Maple-Brown Abbott Stewardship report

Australian Value Equities
Year ending 30 June 2024

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MAPLE-BROWN ABBOTT
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SERVING OUR CLIENTS FOR 40 years

Welcome

We are pleased to provide an update on our stewardship activity for the 12 months to 30 June 2024. This annual report comes as we celebrate our firm's fortieth anniversary, and also as we enter the next chapter in Maple-Brown Abbott's continued evolution. It is a timely opportunity to reflect on the commitment to responsible investing that has seen us well through our many years in the Australian value equity investing landscape, and in which we remain steadfast as we continue to act as responsible stewards of our clients' capital.

Maple-Brown Abbott believes that the integration of environmental, social, and governance (ESG) considerations into our investment process enhances investment decision-making and ultimately leads to superior long-term value for all stakeholders. This review serves an account of our company engagement and voting activities over the last year. It outlines Maple-Brown Abbott's approach and execution of our stewardship efforts, including select engagement and proxy voting case studies, and provides key statistics for the Australian Value Equity strategy.

As the global geopolitical landscape continues to evolve, the importance of ESG considerations has never been more critical. The last year has been marked by a dynamic regulatory environment, shifting stakeholder expectations, and the ongoing impacts of global economic and environmental changes. In Europe the ESG regulatory environment continued at pace, with both corporates and investors required to develop tighter disclosure frameworks, whilst in the US the recent politicisation of ESG somewhat stabilised across the year. Closer to home, Treasury's Sustainable Finance Roadmap was released in June 2024, outlining a raft of key policy reforms aimed at mobilising the significant private capital required to achieve net zero and in support of nature-related outcomes. June also saw Australia issue its first Green Treasury Bond, raising A$7 billion in support of these same goals, and one of the stated Roadmap priorities.

These global and Australian events underscore the continued importance of ESG considerations across sectors and highlights the evolving expectations for companies and investors to demonstrate sustainable business practices. It is against this backdrop that we continue to review and evolve our approach to ESG and seek to maintain leading standards for our clients.

About Maple-Brown Abbott

As one of the earliest Australian managers to sign up to the United Nations-backed Principles for Responsible Investment (PRI), Maple-Brown Abbott has a long history of ESG integration which is core to each of our strategies. As of 30 June 2024, Maple-Brown Abbott has around A$9 billion in assets under management across listed equity strategies covering Asian and Emerging Markets, Australian Small Companies, Australian Value Equities and Global Listed Infrastructure.

Our responsible investment approach

Responsible investment

ESG integration
We integrate ESG factors and risks into our investment approach at each step of the process.

Stewardship
Our comprehensive stewardship approach covers company engagement and proxy voting.

Investment solutions
Product solutions that tilt toward specific environmental or social outcomes or exclude selected activities.

Governance
Our approach to disciplined investment governance and ethical conduct is guided and supported by Board–approved policies.

As an active investment manager, Maple-Brown Abbott recognises that responsible investment enhances investment decision-making and ultimately leads to superior long-term value for all stakeholders.

All our investment strategies integrate ESG considerations, with the clear purpose of reaching more informed decisions. This approach helps ensure that non-financial risks and opportunities are factored into the risk-return assessment of investments. We believe companies that best manage their ESG risks and opportunities will benefit multiple stakeholders while generating sustainable, long-term returns to shareholders.

We do not take a 'one size fits all' approach to ESG, with a key differentiator being our proprietary approach supported by specialist capability. Maple-Brown Abbott maintains in-house expertise for ESG research, with dedicated ESG analysts as members of the investment teams. We have developed proprietary ESG frameworks that are applied in strategy-relevant ways to supplement fundamental investment analysis.

The consideration of ESG risks and opportunities is, we believe, an essential input to sound investment management. More information, including the suite of ESG policies that govern our approach, is available on our website.

Responsible investment policy | Engagement policy | Proxy voting policy | Climate change policy

Company engagement

A key pillar of our responsible investment approach is our comprehensive stewardship program, including engagement and proxy voting. We believe engagement is crucial to our role as stewards of client capital. We believe that when combined with our approach to active investment and ESG integration, this leads to better investment decisions and real economy outcomes.

We engage regularly with the companies we invest in, taking the view that there is greater benefit to influence change as a shareholder rather than simply divest and pass the challenge to a potentially less ESG-focussed investor. Our long-term investment horizon facilitates this approach, as it enables us to take a longer view on ESG risks and engenders stable, influential relationships with the Board and management of our portfolio companies.

Our engagements may be strategic, where we are pressing for a defined environmental, social or governance outcome; or tactical, in response to an event or controversy or where we are seeking more information on a company's ESG strategy or risk management. We advocate for change when we believe that it is in the best interests of our clients as shareholders.

Our company engagements over the reporting period saw climate risk and decarbonisation continue to feature as a recurrent theme, alongside waste, modern slavery, gender diversity, human capital and remuneration. Not surprisingly, data security and privacy also featured heavily in our engagements this year as cyber-related threats and opportunities unfold at pace.

Climate risk and decarbonisation

As global temperatures rise, the risks posed by climate change – including extreme weather events affecting the economy and communities – will continue to materialise. Companies may be exposed to these risks on a number of fronts, including through their business operations, supply chains and markets. We expect companies we invest in to disclose how they are mitigating risks associated with extreme weather events, regulatory changes, and resource scarcity. Key actions include adopting decarbonisation strategies, committing to net-zero emissions, setting science-based targets, and disclosing carbon intensity across their operations and supply chains. Climate change may lead to reduced investment returns due to the erosion of revenues for businesses and higher costs due to climate transition and physical risks,[1] and so it comes with little surprise that almost every engagement we held this year included a discussion on climate risk.

Waste management and circularity

Waste management and circular economy initiatives are continuing to gain traction, with a global, systemic shift to more sustainable production and consumption models. We see companies in our portfolio increasing efforts to disclose their waste reduction targets, minimise plastic usage, and drive strategies to create products that are easier to recycle or reuse. We are also interested in how companies approach the broader issue of resource efficiency, considering their impact on natural ecosystems and long-term sustainability.

Modern slavery

Modern slavery, including forced labour, human trafficking, and child labour, has remained a critical focus for us across the year. We have sought increased transparency in how our portfolio companies prevent modern slavery, maintain human rights standards, and ensure compliance with international regulatory standards and labour laws. Companies are expected to take steps such as conducting thorough supply chain audits, implementing relevant and accessible grievance mechanisms, and ensuring that workers are paid fairly.

Data privacy and cybersecurity

As digital transformation accelerates, data privacy and cybersecurity have become critical issues for any company that handles sensitive customer or employee data. We expect our portfolios companies to implement robust data protection measures and ensure compliance with privacy regulations. This year has seen a continued upward acceleration in the risks associated with data breaches, which can result in financial losses, reputational damage, and regulatory penalties. We are also increasingly examining how companies safeguard against cyber threats, with a focus on proactive cybersecurity measures and disaster recovery plans.

Gender diversity and equality

This year saw the Workplace Gender Equality Agency (WGEA) published the first gender pay gaps for private sector employers. We welcome the increased transparency and focus brought about by the pay gap reporting, noting that gender equality has long been a topic in our ESG engagements with portfolio companies. This year we continued to discuss gender equality and diversity with portfolio companies, particularly in terms of increasing representation at all organisational levels, with the key belief that greater diversity can improve corporate performance and long-term sustainability.

Remuneration

Remuneration has long been area of focus for our investment team, with recent years bringing increased scrutiny how companies structure executive pay and whether it is aligned with long-term value creation and ESG goals. We have used our meetings with portfolio companies as an opportunity to emphasise the importance of greater transparency and disclosure in remuneration practices given its ability to influence shareholder outcomes. We believe company remuneration practices should reflect shareholder best interests and be objectively aligned to the creation of shareholder value. Transparent measures of management performance are important to allow investors to independently measure performance and to provide insight to key areas of management focus. Over FY24 we have seen performance-based incentives that link executive pay to sustainability outcomes become increasingly common, as companies seek alignment between financial and non-financial goals in response to stakeholder expectations.

Below we present select case studies that showcase our engagement with companies over the twelve months to June 2024.

1 Huang K & Koch G (2024). How could climate change impact my expected portfolio returns?

Case studies

Santos

First Nations engagement, Decarbonisation

In late 2023 we met with Santos (STO) to seek more detail on the company's First Nations engagement and to press for improved governance and practice in this area. The meeting took place following another challenge to STO's Barossa project from Tiwi Islanders who raised concerns that the proposed offshore pipeline is in an area regarded as culturally significant, containing ancient burial grounds and songlines.

We discussed the company's approach to indigenous consultation at this project specifically and across the organisation more broadly. We note that this is a complex area, and were interested in the detail provided by STO of its efforts in engaging with First Nations stakeholders, however remain concerned that objections have continued to be raised. These objections are largely restricted to STO's projects in the Narrabri and Tiwi Islands, which are areas where STO has not operated before, and indicate to us that there is an opportunity for STO to improve its initial consultation and engagement practices.

That said, we were pleased to note the changes that STO has implemented since the initial Tipakalippa case was raised, including a new offshore consultation model aimed at better identifying relevant people, and a methodology deep dive review overseen by the Board. More broadly STO have established Yarning Circles which includes the full STO executive team and traditional owner representatives, and we look forward to seeing continued improved engagement and practice between the company and First Nations stakeholders.

A second objective of our meeting was to press STO for a commitment to set Scope 3 targets, which we note comes with the inherent challenges common to all oil and gas companies in that it is counter to a customer growth strategy. Nonetheless, with the latest International Energy Agency Net Zero Emissions scenario highlighting a significant shift in global energy mix, including a dramatic downward revision in gas demand (80% decrease in demand from 2023) vs the previous 2021 scenario, we believe Scope 3 targets to be an important component of climate risk strategy. STO confirmed that the company has a target of 1.4 million tonnes reduction by 2030, with recent focus on accounting for full lifecycle of scope 3 emissions. STO is now accounting for a broadened application of Scope 3 accounting, with all 15 categories reported, and have tracked the molecule from production to processing. With the preliminary work now completed STO will look at potential targets, but are clear that no target will be set until the company has a viable pathway to meet that target.

Ampol

Energy transition, Climate disclosure

Ampol (ALD) is highly exposed to the energy transition and we met with the company to seek clarity on assumptions underlying ALD's Future Energy and Decarbonisation strategies. We were also keen to see the company update its public climate reports to align to the recommendations of the Task Force on Climate-Related Disclosure (TCFD).

With a recent acceleration of electric vehicle (EV) penetration of new car sales in the Australian market we were keen to seek ALD's view on the speed of the transition and how it factored into they company's operational and investment strategy. Increased EV penetration in new car sales will impact ALD's revenue, which the company is looking to offset through higher fuel margins, fast food, EV charging and improved customer profitability driven by step change in CRM analytics.

The company has an overall Fuels and Infrastructure (F&I) emissions reduction target of 5% in Scope 1 and 2 intensity by 2025 and 10% by 2030, with net zero by 2040. This somewhat ambitious decarbonistion target will necessitate the closure of the Lytton refinery and continued investment in future energy projects. The company expects that Lytton will continue to operate into the second half of the 2030s due to continued fuel demand, with a committed closure date of no later than 2040. ALD noted that there is the potential to convert to a biofuel refinery post-closure, with a Memorandum of Understanding (MoU) in place with ENEOS Corporation to explore the feasibility of delivering an advanced biofuels manufacturing facility with the capacity to generate up to 500 million litres of sustainable aviation fuel (SAF) and renewable diesel annually. Outside the Lytton closure the company intends to rely on offsets to meet most of the F&I reduction, with no plans to set Scope 3 targets at this stage. Whilst we acknowledge that this last point is somewhat counter-productive to ALD's current business model and would be dependent on a range of factors outside the company's control, we would welcome some indicative goals on the direction of travel here given Scope 3 accounts for around 80% of ALDs emissions profile.

As a positive footnote, in the month following our engagement with ALD, the company published its inaugural TCFD-aligned climate report, an outcome which we have been pressing for and which we view as a favourable development in the company's focus on climate risk management.

2 Electric Vehicle Council, Australian Electric Vehicle Industry Recap 2023.

Brambles

Circular economy, Decarbonisation

We met with Brambles (BXB) for a dedicated ESG meeting to discuss targets and ongoing ESG strategy and performance, with a particular focus on decarbonisation and circularity. BXB announced in 2023 that it would bring forward its goal of reaching net-zero emissions by a decade to 2040, with an interim target of reducing scope one and two emissions by 42 per cent and scope three emissions by 17 per cent by 2030, and we were keen to seek more detail on the company's detailed decarbonisation roadmap. BXB noted it is on track to meet its 2025 renewables target and outlined actions that provided comfort its 2030 target is not at risk, albeit with a shift in scope emissions due to changes in technology driven by its decarbonisation efforts. In response to questioning on the financial impacts of decarbonisation actions, BXB noted that to date all initiatives business cases have stacked up without an internal carbon price, though this may change once it gets beyond the low hanging fruit. Key to net zero decarbonisation is adoption of technology by transport partners which depends on regulatory settings. 2027/2028 should start to see rapid increases in technology adoption in the transport value chain, and BXB is deploying actions to stay in front of this internally. Given the detailed planning and information provided by the company we are confident the company is managing its near-term climate risk well and see BXB as a leader in this space.

IAG

Climate risk, customer affordability

During the year we met with IAG for an ESG discussion that included a focus on climate risk. IAG is well progressed on its climate strategy and decarbonisation goals, however there are two areas where we were keen to press for further information and action.

The first of these is in relation to the setting of Scope 3 climate targets. Whilst we appreciate that Scope 3 targets remain more challenging to measure and action than operational emissions, we also note that Scope 3 greenhouse gases account for the bulk of IAG's total CO_2e emissions. IAG agreed with our assessment and outlined the program of work underway to support a net zero transition in its total value chain. We were pleased to note that IAG have committed to report on a broader range of Scope 3 upstream emissions from FY24. It is also in the process of measuring downstream emissions with a view to setting a net zero target in due course.

The second area where we were keen to seek progress from IAG is in relation to how it works with customers whose premiums will increase to an unaffordable level in the future due to increased climate risk. The general insurance industry has consistently disclosed that the ability to reprice premiums annually is the key lever deployed to mitigate the financial risk from climate change, especially with respect to short tail insurance. This gives protection to the company but not to customers who are seeking to protect long-term assets such as their homes. IAG outlined a range of customer and industry advocacy initiatives it is involved in to address customer affordability, however we would like to see further progress here and will continue to engage with IAG and other general insurers on this topic.

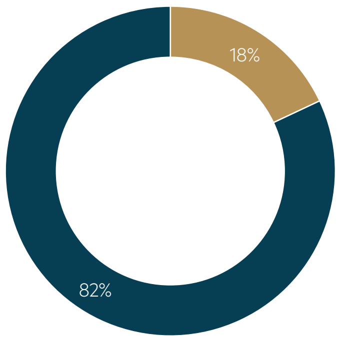
Proxy voting

Proxy voting is a core component of our Stewardship activity and is a critical lever in our ability to drive positive outcomes. Active participation in proxy voting ensures that the interests of our clients are safeguarded and promoted, and fosters accountability within companies.

When casting votes, our priority is to consider the best interests of our clients as shareholders. Our guiding principles set the governance standards we expect from the companies we invest in, and our investment team actively considers each vote on a case-by-case basis. Voting recommendations are made after consideration of all relevant information, and are informed by specialist research, as well as our own research and engagement with the company, with the ultimate decision made by the investment analyst. Our approach is outlined in our Proxy Voting Policy, which has been designed to optimise our ability to affect outcomes in the companies we invest in.

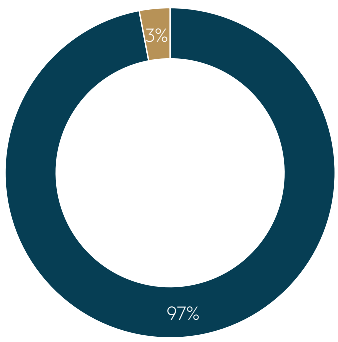
The charts below show how we have exercised our vote for listed shares held within a representative fund, the Maple-Brown Abbott Australian Equity Trust, for the 12 months to June 2024. The data reflects where we have voted for or against management recommendations.

Meetings



■ % of meetings where we voted against management
■ % of meetings where we did not vote against management

Resolutions



■ Voted with management
■ Voted against management

Source: ISS, 12 months to 30 June 2024.

Overall, we tend to be supportive of management proposals across the Australian value equity strategy, voting with management recommendations in the majority of ballots. This year we voted against management recommendations in 3% of all votes, spread across 18% of meetings. The majority of our 'against' votes have pertained to remuneration matters, with one exception being where we voted against a director nomination. In this instance, we voted against the re-election of an executive director at Harvey Norman (HVN) on the basis that we consider a majority-independent board to be best practice corporate governance and do not support the re-election of an executive director other than the CEO or Executive Chairman. The Harvey Norman Board consists of 10 members, of whom five are executives, two are affiliates and three are independents. Our vote against the re-election of the HVN executive director this year was made solely on the basis of board composition and makes no judgment on the individual capability of the director.

Our votes against remuneration reports or other compensation matters this year included companies from a range of sectors. For example, we voted against two ballots at the Alumina (AWC) AGM, covering the remuneration report as well as the approval of performance rights to the CEO. Whilst we recognise the need to attract and retain key executive talent, in AWC's case we do not believe that remuneration was commensurate with the share price performance over 2023, and that poor performance during the period where the mining license was under pressure was not reflected by the remuneration outcome.

At Coles (COL), we voted again the remuneration report on the basis that the STI EBIT target was too low and hence the STI outcome of 'on-target' was excessive for actual performance. FY23 financial performance was well below market expectations, impacted by poor execution around stock loss and somewhat flattered by delayed supply chain implementation costs. Non-financial objectives were also only half met (20% of possible 40% weighting). In this context an on-target STI outcome appears excessive. Elsewhere we voted again remuneration reports at Santos (STO), Bank of Queensland (BOQ) and Amcor (AMC).

Industry participation

Recognition

The 12 months to June 2024 again saw the release of two important reports that benchmark the responsible investment efforts of investment managers in Australia and globally. We were pleased to be assessed positively by each of these reports, recognising the continued focus that we place on this area.

The first of these was the from the Principles for Responsible Investment (PRI). As a signatory to the PRI since 2008 we have completed each annual reporting cycle and used the process to identify best practice ESG integration, along with areas for improvement.

In December 2023 the PRI released the results of its annual signatory assessment. Maple-Brown Abbott was pleasingly assessed at above global median for both our responsible investment strategy and our implementation, and improved in each of these key areas when compared to previous years' scorecards. Specifically, we received 82 points (four stars) for our Policy Governance and Strategy module, and 95 points (five starts) for our approach to listed equity ESG integration in the Direct – Listed equity – Active fundamental module.

The second assessment report came in the form of the annual Responsible Investment Benchmark Report from the Responsible Investment Association of Australasia (RIAA). The report charts the ongoing development of responsible investment markets over the year and compares these results with the broader financial market. It also scores asset managers on their approach to responsible investment, assessing them against a scorecard that covers a range of factors from commitment and transparency through to stewardship and capital allocation.

For the sixth year in a row Maple-Brown Abbott was assessed as a 'Leader' among the 291 managers reviewed by RIAA. This designation is reserved for those that RIAA deem to be "a responsible investor that demonstrates an exceptional ability to deliver on its responsible investment promises."

We value this recognition, especially amongst the rising tide of responsible investors in Australia that continually drives to a higher standard, and we will continue to focus our efforts on integrating ESG into every aspect of our investment process

Collaboration

We are active collaborators with select investor groups, which are valuable channels for outcomes-focussed engagement as well as capability building. Our continued involvement in industry collaborations such as Climate Action 100+, Investors Against Slavery and Trafficking Asia-Pacific (IAST APAC), the PRI and the Responsible Investment Association of Australasia (RIAA) have provided us with access to best practice thinking and allowed us to advocate for change where it matters most.

3 RIAA Responsible Investment Benchmark Report Australia 2024.

Our key industry associations are noted below.

Principles for Responsible Investment (PRI) The PRI is a UN-supported network of investors which works to promote sustainable investment through the incorporation of environmental, social and governance principles. We have been signatories to the PRI since 2008, being one of the earliest Australian fund managers to join the initiative.	Joined 2008	
Responsible Investment Association Australasia (RIAA) RIAA is the largest network of responsible investors across Australia and New Zealand, with a focus on ensuring capital is aligned with achieving a healthy society, environment and economy. Maple-Brown Abbott has been a member of RIAA since 2016 and has been assessed by RIAA as being a Responsible Investment Leader for the last five years.	Joined 2016	
Climate Action 100+ (CA100+) Climate Action 100+ is an investor-led initiative to ensure the world's largest corporate greenhouse gas emitters take necessary action on climate change. Maple-Brown Abbott is a support investor on two global engagements.	Joined 2020	
Investor Group on Climate Change (IGCC) The IGCC is a collaboration of Australian and New Zealand investors focusing on the impact that climate change has on the financial value of investments. As a member of the IGCC, we work collaboratively with other investors to encourage government policies and investment practices that address the risks and opportunities of climate change, for the ultimate benefit of superannuants and investors.	Joined 2023	
Net Zero Asset Managers Initiative (NZAMI) The Net Zero Asset Managers Initiative is an international group of asset managers committed, consistent with their fiduciary duty to their clients and beneficiaries, to supporting the goal of net zero greenhouse gas emissions by 2050 or sooner. This is in line with global efforts to limit warming to 1.5 degrees Celsius and to support investing aligned with net zero emissions by 2050 or sooner. Our Global Listed Infrastructure strategy has set a decarbonisation strategy in line with this goal.	Joined 2021	
Investors Against Slavery and Trafficking Asia-Pacific (IAST APAC) The IAST APAC initiative is an investor-led, multi-stakeholder project. It was established in 2020 to engage with companies in the Asia-Pacific region to promote effective action in finding, fixing and preventing modern slavery in operations and supply chains. Maple-Brown Abbott is actively involved in both supporting and leading company engagements through this initiative.	Joined 2020	
Transition Pathway Initiative (TPI) We are a signatory to the TPI, an independent, authoritative source of research and data into the progress being made by the financial and corporate world in making the transition to a low-carbon economy.	Joined 2020	
FAIRR FAIRR is a collaborative investor network that raises awareness of the ESG risks and opportunities in the global food sector.	Joined 2022	
Tobacco Free Portfolios	Joined 2023	

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