VFMC
Victoria's investment specialist

Investment Stewardship Policy

July 2026

Investing for Victoria's future

Contents

1 Introduction

1.1 Purpose

The purpose of this policy is to set out VFMC's approach to investment stewardship, including how VFMC seeks to exercise its ownership rights and integrate material environmental, social and governance considerations across investment activities, consistent with its role as investment manager for the State of Victoria and related Victorian public authorities. In doing so, the policy supports VFMC's objective of delivering sustainable long-term investment outcomes for clients, within approved risk appetite and fiduciary obligations. This policy applies, where practicable, to VFMC's investments across all asset classes, jurisdictions and investment management arrangements, including both internally and externally managed investments.

It is VFMC's position that investment stewardship activities:

- support VFMC's ability to deliver sustainable long-term returns for clients; and
- assist in managing investment risk and identifying opportunities.

VFMC's approach to investment stewardship aims to improve risk-adjusted returns by managing environmental, social and governance (ESG) risks and opportunities, alongside other investment factors. VFMC believes that integrating financially material ESG factors into its decision-making is critical to safeguarding clients' long-term returns and is central to its role as a responsible steward of capital. VFMC pursues this through four key pillars:

- Active ownership;
- ESG integration;
- Major ESG projects; and
- Collaboration.

1.2 Scope

Investment stewardship is broad in scope and spans 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, which are financially material, relevant to the fulfilment of VFMC's fiduciary obligations, and expected to support the delivery of sustainable long-term investment outcomes for clients.

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	As outlined in the VFMC Climate Action Plan, manage climate-related physical and transition risks, and selectively support risk-adjusted opportunities that support the global transition towards net zero emissions.
Modern Slavery and Labour Rights	Understand how VFMC's portfolio companies' value chains impact human and labour 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.

Priority theme	Overview
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.
First Nations' Rights, Relationships and Cultural Heritage	Promote the merits of effective recognition, protection, and conservation of First Nations cultural heritage to ensure corporations retain their social licence to operate and mitigate risks from business disruption.
Cyber Security and Responsible AI Governance	Promote enterprise-wide cyber resilience, user privacy and responsible use of artificial intelligence in line with social expectations.
Biodiversity, Natural Capital and the Circular Economy	Support the protection and sustainable use of biodiversity and natural capital, recognising their role in enabling efficient resource use, resilient business models and sustainable long-term economic activity.

2 Policy principles

2.1 Active ownership

Active ownership enables VFMC to safeguard shareholder value in investee companies, funds and assets – including a strong focus on corporate governance, risk management, and broader ESG practices. VFMC's active ownership activities focus on:

- Proactively engaging with investee companies and funds on a range of ESG-related risks, opportunities and priorities; and
- Exercising voting rights at listed company Annual and Extraordinary General Meetings.

2.1.1 Engagement

VFMC undertakes a multi-year engagement program through which it engages directly with prioritised investee companies on material ESG matters and monitors progress over time. The objective of this engagement is to elevate the management of financially material ESG risks and opportunities, promote improvements in corporate practice and support the delivery of sustainable long-term investment outcomes.

In addition to direct engagement with prioritised investee companies, VFMC leverages its membership of the Australian Council of Superannuation Investors (ACSI) to support engagement with a broader set of listed companies. ACSI undertakes collective engagement on ESG-related matters on behalf of its members, providing VFMC with an additional channel to influence corporate practices across the market.

VFMC periodically discusses corporate engagement activities with its listed equities external fund managers, who also engage with investee companies. These discussions support knowledge sharing, provide insight into emerging ESG issues and market practice, and help reinforce VFMC's expectations regarding active ownership. They also provide a mechanism through which VFMC can contribute to broader system-level influence by encouraging consistent stewardship practices across external managers and investee companies.

2.1.2 Proxy 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 *VFMC Proxy Voting Policy*.

2.1.3 Escalation

VFMC implements a time-bound and evidence-based program to track progress by investee companies 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 divestment or 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 assess and manage material ESG risks and opportunities across and within the portfolio through investment governance processes;
- includes explicit ESG considerations within pre-investment due diligence processes; and
- seeks to monitor:
  - the capabilities and approach of external managers to consider material ESG factors; and
  - the performance of companies and assets with respect to material ESG factors.

As part of ESG integration within VFMC's 'whole-of-portfolio' approach to investing, VFMC also monitors:

  - ESG-related macro-economic thematics impacting markets (for example, inequality, food security, climate change etc.);
  - state, national and international regulatory and policy developments of ESG relevance;
  - industry and academic research regarding investment stewardship and ESG integration; and
  - ESG-related investment products, approaches and decision-useful tools.

2.2.1 Exclusions

VFMC's primary approach to managing ESG risks is through active ownership, including engagement and proxy voting. Accordingly, VFMC generally does not rely on exclusions. However, where an ESG risk cannot be effectively addressed through engagement or other active ownership measures, VFMC may determine that an investment exclusion is appropriate.

Where it is practically able to do so, VFMC has exclusions in place for tobacco manufacturers, cluster munitions producers, and thermal coal mining and power generation, as detailed in 'Appendix 1 – Current exclusions'.

2.2.2 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, including experience across internal and external investment management functions. Group members share, discuss, and evaluate market insights to gain a holistic view of ESG risks 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 risks and opportunities;
- proactively manages ESG risk;
- complies with relevant regulatory requirements;

- conducts its activities in accordance with industry guidance and best practice standards; and
- develops analytical data to support ongoing evolution of ESG measurement.

Examples of these projects include the Task Force on Climate-related Financial Disclosures (TCFD), and the Modern Slavery Statement.

2.4 Collaboration

VFMC engages with other investors to promote sound market practices and to better understand shared, systemic ESG risks. VFMC recognises that a collective understanding of these issues can be more informative than the perspective of any individual investor, and that engaging in this way is an efficient means of addressing matters that are expansive in nature, encompassing all asset classes, many geographies and a diverse range of issues. Any such collaboration is limited to the sharing of information and views on ESG themes and market-wide practices. VFMC at all times exercises its own independent judgement and retains sole discretion over its investment, engagement and voting decisions.

VFMC recognises that there are many collaborative initiatives 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; and
- the ability of the initiative to drive meaningful practical change.

In addition to strategic participation in collaborative initiatives, 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.

Appendix 1 – Current exclusions

The following exclusions apply to the VFMC investment portfolio, where practicable.

Exclusion	Definition	Methodology
Methodology Tobacco	VFMC excludes investments in companies involved in the manufacturing of tobacco products, as defined by the 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 ISS ESG data, where there is strong evidence that a company manufactures: a) components that were developed or are significantly modified for exclusive use in cluster munitions; or 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 the 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 assesses sources of revenue to decide whether 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 with more than 10% of aggregate revenue relating to thermal coal power generation. Exceptions are allowable for companies with credible and demonstrable decarbonisation transition pathways, as independently assessed and monitored by VFMC.	Companies are identified for exclusion where they have more than 10% of revenue (as determined by ISS ESG) sourced from thermal coal power generation, overlaid with a qualitative review of the company's climate transition action plan, other commitments, and related implementation.