



# **Australian Ethical Group Policy – Proxy Voting**

## Control Sheet

<b>Policy</b>	AEI Group Proxy Voting Policy
<b>Version</b>	3.0
<b>Entity</b>	AEI Group <ul style="list-style-type: none"> <li>• Australian Ethical Investment Limited (AEI)</li> <li>• Australian Ethical Superannuation Pty Ltd (AES)</li> </ul>
<b>Date Effective</b>	28 April 2017
<b>Approved By</b>	AES Board – 28 April 2017 AEI Board – 28 April 2017
<b>Review Requirement</b>	Annual Review

### Modifications

<b>Authority to Approve Modifications</b>	AEI Board; AES Board
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Date of Modification	Brief Description of Modification	Drafted By
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Prior to this development of this Group-wide Proxy Voting Policy, AEI maintained its own Proxy Voting Policy. It is intended that this AEI Group Proxy Voting Policy will replace the original AEI-specific documentation.

August 2014	New Policy for application to the AEI Group	David Barton Chief Financial Officer  David Macri Chief Investment Officer  Simone Thompson Risk and Compliance Manager
November 2015	Annual Review	David Barton Chief Financial Officer  David Wilson Fund Accounting Manager  Simone Thompson Risk and Compliance Manager
March 2017	Annual Review	David Macri Chief Investment Officer  Jackie Ellis Assistant Company Secretary  Rebecca Davies Risk and Compliance Manager  Tom May Company Secretary

# Australian Ethical Group Policy

## – Proxy Voting

### 1. Context

This policy sets out the principles and guidelines under which rights to vote are exercised by Australian Ethical Investment Limited (AEI), as the Responsible Entity for the Australian Ethical Managed Investment Funds (Managed Funds).

Australian Ethical Superannuation Pty Ltd (**AES**) is the Responsible Superannuation Entity of the Australian Ethical Retail Superannuation Fund (**Super Fund**). AES outsources all investment management activities, including the exercise of voting rights, to AEI under an Investment Management Agreement. As part of this Agreement, AES expects AEI will not support any proposals or governance for any of its investments that have the potential to adversely impact the legitimate interests or expectations of investors and that AEI will judge the overall fairness of any proposal impacting on investors rights with reference to the obligations of the investee entity to all parties and the prospect of the proposal generating a reasonable rate of return to investors, measured against the matrix of best practice.

### 2. Application

The Policy applies to all AE staff, including Directors, secondees, contractors, service providers and former employees.

### 3. Policy

This policy defines the Groups approach to ensuring it meets the requirements relating to proxy voting disclosure as set out in:

- Financial Services Council FSC Standard 1 – Code of Ethics and Code of Conduct (Oct 2016).
- Financial Services Council FSC Standard 13 – Voting Policy, Voting Record and Disclosure (March 2013).
- Financial Services Council FSC Standard 20 – Superannuation Governance Policy (March 2013).
- Financial Services Council Guidance Note No.2: Corporate Advisory – A Guide for Fund Managers and Corporations (June 2009) (**FSC Blue Book**).
- Governance Institute of Australia Improving Engagement between ASX-Listed Companies and their Institutional Investors: Principles and Guidelines (July 2014)
- The website disclosure requirements set out in SIS Act s.29QB(1)(b) and SIS Regulations 2.38.

#### Corporate Governance

Corporate governance deals with the way in which companies are directed and controlled. AEI's view is that the most appropriate corporate governance is achieved by applying recognised corporate

governance principles (such as those detailed in the ASX Corporate Governance Principles and Recommendations (March 2014)).

AEI is driven by positive social and environmental purpose and is a strong advocate for corporate and industry behaviour change. AEI believes that its actions will empower others to behave in a way that enhances the wellbeing of everyone. AEI also recognises that the exercise of voting rights may have the potential to influence corporate governance and policy. As a signatory to the United Nations' Principles for Responsible Investment (UNPRI), AEI is committed to being an "active" owner, by voting on shareholder issues and participating in collective engagement activities.

In exercising these rights, AEI takes into account the following principles:

- a. The preservation and increase of the value of the investment is in the best interests of investors and members.
- b. Improving and upholding the governance of investee companies.
- c. The relative performance of the investee company.
- d. The application of the Australian Ethical Charter to the resolution under consideration.

The guiding principle of this Policy is that voting rights should be exercised and proxy votes should be cast in a way designed to ensure that proxies are voted in the best interests of the investors in the Australian Ethical Managed Funds and members of the Australian Ethical Super Fund.

Voting decisions are made on a case by case basis following an assessment of the matter at hand and after taking into consideration the likely effect on the performance on the Managed Funds and the Super Fund. In exercising its voting rights, AEI may take into consideration the advice of its proxy advisors.

## Principles

AEI recognises the strong link between good corporate governance and investment value.

AEI is of the view that exercising voting rights is an important responsibility for all investment managers and superannuation funds.

AEI appreciates that in some cases it may have the potential to influence corporate governance and policy by the exercise of voting rights. Therefore even if the matter is not material, in order to be consistent with good practice and FSC Standard 1 – Code of Ethics and Code of Conduct (May 2012), AEI will generally exercise voting and other similar rights.

- AEI will not vote in favour of resolutions or actions imposing differential voting rights share classes or "poison pill" or other anti-takeover provisions which seek to deter appropriate takeover offers.
- AEI's preference is to support and vote in favour of a Board or management recommendation. However, where a recommendation is not consistent with AEI's policies, the recommendation will not be supported.
- AEI will not vote if it is excluded from doing so by the Corporations Act 2001 or other laws or in cases of conflicts of interest or duty which cannot be resolved lawfully or appropriately.
- If a resolution is divisive or raises contentious issues, AEI will be guided by what is in the best interests of the investors in the Managed Funds and members of the Super Fund. Resolutions falling into this category include those:
  - where there is a real likelihood that AEI will vote against a Board-sponsored resolution;
  - where there is a real likelihood that AEI will vote against a current Director standing for re-election;
  - which in AEI's reasonable opinion are inconsistent with or contravene the ASX Corporate Governance Principles and Recommendations;
  - which AEI believes are inconsistent with the Ethical Charter; or

- any other issue or resolution which AEI considers on reasonable grounds to be contentious or divisive having regard to media coverage, industry conventions and relevant laws.

## Application

The view of AEI is that any transaction or proposal which potentially puts at risk the capital or investment of investors in an entity should be considered carefully and subjected to an appropriate level of rigorous scrutiny. The following matters in particular will be examined:

- Changes to capital structures
- Changes to voting rights
- Management and Board compensation
- Appointment and re-election of Directors. Particular attention is to be given where Directors are not adhering to diversity policies
- Business conflicts of interest
- The application of the Australian Ethical Charter to the resolution under consideration

AEI's policy is to vote (or make a considered decision to abstain):

- On all proxies for every resolution in respect of holdings beneficially owned by AEI in companies and other entities publicly listed in Australia, excepting entities for which AEI has no discretion to vote.<sup>1</sup>
- On all proxies for every resolution in respect of holdings beneficially owned by AEI in international shares and other interests, to the extent that it is practicable to do so.

Decisions on how to vote will be made on a company by company and resolution by resolution basis, with regard to the principles outlined in Section 2 above.

In some instances, AEI may determine, after appropriate consideration, that as a matter of governance, it is more effective and in the best interests of investors in the Managed Funds and members of the Super Fund for AEI to abstain from voting. In instances where AEI has abstained from voting, AEI will retain evidence of its consideration of a resolution and the basis for the decision to abstain from voting.<sup>2</sup>

For completeness, in some instances it is possible that AEI's votes may not have been "counted" by the issuing entity. This can occur for a variety of reasons, for example, if there is a mismatch between records kept by an entity's registry services provider and the votes cast by AEI or if the entity's share registry currently is being updated. Alternatively, relevant proxy forms may simply be misplaced in the course of the voting process. In addition, there may occasionally otherwise be minor discrepancies in records and administration aspects which lead to differences between eligible votes and those cast. Accordingly, the voting records which AEI disclose reflect the instructions that AEI has given to an entity and/or proxy advisor (if relevant). AEI cannot guarantee then that all of these votes in fact were counted as disclosed. However, the records do reflect AEI's instructions at the relevant time.

<sup>1</sup> An Operator must vote in respect of all resolutions for its investments in Australian-listed entities unless the Operator for good reason is abstaining from exercising its voting rights. **See FSC Standard 13: Proxy Voting Policy (Paragraph 4(c)).**

<sup>2</sup> Abstention from voting is permissible under FSC Standard 13: Proxy Voting Policy provided the Operator complies with the requirement to retain evidence of its consideration of a resolution and the basis for its decision. **See FSC Standard 13: Proxy Voting Policy (Paragraph 9.2).**

## Implementing the Policy

The Chief Investment Officer is responsible for the implementation of this Policy. AEI applies the Policy wherever possible in a flexible manner so as to accommodate the wide variety of circumstances which may arise.

## Collective Investments and Interposed Entities

In a number of cases, AEI does not hold direct and immediate voting rights because of the interposition of a trust or other structure between AEI and the ultimate investments (e.g. an investment by AEI in a managed investment scheme which then invests pooled or collective moneys).

In such cases, AEI will request that the interposed entity exercise its voting rights in a manner consistent with this Policy and report to AEI on the exercise of voting rights.

Disclosure A copy of this Policy will be made available to Managed Fund investors and Super Fund members via the Australian Ethical website.

If material changes are made to the content of this Policy, these changes will be disclosed to investors and members as soon as reasonably practicable. If a change to the Policy is not material, and its non-disclosure will have no adverse impact on investors and members (and in particular on the making of a potential investment decision) the disclosure will be deferred until the annual review of the Policy.

## Disclosure of Voting Record – FSC Requirements

No later than three months after the close of each financial year<sup>3</sup>, the Group will publish a summary of its proxy voting activities for the previous financial year on its website.

This disclosure will be in a form consistent with the requirements set out in **FSC Standard 13: Proxy Voting Policy**, being:

- e. The name of the entity (and the Scheme if relevant).<sup>4</sup>
- f. The ASX or equivalent code of the relevant interests or securities, unless these are not readily available.
- g. The meeting date.
- h. A brief identification of the matter or matters to be voted on at the meeting.
- i. (If known) Whether the matter or matters voted on were proposed by the issuer, its management or another person or company.
- j. Whether AEI voted on the matter or matters.
- k. (If applicable) How AEI voted on the matter or matters.
- l. In the case of a decision to abstain, a record reflecting that AEI abstained from voting.
- m. Whether votes cast by AEI were for or against the recommendations of management of the entity.

<sup>3</sup> See **FSC Standard 13: Proxy Voting Policy (Paragraph 9.8)** and **SIS Act s.29QB** and **SIS Regulation r.2.38**.

<sup>4</sup> In instances where AEI determines that it is in the best interests of investors in all of the Managed Funds to vote in respect of an identified matter in the same way for all Managed Funds. In this case, AEI may make its disclosures at “Operator level” rather than at the level of each individual Managed Fund. Disclosure at this level is acceptable provided that the relevant Managed Funds are identified and the other required aspects of disclosure are identified in the aggregate. See **FSC Standard 13: Proxy Voting Policy (Paragraph 9.7)**.

