



MORNINGSTAR INVESTMENT MANAGEMENT AUSTRALIA

# Stewardship Report 2023

This report relates to Morningstar Investment Management Australia Limited, which forms part of the Morningstar Wealth business, which is owned by Morningstar Inc.



[morningstarinvestments.com.au](https://morningstarinvestments.com.au)

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# Introduction to Morningstar Investment Management



## A letter from the CIO



**Matt Wachter**

Chief Investment Officer, APAC

Morningstar Investment Management Australia

At Morningstar Investment Management we see material Environmental, Social and Governance (“ESG”) issues impacting the fundamentals and valuations for the companies we invest in.

Since publishing our inaugural Stewardship Report in early 2023, we have continued to vote and engage with companies on ESG issues throughout the year to drive positive ESG outcomes and enhance shareholder value for our investors. Glass Lewis remains our appointed global proxy voting advisor, and we continue to work with Morningstar Sustainalytics to conduct engagement activities with companies on our behalf.

Our Stewardship Report for 2023 highlights the voting decisions and engagements that have been undertaken for companies held in portfolios that we manage on behalf of our clients. The three most common engagement topics during 2023 were Disclosure, Net Zero Decarbonisation and ESG Governance. ESG Governance and Disclosure continue to feature prominently in company engagement discussions, in line with Morningstar Sustainalytics’ mantra that “what gets measured, gets done”, while Net Zero Decarbonisation includes discussions with companies regarding the actions being taken to transition to companies’ stated lower and/or zero carbon emission targets.

With the assistance of the Morningstar Sustainalytics’ engagement services team, our engagement focus has continued to be on Material Risk Engagement in 2023. Material Risk Engagement continues to align strongly with our ESG risk integration approach, as Material Risk Engagement looks to 1) identify companies with high levels of unmanaged ESG risks, and 2) work with these companies’ management teams to manage and reduce these risks.

We look forward to continuing to work with companies, alongside associates, Morningstar Sustainalytics and Glass Lewis, to encourage positive developments with regard to how companies manage their ESG-related risks over the coming years.



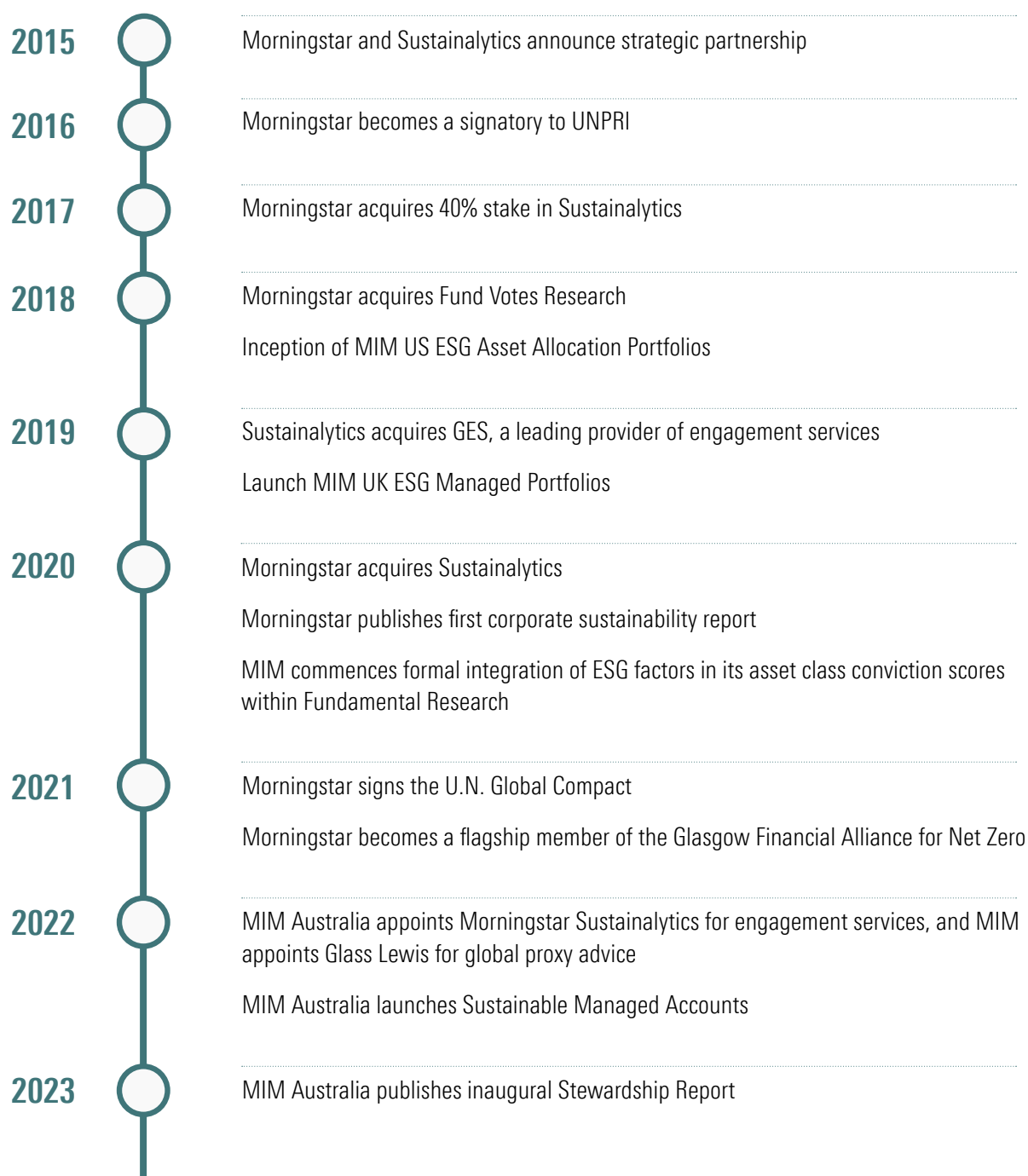
# Our ESG Heritage



## A long-term commitment to ESG

Morningstar Inc., our parent company, can trace its commitment to ESG back to 2009. Morningstar Inc.'s latest annual corporate sustainability report, which discusses our company's sustainability efforts and practices, can be found [here](#)<sup>2</sup>.

With access to a wealth of resources and rigorous analysis within Morningstar, including Morningstar Sustainalytics, manager research and equity research, Morningstar Investment Management (MIM) has developed a robust ESG risk integration approach informed by the research produced across the business.



<sup>2</sup> [https://assets.contentstack.io/v3/assets/blt4eb669caa7dc65b2/blt7ae6d78e34f90570/2022\\_Corporate\\_Sustainability\\_Report.pdf](https://assets.contentstack.io/v3/assets/blt4eb669caa7dc65b2/blt7ae6d78e34f90570/2022_Corporate_Sustainability_Report.pdf)

## How our Investment Principles align with stewardship

The careful and responsible management of clients' assets is central to how we help investors reach their financial goals. Our investment philosophy is firmly grounded in seven investment principles, shaping our principles-based proxy voting approach and providing an anchor to our process as we commit ourselves to acting in the best interest of our clients.

Morningstar Investment Management abides by seven investment principles:

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01



### We put investors first

- We believe the firms that put investors first win in the long term because their investors win.
- Since 1984, Morningstar, Inc. has been helping investors reach their financial goals. Our fiduciary duty to our investors is paramount.

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02



### We're independent-minded

- To deliver results, we think it's necessary to invest with conviction, even when it means standing apart from the crowd.
- Our research shows that making decisions based on fundamental analysis, rather than short-term factors and sentiment, delivers better long-term investment results.

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03



### We invest for the long term

- Taking a patient, long-term view helps to ride out the market's ups and downs and take advantage of opportunities when they arise.
- Investing with a multi-decade horizon aligns with investors' focus on increasing their purchasing power over their lifetimes.
- The long term is the only period over which fundamental, valuation-driven investing works.

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04



### We're valuation-driven investors

- Anchoring decisions to an investment's fair value, or what it's really worth, leads to greater potential for returns.
- Valuation-driven investing through a long-term focus on the difference between price and intrinsic value enables investors to get more value than they're paying for.



05

**We take a fundamental approach**

- Powerful research is behind each portfolio position we hold, and we understand what drives the cash flows of every investment we analyse.
- Fundamental investing incorporates a focus on the future earnings of an investment and not just its prospective price change.

06

**We strive to minimise costs**

- Controlling costs helps investors build wealth by keeping more of what they earn.
- Investment returns are uncertain, but costs are not.

07

**We build portfolios holistically**

- To help manage risk and deliver better returns, truly diversified portfolios combine investments with different underlying drivers.
- Portfolios should be more than the sum of their parts.
- True diversification can have a powerful impact on a portfolio's risk-adjusted returns — but simply holding more investments isn't the same as true diversification.

It's our priority to help investors achieve their personal and financial goals. Operating within the bounds of our fiduciary duty, we want to take all steps we can to make sure these objectives can be met. To do this, we believe that communicating our investors' best interests to the companies we invest is of utmost importance. Following our inaugural Stewardship Report, published in 2022, our pursuit of transparency into our stewardship and engagement practices has continued.

# Shareholder Voting



## Shareholder Voting

We're guided by all seven of our investment principles, and in the case of shareholder voting, there are two that are especially important: "We put investors first" and "We invest for the long term."

Shareholder, or proxy, voting is central to our stewardship efforts. We recognise that voting rights have economic value and that the exercise of these voting rights is a fiduciary duty. When conducted responsibly, proxy voting improves corporate governance, firm practices and allocation of capital, and has the power to incentivise corporations over the long-term to achieve stronger performance, financially and more broadly. This, in turn, benefits the end investor.

As we've done in the past, we believe a principles-based approach to proxy voting is the best way to ensure that our proxy voting aligns with our investors' interests. Our overarching proxy voting principle is to vote issues in the direction that increases and/or protects shareholder value over the long-term. To ensure we vote consistently on voting matters, maintaining a 'common voice', we make vote determinations for both our internally managed strategies and externally managed equities mandates, employing the services of Glass Lewis as our proxy advisory services provider, with additional support from our colleagues at Morningstar Sustainalytics.

In this chapter, you'll find proxy voting statistics which indicate how we voted over the period from 1 January 2023 to 31 December 2023.



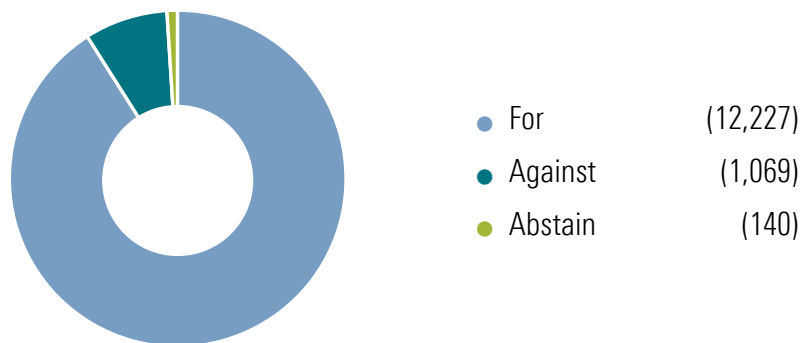


## Vote summary

The following charts detail how Glass Lewis has voted on management proposals and shareholder proposals on our behalf. 'Abstain' votes, the narrowest section of the graphs, include companies which include share-blocking practices, as well as companies that may be subject to sanctions. Share-blocking, in this context, is

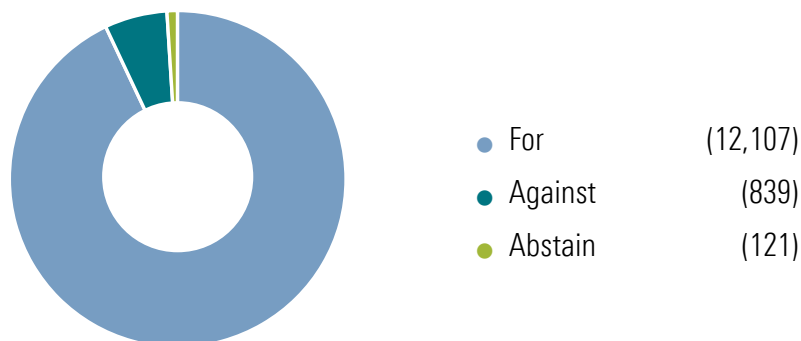
when shareholders can no longer trade the company's shares after the shares have been voted — or registered to vote — until after the shareholder meeting. This can create liquidity issues for investors as the voting process continues.

### Votes on Management and Shareholder Proposals



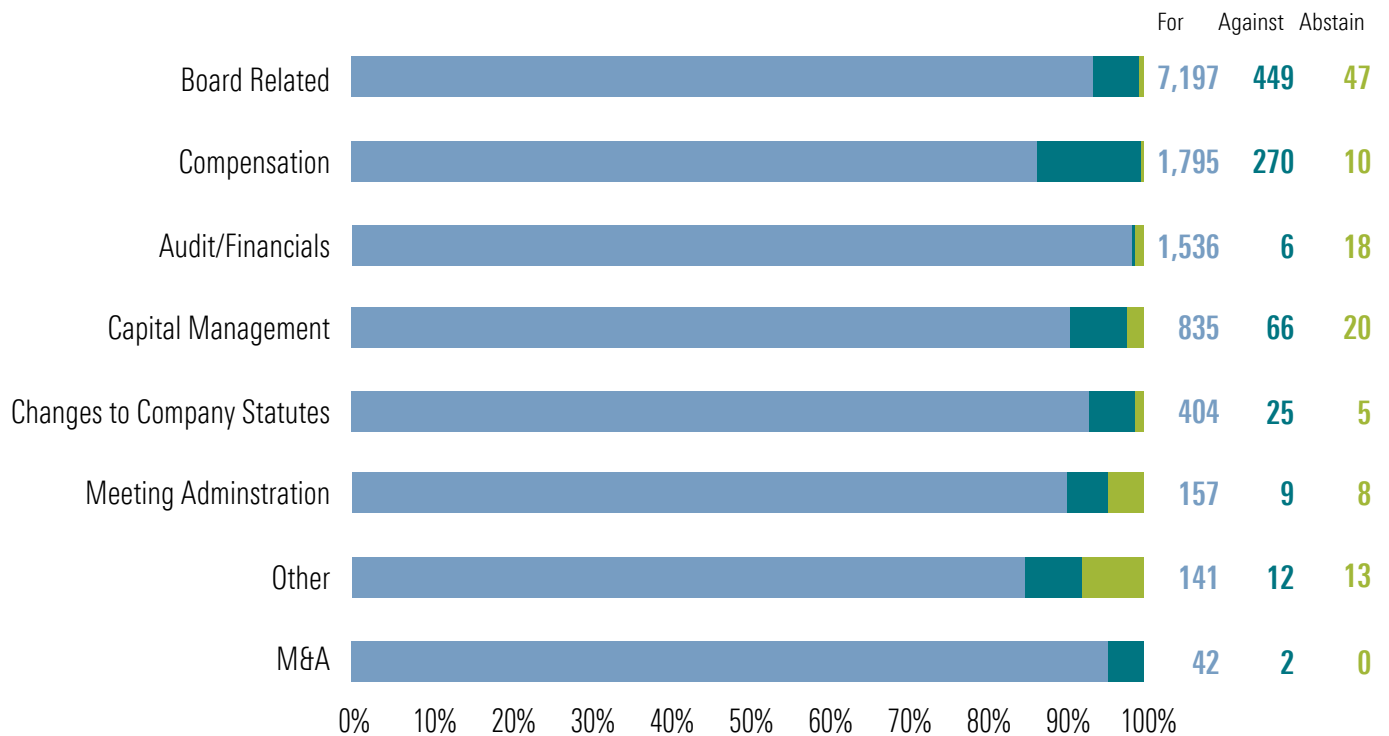
Source: Glass Lewis.

### Votes on Management Proposals



Source: Glass Lewis.

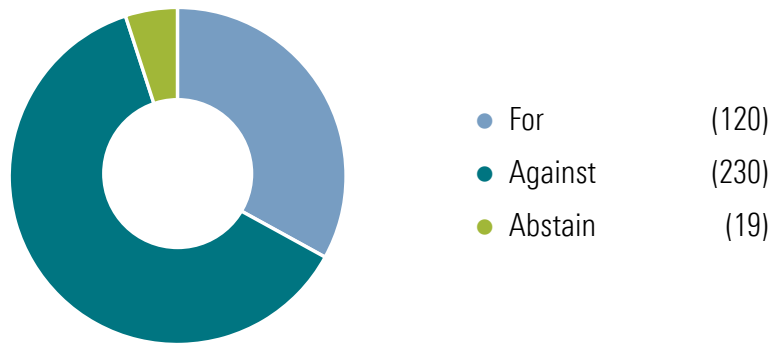
## Management proposals by category



Source: Glass Lewis.

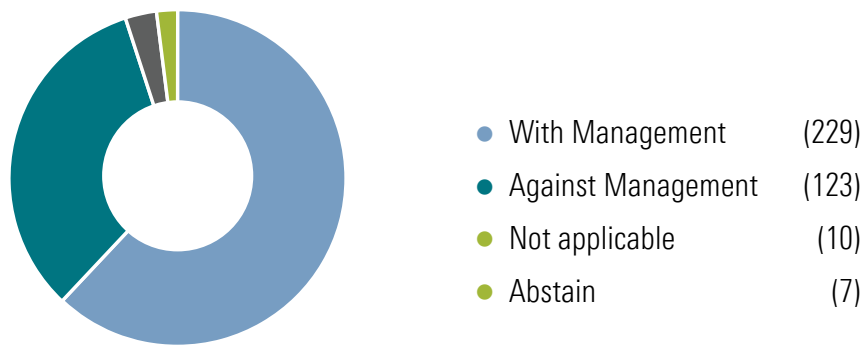
Management proposals tend to mainly focus on governance matters. The main categories where we voted against management's proposals were Board Related, Compensation, and Capital Management. Most of the Against votes within the Board Related category related to the proposal topic of 'Election of Directors', while most of the Against votes within the Compensation category related to the proposal topic of 'Remuneration Reports' for key company executives.

## Votes on Shareholder Proposals



Source: Glass Lewis.

## Votes on Shareholder Proposals – Votes versus Management



Source: Glass Lewis.

'Not applicable' votes appear in cases where management has not provided a recommendation, which can happen in instances where a proposal presents a potential conflict of interest.

'Abstain' votes appear in cases where companies may adopt share-blocking practices.



## Voting themes and trends

Morningstar Sustainalytics provides ESG voting policy overlay services. Alongside Glass Lewis' proxy voting advisory services, our engagement with Morningstar Sustainalytics offers a complementary assessment of proxy voting recommendations and outcomes as they relate to Environmental and Social proposals. The ESG Voting Policy Overlay team applies several screens to identify resolutions that offer high ESG leverage in advancing sustainable business practices across a portfolio. Given this selectivity, Morningstar Sustainalytics's voting recommendations do not cover the full proposal voting universe which is tied to Morningstar Investment Management Australia's holdings.

In the first half of 2023, Morningstar Sustainalytics' ESG voting policy overlay team delivered 1,026 vote recommendations for 603 Shareholder Meetings across 31 markets, of which 840 vote recommendations related to sustainability-related issues. Around three-quarters of sustainability-related items were filed by shareholders (636), with the remaining 204 items sponsored by company management.

The US remains the country where the most shareholder-led resolutions came to vote, with a total of 434 resolutions, which represented almost 70% of the total world-wide shareholder proposed resolutions. Within the US, the number of shareholder-led resolutions increased from 2022 to 2023, but investor support for these resolutions generally fell over this period. The biggest decline in investor support occurred across climate, environment, human rights and racial equity audit related proposals. While there was a rise in anti-ESG shareholder proposed resolutions (68 resolutions in 2023, up 70% from 40 resolutions in 2022), these also received lower investor support (4.8% in 2023, down from 5.8% in 2022). In 2023 the strongest investor support occurred across two Human Capital themed resolutions: Diversity and Inclusion, and Decent Work.



# Company Engagement



## Company engagement

Turning intention into action can be a protracted journey, with corporate management broadly aware of the appetite, need and required steps to amend relevant policies and strategies. However, it's the support from strategic stakeholders that often brings a planned project over the line. With this in mind, and to maintain a consistent and purposeful approach to company engagement, we use the services of Morningstar Sustainability, which act as an extension of our team.

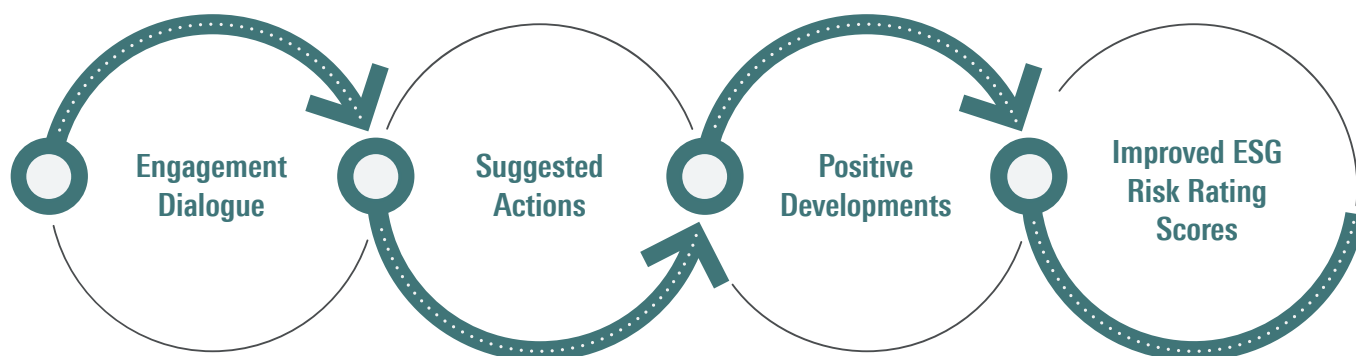
Providing stewardship services for more than 25 years (in its current iteration and its predecessors), Morningstar Sustainability engages with company representatives on our behalf, allowing us to address a breadth of ESG issues. Morningstar may then choose to engage with other investors, industry groups, and industry associates and bodies to formulate an approach that focuses on securing the best client outcomes.

By working with Morningstar Sustainability, we seek to exercise positive influence on portfolio companies that encourages them to take thoughtful ESG actions. We are guided by Morningstar Sustainability's company research in all our engagements, resulting in a coherent approach to ESG issues across the investment value chain.

With the assistance of Morningstar Sustainability's engagement services team, our engagement focus during 2023 continued to be on Material Risk Engagement. Material Risk Engagement involves identifying companies that demonstrate high levels of unmanaged ESG risks (as defined by Morningstar Sustainability's ESG Risk Ratings), and then working with these companies' management teams to address and reduce these unmanaged risks. When a company's ESG Risk Ratings score improves to a score of below 28, the Material Risk Engagement status is considered to be resolved.

There are three main components to the engagement effort: 1) an assessment of a company's awareness of, and willingness to further their efforts to support ESG; 2) a review of how these engaged companies have enacted on recommended actions; and 3) documenting when these suggestions have been implemented—or qualified as 'positive developments'. In doing so, engaged companies are tangibly held accountable to the changes they've committed to enforcing..

**How Morningstar Sustainability engages with companies to improve their ESG Risk Ratings scores:**





## 2023 engagement statistics and topics

**348** Number of active engagements at 31 December 2023

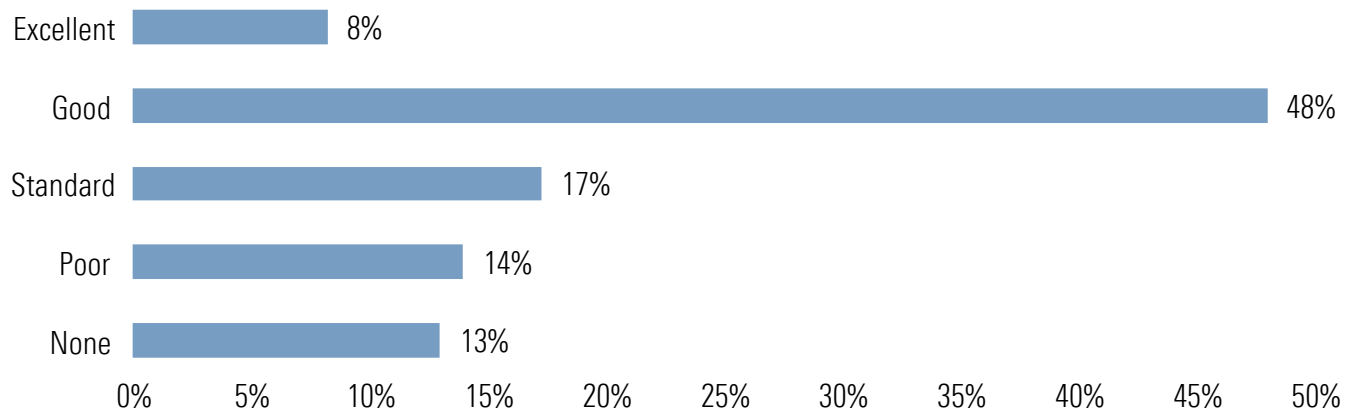
**1,478** Number of emails/phone calls

**233** Number of meetings

**354** Number of positive developments

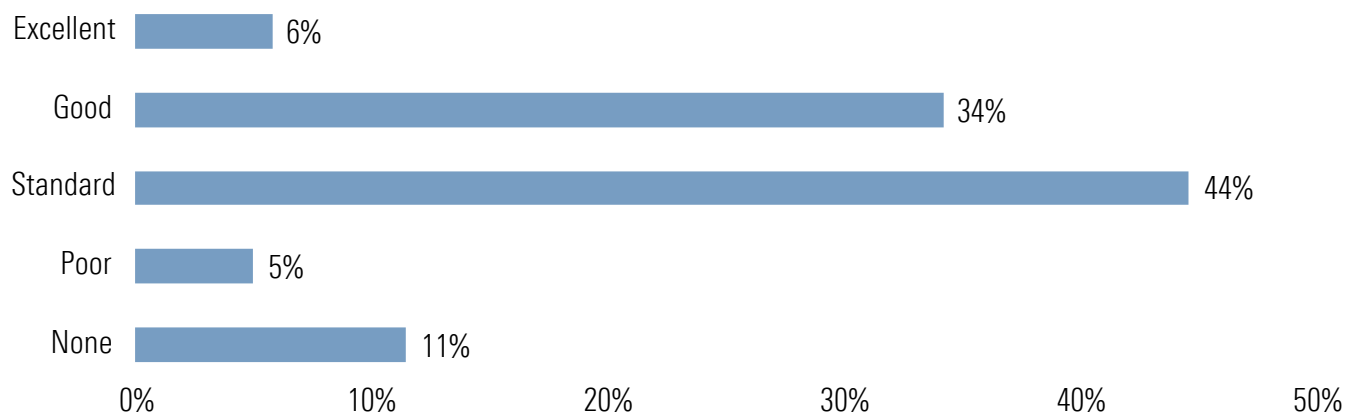
**30** Number of engagements resolved

### Company Responses



Source: Morningstar Sustainalytics.

### Company Progress



Source: Morningstar Sustainalytics.

## UN Sustainable Development Goals

There are 17 Sustainable Development Goals (SDG), which were determined by the United Nations General Assembly in 2015.



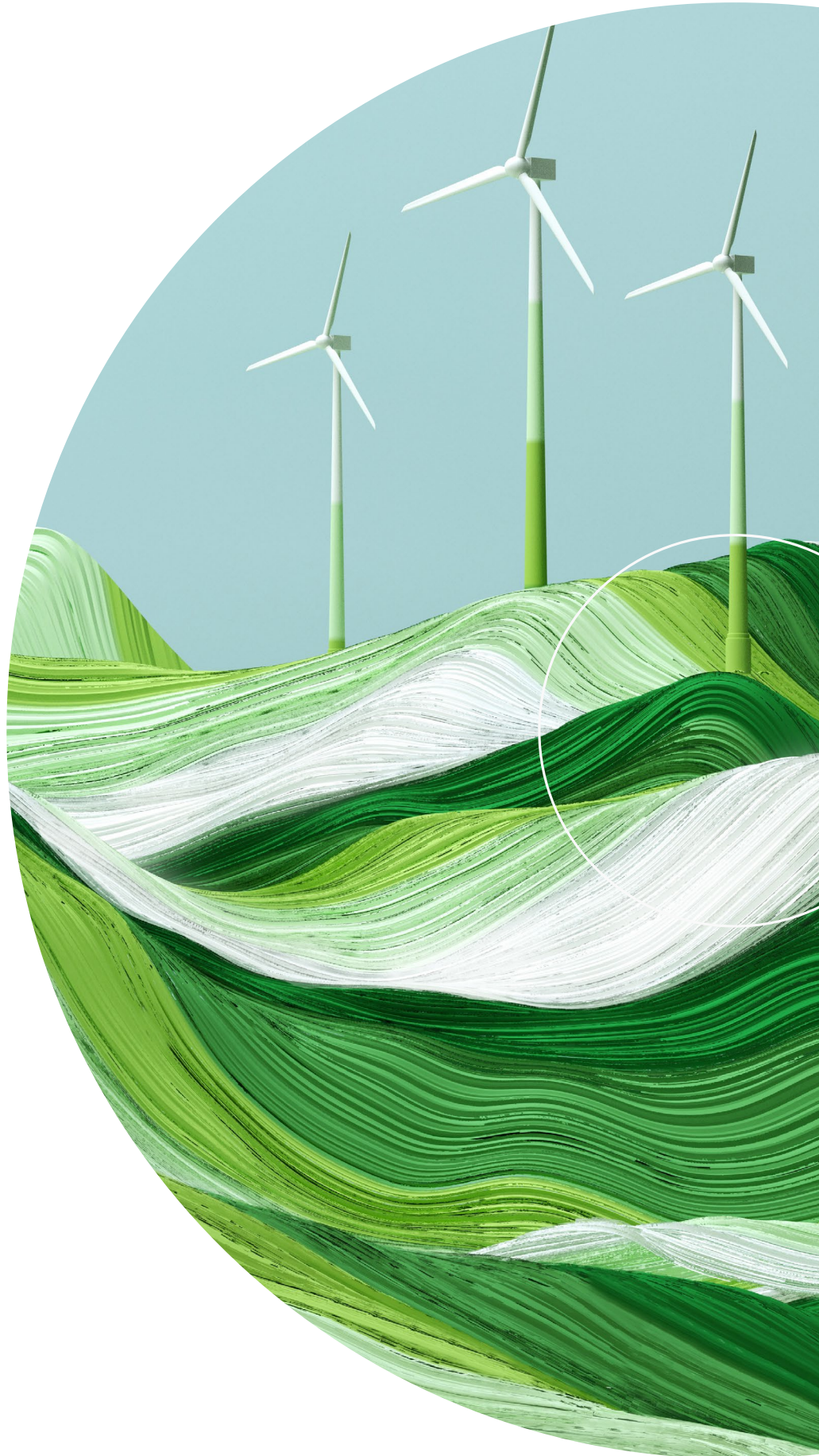
<sup>3</sup> Source: <https://www.un.org/sustainabledevelopment/sustainable-development-goals/>

## Positive developments

Morningstar Sustainalytics ensures that all company engagements can be linked to at least one SDG. The below table shows how positive developments in 2023 have been mapped against the 17 SDGs.

Sustainable Development Goal (SDG)	Number of Positive Developments
<b>16</b> Peace, Justice and Strong Institutions	111
<b>13</b> Climate Action	71
<b>12</b> Responsible Consumption and Production	26
<b>7</b> Affordable and Clean Energy	20
<b>8</b> Decent Work and Economic Growth	18
<b>3</b> Good Health & Well-being	11
<b>11</b> Sustainable Cities and Communities	9
<b>6</b> Clean Water and Sanitation	9
<b>5</b> Gender Equality	8
<b>15</b> Life on Land	6
<b>9</b> Industry, Innovation and Infrastructure	5
<b>17</b> Partnerships to Achieve the Goal	4
<b>10</b> Reduced Inequality	4
<b>14</b> Life Below Water	1

# Engagement Case Studies



## Material Risk Engagement case study: Skyworks Solutions



### Company

Skyworks Solutions

### Company Domicile

United States of America

Skyworks Solutions designs, develops, and manufactures proprietary semiconductor products, and is headquartered in the United States of America. During 2023, Skyworks Solutions was held by Morningstar's systematic and fundamental-based global equities strategy and by all our multi-asset portfolios.

Morningstar Sustainalytics started engaging with Skyworks Solutions in March 2021 as Skyworks Solutions was assigned a 'High Risk' ESG Risk Rating by Morningstar Sustainalytics. **Morningstar Sustainalytics' Risk Rating is equal to a company's unmanaged risk score**, a calculation that determines the degree of unmanaged risk that a company bears.

*A company's unmanaged risk score = total ESG risk exposure minus managed ESG risk*

Skyworks Solutions' unmanaged risk (as at 29 November 2023)

$$\begin{array}{rcccl}
 \mathbf{27.9} & = & \mathbf{50.2} & - & \mathbf{22.2} \\
 \text{(unmanaged risk)} & & \text{(total risk)} & & \text{(managed risk)}
 \end{array}$$

Following Skyworks improving its reporting of ESG issues to both internal and external stakeholders (which are further detailed below under Positive Developments), Skyworks' unmanaged risk score improved to a new score of 27.9 from an unmanaged risk score of 32.9 in February 2022 (when Morningstar Sustainalytics first met with Skyworks), bringing the company into the medium risk category and within the 28-point score threshold for engagement. The company's engagement status moved to "Resolved" in March 2023.



## Continued Material Risk Engagement case study: Skyworks Solutions

### Positive developments

Skyworks Solutions has achieved three notable positive developments which assist with managing the company's ESG risk exposure to Corporate Governance, Human Capital, Resource Use and Carbon – Own Operations.

The three notable positive developments are:

- 1) Skyworks Solutions has enhanced transparency and reporting to stakeholders on ESG issues, including increasing the cadence of management reporting on ESG issues to the Nominating and Corporate Governance Committee and topics covered in the FY 2021 Sustainability Report (this development relates to managing Corporate Governance ESG risk);
- 2) Skyworks Solutions enhanced disclosure on talent development initiatives including those that support female employees, and reported on global and US employee turnover rates for the first time in the FY 2021 Sustainability Report (this development relates to managing Human Capital ESG risk);
- 3) Skyworks Solutions' FY 2021 Sustainability Report included a TCFD index for the first time. The TCFD index contains reporting relating to the voluntary and consistent climate-related financial risk disclosure guidelines developed by the Task Force on Climate-related Financial Disclosures (TCFD). (this development relates to managing Resource Use and Carbon – Own Operations ESG risks).

### Which SDGs are reflected here?<sup>4</sup>

The below symbols indicate how Morningstar Sustainalytics' engagement efforts with Skyworks Solutions align with three of the 17 SDGs.



#### Responsible Consumption and Production

Adopting sustainable practices such as water use reduction and integrating sustainability information into disclosures.



#### Climate Action

Comprehensively assessing climate risks to better inform business and sustainability strategies and build climate resilience.



#### Peace, Justice and Strong Institutions

Enhancing transparency of materiality assessment of ESG issues in consultation with stakeholders.

<sup>4</sup> Source: Sustainalytics and United Nations

## Material Risk Engagement case study: Graco, Inc



### Company

Graco, Inc

### Company Domicile

United States of America

Graco, Inc. is an industrial company which designs and manufactures fluid handling products and solutions for customers worldwide. During 2023, Graco, Inc. was held by Morningstar's systematic and fundamental-based global equities strategy and by all our multi-asset portfolios.

Graco's unmanaged risk (as at 3 November 2023)

$$\begin{array}{ccccccc}
 \mathbf{28.4} & & \mathbf{=} & & \mathbf{43.0} & - & \mathbf{14.6} \\
 \text{(unmanaged risk)} & & & & \text{(total risk)} & & \text{(managed risk)}
 \end{array}$$

Graco's **unmanaged risk score** of 28.4 places the company in the Medium Risk category. This is an improvement on its unmanaged risk score of 32.0 from September 2021, when Morningstar Sustainalytics first started engagement with Graco.

## Continued Material Risk Engagement case study: Graco, Inc

### Positive developments

Graco, Inc. has achieved three notable positive developments in 2023 which assist with managing the company's ESG risk exposure to Corporate Governance and Product Governance.

The three notable positive developments are:

- 1) Graco published its inaugural ESG report for the fiscal 2021 at the end of 2022. The report content was guided by a materiality assessment done in consultation with stakeholders and by benchmarking reporting frameworks such as SASB, GRI and TCFD. The identified issues show good alignment with those identified by Morningstar Sustainalytics (this development relates to managing Corporate Governance ESG risk);
- 2) There is enhanced transparency on Graco's ESG management structures in the company's 2021 ESG Report. Graco has established a cross-functional ESG Steering Committee to coordinate a companywide approach to managing ESG issues and disclosures (this development relates to managing Corporate Governance ESG risk);
- 3) Graco has started reporting on work health and safety programmes including the total recordable incident rates, days away restricted or transfer date, fatality rate and hours of safety training in the 2021 ESG Report (this development relates to managing Product Governance ESG risk).).

### Which SDGs are reflected here?<sup>5</sup>

The below symbols indicate how Morningstar Sustainalytics' engagement efforts with Graco, Inc. align with three of the 17 SDGs.



#### Decent Work & Economic Growth

Suggested that Graco clarify details of its occupational health and safety management programme, including targets to reduce incidents and detailed safety performance data across employees and contractors. Graco was also encouraged to provide further information on its talent recruitment, employee turnover rates, and efforts to promote diversity and inclusion.



#### Responsible Consumption and Production

Suggested that Graco to disclose how environmental impacts are systematically considered during the product design stage, and provide further transparency on the implementation of its product and service safety programme.



#### Peace, Justice and Strong Institutions

Encouraged Graco to report on the processes and structures in place to handle whistleblower reports and user statistics to demonstrate the health of the programme..

<sup>5</sup> Source: Sustainalytics and United Nations

## Contact your local Adviser Solutions representative



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## About Morningstar Investment Management Australia

Drawing on our core capabilities in asset allocation, investment selection, and portfolio construction, Morningstar's Investment Management group provides a global point of view and local market experience. Our investment professionals, located around the world, are guided by core principles focused on long-term investment results and helping end investors reach their financial goals. Built around investment strategies and harnessing the global resources of Morningstar, Inc., our investment offerings support financial advisors, institutions, and the investors they serve. Morningstar Investment Management Australia provides professional guidance and access to strategies that can help investors reach their financial goals.



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