Ethical Stewardship Report

About the Stewardship Report

This report summarises our ethical stewardship activities for FY22. Advocating for a better world continues to be a core part of our business plan. We are mindful of the fact that advocating for change on behalf of our stakeholders is a privilege and a responsibility. We therefore seek to provide further transparency and detail about our ethical stewardship activities in this report so that our stakeholders, and in particular our customers, can see how we are leveraging their capital to influence for people, animals and the planet, and can hold us to account.

In pages 65-72 we discuss our progress on the four strategic ethical stewardship initiatives we pursued throughout the year. In pages 73-74 we provide some examples of other tactical engagements including our long-term engagement with Lendlease about their Mt Gilead development and its impact on koalas, and our ongoing gender diversity engagement program.

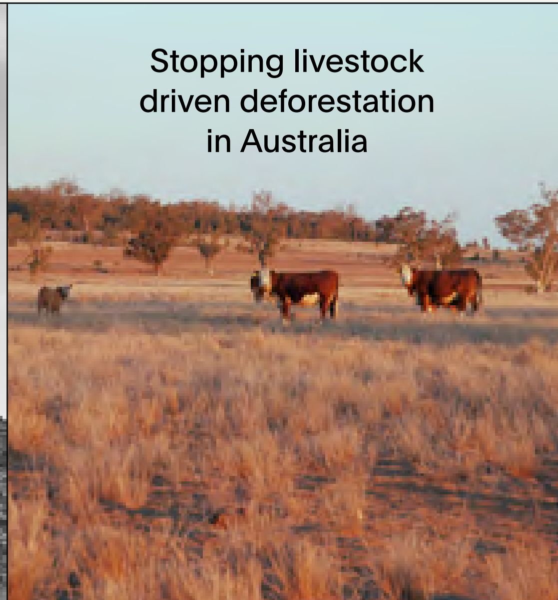
Before we discuss the actual work we did, on pages 61-64 we explain what we mean by ethical stewardship, why we do it, how we think it achieves change, our process for identifying our priority areas of focus, and set out our commitment to achieving real world outcomes.

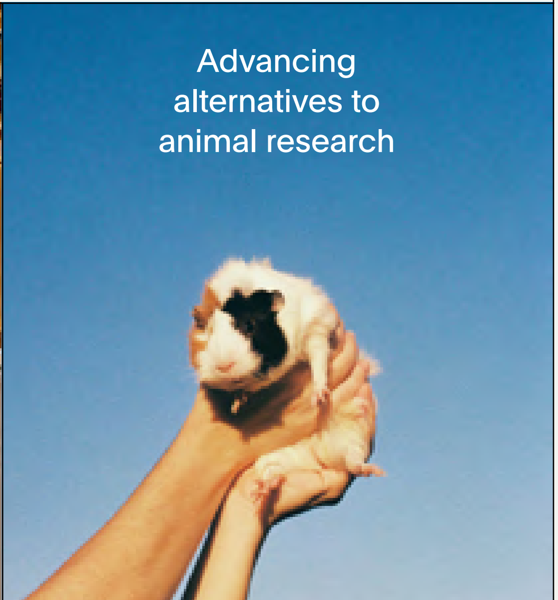
FY22 Snapshot

The Ethics Research team engaged[1] over 450 companies for people, animals and the planet.

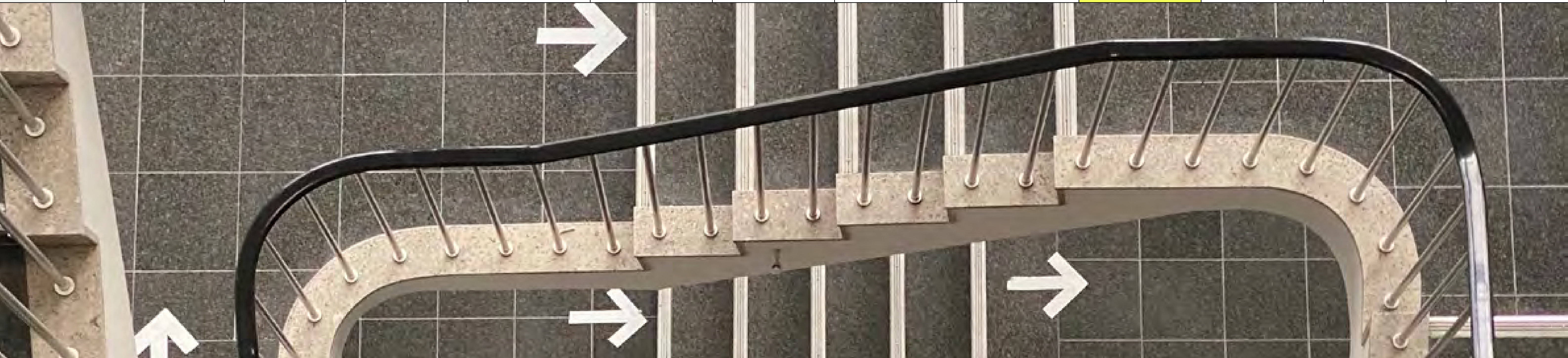
- 78 of these were 'proactive' engagements[2]
- Companies committed to change following >25% of our proactive engagements
- Our proactive engagements covered 24 sectors and 20 issues
- 2 company engagements ended with divestment
- Overall during the year there were 4 divestments[3]

We pursued four strategic ethical stewardship initiatives:





1. We count one engagement where we engaged with a company on a topic or series of topics. There may be multiple activities within that engagement. For example, our engagement with QBE is counted as one engagement which included a meeting, emails and co-filing a shareholder resolution. We may count two engagements with a company if there were separate activities on entirely separate topics. For example, we had one engagement with NAB in relation to its fossil fuel exposure (which included a meeting and supporting a shareholder resolution) and a separate meeting with NAB to discuss its exposure to deforestation in Australia.
2. We distinguish proactive engagements from passive engagements. Our 'proactive' engagement count includes where we engaged directly with a company, actively contributed to collective engagements (as distinct from simply 'signing on'), used a nominal advocacy holding to support shareholder resolutions, or co-filed a resolution.
3. Not including companies excluded from initial investment or companies not held due to financial investment considerations.



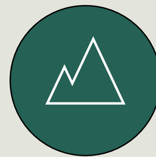
What do we mean by ethical stewardship?

We need systemic change across multiple industries to tackle the most difficult and important challenges of our time, such as climate change, nature loss, human rights abuse and industrialised animal cruelty. As an ethical investor, we use capital allocation to help drive this change, by investing in companies that on balance benefit people, animals and the planet, and avoiding those which cause unnecessary harm in accordance with the Principles of our Ethical Charter. While ethics-driven capital allocation is critical, we know that on its own, our ethical screen is not enough to achieve the economic and social transformation we need to get to a future where people, animals and the planet prosper.

There are a few reasons for this. The fact that we do not allocate capital to harmful industries does not mean they do not continue to exist. For example, we do not invest in fossil fuel companies[4] but we are still seeing new oil and gas projects in Australia. The second reason is that we do not invest in perfect companies. The economy is so far from perfect, inevitably there will be companies in our portfolio that we need to engage with.

Investor stewardship is an important tool that investors can use to have real world influence. Investor stewardship leverages capital to influence investee companies, the economy and society.

At Australian Ethical, responsibility for investor stewardship is shared between the Investment team and the Ethics Research team, but with different objectives.

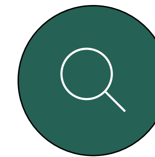


Traditional investor stewardship

Investment team

Focused on lowering the financial risks and improving the financial returns of individual holdings and the portfolio

Targeted at investee companies



Ethical stewardship

Ethics research team

Focused on reducing the negative and increasing the positive impacts of companies and achieving systemic change

Targeted at investee companies, but also companies outside the portfolio, other investors, governments including regulators, standard-setting bodies, industry associations and other organisations

4. We don't invest in companies whose main business is fossil fuels or in diversified companies that earn some fossil fuel revenue and aren't creating positive impact with their other activities. We may invest in a diversified company which is having a positive impact in other ways such as producing renewable energy, providing its negative revenue is sufficiently low (a maximum of 5% to 33% depending on the activity).

Why do we do ethical stewardship?

We engage in this type of stewardship because it is the right thing to do and because we know that the ability to deliver strong financial outcomes for customers relies on social and environmental foundations which are currently under threat.

This rationale means we do not limit our stewardship to ensuring that investee companies' financial returns versus the level of risk is acceptable. That is obviously very important but on its own will not address, and can even exacerbate, systemic challenges. This is recognised in the UNPRI's guidance for investors on active ownership.[5] A company can seek to strengthen its position by externalising costs onto others. This might be good for their financial performance but bad for humanity, the planet, and the other sentient beings we share it with. From a purely financial point of view, those negative externalities can be a cost across the rest of the portfolio.

5. Active Ownership 2.0 available at unpri.org/download?ac=9721

Can ethical stewardship achieve change?

There is a lot of healthy skepticism about investor engagement. Its impacts are often indirect, difficult to measure and difficult to directly attribute to positive outcomes. It can also take time between starting an engagement strategy and seeing real world impact.

Unfortunately, investor engagement is also an area that is ripe for greenwash. Some can use it to excuse continued investment in fundamentally unethical businesses without being accountable to effecting change within those businesses.

But notwithstanding these challenges, ethical stewardship by shareholders has the potential to have transformative impact. The failure of the proposed AGL demerger, and the incredible work of the organisations and people that helped expose the ethical and financial flaws with the proposal, demonstrates the potential impact of genuine investor stewardship. Investors effectively prevented AGL from spinning out its coal assets, which probably would have extended their life far beyond what is needed for the clean energy transition. With the withdrawal of the demerger proposal, there is now a prospect that AGL will lean into the climate challenge, close its coal generation in line with the net zero by 2050 energy scenario published by the International Energy Agency, and help the transition by investing in renewables, upgrading and expanding grid and other energy infrastructure and reducing energy demand through energy efficient technologies. AGL's future direction has huge implications for Australia and the climate because of the scale of the company's greenhouse gas emissions, representing close to 8% of Australia's total emissions.[6]

6. Commonwealth of Australia (Clean Energy Regulator) 2022, National Greenhouse and Energy Reporting 2020-21 as reported on 28 February 2022 and National Greenhouse Gas Inventory: Quarterly updates.

How does ethical stewardship achieve change?

Achieving change at the scale and pace we need to address the biggest ethical challenges of our time cannot be done by any one individual or organization. We need multiple players using multiple sources of leverage, and positive feedback loops between them all. This includes policy makers, regulatory bodies, academics and research institutions, NGOs, responsible investors, responsible companies, proxy voting agencies, strategic litigants, journalists, consumers, and the occasional billionaire. It takes an ecosystem of people in different roles with a genuine desire to make the world a better place. Responsible and ethical investors have multiple points of leverage within this ecosystem and a range of tools at their disposal.

Investors can influence companies to change. If we are to address the great social and environmental challenges of our time, companies need to change what they are doing. They need to reduce and wherever possible, completely avoid, negative impacts; pivot their businesses to products and services that are sustainable; help consumers make changes to their lifestyles; and support (or at least not obstruct) fair and sustainable government policy.

Investors can encourage this through various mechanisms. Sometimes simple dialogue between investors and management works. Long term investors can challenge short-term and narrow thinking and provide a more objective perspective. And company management can share their deeper knowledge and understanding of the collective challenges we face. Of course, these conversations carry more weight if there are credible consequences for company recalcitrance. Engagement is often ineffective if companies face no sanction for inaction

Consequences can include shareholders:

- voting to remove directors and nominating directors with more progressive views and strategies on ethical issues,
- voting against executive remuneration,
- voting against a merger or (as in the case of AGL) a de-merger proposal,
- publicly questioning company decisions at AGMs and through the media,
- challenging the actions of a company or management in court.

Divestment, and the threat of divestment, is another tool. If done at scale it can affect a company's cost of capital, making it less competitive than its more sustainable competitors. If done publicly it can impact a company's reputation. It can also create market signals that help influence broader change. Sometimes it is helpful to have different investors take different approaches. An ethical investor withholding capital or divesting early can mean companies see the consequences of continued inaction and may be more receptive to the asks put by the investors that remain.

The so-called 'divest or engage' debate is too often used as cover to justify continuing investment where there is slow or no progress by companies. Divestment and engagement aren't alternatives, we need both.

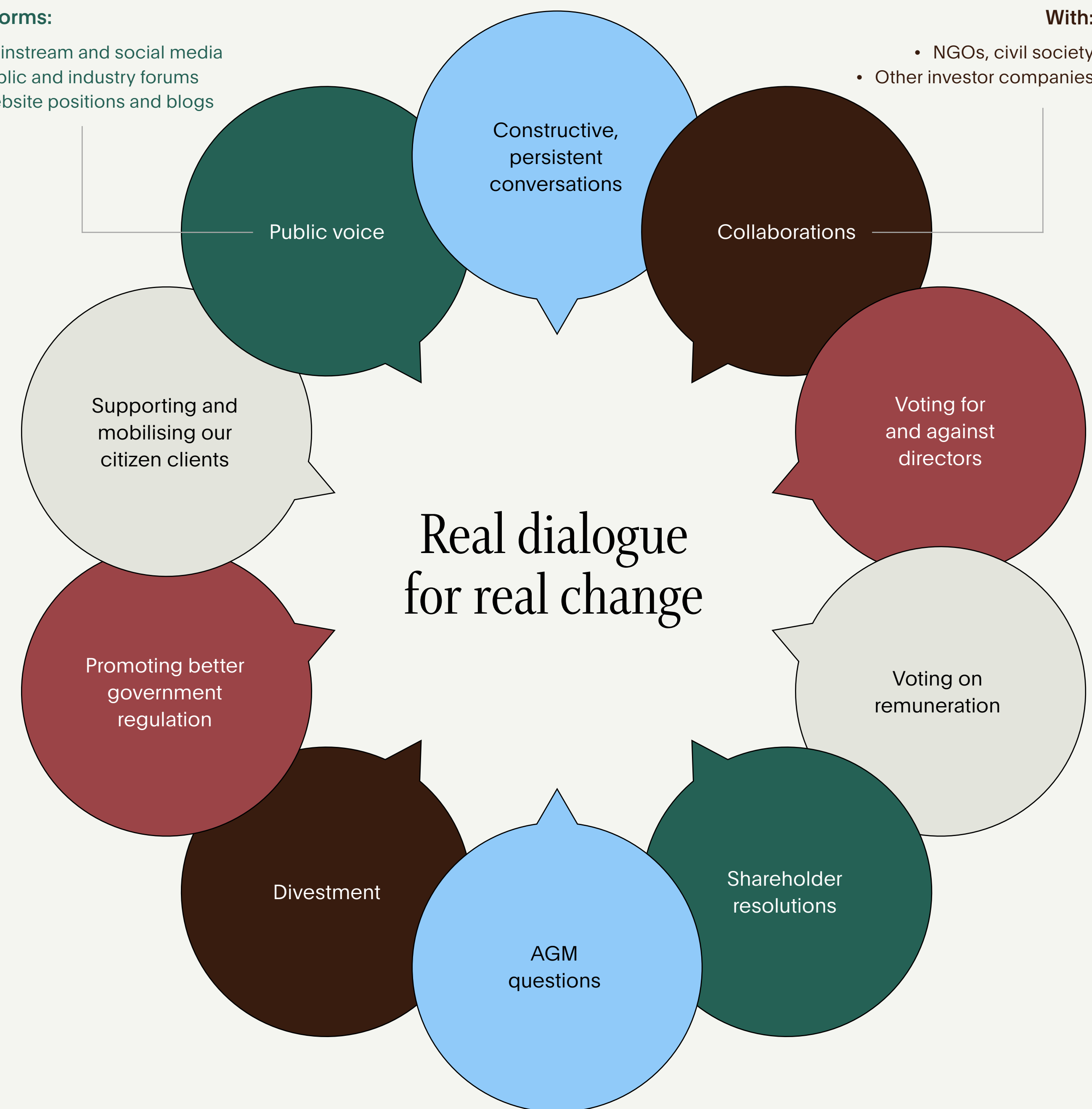
Even when not invested in a company, investors can still positively influence, through engagement with management, through their public voice and through their investments in adjacent industries. For example, Australian Ethical does not invest in fossil fuel companies or conventional animal agriculture companies, but we can still influence through our engagement with the broader investment community, the finance sector and retailers.

How these tools are used in practice will vary depending on the investor's approach, the issue and the company they are seeking to influence. But all investors need to be escalating unsuccessful engagement when companies fail to make progress. For example, if a company continues to spend capital on new projects or infrastructure which is not aligned with the transition needed to limit warming to 1.5 degrees, timely escalation is critical. On the other hand there is a case to provide room for companies and executives genuinely grappling with the challenge of winding down existing high-emissions activities. Recognising the difference between these two cases is crucial from both a climate and investment perspective.

Investors can also influence government and regulators to change. Long term investors with investments across the economy can provide a more objective perspective to encourage policies, laws and regulatory frameworks that protect public long-term interests (as opposed to companies and industries that may be lobbying to protect their narrow interests sometimes at the expense of the public good). This can be through investor statements to governments, policy submissions, and coordinated lobbying campaigns for example through the Investor Group on Climate Change.

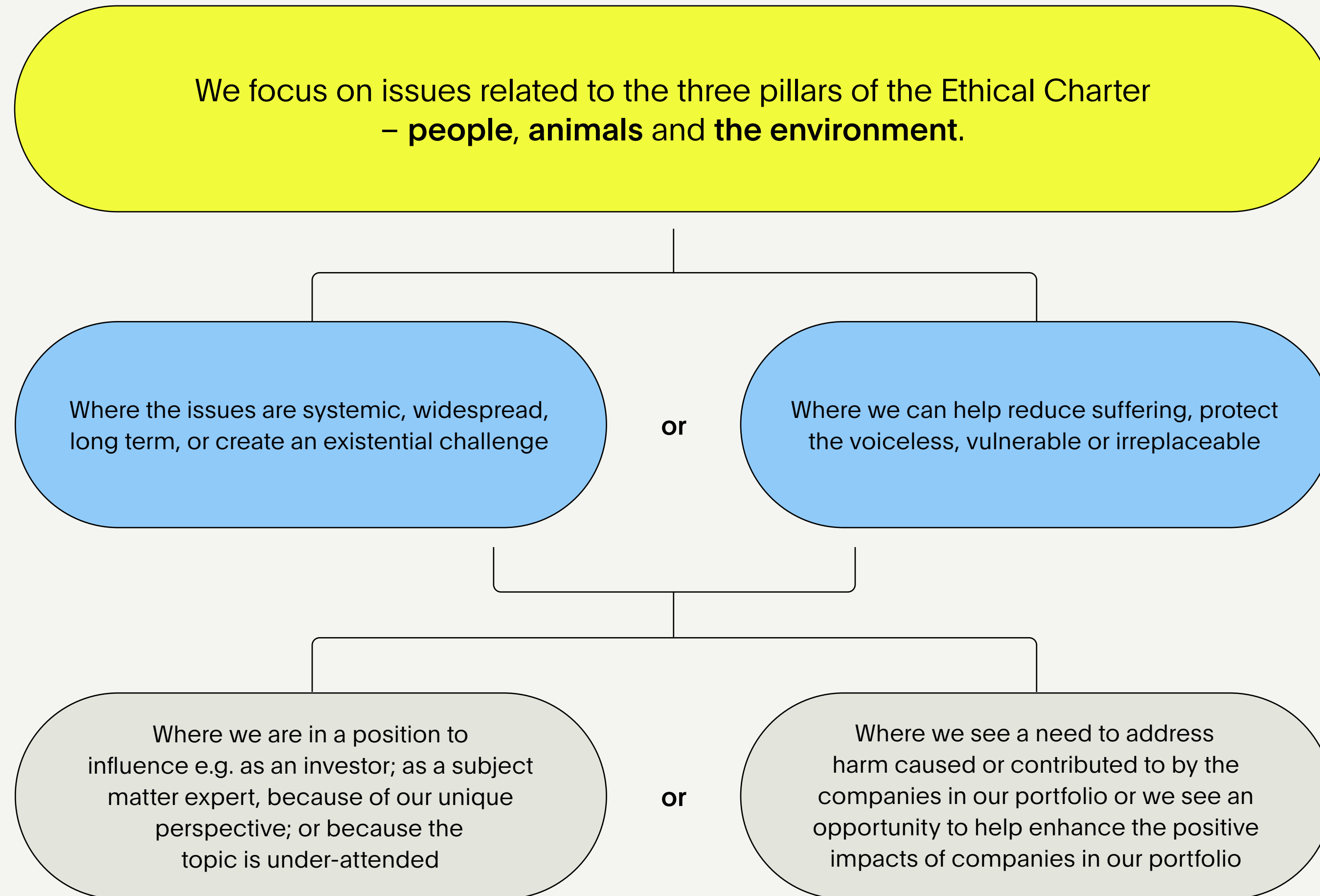
At Australian Ethical, we are prepared to use all of the tools at our disposal to influence change and escalate where our efforts are not making progress, including through divestment.

There is no scientific formula to achieve the type of change we need. We do know that influencing big and meaningful change by corporates and government takes time, persistence, and coordinated, strategic and nimble efforts that are responsive to a rapidly evolving context. In recognition of this, we updated our approach to ethical stewardship at the beginning of FY22 to focus on multi-year strategic initiatives within our priority areas of focus, to set real world objectives and roadmaps with in-built flexibility against which we can track progress and hold ourselves to account.



Our process for identifying our priority areas of focus

We have to be strategic about where we are investing our time and resources to influence change. We use the following framework to guide our strategic ethical stewardship initiatives:



Issues are ideally

- important to existing and prospective customers
- the subject of existing media interest with space for our voice or where we can generate such interest
- able to be efficiently acted on, such as where there are synergies with our ethical screening and impact measurement, where we can leverage previous work or existing relationships, where we can leverage the Foundation partnerships or where there are synergies with people powered advocacy campaigns

In addition we may engage in more opportunistic or 'tactical' ethical stewardship where we:

- need to engage to confirm an investment is aligned with the Ethical Charter or to encourage alignment (this engagement is informed by the Ethical Frameworks that apply the Ethical Charter to relevant industries and issues)
- can support others' initiatives that are aligned with our position on issues relevant to the Ethical Charter
- see any other opportunity to positively influence on issues aligned with the Ethical Charter

Although we don't refer to the Sustainable Development Goals (SDGs) in this framework, we see a strong alignment of the SDGs with our Ethical Charter, and as a result with our ethical stewardship.

The SDGs are the culmination of a lot of research, thought and discussion and are an excellent tool for governments, companies and investors to identify priority areas they should be seeking to address. We use them as part of our assessment of the impact of our investment portfolios.

Having said that, the SDGs don't address all important impacts on people, animals and the environment. They do not, for example, afford much consideration to the other sentient beings with which we share this planet, specifically the 70 billion+ raised and killed for meat each year[7] and the animals used for other commercial purposes (such as clothing, entertainment, research). The Ethical Charter explicitly recognises that non-human animals deserve dignity and wellbeing and should not be subjected to unnecessary harm.

7. ourworldindata.org/grapher/animals-slaughtered-for-meat. Note this data does not include animals killed for egg and dairy production or fish killed for consumption.

Our commitment to achieving and reporting on real world outcomes

Our objective for engaging in ethical stewardship is to achieve positive real-world outcomes. We owe it to our stakeholders; on whose behalf we conduct our ethical stewardship. And of course, we also need to assess whether our efforts are achieving anything or if we need to change our approach. We therefore prioritise our reporting on progress towards real-world outcomes, over reporting on our level of activity.

To that end, for each of our strategic engagement initiatives, we have set out what our real-world objectives are. The real-world objectives are reflective of what needs to happen for the world to address systemic challenges. They are ambitious. They are beyond what our activities alone can achieve, and therefore outside of our full control. It will also take time to achieve them; while we press for more urgent change, we recognise that meaningful and lasting progress will likely take a number of years. Even if they are achieved, it will be difficult to attribute that success to our efforts.

Therefore, to hold ourselves accountable to progress towards these objectives, we have also set out sub-objectives and activity-based targets for FY23 and will report our progress in subsequent Ethical Stewardship Reports. Our activities need to be agile and responsive to new information and developments. Therefore throughout the year we may need to change our approach toward achieving a particular objective. Where we depart from our set activity targets, we will report on this, our reasons for doing so, and where applicable, set new targets.

Strategic ethical stewardship initiatives

Turning off finance for fossil fuels

The fossil fuel sector is a prime target of our investor advocacy and has been for a long time. We do not invest in fossil fuel companies[8] but for close to a decade we have leveraged our investment in the finance sector to seek to turn off sources of funding that enable unsustainable fossil fuel expansion to continue.

Over time we have seen financial institutions make commitments to align their lending, investing and underwriting activities to the Paris Agreement and to phase out coal. Now the finance industry needs to deliver on their coal exit commitments, and to look beyond coal to other parts of the energy industry and the broader economy. We focused this year on the financial sector's support for the unsustainable expansion of gas projects in Australia. The International Energy Agency tells us that net zero by 2050 means gas needs to decline this decade. But Australian oil and gas companies continue to plan and invest in new oil and gas fields. There is a dangerous disconnect here.

8. We don't invest in companies whose main business is fossil fuels, or in diversified companies that earn some fossil fuel revenue and aren't creating positive impact with their other activities. We may invest in a diversified company which is having a positive impact in other ways such as producing renewable energy, providing its negative revenue is sufficiently low (a maximum of 5% to 33% depending on the activity).

A decade of influencing the finance sector

Banks disclose lending to fossil fuel

In 2013 we asked the Australian big 4 banks to disclose the amount they lend to coal, oil and gas.

Finance companies commit to Paris

We called on the banks and insurance companies to align all large-scale lending and insurance with the 2015 Paris Climate Agreement.

Banks and insurers start excluding coal

In 2017 Westpac and NAB announced exclusions for new thermal coal projects, including any Adani Carmichael mine. In 2019 QBE announced a phase out of its coal exposure after we co-filed a shareholder resolution with Market Forces.

AEI divests

In 2020 Marsh McLennan said it may refuse business if contrary to climate goals and SDGs. This vague commitment fell well short of what we asked. We divested our shares.

Calling for oil and gas exclusions

In 2021 we had meetings with QBE, NAB and Westpac about their continued support of the fossil fuel sector. We challenged QBE on the shortcomings of its climate policy and called on the banks to assess climate alignment of all new oil and gas projects of the companies they fund. We co-filed a shareholder resolution calling on QBE to align its underwriting and investments of oil and gas assets with the Paris Agreement, and at its AGM pointed out that many of its customers are not Paris aligned. At NAB and Westpac's AGMs we supported shareholder resolutions calling for Paris-aligned targets to reduce fossil fuel exposures and transparency about how any new fossil fuel finance is consistent with their net zero by 2050 commitments. We also engaged insurance broker Arthur J Gallagher about its lack of climate criteria or targets. AJG indicated climate commitments were under active consideration.

Funding research

In 2021 we helped finance and contributed to an IGCC-commissioned report which examined high impact planned Australian gas projects and their risks for non-alignment with the Paris agreement.

Banks introduce some oil and gas restrictions

In 2021 NAB announced a cap on its exposure to the oil and gas sector, along with restrictions on lending for greenfield oil and gas extraction projects. Westpac announced requirements for public Paris-aligned business goals for new oil and gas exploration, production and refining customers.

Continued pressure on QBE for its oil and gas exposure

In 2022 we met with QBE's sustainability team to understand how it was progressing on oil and gas exposure. We were disappointed with its lack of ambition. We co-filed a shareholder resolution calling on QBE to disclose Paris aligned targets to reduce exposure to oil and gas assets; and its plans and progress to achieve those targets. At QBE's AGM we challenged its policy which allows insurance of expansion of the oil and gas sector until 2030. We highlighted that QBE was falling behind its competitors in setting restrictions for the oil and gas sector. You can watch the exchange with QBE's Chair here: QBE AGM 2022: Australian Ethical questions QBE on its current oil and gas targets.

AEI divests

In 2022 we divested from major energy insurer Travelers, who refused to expand their limited fossil fuel underwriting restrictions. We also divested from Arthur J Gallagher for lack of action to align its insurance broking services with the Paris Agreement.

Next steps

Major banks are giving high emission customers too much time to align their business with the transition to limit warming to 1.5 degrees. Also, they are not applying their climate-related restrictions to their general corporate lending facilities, which is a major loophole. In FY23 we will raise these concerns with the banks and assess any additional climate-related targets and criteria using the IGCC report, IPCC reports and the IEA's Net Zero by 2050 roadmap. We will also closely scrutinize QBE's first science-based target which it is due to publish in mid-2023 under the terms of its membership of the Net Zero Insurance Alliance. If these financial institutions continue to set targets and criteria that are insufficient, we will co-file shareholder resolutions and assess other ways of escalating the engagement.

Goal

Major financial institutions stop financing unsustainable fossil fuel expansion

The banks

What we did

Meetings

We met with NAB and Westpac in September 2021 to discuss how they are incorporating climate change impacts into their lending decisions and customer engagement. We also participated in an ANZ Bank sustainability roundtable call in November 2021 on these issues. In our discussions we called on the banks to assess climate alignment of all new oil and gas projects of the companies they fund. These are important conversations to be having because we do not want to see the banks weasel out of their Paris commitments by claiming to align their overall portfolio to the Paris Agreement, while still supporting individual oil and gas projects that are fundamentally not aligned.

AGM activism

At the annual general meetings of NAB and Westpac we supported shareholder resolutions sponsored by Market Forces calling for Paris-aligned targets to reduce fossil fuel exposures and for the end of all finance to new fossil fuel projects. In both our private meetings and our public questioning at the AGMs, we pressed the banks for more climate information and action in several areas:

- What steps are the banks taking to be satisfied that their customers' climate targets are real and not window dressing?
- What science-based transition paths and scenarios are the banks using to test new funded infrastructure against the Paris Agreement?
- How do the banks safeguard that general purpose corporate loans aren't used by customers to develop new oil and gas projects which are not aligned with the banks' net zero commitments?

Funding independent research

Independent research is an important tool to hold companies to account. The International Energy Agency's advice raises serious climate concerns about all new oil and gas projects but doesn't provide analysis of specific projects. We saw a need for independent research assessing the Paris-alignment of planned Australian gas projects that could be used to hold financial institutions and their customers to their Paris commitments. This year we helped finance and contributed to an IGCC-commissioned report which examined high impact planned Australian gas projects and their risks for non-alignment with the Paris agreement.

What the banks did

The banks have made some progress this year, including:

- NAB announced a cap on its exposure to the oil and gas sector, along with restrictions on lending for greenfield oil and gas extraction projects.
- Westpac announced requirements for public Paris-aligned business goals for new oil and gas exploration, production and refining customers.
- ANZ set a reduction target of 50% for the emissions intensity of its global power generation portfolio by 2030.
- All banks made commitments to publish further detail of climate-related targets and criteria in 2022.

What next

We see two key areas of weakness across all the big four:

- Insufficient urgency. High emissions customers are being given too much time – 2, 3 and more years – to align their business with the transition needed to limit warming to 1.5 degrees. Banks can't wait until 2025 or beyond to start cutting off funding. There is a case to provide room for companies and executives genuinely grappling with the challenge of winding down existing high-emissions activities. There is no case for latitude when capital is being allocated to expansion of those high emission activities rather than to the alternative technologies and infrastructure which need to replace them. Recognising the difference between these two cases is crucial from both a climate and investment perspective. All significant new capital expenditure – including the debt and equity capital which supports it from banks and investors – should be aligned with the Paris Agreement. From today.
- While some banks are increasing restrictions on where they will provide project finance for new fossil fuel projects, these restrictions typically don't apply to banks' general corporate lending facilities e.g. 'working capital facilities'. This is a major gap or loophole. Although this sort of general lending isn't linked to specific projects, it can be used by the borrower for e.g. new fossil fuel projects. Banks should be testing whether high emissions customers are genuinely aligning with the Paris Agreement – including scrutinising new capital spending – before providing financial support under any type of lending or other arrangement.

Banks and companies often ask us to judge them 'as a whole', taking into account their 'green' alongside their 'brown' activities. Large banks are essential to help fund the US$5 trillion per year the IEA has forecast for investment in climate solutions by 2030 to achieve net zero by 2050. But lending to the renewable energy sector cannot excuse lending to companies or projects that are fundamentally not aligned with the climate transition.

We invest in Macquarie Group, for example, which as well as being a leader in green lending has also been a significant funder and facilitator of the fossil fuel sector. We accept that existing fossil fuel energy can't be shut down tomorrow, and that fossil fuel company borrowings can't be repaid tomorrow. But any new fossil fuel activity and lending needs to be closely scrutinised. We are deeply concerned by Macquarie's support for new gas exploration and infrastructure directed at development of shale gas extraction in the Beetaloo Basin in the NT.

The banks have promised to provide further detail in 2022 on their climate-related targets and criteria for assessing the Paris-alignment of high impact projects. We will use the IGCC report we helped finance (as well as IPCC and IEA reports) to help us test whether the banks' targets and criteria are sufficient and whether they are being genuine in their efforts to align their lending to the Paris Agreement. Of course divestment and other forms of escalation are always on the table where we invest in a bank that we assess is no longer aligning its lending to the Paris Agreement.

Proposed FY23 activities

Assess banks' additional climate-related targets and criteria using IGCC report, IPCC reports and the IEA report.

If their targets and criteria are insufficient:

- Seek further meetings with them where necessary to clarify their positions and signal our concerns
- Make concerns public
- Co-file / support shareholder resolutions and encourage support from other responsible investors through our networks and the UNPRI collaboration platform
- Challenge company management at AGMs
- Consider pathways for other escalations (e.g. seeking to replace directors)
- If their targets and criteria are sufficient, we will need to monitor implementation.

Where we draw the line

We will only invest in large banks where we assess them to be aligning their institutional lending to the Paris Agreement. Our climate assessment considers their lending to:

- The fossil fuel sector, including the type of fuel and its emissions intensity;
- Renewable energy and energy storage; and
- Technologies and activities which reduce energy usage or store carbon (e.g. green buildings, low-emissions transport and reforestation).

We also look at the way banks facilitate financing by others. That is, how a bank might help companies raise financing for environmentally friendly initiatives, including through instruments such as green bonds.

Insurance companies

What we did

Meeting

We met with QBE's sustainability team in January 2022 to understand how it was progressing on restricting oil and gas exposure. In our discussions we pointed out the major gaps we see in QBE's climate policy that sets out how it will assess Paris-alignment when underwriting oil and gas companies. We made it clear we were disappointed with QBE's lack of ambition and in particular:

- its postponement of assessment and action in the oil and gas sector to 2030 (and even to 2040 for companies with up to 59% revenue from oil and gas extraction);
- the fact it has set no date to assess Paris alignment for companies with less than 30% revenue from oil and gas extraction; and
- the fact its restrictions do not apply to treaty reinsurance of oil and gas exposures.

Climate shareholder resolution

We worked with Market Forces to co-file a shareholder resolution calling on QBE to disclose in its annual reporting short, medium and long-term targets to reduce investment and underwriting exposure to oil and gas assets that are consistent with the climate goals of the Paris Agreement, along with plans and progress to achieve those targets. We also added the resolution to the UNPRI collaboration platform to encourage other responsible investors to support this resolution. Unfortunately the resolution achieved only 19.8% support at QBE's AGM, which was a drop from the 21% support a similar resolution achieved in 2021. It is disappointing that more investors are not supporting important shareholder resolutions on climate change.

Questioning at QBE's AGM

At QBE's AGM, Our Head of Ethics Research challenged QBE's policy to wait until 2030 to start restricting its insurance of expansion of the oil and gas sector, and called out that QBE was falling behind its competitors in setting restrictions for the oil and gas sector. Below, you can watch the exchange with QBE's Chair.

Watch the video →

What QBE did

QBE has joined the Net Zero Insurance Alliance, which is a UN-convened group of insurance companies. To join the Alliance, companies must make a number of commitments including to:

- transition all operational and attributable greenhouse gas emissions from insurance and reinsurance underwriting portfolios to net-zero emissions by 2050; and
- set intermediate science-based targets every 5 years. The first target will be based on scientific metrics that will be defined in a target-setting protocol that is due to be published early next year. Existing members will need to publish their first intermediate target within 6 months of publication.

After the AGM, QBE asked our Head of Ethics Research to meet with the company's new CEO. This was the first time we have had an opportunity to discuss our concerns with the CEO of QBE. This demonstrates that investors can publicly call out the shortcomings of investee companies without closing the door to productive private conversations. Responsible investors should not avoid challenging companies publicly just because it's uncomfortable. They should be prepared to use all tools at their disposal to influence positive change.

Proposed FY23 activities

Assess QBE's science-based target when disclosed. If QBE's targets and criteria are insufficient:

- Seek further meetings with them where necessary to clarify their positions and signal our concerns
- Make concerns public
- Co-file / support shareholder resolutions and encourage support from other responsible investors through our networks and the UNPRI collaboration platform
- Challenge company management at AGM
- Consider pathways for other escalations (e.g. seeking to replace directors)

Where we draw the line

We will only invest in large insurance companies that we assess to be aligning their underwriting to the Paris Agreement. Divestment is always on the table for insurance companies that fail the test.

In fact our climate engagement patience has run out with two global financial institutions. We have divested from major energy insurer Travelers, who refused to expand their limited fossil fuel underwriting restrictions. We divested from insurance broker Arthur J Gallagher for its lack of climate criteria or targets. During our 2021 engagement AJG had indicated climate commitments were under active consideration, but these were not delivered.

Research on animals

An estimated 190 million animals were used for scientific purposes in 2015 (not including observational studies).[9] Most of the animals used for scientific purposes will suffer. Their lives may be spent entirely in confinement. Many are bred or genetically altered to introduce a specific disease such as cancer or dementia. Some undergo surgery to mimic conditions such as deafness; many are subjected to invasive procedures, restraints or are forced into situations to induce stress. Generally animals are killed when an experiment ends (if they do not die as part of the experiment).

We do not invest in cosmetic companies that conduct or commission animal research because we do not think the animal suffering is justified. However we invest in companies that conduct or commission animal research for the development and testing of health care products as we recognise that animal research is currently a necessary part of developing those products.

Given sentient animals subjected to animal research can suffer extreme distress and pain, we expect companies that are involved in animal research (directly or indirectly) to take seriously their obligation to avoid and reduce animal suffering wherever possible, including by demonstrating genuine commitment to the global 3R principles. The 3R principles are replace animals wherever possible, reduce the number of animals used and refine conditions and methodology of research to reduce suffering. These principles have been incorporated into regulatory regimes around the world including in Australia.

However we have concerns that application of the 3Rs is in some cases not much more than a box ticking exercise. In Australia, as in most jurisdictions, there is little regulatory oversight of animal research and to our knowledge limited coordinated efforts to advance the 3Rs in the private sector. Given our position as an investor in the healthcare sector, and one of only few investors in the sector that are alive to this issue, we see it as our responsibility to explore with companies opportunities to address these issues.

What we did

Since FY18 we have had engagements with over 14 companies and a number of other stakeholders (including scientists who sat on animal ethics committees, and animal protection organisations). These engagements were fact-finding discussions to help us understand how companies approach the 3Rs, what best practice looks like, and where there are areas for improvement.

A common response we received from companies was that they only conduct or commission animal research when absolutely necessary, and all research is approved by animal ethics committees. We do not consider this sufficient to demonstrate genuine application of the 3Rs. Generally, an Animal Ethics Committee is a committee that sits within the organization conducting the research and includes members who are independent. Based on our consultations, we are concerned that Animal Ethics Committees may not have the knowledge or may not be in the position to say no to an animal research proposal or to identify opportunities to use alternatives. Animal Ethics Committees certainly have their place, but they rarely challenge whether an animal research proposal should proceed and they have not always stopped questionable research on animals going ahead. They can sometimes entrench the status quo and are not a good vehicle to progress the use of alternatives. Following our conversations we developed five minimum expectations of companies involved in animal research to demonstrate genuine application of the 3Rs. These are set out below under 'Where we draw the line'. A key aspect of these minimum expectations is that we expect companies to do more to ensure application of the 3Rs than simply rely on Animal Ethics Committees.

In FY20 we communicated to companies the findings of our engagement and consultations and our minimum expectations. We invited feedback on our proposed minimum expectations.

In FY22 we wrote to nine Australian / NZ companies to ask them to confirm they are meeting our minimum expectations. Of those nine companies, we assessed that five substantially meet our expectations; two provided responses that were inadequate; one has not yet responded; and one we did not continue the engagement as there were no prospects of imminent investment in the company by Australian Ethical.

What the companies did

Over the course of this multi-year engagement program, five companies have made meaningful changes to their approach to animal research. CSL and Immutep have introduced an animal welfare policy, Fisher & Paykel committed to doing so. Pharmaxis reassessed the external research organisations it was working with and stopped working with all that do not have AAALAC accreditation (an independent accreditation on animal welfare). Antisense published a statement on its website that commits it to meet all five of our minimum expectations.

9. journals.sagepub.com/doi/10.1177/0261192919899853

What next?

We will be escalating the engagement with the companies that have failed to demonstrate they meet our minimum expectations. Divestment will be on the table if they do not make meaningful progress towards meeting them.

Animal welfare policies only go so far and the reality is, even under the best conditions, animals suffer when they are used for research. Replacing animals with alternatives has to be the focus. Through this engagement program we have come to a better appreciation of the fact that when it comes to replacing animals with alternatives, individual companies are fairly constrained by what they can achieve by virtue of regulatory requirements and commercial realities. But this is no excuse for inaction. We think there is opportunity to shift the dial on this issue through pre-competitive industry collaboration to fund, validate and commercialise alternatives to animal research.

We have started testing this idea with companies and speaking to various NGOs and research institutions in Australia and overseas to understand where the opportunities are for industry collaboration. Through these discussions we are beginning to form a roadmap of work. This could include:

- bringing this issue to the attention of other investors to increase pressure on companies (e.g. through the UNPRI collaboration platform);
- speaking to international industry associations to understand whether they could facilitate an industry-wide 3R initiative;
- exploring the possibility of benchmarking companies and other research institutions on their efforts as this works well in other contexts to nudge company action; and
- pushing for regulatory and government change such as better funding and support for alternatives and better scrutiny of the 3Rs by government funding organisations like the Australian National Health and Medical Research Council (NHMRC).

Proposed FY23 activities

- escalate engagements with companies that did not adequately respond in FY22. Divestment will be on the table for companies that do not commit to progress in FY23
- commence engagement program with select Australian universities
- publish a statement on the UNPRI collaboration platform
- engage with industry associations to understand their perspectives on an industry-wide 3R initiative

Where we draw the line

Where healthcare companies are involved in animal research, we require evidence of genuine commitment to the 3Rs. Our understanding of what genuine commitment to the 3Rs looks like is constantly evolving as we learn more about the very complicated and opaque world of animal research. Currently, our expectations are:

1. The company engages research institutions that are in a jurisdiction with adequate animal welfare standards, or apply those standards.
2. The company confirms that any research institution it uses upholds the 3Rs principle. Confirmation to be based on the research institution's reputation, questioning the institution in relation to specific practices, and relying on assessments by internal or external experts on animal welfare in scientific research.
3. The company ensures that individuals or organisations with scientific expertise in alternatives to animal research are consulted at the design stage of proposed animal studies.
4. The company ensures that its engagement contracts with research institutions include requirements that the research institution will:
    a. apply high animal welfare standards at all stages of the animals' life for which they are responsible including transport and housing
    b. apply the 3Rs at all stages of the process including experiment design
    c. report on its application of the 3Rs in the contracted research.
5. The company does at least one of the following:
    a. puts some funding towards the development of alternatives to animal research models
    b. supports regulatory changes and public funding of research to improve application of the 3Rs and to support the use of alternatives where they are available. We are happy to discuss further the ways in which companies could show this support to regulators and others; or
    c. has a public statement on the company website that outlines the specific steps the company is taking in relation to the 3Rs.

Livestock driven deforestation in Australia

Animal agriculture uses a disproportionate amount of land and other resources relative to the nutritional value it provides. It is the primary driver of deforestation in Australia, contributing to climate change and biodiversity loss. It also presents an opportunity cost – land currently used for grazing / growing animal feed could be used to sequester carbon and restore ecosystems. Our research suggests we need land to offset not only the emissions from agriculture but also other hard to abate sectors.

About half of Australia's total land area is used for agriculture. Of this land, 86.5% is used for grazing.[10] This does not include land used to grow animal feed.

Using so much land for livestock is hugely inefficient. Research suggests that if we moved from current diets to a diet that excludes animal products the world could reduce food's land use by 3.1 (2.8 to 3.3) billion ha (a 76% reduction).[11]

Why does land use matter?

Every hectare of land we use for extractive industries is a hectare that cannot support wild forests, savannahs, wetlands, natural grasslands and other crucial ecosystems. And all that land we could free up with a change in diet could be used to sequester carbon and restore native habitats and ecosystems.

10. soe.dcceew.gov.au/land
11. josephpoore.com/Poore%20and%20Nemecek%20(2018)%20Reducing%20foods%20environmental%20impacts%20through%20producers%20and%20consumers.pdf

If we moved to a diet that excludes animal products we could reduce food's land use by 3.1 billion ha.[11]

The impact of livestock plays out visibly in Australia

Australia is the only developed country in the world with an identified global deforestation hotspot.[13] Livestock is the primary driver of that land clearing. In QLD, 93% of deforestation and land clearing in 2018-19 was for conversion to pasture.[14]

We also have one of the worst track records for animal extinctions. Clearing of native vegetation is a major cause of habitat loss and fragmentation and has been implicated in the listing of 60% of Australia's threatened species. Estimates suggest that almost 4.9 million animals died due to land clearing every year in the decade between 2005 and 2015.[16] In QLD, around 80% of likely or known koala habitat cleared between 2018 and 2019 was cleared for beef production.[17]

We are not sure if the disproportionate impact of livestock in Australia is well understood or accepted by those who can influence and are exposed to animal agriculture in Australia, including banks, insurance companies, food retailers, consumers and other investors. There is a general understanding that beef has a high emissions footprint, but the focus seems to be on solutions that reduce and offset those emissions (such as seaweed and regenerative agriculture). We are not sure others are considering the impact of animal agriculture from a systems level perspective including the need to allocate significant amounts of land to restore ecosystems and get the Australian economy and the world to net zero.

What we have done

We avoid investments in conventional animal agriculture companies because we assess the harm to animals, and the high environmental impact, to be unnecessary when there are less impactful alternatives. However we consider the impact of livestock in Australia an issue over which we can have positive influence.

In FY22 we progressed two streams of work. First, we want to understand how financers of the livestock industry and the major supermarkets are thinking about the environmental impacts of livestock production in Australia. To that end, we had an initial conversation with NAB about deforestation in their loan books. But we know collaborative investor engagements can sometimes carry far more weight.

In FY22 we worked to create or participate in forums where we thought these collective conversations can happen. We:

- signed up to or continued our involvement in global initiatives through which we will have collaborative conversations about this issue with other banks and retailers:
  - We have been an active member of the UNPRI Sustainable Commodities Practitioners Group which seeks to address deforestation in beef supply chains (amongst other high impact commodities).
  - We signed up to the Finance for Biodiversity Pledge and connected with Nature 100 - a global investor initiative that seeks to facilitate investor engagement on nature related issues – to understand where our efforts might complement the work they are planning to do.
- engaged with Woolworths in a joint investor call arranged by FAIRR, to interrogate how they are planning to address scope 3 emissions and other impacts in their animal-product supply chains and support a transition towards more sustainable plant-based diets.
- signed up to the Financial sector commitment letter on eliminating commodity-driven deforestation.[18] Through that initiative we expect to be part of collaborative investor engagements on deforestation with banks and supermarkets.

Global initiatives such as the UNPRI Sustainable Commodities Practitioners Group and Nature 100 are unlikely to focus on the drivers of biodiversity loss in Australia. Notwithstanding the fact Australia has one of the worst records for mammal extinctions of any country and the east coast of Australia has been identified as a deforestation hotspot, Australia usually doesn't feature high on the priority list relative to places like Indonesia and the Amazon. However, our involvement with these initiatives means we can take learnings from their broader programs. We hope to apply these learnings to the Australian context, informed by Australian research and civil society that has a better understanding of the issues on the ground.

Because we recognise the importance of initiatives focused on local nature destruction, we also sought to establish a nature-focused corporate engagement group within existing Australia-based collaborative investor initiatives. We were successful in establishing a corporate engagement sub-group of the RIAA Nature Working Group. We currently lead this sub-group and we are seeking to encourage the group to look at a targeted program focused on Australian food systems.

The second work stream was to explore the value of commissioning independent research that comprehensively assesses the climate and biodiversity impacts of the Australian livestock industry, and addresses head on the question of whether we need a reduction in livestock in Australia to meet the goals of the Paris Agreement and the goal to halt and reverse biodiversity loss by 2030. We have been speaking closely with several NGOs about this potential research to understand what information is already out there, and where the gaps are. We also started conversations with potential researchers.

Next steps

Proposed FY23 activities:

- continue to pursue collaborative engagements on the climate and biodiversity impacts of Australian livestock through the forums we worked with in FY22;
- develop a research proposal on the climate and biodiversity impacts of Australian livestock; and
- commission that research with the goal of using the output to raise awareness and inform collective engagements.

13. WWF Australia (13 January 2021), Australia remains the only developed nation on the list of global deforestation fronts; wwf.org.au/news/news/2021/australia-remains-the-only-developed-nation-on-the-list-of-global-deforestation-fronts
14. Wilderness Society (August 2019), Drivers of Deforestation and land clearing in Queensland; wilderness.org.au//images/resources/The_Drivers_of_Deforestation_Land-clearing_Qld_Report.pdf; and wilderness.org.au/qlddeforestation, wilderness.org.au/qlddeforestation. See also: Evans, Megan (January 2016), Deforestation in Australia: drivers, trends and policy responses; researchgate.net/publication/301942515_Deforestation_in_Australia_Drivers_trends_and_policy_responses
15. soe.dcceew.gov.au/land/pressures/industry#land-clearing
16. WWF animals lost report
17. wilderness.org.au/protecting-nature/deforestation
18. racetozero.unfccc.int/wp-content/uploads/2021/11/DFF-Commitment-Letter-.pdf

Emissions intensity of building products

The building materials sector is a significant contributor to global carbon emissions. Historically we had limited investment in this sector. But as new technologies are being developed and the sector pathway to climate alignment is becoming clearer, we are now investing selectively in those companies that meet our science-based, sector-specific, ethical requirements.

Given our investment in this emissions-intensive industry, we see it as our responsibility influence more urgent progress towards alignment with the Paris Climate Agreement. In FY22 we engaged with five companies in the sector on climate targets and lower emission / sustainable product offerings.

- **Allegion:** We are currently invested in Allegion, who produce door locks and closers and access control systems. We engaged with them about their emission reduction targets. Towards the end of FY22 we wrote to them to communicate our finding that their targets are not aligned with the Paris Climate Agreement. We will closely assess their future climate disclosures.
- **Boral:** We are currently invested in Boral and are lead investor for the Climate Action 100+ engagement with the company. We met with Boral in July and October, and were pleased to see the company commit to set 1.5 degree-aligned Science Based Targets. It announced 2025 and 2030 reduction targets for its Scope 1 and 2 emissions (18% and 46% from a FY19 baseline); and a 2030 Scope 3 reduction target for cement based materials (22% per tonne).
- **CSR Limited:** We engaged with CSR Limited to assess whether they meet our ethical criteria for investment. We enquired about their building product range (including embodied carbon, lifecycle emissions and circular economy applications) and their 2030 climate targets. We assessed the company to meet our ethical criteria for investment because of its insulation products (which make buildings more sustainable) and its gyprock products (which is a less carbon intensive material compared to alternatives). However we think its climate targets could be more ambitious and more complete, including coverage of scope 3 emissions and joint ventures, and a net zero target.
- **Fortune Brands Home & Security:** We are currently invested in Fortune Brands & Home Security. Towards the end of FY22 we engaged with the company on its emission reduction targets, the fact it does not track Scope 3 emissions or set targets for their reduction, whether it has targets to grow its more sustainable product ranges, and the percentage of its sourced timber that is sustainably certified. The company provided that it will update on major developments in its next ESG report, and we will update our ethical review of the company at that time.
- **Wagners Holding:** We engaged with Wagners Holding to assess whether they meet our ethical criteria for investment. We enquired about their emissions reduction targets and initiatives and sought to gauge their interest in joining industry initiatives to address embodied carbon in building materials. The company did not respond to our engagement. We have ruled out investment in the company on the basis that the majority of its business is in traditional, carbon intensive building materials (cement, concrete and steel) and the company did not (at the time of assessment) have any emission reduction initiatives or targets.

As in many sectors, transition can be accelerated through better collaboration between suppliers, users and regulators to understand and remove barriers to a more efficient transition. In FY22 we were actively involved in the Materials and Embodied Carbon Leaders' Alliance (MECLA), which seeks to drive reductions in embodied carbon in the building and construction industry. Among other things, MECLA is seeking to encourage state governments to require measurement of whole of life carbon emissions for built environment projects, in order to set a benchmark that will lead to an emissions reduction target, and a carbon budget embedded in the National Building Code.

We have not yet set objectives and activity-based targets for this strategic engagement project as we are still in the early stages of understanding our role in positively influencing the sector.

Tactical engagements

Carbon sequestration and protection of wildlife

In FY22 we were invited by an externally managed fund to participate in the development and ownership of carbon sequestration projects. The projects involve investing in Australian pastoral land with specific characteristics and establishing carbon farming projects to generate carbon offsets from underutilized land through human-induced regeneration.

We had some initial concerns about investing in this company. While carbon sequestration projects have clear potential for positive climate and biodiversity outcomes, there is a risk positive impacts will not be achieved or that there may be counterproductive impacts. For example, there might be greater beef sector emissions under scenarios where initiatives of this type bolster the economics of beef production; or negative impacts on biodiversity, particularly when wildlife are excluded from revegetated areas by exclusion fencing. We were concerned that company management may set an objective to maintain livestock productivity on properties the company acquired and thereby increase the risk that the positive impacts were not achieved or were outweighed by negative impacts.

What we did

We made it a condition of our investment that the project would:

- Set biodiversity targets
- Incorporate the views of people independent of the livestock industry on biodiversity and animal welfare

What the fund did

As a result of our engagement, the fund has appointed an independent biodiversity expert that we approved to set biodiversity targets and parameters and review implementation. The fund is in the process of appointing an animal welfare expert to review the terms of the company's standard lease to require farmers to adopt higher than industry standards of animal welfare.

What next?

We will monitor in subsequent reviews evidence of whether this project is meeting climate and biodiversity targets. This is our first investment in carbon sequestration (beyond operational offsetting and grants given through the Australian Ethical Foundation). Our involvement in this project will hopefully help inform the further development of our ethical requirements for carbon sequestration projects and biodiversity impacts more generally.

Where we draw the line

We avoid investments in conventional animal agriculture because we assess the harm to animals, and the high environmental impact, to be unnecessary when there are less impactful alternatives. Accordingly we wanted to make sure that by investing in this company we were not increasing harm caused by the livestock industry. We received confirmation that the company would not own any livestock or be involved in the livestock farming business in any way, other than by leasing what is already grazing land to cattle farmers. We also received confirmation that revenue from leasing the land to farmers is expected to be minor relative to revenue from generating and selling carbon offsets, and well below our tolerance thresholds. We concluded that rather than increasing the negative impacts of the livestock sector, this project has the potential to reduce some of those impacts.

As stated above, we made it a condition of this investment that there are biodiversity targets for the carbon sequestration projects and independent oversight by biodiversity and animal welfare experts.

Lendlease

We continued our multi-year engagement with Lendlease about its housing development at Mount Gilead, which is next to one of the last healthy koala colonies in NSW. We have been very concerned about this development and its potential impacts on the local koala colony since we first became aware of it at the end of 2018. Housing our growing population whilst ensuring there is sufficient land for our native species to thrive is an enormous challenge (exacerbated by the enormous land footprint of our animal agriculture industry). There are no clear answers about how it should be resolved.

What we did

Meetings

Since 2018 we have had multiple meetings and calls with Lendlease. In FY22 specifically we had three calls with the Mt Gilead project team, our Chief Investment Officer had a meeting with Lendlease's CEO and our Head of Ethics Research and Ethical Stewardship Lead had a meeting with Lendlease's Group Head of Sustainability and Head of Sustainability Australia.

Generally the purpose of these meetings has been for us to understand what protections Lendlease are putting in place for koalas including koala corridors, underpasses and ongoing koala monitoring programs. Our questions to Lendlease are informed by briefings we have had from wildlife protection groups.

We also used the meeting with Lendlease's sustainability heads to find out whether Lendlease conducts its own assessments of the public interests in development of a site, or whether it simply relies on government processes.

We put it to Lendlease that in the context of failures of successive local, state and federal governments to protect native habitat and to reverse the decline of koala populations, and in the context of the review of the EPBC Act which found multiple systemic regulatory failings, responsible developers need to conduct their own independent assessments of whether it is in the public interest to develop a site (including consideration of whether there are more appropriate uses such as revegetating native habitat).

Site visit

In early 2021, we secured a site visit with Lendlease and two NGOs, where we asked Lendlease about the scope and the impacts of land clearing required for the development.

Public questioning at half year results

At Lendlease's half year 2022 results presentation we asked the following questions of Lendlease management:

- Can Lendlease guarantee that koalas will have active and safe passage through the Mt Gilead site in perpetuity, and if it can't give that assurance, on what basis does it justify going ahead with the development?
- Does Lendlease independently assess the public interest of a proposed development, for example, by conducting its own assessments of the risk to biodiversity. Or does Lendlease rely on government to make these assessments?

Letter notifying of ongoing concerns

In FY22 we wrote a letter notifying Lendlease that we had multiple ongoing concerns about the development and Lendlease's approach to protection of nature and biodiversity generally. We also set out what steps would help address our concerns.

What Lendlease is doing

Since we first started the engagement Lendlease has committed to restoring high quality habitat on site, building koala underpasses to provide safe crossing, creating koala corridors that meet the requirements of the Office of the NSW Chief Scientist and ensuring that at no point during the development will there be less core koala habitat on site than existed before the development started. However Lendlease did not make any further commitments following our letter notifying of ongoing concerns.

What next?

As Lendlease has failed to engage meaningfully with our letter, we are now considering how we might escalate this engagement. Of course divestment is on the table if we conclude Lendlease does not meet our ethical requirements - something we are continually assessing.

Where we draw the line

We have informed Lendlease that it could be a trigger for divestment if this development threatens the viability of the local koala population. As one of the few remaining koala populations in the Sydney region, it is critical these koalas are protected.

First Nations' land rights

In FY22 we began our engagement with Fortescue Metals Group on the impacts of their activities on First Nations peoples. We do not currently invest in Fortescue, but we are assessing the company for prospective investment. We recognise the potential positive impact of Fortescue's investment in climate solutions through Fortescue Future Industries, such as the Gladstone hydrolyser plant, and its intention to produce green hydrogen at scale to decarbonise the steel supply chain and beyond. These ambitious and potentially transformational activities are critical to reducing carbon emissions and avoiding the worst effects of climate change, especially in hard to abate, high emissions sectors, where new technology and technology scaling is needed to transition.

We have looked at a range of ethical issues associated with Fortescue Metals Group and focused on the impacts of its mining operations on First Nations people. We think this is a key issue due to existing controversies affecting the company, and regulatory policy gaps and lack of transparency that impact the industry more generally, as evidenced most publicly by the destruction of the Juukan Gorge.

We have engaged in research to better understand best practice and companies' individual performance, and to form considered expectations of Australian resource companies' responsibilities to First Nations stakeholders. We have consulted with others working in this area at the Australian Centre for Corporate Responsibility and Australian Council of Superannuation Investors to build our understanding. We intend to continue this work into FY23 to influence better outcomes across issues like free prior and informed consent and cultural heritage protection.

Diversity

In FY22 we engaged 11 companies with low gender diversity on their board and in senior management positions to understand what processes and practices they are putting in place to address these issues. In our FY22 engagements we sought to expand the conversation beyond gender diversity to include ethnicity, orientation and background.

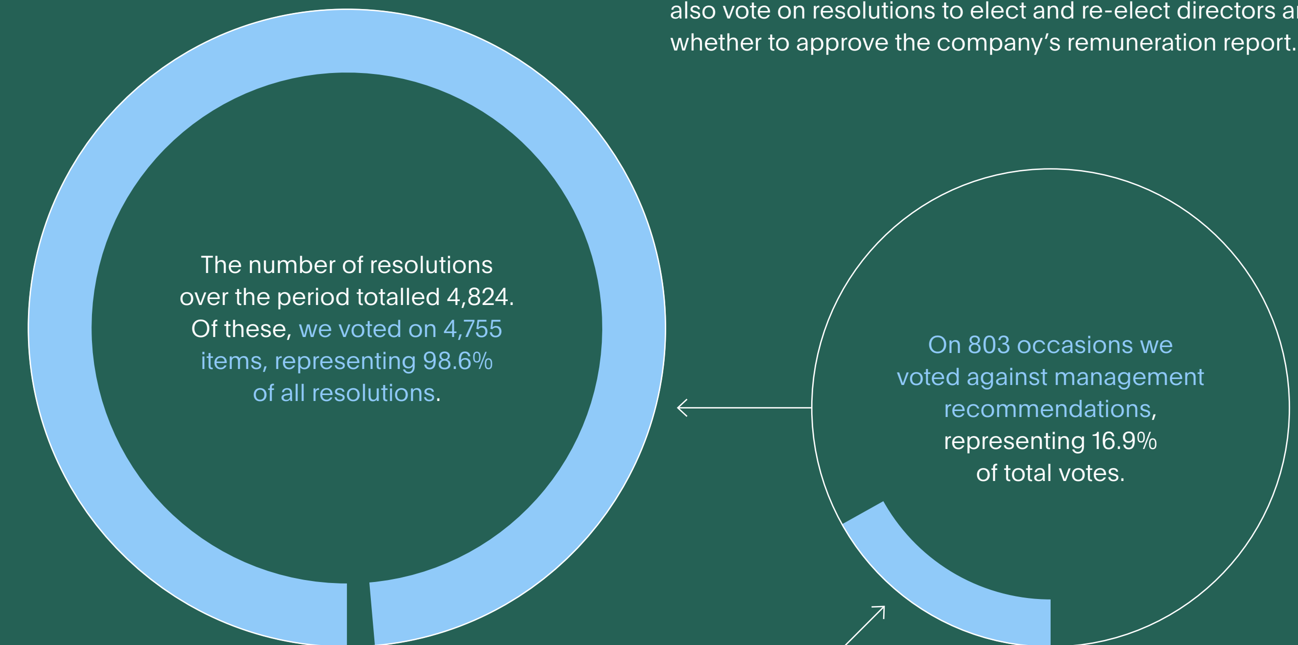
Of the 13 engagements in FY22, seven built on engagements we had with the same companies in previous years. Of those seven, we have seen five make meaningful change over the course of our multi-year engagement. The remaining two both said they will improve their reporting on this issue, and we will monitor their progress.

- **Austco Healthcare Ltd:** We began engagement with Austco on gender diversity in FY19. In FY21 Austco disclosed a gender breakdown of their senior executives in line with ASX guidance. We continued our engagement with them in FY22.
- **IDP Education Limited:** We began engagement with IDP on gender diversity in FY19. In FY22 IDP signed up to the 40:40:20 vision statement and enhanced its reporting on diversity, indicating the company's commitment to improving diversity and representation. This included a pledge to achieve a 40:40:20 gender balance across its board and senior leadership team for CEO-1, 2 and 3 level roles by 2030.
- **Nanosonics Ltd:** We began engagement with Nanosonics on gender diversity in FY21. Following our engagement, Nanosonics expanded their measurable objectives on gender diversity, in line with our recommendations. The company also committed to exploring equal parental leave benefits in its FY21 employee benefits review.

  In our FY22 engagement, we noted Nanosonic's progress in its diversity initiatives and disclosures, and discussed encouraging equal use of parental leave across genders as well as other forms of diversity including around ethnicity, orientation and background. Nanosonics has extended the benefit of paid parental leave and flexibility to non-primary caregivers, reporting that it is important to encourage both men and women equally to utilise the resources and leave entitlements, encouraging a healthy balance of parental responsibilities. They also reported 100% of employees who took parental leave during the reporting period returned to work. The company noted it had achieved 100% of its FY21 Diversity & Inclusion objectives and had set out a range of measures for success for FY22, including fostering and maintaining the cultural diversity of its workforce.
- **Urbanise com Ltd:** We began engagement with Urbanise on gender diversity in FY19. Since then Urbanise has improved their diversity reporting and, off the back of our FY21 engagement, implemented parity in its parental leave rights. In FY22 Urbanise appointed two women to their Executive Committee.
- **XREF Limited:** We began engagement with XREF Limited on gender diversity in FY21. Since then the company has appointed a female director to the board with experience in workforce culture and championing gender diversity. We continued our engagement with them in FY22.

How we voted[19]

Voting is an important lever for shareholders to influence company boards and management. This can be voting on shareholder resolutions, commonly resolutions initiated by shareholders about climate; diversity of directors; transparency or other matters of concern. Shareholders also vote on resolutions to elect and re-elect directors and whether to approve the company's remuneration report.



Of these:

- **459** related to diversity and inclusion concerns, primarily a lack of diversity on the board
- **109** related to management, executive or board compensation and incentives
- **98** were concerned with the independence of board members, committee members, or auditors
- **51** related to ESG concerns, including human rights, climate, employee welfare, and governance
- **35** in the interest of protecting shareholder rights
- **9** were where we supported further disclosure around political contributions and lobbying activities

We used nominal advocacy holdings to support shareholder resolutions against Santos and Origin.

19. This breakdown provides the number of instances where a vote was cast due to the reasons mentioned. However, a decision to vote against management recommendations may be attributed to multiple reasons and therefore this breakdown does not reflect numbers of individual votes.