VFMC
Victoria's investment specialist

Investment Stewardship Policy

June 2025

Investing for Victoria's future

Contents

1 Introduction

1.1 Purpose

Victorian Funds Management Corporation (VFMC) manages funds for the State of Victoria and related Victorian public authorities. In delivering investment returns consistent with the long-term objectives and risk appetite of the State and clients, VFMC's investment activities include being a responsible investment steward. This means that VFMC seeks to holistically look after clients' assets over the long-term, in a responsible manner.

The purpose of this policy is to set out, at a high level, VFMC's approach to investment stewardship.

It is VFMC's position that investment stewardship activities:

1. Are consistent with client and wider community expectations of a leading asset manager
2. Optimise VFMC's ability to deliver sustainable long-term returns for clients
3. Assist in managing investment risk and identifying opportunities

VFMC's approach to investment stewardship focuses on improving risk and returns by managing environmental, social and governance (ESG) risks alongside other investment factors. VFMC's position is that integrating ESG factors into its decision-making process is essential to VFMC's role as responsible stewards of capital, and clients' long-term returns. VFMC does this through four key areas of work:

a. Active ownership
b. ESG integration
c. Undertaking major ESG projects
d. Collaboration

The field of investment stewardship is broad and encompasses diverse areas of consideration. As such, it is intended that this policy has broad application. Notwithstanding, VFMC has a longstanding and ongoing focus on several priority themes. As an investor, VFMC prioritises ESG themes based on investment materiality and fulfilling VFMC's fiduciary obligations so that long term returns are safeguarded.

Priority theme	Overview
Governance and remuneration	Promote good corporate governance and business practice to support long-term shareholder value and alignment with VFMC's role as an investee stakeholder
Climate Change	Seek to manage the portfolio risks associated with climate change but also actively support and benefit from the transition to a low carbon economy as outlined in the VFMC Climate Action Plan.
Modern Slavery and Labour Rights	Understand how VFMC's portfolio companies' value chains impact on human and labor rights, and prevent, mitigate and account for negative impacts / externalities
Workplace Culture, Health and Safety	Promote physically and psychologically safe working environments to support engaged workforces and sustainable operations in investee companies
Diversity, Equity and Inclusion (DEI)	Support diversity, equity and inclusion within investee companies to positively affect decision-making, levels of employee engagement, reputation amongst stakeholders, innovation and improved financial performance.

Priority theme	Overview
Cultural Heritage	Promote the merits of effective recognition, protection, and conservation of First Nations cultural heritage to ensure corporations retain their social license to operate and mitigate risks from business disruption.
Cyber Security and Responsible Platform Governance	Promote enterprise-wide cyber resilience, user privacy and responsible data/platform management in line with social expectations.
Biodiversity, Natural Capital and the Circular Economy	To preserve natural systems and biodiversity in order to support sustainable economic activity.

1.2 Scope

This policy covers VFMC‘s investments across all asset classes (both internally and externally managed) and all jurisdictions.

2 Policy principles – investment stewardship

2.1 Active ownership

As a large investor and steward of clients' capital, VFMC is bestowed with ownership rights that VFMC seeks to use in a responsible manner. Accordingly, as part of VFMC's approach to investment stewardship VFMC seeks to be an active owner. VFMC does this by:

- Proactively engaging with investee companies and external fund managers on a range of ESG related matters
- Exercising proxy votes at listed company and unlisted fund meetings

Actively engaging and voting ensures that VFMC maintains a strong focus on the corporate governance and broader ESG practices in place at the companies in which VFMC invests clients' money. It also provides VFMC with the ability to influence and drive positive change in the practices of investee companies.

Engagement

VFMC runs a multi-year engagement program whereby VFMC engages directly and indirectly with priority investee companies regarding a broad range of ESG related matters and monitors and tracks progress against these periodically over time. The focus of VFMC's ESG related engagement includes influencing positive change and continuous improvement in corporate practices and elevating and encouraging proactive management of ESG risks as they relate to VFMC as a shareholder.

In addition to directly engaging with investee companies, VFMC is a member of the Australian Council of Superannuation Investors (ACSI). ACSI engages with listed companies in a collective manner on behalf of its members regarding ESG related matters.

VFMC's external fund managers also engage with investee companies and VFMC periodically discusses corporate engagement activities with fund managers. This provides us with a means by which to share knowledge and enhance VFMC's understanding of the issues at hand. It also allows us to test the active ownership capabilities of external fund managers.

Voting

VFMC actively exercises its voting rights at listed company and unlisted fund meetings. In doing so, VFMC adopts a rigorous approach to evaluating the resolutions before it and does not automatically follow proxy voting advice. In determining how to vote VFMC considers:

- Principles of good corporate governance
- Proxy voting research
- External manager analysis
- VFMC's equity analysts' views
- Engagement with the company
- Commercial considerations

For more information on VFMC's approach regarding proxy voting, see the *proxy voting policy.*

Escalation

VFMC implements a time bound and evidence-based program to track progress in response to engagement efforts across all sectors, with an escalation strategy in place for situations where engagement has not achieved the intended outcomes. Escalation actions include broader advocacy, exercising proxy votes to signal dissatisfaction on resolutions, supporting shareholder resolutions and voting against company directors. In certain and limited circumstances, VFMC may consider exclusion as final recourse, as detailed in VFMC's approach to exclusions.

2.2 ESG integration

Central to being a responsible investor and active steward of capital, is seeking to ensure that ESG factors are systematically integrated into the investment management process, in a pragmatic manner. Considering ESG issues as part of the investment management process provides investors with another lens through which to view, assess and understand investee companies and investment managers. At VFMC, when integrating ESG into the investment management and decision making processes (both internally and externally managed), VFMC:

- Seeks to comprehensively assess (and manage) material ESG risks across and within the portfolio through the incorporation of ESG into investment processes.
- Includes ESG as part of the pre-investment due diligence process
- Seeks to monitor:
    - How external managers are considering ESG
    - The ESG performance of companies and assets

As part of integrating ESG into VFMC's 'whole of portfolio' approach to investing, VFMC also monitors:

- ESG based macro-economic thematics impacting markets (i.e.. Inequality, food security, climate change etc)
- State, national and international regulatory and policy developments in the ESG field
- The latest industry and academic research and analysis regarding investment stewardship and ESG integration
- New and emerging ESG related investment products and approaches

Exclusions

VFMC's consideration of ESG issues is investment-driven and VFMC may invest in any entity where it is lawful to do so. VFMC primarily seeks to manage ESG risks through its active ownership investment approach and generally avoids exclusion.
However, in limited circumstances, VFMC may deem certain classes or categories of investment as incompatible with the objectives of clients. As such, VFMC will not be permitted to invest client portfolios in the securities and/or investment sectors listed in 'Appendix 1 – Current Exclusions'.

ESG Working Group

VFMC has established a multi-disciplinary ESG Working Group to further integrate ESG within investment activities. The working group includes representatives from all investment classes and brings together experience across internal and external investment management functions. Group members share, discuss, and evaluate market insights to gain a holistic view of ESG risk and opportunities across VFMC, to enhance ESG investment decision making, risk and returns.

2.3 Major ESG Projects

To ensure a robust approach to investment stewardship that continues to evolve, VFMC implements its work streams across a range of important ESG projects to support its investment stewardship activities. These projects are organised across ESG themes and Asset Class initiatives with the objective of ensuring that VFMC:

- Continues to develop its understanding of key issues and risks
- Proactively manages ESG risk
- Complies with relevant regulatory requirements.
- Conducts its activities in accordance with industry guidance and best practice standards.
- Develops analytical data to support ongoing evolution of ESG measurement

Examples of these projects include the Taskforce for Climate Related Disclosure (TCFD) and Modern Slavery Statement.

2.4 Industry Collaboration

A key part of being a responsible investment steward is collaborating with other investors to influence change across the market, at a systemic level. This is because the collective influence of investors is often greater than what can be achieved by any individual investor. It is also an efficient way in which to work, particularly given that investment stewardship and ESG activities are expansive in nature, encompassing all asset classes, many geographies, and a diverse range of issues.

In collaborating and working with others, VFMC is conscious of the fact that in the field of ESG there are many collaborations and that VFMC cannot feasibly participate in them all. In deciding whether to participate, VFMC considers a range of factors, including:

- Whether the collaborative initiative is directionally aligned with VFMC's approach to investment stewardship
- Client expectations and priorities
- Consideration of Victorian Government policy over the longer term
- The ability of the initiative to drive meaningful practical change

Related to collaborative activities, VFMC also seeks to share information with clients, peers, and key industry groups. The sharing of collective knowledge strengthens the industry as a whole and ensures that VFMC garners learnings from others.

3 Document Information

3.1 Document Status

Original issue date	February 2009
Current approval date	June 2025
Document category	Board level policy
Annual attestation required	No
Policy induction session required	No

3.2 Document Review and Approval

Policy role	VFMC role	Minimum review frequency	Last review date	Next review date
Owner	Head of Investment Stewardship	Every three years	February 2025	February 2028
Approver 1 (ELT member)	CIO	Every three years	March 2025	March 2028
Approver 2 (Management committee)	ORMC	Every three years	May 2025	May 2028
Approver 3 (Board committee)	ARCC	Every three years	June 2025	June 2028
Approver 4 (Board)	Board	Every three years	June 2025	June 2028

3.3 Document History

Version	Date	Summary of changes
1 -12	2009 -2024	First issue – ESG Investment Policy and subsequent annual reviews including renaming to Investment Stewardship Policy in 2021.
13	2025	Annual review, removal of surplus language for readability but no change to substantive approach. Minor changes to clarify Engagement approach in section 2.1 and Exclusions language in section 2.2. Change of review frequency from every two to every three years

Appendix 1 – Current exclusions

The following exclusions are in place across the VFMC investment portfolio where it is practically able to be implemented.

Exclusion	Definition	Methodology
Tobacco	VFMC excludes investments in companies involved in the manufacturing of tobacco products as defined by MSCI in its Global Industry Classification Standard (GICS®) framework.	Securities of companies engaging in manufacturing tobacco products will be identified for exclusion using the "tobacco" GICS industry classification: 302030
Cluster munitions	VFMC excludes investments in companies associated with the production of cluster munitions as required by VFMC's interpretation of the 2012 amendment to the Criminal Code (Cth), Division 72, Subdivision C.	Exclusion is based on MSCI assessment and where there is strong evidence that a company manufactures: a) components that were developed or are significantly modified for exclusive use in cluster munitions b) cluster munition whole weapons systems
Thermal Coal - Mining	VFMC excludes investments in companies primarily involved in the production and mining of thermal coal as defined by MSCI in its Global Industry Classification Standard (GICS®) framework	Companies are identified for exclusion using the "coal and consumable fuels" GICS sub-industry classification: 10102050 . Within this GICS classification, VFMC will use a revenue assessment to exclude companies primarily involved in the production and mining of thermal coal, related products and other consumable fuels related to the generation of energy.
Thermal Coal – Power Generation	VFMC excludes companies that generate power through thermal coal which constitutes greater than 10% of aggregate revenue; and do not appear to be transitioning away from this reliance	Companies are identified for exclusion where they have a greater than 10% of revenue (as determined by MSCI) sourced from thermal coal power generation , overlayed with a qualitative review of the company's climate transition action plan and other commitments.