YARRA
CAPITAL MANAGEMENT

Stewardship Approach
Listed Equities

Contents

Yarra Capital Management (YCM) is a leading independent, active Australian investment manager responsible for managing approximately AUD$22 billion on behalf of our clients across asset classes, including listed equities, fixed income and multi-asset strategies.

01. Introduction

As a leading Australian fund manager, Yarra Capital Management (YCM) has a long history as responsible stewards of client capital. This policy is our way of communicating transparently to our clients, investees and teams how we approach our role as active owners.

We recognise that in recent years, the global understanding of stewardship has evolved with the launch of several frameworks and codes, and we believe it is both useful and timely to capture how these evolutions are being incorporated into our investment management processes.

Rather than adopting one voluntary stewardship code, we have reviewed and referenced common elements and guiding principles from various frameworks. These include:

- the International Corporate Governance Network (ICGN) Stewardship Principles[1];
- the Australian Council of Superannuation Investors (ACSI) Australian Asset Owners Stewardship Code[2];
- the UNPRI Active Ownership 2.0[3] framework;
- the Financial Services Council Principles of Internal Governance and Asset Stewardship[4]; and
- the UK Stewardship Code[5].

These frameworks all reference similar principles that describe how investors should approach integrating material Environmental Social and Governance (ESG) issues into engagements and proxy voting activities.

YCM is focused on engaging thoughtfully with our investee companies and exercising our voting rights responsibly, informed by material ESG issues. To ensure alignment and transparency, we have developed clear governance structures and policies and are committed to tracking and reporting stewardship activities. This policy captures these aspects of our stewardship approach.

[1] ICGN, Global Stewardship Principles
[2] ACSI, Australian Asset Owners Stewardship Code
[3] UNPRI, Active Ownership 2.0: The Evolution Stewardship Urgently Needs
[4] Financial Services Council Standards
[5] FRC, The UK Stewardship Code

01. Introduction (cont.)

What do we mean by Stewardship?

Stewardship encompasses a set of activities that embed material ESG considerations into the way we communicate with our investees, including:

1. **Materiality considerations:** the way we identify material issues that can impact company performance and outcomes for our clients;
2. **Setting clear objectives:** understanding and setting objectives or outcomes we are seeking through engaging with investee companies;
3. **Engagement with companies:** the way we communicate with our investee companies, including through meetings;
4. **Tracking progress:** recording how companies are managing material issues and whether we have seen companies adopt strategies that relate to, address or inform our engagement objectives;
5. **Collaboration:** participating in opportunities to collaborate with clients and other stakeholders where appropriate to create more effective engagements with investee companies;
6. **Escalation:** taking steps to increase our attention, focus, and/or engagement with a company on a particular material issue and potentially inform our evaluation or investment rating;
7. **Exercising our voting rights:** the way we exercise our voting rights and responsibilities, including voting based on material ESG issues and how we assess companies are managing them;
8. **Exclusions and house views:** some companies and sectors do not meet minimum investment thresholds either due to client objectives or specifications or our internal house views and hence are excluded from investment;
9. **Public policy advocacy:** in limited circumstances, we may choose to advocate for a particular public policy approach or response to a structural challenge that has material impacts on portfolio outcomes for our clients and where we think we can have effective influence or make a meaningful contribution; and
10. **Policies, Governance and Reporting:** the structures that ensure we are clear, transparent and accountable to our teams and our clients in the approaches we are taking as responsible stewards of our clients' assets.

The essence of stewardship and active ownership is about: engagement with companies, exercising our voting rights, and ensuring we are executing our role in a way that links our objectives to our activities and how we track and report company progress against these objectives.

While stewardship activities are led by our public equities investment teams, each of our investment teams, including teams that cover fixed income have a complementary approach to research and may jointly participate in company meetings or provide input into proxy voting matters.

02. Stewardship Objectives

Our stewardship activities are guided by our focus on meeting client investment objectives. By incorporating financially material ESG considerations into engagements with companies, our objective is to promote client interests and enhance the value of our investments.

Our aim is to be constructive and leverage our relationships and position as shareholders to better understand whether and how companies are managing key risks. We also believe that thoughtful dialogue with investees on material issues can improve the competitiveness and performance of portfolio companies while also contributing wider benefits toward a more sustainable economy and society.

We have a long history of active ownership and stewardship, and we take pride in our track record and approach to constructive engagement with companies over many years. We have continued to build on these strengths and are elevating the transparency and accountability of our stewardship efforts, including by capturing and sharing our approach in this policy document. We hope that by articulating our stewardship objectives and activities, this policy will serve to make clear our position with investees, clients, our team and other key stakeholders.

03. Stewardship Approach

Our stewardship efforts are guided by the ESG issues that we believe will have financial implications for our investee companies, and, by their nature, have sustainability implications more broadly.

Identification of material issues

In order to focus our efforts, our investment teams seek to identify the most material ESG issues that present risks and opportunities to companies. We do this through bottom-up analysis, including through our ESG integration approach, which assesses all investment holdings and potential holdings across 13 environmental, social and governance topic areas. These are listed in our ESG scorecards and step through various implications, including how the most material issues may impact company value. For more information on our ESG integration approach, refer to our Responsible Investment Policy.

We also understand that there are common shared structural or systemic challenges and seek to overlay a top-down analysis of material issues that our clients or other key stakeholders are seeking to address. We rely on stakeholder interactions as well as industry research and analysis to inform these top-down views.

We have outlined below some common ESG topics that are derived from bottom-up analysis involving many of our investee companies and our top-down position that signals our expectations from companies on these issues. We review this agenda every two years or as material information arises.

03. Stewardship Approach (cont.)

Table 1: Priority Thematic Engagement Topics (effective from July 2024)

ESG Topic	Our Position	Indicative Engagement Topics
G-Good Governance	Boards should protect and promote the interests of shareholders and ensure the business is operating responsibly and sustainably. Boards' key responsibilities include support and oversight of management to ensure enduring company value. Boards must ensure appropriate composition, skills and perspectives to fulfil its key functions.	• Executive remuneration • Board leadership, structure and composition • Diversity, equity and inclusion issues • Strategy and capital allocation
E-Climate Change	Climate change is a highly material topic presenting risks and opportunities for most companies and shareholders. Companies should understand their exposure to these risks and opportunities and have thoughtful responses to manage these.	• Climate disclosures • Climate targets • Climate strategy and transition • Risk management • Climate solutions
S-Human Rights	We expect companies to protect and uphold human rights. Everyone is entitled to human rights, including the rights to life, liberty and freedom from oppression and exploitation. Violating human rights is not only morally wrong but holds legal, reputational, and financial implications for companies.	• Social license to operate • Modern slavery • Treatment of key stakeholders • Health and safety issues that extend to communities
S-Workplace	There is significant evidence that lead indicators of good workplaces are correlated to company value. It intuitively makes sense that companies that can attract and retain happy, safe, productive employees will outperform.	• Culture • Labour rights • Safety • Diversity, equity and inclusion
E-Nature and Biodiversity	All companies are dependent on nature for key inputs including fresh water, a stable climate, and raw materials. And all companies have impacts on nature, such as land-use, pollution, and extraction. These dependencies and impacts mean that businesses must increasingly be cognisant of how they are managing their relationship with nature and biodiversity.	• Understanding approach to nature and biodiversity related impacts and dependencies • Water use • Resource use • Land use • Pollution
G-Responsible Corporate Conduct	Companies operate in a landscape of regulations, legal frameworks and social and cultural norms. We expect companies to respect and uphold their legal and regulatory obligations at a minimum and operate responsibly in accordance with the expectations of their operating environments. Breaching these norms and frameworks can lead to financial implications for companies.	• Responsible advertising • Cybersecurity and data management • Product and service stewardship

E=Environmental issue; S=Social issue; G=Governance issue

03. Stewardship Approach (cont.)

Setting clear objectives

Prior to engaging with companies, our investment teams set meeting agendas which are informed by our materiality assessment. In these agendas, our teams capture objectives related to the engagement, which may include:

- **Improving our understanding:** Seeking to improve our understanding of a company's position or response to a material issue (e.g. seeking to better understand how a company is managing human rights issues);
- **Communicating our concerns:** Raising awareness and communicating our position or concern on a material issue which may include specifying a particular environmental, social or governance objective (e.g. communicating a need for more independent board members, expressing concern over workplace safety issues, seeking a company disclosure or target); or
- **Escalation of our interest:** Increasing the frequency, urgency and/or visibility of our position on a material issue by escalating our engagement (e.g. writing a letter to the board relating to an issue we have raised with management that we do not believe has been adequately addressed); and/or
- **Gathering data to track progress against objectives:** Improving data and tracking how companies are progressing against specific environmental, social or governance issues and objectives (e.g. understanding how and whether a company has developed more ambitious climate targets; or how companies are progressing against stated diversity targets).

In addition to setting a meeting objective, some engagement topics may dictate more targeted or specific objectives, which are noted in the meeting agenda and reflected in the meeting notes.

Engagement with companies

We believe that one of our strengths is the productive dialogue we have with management teams and boards at our investee companies. Our investment teams strive to meet with companies at a minimum twice a year and whenever material issues arise. Our stewardship agendas and objectives are informed by our ESG integration process where we identify bottom-up material ESG issues as well as any common material issues raised by our top-down materiality assessment process. Our engagement efforts focus on obtaining clarity about public disclosures.

Tracking progress

Meeting agendas and notes are captured in an online software platform that is linked to our ESG integration platform and investment ratings. This system has the ability to tag topics so that we can perform engagement analysis over a defined timeframe.

In order to track the effectiveness of our engagements, we capture meeting notes against meeting objectives to understand whether engagements have been successful and/or whether there is merit to escalating our engagement or communicating our intent to link our voting position with how companies are tracking in relation to material issues.

03. Stewardship Approach (cont.)

Collaboration

We understand that taking a collaborative approach to engagement can lead to more effective outcomes. In some cases, we will choose to lead or participate in a collaborative company meeting or engagement campaign with clients or other key stakeholders. This can signal to a company that more than one stakeholder has a shared interest in a particular issue. In our approach to all stewardship activities, including collaboration, we believe in taking a constructive approach with companies where our objective is to add value to – and manage key risks within – the portfolio.

Escalation

Escalation is the process of increasing the frequency, urgency or reach of our engagement with a company. When we have engaged with a company on a material ESG topic, and we believe the issue is material and where the company's response is not commensurate with the issue at hand, we may choose to escalate our stewardship approach. This can include steps to:

- Increase the frequency of our meetings with a company on a particular topic;
- Introduce a specific objective, target or request in our engagement with a company on a particular topic;
- Broaden the audience involved in the engagement, which may include extending our conversation with company management, directors or other stakeholders;
- Collaborate with clients or other relevant stakeholders to increase the awareness and importance of the topic with the company;
- Change the communication medium, for example, by writing a letter to the board of directors following an in person meeting;
- Express our intent to exercise our voting rights in response to a material topic and potentially lodge votes if the issue has not been sufficiently addressed;
- Change our investment view of a company which can include de-rating, changing the valuation, reducing our position or divesting.

While there are other forms of escalation available to investors, such as engaging with the media, taking legal action, or filing a shareholder resolution, we are unlikely to adopt approaches that we feel can have a counter-productive impact on constructive relationships with – or perverse outcomes for – our investee companies.

Exercising our voting rights

Our guiding principle is to exercise our voting rights in the best interests of our portfolios and client objectives. In our Proxy Voting Policy, we outline our responsible investment considerations in exercising our voting rights. In this policy, we state that we encourage improved disclosures, policies and practices that align shareholder value with better outcomes for the natural environment and society and consider these factors when voting. In some cases, we may communicate our intent to vote, informed by how a company is responding to a material ESG issue. We publicly disclose our proxy voting record on our corporate website.

03. Stewardship Approach (cont.)

Exclusions and house views

We believe that part of active ownership is about working toward common goals to address systemic issues that present common challenges for long-term investors. While we are not oriented toward taking an exclusions approach, which can result in 'problem-shifting' and undesirable outcomes, we understand that there are cases for excluding companies or sectors from investment.

As bottom-up managers, we do not commonly apply exclusions outside of client-mandated exclusions. However, our investment team has developed a list of 'house views' on industries that may be more exposed to ESG risks and opportunities. This list was developed from bottom-up analysis from every analyst and grouped into Global Industry Classification Standard (GICS) codes and complemented with top-down research on material ESG risks by sector. This internal document guides our investment teams on a handful of sectors where we have agreed we will not invest as they are incompatible with our clients' objectives (such as companies that participate in predatory activity. i.e. payday lending; controversial weapons manufacturing; or tobacco manufacturing). We have also identified sectors where we believe material ESG risks alongside policy and societal trends are likely to lead to outsized risks and indicative sunset dates (e.g. thermal coal mining). For the remaining sectors, we have documented our collated views on the most material risks for each sector that serve as a supplemental guide during bottom-up analysis.

Public policy advocacy

There are limited conditions when we believe we are best placed to engage in public policy advocacy as part of our stewardship activities. Where we have expertise, capacity and believe there will be sufficient benefit from our efforts, we may choose to participate in policy consultations or other public policy matters either directly or indirectly via intermediaries such as industry groups or collaborative initiatives.

Policies, Governance and Reporting

In order to meet our stewardship objectives, we have established structures to clearly communicate our approach and ensure accountability and transparency.

This document is written in addition to other responsible investment policies position statements, such as our Responsible Investment Policy and Proxy Voting Policy. It is intended to provide clear guidance to our teams, our clients, our investee companies and other key stakeholders about how we define and approach stewardship.

Responsibility for stewardship activities is highly diffuse, as all investment team members participate in stewardship activities. While we do not have a separate stewardship team, the coordination of insights, such as our materiality assessments, is led by our Chief Sustainability Officer who also provides support and consultation to investment teams in relation to specific topics and engagements. Portfolio managers are accountable for ensuring their teams appropriately adopt our responsible investment and stewardship principles and policies.

We publicly disclose our proxy voting record on our website. As United Nations Principles of Responsible Investment (UNPRI) signatories, we provide our UNPRI transparency report on our website. We meet all regulatory requirements as well as provide client requested and voluntary disclosures where appropriate.

We review this approach and its contents every two years or when material information arises.

Effective from September 2024