



Macquarie Asset Management

2021 Stewardship Report

Important information

UK Stewardship Code

MAM became a signatory to the UK Stewardship Code 2020 (the Code) in September 2022.

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. The Code is a voluntary code and comprises a set of 12 'apply and explain' principles relating to engagement and stewardship in respect of a number of different asset classes, including listed equity, fixed income, bonds, real estate and real assets.

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About this report

Macquarie Asset Management's (**MAM**) Stewardship Report for the year ended 31 December 2021 provides a detailed overview of the policies, frameworks, activities, and outcomes related to the responsible investment and stewardship philosophy that is applied to all our assets under management (**AUM**).

MAM is a full-service asset manager with £403 billion in AUM globally as at 31 December 2021. Our clients include pension and superannuation funds, governments and sovereign wealth funds, institutional investors, insurance companies, and high net worth investors.

MAM's offering spans both Private Markets (including infrastructure, renewables, natural assets, real estate, private credit and asset finance) and Public Investments (including equities, fixed income and multi-asset solutions).

MAM is part of Macquarie Group Limited (**Macquarie**), a global financial services group providing clients with asset management, finance, banking, advisory and risk and capital solutions across debt, equity and commodities. Founded in 1969, Macquarie employs approximately 17,500 people in 33 markets and is listed on the Australian Securities Exchange.

MAM's investment and stewardship philosophy applies to all our assets under management. MAM's environmental, social and governance (**ESG**) policies set out our approach to ownership and the governance of companies in which we invest, and how we manage environmental and social risk and opportunity. The specific application of our policies and frameworks varies across our Private Markets and Public Investments activities, reflecting the different ownership interests and levels of influence in those asset classes. We have included a range of case studies from across our diverse business to show the different ways in which our approach is put into practice.

The following Stewardship Report explains how these global policies enable us to comply with the U.K. Stewardship Code. MAM manages assets on behalf of UK clients and invests in UK assets, including via its two UK asset managers, Macquarie Infrastructure and Real Assets (Europe) Limited and Macquarie Investment Management Europe Limited, and on this basis is eligible to apply for recognition as a signatory to the Code. The report covers MAM's stewardship approach across its entire business, including both Public Investments and Private Markets. MAM is a large, global business comprised of numerous legal entities. Therefore, this report has been reviewed and approved by the Executive Committee of MAM, which is considered to be the most appropriate body to review and approve this report.

For more information on our stewardship activities, please visit our [website](#).



Ben Way

Group Head, Macquarie Asset Management

Leadership statement



Ben Way

Group Head, Macquarie Asset Management

Our purpose is to empower people to innovate and invest for a better future. In Macquarie Asset Management, we do this by investing to deliver positive impact for everyone. But this goal can only be achieved through careful investment analysis and selection, active asset management and stewardship, and by measuring and sharing updates on our progress and outcomes.

That is why we are pleased to present our first Stewardship Report covering the breadth of our asset management platform, encompassing our activities across both private markets and public investments. We recognise that stewardship issues are important to all of our clients and stakeholders. This report details our approach across different asset classes, provide an overview of our key activities and progress during 2021, and provide insight into our upcoming priorities and plans.

The past year has presented many challenges – most notably the continued impact of the pandemic – but throughout we have remained focused on putting sustainability at the heart of what we do; not just through policies, processes and disclosure, but through action.

Notable actions we have taken over the past year include:

- Joining the Net Zero Asset Managers initiative, reinforcing our existing commitment to invest and manage our portfolio in line with net zero emissions by 2040 through enhanced disclosures about our approach and progress in achieving this important target;
- Leading collaborative engagements through our membership of Climate Action 100+ and the World Benchmarking Alliance to improve investee company performance on climate change and aligning with the United Nations' Sustainable Development Goals; and
- Growing the number of our portfolio companies and funds participating in GRESB, enabling targeted engagement with our businesses to improve sustainability performance and increased transparency to our investors of key ESG metrics.

We recognise that there are always areas for improvement, and so we are continuously improving our approach based on feedback from our clients and external stakeholders, market developments and technological advancements. While we do not have all the answers, we do know that meaningful change requires courageous leadership, innovation and collaboration.

Throughout this report we have highlighted development areas where work is already underway – including to enhance our ESG governance processes, disclosure and monitoring of stewardship practices such as engagement and proxy voting. Our response to addressing emerging risks such as greenwashing and systemic risks such as the impact of climate change is also detailed.

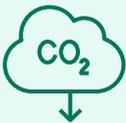
This report forms part of a suite of resources we share with our stakeholders to detail our approach and perspectives on sustainability, including our annual Sustainability Report, Principles for Responsible Investment report, and GRESB reporting, alongside our bi-annual client-led ESG Survey and regular insights pieces shared on our website.

As more people recognise that sustainability is good for investing and not simply the 'right thing to do', we want to be known for taking decisive action and leading on the issues that matter the most.

Highlights



Sustainability is at the heart
of everything we do



Committed to invest and manage
our portfolio in line with
**global net zero emissions
by 2040**



Regular client ESG survey
providing key insights to elevate our
ESG product offering and stewardship



Mandatory Risk and DEI-related
**training and performance
objectives**
for all MAM staff



**Growing dedicated
global Sustainability team**
supported by
specialised Risk teams
to support effective stewardship
across MAM



**Enhanced transparency
of ESG disclosures**
to align with industry reporting
initiatives and frameworks including PRI,
CDP and GRESB



ESG fully integrated
into our investment approach, with
dedicated policies, procedures, access
to specialised resources and minimum
sustainability standards



Application of Macquarie's
Principles for Suppliers
policy to uphold our core values through
supplier relationships



Quarterly collection of ESG data

across 150+ Infrastructure portfolio
companies, encompassing GHG
emissions, energy consumption and
WHS data



Active industry participant

via multiple collaborative ESG initiatives:
Climate Action 100+,
World Benchmarking Alliance,
Net Zero Asset Managers initiative.



ESG engagement tracker

implemented across Public Investments
teams in 2021, encouraging timely
follow-up, improved client service
and cross-team collaboration on
ESG-related issues



Proactive proxy alert system

implemented across MAM in 2021 to
directly alert investment teams of
ESG-identified proxy voting issues



Active involvement in **ESG disclosure standardisation**

across multiple asset classes



Purpose and governance

Principle 1

Signatories' purpose, investment beliefs, strategy and culture enable stewardship that creates long-term value for clients and beneficiaries leading to sustainable benefits for the economy, the environment and society

To be effective, stewardship must be rooted in a firm's culture. At MAM, the principles to ensure the responsible allocation, management and oversight of our clients' capital are embedded in how we approach the work we do.

Our purpose

Macquarie's purpose is to **empower people to innovate and invest for a better future**.

In MAM, we do this by **investing to deliver positive impact for everyone**. Through MAM's ownership and asset management, we generate value for a broad range of stakeholders, from our clients and their investors to the local communities that rely on our portfolio companies.

With a global team of over 1,900 people across 22 markets, we leverage our experience, diversity and culture of innovation to identify opportunities, mitigate risks and create long-term value for our clients and stakeholders.

Our purpose, as well as principles and what we expect of our staff, are set out in Macquarie's [Code of Conduct](#).

Our culture

To fulfil our purpose, we apply three long-held principles that are central to our culture, determine how we conduct business, and guide what we do every day:

- **Opportunity:** We seek to identify opportunity and realise it for our clients, community, shareholders and our people. We start with real knowledge and skill. We encourage innovation, ingenuity and entrepreneurial spirit. We support our people to achieve and succeed. Our success is built on this. We value the opportunity to be part of the Macquarie team. We realise opportunity, respecting different ways of thinking and the contribution of others.
- **Accountability:** With opportunity comes accountability. We are accountable for all our actions, to our clients, our community, our shareholders and each other. We never compromise our standards. We take responsibility for our actions and everything we say and do is on record. We analyse and manage risk, and we make decisions we are proud of.
- **Integrity:** We always act honestly and fairly. We honour our promises. We earn the trust of our clients, colleagues, community and shareholders through the quality of our work and our high ethical standards. We have the courage to speak up when we make a mistake or see something that doesn't seem right.

Balancing opportunity and accountability, while operating with integrity within a strong risk management framework, is a feature of Macquarie's success.

MAM promotes an entrepreneurial asset management culture within Macquarie. This environment is defined by a flat organisational structure and is reinforced by an open seating plan arrangement (in compliance with required information barriers) specifically designed to encourage collaboration and communication across and between team members, including the investment committees, sector specialists, analyst and associate-level investment professionals, and specialist professionals, such as risk management, legal, tax and finance.

At Macquarie, the environment is supported by a strong corporate risk culture, which is underpinned by a robust set of policies. This corporate culture fosters an environment in which our fiduciary obligations as a manager are fundamental to how we operate.

Our beliefs

As a long-term investor and member of the community, we care about the future and recognise the challenges the world faces. We believe that together with our partners, we can make a real difference. We also have a responsibility to do more – to not only deliver long-term value, but also deliver positive outcomes in the communities in which we operate. This requires expertise, passion and a singular focus to deliver.

We believe that the effective management of ESG issues reduces risk and enhances long-term economic value. It forms part of our fiduciary responsibility to our clients. We recognise that positive ESG performance by companies and assets is a potential indicator of management quality, operational performance and the potential to create long-term value. In the Private Markets portfolio companies we manage, ensuring they operate sustainably also forms part of our broader responsibilities to those people who depend on them every day, the communities in which they operate and the environment on which we all depend.

Stakeholder engagement

Delivering a positive experience for our stakeholders is central to our purpose and our ability to deliver sustainable long-term value. While managing investments, we focus on providing customers with reliable services, keeping employees safe, delivering on the needs and expectations of communities and regulators, and generating consistent results for our investment partners.

We recognise the importance of stakeholder collaboration and continuously engage with investors, portfolio companies, industry groups and other stakeholders on ESG matters with the aim of refining our own approach, sharing knowledge and collaborating on global ESG challenges such as climate change. We regularly survey clients on their experience with MAM: a recent such survey of over 150 MAM clients found that 85% of respondents have a greater focus on ESG compared to two years ago and – 82% of participants expect to increase allocations to investment strategies that integrate sustainability practices over the next two years.

We also actively collaborate with the wider market on ESG and stewardship issues. A selection of our industry affiliations, accreditations and commitments are detailed later in this document, under **Principle 4**.

Our strategy

Effective ESG management is core to our investment strategy and is integrated within the business and our approach.

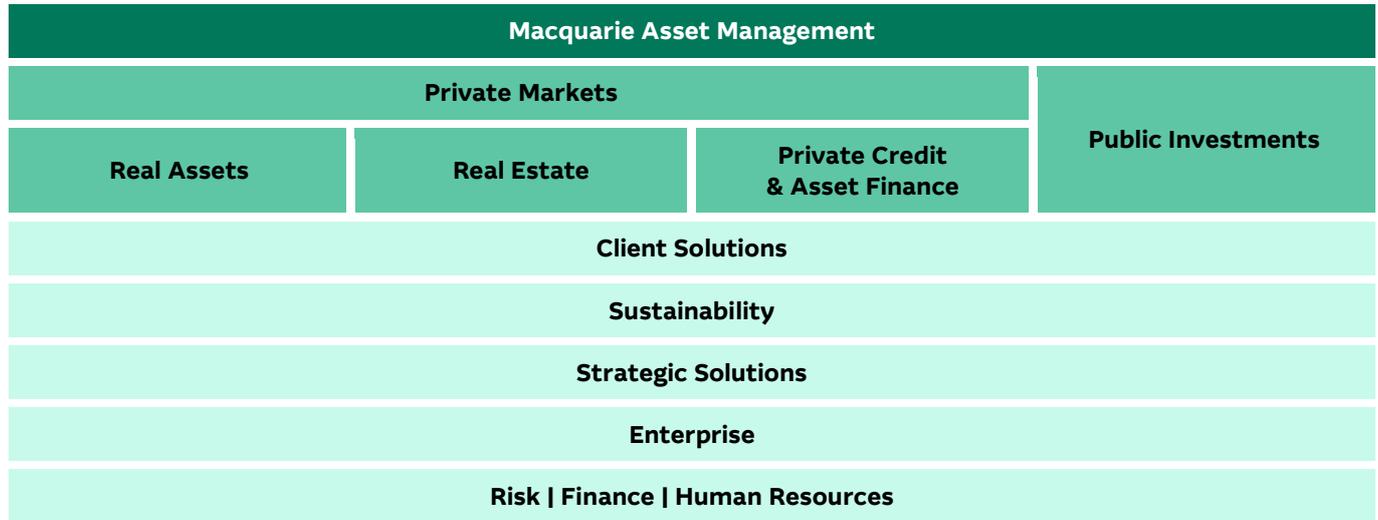
We leverage our expertise, diversity and culture of innovation to identify opportunities, mitigate risks and drive value for our clients and stakeholders. We do this through our:

- **Partnership with clients:** We are passionate about solving problems and finding innovative solutions by working together – with each other and with our clients.
- **Culture:** Strong risk management practices and empowering our people to find the best solutions creates a culture focused on the future and building sustainable outcomes.
- **Investment expertise:** Strong track record and investment expertise in specialised industries and asset classes provides us insights into identifying and sourcing opportunities globally.

MAM's ambitious commitment and detailed roadmap to achieve alignment with global net zero emissions across our investment portfolio by 2040 – 10 years ahead of the goal of the Paris Agreement – underlines the opportunity we see for our business to play an active role in creating a more sustainable world. MAM has continued to work closely with companies in its Private Markets portfolio, where we have sufficient influence, to report and verify their emissions, set targets for emissions reduction, and develop business plans to achieve net zero. Within MAM's Equity, Fixed Income and Multi-Asset Investment teams we have ensured access to ESG analytical tools that provide insight into the carbon footprints of individual investments and portfolios and enable targeted engagement and proxy voting efforts. This commitment reflects the focus we have on sustainability across our investments.

Given the diverse range of products and asset classes within MAM, our strategy and the way we apply our ESG policies can differ across each of these businesses.

MAM's organisational chart:



ESG forms an integral part of MAM's business strategy, decision-making and investment processes. We recognise that positive ESG performance by companies and assets is a potential indicator of management quality, operational performance and the potential to create long-term value. We also recognise the growing regulatory attention given to ESG matters around the world. We adhere to related legislation in the jurisdictions where we operate, where it is applicable to our business.

As detailed below and further in **Principle 2**, dedicated policies, systems and in-house experts enable our teams to identify ESG opportunities and address risks effectively where we determine them to be relevant throughout the investment lifecycle. The integration of our ESG framework and risk management into our investment teams and processes is further detailed in **Principle 7**.

Public Investments

A key element of the effective stewardship of public companies – those listed on public exchanges – is the investor's right to vote on company and shareholder resolutions (often through a proxy).

Our stewardship activities within Public Investments are guided by our internal Engagement Policy and Proxy Voting Policy. Stewardship activities are overseen by our dedicated ESG Working Group and Proxy Voting Committee, which comprise representatives from our investment teams and support functions.

MAM's Sustainability team works with representatives of each investment team to provide guidance and training on stewardship best practices. Stewardship activities are tracked by the Sustainability team via an ESG engagement tracker and its outside proxy vote administrator.

Private Markets

Responsible investment and stewardship principles are particularly important in real asset investing because of the long-term nature of this asset class and its typical focus on the provision of essential services.

Consistent with our Public Investments business, ESG risk mitigation is one aspect of our stewardship activities and is integrated into our investment cycle, as illustrated below.

Screening	Due diligence	Investment decision	Transition	Asset and portfolio management	Exit
Assets and management teams screened for ESG-related red flags and opportunities and subject to sensitive sector escalation.	ESG risks and opportunities independently assessed, aided by tools, expertise and frameworks, and factored into the financial analysis.	Material ESG risks, opportunities and mitigants evaluated by the investment committee as part of all investment approvals.	For equity investments, identified ESG strategies and improvements, implemented and tracked as part of transition plan.	Ongoing ESG oversight, engagement and monitoring, with support from in-house experts.	For equity investments, ESG advantages and opportunities integrated into the realisation process to ensure optimal valuation.

This approach is materiality-based. We focus on sustainability risks that are most important to each business and its community given the industry and type of asset, its physical location, legal jurisdiction and stage in the asset cycle, as well as asset-specific risks that are identified in a rigorous due diligence process.

One way in which we monitor the outcomes and impact of our stewardship activities is through third-party sustainability assessments such as GRESB, which provides a framework to measure the ESG performance of individual portfolio companies and portfolios. We have been members of GRESB since 2016, which enables us to benchmark our ESG performance, identify areas for improvement and engage with investors.

Continuous improvement

MAM is continuously striving to enhance its policies and procedures. Each of the subsequent sections provides details of actions that MAM intends to take over the coming year to further develop its stewardship activities.

Principle 2

Signatories' governance, resources and incentives support stewardship

Stewardship principles are firmly integrated within our governance and remuneration structures. We ensure that our people have the necessary skills and resources to apply high standards of stewardship in everything that they do.

Governance framework

MAM's approach to risk management comprises several components:

Risk Culture	Risk Management Framework	Risk team	ESG
<ul style="list-style-type: none"> Strong and led from the top Business owns risk and risk management 	<ul style="list-style-type: none"> Extension of Macquarie Framework Mature with continuous evolution 	<ul style="list-style-type: none"> Global team Independent and experienced Support from Macquarie's central Risk Management Group 	<ul style="list-style-type: none"> Fully integrated into MAM's approach Considered through investment cycle

A sound **risk culture** has always been integral to Macquarie's risk management approach. Business ownership of risk is an essential element in understanding and managing risk. Each business team within Macquarie is responsible for identifying risks within its business and ensuring that they are managed appropriately.

MAM operates within Macquarie's **Risk Management Framework**, which represents a comprehensive suite of policies and procedures covering all aspects of risk management across Macquarie. In addition, MAM has its own risk management policies that reflect the investment, credit, liquidity, operational, legal and reputational risks specific to our business structures, operations, investments and stakeholders.

MAM has a dedicated risk team (**MAM Risk**) which is functionally and hierarchically independent of the transaction and portfolio management team and is responsible for identifying risks (including ESG risks) associated with the funds and ensuring they are managed appropriately. MAM Risk is global, with representatives in key regions reporting to MAM's Chief Risk Officer.

Macquarie's Risk Management framework is based on the 'three lines of defence' model. MAM is primarily responsible for the management of risk arising from its own processes. MAM Risk works alongside business teams as part of the first line of defence. Macquarie's Risk Management Group (**RMG**) provides second and third lines of defence by setting the framework and policy guidelines and through internal audits to ensure all MAM businesses are effectively managing their risk:



ESG framework

ESG risk identification and mitigation are core components of our Risk Management Framework. MAM's ESG-related frameworks are set out in our business aligned ESG policies:

- MAM Private Markets' ESG policy outlines a framework for systematic investigation, management and reporting of material ESG risks and opportunities associated with our investment due diligence and ongoing asset management activities.
- MAM Public Investments' ESG policy outlines our approach to the integration of ESG factors into our listed investment processes, proxy voting and engagement with companies.

Our stewardship responsibilities are managed through these key policies, as well as other ESG-related policies and practices. Combined, they address issues including:

- corporate governance
- oversight and management of work health and safety (**WHS**)
- identification, assessment and management of environmental and social risks
- selection and management of investments and undertaking new business activities
- ethical conduct by staff, including support from Macquarie's Integrity Officers
- advancing sustainability in corporate operations through the 2025 Sustainability Plan
- greenhouse gas (**GHG**) and energy management and reporting
- provision of a safe, diverse and appropriate workplace, including a network of Equal Employment Opportunity officers
- dealings with external parties such as regulators and public officials
- whistle blowing, anti-corruption and anti-money laundering
- management of business and staff conflicts of interest
- engagement by Macquarie and its staff in the wider community, including volunteering, capacity building and matched donations.

These MAM policies are also aligned with the broader Macquarie approach set out in Macquarie's Environmental and Social Risk (**ESR**) Policy, which establishes group-wide processes for identifying, assessing, managing, mitigating and reporting material environmental and social risks. MAM reports at least semi-annually to Macquarie's board on our compliance with the Macquarie ESR Policy and other Macquarie requirements.

With this robust risk framework in place, including sustainability risks, MAM is well-positioned to be a good steward in maximising overall long-term value for our clients.

Organisational structure

MAM has dedicated Sustainability and Risk teams which are responsible for setting and implementing the ESG incorporation strategy and framework, as well as supporting our staff to act as good stewards.

A simplified organisational chart of the key teams within MAM involved in supporting good stewardship across our businesses is shown below, with detail on committees and processes specific to our Private Markets and Public Investments activities provided below.



- MAM's Sustainability team** is responsible for setting MAM's overall sustainability strategy and ESG framework, providing specialist expertise on environmental and certain social matters, and supporting investment and asset management teams in harnessing ESG opportunities across MAM's portfolio. As at 31 December 2021, the team comprised 16 sustainability professionals in three regions with a broad range of ESG backgrounds, including ESG consulting, sustainable finance, engineering, public equities, finance, stakeholder relations, legal, and risk and control, with experience across key ESG topics and sectors including financial services, infrastructure, extractives, real estate and fast-moving consumer goods.

The Sustainability team is supported by a number of other specialist MAM-wide teams including Investment Performance, WHS, Technology and Innovation, Human Capital, the Client Solutions Group's Sustainability Working Group and the Public Investments ESG Working Group (detailed further below). The Client Solutions Group's Sustainability Working Group is a collaboration of representatives across MAM to continuously improve our sustainability communications and ensure our client's needs are fed into our sustainability efforts.

- MAM Risk** is responsible for ensuring all risks, including ESG risks, are identified and managed across MAM. The team works closely with other specialist teams to ensure our frameworks support stewardship, including MAM's Sustainability team and Macquarie's RMG division. MAM's Chief Risk Officer reports directly to MAM's Global Head, ensuring independence between MAM's Risk and transaction or portfolio management teams. MAM's Risk team also has an escalation line into Macquarie's Head of Operational Risk and Governance.
- Macquarie's RMG** division is centralised within Macquarie and independent of MAM and is responsible for identifying, assessing and monitoring risks across the group level, as well as defining the group risk framework. RMG functions include Compliance, Operational Risk and Governance, Behavioural Risk, Credit, Market Risk, Quantitative Applications, Regulatory Affairs and Aggregate Risk, Financial Crime Risk, Enterprise Support and Internal Audit.

RMG's **Operational Risk and Governance** team reports to Macquarie's Chief Risk Officer and reviews the design, implementation, and operating effectiveness of controls. It is responsible for: ensuring there are effective mechanisms in place to identify, record, and assess operational risks; providing assurance that controls are working; monitoring and reporting on operational issues, errors and breakdowns within Macquarie; and escalating and reporting issues, where appropriate, outside of Macquarie.

RMG's **Internal Audit** team provides independent and objective risk-based assurance on compliance with, and effectiveness of, Macquarie's financial and risk management framework to senior management and the Macquarie Board and reviews all auditable businesses at least once every three years.

RMG's Environmental and Social Risk team (**RMG ESR**) assists staff within Macquarie identify and manage environmental and social risk. RMG ESR supports MAM with a diverse range of specialists to provide guidance and oversight in our collective approach towards ESG.

These teams work closely with each other to ensure our approach to stewardship is consistent and effective.

Public Investments

The ESG policy covering our Public Investments activities details our approach to the integration of ESG factors into our investment processes, proxy voting and engagement with companies. Our framework for integrating ESG into our investment process and supporting stewardship is described below.

- To support investment teams in their integration of ESG, in 2018 we established a group of representatives from each of the investment teams within the Public Investments business with a focus on ESG (**ESG Working Group**).
- This ESG Working Group is responsible for monitoring ESG practices, allowing investment teams to share best practices in incorporating ESG factors into their investment processes and discuss market developments with respect to ESG. ESG Working Group representatives are the point people for their respective teams on ESG-related matters. This includes review of ESG-related policies and procedures, assessment of their teams' practices in accordance with these policies and procedures, communication to their teams of available ESG-related resources, and evaluation of external ESG data providers.
- Our independent investment teams are responsible for the ongoing management of their investments, including with respect to sustainability risks. Investment teams may use engagement opportunities and/or voting rights as a way of mitigating sustainability risks. It is open to investment teams to choose to divest from companies and/or issuers where they consider sustainability risks are material, as a measure of last resort.
- The **Global Proxy Voting Committee** is responsible for overseeing the proxy voting process across our Public Investments activities. At least one member of the Committee is also a member of the **ESG Working Group**. MAM has adopted Proxy Voting Guidelines which summarise our position on various issues and give a general indication as to how we will vote shares.

Investment teams are supported in their stewardship efforts by the Sustainability team and the business's dedicated ESG Working Group, as well as internal and externally generated ESG resources. External resources include specialised external ESG research, governance and proxy analysis from established organisations that set benchmarks and standards for risk assessment, management and reporting – for example, taking into account recommendations from the Principles for Responsible Investment (**PRI**). These external resources provide our investment teams with ESG-specific data, opinions and insights, which complement research independently obtained by the teams.

Private Markets

ESG issues arising from our Private Markets activities must be investigated and addressed at each stage of the investment lifecycle, from new investment screening and due diligence through to transition and ongoing asset management.

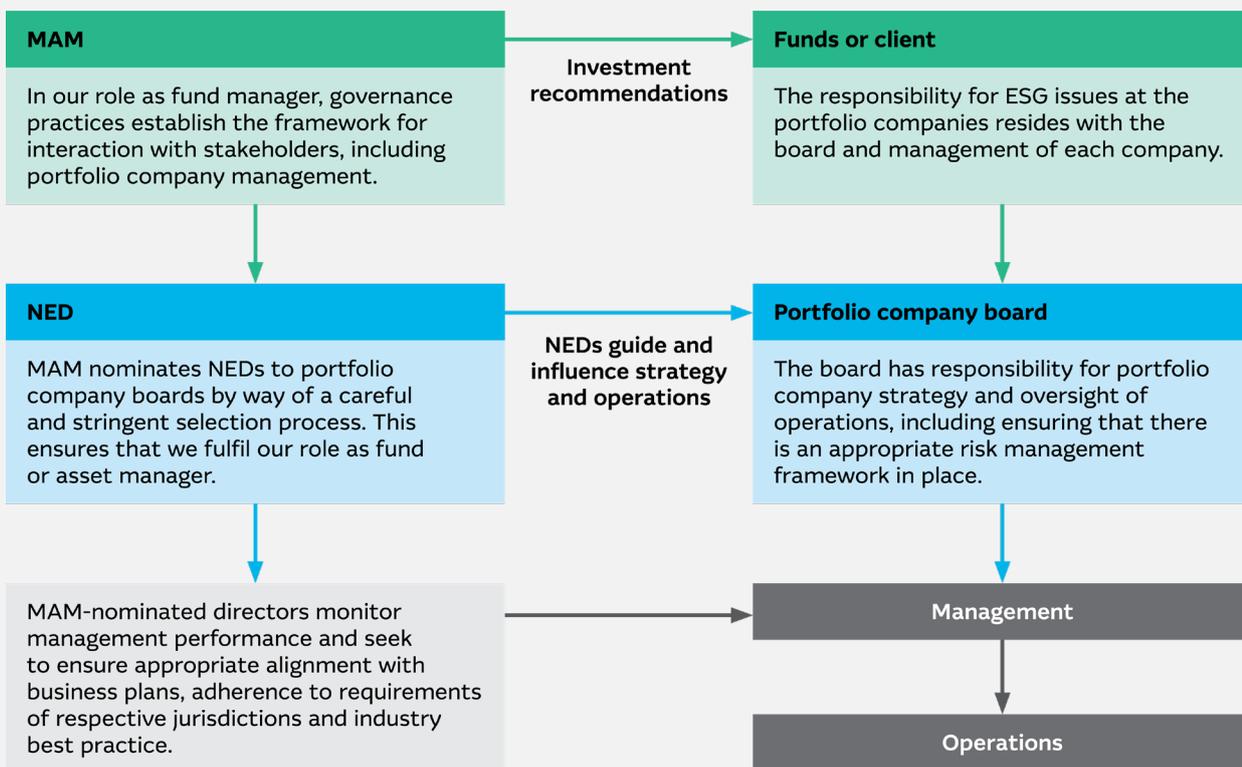
The ESG policy covering our Private Markets activities outlines a framework for systematic investigation, management and reporting of material ESG risks and opportunities associated with our investment management activities and the operations of our portfolio businesses. It also defines ESG-related escalation requirements, related policies, processes and minimum sustainability standards for the businesses in which we invest.

To inform our ESG priorities, we refer to recommendations and research from established organisations that set benchmarks and standards for risk assessment, management and reporting. These include the PRI and the International Finance Corporation’s Environmental and Social Performance Standards and Environmental, Health and Safety Guidelines. In some jurisdictions, standards have been codified to law, such as the US Foreign Corrupt Practices Act and the Modern Slavery Acts of the UK and Australia. These standards and regulations inform practices, training and restrictions across our global activities.

We also listen carefully to our investors, among whom are some of the largest, most sophisticated and successful institutional investors globally. We do this through direct engagement and through our [ESG survey](#).

Our staff are supported by dedicated in-house specialist teams, including the Risk and Sustainability teams discussed above. These teams are responsible for setting and implementing the ESG incorporation strategy and framework.

In our role as fund or investment manager, we nominate senior employees for appointment as non-executive directors (**NEDs**) to serve on the boards of our portfolio companies. These NEDs, along with other directors and officeholders of the board and management team, are responsible for overseeing portfolio company operations, including ensuring that portfolio company management has appropriate ESG systems, procedures and practices in place. When we nominate representatives to the boards of portfolio companies, we seek to ensure both sectoral and geographical experience, together with any particular skillset important for a particular business.



Training and development

Regular training and education webinars are run for both MAM staff and our Private Markets portfolio company management teams on a variety of key areas, including sustainability risk management, health and safety, diversity, equity and inclusion (DEI), net zero emissions and other sustainability initiatives.

Examples of training delivered to asset management teams and portfolio companies include:

- Code of Conduct training, which has been completed by all of our staff, and the Ethical Leadership Programme, run in conjunction with The Ethics Centre, which all of our directors have begun. The Ethics Centre is a not-for-profit organisation developing and delivering innovative programmes, services and experiences, designed to bring ethics to the centre of personal and professional life.
- Practical welfare, health, safety and environment training, undertaken by all directors nominated by MAM to the boards of companies or assets.
- Training related to the first stage of our net zero by 2040 commitment, where we are working with our Private Markets portfolio companies. In conjunction with industry experts and portfolio companies, we are setting expectations and providing tools, training and resources to help them establish baseline GHG emissions (if they have not already done so previously), set targets and develop the plans to achieve them.
- DEI strategy oversight training, provided to MAM's portfolio company board directors and using a survey of MAM's directors and senior leadership across our Private Markets portfolio to gain insights into each company's current approach to DEI. The survey identified opportunities to support the development of DEI strategies through: improving data collection; sharing best practices across the portfolio; and sponsoring the appropriate allocation of resources to drive progress.
- Specific training for members of the Public Investment's ESG Working Group to help them pass along key information, including on effective stewardship practices, to their teams. Over the past year, we have held several training sessions on ESG ratings, data providers and broader ESG integration for our investment teams to help them execute their own bespoke ESG strategies, as guided by our overarching commitment to ESG integration.
- Direct engagement by the Sustainability team with investment teams and ESG Working Group representatives to help integrate ESG considerations into each team's investment process. These interactions range from regularly scheduled quarterly meetings to review our Public Investments portfolios and holdings to ongoing impromptu discussions where Working Group representatives request assistance from the Sustainability team on issues such as: effective deployment of ESG resources; responses to client and prospect inquiries; and overall questions about effective ways to assess ESG risks and opportunities.

Remuneration framework

The evolution of Macquarie and MAM is driven by our people. They are guided by our core principles of Opportunity, Accountability and Integrity. Macquarie's longstanding and consistent approach to remuneration supports our principles and our role as stewards by motivating staff to be innovative, to build long-term businesses and to be accountable for their decisions, behaviours and their associated risk management, client and reputational consequences.

Macquarie's remuneration policies promote effective risk management and form part of our risk management framework. The risk management framework promotes active management and monitoring of a range of risks (both financial and non-financial), and particularly discourages excessive risk-taking with respect to sustainability risks.

Further information on Macquarie's remuneration framework can be found in Macquarie's most recent [Corporate Governance Statement](#).

Under our remuneration framework, staff receive fixed remuneration and performance-based remuneration in the form of a discretionary annual profit share. Profit share allocations to individuals are primarily based on business profits and individual contributions to profits for revenue-generating employees, and contributions to high-quality control functions for risk management and financial control staff.

Risk management and compliance, business leadership, people leadership and professional conduct are also considered in determining allocations. Allocations may be adjusted based on an assessment of both financial or non-financial risks (where appropriate this may include sustainability risk) and conduct issues that have arisen during the year.

Diversity, equity and inclusion

We believe that a culture that supports diversity and inclusion across all our activities – at Macquarie, in MAM and across our portfolio companies – is essential to our role as stewards. The varied experiences, skills, and views of our people allow us to deliver a broad range of services to clients around the world, with a full understanding of the communities in which we operate.

Macquarie's DEI strategy is structured around the following

- **Our diverse people:** Macquarie is committed to building a workforce that reflects all aspects of diversity and intersectionality to bring a range of perspectives, ideas and insights to everything we do.
- **Our inclusive culture:** Creating a workplace where our people feel respected for their uniqueness, valued for their contribution and empowered to reach their full potential is essential for diversity of thought to flourish. We are embedding inclusion and psychological safety in our culture through day-to-day practices (behavioural inclusion) and programmes and policies (structural inclusion).
- **Our clients and community:** Macquarie is committed to providing and supporting commercial and development opportunities for underrepresented people in our community. We have long-term funding partnerships with non-profit organisations around the globe and our staff participate in a variety of activities including literacy and employability coaching, and mentoring. We are proud of the awards we have received this year and are committed to doing more to provide opportunities to underrepresented people in our communities

The principles of equity and inclusion are embedded in Macquarie's people related practices and processes, including core talent programmes, recruitment processes, remuneration and promotion criteria. We continue to focus on creating opportunities for all staff to demonstrate skills and capability and their promotion readiness; and ensuring we support staff from under-represented groups through the critical midcareer levels and into senior roles. MAM's DEI strategy, relaunched in 2021, supports this commitment. We have reviewed our approach to hiring, promotions, engagement and succession planning and developed resources to support our people leaders to create a more inclusive environment. We embed the principles of DEI in all people related policies, processes and programmes to ensure the highest and fairest standards, including maintaining pay equity for like roles and performance, providing equal access to opportunities and future skilling, maintaining equality for women and men in promotion decisions and providing all staff with access to flexible working. All MAM staff have mandatory DEI objectives, which are assessed via annual performance reviews, and we will continue to focus on improving DEI across the whole employee lifecycle.

Macquarie performs an annual staff survey, the Macquarie Voice Survey, which gives staff an important opportunity to give honest feedback about their employee experience including with respect to Macquarie's culture, leadership and inclusiveness. The Macquarie Voice Survey provides Macquarie, and MAM, with valuable feedback and the results have been used to help identify opportunities for improvement and drive meaningful action.

In the 2021 survey, feedback identified two priority areas for action within MAM: sustainable workload and hybrid working; and investing in our people and contribution recognition. A number of initiatives will be implemented in 2022 in response, including:

- the introduction of Team Charters for hybrid working where teams create, design and implement their own hybrid working environment
- the use of 'Meeting Free Fridays' and 'Wellbeing Leave Days' for MAM staff
- increased promotion and performance management information workshops for all MAM staff globally
- the implementation of a future skilling strategy to lift the capability of our people in the skill areas that will be important for the future of our industry and delivery of MAM's strategy
- a new induction programme, for all new staff and incoming colleagues joining MAM from other businesses, to help orientate people to our business, make connections and thrive in their future careers with MAM.

At MAM, we want to create an environment where everyone is respected, valued and empowered, and which supports under-represented people in our communities. The strategy is underpinned by visible executive leadership, a global network of ambassadors and a commitment to ongoing measurement of our progress, both quantitatively and culturally.

For further details on our DEI strategy, including specific objectives on gender equality and our progress against these objectives, please see the [Diversity section](#) of Macquarie's FY21 Annual Report as well as [Macquarie's Workforce Diversity Policy](#).

Use of external service providers

We engage external service providers to help our investment teams with ESG-specific data, opinions and insights.

Examples of resources available to our teams is provided below:

Macquarie Internally Developed Tools	<ul style="list-style-type: none">• Model designed to stress-test issuers and portfolios for different carbon pricing scenarios in line with Task Force on Climate-Related Financial Disclosure requirements• Database for alignment with UN Sustainable Development Goals
Value Reporting Foundation - SASB Standards	<ul style="list-style-type: none">• Internal MAM Public Investments portal which provides a lookup reference to find material ESG factors by industry group
Aladdin, by BlackRock	<ul style="list-style-type: none">• MSCI ESG data available to add to portfolio profile• Carbon footprint/carbon intensity report• MSCI, Sustainalytics and Refinitiv ESG risk ratings
FactSet	<ul style="list-style-type: none">• MSCI ESG data available for screening• Access to MSCI ESG research reports• ESG-related performance attribution available in Portfolio Analysis module
MSCI	<ul style="list-style-type: none">• MSCI ESG data available for screening• MSCI ESG research reports
Bloomberg	<ul style="list-style-type: none">• Snapshot of a company's ESG profile and ESG ratings• Portfolio Carbon Footprint Tool
Sustainalytics	<ul style="list-style-type: none">• Sustainalytics ESG data available for screening• Sustainalytics ESG Risk Ratings and Controversy research reports• EU Taxonomy Solution
RepRisk	<ul style="list-style-type: none">• Support transaction and norms-based screening.

MAM also retains the following proxy advisory firms to help the process of voting proxies, including research and opinions on proxy voting issues, as well as proxy voting administrative support across its Public Investments activities:

- Institutional Shareholder Services (**ISS**)
- Glass Lewis & Co., including its Australian subsidiary CGI Glass Lewis
- Ownership Matters.

Clients may sometimes ask MAM to utilise their own preferred proxy advisory firm.

We also use other service providers to support our stewardship activities, including those providing controversy and adverse media exposure assessments, and climate risk screening.

MAM may also appoint external investment managers to act as sub-advisors for our funds. Each sub-advisor has its own approach to stewardship, but we perform ongoing monitoring of these investment managers to ensure their approaches meet our minimum standards.

In **Principles 9, 11 and 12**, we describe how we measure and monitor the effectiveness of our governance and engagements, including statistics on our ESG engagement levels and outcomes across our Public Investments teams.

Continuous improvement

Over the coming year, MAM intends to further expand its Sustainability team while providing training throughout the organisation to enhance awareness of sustainability issues and share best practices on effective stewardship

activities. MAM will also review compensation practices and strive to increase the sustainability-related KPIs that are included in annual performance assessments.

In addition, to further improve the monitoring and oversight of our Public Investments' ESG activities and initiatives, we are in the process of establishing a Global ESG Oversight Committee which will comprise professionals from across MAM, including representatives from the Sustainability team, Legal, Risk, Compliance, Client Solutions and Product and Investment teams. The committee is responsible for overseeing all sustainability and ESG related activities within our Public Investments activities. The committee will meet quarterly and will report to the Public Investments Executive Committee.

Principle 3

Signatories manage conflicts of interest to put the best interests of clients and beneficiaries first

As a global organisation offering a diverse range of products and financial services, Macquarie may, from time to time, have interests which conflict with the interests of its clients, unitholders or counterparties. We have clear and rigorous policies and processes in place to manage any such conflicts.

MAM is required to manage conflicts of interest fairly, in accordance with Macquarie's **Code of Conduct** (as detailed in **Principle 1**), applicable laws, regulations and principles and guidance. The Code sets out the way staff are expected to do business, including by following the principles of what we stand for – Opportunity, Accountability, Integrity – and meeting expectations of behaviour. These principles are expected to form the basis of all day-to-day behaviours and actions. All staff have a responsibility to report concerns or possible breaches of the Code.

Our [Conflicts of Interest Policy](#) sets out how to identify, prevent and manage conflicts of interest – whether potential, perceived or actual. This policy applies to all employees, contractors and consultants of Macquarie and its related entities.

Conflicts identification

We have systems and protocols in place to identify potential conflicts of interest. They do not contain an exhaustive list of all conflicts of interest that may arise, so any new potential conflicts must be escalated for assessment prior to undertaking the new activity. Conflict management arrangements at Macquarie are subject to the oversight of Compliance. Both Compliance and Legal assist in the identification, escalation and management of potential, perceived and actual conflicts of interest.

The following are examples of potential conflicts of interest that may arise as a result of the diverse nature of Macquarie's activities:

- Macquarie has confidential knowledge about our clients that could be used to advance Macquarie's or another client's interests
- Macquarie could fail to meet our fiduciary obligations at the expense of our client's objectives
- Macquarie may make a financial gain or avoid a financial loss at the expense of a client, customer, unit holder or counterparty
- Macquarie may have a business that competes with that of a client
- Macquarie may have an incentive to favour the interests of one client or group of clients over those of another client or group of clients.

Conflicts management

Systems and controls to prevent and manage conflicts of interests are outlined in our policies in relation to conflicts of interest, investment research, gifts and entertainment, outside business activities, allocations and offers of financial products, and personal investments, to name a few.

If we identify a potential or actual conflict, methods for managing the conflict include avoidance, disclosure, waivers and consent. Examples of our systems and controls for preventing and managing conflicts of interest include:

- requirements to undertake a conflict check prior to entering into certain business arrangements
- systems and controls which restrict the flow of confidential or non-public price-sensitive information (inside information) within Macquarie, including, where applicable, physical separation and system access restrictions
- segregation of duties and supervision for staff engaged in different business activities, including procedures for ensuring appropriate communication between businesses, for example restricting communications between research analysts, who may recommend to clients that they buy or sell an asset, and sales and trading staff
- restrictions on personal investments made by staff and their associates, regardless of seniority. Such restrictions include pre-trade approval, minimum holding periods and the operation of staff-trading windows for Macquarie investments
- maintenance of a list of restricted financial instruments that may be prone to conflicts of interest. Activities, such as securities trading and production and dissemination of research, may only be permitted in such financial instruments in certain circumstances.
- avoidance of conflicts of interest by deciding not to proceed with the relevant transaction or business relationship
- training of directors and employees on conflicts of interest management
- avoidance or disclosure of potential conflicts in investment research, where appropriate, subject to any confidentiality requirements
- requirements to record the solicitation, offer or receipt of certain gifts and entertainment and obtain prior approvals where required
- requirements for all external directorships and outside business interests to be declared and approved
- avoidance of direct links between remuneration or performance assessments that conflict with a duty to act in the best interests of clients.

Conflicts disclosure

Sometimes, our methods and controls to prevent or manage a conflict of interest (including those described above) may not be sufficient to ensure with reasonable confidence that the risk of damage to a client's interests will be prevented. In such cases, we may disclose such conflict to the client and ask for their informed consent to continue to act, notwithstanding the conflict.

Public Investments

In certain instances, conflicts of interest can arise in proxy voting. For example, when the issuer soliciting the vote is also a Macquarie client or one of Macquarie's independent directors also sits on the board of a company held by a Macquarie fund.

Our Proxy Voting Policy addresses such potential conflicts and requires that the Proxy Voting Committee and any other officers, directors, employees and affiliated persons may not be influenced by outside sources who have interests which conflict with the interests of clients when voting proxies for such clients. To ensure that proxies are voted in the best interests of clients, we have established various systems to properly deal with any material conflict of interest.

If MAM becomes aware of a conflict of interest in an upcoming proxy vote, the vote will generally be referred to the Committee or the Committee's delegates for review. MAM uses a third-party proxy advisor - a proxy voting service and research provider.

If the portfolio management team for such a proxy intends to vote in accordance with the proxy advisor's recommendation pursuant to our Proxy Voting Guidelines, then no further action is needed to be taken by the Committee. However, if the portfolio management team is considering voting a proxy contrary to the proxy advisor's research recommendation under the Guidelines, the Committee or its delegates will assess the proposed vote to determine if it is reasonable.

If the Committee or its delegates determines that the proposed proxy vote is unreasonable or unduly influenced by a conflict, the portfolio management team will be required to vote the proxy in accordance with the proxy advisor's research recommendation or abstain from voting.

Except as permitted by law, MAM will not vote in relation to related-party securities - that is, securities where MAM has an existing relationship with the issuer - on proposals in which MAM has an interest other than as an investor. Generally, MAM will abstain from voting on proposals related to Macquarie or entities controlled by Macquarie.

Private Markets

Conflicts of interest can arise in a number of circumstances as part of our Private Markets activities. Below we outline some examples and how we deal with them.

1. Transactions between Macquarie funds: With regards to unlisted funds, we have established independent Investors' Prudential Review Committees, or equivalent, which typically include representatives of the largest investors in those funds. For any transactions between Macquarie-related parties, the manager of the fund(s) involved (a Macquarie company) is required to seek either approval from the respective Investors' Prudential Review Committee(s) of the transaction or confirmation that the transaction falls within a pre-approved fee range. For listed funds, typically a majority of independent directors (or equivalent committee members) are required to approve transactions between the fund and Macquarie-related parties, or the provision of services by Macquarie-related parties.
2. Staff interests: Staff involved in managing a fund are dedicated to the relevant funds management business, rather than to advisory or other activities. All recommendations to fund boards (and supporting information) are prepared or reviewed by a fund's management staff.
3. Deal allocation between Macquarie funds: The allocation of deal opportunities is made in accordance with the priorities established in respect of each new product. MAM's practices in relation to deal allocation are driven by the following three key principles:
 - The commercial interests of MAM should not be preferred over those of the products themselves
 - Fund priorities in accessing investment opportunities that have been disclosed to investors in binding documentation (e.g., limited partnership agreement, offering memorandum, prospectus, etc.) should be controlling
 - All products should be treated equitably.

From time to time, however, an opportunity may fall outside the established priorities, or it may be unclear how those priorities apply across products. In those instances, a separate, formal process is undertaken to allocate the transaction equitably. MAM's Group Head, in consultation with the relevant Divisional Heads, Legal and product leads, will decide upon the allocation.

Case study: Conflicts between Macquarie business units

A common example of a conflict of interest arising in Macquarie is where one business group is involved with a specific opportunity involving a listed company, while MAM is an active trader of public securities issued by the company.

Macquarie takes all appropriate steps to identify, manage and mitigate any conflict of interest to avoid a negative outcome for Macquarie clients and counterparties. Macquarie relies on information barriers within the firm to enable market-facing businesses, including MAM's Public Investments activities, to carry on their ordinary course of business without being presumed to have knowledge of inside information held in private side businesses. Physical barriers, as well as virtual and behavioural controls, are used to manage potential conflicts of interest, within Macquarie's business groups. All divisions operate with the "need to know" principle front of mind when managing confidential or potentially price-sensitive information.

When a transaction involving a Macquarie division becomes public by official market announcements or a public filing (such as when Macquarie is acting in a mergers and acquisitions advisory role involving a publicly listed company), Macquarie's RMG division is notified and places the company's securities on a restricted list. There are several grades on the list, each with varying trading requirements which arise due to the differing nature of business activities being conducted by Macquarie's various business groups. The restrictions on this list are automatically fed into MAM trading and compliance system, Aladdin. Once a company is placed on the restricted list, the restriction is set up in Aladdin automatically, and any potential trade in the company's securities is prevented from occurring. Once flagged, the portfolio manager who initiated the order must seek approval from RMG to be able to trade the security, which may be rejected depending on the type of restriction in place.

Conflicts arising in 2021

MAM has not encountered any material conflicts of interest in relation to our stewardship activities over the last 12 months.

Continuous improvement

Conflicts of interest may arise in the engagement with companies (as described in **Principles 9 and 10**) to promote certain sustainability-related practices. Individual investment teams may disagree with the Sustainability team's preferred actions and teams holding the same security may disagree with one another. To prevent conflicting messages being conveyed to engagement targets, the Public Investments sustainability team intends to improve coordination amongst investment teams prior to the commencement of engagements, ensuring that teams are aware of upcoming engagements and able to participate in the engagement or express their viewpoints prior to discussions with the targeted companies.

Principle 4

Signatories identify and respond to market-wide and systemic risks to promote a well-functioning financial system

Market-wide and systemic risks exist that are beyond the ability of any one financial institution to effectively manage. MAM actively monitors these risks and works with our peers, regulators and other financial market actors to help address them.

Identification of, and response to, market-wide and systemic risks

A sound risk culture has always been integral to Macquarie's risk management framework. It ensures our businesses can respond to market-wide and systemic risks to promote a well-functioning financial system.

Reducing market-wide and systemic risks and identifying related opportunities are particularly important in long term investments as we seek to maximise risk-adjusted returns.

The section of this report on **Principle 2** includes a detailed description of our governance framework and processes to identify and respond to material risks, including market-wide and systematic risks. Our risk management framework is designed to help the business teams identify, assess and manage the risks they face. The key objectives of the framework are:

- risk identification, analysis and acceptance
- execution and monitoring of risk management practices
- reporting and escalation of risk information on a routine and exception basis.

The framework includes the following elements:

- A robust change management process to ensure operational risks in new activities or products are identified, addressed and managed prior to implementation
- A half-yearly risk and control self-assessment (**RCSA**) process to identify operational risks and assessment of controls and development of action plans to address deficiencies
- Recording, escalation and management of incidents (including operational incidents and breaches). Incidents are monitored to ensure they are appropriately resolved and analysed to identify trends and establish lessons learnt
- Various policies which outline consistent approaches and minimum standards on specific matters.

Below are examples of how we have responded and aligned our activities to address the market-wide and systematic risks of climate change, COVID-19, greenwashing and cyber security.

Climate change

The consequences of inaction on climate change are clear and infrastructure and other real assets have a vital role to play.

MAM recognises that climate change presents significant global challenges for society and understands the importance of effective international policy frameworks to limit global GHG emissions and keep the average global temperature rise this century to well below two degrees Celsius above pre-industrial levels.

We believe the financial sector has a critical role to play, alongside government, business, investors and the community to support the transition to a low-carbon and climate resilient economy. Well designed, good quality infrastructure can improve communities' resilience to the long-term consequences of climate change. Modern, prudently resourced infrastructure assets can support climate change mitigation by providing renewable energy, lower carbon transport, and smarter agriculture. They can help to address societal challenges in areas as diverse as waste management, transport, housing and care for the elderly.

MAM's commitment to invest and manage our portfolio in line with global net zero emissions by 2040 demonstrates the opportunity we see for our business to play an active role in abating the impact of climate change. MAM's efforts are complemented by Macquarie's commitment to reach net zero operational emissions by 2025 and to further align its financing activities with net zero emissions by 2050. As detailed below, we are collaborating across a number of industry initiatives to hasten the response to this significant risk.

Case study: Energy Development Corporation (EDC)

The challenge

Changes to our climate and the growing global demand for energy have created an urgent need to transform how we produce and consume energy. This is not only about long-term action. We can already see the immediate physical impacts of climate change, through the greater frequency and severity of extreme weather events.

In 2017, typhoon Urduja hit the Philippines, reducing generation capacity at EDC's Malitbog geothermal power plant by 50 per cent. The area was still recovering from a serious earthquake at the time, the consequences of which included regular power shortages, economic disruption and damage to property and livelihoods.

MAM's engagement

In 2017, a MAM-led consortium acquired a majority stake in EDC. As a major investor in renewables, our experience supported the business as it improved the resilience of its portfolio and the reliability of energy supply. EDC's investment included reconfiguring and reinforcing pipelines, installing geohazard early warning systems, improved weather forecasting and more robust modelling to mitigate physical risk. By improving the accompanying infrastructure, such as roads, these modifications have benefited local communities too.

Outcomes

EDC has become the Philippines' leading renewable energy provider. Through a portfolio of geothermal, wind, hydroelectric and solar energy, its 1.5GW accounts for almost 20 per cent of the country's total installed renewable energy capacity. EDC has also helped more businesses move towards renewable energy. In 2019, it provided renewable energy at 92 customer facilities, a 30 per cent increase from the previous year, all while growing revenue by more than 10 per cent. EDC also works closely with local communities and government, supporting agroforestry and enterprise development to provide livelihoods for more than 100 partner community organisations.

EDC is the only Philippine partner of the International Union for Conservation of Nature's secretariat and Botanic Gardens Conservation International, the world's largest plant conservation network, and has helped to establish emergency response teams and planning, while minimising landslide risk and protecting biodiversity, by planting indigenous species on almost 10,000 hectares. EDC has chosen a path characterised by profound care for the wellbeing of its people. This is reflected in its recruitment approach, seeking those with the highest regard for the environment, community and business partners.

Key learnings

The destructive impacts of climate change have shown the need for early investment in resilient and renewable infrastructure. In supporting this transition, EDC is helping to provide a clean, sustainable and reliable energy for everyone. EDC's focus is now firmly on the implementation of a new business model in which everyone needs to transform to regenerative development. Recognising that no one organisation can succeed alone, the approach involves active and wide-reaching collaboration with all stakeholders.

COVID-19

The COVID-19 pandemic continues to have a profound effect on lives around the world. It has demonstrated how quickly events can have global repercussions – and how interdependent our communities and economies have become. It has highlighted the importance of resilience in our business model and the fundamental importance of putting our people and their wellbeing at the heart of our thinking and actions.

The unprecedented health, economic and social impact of the pandemic has resulted in hardships within many communities – and this situation is likely to persist for some time to come. Throughout the pandemic, we have been committed to [supporting the communities](#) in which we live and work.

Given MAM's role as a manager of critical infrastructure and other real assets around the world, the continuity of operations of those businesses is of key importance. We have actively supported our portfolio companies and the teams at our assets to ensure their business continuity plans are robust and that appropriate precautions are being taken to safeguard their employees and customers. We have actively engaged with our clients and other stakeholders to answer their questions and provide information on how we are managing the situation and the impact on investment portfolios. We are committed to providing regular updates outlining our approach to managing whatever issues arise across our global portfolio.

We have also adapted our client engagement strategy in response to COVID-19 to ensure clients remained informed about the performance of their investments, including by hosting virtual AGMs for many of our funds.

We did this via various means, including producing thought leadership in the form of podcasts, webinars, interviews with internal experts, and articles outlining how we thought COVID-19 might impact ESG, technology, and how it might change infrastructure and real assets, asset management and the world.

Greenwashing

'Greenwashing', whereby a party misleads its clients regarding its environmental practices or the environmental benefits of a product or service, is a term that has been around since the 1980s but is being increasingly used in a sustainable finance context. It is a legitimate concern for both investors and asset managers and has been the recent focus of global regulators. Greenwashing allegations and legal claims have been increasing and can result in negative consequences for asset managers, including litigation, regulatory action or reputational damage. Pervasive greenwashing raises the risk of investors not being able to rely on financial products delivering on their intended benefit and leads to overall scepticism towards asset managers' efforts to provide societal benefits through their ESG offerings.

To address this risk, MAM has implemented governance processes aimed at preventing greenwashing and embedded these within our existing organisational processes and throughout the lifecycle of an investment product. We have rigorous approval processes in place for any financial product disclosures or sustainability-related public announcements, manager-level disclosures and thought leadership. MAM has also sought to work with other organisations that are taking steps to address this particular issue.

Case study: The Sustainability Accounting Standards Board (SASB)

Poor disclosure of ESG information by companies and other organisations is a market-wide issue that poses risk to investors. MAM was a founding member of the SASB Alliance, whose members share the belief that today's capital markets need standardised sustainability disclosures and effective ESG integration into investment practices – for the benefit of both companies and investors.

Internally, MAM has established a SASB portal, which allows investment teams to identify material ESG factors by industry group. This is a valuable resource for teams across the firm as they engage with investee companies on sustainability issues and push for more disclosure.

Our membership of SASB and our advocacy for greater disclosure has been effective. Since the launch of the Alliance in mid-2017, in our engagements with portfolio companies, MAM often encourages them to adopt the SASB reporting standards. A study conducted by SASB revealed that, at the end of 2016, there were only nine companies designated as SASB Reporters – that is, companies who have disclosed SASB metrics in public company communications – and 118 companies who made references to SASB, for metrics reporting or other purposes, in public company communications. By 2021, however, 1,065 companies were designated as SASB Reporters and 1,170 companies made references to SASB.

One of those companies reporting SASB metrics for the first time in 2021 is a US-based semiconductor manufacturer. MAM first engaged with this company shortly after becoming a member of the SASB Alliance in 2017; at that time it was noted that we were the first investor to mention the SASB standards to the company. Over 25% of the companies that we engaged with to promote better ESG disclosure in the 2017-2020 time period subsequently became a SASB reporter.

Case study: ESG Covenant Package

Over the past year, MAM has been working with a group of infrastructure debt investors to develop an ESG Covenant Package. The initiative aims to:

1. unify ESG data collection by providing a consistent set of requirements as 'best practice' for borrowers when reporting to lenders in respect of ESG matters; and
2. facilitate lenders' compliance with their increasing ESG disclosure obligations under applicable EU and/or UK law and regulations and, where relevant, lenders' compliance with their own net zero targets and investor demand.

The ESG Covenant Package has been designed to be provided and considered as part of the term sheet negotiation stage between the relevant parties, to facilitate discussion of ESG reporting obligations under the finance documents.

To ensure that the ESG Covenant Package has the widest reach, market recognition and is available for adoption by any type of lender, it was shared publicly at the end of 2021 for feedback from market participants.

The group is working with the Loan Market Association with the aim of having it published as a standard form document that will be widely used by the market.

Cyber security

Macquarie recognises that cyber and information security risk is inherent in the use of the technology platforms that support our business activities. Cyber security risk globally has risen significantly over the past few years and is often one of the top risks for industry these days. All sectors of industry are at risk from cyber criminals looking to extort funds or data from organisations. Early in the COVID-19 pandemic an increasing trend of cyber-attacks on hospitals or other critical infrastructure was prevalent and with rising geopolitical tensions, the risk is not decreasing. This risk will only continue to increase as more companies rely on online infrastructure to operate.

Cyber security threats can affect Macquarie and the assets that MAM manages, given the critical infrastructure nature of some assets in our Private Markets funds. MAM is very aware of this heightened risk and the responsibility to manage it appropriately to minimise risks, not only to investors but the communities that rely on these services. Macquarie has a dedicated, centralised team responsible for preventing, monitoring, detecting and responding to cyber risk events. Specialist teams provide expertise to the broader business, perform security reviews, design and implement protection controls to prevent cyber events from occurring and minimise the impact of a cyber and information security incident.

MAM took the following actions over the past year to respond to cyber security risks at both the investee company and organisational level:

- In our Private Markets business, we recognise that cyber security continues to be a focus area and of heightened concern in many asset sectors across our portfolio. We have kept open lines of communication with technology teams at our portfolio companies to understand the impact of cyber issues.
- Given the prevalence of cyber events in infrastructure assets, further work is underway to enhance minimum standard cyber due diligence and provide a standard template framework for all acquisitions and asset management activities which can be used across MAM where relevant. MAM engaged a third-party specialist to support the assessment and prioritisation, as well as the ongoing implementation of the cyber minimum standards.
- MAM has increased cyber focused training to ensure adequate oversight of portfolio assets. This includes the use of external expert consultants, given the changing and complex nature of this risk, which have been engaged to support Private Markets with global cyber training to NEDs and asset directors. The training programme is designed to raise cyber awareness, and provide an understanding of the cyber threat landscape, regulatory trends and cyber best practices.

Macquarie remains engaged through cyber industry and government agencies and continually evolves its practices based on lessons learned from industry cyber-attacks. We are members of various information sharing groups globally, including the Financial Services Information Sharing and Analysis Center (FS-ISAC), CERT-Australia, United States Department of Homeland Security, Interbank (an Australian group of banks and financial services firms sharing cyber intelligence) and a variety of other open-source intelligence sources and commercial services. We also monitor threat actor activity, information repositories and security newsgroups, vendor announcements and share intelligence for indication of specific or general threats to Macquarie and the financial services industry, and to identify vulnerabilities and threats to our environment.

MAM is also responding to other market-wide and systemic risks, including geopolitical risks, regulatory change, financial crime, and modern slavery and supply chain risks.

Industry collaboration

MAM engages with and actively participates in industry bodies and organisations.

In areas where we believe we can meaningfully contribute to the understanding and development of industry best practice, our members of staff take leading roles in working groups and advisory committees of industry bodies and initiatives. In doing so, we seek to promote guidance, tools and standards which support effective management of ESG risks impacting the financial system.

We also participate in numerous industry conferences and webinars, including speaking engagements covering infrastructure, private credit, real estate, agriculture and public markets issues.

Please see **Principle 10** for further detail on our collaborative engagements.

 <p>Climate Action 100+ Global Investors Driving Business Transition</p>	<p>Climate Action 100+ (CA 100+)</p> <p>We are a participant in Climate Action 100+, an investor initiative launched in 2017 to ensure the world's largest corporate GHG emitters take necessary action on climate change. As of 2021, we are co-lead on an engagement with a major transportation company and have already seen progress in both its disclosure and management of climate risk.</p>
 <p>Transition Pathway Initiative</p>	<p>Transition Pathway Initiative (TPI)</p> <p>We are a supporter of the TPI, which is an asset-owner led initiative that assesses companies' preparedness for the transition to a low-carbon economy. We use TPI data as an added tool in the analysis of how our holdings align with the emissions reduction pathways needed to meet the goal set by the Paris Agreement.</p>
 <p>PRI Principles for Responsible Investment</p>	<p>Principles for Responsible Investment (PRI)</p> <p>MAM became a signatory of the PRI in August 2015. As signatories, we use the principles as a framework to incorporate ESG issues into our investment practices and transparently share details around our approach, performance and progress. MAM is also represented on the PRI's Infrastructure Advisory Committee.</p>
	<p>Alignment with the Paris Agreement</p> <p>In December 2020, MAM made a public commitment to invest and manage our portfolio in line with global net zero GHG emissions by 2040, 10 years ahead of the deadline to achieve the goals of the Paris Agreement. MAM was the first large asset manager to make such a commitment.</p> <p>We are supporting our Private Markets portfolio companies to develop and implement 2040 net zero targets and business plans. In MAM's managed portfolios of public securities, and alternative investments where MAM does not have significant influence, we will endeavour to support the Paris goals consistent with our client-guided fiduciary and regulatory responsibilities.</p> <p>We will continue to report our progress against this commitment publicly each year through our Sustainability Report and PRI submission, as well as directly to investors.</p>
 <p>THE CLIMATE PLEDGE</p>	<p>Climate Pledge</p> <p>In July 2021, we became one of the first large asset managers to sign the Climate Pledge, a global coalition of more than 100 climate leaders who share the ambition of achieving the goals of the Paris Agreement 10 years early.</p>
 <p>World Benchmarking Alliance</p>	<p>World Benchmarking Alliance (WBA)</p> <p>The WBA represents organisations working at global, regional and local levels to shape the private sector's contributions to achieving the UN Sustainable Development Goals (SDGs). MAM joined in 2021, and is committed to WBA's mission, vision and values, and in the use of benchmarks and cross-sector partnerships to drive systematic progress on the SDGs. For a case study regarding our involvement with the WBA, see the section in this report on Principle 10.</p>
 <p>G R E S B</p>	<p>GRESB</p> <p>GRESB is an investor-led organisation which provides a framework to measure the ESG performance of infrastructure and real estate assets and portfolios. MAM has been a member of GRESB Infrastructure since it was launched in 2016. We are represented on both the GRESB Foundation Board and the Infrastructure Standards Committee. MAM is also a member of GRESB Real Estate.</p>



Institutional Investors Group on Climate Change (IIGCC)

MAM has been a member of the IIGCC, a European group of investors committed to collaboration on climate change, since 2020.



Sustainable Markets Initiative (SMI)

The SMI was launched by His Royal Highness the Prince of Wales at The World Economic Forum 2020 Annual Meeting in Davos to focus on accelerating global progress towards a sustainable future. Macquarie is represented on the SMI's Financial Services Taskforce and co-chairs its Sustainable Infrastructure workstream, which is working on actionable plans to accelerate investment in sustainable infrastructure.

Policy consultations

In addition to its ongoing membership of industry bodies, MAM also responds to formal consultations which pertain to market-wide/systemic risks. We have submitted several consultation responses on policies impacting decarbonisation, including to the UK Parliament's Environmental Audit Committee call for evidence on hydrogen in June 2020 and the UK's Department for Business, Energy & Industrial Strategy's consultation on carbon capture, usage and storage in 2021.

We are also a member of the UK's Investment Association and have provided feedback on various EU regulatory consultations, including the EU's Sustainable Finance Disclosure Regulation (**SFDR**) and the EU Taxonomy, through them. We have also been an active participant in their SFDR regulatory forum and were part of a small group of members on their TCFD Disclosures for Investment Managers Working Group, helping to develop an industry template for the provision of carbon emissions data by investment managers to UK pension fund clients.

Benchmarking

Public Investments' Investment teams have access to reports that provide portfolio-level metrics and comparisons to benchmarks that may identify risks to be managed. The sample below illustrates a report that measures a portfolio's carbon emissions and intensity on a sector-level basis and provides comparisons to the portfolio's respective benchmark:

Risk and Exposure

Description	Emissions (t) - Latest(Wt Avg-PORT NMV/MV)	Emissions (t) - Latest(Wt Avg-BENCH NMV/MV)	Emissions Intensity (Sales) - Latest(Wt Avg-PORT NMV/MV)	Emissions Intensity (Sales) - Latest(Wt Avg-BENCH NMV/MV)
▼ BBWJ0	2,309,605.51	4,376,234.53	87.60	128.79
> Communication Services	1,307,356.80	1,122,205.75	15.05	13.62
> Consumer Discretionary	1,748,564.65	3,446,633.92	47.10	35.08
> Consumer Staples	2,535,434.73	3,221,311.52	87.23	49.36
> Energy	21,385,790.43	41,640,825.37	148.27	557.02
> Financials	151,234.39	3,342,625.08	4.20	17.32
> Health Care	625,862.55	495,436.39	18.59	21.57
> Industrials	4,122,747.65	2,398,907.66	124.11	110.21
> Information Technology	1,070,911.46	827,683.96	16.22	20.78
> Materials	2,178,622.79	15,056,740.82	247.29	638.31
> Real Estate	113,353.66	552,365.67	56.74	124.59
> Utilities	19,050,084.59	31,203,162.02	1,447.54	1,936.92

Details of how risks material to individual portfolio companies are managed where MAM has significant influence are set out in further detail under **Principle 7**.

Case study: Fixed Income

Our Emerging Markets Debt team has developed a proprietary macro scorecard to rank countries based on their attractiveness for investment. The scorecard takes into account 20 variables, many of which incorporate market and systemic risks. The variables can be classified according to the following categories:

- Currency valuation (real effective exchange rate, purchasing power parity)
- Credit risk (external debt/GDP, external debt/export, current account deficit etc.)
- Real interest rates (actual, forward looking)
- Financial stability (credit growth, bank sector leverage, non-performing loan ratio etc.)

The team is also an active participant in our Fixed Income team's Strategic Forum, which sets the team's medium term outlooks for the global economy and fixed income asset classes after discussion across all investment teams, comprising various asset classes, geographies and investment expertise.

Continuous improvement

Over the next year MAM will work to improve transparency to investors of our existing risk management processes and performance, particularly those related to the recommendations of the TCFD and regulatory obligations such as the EU Sustainable Finance Disclosure Regulation's requirement to report Principle Adverse Sustainability Impacts (**PASI**).

Having recognised greenwashing as a risk to our business and our clients, we are taking further steps to enhance our response to this identified market-wide risk. MAM has been involved in the establishment of the CFA Institute's Global ESG Disclosure Standards, with a member of the Sustainability team serving on the ESG Technical Committee that helped to draft the standards. MAM has been working with the CFA Institute to be one of the first investment managers to prepare an ESG Disclosure Statement, which is meant to serve as a standardised statement of how an investment product considers ESG issues in its objectives, investment strategy, and stewardship activities. Widespread adoption of these standards will help investors, consultants, advisors and distributors better understand, compare, and evaluate investment products and diminish the potential for 'greenwashing', while also addressing current gaps in regulation and helping to harmonise disclosure practices in different markets.

As mentioned under **Principle 2**, we are also taking steps to improve our governance processes - the new Public Investments Global ESG Oversight Committee will approve all green product offerings or ESG-related investment changes to existing financial products, among its other responsibilities.

Principle 5

Signatories review their policies, assure their processes and assess the effectiveness of their activities

Policy review

MAM's policies and procedures are reviewed on an annual basis to ensure they remain fit for purpose and the robustness of our reporting and management information develops in line with the needs of our stakeholders and our own. This includes, for example, the review of MAM's ESG-related policies as listed in **Principle 1**.

MAM's policies are typically formally approved by the policy owner (the appropriate specialist) and relevant leadership personnel across the organisation.

Specifically, our Risk and Compliance teams have oversight of ESG and stewardship policies.

As detailed in **Principle 2**, MAM Risk comprises in-house specialists, with support and oversight from Macquarie's RMG division. The team provides leadership, guidance and support, and is responsible for ensuring the implementation of Macquarie's and MAM's risk management frameworks is consistent across all MAM businesses globally.

MAM's Compliance team, comprised of individuals from central RMG and in-house specialists, monitors regulatory changes and business needs to help ensure our policies are current and are reasonably designed to address potential issues. Procedure testing is performed to help determine if procedures are effectively designed to prevent and detect violations of applicable rules and changes are made to align the procedure with the business practices, enhance monitoring and control measures, and respond to changing regulatory requirements. In conjunction with RMG's Regulatory Risk team, the Compliance team provides quarterly reports to the boards of directors of MAM entities detailing any regulatory change or guidance published which may impact the implementation of MAM's ESG policies.

The **Macquarie Breach, Incident and Escalation Policy** is applicable across MAM. All business teams are required to report breaches, exceptions and incidents to MAM's Risk and Compliance teams as soon as possible. Reported items are recorded centrally in the Macquarie risk incident management system. Material breaches, exceptions and regulatory reviews related to MAM's policies are escalated by MAM's Risk team monthly to senior management and to relevant boards or committees.

We also work with Macquarie to ensure that MAM's external reporting enables it to report in compliance with the Global Reporting Initiative and provide holistic reporting on ESG matters to our wider stakeholders (see **Principle 6** for more details).

Public Investments oversight committees

Within the Public Investments business, MAM's Investment Governance Committee (**IGC**) has ultimate responsibility for the oversight of investment corporate governance and ESG-related activities, including the oversight of the Global Corporate Governance Committee (**GCGC**).

<p>Investment Governance Committee</p>	<p>Chair: Global Head of Equities Membership: Head of Sustainable Investing, Equities COO, representatives from Equity, Fixed Income and sub-advisory Investment Teams, Legal, Quantitative Research and Risk Management</p>
<p>Global Corporate Governance Committee</p>	<p>Co-Chairs: Heads of Proxy Voting and ESG Working Group Membership: Representatives from Equity and Fixed Income Investment Teams, Client Solutions Group</p>
<p>Global Proxy Voting Committee</p>	<p>Proxy Voting Committee Chair: Associate General Counsel Membership: Representatives from Investment teams, Sustainability, Fund Administration, Client Solution Group, Compliance and Legal</p> <p>ESG Working Group Chair: Head of Sustainable Investing Membership: Representatives from each Investment team, Sustainability, Client Solutions Group, Compliance and Legal</p>

The GCGC is responsible for oversight of MAM's global proxy voting, namely:

- Reviewing, approving and overseeing the implementation and updates of the global proxy voting policies and procedures
- Reviewing reports on any proxy voting policy exceptions
- Overseeing the selection and use of independent proxy voting services
- Reviewing reports on proxy voting activity by each investment team and reporting significant observations to the IGC and relevant teams as necessary.

The GCGC is also responsible for global ESG oversight, specifically:

- Reviewing, approving and overseeing the implementation and updates of the global ESG principles and applicable policies and procedures
- Overseeing the selection and use of any ESG organisation MAM joins or leaves, including any significant initiatives of the Public Investments business in relation to ESG matters
- Overseeing the use and selection of any ESG data providers
- Overseeing the response to the annual reporting of MAM's adherence to the Principles for Responsible Investment; and
- Overseeing the preparation of MAM's ESG strategy document.

The co-chairpersons of the GCGC provide quarterly updates to the IGC regarding the implementation and oversight of Public Investments' stewardship policies and processes to ensure that they remain effective.

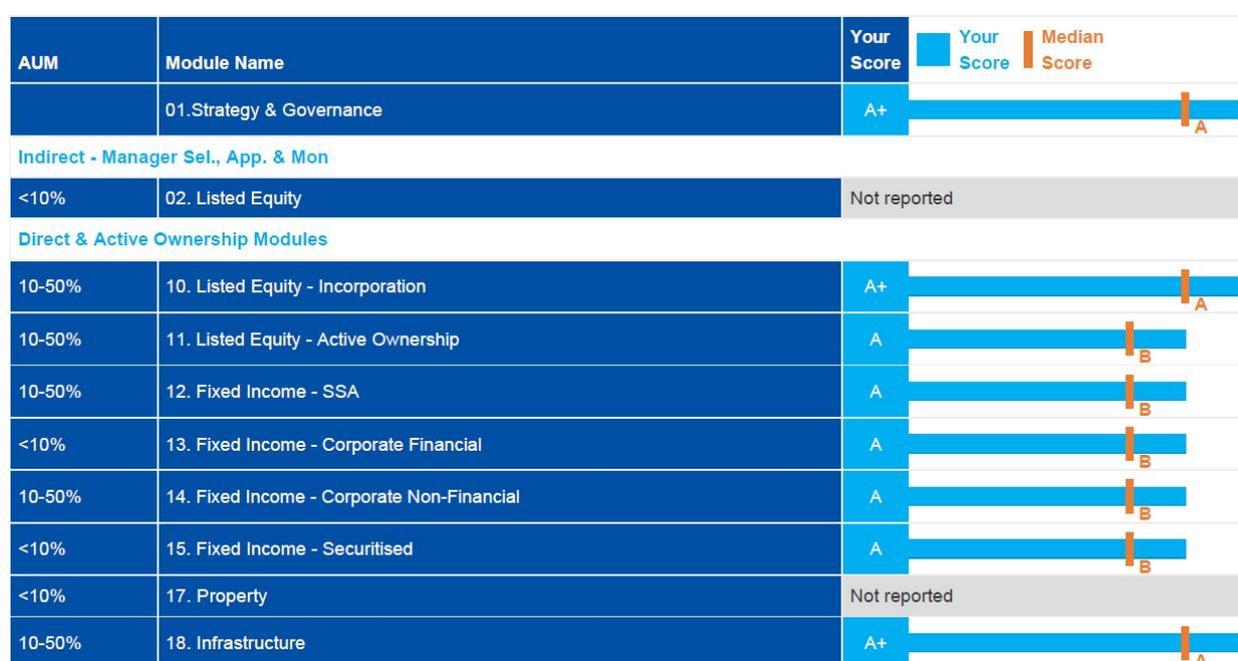
Assessment of the effectiveness of policies and processes

MAM's external reporting, including on its stewardship activities and their outcomes, is also aligned with a number of industry reporting initiatives and frameworks including but not limited to the PRI, CDP and GRESB. These third-party initiatives provide a mechanism to help ensure that MAM's policies enable effective stewardship and that MAM issues a complete and broad range of relevant information to its stakeholders as expected under fair, balanced and understandable reporting principles.

Principles for Responsible Investment

MAM's annual report to the PRI describes our ESG policies and processes, including those related to engagement. MAM receives an annual assessment report from the PRI which we use as a measure of the effectiveness of our policies and processes and as a guide for further improvement. Results from MAM's most recent assessment report are summarised below.

Summary Scorecard



GRESB

GRESB provides an annual assessment of the sustainability framework and performance of infrastructure and real estate funds and businesses. These assessments provide us with valuable insights as we develop sustainability strategies for our assets and opportunities for best practices within our portfolio to be shared across industry sectors.

In 2021, 28 funds and 85 assets completed assessments – a 37 per cent increase from 2020 and in doing so we achieved the goal of having 100 per cent participation for in scope assets across our Americas and EMEA regions. For the first time, we also saw the participation of two of our infrastructure debt funds.

20 of our infrastructure portfolio companies were awarded five-star scores, with three others named as leaders within their sectors. We remain focused on enhancing our asset performance across the board.

Participation in tools like GRESB has encouraged portfolio companies to focus on a broad range of non-financial performance indicators, and they are increasingly embedding these considerations into their day-to-day operations and business strategy.

Net zero planning – independent assurance

MAM has committed to invest and manage its portfolio in line with global net zero emissions by 2040. Where possible MAM sources emissions data directly from its Private Markets portfolio companies to track progress against this commitment. To ensure this data is complete and accurate MAM requires that it be independently assured by qualified providers.

Case study: Good governance oversight

In March 2021, the EU's Sustainable Finance Disclosure Regulation came into force. It requires asset managers to disclose how they address sustainability risks as a firm and in specific investment products. Articles 8 and 9 of SFDR set out requirements for disclosure of financial products which have ESG or sustainability characteristics or objectives. Such products, when making investments in companies, are expected to ensure that the companies have good corporate governance standards.

After reviewing the necessary requirements and after consultation with external experts, the Public Investments business adopted a policy to ensure that those products which are subject to Articles 8 or 9 are assessed in a robust manner for compliance with the good governance requirements under SFDR.

Highlights of the policy include:

- Relevant governance indicators that should be considered
- Pre-investment assessment of the governance practices of potential portfolio companies
 - Research
 - Direct engagement
- Ongoing monitoring of the governance practices of portfolio companies
 - Quarterly reports
 - Remediation
- Oversight
 - Quarterly Attestation
 - Internal reporting to senior management
 - Escalation.

In applying this policy, the Investment Risk team runs a quarterly report to check for red flags related to governance issues at the company level within each portfolio, including issues such as labour rights, bribery and fraud. The Sustainability team then will meet with each investment team on the applicable fund(s) with flags to discuss each company's flag in detail and will set in motion a remediation plan for each company as we deem appropriate.

Remediation includes engaging with the company in increasing capacity over the course of a year (although it may take less than a year) to identify how it is working to remedy and mitigate the identified issues. If we cannot ascertain that they are doing enough to remedy the situation over the course of a year, then we would be forced to divest from that holding within the Article 8 or 9 fund to maintain compliance with the SFDR.

The following table provides a statistical summary of our Good Governance monitoring process over the course of 2021 and examples of the process which are prepared by the Sustainability team and reviewed by the Public Investments Investment Risk Group:

Companies identified as potentially not adhering to good governance standards	101
Companies identified as needing remediation plans after meeting with investment team	15
Companies deemed satisfactory after remediation	11
Companies divested (either due to remediation plan or non-ESG fundamentals)	10
Remaining companies with remediation plans	4

To illustrate the effectiveness of this policy, a portfolio company in a fund was identified as facing allegations of systematic employee underpayment and wage fraud via our quarterly review of the fund's portfolio using

data obtained from MSCI ESG Manager. The Sustainability team raised the issue with the investment team at the quarterly review meeting and a remediation plan was put in place, which involved engagement between the investment team and the portfolio company. The result of the engagement was positive. The portfolio company was well prepared and had seriously addressed and tried to improve its control practices around the issue. The company used the engagement as an opportunity to revisit the issue and provided direct, thoughtful answers which the investment team found to be sufficient. The Sustainability team also had reference to Sustainalytics controversy reports, which indicated only minimal risks to the company, and the WBA Food & Agriculture Benchmark ranking of the company, which was #56 out of 350 companies on Governance. The Sustainability team and the investment team agreed that the remediation plan had been satisfied.

Continuous improvement

In 2021, MAM initiated an expansive project to implement a Public Investments-wide ESG data portal, through collaboration between our Sustainability team and our Global In-sights and Analytics team. This centralised hub will give the Sustainability team and the investment teams a greater ability to assess the effectiveness of stewardship activities, as well as to report more efficiently and consistently on portfolio level ESG metrics to clients. The ESG data portal is expected to be introduced in the coming year.

MAM also plans to review what additional roles internal and external assurance can play to assess existing policies and processes.



Investment approach

Principle 6

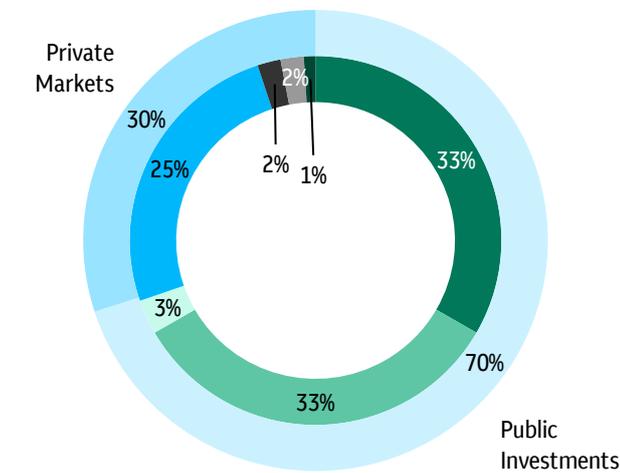
Signatories take account of client and beneficiary needs and communicate the activities and outcomes of their stewardship and investment to them

MAM aims to invest to deliver positive impact for everyone. To do so, we need to understand our clients and their needs and objectives. We also need to communicate how we deliver that impact, whether economic, environmental or social.

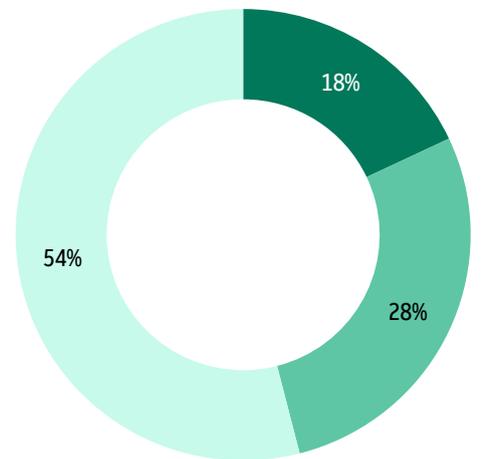
Our clients

MAM's assets under management (**AUM**) as at 31 December 2021 across asset classes and geographies is as follows:

AUM by asset class:



AUM by geography of investment product:

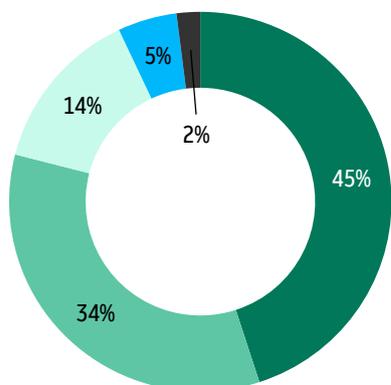


- Fixed Income
- Equities
- Alternatives and Multi-asset
- Infrastructure
- Private Credit and Asset Finance
- Real Estate
- Agriculture

- EMEA
- Asia-Pacific
- Americas

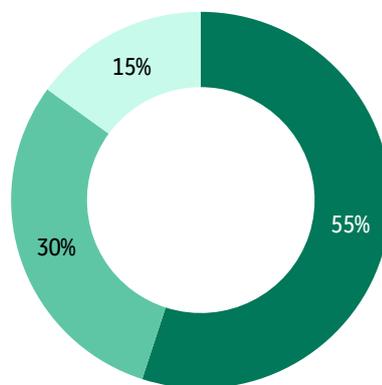
MAM's client base by type and geography is as follows¹:

Investors in Private Markets by type:



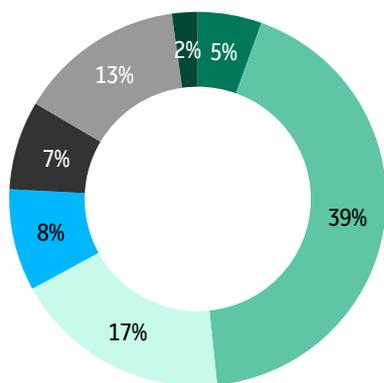
- Pension or Super Funds
- Institutions
- Government
- Other
- High Net worth

Investors in Private Markets by geography:



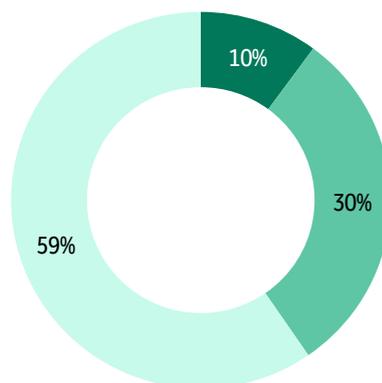
- EMEA
- Asia-Pacific
- Americas

Institutional investors in Public Investments by type:



- Corporate
- Insurance
- Public
- Subadvised
- Superannuation
- Sovereign Wealth Funds

Institutional investors in Public Investments by geography:



- EMEA
- Asia-Pacific
- Americas

Investment horizon

Our investment teams invest with long-term horizons and seek to minimise risk and maximise returns based on the investment objectives of our clients. Many of our Private Markets funds have initial terms of 10 or more years, meaning investment periods are typically for many years.

¹ As at 30 June 2021, the most current available date within the reporting period.

Understanding and communicating with our clients

Across MAM, our teams engage with our clients through a variety of channels. These include:

- Dedicated client relationship managers across all MAM financial products
- Regular updates on fund or investment activity and performance through quarterly reporting
- A range of client marketing communications such as knowledge-based events and webinars, and sharing important announcements and thought leadership (such as our ['Pathways'](#) series)
- Encouraging continuous client feedback through surveys and client workshops.

We communicate our stewardship activities to clients in our reporting and in face-to-face meetings where our Sustainability team, typically in conjunction with investment team members, responds to specific questions from the client.

During these meetings, we often receive feedback from the client regarding their stewardship expectations, which we then consider integrating into our overall stewardship approach.

We also often complete periodic questionnaires and surveys from clients and other third-party bodies regarding our overall approach to ESG, including our stewardship activities. We have established a database of responses that are used to inform clients and prospective clients about our efforts. These responses are reviewed and updated by the Sustainability team.

With prospective clients, we ensure upfront disclosure of MAM's approach to stewardship and reporting to ensure it satisfies the needs of the client. In certain circumstances, side-letters can be agreed to ensure a client's reporting requirements are met throughout the life of their investment.

In response to COVID-19, we adapted our client engagement strategy to ensure clients remained informed about the performance of their investments. This included hosting entirely virtual AGMs for our funds.

Public Investments

MAM Public Investments will typically provide to clients an overview of our stewardship approach, as exemplified by the below graphic:

Public Investments direct engagement and proxy voting

Leveraging resources to identify shareholdings that could benefit from further engagement with company management teams

Proxy voting guidance provided to investment teams, with ultimate voting decision made by the team in accordance with clients' best interests



Direct engagement with portfolio companies

- Engagement policy updated in October 2020
- Centralised ESG resources with a focus on working with the investment teams to engage with company management, including on remedial engagement plans in line with SFDR Good Governance for portfolio companies
- Increased centralised reporting of portfolio management teams' engagement with companies regarding ESG issues
- Topics covered have included
 - Modern slavery
 - Corporate governance and board remuneration
 - Environmental issues
 - Board diversity
- Increasingly utilising collaborative engagements on ESG matters, including
 - Climate Action 100+ - e.g. Carbon Reduction
 - World Benchmarking Alliance - e.g. Food & Agriculture Sustainability, Ethical AI



Intersection of proxy voting and ESG

- MAM's Proxy Voting Policy provides guidance regarding how MAM PI intends to vote on most relevant issues, including environmental, social and governance issues.
- Customised voting guidelines address how MAM will vote on certain environmental, social, and governance issues
 - Guidelines have been constructed to align with Macquarie's three long-held principles of Opportunity, Accountability and Integrity as a framework for its Guidelines evaluation.
 - Examples of ESG issues addressed in guidelines:
 - Sustainability Reporting
 - Climate Change
 - Workplace Diversity
 - Executive Compensation
 - Board Structure
 - Centralised ESG Proxy Alert System put in place internally to notify relevant investment teams pro-actively when an investee company they hold has an ESG issue up for vote.

Proxy voting

How we exercise our clients' rights to vote on company and shareholder resolutions, known as proxy voting, is an important part of our stewardship activities.

Our Public Investments clients are directed to their client service representative to obtain information from MAM on how their securities were voted. At the beginning of a new relationship with a client, we provide the client with a concise summary of our proxy voting process and will inform them that they can obtain a copy of the complete procedures upon request.

Where required by applicable law, we also retain records regarding proxy voting on behalf of clients. MAM will typically keep records of the following items:

- Our proxy voting procedures
- Proxy statements received regarding client securities (via hard copies held by the proxy advisor or electronic filings from the company's respective regulatory filing system)
- Records of votes cast on behalf of our clients (via the proxy advisor)
- Records of a client's written request for information on how we voted proxies for the client, and any written response we provided to an oral or written client request for information on how we voted proxies for the client
- Any documents we prepared that were material to making a decision as to how to vote, or that memorialised the basis for that decision.

Complete voting records for our US-domiciled funds are publicly available [here](#).

Client-directed restrictions are loaded into our compliance monitoring system. Traders entering trades in prohibited securities will receive a notification that the security is restricted for those specific accounts with restrictions.

Private Markets

Our Private Markets clients receive regular updates on fund activity and performance through quarterly and annual reports specific to the funds they are invested in, annual fund investor presentations and one-on-one update meetings.

Our requirement for businesses in our infrastructure and real estate portfolios to complete annual GRESB submissions also ensures investors have improved access to ESG performance data through the GRESB data platform. For more detail on GRESB reporting see **Principle 7**.

MAM stewardship and sustainability reporting

MAM reports annually on its activities and progress on implementing the six Principles for Responsible Investment, in accordance with the PRI reporting framework. The annual PRI reporting framework requires signatories to disclose their stewardship activities and practices. MAM's disclosures are publicly available on our [website](#).

We also produce a publicly available annual [Sustainability Report](#). The latest report covers our activities across infrastructure, renewables, agriculture and real estate businesses. This year we plan to expand the scope of the report to cover additional business lines.

We believe that annual reporting provides our clients with an appropriate mix of information that is relevant and timely, but which also allows for sufficient time to pass to gauge the effectiveness of activities undertaken during a given year.

SFDR disclosure requirements and the EU Taxonomy

In March 2021, the SFDR introduced new sustainability-related disclosure requirements for asset managers selling investment products in the EU. A cross-team working group within MAM was established to ensure that MAM's in-scope managers and funds were compliant by the deadline. These disclosures provide further details on sustainability-related information, including how MAM integrates the consideration of sustainability risks into its investment decision-making processes.

MAM's public disclosures can be found here for [Public Investments](#) and [Private Markets](#). We are preparing to meet further SFDR disclosure requirements due in 2022 and 2023.

In addition to the SFDR, the EU has also introduced its Taxonomy regulation, which will be phased in from 2022 and which sets out criteria to determine whether an economic activity is environmentally sustainable. MAM funds falling under Article 8 or Article 9 of SFDR will be required to report on the proportion of their investments that meet these criteria. MAM is preparing to meet these disclosure obligations by the due date.

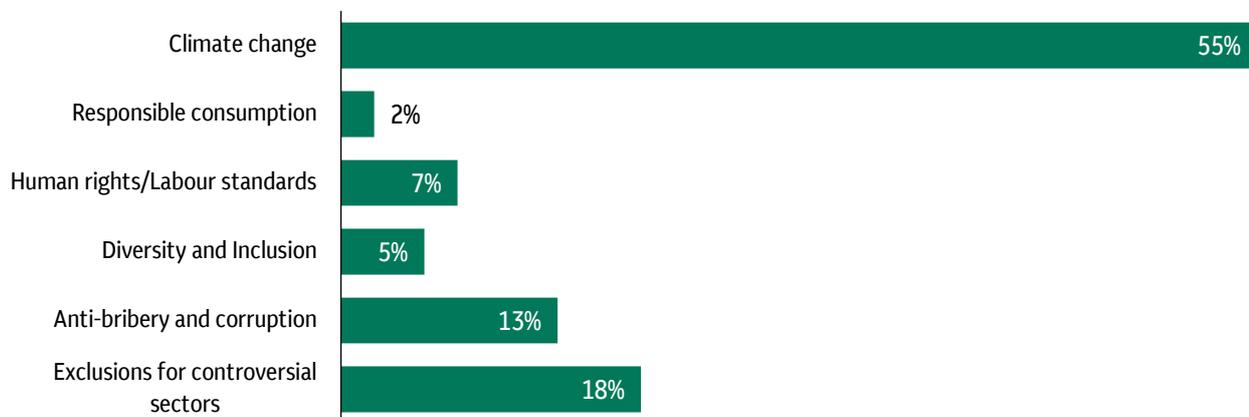
Adapting with our clients

At MAM, we are continuously looking to adapt to the evolving needs and requirements of our clients in providing our investment solutions. We do this through our deep relationships with clients, through industry representation and affiliations, and through continuous learning.

Two years ago, we undertook our first ESG survey to better understand how our clients are approaching ESG: what motivates them; how they are addressing ESG integration; and how their asset allocation mix is changing in response.

We recently conducted our second [ESG survey](#) to update these insights into our clients' preferences on stewardship and investment, among other topics. More than 180 clients took part. We found a growing focus on ESG, greater resources dedicated to the issue, and a strong belief that a strong sustainability was positive for returns. It also found, among other things, that climate is a major focus for clients (see below results), but many are struggling to adequately address it in their investment processes. Surveys like this help us identify our clients' sustainability needs and enable us to continually adapt and improve our product offering, reporting and communications to provide a better service for our clients.

When considering ESG, which of the following areas does your organisation currently prioritise the highest?



Continuous improvement

Taking into account the results from the ESG survey, which showed that 18% of clients prioritise exclusions for controversial sectors, and in response to increasing client demand and interest, we are developing a Controversial Industries Policy to outline our Public Investments approach to investing in certain sectors such as coal and controversial weapons. This will be made publicly available to show our commitment to responsible investing.

We will continue to enhance the transparency of communications with investors on ESG matters such as the impacts of our investments on the UN SDGs and climate change via GRESB and other disclosure mechanisms such as the EU Sustainable Finance Disclosure Regulation, as well as through our regular fund reports and annual sustainability report.

Principle 7

Signatories systematically integrate stewardship and investment, including material environmental, social and governance issues, and climate change, to fulfil their responsibilities

Effective ESG management is core to our investment strategy and must be integrated within the business. Given the diverse range of products and asset classes within MAM, the way we apply our ESG policies can differ across our different businesses.

ESG integration in the investment process

Public Investments

Our specialised, independent investment teams are focused on delivering long-term, consistent results for our clients. Each team has autonomy to execute on its own investment philosophy and process - to focus on investing - while benefiting from a comprehensive global operational support platform. All of our teams share several traits: independent thinking, global perspectives and conviction in their specialised investment philosophies.

This means that it is essential that stewardship and the assessment of ESG risk and opportunities are integrated across all our investment teams' responsibilities.

Our teams invest with long-term horizons and seek to minimise risk and maximise returns based on the investment objectives of our clients. We recognise that ESG factors can provide additional insight into investment risk beyond traditional analysis and that positive ESG performance may be a potential indicator of management quality, operational performance and the potential to create long-term value. Where we determine ESG factors to be material, we will consider them in our analysis and investment decisions.

Below are examples of how our investment teams integrate ESG risks and opportunities into their investment processes:

Fixed income - Corporates	Emerging markets debt	Global listed infrastructure
<ul style="list-style-type: none">• Active consideration and integrated assessment of ESG issues• Proprietary risk ratings assigned to all issuers• ESG issues considered throughout the credit selection process• Consideration of future likelihood of weakened credit quality, including from ESG factors• ESG factors used for valuable additional insight to investment risk and long-term value.	<ul style="list-style-type: none">• Proprietary ESG composite scores based on two dozen variables from nine different public sources• Proprietary ESG model used to achieve a better portfolio-level ESG score than market benchmark• Nuanced approach to sovereigns, including ESG score adjustment for level of development, changes in ESG scores reflecting efforts made, with poor countries not punished for low E scores as much as rich ones.	<ul style="list-style-type: none">• Integrates material ESG risks into valuation models and qualitative assessments• Frequent engagement with companies is fundamental, including material ESG issues• Select portfolio prefers companies with stronger ESG attributes• Article 9 fund investee companies must meet sustainable investment objective, with a minimum one of five specific targets.
Asian equities	Global equity	Systematic investments
<ul style="list-style-type: none">• Proprietary three-step ESG process, focused on:	<ul style="list-style-type: none">• PRI formally integrated• Seamless from philosophy to	<ul style="list-style-type: none">• Flexibility to tailor investment solutions to meet client needs,

Asian equities	Global equity	Systematic investments
<ul style="list-style-type: none"> – Exclusions: tobacco, weapons, poor governance – Integration: depth and breadth of E, S, & G; high focus on governance; scoring based on qualitative analysis – Engagement: considerate, partnership approach; materiality focus; ongoing monitoring. 	<ul style="list-style-type: none"> • sell discipline • ESG considerations to risk and return on all potential investments • Integrated ESG research, risk management, active ownership, cooperation on and promotion of responsible investment principles including engagements. 	<p>namely ESG considerations for client portfolios</p> <ul style="list-style-type: none"> • ESG integration tailored based on strategy/objectives, e.g., improve portfolio-level ESG characteristics, screen out controversial sectors/companies, integrate ESG issues through signal set (scoring system), practice active ownership.

Key strategies utilised by our investment teams are discussed in further detail below.

Management capability

We believe that well-managed companies will deliver long-term shareholder value and, therefore, it is important for a company to have high-quality management with appropriate supervision through balanced controls. Typically, this means that the company has a strong and effective board, recognises appropriate ownership and shareholder rights, implements effective remuneration structures in line with long-term performance, delivers transparent and high-quality reporting to its shareholders and other stakeholders, and considers its environmental and social exposure.

Corporate engagement

Our equity investment teams often engage with companies as part of their regular investment processes, as discussed in more detail under **Principle 9**. These engagements are typically strategic in nature and provide additional insights into management quality, business drivers, financial strategy and future business prospects. During these meetings, we discuss ESG factors where relevant and incorporate our findings into our overall assessment of the management teams.

Our Global Engagement Policy sets out how our Public Investments teams integrate shareholder engagement into equity investment strategies. The policy is updated periodically and is available upon request.

Fundamental research

Central to our belief amongst all our fixed income capabilities is a commitment to proprietary, in-depth fundamental research. Inherent to this is a strong focus on the management of downside risk, considering capital preservation to be paramount. Aspects of our credit analysis may include visits with company management where we discuss economic, competitive and other factors that may influence the issuer's future revenues and earnings, including factors that are material from an ESG perspective.

We also engage directly with the entities in which we invest to encourage additional ESG disclosure. Companies that we have targeted for engagement are typically identified and prioritised by geography, sector and size in order to ensure that engagement is as impactful as possible.

Collaborative engagements

MAM participates in a number of collaborative engagements where we work with other investors to address ESG issues. These include Climate Action 100+, which encourages the world's largest corporate GHG emitters take necessary action on climate change, and the WBA, which helps shape the private sector's contribution to achieving the SDGs. For more detail, see the section in **Principle 10**.

ESG engagement tracker

MAM has established a central tracker of ESG-related engagements with Public Investments portfolio companies and prospective investments. It collates the ESG issues discussed during investment and sustainability team engagements as well as the outcome of the discussions and whether any follow-up is needed. The tracker serves as

an effective communication tool to allow investment teams to glean insights from other engagement efforts and to foster collaborations among investment teams that may be focusing on similar issues.

Proxy voting

We act as owners and seek to ensure that proxies are voted in the best interests of our clients and that our proxy voting activities adhere to all applicable rules and general fiduciary principles. In instances where voting has not yielded the result desired by our teams, each team can escalate the matter by engaging with the company's senior management and/or by reducing exposure to the company or entirely divesting.

ESG proxy alert notifications system

All Public Investments investment teams with active equity investment strategies have access to specialised ESG research, governance and proxy analysis. Investment teams determine how best to use this information in their investment process, including how to use the information when monitoring investee companies and determining when to engage with company management.

To enhance our ESG proxy voting awareness, we implemented a proactive proxy alert system across Public Investments in 2021. This system alerts investment teams when an ESG-identified issue comes up for a proxy vote for a company which they hold. We have received positive feedback from investment teams regarding this new system, and it has resulted in several instances of investment teams changing their votes against management for a more climate-forward proposal.

For an example of where an investment team changed its vote based on our internal ESG proxy alert system, see the case study under **Principle 12**.

The following case study highlights one of our investment team's detailed approach to integrating stewardship into their investment process:

Case study: Global Equity team

The Global Equity investment team consists of five portfolio managers, responsible for making investment decisions, and an ESG team. ESG issues are considered and integrated throughout the investment process, as set out below.

Pre-investment

Idea generation: The team first identifies companies that do not meet the ESG criteria of the financial product (which may be a fund or a separately managed account) and eliminates companies in prohibited industries.

Fundamental analysis: Following this exclusion screen, the team applies further ESG analysis to all remaining companies in the investment universe. This includes an assessment of whether potential investments adhere to the principles of the United Nations Global Compact (**UNG**C) and display various other ESG factors.

If appropriate, the investment team may engage with company management prior to making an investment, which may, among other things, provide additional insights into management quality. At the pre-investment stage, engagement is typically performed via direct conversations or meetings with a company's senior management or investor relations team, focusing on areas where there is a lack of information available from other sources. During these meetings, the investment team may discuss relevant ESG issues and incorporate their findings into the overall assessment of the company.

Post-investment

Monitoring: The team uses a proprietary portfolio management and monitoring system, Vi Systems, to support cooperation, information sharing and documentation. Vi Systems includes ESG data such as ESG ratings, ESG engagement information, controversies, carbon emissions data, proxy voting documentation and information on exclusion lists.

ESG ratings: The ESG data points mentioned above are imported into Vi Systems on a weekly basis. Data is received from two ESG research service providers, enabling the team to examine both sources, reaching their own conclusion. By identifying key ESG rating indicators, the team can access a customised outline of the relevant ESG ratings, sorted by portfolio.

ESG monitoring and comments: the team also subscribes to qualitative ESG analysis used to evaluate the potential of an investment, determine risks and opportunities, and monitor investee companies. Additional news, company documents, research, market developments and regulatory sources are used to monitor any developments and initiatives that could influence the potential return of an investment. With Vi Systems, the team can add and share notes on any ESG topic, incident or analysis.

Carbon emissions: Emissions data is used to:

- Further develop the capacity to assess risks and opportunities that arise from climate change and integrate, where relevant, this assessment into the decision-making process
- Engage with portfolio companies to ensure they are aware of and disclose climate risks and are capitalising on the opportunities presented by climate change.

Engagement: If any company practices indicate non-adherence to the UNGC, or if any practices indicate a serious violation of human rights, severe environmental damage, gross corruption, a serious violation of individuals' rights in situations of war or conflict, or any other particularly serious violation of fundamental ethical norms, the investment team may choose to engage with the company in question. In terms of effective engagement tactics, the Global Equity team has observed that companies are interested in learning from each other. When improvements are suggested, companies ask who the team can point to as an example of best practice, and whether it is possible to refer to a benchmark. Highlighting good examples, learning points, and showing what works has been helpful to the Global Equity team's engagement strategy, leading to better outcomes.

Proxy Voting: The Global Equity team exercises clients' rights through proxy voting and the adoption of MAM's Proxy Voting Policy. It utilises a Proxy Advisor and seeks to vote proxies at all general meetings. As a responsible investor, the team takes account of long-term value creation, sustainable business practices, board accountability, and transparent corporate communication and looks for board practices and decision-making practices that are in the best interests of the company and that demonstrate alignment with shareholder interests.

All proxy voting activities are carried out in accordance with the Global Proxy Voting Policy and Guidelines. Further information on MAM's proxy voting activities can be found under **Principle 12**.

Private Markets

ESG framework

Our Private Markets ESG framework is designed to reflect the specific nature of our business structure, operations, investments and stakeholders and is aligned with the broader Macquarie approach, set out on the Macquarie website. As discussed in **Principle 1**, through this framework ESG considerations are integrated throughout the investment lifecycle:

1. **Screening:** All portfolio companies are initially screened for ESG 'red flags', including adverse news relating to negative stakeholder or reputational impact. Risk assessment considers issues covered by the International Finance Corporation's Performance Standards, such as climate change, land acquisition, biodiversity, labour and working conditions, resource efficiency, community health and safety, indigenous people and vulnerable groups and cultural heritage.
2. **Due diligence:** Tailored due diligence depends on the location, type of asset and risk profile of the portfolio company. We use comprehensive scope checklists and engage external experts, if needed, to advise on specific ESG issues.
3. **Acquisition decision:** The results of due diligence - including key ESG issues, risks and mitigation measures - are presented to the fund board or investment committee prior to investment.
4. **Transition:** For every infrastructure, renewables or agriculture transaction where we can deliver improvements, we develop a transition plan that sets out actions and responsibilities that are tracked to completion by the asset management team. The plan includes a timetable for implementation.
5. **Asset management:** Each asset's ESG framework must be adequate to ensure compliance with relevant regulations and standards. It should help to achieve and promote ESG management practices and be appropriate to the level of ESG risk.
6. **Exit:** ESG considerations are considered through the entire investment lifecycle of the asset, to its eventual sale. This includes screening potential acquirers and the source of their funds as part of our know your client/anti-money laundering process.

Within our infrastructure and renewable energy assets, which make up around 80% of our Private Markets AUM (see **Principle 6**), we apply minimum sustainability standards, which are initially established during the transition of the asset to MAM management and are enhanced throughout the asset management lifecycle. These standards are made available to all our staff through our centralised proprietary active asset management system, System 7, and are regularly reviewed and updated by our in-house sustainability team to ensure that they remain aligned with industry best practice.

At a minimum, each portfolio company's adopted ESG framework must be adequate to ensure compliance with relevant regulation and standards in the country and industry in which the portfolio company operates. It should help the business achieve and promote ESG management practices and be appropriate to the level of ESG risk in that business.

We work to ensure that each portfolio company's ESG frameworks include procedures and processes to:

- identify and document significant ESG issues relevant to the business
- manage significant ESG risks, including environmental incident response
- audit compliance with ESG regulatory obligations and the status of the environmental risk management framework
- manage and report environmental and safety incidents
- report on ESG management to the Board.

We support each portfolio company in monitoring its compliance with key ESG requirements, metrics and KPIs relevant to the specific business, sector and jurisdiction, resolving identified issues on a timely basis and reporting to its board and shareholders on developments.

Alongside the rest of the portfolio company board and management team, MAM-nominated NEDs perform a key role in monitoring the management of key ESG risks and opportunities at the portfolio company. These NEDs encourage portfolio company management to identify and undertake measures beyond compliance, looking to international and industry best practice. MAM-nominated NEDs aim to ensure that each business establishes and maintains its own risk management frameworks which incorporates ESG issues and supporting policies and procedures.

Quarterly ESG reporting

We request from infrastructure portfolio companies a suite of ESG information on a quarterly basis. This includes WHS performance metrics, scope 1 and 2 GHG emissions, and energy consumption.² We require emissions data to be audited annually.

GRESB

We ask that our infrastructure portfolio companies complete annual GRESB assessments, which we also complete at the fund level for infrastructure and real estate. GRESB requires participants to report their ESG management practices and performance on a range of ESG issues including WHS, diversity and inclusion, climate change and human rights matters such as modern slavery risk.

We help our portfolio companies address GRESB requirements and use feedback from GRESB to enhance their ESG performance. GRESB's scores and peer comparisons also allow us to benchmark the ESG performance of our portfolio companies against other investee companies as well as externally against their GRESB peer group and the wider universe of GRESB participants.

Net zero planning

In line with MAM's 2040 net zero commitment, all existing portfolio companies are expected to have in place board-approved 2040 net zero emissions reduction targets and business plans by the end of 2022. All new investments are required to have these in place within 24 months of acquisition.

To support this commitment, we have rolled out workshops, in conjunction with third party experts, to 120 of our infrastructure assets across six sectors, to outline MAM's commitment and our requirements of each portfolio business, together with guidance and tools to help them deliver against these requirements. Where MAM portfolio companies are supported by service providers, our own sustainability team monitors the outputs provided and engages with portfolio companies to ensure activities rendered are in line with our needs.

Portfolio company 'deep dives'

We undertake periodic 'deep dives' on each portfolio company during which the asset management and relevant specialist teams convene to discuss its performance. These include assessments of ESG management and performance, alignment with minimum standards and progress on key initiatives.

² Scope 1 emissions are direct GHG emissions that occur from sources that are controlled or owned by an organisation. Scope 2 emissions are indirect GHG emissions associated with the purchase of electricity, steam, heat, or cooling.

Case study: Farms for the future

The challenge

With rapid population growth and increasing demand for better standards of living, the pressure on natural resources around the world has increased exponentially. For the agricultural sector, this means improving the productivity of every hectare of land while protecting the ecosystems and natural resources of which farmers have been stewards for generations. There is pressure to produce more with less, while maintaining high standards of quality and safety.

To address this challenge, farmers around the world have adopted parallel but complementary strategies. On the one hand, they are adopting natural climate solutions, such as reforestation, cover crops and wetlands restoration. On the other, they are deploying increasingly sophisticated technology and data, for example using analytics to improve yield and productivity, or satellite technology to maximise the precision and efficiency of inputs such as fertiliser. On-farm technology has become an important driver of change in farming.

MAM's engagement

MAM's support for a net zero carbon future has set the scene for net zero efforts across our agriculture portfolio. This has helped frame the approach to sustainability, as well as develop key performance indicators to measure progress. Our asset managers develop plans for deploying resources and engaging with local communities, while promoting safety and good labour conditions for staff. Most of those involved live in farming communities, reinforcing their ties to the local community. We are encouraging the adoption of performance targets and promote regular reporting, which is then consolidated in an annual agriculture sustainability report.

Outcomes

We have delivered improved asset performance across our agriculture portfolio against a range of key metrics. We have measured the soil pH level, a key indicator of soil health, for several years, and have pursued a target range of 5.5–7.0 across our Australian portfolios. The data shows significant improvements due to soil maintenance programmes implemented by management, with portfolios achieving or moving towards the target range.

Since 2019, we have measured the carbon emissions per unit of output for cropping portfolio, using the FarmPrint tool. From 2019 to 2020, emissions intensity improved from 0.27 tonnes of carbon dioxide equivalent (**tCO₂-e**) to 0.19 tCO₂-e per tonne of production. We were able to understand the drivers of this improvement, which included higher production due to strong rainfall, coupled with ongoing investment in energy efficient technologies and practices. We are conscious that performance in our sector is heavily weather dependent, with no guarantee of continuous improvement every year, so it is critical to look at trends in performance over the long term.

There is evidence to suggest that, as sustainable practices are pursued, financial returns improve. For example, our portfolio companies have set a target of 100 per cent utilisation of variable rate technology (**VRT**) for fertiliser application, to reduce both environmental impact and production costs. We are also seeing sustainable practices driving improvements in the livelihoods of local communities, where there is growing pride in adopting methods that demonstrate stewardship of the natural environment.

Key learnings

Systematic reporting is an important driver of good practice and a way of sharing awareness of key issues. In some cases, this involves reporting on actions that farmers have been undertaking for years, but in others it requires new ways of thinking about a familiar challenge.

This is why MAM annually reports its key metrics, including soil pH levels, emissions efficiency, VRT utilisation, water use efficiency and training hours. For some metrics such as emissions efficiency, we also benchmark our performance against regional peers, to understand where improvements could be made. In addition to key metrics, MAM has been reporting against the SDGs for its agriculture activities since 2018. This framework resonates with our investors around the world and provides a common language that enables users to focus their efforts.

Further case studies can be found in our [Sustainability Report](#).

Continuous improvement

In an effort to strive for continuous improvement, MAM will look to work with each of the Public Investments equity teams to develop a template of ESG best practices that are utilised across the investment teams and the wider industry. MAM's Sustainability team members will work with the investment teams to compare their current ESG-related processes and procedures against these best practices and help to implement enhancements that will allow the teams to elevate their efforts towards implementing the best practices.

We are working to enhance our ESG data systems and analytics capabilities to support the ESG performance management of our assets, meet investor and regulatory information requests, and identify new ESG risks and opportunities.

Within Private Markets, during 2022 we are improving the level of sustainability disclosures provided to clients in the quarterly and annual reports specific to the infrastructure funds they are invested in. We are enhancing our usual disclosure of material ESG issues and achievements during the period with more quantitative data including GHG emissions data and tracking towards emissions reduction targets.

Principle 8

Signatories monitor and hold to account managers and/or service providers

Macquarie is committed to ensuring high standards of ESG performance across its supply chain. We recognise that our relationships with service providers and other suppliers are an important contributor to the success of our business and to our wider economic, environmental and social impact.

Principles for Suppliers

Macquarie's Principles for Suppliers aim to help Macquarie uphold its core values through supplier relationships, to create long-term, sustainable value for our clients, shareholders and community and suppliers.

We acknowledge and value the important role of suppliers in our business success and we therefore aim to foster strong supplier relationships that encourage collaboration and drive collaborative relationships in line with Macquarie's core values of opportunity, accountability and integrity.

These Principles cover expectations of suppliers in relation to governance, ethics, risk management, environmental risks, human rights, labour and workplace practices, community commitment and diversity.

MAM reserves the right to carry out compliance assessments as we see fit to ensure alignment. Where a supplier is involved in, or exposed to, significant ESG issues, we may request an immediate onsite second-party or third-party review to confirm compliance with the supplier Principles. In the event that MAM becomes aware of any actions or conditions that breach the Supplier Principles, we reserve the right to request remedial action is taken. Where no action is taken within a suitable timeframe, MAM reserves the right to reconsider its business relationship with the supplier.

Further details are provided on Macquarie's [website](#).

Public Investments

We use multiple service providers to assist with the exercise of our stewardship and fiduciary responsibilities. For example, MAM has appointed third-party ESG data providers, proxy voting advisors and third-party managers for certain investment funds.

With regard to ESG data and research providers, the ESG Working Group is responsible for assessing the quality of research produced by our third-party providers. This entails consultations with each provider and review of their research process. The group also periodically assesses other research providers to provide a basis of comparison as well as a source for potential replacements or complements to our existing providers.

Concerns regarding the quality and accessibility of data provided by our third-party providers can be raised through the Global ESG Oversight Committee. The Committee will then conduct further due diligence of the provider in question and provide a recommendation regarding its retention or dismissal.

The Proxy Voting Committee and the appropriate Public Investments personnel are responsible for overseeing all proxy advisors' proxy voting activities for MAM's clients. We conduct periodic due diligence of proxy advisors that includes assessing:

- the proxy advisor's conflict of interest procedures and any other pertinent procedures or representations from the proxy advisor, to ensure that the proxy advisor makes research recommendations for voting proxies in an impartial manner and in the best interests of MAM's clients
- the adequacy and quality of the proxy advisor's staffing, personnel and technology
- the methodologies, guidelines, sources and factors underlying the proxy advisor's voting recommendations

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- whether the proxy advisor has an effective engagement process for seeking timely input from issuers, its clients and other third parties and how that input is incorporated into the proxy advisor's methodologies, guidelines and proxy voting recommendations
 - how the proxy advisor ensures that it has complete, accurate and up-to-date information about each proxy voting matter and how it updates its research accordingly
 - reviewing whether the proxy advisor has undergone any recent, material organisational or business changes
 - a review of the proxy advisor's general compliance with the terms of its agreement with MAM.

External sub-advisor oversight policy

MAM may engage external investment managers to act as sub-advisors for its Public Investments funds. We have a policy which outlines the oversight standards to be adopted for all external sub-advisory relationships.

These standards must be considered in conjunction with any additional regional or business-specific considerations which may require practices to be adopted to adhere to business models, regulatory requirements or industry best practices. Highlights of the policy include:

- governance
- approvals
- ongoing oversight
- management of policy breaches
- exit plans.

The Public Investments Sub-advisory Oversight Committee oversees the Sub-Advisor Oversight Policy, and has the following objectives:

- to provide supervision of the various product-based oversight bodies to ensure that there is a robust process in place to evaluate and select external managers that MAM appoints as sub-advisors for its funds
- to streamline efforts of separate oversight bodies when MAM uses the same sub-advisor in more than one region or business
- to escalate significant matters to senior leadership within MAM, and to oversee their satisfactory resolution.

Case study: Optimum Funds

MAM is the manager and distributor of the Optimum Funds, a series of mutual funds domiciled in the United States of America, with each fund designed to be advised or sub-advised by multiple managers with complementary investment styles. As investment manager, we have overall responsibility for the general management of the funds, which includes selecting their sub-advisors and monitoring each fund and sub-advisor to ensure that investment activities remain consistent with each Optimum Fund's investment objectives. A team is responsible for conducting ongoing investment reviews with each sub-advisor and for developing the criteria by which fund performance is measured. We have hired LPL Financial LLC, a registered broker/dealer and investment advisor, as a consultant to assist with this process.

A qualitative and quantitative analysis of one of the fund's international equity sub-advisors indicated that the sub-advisor was no longer a strong candidate for the Optimum International Fund. As a result, MAM, in conjunction with its consultant, conducted an extensive search process to identify a replacement sub-advisor.

In evaluating a sub-advisor's ability to meet the investment objectives of the relevant fund, we considered factors including its:

- historical performance record
- investment approach relative to the approaches of each of the fund's other sub-advisors
- consistent performance in the context of the markets
- organisational stability and reputation
- quality and depth of investment personnel
- ability to apply its approach consistently
- the quality and breadth of a firm's compliance department and its ability to ensure compliance with applicable laws
- willingness to manage assets in accordance with a fund's investment objective, policies and restrictions.

After narrowing the list of suitable candidates based on quantitative data analysis provided by the consultant, we sent an extensive questionnaire to the finalist candidates. After reviewing their responses, we conducted due diligence meetings with these candidates to gain a greater understanding regarding areas such as their investment process, diversity and inclusion practices, and the resources available to the investment team. After these engagements were completed, we conducted internal discussions regarding the candidates and a preferred replacement was selected. We recommended the replacement sub-advisor to the funds' board and received approval for the replacement.

Private Markets

Asset data and performance information is principally sourced directly through engagement with management of Private Markets portfolio companies. ESG performance is monitored as a normal course of business, for example through quarterly performance updates.

Third-party providers are used during asset due diligence (as set out under **Principle 7**). All outputs are reviewed by MAM's in-house ESG specialists, who ensure the required ESG scope, which is tailored based on the nature of each asset, has been appropriately addressed, and any clarifications, follow-up work or discussions with management are completed by the third party.

Continuous improvement

Oversight of MAM's third-party data providers will be expanded in the coming year to include direct engagements with the organisations that are relied upon as part of the Public Investments SDGs database. While not explicit data providers, these organisations apply criteria to allow participants to gain membership into their collaborative efforts. Participation in these efforts is considered to be a signal of a company's contributions towards fulfilling the SDGs. Assessments need to be conducted to ensure that there are strict requirements for admittance and that members are actively participating towards the organisation's stated efforts.



Engagement

Principle 9

Signatories engage with issuers to maintain or enhance the value of assets

Engaging with the management of the portfolio companies in which we invest is a core part of our stewardship practices. Dialogue with management on ESG issues enables us to reduce risk and increase economic, environmental and social impact on behalf of our clients.

Public Investments

How each equity investment team integrates shareholder engagement in the investment process varies, as each team owns its own investment process. Certain passive investment strategies may require the investment team to replicate an index or provide exposure to a certain class of assets and/or regions; shareholder engagement is not possible for this investment style, because the manager is unable to buy or sell a security in response. However, strategies based on active stock selection will require active shareholder engagement.

Below, we outline how our active equity investment teams approach engagement.³

All investment teams have access to specialised ESG research, governance and proxy analysis, as outlined under **Principle 5**. Investment teams determine how best to leverage this information in their investment process, including how to use the information when monitoring investee companies and determining when to engage with management of the companies invested in.

Investment teams often engage with investee companies as part of their regular investment processes. These engagements are typically strategic in nature and provide additional insights into management quality, business drivers, financial strategy, financial and non-financial performance and risks, capital structure etc. During these meetings, investment teams may discuss ESG factors, including social and environmental impact and corporate governance, and incorporate their findings into the overall assessment of the management team.

Investment teams, or specialised teams acting in collaboration or on their behalf, such as the Sustainability team, may also engage directly with investee companies to provide additional information on ESG issues or to respond to specific ESG concerns we may have about the company. These engagements can be in the form of email exchanges, video calls, phone calls or in-person meetings. Companies that have been targeted for engagement are typically identified and prioritised by geography, sector and size, to ensure impactful engagement.

As active managers, investment teams ensure through shareholder engagement that corporate management teams are monitored and held accountable for their actions. When assessing investments, investment teams seek to understand how management teams acknowledge, manage and reduce ESG-related risks; we engage with portfolio companies on how these risks are being managed.

MAM has established a central tracker of ESG-related engagements with Public Investments portfolio companies and prospective investments. The tracker logs the ESG issues discussed during investment and sustainability team engagements as well as the outcome of the discussions and whether any follow-up is needed. The tracker serves as an effective communication tool to allow investment teams to glean insights from others' engagement efforts and to foster collaborations among investment teams that may be focusing on similar issues.

³ Where MAM entities manage assets of investment funds as delegated fund managers for third-party management companies, the shareholder engagement policies and proxy voting policies of the respective management company may take precedence over MAM's policies.

Below is a sample of the issues discussed during our engagements over the past year:

Environmental issues	Governance issues
Battery recycling	Corporate governance
Biofuels	Disclosure and board diversity
Carbon reduction efforts and solutions	Dividend policy
The circular economy	ESG disclosure
Clean energy opportunities and legislation	Executive compensation
Clean water	Governance (board composition)
Climate disclosure	Incentive compensation
Coal shutdowns	Lobbying disclosures
Decarbonisation	Minority shareholder rights
Electric vehicles	Succession planning
Emissions standards and targets	The UN Global Compact
Environmental remediation	Social issues
Green ammonia	Affordability of products and services
Hydrogen	Collection stringency
Nuclear energy	COVID measures
Pathway to net zero	Data privacy
Renewable diesel	Diversity and inclusion initiatives
Renewable natural gas	Forced labour in supply chains
Solar	Human capital management
Sustainable aviation fuel	Labour relations
Sustainable food supply	Low-income housing
Transmission	Medical advancements
Water shortages	Modern slavery prevention efforts
Wildfires	Rural water distribution
Wind	Safety focus

The table below is a sample of engagements that have been logged into our engagement tracker:

ESG issues discussed	Company contact (title)	Discussion summary	Outcome
Governance/ Sustainability	Chairman (outgoing)	A meeting was held with the outgoing Chairman, incoming Chairman and General Manager of Corporate Affairs. The objective was to understand the corporate strategy during the ongoing pandemic, how the new Chairman would maintain the corporate culture, and sustainability issues. Here, the company has issued green bonds, made changes to the structure and electrified its fleet of transportation vehicles, but challenges remain in terms of scope 3 emissions.	While the company has fostered a strong culture internally and has made positive steps in relation to carbon reductions, there is no real link between sustainability targets and management remuneration. This remains a follow-up item.
SFDR Article 8 Good Governance Standards, MSCI ESG Ratings method, Labour issues, ESG and CEO remuneration	Investor relations; CSR Director; Social Innovation and Human Rights Manager	A scheduled call was made as part of a good governance remediation plan regarding labour rights. Issues discussed included: MSCI ESG ratings methodology versus other vendors; how the company is addressing labour issues in Qatar and firm-wide, with solutions, impact assessments, human rights guidelines, audit and partnering with other organisations; impacts of COVID; and ESG links to CEO remuneration.	We gained insight and comfort around how management is handling labour rights issues and is setting the tone for others in the Gulf region.
Carbon reduction in conjunction with Climate Action 100+ engagement	Vice President, Environment, Health & Safety; Corporate Environment, Health & Safety; Senior Counsel; Vice President & Associate General Counsel; Senior Director and Director, Investor Relations.	A meeting was held in conjunction with the co-lead for Climate Action 100+ engagement. We reviewed the company's CA 100+ progress report, including long-, medium- and short-term carbon reduction plans, as well as goal-setting for future initiatives, i.e. net zero by 2050. The company is still considering what it will do in this regard, with internal discussions to begin in 2022.	We identified several targets which the company has already made public and which weren't captured by the CA 100+ progress report; it will get credit next year. We gained understanding regarding management's thoughts around a net zero plan, i.e. none yet. Its next focus will be renewable energy, with some projects already rolled out.
Disregard for minority shareholder interests in a planned acquisition.	Chief Financial Officer	We met the CFO to afford the company, a Chinese property manager, an opportunity to provide us with more background on the rationale for their planned acquisition of a microloan company. We expressed our concern and opposition to the acquisition of what we viewed as a non-core business that exposed the company to financial risk, such as credit loss and debt.	The company decided to cancel its acquisition plans. Management has provided us with assurances that they have no further plans in relation to the acquisition of the microloan business. We acknowledged the management's willingness to listen to minority shareholders and their actions increased our trust in their future decisions.
Incentives, carbon emissions (net zero), the UN Global Compact	Vice President Investor Relations, Head of Global Sustainability	Following a proxy vote at the company's 2021 AGM, the Global Equity team engaged company management on the subjects of incentives and their alignment with shareholder interests, as well as net zero.	We gained insight into its incentives structure and sustainability strategy and projects, as well as management's ambitions towards net zero and its view on becoming a signatory to the UN Global Compact in future.

We have tracked over 200 engagements over the past year. We anticipate that this number will increase in coming years due to an increased focus on direct company engagements in addition to greater participation from the investment teams in logging their engagement activity. These include collaborative engagements MAM undertakes with other investors (see **Principle 10**).

Case study: Valero Energy

Background

Valero Energy is a manufacturer and marketer of transportation fuels and other petrochemical products. Due to its position as a leading supplier of refined products and renewable fuels, we identified Valero as an engagement candidate to gain an understanding of its intent to increase renewable fuel production as well as the company's efforts towards reducing the carbon emissions produced by its refining processes. Engaging with Valero and encouraging its efforts to enhance renewable fuels production and carbon sequestration is supportive of our overall net zero commitment.

Engagement process

Over the year to August 2021, we undertook five separate engagements with Valero. The engagements were direct one-on-one meetings and email exchanges initiated by MAM, joint engagements involving the investment team and MAM's Sustainability team, and a collaborative engagement involving the Climate Action 100+ initiative. The engagements focused on topics such as: climate disclosure; carbon capture and underground storage; renewable diesel fuel; and biofuel supply and demand. Valero was represented in these meetings by its Chief Executive Officer, Head of Investor Relations, and Director of Regulatory Compliance and ESG, among others. During these meetings, we encouraged Valero's management to devote more capital to developing lower-carbon transportation fuels as well as improve its reporting of carbon exposure and climate-related risks.

Results

It is always difficult to connect a company's actions directly to our engagement efforts. However, Valero has publicly expressed an increase to its investments in renewable diesel projects. In its third-quarter earnings call, the company said: "Over half of our growth capital in 2021 is allocated to expanding our renewable diesel business" and "we expect to quadruple our renewable diesel production in the next couple of years. In addition, we continue to explore and develop opportunities in carbon sequestration, sustainable aviation fuel, renewable hydrogen and other innovative projects to strengthen our long-term competitive advantage."

Valero has disclosed GHG emissions reduction targets, including its plans to reduce and offset 100% of its global refining GHG emissions by 2035. Valero has also recently published a report aligned with the TCFD and scenario analysis aligned with the Paris Agreement. We continue to engage with Valero and are encouraging it to disclose long-term reduction targets and a net zero commitment that aligns with Valero's intent for its commitment to be based on realistic and not overly optimistic assumptions.

Private Markets

How MAM's Private Markets funds engage with portfolio companies is set out under **Principle 2**. It focuses on MAM's key priorities (e.g. net zero commitments), as well as the ESG factors impacting the given business, as established during the asset screening process set out under **Principle 7**.

As detailed in **Principle 2**, in our role as manager of portfolio companies, we nominate senior employees for appointment as NEDs to serve on company boards. These NEDs, along with other directors and officeholders of the board and management team, are responsible for overseeing portfolio company operations, including ensuring that portfolio company management has appropriate ESG commitments, systems, procedures and practices in place. When we nominate board representatives, we seek to ensure both sectoral and geographical experience, together with any particular skillset that is important for the business.

In addition to board positions, each portfolio asset has a dedicated asset manager and analyst that interact with the asset management teams regularly throughout the year. This engagement will, amongst other duties, focus on meeting minimum standard expectations, improving operational and sustainability performance as well as addressing any risks or improvement opportunities identified during due diligence.

MAM regularly engages with its fund portfolio companies, providing training on a wide range of ESG issues including climate change, GHG emissions and net zero. MAM hosts offsite conferences for portfolio companies to discuss workplace health and safety as well as sustainability topics. MAM has also engaged external consultants to provide additional ESG training, support and guidance to its infrastructure fund portfolio companies. This has included assisting fund portfolio companies establish baseline GHG emissions inventories, develop emissions reduction targets and identify emissions reduction projects.

MAM is actively engaged with portfolio companies in monitoring their performance against certain ESG metrics. Infrastructure portfolio companies are requested to report ESG information to us on a quarterly basis, including their scopes 1 and 2 GHG emissions, their energy consumption and other ESG-related updates.

MAM's sustainability standards specify minimum requirements for all infrastructure assets, including climate change considerations. Specifically, portfolio companies are also encouraged to report on their near-term and long-term plans to address climate risk (including physical and transition risks) and opportunities as well as other ESG issues material for their business.

Case study: Port of Newcastle

A gateway to the second largest city in New South Wales, the Port of Newcastle's opportunities and challenges reflect its proud history and exciting future. The 792-hectare port has 47 tenants across a range of trades, including thermal and metallurgical coal, grain, fertilisers, cement and bulk liquids. The port has a deep 15.2 metre channel and direct heavy rail access to Sydney and, via the Inland Rail, to Melbourne and Brisbane.

The challenge

The port has been exporting coal since 1799, when it made its first shipment to India. While the volume of the port's coal exports is small relative to the domestic production of other countries in Asia, it still plays an important role in the Asian seaborne coal market. The calorific content of the coal is high, making it suitable for modern coal-fired power plants in markets with low energy independence, such as Japan and South Korea, and for blending with lower quality coal from domestic markets in other countries. But while these exports remain important for current coal plants, their medium- to longer-term future is less certain. The Paris Agreement on Climate Change is rapidly accelerating the transition to cleaner fuel sources in the lead up to 2050.

MAM's engagement

As the manager of a 50 per cent shareholding, we are helping to guide the port through its strategic realignment. The board members are helping to provide leadership in understanding and managing ESG issues, for example by initiating the port's participation in GRESB and through a major consulting project that assessed over 20 potential sustainability capex projects at the port. The port has invested \$A35 million in a new ship unloader for its bulk fertiliser and cement terminal, replacing a 50-year-old piece of equipment and more than tripling throughput. The port has also begun a tender process for two mobile harbour cranes. This is the start of a process to build a significant container trade at this deepwater port which, given the channel depth already in place for coal vessels, can handle the world's largest and most fuel-efficient container ships. Overall, the port is planning to spend more than \$A300 million over the next five years on diversification projects and up to \$A3 billion over the next 15 years (subject to government approvals on an expanded container terminal).

Outcomes

This strong management engagement, strategic thinking and responsible governance have put the port's future on a more stable footing. The port's 2040 Strategic Development Plan provides a blueprint for future investment and an ambitious diversification strategy. This includes securing \$A515 million in sustainability-linked loans from National Australia Bank, the first financing of its kind for a seaport in Australia. The loans incentivise Port of Newcastle by reducing the interest it will pay on its debt if it hits a range of social and environmental targets, including introducing modern slavery assessments for its suppliers, reducing emissions, and meeting mental health first-aid goals and improved diversity and inclusion targets.

Sustainable management has thus become an integral part of how the port directs its activities. This means rigorous oversight of its environmental impacts and developing a track-record of good performance. Future commitment to science-based targets will build on the reductions in CO2 emissions already achieved.

Partnerships with community groups, customers, partners and tenants both root the port to its past and nurture its future. Funding and in-kind support have helped local projects thrive and community initiatives are providing lasting social and environmental benefits. For example, Port of Newcastle has recently launched its first Indigenous STEM Scholarship. This will enhance the local region's capacity to meet future technology-led jobs and support tertiary education pathways for Indigenous students.

To bring greater focus to the economic opportunities in the region, MAM recently coordinated a stakeholder day at the University of Newcastle, entitled "Diversifying NSW's 2nd City", which involved shareholder and bank representatives and panel speakers from advanced manufacturers and new energy companies in the region.

All these initiatives help the port maintain a strong competitive position and remain a vital part of the region's economic and social infrastructure. Recent independent economic estimates show that it supports approximately 5,700 direct and indirect jobs in the Lower Hunter region of New South Wales and makes a \$A1.5 billion economic contribution.

Key learnings

Active community engagement leads to better, more widely accepted decisions - which is especially important in times of change. As part of this, we have seen the benefits of reliable data and transparency. By being open about longer-term challenges, the port has built support for its agenda in a city that has relied on the coal industry for hundreds of years. Through engagement with initiatives such as EcoPorts, a European port sector initiative that seeks to raise awareness of environmental protection and improve environmental management, we have also seen the benefits of sharing information and ideas, helping Australian ports to improve their environmental management.

Further case studies can be found in our [Sustainability report](#).

Continuous improvement

In an effort to be more thorough and transparent about our engagement activities and outcomes and in response to increased demand from clients and consultants, the Sustainability team is working on a targeted effort with the investment teams to increase the uptake of the Public Investments central tracker of ESG-related engagements. Not only have we undertaken a targeted and systematic push to increase this as part of our overall ESG best practices project across the organisation, but we have also improved the ease and efficiency by which teams can log their engagements. We have implemented a standardised engagement form which all investment teams can access to systematically log their activities into our newly revamped tracker. This should allow for increased use and more consistent, thorough reporting overall.

Similarly, we have implemented a shared calendar of upcoming engagement activities, in an effort to increase collaboration amongst teams for not only improved knowledge sharing, but also more meaningful impact for outcomes with portfolio companies.

As part of the ESG best practices project, we will explicitly communicate our expectations for best practices on active engagement. This will include a focus on incorporation into the investment process, collaboration for greater impact, and tracking and recording of outcomes.

We have at least one investment team which is targeting an engagement programme regarding deforestation this year, and we continue to be involved in external collaborative engagements with groups such as Climate Action 100+ and the WBA. We encourage our investment teams to get involved with these engagements where appropriate and we continue to track our progress here.

Within Private Markets, we continue to enhance our guidelines for investment and asset management teams including minimum standard expectations for portfolio companies on key ESG topics.

Principle 10

Signatories, where necessary, participate in collaborative engagement to influence issuers

At MAM, we recognise that many of the stewardship issues we face we share with other financial institutions. We also recognise that, by collaborating with other investors, we can amplify our voice. Where we can, we collaborate with other investors to address ESG issues of common concern.

Across Macquarie, we collaborate with industry, government and other stakeholders to share knowledge and build capacity through bodies such as the new Climate Finance Leadership Initiative for which CEO Shemara Wikramanayake was appointed a founding member on 17 January 2019.

The disclosures described under this **Principle 10** specifically detail how MAM collaboratively engages to influence Public Investments issuers.

For further details relating to Macquarie and MAM's industry collaboration engagements and outcomes, refer to **Principle 4**. Our collaborative engagement methods and outcomes in Private Markets (conducted through ownership and influence mechanisms) are set out under **Principle 2**.

Public Investments

MAM entities have been signatories to the **PRI** since 2010; MAM's Engagement Policy is part of the process of moving towards achieving the aspirational goals set out in the PRI's six Principles. MAM's investment teams may use the PRI platform to collaborate with other shareholders, including engaging with investee companies.

In addition, MAM became a member of **Climate Action 100+** in July 2020. As a member, we have an obligation to collaboratively engage with systemically important GHG emitters and other companies across the global economy that have significant opportunities to drive the clean energy transition and achieve the goals of the Paris Agreement. In 2021, we became a co-lead on an engagement with a major global transportation company. Prior to our involvement, outreach to the company was unsuccessful. Using our ownership stake and relationship with the company, we were able to convene several meetings with senior management, securing a commitment from the company to provide many of the disclosures required by Climate Action 100+. The company has also subsequently announced investments to fund renewable fuel initiatives.

Participation in these engagements is coordinated by the Sustainability team. They are often performed in conjunction with investment personnel who have a material interest in the policies of the targeted companies. Participation is prioritised based on the potential to enhance knowledge of ESG issues through other investors, have greater impact on ESG issues and add value to the collaboration. We also target a mixture of geographies and markets where our teams invest.

MAM joined the **Net Zero Asset Managers** initiative in March 2021. The initiative is an international group of asset managers committed to supporting the goal of net zero GHG emissions by 2050 or sooner, in line with global efforts to limit warming to 1.5 degrees Celsius; and to supporting investing aligned with net zero emissions by 2050 or sooner. The initiative emphasises collaboration among members to meet their commitments, through, for example, access to best practice, robust and science-based approaches and standardised methodologies, and improved data. MAM will report on progress against this commitment during 2022.

MAM recently joined the WBA, which represents organisations working to shape the private sector's contributions to achieving the SDGs. As an Ally, MAM is committed to WBA's mission, vision and values, and belief in the power of benchmarks and cross-sector partnerships to drive systematic progress on the SDGs. In 2021, we engaged with several of the most influential global companies in the food and agricultural benchmark to urge them to work with the WBA and the G7 on their Sustainable Supply Chain Initiative (see the Case Study, below).

Case study: The World Benchmarking Alliance



**World
Benchmarking
Alliance**

April 2021

MAM joined the WBA to assist in its mission of developing benchmarks and cross-sector partnerships to drive systematic progress on the SDGs.

May 2021

Representatives from MAM's Sustainability team attended the launch of the WBA's Collective Impact Coalitions (CICs) framework. CICs provide a space for WBA members to act on the data and evidence provided by WBA benchmarks by developing coordinated action across sectors to positively influence company behaviour. CICs focus on prioritisation, mobilisation and execution, operating in parallel with the benchmark development cycle. As a result of those meetings, and after consultation with several of MAM's investment teams, we expressed an interest in becoming involved in the WBA's Food and Agriculture CIC.

June 2021

We met with the WBA and agreed to engage with portfolio companies in which we hold a considerable investment position, and which were in scope for the WBA's benchmark. We approached a dozen of our portfolio companies explaining the reasons behind our membership of the WBA, its mission and its specific Food and Agriculture Benchmark initiative. We stressed the growing importance to investors of non-financial indicators, such as a company's sustainability progress and encouraged each company to work with the WBA to showcase its efforts towards achieving a more sustainable food system and to meet these increasing investor demands.

August 2021

The WBA requested our support with a G7 initiative encouraging the most influential agri-food firms from G7 countries to take further action to improve the sustainability and reduce the climate impacts of their operations and supply chains. The WBA asked us to encourage portfolio companies in the sector to commit to the G7 initiative in the United States, where it had thus far had low uptake. We agreed and contacted relevant US portfolio companies to again encourage them to work with the G7 and the WBA on this initiative.

September 2021

The WBA sought our assistance with the launch and promotion of the Food and Agriculture Benchmark. We participated in two virtual seminars in order to share an investor's perspective on the value of the benchmark, including the approaches we find to be most impactful when engaging with companies to integrate sustainability policies, the effectiveness of sharing best practices within the industry to encourage others, as well as the importance of collective investor action.

March 2022

The WBA published the [Food and Agriculture Benchmark Insights Report](#), providing more depth to its 2021 Food and Agriculture Benchmark results, specific outcomes and next steps. MAM was featured on page 19 of the report with a quote affirming our support, and how we have leveraged its research and findings into our own proprietary UN SDG Database, with which we measure our portfolios' UN SDG alignment.

We are pleased to have been able to use our influence to help the WBA advance its goals. We look forward to continuing our work with it to encourage companies to participate in the initiative.

Outcomes of collaborative engagements

In our involvement with the various collaborative groups, MAM sets timelines, milestones and KPIs for the engagement's objectives. It uses these to track progress and, if necessary, revises those objectives.

MAM's participation in these collaborative engagements does not imply that every investment team agrees with the engagement's objectives; all investment teams maintain independent beliefs regarding material issues that affect a given investment.

Any cooperation by MAM's investment teams with other shareholders or communication with other stakeholders will always be undertaken in line with Macquarie's principles of Opportunity, Accountability and Integrity.

Proxy voting

Through proxy voting, the investment teams may also collaborate with other shareholders by voting on shareholder resolutions. See **Principle 12** for more details, including the number of votes cast. As set out in our Proxy Voting Guidelines, voting proxies should be in the best interests of the client and should align with the goal of maximising the value of the client's investment.

If the management of a portfolio company or another company shareholder seeks to engage with MAM on a particular proxy statement, the company or shareholder should reach out to the investment team who holds the applicable company security on behalf of its clients. MAM will consider any additional information provided by the company or shareholder regarding an upcoming proxy and analyse such information along with prior research provided by its proxy advisor, before coming to a decision on how to vote an applicable proxy.

Continuous improvement

MAM will look to expand its participation in the Climate Action 100+ and WBA initiatives. We are looking to expand our Climate Action 100+ participation to companies that are headquartered outside the United States, and our WBA participation to additional sectors, notably the technology sector.

Principle 11

Signatories, where necessary, escalate stewardship activities to influence issuers

In setting out to deliver positive economic, environmental or social impact, MAM's stewardship activities aim to influence corporate behaviour. When initial efforts are not successful, MAM can escalate the methods we use.

The following section sets out how we escalate stewardship activities to influence Public Investments issuers. The nature of escalation differs for our **Private Markets** business, where our relationships with management and through the seats we hold on company boards, as discussed under **Principle 2**, enable direct discussions at the most senior levels of the organisations in which we invest.

Our Public Investments teams retain the ability to discuss upcoming proxy votes with company management. In those instances where we vote against the recommendations of management and the proxy result is contrary to our vote, the portfolio management team that manages the security may escalate the matter. Each portfolio management team is responsible for determining whether there is a need to escalate, based on the facts and circumstances of the proxy vote. Options available to the portfolio management team include:

- directly contacting the company's senior management
- using the Sustainability team to engage with the company on the team's behalf
- reducing the team's holdings in the company or entirely divesting.

For funds that fall under our Good Governance policy, if poor governance practices are identified via the quarterly reports with respect to any relevant investment, this will be flagged to the Investment Risk team and investment teams, which then work with the Sustainability team to pursue remediation actions.

These may include direct engagement with the investee company, exercising proxy votes against company management and/or in support of changing specific practices, and/or divestment of the relevant security. The actions expected during different phases of the remediation are summarised as follows:

Period	Actions expected
Zero-90 days	Initial engagement with company/issuer and the preparation of a remedial action plan as soon as possible and not later than 90 days
90-180 days	A medium level of engagement and formulation of a detailed plan, if remediation is not expected within 180 days
180-365 days	High level of engagement with company/issuer with progress required by the end of the period

Remediation plans are monitored by the Investment Risk and Sustainability teams, with investment teams required to provide quarterly feedback on their progress.

If, after 12 months, the remediation actions are not effective, or less effective than intended, investment teams must divest.

Case study: Microloan company acquisition

Issue: In 2020, a Chinese property management service provider announced its intention to acquire a microloan company. The rationale was that it considered that microloans are part of the property sale service to property owners and the acquisition would help the company explore a new business line. However, our Asian Listed Equities team was concerned that this acquisition represented a venture into a non-core business that may pose additional risks.

Actions: The team arranged a meeting with the company CFO to give the company an opportunity to provide more background on the rationale for the planned acquisition. At the meeting, we expressed our concern and opposition to the acquisition of what we viewed as a non-core business that exposed the company to financial risk, such as credit loss and debt.

Outcome: Following our engagement and other discussions with their investors, the company decided to cancel its plans to acquire the microloan company. The management provided us with assurances that it has no further plans in relation to the acquisition. We acknowledged the management's willingness to listen to minority shareholders and its actions increased our trust in its future decisions.

MAM's chosen method of escalation varies depending on the fund, asset or geography. For example:

- As previously described in **Principle 5**, funds that are subject to Articles 8 or 9 of the EU's Sustainable Finance Disclosure Regulation are subject to the MAM Public Investments Good Governance remediation framework that calls for a phased remediation timeline.
- Escalation may also vary based on the extent of our holdings and the type of security through which our investment is made. For example, companies in which we have a more significant ownership stake may be more receptive to requests for engagement than those where our ownership is minimal. Fixed income-related engagement requests may also have a lower response rate; unlike shareholders, investors in an issuer's debt typically have no formal ownership or voting rights, which can make company management less willing to engage.

Continuous improvement

As part of MAM's obligations under the Net Zero Asset Managers initiative, we are responsible for ultimately engaging with 70% of our financed emissions either individually or as part of collective efforts. These engagements should be conducted to drive the targeted companies towards adopting a net zero framework. In 2022, MAM will assess the percentage of financed emissions that are currently under an engagement plan and develop a strategy to engage with those large carbon emitters that are not currently being engaged with.



Exercising rights and responsibilities

Principle 12

Signatories actively exercise their rights and responsibilities

As stewards of our clients' investments, we have an obligation to actively exercise their rights and responsibilities as investors to protect and enhance the value of those investments.

The ability to actively exercise our rights and responsibilities as stewards varies across our public and private businesses, reflecting the different ownership interests and levels of influence in those businesses.

The following section outlines how we exercise rights and responsibilities for **listed equity securities**.

MAM provides investment advisory and portfolio management services to various types of clients, such as registered and unregistered commingled funds, defined benefit plans, defined contribution plans, private and public pension funds, foundations, endowment funds and other types of institutional investors. We are often given the authority and discretion to exercise the securityholder's right to vote on company and shareholder resolutions relating to the underlying securities held in the client portfolios we manage. In some circumstances, clients may ask us to give voting advice on certain proxies without delegating full responsibility to us to vote proxies on their behalf. Clients also have the option to retain the responsibility to vote proxies for their portfolio securities and occasionally a client will ask us to vote proxies in line with its proxy voting policy. Typically, the investment management agreement between MAM and a client will disclose the terms of our role in proxy voting and such agreement will demonstrate the client's informed consent on such proxy voting authority.

Where we have been delegated the responsibility to vote or provide advice on proxies, we have developed the following **Procedures** to ensure that we vote proxies or give proxy voting advice that we believe is in the best interests of our clients.

Procedures for voting proxies

MAM has established a Proxy Voting Committee that is responsible for overseeing the proxy voting process. As outlined under **Principle 2**, the Committee includes representatives from the Portfolio Management, Fund Administration, Client Solutions Group, Compliance and Legal teams. The Committee meets as necessary, usually quarterly, to ensure MAM fulfils its duties to vote proxies for our clients.

One of the Committee's main responsibilities is to review and approve the Procedures on a yearly basis or as necessary. When reviewing the Procedures, the Committee considers whether they are designed to allow MAM to vote proxies in the best interests of our clients and with the aim of maximising the value of the underlying shares being voted on. The Committee also reviews the Procedures to make sure that they comply with any applicable regulations. After the Procedures are approved by the Committee, MAM will vote proxies or give advice on voting proxies generally in accordance with such Procedures and the Proxy Voting Guidelines, which provide specific guidance on how to vote certain issues, as outlined in further detail below.

To facilitate the actual process of voting proxies, MAM retains several third-party proxy advisors, including ISS, Glass Lewis & Co. and Ownership Matters. Clients may request that MAM use the client's preferred proxy advisory firm.

The proxy advisor and/or the client's custodian monitor corporate events in connection with MAM's client accounts. After receiving the proxy statements, the proxy advisor will review the proxy issues and recommend a vote in accordance with MAM's Guidelines.

The proxy advisor's recommendations are made available to the applicable portfolio management teams to review and evaluate before the corresponding shareholder meeting. As described below in the Proxy Voting Guidelines section, there will be times when a portfolio management team believes that the best interests of the client will be better served if MAM votes a proxy counter to the proxy advisor's research recommendation. In these cases, the portfolio management team will document the rationale for its votes and provide its rationale to the Committee or the Committee's delegates for its records. The Committee and its delegates are responsible for reviewing the rationale for these votes to assure that it provides a reasonable basis for any vote.

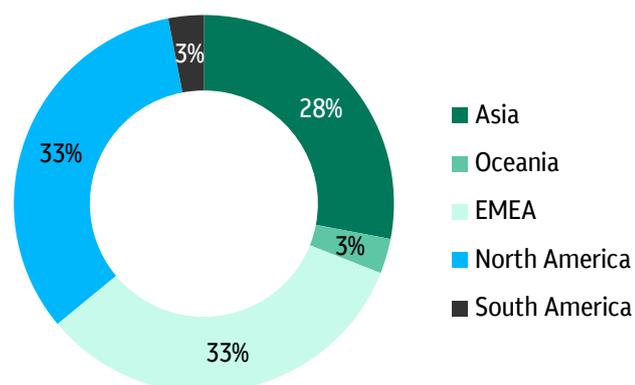
After a proxy has been voted, the proxy advisor will create a record of the vote to help us comply with our duties. If a client provides us with its own instruction on a given proxy vote for its portfolio, we will forward the client's instruction to the proxy advisor, who will vote the client's proxy in line with the client's instruction.

2021 proxy voting statistics

Source: ISS Proxy Manager

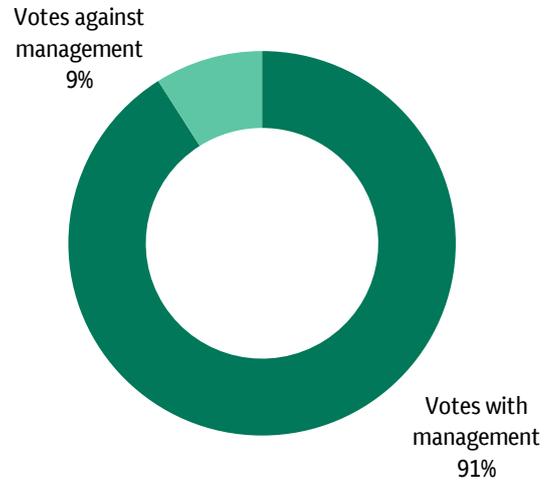
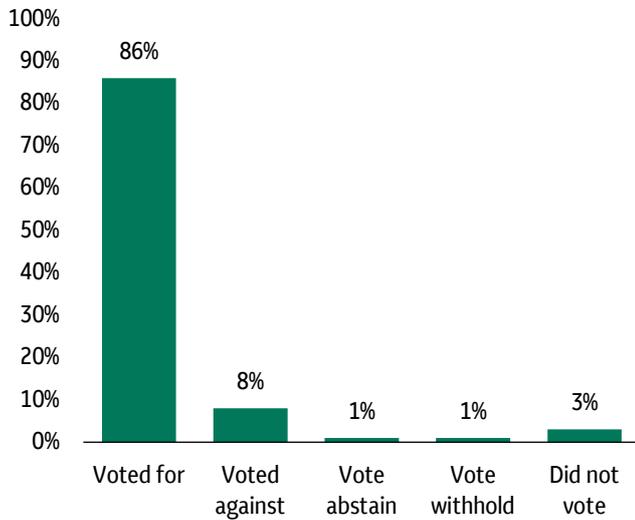
All Votes	77,442	
Voted for	66,628	86%
Voted against	6,312	8%
Vote abstain	827	1%
Vote withheld	985	1%
Did not vote	2,690	3%

Votes by region



Votes by category	Percentage of all votes
Directors related	55.8%
Routine/business	20.0%
Non-salary compensation	10.7%
Capitalisation	8.2%
Reorganisation and mergers	3.4%
Antitakeover related	0.7%
Other/miscellaneous	1.1%

Vote breakdown



Public disclosure of proxy voting results are currently limited to the voting records for MAM's Delaware Funds by Macquarie, which can be found [here](#).

Proxy Voting Guidelines

The Proxy Voting Guidelines summarise MAM's positions on various issues and give a general indication as to how we will vote proxies on each issue. The Proxy Voting Committee reviews the Guidelines and determines that voting proxies following the Guidelines should be in the best interests of the client and should align with the goal of maximising the value of the client's investments.

Securities lending

Securities lending is the practice of loaning shares of stock to other investors. Securities lending generates interest income for the lender and allows the borrower to short sell the shares of a company while also transferring to the borrower the right to vote proxies for the underlying company.

MAM's portfolios may lend their securities if a security lending agreement is in place. At the time a security is loaned, the borrower must post collateral equal to the required percentage of the market value of the loaned security, including any accrued interest. Investment teams have the right under the lending agreement to recover the securities from the borrower on demand. MAM does not currently have any specific guidelines connecting proxy voting to securities lending, but the issue will be raised for discussion by the Proxy Voting Committee in the upcoming year.

ESG proxy alert notifications system

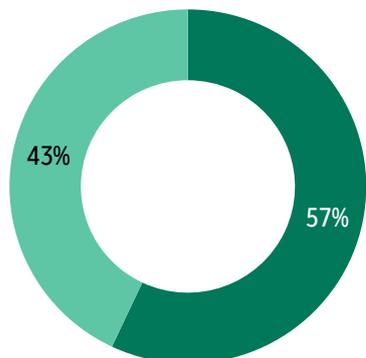
As described under **Principle 7**, we implemented a proactive proxy alert system across MAM in 2021. Through this process, investment teams are alerted directly when an ESG-identified issue comes up for a proxy vote for a company which they hold.

The issues are listed below, as well as a summary of how our teams voted on the ESG-related issues:

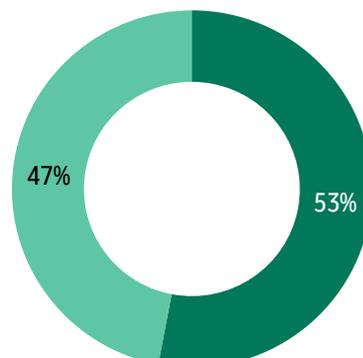
ESG issue	Corporate strategic issue
Report on climate change	Adopt or increase supermajority vote requirement for mergers
Climate change action	Amend articles/bylaws/charter to remove anti-takeover provision(s)
GHG emissions	Amend right to call special meeting
Human rights risk assessment	Approve acquisition or issue shares in connection with acquisition
Board diversity	Approve merger agreement
Gender pay gap	Approve merger by absorption
Link executive pay to social criteria	Approve liquidation plan
Renewable energy	Approve reorganisation/restructuring plan
Improve human rights standards or policies	Approve request for bankruptcy protection
Report on sustainability	Approve sale of company assets
Energy efficiency	Approve special-purpose acquisition company transaction
Publish two-degree scenario analysis	Approve spin-off agreement
Anti-social proposal	Elect director (proxy contest-related)
	Grant authority to board to implement anti-takeover measures during a takeover

ESG proposals		
Number of items voted	54	83%
Number of votes for	34	57%
Number of votes against	26	43%
Number of votes with management	32	53%
Number of votes against management	28	47%

ESG proposals



■ Items voted for ■ Items voted against



■ Votes with management

Case study: MAM's ESG proxy alert system

In 2021, an insurance company in which MAM was invested faced a shareholder proposal to increase its disclosures regarding reducing its exposure to oil and gas assets. The proposal stated that the company's announced timetable was behind its direct competitors and was inconsistent with the goals of the Paris Agreement, which the company has indicated that it supported. Similar proposals were filed in 2018, 2019 and 2020, and did not achieve more than 15% support in any of those years.

ISS, one of our proxy advisors, noted that the company was doing a reasonably good job of cutting its own carbon emissions but was ranked as a medium risk because it is a major provider of insurance to oil and gas producers. The company's proposed timetable for starting to reduce its exposure to oil and gas producers has a start date of January 2030, which we considered late. We decided that the proposal was not very onerous, as it only required the company to improve disclosure on its goals. Further, we believed that it is desirable that the company should be aware that shareholders would like to see a firm commitment to reducing exposure to fossil fuel extraction more quickly than the company is currently proposing. We voted against management and in favour of the proposal.

Continuous improvement

As mentioned above, MAM's proxy voting public disclosures are currently limited to our US-based mutual funds. In the coming year, we anticipate contracting with our proxy administer to disclose voting results that encompass the votes cast by all our portfolios.

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