

Challenger Limited

Investment Management Governance (Proxy Voting) Policy

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Jurisdiction: All
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Policy Owners: Chief Executive, Life
Chief Executive, Funds Management
Risk and Compliance
Prepared By: Risk and Compliance
Authorised By: Group Risk Committee
(GRC)

SUMMARY

Why is this Policy required?

As an active owner, Challenger may influence the corporate governance of the companies in which it invests through proxy voting and company engagement. This policy sets out the principles and guidelines that Challenger will apply when it participates in the corporate governance process of companies whose securities are held in Portfolios on behalf of investors. In addition this policy seeks to ensure that Challenger delivers its investment management services in accordance with the requirements of both Australian laws, relevant industry standards including FSC Standard No. 13 'Voting Policy, Voting Record and Disclosure' and in alignment with its obligations as a signatory to the Principles for Responsible Investment (PRI).

Who does this Policy apply to?

This Policy applies to all internally appointed Investment Managers and outlines the process which is followed when appointing third party Investment Managers.

Policy Responsibilities

Governance

Challenger's Board of Directors bear the ultimate responsibility for Challenger's corporate governance and operational risk management.

Independent Reviews

Challenger's Assurance function perform targeted reviews on behalf of Challenger's Group Risk Committee (the **GRC**).

Development and Maintenance

Risk and Compliance is responsible for the development and ongoing maintenance of this Policy.

Implementation

Risk and Compliance, Investment Management Heads, the Head of Investment Operations, Product Managers and all applicable staff are responsible for the implementation of this Policy.

Specific Obligations

The Group Risk Committee (GRC) and the relevant Challenger entity boards are responsible for ensuring that they meet the requirements of the law and industry standards when participating in corporate governance and proxy voting arrangements in relation to those companies whose securities are held in portfolios on behalf of investors and/or clients.

Reporting Requirements

Challenger will publish a summary of its proxy voting record in a form consistent with FSC Standard No. 13.

Mandate clients are informed through regular reports as specified in the contractual terms of the IMA.

Incidents are reported in accordance with the Incident Management Policy and Practice Note.

Training and Awareness

The Investment Management Heads and the Head of Investment Operations must understand, promote and be responsible for ensuring that procedures are in place to effectively meet the obligations contained in this Policy.

All relevant staff must receive training on policies, procedures and internal controls in order to understand their responsibilities for meeting the obligations contained within this Policy.

Key Terms	ACSI	Australian Council of Superannuation Investors
	Challenger or Group	Challenger Limited and any wholly owned subsidiaries involved in investment management decisions.
	Corporate governance	Is concerned with the way corporate entities are governed, as distinct from the way businesses within those companies are managed. Corporate governance addresses the issues facing boards of directors, such as the interaction with senior management and relationships with the owners and others interested in the affairs of the company, including creditors, debt financiers, analysts, auditors and corporate regulators.
	ESG	Environmental, Social and Governance
	FSC	Financial Services Council
	GRC	The Group Risk Committee (GRC) is the Challenger Limited Board Committee charged with responsibilities in relation to compliance with laws and regulations, maintaining an effective audit program and risk management framework and promoting high standards of business ethics and corporate governance.
	IMA	Refers to an Investment Management Agreement, which is a contract between an institutional investor and Investment Manager that states the terms and conditions applying to management of the stated assets.
	Investment Management Head	The Internal Manager accountable for the investment management services provided by a Challenger entity or brand, or the person who is accountable for the investment management services that have been delegated to a third party Investment Manager.
	Investment Manager	A corporation appointed to invest on behalf of a Challenger entity.
	Portfolio/s	Refers to Funds or Mandates for which a Challenger entity acts as Responsible Entity, Trustee or is the appointed Investment Manager.
	Proxy voting	The exercise by Challenger or its authorised agent of voting rights attaching to securities held in Portfolios on behalf of Challenger investors and / or clients.
	PRI	United Nations Principles for Responsible Investment

Review Cycle

This Policy will be reviewed and approved annually in accordance with FSC Standard No. 13 'Voting Policy, Voting Record and Disclosure or as required if there are material changes in the regulatory framework or business activities.

1. Objectives

This Policy is intended to assist Challenger and its appointed Investment Managers to meet their responsibilities under various laws, regulations and industry standards in taking an active role in the corporate governance process in relation to those companies in whom they invest on behalf of investors.

As a significant Investment Manager in the Australian market, Challenger acknowledges it may be in a position to influence the corporate governance of companies through discussions with management and / or the Board of directors and by exercising proxy votes.

2. Scope

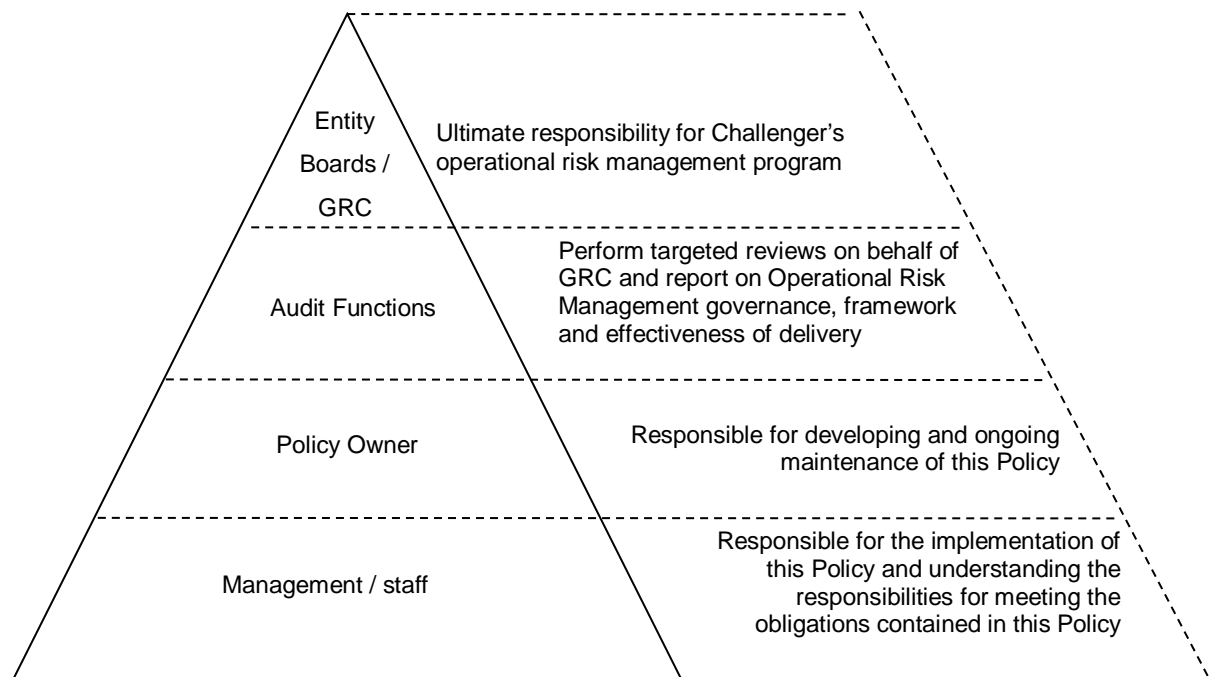
This Policy applies to all internally appointed Investment Managers and outlines the process which is followed when appointing third party Investment Managers (for example, Fidante's Boutique partners).

3. References

In constructing this policy, Challenger has considered the obligations contained in the below policies, practice notes, statements, standards, regulations and other documents:

- FSC Standard No. 13 Voting Policy, Voting Record and Disclosure;
- Challenger's Incident Management Policy and Practice Note;
- Challenger's Inside Information Policy and Practice Note;
- Challenger's Risk Management Strategy;
- Challenger's Responsible Investment Policy;
- United Nations Principles for Responsible Investment (PRI);
- ACSI Governance Guidelines dated October 2015; and
- FSC and ACSI ESG Reporting Guide for Australian Companies 2015

4. Overall Responsibilities



5. Specific Obligations and Accountabilities

5.1 Proxy Voting by Challenger

This section only applies to the Portfolios for which Challenger performs the investment management function itself and has not delegated the investment management function to a third party Investment Manager.

5.1.1 Investment Management Governance

Challenger aims to meet the investment objectives of our clients by discouraging disadvantageous corporate policies through discussion, negotiation and finally the exercise of voting power. Similarly, Challenger recognises that there are opportunities to encourage effective management through the positive endorsement given by positive votes.

5.1.2 Communication with companies

Where appropriate, Challenger believes in having direct communication with directors and senior management of companies where securities are held in Challenger's portfolios. This allows Challenger to have a better appreciation of the company's objectives, its potential problems and the quality of its management. It also allows companies to understand Challenger's expectations and concerns.

All contact and dialogue with companies are conducted in accordance with the obligations under the *Corporations Act 2001* (Cth) and relevant Challenger Policies, including but not limited to those concerned with insider trading (refer Inside Information Policy and Practice Note) and, in the case of mandate clients, subject to the terms of the relevant IMA.

5.1.3 Proxy voting

Proxy voting is a means by which Challenger is able to demonstrate its interest in the governance practice of companies. By exercising its right to vote, Challenger can have an influence on the corporate governance of the companies in which it invests. Challenger follows the PRI Principles in relation to Proxy Voting.

Challenger seeks to vote on all company resolutions, regardless of materiality, provided that it has an authority to do so and the necessary documentation is received in time to lodge a vote by the due date. In addition, Challenger may, in determining its proxy voting, rely on third party advisory firms that provide advice on proxy voting and corporate governance issues.

Voting rights are a valuable asset and are managed with the same care and diligence as any other portfolio asset. Challenger aims to vote and act in a manner that is in the best interests of its investors and to that end, also aims to encourage management and boards of companies it is invested in to make decisions that are in line with their shareholders' interests.

Challenger will support the boards of companies it invests in through the positive use of proxy votes, unless in Challenger's view, there is a good reason to do otherwise. In such circumstances, Challenger generally aims to communicate with appropriate company representatives with a view to achieving a satisfactory solution.

5.1.4 Corporate governance considerations

Corporate Governance deals with the way in which companies are directed and controlled. Challenger believes that effective corporate governance is advanced by applying recognised corporate governance principles such as those outlined in the ACSI Governance Guidelines dated October 2015 and the FSC and ACSI Reporting Guide for Australian Companies 2015:

- good governance requires boards to consider and manage all material risks facing their company including Environmental, Social and Governance (ESG) risks;
- the separation of the Chairman and CEO or executive director roles;
- board composition that has sufficient independent (i.e. external) and skilled directors;
- compliance committee (with a majority of external members);
- appropriately structured executive share / option schemes that provide incentives to improve current and long-term performance with clearly stated robust performance hurdles and time frames; the re-election of directors where financial performance has been acceptable;

- the formation of nomination, remuneration and audit committees comprised of a majority of independent directors;
- appropriate processes and structures in place to effectively meet continuous disclosure requirements;
- company policies for effectively managing conflicts of interest;
- the application of the 'one share, one vote' principle whereby all shareholders have equal voting rights in public companies and each share has one vote; and
- appropriate employee share schemes.

While the above initiatives are factors which guide Challenger's approach to voting on company resolutions, voting is always assessed on a case by case basis. Consequently, other factors may be taken into account instead of, or as well as, the initiatives outlined above if Challenger believes that it is in the best interests of its investors to do so.

5.1.5 Investment management governance procedures

The operating procedures for dealing with corporate actions, including proxy votes, are maintained by the Market Operations and Corporate Actions (MOCA) Manager, who reports into the Middle Office Function within Investment Operations.

The respective proxy voting provider notifies MOCA Manager of the proposed company resolutions and the closing date for votes to be submitted. The proposed resolutions for all portfolios with holdings in the company is prepared and distributed to the Investment Heads and relevant portfolio managers. The notification includes the due date, the notice of meeting sent to shareholders and any other relevant information. The notification also confirms relevant cut off dates for the respective proxy voting provider.

The Investment Head or relevant portfolio manager communicates their decision in relation to the proposed resolution back to the MOCA Manager for capture and notification back to the relevant custodians.

5.2 Delegated Investment Management

This section only applies to the Portfolios for which Challenger has delegated the investment management function to a third party Investment Manager. Investment Management Heads and their teams are responsible for ensuring that Challenger complies with this Policy.

It should be noted that third party Investment Managers may, in determining its proxy voting, rely on third party advisory firms that provide advice on proxy voting and corporate governance issues.

5.2.1 Delegation of Proxy Voting

In accordance with Section 7.2 of Challenger's Responsible Investment Policy, Challenger expects that the third party Investment Managers it appoints will demonstrate an acceptable level of commitment to the management of key ESG risks and opportunities as set out in the PRI Principles and will apply principles of active ownership in relation to proxy voting and engagement.

Investment Management Heads and their teams are responsible for ensuring that Challenger enters into IMAs with third party Investment Managers that include appropriate proxy voting requirements including ESG considerations. As outlined in Section 7.8.1 of Challenger's Responsible Investment Policy, the relevant Investment Management Heads and their teams should ensure that:

- There is a specific clause contained in the IMA which clearly sets out the third party Investment Manager's approach to ESG considerations, including an adequate explanation as to how ESG risks are accounted for; and
- The proxy voting reporting arrangements that have been agreed between Challenger and the third party Investment Manager are clearly articulated.

5.2.2 Proxy Voting Reporting

As mentioned above, each relevant IMA should clearly articulate the proxy voting reporting arrangements that have been agreed with each relevant third party Investment Manager. Investment Management Heads and their teams are responsible for ensuring that the proxy voting reporting provided by third party Investment Managers is sufficient for Challenger to meet its obligations under section 6 Disclosure and Reporting Requirements.

6. Disclosure and Reporting Requirements

6.1 Disclosure and Reporting to clients

As required by FSC Standard No. 13 'Voting Policy, Voting Record and Disclosure', no later than three months after the close of the financial year, Challenger must publish a summary of its Australian proxy voting activities (including abstentions) for each scheme it operates on its website. This disclosure must be in a form consistent with FSC Standard No.13, as such it will include:

- (a) The name of the entity (and the scheme if relevant).
- (b) The ASX or equivalent code of the relevant interests or securities, unless those are not readily available to the Operator.
- (c) The meeting date.
- (d) A brief identification of the matter or matters to be voted on at the meeting;
- (e) If known, whether the matter or matters voted on were proposed by the issuer, its management or another person or company.
- (f) Whether the Operator voted on the matter or matters.
- (g) If applicable, how the operator voted on the matter or matters (in such a case, an Operator must retain evidence of the reasons why it was felt appropriate to abstain from voting. However it is not necessary for the Operator to disclose those reasons in its voting record).
- (h) Whether votes cast by the Operator were for or against the recommendations of management of the entity.

6.2 Disclosure of Voting Policy

As required by FSC Standard No. 13 'Voting Policy, Voting Record and Disclosure' Challenger will disclose its Voting Policy to scheme members via its website. Material changes to the Voting Policy will be disclosed to members as soon as it is reasonably practicable and in the form of a continuous disclosure.

6.3 Disclosure and Reporting to mandate clients

Mandate clients are typically informed of proxy voting via their custodian or proxy provider. If required in the contractual terms of the mandate, mandate clients can be informed of proxy voting through regular reports.

6.4 Incident reporting

Non-compliance with the obligations contained in this policy must be reported to Risk and Compliance in accordance with Challenger's Incident Management Policy and Practice Note.

7. Training and Awareness

The Investment Management Heads and the Head of Investment Operations are responsible for ensuring that staff are aware of their obligations under this Policy and that the appropriate divisional procedures to meet the requirements of this Policy are documented and operational.

8. Adherence with Policies and Practice Notes

Staff are to comply with all relevant Challenger Policies and Practice Notes and are responsible for familiarising themselves with the Policies and Practice Notes (available on the Connect). Line Managers are responsible for the provision of guidance in this regard.

9. Whistleblowers Provisions

In extreme circumstances, an individual may be concerned that a serious breach has occurred in relation to this Policy but be in a position where he or she believes that it would be personally damaging to pursue it through normal channels. A Whistleblower process is in place to encourage and facilitate such disclosures.

This process is designed to:

- Encourage and facilitate disclosure of such conduct;
- Provide anonymity for Staff who make these disclosures;
- Provide protection for Staff who may fear reprisals in relation to such disclosures; and
- Ensure that the matters disclosed are properly investigated and dealt with.

Staff are able to access a copy of Challenger's Whistleblower Provisions and/or lodge Whistleblower notification emails via the Regulatory and Policies page within the Group section of Connect.

10. Non-compliance with this Policy

Incidents of wilful non-compliance with this Policy are considered to be serious and may be grounds for dismissal.

11. Point of Contact

Risk and Compliance, Investment Management Heads and / or the Head of Investment Operations are the points of contact for matters arising from this policy.

12. Review Cycle

This Policy will be reviewed and approved annually in accordance with the FSC Standard No. 13 'Voting Policy, Voting Record and Disclosure or as required if there are material changes in the regulatory framework or business activities.

As mentioned in section 6.2, any material changes to the policy are to be disclosed to scheme members as reasonably practicable and in the form of a continuous disclosure.