Governance

Board effectiveness | Shareholder alignment | Remuneration | Sustainability strategy | Sustainability disclosure

Thematic overview

Corporate governance systems are the structures, rules, policies, procedures, and practices by which a company is directed and controlled. We firmly believe that strong governance is a leading indicator for company performance and provides a foundation of stability and structure for a business.

Through our investment activities, we assess and manage traditional corporate governance elements such as director elections, shareholder rights and executive remuneration. We have also increased our focus in recent years on the integration of ESG and sustainability into corporate governance. For example, how material ESG factors are linked with executive remuneration, the quality of sustainability strategies and disclosure, and board awareness and management of key ESG issues.

This thematic interrelates with the other seven thematics already discussed in this report. Many engagement examples and case studies included previously also highlight our corporate governance considerations and actions.

Examples of proxy voting activities, including where we have voted against Remuneration Reports and Director elections, are within the Proxy Voting section of this report.

This thematic includes some additional engagement examples that are specifically related to the four key issues under this thematic; Board effectiveness, shareholder alignment, remuneration, and sustainability strategy and disclosure.

2024 update

Materiality

Governance is ranked as the most material thematic across our holdings and is relevant to any listed company. This means it is actively considered for all companies in our portfolios and where we identify a concern, it is managed through engagement, proxy voting, or ESG integration and portfolio management.

Overall the materiality has not increased, however, there has been some change in the relevance of the underlying factors.

Board effectiveness and shareholder alignment have increased in materiality in 2024 in the Australian market. Concern with founder led and non-independent Boards, and associated governance failures became topical with companies like Mineral Resources and WiseTech experiencing significant issues. For global equities, companies such as Tesla continue to present material governance risks for similar reasons.

It is becoming more common in Australia and Europe for **executive remuneration** to include non-financial and ESG linked components. We are generally supportive of this practice, however, we have increased our focus on analysing the method of inclusion and quality of assessment. We have also observed that remuneration structures are generally becoming more complex and nuanced. This has subsequently resulted in an increase in the overall materiality of this issue.

Finally, the importance of **sustainability strategies and disclosures** continues to be very material for most companies across our funds. As much as we want all companies to have strategies and disclosures in place, we also want them to focus on materiality and assign effort to the issues that are most important. With the anti-ESG movement in the US gaining traction throughout 2024, this point is even more important.

Research

- European regulation research trip for third year in a row to attend a series of conferences to better understand emerging ESG regulation and reporting requirements.
- Ongoing research to develop a framework to assess ESG risks and opportunities for complex financial institutions such as investment banks. An overview of the Sustainable Banks Framework is presented on page 17.
- Ongoing membership in the FSC ESG Working Group which has been involved in providing feedback to the draft Australian Sustainability Reporting Standards proposed by the Australian Accounting Standards Board.
- Attended the United Nations Principles for Responsible Investment (PRI) annual conference in Toronto to hear from leading investors and companies on ESG integration, governance, strategy and reporting.

Examples of company engagement

BHP

REMUNERATION

During 2021 and 2022 we were made aware that instances of sexual harassment and assault were occurring at remote mining operations. In response, BHP conducted a review into the issue and has implemented a number of important measures to mitigate occurrences while also encouraging a strong speak up culture. In 2023 BHP was amongst the first companies in Australia to report the number of sexual harassment complaints in its Annual Report. This year, we **engaged** with the BHP Chair in the lead up to the AGM to discuss how ongoing serious instances of sexual assault were considered as part of safety measures in Executive remuneration. It was confirmed that at this stage they are not, however, it would be something they might consider in the future. He emphasised that BHP takes these complaints very seriously and hold relevant people to account across the organisation.

Morgan Stanley

GOVERNANCE

Recently, Morgan Stanley faced accusations related to money laundering in its wealth management business. Following a 2024 article on this issue, we requested a meeting to understand the company's AML (anti-money laundering) and KYC (Know-Your-Client) processes better. Morgan Stanley explained that the article referred to old information without new revelations. The company has since improved key processes and oversight for AML/KYC. While we appreciated the explanation, we couldn't confirm a top-down approach for policy implementation. We provided an example policy from a peer and set an **engagement objective** for Morgan Stanley to publish its AML/KYC Policy. We view this as potentially a material risk for Morgan Stanley and will continue monitoring and engaging with the company to better understand the issues.

Steadfast

GOVERNANCE

Starting in September 2024, Steadfast faced two significant governance, ethics and reputation-related controversies which ultimately led to our **divestment** in December 2024. Firstly, the company was accused of misleading its customers in relation to strata insurance and fees. This began with an ABC Four Corners investigation but also involved the Australian Competition and Consumer Commission (ACCC). Secondly, two employees were placed under investigation in December by the corporate regulator for potential insider trading. We **engaged** with the company following both incidents and were satisfied that the company was undertaking appropriate due diligence. We decided to **divest** the position in December given the risk of an investigation by the regulator, governance implications of the two issues, and the financial concerned about the commercial rate environment in 2025.

REMUNERATION

In 2023, we reviewed health and safety metrics and executive remuneration structures for Australian companies in the ASX200 with fatalities in the past 24 months, and for companies with positions in our Australian equities strategies. We found Telstra did not include safety metrics or a fatality gate in its remuneration structure. Despite Telstra's strong safety record, we believe high-risk industries should include safety in remuneration. In 2024, we **engaged** with the Board Chair again and conducted a detailed review of Telstra's safety practices using its reporting and additional information from an ESG engagement meeting. We have set an **engagement objective** and will continue collaborating with the company through 2025.

CASE STUDY

Examples of feedback given in company meetings

The Alphinity ESG and sustainability team has been actively engaging with companies across our portfolios and the respective investment universes since the team was established almost five years ago. Over this time, building on the existing trust of the wider investment team, we have built relationships with the Heads of Sustainability, Investor Relations, Board Directors, and Executive Managers. As a result we are increasingly asked to participate in company materiality assessments, provide feedback to companies who are seeking input into sustainability initiatives, and provide input into Board out-reach and feedback programs.

In 2024 we participated in numerous company engagements where we had been invited or asked for feedback. Examples are below:

- **ANZ:** Participated in the company's annual materiality assessment through a form and interview.
- **South32**: Participated in the company's annual materiality assessment through an interview process.
- **Xero:** Participated in a meeting with Senior Managers at Xero to provide feedback on proposed changes to remuneration structures.
- **Conoco Phillips:** Participated in an investor outreach program before the company's AGM to discuss proposed shareholder resolutions.
- **National Australia Bank:** Participated in a small group ESG Boardroom lunch with three Board directors, including the Chair, to provide our feedback to the company.
- **Qantas:** Participated in an investor outreach program to engage with the new Chair of the Board and provide feedback on the Governance Review and raise any other concerns.
- **BHP:** Participated in a small group session and one-on-one meeting 2024 to provide feedback on the company's approach to climate change and support improvements made to the 2024 Climate Transition Action Plan.

These types of engagements do not supplement our own targeted engagements, but they do often support our broader engagement objectives for a particular company. They are also a reflection of the increasing input investors can have on ESG matters with listed equities, and the need for investors to maintain a high standard in ESG analysis and disclosure.