Responsible Investment at MFG Asset Management

Stewardship Report 2024

Global Equities

MFG ASSET MANAGEMENT

Contents

Meet the team

Portfolio Managers

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Portfolio Manager

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ESG Team

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ESG Philosophy

MFG Asset Management's actively managed investment strategies seek to identify high quality investments and acquire such investments at prices assessed as representing an appropriate margin of safety. As part of the assessment of a company's intrinsic value, MFG Asset Management seeks to consider all issues that may materially affect the investment outcomes for a company. ESG issues affect the investment outcomes for a company and MFG Asset Management specifically considers these issues as part of its analysis of quality.

ESG issues are considered as part of MFG Asset Management's investment process, as gaining a robust understanding of these is a key part to assessing the outlook for future cash flow generation, the risks and opportunities facing investors. MFG Asset Management's investment process seeks to identify high quality companies and consider material risks that could impact future cashflows.

Our ESG team is responsible for oversight of the implementation of stewardship execution.

For further information on our policies:

- ESG policy
- Proxy voting policy
- Climate stewardship strategy.

Executive summary

Dear Investor,

We are pleased to provide an update on MFG Asset Management's Proxy and Engagement activities in relation to its Global Equitues Strategy for the year ending 30 June 2024. This report sets out MFG Asset Management's approach and implementation of our stewardship activities along with the primary details for the year on our engagement and proxy voting activities.

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

Our investment team diligently engages with companies on these risks and opportunities with the aim of strengthening our conviction in portfolio risk management and improving investment outcomes.

57%
Company meetings with at least one vote against the company

24%
Shareholder proposals voted against the company

97%
Companies engaged

>370
ESG topics discussed

Whilst this Review highlights case studies of positive outcomes from our engagements and voting, we acknowledge positive outcomes can be a result of many stakeholder's voices including regulators and customers. Case studies from engagement and proxy voting are outlined within this report, with progress tracked against engagement objectives. We have been investing in resources and technology to improve our milestone tracking towards engagement objectives. Examples of objectives met this year include, Visa's separation of Chair and CEO, McDonald's more ambitious emission reduction targets and SAP improving their accounting approach in remunerative targets to better align with shareholders. Other ongoing engagement topics include improved structuring of remuneration to better align with shareholders, advocating for new or more ambitious climate targets, improved diversity initiatives and disclosure of unadjusted gender pay gaps. We will continue to engage with portfolio companies as we endeavour to progress both acknowledgement of materiality of issues raised and progress towards our expectation as investors to manage this risk. Where progress is not achieved, we will consider invoking our ladder of escalation.

During the year we published our inaugural Climate Report, aligned to the recommendations of the Task Force on Climate Related Financial Disclosures (TCFD). This builds on MFG Asset Management's previous climate related reporting through the annual reports, CDP and Principles for Responsible Investment (PRI). The Climate Report details our commitment to addressing climate change and elaborates on our strategies for managing climate-related risks and opportunities within our investee companies. The analysis has helped to inform our stewardship activities on climate change by prioritising portfolio companies that are 'not aligned' to the attainment of net zero. We are pleased to share this with clients on our website.

Another focus this year, has been expanding our human rights research to further incorporate the human rights risk related to the rapid uptake in AI. While we have a high conviction in the structural tailwinds of AI, we must also understand the potential human rights risks associated with this expansive technology. We have focused our research on the assessment of the human rights impact from the uptake in AI incorporating this into company engagement, investor education and collaboration across the responsible investment industry, this is outlined in our 'Spotlight on Human rights and AI'. Other research and engagement undertaken by the investment team this year includes environmental risks associated with regulation in packaging and water as well as labour management in the restaurants industry.

We continue to enhance our ESG integration, stewardship, and client communication, which has been recognised by the PRI in our 2023 assessment.

MFG Asset Management's PRI Assessment Summary Scorecard

	Module Score and Star Score	
Policy Governance and Strategy	90	★★★★☆
Direct - Listed Equity - Active Fundamental AUM Coverage >50%	93	★★★★★
Confidence Building Measures	89	★★★★☆

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

Kind regards,
The MFG Asset Management team

Investment process

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

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

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

Stewardship is a critical element of MFG Asset Management's investment process. Stewardship is the foundation that underpins our investment objectives, starting with our investment philosophy.

The five elements of stewardship within our investment process are outlined below:

Philosophy

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

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

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

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

[1] The UK Stewardship Code – The Financial Reporting Council Limited

Execution and implementation

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

1. Fit for investment universe

We review candidate stocks for the strategy's "Approved List" for material factors. If the factors present excessive risks, then stocks will not progress to approval. Factors reviewed for materiality include ESG factors outlined in our policy (such as, climate risk and opportunities, labour management, safety, waste management and board composition). The investment analyst is responsible for the investigative work, which is then tested by colleagues and subject to review by the MFG Asset Management IC.

2. Risk and opportunities assessment

Stocks on the Approved List are regularly assessed and monitored by the investment analyst across material ESG risks and opportunities. Analysts use MFG Asset Management's proprietary ESG risk assessment framework to assess and score those risks and opportunities. We believe our analyst's knowledge of companies and industries provides a deeper level of analysis with regards to materiality of the risk and the impact to cash flows. The framework considers companies' exposures to risks and opportunities and how companies are managing those exposures. The analysts liaise with ESG team, when assessing the company's management of the material risks or opportunities and subsequently determining ESG scores. The final assessments and scores are reviewed by the MFG Asset Management IC with a member of the ESG team always an active participant at the IC meetings. The ESG team undertake to provide internal and external training on relevant topics to continue to enhance this assessment.

3. Portfolio construction

Our portfolio managers consider ESG scores and qualitative assessments of ESG risks and opportunities when considering the purchase, sale, and sizing of stock positions within the portfolio. All else being equal, a more positive ESG assessment would contribute to a larger portfolio position and vice versa.

4. Active stewardship

We generally engage with companies prior to the purchase decision to discuss our assessment of material risks and opportunities. Once we invest in a company, we increase our engagement and ensure management's understanding of our stewardship policies. The main purposes of these engagements are to deepen knowledge of the company's approach, provide our perspectives, and seek to positively influence the management of risks and opportunities, as appropriate. We also review all proxy voting items at General Meetings.

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

Investment process (cont'd)

Collaborating for investment outcomes

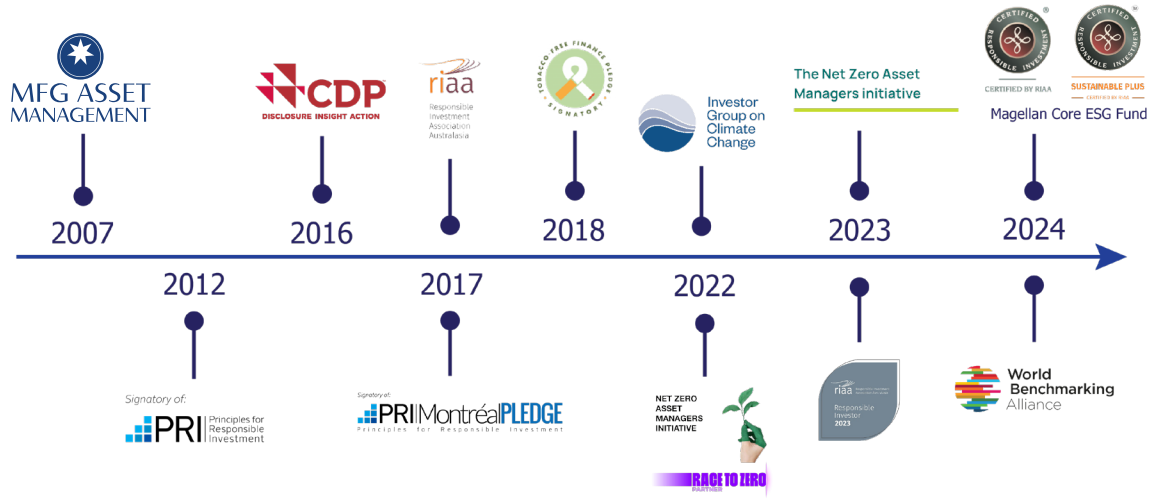
MFG Asset Management is a signatory to a number of industry initiatives and associations that support our commitment to responsible investment, transparency to stakeholders and ability to elevate key company and industry issues such as human rights, climate change and nature.

In the last year,

- We have met our commitments under the Net Zero Asset Managers initiative through setting targets for investment strategies in scope and releasing our first Climate report.
- We have joined the World Benchmarking Alliance (WBA) through the Collective Impact Coalition (CIC) for Ethical Artificial Intelligence (AI), signing the Investor statement on Ethical AI.
- Contributed to the RIAA Human rights working group and the RIAA AI and Human rights toolkit.
- Received improved PRI, RIAA, and CDP scores on our most recent submissions.

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

Best Practice Leadership and Collaboration



[2] For further detail, see our ESG policy https://www.MFG Asset Managementgroup.com.au/about/responsible-investing/

Engagement with companies

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

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

1. Risk assessment and management

Continue to expand our knowledge and understanding of the risks and opportunities through discussions. As long-term investors, we build up knowledge and insight, which we discuss, and challenge management during engagements. These discussions further deepen our understanding within and across industries.

2. Influence

Encouraging and supporting change to a company's approach or the setting of targets as required. As long-term investors, we build constructive relationships that better enable us to drive positive change at the company.

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

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

Engagement progress tracking

The success of an engagement is measured by defined milestones. An ESG objective is set prior to engagements, and the progress against the defined objective is tracked against milestones, 'acknowledgement', 'committed', 'addressed'.

Investment Process (cont'd)

Proxy voting at MFG Asset Management

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

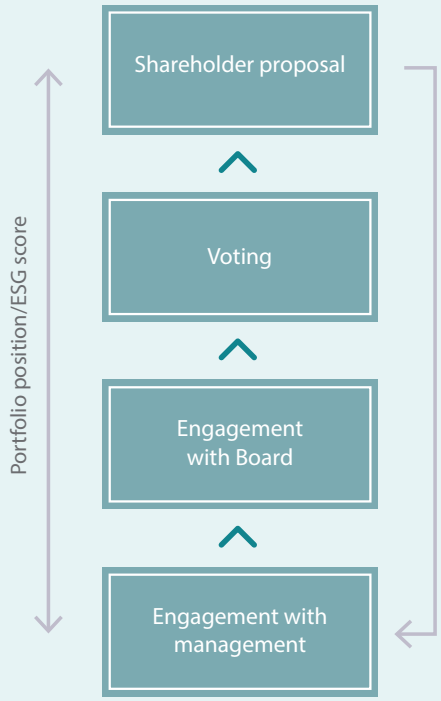
When votes are exercised diligently, they can enhance client returns. Given this importance, we do not outsource our voting; rather, we consider all voting matters in house. We undertake proxy voting with the same deep due diligence as other aspects of our investment process.

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

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

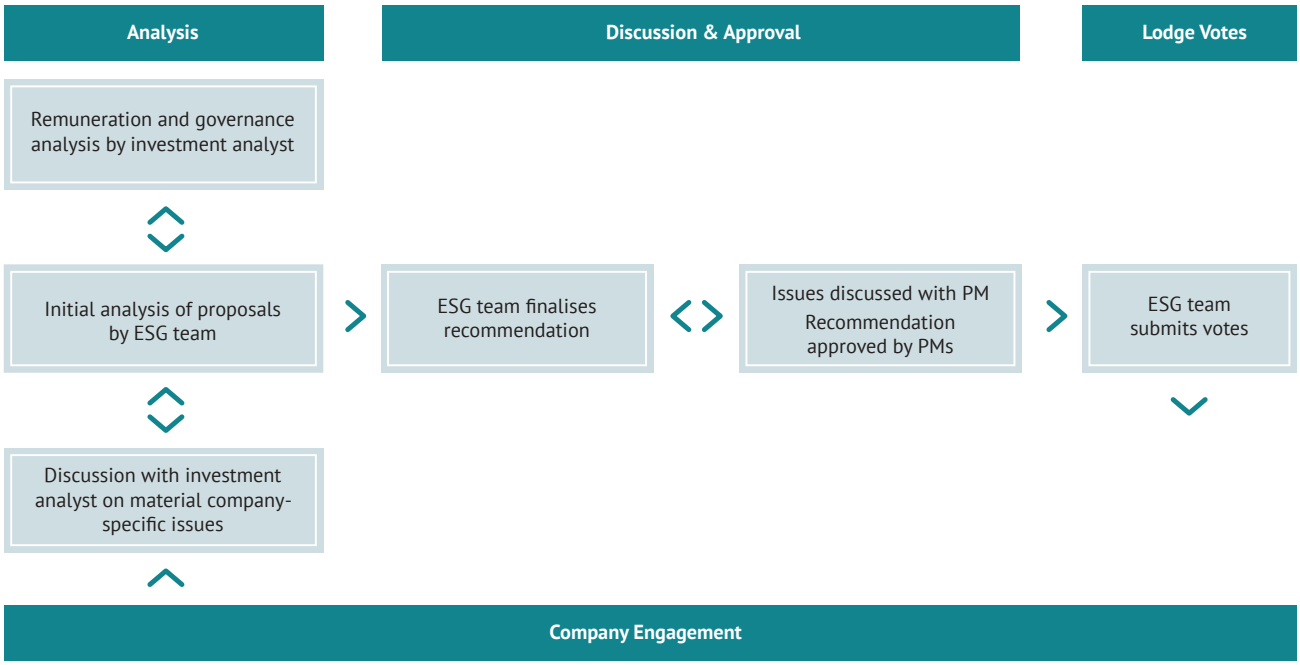
Engagement with portfolio companies is undertaken throughout the voting process to better understand shareholder proposals put forward and management perspectives on how they are managing the risks and opportunities being considered within the proposals. Ongoing engagement is important as change can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

Escalation ladder



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

MFG Asset Management Proxy Voting process



Research

Spotlight on social risks of AI

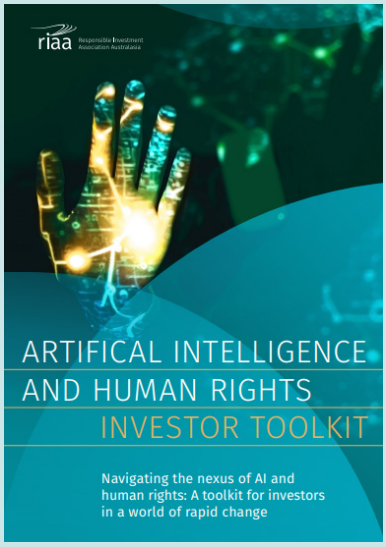
Engagement Objective: Ensure technology solution providers are investing in safety, ethics and oversight teams to mitigate against negative social impacts through design and monitoring.

Risk: Consider materiality for cashflows from risks relating to content or use of the product. Risks can include bans on business models or regulatory fines.

In the last year

Engaged directly, collaboratively or considered in voting for Alphabet (Google), Meta, Microsoft and Amazon.

We continue to monitor to ensure sufficient investment in ethical oversight and 'Safety by design' to mitigate the risks.



Research and collaboration

We have considered the increased risk of issues such as data privacy, cyber attacks, deep fakes, fraud and copyright infringements which can impact people and cashflows.

In the last year

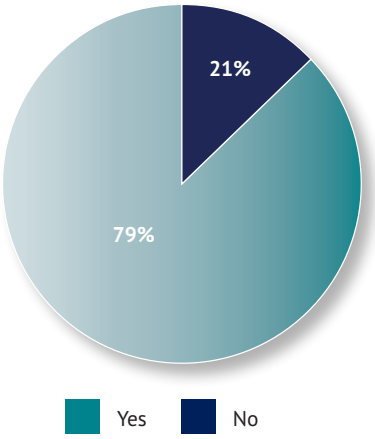
We collaborated on the more complex human rights impacts such as child rights and protecting against discrimination in collaboration with the Responsible Investment Association of Australasia (RIAA) Investor Toolkit on Human Rights and AI, launched in April 2024. The MFG Asset Management ESG team led the Stewardship section.

An increased focus for this year has been on the human rights risks related to the rapid uptake in AI. While we have a high conviction in the structural tailwinds of AI, we must also understand the potential human rights risks associated with this expansive technology. We have focused our research, investor education and collaboration across the responsible investment industry on this important theme. More information is available on MFG Asset Management's website, under Responsible Investing.

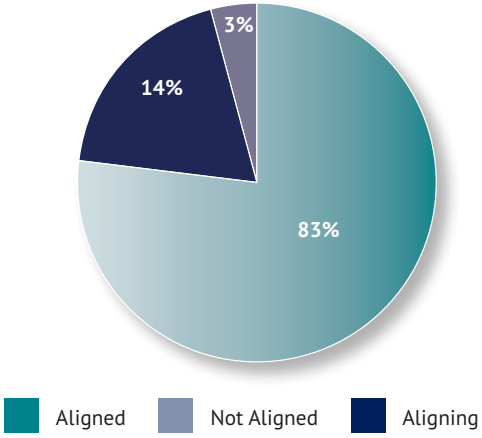
Update on Climate risk management

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

Global Equities: Companies with net zero target



Global Equities: Alignment to net zero



Stewardship Strategy – Climate[3]

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

We are pleased to release our 2024 Climate Report, for more information see this link.

[3] https://bit.ly/MFG Asset ManagementClimate

Engagement outcomes in FY24

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

Across the entirety of our engagements, over 325 included ESG.

Across our investable universe

>440	25	105	225	>860
Engagements	With the Board	With C-Suite	With senior management	ESG discussions

While the investment team engages with the broader investable universe, the key focus is on companies held in the MFG Asset Management Global Equities strategy, with most portfolio companies involved in over 180 meetings in FY24. Most interactions were with the senior leadership team, including the CEO, CFO, other executives, corporate responsibility officers and other relevant senior team members. In some cases, where companies had not made progress on a particular ESG topic, we escalated the issue to the Board of Directors.

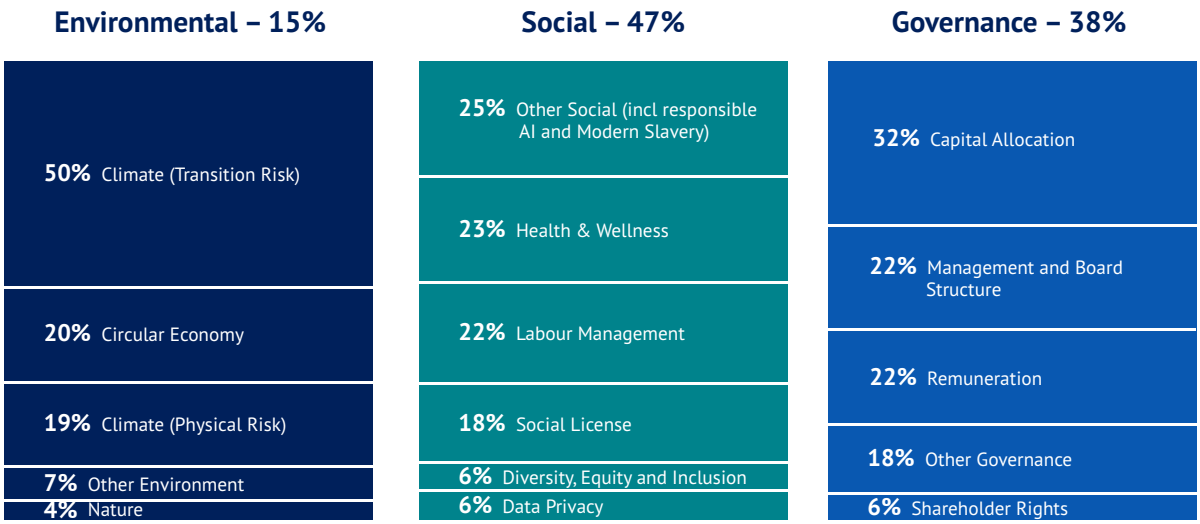
2024 Engagement by Theme and Focus Areas

Global Equities Strategy – Companies held in the portfolio in FY24

185	11	46	94	375
Engagements	With the Board	With C-Suite	With senior management	ESG discussions

ESG Topics

Throughout the FY24 engagements, we focussed on ESG topics in the following ways:



Environment

CLIMATE CHANGE

Climate change is both a risk and an opportunity. We consider exposure of the company to risks and opportunities as a result of the transition of the global economy towards net zero emissions.

We look for commitment to:

- Net zero targets
- External validation of targets
- Credible plan to meet targets

CLIMATE TRANSITION

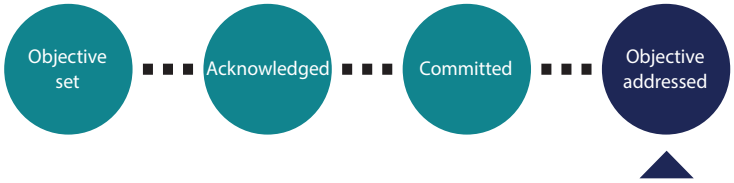
Case study: McDonald's

Industry: Restaurants

Objective: Encourage McDonald's to set more ambitious emission reduction targets.

We engaged with McDonald's sustainability teams multiple times over the last 2 years with a clear ask of more ambitious emission reduction targets that are externally verified by the Science Based targets initiative (SBTi). In our assessment, we consider the beef supply chain to be one of the most material contributing sources of emissions. We encouraged McDonald's to use their scale and purchasing power in the beef industry, to drive positive change. Our engagement also discussed the opportunities of working with Franchisees to design more energy efficient equipment and collaborate with global suppliers on innovative solutions.

Outcome: We were pleased to see the announcement in 2023 of new Net Zero and more ambitious emission reduction targets aligned to 1.5 degrees, verified by the SBTi. Importantly these targets cover not only their operations but the material emissions from the restaurants and supply chain. We will monitor progress towards these and continue to discuss the challenges and opportunities, particularly in the agricultural supply chain.



Link to Investment Case: As one of the largest greenhouse gas emitters in the industry, it is important for McDonald's to have a clear plan and targets to reduce these emissions in their operations, restaurants and supply chain. Why? Consumer expectations and awareness of the impact of large global companies on the environment have increased for some segments of the market, this can lead to impacts on sales or reputation. As one of the largest buyers of beef and other ingredients, reducing emissions and adapting to climate change is important to support continuity of supply and price of ingredients that may be exposed to natural disasters and extreme weather patterns. McDonald's is a global business with a large presence in Europe where expectations are higher than the United States on regulation and reporting requirements on climate risk and disclosure, so as an investor we see it as imperative that McDonald's has resources and plans in place to meet these increasing expectations.

Engagement outcomes in FY24 (cont'd)

Environment

NATURE

PFAS, are known as "forever chemicals" due to their accumulation in the environment, humans and animals. They have been linked to adverse health effects.

We consider:

- Policies and procedures
- Investment in safer alternatives

SUSTAINABLE PRODUCTS

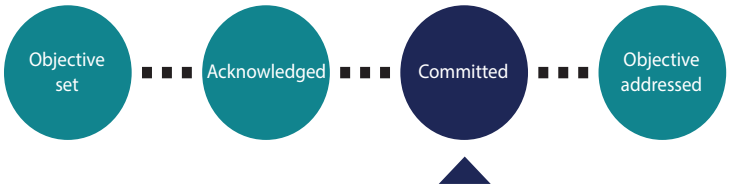
Case study: Lowe's

Industry: Consumer discretionary

Objectives: To assess Lowe's risk exposure and management of PFAS in their products sold including engineered stone and outdoor furniture with waterproofing agents, and within their supply chain.

In managing PFAS exposure, Lowe's partnership with suppliers through industry bodies and provides investment in R&D initiatives that focus on finding alternatives to PFAS chemicals. Lowe's approach to PFAS involves targeting one product category at a time. They have successfully removed PFAS from waterproofing used on outdoor furniture and rugs. Other monitored categories include coatings on electrical power cords and engineered stone.

Outcome: We gained comfort that Lowe's have made significant efforts understand their PFAS exposure in their supply chain, remove or reduce their exposure and are undertaking initiatives to continue to remove and reduce PFAS in stocked products.



Link to Investment Case: As a result of increased legislation around the world, especially in the US, we expect companies to be proactive in limiting the manufacture and use of PFAS.

Investors need to be conscious of emerging regulatory changes where they materially impact the value chain of companies.

Social

HEALTH & WELLNESS

Health & Wellness considerations should be integrated into the strategy of food and beverage companies to support healthier eating consumer patterns, particularly given the increased uptake of weight loss drugs.

We look for commitment to:

- Investment and product innovation in more nutritious categories.
- Reformulation of existing products without impacting sales.
- Clear and transparent consumer labelling

CONSUMER NUTRITION

Case study: Nestle

Industry: Consumer products

Objectives: Assess Nestle's investment and innovation in 'healthier' products to remain a brand of choice and retain it's competitive advantages.

We engaged with Nestle to ensure they have a clear strategy and targets related to improve the nutritional content of their products and healthy offerings.

We view this as a material ESG risk to cashflows from changing consumer preference and increasing regulations.

Risk to cash flows: According to MFG Asset Management's materiality framework, our analysis estimates that Nestle has a material earnings exposure to foods with higher fat, sodium, and sugar content. Globally, we estimate Nestle has approximately 20-25% of sales exposed to brands and/or categories that are at risk of regulatory headwinds from High Fat, Sodium, and Sugar (HFSS) regulation.

The majority of Nestle's portfolio (>60% of global revenue and >70 of global operating profit) is exposed to coffee, pet food, and Nestle Health Science (e.g. vitamins) – we assess these categories as having low exposure to this risk.[4]

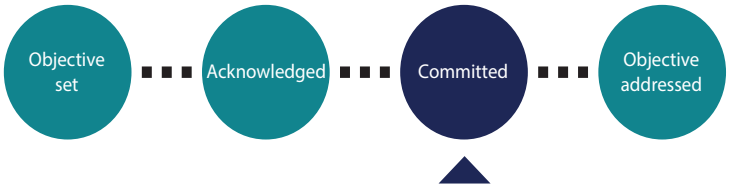
Our Nestle analyst engaged directly with the CEO, Sustainability and investor relations teams on this important topic in Switzerland, ahead of the AGM. In these discussions, Nestle acknowledged the need to innovate and invest in healthier foods, outlining current products (e.g. Garden Gourmet) and future plans (e.g. re-invest in Lean Cuisine). Challenges and learnings with scaling more niche businesses, consumer taste and price, also need to be considered.

In addition to discussions with the company, we also engaged with the ShareAction (proponent) and the World Benchmarking Alliance.

Outcomes: The engagements and analysis has improved our understanding of the risk and we assess Nestle as making some progress through reformulations, acquisitions and divestments. We are pleased to see the recent announcement by Nestle Health Sciences of the website https://www.glp-1nutrition.com/ to provide product offerings to consumers on weight loss drugs (GLP-1).

On reformulation of existing products, while Nestle has made some progress reducing fat, sodium and sugar content, there are challenges with moving too quickly to reformulate given the potential impact to taste and therefore sales. We will continue to engage.

We recognise the company improved the health star rating of >1000 products and encourage it to continue on this journey as health and wellness trends will continue to drive incremental demand for healthier convenience foods.



Link to Investment Case: It is important for food and beverage companies to invest in and consider the nutritional content of their products to protect sales against changing consumer preferences. The companies also need to ensure clear and transparent marketing and labelling to protect against negative regulatory actions such as selling restrictions, reputation damage or taxes.

Picture source: https://www.gippslanddietetics.com/post/using-the-health-star-rating

[4] This is a different methodology to data produced in the shareholder proposal.

Engagement outcomes in FY24 (cont'd)

Social

LABOUR MANAGEMENT

Effective labour management is crucial for attracting and retaining employees in competitive or constrained labour markets, impacting business costs, food safety, and customer in store experience.

We look for:

- Policies and procedures
- Low staff turnover
- Minimal Labour-Related Controversies

RESTAURANT LABOUR MANAGEMENT

Case study: McDonald's, Chipotle and Yum!Brands

Industry: Restaurants

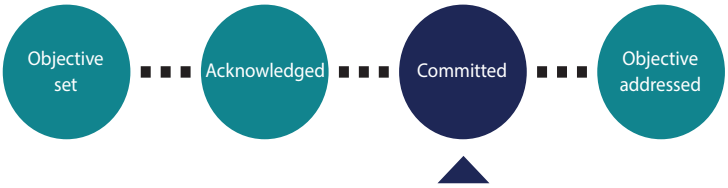
Objective: Through direct company engagement this year, we met with Chipotle, McDonald's, and Yum!Brands to understand their approaches to labour management risks. We recognise the nuances between the franchise models of McDonald's and Yum!Brands and the company-operated model of Chipotle, which has greater ability to influence labour practices and implement initiatives.

We see franchisors as having a role in providing sufficient training and support to franchisees to attract and retain employees. For example, we have previously supported shareholder proposals for the provision of sick leave for Yum!Brands.

As part of our investment process, we engaged with industry experts to discuss the role of franchises in labor management, the NLB Joint Employer rule, the implications of increased wages, and potential changes to US franchise labor laws in the restaurant sector.

Since Chipotle operates its own stores, it has a greater ability to influence its labour management practices positively. Through these engagements, we gained confidence that Chipotle is making appropriate investments in its workforce, implementing initiatives to improve operations, and offering incentives such as an extra week of pay, which is impactful for employees.

Outcome: We will monitor and continue engaging with quick service restaurants on their labour management approaches for both franchise and company-operated models.



Link to Investment Case: Effective labour management is crucial for restaurants to ensure they are adequately staffed, which enhances operational efficiency, speeds up service to customers, and boosts customer satisfaction levels.

Employee related expenses are equivalent to approximately 25-35% of restaurants revenue, depending on the store concept. Franchisors are not directly exposed to restaurant labour costs, they can be adversely impacted through lower restaurant royalty income if labour mismanagement results in brand damage, lost customers and lower franchisee restaurant revenue.

Social

QUALITY OF CARE

Quality of care is a key contributor to:

- Enhance reputation and trust
- Risk Management – reduce risk of legal issues
- Demonstrate commitment to social responsibility and ethical practices

We look for commitment to:

- Support investment in staffing ratios
- Provide stakeholders with information demonstrating a high quality of care

LABOUR MANAGEMENT AND PATIENT CARE

HCA Healthcare

Case study: HCA

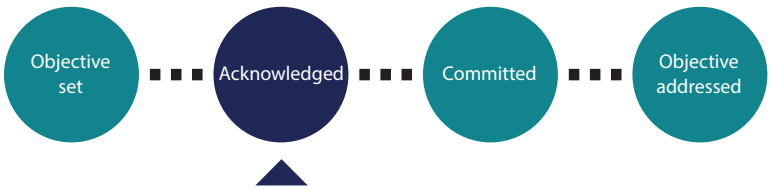
Industry: Healthcare

Objectives: Ensure HCA has high quality of care and adequate staff ratios.

Risk to cash flows: According to MFG Asset Management's materiality framework, our healthcare analyst assesses quality of care and nursing ratios as material to revenue. We have been monitoring staffing ratios for the industry which have now recovered to pre-COVID levels and HCA's turnover of nursing staff which peaked at >25% during the pandemic and is now back to around average levels of 15-17%.

We engaged with HCA regarding the shareholder proposal at the 2024 AGM regarding Quality of Care. We appreciated the discussion regarding the thoughtful metrics used to measure the STI outcomes for the Quality of Care component. We encouraged HCA Healthcare to consider incorporating additional quality of care metrics in the next Impact Report. As investors, we see it as beneficial for the company to provide a summary of this data accompanied by their own assessment and explanation of actions to improve patient feedback. We determined to support the Shareholder proposal to encourage additional disclosure of Quality of Care metrics.

Outcomes: The company acknowledged our request for more disclosure to assess quality of care. We will be monitoring this in the next 12 months.



Link to Investment Case: We view 'Quality of Care' as a material risk which if mismanaged can impact relationships with commercial payers and their provider networks, as well as the ability to retain nursing staff and attract surgical volumes. Importantly supporting Quality of Care improves patient outcomes and may support HCA Healthcare's regulatory outcomes. Nursing and quality of care can be a competitive advantage relative to peers.

Engagement outcomes in FY24 (cont'd)

Governance

REMUNERATION

Share-based compensation (SBC) is a common form of remuneration, and real economic expense for a company. Excluding SBC from operating expenses creates misalignment between how the business is managed and the expenses that impact shareholders.

We look for:

- SBC to be treated as an operating expense in company earnings metrics.

SHARE BASED COMPENSATION EXPENSE

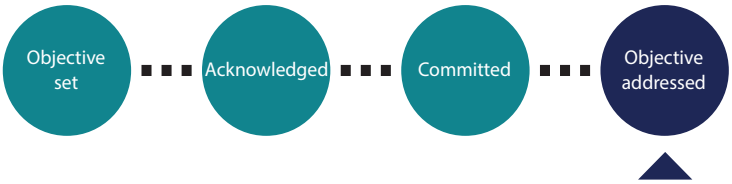
Case study: SAP

Industry: Software

Objective: Share-based compensation (SBC) to be treated as an expense in company metrics.

As long-term shareholders of SAP, we have advocated reassessing the accounting treatment of SBC within remuneration targets and in accounts more broadly for several years. SBC is viewed by us as a genuine component of staff pay and retention that should be accounted for. Shareholders bear the impact of dilution from share-based compensation, and it should not be excluded from remuneration KPIs.

Outcome: In December 2023, SAP committed to including SBC in the company-adjusted (non-IFRS) expense base, beginning in 2024. We view this is a positive step forward for SAP and the technology industry more broadly. The treatment of SBC as an expense in company earnings metrics is positive for shareholders.



Link to Investment Case: SBC is a real economic expense that could also be managed to achieve performance targets while shareholders are being diluted. The change in SBC treatment by SAP better aligns management with shareholders.

Governance

BOARD INDPENDENCE

A well-governed company with independent board can make decisions in the best interests of all stakeholders.

We consider:

- Chair and CEO separation
- Chair and Board independence
- Shareholder alignment

SEPARATION OF CHAIR/CEO

VISA

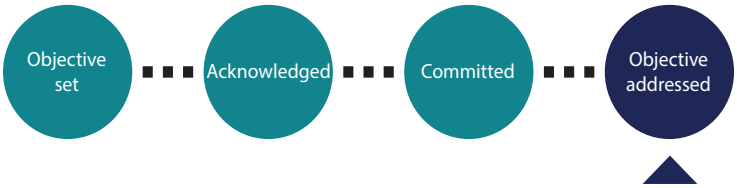
Case study: Visa

Industry: Financials

Objective: Encourage the orderly separation of or Chair/CEO roles and the appointment of an independent Chair.

We have been engaging with Visa for four years on this topic. We have consistently communicated to Visa that it is in line with our voting principles and best practice in our investee companies includes a separation of roles between an independent Chair and the Chief Executive Officer. We wrote Visa a letter outlining our principles and the importance of appointing an independent Chair at the next transition. In 2023, we supported a shareholder proposal regarding the preference for separation of Chair and CEO.

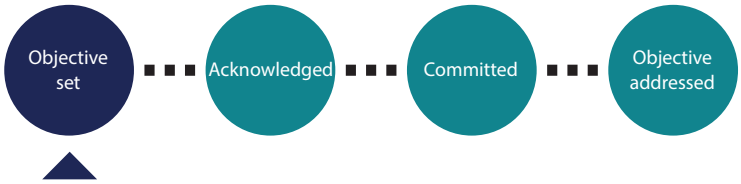
Outcome: We are pleased with the announcement from Visa in October 2023 that the lead independent director had been appointed as the new Independent Chair. We have a constructive engagement with Visa and have been long term holders. This is a result of our engagement and we recognise that there were many investors supporting the shareholder proposal in 2023.



Link to Investment Case: Independent boards with separation of Chair and CEO supports separation of powers, improved risk management and representation of minority shareholder interests.

Ongoing engagement

We set engagement objectives on material ESG topics with clear milestones for the company.
The following examples outline topics where objectives have been set and engagement is ongoing.



Environment

Climate

- Engagement to encourage commitment to long-term, net zero emission targets. Examples include: Chipotle, HCA Healthcare, LVMH, Stryker and Republic Services.
- Prioritisation of companies in high-impact material sectors to ensure alignment with net zero emissions by 2050 and progress towards interim targets. Examples include: Eversource.

Social

Diversity, Equity and Inclusion

- Encouraging companies to improve disclosure to drive action; for example, unadjusted median pay equity. The benefit of transparently disclosing the median pay gap for underrepresented groups is to look into the reason for the gap and ultimately incentivise companies to promote, train and recruit diverse candidates into more technical or managerial roles. Examples include: Amazon and Apple.

Content and data privacy

- Ensuring the longevity of the moat and sustainability in the business that is dependent on trust in the platform.
- Increased focus this year regarding the risks with the growth in generative AI. These risks include misinformation, copyright, data privacy, security, labour, and human rights and environmental impacts. The focus is on Microsoft, Meta and Alphabet with consideration for the corporate users of this technology in terms of risks and opportunities.

Role of franchisors

- Ensuring the management, education and oversight of employees, supply chain and social licence within the franchisees. We see the franchisors as having a role to play to provide sufficient training and support to franchisees to attract and retain employees. Examples include: McDonald's and Yum!Brands

Governance

Board structure

- Continuing to engage with companies to improve Board structure encouraging improved independence overall, an independent Chair or a lead independent director at a minimum. We supported shareholder proposals for Colgate-Palmolive Co and Intercontinental Exchange Inc. to encourage the separation of Chair and CEO.

Executive remuneration

Continuing to engage regarding:

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

We are advocating for change at Brookfield, Amazon, McDonald's, HCA Healthcare and LVMH.

Proxy voting outcomes – FY24

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

Shareholder meetings (28)	
Proposals (469)	
Company Proposals (387) **Votes against company recommendation** (5% of ballots)	**Shareholder Proposals** (82) **Votes against company recommendation** (24% of ballots)
Voted against company (9% of ballots; 57% of meetings)	

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

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

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

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

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

Proxy Voting Statistics In Detail – FY24

The Global Equity strategy voted on 469 proposals. MFG Asset Management voted against the company's recommendations on 9% of all proposals and cast a vote against the company's recommendations on at least one proposal item at 57% of shareholder meetings. We continued implementing our proxy voting policy and withheld from voting one meeting where market restrictions (share blocking) could have impacted client objectives.

During the year, we voted against several management proposals on executive compensation where the structure was not aligned with our Corporate Governance Principles. For companies with ongoing engagement that failed to improve their remuneration structure, we voted against the incumbent members of the compensation committee, in line with our escalation process.

Category	Number of proposals	With the company	Against the company
Company Proposals	**387**	**95%**	**5%**
• Board Related	270	97%	3%
• Compensation	51	76%	24%
• Audit/Financials	40	100%	0%
• Capital Management	18	94%	6%
• Other	8	87%	13%
Shareholder Proposals	**82**	**76%**	**24%**
• Environmental	12	75%	25%
• Social	54	85%	15%
• Governance	16	44%	56%
Total Proposals	**469**	**91%**	**9%**

Proxy voting outcomes – FY24 (cont'd)

Votes on company proposals

When voting on company proposals, we consider MFG Asset Management's Corporate Governance Principles with regards to Board director elections and compensation structures. In 2024, we included additional focus on director capacity, particularly where the director had a current C-suite role. For remuneration, we had increased focused on pay for performance, considering whether outcomes were aligned to investor experience.

Case study: Eversource Energy

Industry: Utilities

Objectives: Remuneration: Improve the structure and performance hurdles of executive remuneration.

MFG Asset Management's remuneration principles are focused on alignment with the company's strategy and alignment with long-term shareholder interest. We consider both the structure and whether performance hurdles are sufficiently challenging.

While we acknowledged some downward discretion was applied during the year, we did not consider the overall payout for executives aligned with shareholder outcomes over the period.

Directors: Appointment of lead independent director where Chair and CEO positions are joint.

We outlined our preference for companies with a combined Chair and CEO to ensure a Lead Independent Director, given long tenure. Eversource committed to this, with plans already in place.

We followed up our engagement meeting with a letter to the Boards, communicating our view that consideration should be given to weights and maximum payouts, particularly for metrics not reflective of financial performance, and the appointment of a lead independent director.

Following our engagement process and escalation, we voted against the company on the advisory vote on executive compensation and the Chair of the Nominations Committee.

Outcome: Remuneration: Eversource acknowledged our view on thresholds for the long-term incentive (LTI) and have made some small improvements at the bottom end of the range following discussions in previous years. Positively, we confirmed stock options would not be reintroduced and the use of incentives without performance metrics (RSUs) have been reduced. We will continue to monitor the structure of executive compensation.

Appointment of lead independent director where Chair and CEO positions are joint.

Prior to voting at the Eversource 2024 general meeting, we had an engagement meeting to discuss various governance topics, including the above objectives

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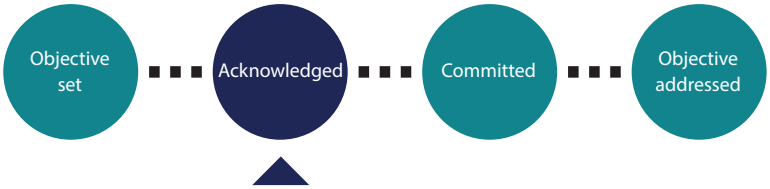
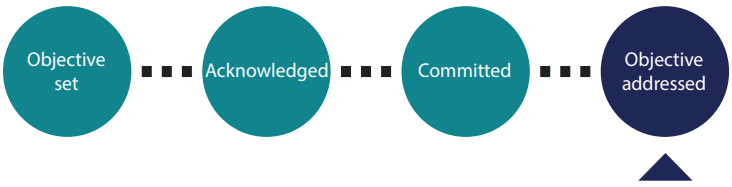


Outcome: Directors: Since voting at the 2024 general meeting, we are pleased to see Eversource have announced a lead independent director. This engagement objective is now closed.



Link to Investment Case: Independent boards with separation of Chair and CEO supports separation of powers, improved risk management and representation of minority shareholder interests. Balanced compensation, with an emphasis on risk mitigation and management incentivisation, can support the company strategy and creation of long-term shareholder value.

Votes on shareholder proposals

The Global Equity strategy considered 82 shareholder proposals, with 24% of votes against the company recommendation, up from 20% in the prior year. Engagement prior to the AGM on shareholder proposals is a key part of our process. Consideration is given for the 'ask' of the resolution, the materiality of the issue to the company and the actions or response of the company. Shareholder proposals on material ESG topics where it was determined to vote with the company were followed up with the company to ensure progress and prioritisation from management.

Case study: Shareholder Proposal: Disclosure Median Pay

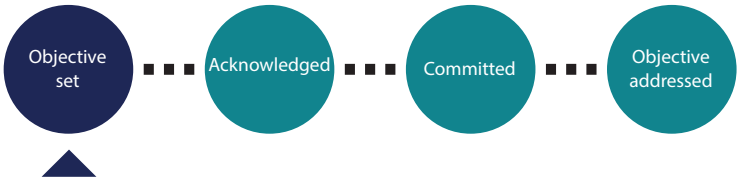
Managing and supporting Diversity, equity and inclusion well is critical for retention and attraction of employees.

We have supported shareholder resolutions encouraging improved disclosure of unadjusted median pay gap on this for a number of companies including Amazon and Apple . The benefit of transparently disclosing median pay gap for underrepresented groups is to consider the reason for the gap and ultimately incentivise companies to promote, train, recruit diverse candidates into more technical or managerial roles. The median pay data provides an unadjusted view which can illustrate the pay gap for different groups across the organisation and highlight where initiatives or different approaches may be needed to promote and train different groups to reduce these gaps.

We are encouraging companies to look broader than diversity data and adjusted pay gaps to ensure they are supporting improvements across the organisation.

Individual characteristics such as education, working time, skills, interest, experience can explain part of the gap however, it can also highlight where there could be more initiatives to upskill, promote, recruit differently and ensure there is no unconscious bias or at worst discrimination.

We are pleased to see some investee companies already report unadjusted median pay equity including Lowe's and Mastercard.



Link to Investment Case: Diversity of thought can lead to innovation and better risk management. A 2019 McKinsey study highlights that companies in the top quartile of gender diversity on executive teams were 25% more likely to experience above average profitability than peer companies in the 4th quartile.[5]

[5] https://www.mckinsey.com/featured-insights/diversity-and-inclusion/diversity-wins-how-inclusion-matters

Proxy voting outcomes – FY24 (cont'd)

Case study: Artificial Intelligence

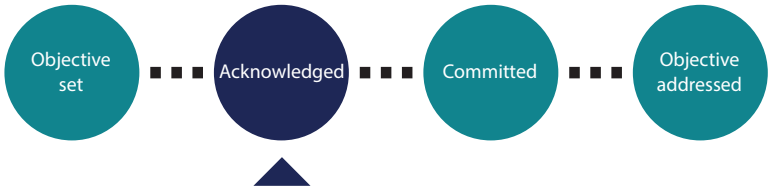
We supported shareholder proposals regarding responsible AI where they are material to our investment positions, as they were deemed to be for Alphabet, Meta and Apple.

As the uptake in AI adoption continues, we view the responsible implementation as a material risk to manage, given the importance of advertising revenue to Meta and Alphabet.

The mismanagement of AI risks can significantly impact their business through potential human rights risks, which could result in additional compliance costs and financial burdens to the company. By assessing potential human rights issues proactively, these companies can ensure long-term stability and profitability associated with advertising revenues, benefiting shareholders.

We encourage companies to prioritize responsible resource allocation and process implementation to ensure they are managing new and emerging risks.

The ask of many of the shareholder proposals we supported was to increase disclosure on how companies are mitigating against risks including the increase in regulatory requirements



Link to Investment Case: Risks of mismanagement of content, lack of transparency or unintended outcomes such as discrimination can result in regulatory risks such as fines or bans on business models or reputation risk leading to negative brand implications. Increased costs can also relate to resourcing, training, reporting and human oversight.

Voting examples – FY24

Company	Proposal	Company Recommendation	MFG AM Vote	Rationale
Management Proposal				
Netflix	Advisory Vote on Executive Compensation	For	For	2024 remuneration structure is a significant improvement from 2023. For this reason, we voted FOR. We will encourage improved structure around the LTI.
Amazon.com	Advisory Vote on Executive Compensation	For	Against	Less than 25% of target executive compensation is performance based. No metrics or performance hurdles disclosed.
Shareholder Proposal				
Amazon.com	Shareholder Proposal Regarding Disclosure of Material Scope 3 Emissions	Against	For	While we recognise the data challenge with reporting additional Scope 3 emissions, particularly sold goods, we supported the proposal and communicated that this is a signal to increase work with suppliers to disclose material Scope 3 emissions.
McDonald's, Yum!Brands	Shareholder Proposal Regarding Policy on Use of Medically Important Antimicrobials in the Supply Chain	Against	For	We view that a policy and strategy to limit the use of Antibiotics in the supply chain is prudent risk management.
Meta Platforms	Shareholder Proposal Regarding Report on AI Misinformation and Disinformation	Against	For	The responsible use of AI is a material risk for Meta and its users. Meta should be responsible for assessing the evolving regulatory and legal landscape. The proposal requests the board prepare a report assessing the risks to Meta's operations and finances, and to public welfare, presented by the Company's role in facilitating misinformation and disinformation disseminated or generated via generative artificial intelligence.
Meta Platforms	Shareholder Proposal Regarding Report on Human Rights Risks in Non-U.S. Markets	Against	For	We view this as a material risk given the potential impact on advertising revenue due to reputation impacts or fines from legal proceedings and regulation. We voted FOR a company report on the effectiveness of its measures to prevent and mitigate human rights risks in its five largest non-U.S. markets.
Intercontinental Exchange	Shareholder Proposal Regarding Independent Chair	Against	For	We view that separation of Chair/CEO is best practice. Role separation allows for independence of thought and improved accountability. This is in line with MFG Asset Management Corporate Governance Principles.

Contact

For more information on any of MFG Asset Management's stewardship activities, please visit our website https://www.magellangroup.com.au/about/responsible-investing

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

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