

Australian Equities Voting Report

January - June 2017



Foreword

We are pleased to share with you how IFM Investors has engaged with, and voted, its Australian equities over the first half of 2017.

As this report shows, we voted on company resolutions, advocated for changes to policy, and engaged directly with companies listed on the local stock exchange on matters including board diversity, greenhouse gas emissions, and labour relations.

Our approach to engagement is linked to IFM Investors' three core beliefs: that a healthy environment, an inclusive society and strong governance will improve returns over the long-term.

We believe our efforts over the last six months to identify environmental, social and governance (ESG) risks and hold Australian corporate boards accountable for their ESG practices will help protect and enhance the value of those equity holdings in the long-term.

This document demonstrates how we have engaged with our listed holdings, acting as a steward of retirement capital on behalf of our clients' ultimate beneficiaries.

If you have any questions, or would like to discuss any aspect of this report, please do not hesitate to contact us.

Kind regards,

Aidan Puddy
Global Head of Indexed & Quantitative Equities

Neil Carter
Head of Active Equities

Lachlan Davis
Head of Large Cap Active Equities

Chris Newton
Executive Director, Responsible Investment



Responsible Investment Update: Australian Equities

IFM Investors is pleased to report on its responsible investment activities in Australian equities for the period 1 January 2017 to 30 June 2017.

Over the reporting period, IFM Investors focused its efforts on: (1) voting on shareholder resolutions to promote shared prosperity; (2) proactively engaging directly with company boards; and (3) public policy advocacy.

Highlights

- Worked with ACSI to encourage the Australian Parliament to enact modern slavery laws
- Launched a new Responsible Investment Charter
- Proudly exercised ownership rights by voting on 700 resolutions
- Engaged Wesfarmers, Woolworths, Metcash and other large Australian companies in dialogue on ESG matters

These activities covered many important environmental, social and governance (ESG) issues, including: excessive executive remuneration, modern slavery and human trafficking in global supply chains, the economic risks posed by climate change, and gender diversity on corporate boards.

Our efforts were in line with our Responsible Investment Charter, released in May, which builds on the existing IFM Group ESG Policy and encapsulates more than 20 years of our cultural foundations.

AREAS OF FOCUS OVER THE PERIOD

1. Climate change as a major economic risk
2. Safeguarding human rights in global supply chains
3. Excessive levels of executive pay
4. Better corporate governance

Our approach for Australian equities was also guided by international frameworks, including the United Nations-backed Principles of Responsible Investment (PRI), the OECD Guidelines for Multinational Enterprises, and the Global Reporting Initiative (GRI) G3 Human Rights Performance Indicators.

These activities were overseen by the Proxy and Engagement Committee (PEC), headed by Executive Director, Responsible Investment Chris Newton, working in conjunction with the heads of the Indexed & Quantitative Equities, Small Cap Active Equities and Large Cap Active Equities teams.

IFM Investors Proxy and Engagement Committee

Voting members

| | |
|---------------|---|
| Chris Newton | Executive Director, Responsible Investment |
| Aidan Puddy | Global Head of Indexed & Quantitative Equities |
| Neil Carter | Head of Active Equities |
| Lachlan Davis | Head of Large Cap Active Equities |
| Gavin Petrie | Associate Director, Indexed & Quantitative Equities |

Non-voting members

| | |
|----------------|--|
| Samantha Marks | Reporting Manager, Indexed & Quantitative Equities |
|----------------|--|

1. Proxy Voting

Voting is an important ownership right and one that IFM Investors proudly exercised on **700 resolutions at 107 shareholder meetings** across Australia.

IFM Investors is both an active investor in Australian equities through its Small Cap Active Equities and Large Cap Active Equities teams, and a passive investor in Australian equities through its listed equity indexed portfolios.

However, this report does not canvass the proxy voting of the relatively new Large Cap Active Equities team as, over the reporting period, all of our Large Cap clients managed their own shareholder voting and engagement internally.

Proxy voting by Indexed Equities

IFM Investors recognises that proxy voting is especially critical to indexed Australian equities, as most approaches to passive management do not allow for the exclusion of stocks on the basis of responsible investment factors.

Overall, the Indexed Equities team voted on a total of **321 resolutions** put forward at **45 shareholder meetings** by companies listed on the Australian Securities Exchange (ASX).

In the vast majority of cases (86%), the team voted in favour of the resolution. The most frequent 'for' votes related to director election (50%) and remuneration (30.2%).

There were **43 instances** where the Indexed Equities team lodged 'against' votes, with the two most common areas being director elections (32.6%) and remuneration (30.2%).



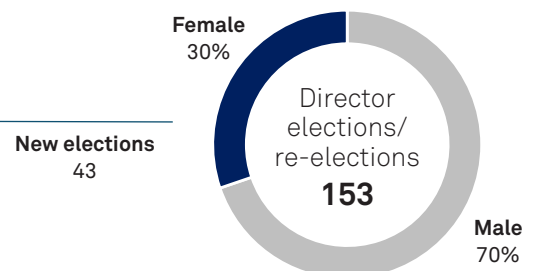
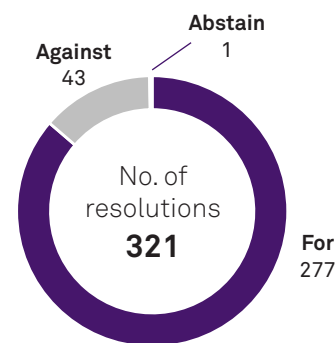
BETTER GOVERNANCE AT BELLAMY'S

The Indexed Equities team opposed the replacement of four Bellamy's Organic (ASX: BAL) board members.

The resolutions were an attempt by a shareholder, Black Prince Private Foundation, to increase its board control to half, despite holding only 14.5% of shares.

The resolutions would have reduced the board's independence and gender equality for no discernible benefit to the general body of shareholders.

| Indexed Equities Voting Report 1 January - 30 June 2017 | |
|--|-----|
| No. of company AGMs | 45 |
| No. of resolutions | 321 |
| Director elections/re-elections | 153 |
| Remuneration reports | 40 |
| Executive remuneration | 43 |
| Issue of new shares/securities | 16 |



Proxy voting by Small Caps

The Small Caps team voted on a total of **379 resolutions at 62 shareholder meetings**.

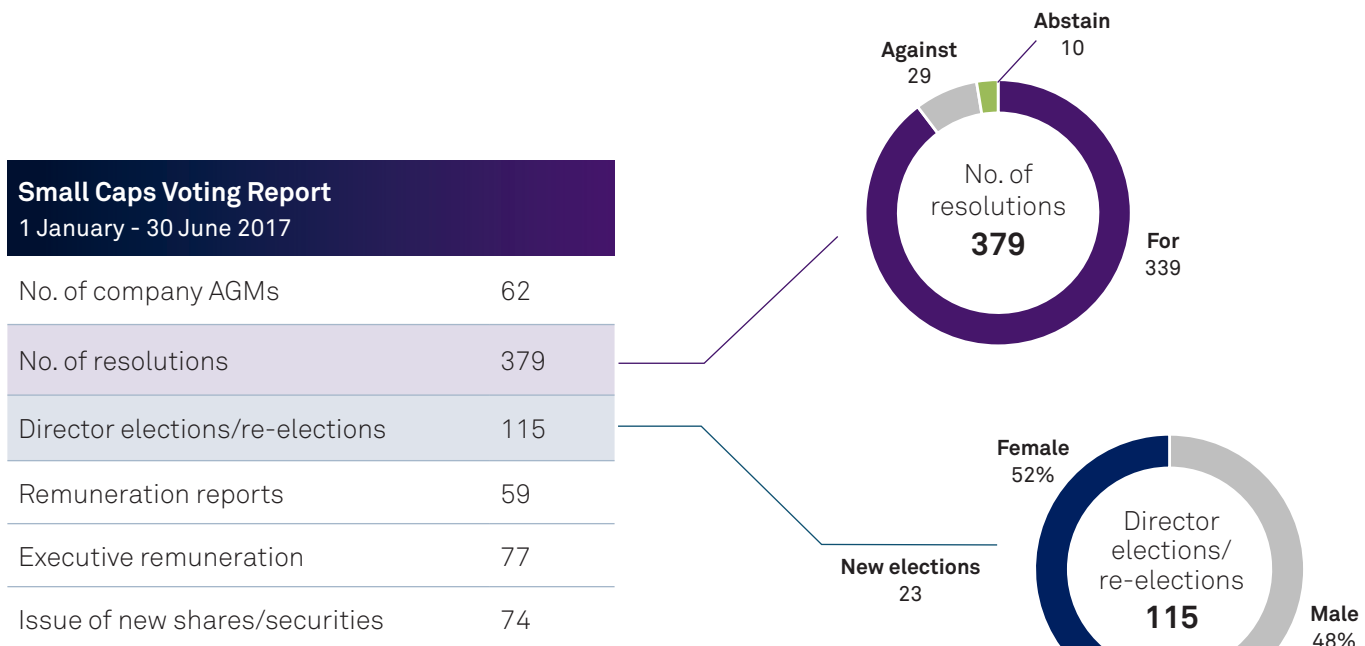
The majority (89.4%) were 'for' votes, in line with management.

The team used its small number of 'against' votes (7.7% of all resolutions) to effect change on director and executive remuneration.

'Against' votes on remuneration accounted for almost 70% of the proxies used by the team to express shareholder disapproval. This was a clear signal that IFM Investors opposes remuneration arrangements that do not align with the long-term interests of our investors.

Shareholder activism on the issue of better corporate board composition (**13.8% of against votes**) was also an area of focus for the Small Caps team over the period.

And the team proudly voted for a majority (**52%**) of female directors, with the aim of improving diversity on Australian boards.



Promoting Board Diversity

The percentage of women being appointed to ASX 200 boards fell to just 30% during the first half of 2017, according to the Australian Institute of Company Directors (AICD).

This drop in the rate of female appointments reflected the fact that fewer women stood for director election. A significant increase is required to reach ACSI and the 30% Club's target of 30% female board members.

As a result, the representation of women on ASX 200 boards stood at 25.4% at the end of the first half of 2017. This was still a vast improvement compared to 2009, when fewer than 10% of ASX 200 board members were female.

The Small Caps and Indexed Equities teams worked to remedy this, but were constrained by a lack of female nominations. Combined, the teams supported the appointment of **25 female directors**, which was just over a third (**37.9%**) of the director appointments we approved. In the small number of cases where female directors were opposed, it was to promote better corporate governance.

The Indexed Equities team voted nine times against director elections, of which eight were against male directors. It made a further five attempts to remove company directors, three of whom were male.

IFM Investors Voting Policy

IFM Investors' proxy voting policy is closely aligned with the Australian Council for Superannuation Investors (ACSI) guidelines, as we believe change is best effected by voting in line with like-minded investors.

Membership of ACSI provides us with valuable independent research and advice on the ESG risk and ESG practices for the Australian listed equities in which we invest, as well as proxy voting services and advice.

In all instances the Proxy and Engagement Committee (PEC) ensured that ACSI's guidance accorded with IFM Investors' own responsible investment policies before acting upon it.

IFM Investors will exercise its voting power where appropriate and our recommendations may at times differ from ACSI's.

We also sought the advice of a number of independent research firms and proxy advisors, including Dr Mark Zirnsak, Director, Justice and International Mission, Synod of Victoria and Tasmania, Uniting Church in Australia, with whom we have a long-standing relationship.

There was one specific instance (three resolutions in total) where IFM Investors chose to diverge from ACSI's guidance. This was to take a principled stand on excessive remuneration at Westfield.

The decision was in line with our Responsible Investment Charter, which stipulates that we must maintain confidence in the financial system and protect investors' interests.

It also accorded with our Group ESG Policy, which states that where a company fails to comply on ESG issues over time, we will oppose the re-election of certain directors or vote for an alternative director with whom we share a common view.



STRONGER STANCE ON WESTFIELD REMUNERATION

In April, the Indexed Equities team took a more activist approach than ACSI recommended by voting against the re-election of three Westfield Corporation (ASX: WFD) directors – co-CEO Steven Lowy, Remuneration Committee chair Mark Johnson, and 15-year board member Roy Furman – on the basis of their support for the proposed executive pay package and the company's costly dual chief executive structure.

The team also opposed the Westfield Remuneration report.

2. Policy Advocacy

Over more than two decades, IFM Investors has played a leading role in publicly promoting responsible investment policies, especially in Australian equities.

This is because we firmly believe that not only is profit possible without exploitation, but that promoting a strong and inclusive society creates investment growth opportunities by boosting participation in economic markets.

For these reasons, we took a strong stand in the first half of this year on labour rights concerns, as well as other important issues.

Policy advocacy on labour rights

The International Labour Organization has estimated that 21 million people worldwide are victims of modern forms of enslavement, such as human trafficking, child labour, forced prostitution, extreme hours without overtime, confiscated passports, withheld wages and debt bondage.

In Australia, migrant workers can be found in forced labour conditions in agriculture, construction and hospitality. This is material to our investment decisions, as the discovery of forced labour in an investee company's supply chain is a regulatory and reputational risk.

We do not believe our risk of exposure to modern slavery through Australian equities is high. However, to further reduce this risk, we signed a statement in support of a Modern Slavery Act in Australia in March 2017, in the hope that tougher regulation would help eradicate the problem from the supply chains of the Australian companies in which we invest.

BRIEFING FROM DISPLACED CAMBODIANS

IFM Investors hosted a briefing from Cambodian farmers to get an update on the impact of lending made by the ANZ, a company in which we invest.

We heard that many families were forcibly evicted by armed military police to make way for a sugar cane plantation funded by ANZ's Cambodian subsidiary, ANZ Royal Bank.

We were informed the plantation used child labour and led to food shortages, and that families who protested were threatened.

ANZ has sold down their exposure to the business. They have also since signed an agreement to ensure the banks lending practices do not impact local communities. However there are still social issues in the local community that are of concern to investors and not-for-profit agencies.

This briefing was an important opportunity to monitor the activities of one of our equity holdings.

IFM Investors also contributed to a submission by ACSI to the Australian Senate inquiry into modern slavery, which was submitted in May.

And we were a key contributor to the Australian Human Rights Commission's report on 'Human Rights in Investment', also released in May.

However, IFM Investors recognises that, because supply chains are often long and opaque, it is difficult to eradicate labour exploitation with Australian-based advocacy and regulation alone.

For this reason, we successfully lobbied for our Executive Director of Responsible Investment, Chris Newton, to be appointed to the UN-backed PRI Supply Chain Guidance Working Group (SCWG). He was subsequently appointed Chair for a six month term.

The working group concentrates on infrastructure and private equity, but we believe our contributions through this forum will exert a beneficial impact on Australian listed equities as well.

3. Proactive Corporate Engagement

As a consequence of its large active and passive Australian equity holdings, IFM Investors has a high degree of corporate access.

Over the period, we exercised this power by routinely engaging on ESG factors with many of the Australian exchange-listed companies in which our investors' money is invested, as we believe good ESG management is a sign of a disciplined organisation.

Our Responsible Investment Charter mandates that, where we hold a significant stake in an asset, we engage directly with company management to raise specific ESG concerns and work with them to find solutions.

Over the period, we robustly engaged with Wesfarmers, Woolworths, and Metcash on human rights and labour standards in their supply chains.

We met one-to-one with Wesfarmers executives over the period, and engaged with Woolworths and Metcash in written correspondence.

The protection of human rights is a core principle in our Responsible Investment Charter, and so we worked hard to ensure these companies were held accountable in order to protect workers from abuse and drive value for shareholders.

These engagements were successful, in that the companies involved made an effort to prove to us that they took these matters seriously and were working to improve systems and remedy any breaches.

In addition to various meetings with investee companies, we also sought to communicate directly with companies where we intended to vote against shareholder resolutions.

ACTIVE ENGAGEMENT ON CARBON EMISSIONS

Over the period, IFM Investors led an engagement program alongside the UK-based CDP, formerly the Carbon Disclosure Project, by sending 72 letters to ASX-listed companies who had not yet publicly reported their greenhouse gas emissions, urging them to participate.

We believe that releasing such information to the Australian market would help us and other investors to mitigate risk, capitalise on opportunities and make investment decisions that drive action towards a more sustainable economy.

ACTIVE ENGAGEMENT WITH WESFARMERS

IFM Investors requested, and was granted, an extensive briefing from Wesfarmers (ASX: WES) on risk profiles in its domestic supply chain, especially at Coles supermarkets. We were assured it was taking proactive steps to minimise the potential for labour and human rights issues in its supply chain and it is focused on ensuring that all Coles Brand suppliers are compliant with Coles' expectations on ethical sourcing.

We will continue to monitor the situation closely.

ACTIVE ENGAGEMENT ON BOARD INDEPENDENCE

The Small Caps team actively engaged with a large equity holding ahead of a planned 'against' vote over concerns with a lack of director independence. The team felt it was important to give the company a chance to correct.

Following intense lobbying from the company to change IFM Investors' vote, the team remained unwavering by their original decision. Neil Carter, Head of Small Cap Active Equities, informed the company that appropriate oversight of the Executive team was "paramount" to protecting shareholders' interests. He encouraged the company to improve its board independence "in a forthright manner sooner rather than later"

IFM Investors also endorsed a PRI statement on Investor Expectations Labour Practices in Agricultural Supply Chains, along with many other global investors. We did so because, as noted above, agriculture is a sector of particular concern for forced labour.

Other policy advocacy

- Participated in ACSI's review of its Corporate Governance Guidelines, which takes place every second year.
- Signatory to the 30% Club, a global movement to increase female representation on company boards.
- Signed a letter to governments of the G20 nations urging them to stand by the Paris Agreement. The letter, signed by a total of 390 global investors, was presented to the G20 summit in Hamburg, Germany in July.
- Presented at the ACTU NextGen conference on the ability for investors to create jobs and effect positive social change through responsible, long-term investment.



One Purpose. Shared Prosperity.

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