

Share voting approach

February 2022

Investing in company shares is a key aspect of AustralianSuper's strategy to deliver top long-term investment returns to help members achieve their best financial outcome in retirement.

Voting on resolutions at general meetings is a key ownership right and responsibility of company shareholders. For AustralianSuper, voting presents an opportunity to communicate our view on how companies are performing in creating long-term investment value for members. It has particular importance given our often large shareholding size.

Every year, AustralianSuper votes on company and shareholder resolutions on issues such as director elections, remuneration plans, constitutional changes, mergers and acquisitions, and shareholder resolutions on a range of matters.

This document outlines our approach to voting on the Australian and international shares in which we invest on behalf of members.

1. Voting principles

AustralianSuper makes voting decisions with the aim of enhancing members' investment outcomes by producing outcomes that create and/or enhance long-term company value. We consider resolutions individually on their own merits through the members' best financial interest lens. The fundamental resolutions at an Annual General Meeting are director elections and in some markets, including Australia, approval of the remuneration report. The following sections outline the principles guiding AustralianSuper's voting on these issues.

1.1 Director elections

1.1.1 Independence

Best practice corporate governance is that a company board should comprise a majority of independent directors with separate Chair and CEO roles. In principle, AustralianSuper supports boards with majority independent directors and separate Chair and CEO roles. However, the Fund recognises that a board may still be effective in the absence of these factors, and that it may not necessarily result in a poor long-term value outcome for members. Accordingly, resolutions will be considered on a case by case basis with voting decisions based on protecting or enhancing member interests.

1.1.2 Board composition

In voting on directors, AustralianSuper believes that consideration of board composition is vital and we expect boards to consider the appropriate skills and experience required for their effective operation. As such, we expect boards to put forward candidates for election and re-election who deliver the necessary skillset and experience for an effective board that delivers maximum long-term value.

1.1.3 Board accountability

AustralianSuper believes that directors are accountable for the strategic direction and performance of a company, the oversight of risk management, and the appointment of the CEO. In instances where the Fund believes that a director, including the Chair, has not adequately fulfilled their duty to shareholders on these issues, AustralianSuper may vote against a director. AustralianSuper will seek to engage with the company before making such a voting decision on material holdings.

1.1.4 Board gender diversity

AustralianSuper believes that gender diversity at board level is an essential element of good corporate governance and can positively impact on long-term investment outcomes.

Accordingly, AustralianSuper has implemented a board gender diversity voting approach for companies in the S&P/ASX 200 index. AustralianSuper votes against certain directors eligible for re-election in S&P/ASX 200 companies with fewer than two female directors which have not made a commitment to rectify the issue within a reasonable timeframe. Specifically, AustralianSuper will each year vote against one director in such companies, in the following priority:

- i. Board Chair
- ii. Nomination Committee Chair
- iii. Longest serving member of the Nomination Committee up for re-election
- iv. Longest serving member of the board up for re-election.

1.2 Executive remuneration

AustralianSuper aims to provide the best long-term investment returns for members and seeks senior executive remuneration at companies which is aligned with delivering a business strategy that creates sustainable long-term value.

1.2.1 Remuneration principles

The Fund has three underlying remuneration principles:

- › There should be appropriate pay for performance outcomes.
- › Remuneration quantum should be cost-effective and not excessive.
- › Remuneration disclosures should facilitate shareholder understanding of why these principles have been achieved.

Additionally, AustralianSuper requires executive remuneration to contain long-term performance assessments. The Fund will not support remuneration plans that do not contain long-term performance assessment.

The Fund is not prescriptive on how these principles should be achieved and is open to boards implementing bespoke remuneration plans that best suit their company, accompanied by an explanation as to why the chosen plan achieves its performance objectives. AustralianSuper will assess this for consistency against our remuneration principles.

1.2.2 Setting of performance metrics

For all variable pay metrics, the remuneration report should:

- › identify the metric
- › explain its relevance to business strategy and/or its purpose in the remuneration structure
- › explain how it is measured and calculated
- › identify the outcome achieved in the relevant period.

For variable pay metrics that require stretch performance (i.e. performance considered to exceed expectations), in particular short-term incentive (STI) and long-term incentive (LTI) measures, the remuneration report should also explain why the level at which it is set represents genuine stretch performance.

1.2.3 Board responsibility

Notwithstanding a highly structured remuneration scheme, ultimate responsibility remains with the board to:

- › have absolute discretion to adjust executive pay outcomes as deemed necessary given specific circumstances
- › ensure the overall final pay outcomes are appropriate for company and individual executive performance
- › explain in the remuneration report why the final pay outcomes are appropriate with regard to these factors.

AustralianSuper will assess the board discretion applied and rationale provided in determining the Fund's voting decision.

2. Voting universe

AustralianSuper retains voting rights for shares held in the Fund's portfolio, including shares held by external fund managers on behalf of AustralianSuper, and will vote on resolutions for all listed shares, with the exception of unit trust arrangements, Member Direct holdings, shares on loan, and shares listed in share blocking markets. The Fund does not lend ASX-listed shares and recalls international shares held in internal actively managed portfolios to ensure votes can be cast.

3. Voting approach

3.1 Internal actively managed ASX shares

AustralianSuper applies the following approach to voting on ASX shares which are actively managed by our internal equities team:

- › Our decision is based on what is considered to be in the best financial interests of members, which may differ from proxy advisor recommendations. While we may consider advice from the Australian Council of Superannuation Investors (ACSI) and, where relevant, recommendations provided by CGI Glass Lewis and external managers, we ultimately make our own voting decisions.
- › The Fund will often engage with companies in advance of voting and will seek to do so for material or contentious issues. In the case of the Fund voting against the recommendation of the company, the Fund will notify the company in advance of votes being cast and be open to further information for consideration from such engagement.
- › Where directly held shares are also held in other portfolio types as listed in section 3.3, all shares will be voted in line with the approach to directly held shares.

3.2 Internal actively managed international shares

AustralianSuper actively votes on international shares held in portfolios actively managed by our internal equities team. We consider proxy advice from CGI Glass Lewis. Engagement with the company may also be undertaken.

Where shares held in internal actively managed international portfolios are also held in other portfolio types as listed in section 3.4, all shares will be voted in line with the approach to internal actively managed international shares.

3.3 Externally, passively, or quantitatively managed ASX shares

In some instances, the voting universe may include shares in ASX companies the Fund only holds via quantitative strategies or does not manage internally. In these instances, as the Fund may not have actively engaged with the companies, voting decisions will generally be based on guidance provided by ACSI. However, in some circumstances (e.g. where a resolution may be controversial) the Fund may seek to engage with the company and vote after considering the outcome of this engagement. This is determined on a case by case basis.

3.4 Externally, passively, or quantitatively managed international shares

Due to the number of resolutions voted, international shares managed externally or in quantitative or passive portfolios are voted in line with the voting rules specified by the Fund and implemented via the CGI Glass Lewis voting platform. Voting rules defined in this policy specify how votes will be cast based on a range of ESG considerations and are developed in consultation with ACSI; the Fund retains the right, and in some instances has, overridden the rules specified by the policy.

4. Shareholder proposals

Shareholder proposals play a role in raising issues and driving board consideration and company disclosure on issues relevant to stakeholder groups.

Shareholder proposals are approached by the Fund in the same general manner as company-sponsored proposals. That is, all proposals, regardless of sponsor, are assessed on the merits of the proposal and its potential effectiveness in driving investment value for members of the Fund.

In the case of shareholder proposals, in addition to engagement with the company the Fund may also seek to engage with the proponent of the proposal. The same approach, as outlined in Section 3 for the relevant equity holding type, is applied to shareholder proposals.

5. Reporting

The Fund reports voting decisions on a quarterly basis on its website, within twenty business days of the end of each quarter. The Fund generally does not announce voting intentions in advance as this can restrict our ability to engage with companies or signal markets on price sensitive issues. However, the Fund will consider disclosure in advance in circumstances where this helps the Fund achieve the objectives of its engagement with the company.

6. Exceptions

In certain instances, there may be exceptions made to the approach outlined in this document; these are not anticipated to be frequent and will be dependent on specific circumstances of the company or resolutions for which voting is being considered. In all instances the Fund will seek to take action in line with its commitment to protect members' interests and produce outcomes that create and/or enhance long-term value for members.

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