

# Sustainable Finance Disclosure Regulation



## Principal Adverse Sustainability Impacts Statement and disclosures in relation to Sustainability Risks and Remuneration Policies

March 2021

The following disclosures are made by each of Macquarie Investment Management Europe S.A. ("**MIME SA**") (LEI: 222100BG2FQQTASJ7290) and Macquarie Investment Management Austria Kapitalanlage AG ("**MIMAK**") (LEI: 529900ABVEUZ22YQG259) pursuant to Articles 3, 4 and 5 of Regulation (EU) 2019/2088 of the European Parliament and of the Council of 27 November 2019 on sustainability-related disclosures in the financial services sector ("**SFDR**").

## 1. Introduction

Macquarie Investment Management ("**MIM**", "**we**" or "**our**"), a division of Macquarie Asset Management ("**MAM**"), acts through MIME SA and MIMAK, which are authorised and regulated entities in the European Economic Area. MIM is a diversified, active investment manager focused on providing investment capabilities across a large range of asset classes on behalf of institutional investors, wholesale distributors and platforms, and financial advisors and their clients worldwide, across fixed income, currency, equities, listed real estate, listed infrastructure, hedge funds, and multi-asset solutions.

Our specialised, independent investment teams are focused on delivering long-term, consistent results for our clients. Each team has autonomy to execute on its own investment philosophy and process – to focus on investing – while benefitting from a comprehensive global operational support platform, structural oversight as well as a broad global distribution network. Our teams offer multiple strategies and all of our teams share several traits: independent thinking, global perspectives and conviction in their specialised investment philosophies.

Across MIM, we believe that well-managed companies will deliver long-term shareholder value and therefore, that it is important for a company to have high-quality risk management and governance with appropriate supervision through balanced controls. Typically, this means that the company has a strong and effective board, honours appropriate ownership and shareholder rights, implements effective remuneration structures in line with long-term performance, delivers transparent and high-quality reporting to its shareholders and other stakeholders, and considers its environmental and social footprint and exposure.

Our teams invest with long-term horizons and seek to minimise risk and maximise returns based on the investment objectives of our clients. We recognise that Environmental, Social and Governance ("**ESG**") factors are important for assessing investment risk and that positive ESG performance may be a potential indicator of management quality, operational performance, and the potential to create long-term value. Where we determine ESG factors to be relevant, we will consider them.

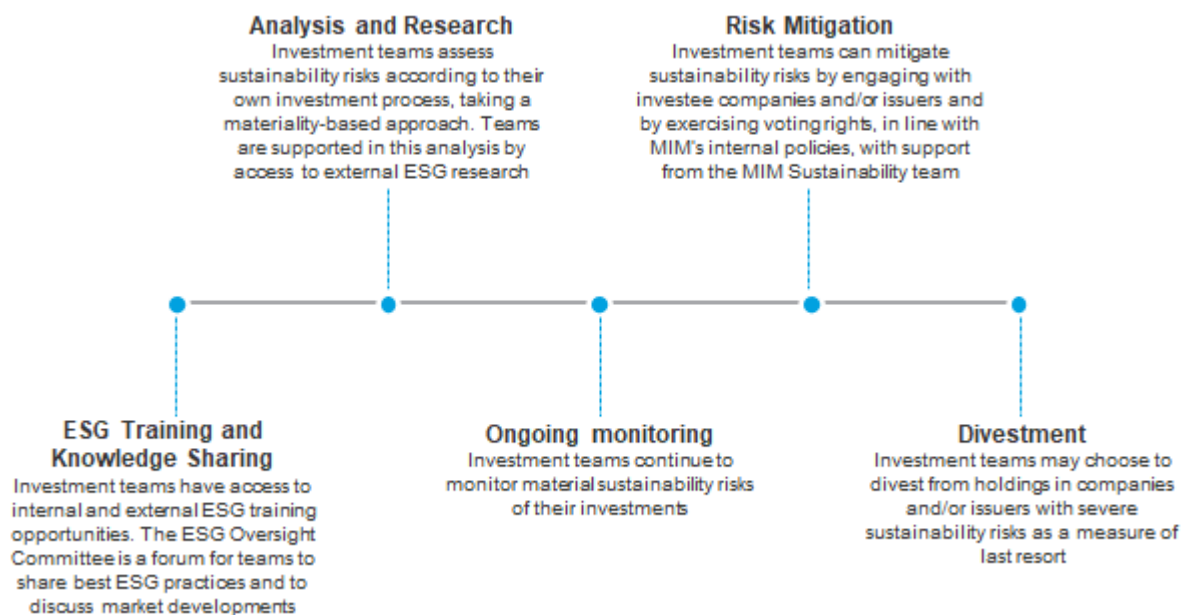
To supplement our investment teams' fundamental analysis, we provide them with access to specialised external ESG research, governance, and proxy analysis, as well as internal ESG resources including sustainability risk profiles and adverse sustainability impact metrics.

MIM, including MIME SA and MIMAK, is governed by an Environmental, Social and Governance Policy ("**ESG Policy**") which is reviewed annually. The ESG Policy provides a framework for incorporating the consideration of ESG risks and opportunities into our processes for making investment decisions and providing investment advice across MIM, as well as a framework for considering the principal adverse impacts of our investment decisions and investment advice on sustainability factors.

## 2. Sustainability Risks

Sustainability risks are those environmental, social or governance events or conditions that, if they were to occur, could cause an actual or a potential material negative impact on the value of an investment.

Sustainability risks are integrated into the investment decisions and investment advice of MIM's investment teams and are taken into account throughout the investment process as follows in accordance with the ESG Policy.



Our investment teams are supported in their application of the ESG Policy by MIM's dedicated sustainability team, which is responsible globally for setting MIM's overall sustainability strategy and ESG Policy and providing specialist expertise on sustainability risks.

Inherent to MIM's investment teams' identification and assessment of securities is an in-depth analysis of economic, competitive, and other factors that may influence future revenues and earnings of the issuer of the securities. Sustainability risks that have been identified as material are included as part of this analysis.

### 3. Principal Adverse Sustainability Impacts (PASI)

We consider the principal adverse impacts of our investment decisions and investment advice on sustainability factors, which, under SFDR, are defined as environmental, social and employee matters, respect for human rights, anti-corruption and anti-bribery matters.

Both MIM SA and MIMAK are subject to MIM's Principal Adverse Sustainability Impacts Policy ("**PASI Policy**"), which is reviewed annually and will be updated as necessary when the final Commission Delegated regulation supplementing the SFDR with regard to the content, methodologies and presentation of information in relation to sustainability indicators and the promotion of environmental or social characteristics and sustainable investment objectives in pre-contractual documents, websites and periodic reports (the "**Regulatory Technical Standards**" or "**RTS**") is published in the Official Journal of the EU.

Pursuant to the PASI Policy, we will identify, prioritise and seek to mitigate, the principal adverse impacts of our investment decisions and investment advice on sustainability factors. MIM's ESG Oversight Committee will review the PASI indicators that are assessed by MIM annually and will consider both regulatory guidance and any additional indicators identified by investment teams, and whether they should be assessed and reported on at a firm level. It will also determine which PASI should be prioritised in terms of mitigation efforts, as further outlined below.

In 2020 MIM, as part of MAM, made a public commitment to invest and manage its portfolio in line with global net zero greenhouse gas emissions by 2040. MIM will seek to support the goals of the Paris Agreement in a manner consistent with its client-guided fiduciary and regulatory responsibilities. In line with this commitment, on a quarterly basis, MIM currently considers the greenhouse gas ("**GHG**") intensity of investee companies on an entity level by comparing the GHG intensity of a representative portfolio from each equity investment team against the GHG intensity of the benchmark chosen to track investment returns for such portfolio and against historic data for previous reference periods.

In addition, individual equity and fixed income investment teams consider additional PASI indicators that they believe are material to their overall assessment of portfolio companies and/or in response to client preferences. Some of these PASI indicators include:

- Scope 1 and 2 GHG emissions

- Carbon footprint
- Exposure to companies active in the fossil fuel sector
- Violations of UN Global Compact principles
- Board gender diversity
- Exposure to controversial weapons
- Investee countries subject to social violations

The RTS published in the Final Report on draft Regulatory Technical Standards dated 2 February 2021 contains a list of 14 mandatory PASI indicators (as well as two for sovereigns and supranationals and two for investments in real estate assets) and a further 46 optional indicators. MIM will expand the PASI indicators it currently considers, pursuant to the PASI Policy and as outlined above, to comply with the PASI reporting requirements once the RTS enters into force. MIM currently has in place measurement tools to identify many of these indicators and will continue to enhance our efforts as the investment industry's capabilities to identify these indicators continues to evolve. Our investment teams have access to these tools which they use to identify material risks to their underlying investments. MIM will continue to monitor this list as subsequent changes are made.

We address the sustainability impacts of our investment decisions and investment advice via a number of established methods, a summary of which is outlined below. Investment teams may choose to take these into account when considering how to mitigate PASI.

#### *Internal policies*

We have sought to address impacts on sustainability factors by embedding responsible business conduct into relevant policies and management systems. Below is a list of relevant policies applicable to MIM's business:

- MIM ESG Policy
- MIM Global Engagement Policy
- MIM Proxy Voting Policy
- MIM Good Governance Policy
- Macquarie's Code of Conduct

#### *Due Diligence*

Due diligence may be used as a way of preventing adverse impacts and may help to screen out potential investments with high adverse impacts. Investment teams may adopt their own due diligence requirements taking into account their particular strategies, product and client requirements.

#### *Engagement*

Engagement may be used to influence investee companies causing an adverse impact, to prevent or mitigate that impact. Many of our investment teams engage with underlying investee companies on ESG matters. Any engagement with investee companies is exercised in accordance with the MIM Global Engagement Policy. The MIM Global Engagement Policy is compliant with Article 3g of EU Directive 2007/36/EC (also known as the Shareholder Rights Directive II).

Engagement can include exercising voting rights as a shareholder, sending letters to or attending meetings with the management of investee companies, setting up documented and time-bound engagement in actions or shareholder dialogue with specific sustainability objectives, and planning escalation measures in case those objectives are not achieved, including reductions of investments or exclusion decisions.

#### *Voting*

MIM exercises voting rights on behalf of its clients on both financial and non-financial matters, including ESG issues. In circumstances in which MIM wishes to effect positive change on ESG matters, MIM is willing to vote against management where necessary. Such actions will be taken in accordance with MIM's Proxy Voting Policy.

#### *Exclusion*

Investment teams have the ability to adopt their own exclusion policies, taking into account the particular investment aims or objectives of the financial product and any client specific requirements.

MIM also seeks to bring about positive change through adherence to responsible business codes and participation in various sustainability initiatives.

### **Paris Agreement**

As outlined above, MAM has committed to invest and manage its portfolio in line with global net zero greenhouse gas emissions by 2040. In furtherance of this cause, MIM is a supporter of the Transition Pathway Initiative, which is an asset-owner led initiative that assesses companies' preparedness for the transition to a low carbon economy and is a

participant in Climate Action 100+, which is an investor initiative launched in 2017 to ensure the world's largest corporate greenhouse gas emitters take necessary action on climate change.

## Reporting Initiatives

Macquarie Group Limited ("**Macquarie**"), the holding company of MIM, is currently a signatory to the Carbon Disclosure Project and communicates publicly about climate change via the Carbon Disclosure Project's web site. Macquarie also reports annually on its approach to ESG in its Annual Financial Report including how it affects investments and financial products. Macquarie uses the Global Reporting Initiative as a guiding framework. Macquarie is a registered supporter of the Task Force on Climate-related Financial Disclosures ("**TCFD**") and is actively implementing the TCFD recommendations.

## Principles for Responsible Investment

The UN-supported Principles for Responsible Investment ("**PRI**" or the "**Principles**") works to understand the investment implications of ESG factors and to support its international network of investor signatories in incorporating these factors into their investment and ownership decisions.

MAM has been a signatory to the PRI since 2015. MIM, as part of MAM, seeks to:

- incorporate ESG issues into investment analysis and decision-making processes where relevant and appropriate;
- be an active owner and to incorporate ESG issues into its ownership policies and practices;
- obtain appropriate disclosure on ESG issues by the entities in which it invests;
- promote acceptance and implementation of the Principles within the investment industry;
- work with the PRI Secretariat and other signatories to enhance their effectiveness in implementing the Principles; and
- report publicly on its activities and progress towards implementing the Principles.

Please see <https://www.macquarieim.com/investments/solutions/esg> for MAM's latest PRI Transparency Report.

## Sustainability Accounting Standards Board

MIM is an original member of the SASB Alliance, whose members share the belief that today's capital markets need standardized sustainability disclosure and effective ESG integration into investment practices – for the benefit of both companies and investors.

# 4. Remuneration

Macquarie's longstanding and consistent approach to remuneration continues to support the overarching objective of delivering strong company performance over the short and long-term, while prudently managing risk and reinforcing Macquarie's *Code of Conduct* and *What We Stand For*. Macquarie's Board of Directors recognises that to achieve this objective, we must attract, motivate and retain exceptional people with deep industry expertise while aligning their interests with shareholders to meet the needs of clients and customers while ensuring that regulatory requirements are upheld. Further information on Macquarie's remuneration framework can be found in the most recent Macquarie Group Corporate Governance Statement at <https://www.macquarie.com/au/en/about/company/corporate-governance.html>.

MIME SA and MIMAK are both subject to Macquarie Group's remuneration framework and the Macquarie Group Remuneration Policy. They both also have standalone Remuneration Policies in order to ensure compliance with Luxembourg and Austrian laws respectively.

Macquarie's remuneration policies are consistent with and promote effective risk management and form part of Macquarie's risk management framework. The risk management framework promotes active management and monitoring of a range of risks (both financial and non-financial), for all business activities within Macquarie globally and particularly does not encourage excessive risk-taking with respect to sustainability risks.

Under the remuneration framework, MIM employees receive fixed remuneration and performance-based remuneration in the form of discretionary annual profit share.

### a) Fixed remuneration

Fixed remuneration consists of base salary and local country employee benefits. Individual fixed remuneration is reviewed annually and reflects technical and functional expertise, role scope, market practice and regulatory requirements. Fixed remuneration is structured to be sufficient to avoid inappropriate risk taking.

### b) Performance-based remuneration

The company-wide profit share pool is determined through a bottom-up assessment at both the business and individual level and is assessed for overall reasonableness, including consideration of an internal reference based on Macquarie's after-tax profits and its earnings over and above the estimated cost of capital. The Board retains discretion to amend the final pool determined in accordance with the bottom-up assessment to ensure that all relevant factors, including risk and conduct matters (and, where appropriate, sustainability risk), have been appropriately taken into consideration.

The profit share pool allocated to the MIM business considers overall remuneration levels in the market in which the business operates, reflects the business' contribution to company-wide profits taking into account capital and funding usage and considers the risk profile of each business.

Profit share allocations to individuals consider individual remuneration levels in the market in which the MIM business operates, and are primarily based on business profits and individual contribution to profits for MIM revenue generating employees, and contributions to high quality control functions for risk management and financial control staff.

Risk management and compliance, business leadership, people leadership and professional conduct are also considered in determining allocations. Allocations may be adjusted downwards based on an assessment of both financial or non-financial risks (where appropriate this may include sustainability risk) and conduct issues that have arisen during the year.

## Contact

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