

# Sustainable Finance Disclosure Regulation - Sustainability Risks and Remuneration Policy Disclosures

Macquarie Asset Management

**June 2023**



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The following disclosures are made by each of the following entities 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**”):

- Macquarie Investment Management Europe S.A. (“**MIME SA**”) (LEI: 222100BG2FQQTASJ7290)
- Macquarie Investment Management Austria Kapitalanlage AG (“**MIMAK**”) (LEI: 529900ABVEUZ22YQG259)
- Macquarie Asset Management Europe S.à r.l. (“**MAMES**”) (LEI: 2221008OZQM47X2T599)
- GLL Real Estate Partners Kapitalverwaltungsgesellschaft mbH (“**GLL**”) (LEI: 549300MDAFVIH9W88247)

(together, the “In-Scope Entities”).

The In-Scope Entities are part of Macquarie Asset Management (“**MAM**”).

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# Introduction

MAM is a global asset manager of more than \$US582 billion in assets globally<sup>1</sup>, offering a diverse range of products including securities investment management, infrastructure and real asset management, and fund and equity-based structured products. MAM comprises two groups, Public Investments (equity, fixed income and multi asset solutions) and Private Markets (infrastructure, renewables, natural assets, real estate, private credit and asset finance). With a global team, we leverage our experience, diversity and culture of innovation to identify opportunities, mitigate risks and create long-term value for our clients and stakeholders.

MAM is part of Macquarie Group Limited (“**Macquarie**”), a global financial services group providing clients with asset management, finance, banking, advisory and risk and capital solutions across debt, equity, and commodities. Founded in 1969, Macquarie Group employs approximately 20,500<sup>2</sup> people in 34 markets and is listed on the Australian Securities Exchange.

## Public Investments

The Public Investments business of MAM acts through MIME SA and MIMAK in Europe, which are authorised and regulated entities in the European Economic Area.

Our Public Investments business is a diversified, active investment management business 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 benefiting from a comprehensive global operational support platform, structural oversight as well as a broad global distribution network. Our teams offer multiple strategies and all share several traits: independent thinking, global perspectives and conviction in their specialised investment philosophies.

We believe that well-managed companies will deliver long-term shareholder value and therefore 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.

MAM’s Public Investments business is governed by an ESG Policy (“**PI ESG Policy**”) which is reviewed annually. The PI 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 the public investments business.

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<sup>1</sup> As at 31 March 2023.

<sup>2</sup> As at 31 March 2023. This figure includes staff employed in certain operationally segregated subsidiaries.

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## Private Markets

The Private Markets business of MAM acts through MAMES and GLL in Europe, which are authorised and regulated entities in the European Economic Area.

MAM's Private Markets business is a leader in alternative asset management worldwide, specialising in infrastructure and renewables, real estate, agriculture, transportation finance and private credit via public and private funds, co-investments, partnerships and separately managed accounts. Investing regionally with expert local investment and asset management teams, its client base is primarily institutional investors, including global pension and superannuation funds, other institutions and governments.

Managing our portfolio for sustainable, long-term success is part of our broader responsibility to investors, the businesses in which we invest and the communities in which they operate. We believe the achievement of this contributes to the long-term profitability and durability of these businesses.

ESG considerations are embedded within our investment decision making approach and our asset management frameworks, through which we encourage portfolio companies and asset managers to assess and improve performance on ESG matters.

Our philosophy is to engage with our investors, portfolio companies, investments, asset managers, industry groups, regulators and other stakeholders on ESG matters, with the aim of promoting shared knowledge and experience and continuing to improve our own frameworks, and ultimately, performance on these important matters.

MAM's Private Markets business is also governed by an ESG Policy ("**PM ESG Policy**"). The PM ESG Policy provides a framework for the consideration of ESG risks and opportunities into our business activities and requires the identification and management of ESG risks and adverse impacts throughout the investment lifecycle, where appropriate and material.

Both MAM ESG Policies, which are each designed to reflect the specific nature of our different business structures, operations, investments and stakeholders, are aligned with the broader Macquarie Group approach<sup>3</sup>.

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<sup>3</sup> A summary of Macquarie Group's Environmental and Social Risk Policy is publicly available at <http://www.macquarie.com/esg>.

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# Sustainability Risks

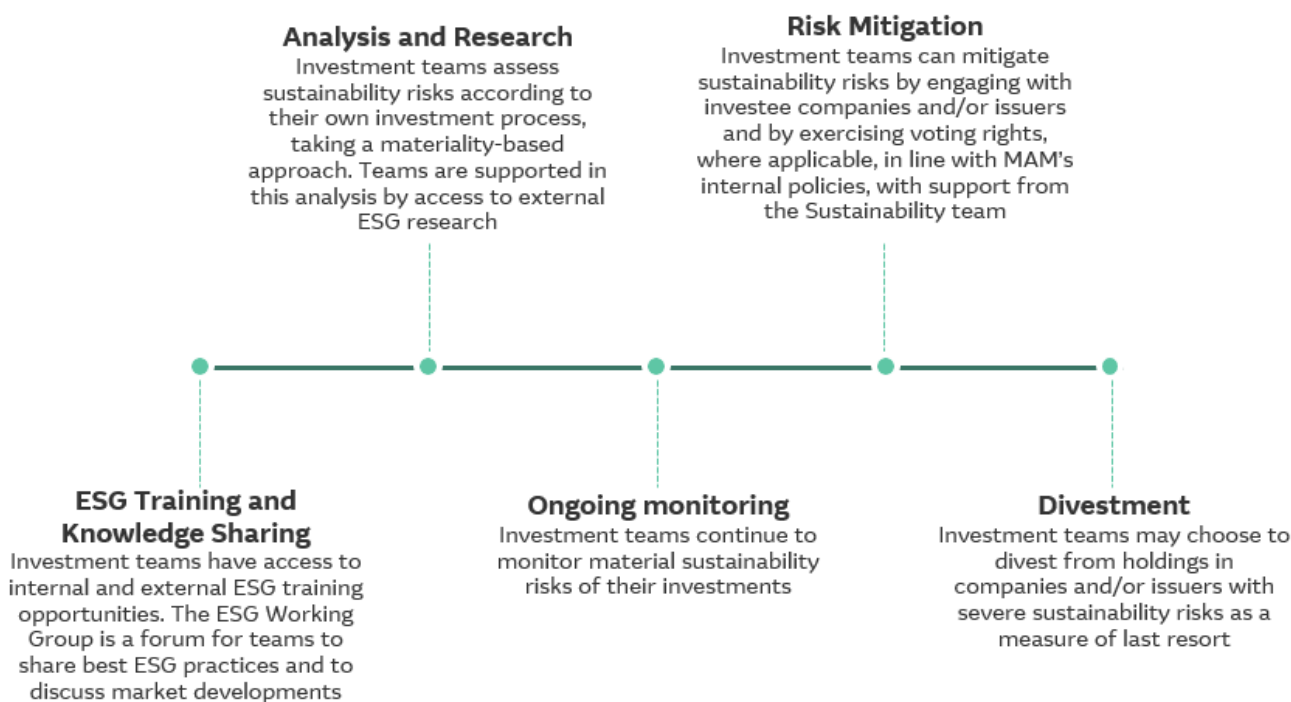
Sustainability risks are those environmental, social or governance events or conditions that, if they were to occur, could cause an actual or a potential material negative impact on the value of an investment.

Our ESG policies, dedicated procedures, systems and in-house experts enable our MAM teams across both our Public Investments and Private Markets businesses to effectively address material sustainability risks and opportunities.

Our investment and asset management teams are supported in their application of ESG policies by the MAM Sustainability Team. The Sustainability Team is responsible for setting the overall sustainability strategy and ESG Policies across MAM's businesses, providing specialist expertise on sustainability risks, and supporting asset management teams in harnessing ESG opportunities across the portfolio.

## Public Investments

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



Inherent to our 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.

## Private Markets

Sustainability risk analysis is a fundamental component of our Private Markets investment process and is the responsibility of the investment teams, risk teams and relevant investment committees when making investment decisions.

Our approach is materiality-based. We place emphasis on those sustainability risks that are considered most important and meaningful to each business and its community given the industry and type of asset, its physical location, legal jurisdiction and stage in the asset cycle, as well as asset-specific risks that are identified as a result of our rigorous due diligence process.

## Direct investments

Sustainability risks are integrated into our investment decisions and are taken into account throughout the investment process in accordance with the PM ESG Policy, as set out below:

Screening	Due diligence	Investment decision	Transition (Equity only)	Asset and portfolio management	Exit (Equity only)
Assets and management teams screened for ESG-related red flags and opportunities and subject to sensitive sector escalation	ESG risks and opportunities independently assessed, aided by tools, expertise and frameworks, and factored into the financial analysis	Material ESG risks, opportunities and mitigants evaluated by the investment committee as part of all investment approvals	Identified ESG strategies and improvements resourced, implemented and tracked as part of transition plan	Ongoing ESG oversight, engagement and monitoring	ESG advantages and opportunities integrated into the realisation process to ensure optimal valuation

We consider a broad range of sustainability risks in assessing potential investments and in ongoing asset management. In investment decision-making, we assess sustainability risks identified in due diligence and our ability, through governance rights, to influence the management of those issues.

To help ensure all relevant risks are covered, investment teams use comprehensive due diligence checklists and have access to tools to support them in their analysis of ESG risks. For example, our Real Assets business uses the Macquarie Environmental and Social Risk Assessment Tool, which was built in collaboration with external advisers and is based on International Finance Corporation Performance Standards.

In addition, the Risk Team is responsible for ensuring all operational risks, including ESG risks, are identified and managed appropriately. Reporting to the MAM Chief Risk Officer, the team is independent and supported by specialist expertise within our MAM business, including the Sustainability Team, and Macquarie's Risk Management Group ("RMG").

In 2019, our Private Markets business formalised a policy restricting investments in businesses with exposure to coal: no further investments will be made in standalone coal fired generation or in any asset for which more than 25% revenue is dependent on coal. For businesses with a smaller exposure to coal, the investment case must incorporate a transition away from that dependency.

## Indirect investments

Sustainability risks are also integrated into our investment decisions for indirect investments and are taken into account throughout the investment process. When screening an investment, managers of underlying funds and management teams of their underlying assets are screened for ESG-related red flags and subject to sensitive sector escalation. ESG risks are then evaluated internally and independently assessed, aided by tools, expertise and frameworks with results factored into the financial analysis. Material ESG risks and mitigants are evaluated by the relevant MAM Investment Committee as part of all investment approvals. We will use best efforts to periodically secure feedback on various ESG issues from managers of underlying funds.

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# Remuneration

Macquarie's longstanding and consistent approach to remuneration continues to meet our remuneration objectives and align with our principles 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 these objectives, we must attract, motivate and retain exceptional people with deep industry expertise, align their interests with shareholders to meet the needs of clients and customers and ensure that spirit and intent of 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> and, for EMEA employees, in the EMEA Remuneration Policy Disclosure at <https://www.macquarie.com/au/en/investors/regulatory-disclosures.html>.

The In-Scope Entities are all subject to Macquarie's remuneration framework and the Macquarie Group Remuneration Policy.

MAMES, MIME SA, GLL and MIMAK also have standalone Remuneration Policies in order to ensure compliance with local laws.

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, MAM employees receive fixed remuneration and performance-based remuneration, primarily 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 set at a level to be sufficient to mitigate the likelihood of inappropriate risk taking.

## **b. Performance-based remuneration**

The initial business group profit share pools are determined through a combination of a top-down and bottom-up approach. The company-wide profit share pool is an aggregate of the assessments conducted at both the business group and individual level. The Board retains discretion to amend the final pool determined in accordance with the above process to ensure that all relevant factors, including risk and conduct matters (and, where appropriate, sustainability risk), have been appropriately taken into consideration.

The MAM profit share pool reflects considerations of financial performance, risk management, business-specific considerations and market position and trends.

Profit share allocations to individuals reflect an employee's performance against their objectives, which is formally assessed annually. An individual's performance is assessed against a range of financial and non-financial considerations, which fall under the following four factors: financial/business results; risk management and compliance; business leadership (including customer and community outcomes); and professional conduct, diversity, equity and inclusion (and where applicable, people leadership). Three of these factors are non-financial, with considerations given to each in varying proportions to reflect an individual's role and responsibilities.

Individual profit share allocations also consider relativities in the market in which the MAM business competes for talent. 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.



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# Contacts and disclaimer

For any queries, please contact:

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