider	Description
MSCI ESG data	ESG data, research and ratings as an input into proprietary analysis and screening. Carbon data and analytics are used to help understand the progress of companies on their decarbonisation journey.
S&P	Individual company data is used on a case-by-case basis by the Debt team.
Arabesque	Arabesque ESG Book is a sustainability monitoring tool which systematically combines over 200 environmental, social and governance metrics with news signals from over 50,000 sources across 15 languages. This provides an assessment of a company's performance on financially material sustainability criteria and is used as an input in our proprietary investment process in active listed equities.
RepRisk	RepRisk uses artificial intelligence and human analysis to gather and analyze vast amounts of public information from media, stakeholders, and other sources to identify and assess potential ESG risks faced by companies and investments.
Bloomberg	Individual company data is used on a case-by-case basis by the Debt team
PathZero	PathZero is an online platform that is used to measure and analyse, a company's carbon emissions.
PWC DataKit	Data collection platform for Infrastructure Equity Assets, covering SFDR and other ESG data requirements for IFM.
Ownership Matters	Provides bespoke governance and accounting risk analysis for ASX300 companies.
ACSI	Company engagement service and proxy voting research and advice for the ASX300.
Glass Lewis	Proxy voting advice and the provision of the Viewpoint online voting management service.



Principle 3:
Managing conflicts of interest in the best interests of our clients and beneficiaries

IFM's Conflicts Management Policy and Conflicts Management Procedure set out our commitment to act in our clients' best interests at all times. It includes examples of conflicts of interest between clients, personal conflicts and conflicts between our business and clients. IFM's approach to identifying, managing and disclosing conflicts of interests is also disclosed. IFM's Conflicts of Interest Policy is made available publicly upon request, and to all employees via IFM's intranet site.

Conflicts may also arise when our employees' roles, interests or duties are in actual, potential or perceived conflict with one another. All employees are required to consider conflicts in every aspect of, and through, their roles with IFM, recognising that our clients' interests are always prioritised.

IFM employees are also subject to IFM's Code of Conduct which is made publicly available here.

Due to the importance of stewardship to our business, we have developed policies and procedures to prevent undue influence on IFM's proxy voting activity. We understand the significance of managing potential conflicts of interest on behalf of our clients in our proxy voting and engagement with investee companies.

Identifying potential conflicts

IFM's framework for identifying conflicts as part of IFM's stewardship activities (including voting and engagement), involves adopting a set of guidelines to identify circumstances which may give rise to conflicts of interest. These guidelines include relationships with listed affiliates or assets, key clients and significant suppliers.

The process to identify conflicts is captured by the IFM Conflicts Management Policy and IFM Market Abuse Policy. This includes personal conflicts, such as personal account trading as well as those between our business and clients, for example investment teams seeking opportunities in an asset held by another investment team.

Material non-public information through Stewardship activities

In cases where material non-public information is obtained through stewardship activities, our Global Risk and Compliance department is informed and relevant controls are implemented, such as ensuring information barriers are in place for those 'inside'. We understand that the proper management of inside information is critical to effectively manage conflicts of interest and to maintain the trust of our investors, regulators, shareholders and the communities in which we operate.

We have implemented policies, procedures and training that aim to ensure our staff understand the concepts of inside information and insider trading, and the controls we must implement to manage and monitor the risk of unauthorised disclosure of inside information that could lead to insider trading and undermine the fair operation of financial markets.

Managing conflicts of interest

IFM's Conflicts Management Policy also establishes the core principles for managing conflicts of interest between clients, employee personal conflicts and conflicts between our business and clients as required by various laws and regulations. It also provides guidance on situations where potential conflicts may arise between and within investment teams and corporate entities.

The guiding principle followed by IFM with respect to conflicts of interest is:

- that all investors should be treated fairly and equitably; and
- that no investor should be disadvantaged in the management or avoidance of the relevant potential or perceived conflict.

The Policy is applicable to all Board members and employees of IFM group companies and its subsidiaries. It is reviewed every two years or when material changes occur in the internal or external business and/or regulatory environment and approved by the IFM Group Boards Audit & Risk Committee. Potential conflicts are managed and reviewed by the Conflicts Committee which meets on an as-needs basis. The Conflicts Committee is a subcommittee of the IFM Risk Committee (IFMRC) and comprises of two IFMRC members at a minimum, provided always that Conflicts Committee members are not members of the business unit involved in the potential conflict.

The Conflicts Committee ensures that once a conflict has been identified, a process has been undertaken to mitigate or avoid it. In the rare instances where the conflict is unable to be mitigated, the Committee will ensure controls are implemented to evidence management of the conflict. Guidelines have been implemented as part of this process, to ensure the Conflicts Committee remains consistent and independent when assessing conflicts raised within IFM's course of business.

Examples of personal potential conflicts of interest include:

- Having a close relationship with a service provider;
- Holding outside employment or a directorship with an investor or service provider;
- Situations where IFM or a representative are likely to make a financial gain from an investment decision, which may or may not be aligned with the interests of our investors or clients.

In situations where the Conflicts Committee is not deemed the appropriate management committee, the matter may be referred to the IFM Board and Audit Risk Committee.

Conflicts are managed within IFM's voting and engagement activities using the following approach:

- The engagement program is a proactive approach with a clear process for selecting priorities – including planning, prioritisation, execution and reporting. The engagement program is supervised and governed by a separate Responsible Investment Committee. This ensures decisions taken to engage are aligned with the engagement strategy of the firm and free from outside influence.
- A separate committee has the sole responsibility for taking voting decisions in identified situations of conflict on behalf of clients that have given IFM the discretion to vote for accounts. Where potential conflicts of interest have been identified, recommendations to vote in support of management resolutions contrary to our regular Policy position or advisers' recommendations will be escalated to the relevant Responsible Investment Committee. Any decision by the Committee to vote contrary to an IFM Policy position in these cases is supported by a written record.

The IFM Conflicts Management Policy provides detailed guidance for the following examples (not an exhaustive list):

- assessing conflicts when approving investments,
- the appointment of external advisors,
- managing conflicts arising from knowledge held by different groups within IFM and the consideration of conflicts of interest between IFM entities (for example, where one entity provides management services to another entity within the IFM group).
- conflicts including company directorships e.g., IFM Holdings Pty Ltd Directorships,
- conflicts arising between IFM, IFM portfolios and individual portfolio companies, related party transactions, deal allocations and common board memberships.

A conflicts register is maintained detailing instances of conflicts as they arise. The register is reviewed on an ongoing basis to ensure it remains up to date.

Principle 4: Responding to market-wide risks

Identifying market-wide and systemic risks

At the heart of our processes is the early identification and detection of risks. IFM's Risk Management Framework is designed to enhance our understanding of these risks and allow us to adapt our business and processes accordingly. By encouraging a foresight approach, it is also an opportunity for risk management functions to contribute to the strategy of the company.

Our direct and active investment teams are generally responsible for identifying, analysing, measuring and monitoring market-wide and systemic risks in their portfolios, through their risk identification processes during investment due-diligence, portfolio and asset management, and research activities. Systemic risks related to social and environmental trends, are identified by multiple teams examining the range of relevant risk factors particular to assets, companies, sectors and regions.

Some of the approaches that IFM is taking to identify and respond to systemic risks, and help promote a well-functioning financial system include:

Conducting research and analysis:
We utilise our inhouse resources to conduct research and analysis to identify market-wide and systemic risks. This covers many areas, including (but not limited to) analysing economic data and trends, changes in government and central bank policies and key investment themes.

Monitoring regulatory developments:
To effectively manage our regulatory risks, working with external counsel, we have identified and mapped out our regulatory obligations across our operating jurisdictions and captured them within a register to comprise our regulatory universe. Any legislative or regulatory changes are monitored via an external electronic feed that captures all relevant amendments. A regulatory change process is in place that is governed by the Regulatory Change Working Group.

Participating in industry associations and networks:
We participate in industry associations and networks that focus on systemic risk factors, for example climate change. Our involvement helps us to stay up-to-date on developments in the industry and to collaborate with other stakeholders on identifying and addressing systemic risks. More information on these industry associations and our interaction with them is provided later in this Principle.

Engaging with companies and regulators:
We engage with companies and regulators to gain insights into potential systemic risks. For example, we may ask companies about their exposure to certain risk factors or engage with regulators through our industry bodies, to understand potential changes to regulation.

Utilising specialised tools and services:
There are a variety of tools and services available to help us identify, measure and monitor risks, market volatility and liquidity. For example, our proprietary risk management system InFRAME™ enables us to analyse the underlying revenue streams that drive the performance of infrastructure assets. InFRAME™ synthesises risk profiling, scenario modelling and portfolio optimisation to help identify and achieve a target strategic asset allocation for the infrastructure asset class.

Potential systemic risks and how we are responding

The COVID-19 pandemic has highlighted the interconnectedness of the financial system and the economy. There is a risk that the failure of one institution or market could lead to a cascading effect that could threaten the stability of the entire system.

Material risk factors such as business, economic, geopolitical, credit, liquidity, volatility risk, or cyber risks are managed as part of the day-to-day risk management operations undertaken by our Investment, Risk and Compliance and Economics teams. Climate change, energy transition and its impact on people and communities are material systemic risks we have identified and responding to. This is not an exhaustive list of systemic financial risk factors.

Climate change and the energy transition
The scale and complexity of climate change poses systemic risks and opportunities for our investment portfolios, with the potential to affect long-term investment performance and returns.

Having a plan to mitigate the risks of climate change, as well as harness investment opportunities arising from the transition to a net zero economy, is vital to our ability to create long-term value and deliver on our purpose - to invest, protect and grow the long-term retirement savings of working people.

Therefore, we believe the most efficient way to mitigate climate change risk for long-term investors is an orderly decarbonisation to a net zero economy by 2050 that achieves the international community's temperature goal of no more than 1.5°C of warming, relative to pre-industrial levels.

Transition over divestment

We are focused on developing investment strategies and portfolios that are resilient to climate risks and able to benefit from the shift to a more sustainable, low-carbon economy.

The emphasis of our strategy is on transition, rather than divestment. This is because divestment effectively shifts the problem to someone else. Where we have influence, we aim to be part of the solution and harness investment opportunities for our investors in ways that create wider economic, social and environmental benefits for our broader stakeholders.

We believe investors should be positioning their infrastructure exposure for the pathway to net zero. Both transition and clean economy infrastructure portfolios could be expected to generate attractive, stable, long-term returns, but they will also have a climate change mitigation role to play as economies move towards decarbonisation. Read more about the role of infrastructure investment in climate risk management, available on our website.

Portfolio management

Achieving emissions reductions to avoid the worst impacts of climate change will require major sectoral transitions, including in many of the key sectors in which portfolios managed or advised by IFM currently hold assets. Based on this understanding, each of our asset classes are building frameworks and measures that will help to determine portfolio climate risk exposures and opportunities and manage our investments in ways that aim to improve value and performance over time. We believe this approach is in the financial interests of our investors and the members and beneficiaries they represent.

We produce several reports outlining how we are responding to climate change including Infrastructure Carbon Footprint Reports, Climate Change (TCFD) Report for investors and TCFD Summary Report (available publicly). In the coming months we will also be releasing a Climate Transition Report which outlines the progress our Infrastructure portfolio and the underlying assets are making on their decarbonisation journey.

We also produce a number of thought leadership papers that discuss our management response – these are also available via our website Insights page.

Inequality and Just Transition - people and communities

With pension funds globally managing the largest pool of capital in the world, their collective actions have the potential to shape our economies and societies. Pension funds now have the scale, the capacity and the influence to lead change to maximise long-term outcomes on behalf of working people. As such we believe that pension capital can and should play a role in helping to alleviate inequality and social tensions.

IFM is committed to engaging with workers and their unions to understand their concerns and what their expectations are of IFM around Just Transition. This is in line with the ACTU's Guidance to asset managers Securing a Just Transition.

We believe that the transition to a low carbon economy will adversely impact workers in relevant sectors unless active and coordinated steps are taken by key economic entities, primarily governments, as well as large investment managers like IFM. This will take significant consideration, engagement and planning.

IFM's response to this broader global "Just Transition" effort is currently under consideration and will be made clearer as the low carbon transition plans of global economies and our portfolio assets are firmed up.

In the meantime, for our infrastructure portfolio assets, the minimum commitment is that where workers are adversely impacted by the climate change transition, IFM will engage with portfolio assets and unions to understand impacts and identify potential mitigants. This could include offering suitable alternative employment within the respective business, investing in efforts to prepare impacted employees to find alternative employment or ensuring any compensation paid to workers who lose their job due to climate change is equitable.

In line with these commitments, IFM is a signatory to the United Nations Principles for Responsible Investment Statement of Investor Commitment to Support a Just Transition on climate change and the Climate Action 100+ global investor initiative.

Increased disclosure and transparency

While not strictly considered a systemic risk, we think it is essential we include some commentary relating to this theme, because we need more disclosure in areas where reporting has traditionally been lagging. In the 2023 World Economic Forum (WEF) Global Risks Report, the Perception Survey (top 10 risks) indicates that in the short and long term, environmental and social risks have overtaken the economic risks in terms of severity (likely impact).

Over the past decade, there has been a global proliferation of voluntary reporting standards relating to sustainability and more specifically climate change-related financial risks and opportunities.

But there is now significant recognition and concern that current voluntary reporting regimes are not always fit for purpose. Therefore, mandatory Sustainability/ESG reporting disclosure is needed to help investors and others understand and assess the extent of environmental and social risks and consider their impact on global financial systems. What gets measured is managed, and ensuring robust, standardised, data and information, are crucial if we are to start dealing with the types of issues raised in the 2023 WEF Risk Report.

The UK has already introduced mandatory climate disclosure requirements for large-listed companies. The US and Australia are also considering and are on the cusp of introducing mandatory climate disclosure requirements.

In order to prepare for the introduction of these mandatory reporting standards across the different regions IFM operates in, we are working to identify gaps in our own reporting practices, particularly in relation to carbon data and climate reporting, enhancing our internal governance and review procedures, familiarising ourselves with the content of the proposed ISSB Standards and contributing to submissions calling for comments on disclosure standards across the regions we operate in.

Participating in industry and peer collaborations

We are signatories and members of a number of organisations and initiatives that grapple with a range of different issues that have the potential to destabilise financial markets. The following is a list of the organisations we collaborate with and our role in each initiative.

Principles of Responsible Investment (PRI)

IFM has been a signatory to the PRI since 2008 and representatives from IFM have participated in a number of collaborative engagements and Investment Practice committees over the years. We have recently been notified that IFM's Executive Director, Policy and Strategy, has been appointed to the Thinking Ahead Institute/Principles of Responsible Investment Joint resourcing stewardship research project.

Australian Council of Superannuation Investors (ACSI)

In addition to undertaking research and company engagement and providing proxy recommendations, ACSI engages with government, regulators and policymakers to better align financial markets with the interests of long-term investors, and regularly provide a forward-looking, long-term investor voice on regulatory and policy reviews.

IFM is represented on ACSI's Board and Member Council and has considerable involvement in multiple programs of work including engagement, the develop of Governance Guidelines, input into policy submissions etc. ACSI submissions are publicly available via their website.

CASE STUDY

Sustainable Finance taxonomies

IFM is a member of International Financial Reporting Standards (IFRS) and Australian Sustainable Finance Institute (ASFI), whose work is focused on the development of sustainability reporting standards and taxonomies.

Building on work done on sustainable finance taxonomies internationally, ASFI is working with experts and stakeholders across the Australian financial system to determine what a sustainable finance taxonomy should look like in Australia to help ensure international credibility and inter-operability.

We are a founding member of ASFI, which aims to realign the finance sector to create a sustainable and resilient financial system, which can be achieved by directing capital to support greater social, environmental and economic outcomes consistent with the Australian Sustainable Finance Roadmap. IFM serves on the Australian Sustainable Financial Institute's steering committee for its sustainable finance taxonomy, and we have met with senior government officials and policy makers regarding the importance of a science-based taxonomy and related regulations.

Ceres

IFM is active member of the Ceres Investor Network and was invited to present at the organisation's 2022 annual conference. Ceres works with influential and sustainability-minded investors and companies to advocate for and tackle global sustainability challenges to fulfil its mission: transforming the economy to build a sustainable future for people and the planet.

Responsible Investor Association Australasia (RIAA)

RIAA champions responsible investing and a sustainable financial system in Australia and New Zealand. They promote, advocate for, and support approaches to responsible investment that align capital with achieving a healthy and sustainable society, environment and economy. IFM recently joined RIAA in order to increase our understanding of the progress on the Australian sustainable finance taxonomy and participate in a number of working groups that contribute to particular topics of interest. Representatives from IFM have joined and contributed to discussions in the Human Rights and First Nations Peoples' Right working groups.

International Financial Reporting Standards (IFRS) and International Sustainability Standards Board (ISSB)

The IFRS Foundation is an organisation established to develop high-quality, understandable, enforceable and globally accepted accounting and sustainability disclosure standards. IFRS and the Climate Disclosure Standards Board (CDSB) have merged to become the International Sustainability Standards Board (ISSB). IFM is a member of IFRS and our subscription enables us to access a broad range of reporting frameworks and resources, including the SASB Standards and Materiality Map.

FCLT Global

Focusing Capital on the Long Term – FCLT Global's mission is to focus capital on the long term to support a sustainable and prosperous economy. IFM is a member of FCLT Global and our Chief Executive, David Neal and Director, Theresa Whitmarsh are represented on the Board of Directors. A number of our Senior Executives contribute to and attend their work programs and events.

Australian Sustainable Finance Institute (ASFI)

IFM serves on the Australian Sustainable Financial Institute's steering committee. For additional information about ASFI and IFM's role, see the case study on page 22.

Investor Group on Climate Change (IGCC)

A collaboration of Australian and New Zealand investors focusing on the impact of climate change on the financial value of investments. The IGCC operates through several working groups which help shape its position on key issues through the collaborative effort of members. IFM is represented on the Adaptation Working Group, Disclosure Working Group and Policy Working Group.

International Investor Group on Climate Change (IIGCC)

In order to engage more with a global group of stakeholders on climate change, we are also a member of IIGCC. We particularly want to strengthen our influence and collaborative activity in the UK and EU, regions in which we have substantial infrastructure equity and debt investments.

We participate on different working groups, including the Policy Steering Group, which is engaging on multiple strands of the EU's sustainability labelling and disclosure requirements, including the EU Taxonomy, and SFDR. In relation to the UK, the group is advising across a range of green taxonomy proposals and consultations including its Transition Plan Taskforce and the 2021 Pensions Schemes Act provisions on disclosing climate risks and scenarios.

Net Zero Asset Manager Initiative (NZAMI)

IFM Investors is one of NZAM's 30 founding signatories and was one of Australia's first asset managers to sign up. We are excited to be working with a growing number of co-signatories to share our infrastructure expertise and help galvanise the asset management industry to commit to net zero emissions by 2050 or sooner.

Partnership for Carbon Accounting Financials

IFM joined the Partnership for Carbon Accounting Financials (PCAF) to better inform and align our portfolio carbon accounting to best practice standards. Our partnership with PCAF provides us with opportunities to collaborate and share learnings with other institutions facing the same data and methodology challenges. By participating in quarterly calls and learning from peers, we hope to improve and expand on our carbon disclosures and provide assistance to portfolio companies where it is needed.

Thinking Ahead Institute (TAI)

IFM is a member of the TAI and participates in several of its working groups and forums. IFM's Executive Director, Strategy and Policy, spoke at the TAI Sustainability Summit. This summit outlined the changes that could empower asset owners and asset managers to do more to influence change – from forming climate beliefs to implementation and monitoring. Our Executive

Director Policy and Strategy is on the Stewardship Resourcing Technical Working Group that operates in partnership with PRI and our Chief Strategy Officer is on the Investment Organisation of Tomorrow.

CASE STUDY

Debt investors collaborate to improve access to ESG data

A prominent issue for investors providing private debt financing is the general lack of access to ESG and climate data in due diligence. During FY22, IFM and several large infrastructure debt investors collaborated to develop an Infrastructure Debt ESG Covenant Package as a broader industry solution to this data challenge.

The initiative, facilitated by the Global Infrastructure Investor Association, aims to:

- Standardise ESG data collection by providing a consistent set of requirements as 'best practice' for borrowers when reporting to lenders with respect to ESG; and
- Help lenders comply with increasing ESG disclosure obligations under applicable EU and/or UK regulations and, where relevant, their own net zero targets and investor demand.

Feedback is being sought from market participants in regards to including the ESG Covenant Package in finance documentation. The intent is that ESG information will be disclosed and considered as part of the term sheet negotiation stage between the relevant parties. The ESG Covenant Final Form report is now available for download and use by investors and issuers via the Global Infrastructure Investor Association website.

Engaging with government bodies and policy makers

As a pension funds-owned investment manager, IFM focuses on long-term returns. During FY22, we advocated for policy outcomes that we believe will, over the long term, make the investment, superannuation/ pension and financial systems in which we operate more sustainable. We engaged with political, government and industry stakeholders directly and through participation in a range of trade association industry events and parliamentary inquiries. Across all regions we have highlighted the significant opportunity of mobilising superannuation and pension funds for new infrastructure projects and the link between reducing emissions across our asset classes and long-term investment returns given the reality of climate science.

Examples of climate-related policy advocacy undertaken over the past year include:

- Engagement with the UK Prime Minister to discuss the UK's energy transition (see case study below).
- IFM participated in a roundtable series organised by the EU Commission's Directorate-General for Mobility and Transport (DG MOVE). The workshops provided an opportunity to engage with the EU Commission on its work on transport decarbonisation, provided a chance to discuss any key needs and positions of the sector on a range of investment-related issues, and fed into the decarbonising infrastructure policy paper subsequently produced by the Global Infrastructure Investors Association on behalf of its members.
- IFM met on multiple occasions with the Business Energy and Industrial Skills Department (BEIS), the Department of International Trade (DIT), the UK Infrastructure Bank (UKIB), and also the Department of Environment, Food and Rural Affairs (DEFRA) to discuss the development of hydrogen, CCUS, sustainable aviation fuels (SAFs) and natural capital financing models in pursuit of UK's delivery of its nationally determined contribution (NDC) to the Paris Climate agreements.
- We participated in discussions on the role of pension funds in financing the EU's global leading 2030 emissions reduction plan to reduce GHG emissions by 55% versus a 1990 baseline.
- We contributed to IIGCC's submissions to the European Union across the latter's green taxonomy policies and regulations, for example its submission on the EU's draft Corporate Sustainability Due Diligence Directive (CSDDD).
- We worked with the IIGCC policy committee and industry stakeholders to strengthen climate-related disclosures rules and accounting standards.
- Consultation on draft Prudential Practice Guide on Climate Change Financial Risks (Australia, 2021)

Examples of direct public policy contributions relating to other systemic risks include the following initiatives to which we contributed our perspectives and support:

- Our Chief Strategy Officer is the chair of the UK Government's inaugural Taskforce on Social Factors, a cross-governmental body established in collaboration with other industry leaders, including members from Phoenix, Railpen, Scottish Widows, ShareAction and the UK Sustainable Investment and Finance Association, among others. The Taskforce's primary goal is to support pension scheme trustees and the wider pensions industry with some of the key challenges around managing and measuring social factors in relation to their investments. These social factors include labour practices, supply chain and modern slavery issues and diversity and inclusion. The group's key objectives include:
  - Identifying reliable data sources to help pension schemes identify and manage financially material social risks
  - Monitoring and reporting on developments in relation to the International Sustainability Standards Board (ISSB) and other international standards
  - Develop thinking around how trustees can identify and assess the financial risks posed by modern slavery and supply chain issues.
- The taskforce will deliver guidance and recommendations to the pensions and investment industry. In addition, our Chief Strategy Officer's work as Chair will contribute to further development of wider social factor principles, international standards, and metrics.
- We contribute to the national debate on superannuation-related policies. IFM representatives appeared before, and provided submissions to, Parliamentary inquiries on portfolio holdings disclosure and the common ownership of listed companies. On both of these topics, we worked with government, our shareholders and other industry stakeholders to advocate for policy outcomes that we believe to be in the best financial interests of superannuation fund members.
- IFM was a member of the Australian Treasury's technical working group on the Your Future Your Super performance test.
- We participated in the Review of the Your Future, Your Super Measures (Australia, 2022).
- We participated in the Inquiry into the implications of common ownership and capital concentration in Australia (2021).
- IFM participated in the Just Transition project undertaken by the UK All-Parliamentary Group (APPG) on Local Government Pensions Schemes (LGPS) (Oct 2021). The report concluded that an (un)Just Transition poses a material financial risk to long term investors.
- IFM sponsored and gave the keynote address at the Pensions Investment Research Consultants (PIRC) inaugural 'Work' Conference on the 'S' in ESG (May 2021). IFM's keynote focused on how as an infrastructure fund manager owned by pension funds we approach monitoring, disclosing and improving health and safety at portfolio assets across the world.

CASE STUDY

Bringing infrastructure expertise to climate change collaborations

IFM continues to work collaboratively with our investors and other investment industry stakeholders globally to promote improved management and disclosure of climate-related risks. We are a founding signatory of the Net Zero Asset Managers Initiative (NZAMI), and we are excited to be working with a growing number of cosignatories to share our infrastructure expertise and help galvanise the asset management industry to commit to net zero emissions by 2050 or sooner. Ongoing collaboration will be vital as we move towards a low-carbon future.

IFM was a member of the NZAMI Advisory Group. The group, comprising six signatory members, aims to champion the objectives of the initiative, to act as spokespeople for NZAMI, and to provide recommendations and advice to its steering committee on operations and engagement activities.

CASE STUDY

Advocating for public policy that supports economies and communities

Across all regions we have engaged to highlight the significant opportunity of mobilising superannuation and pension fund capital for new infrastructure projects that serve to help decarbonise economies and/or improve services to communities.

Australia
IFM is a signatory to the Australian Government's Housing Accord and is engaging with large industry super funds to explore ways that institutional investors can invest into social and affordable housing at scale.

United States
IFM actively advocated for support of well-designed public-private partnerships (P3s) in the federal government's Infrastructure Investment and Jobs Act that was signed into law in November of 2021. Working with groups such as the National Governors Association and the Global Infrastructure Investor Association, our efforts helped generate funding for P3s at the state and local levels.

We also assumed an active role in the annual SelectUSA Investment Summit, a foreign direct investment conference attended by federal, state and local officials. IFM's delegation, comprising IFM Board Directors, key employees and shareholders, met with senior members of the Biden Administration, state governors, senior Congressional staff and NGOs to advance a policy agenda to foster private and pension capital investing in US public infrastructure.

United Kingdom and Europe
IFM's Chief Executive and other Australian infrastructure investors met the UK Prime Minister to discuss the UK's energy transition and the role investors can play. IFM seeks to invest £3b over the next five years in the right opportunities across new net zero projects and to enhance existing UK portfolio assets of portfolios advised by IFM, including the M6 toll road, Anglian Water, and Manchester, Stansted and East Midlands airports.

Other climate-focused activities included participation in discussions at the European Commission on the decarbonisation of transport, including electrification and the development of sustainable aviation fuels. We also participated in discussions on the role of pension funds in financing the EU's global leading 2030 emissions reduction plan to reduce GHG emissions by 55% versus a 1990 baseline; and worked with the IIGCC policy committee and industry stakeholders to strengthen climate-related disclosures rules and accounting standards.

CASE STUDY

Decarbonisation across the value chain

Infrastructure assets are critical to meeting the needs of economies and communities now and in a low carbon future. In addition to reducing direct scope 1 and 2 emissions, our portfolio assets have an important role to play in the energy transition and are critical for enabling the decarbonisation of emissions-intensive sectors, such as transport. The examples outlined below aim to demonstrate how some of our portfolio companies are supporting the decarbonisation of the broader transport value chain and addressing their own scope 3 emissions.

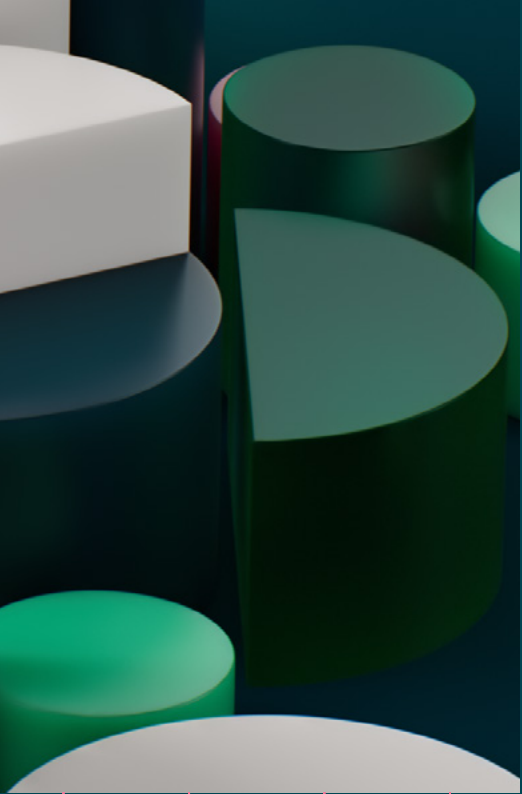
Supporting the uptake of electric vehicles (EVs)
Australian energy provider Ausgrid has partnered with JOLT, an EV charging network company, to create an EV charging network across Sydney. Using existing street-side kiosks, which are common in every suburb, the charging stations will be powered by renewable energy.

Buckeye Partners (US) is aiming to capture opportunities in the hydrogen transportation market through its strategic investment OneH2 – a provider of scalable hydrogen fuel production systems. OneH2 is partnering with General Motors and Navistar to deploy hydrogen fuelling solutions for use in the heavy-duty truck market.

Decarbonising shipping and port operations
NSW Ports (Australia) is researching and designing a pilot study on the provision of shore-based electrical power to vessels while berthing and anchoring – a process known as cold ironing, which generates lower emissions than vessels using their auxiliary engines to generate power at berth. IFM is also evaluating how cold ironing could be more broadly accepted in Australian port operations. This evaluation aims to incorporate learnings from other jurisdictions around the world where cold ironing has been successfully implemented

Enabling delivery of Sustainable Aviation Fuel (SAF)
In 2021, Manchester Airport Group (UK) announced a partnership with Fulcrum Bio-Energy to support the development and delivery of SAF produced at a new waste to fuels bio-refinery. Manchester Airport will be the first UK airport to have a direct-feed SAF, which will be delivered through an existing pipeline. The partnership could see up to 10% of the fuel used by aircraft at the airport replaced with SAF within five years of the new facility becoming operational. The fuel produced will have a C02 footprint at least 70% lower than that of its traditional jet fuel equivalent.

Supporting biofuels for sustainable transportation
Buckeye Partners is upgrading blending infrastructure at seven terminals in the US states of New York and Connecticut to enable the increased blending of sustainable biodiesel into heating oil and ultra-low sulphur diesel (ULSD). Upon completion, these projects are expected to facilitate the blending of an incremental 9.2 million barrels of biodiesel over the next ten years, which would reduce Buckeye's scope 3 emissions by an estimated 1.45 million MT CO2 over that time frame.



Principle 5:
Reviewing policies and processes to assess effectiveness

Policy framework

Our ESG Integration and Stewardship approach is guided by the following key policies:

- IFM Group ESG Policy (which includes our Voting Guidelines)
- IFM Responsible Investment Charter (under review) IFM Proxy and Engagement Committee (PEC) Charter
- Individual investment teams Operations Manuals
- IFM Climate Change Engagement and Escalation Policy (developed in 2022)
- IFM Group Sustainable Finance Disclosure Regulation (SFDR) Policy (developed in 2022)

Our ESG Policy outlines IFM's approach to responsible investment and the integration of ESG into our investment processes. It outlines the range of ESG risks and opportunities we consider alongside the financial analysis underpinning our investment recommendations. The ESG integration and stewardship approach for each of our asset classes is described in the policy, as well as our commitment to advocacy and transparency. IFM's Voting Guidelines (see Principle 12 and Appendix 1 in this report) are also contained within this policy.

For IFM's Listed Equities, the PEC is responsible for reviewing proxy voting guidance, providing input and taking a proxy voting position on behalf of IFM's managed portfolios and several client mandates. IFM's PEC Charter outlines the function, process and authorities of the PEC, as well as listing the requirements relating to composition, frequency of meetings and reporting.

We also have detailed Operations Manuals that outline applicable policies and procedures for each asset class or investment team.

In addition to our own policies, IFM is a member of the Australian Council of Superannuation Investors (ACSI) and adheres to many of ACSI's policies, including ACSI's Governance Guidelines and Gender Diversity Voting Policy.

Internal oversight (governance)

Refer to Principle 2 for a full overview of IFM's Governance structure and oversight of our stewardship activities.

Policy and procedures review

Our policies define what, why and how IFM will manage risk and regulatory obligations. To ensure accuracy and currency, policies are subject to periodic review and update. The relevant approval authority is determined based on the type of policy or procedure, this may include the Board, a Board Committee, a Management Committee, or the relevant executive approval. The majority of frameworks and policies are subject to review and initial approval by the Policy and Document Sub-Committee (PDSC), which is a sub-committee of the IFM Risk Committee.

The PDSC is responsible for:

- Overseeing the application of IFM's Policy Governance Principles;
- Approving frameworks and policies not requiring Board or Board Committee approval, or Management Committee approval; and
- Approving procedures applicable to the IFM Group.

The PDSC is comprised of delegates from several business units including Risk & Compliance, People & Culture, Operations, External Relations, Commercial and Investments.

The Policy Governance Principles are supported by the IFM Policy Governance Procedure which outlines the process for writing, reviewing and/or updating policy documents.

IFM reviews policies in accordance with the related risk rating, or per the regulatory or legislative requirement as relevant. An out of cycle review may be triggered by a material change in the internal or external environment or in the way we perform our business.

In situations where major updates are needed, we may engage the services of a third party to undertake a gap analysis or benchmarking exercise to provide an external lens and help ensure our policies and procedures remain current. The same occurs for our process documents. In 2022, we commenced a refresh of a number of asset class due diligence frameworks to help ensure we are doing adequate work to identify, assess and manage risks associated with modern slavery, climate change and cybersecurity in particular. This work was undertaken with assistance from external consultants.

Assurance activities are performed regularly throughout IFM, across all three lines of defence (all employees, Risk & Compliance Team, Internal Audit) as part of IFM Risk Management Framework and Strategy. These assurance activities take the form of attestations, self-assessments, control testing, compliance monitoring, risk assessments, internal audit, external audit, and/or independent reviews.

Recent developments

In 2022, we developed two new policies relevant to Stewardship – the Listed Equities IFM Climate Engagement & Escalation Policy and assessment framework and the IFM Group SFDR Policy and corresponding procedures.

The Listed Equities IFM Climate Engagement & Escalation Policy codifies IFM's approach to company engagement and escalation for Australian listed equities in the context of climate change. There are times when we will not be satisfied with a company's progress or outcomes relating to climate change, and we may seek to deploy a range of tools at our disposal as a shareholder. This framework is designed to be flexible and pragmatic in how we determine the key asks of a company, the engagement process, and the ultimate escalation approach that is applied. For example, in 2022 the Say on Climate resolutions put forward at the AGMs of Woodside and Santos received a significant vote against by shareholders, signaling they aren't satisfied with the decarbonisation strategies proposed. IFM, in partnership with ACSI and other investors, has stepped-up engagement with both companies over the past year, and will scrutinise progress leading up to the next AGM in April 2023.

The IFM Group SFDR Policy outlines the various requirements needed to achieve regulatory compliance with the EU Sustainable Finance Disclosure Regulation (SFDR) and its related Regulatory Technical Standards (RTS). The SFDR Policy sets out minimum criteria for the collection and maintenance of key information required to meet SFDR entity and product-level requirements and prepare the associated SFDR-regulated disclosures including product-level investor documents (pre-contractual, website and annual report disclosures) as well as manager-level statements (principal adverse impact disclosures).

Monitoring and assessing effectiveness

Listed investments

IFM's direct engagements in listed equity are recorded and tracked in a third-party online platform which can be accessed by the Listed Equities and Sustainable Investment teams. This enables a form of peer review and information sharing which helps to ensure we are focusing our engagement efforts in the right areas.

Indirect engagement undertaken by ACSI is stored and tracked in a central ACSI member platform. Representatives from IFM's Sustainable Investment team often attend meetings alongside ACSI which allows for a level of scrutiny and direct involvement from IFM.

Details of all ACSI engagement meetings are recorded within the platform. The platform enables detailed tracking on the number of engagements, method of engagement, level within the organisation at which the engagement occurred, topics discussed, detailed summaries of discussions, together with observations of progress, including publicly available materials/statements.

In addition to tracking engagement progress and voting outcomes, we also meet regularly with our stewardship service providers to discuss market issues and trends, significant events and to review engagement priorities. We receive half-year and annual reporting on the number of company engagements conducted, as well as progress on key stewardship themes.

Each year, in addition to general meetings, ACSI reaches out to its members to seek feedback on issues for inclusion in the following year's program. ACSI also presents the priority issues they are considering and request member comment and input. This enables us to make sure the companies and issues that ACSI is engaging on are those most relevant to IFM and our investors. IFM is also represented on the ACSI Board and Member Council, as well as on the committee responsible for reviewing the Governance Guidelines every second year.

IFM's internal audit process (undertaken by an external auditing firm) includes a review of our stewardship activity and records against the statistics reported and procedures described in internal and external documents.

Infrastructure and PE

Due to the direct nature of these investments, our Infrastructure and PE stewardship activities are monitored and tracked directly by our investment and asset management teams, or via the IFM appointed director on the investee company board.

Material risks are identified during due diligence and fed into asset management plans for risk assessments and monitoring. Portfolio assets are reviewed at least on an annual basis and portfolio and asset priorities and plans are updated frequently, depending on the level of progress.

Data and information relating to our portfolios' assets are maintained in data systems managed by the relevant investment team. This information is peer reviewed and cross checked by Sustainable Investment team members to help ensure data consistency and quality. We don't currently engage external auditors for sustainability data, however some of our portfolios' larger assets do undertake independent external verification of sustainability related indicators.

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Stewardship reporting

We believe transparent reporting about our stewardship approach, actions and outcomes is crucial to earning and maintaining the trust of our investors and other key stakeholders. We aim to ensure our stewardship reporting is fair, balanced and understandable. We seek to do this via reviews and benchmarking of our reporting against peer and competitor reporting. We also incorporate formal and informal feedback from investors and other key stakeholders into considerations about how to improve our reporting.

All stewardship reporting is subject to a number of internal reviews, as appropriate, before being published. This includes subject matter experts from investment teams, the Sustainable Investment team, corporate affairs and marketing and communications, as well as risk and compliance reviews to help ensure we comply to applicable regulations across the jurisdictions in which we publish or make available such reporting. These reviews help to ensure that the reporting is fair, balanced and reasonable.

We also survey and interview our clients on an annual basis via our Investor Sentiment Questionnaire (ISQ) which asks a series of questions about client satisfaction, with the reporting we provide including relevance, accuracy, timeliness and ease of understanding.

More information on our methods for requesting and collecting investor feedback and a more detailed overview of our stewardship communications and reporting are addressed in Principle 6.

Principle 6: Understanding the needs of our clients and communicating stewardship outcomes

We invest on behalf of aligned owners and clients

As mentioned in Principle 2, IFM is owned by a group of profit-to-member Australian industry superannuation funds. We aim to maximise net investor returns in a responsible manner and this closely aligns us with the objectives of these owners, many of which are also our clients and invest with us on behalf of their members. Across our client base, IFM invests on behalf of 626 institutions worldwide. In line with our heritage, pension funds constitute a significant proportion of our client base. We are also continuing to broaden our investor base, prioritising like-minded, well-capitalised investors that are seeking to maximise long-term net returns through a patient, responsible investment approach. This includes sovereign wealth funds, non-pension investors, foundations, endowment funds, government entities, charities and insurers, amongst others. This alignment with our owners and clients (and their beneficiaries) helps ensure that we have common goals, and it sets the foundation for the way in which we interact with clients to incorporate their needs into our stewardship practices.

The charts below provide details of our client base by client type, FUM by asset class and FUM by client geographical location.

Investment time horizon

Aligned with the objectives of our Australian industry superannuation fund owners, we prioritise the interests of our investors – and their members and beneficiaries - by focusing on investments that seek to deliver strong net returns.

Our investment time horizons vary from relatively short term for certain investment strategies, like cash and bond funds within treasury services, to medium and longer-term, for other strategies, like private debt, PE and infrastructure.

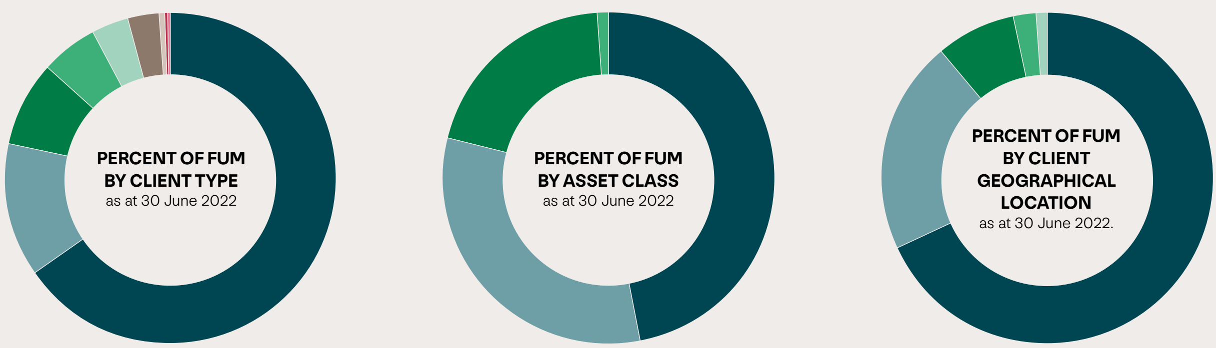
Our infrastructure investment strategy centres on the long-term ownership and active asset management of core infrastructure investments (e.g. utilities, ports, airports and toll roads) with long-term, stable cashflows. We believe open-ended fund structures best-suit this investment strategy in long-lived infrastructure investments.

Open-ended funds are perpetual, so they remain open to new investors and existing investors can commit additional capital at regular intervals as determined by the manager. This means open-ended funds can continue to make investments in new assets and invest in ongoing improvements to existing portfolio companies. The perpetual nature of open-ended funds allows for long-term investment

FIGURE 8

£112.7 billion

Assets under management



- Superannuation Fund **65.5%**
- Public Pension **13.0%**
- Corporate/Private Pension **8.2%**
- Insurance **5.6%**
- Multi-employer Pension plan **3.6%**
- Financial Institution **3.0%**
- Foundation **0.6%**
- Endowment **0.4%**
- High Net Worth and Family Office **0.1%**

- Infrastructure **47%**
- Debt **32%**
- Listed Equities **20%**
- Private Equity **1%**

- Australia **68.1%**
- North America **20.9%**
- UK and Europe **7.7%**
- Asia **2.3%**
- The Middle East **1.0%**

in core infrastructure assets which have reliable long-term return potential. This can be well suited to the needs of our institutional clients such as pension funds and insurance companies, which by their nature have long-term liabilities.

The long-term nature of our investment horizon is also illustrated in our approach to climate transition risk management, and our preference for the portfolios we manage or advise to hold assets, and work towards helping them to transition towards net zero rather than divesting. This is particularly true across our infrastructure investments.

Our stewardship approach

We integrate ESG considerations into our investment processes and corporate practices. This helps us to identify and manage a broad set of material risks, as well as helping to protect and maintain the longer-term value of our investment portfolios.

Our stewardship helps maintain and strengthen alignment with the interests of our investors. Our priority to maximise net risk-adjusted returns in a responsible manner closely aligns us with the objectives of our owners, many of which are also our clients and invest with us on behalf of their members.

The way we approach stewardship differs depending on the asset class, whether portfolios hold assets directly or indirectly, and our regional presence. More information applicable to the different asset class and regional differences are outlined in Principle 7.

Understanding our clients' needs

IFM is owned by 17 Australian industry superannuation funds, and we engage frequently with our owners and other investors. Our engagement is two-way and provides us the opportunity to seek feedback from our owners/investors via the following formal and informal channels:

(i) Shareholder Advisory Board and Investor Advisory Committees;

(ii) Investor Service Quality (ISQ) assessment; and

(iii) Direct interaction via investor forums, regular briefings and client meetings.

Shareholder Advisory Board and Investor Advisory Committees

The Shareholder Advisory Board is a forum for consultation between IFM and its major shareholders, including in-depth discussions on responsible investment matters. The Shareholder Advisory Board enables:

- Discussion among shareholders about major issues that affect IFM
- Resolution of issues arising from key person provisions in investment management agreements
- Involvement of investors in the IFM business planning process
- Review of new IFM products
- Consultation on major organisational changes and plans
- Monitoring of investment exposures, related party transactions and high-profile transactions
- Communication of the reasons for consensus positions reached by the Shareholder Advisory Board to sponsoring funds, as necessary.

IFM's Investor Advisory Committees are also important forums for consultation between IFM and its investors on matters including responsible investment. These committees exist for Australian and Global Infrastructure and are also being developed for several of our PE portfolios. We seek broad investor representation on these committees which are designed for IFM to engage with investors on a variety of issues. For example, the IFM Global Infrastructure Investor Advisory Committee comprises IFM representatives, an independent chair and a maximum of 20 investors. It meets formally twice per year, but more meetings can be held if required. Its function is to:

- Discuss and consider the impact of changing circumstances and market conditions on the investment policy, guidelines, strategy and performance of the infrastructure strategy
- Review conflicts of interest and related party transactions
- Monitor major investment exposures and high-profile transactions
- Resolve issues arising from key person provisions and consultation on major organisational changes and plans

- Provide consultation on decisions in relation to distributions to investors

- Discuss and consider opportunities as to how IFM and its clients may, where appropriate, influence global stakeholders so as to contribute to the available investment opportunities in the infrastructure asset class.

Investor Sentiment Questionnaire (ISQ)

Our Investor Sentiment Questionnaire uses independent qualitative research via interviews with trustees, chief executives, chief investment officers and asset consultants to assess our Investor Service Quality on an annual basis. This assessment includes a critical assessment of IFM's responsible investment approaches.

The ISQ allows IFM's clients the opportunity to provide feedback about their experience with IFM. The areas covered in the 2022 ISQ review included: overall satisfaction with IFM, investment performance, satisfaction with the relationship, strategic alignment, onboarding, legal and related documentation, consultant feedback, client meetings, reporting, ESG reporting, customer service, and branding.

The results of the 2022 IFM ISQ were favourable. Overall satisfaction increased to a record high (8.4 out of 10), improving for the third consecutive year. Investors continue to be very satisfied with their relationships with IFM, and the resilience of their investments (across asset classes).

The 2022 review also indicated strong awareness of our ESG Policy and moderately strong awareness of our annual Responsible Business Report and Infrastructure Carbon Footprint reports. Investors gave us a strong rating on our overall ESG reporting.

Investor forums, regular briefings and client meetings

IFM adopts an open, proactive and transparent approach to investor relations. We foster open and ongoing communication with investors to help ensure they have up-to-date information on matters relating to our stewardship approach, activities and outcomes, as well as the broader market and economic context in which we steward their capital. This includes investment performance, fund information, qualitative commentary, quantitative indicators, responsible investment considerations and market developments.

IFM's regular communication with our investors includes:

- Monthly statements and quarterly reports detailing performance and market developments

- Regular conference calls, investor updates and investor briefings

- Publication of thought leadership whitepapers

- Masterclass sessions to share investment insights

- Customised investor deliverables, as agreed.

This is complemented by engagement and outreach undertaken by IFM's Chief Executive and senior executives, including investment team heads. The result is that IFM stays close to its investors and responds quickly to market developments, investment trends, and responsible investment themes. An example of this can be seen in the development of the investment parameters for our Net Zero Infrastructure portfolio, whereby client feedback informed the development of some of the portfolio's investment objectives and criteria.

Aligning our investment management approach to our investors needs

Within IFM's cultural foundations we prioritise our investors and their needs. This includes focusing on investor interests and using this information to inform our actions, working hard to build long term, constructive investor relationships and acting as a trusted adviser and steward of our investors' money.

Our Shareholder Advisory Board and Investor Advisory Committees enable us to regularly engage in a formal way with our investors and learn more about their needs and concerns. The information obtained from these interactions is used to inform our business decisions and the types of products and services that we offer our client base.

We seek to develop new investment strategies that take into account the changing needs of our investors. Recent examples include:

- IFM's Net Zero Infrastructure strategy which targets opportunities that will help facilitate and scale up decarbonisation efforts and accelerate the transition to net zero
- IFM Australian Equities Climate Transition strategy, which is a low tracking error pooled index solution targeting at Australian clients
- Green and ESG Term Deposits, in partnership with the Commonwealth Bank of Australia, where the proceeds are only able to be invested in specified projects that are sustainability related.

These three new product offerings incorporate sustainability objectives and are aimed at supporting our investors who have set their own net zero commitments. They were developed in consultation with investors, to strengthen alignment to their investment policies with respect to ESG issues.

At the individual client level, we also collaborate with our investors to develop bespoke mandates and sustainability-themed strategies that are tailored to their direct needs. These bespoke solutions can also be adjusted over time, for example, as an investor's climate goals evolve.

We value the feedback we obtain from investors as part of our annual ISQ survey and regular client interactions and we use this information to help improve our approach and better meet client needs. For example, some of key themes in the 2022 ISQ included the importance of ESG maturity, transparency, acknowledging regional nuances and the divergence in the needs of different types of clients across our investor base. These are all areas that we are continuing to explore and improve across our business.

The collaborative efforts in which we participate also result in us engaging alongside some of our investors. While investor engagement is not the primary objective of our involvement in these collaborations, it nonetheless helps provide another channel to determine the range of issues our investors consider important.

Client disclosures

Figure 9 outlines key publications we provide our investors and other key stakeholders explaining our stewardship approach, activities and outcomes. We aim to be open and transparent with our investors, community and staff, not just when things go right but also when problems occur. In addition to our published reports:

- We disclose information beyond our regulatory requirements through annual reports to our shareholders, market updates and sustainability briefings on ESG issues.
- We actively inform our investors, stakeholders and staff of any information or circumstances which affect the investment portfolios we manage.
- We report openly to our shareholders and staff on our performance metrics – both relating to financial and ESG performance.

Evaluating our communication methods

To date, information and feedback gathered on client needs has been filtered to the relevant stakeholders within IFM following evaluation of the relevant forums and necessary action plans developed in response. We believe there is an opportunity for more proactive, systematic and intentional engagement specifically on sustainability matters to provide opportunities for early and dynamic feedback loops within the organisation to better serve our clients. We intend to develop a formal engagement plan with clients to further understand their sustainability needs and actively and timely respond to requests, concerns and opportunities.

FIGURE 9

PUBLIC REPORTING AND DISCLOSURE

ESG Policy

IFM's approach to responsible investment including the integration of ESG and Stewardship in the investment process

2022 Responsible Business Report

Annual firm-wide, publicly available publication that aims to report how we are delivering on our purpose for our investors via our investment, stewardship, advocacy and corporate activities.

Infrastructure Portfolio Carbon Footprint reports

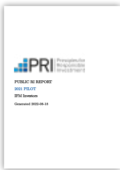
Published annually on our public website for both the Australian and Global Infrastructure portfolios.

2021 Climate Change Summary Report

Our annual climate change report provides transparency about our climate change strategy and progress made via our investment analysis and stewardship activities using the framework recommended by the Taskforce on Climate-related Financial Disclosures. A summary Report is publicly available on our website. The full report containing fund-level data is provided to investors only.

Listed Equities Engagement and Voting reports

We publicly report every six months on our Australian Listed Equities stewardship activities, covering our proxy voting and engagement activities and outcomes for the period.



UN-PRI Transparency and Assessment reports

We publish our UN-PRI Transparency and Assessment reports on our public website.

Insights

We produce a range of thought leadership, white papers and regular updates for our investors and other stakeholders, which include topics relating to our stewardship activities and outcomes.

Record of voting activities

We provide a real-time list of voting activities via the stewardship page of our website.

We also produce a number of 'investor only' reports as well as more asset class specific communications and insights into stewardship activities via quarterly investment reports, annual investment reviews and questionnaires. Ad hoc investor updates are utilised to communicate more time sensitive news and updates.

Principle 7:

Integrating material ESG issues and climate change into investment decisions and stewardship

As a global asset manager, we play multiple roles as a steward of working people's retirement savings, as a global employer and as a corporate citizen. We see these roles as mutually reinforcing as we aim to carry them out in ways that create shared economic and social value for a broad range of stakeholders.

Our focus on maximising risk-adjusted returns over the long term for our investors is underpinned by our responsible investment approach, which embeds ESG considerations across the following three areas of activity:

- Investment due diligence
- Stewardship (active ownership)
- Advocacy and collaboration
- Reporting

We have integrated ESG considerations across these activities and practices, as described in more detail below, which supports us in identifying and managing material risks and opportunities, building value and contributing to the long-term strength and resilience of the markets in which we operate.

Issue prioritisation

IFM considers a broad range of ESG issues in our investment decision-making process, alongside a range of financial and other investment considerations, and looks to identify material ESG issues. The issues we choose to follow up and act on will differ depending on the asset, company and/or sector. For example, biodiversity is material for some investments and not others, depending on the location of sites and business activity.

However, we have three priority focus issues, that we believe are material to assess, engage and improve performance on, for all of our investments. Our focus issues are:

- Managing the long-term risks of global climate change and transitioning to a low carbon economy.
- Workplace leadership with a focus on promoting fair, safe and inclusive standards for working people.
- Championing inclusion and diversity.

Separate to our focus areas, we use several criteria to prioritise companies for our stewardship activities:

- The size of our investment or the size of the asset, portfolio company and/or property
- The materiality of ESG issues on financial and/or operational performance
- Significant issue exposures brought to light through our due diligence and monitoring process, particularly where there appears to be a lack of adequate controls.

Our approach

Stewardship

We take into account ESG considerations in our investment stewardship and asset management activities across asset classes. Where relevant, we actively use our shareholder position to positively influence corporate behaviour and drive a more strategic understanding of ESG risks and opportunities.

We work with our portfolio companies to collect data about their ESG performance and practices and to improve their reporting capabilities. This data informs our asset management approach and the creation of organisation-wide ESG strategies.

Each investment team tailors its stewardship or active management approach to match the needs of its specific strategy, the tenure of holdings and the degree of influence we have as owners.

In **Infrastructure**, our Asset Management Specialist team (AMST) develop an annual asset management and ESG plan that targets key risks and opportunity topics. This annual plan drives collaboration and improvement across the investment team and in our portfolios' assets. Examples of past and recent focal areas have included cyber security, insurance programs, workplace safety, inclusions and diversity, workplace leadership (ie. workforce relations), Scope 3 emissions measurement and clean energy procurement programs.

In **Debt Investments**, our engagement on ESG issues is typically concentrated in the due diligence phase when we have the best ability to engage with our borrower companies on relevant ESG issues. Where appropriate, we seek to influence the ESG credentials of our borrower companies' pre-investment to help better manage and/or mitigate risk over the life of the investment. We are increasingly seeing opportunity to influence the terms of the loans we negotiate so that ESG risks can be better managed and monitored over the course of the investment period (see case study on page 41). Our specialist Risk Monitoring and Valuation team assists with the on-going monitoring and engagement with portfolio assets across a range of matters, including ESG-related issues.

Our Stewardship activity in **Listed Equities** is primarily focused in Australia, due to the majority share of our equities portfolio being invested in Australian listed companies. We engage both directly and indirectly through service providers with Australian companies and actively exercise our voting rights to influence positive change. More information on our approach to voting is outlined in Principle 12.

Our **PE** portfolio is invested in Australian companies and therefore our stewardship activity is primarily focused on the Australian head office business. Our approach extends beyond risk management and during ownership, we seek to drive a range of ESG-related initiatives to support the generation of returns and build value. Key ESG focus areas include progress towards carbon neutrality, I&D, improved employee and customer engagement and best practice governance.

Roles and responsibilities

In Principle 2, we have provided details about our ESG governance structures, including our Board Responsible Investment and Sustainability Committee (BRISC), Executive management and various investment committees, that are responsible for IFM's overall approach to responsible investment and stewardship, and helping to ensure it is embedded across the business. The integration and implementation of our responsible investment and stewardship approach is done by individual investment teams who take IFM's top-down strategy and tailor it to their respective asset classes. They are supported in these efforts by our Sustainable Investment Team.

IFM's investment teams integrate ESG within their investment decision-making processes and actively engage with companies and/or partners to understand the relevance of ESG issues to any investment. The ultimate responsibility for the integration of ESG in the investment strategy rests with the head of the investment team and the underlying portfolio managers and investment analysts. The investment teams are responsible for the implementation of data collection, risk management and roll out of ESG initiatives. Each asset class team reports to the BRISC at least annually on changes to their ESG processes. Material ESG issues are considered during investment due diligence, post-acquisition asset management plans and annual asset reviews, where appropriate. More information on the approach taken by the asset management teams post-investment is provided in Principle 2.

Our Sustainable Investment team works closely with each investment team to implement IFM's ESG Policy, and to provide expert advice on ESG issues. The Sustainable Investment team is responsible for strategy development and oversight of implementation of the Responsible Investment framework and ESG Policy. Sustainable Investment team members also attend conferences, forums and signatory working group sessions and provide analysis of outcomes, trends, risks and opportunities to the different Investments teams and our Executives. This helps ensure that best practice information and industry trends are shared across the firm. Members of the Sustainable Investment and investment teams have explicit ESG goals, measures and professional development requirements built into their performance plans. More information on the Sustainable Investment team, including biographies and experience, is provided in Principle 2.

The following diagram shows the interaction between the Sustainable Investment team and Investment teams in the investment process.[4]

Sustainable Investment (SI) team involvement

Investment opportunity	Initial analysis	Detailed due diligence	Investment decision	Stewardship
To connect to global opportunities	**Identify key ESG considerations**	**Assessment of ESG risks and mitigation where possible**	**Investment decision based on investment team analyses and conclusions**	**ESG issues continuously monitored and actively managed**
We are connected to global opportunities via broad and deep relationships with global investor institutions, investment banks and advisers.	Investment teams identify key ESG considerations for all investment opportunities to inform portfolio construction. Investment decisions and portfolio positions are made in alignment with our ESG Policy.	Investment teams engage in detailed assessment of ESG issues utilising internal support from the SI team and external party analytical tools and research. As applicable, investment teams seek to identify and factor in mitigants for specific risks and define opportunities that will be managed post-acquisition.	A final ESG analysis is prepared in conjunction with the SI team and included in investment papers, as applicable.	ESG issues actively managed by investment and RI teams to protect and build value. Where IFM has shareholdings, investment teams proactively engage with management to influence better ESG outcomes.

[4] Sustainable Investment team involvement in the stages of the investment process will differ by asset class. For example, for passive equities, the team will only be involved in Stewardship.

Asset class integration examples

Debt investments

IFM adopts a formalised and structured approach to ESG analysis which is driven by identification and categorisation of sector and issuer-specific risks both in terms of climate impacts and across the full ESG risk spectrum, be it risk relevant to a broader industry segment or borrower specific factors. The assessment is designed such that different industry sectors can have comparable risk categorisation to provide greater transparency in the investment decision-making and approval process. This framework includes screening for heighted risk areas that may outright preclude investment participation as well as an assessment of how risks have the potential to impact the issuer's credit profile and investment returns, with consideration then given to any risk mitigants which may improve the risk profile over time. IFM Sustainable Investment team is also consulted as part of the screening process where heightened risk factors arise, or general guidance is required.

PE investments

The investment team assess ESG risks and opportunities in the deal screening and diligence stage, alongside our IDEA scoring system (IFM Deal Evaluation Assessment). We also meet with the target company's management team during due diligence to screen for ESG risks and opportunities and explain IFM's strategy and intentions to drive emissions reduction post-acquisition.

During ownership, portfolio companies are subscribed to Pathzero and emissions are baselined in the first year post-acquisition. In FY21 all existing portfolio companies were carbon neutral certified and continue to be so each year.

During the ownership period, we measure ESG metrics bi-annually and accountability for progress sits with the relevant Boards. The following measures are typically included in each bi-annual review:

- Carbon reduction – progress of carbon reduction initiatives

- Employee engagement - Regular six-monthly employee engagement surveys conducted to identify any areas for improvement and track impact of any employee initiatives.

- Measurement of diversity and inclusion statistics within portfolio companies and Workplace Gender Equality Agency (WGEA) compliance where applicable.

- Safety statistics measured in one portfolio company, with portfolio Management accountability.

- Governance - Implementation of best practice policies (for example code of conduct, corruption, whistle blower protections), HR and leave policies, business continuity planning and sustainability, accountability of the Board.

- External checks on disaster recovery plans and data protection practices including design and implementation of recovery simulation exercises.

Infrastructure (equity) investments

For portfolios we manage or advise, IFM seeks to acquire meaningful direct stakes in infrastructure investments (typically with board representation), that enable us to adequately manage the risks and opportunities associated with those investments.

The effectiveness of our model relies on a number of infrastructure team organisational design features:

- Board Directors – We appoint directors to investee company boards (and board committees) that are well qualified, and where possible, try to contribute positively to the diversity of the board. We regularly undertake activities aimed at improving the knowledge and awareness of our directors so they can perform more effectively in their stewardship roles. Where necessary, we will look externally to find the right nominee director. IFM has policies and procedures regarding the appointment of investee company directors that are aimed at reinforcing good governance fundamentals.

- IFM Asset Teams - Each board director appointed to an investee company is supported by a small team of investment professionals who monitor and analyse asset information and performance, often contained in board reports, and ensure that investee company directors are supported with appropriate research and insights into the investment.

- Asset Management Specialist Team (AMST) - The AMST consists of 25 investment professionals that have the job of challenging and supporting the broader investment team's asset management and governance activities as well as sometimes lending their skills to investment teams or investee companies to address a specific action. For example, this team has worked closely with some portfolio assets to undertake deep dive safety reviews where safety risks were known to be high. The AMST develops an annual asset management and ESG plan which contains portfolio-wide initiatives (eg. Portfolio cyber-security reviews) and asset specific asset management initiatives which are unique for each asset. The asset management plan is monitored for progress on a regular basis throughout the year.

Listed equities

Over 80% of IFM's listed equities portfolio is invested passively, so engagement and voting are the primary tools used to integrate ESG in the asset class. We engage with Australian companies both directly and indirectly through service providers and actively exercise our voting rights to influence positive change. Actively exercising our voting rights is critical to encouraging action on the issues we think are material to long-term investor value. We see this is a key pillar of our stewardship activities. We manage all our voting on all ASX300 companies in-house and actively consider and deliberate on all resolutions pertaining to the top 20 companies, contentious resolutions and all shareholder resolutions. Our voting decisions are informed by our engagement, internal and external research and benchmarking conducted against peers. More information on our engagement and voting approach for listed equities is outlined in Principles 9, 10, 11 and 12.

CASE STUDY

Loan agreement terms helping to improve emissions and safety disclosure

In 2022 IFM completed a deal that provided finance to a pan-Nordic public transport infrastructure operator that serves 68 strategically important routes. The company provides core connectivity services, including servicing sparsely populated areas where few alternatives exist, thereby supporting social inclusivity. The business is actively transitioning its fleet to low carbon and electric vehicles over the next two years. The financing IFM provided incorporates a sustainability linked loan (SLL) which stipulates several ESG-related KPIs, including a greenhouse gas emissions intensity reduction target and a lost time incidents frequency reduction target.

Our loan terms require the company to report and secure independent verification of its performance against these targets annually. Meeting or missing these targets will lead to a decrease or increase in the baseline margin, which aims to incentivise the borrower to meet its ESG targets.

Principle 8:
Monitoring external advisors and service providers

External advisors and consultants

IFM does not use the services of external portfolio managers – we manage all of our investment portfolios internally or provide relevant advisory services to portfolios on behalf of our institutional investor clients.

However, we have established and work with a global network of external advisor partners to supplement our internal resources. These external providers assist with general operations and the delivery of projects, as well as providing specialist expertise and support to our investment teams during various phases of the investment and transaction process.

We have a number of 'Preferred Advisors' in certain areas of expertise and we ask teams to source from this list in the first instance. These firms have demonstrated satisfactory performance in the past, and have agreed terms in advance with us, which relieves the resources and time spent reviewing and monitoring. The Preferred Advisor list is reviewed periodically by the relevant business unit.The IFM Engagement of External Advisors Policy outlines the process which must be undertaken in appointing any external advisors.

Outsourcing and supplier oversight

Our procurement team, combined with business unit subject matter experts, oversees our suppliers and the procurement of outsourced relationships. The IFM Outsourcing Policy outlines our process and assurance requirements for outsourcing arrangements. Our relationship with each service provider and the associated review and oversight processes are dependent on the degree of IFM's reliance on that provider, and the criticality of the service to IFM's ongoing operations and activities:

- Primary outsourcing relationships are where the service provided is integral to the operations of IFM or our investment portfolios

- Secondary relationships describe providers where a change in provider is likely to have minimal or no impact on the services offered by IFM. These are typically support and ad hoc consulting services.

When appointing key external providers depending on the type of relationship (as above) or nature of the contract, we typically carry out an initial assessment across a range of criteria outlined in the Outsourcing Policy, including but not limited to financial, human and technical abilities, systems and capacities, as well as ensuring our responsible investment standards and ESG Policy can be adhered to. A new Supplier Code of Conduct is also being implemented to provide further rigour around supplier appointments. These documents set out the high standards and behaviours we expect from our suppliers, relating to human rights, ethical sourcing, bribery and corruption, labour standards, inclusion and diversity, health and safety and the environment.

We recognise that we are ultimately responsible for the actions or omissions of our service providers, so we must retain sufficient capacity (skills and knowledge) to be able to supervise ongoing service delivery and performance.

Monitoring of service providers is undertaken on a regular basis depending on the relationship, to gauge whether performance and service levels are consistent with expectations. This process may involve:

- Meeting with key personnel of the service provider or agent

- Monitoring changes to key personnel of the service provider or agent

- Receiving performance reports and/or presentations from the service provider or agent, and periodic onsite and offsite reviews.

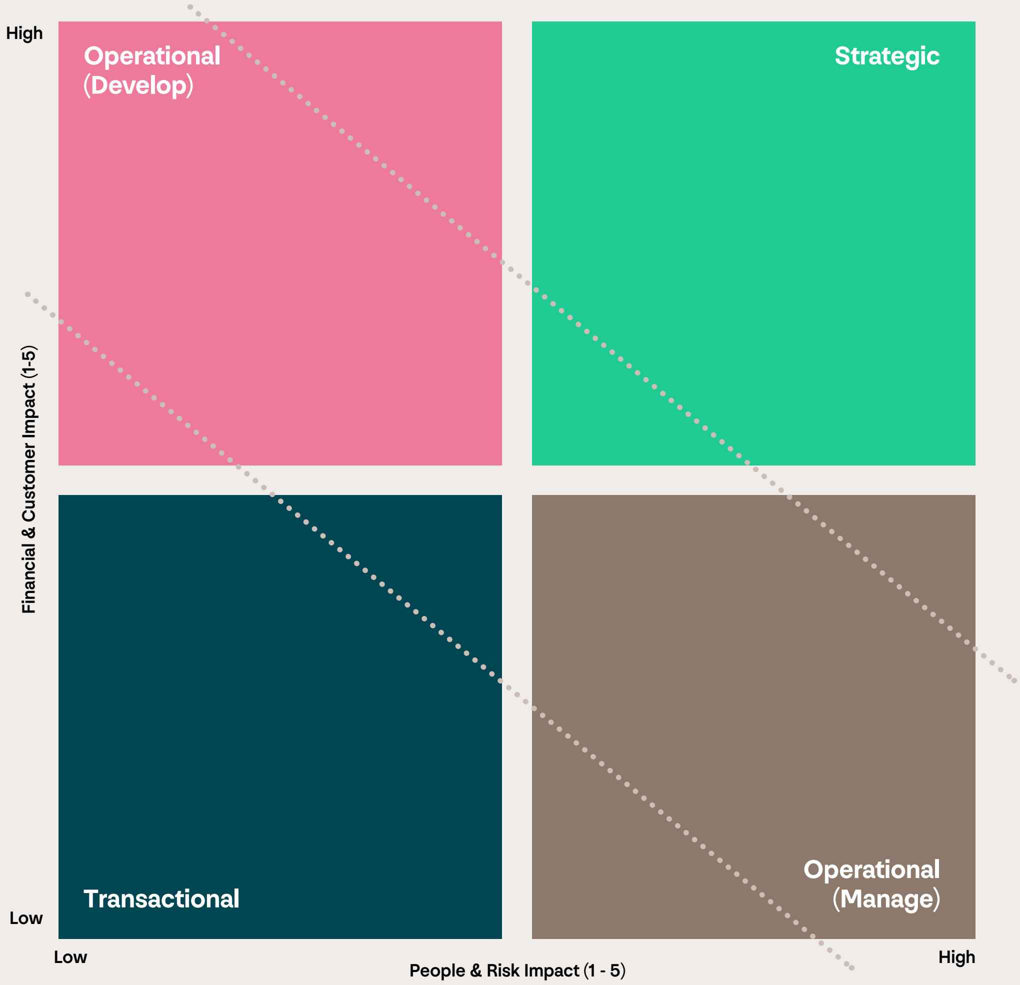
Supplier performance management framework

IFM is in the process of establishing a more robust supplier performance management framework. This is being built in response to our increasing reliance on suppliers who undertake critical operations for IFM. We are looking to segment suppliers into different categories – to help distinguish strategic (more critical) suppliers from those that are more easily substitutable. For example, corporate advisory services would be described as operational or transactional in nature, as opposed to those advisors that assist with strategy or portfolio advice. This segmentation allows us to increase our focus on the assessment and oversight of more material or strategic suppliers. These include suppliers that are involved in the provision of custodial services, valuation, fund administration, core technology services and internal audit.

We believe a more structured approach to our management of suppliers will drive improved performance, enable better risk control, create greater alignment with suppliers who are strategic and/or align with our values and principles, and help enable us to more effectively demonstrate to investors, regulators and shareholders how we are managing those key relationships.

FIGURE 10

SUPPLIER CLASSIFICATIONS



Engagement and Proxy Voting services

As discussed in Principles 5 and 12, our service provider ACSI undertakes engagement with ASX300 companies on our behalf and provides us with proxy voting research and advice. As approximately 70 per cent of our listed equities FUM is invested in Australian companies, we limit our equities engagement effort to Australia.

IFM's representation on the ACSI Board and Member Council provides a very strong level of oversight and ensures ACSI's engagement priorities maintain alignment with our own. IFM is also a member of ACSI's governance working group, established every two years, to review, update and redraft ACSI's Corporate Governance Guidelines.

We engage with ACSI on a regular basis through attendance at meetings, one-on-one engagement with their team members, by attending and presenting at ACSI-led conferences and information sessions, and careful review of their industry-based research.

We are also provided with and review six-monthly Engagement and Voting Reports which outline details of engagement and broader advocacy undertaken on our behalf.

We receive proxy voting advice from ACSI for ASX300 companies, and from CGI Glass Lewis for both Australian and international holdings. IFM's PEC is responsible for reviewing and deciding on IFM's voting position for all resolutions.

PEC determinations cover the ASX300 with a team's contribution dependent on whether they hold the stock. PEC carefully considers external advice in its proxy voting deliberations. IFM retains the right to vote against proxy recommendations where the PEC has considered any relevant issues and has a contrary view. In all instances where this occurs, rationales are documented and occurrences are reported in six monthly voting updates to investors, and also to IFM's Board Responsible Investment and Sustainability Committee (BRISC).

We subscribe to the CGI Glass Lewis voting platform (Viewpoint) to manage and track all our proxy voting activity. The Viewpoint platform manages our proxy voting workflow and teams are able to collaborate efficiently via this platform across the whole voting process. All comments and actions are time stamped, logged, displayed and able to be tracked and reported via the platform.

We provide pre-voting reports which include our voting decision and rationale to our listed equities investors and disclose our voting decisions publicly via a searchable voting database linked through our website.

We also provide updates and briefings regarding our voting activity to the BRISC at least annually, which provides for an additional sense check and level of scrutiny over decisions and processes related to voting.

The Sustainable Investment team, in collaboration with the Listed Equities team, is responsible for meeting with and monitoring our service providers to ensure their services remain fit for purpose. This happens during the ongoing course of business and more formally through the annual contract renewal process.

We also engage an external auditor, who assists with our monitoring requirements by undertaking annual reviews to ensure our proxy voting is undertaken in line with our voting policy. Our external auditor independently checks and assesses our internal controls annually to ensure shares voted are accurately lodged with the correct number of shareholdings.

ESG Data providers

We use a range ESG data inputs, analytics and research providers for our listed equities and debt portfolios including MSCI, Arabesque, S&P and Ownership Matters, as well as engagement and proxy voting advice from ACSI and Glass Lewis (as above). We also use credit ratings agencies where coverage is available.

For our infrastructure and PE portfolios it is still challenging to access an appropriate level of coverage. However, we have used external service provider, 427, to conduct a portfolio level physical risk assessment for Infrastructure Debt in the past, and we use the RepRisk database for ongoing portfolio screening of our Infrastructure portfolio assets. Generally, our direct portfolio assets independently engage their own data and service providers and provide relevant information to our portfolio managers.

We regularly monitor the quality and depth of ESG data and research provided by external providers by undertaking a comparison across different data providers, frequently reviewing new data offerings and trialing new data solutions. We also formally review service contracts annually to ensure they continue to meet our needs.

Principle 9:
How we engage

Engagement with issuers and investments in our portfolios is a core element of our stewardship activities. Where possible, we actively use our shareholder position with the aim of positively influencing corporate behaviour and driving a greater strategic understanding of ESG risks and opportunities.

We work with portfolio companies to collect data about their ESG performance and practices and to encourage continuous improvement in reporting capabilities. This data informs our asset management approach and the creation of organisation wide ESG strategies.

Principles underpinning our stewardship activities relate to a respect for the environment, working people and local communities, linked to one of our strategic pillars and reflected in our firm-wide priority focus themes of climate change, workplace leadership and inclusion and diversity, as addressed in Principle 1. These themes represent key areas of risk and value-building opportunities at the individual company and wider system levels that we believe can impact investment performance in the short, medium and long term. Engaging with and managing these themes is essential from a risk perspective and is in line with the financial interests of our investors.

As outlined in Principle 1, we aim to manage these themes in ways that create economic and social value for our investors and other key stakeholders. The way we engage with our investments as we seek to do this varies across each of our four asset classes. This helps ensure that our approach matches the needs of each specific strategy, the tenure and geography of holdings, and the degree of influence we have as shareholders or investors. These tailored asset class approaches are explained in more detail below.

Infrastructure

In the Infrastructure asset class, we engage directly with investee companies throughout the entire investment life cycle.

During due diligence for potential acquisitions, we assess ESG-related management and performance, identifying areas for improvement upon acquisition.

Once acquired, we seek board representation and appointee director membership of board sub-committees (for responsible investment matters, these may include dedicated ESG sub-committees as well as occupational health and safety (OH&S) Risk, and/or Remuneration committees, etc.) for the portfolios we manage and advise. We seek to establish governance structures with appropriate sustainable investment controls in place, which support us to maintain active engagement with portfolio companies to identify the status and progress of asset management initiatives from both financial and responsible investment perspectives. In certain circumstances, IFM investment professionals will be seconded to portfolio assets when specialist skills are required.

We aim to identify and define material ESG-related issues that inform our active asset management activities through the following processes:

- **Transition planning** –an asset specific transition plan is developed and implemented, usually focused on the first 100 days post acquisition, reviewing ESG factors as well as risk, regulatory, return and capital expenditure plans. Note this transition planning process focuses on improvement planning post acquisition across a range of activity areas – this is not related to climate change transition plans.
- **Post-acquisition asset reviews** – typically between six to 12 months after an asset is acquired, a formal report is prepared for IFM's Investment Committee and Board Investment Committee (if applicable) outlining changes and progress, and identifying new issues or changes to planned initiatives.
- **Regular valuation and reporting process** – IFM reviews each investment's performance on a quarterly basis, through its quarterly valuation and reporting processes. While not the primary objective, assessing ESG risks and opportunities an important component of this process.
- **Formal asset reviews** – Reviews are performed by IFM investment professionals on an annual basis, as part of our ongoing asset management program. The identification and analysis of key ESG factors, as well as risks and opportunities, are documented as part of this process. The asset reviews are also shared back to the IFM Investment Committee so that Committee is able to apply the learnings gained through operations to future acquisitions that they might evaluate.

Engagement relating to ESG issues is implemented through IFM's Asset Management Framework, which is focused on developing and executing tailored asset management strategies for each portfolio company. The Framework has three key objectives and principles:

- **To Protect** – manage risks and deliver expected returns by promoting minimum standards for key management practices
- **To Enhance** – seek to achieve superior returns from individual portfolio assets by challenging asset-level management teams to achieve "best-in-class" performance
- **To Exceed** – seek to deliver competitive performance from individual portfolio assets by leveraging our global strengths in synergies, scale and relationships.

CASE STUDY

Collaboration driving 400GWh renewable energy program to power critical Australian infrastructure

Enabling and supporting assets in the infrastructure portfolios we manage or advise to transition to renewable energy sources and improve energy efficiency is a strategy that IFM is implementing globally, in light of the systemic risks outlined in Principle 4. We have identified climate change as a priority issue for engagement. An example of our work in this area is the large-scale power purchase agreement (PPA) program IFM established to further support assets in the Australian Infrastructure portfolio to procure renewable energy. Our aim was to create the first multi-state, multi-asset solution, where all benefits would flow on to portfolio assets via a structure that provided:

- Access to renewable energy at commercially attractive prices;
- The ability to de-risk businesses against future electricity market volatility; and
- The opportunity to significantly reduce their greenhouse gas (GHG) emissions, supporting, and in some cases fast-tracking, assets' existing net zero commitments.

During 2021, we engaged with and brought other industry stakeholders into the project, including co-investors, large tenants of portfolio assets and other large infrastructure owners. QIC, a co-shareholder in some of the assets in the Australian Infrastructure portfolio, and Transurban were two key stakeholders with assets in the program.

Our collaborative approach elevated the project to a wider industry initiative, which helped to create scale and price benefits for all parties, while also supporting the infrastructure industry's transition to net zero.

Over three stages, the program is expected to facilitate the supply of more than 400 GWh of renewable energy per annum by 2025, saving around 250,000 tonnes of GHG emissions each year.

In early 2022, Stage 1 of the program was complete with contracts signed for the delivery of 132 GWh of renewable energy per annum for seven critical infrastructure assets across New South Wales and Victoria, including Melbourne Airport, NSW Ports, Southern Cross Station and Ausgrid, which are assets in our portfolio. Stage 2 concluded in July 2022 with the QLD based assets, with the delivery of an additional 185 GWh of renewable energy per annum. Stage 3, which includes other critical Australian assets, is expected to conclude in 2023.

Encouraging improvements to ESG disclosure is one of the core areas in which we engage and work with our portfolio assets. Significant improvements to data availability and quality will be required in order to accurately measure emissions and decarbonise assets and portfolios over time. The case studies on page 49 demonstrates some action we are taking to improve ESG data and reporting.

Debt Investments

Debt investors tend to have less scope to influence and drive impact than equity investors. As a result, the majority of our engagement effort is focused during due diligence. However, where possible we do seek to establish review rights that allow us to step in during certain circumstances to influence a more positive outcome.

With respect to the issuance of credit more broadly, we may work with syndicate participants on ESG issues and lending controls to the extent that is practical and applicable. This can include assessing ESG issues in credit research, engaging with management at the issuer to seek ESG specific information, inclusion of ESG criteria in deal documentation, and continuing to monitor progress of ESG factors post investment. In some instances, we have also raised awareness of ESG issues and considerations with both our sources of supply (banks, brokers, advisors and consultants) and the entities in which we invest.

The exchange and dissemination of effective responsible investment practices may take place within credit syndication groups as well as broader forums, such as the credit council. However, the collaborative forums focused on ESG in debt markets are still fairly nascent. IFM teams continue to engage with industry wide players, such as the ratings agencies, to progress ESG considerations in the debt asset class via participating in discussion forums and seminars.

CASE STUDY

Negotiating loan terms in infrastructure debt to include ESG KPIs

IFM was involved in senior secured financing relating to a fleet of vessels servicing oil and gas clients and expanding into the offshore wind market.

IFM were supportive of the Company's future direction of travel, divesting away from its oil and gas vessel capability and focusing on investment into vessels providing services to offshore windfarms.

This deal was structured as a sustainability linked loan with ESG-related KPIs that were tied to the spread agreed on the loan. Failure to meet the KPIs resulted in an increase in the spread on the loan and vice versa.

Three ESG-related KPIs were set and they worked by tapering the margin depending on level of progress achieved. The KPIs were growth in revenues associated with servicing offshore wind related activities, growth in the number of vessels servicing offshore wind related activities, and safety incident rate improvement and maintaining no fatalities for which the Company is at fault.

For the vessel count and revenue KPIs, IFM requested a higher hurdle on the tests used to determine if a negative ESG margin adjustment (I.e. an increased spread) would be applied., This helped ensure that the Company was working towards suitably high sustainability thresholds.

CASE STUDY

Engaging on safety with Aleatica

IFM's infrastructure portfolio company Aleatica owns a portfolio of toll road infrastructure assets in Latin America (Mexico, Peru, Colombia and Chile) and Europe. Compared to our other toll road investments like Indiana Toll Road (USA) and M6 Toll (UK) safety performance is lower than global best practice but consistent with local best practice. We respect that the local context in the different countries in which our toll roads operate may present unique challenges, but our goal is to continue striving for improvements towards global best practice. This focus on continuous improvement is evident in the Lost Time Injury Frequency Rate (LTIFR) which has reduced by 70% (80% in Mexico alone) since IFM's acquisition of Aleatica in 2018[4].

These challenges were identified at acquisition, and since acquisition the asset team has actively engaged with management to drive improvements. Immediate steps were taken during transition to begin the safety journey, including centralising safety accountability under the COO, linking executive remuneration to safety outcomes, and building out the safety function within the company. These early actions provided Aleatica with a baseline from which to seek continuous improvement and pursuit of best practice.

Through the formation of the Safety Steering Committee ("SSC"), which includes representation from IFM, Chief Operating Officers from our portfolio toll roads, and IFM's senior toll road advisor, a multi-year Safety First Plan was created which provides the foundation for our targeted safety program. The Safety First Plan aims to develop a "Safety First" culture within the company, and key programs include Near Miss Reporting, Job Hazard Assessments, Stop Card authority, contractor Mandatory Safety Requirements and site safety tours.

Beyond the footprint of its own operations, Aleatica's safety approach extends to other stakeholders. Aleatica's safety plan is guided by an Accident Reduction Program, which is a multiyear initiative to invest in road safety improvements, as well as invest in community initiatives alongside NGOs such as the Mexican Red Cross. In addition, Aleatica inaugurated the Aleatica Safety Foundation, which will seek to partner with the private sector, public sector, and NGOs with an aim to halve roadside fatalities in Mexico by 2030.

Though there is a long journey ahead, the impact of this broad safety program has the potential to be profound, improving the safety of Aleatica employees and contractors by elevating safety standards and practices, customers, and communities through investment and direct engagement, and improving the practices and aspirations of other companies operating in places like Mexico with less stringent safety requirements.[5]

[4] 2022 figures vs. 2018 acquisition
[5] Aleatica management have evidence that the enhanced safety practices implemented with contractors in Mexico have been replicated at non-Aleatica worksites.

Listed Equities

Our stewardship approach and activities across our Australian Listed Equities portfolio is aligned to the requirements of the Australian Asset Owner Stewardship Code.

Our engagement efforts are focused on Australian listed companies. This is because the majority of our listed equities funds under management are invested in Australian companies, on behalf of Australian superannuation funds investors.

Our listed equities engagements aim to reinforce our expectation for companies to strategically recognise and manage all material risks and opportunities to help protect and enhance long-term shareholder value.

Our engagement activities are fourfold:

1. Direct company engagement by our internal Active Listed Equities teams via attendance at company briefings and meetings with management. The objective of these engagements is to understand business strategy and future direction, as well as financial performance, valuations and resilience. ESG issues are not commonly addressed.

2. Direct company engagement by our Sustainable Investment team which is generally focused around IFM's priority themes or as a follow up from prior engagement asks or issues arising from the previous proxy voting season. The team aims to drive positive systemic change for both the company and wider market. Key engagement themes include:

    - Executive remuneration
    - Board composition
    - Climate change and 'Say on climate' proposals
    - Inclusion and diversity
    - Modern slavery
    - Indigenous affairs (cultural heritage)
    - Shareholder resolutions

3. Collaborative engagements are sought where we believe there is more to be gained by engaging collectively, rather than individually with a company, on an issue that a broad range of investors are concerned about. An example is IFM's participation in the Climate Action 100+ initiative. We believe this is a better way to speak to companies on an ongoing basis about their strategic recognition of, and approach to, climate change. We also draw on insights and benchmarking provided by the broader network of investors. Please refer to Principle 10 for a list of the collaborative initiatives that we are a member of or signatories to, as well as some engagement examples.

4. Service providers enable us to extend our reach across our broader index investments and engage on a range of ESG issues. Further detail is provided in the breakout box titled Service provider engagement.

Information about our stewardship activities is also publicly available on the Stewardship page of our website.

CASE STUDY

Australian Council of Superannuation Investors engages on members' behalf

IFM is a member of and engages the services of ACSI to engage on our behalf with ASX300 companies on a full range of ESG issues. ACSI also engages more broadly with government, regulators, associations and the investment community, representing its members to promote best practice ESG standards.

IFM employees often attend meetings alongside ACSI, particularly if the company is on our engagement priority list, as referenced in Principle 11. IFM's Deputy Chief Executive sits on the ACSI Board and our Director, Sustainable Investment and Stewardship represents IFM on the ACSI Member Advisory Council, which establishes its strategic direction and serves as its policy making body. This enables us to be aware of, and have significant input into, the overarching policies, priority themes and companies identified for engagement.

Engagement outcomes

The outcome of engagement in listed equities is challenging to measure due to the long-term nature of engagements. We do not necessarily think in terms of success or failure, but rather we view our engagement as a continuum of ongoing interactions with the companies we invest in to understand how they can evolve responsibly and be as successful as possible.

We recognise that positive outcomes are not necessarily due to IFM's specific efforts and, usually, are the result of a number of driving forces. However, the case studies included below aim to illustrate IFM's active involvement in direct and collaborative efforts across our asset classes and the outcomes achieved in the reporting period.

Private Equity

During ownership, we work closely via our Board director appointments and direct engagement with management teams to drive a range of ESG-related initiatives that aim to support the generation of returns and build value.

Post-acquisition, IFM tracks ESG-related risks and opportunities, including those identified pre-acquisition. In addition, responsible investment objectives are woven into the value-creation plan for individual investments. These are reviewed every six months through the portfolio review process.

During the ownership phase, the PE Team works in partnership with company boards and management teams to drive and track outcomes and value. We focus on a set of key themes, which include:

- Progress towards carbon neutrality and emissions reduction
- Enhanced inclusion and diversity, in particular female participation;
- Improved employee and customer engagement measured through net promoter scores and employee engagement surveys; and
- Best practice governance, focused on effective and transparent reporting and controls.

Through our ownership period we regularly review and refresh these responsible investment objectives. We maintain a dashboard of ESG metrics, which help to inform these objectives each year. We report on these metrics and performance against these objectives via our annual investor-only Responsible Business Report.

CASE STUDY

Carbon neutrality and 2030 interim target for our PE portfolio

All companies in our PE portfolio achieved the goal of being certified carbon neutral for their FY21 emissions through the purchase of carbon offsets. The certification by Climate Active represents the Australian Government's certification standard. The portfolio companies are currently working towards carbon neutral certification for FY22.

We are also working with portfolio companies to reduce real-world emissions. At acquisition, the PE team measures the carbon footprint of each investee company with a view to developing emissions reduction strategies. An interim portfolio emissions reduction target for 2030 covering scope 1 and scope 2 emissions has been established. To enable our portfolio companies to measure carbon emissions on a quarterly basis and track progress against their baseline, we have subscribed to the PathZero SaaS self-service tool. We are also supporting portfolio companies to measure and understand what actions they can take to reduce scope 3 emissions, for example, engaging professional services firms that are setting targets to reduce their emissions.

CASE STUDY

Shareholder engagement on AGL demerger

In 2021, AGL Energy (ASX: AGL) announced its intentions to undertake a demerger, splitting its business into Accel Energy (coal fired power generation assets) and AGL Australia (retail customer relationship and renewable energy assets). The demerger was to be subject to a shareholder vote in June 2022.

Prior to the vote, Grok Ventures, a private investment company founded by Atlassian co-founder Mike Cannon-Brookes, amassed an ~11% stake in the company, becoming its largest shareholder. Grok Ventures mounted a high-profile public campaign in opposition to the demerger.

This move by Grok divided investors and prompted widespread investor engagement with AGL and Grok. IFM engaged collaboratively through ACSI and also directly with both companies. As part of this engagement, IFM met on multiple occasions with AGL and Grok Ventures to understand their respective positions. Both Grok Ventures and AGL view the transition to net zero as crucial and regard renewables as a key pathway. However, they hold fundamentally different views about timing, the corporate structure required and the potential opportunities for shareholders in the energy transition. For IFM, the key issues were:

1. Whether the demerger was in the best interests of shareholders; and
2. Whether Grok Ventures' vision for AGL was a sufficient argument to influence our view on shareholder best interests.

The vote was ultimately withdrawn by AGL and we believe this was in large part due to the high level of investor engagement that forced AGL to re-evaluate its plans. AGL subsequently announced a strategic review alongside the departure of its Chairman and Chief Executive. We continued to engage with both AGL and with Grok Ventures representatives to understand their respective next steps. We also formally communicated to AGL our view that best practice corporate governance would see the strategic review carried out when new leadership is in place, giving them full decision-making authority over the existing assets and future operations of the company. This was motivated by our desire for AGL to avoid any possible asset level M&A activity which could have altered the emissions profile of the company. We were subsequently pleased when the company announced an acceleration of its closure plans for its large coal fired power station, bringing forward the closure date from 2045 to 2035.

CASE STUDY

Diversity makes a difference

Inclusion and diversity (I&D) is a thematic focus for IFM and our PE portfolio assets are encouraged to adopt I&D key performance indicators (KPIs), as part of the value creation plan.

Our investment in Brisbane-based software firm Genie Solutions is an example. When IFM bought Genie Solutions in 2017, we set a goal of increasing the number of software developers working for the firm from 20 to 80. To do this, we recognised the need for a new employee value proposition, which meant implementing policies and procedures that support diversity and inclusion. This included paid parental leave for all staff, regardless of gender, which was not the norm at the time. The changes increased the percentage of females working in that particular area of the business from 20 per cent to nearly 50 per cent.

The I&D strategy has resulted in several benefits, including recognition as female employer of choice and a substantial reduction in recruitment costs because the company became a sought-after place to work. Ultimately it is a key lever for delivering on strategic plans and ambitions for the company.

Principle 10: Collaborative engagement

Collaborating with like-minded stakeholders

In line with our objective to create shared economic and social value for our investors and a broad range of stakeholders, as outlined in Principle 1, we aim to be part of collective efforts to advance sustainability practice, outcomes and transparency.

We are active signatories to, or members of, a number of global organisations and initiatives promoting responsible investment and sustainability. We participate in working and consultation groups and signatory reporting. We also engage collaboratively alongside our investors and peers through initiatives focusing on a range of responsible investment themes, including climate change, gender diversity, modern slavery and ESG data and disclosure (linked with our focus areas).

Australian Council of Superannuation Investors (ACSI)	IFM is a full member of ACSI which focuses on engaging with ASX300 companies on a broad range of ESG issues and systemic financial risks. IFM sits on the ACSI Member Council, subscribes to its engagement service and receives proxy advice. We attend company engagements alongside ACSI and are a contributor to its Governance working group, which publishes ACSI's Corporate Governance Guideline. Case studies related to our engagement as part of ACSI in FY22 are provided below and more details on how we work with ACSI are contained in Principle 5 and Principle 8.
Principles of Responsible Investment (PRI)	IFM has been a signatory to the PRI since 2008 and representatives form IFM have participated in a number of collaborative engagements and Investment Practice committees over the years.
Investor Group on Climate Change (IGCC)	A collaboration of Australian and New Zealand investors focusing on the impact of climate change on the financial value of investments. The IGCC operates through several working groups which help shape its position on key issues through the collaborative effort of members. IFM is represented on the Adaptation Working Group, Disclosure Working Group and Policy Working Group.
Institutional Investor Group on Climate Change (IGCC)	We signed up to IIGCC, as sister organisation to Ceres, to strengthen our engagement presence in the EU. We are active participants in the group's Policy Working Group and the PAII Infrastructure working group outlined below.
Paris Aligned Investment Initiative (PAII) Infrastructure working group	Focused on developing a net zero alignment framework for the infrastructure sector - intended to become the sixth asset class covered by the Net Zero Investment Framework (NZIF). Our involvement in this initiative had several benefits. It allowed us to learn and leverage from our infrastructure investment peers, develop a view of market expectations for infrastructure assets with regards to setting climate change targets, apply this guidance methodology to our own portfolio and share learnings with our portfolio assets.
Climate Action 100+	IFM is a supporting investor of the Climate Action 100+ (CA 100+) initiative, the world's largest-ever investor engagement initiative on climate change. We are supporting engagement with seven out of the 14 Australian target companies, which have all set net-zero 2050 targets and adopted the TCFD recommendations for their climate related disclosures. A case study on one of our target companies, BlueScope, is outlined below.
30% Club	The 30% Club is a global campaign led by Chairs and Chief Executives taking action to increase gender diversity at board and executive committee levels. IFM is not currently active on working groups, but in previous years IFM participated in the 30% Club Investor Working Group and we are actively seeking an increase in female company board appointments.
40:40 Vision	The 40:40 Vision is an Australian investor and business led initiative working towards gender balance in executive leadership across all ASX200 companies by 2030, and our Chief Executive David Neal sits on the 40:40 Vision Steering Committee. IFM is leading the 40:40 Vision engagement with the two largest Australian supermarket retailers.
Investors Against Slavery and Trafficking Asia-Pacific (IAST APAC)	Through this initiative, we lead engagement with various large Australian grocery retailers, where we discuss how these companies are locating, fixing, and seeking to prevent human rights abuses in their supply chains as well as their own workforces. We are considering ways to expand our involvement in this initiative and other direct modern slavery focused engagements. A case study highlighting this engagement is included below.
Global Real Estate Sustainability Benchmark (GRESB)	IFM's 2022 GRESB submission for our Global Infrastructure and Australian Infrastructure portfolios marked our second consecutive year of participation in the GRESB assessment process. We are participating in GRESB to address our investors need for consolidated portfolio data, and also to engage and help ensure our portfolio assets are well prepared to deal with more formal reporting requirements that lie ahead.
CDP Climate Change	IFM is a member of CDP which runs the global environmental disclosure system. In 2022 IFM disclosed climate change data and information via the CDP portal. In past years, IFM has also participated in the CDP Non-Disclosure campaign and has written to assigned listed companies to encourage them to disclose climate data and information to the CDP database.

Industry and peer collaborations

We also participate in industry collaborations that more broadly seek to address systemic risk factors with potential to impact on the financial system – see Principle 4 for details of our participation with a number of other industry bodies.

Outcomes from our engagement with ACSI*

The following are examples of engagement outcomes IFM has contributed to as a core member of ACSI. IFM representatives contribute to and attend a significant number of the meetings with Australian company boards, alongside ACSI employees.

"Say on climate"

Over the past two years ACSI and members have been engaging with Australia's highest emitters to encourage the adoption of a 'say on climate' resolution at the AGM, which allows investors to assess and vote on the adequacy of a company's climate change strategy and transition plan. In the first half of FY22, the climate strategies of Rio Tinto, Santos and Woodside were assessed using a bespoke framework and used to help members such as IFM determine a vote decision.

The results of the 2022 'say on climate' resolutions for the three companies respectively were 15%, 35% and 49% against. The dissatisfaction expressed by global investors (including IFM) regarding the plans proposed by Santos and Woodside was significant. Post AGM, IFM have engaged with both companies directly and collaboratively with ACSI and other investors multiple times and have written to the company to outline our key concerns and expectations.

Santos and Woodside 2023 AGMs will be held in April 2023 – and we expect these meetings to be two very significant proxy votes for the year, signalling an escalation from investors if they feel the companies are not responding adequately to the climate change risk exposures they face.

Lowering carbon at ADBRI

IFM has been engaging with ADBRI as part of ACSI and through the CA100+ initiative for a number of years. In late 2021, in a positive step, ADBRI delivered on its commitment to set out a decarbonisation pathway.

ACSI members have had considerable engagement with ADBRI's renewed board, on developing interim targets for c FY30, in addition to the net zero Scope 1, 2 and 3 ambition announced late last year.

ADBRI operates in a hard to abate sector with a business that is particularly carbon intensive, due to its lime production facilities which have struggled to move away from coal.

The company now anticipates that, it will be able to stop using coal by the end of 2024 for lime production. ACSI and members like IFM, see this as a positive outcome, noting that simply stopping lime production and importing product to meet customer demands might be an easier solution, but pointless from a global real emissions context.

Board gender diversity

ACSI prioritised engagement with seven ASX zero-female board companies going into 2022. Four of those companies have since appointed women directors.

Two of the priority companies, exited the ASX300 in March 2022. Unfortunately, the quarterly index rebalances also introduced another seven zero-women board companies to the ASX300.

The year also began with 19 companies in the ASX200 having only one female director, which were also included in the priority engagement list on diversity grounds. Six of the companies have added female directors, including one which committed to appointing a female director prior to the FY21 AGM, resulting in the reversal of a negative voting recommendation against the Chair.

ACSI and members (including IFM) also work and collaborate with the 40:40 Vision initiative, which is asking ASX200 companies to commit to gender diversity targets in their senior executive ranks. This includes setting publicly announced gender balance targets and reporting on progress towards these targets in 2023 and 2027. To date, eleven companies have signed on to the initiative, and we hope to see significant gains in the coming year.

Outcomes of engagement with the highest global emitters through Climate Action 100+†

As outlined above, IFM is an active participant in the CA100+ initiative, supporting engagement with seven out of the 14 Australian target companies. The following provides two examples of demonstrating the progress that has been achieved as a result of the co-ordinated engagement efforts of Australian investors, including IFM.

* Source: Case studies have been adapted from ACSI 2022 Half year Engagement Report.
† Source: Case studies have been adapted from ACSI 2022 Half year Engagement Report.

BlueScope (Australia)
IFM as part of the CA100+ investor group, attended a number of meetings with BlueScope through 2021, including an investor roundtable, with priority engagement topics focusing on short- and medium-term targets and the longer-term decarbonisation pathway for the steel sector.

Building on existing targets and disclosure and following engagement with investors, BlueScope announced a net zero emissions by 2050 goal and an initial capital allocation of A$150m over five years to support mid- and long-term climate ambitions, while exploring renewable hydrogen and options for low-emissions steelmaking. It has also set an additional non-steelmaking target for Scope 1 and 2 emissions intensity reduction of 30% by 2030.

Over 2021 and 2022, BlueScope have also considerably improved disclosures over key engagement priorities including:

- Releasing its first Climate Action Report in September 2021
- Setting a net zero by 2050 goal
- Additional disclosure over short and medium-term targets
- A more ambitious medium-term target
- Site-level transition plans
- Incorporating climate KPIs into executive remuneration.

BlueScope also participated in the development and review of the Climate Action 100+ global sector strategy report on accelerating net zero steel, developed by the investor group.

Origin Energy (Australia)‡
Despite ongoing contention about credible decarbonisation pathways for the oil and gas sector globally, Origin Energy made progress on its climate-related commitments and disclosures in 2022 following sustained engagement from Australian CA100+ investors. Notable improvements include:

- A decision to bring forward the closure of its coal-fired power stations by 2025, seven years earlier than previously planned
- Inclusion of Scope 3 emissions in Origin Energy's long-term net zero emissions ambition, medium-term emissions intensity target and decarbonisation strategy
- Emissions reduction targets, which now includes a 40% reduction of emissions intensity across Scope 1, 2 and 3 emissions by 2040
- More comprehensive climate scenario analysis based on several IPCC and IEA 1.5-aligned scenarios which underpin Origin Energy's updated emission reduction targets

Together, these improvements led to one of the highest votes in support of an Australian 'Say on Climate' resolution in 2022 (93.5% 'for').

‡ Source: Adapted from the Climate Action 100+ Progress Update 2022

CASE STUDY

Investors Against Slavery and Tracking (IAST) APAC - Modern slavery

IFM has been a signatory to Investors Against Slavery and Tracking – Asia Pacific (IAST-APAC) since October 2020. This collaborative investor engagement group was convened to engage companies reporting under the Australian Modern Slavery Act in the APAC region. The key objective is to promote effective action to 'find, fix and prevent' modern slavery, labour exploitation and human trafficking in company supply chains.

IFM is one of three investors driving engagement with two of Australia's national fresh food supermarket retailers, Woolworths and Coles. This role builds on IFM's history of engaging with both companies, which began in late 2016. IFM initiated engagement at this time with a focus on protecting investment value and returns through a better understanding of current labour conditions and labour rights risks for agricultural workers in Victoria's fresh food supermarket supply chain, specifically calling for:

- Greater oversight and disclosure on labour rights risks in the supply chain, and
- Ongoing action to improve oversight and management of the labour force employed in supply chains, particularly controls regarding the use of third-party labour hire firms.

IFM's engagement included in-person briefings with both supermarkets, IFM's attendance at a National Union of Workers-organised forum of agricultural workers with the aim of gaining a better understanding of existing labour conditions, and follow up meetings with the company, union representatives and NGOs.

During FY22, we continued to leverage our role as a named support investor to have consultative engagements with both companies, in line with the IAST-APAC engagement plan. The engagement plan centres on objectives and strategies relating to identifying labour and human rights risks, and adopting best practice risk identification and prevention practices, including disclosure of risks in Modern Slavery Act statements. IFM's engagement also aimed to support both companies to meet their own targets (or set forward-looking targets) and objectives relating to supply chain risk management.

A follow up engagement meeting with Woolworths in May 2022 highlighted that it had identified an incident of modern slavery in its supply chain and was working through the issue. The company was reviewing the likely path forward of terminating the supplier contract and assisting affected workers. We engaged with Woolworths on the matter again in October 2022 with the aim of gaining a better understanding of the details and company's actions. We were pleased with the level of disclosure and the course of action the company took. We also deepened our knowledge of Woolworth's approach to managing modern slavery in its supply chain. Woolworths communicated how this event provided a learning experience for them and that it views the identification of issues as indicative that its audit programs are working.

Our engagement activity is helping to focus these companies' board and management teams on modern slavery risks that can impact investment value and returns via reputational damage, fines and penalties. To date, both supermarkets have acknowledged the extent of the issues and assumed greater responsibility to act. Actions taken include reviews and updates to policies and procedures, improved supply chain audit processes and mechanisms for reporting grievances, and improved processes for working with farms where labour rights breaches have occurred.

We believe risks relating to fresh food supply chains remain for workers and investors. We will continue to work via IAST-APAC to pursue conversations that help drive ongoing improvements in supply chain human rights and labour risks.

Principle 11: Engagement escalation

Through our due diligence processes, we identify material ESG issues at the individual company and/ or sector levels that we may prioritise in our stewardship activities.

This process also incorporates consideration of the company-wide engagement priority areas we have identified, which are climate change (including Just Transition); labour rights and conditions (including modern slavery); and inclusion and diversity. As outlined in Principle 1, we have identified these issues as they have the potential to impact the wider system in which we invest, as well as the potential to materially impact on the performance, reputation and longer-term value of our portfolios in all asset classes and geographies.

Our approach to prioritising ESG issues for engagement and escalation also includes consideration of the size of our holding, the degree of materiality or severity of a particular issue for the company and/or sector, and the history of our engagement and progress made to date.

Engagement escalation process

Engagement escalation reflects our different asset classes and strategies as well as the geographic locations and jurisdictions in which we invest, issue materiality, period of engagement and whether initial engagement efforts were direct, collaborative or via a service provider.

Listed equities

When we engage with companies (as outlined in Principle 9), we aim to raise and address issues through a cycle of regular meetings attended by members of our Listed Equities and Sustainable Investment teams. We do this directly, in collaboration with other investors or via our engagement service provider.

However, in instances where issues persist or we do not see enough progress, we have identified actions that aim to escalate specific areas of concern in order to affect the change we are seeking, including:

- Formal, direct correspondence with the company Chair and Chief Executive to raise and or reiterate concerns, and potentially seek additional meetings.
- Engaging collectively with other investors or NGO's to strengthen the effort and momentum behind the issue we are focused on escalating.
- Discussing and raising awareness of our concerns with other investors.
- Supporting shareholder resolutions calling for further progress.
- Voting against management on a specific resolution or the Remuneration Report
- Voting against the re-election of Director(s) if the company fails to make progress on a material, priority issue (ie. diversity or climate change).
- Advocating for more systemic change via regulators and/or industry bodies.

Following the AGM season, we may communicate the rationale for voting decisions to the company if relevant, as well as outstanding concerns and actions we would like a company to take in order to address issues we have focused on escalating. We also seek and welcome further opportunities for engagement and dialogue.

Infrastructure and PE

Engagement escalation with Infrastructure and PE portfolio assets is determined on a case-by-case basis and will generally only take place where IFM holds equity in the asset/company. Our infrastructure and PE teams engage directly with portfolio management teams and in many instances the portfolios managed or advised by IFM have IFM appointed representatives on investee company boards. This helps the team to maintain an understanding of ESG risks and mitigation programs and initiatives.

IFM prefers to support and work with the companies in our portfolio in partnership, as opposed to undertaking formal escalation, and our level of involvement will depend on the particular circumstance and issue. See the Reducing Pollution case study on page 61 for an example.

CASE STUDY

Climate Change Engagement Escalation Policy

In FY22, we developed a Listed Equities Climate Change Engagement & Escalation Policy, which aims to formalise our approach to company engagement and escalation for Australian listed equities in the context of climate change.

Within this theme, we prioritise our engagement efforts based on our aggregated portfolio's relative exposure to climate risk using weighted average carbon intensity (WACI) of scope 1 and scope 2 emissions. Initially, engagement is focused on the companies responsible for ~70% contribution to the WACI of the aggregate Australian listed equities portfolio, but we plan to expand our coverage over time. We may also prioritise companies based on the quantum of scope 3 emissions from end use of products and/or our assessment of their climate transition risk.

We assess priority company performance against the CA100+ Net Zero Company Benchmark and track the progress of each company against the Assessment Indicators. We develop an engagement and escalation plan for each priority company – and communicate our expectations, "key asks" and timeframe expectations in advance.

Where we do not see adequate progress being made against specific key asks, and subject to the approval of the PEC (IFM's Proxy and Engagement Committee), we may implement escalation as per the actions outlined above.

CASE STUDY

Woodside 'Say on Climate' vote

In early 2022, we engaged extensively with Woodside Energy, following the release of its climate report, ahead of the AGM. The company's climate strategy includes emission reduction targets of a 15% reduction in scope 1 and 2 emissions by 2025 and a 30% reduction by 2030 (on a 2020 baseline), relying heavily on purchased offsets, which in our view does not adequately address the material transition risk gas companies likely face over the coming decade.

We voted against the 'say on climate' resolution, based on view that the strategy isn't clear on how actual decarbonisation will be achieved.6

Almost 50% of global investors voted against the resolution. The extent to which the company improves on the strategy will determine what escalation may be required in 2023.

CASE STUDY

Exercising our voting rights to improve governance outcomes

In 2021 IFM supported the Remuneration Report presented at Kogan's AGM. Despite voting in support, IFM wrote to the Chair of Kogan.com Limited expressing concerns regarding the failure to present a final remuneration framework at the company AGM. We asked that the company address this issue by ensuring a remuneration framework be finalised prior to the 2022 AGM – and informed the company that we would not be able to support the Remuneration Report in 2022, if this issue wasn't addressed.

At the 2022 AGM, IFM voted against the Remuneration Report on the grounds that Kogan's remuneration structure continued to reward ad-hoc outcomes, had insufficient disclosure, and lacked alignment with shareholder experience.

CASE STUDY

Reducing pollution incidents

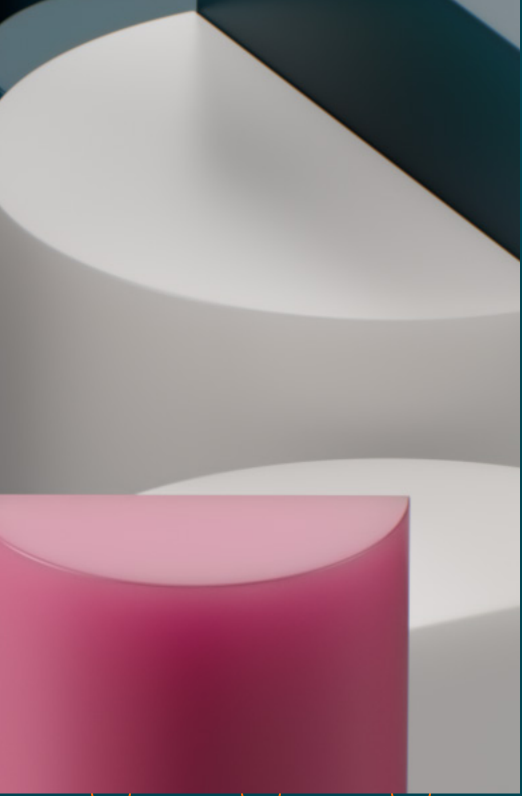
Following a pollution incident for one of our infrastructure portfolio assets, we worked with the Board to make significant upgrades to the company's Pollution Incident Reduction plan. The upgrades comprised a series of short-term, tactical measures, as well as longer term changes:

Short term changes:

- Redirected additional budget (£40m) to manage pressures
- Made personnel changes
- Improved governance by nominating a new Director with specific responsibility for the environment and quality installing to oversee water recycling

Longer term changes:

- Accelerated delivery of projects aimed at protecting the environment and improving river water quality, bringing forward £300m of investments
- Fast-tracked installation of new early warning technologies to alert to potential pollution incidents
- Working closely with Management to explore a "go further, go faster" programme



Principle 12: Exercising our ownership rights and responsibilities

Our Stewardship activities and the exercising of our rights differs across regions and asset classes. As per Principle 6 – we have Infrastructure equity and debt teams and investments across all regions, but our debt (diversified credit), listed equities and PE is managed out of Australia, with the majority of FUM invested in Australian companies.

Infrastructure and PE

For Infrastructure and PE, our ownership position provides us with opportunities to add value to these companies by actively engaging with them and supporting change initiatives. For both these asset classes we seek board representation, which provides us with a direct channel through which we exercise our ownership rights.

Our active stewardship in these asset classes has been well documented throughout this report.

Listed equities

For listed equities, our ownership rights are executed via an active proxy voting program – as described below. Our Proxy Voting Guidelines are outlined in Appendix 1 which follows this Principle.

As discussed throughout this report, actively exercising our voting rights is critical to encouraging action on the issues we think are material to long-term investor value. We see this is a key pillar of our stewardship activities. We manage all our voting on all ASX300 companies inhouse and actively consider and deliberate on all resolutions pertaining to the top 20 companies, contentious resolutions and all shareholder resolutions. Our voting decisions are informed by our engagement, internal and external research and benchmarking conducted against peers.

IFM reviews and actively votes on behalf of many of our investors for Australian listed companies. All Australian clients receive IFM advice, however they generally execute their own voting based upon their individual ESG policies and procedures. Voting relating to international listed companies for the most part, remains the responsibility of investors. For IFM's passive international equities portfolio, we use the advice from international proxy advisor CGI Glass Lewis as our default. At all times, our clients are able to advise us of their individual voting position where their portfolio is managed under an individual client mandate.

As outlined in Principle 8, IFM subscribes to voting research and guidance from both ACSI and CGI Glass Lewis.

Proxy voting and Engagement Committee (PEC)

IFM's PEC is responsible for the oversight and implementation of engagement and proxy voting and engagement activity on Australian listed securities. The role of the PEC is discussed in more detail in Principle 2.

IFM Listed Equities Voting Guidelines

IFM's voting guidelines are closely aligned to the standards outlined in the ACSI Governance Guidelines. IFM has endorsed the Guidelines and contributed to their development by participating in the *Governance Guidelines Working Group*. The Working Group reviews and updates the Guidelines every two years.

IFM's summary voting guidelines are outlined in Appendix 1.

VOTING SUMMARY STATISTICS FOR FY22

Key voting statistics for the year are shown in the info graphic below.

FY22 Australian Listed Equities engagement and voting summary

311 Company AGMs

1988 resolutions

9% of votes were against management

- With management **90.24%**
- Against management **9%**
- Abstained **0.76%**

ESG engagement themes include:

Executive remuneration	Board composition	Corporate governance
Climate Change	Inclusion and diversity	Modern slavery
Indigenous affairs (cultural heritage)	Shareholder resolutions	'Say on climate' proposals

FY22 International Listed Equities engagement and voting summary

5,456 AGMs

30,340 resolutions

11% of votes were against management

- With management **86%**
- Against management **11%**
- Abstained **3%**

Key themes for votes Against:

Director elections	Executive Remuneration	Share Issues	Auditing

LEARN MORE →

100% of eligible votes were cast in 2022 and the proportion of votes on which we Abstained is shown in the diagram above. All IFM voting decisions can be searched and view here on our website at: View and search IFM's proxy voting activity.

Voting process

The PEC executes votes in the following order of priority:

- In accordance with client directives and/or instructions.
- In accordance with the voting recommendation put forward by ACSI based on the principles outlined in ACSI's Governance Guidelines.
- Where there is no recommendation from ACSI, we will review guidance from other proxy advisors and make a final voting decision based on the principles contained within the ACSI Governance Guidelines and IFM's own Voting Guidelines (see Appendix 1).

IFM retains the right to vote against ACSI's recommendations where the PEC has considered any relevant issues and has a contrary view.

Prior to casting votes on behalf of investors, a Pre-voting report is prepared and issued to all listed equities investors and to relevant internal stakeholders. The Pre-voting report contains the vote decision and rationale for the decision. The Pre-voting report provides investors with an opportunity to review IFM decision and inform us of an alternative voting preference for an individual mandate, if they so choose. Pre-voting reports are issued only to our listed equities investors and are not publicly available because our portfolios are not public facing.

Following the issue of the Pre-voting report, proxy votes are lodged on-line via the 'Viewpoint' online platform.

The Viewpoint[7] platform provides relevant teams and users with visibility over shareholdings in individual client mandates where we have voting authority, as well as IFM portfolios, and custodians deal directly with CGI Glass Lewis to reconcile ballots and votes cast. Further assurance is conducted via our internal auditing process (conducted by external auditors), which checks and verifies authorised voting accounts are being implemented in line with their associated policies.

IFM does not undertake any stock lending directly. Some of our clients do engage in stock lending, and in this situation they instruct their custodians to run the stock lending program for them.

Voting terms

Voting terms and authorities for individual mandates are agreed with the client and outlined in the Investment Management Agreement. Clients can give IFM delegated authority to vote on their behalf via a mandated arrangement. IFM is also able to cast an individual vote for any investor who requests an alternative position to what IFM has proposed. With regards to pooled portfolios, IFM as trustee, has full power to exercise its voting rights and does so in-line with IFM's Voting Guidelines.

Voting authorities are managed within the Viewpoint platform. Only shares where IFM has been granted the right to vote on behalf of a client, will appear in the Viewpoint system.

In terms of pooled portfolios, IFM, as trustee, has full power to exercise its voting rights and does so in-line with our voting guidelines.

Debt

In private debt we have less ability to influence change with the individual companies outside due diligence. However, we see a significant opportunity to collaborate and partner with like-minded investors who are on a similar journey to our own.

We have participated in collaborative Debt work streams organised by responsible investment representative groups (ie PRI) and we also work with lender groups and syndicate participants on ESG issues and lending controls to the extent that is practical and applicable. This can include assessing ESG factors in credit research, engaging with management at the issuer to seek ESG specific information, inclusion of ESG criteria in deal documentation, and continuing to monitor progress of ESG issues post investment.

In addition, our Sustainable Investment and Debt teams have done some engagement with industry wide players such as the ratings agencies to bring some of these issues to light. This has included participation in discussion forums and seminars, as well as in our annual submission to the PRI. We are also dedicating more resources to disseminating responsible debt investment practices through published papers and discussion topics with investors.

[7] Product of CGI Glass Lewis

Risk Monitoring

The Debt Investment Team's Risk Monitoring and Valuation professionals regularly review comprehensive covenant information packs and conduct periodic site visits and borrower meetings to allow for direct Q&A. This information then forms part of an annual process by the Debt Investment Committee, in which credit ratings are reviewed and changed if necessary, considering ESG issues, macroeconomics, financial reports, newsfeeds, management reporting, and waiver and amendment requests.

We continue to engage with issuers post-investment as part of our ongoing risk monitoring of issuers. If a particular issue occurs whilst we hold the investment or if a previous issue becomes more material, our Debt Investments team would engage with the issuer to seek more information. Depending on the obligations listed within their lending agreement, the issuer may be required to report certain information to IFM on a regular basis (eg. reporting of environmental incidents or workforce safety issues and performance may be required to be reported on a regular basis). Failure to comply with these additional measures may result in the triggering of review events and, in an extreme scenario, an event of default.

CASE STUDY

Investors get a 'Say on Climate'

BHP - We believe that a 'say on climate' is an effective way for companies to gauge investor support for their climate targets and activities by providing an avenue for shareholders to communicate their views. We are in favour of this vote being offered to shareholders on an annual basis and we expect it to be an ongoing feature of AGMs in the coming years. BHP was the first Australian company to provide shareholders the opportunity to have a "say on climate", and we were pleased to see the majority of investors support this resolution (84% supported).

Woodside – Not all companies 'say on climate' resolutions won investor support in 2022 and Woodside's shareholder expressed disappointment in the company's climate report and plan, with 49% of shareholder voting against. This was one of the most resounding votes against a 'say on climate' resolution for any company globally. At the same AGM, Woodside shareholders overwhelmingly approved the company's merger with BHP Petroleum.

Following the release of its climate report and ahead of the AGM, we engaged extensively with Woodside. With an aspiration to be net zero by 2050, the company's climate strategy includes emission reduction targets of a 15% reduction in Scope 1 and 2 emissions by 2025 and a 30% reduction by 2030 (both from 2020 baselines). Over the long-term, Woodside aims to reduce its reliance on offsets and focus on the avoidance of emissions; however, in order to meet its 2025 and 2030 Scope 1 and 2 targets, the company will rely heavily on the use of offsets.

Our vote against Woodside's 'say on climate' was based on our view that its strategy did not provide enough clarity on how it is going to achieve its net zero aspiration. We look forward to further engagement with the company to advance this discussion. Our proxy advisers recommended voting against Woodside's 'say on climate' resolution, reinforcing our view that there was not sufficient information for investors to make an assessment on the company's transition plan.

CASE STUDY

Everyday Respect at Rio Tinto

During the year, Rio Tinto released the contents of its Everyday Respect report that investigated incidences of bullying, sexual harassment and racism throughout its workforce.

IFM engaged with the company on several occasions following the release of the report. We had multiple meetings with various executives and the incoming Chair. Our meetings with Rio Tinto took place over several months and were useful in helping us to understand the company's evolution in thinking. This included the shift from initial meetings where a clear plan of action couldn't be articulated, to later meetings discussing how the company plans to measure success. We were pleased to see the reduction in STI for the entire management team – an acknowledgement that the company is taking the issue seriously.

CASE STUDY

Promoting board and management gender diversity via collaborative engagement and voting

Through engagement and exercising our voting rights, we aim to encourage balanced gender representation, particularly at the board and executive team levels. We are signatories to both the 30% Club and 40:40 Vision and we also engage directly with ASX300 companies that are yet to reach the 30% female representation on boards threshold.

In May 2022, we voted against the re-appointment of a male director at ASX200 company Nickel Industries (ASX NIC). In addition to concerns about board independence, given the director is a founding director, our 'against' vote took into account that the board only had one female director and had no tangible plans in place to improve board diversity.

In November 2021, we voted against the re-election of a male director at ASX300 company De Grey Mining (ASX DEG). The DEG Board consisted of six male directors with no female representation. Approx 42% of shareholders voted against the same director who had served two years on the board.

Additionally in November 2021, we voted against the Chair's re-appointment of ASX200 company Mesoblast (ASX MSB). Given the first female director had joined in 2018, and with no intention to recruit a second female to the board, we held the male Chair accountable for poor gender diversity.

Appendix 1
IFM Voting Guidelines

The principle behind IFM Investors' voting guidelines for publicly listed Australian companies is to achieve an alignment of interest between company performance and shareholder value over the long-term.

Director Elections

In assessing candidates for election or re-election to the board of directors, and resolutions to remove directors, IFM Investors will have regard to:

- The performance of the incumbent board giving regard to financial performance, long-term shareholder value and conduct.
- The performance of the candidate at the company in question and at other companies, especially their record of creating shareholder value.
- The composition of the board and its key committees, and the capacity of the board and its key committees to oversee the company's conduct and performance on behalf of all shareholders taking into account ACSI Guidelines and having regard to the recommendations of the Financial Services Council and the ASX Corporate Governance Council.
- The capacity of the candidate, given other commitments and attendance at board and committee meetings, to adequately discharge his or her duties as a director.
- The length of the director's tenure on the company's board.
- The mix of skills, capabilities and diversity of the incumbent board.

The Corporations Act requires a board of directors to seek shareholder approval to declare there to be 'no vacancy' on the board in response to the nomination of an external candidate. IFM Investors, in accordance with ACSI Guidelines, and absent a compelling commercial reason, will oppose any such resolution seeking to declare 'no vacancy'.

Director Independence

IFM Investors believes that company boards should be comprised of a majority of independent directors, and have a chairperson who is typically independent. Boards should have both an audit and a remuneration committee. The audit committee should be chaired by an independent director and be comprised of a majority of independent directors. The remuneration committee should be chaired by an independent director and have a majority of independent directors. In classifying non-executive directors or candidates for election as independent or affiliated, IFM Investors will be guided by the whether the candidate is genuinely independent, specifically:

- Is the individual a substantial shareholder, or associated with a substantial shareholder?
- Has the individual been an executive of the company within the past three years?
- Has the individual, within the past three years, been associated with a material professional service provider to the company?
- Is the individual an employee of, or associated with, a material supplier or customer of the company?
- Does the individual, or the individual's family, have material contractual relationships with the company, or any other association with the company and its management, other than as a director?
- Has the individual served for a significant period on the board and therefore be deemed to be affiliated?

IFM Investors will generally not support the election of affiliated, non-independent directors on company boards that are not majority independent and do not generally meet ACSI guidelines unless there are compelling reasons to do so.

Remuneration Report Resolutions

IFM Investors believes that the remuneration of directors and executives should be designed so as to ensure long-term alignment with shareholder interests. Remuneration reports should facilitate understanding of a company's remuneration policies and practices. Boards should ensure there is full disclosure of total remuneration packages, including all components and any termination provisions. In deciding how to vote on remuneration reports, IFM Investors will take into account issues including but not limited to:

- The extent to which remuneration structure, policies and procedures are disclosed in a clear and meaningful way;
- The quantum of director and executive pay and whether it is aligned with performance and shareholders;
- Whether fixed remuneration is at a level that is reasonable with regard to a company's sector, peer group and industrial obligations;

- The structure of incentives, whether delivered in cash or equity;
- Variable remuneration underpinned by demanding and relevant performance hurdles, that are genuinely 'at risk' aligned with investor interests/the company's strategic needs, and capable of being a true incentive for performance above the executive's core duties;
- The structure of non-executive director pay, ensuring it maintains and promotes non-executive director independence. Non-executive directors should generally be remunerated by way of reasonable fixed pay only.

Equity Grants & Plans

In deciding how to vote on resolutions seeking approval for specific grants of equity to executives, IFM Investors will consider:

- The performance criteria which must be satisfied in order for equity to vest and the extent to which these criteria are aligned with shareholder interests;
- The period over which the equity will vest;
- Whether the grant represents a deferred component of pay already accrued;
- The dilutive impact of plans on existing shareholders;

IFM Investors will generally not support equity grants to non-executive directors that incorporate formal or informal performance hurdles on the grounds that such arrangements may impair non-executive director independence.

Termination Payments and Change of Corporate Control

IFM Investors will generally not support equity grants and plans for senior executives that vest on the basis of continuity of employment, however, IFM Investors will be less concerned with retention payments intended for non-executive employees.

IFM Investors will generally not support guaranteed termination payments that exceed 12 months' fixed pay. Termination payments should not be paid where an executive retires from office, has resigned, or has been terminated for poor performance.

IFM Investors will generally not support the automatic vesting of options and performance rights in the event of a takeover or change of control of the company. Nor will IFM Investors support the automatic vesting of equity awards in the event of termination of employment.

Auditor Resolutions

The board must appoint an independent auditor. In considering resolutions relating to auditors, IFM Investors will consider the history of the audit firm and any relationships outside of the audit relationship between the company and the audit firm.

Shareholder Resolutions

IFM Investors assesses shareholder resolutions on a case-by-case basis, in the context of how they support or maintain value creation over the long term. Our decisions are informed by assessing company performance against established criteria.

We look for resolutions to deliver improved governance or transparency within the company. We will judge each resolution based on what is in the best interests of shareholders, as well as a thorough assessment of any potential impacts on the company.

'Say on climate' resolutions

A 'say on climate' resolution is typically a non-binding advisory resolution for shareholders to vote on the climate policy of a company.

According to ACSI, a non-binding 'say on climate' vote for investors is becoming the benchmark method for those companies most exposed to the transition to a low-carbon world to understand the level of investor support for its strategies, and IFM supports companies offering these votes to shareholders.

IFM will advocate for an annual vote given the rapidly evolving nature of industries most exposed, and we believe that a three-year cycle can create risk that action plans become out of date or the company becomes less responsive to investor demands. We do not expect that companies update their climate strategy on an annual basis. We do believe that votes in intervening years can focus on disclosure and progress, as opposed to strategy.

In this initial round of 'say on climate' votes, IFM's position on these resolutions is that we will generally support such a resolution where there is a clear plan on the decarbonisation strategy of the company, combined with a clear explanation of the strategy. We will make an assessment on whether there is sufficient detail to form a view on the strategy, whether it is Paris aligned, and whether there is sufficient clarity on how this would be achieved.

In the future we will assess this resolution in relation to the execution of the strategy.

Virtual only AGM's/Constitutional changes

IFM Investors does not support amendments to company constitutions which permit 'virtual only' general meetings. Shareholders should have the right to physically attend meetings as this promotes transparency and strengthens engagement between companies and their respective shareholders. We believe hybrid meetings are a better alternative as it allows shareholders the ability to participate in person or by virtual means.

Small and Micro caps

IFM Investors recognises that companies sitting outside the ASX200 and/or more recently listed may not be meeting all of our corporate governance expectations. IFM Investors continuously engages with these companies to encourage continuous improvement but depending on the circumstances we will take into consideration the maturity of the company and its willingness to improve, in our final voting decision.

IFM Investors will take into account issues including but not limited to:

- The size, market capitalisation and rate of growth of the company;
- The company's willingness to engage with shareholders and undertake commitments for improvement;
- A demonstrated capacity for change and evidence of improvement.

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The following disclosure applies to this material and any information provided regarding the information contained in this material. By this material, you agree to be bound by the following terms and conditions. The material does not constitute an offer, invitation, solicitation, or recommendation in relation to the subscription, purchase, or sale of securities in any jurisdiction and neither this material nor anything in it will form the basis of any contract or commitment. IFM Investors (defined as IFM Investors Pty Ltd and its affiliates) will have no liability, contingent or otherwise, to any user of this material or to third-parties, or any responsibility whatsoever, for the correctness, quality, accuracy, timeliness, pricing, reliability, performance, or completeness of the information in this material. In no event will IFM Investors be liable for any special, indirect, incidental, or consequential damages which may be incurred or experienced on account of a reader using or relying on the information in this material even if it has been advised of the possibility of such damages.

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Past performance does not guarantee future results. The value of investments and the income derived from investments will fluctuate and can go down as well as up. A loss of principal may occur.

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Investments in infrastructure are subject to various risks including regulatory risk and market risk, which are outlined in further detail on the "Important Disclosures" page. Prior to making an investment in any infrastructure strategy, investors should refer to the offering documents for a complete discussion of risks.

Investments in fixed income securities are subject to the risks associated with debt securities generally, including credit, interest rate, call and extension risk.

Private equity investments are speculative, highly illiquid, involve a high degree of risk and have high fees and expenses that could reduce returns; they are, therefore, intended for experienced and sophisticated long-term investors who can accept such risks. Furthermore, restrictions on transferring interests in private equity funds may exist so prospective investors should be prepared to retain their investments in the fund until the fund liquidates. Private equity funds may borrow money or use leverage for a variety of purposes, which involves a high degree of risk including the risk that losses may be substantial. Lastly, the possibility of partial or total loss of a private equity fund's capital exists, and prospective investors should not subscribe unless they can readily bear the consequences of such loss. There can be no assurance that the private equity fund sponsor's or the fund's investment objectives will be achieved or that investors will receive a return of their capital.

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