

BT Financial Group Stewardship Policy

Effective April 2019

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1. What is stewardship?

The stewardship of asset ownership (referred to as **stewardship** in this document) is one of the ways in which we take care of our superannuation members' and investors' (our **customers'**) assets. By influencing companies and fostering engagement through their growing assets under management and long-term investment horizon, large institutional investors, like BT Financial Group (**BTFG, our, we**), use stewardship to drive positive portfolio outcomes. This is primarily achieved by influencing responsible practices at companies in which our funds invest, through engagement with companies and proxy voting.

2. Our position

As a large asset owner, with a stake in the wider economy, BTFG believes that positive financial outcomes can be enhanced by good environmental, social and governance (**ESG**) risk management including through the stewardship of asset ownership.

BTFG believes that better investment outcomes are achieved when ESG considerations are factored into investment decision-making. When considering ESG factors in the investment process, BTFG is not seeking to take a moral or ethical stance on ESG issues. We consider how ESG issues may impact a company, for example through its operations, returns or social license to operate. Our approach is motivated by financial goals, aiming to create long-term sustainable value and/or manage risk, consistent with our fiduciary duty.

As a substantial shareholder on behalf of our customers, BTFG recognises that we have an opportunity to influence the companies in which we invest, and therefore investment returns and risk over time.

Where we have voting rights in regards to proxy voting on company resolutions, we believe we have the responsibility to cast votes to influence the corporate governance of the companies in which we invest. Participation in the voting process ensures that we are working to protect our customers' interests.

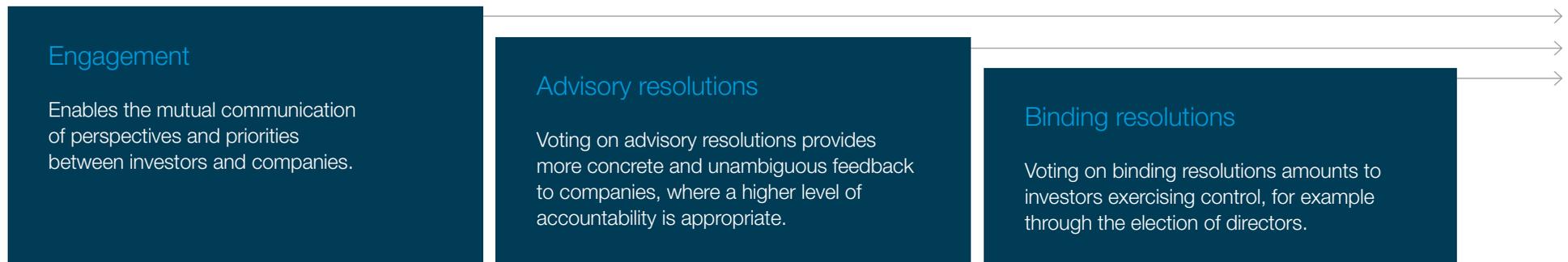
2. Our position

BTFG further believes we have a responsibility to engage with companies to encourage good governance, transparency and sustainable business practices. In turn, the degree to which a company responds helps inform our view of the quality of the company's management.

BTFG is a signatory to the Principles of Responsible Investment (**PRI**), a set of voluntary actions for incorporating ESG issues into mainstream analysis, investment decision-making and ownership practices. Consistent with Principle 2, we seek high levels of transparency, governance, and environmental and social responsibility from the companies in which we invest. This is founded on the belief that good corporate

governance, company engagement and the exercise of voting rights provide a structure likely to maximise returns to investors. The principles are available at www.unpri.org.

Whilst the board and executives of a company are responsible for its strategy and operations, we recognise that we can express a view and influence company policy and practices on ESG matters by virtue of shareholdings under our management. The primary objective of company engagement and the exercise of voting rights is to uphold the long-term best interests of our customers.



3. Purpose

This policy (**Policy**) sets out BTFG's approach to stewardship. This includes our proxy voting principles and our approach to voting for the relevant BTFG entities issuing superannuation and investment products. It also sets out how we engage with companies in which we invest where we act in the role of investment manager.

This Policy was approved by the relevant BTFG entity Boards in March 2019 and is reviewed annually.

The purpose of this Policy is to:

1

Communicate to customers and other stakeholders our principles in relation to proxy voting matters.

2

Detail our expectations of the companies in which we invest, and by doing so provide guidance to investment managers on how we expect them to cast votes on our behalf.

3

Provide guidance for our own decision-making for voting on contentious issues.

4

Where we act as investment manager, communicate how we approach company engagement.

4. Scope

BTFG acts as a steward at two levels:

- At a company level, through proxy voting where we exercise voting rights on securities, and through company engagement when we act in the role of investment manager; and
- With investment managers, to promote good practices in proxy voting and engagement and the integration of ESG factors in the investment process, consistent with their size, resources and investment philosophy.

This Policy applies to investments in publicly listed Australian and international securities held in investment options issued by BTFG entities where we act in the role of investment manager, and where those BTFG entities have voting rights through an investment management agreement. This includes 'manage the manager' (multi-manager funds) where BTFG entities act as Responsible Entity (**RE**), or certain products issued by a BTFG Life Insurer (e.g. annuities). The BTFG investment team is the investment manager for various investment options issued by BTFG entities, and along with external investment managers they appoint on behalf of BTFG entities to manage specific portfolios, are responsible for voting on publicly listed securities where applicable, as outlined in section 5.1. As reasonably practicable, section 5.1 of this Policy also applies to Australian and international securities held in investment options issued by BTFG entities where we do not act in the role of investment manager, but rather have an investment management agreement with an external investment manager. If section 5.1 of this Policy is not able to be applied, the external investment manager must provide its proxy voting policy to BTFG and vote in accordance with its policy.

4. Scope

This Policy also applies to investments in unlisted managed funds where BTFG entities have voting rights. BTFG's Investment Research and Governance (**IRG**) team is generally responsible for voting on unlisted managed funds where applicable. The BTFG investment team may vote on unlisted managed funds within the funds they manage.

In some superannuation funds, a superannuation trustee invests in life policies issued by a life insurance company. In these circumstances, voting rights in relation to securities underlying that life policy vest in the life insurance company and not the superannuation trustee.

In a number of cases, BTFG will not hold direct and immediate voting rights because of the investment exposure being accessed through an external trust or other structure (e.g. an investment by a BTFG fund in an external managed investment scheme which then invests pooled or collective monies in underlying assets).

This Policy does not apply to Investor Directed Portfolio Service (**IDPS**), IDPS-like (or functionally equivalent) or broking platforms (for example BT Personal Portfolio Service – Investments, BT Invest, BT Managed Portfolios, Panorama Investment), private client or discrete wholesale mandates, or external-managed funds (that is where BTFG entities do not act as RE).

5. Principles and approach

To meet the objectives of this Policy, the following will apply:

- All voting rights conferred by or attached to any investment held through a product operated by BTFG will be exercised in the long-term best interests of customers;
- For voting rights associated with investments in unlisted managed funds with pooled or collective monies (including the right to attend meetings and the right to vote), BTFG will consider whether it is appropriate in the circumstances (taking into account the long-term best interests of customers) for BTFG to exercise such rights. No later than 20 days after the end of the financial year we will publish a summary of IRG's voting activities on unlisted managed funds on our website at www.bt.com.au/about-bt/bt-financial-group/additional-disclosure. Disclosure of voting records for direct securities is outlined in section 5.1.3; and
- Where we act in the role of investment manager, BTFG's priority in company engagement is to improve the long-term investment outcomes for customers. Section 5.2 of this Policy details our approach to company engagement.

5. Principles and approach

5.1 Proxy voting

This section primarily applies to investment options issued by BTFG entities where we act as investment manager. The proxy voting principles and approach apply to holdings in publicly listed Australian and international securities only. We provide this Policy (as amended from time to time) to our external investment managers and seek alignment between their proxy voting actions and this Policy.

Where we have direct voting rights, these rights should be exercised and proxy votes should be cast in the long-term best interests of customers. Where the underlying external investment managers undertake proxy voting on our behalf, we will review our investment managers' proxy voting policies for alignment with our proxy voting principles. For contentious issues, such as shareholder proposals, we may consider the views of our customers and expert external views, including those of our engagement providers and proxy advisors, and decide how a proxy should be voted across all holdings.

Decisions on how to vote proxies will be made on a company-by-company and resolution-by-resolution basis. Where appropriate and practical to do so, we will seek to cast votes in accordance with the following principles via our own direct voting activities or through the exercise of voting rights by our external investment managers.

These proxy voting principles apply to Australian and international securities, however consideration may also be given to local market best practice as detailed below. At times, the proxy voting principles may clearly relate to a resolution, such as a vote on remuneration. In other instances, the proxy voting principles may not link directly to a resolution but, in aggregate, may guide a vote, such as voting on the election of a director. The overriding principle is that votes are exercised in the long-term best interests of customers.

5.1.1 Proxy voting principles

Board of directors

Our expectations of companies

- That directors will observe all laws and regulations, and will ensure the company likewise observes all applicable laws and regulations. Policies and disclosures should indicate how they and the company manage relations with governments, regulators and other stakeholders, including how they seek to preserve and enhance their social license to operate;
- That directors act objectively, minimising, managing and disclosing conflicts, in the long-term interests of the company and its shareholders;
- That a nomination committee is established to assess the required expertise of the board, provide recommendations for appointments, monitor the board's performance and undertake succession planning on an ongoing basis;
- That directors possess competencies, expertise and experience relevant to the company and its operating environment and to the exercise of their duties as directors. The reasons for their appointment should be disclosed;
- That directors commit sufficient time to company affairs to perform their duties to a high standard, and reserve spare capacity for contributions needed in times of crisis;
- That the board has a formal performance process to assess and disclose the performance of the company, management and directors themselves in line with company strategy;

5. Principles and approach

- That directors ensure accurate and true disclosure of financial management;
- That directors monitor and manage all material risks, and enable investors to do the same, through comprehensive disclosures;
- That the board has oversight of related-party transactions and discloses their policy for managing these transactions in line with the best interests of the company and its shareholders;
- That directors make appropriate enquiry into capital investment plans to ascertain they are aligned with the creation of long-term shareholder value;
- That directors establish an audit committee comprised of independent directors only, with appropriate expertise and experience, and establish a transparent process for appointing an external auditor. The external auditor must be independent of the company and should not perform material non-audit work. We support regular rotation of the role of auditor to promote auditor independence.

Voting principles

- The majority of directors should be independent of management, except in exceptional circumstances. We support annual disclosure of whether directors are considered independent and the reasons supporting this;
- Ideally, the roles of Chairperson and Chief Executive Officer should be separate and an independent director should serve as Chairperson;
- We have a preference to maintain the role of Chairperson as independent from former Chief Executive Officers, other former executives or current significant

shareholders to avoid potential conflicts, perceived or otherwise. However, we recognise there are special circumstances where there is a founding shareholder;

- We support board diversity, across gender, ethnicity and nationality, where it is likely to broaden the perspectives of the board and improve decision making, and reflects a balance of skills and experience across the board;
- We oppose director nominations where there is significant doubt over the director's ability to effectively oversee management and serve in the best interests of the company and its shareholders, or where performance has not been acceptable. Examples may include egregious actions by a director, or material failures of governance, fiduciary responsibilities including ESG risk management, and risk oversight;
- Time constraints limit the number of directorships an individual can hold and this should be considered in exercising voting rights. We may vote against a director who we consider to be overcommitted. Whether a director is overcommitted depends on factors including the number of roles he or she has, the size and complexity of a company, travel requirements and any additional responsibilities such as that of a committee chair;
- We are against proposals, transactions or structures that seek to artificially entrench current management and/or thwart takeover proposals. However, we also recognise there may be limited instances where such structures enable the board to negotiate a higher takeover price on behalf of shareholders. We expect comprehensive and transparent disclosures in such circumstances.

5. Principles and approach

Culture, values and conduct

Our expectations of companies

- That companies establish and encourage a strong, ethical culture with a focus on corporate values and purpose;
- That the board is responsible for overseeing culture and conduct;
- We support the adoption of a code of conduct or charter to guide ethical and responsible behaviour of directors, management and employees. Disclosure should indicate how such policies are communicated throughout the organisation and how the board monitors corporate behaviour and compliance with such policies;
- We also support the adoption of policies that encourage and protect whistleblowers.

Voting principles

- The board is ultimately responsible for culture and conduct and should be held accountable for culture or conduct-related issues.

5. Principles and approach

Remuneration

Our expectations of companies

- That the remuneration committee is comprised of majority independent directors and is responsible for developing, implementing, reviewing and assessing remuneration policies and outcomes. The committee should ensure awards properly reflect business performance. Consideration should be given to what behaviours and priorities remuneration arrangements incentivise, and what costs and non-financial consequences may arise;
- That executive remuneration is aligned to the company's purpose and strategy, is reasonable, is linked to long-term performance and corporate culture, and avoids arrangements that risk "pay for failure". Disclosure should be comprehensive and transparent;
- That executives receive reasonable "base" remuneration for their day-to-day service, and a portion of their total remuneration is "at-risk" as appropriate for their industry, and clearly linked to defined financial and non-financial performance targets as part of incentive plans. To ensure alignment of interests, executives should have a material long-term investment in their company's shares;
- That non-executive directors' remuneration only consists of reasonable fixed pay.

Voting principles

- Senior executive and non-executive management remuneration should be reasonable and competitive to attract the right calibre person for the role. We oppose remuneration packages that exceed this;
- We support the adoption of a clawback policy, whereby companies have the ability to recover incentives that executives have received based on subsequent identification of fraudulent activities, serious cases of misconduct or accounting misstatements.

5. Principles and approach

Stakeholders

Our expectations of companies

- That companies are managed holistically to optimise long-term sustainable returns, with consideration given to the interests of stakeholders and society. This includes preserving and enhancing the company's social licence within the communities in which it operates;
- That human capital management strategies ensure employees are treated with dignity and respect. Appropriate policies and procedures should be put in place to manage workplace health and safety;
- That human rights are respected across the company's value chain and plans are implemented to identify and manage human rights risks;
- That companies demonstrate how they identify and manage opportunities and risks related to environmental and social factors for long-term value to shareholders and society. This should include an assessment of possible future climate change risks, as relevant, in addition to those that have already emerged, and consideration of actions to reduce greenhouse gas emissions across the value chain;
- That companies report on their exposures to, and management of, material environmental and social risks. For climate risks in particular, reporting should adopt the recommendations of the Task Force on Climate-related Financial Disclosures (TCFD).

Voting principles

- We support social and environmental proposals that seek to promote good corporate citizenship while enhancing long-term value to shareholders and society;
- We support proposals for sustainability reporting that enables investors to have an informed view of material ESG risks, at reasonable cost to the company. This includes disclosure of climate-related risks in accordance with the TCFD.

5. Principles and approach

Capital structure and shareholder rights

Our expectations of companies

- If a company has controlling shareholders, we expect safeguards to be put in place to protect and inform minority and non-controlling shareholders, including disclosure of any connections with directors;
- That significant, long-term shareholders have the right to nominate director candidates;
- That shareholders have effective powers to hold the board to account;
- That the board is responsible for ensuring transactions such as mergers and acquisitions, major equity capital raisings and share buybacks are undertaken in the interests of existing shareholders, and conflicts of interest are managed appropriately;
- That companies provide significant, long-term shareholders with regular opportunities for engagement (beyond annual general meetings);
- Within the Australian market, we support the potential development of non-binding shareholder proposals, with appropriate regulatory oversight;
- That companies disclose voting results.

Voting principles

- We support the protection of shareholder rights and oppose proposals that remove or dilute these rights;
- We do not support proposals for capital structures where there are multiple classes of voting rights, and support one share/one vote.

5. Principles and approach

As indicated above, the overriding principle when voting on company resolutions is that voting rights should be exercised and cast in the long-term best interests of customers. There may be exceptional circumstances where, with good reason, we or our investment managers believe it is in the long-term best interests of our customers to vote in a manner different to that outlined above or to abstain from voting.

We understand our external investment managers may overlay this set of proxy voting principles with regional principles based on local market best practice. We would expect investment managers to give consideration to local market standards (e.g. The UK Corporate Governance Code) in their decision-making process, but where, in the investment manager's assessment, local standards are inferior to our best practice expectations, precedence should be given to our proxy voting principles wherever possible. In this way, we seek to apply a standard of generally accepted good governance practice in our voting activity, while also factoring in relevant regional differences in governance practice.

5.1.2 Application and implementation

We provide authority to investment managers to exercise any right to vote attached to a security. From time to time we may direct external investment managers how to vote under certain circumstances or may restrict an investment manager from voting. In the absence of any direction or restriction from us, external investment managers must vote according to their own proxy voting policies, in the long-term best interests of customers. We will review our investment managers' proxy voting policies for consistency with this Policy. If an inconsistency arises, we may accept an investment manager's policy with reasonable explanation for the differences and their application, or alternatively require the manager to exercise voting rights according to our Policy. Where an investment manager elects not to vote, the investment manager is expected

to keep records demonstrating the rationale for such a decision and only not vote for a good reason.

Resolutions involving contentious issues will generally be considered by the BTFG investment team and applied across the options issued by BTFG entities where we act as investment manager. To assist in decision-making, we may seek the views of our external investment managers, may conduct research internally, may use the resources of external advisory services and may meet with the company subject to the vote. In the event that we give a direction to external investment managers in relation to the appointment of a proxy and the way in which the proxy should be voted, the investment manager must use its best endeavours to implement the direction.

If a voting situation arises that is not covered by either the external investment manager's policy or this Policy, and no direction has been given, the investment manager must vote as if it were a fiduciary investing for the long-term (over 10 years). The external investment manager may also contact the BTFG investment team to agree an approach.

As required by an Australian Securities and Investments Commission exemption, we do not vote, nor permit appointed investment managers to vote, in respect of holdings of Westpac Banking Corporation (**WBC**) shares held by BTFG trusts or schemes or WBC associated entities.

5.1.3 Disclosure

We disclose this Policy and proxy voting records on the www.bt.com.au and www.advance.com.au websites. Proxy voting records are disclosed no later than 20 days after the end of the financial year.

5. Principles and approach

5.2 Engagement

The following section outlines BTFG's engagement principles and approach. This applies for investment options where BTFG acts as investment manager.

As universal owners, large institutional investors like BTFG have the ability to foster engagement and influence companies through their growing assets under management and long-term investment horizon.

To support and encourage positive change in areas such as business practice, risk management, governance, sustainability and disclosure, we use engagement. This involves a dialogue, in many cases, with directors and senior management of invested companies with the goal of improving long-term shareholder value.

Our policy is to:

- Engage with companies in which we invest to drive positive portfolio outcomes, either directly, through specialist engagement providers or through our underlying investment managers;
- Engage with companies of material value and risk, balanced with the feasibility of achieving positive outcomes;
- Engage holistically with companies, rather than on isolated business issues; and
- Report on our engagement activity.

5.2.1 Application and implementation

We use a combination of engagement approaches. To benefit from enhanced access, subject matter expertise and economies of scale, we primarily engage through specialist engagement service providers, specifically Hermes Equity Ownership Services (**Hermes EOS**) for global shares and Regnan – Governance Research & Engagement (**Regnan**) for domestic shares. Hermes EOS and Regnan's engagement approaches use the pooling of assets to provide a higher level of influence, and facilitate economies of scale. Hermes EOS and Regnan research, identify and prioritise ESG issues with input from BTFG entities amongst other investors. We meet regularly with our engagement providers to discuss engagement priorities and progress.

Our engagement providers monitor our investments in companies and intervene where necessary with the aim of delivering positive change, considering financial and non-financial outcomes such as impacts on the environment and society. The premise of this is that in working with boards and management, shareholders can contribute to better risk management and achieve superior long-term performance.

We also expect our investment managers to use their influence in order to achieve stronger investment outcomes over the long-term. We encourage our investment managers to directly engage companies on all matters, including ESG issues where appropriate, to facilitate a better understanding of the opportunities and risks associated with their investment.

We may also participate from time to time in direct engagement with companies. We are also involved in collaborative engagement efforts, such as the Climate Action 100+.

5. Principles and approach

While our engagement activities are typically focused on our holdings in shares, the approach of our engagement providers and investment managers does extend to corporate bonds. Our engagement providers also undertake public policy engagement and advocacy, working with legislators, regulators, industry bodies and other stakeholders to influence capital markets. This can include, for example, advocacy on market disclosures, and preparing submissions regarding regulations and industry codes.

5.2.2. Disclosure

Our engagement providers provide us with regular reporting including engagement plans and objectives, statistics, company progress, case studies and alerts. Engagement is built on trust and working constructively with boards and executives often over an extended period. Given the nature of these relationships, we and our engagement providers are not able to disclose details of all engagement activities, however case studies serve to demonstrate the engagement activity undertaken and key successes. We publish public material at www.bt.com.au/sustainability and www.advance.com.au.

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Disclaimer

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