

Morningstar Investment Management Australia
Stewardship Policy

February 2022

Stewardship

Morningstar Investment Management's mission centres on helping investors reach their financial goals. We believe in the careful and responsible management of clients' assets. In addition to the requirements set out in our Corporate Governance Policy, Morningstar Investment Management has developed this Stewardship Policy to outline how we provide effective asset stewardship on behalf of investors.

Morningstar Investment Management's investment philosophy is firmly grounded in its seven investment principles, inspiring our principles-based proxy voting approach and providing an anchor to our process as we commit ourselves to act in the best interest of our clients.

Morningstar Investment Management's seven investment principles are as follows:

We put investors first

- We believe the firms that put investors first win in the long term because their investors win.
- Since 1984, Morningstar, Inc. has been helping investors reach their financial goals. Our fiduciary duty to our investors is paramount.

We're independent-minded

- To deliver results, we think it's necessary to invest with conviction, even when it means standing apart from the crowd.
- Our research shows that making decisions based on fundamental analysis, rather than short-term factors and sentiment, delivers better long-term investment results.

We invest for the long term

- Taking a patient, long-term view helps to ride out the market's ups and downs and take advantage of opportunities when they arise.
- Investing with a multi-decade horizon aligns with investors' focus on increasing their purchasing power over their lifetimes.
- The long term is the only period over which fundamental, valuation-driven investing works.

We're valuation-driven investors

- Anchoring decisions to an investment's fair value, or what it's really worth, leads to greater potential for returns.
- Valuation-driven investing through a long-term focus on the difference between price and intrinsic value enables investors to get more value than they're paying for.

We take a fundamental approach

- Powerful research is behind each portfolio position we hold, and we understand what drives the cash flows of every investment we analyse.
- Fundamental investing incorporates a focus on the future earnings of an investment and not just its prospective price change.

We strive to minimise costs

- Controlling costs helps investors build wealth by keeping more of what they earn.
- Investment returns are uncertain, but costs are not.

We build portfolios holistically

- To help manage risk and deliver better returns, truly diversified portfolios combine investments with different underlying drivers.
- Portfolios should be more than the sum of their parts.
- True diversification can have a powerful impact on a portfolio's risk-adjusted returns—but simply holding more investments isn't the same as true diversification.

Our priority is to ensure investors meet their personal and financial objectives and, within the boundaries of our fiduciary duty, we want to take all the essential steps to make sure these objectives can be attained. In order to do this, we believe it's important to communicate to the companies we invest in what we believe are our investors' best interests.

We undertake several leading active ownership commitments/practices to steward our clients' investments in line with their ESG preferences and the goal of achieving sustainable, long-run returns:

- **ESG Integration:** We assess the management of ESG risk as part of our investment process (see our ESG policy for more information on how ESG is integrated into our investment process: <https://morningstarinvestments.com.au/esg-policy/>).
- **ESG-related preference-driven considerations:** We may exclude particular types of companies from portfolios to reflect the ESG preferences of ESG-focused investors (see Appendix A and Appendix B of our ESG policy for further details: <https://morningstarinvestments.com.au/esg-policy/>).
- **Shareholder voting:** We use a principles-based voting policy framework to ensure our investors' interests are considered when undertaking voting on corporate proxies. This framework, including voting principles and guidelines for common voting areas, is outlined in further detail in Appendix A of this Policy.
- **Company Engagement:** We may actively engage with the companies we own to promote responsible corporate behaviour. Our approach to Engagement is detailed in Appendix B of this Policy.
- **Adopting strong internal governance structures, policies and practices.** Our commitments are outlined in Appendix C of this Policy.
- **Class Actions:** We may participate in class actions as a cost-effective way to recover losses experienced in the event of corporate misconduct and to deter poor corporate governance practices. Participation may be conducted directly through our custodian, through appointed Managers acting on our behalf, and/or via Managers participating on behalf of collective investment vehicles we are invested in.
- **Reporting:** We provide transparency regarding our policies and stewardship efforts through reporting.

The Chief Investment Officer, Asia Pacific, in conjunction with the Head of Investment Operations is responsible for implementation of this policy.

Section A - Shareholder voting

Morningstar Investment Management recognises that voting rights have economic value and that the exercise of such voting rights is a fiduciary duty. Two of our seven investment principles, “We put investors first”, and “We invest for the long term”, underpin our approach to shareholder voting (commonly referred to as proxy voting). We believe proxy voting, when appropriately and responsibly exercised to improve corporate governance, firm practices and allocation of capital, may enhance corporate financial performance and provide sound long-term incentives, ultimately benefiting the end investor.

We believe a principles-based approach to proxy voting is the best way to ensure that our proxy voting is exercised in line with our investors’ interests. Our overarching principle when it comes to proxy voting is to vote issues in the direction that increases and/or protects shareholder value over the long-term. To ensure we vote with a “common voice” on voting matters, we make vote determinations for both our internally managed strategies and externally managed equities mandates, employing the services of Glass Lewis as our proxy advisory services provider, with additional support from our colleagues at Sustainalytics. For externally appointed equities managers where we invest in their pooled unit trust product (rather than via a mandate account), we rely on the manager to manage the proxy voting requirements in respect of the portfolio holdings. In some instances, as part of an investment mandate, we will authorise our investment managers or agents to exercise our voting rights in accordance with their proxy voting policy. If we assign voting authority to an investment manager (or its agents), the investment manager must inform us of its voting policy and whether it exercises this authority in a manner that is inconsistent with the policies disclosed to us.

How we vote:

We do not take our fiduciary duty lightly and, as such, we follow a series of general rules as it pertains to voting proxies on behalf of our clients.

- While we share overarching global principles within Morningstar Investment Management as a global group, we also recognize that each locality has different client preferences and compliance regulations. Morningstar Investment Management Australia is empowered to follow the global principles to best manage our voting choices on behalf of our stakeholders.
- We classify each company proxy issue into the list of common voting areas below. In order to make a determination as to how each specific vote fits our principles, we employ Glass Lewis for proxy advisory services. Additionally, on an as needed basis, we consult with Sustainalytics internal specialists on specific ESG voting items. At times we will also rely on input from our investment managers.
- We have mapped our standard principles to the baseline recommendations provided by Glass Lewis. Our proxy advisory service partner provides recommendations for how we vote and alerts us to any potential areas where our principles are in conflict with their recommendations. In a vast majority of instances, the recommendation will be clear and align with our principles. For 1) contentious votes, 2) votes where the alignment with our principles is unclear, or 3) votes where there might be a potential conflict of interest, the voting recommendation will be presented to our local proxy voting committee for sign-off and execution.
- For recommendations that fall outside these major categories, we will work with Glass Lewis to make decisions in the best interests of our investors.

- Except in special cases where we feel abstention is required, we consider and vote all proxies for every resolution in respect of holdings beneficially owned by us in companies and other entities publicly listed globally, excepting entities for which we feel we have no discretion to vote.
- In some instances, we may determine after appropriate consideration that as a matter of governance or investment process, it is more effective and in Scheme Members' best interests for us to abstain from voting.
- In cases where we do not hold direct and immediate voting rights because of the interposition of a trust or other structure between us and the ultimate investments (e.g., an investment by us in a managed investment scheme which then invests pooled or collective moneys), we will request that the interposed entity exercise its voting rights in a manner consistent with our Voting Policy and to report to us on the exercise of voting rights.

Common Voting Areas:

1) Boards and Directors

We support boards of directors whose approach is consistent with creating sustainable long-term value. This includes the consideration of key stakeholders' interests along with the effective management of strategic, operational, and material ESG issues through the maintenance of a robust and effective governance framework.

We expect boards to have strong oversight of the company's strategic aims and of mechanisms for managing risks and opportunities.

Disclosure of material issues that affect the company's long-term strategy and value creation, including material ESG factors, is essential for shareholders to be able to appropriately understand and assess how the board is effectively identifying, managing and mitigating risks.

There should be clear definitions of the role of the board, the committees of the board and senior management.

Directors should stand for re-election on a regular basis, with the time horizon set relative to the jurisdiction in which they operate. When board members are not re-elected periodically, we believe it is good practice for boards to have a rotation policy to ensure that, through a board cycle, all directors have their appointment re-confirmed, with a proportion of directors being put forward for re-election at each annual general meeting.

The board's composition should reflect the evolution of the company's strategy and the market environment. This assessment should consider a number of factors, including the potential need to address gaps in skills or experience, the diversity of the board, and the balance of independent and non-independent directors.

We also consider the average tenure of the board, where we are seeking a balance between the knowledge and experience of longer-serving members and the fresh perspectives of newer members. We expect disclosures to demonstrate how diversity is accounted for within the proposed board composition.

We expect there to be a sufficient number of independent directors, free from conflicts of interest or undue influence from connected parties, to ensure objectivity in the decision-making of the board and its ability to oversee management. The board is believed to be able to fulfill its fiduciary duty when there is a clearly independent, senior nonexecutive director to chair it or, where the chairman is also the CEO (or is otherwise

not independent), a lead independent director. It is important that every director has the capacity to fulfill all of his/her responsibilities.

Voting Guidelines

- *Independence:* We may vote against directors serving on key committees who we do not consider to be independent. We will support proposals seeking to separate the position of Chair of the board and Chief Executive Officer. Where companies are not able to comply with what we consider to be best practice, we expect them to explain why they are unable to comply.
- *Oversight:* We expect the board to exercise appropriate oversight over management and business activities of the company. We will consider voting against committee members and/or individual directors where the board has failed to exercise sufficient oversight of material ESG risk factors or where it has failed to exercise oversight of accounting and audit practices. We will consider voting against members of the compensation committee if executive compensation appears excessive relative to performance and peers, and where we believe the compensation committee has not already substantially addressed this issue. We will consider voting against a director serving on an excessive number of boards, which may limit their capacity to focus on each board's requirements.
- *Responsiveness to Shareholders:* Where we believe a board has not substantially addressed shareholder concerns, we may vote against the responsible committees and/or individual directors.
- *Shareholder Rights:* We expect a board to act with integrity and to uphold governance best practices. Where we believe a board has not acted in the best interests of its shareholders, we may vote against the appropriate committees and/or individual directors.
- *Board Size:* We typically defer to the board in setting the appropriate size and believe directors are generally in the best position to assess the optimal board size to ensure effectiveness. However, we may oppose boards that appear too small to allow for the necessary range of skills and experience or too large to function efficiently.

2) Auditors and Audit Related Issues

We recognize the critical importance of financial statements, which should provide a true and fair picture of a company's financial condition. Accordingly, the assumptions made by management and reviewed by the auditor in preparing the financial statements should be reasonable and justified.

Audit committees, or equivalents, should provide an independent oversight of the accounts, material financial and non-financial information, internal control frameworks, and Enterprise Risk Management systems. We hold the members of the audit committee, or equivalent, responsible for overseeing the management of the audit function. We expect audit committees, or equivalents, to have clearly articulated charters that set out the committee's responsibilities and have a rotation plan in place that allows for a periodic refreshment of the committee memberships.

We take note of critical accounting matters, cases involving significant financial restatements or ad hoc notifications of material financial weakness. In this respect, audit committees should provide timely disclosure on the remediation of Key and Critical Audit Matters identified either by the external auditor or Internal Audit function.

Auditors are expected to be independent. Where the audit firm provides services to the company in addition to the audit, the fees earned should be disclosed and explained. Audit committees should have in place a procedure for assessing annually the independence of the auditor and the quality of the external audit process.

The audit committee, or equivalent, should periodically review the company's risk assessment and risk management policies and significant risks and exposures identified by management, the internal auditors or the independent accountants, and management's steps to address them. In the absence of robust disclosures, we may reasonably conclude that companies are not adequately managing risk.

Voting Guidelines

- *Oversight of audit function:* We seek to hold the audit committee of the board responsible for overseeing the management of the audit function at a company and may vote against the audit committee members where the board has failed to facilitate quality, independent auditing.
- *Scope of committee responsibilities:* We look to the audit committee report for insight into the scope of the audit committee responsibilities, including an overview of audit committee processes, issues on the audit committee agenda, and key decisions taken by the audit committee.
- *Accounting irregularities:* We take note of cases involving significant financial restatements or material weakness disclosures, and we expect timely disclosure and remediation of accounting irregularities. The integrity of financial statements depends on the auditor effectively fulfilling its role. To that end, we favor an independent auditor.
- *Financial restatements:* In addition, to the extent that an auditor fails to reasonably identify and address issues that eventually lead to a significant financial restatement, or the audit firm has violated standards of practice that protect the interests of shareholders, we may also vote against ratification.
- *Auditor independence:* From time to time, shareholder proposals may be presented to promote auditor independence or the rotation of audit firms. We may support these proposals when they are consistent with our views as described above.

3) Capital Structure and Related Issues

Capital structure is a critical component of a company's ability to deliver long-term value to shareholders. Further, decisions related to capital structure can potentially subordinate and/or dilute the economic claims of equity shareholders. Ensuring that the rights of shareholders are protected is paramount in our voting principles. We are generally in favor of equal voting rights and voting rights commensurate with equity holders' actual ownership level. We prefer simple, straightforward share class structures. We are not in favor of any stock issuance/reverse splits that do not have an express purpose of benefitting long-term shareholders. All equity issuance/buyback proposals should be proportional to ownership and not be excessive. Many poison pill proposals prevent the board from considering acquisition proposals that are in the best interests of long-term shareholders. We generally prefer rescinding these policies and are against the implementation of any poison pill plan that could have negative externalities for shareholders. Our views on broad capital structure considerations are listed below.

Voting Guidelines

- *Voting Rights/Ownership Structure:* We are FOR voting rights commensurate with economic ownership. We generally prefer single-class structures, all else equal.
- *Stock Issuance/Reverse Splits:* We are generally FOR proposals to increase/decrease shares outstanding as long as they 1) proportionally increase/decrease the number of authorized shares, 2) do not result in an excessive amount of authorized shares and 3) have an express purpose that is intended to benefit long-term shareholders.
- *Preferred Stock:* We are generally FOR the issuance of preferred stock where the terms are reasonable to existing equity holders. We are generally AGAINST proposals to authorize new classes of unspecified shareholders that could potentially harm the economic interests of equity shareholders (“blank check preferred stock”).
- *Poison Pills:* We are generally AGAINST poison pill plans and FOR rescinding poison pill plans.
- *Mergers, Acquisitions and Related Transactions:* We are FOR transactions that are in the best interests of long-term shareholders.

4) Compensation Proposals

We believe that compensation policies play a key role in companies’ long-term results. Appropriate compensation policies may improve company business and returns through two primary channels: aligning executives’ incentives to those of the shareholders and talent retention. Both are essential to drive returns and to ensure companies operate smoothly and with the appropriate scheme of incentives. Philosophically, we believe that compensation should have a clear link with long-term performance, should be transparently designed and should protect the interests of shareholders. It is important to ensure that compensation is appropriate for the company under consideration both in absolute and relative terms, designed to prevent excessive risk taking, and based on sound performance metrics consistent with industry best practices. A clear and effective governance structure should provide oversight on compensation and avoid any “pay for failure” arrangement. In addition, we consider periodic reviews and independent assessments of the company compensation policy, including annual votes on executive compensation, as essential to ensure its compliance with the most up-to-date best practices.

Voting Guidelines

Our voting position on compensation-related resolutions would generally be:

- FOR shareholder proposals requiring additional disclosure and transparency of officer and director compensation,
- FOR proposals to implement savings plan/pension plan for employees,
- case-by-case basis on stock-based plans for directors,
- case-by-case basis on employee stock purchase plans,
- AGAINST compensation plans involving “pay for failure or incentivizing excessive risk taking, and

- FOR proposals to align director compensations and incentives to industry averages and best practices.

5) Environmental and Social Issues

Businesses today face an increasingly wide array of environmental and social issues under intense scrutiny from the public and media. More now than ever, companies can face significant financial, legal and reputational risks resulting from poor environmental and social (E&S) practices, or negligent oversight of those practices. We believe a well-managed company will effectively deal with material E&S risks relevant to their product and industry. Additionally, we believe that good E&S practices should positively contribute to the long-term performance of individual companies, as well as the overall market. Our overarching principle when voting for E&S proposals is that we are for increased transparency, along with protecting and/or enhancing shareholder value against E&S risks.

Comprehensive reporting and disclosures are needed by investors to evaluate a company's business practices and risk management procedures. When reporting is inadequate, investors may conclude that the company is not appropriately managing risk. Furthermore, how a company handles and reports on E&S risks may be indicative of how they manage other risks facing the business. Therefore, continued improvement in E&S reporting and transparency is crucial to maintaining a positive relationship between directors, management, and shareholders. We recognize that several large markets are moving towards mandatory ESG reporting. We support continued regulatory pressure to create consistent, comparable, reliable disclosure regimes aligned with well recognized frameworks, such as the Taskforce on Climate Related Financial Disclosures, or TCFD, recommendations. We support shareholder resolutions that advance company-level adoption of well-recognized reporting frameworks.

We believe it is up to the board and management to comprehensively monitor and mitigate E&S risks. However, when the board and management fail to address E&S risks, shareholders should act to protect their financial interests. This means voting in support of appropriate ballot measures that constructively address relevant E&S risks. Where relevant ballot measures have not been tabled, concerns are significant, and other avenues have failed to achieve results, we would consider taking voting action against directors or other management-sponsored ballot measures as an escalation of E&S concerns.

Voting Guidelines

As we are a global company, the different regions that we operate in may have varying standards, regulations, or cultural norms regarding environmental and social issues. For the below categories, we are generally FOR increased disclosure, but will vote on a CASE BY CASE basis on all other proposals dependent on current regional requirements and shareholder's best interests. We are generally AGAINST proposals that are unnecessarily burdensome, those that have already been responded to in a sufficient manner, or those that could place the company at a competitive disadvantage.

- *Animal Welfare and Testing*
- *Foreign Government Business Policies*
- *Genetically Modified Organisms (GMOs)*
- *Military, Weapons, and Government Business Policies*
- *Nuclear Proposals*
- *Pharmaceutical and Healthcare Proposals*
- *Product Safety, Hazardous Materials, and Supply Chain*
- *Tobacco Proposals*

In contrast to the above categories, which allow for regional flexibility, we believe our global organization should be fully aligned when voting for proposals in the following categories:

- *Climate and Environmental Issues:* We are generally FOR increased disclosure of risks, reports on greenhouse gas (GHG) emissions, disclosure of hydraulic fracturing or oil sands operations, reports on operations in protected areas, and reports on sustainability initiatives. We vote CASE BY CASE for reporting on new or existing recycling programs, as well as reporting on water related risks.
- *Corporate Political Activities:* We are generally FOR increased disclosure and oversight where existing disclosures are insufficient, or if the company faces significant risks from political activities. We are generally AGAINST resolutions that prohibit corporate political spending, proposals to publish company's political contributions in newspapers or other media, proposals to affirm nonpartisanship in the workplace, and proposals to provide lists of executives with prior government service. We vote on a CASE BY CASE basis on proposals requesting information on a company's lobbying.
- *Diversity, Equity, and Inclusion:* We are generally FOR increased disclosure of the company's efforts to diversify the board, disclosure of diversity policies and initiatives, disclosure of comprehensive workforce diversity data, and policies to prohibit discrimination based on sexual orientation and/or gender identity. We generally vote AGAINST proposals to extend or eliminate benefits from domestic partners. We vote on a CASE BY CASE basis for proposals asking to increase gender or racial minority representation on boards and on requests for reports on a company's pay data by gender, race, or ethnicity.
- *Energy Efficiency and Renewable Energy:* We generally vote FOR increased disclosure and reports on feasibility of adoption and AGAINST proposals requesting investment in renewable energy sources and adoption of renewable energy goals where investments lack a tangible connection to long-term shareholder benefit.
- *Human Rights, Employee Safety, and Supply Chains:* We are generally FOR increased disclosure of standards and policies and accident risk reduction efforts. We vote on a CASE BY CASE basis on proposals to implement standards and policies or to report on
 - assessments of human rights risks
 - the company's use of mandatory arbitration
 - risks associated with working in high-risk markets
 - outsourcing risks
 - sexual harassment policies.
- *Philanthropy and Community Relations:* We are generally FOR increased disclosure, good corporate citizenship, and community sensitivity. We are generally AGAINST proposals restricting charitable contributions.

6) Shareholder Proposals

Shareholder proposals are proposals submitted by shareholders to be discussed and voted at company meetings. The objective of such proposals can range from capital management, corporate governance, to disclosure on environmental topics. As long as formal requirements are met, they can be accepted and voted.

We believe shareholders should have a voice in company matters and therefore we believe shareholder proposals are a good way to ensure that the shareholders' voice is heard and may impact the course of the business. However, given the wide range of issues that can be addressed by shareholder proposals, it is key to assess them on a CASE BY CASE basis. As we firmly believe our primary duty is to help our clients achieve their goals, we may vote in favor of shareholder proposals that support the long-term financial success of the company and/or may address issues we believe are critical for improving the odds of long-term value creation. On the other hand, we may vote against a proposal if we deem it not to be material or relevant to promoting sustainable growth over the long-term.

7) General Corporate Governance

This section contains voting guidance on general corporate governance issues not covered in above sections.

- *Adjourn meeting to solicit additional votes:* We are generally FOR these proposals unless detrimental to shareholders' best interests
- *Bundled Proposals:* We are generally AGAINST linked proposals that might contradict or impede the interests of shareholders
- *Exclusive Forum Provisions:* We are generally FOR proposals to seek exclusion from certain shareholder litigation unless they are unfavorable to the interests of shareholders
- *Multi-jurisdictional Companies:* We are generally FOR voluntary disclosure of companies' rationale for their selection of primary listing, country of incorporation, and choice of governance structures, especially when there is a conflict between market governance standards. We vote on a CASE BY CASE basis on proposals not covered in these standards in the best interest of shareholders
- *Proxy Access:* We are generally FOR the ability of shareholders holding an appropriate threshold percent of outstanding shares over a required time period to nominate board directors on management's proxy card.
- *Majority Voting for Directors:* We are generally FOR electing board members on the basis of a majority of votes cast 'FOR' the nominee in uncontested director elections.
- *Reincorporation:* We generally vote on a CASE BY CASE basis on proposals to reincorporate from one state or country to another.
- *Supermajority Vote Requirements:* We are generally FOR shareholder resolutions asking for the elimination of supermajority vote requirements

- *Right to Act by Written Consent.* We will vote on a CASE BY CASE basis on shareholders resolutions asking that they be granted the ability to act by written consent
- *Right to Call a Special Meeting.* We are generally FOR shareholder resolutions asking for the right to call a special meeting but AGAINST proposals to lower the ownership level below a 25% threshold

Section B – Company Engagement

Company Engagement

Corporate management is often aware of the need to change and is willing to do so, but the support of strategic stakeholders enables them to justify taking concrete steps. In order to undertake constructive and regular dialogue with investee companies on sustainability issues we use the services of Sustainalytics, a Morningstar company which acts as an extension of our team. Sustainalytics and its predecessors have 25 years' experience in the provision of Stewardship Services. Sustainalytics engages with company representatives on our behalf enabling us to tackle a wide range of issues. Morningstar may choose to engage with other investors, industry groups and/ or industry associates and bodies to formulate an approach to ensure securing the best client outcomes.

Types of engagement

Working collaboratively with Sustainalytics, we aim to foster a constructive dialogue with portfolio companies. All our engagements are informed by Sustainalytics' company research, creating a coherent approach to ESG issues across the investment value chain.

We may engage with companies in three specific ways:

- **Global Standards Engagement**
Ensure portfolio companies comply with global norms and standards, and undertake engagement on norms violations. Global Standards Engagement is an incident-driven service where Sustainalytics engages alongside clients, such as us, with companies that severely or systematically violate the UN Global Compact. Sustainalytics encourages companies to resolve incidents in a way that would enhance its future ESG performance and risk management to avoid similar controversies in the future.
- **Material Risk Engagement**
The focus is on companies with the highest unmanaged ESG risks, as identified by Sustainalytics' ESG Risk Ratings. Companies are encouraged to address unmanaged ESG risks and are engaged with through a collaborative and constructive manner on financially material risks, in order to promote and protect long-term value.
- **Thematic Engagement**
At times we may choose to engage with companies on specific ESG themes allowing us to align our investors interests in addressing specific issues.

Engagement Approach

We believe effective engagement is a constructive process aimed at creating long-term investment value. To achieve this aim, engagement requires:

- clear engagement objectives that both resolve relevant issues and improve companies' overall ESG performance,
- constructive relationships built on two-way dialogue,
- clear time frames for engagement results,
- versatility and the use of all available engagement tools, including email communications, calls and meetings with management, conference calls, site visits and proxy voting, and
- working on a collaborative basis to leverage the power of ownership influence.

Engage or restrict? ⁱ

We consider the restriction or divestment of an individual company as a result of its corporate behaviour to be a last resort, but in some cases it is unavoidable. Excluding a company from our investable universe means we stop having the influence to tackle ESG issues. For this reason, where possible, we take an engagement-led divestment approach, only restricting companies when engagement is either not deemed feasible or is unlikely to change a company's conduct or involvement in specific business activities. Engagement is, in our view, not limited only to shareholding: we believe that debt holders have an important role to play. Fixed income investments offer new levers of influence, often complementary to those of equity-based stewardship. When engaging with companies, we combine the knowledge and expertise of Sustainalytics and our research teams to determine an appropriate way forward that meets our fiduciary duty putting investor outcomes at the forefront of our decision making.

¹ Noting for ESG focused portfolios we restrict specific sectors and/or industry groups as part of the investment guidelines

Section C – Asset Stewardship

Morningstar’s approach to providing effective asset stewardship on behalf of clients lies in its approach to initially assessing and undertaking due diligence on appropriate investments. This is supplemented by ongoing monitoring, engagement and communication which considers both financial and non-financial matters. Our approaches across both internally managed strategies and external managers are summarised below:

Internally managed strategies

A primary focus of our internally managed, direct equity investment process is to identify and monitor how the companies, in which we are invested, manage their capital for the benefit of their shareholders. Our quality and valuation metrics are built upon the actual financial performance of companies in the context of the industries in which they operate. We also monitor and incorporate the propensity and ability of corporate management to return capital directly to shareholders. Another key component of our process is our qualitative assessment of company management through internal and external research analyst reports, company reports, and media reports.

External managers

Our due diligence process for evaluating managers and/or strategies combines quantitative data analysis with a qualitative assessment of a strategy’s personnel and resources, investment philosophy and process, and firm stewardship. We acknowledge that truly skilful managers are not a commodity, but rather, a scarce resource. Accordingly, our critical focus in researching managers is to assess and identify key areas where a comparative advantage exists and whether it can be sustained.

In this context we focus on the following:

- **People** – We view people as the most important area and look for investors with stable teams with proven track records, bring a different perspective and have their interests aligned with clients
- **Philosophy and Process** – We look for a strong and well-defined investment philosophy that suits the people, is repeatable, has a long-term fundamental approach, and is underpinned by a robust approach to risk management
- **Firm** – It’s also imperative that a firm enables quality people to operate effectively and puts investors first. Most important is that the firm provides alignment between clients and the fund managers, the structure is conducive to investment independence, is appropriately resourced with good culture to retain its key people

Our process is designed to keep abreast of any changes occurring with the direct investments or the managers we invest with. This is done through regular monitoring and frequent contact and engagement with the management and fund managers of the respective companies. Our team continues to evaluate the investment options based on the same process used in the review and selection stage, but we understand that the ongoing due diligence of an investment option presents different challenges. Therefore, Morningstar Investment Management focuses on specific issues or events that could change its opinion of the investment option and challenge its original investment thesis.

The ongoing monitoring process focuses on the following issues:

- Regulatory issues
- Organizational and/or manager changes
- Management team updates
- Style and process consistency
- Portfolio characteristics
- Risk-adjusted performance
- Asset growth

Internal governance structures

Morningstar Investment Management's Asia Pacific Investment Policy Committee oversees the delivery of investment management and investment advisory services to clients in the Asia Pacific region. The Committee's primary purpose is to have oversight of all policies, procedures and decision-making required to efficiently execute investment management and investment advisory services and ensuring client assets are managed in accordance with approved investment objectives and guidelines. The Committee is also responsible for resolving any conflicts of interest arising from investment management activities in accordance with our conflicts of interest policy.

The Committee delegates authority for certain investment management oversight activities to various sub-committees: the Asset Allocation Sub-Committee, the Portfolio Construction Sub-Committee, and the Investment Selection Sub-Committee.

Internal Governance Policies and Practices relating to Managing Client Assets

Morningstar Investment Management's approach to key aspects of internal governance and management of business activities which could impact client assets is set out below.

Error correction policy

All Morningstar Investment Management's Managed Funds are unit priced by our external custodian and administrator (JPMorgan) and have tolerance levels applied against a benchmark movement. Where a tolerance level is exceeded, JPMorgan will provide evidence to support the excess which Morningstar Investment Management considers when performing their unit price review. Any other unit price discrepancies determined by Morningstar Investment Management are raised to JPMorgan for investigation and resolution prior to Morningstar Investment Management releasing unit prices to the market. Unit pricing errors are dealt with in accordance with our Unit Pricing Policy.

In general, performance calculation errors are rare. Unit Pricing errors would be the primary cause of performance calculation errors. If a performance calculation error is identified, performance is recalculated and reports re-released subject to the materiality.

Brokerage and commissions

Brokerage and commissions are a key consideration for the Morningstar Investment Management investment process, and we aim to minimise transaction activity, reducing the transaction costs including brokerage and commissions.

Where Morningstar Investment Management appoints an external manager to manage a portfolio, we apply a long-term conviction-led approach that involves high thresholds for initial due diligence research but once appointed, typical holding periods for managers are in excess of 5 years. A major cost of multi-manager investing is excessive and regular manager switching; and this approach minimises costs associated with high manager turnover. We require underlying managers to account to Morningstar Investment Management for any fees, brokerage and commissions, income or the value of any other benefit (called 'soft dollar receipts') which it or its related party may receive in relation to the investment of the portfolio.

We undertake detailed monitoring of implementation costs including transaction costs such as brokerage, commission and custody settlement in conjunction with our annual Product Disclosure Statement (PDS) updates.

Equitable asset valuation and pricing

Asset valuation and unit pricing for the Morningstar Investment Management Managed Funds is outsourced to JPMorgan.

JPMorgan prices securities in accordance with their Global Fund Services Australia and New Zealand Pricing Policy which documents the baseline pricing practices and controls for fund accounting. All security pricing activities fall under the oversight of JPMorgan's global pricing committee. The instruments covered by their policy are exchange traded assets, fixed income securities and bonds, foreign exchange rates, market indices and OTC instruments.

JPMorgan generates the Net Asset Valuations of all portfolios held within our funds. These valuations are incorporated into the overarching fund valuation and unit priced accordingly against the units issued held by the unit registry. Once JPMorgan strikes unit prices for the Morningstar Investment Management funds, these prices are released to Morningstar Investment Management's Investment Operations team to review. Investment Operations performs a unit pricing tolerance check on a daily basis to ensure that the unit prices are reasonable and have moved in accordance to the contribution of the underlying investments. Once movements are confirmed correct, Morningstar Investment Management releases the unit prices to the market.

Best execution and trade allocation

To implement our investment strategies, we may design portfolios or appoint external managers to manage particular assets. For portfolios constructed internally, we use implementation managers to execute trades.

Capital allocation decisions are implemented across strategies and managers with a focus on achieving the best execution at all times. We strive to deliver the most consistent and efficient implementation of a portfolio. Transaction costs are a key detractor of performance, so a strong focus on portfolio implementation is key to minimising these costs.

Our external managers, including implementation managers, face brokers in the market. In accordance with the agreements we have with these managers, execution and allocation of trades must be done in good faith, on an arm's length basis and in accordance with the managers own Best Execution and Trading Policies.

Implementation and external managers' middle offices facilitate the support for trade execution. Managers leverage software providers such as Global Trading Support Services (GTSS), integrated with FX Connect, and proprietary trade management systems which provides seamless connectivity from trade execution to settlement, including direct

connectivity via Financial Information eXchange (FIX) from front office to middle office trade processing as well as via the SWIFT network to a full community of custodian banks for the purposes of settlement notification.

Client Reporting

To ensure transparency to investors Morningstar Investment Management produces a range of periodic (monthly, quarterly and annual) and ad-hoc reports and presentations consistent with regulatory and compliance requirements and client service level commitments. These form an essential pillar of Morningstar's client and investor engagement. Performance reports and presentations are developed in-house using proprietary and third-party software, leveraging our internal systems and databases. Morningstar Investment Management assigns 'owner' and 'reviewer' responsibilities for each report in accordance with our publication approval process. This ensures that client reports are comprehensively reviewed by the relevant stakeholders at the appropriate stage of production. Finally, reports are communicated to clients via email, website, third party platforms and/or our proprietary adviser portal (Information Library).
