

# Milford Asset Management: Engagement Activity and Outcomes

November 2022



**MILFORD**  
INVESTED IN YOU

[milfordasset.com](https://milfordasset.com)

---

The Milford investment team have always looked for the best companies. It is clear to us that the best companies are those committed to sustainable practices and are the businesses that, over time, will deliver better operational outcomes, more resilient business models and ultimately, stronger shareholder returns.

As active managers, we have a large team using a wide range of strategies to identify the best investments in changing market conditions. This includes a dedicated Sustainable Investment team researching best practice across Environmental, Social and Governance (ESG) factors in every sector we invest in.

As well as enabling us to identify areas of ESG related risks and opportunities across our holdings, this research underpins our communications with companies to drive them to improve their sustainability performance.

Every company needs to act to achieve the transition to a more sustainable future. Rather than just avoid harm, we believe it is our duty to use our seat at the table to help drive this transition. We can best play our part by using our influence as active managers to push the companies we invest in to improve the sustainability of their practices. By doing this, we are also increasing a company's potential to achieve long-term financial success.

**We engage with companies in three main ways:**

- 1) Proactive engagement: We provide regular feedback to company management teams and Board on issues both big and small.
- 2) Reactive engagement: We will respond to unexpected controversies such as major breaches of environmental or social requirements.
- 3) Active proxy voting: We will communicate our expectations through our proxy voting and share our concerns with the Board when required.

None of the engagement activities summarised in this document, or the outcomes achieved, would have been possible had Milford not owned shares in these businesses.



---

# Proactive Engagements



12 months ended October 2022

# Proactive Engagements

Regular and detailed proactive engagements with the companies we invest in is at the core of our sustainability strategy for a number of reasons:

1. We believe demonstrating the importance of sustainability in our investment decision-making is key to encouraging listed companies to improve their sustainability performance. If investors have a sustainable agenda, companies will prioritise sustainable outcomes.
2. We can use our knowledge and expertise to advise companies that lack capability or resource in ESG.
3. We can push for more action where we have identified the opportunity to make more impact.

We discuss sustainability at regular company meetings regarding that company's performance, targets and disclosures. In addition, we are progressing a number of focussed engagements in sectors that have the most potential to cause harm with companies where we have the most influence via larger holdings. These are detailed in our engagement schedule.

12 months ended October 2022



176

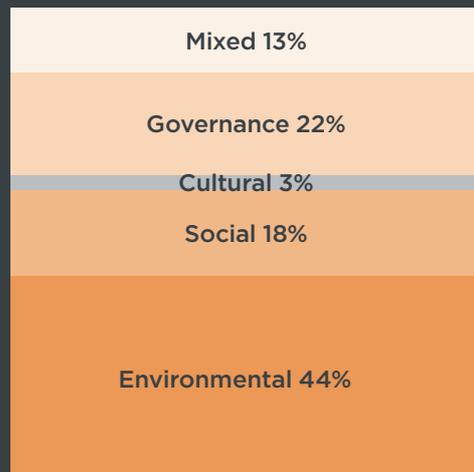
pro-active engagements



18

meetings led by the sustainability team

Engagement topic



## Proactive engagement

# Engagement schedule

This schedule outlines the key engagement opportunities we have identified through our research and our progress on these engagements.

We hope sharing this information will encourage other investors to raise these issues with the companies listed below.

It will require collective action to deliver real change and we want to help every investor and company to play their part.

Sector	Key issues	Subject companies	Status
<b>Gambling</b>	Wider role out of harm prevention tools. Investment in harm behaviour identification.	Aristocrat Leisure	Recommendations made
<b>Telecommunications</b>	Development of sustainability linked bonds programme. Expansion of digital equity programmes.	Spark New Zealand	Company action delivered
<b>Building products</b>	Responsible sand mining. Use of supplementary cementitious materials.	Fletcher Building	Recommendations made
<b>Real estate</b>	Measurement and reporting of building performance using local codes. Investing in existing buildings to reduce scope 3 emissions. Commitment to low carbon development.	Ryman Healthcare Stride Property Group	Recommendations made
		Home Consortium	Research complete
<b>Alcohol</b>	Development of low alcohol alternatives. Adherence with the recommendations of the International Alliance of Responsible Drinking. Participation in harm reduction programmes.	Delegat Group	Contact made
<b>Energy</b>	Capital expenditure committed to fossil fuel production vs renewable energy. Investment in new technologies including hydrogen and carbon capture and storage.	Santos Limited	Recommendations made and response received
		Karoon Energy	Research complete
<b>Circular economy and supply chain</b>	Recycling initiatives and targets Optimisation of fresh food distribution to minimise food waste. Progress on Modern Slavery assessment and supply chain mapping.	Metcash	Research complete
<b>Modern slavery</b>	Knowledge and visibility of supply chain constituents. Collaboration across industry to collectively identify and address risks. Connections with workers for education, welfare and whistleblowing.	Fisher & Paykel Healthcare	Research complete

---

## Proactive engagement example

# Santos, investment in carbon capture and storage

Santos is one of Australia's largest oil and gas companies. As a large emitter, sustainability leadership is a key part of their social licence to operate and it's critical to ensure that they have a clear decarbonisation strategy.

---

Our sustainability research underpins our conviction that carbon capture and storage (CCS) will play a significant role in the transition. Hard to abate industries will be reliant on technologies such as CCS until innovation provides feasible alternatives. In addition, demand for commodities such as oil and gas will continue while renewable energy and electrification is rolled out on a global scale. Minimising these emissions while this transition is underway is therefore a crucial element in limiting global warming.

CCS is the driving force of Santos' decarbonisation strategy, an area where it has expertise and a competitive advantage via storage locations with a potential capacity of up to 20 million tonnes of CO<sub>2</sub>. STO's CCS strategy has the ability to offset the majority of its own emissions and eventually help other hard to abate sectors to decarbonise.

Our engagement with Santos focused on its commitment to decarbonising, ensuring that CCS was core to its future operations and that it continues to improve its emission targets and disclosure. In particular, we asked Santos to set a scope 3 emissions target (which covers the emissions of their customers and suppliers), commit to mitigating the emissions from its Barossa gas project and provide transparent updates on the progress of its CCS projects.

STO has confirmed they do not intend to set a scope 3 target until the company has a clear and attainable pathway to meet it but will provide additional disclosure on its decarbonisation strategy and CCS projects in its 2022 Sustainability Report. We commend Santos' early commitment to CCS and we will continue to engage with them to support their decarbonisation efforts and drive further disclosure.

---

**Proactive engagement  
example**

# Stride Property Group, building decarbonisation

Buildings are responsible for 28% of global emissions and use 50% of materials globally. The magnitude of these emissions illustrates why it's so important for the property sector to decarbonise and why we are engaging with real estate companies across our portfolios.

---

Stride Property Group owns one of the largest diversified investment property portfolios in New Zealand and therefore plays an important role to decarbonising New Zealand's built environment.

Stride have already begun their sustainability journey, however we did identify key areas that were lagging local peers. Our engagement focussed on driving Stride to increase the pace of adoption of sustainability initiatives including the roll out of building meters required to measure emissions data across their entire portfolio. This will enable the reporting of scope 1, 2 and 3 emissions data in its entirety and provide a base for Stride to set emission reduction targets.

The second key focus of the engagement was to enable stakeholders to evaluate the sustainability performance of both existing buildings and developments, measured through NABERS and Green Star ratings. We encouraged Stride to adopt a minimum star rating across all assets, enabling the comparison of their assets against a benchmark.

The last recommendation we gave was to provide explicit timeframes for each objective, to demonstrate commitment to these goals. We advised that investors would respond positively to the disclosure of a 'green capex' program, as it would provide a roadmap supporting the achievement of environmental targets.

---

## Proactive engagement example

# Aristocrat Leisure, use of harm prevention tools

In Australia, problem gamblers constitute about 1.1% of the population<sup>1</sup>. All industry participants have an obligation to identify and help problem gamblers to minimise harm.

---

As a producer of Electronic Gaming Machines (EGMs) and operator of online gaming operations Pixel United, Aristocrat Leisure has a part to play in the minimisation of harm caused by gambling. We held a number of meetings with Aristocrat and sent them a letter urging them to grow the impact of their responsible gaming initiatives.

Our research tells us there is no one 'silver bullet' to solving problem gambling. Aristocrat agree with this view and are taking a 'layered' approach; building a number of protections across their technology over and above their regulatory obligations. These include Flexiplay technology that allows gamers to set time limits and ringfence winnings on EGMs, PRIME Mobile tools that enable limits, notification and self-exclusion on cashless payments, and pop-ups to promote responsible gaming education and self-exclusion options in Pixel United. However, the need to 'opt-in' to these

initiatives can limit their ability to reach those who need it most and player fatigue generally results in diminishing returns from each tool.

Much of the solution could be in the early identification of problem gambling behaviours. This is particularly important in Pixel United given the accessibility of online gaming platforms. The effectiveness of proactive monitoring is yet to be proven but we believe Aristocrat could play an important role in the development and advancement of this technology.

Our key recommendations to Aristocrat are expanding player protections in EGMs across further products and jurisdictions and accelerating its activities in proactive monitoring technology to continue to work towards problem gambling prevention.

<sup>1</sup> Australian Institute of Family Studies using 2015 data  
<https://aifs.gov.au/agrc/publications/gambling-activity-australia>

---

## Proactive engagement example

# Fletcher Building, carbon reduction in the cement value chain

Cement, one of the main components of concrete, is responsible for approximately 7% of global emissions due to the high temperatures needed and the release of carbon from limestone, one of its main materials, during processing.

---

As one of the largest cement manufacturers in New Zealand, Fletcher Building has an important role to play in reducing New Zealand's emissions. Fortunately, the company is fast becoming a market leader in sustainability. Developing lower carbon building materials is central to its strategy, enabling it to fulfil its climate goals and maintain a market leading position as customers shift to more sustainable solutions.

The company has already substituted 50% of the coal it uses in the heating process of its cement with biomass and recycled tyres. It has also investigated the use of pozzolan-based supplementary cementitious materials to reduce carbon emissions during processing. Unfortunately, these trials were not successful and it will now look to slag based solutions, similar to offshore peers such as Boral and Holcim.

While we commend Fletcher Building's efforts in this space, we think the company could set more ambitious and visible targets to reinforce their commitment to decarbonising this important value chain. We have recommended the company disclose their capital investment into supplementary cementitious materials, set clear medium and long-term carbon reduction targets across the concrete value chain and increase their target for the replacement of coal in the heating process from 70% to 100%.

We are yet to receive a response from Fletcher Building but hope to see these initiatives in place in its 2023 annual report.

---

## Proactive engagement example

# Ryman Healthcare, green building commitment

We first engaged with the Chair of Ryman Healthcare in late 2021 to discuss the gaps in their sustainability commitments. The company was already a member of the Green Building Council and had a stated objective to maximise, as far as practicable, the use of 11 sustainable design principles in its architectural design processes. But it had not set decarbonisation goals or announced an ambition to meet well recognised green building standards in the development of its retirement villages and care homes.

---

Since this time, Ryman Healthcare has been through a lot of change with a new CEO and a new Chair. We had the opportunity to meet both the CEO and Chair earlier this year, when we again communicated the need to embed clear standards for the new village developments, as well as commit to broader emission reduction targets.

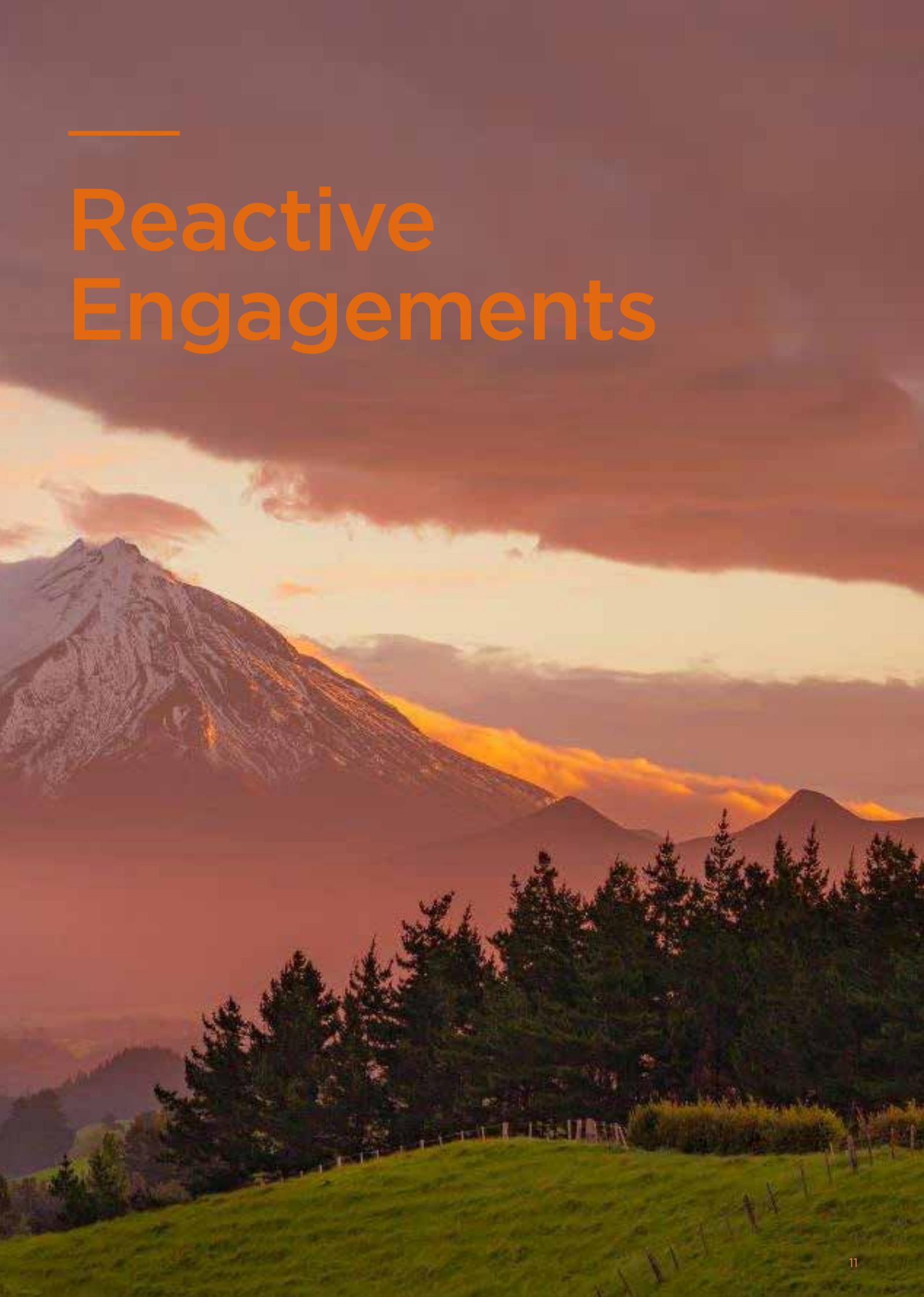
The Ryman Healthcare management team are aligned with our thinking that good sustainability is simply good business. The company outlined its new sustainability strategy at its October investor

day which sets three priorities of establishing science-based emission targets, delivering future-focussed dementia design and enhancing indigenous engagement.

We are thrilled to see one of New Zealand's largest listed companies take a more formal approach to their sustainability commitments. We will continue to promote the need for further sustainability progress, including the commitment to green building standards, as the company progresses its sustainability strategy.

---

# Reactive Engagements



---

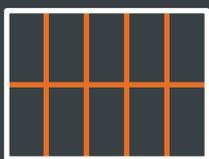
# Reactive Engagements

---

At Milford, we look for the best investments across the short, medium and long-term. This bias to high quality companies means we expect few opportunities for reactive engagements. However, we are committed to responding to unexpected controversies or breaches of our ESG expectations.

We use an internally developed controversy matrix to assess the severity of issues and determine the best course of action. We prefer to engage with a company to actively progress the resolution and remediation of issues, but in cases of severe breaches that indicate systematic or endemic issues within a company, or where a company will not engage with us to improve their practices, we will restrict investment in that company.

## Reactive Engagements 12 months ended October 2022



10

issues assessed  
via the controversy  
matrix since Feb 22



1

company added  
to the exclusion  
list in response to  
a breach



3

direct engagements  
undertaken in  
response to  
controversies

---

## Reactive engagement example

# DGL Group, governance and appropriate behaviour concerns

Early this year, the National Business Review reported an interview with the CEO of DGL Group, Simon Henry. In the article, a number of offensive comments with sexist and racist connotations made by Mr Henry were quoted.

---

We invested in DGL Group, an Australasian chemical company, when it listed in 2021. While we were aware some governance measures were still being put in place, it was a successful growth company that offered an attractive valuation and outlook.

The comments quoted in the article were not consistent with our view of appropriate behaviour, particularly from a company CEO, Director and major shareholder. While other New Zealand investment managers chose to add the company to their exclusion list, we determined that the most appropriate course of action was to engage with the company. We met with the CEO and Chair to communicate our view that these comments cause harm; highlight the risk of poor culture and judgement in company decisions; and detail our expectation of the remediation measures and governance improvements required.

While we were pleased the company posted a written apology to the ASX and NZX and undertook an independent culture review, we were concerned the company didn't have a genuine commitment to good ESG principles, particularly given some important governance structures had not been put in place. Following strong share price performance, the risk reward of the investment was also much lower than at the time of the initial investment. As such, we sold the remainder of our position.

We note that the DGL share price has significantly underperformed local share markets since the time of this engagement due to shareholder uncertainty regarding both the outlook and capital management decisions. We think this is a good example of why strong governance settings are critical to the delivery of long-term risk adjusted returns.

---

# Active Proxy Voting



---

# Active Proxy Voting

---

At Milford, we believe good governance is the foundation of a good company. Effective Boards and appropriate remuneration structures help to deliver long-term company performance and build long-term shareholder value as well as demonstrate integrity and risk awareness.

In addition, the ability to vote for directors and resolutions that support more sustainable practices are one of the main tools investors have at their disposal to drive action.

To this end, we are committed to voting all of our proxies on behalf of our investors. We use ISS, an independent proxy advice provider, to inform our voting and have developed internal guidelines that underpin our governance expectations.

Where appropriate, we will engage with Board members to communicate our governance expectations.

## Active Proxy Voting 12 months ended October 2022



To see Milford's most recent proxy voting statistics, please [click here](#) <sup>2</sup>.

<sup>2</sup> <https://vds.issgovernance.com/vds/#/ODkyNA==/?>

---

**Proxy voting  
example**

# Symbio Holdings, CEO remuneration

Symbio is an Australian company that provides cloud communication infrastructure. It is a small listed company, but with big potential in an industry with a long growth runway.

---

The Symbio Board asked shareholders to vote for a one-off retention payment for its CEO of AU\$180,000 at the 2022 annual general meeting. This is in addition to the long-term incentive (LTI) programme designed to reward long-term outperformance and ensure retention of senior staff.

It was unclear to shareholders why an additional retention payment was needed. Further investigation into the CEO remuneration highlighted that, because of overall share market performance and investment in expansion, LTI targets for absolute share price performance and earnings growth of 10% were not met and CEO pay had materially dropped. This is despite the delivery of solid performance across the business.

This example highlights the importance of a well-designed remuneration package that strikes a balance between incentivising performance and allowing enough flexibility to manage a business towards achieving longer-term goals more than 12 months ahead.

We recommended Symbio re-design its remuneration package to a relative share price performance metric measured against comparable listed companies, and a rolling three-year growth measure that will allow for longer-term performance delivery. This will prevent the need for ad hoc performance payments to executives that are not in line with governance best practice.

---

**Proxy voting  
example**

# Smartpay, Chair independence and Board progression

Our external proxy advice research from ISS highlighted questions regarding the independence of the Chair of Smartpay Holdings Limited, an Australasian EFTPOS provider. ISS had identified an association between the Chair and Smartpay's solicitor, Claymore Partners Limited.

---

An independent Chair is an important governance pillar to ensure independent oversight and objectivity as well as bringing relevant skills and experience.

We contacted the Chair of Smartpay to highlight the potential conflict of interest, confirm the nature of the relationship prior to voting for his re-election, and recommend additional disclosure that would demonstrate his independence to other shareholders.

We also think Smartpay has the potential to grow to be a large, Australian listed company. Its Board lacks clear diversity and is small compared to companies in the ASX200 index. We recommended the Chair develop a transition plan to ensure the Board has the right skills, experience, diversity and tenure to continue to progress the long-term performance of the company. This plan is apparently already underway, and we look forward to seeing Smartpay's governance settings develop as it matures as a listed company.

---

# Policy Engagements



---

# Policy Engagements

---

The transition to a sustainable economy will take the combined effort of every stakeholder; consumers, businesses, investors, governments and regulators alike.

However, government and regulatory policy has the potential to drive the fastest and most significant change. This is particularly important as the physical impacts of climate change grow in a world that is already 1.2 degrees above pre-industrial temperatures.

As one of New Zealand's largest active investment managers with significant sustainability insight, we need to support and promote public policy that will drive all stakeholders to progress the transition to a more sustainable economy.

# Stewardship Code for New Zealand

The New Zealand Stewardship Code is an industry-led framework developed to define and promote sustainable investment management practices. It follows in the footsteps of Stewardship Codes established in international markets to encourage responsible and transparent investment decision making on behalf of clients. Milford played an active role during the consultation process, collaborating with industry peers and the Responsible Investment Association of Australasia (RIAA) to finalise a Code that represents best practice for New Zealand investors.

---

The New Zealand Stewardship Code reflects the belief that engaging with companies is a more effective method for driving sustainable change than divestment – a belief that has always been core to Milford’s Sustainable Investment strategy.

Milford has become a Founding Signatory to the New Zealand Stewardship Code, which signifies our commitment to the code’s nine principles to achieve its three interconnected goals of effective stewardship:

- to create and preserve long-term value for current and future generations

- to ensure the efficient management of capital whilst considering the best interests of clients and beneficiaries, and
- to contribute towards achieving sustainable outcomes for our environment, society, and economy

We will continue to report the details of our stewardship activities through this Engagement Activities and Outcomes document and provide information on our policies and processes in our Sustainability Statement available on our website.

# Mandatory Climate-Related Disclosures

The New Zealand Government has passed legislation requiring most New Zealand listed and financial companies to disclose specific climate-related information from 2024.

---

We are wholly supportive of this legislation. The reporting of climate information by listed companies can be lacking or inconsistent, preventing investors from assessing a company's sustainability performance. We frequently engage to promote better reporting across listed companies and believe good disclosure will encourage better sustainability practices.

The External Reporting Board (XRB), responsible for developing the New Zealand climate reporting standards, have taken a very collaborative approach and sought to understand the industries

captured by the standards. We have proactively engaged with the XRB to share information about our business and encourage the development of clear standards that will require investment managers to report simple and meaningful disclosures that all investors can use to compare each manager's climate strategy.

The final standards will be published in December 2022. We are working hard to develop our climate disclosures and look forward to reporting our first dedicated climate information in 2024.

# Modern slavery submission

In June 2022, the New Zealand Government sought consultation on their proposed legislative response to modern slavery within New Zealand businesses and supply chains. Milford's submission was formed around our existing knowledge of international best practice, which we built to ensure we could undertake meaningful engagements with companies exposed to modern slavery risk.

---

Milford believes in a transparent, collaborative approach to addressing modern slavery, and support the intention behind the New Zealand Government's proposed legislation. We believe the undertaking of due diligence, transparent

disclosure and obligatory action in response to modern slavery is reflective of best practice and will benefit both New Zealand businesses and those in their supply chains.

---

Updated November 2022



**MILFORD**  
INVESTED IN YOU

[milfordasset.com](https://milfordasset.com)