2023 ESG Report

Macquarie Asset Management Equities & Multi-Asset's

Global Equity Compounders Team

MACQUARIE

Contents

About this report

We, Macquarie Asset Management's (MAM's) Global Equity Compounders Team[1] (hereafter, **the team/Global Equity Compounders Team)**, are very happy to present our 2023 Environmental, Social, and Governance (ESG) Report.

This report includes the key ESG topics of the reporting year, including relevant data on proxy voting, ESG activities, including engagements and carbon emissions for our Global Equity Compounders and International Equity Compounders portfolios, and highlights practices that have been adopted in every portfolio (including pooled funds and separately managed accounts) managed by the team.

If you have any questions about this report, including the data presented, please email the team at MAMVIESG@macquarie.com.

Macquarie Global Equity Compounders

The Global Equity Compounders portfolios are primarily invested in global large-cap equities listed in developed countries. The portfolios consist exclusively of companies that have been positively identified in the investment process[2] and are managed free of benchmark constraints. The investment strategy excludes derivatives, currency hedging, and leverage. Typically, cash positions are kept below 2%. All portfolios are managed according to the same ESG strategy, philosophy, and ESG integration process.

In this report, one of the Global Equity Compounders portfolios managed by the team is used to illustrate the results and activities recorded. The portfolios managed according to the Global Equity Compounders strategy consist of the same holdings, and the examples highlighted in this report are applicable to all Global Equity Compounders portfolios managed by the team.

Macquarie International Equity Compounders

The International Equity Compounders portfolios are primarily invested in global large-cap equities listed in developed countries, excluding the US. The portfolios consist exclusively of companies that have been positively identified in the investment process and are managed free of benchmark constraints. The investment strategy excludes derivatives, currency hedging, and leverage. Typically, cash positions are kept below 2%. All portfolios are managed according to the same ESG strategy, philosophy, and ESG integration process.

In this report, one of the International Equity Compounders portfolios managed by the team is used to illustrate the results and activities recorded. The portfolios managed according to the International Equity Compounders strategy consist of the same holdings, and the examples highlighted in this report are applicable to all International Equity Compounders portfolios managed by the team.

[1] Effective 1 January 2024, the Global Equity Team changed the name of the team and strategies to Global Equity Compounders.
[2] The investment team utilises a bottom-up, research-driven process, selecting the best possible combinations of quality and valuation offered in their global universe.

2023 in review

In 2023, climate change and global warming once again were key topics for politicians, regulators, companies, and shareholders. And with good reason, as the effects of climate change, including floods, drought, and heatwaves, are impacting the world as we know it.

The regulatory landscape around ESG and climate continued to evolve and resulted in increasing disclosure and transparency demands for companies and shareholders alike. In 2023, the Corporate Sustainability Reporting Directive (CSRD) entered into force and will require companies to disclose sustainability information, including a double materiality assessment to assess and identify impact materiality (environmental and social) and financial materiality.[3]

During COP28[4], it was evident that, while progress has been made on mitigating global warming, a substantial emissions gap remains to align to 1.5°C of warming, the threshold that countries who signed the Paris Agreement agreed to try not to exceed. Countries will now need to set more ambitious commitments and do more to back up their pledges with firm policy commitments and implementation measures in the near term until 2030 and long term between 2030-2040. Nations have agreed that the next round of commitments, Nationally Determined Contributions (NDC), should cover all emissions, sectors, and categories, which is a step in the right direction.[5]

Agrifood systems account for around one-third of total global emissions[6], however, their share of climate finance has been low compared to their mitigation potential. More than $US7 billion in climate finance was directly pledged to food and agriculture at COP28, including $US519 million to regenerative agriculture.[7]

Simultaneously, the new European Union (EU) Deforestation Regulation[8] is a central key in addressing the EU's deforestation footprint and will increase the demand for transparency and due diligence of supply chains globally.

Since 2022, the Global Equity Compounders Team has been researching and engaging with portfolio companies who source commodities linked to deforestation. Findings from the Forest 500 2024 Annual Report show that only 1% of companies are likely on track to be compliant with incoming EU legislation[9] and highlights that, although commitments need to be made, commitments are not enough; actions are needed to achieve zero deforestation. Transparency and disclosure in reporting play a significant role in holding management and boards accountable.[10] For the Global Equity Compounders Team, engagements on deforestation will continue in 2024, but initial reporting on the engagement is included in the 2023 report.

In this report, you can read more about the Global Equity Compounders Team's activities during 2023.

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3 Corporate Sustainability Reporting Directive.

4 The 2023 United Nations Climate Change Conference or Conference of the Parties of the UNFCCC, more commonly known as COP28, was the 28th United Nations Climate Change Conference, held from 30 November to 13 December at Expo City, Dubai, United Arab Emirates (UN Climate Change).

5 UN Climate Change.

6 Food and Agriculture Organisation of the United Nations.

7 Bloomberg.

8 Regulation (EU) 2023/1115 of the European Parliament and of the Council of 31 May 2023 on the making available on the Union market and the export from the Union of certain commodities and products associated with deforestation and forest degradation and repealing Regulation (EU) No 995/2010.

9 Forest 500 2024 Annual Report, page 6.

10 Forest500 – A decade of deforestation data.

Proxy voting

The Global Equity Compounders Team exercises clients' voting rights through proxy voting. The team votes in accordance with MAM's proxy voting policy and takes MAM's proxy voting guidelines into consideration when casting their votes. In the management of client accounts, it is also possible for clients to implement their own proxy voting policy. Votes are cast using a third-party proxy voting service and research provider (proxy advisor), and the team votes at all general meetings as below:

Policy

- Proxy voting policy provides basis for voting decision
- Designed and implemented to ensure voting rights are exercised in the best interest of the client

Research

- Research and platform provided by proxy advisor
- Additional in-house research by Global Equity Compounders Team
- Proxy advisor provides voting recommendation based on custom policy

Voting

- Vote cast by ESG Team (four-eye principle)
- Ensuring compliance between policy and vote cast
- The final voting decision lies with the team's portfolio managers

A summary of key topics of the 2023 proxy season is presented below.

Shareholder proposals

Over the past few years, the number of shareholder proposals (or shareholder resolutions) increased. Looking back at 2022, the number of shareholder proposals in the US increased approximately 30% compared to 2021. In 2023, the number of shareholder proposals increased an additional 12%.[11] In total, 580 shareholder proposals went to vote in 2023.[12]

While an increase in the amount of shareholder proposals was noted, overall support decreased. In the US, 31% of shareholder proposals passed in 2022, decreasing to 23% in 2023. One underlying factor might be a decrease in governance-related proposals, which historically received the most support. In 2023, the majority of shareholder proposals related to social topics.[13]

In 2023, the Global Equity Compounders Team supported 17.39% of all shareholder proposals,[14] a decrease from 21.05% in 2022.

[11] US Proxy Review 2023, Glass Lewis.
[12] US Proxy Review 2023, Glass Lewis.
[13] US Proxy Review 2023, Glass Lewis .
[14] Percentage representative of a Global Equity Compounders portfolio.

Support for shareholder proposals

Source: Glass Lewis (global portfolio).

Below, the four shareholder proposals supported by the team in 2023 are presented:

Shareholder proposal regarding independent chair

Strategy: Global Equity Compounders

Companies: Merck & Co. Inc., Otis, Pfizer Inc.

Proposal: That the chair of the board be an independent director

The Global Equity Compounders Team believes that boards should be sufficiently independent from management (and significant shareholders) so as to ensure that they are able and motivated to effectively supervise management's performance for the benefit of all shareholders. The chair of the board should ideally be an independent director, and all boards should at least have an independent leadership position or a similar role/structure in order to help provide appropriate counterbalance to executive management, as well as having sufficiently independent committees that focus on key governance concerns such as audit, compensation, and nomination of directors.[15]

Vote cast: For

Result: Rejected

Shareholder proposal regarding third-party political expenditures reporting

Strategy: Global Equity Compounders

Company: Merck & Co.

Proposal: That the company adopts a policy that requires third-party organisations receiving funds from Merck to report on their political expenditures and publish such reports on Merck's website.[16]

Generally, the Global Equity Compounders Team supports proposals requesting increased disclosure of political contributions and lobbying expenses, including those paid to trade organisations and political action committees.[17]

Vote cast: For

Result: Rejected

[15] Macquarie Asset Management's public markets business's Proxy Voting Guidelines.

[16] The shareholders of Merck & Co. Inc. ("Merck" or "Company") ask the Company to adopt a policy requiring that any trade association, social welfare organisation, or organisation organized and operated primarily to engage in political activities that seeks financial support from Merck agree to report to, at least annually, the organisation's expenditures for political activities, including the amount spent and the recipient, and that each such report be posted on Merck's website.

[17] Macquarie Asset Management's public markets business's Proxy Voting Guidelines.

Gender diversity

In 2023, an increase in the focus on board diversity was recorded. According to Glass Lewis, companies increasingly focused on two types of diversity – gender and ethnic diversity.[18]

In the UK, a major milestone was met in 2023 when multiple companies achieved the FTSE Women Leaders goal of increased gender balance. The initiative is supported by the UK government, and its goal is to enhance the representation of women on the boards. For the first time, gender-diverse directors held an average of 40.8% of board positions in the FTSE 100 and 41.9% in the FTSE 250.[19]

In the US, a lack of board gender diversity was one of the most common reasons for voting against a director.[20]

Portfolio progress on board gender diversity

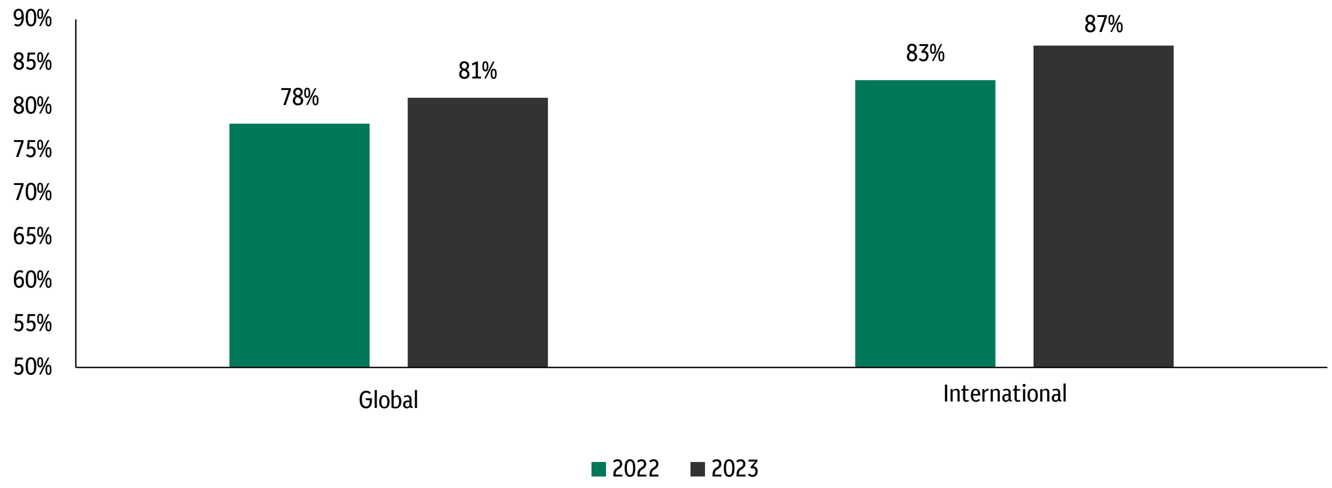
Scholarly research suggests that companies perform better when they are led by a group of diverse board members who complement each other. The Global Equity Compounders Team therefore believe in leadership that is varied in every way – in gender, race, and economic background– and agree with a number of studies that describe the positive impact of gender diversity and support the premise that having women comprise at least 30% of a company's board reflects positively on financial performance.[21]

Since 2020, the team has been engaging with portfolio companies to motivate the boards of portfolio companies to increase the percentage of women directors to a minimum of 30%.

For the global portfolios, in 2023, the percentage of companies with 30% or more women directors increased to 87% from 83% in 2022.

For the international portfolios, the number of companies with 30% or more women directors increased to 81% in 2023 from 78% in 2022.

Companies with more than 30% women on board



Sources: Internal research and Glass Lewis.

[18] UK Proxy Review 2023, Glass Lewis.
[19] UK Proxy Review 2023, Glass Lewis, page 17.
[20] US Proxy Review 2023, Glass Lewis.
[21] "Critical Mass on Corporate Boards: Why Three or More Women Enhance Governance" by Vicki W. Kramer, Alison M. Kondrad, and Sumru Erkhut (2006). The view is corroborated in an MSCI report, "The Tipping Point: Women on Boards and Financial Performance" published December 2016, concluding "that having three women on a corporate board represents a "tipping point" in terms of influence, which is reflected in financial performance."

Case study: Board gender diversity

Objective: When recruiting and selecting directors, competency should be given the highest priority. Diversity is not a competency but an attribute the Global Equity Compounders Team believes the board must include when searching for highly competent directors.

By engaging with portfolio companies, the investment team sought to encourage the boards of investee companies to increase the number of women directors to >30%.

Outcome achieved: During the 2020 proxy season, the Global Equity Compounders Team contacted all investee companies to encourage nominating additional women directors at the board level.

In 2021, the team again addressed gender diversity during proxy season, following up on any progress or lack thereof from the previous year.

In 2022, board gender diversity was added to MAM's Proxy Voting Guidelines. During the 2022 proxy season, the team engaged with investee companies not meeting the team's criteria of 30% women directors, and the companies were informed that, as of 2023, the team would vote against management if an insufficient representation of women directors is observed. These companies were strongly encouraged to nominate additional women directors and/or to disclose a commitment or target to increase the gender diversity of their board.

Escalation: Following engagement activities to encourage the gender diversity of the boards of portfolio companies, at the 2023 annual general meetings (AGMs), the team did not support the chair of the nominating committee or other members of the committee and/or the chair of the board when insufficient representation of women directors was noted, and the board did not adequately describe its approach to creating and maintaining its gender diversity. The team expects disclosures to address a commitment and either a goal or target for the board's gender diversity.

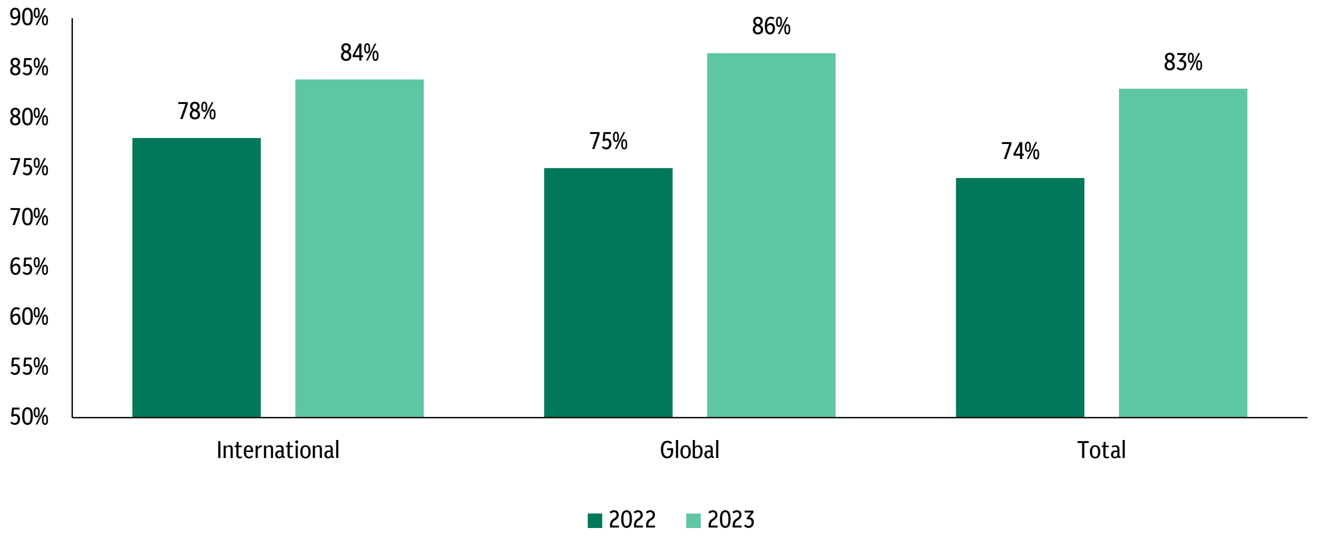
In 2023, the team voted against the chair of the nomination committee at two companies' AGMs and against the chair of the board at one company's AGM for the global portfolios. For the international portfolios, the team voted against the chair of the board at four companies' AGMs.

ESG in executive remuneration

Similar to last year, the upward trend of ESG metric inclusion in executive remuneration continues. According to Glass Lewis, however, "the disclosure of ESG metrics and how they are used remain in flux. Most companies continue to provide scant details beyond general considerations, while a small fraction of companies are being forced to restructure how they use ESG performance in incentive programs."[22]

During the 2023 proxy season, the Global Equity Compounders Team collected data on ESG-linked remuneration in executive incentive plans across portfolio companies. A majority of global and international companies have incorporated ESG metrics in their incentive plans, keeping the board and executive management accountable for their ESG strategy and efforts. Comparing 2023 with the previous year, the percentage of companies implementing ESG metrics in their remuneration plan has increased.

ESG metrics in executive remuneration



Sources: Glass Lewis and internal research.

Informing boards of voting rationale

For the team, proxy season not only includes voting proxies on behalf of clients at AGMs, but also informing boards of directors when votes are cast against management.

In 2023, the team voted against a total of 76 management proposals and 18 shareholder proposals at shareholder meetings of companies in the global portfolios. For the international portfolios, the team voted against a total of 18 management proposals and nine shareholder proposals.

The Global Equity Compounders Team informed 21 portfolio holdings of votes cast against management and the rationale for doing so. The team engaged in written dialogue with two companies (global and international portfolios) concerning the voting rationale.

In addition, the team engaged with one portfolio holding (global and international portfolios), concerning the re-election of the chair of the board, prior to casting the vote. The recommendation of the proxy provider was to vote against the chair due to a lack of disclosure on the company's activities in Russia. The information shared during the engagement provided additional information on the topic and resulted in the team supporting the re-election. This highlights the importance of engagement and how this can affect vote decisions.

In 2023, voting rationale shared with the boards of portfolio holdings related to the following proposal topics: board gender diversity, executive remuneration, capital allocation, capital increase, director overcommitments, board refreshment, and board independence. Additional details are presented in the results from the 2023 proxy season below.

[22] US Proxy Review 2023, Glass Lewis, page 51.

Notable meetings

Below, the team presents examples of notable meetings that occurred during the 2023 proxy season, as highlighted by the team's proxy provider.

Adidas: Management proposals

Strategy: Global Equity Compounders, International Equity Compounders

Company: Adidas

Proposals: i) Ratification of Supervisory Board Acts, ii) Remuneration Report, iii) Amendments to Articles Re: Virtual Shareholder Meetings

In 2023, Adidas underwent a change of CEO. Kasper Rørsted, CEO since 2016, stepped down before the end of his contract in mutual agreement with the Supervisory Board. Bjørn Gulden, former CEO of Puma SE, took over. The final years of Mr. Rørsted's tenure coincided with financial repercussions of the COVID-19 pandemic, allegations related to diversity, equity, and inclusion (DEI) matters, and a €400 million sales loss due to the termination of the Yeezy partnership following Kanye West's controversial remarks. The early departure of former CEO Mr. Rørsted resulted in a severance payment of €12 million, with an additional non-competition payment bringing the total termination amounts to €15 million, corresponding to 790% of Mr. Rørsted's base salary. The retrospective remuneration vote received support from only 67.9% of shareholders voting at the AGM.

In addition, Adidas's recurring crises likely triggered shareholder concerns regarding the proposal to ratify the acts of the supervisory board members for FY2022, which received higher-than-usual opposition rates compared with previous years.

Further, the proposed amendments to allow Adidas to hold its general meeting in a virtual format received the support of only 78.2% of the present votes.[23]

Vote cast (result): i) Against (passed), ii) Against (passed), iii) For (passed)

Unilever: Management proposals

Strategy: Global Equity Compounders, International Equity Compounders

Company: Unilever PLC

Proposals: Remuneration report

Hein Schumacher, a former non-executive director of Unilever, was appointed as executive director on June 1, 2023, and as CEO on July 1, 2023, with fixed pay of €1,850,000 per annum, reflecting an 18.5% increase from his predecessor's salary.[24]

Typically, newly appointed CEOs in Mr. Schumacher's position receive a lower initial salary, with subsequent increases occurring on a phased basis concomitant with experience in the role and subject to demonstratable performance.

Vote cast: Against

Result: Rejected

[23] Continental Europe Proxy Review 2023, Glass Lewis, page 72.
[24] UK Proxy Review 2023, Glass Lewis, page 53.

Seven & i: Contested election of directors

Strategy: International Equity Compounders

Company: Seven & i Holdings Co. Ltd.

Proposals: Election of directors: Election of Ryuichi Isaka, Katsuhiro Goto, Toshiro Yonemura, Shinji Wada, and Fuminao Hachiuma

A contested election of directors served as the focal point of the 2023 annual shareholder meeting for Seven & i Holdings Co. Ltd. The incumbent board had nominated a total of 15 directors, including six insiders and nine outside directors. Based on concerns that Seven & i lacks an effective strategy for optimizing shareholder value, and in particular for unlocking the complete potential of the 7-Eleven business, ValueAct Capital Master Fund (ValueAct) sought to wield its 4.4% ownership influence by replacing four of the board's nominees, including President Isaka and Vice President Goto, with four of their own candidates.

While the incumbent board's candidates were all elected and ValueAct's candidates were not, the four incumbent directors targeted by the activist received the lowest approval ratings in a decade, underscoring shareholders' growing dissatisfaction.[25]

Vote cast: Against all five inside directors

Result: Passed

Results from 2023 proxy season

2023 voting statistics – international portfolios

All proxies voted by the Global Equity Compounders Team on portfolios managed according to the Macquarie International Equity Compounders strategy are publicly disclosed by the proxy service provider.

Global portfolios – 2023 shareholder meetings by region and country

Region	Country of origin	Voted	Total
Total for all regions		35	35
Canada and US		9	9
	US	9	9
Europe		**23**	**23**
	Denmark	1	1
	France	5	5
	Germany	5	5
	Netherlands	2	2
	Spain	1	1
	Sweden	3	3
	Switzerland	2	2
	UK	4	4
Japan		**3**	**3**
	Japan	3	3

Source: Glass Lewis voting platform utilised by the team.

[25] Japan Proxy Review 2023, Glass Lewis, pages 10-11.

Global portfolios – votes cast

Below, the total number of proposals and votes cast are presented, including votes against management. For all the Global Equity Compounders Team's portfolios, the voting rate was 100%.

	Management proposals	Shareholder proposals (SHPs)	Total proposals
For	541	4	**545**
Against	76	18	**94**
Abstain	2	1	**3**
Mixed	7	0	**7**
Take no action	0	0	**0**
Unvoted	0	0	**0**
Totals	**626**	**23**	**649**

Source: Glass Lewis voting platform utilised by the team.

Global portfolios – votes by proposal category

Proposal category type	For	Against	Abstain	Mixed	Total
Totals	545	94	3	7	**649**
Audit/financials	79	0	0	0	**79**
Board related	302	33	1	0	**336**
Capital management	41	28	1	0	**70**
Changes to company statutes	14	1	0	0	**15**
Compensation	78	14	0	7	**99**
M&A	1	0	0	0	**1**
Meeting administration	21	0	0	0	**21**
Other	5	0	0	0	**5**
SHP: Compensation	0	4	0	0	**4**
SHP: Environment	0	1	0	0	**1**
SHP: Governance	3	3	1	0	**7**
SHP: Social	1	10	0	0	**11**

Source: Glass Lewis voting platform utilised by the team.

Engagements

Engaging with the management of portfolio companies is a core part of the stewardship practices of the Global Equity Compounders Team. The Engagement Policy applicable to MAM Equity & Multi-Asset sets out how the team integrates engagement into the investment strategies.[26]

The team believes that investing in well-managed companies will deliver long-term value in terms of economic, environmental, and social impact. As part of the team's stewardship practices, the team engages with portfolio holdings with the aim to preserve and enhance the value of assets on behalf of clients.[27]

In addition, the team seeks, as a responsible investor, to ensure that corporate management teams are monitored and held accountable for their actions. In the assessment of investments, the Global Equity Compounders Team seeks to understand how management teams acknowledge, manage, and reduce ESG-related risks and engage with portfolio companies on how these risks are being managed and mitigated. In addition, the team looks to how companies are considering sustainability as an opportunity in their business and strategy.

If any company practices indicate the possibility of non-adherence to the UN Global Compact, a serious violation of human rights, severe environmental damage, gross corruption, a serious violation of individuals' rights in situations of war or conflict, or any other particularly serious violation of fundamental ethical norms, the team may choose to engage with the company in question.

In general, the team seeks to motivate companies to implement positive changes and improve company practices over time. This includes engaging with companies in the following ways:

1. **Thematic engagements** – focusing on ESG issues constituting the most material impact to the holdings
2. **Event-driven engagements** – driven by an ESG-related incident or controversy
3. **Collaborative engagements** – collaborating with other investors on aligned goals
4. **Proxy voting engagements** – engaging with and notifying boards and/or management of proxy voting motivations, votes against management, and policies

Engagement subjects are identified by monitoring the companies invested in and identifying practices that need improvement and controversies or issues that need to be addressed, or by wanting to work with companies to improve certain ESG standards that are relevant to their industry.

[26] MAM Engagement Policy.
[27] MAM Engagement Policy.

2023 deforestation engagement

Eliminating deforestation plays a large role in moving towards net zero.[28] Agriculture is responsible for 23% of greenhouse gas (GHG) emissions globally and its expansion accounts for 73% of deforestation worldwide.[29] Despite recent efforts, deforestation increased by 12% between 2019 and 2021. Biodiversity loss, human rights violations, and climate change are additional critical challenges that all are linked to deforestation.[30]

Data from CDP's Global Forests Report 2023 show that only around one in 10 companies monitor the deforestation/conversion footprint of their full consumption in their supply chain. Further, only 3% of companies are conducting comprehensive forest-related risk assessments.[31]

The new EU Deforestation Regulation is central in addressing the EU's deforestation footprint and will increase the demand for transparency and due diligence of supply chains globally.

During COP28, measures to tackle deforestation were announced by countries including Brazil, which proposed a "tropical forests" fund for which the fund hopes to raise $US250 billion to maintain trees in 80 countries.[32]

To support the goal of the Paris Agreement, the Global Equity Compounders Team conducted research on relevant portfolio companies' commitments and efforts to eliminate deforestation and sought to engage those companies with the aim of influencing improvements where necessary.

In 2023, the team initiated dialogue and approached relevant companies on topics such as disclosure, certification, traceability, policies, targets and key performance indicators (KPIs), audits, projects, and initiatives relating to eliminating deforestation.

During the engagement, a total of 23 companies are approached. At year-end 2023, the team had carried out engagements with 13 companies, including one company that is no longer part of the portfolios. Engagements with the remaining targeted companies will be conducted in 2024.

Forest 500

Forest 500 rates 500 of the most influential companies (350) and financial institutions (150) that drive tropical deforestation. Every year, Forest 500 rates the strength and implementation of companies' commitments to deforestation and human rights. All assessments are based on publicly available information.

Among other indicators, a company's overarching commitment to eliminating deforestation is assessed.

Three points are available, depending on the level of commitment. Results from the 2023 Forest 500 assessment of the indicator "overarching commitment on deforestation" [33] is presented below for the targeted holdings in the global and international portfolios.

[28] Global Canopy.
[29] PRI
[30] "Why net zero needs zero deforestation now." Initial research paper from the UN Climate Change High-Level Climate Champions, Global canopy, The Accountability Framework Initiative, WWF and the SBTi. June 2022.
[31] CDP Forest Report 2023.
[32] Global Canopy.
[33] Forest 500 Company Assessment Methodology 2023, p. 11: Indicator "Does the company have a company-wide commitment to achieve DCF (deforestation and conversion-free) production and/or procurement for all high-risk commodity supply chains?"

Forest 500 Assessment results 2023	Commitment indicator: Overarching commitment on deforestation	Companies approached in deforestation engagement (global and international portfolios)
N/A	Not included in the Forest 500 assessment	Air Liquide (Seppic), Diageo, Estée Lauder, Ingredion, Lamb Weston, Sodexo, Swatch
0 points	Region/biome-specific deforestation and conversion-free commitment or no overarching deforestation commitment	H&M, Seven & i
0.5 points	Zero net deforestation	Henkel
1.5 points	Zero deforestation/Deforestation-free commitment	Adidas, Clorox, Essity, Kao, Kimberly-Clark
3 points	Conversion-free/zero-gross conversion commitment	Danone, Kering, Ahold Delhaize, LVMH, Nestlé, Unilever

By engaging portfolio holdings on the topic of deforestation, the Global Equity Compounders Team seeks to understand how portfolio companies manage and mitigate deforestation and deforestation-related risks in their supply chains. In addition, the team seeks to motivate portfolio companies to implement zero-deforestation targets, as well as include deforestation in relevant commodity-specific papers and company policies. The team wishes to motivate companies to improve and also to hold companies accountable by setting clear timebound targets and implementing governance measures that either ensure or mitigate deforestation and deforestation-related incidents from occurring.

Engagements will continue in 2024.

2023 ESG activities

In addition to the thematic engagement on deforestation, the below table provides a snapshot of the ESG activities of the team in 2023. The Global Equity Compounders Team engaged in a total of 50 activities during 2023.

ESG issues discussed	Activity	Objective	Outcome
Executive remuneration and talent retention	Collaborative engagement	Together with another investment team, the Global Equity Compounders Team engaged a portfolio company on how to attract and retain talent in the environment that the company is in and how to rebuild profitability in order to improve.	The team gained knowledge on how the remuneration policy was structured and how performance was measured. In addition, the team received additional insights into talent attraction and retention in a competitive market.
Capital allocation and sustainable innovation	In-person meeting	The company visited the Global Equity Compounders Team's offices. Here, the team followed up on earlier conversations about how the company is working with sustainable innovation. Further, the team wished to discuss possibilities on how to enhance shareholder value through capital allocation and share repurchase.	The company was positive about the strategic options suggested, such as capital allocation and share repurchase to enhance shareholder value. The company informed the team that all sustainable innovation initiatives were based on consumer demands.
Board composition, net zero target and pricing	Governance outreach/ collaborative engagement	As part of its annual governance outreach, the company reached out to MAM to organise engagement calls with investment teams. The engagement meeting was scheduled to follow up on earlier engagement around net zero efforts and board gender diversity.	The Global Equity Compounders Team discussed the newest board composition with the company and the improvement of the board's gender diversity. The company informed the team that it is progressing and granulating its net zero pipeline and looking at business models and technology to advance its net zero objectives. In addition, pricing of sustainable products was discussed, and the importance of balancing price, quality, and sustainability, as consumers currently are not willing to pay a premium for sustainability.

ESG issues discussed	Activity	Objective	Outcome
Sharing voting rationale	Proxy voting	As part of its proxy voting activities, the Global Equity Compounders Team informs the boards of portfolio companies of its voting rationale when voting against management. With this, the team wishes to encourage companies to improve practices, e.g. increase the number of women on the boards, separate the role of chair and CEO, or increase transparency/improve disclosures.	During the 2023 proxy season, the team informed the boards of 19 companies of the rationale for voting against management. Topics included: board gender diversity, remuneration, capital increase, board independence, overcommitment of board members, and political expenditure.
Executive remuneration	Consultation on changes to director's remuneration policy.	A portfolio company reached out to its top shareholders to consult on changes regarding the company's approach to remuneration and how it attracts and retains senior managers in the business.	The Global Equity Compounders Team shared with the company its perspectives on the proposal and restructuring hereof. The company welcomed the team's perspectives and provided additional information on peers and market comparisons as well as information on the purpose of the new proposed remuneration policy, in particular how the practice differs between the US and Europe.

Environmental reporting

MAM has committed to investing and managing its portfolio in line with global net zero scope 1 + 2 GHG emissions by 2040, where it has control or significant influence.[34] Where MAM does not have control or significant influence, such as in its managed portfolio of public securities, it will support the goals of the Paris Agreement[35] in a manner consistent with its client-guided fiduciary and regulatory responsibilities.

The Global Equity Compounders Team supports MAM's commitment to net zero and believes in creating positive change on a company and industry level, which can help mitigate the environmental risk associated with GHG emissions and, by extension, portfolio performance.

Since 2021, net zero and GHG reduction targets have been key engagement topics. During this time, the Global Equity Compounders Team approached all portfolio companies on their reduction targets and how they plan to reduce emissions in the operation, production, and throughout the value chain, as well as their ambitions towards net zero emissions by 2050.

The team encourages companies to set science-based GHG reduction targets that are validated by the Science-Based Target initiative (SBTi).[36]

By the end of December 2023, 84% of the Global Equity Compounders portfolio and 87% of the International Equity Compounders portfolio[37] consisted of GHG targets that are validated by the SBTi or a similar industry standard.

Progress is presented below.

GHG reduction targets (% of portfolio companies)

	Global portfolios 2023	Global portfolios 2022	International portfolios 2023	International portfolios 2022
GHG reduction targets[38]	100%	100%	100%	100%
Net zero GHG reduction targets[39]	81%	80%	93%	93%
SBTi approved GHG targets[40]	84%	83%	87%	81%

The team is committed to measuring and disclosing the carbon footprint of the portfolios and utilises the metrics referenced by the EU's Sustainable Finance Disclosure Regulation (SFDR).[41]

[34] MAM generally only has influence over scope 1 and 2 emissions. However, to the extent possible, in line with the Net Zero Asset Managers initiative guidance, MAM intends to support assets where it has control or significant influence to reduce their scope 3 emissions.

[35] The Paris Agreement's central aim is to strengthen the global response to the threat of climate change by maintaining a global temperature rise this century well below 2°C above pre-industrial levels and to pursue efforts to limit the temperature increase even further to 1.5°C. The Intergovernmental Panel on Climate Change concluded the need for net zero emissions by 2050 to remain consistent with 1.5°C.

[36] Science-based targets give companies a clearly defined path to reduce greenhouse gas emissions in line with limiting global warming to 1.5°C. They define how much and how quickly a business must reduce its emissions to be in line with the Paris Agreement goals. Science Based Targets initiative.

[37] By portfolio weight.

[38] Assessment based on company reporting. Includes all targets that commit to reducing GHG emissions.

[39] Net zero target includes targets validated by the SBTi and targets announced by the portfolio companies that are not validated by the SBTi. Assessment based on company reporting.

[40] Science Based Targets initiative Target Dashboard – includes interim net zero GHG reduction targets and net zero by 2050 GHG reduction targets.

[41] Annex 1 to the supplementing Regulation (EU) 2019/2088 of the European Parliament.

Portfolio carbon footprint

	Scope 1 + 2		Scope 1, 2 + 3		Scope 1 + 2		Scope 1, 2 + 3	
	Global portfolios	MSCI World Index[42]	Global portfolios	MSCI World Index	Inter-national portfolios	MSCI EAFE Index[43]	Inter-national portfolios	MSCI EAFE Index
GHG emissions	18,107.94	18,950.21	172,845.44	197,917.84	2,788.47	5,539.02	33,356.13	64,662.73
Carbon footprint	39.27	44.08	374.84	460.97	34.00	77.01	406.77	899.22
GHG intensity (weighted average)	93.08	113.06	653.35	966.52	87.54	132.59	690.19	1,395.35

GHG emissions: based on equity ownership in tCO_2e | Carbon footprint: tCO2e/€m invested | GHG intensity: tCO_2e/€m revenue.

Source: Sustainalytics PAI Report (2022 emissions) based on global and international model portfolio.

Largest emitters

The three largest emitters of the global and international portfolios listed below contribute approximately 46% of total portfolio emissions based on scope 1, 2 + 3 total emissions.

Nestlé

Looking at total GHG emissions, Nestlé's scope 1, 2 +3 emissions constitute approximately 19% of total portfolio emissions.

Target: Net zero by 2050, including a 20% emissions reduction by 2025 and 50% emissions reduction by 2030. Net zero target is SBTi validated.[44]

Progress: In the company's 2023 Sustainability Report, a 13.58% net reduction of GHG emissions (compared with 2018 baseline) was recorded.

[42] The MSCI World Index captures large- and mid-cap representation across 23 Developed Markets (DM) countries. With 1,465 constituents, the index covers approximately 85% of the free float-adjusted market capitalization in each country. MSCI
[43] The MSCI EAFE Index is designed to represent the performance of large- and mid-cap securities across 21 developed markets, including countries in Europe, Australasia, and the Far East, excluding the US and Canada. The Index covers approximately 85% of the free float-adjusted market capitalization in each of the 21 countries. MSCI
[44] Nestlé, Net zero roadmap.

Unilever

Looking at total GHG emissions, Unilever's scope 1, 2 +3 emissions constitute approximately 15% of total portfolio emissions.

Target: Zero emissions in its operations (scope 1+2) by 2030 and net zero emissions across its value chain (scope 1, 2+3) by 2039.[45] Near-term target is validated by the SBTi.

For scope 3, Unilever has set two near-term targets:

- Reduce absolute energy and industrial scope 3 GHG emissions from purchased goods and services (associated with ingredients, packaging), upstream transport and distribution, energy and fuel-related activities, direct emissions from use of sold products (associated with hydrofluorocarbon propellants), end-of-life treatment of sold products, and downstream leased assets (associated with ice cream retail cabinets) by 42% by 2030 (from a 2021 base year). This target was submitted to the SBTi for validation as 1.5°C-aligned in November 2023.
- Reduce absolute scope 3 forest, land, and agriculture (FLAG) GHG emissions from purchased goods and services (associated with ingredients) by 30.3% by 2030 (from a 2021 base year). This target was submitted to the SBTi for validation as 1.5°C-aligned in November 2023.

Unilever also has a target to "halve the full value chain emissions (scope 1 to 3) of its products on a per-consumer-use basis by 2030 against a 2010 baseline (medium-term intensity target)." This target is consistent with a 2°C temperature increase because it was set in 2010 and validated by the SBTi before the 1.5°C validation was introduced. Unilever intends to retire this target in 2024 once its new, more ambitious 1.5°C-aligned scope 3 targets have been validated by the SBTi.

Progress: In 2023, Unilever had reduced total scope 1+2 emissions by 74%.[46]

2023 reporting did not include a progress report on the recently updated scope 3 targets. On the medium-term intensity target, Unilever reported a 21% reduction.

Ahold Delhaize

Looking at total GHG emissions, Ahold Delhaize's scope 1, 2 +3 emissions constitute approximately 11% of total portfolio emissions.

Target: Ahold Delhaize's targets for reducing absolute scope 1+2 GHG emissions include a >38% reduction by 2025 (compared with a 2018 baseline), a 50% reduction by 2030, and lastly, net zero by 2040, which corresponds to a 90% reduction compared with a 2018 baseline.

Scope 3 targets include a 37% reduction by 2030 and net zero by 2050, which corresponds to an 83% reduction compared to a 2020 baseline.[47]

Near-term targets are validated by the SBTi, and Ahold Delhaize has committed to having its net zero targets validated as well.

Progress: Ahold Delhaize reports a 35% reduction of scope 1+2 emissions in 2023.[48]

New Scope 3 Commitment: 75% of top 50 customers committed to 2050 carbon neutrality by 2025 and 100% committed by 2035.[49]

45 Unilever, Climate Transition Plan.
46 Unilever's Annual Report 2023, page 65.
47 Ahold Delhaize, Targets and ambitions.
48 Unilever's Annual Report 2023, page 109.
49 URD - 2023 - VENG - REV (airliquide.com), page 116.

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