Milford 2023

Engagement Activities & Outcomes Report

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Engagement Activities & Outcomes Report 2023

Report Overview

Engagement is how Milford plays its part in driving the transition to a more sustainable future.

We use our sustainability research to enable educated conversations with the companies we invest in and push them to deliver better sustainability targets, action and reporting.

This Engagement Activities and Outcomes report outlines the engagement activities underway and provides detailed examples of the company communications we have undertaken in the last six months.

Alongside our proxy voting activities, engagement is how we action our commitment to be good stewards of capital. In this report we also describe how engagement fits into our sustainability strategy and detail our Stewardship Principles; the beliefs that underpin all our stewardship activities.

We hope sharing this information will encourage other investors to raise these issues with the subject companies to grow collective action and deliver real change.

Proxy Voting

Engagement

Stewardship

Our Philosophy

The Milford investment team has always looked for the best companies. It is clear to us the best companies are those committed to sustainable practices.

Over time, we believe these businesses will deliver better environmental and social outcomes, more resilient business models and ultimately, higher shareholder returns.

At Milford, everything we do is embedded in our active management approach and our approach to sustainability is no different. 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 across the 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 communication with companies to drive them to improve their sustainability performance.

Every company needs to act to achieve the transition to a more sustainable future. We are acutely aware of our capacity as shareholders to drive positive change and, rather than just avoid harm, we believe it is our duty to use our seat at the table to help the transition.

We embrace this opportunity by working with company management, boards and policy makers to push for change. This is how we can best play our part in the transition to a more sustainable future.

Our Sustainability Approach

Research and analysis underpins our approach to sustainable investing at Milford.

The Sustainable Investment team is part of the broader Investment team responsible for managing the Milford Funds. This enables us to integrate our sustainability research into our company analysis and investment decision making process.

All the companies we invest in are evaluated using our ESG Checklist. The Checklist is an internally developed assessment tool used to evaluate each company's environmental, social and governance performance,
highlight sustainability risks and opportunities and identify the areas where each company can improve its sustainability performance.

While the ESG Checklist is the core of our sustainability process, engagement is our primary tool for action. It is how we push for change and how we make a difference. We believe this is simply good stewardship, and we engage in a variety of complementary ways to maximise our impact on the companies we invest in.

The Exclusions Gate

Adherence to our ESG Exclusion List.

Sustainability Analysis

In depth analysis of every company we invest in.

Good Stewardship

Engagement and proxy voting to drive change.

How We Engage

We define engagement as ‘using our influence to encourage the companies we invest in to become more sustainable’.

We believe this is our greatest opportunity to make a positive impact due to:

Our understanding of sustainability issues and the transition to more sustainable business models, enabling educated and impactful engagements.

Our size and active management approach, which provides influence and access to company management and Boards.

Our resource and capability to undertake long and difficult engagements with a wide range of companies.

Core Principles

These principles guide our stewardship activities at Milford. We strive to achieve outcomes from our engagement and proxy voting activities that align with these principles as the most effective way to achieve the transition to a more sustainable future.

We believe in driving change, not simply avoiding harm.

We acknowledge that ‘transition’ means change over time, not change overnight. We target ongoing improvements from our engagements, and believe these activities support risk adjusted returns.

We accept that the sustainable transition will require compromise. We invest in crucial transition activities and expect companies to minimise any negative impacts to ensure sustainable, long-term business models.

Stewardship Principles

Environment

Global warming is an existential threat and must be addressed. Further, the warming impact of atmospheric GHG emissions is compounding, meaning time is of the essence.

We expect companies to set decarbonisation targets aligned with the most current and credible guidance offered by climate science, which is at present Net Zero operations by 2050.

Protecting ecosystems and biodiversity is key to the sustainable transition. We expect companies to prioritise pollution, water and waste management alongside emission reductions.

Social

We believe in a ‘just transition’ that promotes sustainable development in a fair and equitable way for all members of the global population.

We expect companies to maintain their social licence to operate by actively addressing the scope of their social impact on their customers, employees, local communities, and society as a whole.

We expect companies to identify modern slavery risk in their supply chains and to take action to address this risk.

Governance

We believe effective boards are crucial to deliver long-term company performance. This is best delivered by prioritising a Board’s skill set, capability, capacity and diversity.

Appropriate remuneration structures should be aligned with shareholders, incentivise management to excel and build long-term shareholder value.

We promote transparent disclosure as this attracts shareholder capital, provides confidence to all stakeholders, and demonstrates integrity and a positive culture.

Overview

We undertake a wide range of engagement activities to maximise our influence in working towards our Stewardship Principles.

1 Proactive engagements

We undertake strategic engagements to affect change with the companies we invest in that have the most ability to cause harm and where we have the most influence.

We undertake informal engagements by asking sustainability focused questions and promoting improvement in our regular dialogue with company management teams and boards. This should help drive change by demonstrating that active investors value and prioritise sustainable practices.

2 Reactive engagements

We respond to unexpected controversies such as significant breaches of environmental or social requirements in accordance with our Controversy Matrix.

3 Active proxy voting

We use the power of voting to communicate our expectations and agitate for change. We engage with Boards to share our concerns when required.

4 Collaborative engagements

Collaboration between investors can increase influence and ability to achieve outcomes. We collaborate wherever there is the opportunity, including as a member of Climate Action 100+.

5 Policy engagements

We engage with policy makers where possible, such as collaborating with industry bodies and responding to regulatory proposals.

Strategic Engagement Process

Our strategic engagements have the most potential to deliver direct, measurable change.

The target companies are selected based on their ability to cause environmental and social harm, plus our expected level of influence due to the size of our holding or our position in the local market.

We determine the specific engagement outcomes we seek for each company using our ESG Checklist and sustainability best practice research. These outcomes aim to progress the transition to a more sustainable future in line with our Stewardship Principles, reduce sustainability risk and improve the outlook for long-term shareholder returns.

We take a constructive and collaborative approach to our engagements, starting the process with the most appropriate company personnel to share our research and targeted outcomes, and learn more detail about the company's approach before making our recommendations.

While we acknowledge that change can take time, we do expect progress from our target companies, and will advance engagements via our escalation framework if required.

Visit our website to learn more about the key engagement opportunities we are currently progressing to achieve outcomes aligned with our Stewardship Principles.

www.milfordasset.com/about-us/sustainable-investing

Strategic Engagement Schedule

This schedule outlines the key engagement opportunities we are progressing to achieve outcomes aligned with our Stewardship Principles. Through these engagements, we hope to further progress the transition to a more sustainable future via better targets, actions and disclosures from the companies we invest in.

Date	Company	Enagement Issue	Key issues	Status and outcomes	Next steps
March 2022	**Aristocrat Leisure**	Social Harm (gaming)	Wider roll-out of harm prevention tools. Investment in harm behaviour identification.	Confirmation of early intervention test project, improved disclosure on harm prevention tools.	Re-engage following information provided at the annual result.
June 2022	**Fletcher Building**	Decarbonisation (building products)	Responsible sand mining. Higher target for supplementary cementitious materials and explicit cement GHG reduction target.	Confirmation of responsible sand mining practices. Recommendations for target made but no changes yet indicated.	Re-engage following information provided at the annual result.
September 2022	**Ryman Healthcare**	Decarbonisation (real estate)	Measurement and reporting of building performance using local codes. Set emissions reduction targets.	New sustainability strategy set with GHG reduction targets a top 3 priority.	Re-engage on progress following the information provided at the annual result.
October 2022	**Santos Limited**	Fossil fuels	Set scope 3 emissions reduction target linked to carbon capture and storage. Improved disclosure on carbon capture and storage projects.	Recommendations made.	Re-engaging following new Australian Safeguard Mechanism legislation.

Engagement Schedual

Date	Company	Enagement Issue	Key issues	Status and outcomes	Next steps
December 2022	**Fisher & Paykel Healthcare**	Modern slavery	Supply chain mapping. Industry collaboration to collectively identify and address risks. Establish connections with workers for education, welfare and whistleblowing.	Engagement complete.	FPH has made significant progress in strengthening their human rights risk assessment and due diligence processes. We believe their strategy is backed by best practice, and are pleased with the progress they have made to date.
January 2023	**Delegat Group**	Social harm (alcohol)	Development of low alcohol alternatives. Participation in harm reduction programmes.	Recommendations made.	Re-engage following the release of the inaugural Sustainability Strategy.
March 2023	**Karoon Energy**	Fossil fuels	Strengthen emissions reduction targets and methane minimisation commitment.	Engagement in progress.	Re-engage following the release of the Sustainability Report and select disclosure improvements.
March 2023	**New Hope**	Fossil fuels	Establish emissions reduction targets and improve disclosures.	Engagement in progress.	Re-engage following the release of the Sustainability Report and select disclosure improvements.
April 2023	**Viva Energy Group**	Fossil fuels	Improved disclosures and inclusion of sustainability in remuneration.	Engagement in progress.	Recommendations in progress following two engagement meetings.
May 2023	**Whitehaven Coal**	Fossil fuels	Establish emissions reduction targets and improve disclosures.	Engagement in progress.	Re-engage following the release of the Sustainability Report and select disclosure improvements.

Engagement Example

Karoon Energy: Sustainability Disclosures

Engagement issues: **Fossil Fuels**
Type of engagement: **Proactive - strategic**

Karoon Energy is an international oil exploration and production company operating in Brazil. We are engaging with Karoon to help drive best in class disclosure and push for an emission reduction plan that reduces Karoon's absolute GHG emissions while the global economy transitions to a more climate resilient future.

The key focus of our continued engagement with Karoon was to drive improvement in their sustainability disclosure, including the disclosure of an internal carbon price, and to incorporate the consideration of that carbon price into their acquisition strategy. We believe this is an important step as it allows investors to properly assess the environmental impact of the company's footprint as well as understand how the company accounts for its environmental impact in its investment decisions.

The sustainability disclosures did improve in the 2023 Sustainability Report, now incorporating the Global Reporting Initiative Standards which we see as a well-regarded global reporting standard that better enables stakeholders to find and use the information provided. Another positive aspect of Karoon's reporting were the clear illustrations of absolute carbon emissions and carbon intensity over time allowing shareholders to understand the emissions profile of the business.

Karoon also disclosed its internal carbon price and stated that this carbon price is incorporated into all decisions regarding the development of new oil projects, as well as other climate related issues. We see this as a positive step in the right direction for Karoon to further integrate sustainability throughout the business. We will continue our engagement with Karoon to encourage more effective decarbonisation targets as a next step.

Shell: Emissions Reduction Targets

Engagement issues: **Fossil Fuels**
Type of engagement: **Proactive - informal**

Shell plc is a large, high profile global emitter. It has recently extended its expected timeline for reducing oil production, to the disappointment of climate groups. We had the opportunity to meet with the management team and press for more ambitious decarbonisation targets.

Shell Plc and the products it controls and sells accounted for approximately 4% of global GHG emissions in 2022[1]. The sheer scale of its energy business means its climate policies need to be in the spotlight and, being headquartered in Europe, where climate policy is the most advanced, ensures they stay there. We consider Shell to have some of the most advanced climate policies of the global energy companies in our investment universe. It has set ambitious carbon reduction targets covering the full value chain of its emissions and committed to investing US$30-35bn (50% of all capital expenditure) on the energy transition by 2025.

However, climate groups point out that Shell has not committed to reducing the absolute volume of fossil fuels it produces by 2030 and in fact continues to expand its fossil fuel production. This is despite leading global climate agencies agreeing that we need to reduce our fossil fuel usage over this time period to limit the physical impacts of climate change.

Ultimately, Shell's climate commitments are focussed on pivoting its business to low emission activities in line with societal changes, rather than trying to force change in its customers' energy usage. This chicken and egg problem has two sides of the coin. On one hand, everyone has an equal responsibility to pivot away from fossil fuels and Shell's strategy to deliver this change is more likely to ensure a 'just transition' without risking energy security or accessibility to those who need it most. On the other hand, Shell continuing to profit from fossil fuel supply can be considered unethical given the damage it is causing to the environment and future generations.

As investors in Shell, Milford has a responsibility to ensure Shell is transitioning its business to low carbon activities as quickly as possible while maintaining critical energy supply to its customers. We like Shell's strategy of finding energy solutions for its clients rather than simply cutting off supply, but we think it can do more.

We have met with members of the Shell executive twice in the last six months, one of which included the global CEO and CFO. This gave us the opportunity to share a number of important messages with the executive team. Firstly, Australasian investors might be more sanguine on fossil fuel production than European investors today, but this is rapidly changing and Australasian investors, including ourselves, are committed to playing our part in driving the transition.

Secondly, we shared our belief that Shell should set an emission reduction target that includes a reduction in fossil fuel production before 2030, in line with the pathway required to hit Net Zero emissions by 2050. This target should drive Shell to push harder and faster to develop new products and transition the global energy supply to a lower carbon economy. Finally, we outlined our focus on capital committed, the details of which remain high level in Shell's disclosures. Only with this detail of how Shell is spending its capital on the transition can investors really judge its climate action.

We acknowledge we are small investors in Shell with limited influence. However, climate action will only be achieved by a collective approach and we are committed to playing our part in that, even with global energy giants. We will watch Shell's Energy Transition Strategy Day closely for updates on its emission reduction targets and capital commitments and will press these points again next time we have the opportunity to meet with the company.

[1]The statistic was calculated using Shell Plc's disclosed scope 1,2 and 3 emissions and an estimate of global GHG emissions provided by the Emissions Database for Global Atmospheric Research: https://edgar.jrc.ec.europa.eu/tions for its clients rather than simply cutting off supply, but we think it can do more.

Engagement Example

Whitehaven Coal: Scope 3 Emissions

Engagement issues: **Fossil Fuels**
Type of engagement: **Proactive - strategic**

Whitehaven Coal is an Australian based coal producer with a product mix of both thermal and metallurgical coal. We are engaging with Whitehaven to help drive best in class disclosure and push for an emission reduction plan that minimises absolute GHG emissions while the global economy transitions to a more climate resilient future.

As a fossil fuel producer and high emitter, it is important that Whitehaven Coal addresses the structural challenges confronting the coal industry and ensure it has a plan in place to reduce the emissions of its coal production before it eventually winds down in line with the sustainable transition. Due to the difficult nature of the coal industry to decarbonise, and considering how reliant the world still is on coal today, our engagement approach is to drive continuous incremental improvements in order to achieve the best sustainability outcomes.

With Whitehaven Coal releasing their 2023 Sustainability Report in September, a key outcome we wanted from the engagement was to drive sustainability disclosure improvements. We wanted Whitehaven to clearly disclose the scope and timing of various initiatives they were looking at to reduce their emissions. This was a positive aspect of the latest report where they outlined a decarbonisation roadmap that indicated what the various initiatives were, their timing and magnitude, and the scope of emissions that the initiative was addressing. We clearly outlined that we would like to see scope 3 emissions reported going forward as it helps investors understand the entirety of Whitehaven's carbon footprint. With work set to begin on reporting scope 3 this year, we will continue to press for this to be included in future reporting.

Secondly, we showed our support for Whitehaven to set decarbonisation targets. This was another positive outcome in the latest report as they set a target to achieve a scope 1 emission intensity reduction in line with the safeguard mechanism by FY230. Although a good start, we will continue to work with Whitehaven to help drive them to push for more ambitious decarbonisation targets as the main driver of emissions reductions.

It is important to note that Whitehaven are currently working through a potentially transformational acquisition that would materially shift the company's production towards metallurgical coal, a key input for steel making. This will be a key focus in our future engagements to ensure good stewardship of these assets.

New Hope Corporation: Carbon Reduction Pathway

Engagement issues: **Fossil Fuels**
Type of engagement: **Proactive - strategic**

New Hope Corporation is a thermal coal producer located in Australia with two operating mines in Queensland and New South Wales. We are engaging with New Hope to help drive best in class disclosure and push for an emission reduction plan that minimises absolute emissions while the global economy transitions to a more climate resilient future. As a fossil fuel producer and high emitter, it is important that New Hope Corporation addresses the structural challenges confronting the coal industry and ensure that they have a plan in place to reduce the emissions of their coal production and eventually wind down production in line with the sustainable transition. Due to the difficult nature of the coal industry to decarbonise and considering how reliant the world still is on coal today, our engagement approach is to drive continuous incremental change in order to achieve the best sustainable outcomes.

A key outcome we wanted for this engagement was for New Hope to improve disclosure and clearly outline the initiatives that are going to drive absolute emission reductions. The Sustainability Report released in September was a key milestone to measure improvement.

New Hope already disclosed group scope 1 and 2 emissions and the trend over recent years, as well as their scope 1 & 2 emissions and emission intensity for the individual mines. Management indicated New Hope is working towards reporting scope 3 emissions, and this will continue to be a focus of our engagement to ensure stakeholders have complete information to understand the entire carbon footprint of the business.

Secondly, New Hope made progress in outlining where incremental initiatives will be implemented to improve fuel efficiency and reduce absolute emissions. This disclosure improves the integrity of New Hope's decarbonisation efforts by demonstrating a genuine commitment to reduce emissions, however small. New Hope is still in the early stages of their decarbonisation journey and further progress needs to be made on outlining a carbon reduction pathway and details on how they will achieve it.

We will continue to engage with New Hope to drive improvement in their sustainability performance and our focus is persuading the company to set a group-level scope 1 & 2 GHG emission reduction target to reduce the carbon emissions from its coal production. Secondly, we would like to see New Hope report group scope 3 emissions so investors can understand the entirety of the company's emissions footprint and the company can start to understand the emission reduction pathway required across its value chain.

Fisher & Paykel Healthcare: Advancement of Modern Slavery Strategy

Fisher & Paykel HEALTHCARE

Engagement issues: **Modern slavery**
Type of engagement: **Proactive - strategic**

Fisher and Paykel Healthcare (FPH) is a New Zealand-based medical devices manufacturer specialising in respiratory ventilation, sleep apnoea and surgical devices. It has a high modern slavery risk in its supply chain and we have engaged with the company to discuss its strategy and action in addressing this modern slavery risk.

Modern slavery refers to a range of exploitative practices through which people are forced or coerced into labour for little or no pay. No country is immune to modern slavery, however there are regions that carry significantly more risk than others including those with high poverty rates, weak rule of law or prevalent discrimination or marginalisation of particular groups. Companies that source manufacturing in high-risk geographic areas carry a far higher burden to identify and address their risk to ensure workers' human rights are maintained.

At the time of our last engagement with FPH, they were beginning to implement their advanced procurement strategy, and had categorised their suppliers in order of risk to determine where their primary efforts should be focussed. During that engagement, we noted several areas we would like to see FPH improve including the scope of its supplier auditing, supply chain mapping, and implementing a direct feedback mechanism between the company and their supply chain workers.

In October, we met with FPH to discuss the progress they have made in their modern slavery risk mitigation strategy over the course of the year. We were very pleased with the tangible change FPH has managed to achieve in a single year, and believe their strategy is underpinned by industry best practice.

The company has made significant improvements to its supplier auditing process, has implemented a direct feedback mechanism, and is enabling their own suppliers to strengthen their processes to address risk further up the supply chain. FPH identified that their goal was to ensure their modern slavery risk mitigation processes continued to be ingrained further into their "business as usual" operations. FPH have clear targets and development plans in place to address risk with their suppliers on an individual basis.

It is pleasing to see the progress that FPH have achieved, and are confident the company will continue to progress its modern slavery risk management approach into the future.

Modern Slavery legislation: Milford Submission

Engagement issues: **Modern slavery**
Type of engagement: **Policy**

Milford provided a submission to the Government consultation on its Modern Slavery Risk Management consultation to promote due diligence and international alignment.

The New Zealand Government has announced its intention to move forward with the implementation of its proposed Modern Slavery Risk Management legislation. The decision will require companies with over $20 million in revenue to report the risk of modern slavery within their supply chain, and describe the action they take to address that risk. The legislation follows both Australia and the UK in establishing a public register to which reporting companies must submit an annual report.

Milford participated in the Government consultation conducted last year, and were broadly aligned with the Government's proposed mechanism. Milford's view that due diligence and international alignment are essential to an effective system were reflected in the consultation findings. Our submission noted that taking action in response to an incidence of modern slavery is the key outcome of the legislation, and noted an engagement-first approach for New Zealand companies should be prioritised over immediate termination of the supplier relationship.

Milford submitted that the central register could best serve its purpose as a hub for both consumers and entities, to enhance transparency and incentivise compliance. The hub could connect users to educational or whistleblowing services, amplifying the impact of the reporting register

The full legislation has yet to be released but is expected to be finalised this summer.

Pennon Water: Storm overflow & leakage investigations

Engagement issues: **Biodiversity**
Type of engagement: **Reactive**

Pennon Group is a water utility company operating in the United Kingdom. It is the subject of regulator investigations for leakage reporting and storm overflow. We engaged with the company to understand its response and demonstrate the importance of its remediation to our investment.

They provide water treatment, water supply and wastewater services in England's South West. As public utilities provide essential services to their customers, they are held to high operational performance standards and scrutiny by economic and environmental regulators and government.

Operational performance for a water utility describes the water use per capita, the water loss incurred due to system leaks, pollution incidents, and a range of other measures. Water that is treated but does not make it to an end use due to leaks, theft or mis-measurement is known as "non-revenue water." Regulators aim to limit the amount of non-revenue water as much as possible to reduce waste and improve system efficiency. Worldwide, an average of 30% of all treated water is leaked, lost or stolen. In the UK, non-revenue water is around 20% according to Ofwat, the regulator.

Pennon is currently facing two regulator investigations: one for operational performance reporting (related to leakage) and another for storm overflow (level of spillage and measurement issues). The former is company specific while the latter is directed at the broader UK sewerage industry. We contacted the company on the news and met with the CEO and CFO of Pennon to discuss the investigations. Management were candid about the investigations, and indicated whilst the performance data was simply covid-related anomalies, as their serviceable population grew significantly during Covid as people resided in normally seasonal holiday homes. Storm overflow issues were partly a result of technical failures within their overflow monitoring system. The company identified that upgrading this monitoring system was a key priority to achieve more accurate performance measurement, identifying and reducing leaks and spills and increasing the efficiency of maintenance.

Pennon has set very clear and measurable targets to improve the performance of its system, including a 4-star target in the UK Government's 2024 Environmental Performance Assessment, improving sewerage infrastructure to reduce sewerage overflow by 50% by 2025, and increasing the affordability of its services.

We are happy with the company EPA target of 4 stars by 2024, as this assessment is independent of the company and assesses the most material risks of a water utility. We believe the target is realistic in a 12 month timeframe. If this target is not achieved, we will re-engage with Pennon.

Engagement Example

Freeport-McMoran: Removal from the ESG Exclusion List

Engagement issues: **Social and environmental harm**
Type of engagement: **Reactive**

Freeport-McMoRan is a global copper producer with a chequered history. The company has a 49% interest in the Grasberg mine in Indonesia, which is adjacent to a UNESCO World Heritage Site and subject to historic controversies including violence, civilian fatalities, and riverine tailings disposals that contaminate rivers and wastelands and eliminated fish populations.

Freeport-McMoRan (Freeport) has been on the Milford ESG Exclusion list since inception for not meeting the minimum environmental and social standards we accept. The recent news that Freeport has received Copper Mark certification led us to revisit this exclusion. The Copper Mark is the leading assurance framework to promote responsible practices across the copper, molybdenum, nickel and zinc value chains. Freeport's Grasberg site achieved Copper Mark in February this year, putting it in the top 25% of copper facilities worldwide.

We contacted Freeport to discuss this change in performance. We communicated to company management that we will only invest if the company can demonstrate it is able to deliver the best outcomes for the environment and the local community from operating this large, high-risk facility. In our view this includes not only environmental standards and upholding human rights but also providing meaningful employment, local funding and contributing to the economic growth of the area.

The company has invested in human rights programmes to educate and train local conflict forces as well as promote local community engagement. The environmental protections put in place at the site are extensive and the record excellent since this focussed approach. Importantly, the Copper Mark certification not only measures systems and processes across 32 environmental and social requirements; it involves site visits and stakeholder interviews, helping verify company claims of improvement. Finally, continuous improvement is required from the operator, helping prevent deterioration or a 'set and forget' mentality from operators.

We have removed the company from the ESG Exclusion list but will continue to monitor its ESG performance before making an investment.

Gentrack: Executive remuneration structure

Engagement issues: **Remuneration**
Type of engagement: **Proxy voting**

The Gentrack remuneration structure is challenging given it is a complex international business in a high growth phase. We engaged with the company to promote alignment with shareholders and voted in favour of the new scheme proposed at the 2023 Annual General Meeting.

As discussed in our last Engagement Activities and Outcomes report, we voted in favour of a change to the CEO remuneration structure proposed at the 2022 Annual General Meeting. The proposal changed the performance hurdle for the achievement of performance rights to a share price appreciation measure rather than an earnings per share hurdle rate and we believed this was the lesser of two evils in a remuneration package that wasn't effectively structured to align with shareholders We engaged with the Board on the restructure of the remuneration package to ensure a new structure was put in place for future years that set appropriate hurdle rates for the achievement of performance rights, aligned with shareholders.

The remuneration structure proposed at the 2023 Annual General Meeting is based on share price performance and earnings per share growth. The New Zealand Shareholders Association recommended voting against the proposal due to high maximum remuneration for the CEO and relatively soft hurdle rates for the earnings per share.

Our priorities for executive remuneration structures are threefold:

1. Executive performance is measured against targets (or hurdle rates) that are aligned with shareholders and incentivise management to build long-term shareholder value.

2. Total achievable pay is appropriately sized and variable enough to incentivise management to excel.

3. Remuneration structures are simple and fully disclosed so shareholders can understand the long-term direction management are incentivised to deliver.

While we acknowledge the absolute level of remuneration the CEO is able to achieve under this package is large, this is a complex global business in a high growth phase and it is in the best interest of shareholders to align the potential pay with the UK market in which the business is predominantly operating. In addition, the hurdles set by the remuneration structure are very ambitious and will deliver shareholder returns far superior to most New Zealand listed companies. We were pleased our view on shareholder alignment was reflected in the remuneration package the Board designed and believe it incentivises management to deliver very strong shareholder returns.

Engagement Example

Smartpay: Chair Independence and Board Progression

Engagement issues: **Board and governance structure**
Type of engagement: **Proxy voting**

We engaged with the Smartpay Chair to ensure his independence with Smartpay's solicitor and promote a Board progression plan to ensure it is best placed to progress the long-term performance of the business.

12 months ago, external proxy advice highlighted an association between the Chair and Smartpay's solicitor, Claymore Partners Limited. 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.

The Chair confirmed his relationship with Claymore Partners Limited is historic, with no current association that would challenge the independence of either party. However, this was not disclosed in the 2023 annual report for the benefit of all shareholders as requested.

We followed up with an additional meeting with the Chair and CEO of Smartpay to request this disclosure is made in the 2024 annual report. This gave us an opportunity to follow up on our other engagement topic: board progression. Smartpay has the potential to grow to be a large, Australasian listed company and we had recommended the company develop and 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. We were pleased to hear Board competency review is underway to understand the required skill sets to further the governance of the company. We voiced our support for the Chair to remain for another term while the search for a Director that will bring the necessary skill set and diversity to the Board is underway.

The Centre for Sustainable Finance: Investment in Private Assets

Engagement issues: **New Zealand Sustainable Investment**
Type of engagement: **Policy**

Milford is participating in the Investing in Private Assets working group, created by the Centre for Sustainable Finance to promote active, long-term investing for positive ESG outcomes.

The Centre for Sustainable Finance is an industry body established to accelerate progress towards an equitable, inclusive, sustainable financial system in New Zealand. The Centre is focussed on education, collaboration and policy advice to drive progress towards the Sustainable Finance Forum's 2030 Roadmap for Action which details 11 key recommendations to achieve a sustainable financial system, available here.

Milford is participating in the Investing in Private Assets working group, created by the Centre to explore the potential for changes to be made to the KiwiSaver structure and incentives such that KiwiSaver providers can move from passive investment to active, long-term investments which provide for positive environmental, social and economic outcomes.

The group has produced a recommendations report, available on The Centre for Sustainable Finance website here, detailing the challenges with private asset investment and 3 key recommendations for government and regulators to consider. We are continuing to participate in the working group to bring our expertise to the table and help enable better understanding of the challenges of investing in private assets in New Zealand to support sustainable investment in New Zealand.

ENGAGEMENT ACTIVITIES
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