

**Intelligent Investor  
Funds Management**

**FY2022**

# **Stewardship Report**

May 2023

## About Us

With over a 20-year track record of beating the market, clear and straightforward language, and an 'open book' approach to stock research and analysis, Intelligent Investor offers actionable, reliable recommendations on ASX-listed stocks.

In 2014, Intelligent Investor became a part of the InvestSMART family, extending our expertise to even more Australian investors seeking quality analysis and advice.

## Important information

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# About Intelligent Investor

Intelligent Investor is an Australian investment manager and research provider that provides long-term investment solutions. With a greater than 20-year track record of beating the market, clear and straightforward research language, and an ‘open book’ approach to stock research and analysis, Intelligent Investor has provided actionable, reliable recommendations on listed stocks.

Since 2018, Intelligent Investor has managed exchange traded active ETFs. There are now 4 listed funds with 4 separate portfolios:

- Intelligent Investor Australian Equity Income Fund
- Intelligent Investor Australian Equity Growth Fund
- Intelligent Investor Ethical Share Fund
- Intelligent Investor Select Value Share Fund (listed 31 March 2023)

This report covers the engagement and voting processes that have been applied at the Intelligent Investor management level.

## Our investment philosophy

The Intelligent Investor approach is buying and holding shares with market prices at material discounts to their estimated value. Value is defined as the net present value of future cash flows and confirmed with other valuation measures such as price-earnings ratio and free cash flow yield. The underlying business quality is assessed according to the value added by a company’s products or services and the competitive environment in which they are offered.

Typically, we do not incorporate ESG factors into our investment decision making, other than for the Intelligent Investor Ethical Share Fund.

For the Intelligent Investor Ethical Share Fund, we have incorporated ESG factors into our investment decision-making for our underlying investment strategy. We have implemented an investment style and process that systematically considers environmental, social, governance and ethical considerations, using screening tools supplied by a reputable third party.

Below is a summary of the ESG Scores methodology provided by Refinitiv (a major data vendor) and used by Intelligent Investor to screen out companies that are “unethical” from the investment process.

## ESG Score

The ESG scoring methodology has several key calculation principles as set out below:

- Unique ESG magnitude (materiality) weightings have been included – as the importance of ESG factors differs across industries, Refinitiv has mapped each metric’s materiality for each industry on a scale of 1 to 10.
- Transparency stimulation – company disclosure is at the core of the methodology. With applied weighting, not reporting “immaterial” data points doesn’t greatly affect a company’s score, whereas not reporting on “highly material” data points will negatively affect a company’s score.
- ESG controversies overlay – Refinitiv verify companies’ actions against commitments and to magnify the impact of significant controversies on the overall ESG scoring. The scoring methodology aims to address the market cap bias from which large companies suffer, introducing severity weights which ensure controversy scores are adjusted based on a company’s size.
- Industry and country benchmarks at the data point scoring level, to facilitate comparable analysis within peer groups.
- Percentile rank scoring methodology – to eliminate hidden layers of calculations. This methodology enables Refinitiv to produce a score between 0 and 100 as well as easy-to-understand letter grades when utilising the methodology.

## Data Process

There are over 630 ESG measures, which are processed manually for each company within the ESG universe, with each measure undergoing a careful process to standardise the information and guarantee it is comparable across the entire range of companies. The database is updated on a continuous basis – aligned with corporate reporting patterns – and data is refreshed on products every week, including the recalculation of the ESG Scores. Updates could include a brand-new company being added to the database, the latest fiscal year update or the inclusion of new controversy events.

In most cases, reported ESG data is updated once a year in line with companies' own ESG disclosure. Refinitiv refresh data more frequently in exceptional cases, usually when there is a significant change in the reporting or corporate structure during the year.

ESG news and controversies are updated on a continuous basis, as and when such events occur and get picked up by global media.

## Frequency of Updates

All Refinitiv ESG scores, including controversies scores, are updated on a weekly basis.

## Definitive scores

Scores will be marked as definitive for all historical years excluding the five most recent. For instance, if the most recent fiscal year is FY2020, then all historical scores prior to FY2016 will be considered definitive – but not those between FY2016 and FY2020. Definitive scores remain unchanged even if there are changes to the underlying data due to company restatements or data corrections.

The model comprises two overall ESG scores:

1. **ESG score** – measures the company's ESG performance based on verifiable reported data in the public domain

2. **ESG Combined (ESGC) score** – overlays the ESG score with ESG controversies to provide a comprehensive evaluation of the company's sustainability impact and conduct over time

The availability of the two overall scores and underlying category assessments allows users to adopt and apply the scoring that meets their requirements, mandates or investment criteria.

## ESG score

From the 630 company-level ESG measures captured by Refinitiv, a subset of 186 of the most comparable and material per industry are used in the overall company assessment and scoring process. The underlying measures are based on considerations around comparability, impact, data availability and industry relevance that varies across each industry group.

These are grouped into 10 categories that reformulate the three pillar scores and the final ESG score, which is a reflection of the company's ESG performance, commitment and effectiveness based on publicly reported information.

The category scores are rolled up into three pillar scores – environmental, social and corporate governance. The ESG pillar score is a relative sum of the category weights which vary per industry for the Environmental and Social categories. For Governance, the weights remain the same across all industries.

## ESG Combined (ESGC) score

ESGC scores provide a rounded and comprehensive scoring of a company's ESG performance, based on the reported information pertaining to the ESG pillars, with the ESG controversies overlay captured from global media sources. The main objective of this score is to discount the ESG performance score based on negative media stories. It does this by incorporating the impact of significant, material ESG controversies in the overall ESGC score.

When companies are involved in ESG controversies, the ESGC score is calculated as the weighted average of the ESG scores and ESG controversies score per fiscal period, with recent controversies reflected in the latest completed period. When companies are not involved in ESG controversies, the ESGC score is equal to the ESG Score.

### **ESG controversies category**

The ESG controversies score is calculated based on 23 ESG controversy topics. During the year, if a scandal occurs, the company involved is penalised and this affects their overall ESGC score and grading. The impact of the event may still be seen in the following year if there are new developments related to the negative event; e.g., lawsuits, ongoing

legislation disputes or fines. All new media materials are captured as the controversy progresses. The controversies score also addresses the market cap bias from which large cap companies suffer, as they attract more media attention than smaller cap companies.

A copy of the full Refinitiv ESG scoring methodology is available on request.

# What is stewardship?

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Intelligent Investor is responsible for acting in the best interests of our fund investors, the underlying asset owners. As corporate stewards, we are interested in the long-term viability of the companies we invest in, which may be enacted through company meetings and proxy voting. Intelligent Investor considers it best practice to have investment stewardship policies and systems in place, which may include:

- monitoring of company performance on financial and non-financial matters;
- engagement with company management and the board (as appropriate) and escalation of issues in instances where initial engagements have not been adequately responded to;
- approach to considering Environmental, Social and Governance factors (risks and opportunities) and whether these considerations influence investment decision-making and company engagement;
- voting on significant matters;
- collaborative engagement with other investors including involvement with industry groups and associations;

- principles used for policy advocacy including participation with industry groups and associations; and
- the approach to client engagement, education and communication regarding asset stewardship.

## Why is it important?

We believe that engagement between companies and investors will enhance the understanding of ESG issues in investee companies, where relevant, and can also be used to assess the quality of a company, promoting improved shareholder returns.

# Engagement strategy

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Engagement can take a number of forms and will depend upon resourcing and availability of skills. It may be outsourced to third party service providers and can be in writing or in person. As part of our engagement with investee companies we may:

- Meet with the board/senior management (including both formal meetings forming part of their annual reporting or more informal, one-one meetings) and question them on their strategic priorities and any areas of contention.
- Monitor each company's financial and non-financial performance through the main drivers and risk factors (both internal and external as well as financial and non-financial (including Environmental, Social and Corporate Governance (ESG) factors)) which can impact in the future.
- Ensure, on an ongoing basis, that the leadership of each investee company and its corporate governance structures adhere to best practice.

Given the small size of our investments in each investee company, our engagement is typically executed through informal discussions with board members and senior management on issues that might have a material impact on shareholder returns.

# Engagement case studies

## 360 Capital Group (TGP)

### Description

360 Capital Group (TGP, formerly Trafalgar Corporate Group Limited) is an ASX-listed, investment and funds management group, focused on strategic and active investment management of real estate assets.

### Issue of concern

TGP does not have a gender-diversified board and has not proposed any female directors for board positions in the AGM notice. As per the Group's corporate governance statement, at 30 June 2022 50% of the employees are female, though only 2 have senior management positions.

The Group has adopted a Diversity Policy which seeks to:

"a) maintain or increase the percentage of women in the business more specifically in leadership roles;

b) and actively promote a culture that values diversity, inclusion and flexibility."

### Our actions

We had informal discussions with an non-executive, independent board member post the issue of the notice of AGM issued on 27 September 2022, regarding the lack of diversity on the board and the lack of nominees in the AGM notice.

The non-executive board member noted the recently introduced Diversity Charter and the progress that had been made to date on improving the opportunities for all employees.

Intelligent Investor decided that voting against the resolutions in the AGM would not materially influence the Group's progress to diversity and intends to continue to lobby the independent directors for change.

## Aussie Broadband (ABB)

### Description

Aussie Broadband Limited (ABB) is a national carrier of telecommunications services in Australia focused on providing National Broadband Network (NBN) and other networks' broadband services to residential and business customers together with related products and services.

### Issue of concern

The board and senior management of ABB currently lacks sufficient gender diversity, with only 1 board member out of 6 being female and 1 out of 9 senior management positions being female.

The company has stated that it does not have a diversity policy in place. As per the company's corporate governance statement, issued in 2022:

"The Company's view is that inclusion should be driven by culture (we want to) rather than by policy (we have to). In this regard, inclusion and diversity are embedded in the Company's culture stemming from two of its values:

- be good to people; and
- no bullshit.

The Company has developed a mature inclusion and diversity program that is driven by staff, with an 'all the small things' approach that has dramatically shifted inclusion and diversity figures within the Company over the past 4 years."

### Our actions

We had informal discussions with the board prior to the AGM regarding the limited diversity on the board and the lack of nominees in the AGM notice issued on 21 September 2022. The board is currently searching for suitable skilled

candidates and noted the employee satisfaction level for inclusion on gender issues (amongst other issues) was between 89 and 96%.

The company is also applying for B-Corp certification as part of its commitment to transparency and community involvement, as evidenced by the amendments to the constitution proposed in the 2022 AGM notice.

Intelligent Investor believes the Company is adhering to good corporate governance principles and will improve board and senior management diversity over time.

## Breville Group (BRG)

### Description

Breville Group Limited (BRG, formerly Housewares International Limited), an ASX-listed company, is engaged in the design and development of small electrical kitchen appliances and marketing of these products across multiple geographies.

### Issue of concern

In the AGM notice of meeting, issued on 10 October 2022, one resolution made a substantial increase in the equity linked performance rights and deferred share rights to the Managing Director and CEO, Jim Clayton.

The Managing Director and CEO has delivered a strong performance and a key risk to the company is ensuring that he remains in that position. The board has negotiated a commercial agreement to retain the MD and CEO and improve the long-term alignment of interests between the MD/CEO and shareholders.

The performance related pay for the Managing Director and CEO is linked to the delivery of

sustained EBIT growth over the performance period to 2026. The board made this decision based on their view of:

“the dislocation in the business models of companies in the peer group, the volatility in associated asset prices and the prospect of recession over the next three years”.

### Our actions

In considering whether to vote against the resolution, we determined that the Company had extensive international operations and therefore needed to benchmark the CEO against international rather than domestic peers.

In addition, we believed that by making a substantial part of the CEO’s remuneration linked to the EBIT growth was a better outcome than increasing the cash component, and a better potential outcome for investors.

Intelligent Investor abstained from voting against the resolution to grant share rights to the Managing Director and CEO.

# Proxy voting record

Proxy voting is a tool for assessing and advocating for corporate governance best practice. Companies must be run for the benefit of shareholders, and proxy voting helps to hold boards and management teams accountable for their performance.

Intelligent Investor does not usually vote on resolutions, acknowledging that there are only certain occasions where it may be in our clients' best interest to express our concerns publicly to other shareholders and exercise our vote.

Intelligent Investor voting recommendations are made by the Head of Funds Management across all portfolios. Resolutions are assessed on a case-by-case basis, and votes are cast in the best interests of our invested clients. We do not disclose individual voting recommendations as these are confidential decisions and disclosure may influence subscribers to our Intelligent Investor research reports.

As all shares are held through a custodian, voting intentions are generally masked from other shareholders, the public and boards. As such, Intelligent Investor will usually only vote on issues that we perceive to have material financial harm to shareholders, which is evidenced by the high number of abstentions in the 2022 voting record.

	Number	%
<b>Total number of AGMs and EGMs</b>	38	
<b>Total number of resolutions</b>	219	100%
<b>For</b>	5	2.2%
<b>Against</b>	0	0.0%
<b>Abstain</b>	214	97.8%

# Our commitment to ESG

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Intelligent Investor has prepared this as an inaugural Stewardship Report. This report shows a few examples of our stewardship initiatives during the 2022 calendar year.

We intend to increase our disclosure in future reports. Intelligent Investor is committed to continually evolving our ESG reporting capabilities.

