ASSET MANAGEMENT

Responsible investment update

December 2024

This update summarises MLC Asset Management Services Limited's (MLC Asset Management) approach to responsible investment and provides examples of recent investments and environmental, social and governance (ESG) related engagement activities undertaken by our appointed investment managers.

What is responsible investment?

Responsible investment is the practice of considering environmental, social and governance (ESG) factors in the research, analysis, selection and management of investments and the implementation of good stewardship practices.

There are a broad range of ESG factors that may impact the risk profile and or return characteristics of an investment.

Some examples include:

Environmental (E)

- Climate change initiatives like reduction in greenhouse gas emissions
- Waste management
- Energy efficiency
- Water supply
- Pollution
- Biodiversity

Social (S)

- Human capital management
- Labour standards
- Modern slavery
- Diversity, Equity and Inclusion (DE&I)
- Workplace health and safety
- Integration with local community and earning a social licence to operate
- Indigenous rights
- Employee engagement

Governance (G)

- Rights, responsibilities and expectations across all stakeholders
- Board structure, diversity and independence
- Executive remuneration (short and long-term incentives)
- Bribery and corruption
- Anti-competitive behaviour
- Political lobbying and donations
- Shareholder rights
- Tax strategy

Taking into account relevant ESG factors when making investment decisions supports the ability to maximise returns.

Ensuring good governance practices are applied to investments, and appropriate consideration of relevant ESG factors, contributes to the long-term sustainability and valuation of investments.

Responsible investment update

December 2024

Our approach to responsible investment

We use the following responsible investment approaches (limitations addressed below) to improve investment outcomes:

- **Identify and consider relevant ESG factors** in the investment and decision-making process (known as ESG integration). This allows us to recognise and act upon opportunities and risks related to ESG factors.
- **Be active owners** in the companies your money is invested in by using ownership rights, such as proxy voting and engaging with these companies on a range of commercial, strategic and ESG factors (known as active ownership or active stewardship). This provides an opportunity to enhance and protect the long-term value of investments.

We undertake appropriate due diligence of the investment managers we select prior to their appointment, including their consideration of ESG factors in their portfolios, where relevant. We monitor and collect regular reporting on each investment manager's approach to responsible investment, including their proxy voting decisions and significant company engagements.

Some investment strategies and asset classes are better suited to consideration of these factors than others. See the 'Responsible investment limitations' section for more detail.

MLC Asset Management's funds aren't promoted as socially responsible or ethical investments.

Responsible investment activity

The following highlights some perspectives and recent activities for investments we manage (including via our appointed underlying managers).

Social

Opportunistic Growth Strategy

Aiming to generate strong returns while achieving meaningful social impact

In December 2022 MLC Asset Management* managed a foundation investment in the Community Capital Credit Fund, which provides investors with exposure to a diversified fund of top tier global private credit funds.

An investor in the Fund is able to play a part in supporting promising early-stage social purpose organisations to focus on their impact and help them on their journey towards sustainability, while generating strong risk adjusted returns.

MLC Asset Management is delighted to share that Community Capital has announced the five Social Purpose Organisations (SPOs) receiving multi-year grants in this year's funding round to help them increase their impact within the community. This new grant round brings the total funding commitment from Community Capital to over A$5.3 million.

The five organisations work across diverse areas of social impact:

- **Confit Pathways**, provides training, support and social engagement to a vulnerable segment of the community to reduce recidivism and deliver improved social outcomes for affected communities
- **Consent Labs**, led and delivered by young people, changes the culture around sexual assault and harassment by providing proactive, comprehensive, inclusive and evidence-based programs in schools and universities
- **ID. Know Yourself**, mentors First Nations children in the out-of-home care system through First Nations mentors. Connecting children to their culture, health and education, and transition them to employment
- **ReLove**, breaks the poverty cycle faced by people moving into public housing by donating $10–15k of free furniture and homewares for setting up a home, and
- **The Reily Foundation**, supports parents in managing the trauma associated with having their children removed.

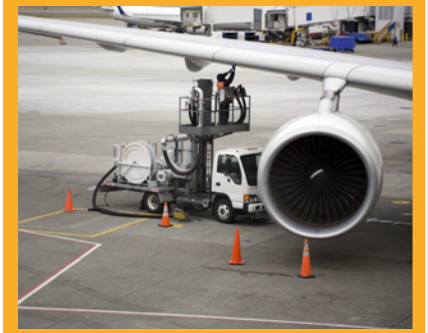
These organisations have demonstrated an ability to create meaningful social impact on issues ranging from recidivism, domestic violence, homelessness, First Nations affairs, out of home care and education. Together, these SPOs are addressing some of Australia's most pressing issues, helping create meaningful community impact. MLC Asset Management looks forward to hearing more about these unique SPOs, how this funding has amplified their impact in the community, and contributed to them becoming more sustainable.

Visit Community Capital's Impact page to learn more about the organisations they're supporting: **communitycapital.com.au/impact**

* via MasterKey Super and Pension.

Social

Australian shares strategy



Promoting active and widespread reporting of workplace safety

One of our underlying managers expects more widespread reporting of workplace safety, noting that safety is often the first metric reported by companies, especially those in resources and manufacturing.

Our manager recently engaged with an international airline on its reporting of staffing issues, especially around safety and reporting. They highlighted to the airline that safety metrics were not readily provided to the investment community and this should be addressed as not only is it a critical issue in staff welfare, but is also indicative of process suitability and efficacy. The airline is a capital intensive company with heavy machinery – asset utilisation is a driver of returns, and safety metrics can also provide insights into their use.

By discussing this directly with the airline's management, our manager is hopeful that the company will consider extending its safety reporting to the investment community.

Environmental

Fixed income strategy

Advocating for the development of the green bond market

In June 2024 one of our underlying managers participated in a video conference with the European Union to discuss market development, particularly focusing on green bonds (ie bonds that are used to finance new and existing projects that offer climate change and environmental benefits). This session provided a platform for our manager to introduce its approach to ESG and advocate for the development of the green bond market.

During the conference, our manager outlined its demand for further green bond issuance across the curve and their willingness to provide specific feedback on the levels at which the firm would be prepared to purchase these bonds. This proactive stance emphasised our manager's commitment to supporting sustainable finance and fostering the growth of the green bond market.

At the half-yearly funding update, the European Union announced they would have a specific focus on green bond issuance for the second half of the year. This announcement aligned with the feedback and requests made by our manager, showcasing the firm's influence and active role in promoting sustainable investment practices.

Global shares strategy

Being prepared for unexpected events in waste management

An integrated waste services company is held by one of our underlying managers in its portfolio. Late last year the US company announced it had experienced its first ever Elevated Temperature Landfill Event (ETLF). ETLFs are municipal solid waste landfills that exhibit temperatures above regulatory thresholds due to abnormal chemical reactions within the waste mass. It's a heat-generating chemical reaction that rarely occurs (this was the first in 25 years of managing over 100 landfills), but has impacts to adjacent communities due to the overproduction of leachate, that subsequently produces odours and can add expensive operator costs to facility management.

This news negatively impacted the company's share price, and our manager decreased its position size to reflect the potential for ongoing risks.

The company took a US$160m provision to manage the ETLF. Since that point in time, the company has worked to manage the issue and limit the impact on the local population. Our manager has visited the site, semi-regularly joins the monthly community calls that the company facilitates, and has held multiple meetings with the Chief Executive Officer/Chair and Chief Financial Officer of the company to gain confidence that the issue is being managed well and further risks are being alleviated. Whilst ETLF events are extremely difficult to predict, it highlighted that unexpected events can occur in waste management companies and to be mindful of this when judging position size.

Governance

Global shares strategy

Improving the accountability and effectiveness of Boards

One of our underlying managers recently invested in a global streaming service and met with the company to better understand the effectiveness of its Board. The company has instituted a number of improvements such as agreeing to annual director election from FY2025. All directors had votes in favour of >90% this year, outside of one who received 76% support and subsequently stepped down so that the issue of over boarding would be addressed.

Overall, the company's position is that the past governance structure of a classified Board, maintaining directors on the Board who had significant votes against them, and the compensation structure, were in the best interest of the company through a period of rapid growth and as such, no penalties were enforced at the Board level when shareholders expressed dissatisfaction in past years. There have been notable improvements to the company's governance structure and our underlying manager will continue to monitor this.

Fixed income strategy

Navigating the complexity of governance risk

One of our underlying managers recently met with the leadership of a multinational power company which supplies electricity across Europe. They discussed the company's capital allocation priorities as it relates to retaining their regulated asset base and shifting towards electric networks, governance risk related to government ownership, and its organisational structure in the context of its ongoing simplification.

Our manager learned that the energy conductivity (EC) level, the efficiency with which electricity is transferred through the company's infrastructure, is stable and at a key level relative to previous policies. This stability is crucial for the company as it ensures consistent energy transmission and distribution, which is fundamental for maintaining operational efficiency and reliability. From an energy policy point of view, this is a positive, as a stable EC level supports strategic planning and continued investment in renewable energy.

With the outcome of recent country elections, the fear of an extreme change to the regulatory environment has been reduced, and the outcome should support the continuation of the energy transition. This political stability is vital for the company, as it allows them to proceed with its long-term investments in renewable energy and other sustainable initiatives without the risk of sudden regulatory changes. For bondholders, this continuity reduces the risk of policy-driven disruptions that could affect the company's financial performance and creditworthiness.

While the governance risk related to government ownership remains, our manager's engagement with the company has reaffirmed their belief in the strong management team in place. They remain comfortable holding the company within its portfolios, confident in their ability to navigate the complexities of the energy landscape.

Modern slavery	
Modern slavery describes situations where offenders use coercion, threats or deception to exploit victims and undermine their freedom. Practices that constitute modern slavery can include human trafficking, slavery, servitude, forced labour, debt bondage, forced marriage and child labour.	**Mitigating modern slavery and human trafficking risk** One of our underlying fixed income managers reiterates they take their obligations in relation to the prevention of slavery and human trafficking seriously and are committed to taking appropriate steps to ensure the requirements of modern slavery legislation are met within its business and supply chains. The manager has a centralised sourcing function responsible for vendor contract processes globally. The contract managers collaborate closely with the Third Party Risk Management team, a team that initiates the due diligence review process for new suppliers as well as periodic ongoing reviews for certain existing suppliers. As part of our manager's initiative to identify and mitigate slavery and human trafficking risk, they have adopted a risk-based approach to its evaluation. Where applicable, they may incorporate modern slavery related provisions in its contractual agreements, and may also request that a supplier provide information regarding the necessary actions it has taken to prevent or remediate modern slavery in its business or its supply chain. Third party service providers are identified and reviewed for potential modern slavery risks at onboarding, based on risk factors such as the third party's industry and country of operation. Should any supplier be found to use modern slavery in any part of their supply chain and/or their business, it will result in remediation discussions and ultimately could result in contract termination.

Source: MLC Asset Management Services Limited. As the investments in a fund are constantly being reviewed and changes made to the holdings, the investments may no longer be included in the fund.

Responsible investment limitations

Depending on the investment strategy or asset class, some limitations apply for ESG integration and active ownership. The limitations apply to: funds that use passive (or index) management or apply quantitative or factor-based methodology; asset classes such as fixed income, alternatives, infrastructure and property.

Responsible investment approaches are not used in respect of any investments in cash (and cash equivalents) and derivatives.

Please refer to the relevant disclosure document for a detailed overview of our limitations:

- **MLC Investment Trusts Product Guide (MLC Horizon portfolios; MLC Wholesale Inflation Plus – Conservative Portfolio; MLC single sector funds)**
- **MLC MultiActive Product Guide (MLC MultiActive High Growth and MLC MultiActive Geared)**
- **MLC Index Plus Product Guide**
- **MLC Real Return Moderate Product Guide**
- **MLC Real Return Assertive Product Disclosure Statement**
- **Pre Select funds Product Disclosure Statement**

Important information

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