MAPLE-BROWN ABBOTT

INVESTMENT MANAGERS SINCE 1984

Maple-Brown Abbott Global Listed Infrastructure

Engagement & stewardship report

Financial year
2020/2021

Contents

Executive summary

We are pleased to share the Maple-Brown Abbott (MBA) Global Listed Infrastructure (GLI) Engagement and Stewardship Report for the 2020/21 period.[1] The report details how we are actively engaging with global listed infrastructure companies on environmental, social and governance (ESG) risks and opportunities while directing our voting decisions in ways that support sustainable long-term returns for our clients. As investors in assets that provide essential services to society, we recognise we have a responsibility to use our leverage as active managers to drive better ESG outcomes, help mitigate ESG-related risks and invest for the long term.

As a long-standing signatory to the Principles for Responsible Investment (PRI), we seek to align our engagement and proxy voting approach to six pillars of the PRI. Namely, by being active owners and incorporating ESG into our decision-making, seeking appropriate disclosure from the companies in which we invest, joining collaborative initiatives where relevant and meaningful, and reporting transparently to our stakeholders. Changing investor demands, intensifying stakeholder expectations, new laws and regulations and the visible effects of ESG issues, such as climate change, are all reasons why we see an ever-increasing need to be active stewards.

A transformative year for ESG

The 2020/21 financial year was truly transformative. Despite the precariousness of the COVID-19 situation and the ensuing uncertainty around the timing and nature of the global economic recovery, sustainability came to the fore as investors took decisive action to prioritise ESG in their capital allocation decisions. Governments also proactively carved out funding for 'green' and sustainable initiatives as part of their recovery stimulus measures, while international bodies resoundingly called on the financial services sector to support a 'just' and sustainable recovery. The legal and regulatory response to important issues such as company disclosures, greenwashing, climate change risk and supply chain due diligence across a number of developed and emerging market jurisdictions equally added considerable clout to the materiality of ESG.

Pleasingly, a swathe of listed infrastructure companies stepped up to the plate. Amongst other important developments, we have seen companies strengthen their emissions reduction ambitions, undertake heightened due diligence on supply chains, and take decisive steps to improve their approach to Indigenous reconciliation.

However, it would be remiss to suggest we only have positive news to share. As detailed further in this report, we actively researched and engaged on issues such as sub-par company reporting and transparency on lobbying activities, insufficient detail on net zero emissions targets, large gender pay gaps and unsatisfactory Board-level oversight of climate-related risks. We take a long-term view when it comes to active engagement, so any areas for improvement identified over 2020/21 will be ongoing areas of focus for the team.

> "We ramped up our engagement program over the 2020/2021 period and held 28 dedicated ESG meetings with companies across the global listed infrastructure universe on a range of ESG areas."

Memberships and frameworks

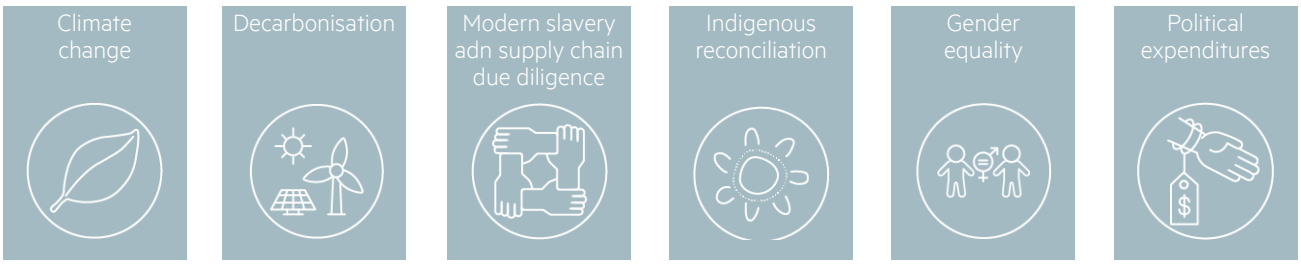
PRI Principles for Responsible Investment · riaa · IAST APAC · Climate Action 100+ · TCFD · Transition Pathway Initiative

1 12 months to 30 June 2021.

Stepping up our engagement activities

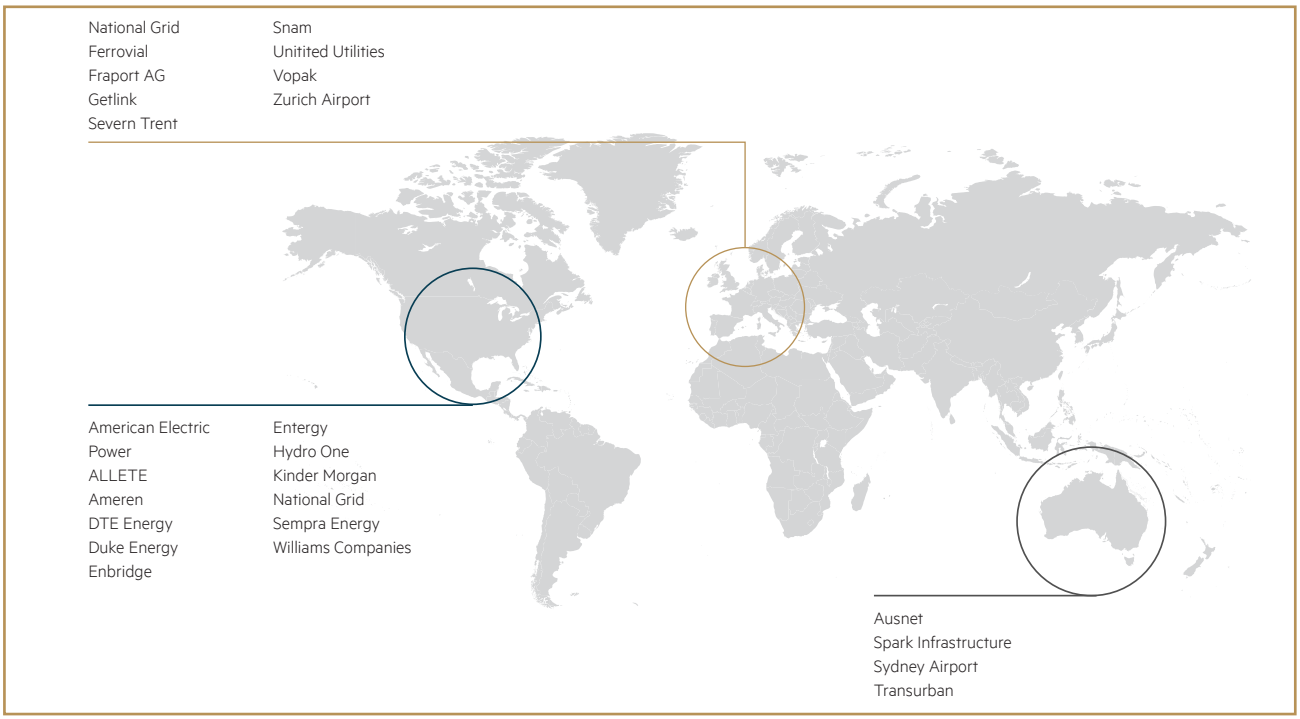
As part of our long-standing commitment to ESG integration, over the reporting period we joined the Climate Action 100+ (CA100+) and the Investors Against Slavery and Trafficking (APAC), while becoming a supporter of the Transition Pathway Initiative (TPI). We see collaborative investor initiatives as one of many tools to engage with companies alongside our routine 1:1 company meetings. In short, collaborations can create an authoritative voice for driving action, improve efficiencies and reduce duplication by enabling investors to channel their concerns in a systematic and consistent manner, while delivering a clear view of the desired corporate response. In June 2021, the GLI team joined the CA100+ Enbridge engagement working group alongside a select number of investment managers and asset owners.

Importantly, we ramped up our engagement program over the 2020/21 period and held 28 dedicated ESG meetings with companies across the global listed infrastructure universe on a range of ESG areas.[2] Our areas of focus can be categorised under six pillars:



Our approach to ESG Engagement | Read about how we engage with companies on our website

ESG company engagements in 2020/2021

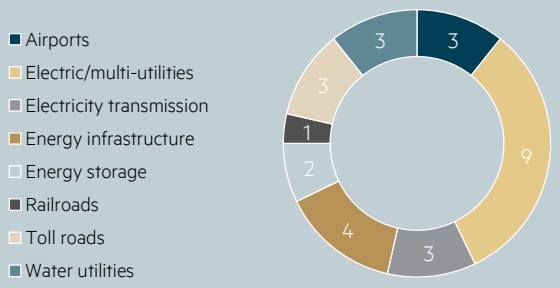


2 Includes companies held in the GLI strategy and the Focus List. In some instances, the GLI team met with companies more than once.

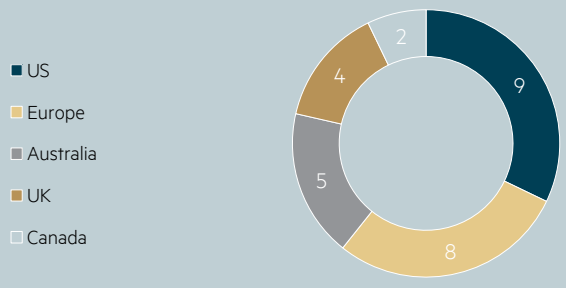
Of the 28 dedicated ESG engagements that took place over the year, we met with 19 GLI strategy companies (four of which we met with more than once) and five other companies on the Focus List.[3] As the charts below show, approximately 40% of engagements were with North American companies and around 30% were with electric/multi-utility companies, broadly reflecting the GLI strategy's larger exposures from a regional and industry perspective.

Our choice of companies and styles of engagement are guided by a number of factors including research undertaken by the GLI team's ESG Analyst and the relevant Investment Analyst, inherent industry risks, residual factors specific to the company (such as geographical location of business operations, emissions intensity and reported controversies) and position size. In other words, we take a well-rounded view of a company and consider the materiality of the ESG risks and opportunities before deciding on whether engagement is necessary and meaningful.

Number of ESG engagements
By industry

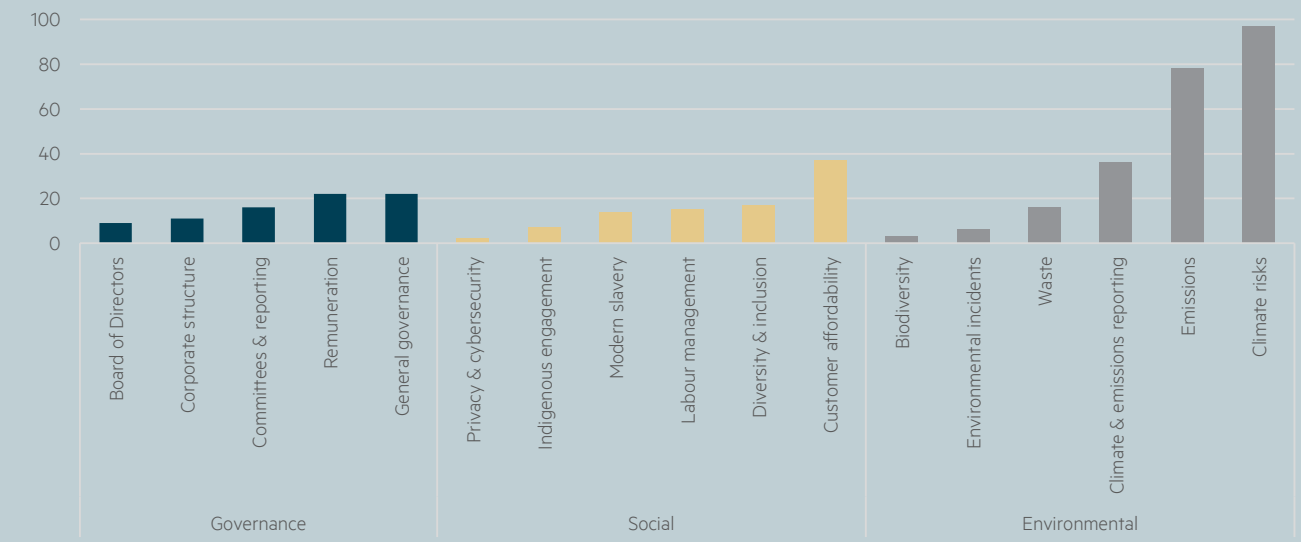


Number of ESG engagements
By region/country



Our ESG discussions are not confined to specific ESG engagement sessions. Instead, we engage with companies on ESG topics through to our routine interactions with companies when undertaking day-to-day fundamental research.

ESG topics discussed at all company meetings over FY21



As the chart above shows, of all company meetings held over the 12-month period, 17 ESG topics were discussed a total of 409 times with climate risks, emissions and climate-related reporting comprising around 50%. Our leaning towards these three environmental topics reflects our research priorities over the year.

3 We consider potential investments from a strictly selected infrastructure Focus List of around 110 companies across more than 25 countries. The stocks on the Focus List are those that we determine provide the strongest combination of inflation protection and low cash flow volatility.

Themes, insights, and case studies

Climate change

Focus areas: risk management, governance, strategy, reporting

Climate change and decarbonisation were at the forefront of our engagements with companies over the 12-month period. Engagements on climate risk mostly centered around the four pillars of the recommendations of the Task Force on Climate-related Financial Disclosures (TCFD), that is, governance, risk management, strategy and targets and metrics. Infrastructure assets face the double challenge of supporting and facilitating the energy transition while building resiliency and adapting to the risks of more frequent and extreme weather events.

We want to see a genuine business commitment to evolving, adapting, and building resilience while actively reducing emissions in line with the goals of the Paris Agreement. We seek to understand what 'sits behind' company reporting and how programs of work are implemented in practice. Among the topics we cover are board oversight, external advice from experts, management accountabilities, policy settings, risk management frameworks, risk thresholds and reporting transparency.

Insights garnered from these meetings have meaningfully supported our stock-level climate transition scenario analysis as part of our own reporting in line with the TCFDs.

Case studies on climate risk

Kinder Morgan

Kinder Morgan (KMI) is one of the largest energy infrastructure companies in North America, operating oil and gas pipelines and terminals. The main purpose of the engagement was to gauge the extent to which Kinder Morgan's long-term objectives align with net zero emissions by 2050, namely by understanding how climate change is factored into governance structures, risk management frameworks, business strategies and reporting activities.

Kinder Morgan identifies various climate-related risks in its risk management frameworks but does not treat climate change as a standalone risk. We believe climate change, much like cybersecurity, warrants its own risk category because this allows for a direct line of sight and greater top-down accountability with a defined risk appetite threshold. To assist with this, we would like to see the company instigate a group-wide policy on climate change with guiding principles, procedures and accountabilities applicable to executive management, employees and partners. We also discussed adopting an internal price on carbon to help guide investment and operational decisions, along with aligning a portion of management's variable remuneration with climate-related objectives.

Kinder Morgan has produced TCFD-aligned reporting for a number of years alongside climate transition analysis. We believe more disclosure is needed to evidence how the company is responding to energy transition risks by diversifying its business model, driving accountability for its energy transition plan, and aligning a higher portion of capital expenditure to low and zero carbon projects. For example, one of the nearest term energy transition risks is with crude and refined products due to increasing electric vehicle penetration. Pleasingly, in March 2021, the company announced the formation of the Energy Transition Ventures Group to focus on carbon capture, use and storage (CCUS), and green hydrogen. Overall, we believe Kinder Morgan is in the earlier stage of working out its approach to climate change risk relative to other peers and there is significant room for improvement to ensure the company is supporting, facilitating and evolving for a low carbon world.

How we assess and measure climate-related risks

We expect all companies, irrespective of their industry, to undertake scenario analysis in line with the recommendations of the TCFD. When assessing company reporting, we evaluate the extent to which the business strategy is genuinely informed by the findings of the analysis and the response from a governance, risk management and targets and metrics perspective.

As part of our commitment to reporting in line with the TCFDs, over 2020/21 we undertook an assessment of how portfolio companies fare against range of carbon transition scenarios in investment models, specifically looking for:

- **revenue exposure:** availability of, and adaptability to substitutes, stranded asset risk
- **cost exposure:** carbon price, availability of, and adaptability to substitutes
- **capital allocation:** capex spending, acquisitions and divestments.

These insights inform our company modelling of financial markers including, but not limited to, terminal value, adjusted discount rates and revenue assumptions.

Entergy

Entergy (ETR) is a regulated electric and gas utility that serves 2.9 million customers across four US states. The company has a net zero emissions by 2050 target, with plans to retire all coal capacity by 2030 and replace legacy gas plants and coal plants with renewables. Compared to many of its peers, Entergy's assets are more exposed to more frequent and extreme weather events driven by a changing climate, particularly in relation to its operations in hurricane-prone Louisiana, where more than 41% of people live below the poverty line. For this reason, the meeting focused specifically on physical risk assessments and management, bill affordability during the COVID-19 pandemic, and workforce re-skilling for those impacted by fossil fuel asset decommissioning.

Entergy has, and continues to, invest significantly in system hardening to help build resilience in its transmission and distribution assets. We discussed whether undergrounding assets was a viable solution, whether climate change modelling could assist with guiding its system hardening plans and how wetland restoration along the Gulf coast could create natural barriers to rising sea levels. These are all options Entergy is open to. With regards to workforce re-skilling, Entergy emphasised that employees from existing assets that will be retired (i.e. wholesale nuclear, coal, legacy gas) will all have jobs in other areas of the business. Overall, we believe Entergy is well placed to support and benefit from the transition to a low carbon world and should focus on ensuring its approach to managing physical risks is informed by climate change science. We plan to meet with Entergy in the latter half of 2021.

Decarbonisation

Focus areas: Emissions reduction targets, scopes, accreditation, accountability

While meaningful progress to reduce emissions has been made by companies across our investment universe, we believe significant work and progress is needed to facilitate and support a low-carbon world in line with the long-term temperature goal of the Paris Agreement. Notably, over the 12 months, we saw a swathe of net zero emissions targets and commitments announced by companies across the global listed infrastructure universe.

As the charts show, approximately 77% of companies within the GLI Fund[4] by stock weight have net zero targets by 2050. 18% have no meaningful targets in place and 2% have meaningful interim emissions reduction targets.[5]

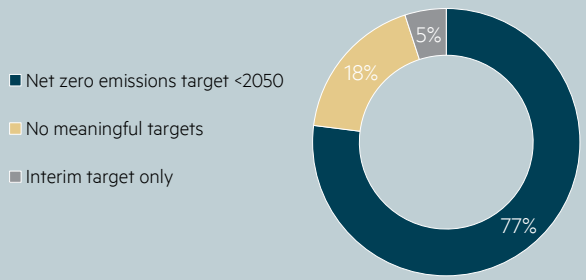
While the trend to set net zero targets is a welcome development, we also take these announcements with a healthy level of skepticism owing to the rising risk of 'greenwashing'. The main question we ask ourselves and companies is: is this statement of intent genuine, viable, detailed, and ambitious enough? We fully support and encourage company efforts to decarbonise, but doing so cannot simply be a marketing exercise with limited scope and meaning.

Aside from contributing to sub-par environmental outcomes, any disconnect between statement and intent is a risk in itself. For us, it is important to gauge the materiality of emissions reduction targets because they can mean different things and range from inconsequential to highly ambitious. For example:

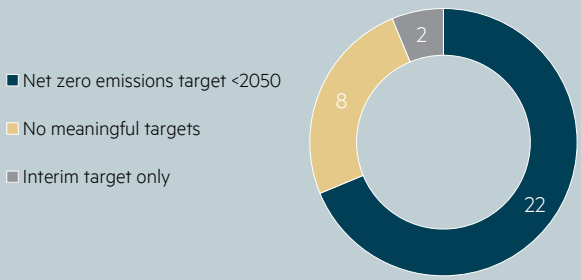
- **alignment** – ambitiousness of the target in line with the long-term temperature goal of the Paris Agreement, time frames, and unit of measurement
- **coverage** – whether a target covers all business operations, subsidiaries, and geographies, and the validity of the baseline year
- **scopes** – which emissions scopes are captured and whether the target is limited to CO2 or all greenhouse gas emissions
- **real emissions vs offsets** – the extent to which real economy emissions are being managed downwards, whether offset measures are heavily relied on and/or 'emissions avoided' are factored in
- **accreditation and standards** – if accreditation has been achieved, for example, through the Science-based Targets Initiative (SBTi) or the methodology is aligned to reporting frameworks such as the GHG Protocol
- **progress and performance** – if the company has a demonstrable track record of emissions reduction over time prior to any emissions reduction announcements.

Portfolio stocks with emissions reduction targets – 30 June 2021

By weight



By number



4 Relates to the Maple-Brown Abbott Global Listed Infrastructure Fund (AUD).
5 We define "no meaningful targets" as a situation where a company does not have medium and long-term targets seeking to reduce emissions in line with the IEA Sustainable Development and Net Zero scenarios. These companies are the subject of focused engagement activity.

Case studies on decarbonisation

National Grid

National Grid (NG) is one of the world's largest publicly listed utilities focused on transmission and distribution of electricity and gas, with operations in the UK and US. When engaging with National Grid, we sought to understand how the company plans to execute on its target to reduce GHG emissions by 80% by 2030, 90% by 2040 and achieve net zero by 2050 (from a 1990 baseline) for scope 1 and 2 emissions.[6] The company's emissions targets are group-wide including all non-regulated operations and subsidiaries. National Grid's strategy is wholly focused on absolute emissions reductions as opposed to offsets. As such, its interim targets have received accreditation from the SBTi (which does not allow for offsets).

From a scope 3 perspective, the company has an SBTi-accredited target to reduce emissions from upstream and downstream activities by 37.5% by 2034 (relative to 2019). As part of this, National Grid is incentivising its top 250 suppliers – mostly in construction, technology and business services – with a 5-10% award if they reduce their carbon footprint down to a set target as part of its participation in the CDP Supply Chain Programme. Scope 3 emissions comprise around 76% of the company's total GHG emissions. The primary factor driving National Grid's scope 3 emissions downwards over the coming years will be the continued displacement of coal-fired power with renewable energy generation and other low carbon solutions. In 2021, the company announced the commencement of a sale process for its gas transmission assets in the UK and purchased the country's largest electricity distributor as part of its long-term low carbon strategy.

Beyond carbon dioxide, National Grid is the only utility in the listed infrastructure universe that has a target to manage down sulphur hexafluoride (SF6) emissions by 50% by 2030 and eliminate the gas from its operations by 2050. SF6 is an extremely potent GHG typically used in electrical equipment as an insulator. We will continue to check on National Grid's execution against its decarbonisation strategy and intend to pay particular attention to progress in the US and how accountability can be better achieved through variable remuneration aligned to the group-wide emissions targets.

Getlink

Getlink (GET) is the owner and operator of the Channel Tunnel – the only rail link between France and the United Kingdom. With Getlink planning to release its inaugural Climate Change Plan in Q2 2021, we took the opportunity to discuss the best path forward in terms of strategy, level of ambition, targets and metrics, reporting quality and accreditation before its publication. Not only would an ambitious emissions reduction strategy be the right thing to do from an environmental perspective, a market-leading Climate Change Plan would further augment the company's position as the lowest carbon emitting transportation solution for people travelling between the UK and France. We also see other pressures from a regulatory and stakeholder perspective as potential risks for Getlink further down the line.

As part of the engagement, we laid out a set of presentation slides identifying opportunities for Getlink to improve the quality of its environmental reporting to better inform stakeholders and assist with the company's overall emissions reduction strategy. We followed up after the meeting to reiterate our recommendations and share examples of best practice reporting from other transportation infrastructure companies. The inaugural report was subsequently published in June 2021 – incorporating some of our requests – and engagement is ongoing.

Modern slavery

Focus areas: Contracting and sub-contracting, risk assessments, supply chain due diligence, oversight

The rise of modern slavery[7] and supply chain legislation in recent years has been met with growing pressure on companies to take accountability for modern slavery issues in their supply chains and workforce.[8] Today it is estimated that more people are in slavery-like situations than at any other point in history, with approximately 40 million people in slavery worldwide.[9] From a supply chain perspective, most companies are still mapping out their direct suppliers and have limited understanding of their indirect, or 'tier two', suppliers. It is well known that issues of modern slavery are more likely to occur deeper in supply chains, particularly where sub-contracting takes place. As such, we encourage companies to expand their risk assessments beyond their direct suppliers.

Human rights and labour rights infringements can also occur in a company's workforce, particularly where there is a heavy reliance on base skill work, sub-contractors employed by labour hire firms and/or business operations in countries with weaker human rights and labour rights guarantees. For example, transport infrastructure companies can sometimes use labour hire firms to appoint contractors and sub-contractors for projects. From a modern slavery perspective, this can mean the company is at an 'arm's length' from the worker and may not have full oversight of the contractual arrangements in place.

Relative to other industries, we believe transportation infrastructure is inherently more exposed to these risk factors. For this reason, we have specifically focused on this topic when meeting with these companies.

6 We queried the choice of baseline year in the meeting given National Grid's business has meaningfully changed since 1990 and this could unfairly overstate any emissions reduction progress or targets. National Grid explained that 1990 was the first year the company put an emissions reduction target in place. National Grid's SBTi accreditation requires the company to use a more recent baseline, as such, a 2016 baseline would mean reducing emissions by 50% by 2030 (not 80%).
7 'Modern slavery' is an umbrella term for different forms of human exploitation such as child labour, forced labour, human trafficking and debt bondage.
8 Such legislation exists in jurisdictions such as the UK, Australia, California, France, the Netherlands, and Germany.
9 Walk Free Foundation, Global Slavery Index 2018.

Key factors we consider when assessing modern slavery risks

1. Risk profile of the country of operations
2. Risk profile of the industry
3. Previous or existing allegations or controversies
4. Strength of disclosure and workforce management practices
5. Depth of supply chain

Over FY21, we undertook an initial inherent risk assessment of the GLI portfolio companies and identified the various risk categorisations for them. All members of the GLI investment team also attended training on modern slavery.

When meeting with companies, we want to understand, for example, whether they undertake modern slavery risk assessments, the extent to which they have mapped out their supply chains, the size of their contractor and sub-contractor workforce, use of labour hire firms, policies on free of association, availability of whistleblower hotlines and remediation processes, amongst other things.

Case studies for modern slavery and supply chain due diligence

Transurban

Generally speaking, we have been pleased with Transurban's (TCL) approach to tackling modern slavery in its supply chains. In 2019, the company partnered with the Infrastructure Sustainability Council of Australia to establish the Modern Slavery Road Construction Industry Coalition. Collaborative forums are an excellent way of sharing best practices, particularly on issues as pervasive and complex as modern slavery. Notably, we are encouraged to see Transurban has undertaken a full risk assessment on its direct supply chains and started to insert new modern slavery contract clauses into agreements with those suppliers deemed higher risk. Moreover, the company has established speak-up mechanisms for reporting suspected cases. While Transurban did not identify any instances of modern slavery over the 2019/20 period, the company recognises this is not a marker of effectiveness.

Our recommendations included:

- assessing indirect 'tier two' suppliers to prioritise supply chain due diligence by risk as opposed to size of spend
- extending modern slavery contract clauses to medium risk suppliers
- building on its operational risk assessments for contractors, sub-contractors, and labour hire firms.

The company was responsive to our recommendations. Transurban is subject to new Australian modern slavery legislation, requiring companies of certain sizes to report on their approach to identifying, assessing, mitigating and remediating modern slavery.

Vopak

Vopak (VPK) stores and handles products such as chemicals, oil, gases, LNG and biofuels. The company has operations across 23 countries. From a modern slavery perspective, we believe Vopak's global footprint means it is inherently more exposed to modern slavery risks through its complex supply chains and large contractor and sub-contractor workforce.[10] These risks are more acute for base skill roles such as construction, security, catering and cleaning, particularly in countries with lower labour rights standards and human rights guarantees.[11] Pleasingly, Vopak guarantees a living wage on top of a minimum wage for all employees and contractors.

While the company states that it screens major investments for potential human rights issues and verifies whether minimum conditions are being met, we did not feel it was clear how this is done and would like to see detail on the processes in place. Moreover, we believe all business activities, regardless of size of investment, should be screened for human rights risks to ensure the appropriate mitigation measures are in place. At the time of meeting, Vopak said it had not identified any human rights and labour rights abuses but would take definitive actions to review or exit the supplier and/or labour hire firm relationship. Instead, we would like to see the company align its remediation processes to the best practice standards such as the UN Guiding Principles on Business and Human Rights and/or the OECD Guidelines for Multinational Enterprises.[12] We met with Vopak twice over the reporting period, with one session dedicated to emissions and climate risk, and the second focused on human rights and workforce management. Vopak was receptive to our comments and we expect to follow up with them later in 2021.

10 Vopak's contractor workforce outnumbers full-time employees.
11 As identified through the Global Slavery Index (2018), available here, and the United States Child Labour Report (2019) and Forced Labour Report (2020), available here.
12 According to these principles, the company uses its leverage to resolve the situation as opposed to exiting the relationship due to the ongoing risk or adverse consequences for the potential victim. See Justine Nolan and Martijn Boersma, 'Addressing Modern Slavery', NewSouth Publishing (2020); Department of Home Affairs, Commonwealth Modern Slavery Act 2018: Guidance for Reporting Entities', Australian Government (Document, 2019) 47–48 here.

Indigenous reconciliation

Focus areas: Free, prior and informed consent, diversity, supplier diversity, cultural heritage

Infrastructure companies have a responsibility to understand the rights and lives of Indigenous communities and how they intersect with their operations. In addition to the detrimental impact to Indigenous communities, there are serious risks for companies and investors when companies have poor quality relationships and weak cultural heritage management processes. The importance of respectful stakeholder management and the link to value creation cannot be overstated.

We engage with companies involved in activities that could potentially impact the preservation of the rights of Indigenous peoples, the protection of their cultural heritage and the management of their Country. From a portfolio perspective, we discuss and engage with companies on Indigenous reconciliation where they have operations in Australia, Canada and the United States, most specifically with midstream pipeline, electricity transmission and utility companies.

In an age where shareholder primacy is making way for stakeholder primacy, how companies engage, treat and grow with stakeholders is a harbinger of their long-term sustainability and success. While Indigenous rights and heritage protection are acknowledged to be predominantly, and most urgently, human rights issues impacting negatively on the community, the voices of these rightsholders must also be valued and heard.

> “Understanding and engaging with stakeholders strengthens an organisation's ability to anticipate risks and avoid crises. Even when crisis is unavoidable, good stakeholder relations enable a company to recover more readily.*”

Case studies for Indigenous engagement

Hydro One

Hydro One (H) is an electricity transmission and distribution utility serving the Canadian province of Ontario. The company owns and operates transmission assets on 23 First Nations reserves and provides distribution services directly to 88 First Nations communities. Its relationships with rightsholders, the Indigenous peoples and traditional owners of the lands on which they operate, are among the most important and valuable they have. While the company has an Indigenous Relations Policy with high level commitments, we would like to see Hydro One align its principles and practices with the UN Declaration of the Rights of Indigenous Peoples and the principles of free, prior and informed consent (FPIC). We believe there is an opportunity for Hydro One to further augment its relations.

In saying this, there are a number of positives worth noting. The company has an in-house dedicated Indigenous Relations team and manages an open source Indigenous Business Directory for Indigenous-owned suppliers while running dedicated procurement workshops to assist with tender processes. Moreover, Hydro One has silver accreditation for its participation in the Progressive Aboriginal Relations (PAR) program with ambitions to achieve gold over time. In our meeting, we also covered procurement and workforce targets to facilitate progress towards greater diversity and presentation. At the time of our discussion, the company had not made these available but shortly after pledged to grow Indigenous procurement spend to 5% of materials and services purchases by 2026 and target at least 20% of corporate donations and sponsorships to Indigenous communities and initiatives. After discussing the need for greater governance oversight of Indigenous relations, the company established a new Indigenous Peoples, Safety & Operations Board Committee. Overall, we have been pleased with Hydro One's receptiveness and look forward to further engagement.

> “Its relationships with rightsholders, the Indigenous peoples and traditional owners of the lands on which they operate, are among the most important and valuable they have.”

Enbridge

Enbridge (ENB) is a midstream pipeline company with a focus on the transportation of crude oil and natural gas in North America. The company has a range of Indigenous relations programs of work, ranging from procurement spend, partnerships and community investment. However, a number of its projects remain controversial and the company has faced pushback and protest from a number of Indigenous communities in Canada and North America. In its reporting, the company states that it recognises the importance of the UN Declaration on the Rights of Indigenous Peoples (UNDRIP), however, we sought to understand the extent to which Enbridge's processes are aligned with the UNDRIP and the principle of free, prior and informed consent (FPIC). While a statement of commitment is meaningful, it is important for stakeholders to have transparency of what this means from a practical perspective.

We believe that Enbridge needs to better substantiate its support for UNDRIP and the principles of FPIC while working towards engagement that goes beyond the basic requirements of the law. In October 2020, the company committed to 3.5% Indigenous representation within its workforce by 2025, and now requires all new employees to complete cultural awareness training in 2021 (with a target of 100% completion for all employees by 2022). We are a member of the Enbridge CA100+ engagement working group and intend to discuss Indigenous relations with the company in the context of climate change.

* Shelley Anderson, 'Why stakeholder management is essential to sustainable business'. May 2020 – isystain article

Gender equality

Focus areas: Gender pay equity, diversity, STEM skills, workplace policies

Gender diversity, underpinned by inclusive policies and equal pay, leads to higher quality and better managed companies over the long term. Women are under-represented in the infrastructure sectors, particularly in STEM[13] jobs.[14] Recent research undertaken by the World Bank on 64 water utilities found that women comprise an average of only 18% percent of the workforce. In the EU, women account for around 17.5% of the workforce in transportation infrastructure companies, but hold less than 10% of the technical and operational jobs.[15] Even though women have increased their presence in higher-paying jobs traditionally dominated by men, such as professional and managerial positions, women continue to be over-represented in lower-paying occupations relative to their share of the workforce. This issue contributes to gender differences in pay, in other words a 'gender pay gap'.[16]

Despite significant advancements in gender equality and mandatory company reporting on gender pay discrepancies in recent years',[17] a sizeable gender pay gap still exists today. According to the US Census Bureau, in 2019, women in full-time roles earned 82% of what their male counterparts earned.[18] Much of this gap can be attributed to factors such as educational attainment, occupational segregation and workplace experience, though discrimination continues to contribute to ongoing wage discrepancies.[19] Infrastructure companies rely on their social license to operate to maintain credibility, legitimacy, and trust among their stakeholders. With this in mind, gender equality was a focal point of our company engagements.

Case studies for gender equality

Severn Trent

Severn Trent (SVT) is a regulated water utility located in the catchment areas of two of Britain's largest rivers – the Severn and the Trent. In April 2017, the UK government introduced gender pay gap reporting for all companies with more than 250 employees. Since this time, the male to female hourly wage gap on a mean (9.3%) and median (2.3%) basis has improved steadily year on year. The decrease in the median gender pay gap, from 14.6% in 2017, has been positively impacted by a higher proportion of women within management and senior management roles. Severn Trent is ranked only one of two companies in the FTSE100 to have women in the position of both CEO and Chair. Severn Trent also has the highest[20] proportion of women on the Board at 56%. The mean bonus gap of -57% is a result of a high percentage of women in executive management and senior management. In other words, overall the average bonus for women is higher compared to their male counterparts.

The proportion of women across the whole workforce is lower at 28.5%, and this remains an ongoing area of engagement with the company. Nevertheless, having assessed Severn Trent's focus on diversity and inclusion – through training, policies and workplace practices – we believe the company has made good strides in addressing the potential structural and systemic issues that may have (and continue to) contribute to the gender pay gap.

Ferrovial

Ferrovial (FER) is a Spanish multinational company involved in the design, construction, financing, operation and maintenance of transport infrastructure and urban services. We met with the company twice in March and April 2021. In the second meeting, we focused on human rights and gender pay equity. For Ferrovial, significant work is needed across the group on closing the gender pay gap with women paid less than men in every like-for-like role across its Spain, UK, US, Canada, Poland, Chile and Portugal operations. We discussed the potential cultural, structural and industry-specific drivers contributing to these gaps and the company's plan to rectify discrepancies.

In response, the company believes gender pay gap statistics can be somewhat misleading and they consider themselves better positioned than other transportation infrastructure peers. We noted the example of Transurban, which has a gender pay gap of less than 1% for its Australian operations when measured on a mean basis, which is meaningfully less than the gaps noted across a number of Ferrovial's operations. While there is no perfect apples-to-apples comparison with gender pay gap reporting, we found that most of the forms of measurement – such as the mean, median, type of role, level of seniority and on a country-by-country basis – revealed consistent gaps across the board. It should be noted that some commitments are in place to improve the percentage of women joining Ferrovial through its graduate program and those in senior management (seeking to achieve 35% and 20%, respectively). These targets are particularly important because, for example, there is one woman on a team of 10 in executive management. These topics remain an ongoing piece of engagement.

13 'STEM' refers to science, technology, engineering, and mathematics.
14 Inka Schomer and Alicia Hammond, 'Stepping Up Women's STEM Careers in Infrastructure: An Overview of Promising Approaches', The World Bank (Report, 2020).
15 Ibid p 2.
16 Amanda Barroso and Anna Brown, 'Gender pay gap in U.S. held steady in 2020', Pew Research Centre (Report, May 2021).
17 For example, Australia, Austria, Belgium, Denmark, Germany, the UK, and Iceland have all passed laws requiring companies of a certain size to publish pay gap information.
18 Semega et al, 'Income and Poverty in the United States: 2019', United States Bureau (Report, September 2020).
19 Amanda Barroso and Anna Brown, 'Gender pay gap in U.S. held steady in 2020', Pew Research Centre (Report, May 2021).
20 Alongside housebuilder Taylor Wimpey.

Political expenditures

Focus areas: Industry associations, direct lobbying, reporting transparency, climate change alignment

As regulated assets with monopoly-like characteristics, companies influence the policy and regulatory environment through political expenditures in the form of direct lobbying and industry association memberships. However, in doing so, we expect companies to report transparently and routinely on their political expenditures while adequately articulating the rationale for their spending and membership decisions. In the words of the SEC's Acting Chair, Allison Herren Lee, political spending disclosure is "inextricably linked to ESG issues" and "key to any discussion of sustainability".[21]

One of the main reasons we expect transparent reporting – particularly for companies in the energy sector – is to ensure there is consistency between a company's stated position on climate change and the ways in which it is directing political expenditures.

As research shows, many companies in the Climate Action 100+ (CA100+) Benchmark have donated substantial sums to candidates with climate voting records inconsistent with their own net zero emissions or climate-friendly commitments.[22] The CA100+, the world's largest investor-led climate change initiative, requires companies to adopt Paris-aligned climate lobbying positions and also to implement enhanced governance and disclosure processes to ensure political expenditures align to these positions. In early 2021, we participated in a consultation on a new climate change lobbying assessment framework run by the Principles for Responsible Investment, Transition Pathway Initiative, and LSE Grantham Institute. Our engagements and proxy voting decisions over the 2020/21 period reflect the weight we place on this topic.

> "One of the main reasons we expect transparent reporting – particularly for companies in the energy sector – is to ensure there is consistency between a company's stated position on climate change and the ways it is directing political expenditures."

Case studies for political expenditures

Sempra Energy

Sempra (SRE) is a North American energy infrastructure company focusing on electric and natural gas infrastructure. In May 2021, a resolution was put forward by shareholders at Sempra Energy's AGM, asking them to report on whether the company's lobbying activities align with its commitment to the long-term temperature goal of the Paris Agreement and how any misalignment is managed. While Sempra Energy has made efforts to improve transparency around its lobbying activities in recent years, we voted in favour of the shareholder resolution on the basis that further improvements are needed. We believe this is important because sometimes there can be a disconnect between a company's statement of intent and its lobbying activities on climate change and emissions-related policies.

Prior to the vote being cast, we met with Sempra Energy to discuss the resolution and weighed up a number of factors. Namely, we considered a recent judgment that saw SoCalGas refund lobbying costs to customers after the subsidiary was found to have used ratepayer money to lobby against energy efficiency standards that would have curbed natural gas use in California. Furthermore, we did not find Sempra Energy's disclosures to consistently and sufficiently describe how its lobbying activities aligned with its position on climate change. Although the proposal did not pass, it received meaningful support at 37.5% and triggered a positive outcome. Sempra Energy agreed to proactively engage with industry associations to clarify their climate change positions and itemise them next to the company's own position. We will hold a follow-up engagement in the latter half of 2021.

Duke Energy

Duke Energy (DUK) is one of the largest electric power holding companies in the US, providing electricity to approximately 7.7 million retail customers in six states. In October 2020, we met with the company to discuss a range of ESG and sustainability topics including political expenditures and industry association memberships. The CPA Zicklin Index, an important measure of the strength of lobbying disclosures among companies in the US, has identified Duke Energy as a laggard for a number of years relative to its peer group. Specifically, we asked the company about its political expenditure policies while pressing for more detailed disclosures to improve transparency for the benefit of stakeholders.

In May 2021, a shareholder resolution was lodged at the company's AGM asking for more detailed periodic reporting on Duke Energy's lobbying activities. Given that we did not believe they were adequately detailed and we had previously engaged with the company on this topic, we voted in favour of the resolution, which passed at 52%. Duke Energy has a carbon emissions reduction target of net zero by 2050 and a commitment to doing so in line with the long-term temperature goal of the Paris Agreement. On this basis, we believed it was important to push for greater disclosure to provide clarity on how political expenditures are being directed.

21 Allison Herren Lee, The SEC's change of climate on climate change and ESG', Greenbiz (Speech, March 2021)
22 Influence Map, 'A Review of CA100+ Company Disclosures on Industry Association Lobbying', Influence Map (Report, April 2021)..

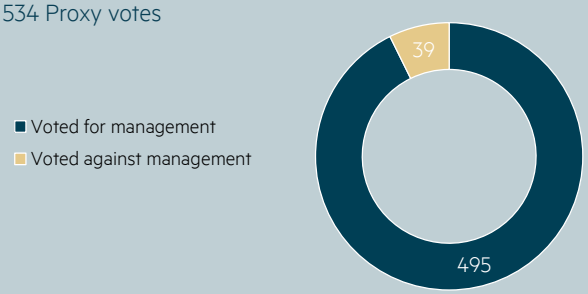
Proxy voting over 2020/21

Over the 12 months ending June 2021, the GLI team voted on 534 proposals relating to 39 companies and voted against management in 39 of these instances.[23] From an ESG perspective, we supported every proposal seeking to promote climate change risk management and emissions mitigation, all shareholder resolutions seeking to separate combined CEO/Chair roles to allow for greater board independence, and the majority of shareholder resolutions calling for more detailed reporting on lobbying activities. Specifically, the against votes can be broken down as follows:

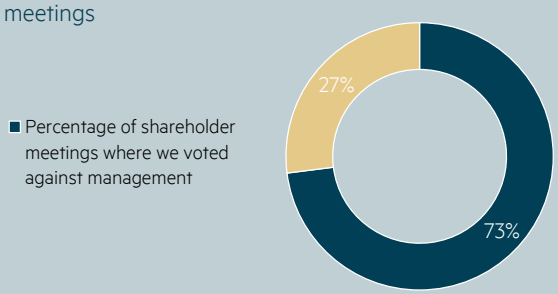
- 44% director elections
- 26% shareholder rights
- 15% corporate governance
- 5% remuneration
- 5% political expenditure transparency
- 5% separation of CEO/Chair roles.

> "Our guiding principle in reaching the voting decision is what, in our opinion, is in the best interests of our clients as shareholders. Our approach to proxy voting is aligned with the Principles for Responsible Investment (PRI)."

Proxy votes
534 Proxy votes



Shareholder meetings
39 meetings



Company	Vote for/against management	Rationale	Outcome
Duke Energy	For	Voted for remuneration with new climate-related objectives.	Passed (93%)
	Against	Voted for resolution to develop policy requiring the separation of CEO/ Chair roles	Did not pass (35%)
	Against	Voted for resolution requiring greater disclosure on political expenditure and donations	Passed (52%)
Dominion Energy	For	Voted against resolution seeking report on lobbying since we believe Dominion provides sufficient disclosure[25]	Did not pass (16%)
	Against	Voted for resolution to develop policy requiring the separation of CEO/ Chair roles	Did not pass (43%)
Sempra Energy	Against	Voted for resolution seeking greater disclosure around how lobbying association memberships align with the goals of the Paris Agreement	Did not pass (38%)
Kinder Morgan	For	Voted for remuneration (met with company to outline expectations and potential to vote against management in 2022 if no improvements with climate risk management)	Passed (96%)
Ferrovial	For	Voted to approve GHG emissions reduction plan (a 'Say on Climate' vote)	Passed (97%)
	For	Voted for proposal to put Climate Strategy Report to shareholder vote at 2022 AGM (a 'Say on Climate' vote)	Passed (97%)
	For	Voted for remuneration which included 30% weighting to ESG objectives, requiring disclosures on how indirect lobbying activities are aligned to Paris Agreement objectives	Passed (84%)
Vinci	For	Voted to approve environmental transition plan (a 'Say on Climate' vote)	Passed (98%)

23 Refers to the Maple-Brown Abbott Global Listed Infrastructure Fund (AUD).
24 Voting for a shareholder resolution equates to a vote against management.
25 The exception was Dominion Energy. The shareholder resolution requested information that was already available. Our vote against the resolution was in line with ISS voting guidance. Dominion reports transparently and has a high score in the CPA Zicklin Index on Corporate Political Disclosure and Accountability.

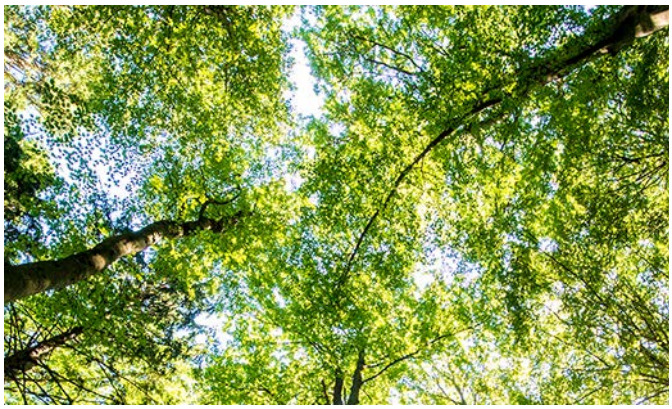
'Say on Climate' proposals

Launched in 2020, 'Say on Climate' is an initiative launched by the Children's Investment Fund Management (TCI) designed to encourage companies to provide shareholders an advisory vote on their climate change transition strategy. The initiative mirrors the 'Say on Pay' practice of voting on executive remuneration.

Spanish infrastructure operator, Ferrovial, became the first company to adopt a Say on Climate proposal in April 2021, asking shareholders to vote on its GHG emissions reduction plan and Climate Strategy Report. Shortly after, Vinci became the first French-listed company to ask shareholders to vote on its Environmental Transition Plan. We voted in favour of all three proposals. Pleasingly, Ferrovial's proposals aligned with several of our engagement recommendations, namely by publishing more detail on how the company will meet its 2030 emissions reduction targets over the next decade.

Out of concern for potential 'greenwashing', we do not believe that all Say on Climate proposals should warrant default support from shareholders. This is because the permissive nature of advisory votes can sometimes lead to sub-par company proposals that serve to justify climate inaction. We continue to monitor the effectiveness of the Say on Climate initiative as more and more companies adopt its framework.

Our plan looking ahead



Moving into 2021/22, our engagement priorities will continue to focus on the most material ESG and sustainability risks and opportunities we see across the global listed infrastructure opportunity set. For those companies that have set decarbonisation targets, such as a net zero commitment, our priority will be holding these companies to account and closely scrutinising their progress and performance over time. While we recognise that decarbonisation is not a smooth linear path, we expect companies to report openly and transparently about the challenges they face and how they plan to tackle them. In terms of climate risk management, we have identified a set number of companies that warrant more targeted engagement, particularly with regards to executive accountability and Board oversight.

From a modern slavery perspective, we hope to use the tools available through the Investments Against Slavery and Trafficking (APAC) initiative to build on our current engagement efforts. Having undertaken an initial risk assessment of portfolio companies, we plan to prioritise transportation infrastructure companies as a higher risk industry relative to others. We will pay particular attention to expanding supply chain assessments, improving contractor oversight and implementing remediation processes.

Many companies state their support for Indigenous reconciliation. We want to see companies with policies specifically detailing their approach to free, prior and informed consent, mechanisms by which community leaders can speak directly with management and Boards and workforce and procurement targets. There are a handful of companies we will prioritise for these conversations, namely those in the energy sector operating in Australia and North America.

The importance of timely and transparent political expenditures cannot be overstated. As fiduciaries acting on behalf of our clients, we need to be sure that externally facing statements are aligned with how companies are directing money towards political candidates and industry memberships. This topic cuts across all the themes discussed in this report and remains an ongoing priority.

We look forward to reporting back on our progress.

	Overview of ESG topics discussed in company engagements					
Company	**Climate risk**	**Decarbonisation**	**Modern slavery**	**Indigenous reconciliation**	**Gender equality**	**Political expenditures**
American Electric Power	✓	✓	–	✓	✓	✓
ALLETE	✓	✓	–	–	–	✓
Ameren	✓	✓	✓	–	–	✓
DTE Energy	✓	✓	–	–	–	–
Duke Energy	✓	✓	–	✓	–	✓
Entergy	✓	✓	✓	-	–	✓
Hydro One	✓	✓	–	✓	✓	✓
National Grid	✓	✓	✓	–	✓	–
Enbridge	✓	✓	✓	✓	✓	✓
Kinder Morgan	✓	✓	–	✓	✓	✓
Sempra Energy	✓	✓	–	–	–	✓
Snam	✓	✓	–	–	–	–
Williams Companies	✓	✓	✓	✓	✓	✓
Ausnet	✓	✓	✓	✓	✓	–
Spark Infrastructure	✓	✓	✓	✓	✓	–
Vopak	✓	✓	✓	–	✓	–
Severn Trent	✓	✓	✓	–	✓	–
United Utilities	✓	✓	✓	–	✓	–
Ferrovial	✓	✓	✓	–	✓	–
Fraport AG	✓	✓	✓	–	✓	–
Getlink	✓	✓		–	–	–
Sydney Airport	✓	✓	✓	–	✓	–
Transurban	✓	✓	✓	✓	✓	–
Zurich Airport	✓	✓	✓	–	✓	–

About us

As one of Australia's first boutique investment managers, Maple-Brown Abbott Limited (MBA) has evolved into a business focusing on managing Australian equity, Asian equity, global listed infrastructure, and multi-asset strategies. Operating for nearly 40 years, we manage investment portfolios for institutional, high net-worth and retail clients in Australia. We also have clients across the world including in North America, Europe and Asia. We are privately owned with around 60 staff in Sydney and over A$11 billion in assets under management as at 30 June 2021.

The MBA Global Listed Infrastructure business was established in 2012 in conjunction with Maple-Brown Abbott Limited and is majority owned by the MBA Global Listed Infrastructure (GLI) founding Principals and staff. The GLI team has extensive infrastructure and asset management experience, with the founding Principals working together for a number of years prior to MBA. Today, the GLI team comprises three principals, two Investment Analysts, a dedicated ESG Analyst, a Senior Research Associate, a Research Associate, and an Associate. The team manages approximately A$5bn on behalf of clients across North America, Europe, the Middle East and Asia Pacific regions.

The MBA Global Listed Infrastructure strategy invests in listed infrastructure equities with a focus on sustainability and environmental, social, and governance (ESG) factors. The strategy invests in companies that provide essential services to society and typically have a market capitalisation greater than US$500 million. We see it as our fiduciary responsibility to consider the financial and non-financial issues which may impact the performance of our clients' assets. We actively engage with companies and use proxy voting decisions to help drive more sustainable long-term outcomes for investors. In doing so, we assess a company's environmental, social, and governance (ESG) risks and opportunities as part of our detailed industry and company research at each step of the investment process.