

Responsible Investment at MFG Asset Management

Stewardship 2023

Proxy and Engagement Review

SELECT INFRASTRUCTURE



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EXECUTIVE SUMMARY

Dear Valued Client,

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

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

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

FY23 Select Infrastructure Strategy: Engagement and voting statistics

PROXY VOTING SUMMARY	2023	2022	ENGAGEMENT SUMMARY	2023	2022
Meetings voted	33	34	Total engagements	>170	>200
Proposals	457	414	Engagements with Board	11	14
Proposals voted against company recommendation	1%	2%	Engagements with C-Suite	43	61
Proposal Meetings with a vote against company recommendation	6%	21%	Engagements with other executives	100	131
Shareholder proposal	9	8	ESG topics discussed	502	401
Votes with shareholder proposal	22%	38%			

Last year MFG Asset Management committed to the Net Zero Asset Manager initiative (NZAMi) and became a member of the Investor Group on Climate Change (IGCC). Following this, a significant focus for the year has been meeting the commitments of the NZAMi. In the last 12 months, we have enhanced the assessment of the alignment of our portfolio companies to net zero emissions using the Net Zero Investment Framework (NZIF). An assessment of alignment to net zero using NZIF will add to the current infrastructure proprietary SAFE framework and enhance the stewardship process through the voting approach described in our climate-specific stewardship strategy, with a clear engagement, escalation and voting approach. We are pleased to share this with clients on our [website](#).

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



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

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

Kind regards,

The MFG Asset Management team

GERALD STACK

HEAD OF INVESTMENTS,
HEAD OF INFRASTRUCTURE &
PORTFOLIO MANAGER



BEN MCVICAR, CFA

PORTFOLIO MANAGER &
SECTOR HEAD OF INFRASTRUCTURE
& INDUSTRIALS



OFER KARLINER, CFA

PORTFOLIO MANAGER



ELISA DI MARCO

PORTFOLIO MANAGER,
ESG TEAM



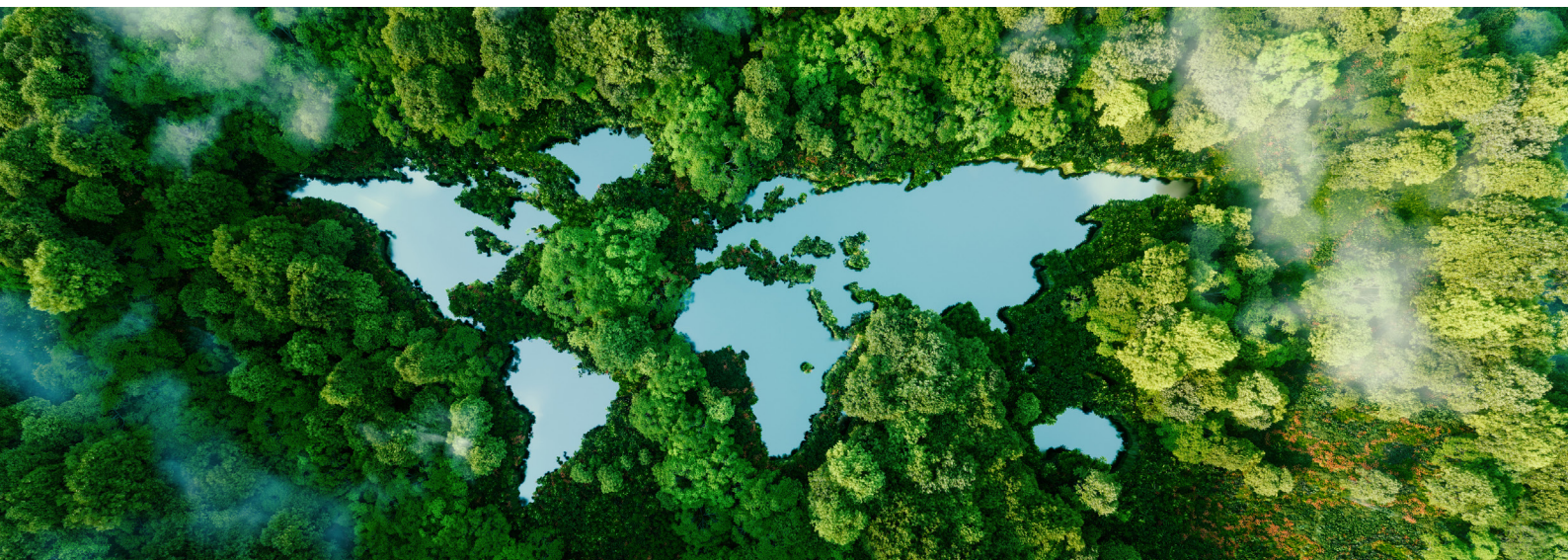
AMY KRIZANOVIC

HEAD OF ESG



JACQUELINE STOKES

ESG ANALYST



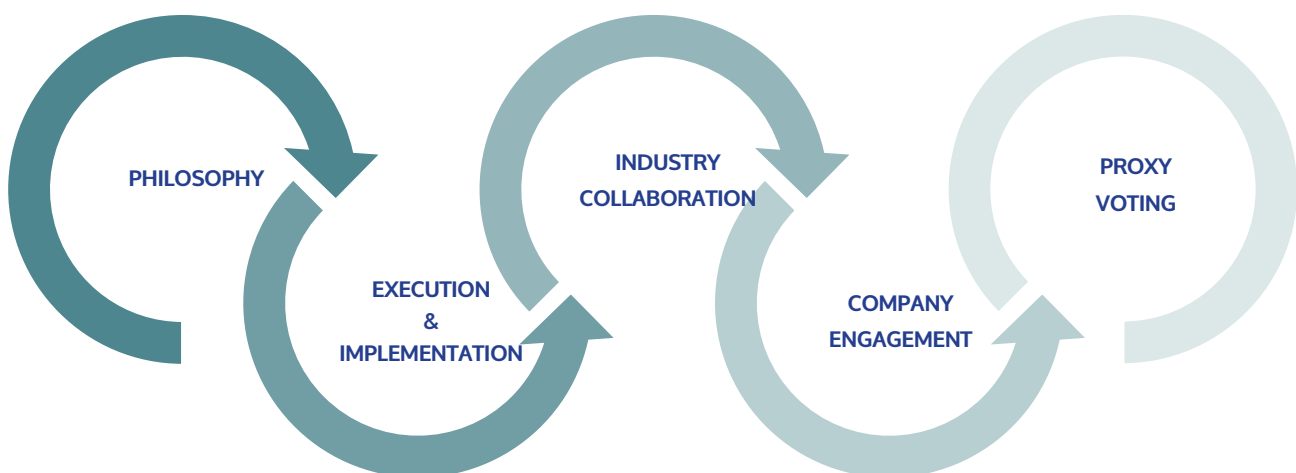
STEWARDSHIP IS INTEGRAL TO OUR INVESTMENT PROCESS

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

“ Stewardship is the responsible allocation, management and oversight of capital to create long-term value for clients and beneficiaries leading to sustainable benefits for the economy, the environment and society ¹. ”

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

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



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

Andrew Formica, Executive Chair

¹ The UK Stewardship Code – The Financial Reporting Council Limited



A. PHILOSOPHY

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

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

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

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

B. EXECUTION AND IMPLEMENTATION

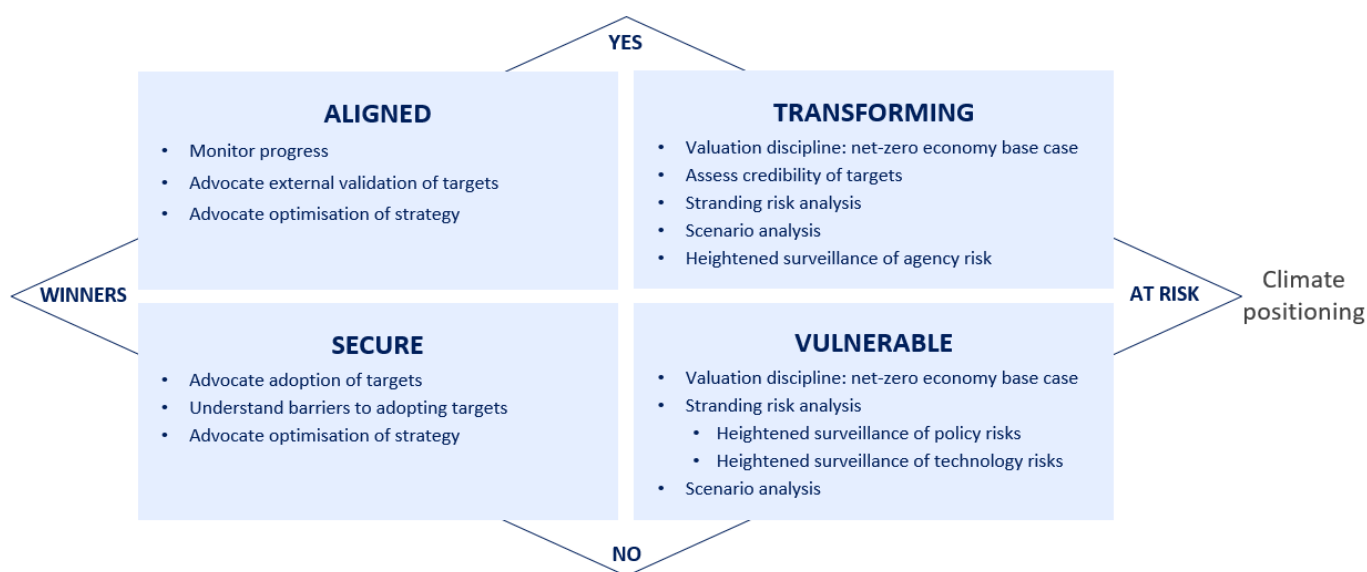
At MFG Asset Management, we execute our stewardship philosophy throughout our investment process. Implementation can be summarised into a five-step cycle:

- 1. Fit for investment universe:** We review candidate stocks for the strategy's Approved list for material factors. If the factors present excessive risks, then stocks will not progress to approval. Factors reviewed for materiality include ESG factors outlined in our [policy](#) (for example, climate risk and opportunities, labour management, safety, waste management and board composition). The coverage analyst is responsible for the investigative work, which is then tested by colleagues and subject to review by the MFG Asset Management IC.
- 2. Risk and opportunities assessment:** Stocks on the Approved list are regularly assessed and monitored by the coverage analyst across material ESG risks and opportunities. Analysts use MFG Asset Management's proprietary ESG risk assessment framework to assess and score those risks and opportunities. We believe our analyst's knowledge of companies and industries provides a deeper level of analysis with regards to materiality of the risk and the impact to cash flows. The framework considers companies' exposures to risks and opportunities and how companies are managing those exposures. The assessments and scores are reviewed by the MFG Asset Management IC with a member of the ESG team always an active participant at the IC meetings. The ESG team undertake to provide internal and external training on relevant topics to continue to enhance this assessment.
- 3. Portfolio construction:** Our portfolio managers consider ESG scores and qualitative assessments of ESG risks and opportunities when considering the purchase, sale, and sizing of stock positions within the portfolio.
- 4. Active stewardship:** We generally engage with companies prior to the purchase decision to discuss our assessment of material risks and opportunities. Once we invest in a company, we increase our engagement and ensure management's understanding of our stewardship policies. The main purposes of these engagements are to deepen knowledge of the company's approach, provide our perspectives, and seek to positively influence the management of risks and opportunities, as appropriate. We also review all proxy voting items at General Meetings.
- 5. SAFE transition framework:** All companies in the Select Infrastructure strategy are assessed under the proprietary MFG Asset Management SAFE Transition framework (Situational Analysis, Forecasting, and Engagement). Under the SAFE framework MFG Asset Management assesses whether the company is a beneficiary from the transition to a net zero emission economy or whether it faces additional risks, and whether the company's climate transition plan is credible. For those companies assessed as disadvantaged by the transition to net zero MFG Asset Management embarks upon a staged engagement program with the invested companies. The SAFE framework has been in use since early 2022 and has led to increased engagement with invested companies focused on the risks associated with the transition to net zero.



Best Practice: MFG Asset Management's SAFE Transition Methodology

A complex transition calls for Situational Analysis, Forecasting and Engagement



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

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

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

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

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

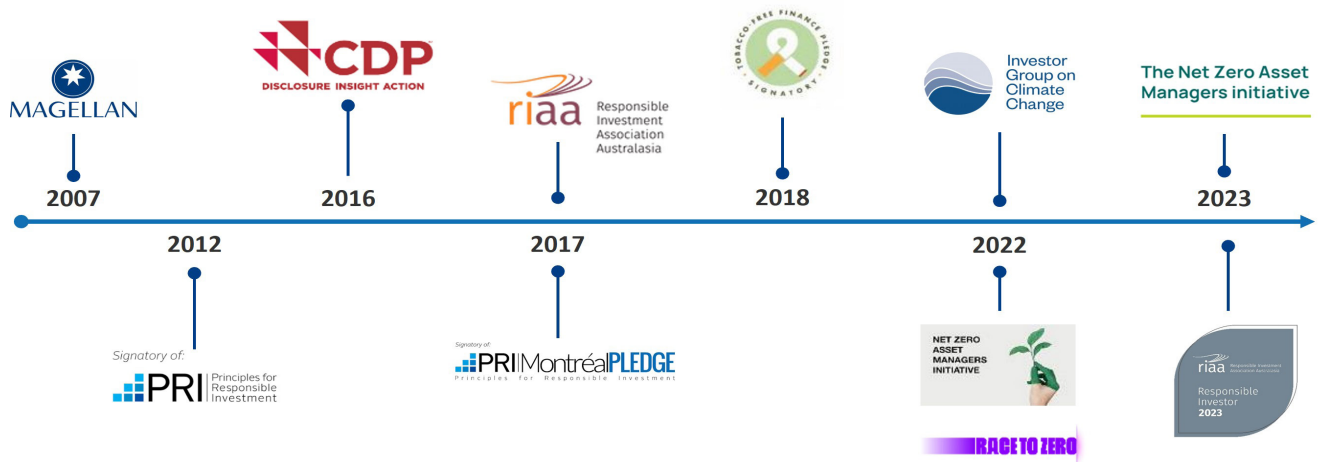


C. COLLABORATING FOR INVESTMENT OUTCOMES

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

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

Best Practice Leadership and Collaboration



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

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

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

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



D. ENGAGEMENT WITH COMPANIES

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

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

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

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

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

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



E. PROXY VOTING AT MFG Asset Management

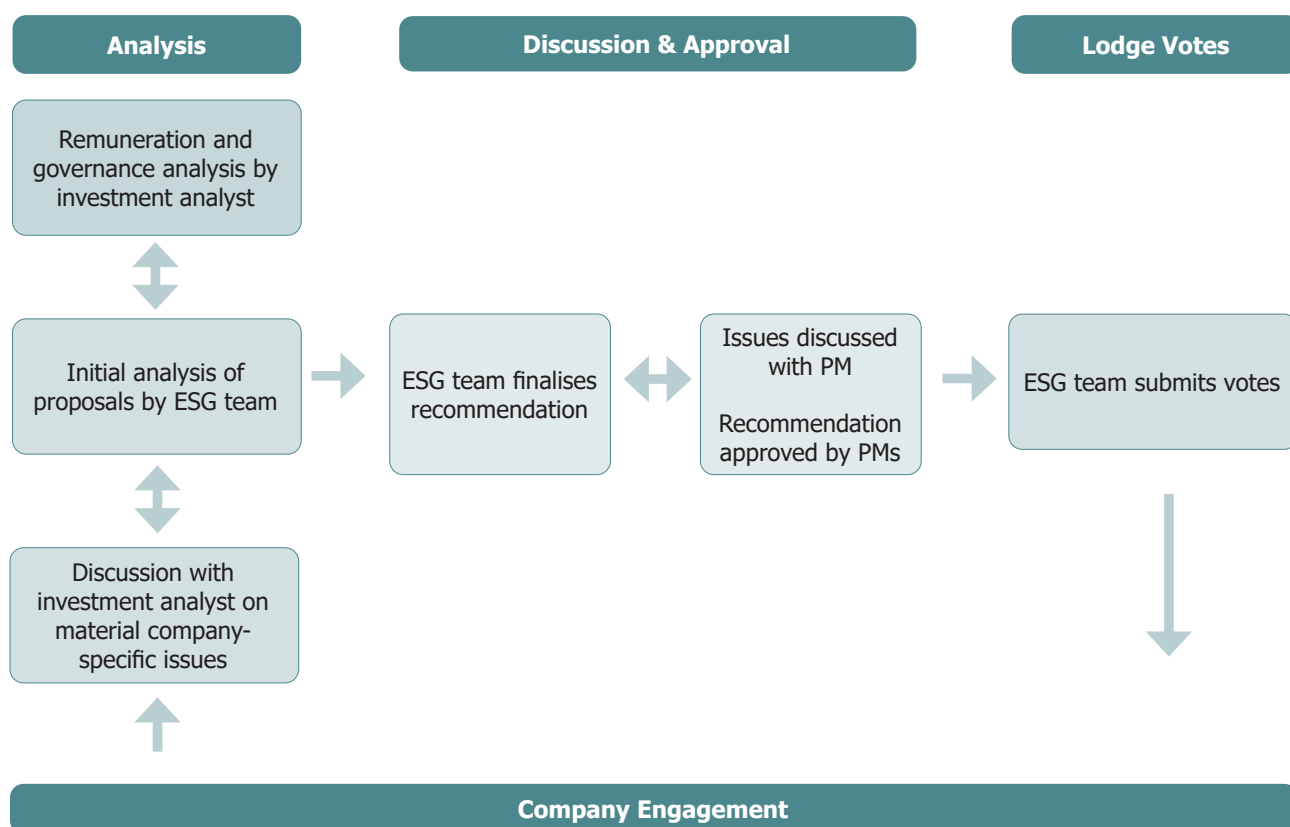
At Annual and Extraordinary General Meetings, MFG Asset Management is typically tasked by its strategies' clients to vote on meeting agenda items on their behalf. These proxy votes, on behalf of our investors, are incredibly important and underpin the strongest of our stewardship powers – the power to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

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

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

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

MFG Asset Management Proxy Voting process



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



KEY ENGAGEMENT AND VOTING THEMES

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

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

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

SPOTLIGHT ON CLIMATE

The Net Zero Asset Managers initiative

In 2022

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

In 2023

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

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



Net Zero Asset Manager Initiative (NZAMi)

Measuring alignment using NZIF

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

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

The Net Zero Investment Framework assesses companies across:

Ambition: A commitment to net zero emissions by 2050

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

Emissions Performance: Performance relative to targets

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

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

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

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

Stewardship Strategy – Climate ⁴



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

³ See MFG Asset Management Climate Stewardship strategy for more detail on ‘High impact’ material sectors. <https://bit.ly/MagellanClimate>

⁴ <https://bit.ly/MagellanClimate>

ENGAGEMENT OUTCOMES IN FY23

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

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

Across the entirety of our engagements, over 175 were specifically on ESG.

Across our investable universe				
>210	12	53	123	599
Engagements	with the Board	with C-Suite	with senior management	ESG discussions

While the investment team do engage with the broader investable universe, the key focus is on companies that are held in the MFG Asset Management Select Infrastructure strategy with most companies in the portfolio across more than 170 meetings in FY23. Most interactions were mainly with the senior leadership team, including the CEO, CFO, other executives, corporate responsibility officers and other relevant senior team members. However, where companies had not made progress on a particular ESG topic, we escalated the issue to the Board of Directors.

2023 Engagement by Theme and Focus Areas:

Select Infrastructure Strategy Companies held in the portfolio in FY23				
>170	11	43	100	502
Engagements	with the Board	with C-Suite	with senior management	ESG discussions



Environment

Climate



Objective: Set externally verified emission reduction targets.

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

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

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

Climate



Objectives: Ensure a just transition is part of the climate transition strategy

- The infrastructure and ESG teams met with Xcel energy to discuss their approach to ensuring a just transition for workers and employees impacted by the planned closure of their coal fired power plants. This engagement followed the recent announcement by Xcel to close Tolk station 4 years earlier than planned.
- Xcel have a clear position statement - [Transitioning Out of Coal Responsibly](#).
- Employees: Xcel management highlighted a strong track record of managing 7 coal plant closures to date with no layoffs. There were some agreed retirements while other employees were supported with retraining and relocation.
- Community: Xcel engage and collaborate with multiple stakeholders providing as much notice as possible within regulatory constraints. This is outlined in their position statement under 'Sustain and empower our communities' and supported by examples.
- Regulatory support: Local support from regulators for the industry to manage the cost base while supporting new skills, natural attrition with minimal layoffs. At the Federal level, the infrastructure Investment and Jobs Act is also supportive and has included input from union/organised labor groups.

Outcome: Xcel energy have transparent principles to guide their transition out of coal and meet their public target to exit coal by 2030. The track record of 7 coal plant closures to date with no layoffs, constructive engagement with the community and current regulatory policies supports our view that Xcel are managing a just transition for workers and community within expectations.



Objective: Enhance oversight and mitigation of safety incidents following derailment.

Effectively managing and monitoring safety is a key focus for companies in the transportation sector. MFG Asset Management monitors company and industry level safety data. Improvements in preventative initiatives and monitoring of causes of safety-incidents have reduced overall incidents across the industry over the last decade. When incidents occur, the response of the company is important to reduce the risk of future accidents and manage the company's social licence to operate.

MFG Asset Management has engaged multiple times with Norfolk Southern in 2023 following the Ohio derailment that occurred in February 2023. The management team and the company more broadly have lifted their community engagement efforts following this incident, which we view positively. This has involved many employees across the organisation allocating time to the remediation and an increased focus from the CEO and board. The company outlined investment in safety infrastructure and the implementation of the 6-point plan.

Outcome: Positively there has been an elevated focus at the executive team with the recently appointed VP of safety increasing the communication with the board and implementing new initiatives.

The Board subcommittee of safety has been refreshed with a new Chair and new director added to the board with strong safety experience. Advice from external consultants is also being undertaken to review safety processes and policies.

We welcome the additional investment in safety monitoring and infrastructure by Norfolk Southern to reduce the risks in the future and will continue to review their safety performance.



Governance

Executive Remuneration



Objective: Evolve climate and sustainability metrics to be more output focused.

MFG Asset Management have been engaging with Severn Trent regarding their climate and sustainability metrics in executive remuneration.

We see Severn Trent as one of the leaders in the sector in terms of their commitment to climate and the environment. Currently 20% of Executive Director LTIP determined by environmental factors:

- 10% attributable to direct contributors to carbon reduction
- Fleet: delivering 66% of the total car fleet and 18% of the total light commercial fleet as electric vehicles by 31 March 2025.
- Self-generation: Enabling a minimum total renewable generation of 561 GWh by 31 March 2025
- 10% attributable to innovation for carbon reduction
- Innovation trials: the delivery of innovation trials where opportunity is greater than 12.5 ktCO₂e carbon, with a signed-off plan for delivery
- Process emissions: to have established effective monitoring on operational waste treatment sites responsible for 40% of total N₂O and CH₄ gas emissions.

Outcome: We viewed our engagement in the most recent year as positive given the acknowledgement from the Board of the benefits of output driven metrics. The engagement was constructive as we discussed the challenges with selecting and measuring metrics, as well as ensuring outcomes aligned with performance.

We will continue our engagement on this topic and monitor the progress towards their leading environmental targets.

EXAMPLES | Further work required and ongoing engagement

Environment

Climate

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

Social

Diversity, Equity and Inclusion

- Encouraging companies to improve disclosure report on initiatives and where appropriate link targets to remuneration. The benefit of transparently disclosing the diversity data is to look into the reason for the gap and ultimately incentivise companies to promote, train and recruit diverse candidates into more technical or managerial roles.

Governance

Board structure

- Continuing to engage with companies to improve Board structure encouraging improved independence overall, an independent Chair or a lead independent director at a minimum. We supported shareholder proposals to encourage the separation of Chair and CEO. For example, Dominion Energy and Sempra Energy.

Executive remuneration

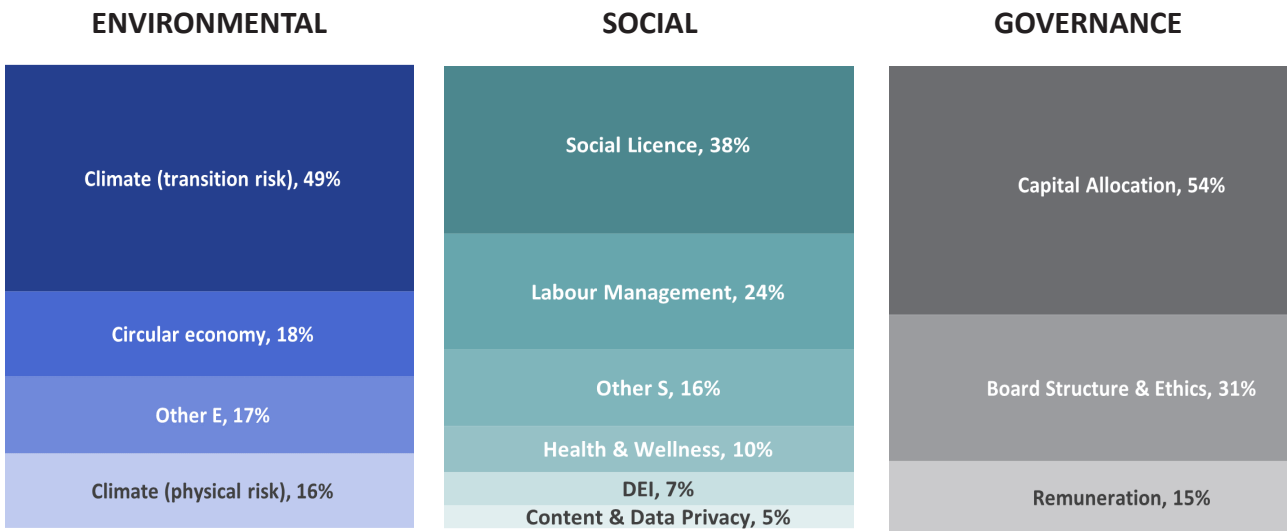
Continuing to engage regarding:

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



Select Infrastructure – ESG Focus Areas

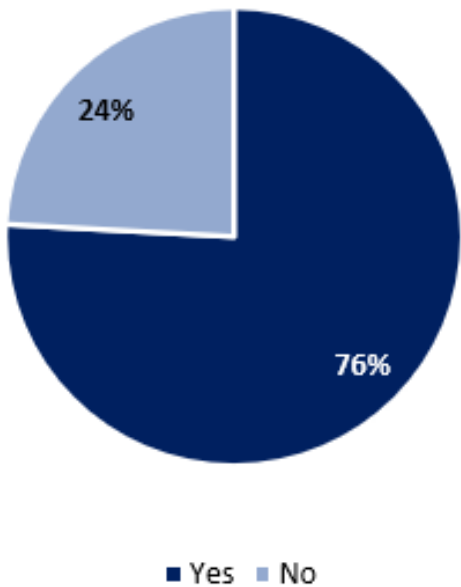
Throughout the FY23 engagements, 37% focused on environmental issues, 28% on social issues and 34% on governance issues.



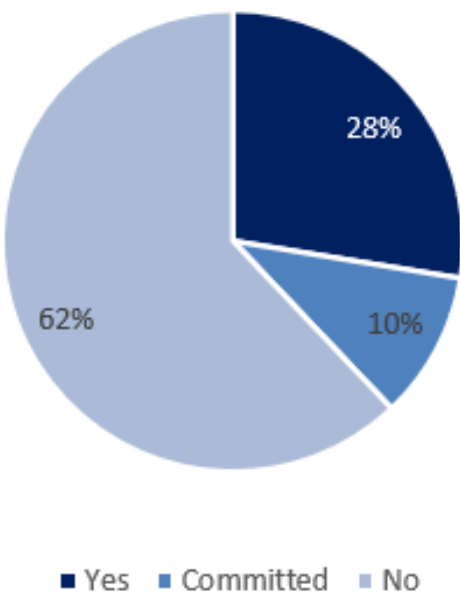
Environment

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

Select Infrastructure:
% companies with net zero target



Select Infrastructure:
externally verified target*

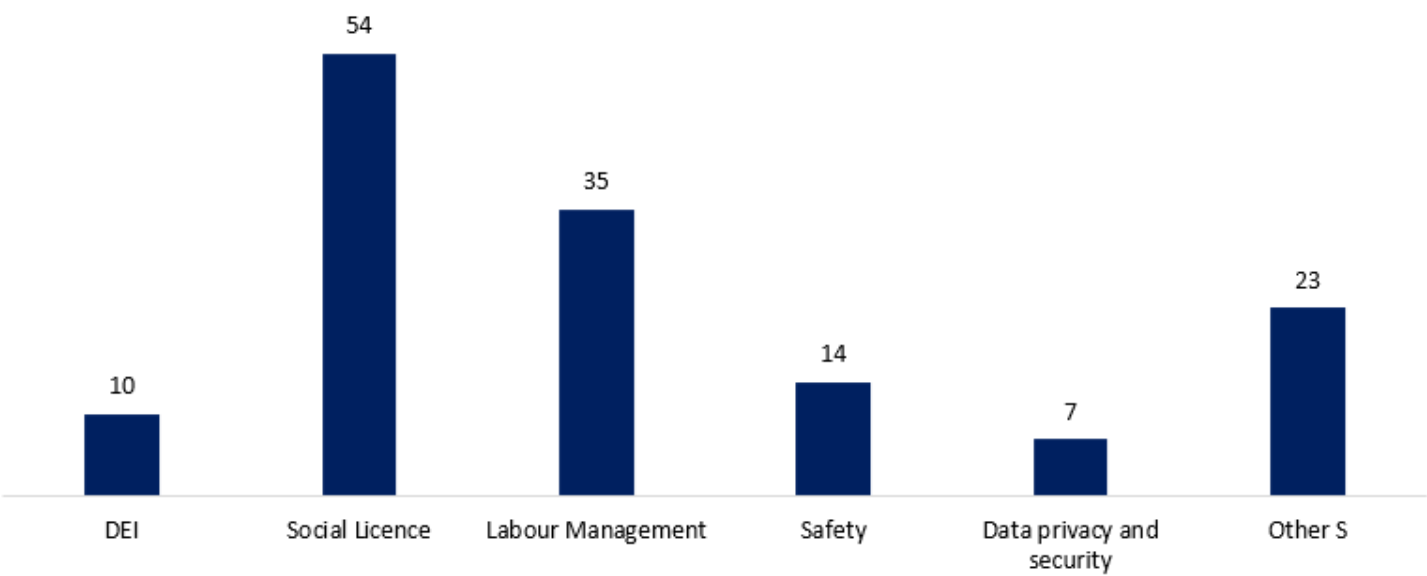


* Science-based targets <https://sciencebasedtargets.org/companies-taking-action>

Social

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

- For the Integrated Power and Utilities sector, the social licence to operate, including just transition and communication with the community and regulators.
- For the rail sector, a material focus area is on safety, particularly the community engagement, investment and oversight in response to an issue and to mitigate risk of future incidents such as derailments.



Governance

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

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



PROXY VOTING OUTCOMES – FY23

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

Shareholder meetings (33)	
Proposals (457)	
Company Proposals (448) Votes against company (0% of ballots)	Shareholder Proposals (9) Votes against company (22% of ballots)
Voted against company (1% of ballots; 6% of meetings)	

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

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

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

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

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



Proxy Voting Statistics In Detail – FY23

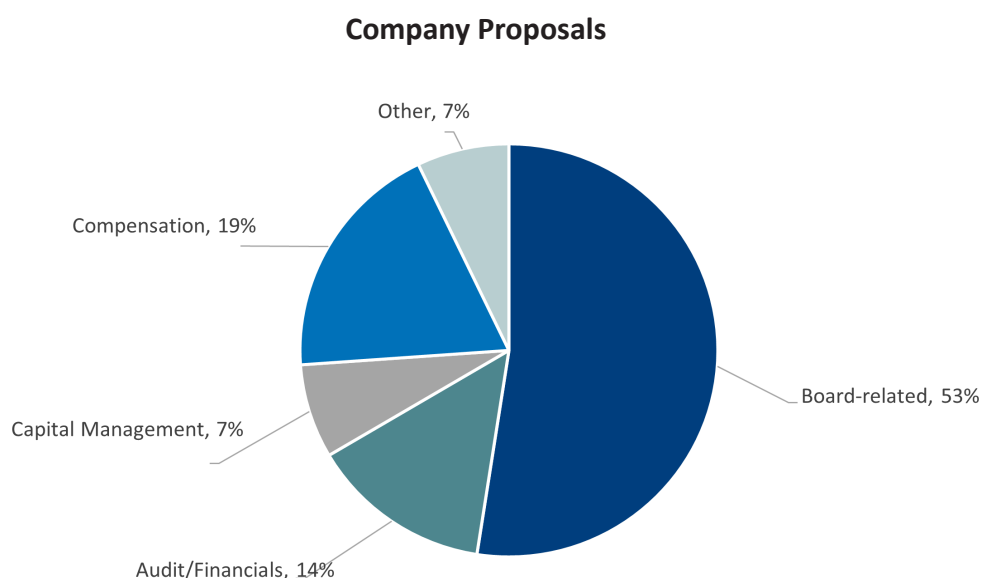
The Select Infrastructure strategy voted on 457 proposals. MFG Asset Management voted against the company's recommendations on ~1% of all proposals and cast a vote against the company's recommendations on at least one proposal item at ~6% of shareholder meetings. Over the year, some of the reasons we voted against company recommendations included to improve transparency, to improve Board structure, to better align remuneration with shareholder interests and to improve risk management on material ESG topics.

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

CATEGORY	NUMBER OF PROPOSALS	WITH THE COMPANY	AGAINST THE COMPANY
Company Proposals	448	100%	0%
• Board Related	235	100%	0%
• Compensation	85	100%	0%
• Capital Management	33	97%	3%
• Audit/Financials	63	100%	0%
• Other	32	100%	0%
Shareholder Proposals	9	78%	22%
• Environmental	2	100%	0%
• Social	2	100%	0%
• Governance	5	60%	40%
Total Proposals	457	99%	1%

Votes on company proposals

When voting on company proposals, we consider MFG Asset Management's Corporate Governance Principles with regards to Board director elections and compensation structures. In 2023, we included additional focus on shareholder rights and Board skills particularly on subcommittees, when considering independence and the re-election of the auditor.



Objective: We encouraged the company to improve disclosure of performance targets and metrics in their management incentives. We highlighted the importance of disclosing this additional information for investors to determine if the remuneration is truly at risk and aligned with the strategy.

Outcome: : In assessing the executive remuneration at the 2023 AGM this quarter, we were pleased to see the progress from Vopak in this annual report where they have “now committed to the ex-post disclosure of the targets and performance intervals for all KPIs in both the Executive Board short-term and long-term incentive programs, starting with this Annual Report. In addition, actual realisations against target are explained in more detail” (p. 157, 2022 Annual Report).” This improvement in transparency is a positive outcome and we will continue to encourage the company to enhance disclosure by providing these hurdles prior to granting the incentives.

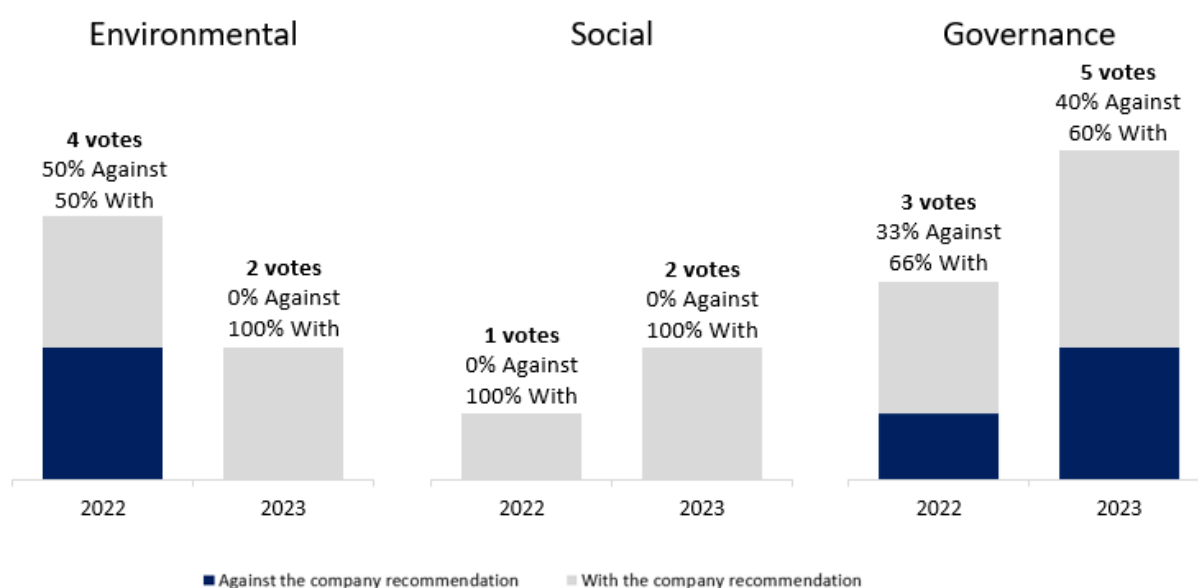
We were also pleased to see the inclusion in the long-term incentive (LTI) of specific GHG emission reduction targets and capex committed to new energies development as this is a material ESG risk for Vopak and an important focus for management.

Given the positive progress on disclosure of remuneration hurdles, the inclusion of specific ESG related metrics in the long-term incentive and alignment of the structure to MFG Asset Management’s Corporate Governance principles, we determined to support the remuneration report.

Votes on shareholder proposals

The Select Infrastructure strategy considered 74 shareholder proposals, with 20% of votes against the company recommendation. Engagement prior to the AGM on shareholder proposals is a key part of our process. Consideration is given for the ‘ask’ of the resolution, the materiality of the issue to the company and the actions or response of the company. Shareholder proposals on material ESG topics where it was determined to vote with the company were followed up with the company to ensure progress and prioritisation from management.

Votes on shareholder proposals



Objective: Improve Lobbying disclosure and alignment to company position on climate

We contacted the company prior to the AGM regarding our expectation for improved disclosure on lobbying and industry groups, as well as the company's position regarding alignment to their own climate strategy. This was an example of many investor voices engaging on increased transparency and alignment of lobbying.

Outcome: We were pleased with the response of the company to publish a review of their Responsible Lobbying policy and commit to undertake a review of the membership of all trade associations, and their alignment with their decarbonisation targets, by the end of 2023.



Examples of company and shareholder proposals over 2023

COMPANY	PROPOSAL	COMPANY RECOMMENDATION	MFG Asset Management VOTE	RATIONALE
Management Proposal				
Enbridge Inc	Remuneration Report	For	For	Stock options of total package are below MFG Asset Management's threshold of 25% so it is recommended to vote FOR the executive compensation but follow-up in engagement on metrics, stock options and RSUs.
Norfolk Southern Corp.	Director election - Chair Safety Committee	For	For	We have engaged with the company on the derailment and reviewed the response of the company. We will monitor the progress towards the 6 point plan, the safety data and the company response to the NTSB investigation, to ensure improvements are implemented and there is no systemic safety issue.
Shareholder Proposal				
American Water Works Co. Inc.	Shareholder Proposal Regarding Racial Equity Audit	Against	Against	The company is open to discussion on these topics with MFG Asset Management and continues to make progress with disclosure on diversity stats, initiatives and linking targets to remuneration.
Enbridge Inc	Shareholder Proposal Regarding Disclosure of All Scope 3 Emissions	Against	Against	We are comfortable that the Board is committed to transparency on Scope 3 emissions. The company in recent years has improved disclosure and explanation, and is working with industry.
Dominion Energy	Shareholder Proposal Regarding Independent Chair	Against	For	The ask of the resolution is reasonable in that it states that the policy could be phased in when there is a leadership transition. This is in line with MFG Asset Management Corporate Governance principles, we view that separation of Chairman/CEO is best practice.



MORE INFORMATION

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

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

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

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