H1 2024 SEMI-ANNUAL

Stewardship Report

Our approach

Our approach to stewardship

VanEck is committed to using its influence to maximise the long-term welfare of investors for whom we are managing investment assets. Factors we consider vital to this long-term welfare include both the financial value of investment assets and also broader matters such as environmental, social and governance (ESG) issues.

As an index-tracking asset manager, we consider it as part of our fiduciary obligations to make the best use of this influence on behalf of our investors.

The approach that we take as an involved owner of the portfolio companies can best be described as 'investment stewardship'. This entails exercising our influence through:

- voting;
- engagement; and
- advocacy.

Our priorities include:

- board quality;
- environmental and social issues;
- executive remuneration;
- capital management;
- corporate deals such as mergers & acquisitions
- dissipating shareholder rights; and
- auditor rotation.

Note that there is no universally accepted ESG criteria to assess companies, ETFs or other funds around the world. This means the approach used to determine what is a 'good' or 'bad' ESG rating varies significantly across research bodies and fund managers, ranging from superficial applications of ESG metrics to more comprehensive approaches.

Half-year in review

VanEck Investments Limited, as per its fiduciary duty, voted on 31,233 management proposals. Additionally, we increased our direct company engagements to 31 during the first half of 2024 across various countries and sectors. Further, VanEck's gold team conducted six ESG engagements with the gold mining companies held in the VanEck Gold Miners ETF (GDX). This is well in excess of our target of 10 semi-annual company engagements.

A copy of our latest stewardship policy is available here, providing voting statistics and portfolio company engagements.

Voting

A right to vote is the most influential and impactful legal right that arises from owning shares. Our main avenue for influencing companies we have invested in is voting in each company's formal proceedings. Voting decisions are made on a case-by-case basis within the framework of VanEck's voting guidelines.

We vote against a company's proposals if we believe that the issue under consideration does not meet our voting guidelines.

We have appointed Glass Lewis as our proxy voting agent to cast votes on our behalf. While Glass Lewis provides recommendations for each vote that arises, we retain the oversight and power to vote contrary to their recommendation at all times. We also use a specific set of ESG voting overlay principles across all of our portfolio companies to promote positive ESG behaviour.

Statistics

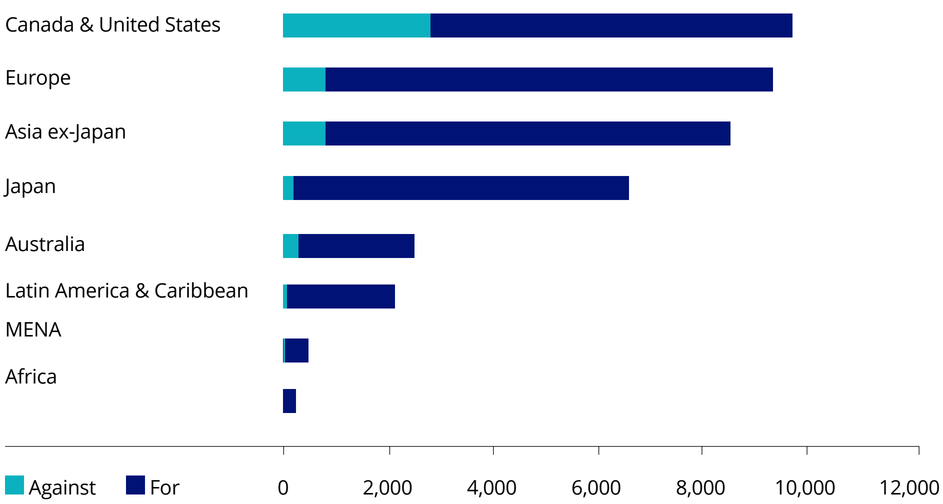
VanEck is committed to using its influence to maximise the long-term welfare of investors for whom we are managing investment assets.

GLOBAL H1 2024

Votes by region

Region	% against management	Total votes
Africa	7%	204
Asia ex-Japan	12%	6,584
Australia	15%	2,162
Canada & United States	29%	9,607
Europe	9%	9,256
Japan	8%	2,500
Latin America & Caribbean	24%	487
MENA	17%	433
Total	**17%**	**31,233**

Source: Glass Lewis, VanEck.

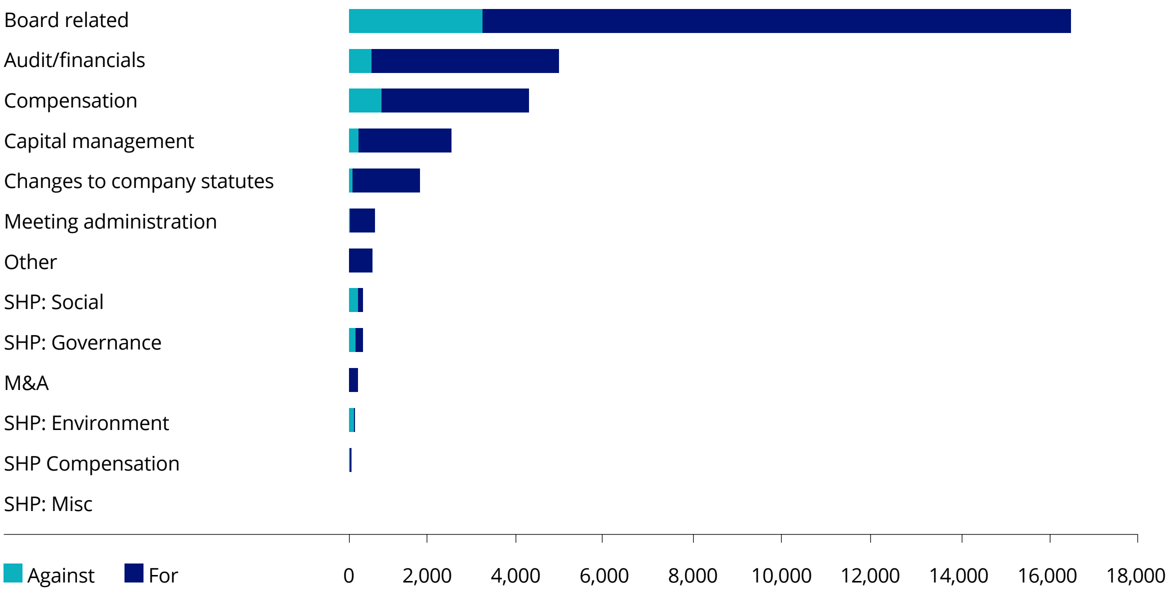


GLOBAL H1 2024

Votes by proposal type

Proposal type	% against management	Total votes
Audit/financials	11%	4,741
Board related	19%	16,474
Capital management	9%	2,303
Changes to company statutes	6%	1,572
Compensation	18%	4,051
M&A	3%	193
Meeting administration	7%	547
Other	6%	528
SHP: Compensation	47%	81
SHP: Environment	88%	142
SHP: Governance	49%	285
SHP: Misc	28%	25
SHP: Social	65%	291
Total	**17%**	**31,233**

Source: Glass Lewis, VanEck. SHP: shareholder proposals

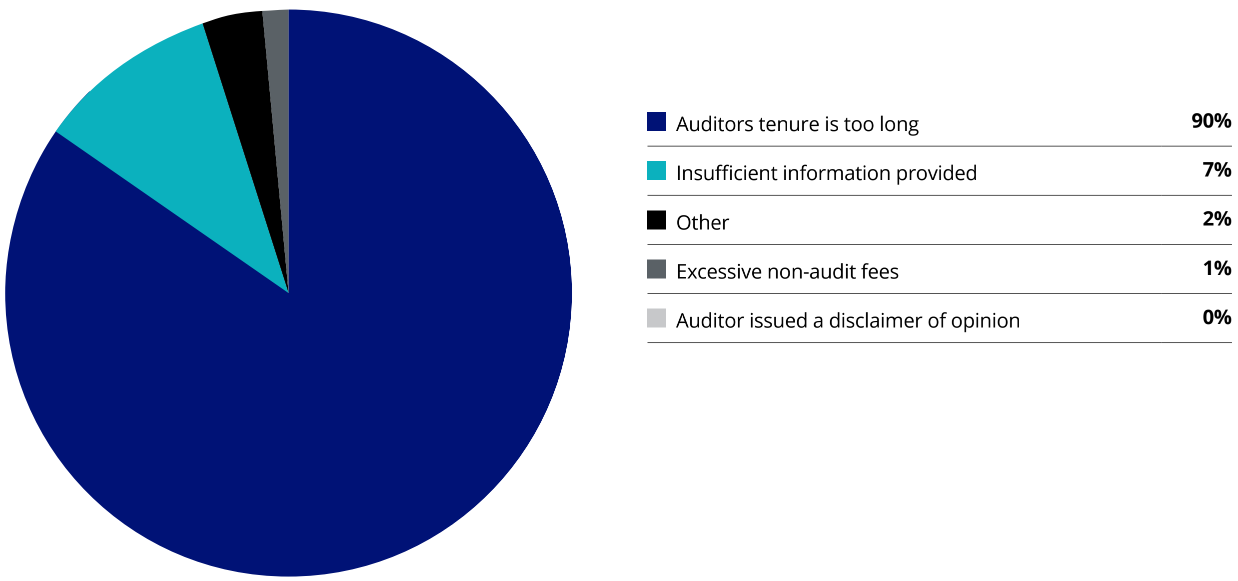


GLOBAL H1 2024

Votes against management reasons related to audit/financials

Reasons	Total
Excessive Auditor Tenure	485
Insufficient information provided	39
Other	10
Excessive non-audit fees	2
Appointment of the auditor is for multiple years	1
Total	**537**

Source: Glass Lewis, VanEck.

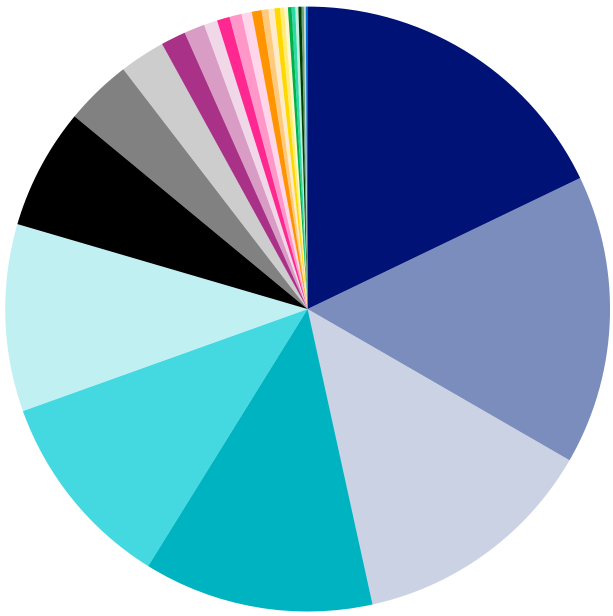


GLOBAL H1 2024

Votes against management reasons related to election of directors/committee members

Reasons	Total
Vote against ESG committee of tier 3 company, if the company does not report to SASB	550
Board is not sufficiently independent	476
Other	407
Insufficient information provided	378
Vote against the company chair when the company is not a UNGC participant or signatory OR the Human Rights Policy does not align with UDHR	329
Insufficient female representation	308
Overboarding	199
Vote against members of the nomination or governance committee if the company has insufficient oversight of E&S issues.	110
Vote against board chair at tier 3 company if the company does not have GHG targets	75
Ongoing investigations	41
Compensation concerns	34
Board failed to act in interests of shareholders	22
Less than 75% attendance	21
Insufficient oversight of E&S issues	20
Statutory auditor board is not sufficiently independent	17
Vote against the members of the nomination and governance committees if there is poor diversity disclosure rating.	16
Multi-class share structure with unequal voting rights	11
Financial and/or operating underperformance	10
Insufficient response to shareholder dissent	9
Vote against board chair of tier 1 and 2 companies if the company does not have net zero targets.	7
Nominated a director w/ concerning issues	6
Cybersecurity concerns	6
Did not implement SHP passed by a majority of unaffiliated shareholders	6
Vote against members of the nomination or governance committee if the board tenure is excessive with insufficient new membership in the past five years	5
Related party transactions	5
Insider on nominating committee	4
Major shareholder is disproportionately represented	3
Potential conflict of interests	3
Total	**3,078**

Source: Glass Lewis, VanEck.



Vote against ESG committee of tier 3 company, if the company does not report to SASB	**18%**
Board is not sufficiently independent	**15%**
Other	**13%**
Insufficient information provided	**12%**
Vote against the company chair when the company is not a UNGC participant or signatory OR the Human Rights Policy does not align with UDHR	**11%**
Insufficient female representation	**10%**
Overboarding	**6%**
Vote against members of the nomination or governance committee if the company have insufficient oversight of E&S issues.	**4%**
Vote against board chair at tier 3 company, if the company does not have GHG targets	**2%**
Ongoing investigations	**1%**
Compensation Concerns	**1%**
Board failed to act in interests of shareholders	**1%**
Less than 75% Attendance	**1%**
Insufficient oversight of E&S issues	**1%**
Statutory auditor board is not sufficiently independent	**1%**
Vote against the members of the nomination and governance committees if there is poor diversity disclosure rating	**1%**
Multi-class share structure with unequal voting rights	**1%**
Financial and/or operating underperformance	**1%**
Insufficient response to shareholder dissent	**1%**
Vote against board chair of tier 1 and 2 companies, if the company does not have net zero targets	**1%**
Nominated a director w/ concerning issues	**1%**
Cybersecurity concerns	**1%**
Did not implement SHP passed by a majority of unaffiliated shareholders	**1%**
Vote against members of the nomination or governance committee if the board tenure is excessive with insufficient new membership in the past 5 years	**1%**
Related party transactions	**1%**
Insider on nominating committee	**1%**
Major shareholder is disproportionately represented	**1%**
Potential conflict of interests	**1%**

Company Engagements

We believe engaging with companies should be a continuous dialogue to achieve desirable financial and ESG outcomes.

Company Engagements

We supplement voting by engaging with the companies we invest in. Engagement can take many forms. For the first half of 2024, we had 31 direct company engagements. As we continue to grow as an asset manager, we are committed to growing our capacity to engage with companies, directly or through third parties, to influence well-informed and sustainable business decisions in the long-term.

We believe engaging with companies should not be limited to one-off conversations, but rather a continuous dialogue to achieve desirable financial and ESG outcomes.

For the period, we were pleased to increase the number of recurring engagements from three to five, including Cromwell Property Group (four meetings since 2022), Dexus (three meetings since 2022), Flughafen, HHLA and IRESS.

Engagement may involve the advocacy of our particular point of view, but often, simply letting the company know that we consider a particular issue to be serious is sufficient.

The main triggers for us to engage include:

1. Level 1 meetings, such as high-profile companies, M&A, companies under significant controversy and contested meetings flagged by Glass Lewis;.
2. ESG rating downgrade noted by MSCI; and
3. Direct engagement with the company prior to an AGM.

The following table lists the companies we engaged with during the six months ended 28 June 2024.

Company	Country	Engagement reason	Recurring engagement?	Board related	Business strategies	Capital management	E&S	Executive remuneration
Aeroports de Paris	France	Pre-AGM meeting		✔				
Agilent Technologies	US	Pre-AGM meeting		✔			✔	
Arcadium Lithium	Australia	Major shareholding		✔	✔	✔	✔	✔
Cromwell Property Group	Australia	ESG rating downgrade	✔				✔	
Dexus	Australia	Major shareholding	✔	✔	✔	✔	✔	✔
Dicker Data	Australia	Pre-AGM meeting		✔				✔
Encavis	Germany	Pre-AGM meeting		✔				
Flughafen	Switzerland	Pre-AGM meeting	✔					✔
G8 Education	Australia	Pre-AGM meeting						✔
Helios Towers	UK	Direct engagement			✔	✔	✔	
HHLA	Germany	Pre-AGM meeting	✔					✔
Iluka	Australia	Pre-AGM meeting						✔
Incitec Pivot	Australia	ESG rating downgrade			✔		✔	
Ingenia Communities Group	Australia	MSCI rating downgrade + Pre-AGM meeting		✔	✔	✔	✔	✔
IRESS	Australia	Pre-AGM meeting	✔		✔		✔	
Keysight Technologies	US	Pre-AGM meeting		✔				
MA Financial	Australia	Pre-AGM meeting						✔
Mirvac	Australia	ESG rating downgrade		✔	✔		✔	
NEL	Norway	Pre-AGM meeting		✔				✔
Nike	US	Level 1 meeting		✔	✔		✔	

Company	Country	Engagement reason	Recurring engage-ment?	Board related	Business strategies	Capital manage-ment	E&S	Executive remuner-ation
Paladin Energy	Australia	ESG rating downgrade					✔	
Piraeus Bank	Greece	Direct engagement			✔	✔		
Prosus	Netherlands	Direct engagement			✔	✔		
QUBE	Australia	ESG rating downgrade		✔				✔
Reliance Worldwide	Australia	ESG rating downgrade		✔			✔	✔
SES	Luxembourg	Pre-AGM meeting						✔
Tyson Foods	US	Level 1 meeting			✔		✔	
Vicinity Centres	Australia	ESG rating downgrade					✔	
Westpac	Australia	Direct engagement				✔	✔	
Whitehaven Coal	Australia	Major shareholding			✔	✔	✔	✔
Wilmar International	Singapore	Pre-AGM meeting		✔				✔
Worley	Australia	ESG rating downgrade		✔	✔		✔	

✔ primary topic of engagement

Independently, VanEck's gold team also had ESG engagements with the following six gold mining companies held in VanEck Gold Miners ETF (GDX). The topics of discussion were energy management, GHG emissions, water management, waste management, health and safety, community rights and relations, labour and employment practices, ethics and compliance, and governance. VanEck is a top 5 shareholder in the companies listed in below:

- Kinross
- Eldorado Gold
- B2Gold
- Anglogold Ashanti
- Barrick Gold
- Newmont

ADP

Aeroports de Paris

Ticker: ADP | **Country:** France | **Sector:** Industrials | **Shareholder position:** Top 30

Aeroports de Paris was held in our VanEck FTSE Global Infrastructure (Hedged) ETF (IFRA) at the time of the engagement. We discussed the company's board member election (electing Fanny Letier) as well as electing Didier Martin, Valérie Pécresse, Anne Hidalgo, and Patrick Renaud as Censors in the upcoming AGM.

With regards to nominee Letier, we were concerned that the candidate had less than 75% attendance in 2022 without disclosure of explanation, and there were no attendance stats provided for 2021. The company advised that 2022 was an exceptional situation. It also provided attendance stats for other years: 88.9% in 2021 (published in page 60 of the amendment to the 2021 URD) and 80% in 2023 (published in page 208 of the 2023 URD). We maintained our 'against' vote, as the company failed to provide a satisfactory explanation for not disclosing the 2022 attendance statistic.

We also questioned the five-year term for the group of Censors, as opposed to a recommended two-year term. As clarified by ADP, the term length of censors was being aligned with that of board members as it seemed appropriate to the nature of the company's core business, in particular its mission as an airport public service. It was set at five years, consistent with the duration of the Economic Regulation Contract; the company can opt-in the application of article 6325-2 of the French Transport Code.

In addition, the censors' strong commitment to the economic development and attractiveness of the Paris region, as well as to safety and security, justified a five-year term of office, enabling them to benefit from the medium-term vision essential to the development of Paris airports. The detailed reasoning was also outlined in corporate governance report. We concluded that the company had sufficient reasoning to extend the tenure of the group of Censors to five years and amended the vote from 'against' to 'for'.

A

Agilent Technologies

Ticker: A | **Country:** US | **Sector:** Healthcare | **Shareholder position:** Top 20

VanEck was a top 20 shareholder in Agilent Technologies as it was held in a suite of our ETFs.

We reached out to the company with regards to the nominee KOH Boon Hwee in the upcoming AGM. We were of the view that the Chair of the Nominating and Corporate Governance Committee bears responsibility for insufficiently addressing the gender diversity issue.

Agilent acknowledged the importance of diversity, including gender diversity, on its board. The company believes that a diverse board enhances decision-making processes, fosters innovation, and ultimately contributes to the long-term success of the company. Agilent is deeply committed to promoting diversity and inclusion across all levels of the organisation, including the board. Nominating and Corporate Governance Committee regularly evaluates potential director nominees based on a variety of factors, including their qualifications, skills, experiences, and diversity attributes. Gender diversity is a key consideration in this evaluation process, and the company is actively working to ensure that the board reflects a broad range of perspectives and insights.

Agilent flagged that its board currently stood at 45% overall diverse representation. While the company had disclosed a commitment to diversity in the proxy statement and ESG report, Agilent acknowledged that additional information regarding a specific timeline for achieving gender diversity targets may be beneficial. The company continuously evaluates its policies and practices to align with best practices and stockholder expectations.

VanEck appreciates that gender diversity is not the sole determinant of effective governance, but an important aspect of board composition in general. We maintained our 'against' vote and urged the company to focus on gender diversity as a strategic priority.

LTM

Arcadium Lithium

Ticker: LTM | **Country:** Australia | **Sector:** Materials | **Shareholder position:** Top 3

VanEck was a top 3 shareholder in Arcadium Lithium CDI (previously Allkem. The company merged with Livent to form Arcadium). We discussed the business operations and ESG-related matters as follows:

Lithium price and demand outlook

Arcadium commented that lithium is an emerging sector but also a maturing industry. The long-term fundamentals still remain strong with 20% sales increase year on year for Q1. Secure supply is the customers' priority going into 2026 and 2027.

From a short-term perspective, lithium hydroxide and lithium carbonate prices have fallen more than 80% throughout 2023 and into 2024, now priced at $12-13/kg. The lithium supply chain could be opaque but will become more sophisticated. When asked about the imbalance between supply and demand, the company commented that it was mainly driven by the higher cost to the supply curve, in particular for the upstream in the supply chain. This higher level of cost of supply could stay for longer. Arcadium forecasts that the price will be unlikely to come back above $60/kg but it is bound to recover.

We also asked about the demand from China and potential impact from the trade tension between the US and China. Arcadium advised that only a very small percentage of revenue is generated out of China, rather more broadly from Asia. China aims to secure its own supply chain and will remain a dominant vertically integrated player in the market. Some level of manufacturing of lithium carbonate and metal is manufactured in China, while lithium hydroxide is generally produced in the US.

From the demand side, a lot of western automotive original equipment manufacturers (OEM) haven't had a clear roadmap of their EV product development going forward with respect to the type of lithium battery to focus on. Regardless, Arcadium has a diverse range of offerings: lithium hydroxide being the dominant choice as it is Inflation Reduction Act (IRA) qualified, while lithium carbonade is also a flexible alternative.

Business operations post-merger with Livent

The company commented that in order to swiftly navigate the market downturn, the merger of the two organisations naturally created synergy and overall headcount reduced by 11% globally. The decision was made to slow down expansion of projects.

In Australia, development plans remain intact but with a slowdown of asset development. The FY24 production is expected to be 130,000 metric tons only in Mt. Cattlin. The labour cost increase hasn't been above industry average, rather the increase is driven by higher waste cost in mining.

In the US, the majority of competitors like Sociedad Química y Minera (SQM) do not produce Spodumene, which could be competitive edge for Arcadium.

Project development plans

At a high level, the company management reiterated their growth plan and the recent expansion in Argentina and China. Production is targeted to quadruple by 2026. However, the decision has been made to slow down expansion to: 1) conserve balance sheet; 2) allow the company to take a deep dive of existing projects and identify longer term synergy.

The sustainability strategy as a new entity

Prior to the merger (January 2023), Allkem had a different GICS sector classification as 'Metals and mining - non-precious metals', rated at AA, while Livent was classified as 'Integrated chemicals' with a rating of BB by MSCI.

The company is due to release its 2023 transition year sustainability report. The company commented that both entities were well aligned in terms of the sustainability focus areas and the material issues to be addressed are similar. There is a mechanism to hold the board accountable, with the Sustainability Committee looking after the KPIs.

We also flagged water usage intensity and CO2 emission in the mining process. The company responded that water usage is part of the sustainability focus areas. Usage in general must be appropriate. For instance, Quebec has an abundance of water resources vs Argentina which is considerably drier. The mining operations in Argentina are located in a high-altitude remote area, yet are not classified as a high-risk water region. Arcadium also participated in a number of water studies locally.

Water is recycled from plants to ponds to reduce waste. Other types of energy efficiency approaches include minimising transportation wastage to mine and to be used in the same geography.

Board member election in the upcoming AGM

We raised the question about why Florencia Heredia received a significant 25% 'against' vote in Allkem's 2023 AGM. There have been concerns around the related party transactions (former NED of Galaxy Resources, partner of Allende & Brea which provides legal services to Allkem, fees US$592,707 in FY23) and the composition of the people and remuneration committee.

The company clarified that the independence was questioned by Glass Lewis, as Heredia works as a lawyer in Allende & Brea, one of the few top law firms in Argentina. Arcadium advised that her experience provided invaluable insights for the merger deal. However, going forward, her role in the law firm will be less involved and the fees will be reduced accordingly.

CMW

Cromwell Property Group

Ticker: CMW | **Country:** Australia | **Sector:** Real Estate | **Shareholder position:** Top 50

VanEck had our fourth engagement with the company in January this year, following consecutive ratings downgrades from MSCI ESG. We followed up on the company's carbon emission reduction progress, as well as the high staff turnover (18% vs 14% industry average).

The company commented that its progress in ESG has been meaningful over the last two years, and their feedback was that it believes MSCI conducted its assessment on Cromwell Property Group's 2022 report rather than the latest 2023 report, hence the perceived lack of progress.

Some specific FY23 highlights were:

- Cromwell's FY23 ESG report highlighted the progression made in the last 12 months regarding its broader ESG commitments. In Australia, emissions intensity (scope 1, 2, and 3) were reduced by 12% compared to the previous financial year, while European assets recorded reductions of 22%.
- The Cromwell Direct Property Fund was 3rd for Energy Performance in the Australian NABERS Sustainable Portfolio Index (SPI), and Cromwell's Australian investment portfolio was 4th in the same index.
- Cromwell Polish Retail Fund (CPRF) achieved a five-star GRESB rating and a Cromwell record high overall score of 90 points in the 2023 GRESB Real Estate Assessment, ranking 11th out of 32 European retail non-listed peer funds and 17th out of 87 in the European Retail category.
- Cromwell European Real Estate Investment Trust (CEREIT) achieved a record-high overall score of 85 points in the 2023 GRESB Real Estate Assessment, with full marks for social and governance aspects. CEREIT was awarded a four-star rating – up from a three-star rating last year. It also achieved a public disclosure score of a perfect 100, placing first out of its five peers.
- Importantly, the company's Australian gender pay gap has decreased by 44% since it was first calculated in FY21. In Europe, Cromwell has increased the women in leadership positions to 36%.

Key ESG targets:

Cromwell's key long-term targets remain as:

- Achieve net zero operational emissions (scope 1 & 2) by 2035;
- Achieve net zero operational emissions for the entire portfolio (scopes 1, 2, & 3), including tenant and embodied carbon, by 2045;
- Significantly reduce gender pay gap year on year;
- Achieve 40:40:20 workplace gender diversity at all levels;
- Integrate ESG into risk registers and business strategy, including objectives and key results.

DXS

Dexus

Ticker: DXS | **Country:** Australia | **Sector:** Real Estate | **Shareholder position:** Top 10

VanEck was a top 10 shareholder in Dexus. The engagement was arranged for the third year in a row, discussing remuneration and other board related matters.

The Chair of the Board first provided some key updates from Dexus:

- The CEO succession process, which lasted 18 months, is now complete. Ross Du Vernet was selected and came onboard in April this year. In August, Du Vernet is going to announce new business plans; dividend will be a focus as many shareholders value the payout.
- Upcoming board member changes:
  - Penny Bingham-Hall retired as the Chair of Rem committee;
  - Peeyush Gupta came onboard as a Non-executive director;
  - Elana Rubin came onboard as the Chair of Rem committee.
- Auditor rotation – Changing PWC, which has a 12-year tenure, to KMPG

VanEck flagged that Dexus share prices have not been performing for the last five years. At the time of engagement, it lagged A-REITs index by 32% for one year. VanEck as an index tracking fund started climbing up Dexus' share register as many active managers exited, while retail investors liked the yield aspect of the stock. Some of the US institutional investors exited their Dexus position because the office asset performance in the US has been considerably worse and they didn't want this exposure in Australia either.

Dexus commented that the company still holds valuable high-quality assets. The recent value re-rating has been driven by cap rate increases, and that re-rating comes in cycles. Office assets may be able to come back given Sydney CBD traffic has improved significantly. Some value investors are looking at this space.

In terms of the financial performance for FY24, AFFO is forecast to be going down again, as trading profit was harder to generate.

Funds management income has also been impacted by the declining asset value.

Capital recycling is even more important now, as debt doesn't change while asset value is down, leading to increased gearing. Selling buildings is currently hard, as there are not many bidders in the market and a lot of them are opportunistic. Two assets were sold last year to one high-net-worth individual and a PE firm, which were both highly geared. Dexus may trade some more non-core assets, and the Parramatta office is currently on the market.

The ongoing projects for Dexus include:

- Waterfront Brisbane
- Atlassian

VanEck also asked about the possibility of converting offices to residential. The Chair advised that conversion is usually expensive and slow, and will be driven by private builders rather than the big REITs. Build to rent, on the other hand, could be a good opportunity.

We then discussed executive remuneration. Dexus received a 30% 'against' vote for this in FY23, mainly from another proxy voting agent, the rationale being that despite the material statutory loss in FY23, there was still 40% earned in short-term incentives (STI). Dexus clarified with the agent this year that statutory loss had been driven by declining asset values, and further that it has never been a criterion in determining STI.

For FY24, the company advised that it would be unreasonable to expect long-term incentives (LTI) to be higher than last year. The AFFO threshold to be changed from 75% to 50% vesting, with both target and stretch outcomes requiring performance above guidance. As for STI, as there is a big financial component to it, and they expect it to reduce further.

The board is also considering introducing options in FY25. VanEck commented that we have no strong preference as long as the strike price must be a hurdle to achieve. The overall trend is that more companies are re-introducing options in LTI.

We then asked about the potential of spinning off office assets and the fund management business. Dexus advised that they are not considering it anymore after analysing various scenarios with a Canadian property manager. The bottom line is that it does not solve the problem for office shareholders.

In terms of financing, the company advised that the overall cost of debt is around 4%, while the marginal cost of debt would be 5.5%. However, given the rates cycle and the potential for rate cuts, the company is comfortable with the current level of interest rate risk.

Lastly, we flagged the MSCI ESG rating downgrade from AAA to AA in November 23. The main reason is attributed to the 18% staff turnover, which is higher than the industry level of 14%. The company acknowledged that it was primarily due to the synergy with the AMP capital merger, which is soon to be completed. The aim is to improve operational efficiency. They also acknowledged that the number has been elevated and may continue into FY25.

DDR

Dicker Data

Ticker: DDR | **Country:** Australia | **Sector:** Information Technology | **Shareholder position:** Top 40

VanEck was an institutional investor in Dicker Data, which was held in VanEck Small Companies Masters ETF (ASX: MVS). We raised the below concerns for the upcoming AGM.

- **Remuneration Report.** The vote 'against' in 2023 was high at 26.38%, making it the third consecutive strike. Dicker Data acknowledged the remuneration structure was unique, however in their view, the concerns raised by proxy advisors were balanced by a number of key items, namely low fixed remuneration with a focus on performance that aligns with shareholders' interests. Remuneration can increase or decrease should the profitability of the business increase or decline. The absence of an LTI plan or deferred remuneration had not resulted in short-term decision making, but a competitive uncapped profit share structure had ensured the longer average tenure of all executives of more than nine years. The stability of the key management team had been a competitive advantage for the company.
- **Re-elect Vladimir Mitnovetsk**i on the basis that the board is not sufficiently independent; only two out of seven members are independent. The company commented that Vladimir Mitnovestki is a highly respected IT professional that provides valuable insights to the Board on vendor and customer strategy and the wider IT and converging markets.
- **Re-elect Kim Stewart-Smith** on the basis of remuneration concerns. With concerns about the number of independent directors, Dicker Data advised that Kim Stewart-Smith provides a valuable governance perspective to the board and should provide shareholders with additional comfort bringing independent thought to the Board. In terms of remuneration concerns, the Remuneration Committee had made a number of recommendations regarding remuneration structures and introduced a mandatory minimum shareholding for executives. The remuneration structure for executives has been in place for nearly 10 years and is governed by employment contracts, so there is limited ability to change this without consent for existing executives under employment law.

We maintained our 'against' vote due to the unusual renumeration structure based on the shareholder consensus in the past three years. We also maintained our 'against' votes for the two nominees as the company has yet to make steps to improve the independence of the board.

ECV

Encavis

Ticker: ECV | **Country:** Germany | **Sector:** Utilities | **Shareholder position:** Top 70

We held Encavis in a suite of VanEck ETFs at the time of engagement. We raised the below concerns for the upcoming AGM.

- **Elect Marcus Schenck** due to lack of independence. The company commented that Dr Marcus Schenck was an independent Member of the Supervisory Board (SVB), also the head of DACH at Lazard Asset Management. Lazard as a company received the order to create a fairness opinion regarding the voluntary public takeover offer of KKR. This order had been given to Lazard without the voice of Dr Marcus Schenck.

  Given Encavis was doing business with a company that employs one of its board members, we were of the view that its choice of professional consulting service may have been compromised. Therefore, we maintained the 'against' vote.

- **Elect Ayleen Oehmen-Görisch** on the basis of related party transactions. Specifically, the nominee's employment with CMS Hasche Sigle, a law firm that advises Encavis on legal issues. Encavis advised that Oehmen-Görisch was nominated to be elected to the Supervisory Board to replace Albert Büll, who was elected until this year and will be retiring after this AGM. The nominee would not serve Encavis AG any longer personally as a lawyer of CMS after her election to the SVB. We were concerned that the material dimension of this relationship had not yet been disclosed and therefore maintained our 'against' vote.

FHZN

Flughafen Zurich

Ticker: FHZN | **Country:** Switzerland | **Sector:** Industrials | **Shareholder position:** Top 50

VanEck engaged with Flughafen Zurich for the second year in a row on the same renumeration topic. We flagged that last year's compensation report received over 10% 'against' votes, and for this year, the recommendation was still voting against on the basis of poor overall compensation disclosure and poor compensation structure/performance conditions – in particular a lack of LTI.

The company's current remuneration for members of the management board is based on individual employment contracts and comprises a fixed component (fixed salary and benefits) and a variable performance-related component, plus employer contributions to social security and pension funds. Two thirds of the variable remuneration is paid out in cash and one third in shares. The shares are blocked for a period of four years, which ensures that the incentives include an element oriented to long-term perspectives.

Given the shareholder dissent regarding to remuneration, the company advised that they had announced in the latest Integrated Report 2023 (p. 132) that "the Board of Directors will review the variable remuneration scheme during the current year 2024."

we maintained our 'against' vote as the company had yet to implement any changes regarding the remuneration structure.

GEM

G8 Education

Ticker: GEM | **Country:** Australia | **Sector:** Consumer discretionary | **Shareholder position:** Top 50

VanEck was a top 50 institutional investor in G8. We raised concerns with respect to the Remuneration Report on the basis of large sign-on awards and a lack of relevant disclosure. G8 clarified the following:

Sign-on awards

G8 provided equity grants to new MD/CEO Pejman Okhovat in lieu of equity grants forgone through his previous employer, however there was reservations about the special equity award granted to Pejman in January 2023.

The equity awards (including the special equity award) were part of the sign-on arrangements agreed with Pejman and were particularly important in that regard given the value they held.

The two sign-on award grants replaced Pejman's lost value tied to Woolworths LTI grants already on foot. The special equity grant (granted in January 2023) effectively brought Pejman onto the G8 LTI program a year early, with rights due to vest in March 2025 (two performance years). This grant also replaced a Woolworths grant that Pejman would otherwise have been granted had he remained employed. Without this grant, Pejman would have missed a year of LTI value through the transition. The special equity grant took the form of G8's existing LTI program but with a two-year horizon instead of the usual three years.

Other key management personnel who were already with the business at the time are also eligible for the same LTI, which is due to vest in March 2025.

Outperformance bonus

The implementation of a year 3 outperformance incentive for the MD/CEO was disclosed to the market on 21 July 2022 when Pejman's appointment as MD/CEO was announced. This incentive was also part of the sign-on arrangements. In 2023, after Pejman had commenced, he asked the board to grant the other KMP members the same type of incentive to align the executive team to those stretch targets. The performance hurdles for this incentive mirror those for the LTI – total shareholder return (TSR) and earnings per share (EPS). However, the hurdles are set much higher a stretch level. This bonus will only be paid if the company significantly outperforms.

Shareholder approval

We had concerns regarding the inconsistent application of shareholder approval requirements for the special equity grant. As noted above, this grant was part of the sign-on arrangements with the new MD/CEO and therefore were agreed to as part of Pejman's onboarding. G8 explained that it was not practicable to call an EGM to obtain shareholder approval in those circumstances. The board had to make a pragmatic decision to provide the sign-on benefits in order to secure the new MD/CEO, with those grants to be satisfied via on market share purchases that do not require shareholder approval.

Finally, the company accepted the feedback that further explanation regarding the rationale for these awards could have been provided.

Overall, we were satisfied with the explanation and amended the remuneration vote from 'against' to 'for'.

HTWS

Helios Towers

Ticker: HTWS | **Country:** UK | **Sector:** Communication services | **Shareholder position:** Top 30

VanEck engaged with Helios and discussed a range of topics including financials, strategic directions and the outlook below:

Helios commented that there was dislocation between good operating performance and its share price. The inverse relationship between the US treasury yields and the share price had been significant. Inflation, on the other hand, had some impact but not too much as Helios had escalation clauses so relatively protected. Over a 2-year period it was net flat to FX moves and inflation. The company was disappointed with the perception of interest rate impact outsized on their operations.

M&A vs organic growth

In 2020 - 2022 Helios had big M&A moves whereas 2023 saw more focus on organic growth where it added 2,433 tenancy with organic growth.

In addition, the company expanded tenancy ratio by 0.1 to 1.9x which was significant as that is the key metric for the company on ROIC, cashflow and EBITDA margin.

Specifically, there had been a 30% improvement on EBITDA and 17% of that is organic, and ROIC increased by 2% to 12%. We then asked about ROIC vs cost of capital, Helios is planning to get 2-3 tenant sites as quickly as possible. It advised that ROIC in the short term was diluted due to M&As but this was the opportunity to increase colocations and grow ROIC.

Strategic direction now

Historically Helios was more interested in M&A opportunities. However, the current environment makes it less attractive because either valuations are too high or deal structures are not very interesting.

The company is happy with its current portfolio and focusing on colocations. The guidance has been shifted from 26k towers target from 22k, to 2.2 target colocations by 2026.

In addition, data demand in their markets is expected to increase three times in the next few years which adds more colocation opportunities to add network density. Across their nine markets only 50% mobile penetration so the company would need to add the unconnected.

Free cashflow guidance was given for the first time, with it being neutral as they had been in investment mode. The goal is to reduce leverage from 4.4x today to less than 3x by 2026 and will be paying down debt then or returning capital.

Capital allocation priorities

Helios is aiming to optimise organic growth; the highest priority is colocations which has the best returns. Next is operational expenditure (opex) improvement, ideally deleveraging by 0.5x per annum.

Beyond that they will be looking at dividends and share buybacks when they reach 3x leverage or slightly less.

The company is still interested in opportunistic M&A, particularly in the Middle East as 70% of towers are still in the hands of M&A.

2025 debt maturities

The debt was partially dealt with last year as Helios increased the duration of its debt and improved cost of debt. The company was also getting good inbound requests from bond investors which was healthy.

Blended tax rate

Some markets have minimum tax payments as a percentage of revenues even if they are not profitable.

The company flagged that in Tanzania and Democratic Republic of the Congo (DRC), they will start paying taxes as they are tax profitable. About 3% of revenues on a group basis is now to be paid in blended tax and will grow to 5% over the next few years.

Capital repatriation

Helios advised that there was $100 million USD up-streamed cash at the group level last year. In particular, DRC was very easy to upstream USD as it was dollarized, whereas for Tanzania, Shilling needed to be converted to USD which comes in waves but can use it as a capex purchasing base. Overall the company was confident for the repatriation management.

Additionally, Helios is doing a 10-year strategy review in the next few years. They are also studying the evolution of the tower sector in the West to see where opportunities could lie and assess whether they can go into adjacencies for example leveraging tower management experience to managed data centers around the countries.

African market outlook

The company advised that they don't overlap much with tower companies across many of their markets. Having said that, South Africa - smallest market for them - has IHS overlap and also all tower companies. There is also some overlap in Ghana.

Initiatives - opex savings/ ESG

- In 2023 Helios spent $12million USD and saved $3 million which was material.
- The 100 initiative – The company is aiming to move away from fuel and shift to renewable energy sources. Some challenges exist with the consistency of wind and solar, as well as the space needed for the roll-out.

HHFA

Hamburger Hafen und Logistik

Ticker: HHFA | **Country:** Germany | **Sector:** Industrials | **Shareholder position:** Top 20

We had a recurring engagement with HHLA, which was held in VanEck FTSE Global Infrastructure (Hedged) ETF (ASX: IFRA). We discussed the renumeration concern, the recommendation by the proxy adviser has been 'against' for three consecutive years. This year, the main concern was not on the lack of long-term incentives, but rather the near-maximum vesting of bonuses even though EBIT and ROCE metrics have worsened.

HHLA confirmed that the current remuneration system for members of the HHLA executive board and the appropriateness of the remuneration by the personnel committee and supervisory board was extensively reviewed in the 2020 and 2021 financial years with the aid of an external and independent remuneration adviser. The system was approved by the AGM on 10 June 2021 with a majority of 95.8 % of votes cast. The current regulations on the remuneration of the supervisory board were also reviewed in detail by the executive board and supervisory board in the 2020 and 2021 financial years and approved by the same AGM with a majority of 99.8 % of votes cast.

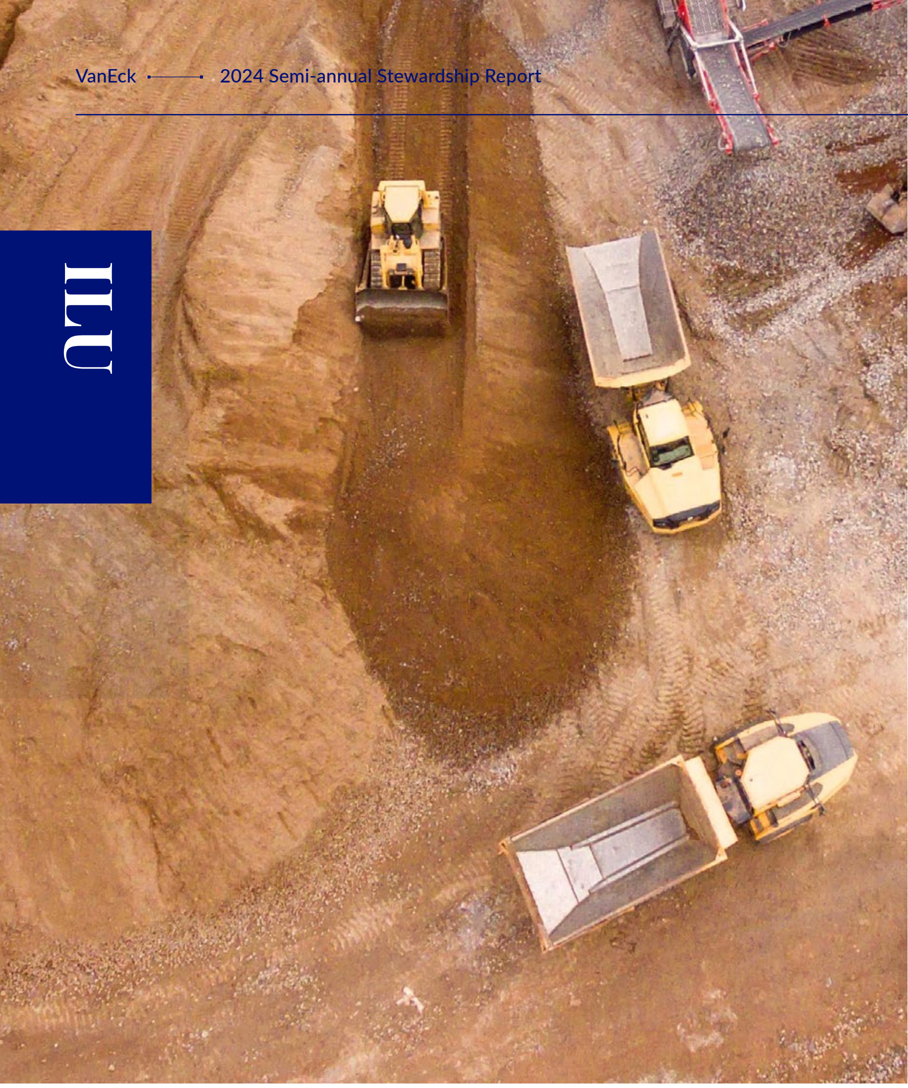
The remuneration report issued by HHLA in accordance with the requirements of Section 162 AktG regarding remuneration granted and owed to serving and former members of the Executive Board and Supervisory Board in the 2022 financial year was approved by the Annual General Meeting on 15 June 2023 with a majority of 96.5 % of votes cast. Given the high approval rate for the remuneration report for the 2022 financial year by the 2023 AGM, the executive board and supervisory board did not deem it necessary to modify the basic approach or fundamental structure of the remuneration report.

With regard to the financial performance in 2023, HHLA requested that the challenges of the last year be considered. The ongoing war in Ukraine, the military escalation in the Middle East, rising geopolitical tensions, high inflation and interest rate hikes had a negative impact on the economy and continued to dampen the recovery from the pandemic, all of which also had a significant impact on HHLA. Group financial results were therefore below the expected targets. Profit after tax for the 2023 financial year came to €42.4 million, Group EBIT was €109.4 million and ROCE (at Group level) was 4.6 %.

In terms of sustainability, CO2 emissions per container handled and transported in the HHLA Group were significantly reduced to well below target levels during the 2021 to 2023 reporting period. Generally, the targets in the area of "Society" were also met.

In general, the variable, performance-based components are paid in the form of performance bonuses based on a three-year measurement period. Given the fact that the variable remuneration is calculated on the basis of the average of the last three years, individual poor financial years don't weight as much. However, poor results are reflected in the following years. The variable, performance-based component was in particular largely driven by the over-fulfillment of the carbon emission reduction targets.

With the above information presented to VanEck, our assessment is that the shareholder consensus regarding the renumeration structure presented no major issues. In addition, the variable remuneration component is based on the three-year average of financial performance, hence bad years are properly accounted for. We updated the remuneration vote from 'against' to 'for'.



ILU

Iluka Resources

Ticker: ILU | **Country:** Australia | **Sector:** Materials | **Shareholder position:** Top 20

VanEck held Iluka in a number of our ETFs. We reached out to the company regarding the renumeration report in the upcoming AGM, with a focus on the STI outcomes based on the return on capital (ROC) and net profit after tax (NPAT) metrics.

The Iluka board's view is that the 2023 NPAT was a positive financial outcome delivered against the backdrop of both challenging mineral sands industry conditions and a difficult macroeconomic environment. While NPAT was down substantially from 2022, it was Iluka's third highest NPAT achieved in the last 10 years, excluding the accounting impact of the Deterra demerger.

In determining STIP outcomes, NPAT was assessed as stretch and the ROC outcome was assessed as between target and stretch. The board exercised its discretion to reduce the ROC outcome down from stretch, reflecting the delayed capital spend on the Eneabba refinery.

We maintained our 'against' vote, as the justification provided for these outcomes was insufficient and may not be in the interests of the shareholders, IPL

Incitec Pivot

Ticker: IPL | **Country:** Australia | **Sector:** Materials | **Shareholder position:** Top 20

VanEck reached out to Incitec Pivot (IPL) due to the MSCI ESG rating downgrade from AA to A. The specific points discussed were:

- Incitec lags peers in capitalising on clean technology opportunities. For instance, we found no evidence of targets to increase investments in clean tech or of R&D expenses. Its three-year (FY 2020–22) average R&D/sales of 0.45% was lower than the industry average (3%, as of February 2024).

  The company flagged that the assessment was based on the 2022 reporting. The latest capex investment in clean tech including:

  - the recently completed $20 million N2O Tertiary abatement installation at Moranbah, which will reduce IPL's absolute global GHG emission by 200,000 tCO2e or 7%;
  - a similar tertiary N2O abatement project approved for 2025 installation at its Louisiana, Missouri facility, which will reduce IPL's absolute global GHG by 500,000 tCO2e, or 19%;
  - the investment in its partnership with FFI on the Gibson Island Green Ammonia project to date, which, if approved, would be the world's first retrofit of an existing ammonia plant from natural-gas-based manufacture of ammonia to green hydrogen, and would reduce IPL's GHG by 17%; and
  - These projects together support a Paris-aligned 42% reduction in operational GHG by 2030, which is a leading position for a hard-to-abate manufacturing process.
  - In addition, IPL's decarbonisation capital in the first order capital allocation 'Sustainability capital' targets to deliver GHG emissions reductions – A$100-120 million in aggregate to 2030 with A$50 million spent on decarbonisation projects in FY23 and A$20-30 million expected in FY24, is detailed in the 2023 IPL Climate Change Report.

  IPL has also developed:

  - Enhanced efficiency fertilisers, which have been shown to reduce GHG from the customer's fertiliser use in the field by up to 73%;
  - DeltaE explosives technology, which was shown to reduce GHG during mining blasts in an audited trial by ~10%;
  - A prototype EV mine truck called a Mobile Processing Unit (MPU) complete with its own solar charger, to deliver mine explosives on site.

- The water-intensive nature of explosives and fertilisers manufacturing may pose risks such as an increase in input costs in case of water shortages. However, its freshwater withdrawal intensity of 11,933 m3/USD million in FY 2022 exceeded the industry average of 8,917, as of February 2024.

  IPL had the following comments:

  - Manufacturing ammonia, IPL's base molecule, is indeed water intensive due to the use of water in cooling towers, however IPL no longer operates ammonia plants in identified water stressed areas.
  - Most other 'Diversified Chemicals' manufacturers in MSCI's category make less water intensive products, as other ammonia producers are typically in the 'commodities' category, rather than the 'Diversified Chemicals' category.
  - IPL has assessed its water risks and has management strategies in place. For example, the Gibson Island site has been identified as exposed to increasing water stress due to expected population growth and climate change. This site was connected to a recycled water source through a $4 million water pipeline before it ceased natural gas-based manufacturing, achieving an impressive 25% reduction in total Australian municipal water use in 2023. Should the site be retrofitted to produce green ammonia as planned, it will continue to use this recycled water source.

Ingenia Communities Group

Ticker: INA | **Country:** Australia | **Sector:** Real estate | **Shareholder position:** Top 30

VanEck was a top 30 shareholder in Ingenia at the time of engagement. We wanted to understand their ESG and remuneration matters.

The company provided a high-level overview of the business updates. The director commented that social cohesion is a key driver to incentivise residential community, given the housing crisis in Australia.

In terms of the challenges being dealt with, Ingenia indicated that weather led to some delays in several development projects. However, the overall build time was not adversely impacted. In the Holidays segment over the last 12-18 months in particular, workers had been taking shorter breaks and working longer. Labour wise, the contracted builders are qualified and sufficient. Pleasingly, building timeframes have come down by 24 weeks on average. Occupancy level had remained at a relatively high level.

We then discussed the company's plan for capital recycling, as we have seen the trend happening across the A-REITs sector. Ingenia commented that the capital allocation process is under review by the current CEO and the strategy is going to be released in August. A$75 million assets have been sold to fund development. Its 30-40% gearing is lower than the industry average.

In the last 12 months, the company tried to build confidence, and it is not interested in projects that require constant equity raising, as these can be interest rate sensitive.

We also flagged that MSCI downgraded the company' ESG rating from A to BBB on 24 May 2024. Regarding the lack of green certifications for its properties compared to its peers, Ingenia clarified that they are the only listed land lease operator to register any communities for a Green Star certification, and hence disagree with this assessment. In addition, Ingenia is the only developer that has committed to Green Star Homes across the entire community in Australia. Given the difference in its asset base, namely small scale residential and tourism assets, the company does not consider commercial office, retail or industrial assets to be comparable.

Ingenia indicated that its goal was to build communities that are more sustainable and future proof. The company also stressed that it is committed to achieve net-zero by 2035. The green transition and upgrade would be gradual, as the costs borne by the residents need to be considered.

In terms of the higher staff turnover at 29% in FY23 vs industry average of 14%, Ingenia commented that its Holidays business is seasonal in nature, therefore some additional staff would be needed temporarily. The level in FY23 is considered average for its business.

We then flagged that the company's pay report received 35% negative votes at the 2023 AGM and asked if the company made any subsequent engagements with shareholders.

The company acknowledged that it had been slow in FY23, as guidance had to be revised, and the targets set by the board in relation to the STI were changed to reflect the changing business environment, hence the 'against' vote. Moreover, it was important to refocus the business in order to ensure the group entered FY24 with a strong foundation for future performance. FY24 will certainly improve.

The other concerning point was that the company had poor performance, yet remuneration increased. For instance, the CEO's annual incentives such as bonus do not appear aligned with the company's annual performance in the period last reported. Ingenia provided the context that the CEO had cash and equity in the STI. Discretion was applied for FY22-23 due to volatility and higher inflation challenges for the company. The company later changed priorities during the year and hence changed weightings in the STI. STI structure and disclosure will be more modernised this year.

Ingenia announced the CEO change in January 2024, with John Carfi appointed after Simon Owen's 12-year tenure. Carfi joined with a higher pay package including A$1.2 million fixed + 100% STI (2/3 deferred performance rights + 1/3 cash) + 100% LTI.

The company's board also continued the renewal process that started last year. Shane Gannon and Simon Shakesheff will join the Board on 28 Jun 2024, while Greg Hayes will step down on 1 July 2024. In addition, Jim Hazel will not be standing in the FY24 AGM for the Chair of the board role. Ingenia also indicated that a retention grant was put in place for Natalie Kwok, General Counsel & Chief Investment Officer.

IRE

IRESS

Ticker: IRE | **Country:** Australia | **Sector:** Information technology | **Shareholder position:** Top 60

VanEck reached out to IRESS in the upcoming AGM for a recurring engagement.

IRESS advised the company continues to progress its ESG strategy. Its focus has been to prioritise high impact areas such as setting an emissions reduction framework and creation of a modern slavery working group. The human rights policy was still under development and would be finalised in the coming months.

IRESS was also in the process of evaluating the benefits of becoming a UNGC signatory. In addition, the company continues to prioritise emissions reduction evidenced through the endorsement of the Science Based Targets initiative in 2023.

The company also provided business updates and operational priorities:

The transformation program remained on track for completion in 2024, with a clear pathway to core IRESS businesses performing at Rule of 40, as well as improved transparency, scalability and improved customer experience. Key highlights include:

- The completion of a company-wide reorganisation and separation into core and managed portfolio businesses, creating a product-led structure with business unit CEO accountability;
- The arrest of cost growth momentum, with several cost initiatives executed to remove more than $47 million in annualised gross costs from the business. This included a 21% reduction in gross headcount along with several additional cost optimisation initiatives (15% excluding the divestment of the managed fund administration [MFA] business);
- The progression of asset sales from the managed portfolio, including:
    - The completion of the sale of its MFA business for $52 million;
    - An agreement to sell its platform business for an initial cash consideration of $1 million, with additional payments of up to $20 million when certain milestones are met;
    - An agreement to sell its UK mortgages business for £85 million (A$163 million);
    - The divestment of nonstrategic assets has allowed for capital to be used for debt retirement.
- The development of five-year strategic business plans for each of the company's core businesses (APAC wealth, APAC trading & market data and superannuation), with a focus on improving efficiency, organic growth and unlocking value for customers. Additionally, pricing modernisation strategies were commenced to better align with value propositions, and product innovation measures commenced to unlock medium-term revenue growth. Revenue per FTE increased in 2023 to $0.35m, up 28% vs pcp as at 31 Dec 23;
- The establishment of an innovations team to explore new revenue opportunities. During FY23, this team was focused on data and AI initiatives, and delivered proofs of concept to be further progressed in FY24.

KEYS

Keysight Technologies

Ticker: KEYS | **Country:** US | **Sector:** Information technology | **Shareholder position:** Top 20

VanEck was a top 20 institutional investor in Keysight in a number of our ETFs. We discussed the board member election in the upcoming AGM.

As the longest-tenured member of the nominating and corporate governance committee, Dockendorff should bear the gender diversity responsibility which was yet to be addressed.

The company acknowledged that its percentage of female representation on the board is 27%, lower than the 30% threshold. Over the last five years, Keysight has continued to increase the diversity of board candidates by gender and underrepresented minorities. We added Joanne Olsen to the Board in 2019, Michelle Holthaus in 2021 and we added Satish Dhanasekaran and Kevin Stephens in 2022 (both members of underrepresented minorities). It is also noted that Jean Nye was appointed as the Chair of the Nominating and Corporate Governance Committee in 2021 and was appointed lead independent director in 2022.

We see the progress the company has made as constructive, yet the change needs to move faster. On that basis we maintained our 'against' vote for the candidate.

MAF

MA Financial

Ticker: MAF | **Country:** Australia | **Sector:** Financials | **Shareholder position:** Top 30

VanEck reached out to MA Financial with respect to the renumeration report in the upcoming AGM. We were concerned that the company fell short of the EPS and ROE objectives applicable to STI for this financial year, yet the board still determined a 40% vesting under the financial component.

MA Financial commented that the financial objectives were targets and not hurdles. When the objectives have not been met, the board determines the appropriate award between 0-100%. In 2023 it determined that 40% of target was appropriate given a number of factors, including:

- The stretch in the targets and the significantly changed macroeconomic conditions subsequent to when the targets had been set;
- Strong growth over the year in the underlying business drivers that ultimately determine the medium-term prospects of the business;
- The improved quality and composition of the group's revenue, with 68% of underlying revenue recurring in nature versus 48% in 2022;
- The impact of strategic and long-term investments in the group's future growth on FY23 earnings and return metrics; and
- The group's dividend was maintained at 20cps, equivalent with 2022, highlighting the strength of its financial position and the board's confidence in its future prospects

Given FY23 earnings per share (EPS) of 26cps was below the target of >35cps, while FY23 adjusted return on equity (ROE) of 11% was below the target of 15%, our view was that the discretion of 40% was overly generous. In addition, the market reacted quite significantly, with share price down by 24% when the results were announced in February. We maintained our 'against' vote with regards to the renumeration report.

MGR

Mirvac

Ticker: MGR | **Country:** Australia | **Sector:** Real estate | **Shareholder position:** Top 10

As a major shareholder of Mirvac, VanEck reached out regarding the MSCI ESG rating downgrade from AAA to AA, triggered by the weaknesses in product quality, safety and talent management practices.

Mirvac pointed out the data inaccuracy in the warranty payments assessment. Rather than A$421 million in FY22, the correct number for FY22 should be A$6 million (as per page 112 of FY22 annual report), which would equate to 2.3% of EBIT ($6/258 = 2.3%), well below the industry average of 7.5% quoted in the report.

With respect to concerns around corporate governance in re-election of directors at the 2023 AGM, Mirvac have consistently received strong positive feedback on its transparency and corporate governance practices. The company believes it has been penalised for a modestly higher 'against' score for three of the directors' re-appointments: 89% of votes re-affirming the Chairman Rob Sindell, 86% re-affirming Christine Bartlett and 91% re-affirming Samantha Mostyn. All the major independent proxy houses supported and recommended shareholders vote for directors' re-appointments.

While of lesser materiality in terms of ratings changes, Mirvac was also surprised to have a modest reduction in its green buildings initiative. It has achieved net positive carbon across scope 1 & 2 emissions across its portfolio in 2021 nine years ahead of the target, and last year it announced plans to be net positive carbon across scope 1, 2 and 3 by 2030 (the first Australian property company with this objective). Mirvac was also the first in the world to achieve a 6 Star Green Star Buildings certified rating at its 80 Ann St development in Brisbane, a new world-leading sustainability benchmark from the Green Building Council of Australia in 2023, and has an average Nabers rating of 5.25 stars, which is among the highest portfolio ratings across the Australian market.

NEL

NEL

Ticker: NEL | **Country:** Norway | **Sector:** Industrials | **Shareholder position:** Top 10

NEL was held in a suite of our ETFs at the time of engagement. VanEck reached out regarding the following agenda items in the AGM:

Remuneration Report

NEL advised that every four years, the principles for management compensation are voted on. This year, the report highlighted how the principles were followed, and was not a review of the principles. The company acknowledged there appeared to be a desire from shareholders to opt for performance-based systems for long-term incentive as well, and this will be taken into consideration when the principles are reviewed.

We maintained the 'against' vote on the basis that the company does not have any performance hurdles attached to the LTI grants.

Elect Ole Enger

The company advised that the shareholder dissent was most likely attributed to a desire for greater disclosure in the annual remuneration report. In this year's report, there has been an increase in disclosure, including detail on all management incentives.

We voted 'against' on the basis of insufficient response to shareholder dissent, given the high 'against' votes of 20% and 20.84% cast at the company's 2023 AGM against the election of Hannah Blume and Beatriz Malo de Molina respectively. Our view is that the Chair of the board is responsible for addressing shareholder dissent.

NKE

Nike

Ticker: NKE | **Country:** US | **Sector:** Consumer discretionary | **Shareholder position:** Top 60

VanEck held Nike in a suite of our ETFs listed in the US, Europe and Australia. We reached out to the company's Principal - Investor Relations, ESG to discuss a range of topics.

We raised concern that John Rogers Jr, who sat in the Environmental & Social, Governance and Renumeration Committee, received a high percentage of withheld votes in the most recent AGM. The basis of the withheld vote was concerns over Nike's dual-class share structure. Class B shares have 25% voting rights for board member election, whereas Class A shares have the remaining 75%. For all the other voting items, the voting rights are 1:1.

Nike commented that the dual-class structure has been in place since the 1980s. The company's position on this unique structure is that it allows the business to focus on long-term strategic development. The company had extensive engagement with shareholders post AGM concerning the dual-class structure. Some of the feedback received included: 1) rotating slate of directors and 2) inclusion of sunset provisions. Nike would continue engaging with shareholders on this front and take the feedback into consideration. We were assured that all directors are subject to the same review process, regardless of whether the candidate is up for election.

We then discussed the supply chain risk. Nike advised they could not comment on the controversy regarding the labour standards, Nike does have a robust supply chain strategy in place. Given that Nike has over 500 facilities across 40 countries and employs over 1.2 million workers, the company has specific targets for gender equality, sustainability and worker engagement. We were advised that over 90% of Nike footwear and apparel was made by factory groups that the company had worked with for over 15 years. In MSCI's assessment, Nike still ranked top five in the industry in terms of sourcing raw materials. Nike has a 'trust but verify' approach with unannounced audit visits to factory facilities, on-site verification and relevant remediation processes. Nike flagged that the dip in the compliance rate for foundational labour, health, safety and environmental standards in the supply chain in FY22 was driven by the increased target set by the company; Nike is committed to continuously improving management of the overall supply chain.

We then brought up the ESG backlash from last year, most prominently in the US and politically driven. As a sizeable company with global presence, Nike commented that sustainability was integrated in the business and aligned with company values.

Finally, we discussed business growth in China, weakness in the Chinese economy, and competition of domestic brands. The company commented that while in Q2 this year they had an overall 8% growth that was below expectation (although some segments had double-digit growth), they were still in great position. In particular, the distribution channels in China focused on heavily on e-platform discounts that Nike did not participate in. Rather, Nike focused more on connecting with customers, inventory management and continuous brand-building.

ESG assessment criteria has been fragmented in the past and Nike had not been engaging with MSCI directly for the last few years. Given the industry is constantly evolving, Nike indicated that it is now a good opportunity to engage directly with MSCI for accuracy and fact checking.

PDN

Paladin Energy

Ticker: PDN | **Country:** Australia | **Sector:** Energy | **Shareholder position:** Top 20

VanEck engaged with Paladin on the back of the MSCI ESG rating downgrade from AA to A, mainly driven by water stress concerns, as well as workforce management practices. The company provided detailed response below.

Paladin holds a 75% interest in the globally significant Langer Heinrich Mine (LHM) in Namibia. Its long-life operations have already produced over 43 million pounds of U3O8 to date. Paladin's flagship mine was returned to production, with first volumes drummed on 30 March 2024.

The company noted that MSCI did not utilise the most recent publicly available data. The latest MSCI assessment still considered LHM as being in 'care and maintenance'. LHM had restarted commercial production on 30 March 2024, with the restart project totalling US$125 million in capital spend, comprising refit and refurbishment, as well as improvement capital. The restart project had significant impact on local spend, increase in permanent staffing and improvement of workforce management measures to, or above, industry average.

With regards to water stress, the downgrade to A from AA was primarily due to the increased granularity of data used by MSCI, which is provided by WRI. However, there has been no material change with regards to water supply at LHM. Water is supplied from the Erongo Desalination Plant, which also supplies the other mines and major industrial users in the area. Permits and contractual agreements remain in place for the water supply required for LHM to reach nameplate capacity after the current ramp-up period.

Paladin remains fully committed to a globally accredited Environmental, Social and Governance (ESG) framework that represents best practice and sets high standards of organisational behavior.

TPEIR

Piraeus Financial

Ticker: TPEIR | **Country:** Greece | **Sector:** Financials | **Shareholder position:** Top 50

We engaged with Piraeus which was held in VanEck MSCI Multifactor Emerging Markets Equity ETF (ASX: EMKT).

The company gave an overview of the business. As the market leader in Greece, Piraeus has 25% market share in loans and 28% market share in deposits (€30 billion and €60 billion respectively).

Financials

The company's 2023 earnings were €0.8 billion, with the forecast for 2024 at €0.9 billion, 2025 and 2026 at €1 billion. In addition, non-performing exposures (NPEs) were at 3.5% in 2023 and projected to trend up to 2.5% by 2026.

Piraeus' CET1 is now 13.3% and they aim to get to 15% in 2026. The total capital was 18.2% in 2023 and aiming for 19.5% by 2026.

Sensitivity to rates

The company advised that for every 25bps change in EURIBOR they have a delta of €25-30 million in Net Interest Income (NII), but sensitivity-based composition of deposits is considered conservative.

Operating costs

Piraeus started in 2017 at €1.3 billion operating costs and now at €780 million. The business estimated the cos to be going up to €840 million in three years to account for variable talent performance-based compensation, as all the improvements have been done without that and the other area is infrastructure technology.

Return on tangible book value (ROTBV)

The company's ROTBV was higher than peers with the normalised level of 16.6%, while ROA was a bit lower as Piraeus had the highest deferred tax credit (DTC) levels and repossessed real estate (around €1 billion) at 1.3% which should remain stable.

Client base

Mass retail was the highest in deposits, as Piraeus grew by consolidating banks in the system like the Greek agricultural bank with 10 million accounts at €31 billion which was very low ticket and less price sensitive, while over 526,000 affluent customers at approximately €20 billion in deposits, and corporate investment banking at around €10 billion.

When we asked about loan growth, the company advised that they will focus on energy transition, infrastructure, manufacturing, pharma and shipping sectors.

Catalysts for mortgages and consumers

Piraeus responded that they are looking for the following areas:

- reform of digitisation of land registry;
- subsidised loans for younger people to acquire property that is 15 years or older so refurbishments are likely to be necessary;
- the launch of a digital only bank this year.

PRX

Prosus

Ticker: PRX | **Country:** Netherlands | **Sector:** Consumer discretionary | **Shareholder position:** Top 100

VanEck reached out to Prosus which was held in VanEck MSCI International Sustainable Equity ETF (ASX: ESGI) at the time of engagement.

Prosus commented that it is growing faster than the competitors. They were expecting to deliver profitability for the e-commerce businesses in the full half of this year ending March 2024 ahead of schedule. Currently there is $15 billion USD in gross cash and equivalent amount in debt. The overall business was well capitalised and new opportunities were also opening up.

When asked about the view of China, Prosus advised that there were ongoing challenges but very bullish on Tencent which returned to growth last year and acceleration of profitability accompanied by two successful un-bundlings, in addition to very strong capital returns (share buybacks and dividends).

We moved on to Delivery Hero. The company commented that they were not sellers of Delivery Hero, as they were very comfortable with where they were and no plans to go beyond that. While share price performance was disappointing and hit their IRRs, the company was more engaged with management now and agreed to focus on profitability and cash flow generation.

Another hot market we discussed was India. Prosus said they have been there for 20 years. It is and will be a unique market where there is strong engineering capabilities. The company commented that it is fortunate to support founders there to build unique businesses that cater to a very large market that is getting increasingly affluent.

We concluded the discussion with the company's long-term focus – sustainable and profitable growth.

QUB

Qube

Ticker: QUB | **Country:** Australia | **Sector:** Industrials | **Shareholder position:** Top 20

VanEck engaged with Qube following the MSCI ESG rating downgrade from AA to A, which was made on the basis of significant votes against the re-election of a director (10.18%), and against adoption of the remuneration report (14.97%) for FY 2022–23. The company provided the following commentary:

Remuneration Report

Some proxy advisers recommended against supporting the Remuneration Report as they believed that the financial targets for the STI were not sufficiently challenging based on the original FY23 earnings guidance provided by Qube at the time of its FY22 results release. In recommending against the Remuneration Report, the proxy advisers did note that a countervailing consideration was that Qube delivered strong underlying earnings growth in FY23. Their objection was not about the reasonableness of the STI outcome, but the original targets being insufficiently challenging. In their opinion, a meaningful STI could have been awarded if the financial performance had been much lower than the actual outcome.

VanEck supported the remuneration report in the 2023 AGM.

Re-election of Jackie McArthur

It wasn't clear why there was a meaningful vote against the resolution to re-elect Jackie McArthur, as all proxy advisers recommended in favour of it (albeit there were some qualifications). Qube believed that the likely explanation was due to McArthur being the Chair of the Nom and Rem Committee, meaning the vote reflected responsibility being attributed to her for:

- the STI structure issue noted above;
- Qube's board composition not currently meeting ACSI's gender diversity targets; and
- one proxy adviser challenging the notion that the board is majority independent (based on the length of tenure of some directors).

VanEck supported the re-election of the candidate in the 2023 AGM.

RWC

Reliance Worldwide

Ticker: RWC | **Country:** Australia | **Sector:** Industrials | **Shareholder position:** Top 60

As an institutional investor in RWC, VanEck reached out regarding the MSCI ESG rating downgrade from AA to A, primarily driven by the following:

- *a lack of non-zero safety targets and ISO 45001 certification for all facilities.*

Reliance commented that it has comprehensive programs regarding health and safety that is has been augmenting and improving each year. The company is due to publish its next ESG report, along with its 2024 results, in August 2024.

- *the company's offerings include plastic products that may entail use of potentially hazardous substances (e.g PVC and BPA). Yet, it appears to lack detailed chemicals monitoring systems and formal plans to phase out potentially hazardous chemicals from its operations*.

In terms of the use of plastics, the company advised that these substances were industry wide materials used globally by all industry participants, and subject to meeting strict industry codes and standards.

- *Significant votes against the company's pay practices (33.91%) as at the 2023 AGM.*

The company acknowledged there were a number of votes received against the CEO remuneration package that was voted on at the AGM, albeit two thirds of shareholders voted in favour. The LTI component, which mirrored US market practice as most of RWC's senior executives are based there, was an issue for some investors. RWC believed it needed to pay market competitive salaries in the US to attract and retail senior management talent. The rationale for the LTI structure was published prior to last year's AGM, which explained the board's rationale behind the changes made to the remuneration framework.

VanEck supported the remuneration report in the 2023.

SESG

SES

Ticker: SESG | **Country:** Luxemburg | **Sector:** Communication services | **Shareholder position:** Top 50

SES was held in our VanEck FTSE Global Infrastructure (Hedged) ETF (ASX: IFRA). VanEck reached out with concerns around the renumeration report in the upcoming AGM.

The company advised that it has made a series of improvements to both the remuneration policy and improving disclosure in the remuneration report in the last section of the annual report.

We maintained our 'against' vote on the basis that SES did not provide a comprehensive and satisfactory explanation of the appropriateness of the discretion applied under the payout outcome under the STIP payouts of 104.2% of salary (69.5% of max. opportunity) and the treatment of 2021 through 2023 LTIP grants, which may continue to vest fully.

TSN

Tyson Foods

Ticker: TSN | **Country:** US | **Sector:** Consumer staples | **Shareholder position:** Top 60

VanEck reached out to Tyson Foods in regard to allegations of child labour in the supply chain.

The company advised that as soon it learned of the allegations against Packers Sanitation Services Inc (PSSI) and the Department of Labor's investigations, it took immediate action to review its hiring practices and confirm contract compliance for all Tyson Foods sanitation providers. In addition, Tyson Foods required all sanitation suppliers to conduct a complete and comprehensive review of its employees supporting Tyson Foods facilities and revised its contracts to allow for social compliance audits.

The company also developed training materials about watching out for underage labour, and encouraged Tyson Foods employees, as well as organisations in the communities where it operates, to call their ethics line with any suspicions of child labour. The company's Sanitation Center of Excellence also performed random visual checks of its third-party sanitation providers, and were trained to ask questions to determine if there was anyone underage.

Finally, Tyson Foods is working to increase its own capability to conduct sanitation processes at the facilities.

VCX

Vicinity Centres

Ticker: VCX | **Country:** Australia | **Sector:** Real estate | **Shareholder position:** Top 20

VanEck held Vicinity in a suite of our ETFs. We reached out concerning the MSCI ESG rating downgrade from AA to A driven by the below factors:

- *The company's position, with regard to management of ESG-related risks, has weakened, relative to the industry. Employee turnover rate was much higher than peers.*

Vicinity responded that the 25% staff turnover in the 12 months to 30 June 2023 quoted in the sustainability report was based on total turnover (voluntary and involuntary), inclusive of casuals and fixed-term contractors. If those workers were excluded, the FY23 total turnover figure is 19.7%. In addition, the rolling 12-month annualised "voluntary" turnover, excluding casuals and fixed-term contractors, has been trending down, from 20.2% at the end of May 2022 to 15.6% at the end of November 2023.

- *The company appears to lack sustainability clauses in tenant lease agreements.*

The company commented that intended to incorporate more substantial sustainability clauses into its standard lease within the next 12 months. However, this would only impact new leases; existing leases would remain in their current form until renewed, noting imposing new terms on existing retailers would be limited.

- *The Australian Financial Review reported that Vicinity Centres launched an internal investigation into its former CEO over alleged sexual misconduct that reportedly led to his abrupt departure.*

Vicinity advised that the matter was taken very seriously by the board and investigated in accordance with the company's policies and processes.

Following receipt of the investigator's report into the allegations, Grant Kelley was issued a first and final warning. A 360-degree feedback process was running concurrently, and the findings led to Kelley's accelerated departure. The board subsequently decided to cancel all of Kelley's unvested incentives, and there have been no subsequent incidents of executive misconduct.

WBC

Westpac

Ticker: WBC | **Country:** Australia | **Sector:** Financials | **Shareholder position:** Top 50

During the AFR ESG Summit in June, VanEck met with Westpac's Head of ESG, and listened to Anthony Miller (CEO Westpac Institutional) address questions regarding ESG and general sustainability strategy for Westpac.

We then had a meeting with the company's General Manager, Investor Relations as well as Head of Corporate Reporting and ESG Investor Relations.

We discussed Westpac's targets and its approach to becoming a net zero business. In particular, the fact that all its business premises in Australia & New Zealand use 100% renewable energy. The goal is for all of its premises globally to be run on renewables.

We also sought clarification in the 2023 sustainability report on the reported loan book exposures and whether the banking division assesses the intended purpose of the loans (such as the loans to the thermal coal industry, for instance). Westpac said it would review and confirm the level of granularity used in the assessment.

Westpac also acknowledged that meeting some of the climate targets would be 'hard work' and there may be times where these targets would need to be revised. While the company had not ever revised targets down, it could not rule out the possibility in the future. The company was ahead on the thermal coal target for 2025.

We then addressed the broader risk for potential misalignment between the approaches to reporting and the impact of upcoming mandatory climate-related financial disclosures.

In terms of ESG screening of the ETF portfolio constituents, VanEck commented the main provider used was MSCI ESG research, while other sources such as Sustainalytics, S&P Capital IQ and Bloomberg were also utilised. At no point had Westpac been flagged for revenue exposure to fossil fuels, while Westpac acknowledged at times there were controversies that may impact its score.

WHC

Whitehaven Coal

Ticker: WHC | **Country:** Australia | **Sector:** Energy | **Shareholder position:** Top 10

As a major shareholder in Whitehaven Coal, VanEck had the engagement meeting with the company's General Manager Capital Markets, Senior Manager Investor Relations and Senior Manager, Sustainability. We discussed the following:

Business updates

Whitehaven Coal's thermal coal is known to have the highest calorific value (CV), and it is expected to be around for decades as customer demand continues.

Metallurgical coal, used for steel production, is also a long-held position by the company. Technology is not yet available to replace it completely. The latest acquisition of Daunia and Blackwater metallurgical coal mines from BHP and Mitsubishi Development shows the company's strategy to expand into the sector.

Whitehaven forecasts approximately 70% revenue generated from metallurgical coal for first full year this year, as the segment has higher margin. Production-wise, it is about equally split between thermal and metallurgical coal.

The company shared its forecast for thermal coal price to be in the US$120-150 range due to softer demand, with a cost base of US$75.

Currently, there is no hedging of USD/AUD used by the company. Specifically, Whitehaven would set a fixed USD price for a contract. On the other hand, USD-denominated debt could act as a natural hedge.

What's the outlook of demand in Asia for the rest of the year? Any interests from China since the lift of coal ban?

India and Japan are two of the company's biggest clients in metallurgical coal. Thermal coal is mainly exported to Japan and Taiwan, with demand to be a bit softer. The overall trend is that India is growing. China produces its own metallurgical coal. Due to the sanction on the Russian exports, more Russian coal has been flowing into China and India over the last 18 months.

You recently acquired Daunia and Blackwater (later sold 20% to an unnamed buyer) from BHP and Mitsubishi (BMA). How does it fit into the whole picture of the business?

The company advised that the Blackwater sale is expected to shore up capital for its balance sheet. Currently, there are ongoing discussions with a few joint venture buyers with a maximum stake of 20% in Blackwater. The deal is expected to close by the end of the calendar year. The company is also open to off-take deals that could be expanded beyond 20%.

High against vote (>40%) with regards to Remuneration Report last AGM

Whitehaven commented that the high against votes on remuneration and three directors in the last AGM was mainly driven by Bell Rock Capital, a British activist investor. The investor acquired 13% shares outstanding prior to the last AGM, with 5% direct and 8% indirect through the prime broker, which they have now sold. Bell Rock was against the acquisition of BMA and expansion into met coal, rather they were only for the company's high dividend payout. Whitehaven commented that the 'against' votes were more out of self-interest and political campaigning by the investor. After identifying the investor, Whitehaven had over 100 interactions leading up to the AGM last year. In the end, the other proxy agent ISS recommended 'against', even though they advised they had not been contacted by Bell Rock.

For this year's AGM in November, the company has already started engagements with shareholders and we expressed our interest for further meetings closer to the date.

By MSCI ESG research assessment, the mining operations may pose regulatory risks tied to toxic emissions and byproducts. The company appears to lack certification to ISO 14001 standards and quantitative emission reduction targets for key pollutants.

Whitehaven didn't explain in detail regarding the assessment, but pledged to engage with MSCI after the meeting. The company disclosed that not many shareholders in its register had raised concerns based on the MSCI research. Other ESG data providers they have engaged with include Sustainalytics. Previously, they have engaged with MSCI regarding intensity targets, usually on an annual basis. We acknowledge that the periodic review may not have captured the company's latest announcements in the sustainability reports, but urged that if the company could improve the rating by correcting or addressing inaccuracies in these ESG reports, it may lead to potential inclusion in some of the funds.

WIL

Wilmar International

Ticker: WIL | **Country:** Singapore | **Sector:** Consumer staples | **Shareholder position:** Top 30

VanEck held Wilmar in a number of our ETFs. We reached out with regards to the following agenda items in the upcoming AGM.

Elect Kuok Khoon Hong

Wilmar commented that the nominee has extensive experience in the agribusiness industry and has been involved in the grains, edible oils and oilseeds businesses since 1973. His expertise was required to lead and manage the group in pursuit of Wilmar's long-term growth strategy of developing new businesses that have synergies with its existing operations and new markets with high growth potential. Key management remuneration is reviewed and decided by the Remuneration Committee (RC) by benchmarking remuneration packages from comparable companies. All RC members were independent directors and director were not involved in deciding their own remuneration.

We maintained our 'against' vote on the basis that the pay was far above market peers, with poor disclosure around structure and performance targets for the variable bonus. In addition, the nominee served as the executive director of the company, but also a member of the nomination committee. The nomination committee should consist solely of non-executive directors, the majority of whom are independent (including the committee Chair) to ensure objective oversight.

Authority to grant options and issue shares under the Wilmar Executive Share Option Scheme 2019

The company explained in detail:

- Exercise price and linkage with performance targets

  As stated in the Rules of the Wilmar ESOS 2019, the company specified that options can be granted at market price or at discount not exceeding 20% of the market price. Considerations that the RC can take into account in deciding whether to give a discount, and the quantum of that discount, are set out in Rule 9.2 of the ESOS 2019. This rule includes performance and contribution of the employee.

  As disclosed on page 85 of Wilmar's Annual Report for FY2023, Wilmar took into consideration material ESG targets in the performance review of its executive directors and key management. Performance was appraised with external factors such as changing business environment and industry trends to determine their total remuneration package. Granting options at a discount is common practice in the Singapore market and is limited to 20% by applicable regulations. The inability to grant options at a discount may disadvantage the company in attracting and retaining qualified individuals. Wilmar flagged that not all share options it had issued since its maiden grant in 2008 have been at a discount. Out of the 10 grants since 2008, four were issued at a discount to market price ranging from 7% to 10%.

- Minimum vesting period

  The minimum vesting period for options issued at a discount is two years (refer to Rule 11.2 of the ESOS 2019), however Wilmar staggers the vesting period over three years, starting from the second anniversary of the grant. This practice mitigates concerns about the broader vesting period being less than two years only if options are granted at market price (refer to Rule 11.1 of the ESOS 2019).

  We updated our vote from 'against' to 'for' on the basis that the company satisfactorily addressed the concerns around 1) exercise price potentially below fair market value; 2) linkage with the performance targets; and 3) vesting period.

Related party transactions with regards to the director Gregory Morris.

The Wilmar board has clear procedures for dealing with conflicts of interest, as stated at page 70 of Wilmar's Annual Report for FY2023. Where a director is in a position of conflict of interest, he or she is required to disclose the matter to the board and recuse themselves from meetings, deliberations and decisions involving the conflict of interest.

We were not reassured of the independence of the director, given his business role as Senior Vice President and President of Agricultural Services and Oilseeds at Archer Daniels Midland Company. Archer Daniels Midland Company is an interested party in the transactions to be contemplated under the mandate. We maintained our 'against' vote.

WOR

Worley

Ticker: WOR | **Country:** Australia | **Sector:** Industrials | **Shareholder position:** Top 20

VanEck was a top 20 shareholder in Worley at the time of engagement. We reached out regarding the MSCI ESG rating downgrade from AAA to AA and the recent reports by media regarding the corruption tribunal ruling with Ecuador.

ESG rating

In terms of the downgrade, Worley clarified that the company had a GICS classification change from 'Energy' to 'Industrials'. This was an important recognition of diversification as a business. Consequently, its ESG industry also changed from 'Energy equipment & services' to 'Construction & engineering', with the assessment criteria and weightings used by MSCI also changing. The change from AAA to AA related primarily to the change in 'key issues' criteria and weighting for the changed classification. Worley stressed that per the MSCI ACWI Index constituents, the company maintained a top rating relative to its new peer group.

Worley is proactively assessing areas for further disclosure that will assist MSCI in its assessment against these new criteria, particularly in the areas of disclosure around opportunities in clean tech and human capital development.

Board

We raised the multiple class structure with differentiated voting rights, a disparity in economic exposure and voting power that may not align with other shareholder interests. Worley advised that the board had ultimate authority and oversight over the group, and that it regards corporate governance as a critical element in achieving the group's objectives. Accordingly, the board had adopted appropriate charters, codes and policies and established several committees to discharge its duties. The board strives to ensure that Worley and the entities it controls (Group) meet high standards of safety, performance and governance.

Tribunal ruling with Ecuador

The company's CFO was direct with assertions that Worley acted in a transparent manner regarding the case, that it was not a corrupt company and there was no tolerance for corruption.

We went through the timeline with the company concerning the case with Ecuador. Worley worked for Ecuador from 2011 to 2017 on two refineries. All trades receivables had been paid to Worley except A$58 million in question. During the fourth year of the contract, the Panama Paper was leaked and it was the subcontractor involved was identified as corrupt. At the time, Worley assessed based on materiality and decided to terminate the contract. Given the project was nearing the end, Worley didn't have to hire new subcontractors.

One of the arguments made in the tribunal was Worley's willful blindness, which the company distinctly disagreed with. Full independent due diligence was performed and no red flags were highlighted before commencing the project. During 2016-17, the Ecuadorean counterparty was characterised as going on an offensive due to social and economic uncertainties and several civil liabilities claims were put forward against Worley. Worley took the Ecuadorean counterparty to the investment tribunal (commercial only, not regulated) with confidence, but was surprised with the ruling results. The CFO commented that the necessary condition of successful arbitration was there was no corruption, therefore Worley lost in the tribunal. In the tribunal, Worley was also accused of its corrupt intentions, however all business entertainment expenses were properly recorded and was deemed as a normal level of expenses.

We asked whether Worley had been able to make an announcement earlier so that it would have less of an impact on the share price in January 2024 when the media published an article about the case. The company advised that the involved parties could only acknowledge the presence of arbitration, otherwise it would be in breach of confidentiality. Despite this, Ecuador went ahead to a US court and disclosed it. In addition, we were advised that Worley had four counts of SOE exposure, totaling A$159 million, which had been disclosed. In particular, Worley successfully settled two of the SOE disputes via cash. With over 12,000 contracts in total at Worley, it was impractical to disclose all counterparty details.

Looking ahead, there are three options for Worley:

1. Lodge a motion with the UN dispute tribunal;
2. Go to an Ecuadorean court, which may be challenging;
3. Walk away and write off A$58 million (immaterial and the financials already show this trade receivable as non-current).

Growth prospects

We discussed the share performance. The CFO acknowledged that Worley could have done a better job in the last few years. Company performance was pegged to oil prices in the past. As the company has now been re-classified as 'Industrials', the stock will continue to detach from oil price movement and the business strategy will focus more heavily on net-zero commitments.

Last year, 50% of its revenue stream was generated from low GHG emission projects. Worley is on track to achieve 75% of revenue from sustainability-related projects by FY26. It believes that substantially more capital is required for clean energy investments.

Technology

Worley's customers are currently 50% legacy and 50% new entrants. We discussed emerging clean energy technologies.

For example, Worley works with Oxy for its direct carbon air capture technology in Texas, US. The goal is to achieve scale commercially by replicating the technology to drive down cost. Another area is hydrogen, where Worley developed the 'hydrogen wrap' at modularised plants.

Worley mentioned that the business is also investing in generative AI to create a 'Worley ChatGPT' that could work very well with voluminous engineering data. The output model could also be shared with customers.

Geopolitical risk

Finally, we touched on the ongoing conflict in the Middle East. Currently, Worley has one active contract in Egypt, and 6,000 staff in Saudi, UAE and Oman. There could potentially be supply chain challenges given the disruptions by Houthis in Yemen and the Red Sea, however at this stage there are no financially material risks.

For more information on specific company engagement, please feel free to contact our services desk at info@vaneck.com.au or +61 2 8038 3300.