ENGAGEMENT REPORT

2020 FULL-YEAR SUMMARY

A YEAR UNLIKE ANY OTHER

ACSI's engagement program reached new heights in 2020 as we adapted our engagement to suit the confines of the pandemic. Beyond the clear set of priority company objectives established at the start of the year, 2020 was dominated by a range of significant company failures. ACSI held a record 315 meetings, on issues involving 191 companies, with notable impacts on improving ESG behaviours disclosures and accountability at listed companies.

THE YEAR IN NUMBERS

72%	108 COMPANIES MADE IMPROVEMENTS IN 2020
315	FORMAL ENGAGEMENTS (incl. NGO meetings)
191	ASX300 COMPANIES MET
9	NGO BRIEFINGS HELD

Highlights

- **Rio Tinto responds to Juukan aftershocks –** following the Juukan Gorge tragedy, ACSI focussed on accountability and change at Rio Tinto. Recognising sector-wide challenges, ACSI began engagement with the broader mining sector on indigenous engagement practices.
- **Board accountability in the spotlight –** Significant changes were made on the boards of Crown Resorts, AMP and Boral following concerns over performance and oversight.

KEY OUTCOMES & THEMES

MEETING THE COVID-19 CHALLENGE

ASX300 boards were reminded to protect investors during capital raisings, and to carefully consider bonus rewards for executives during the pandemic. While most listened, others suffered embarrassing votes.

Read more

BOARDS, REMUNERATION AND ACCOUNTABILITY

Rio Tinto's disaster in the Pilbara led to greater awareness and focus on cultural heritage. Board changes were made at **AMP** and **Boral,** while **Kogan.com's** founder received a controversial options grant.

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INVESTOR IMPACT ON CLIMATE CHANGE

Engagement on climate risk accelerated, with companies detailing Paris alignment and how long-term goals will be met.

14 of 20 target companies have now committed to net-zero emissions by 2050.

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CULTURE, SAFETY AND MODERN SLAVERY

AMP embroiled in culture issues, while **Cleanaway** had to sanction its CEO. Cultural overhauls at **CBA** and **Westpac**, and the first modern slavery reports all reflect ACSI's engagements.

Read more

OUR OBJECTIVES

Each year ACSI works with its members to set priority engagement themes. Once established, ACSI sets company specific objectives in each priority area. In 2020, our key themes were:

- Climate change: Ensuring company strategies and actions are aligned to the goals of the Paris Agreement to limit climate change to well below 2°C and, ideally, to 1.5°C.

  Includes advocating adoption of the TCFD framework, a net zero commitment and accompanying disclosure of pathways to achieve those aims.

- Circular economy: Encouraging sustainable production, use and re-use of plastics and related products by listed companies to align with the Sustainable Development Goals.

- Human and labour rights: Respecting all human rights in company operations, products and supply chains, including those of direct and indirect workforces, and stakeholder communities.

  This includes maintaining a skilled, productive and diverse workforce, and facilitating just transitions where rapid disruptions to business models occur.

ADAPTING OUR PRIORITIES

The pandemic, events at Rio Tinto, AMP and Crown Resorts underlined the value of ACSI's flexible and adaptive approach to engagement.

Every year, to ensure that we continue to focus on what is most material for our members, our priority engagements are adjusted adapt to real-world changes.

Some companies are removed during the year, usually due to changes to the relevant S&P/ASX indices during a rebalance or due to corporate actions. Those companies are also removed from our voting advice.

- Conduct, culture and ethics: Encouraging corporate culture that put customers first, treat material stakeholders fairly and builds stronger and fairer societies.

- Corporate governance: Advocating for effective boards comprising appropriately skilled, diverse, independent and accountable individuals to build long-term value for investors.

  This includes establishing and monitoring an executive team, strategy and remuneration structure.

FOCUS ON COVID-19

From March onwards, the ACSI team focussed on how ASX300 companies were responding to the COVID-19 pandemic, using both public announcements and information gathered in engagements.

By April, ACSI had written to every ASX300 company reminding boards that, despite the ASX's new rules for Temporary Emergency Capital Raisings, boards needed to provide existing investors an opportunity of equitable participation. This engagement led to an improvement in market practice with standards improving following some extremely poor market practices early in the pandemic.

Over 100 boards responded to ACSI's engagement on capital raising and recognised the need to protect existing shareholders in capital raising and avoid dilution for long-term investors.

In March, ACSI published research on the early responses of corporate Australia to the pandemic, which highlighted the relevance of governance and ESG issues in the pandemic and provided us some baseline data for our engagement program.

In the lead-up to AGM season, ACSI also stressed in engagements our view that it would be inappropriate to pay large bonuses in companies where the pandemic had artificially inflated performance or significant government subsidies had been received.

Even the head of the Business Council of Australia, Jennifer Westacott agreed that companies receiving Jobkeeper wage subsidies should not give executive bonuses and should think twice before paying dividends on the back of taxpayer subsidies.

Focal points for ACSI's COVID-related engagements in 2020 included:

- **What changes were made to executive remuneration?** Bonus payouts to executives at companies which received significant support payments from governments, or where workforces had been stood down/furloughed or laid off were queried with boards. Similarly, boards needed to exercise discretion to distinguish between rewarding executives for outcomes that were the result of a 'rising tide' or truly exceptional performance.
- **The impact on companies' workforces, suppliers and contractors –** how companies had dealt with ensuring the physical and mental well-being of staff during the pandemic and particularly where operations were affected by lockdown measures.
- **The financial implications for companies and investors,** including how equitably existing shareholders were treated in capital raisings, the impact of delayed or reduced dividends (also relevant where bonuses were awarded), and how boards had considered the long-term impact of short-term cost-savings measures.
- **How companies supported and assisted** affected customers and the broader communities in which they operate.

This momentum has continued and early in 2021 ACSI has noted positively moves by some companies, such as **Super Retail Group**, **Domino's Pizza Enterprises** and **Iluka Resources** to hand back government subsidies as their businesses benefit from a surge in retail spending by a community which has apparently diverted discretionary spending from travel to 'retail therapy'.

CORPORATE GOVERNANCE

Accountability, Remuneration and Board Composition

Some of ACSI's most intense engagements in 2020 grew not out of pandemic effects, or our priority program – but one-off events that threatened Members' long-term investments in leading companies.

Missed signals within **Rio Tinto's** Pilbara iron ore operations led to the tragic destruction of rock shelters in the Juukan Gorge – used by human inhabitants for at least 46,000 years and an area of priceless spiritual and cultural heritage to its traditional custodians, the Puutu Kunti Kurrama and Pinikura (PKKP) peoples.

ACSI held its first formal meeting with representatives of Rio just one week after the news broke. Since then, and into 2021, ACSI and its members have engaged formally and informally with management and the board, on their remediation and reparation efforts.

Rio's actions prompted the Parliamentary Joint Standing Committee on Northern Australia to conduct public hearings, resulting in a damning interim report.

ACSI not only made a submission to the inquiry, but CEO Louise Davidson and Executive Manager Governance and Engagement Ed John gave evidence to the inquiry in August.

Additionally, we reached out to indigenous representative groups, including the PKKP, to seek views from their perspective, and held a forum with the then Western Australian Treasurer and Minister for Finance, Aboriginal Affairs, and Lands, Ben Wyatt, shortly after he tabled new cultural heritage legislation.

ACSI also held meetings with Rio's industry peers, such as **BHP Group** and **Fortescue Metals**, to learn how they maintain their relationships with indigenous custodians and satisfy themselves that internal practices are sufficient to ensure an event like this will never happen again.

ACSI has also been driving a First Nations Working Group to develop our public policy and advocacy program, including describing expectations of companies in the context of heritage protection.

Traditional owner Harold Ashburton shows his emotion visiting the Juukan site post-blast. Source: PKKP video

Investor engagement made a difference in this process, highlighted by Rio's eventual termination of the three senior executives most responsible for the disaster, including CEO JS Jacques. Although not initially accompanied by board accountability, engagement on that front saw Rio announce the departure of its Chair, Simon Thompson.

Remuneration

As noted earlier in the discussion on COVID-19 impacts, most companies responded positively, and logically, to ACSI's engagement on appropriate use of discretion in a demanding year and demonstrated restraint in remuneration outcomes.

And yet, first strikes on remuneration were at peak levels in the 2020 AGM season – mostly at companies which missed the message on community expectations. ACSI engaged, before and after AGMs, to try to have boards recognise investor concerns and make changes ahead of a negative voting recommendation.

Origin Energy abandoned plans to increase the fixed remuneration of executives following meetings with investor groups, saving shareholders close to $400,000. Origin also cancelled a long-term incentive grant where concerns had been raised over the structure ahead of the company's AGM.

At **Computershare,** a planned gift to the CEO of up to $2.5m of 'recovery' grants to make up for the fact that the existing EPS hurdles weren't going to be met due to COVID-induced interest rate changes, was cancelled less than two weeks out from the meeting after engagement.

Star Entertainment Group: Casinos were among businesses most affected by COVID-19. Star received ~$60m in JobKeeper payments yet paid a 48% bonus. Star received a 45% vote against the remuneration report and a near defeat of equity grant proposals.

Kogan.com: Kogan's four-member board (all-male, non-majority independent) granted a collective 6 million options to CEO Ruslan Kogan and CFO David Shafer, with no hurdles except service. These were worth more than $70m (excluding the exercise cost), at the time of the November AGM. Directors' rationale for the grant was that neither executive had a long-term incentive plan and that their retention was critical to the business. Investors asked whether a duo that owned more than 20% of the company worth ~$400 million would leave on those grounds. The resolutions received a 43% vote against.

Board composition

Like remuneration, changes to board composition can take several years of consistent engagement on the issue to achieve – especially if a company has a dominant family or institutional shareholder.

ACSI has persisted for many years with companies on this issue, and in 2020 was pleased to see that **Harvey Norman** both increased independence and appointed its first non-executive woman director.

Afterpay made significant improvements to its board independence and diversity, aligning it with ACSI and market expectations for a major listed company.

After several years of engagement with the **Boral** board on performance and accountability for company strategy, a raft of board changes were announced pre-AGM, including planned retirement of the Chair in 2021.

The issues were complicated by the emergence of Kerry Stokes' **Seven Group** as a substantial investor, wanting two board seats. Investors engaged on that issue, and ultimately, only one Seven representative was appointed.

After a torrid year under the public spotlight of casino regulators in both NSW and Victoria, **Crown Resorts** investors voted heavily against three incumbent directors, underlining the need for board accountability over poor oversight of critical issues.

Pleasingly, Crown's board and management are undergoing a significant re-build to address the issues.

BOARD DIVERSITY

Demonstrating the impact of engagement over time, the ASX300 director pool had edged over 30% representation of women by the close of 2020. In the ASX200, it is now above 32.5%.

When ACSI began its drive in 2015 to improve board gender diversity in the ASX200 (extended to the ASX300 in 2019), there were then 34 companies without a female director.

By year's end, only two companies in the ASX200, **Silver Lake Resources** and online retailer **Kogan**, still lacked women on their boards. Kogan has since appointed Boost Juice founder Janine Allis.

Even **TPG Telecom,** the last member of the 2015 zero-women cohort, reformed its board in 2020 to include two well-experienced women directors, Helen Nugent and Arlene Tansey.

Only 13 companies across the ASX300 start 2021 without any women on their boards.

The progress has meant that ACSI has had to make only sparing use of its voting recommendations against elections of directors at companies that have either declined to engage or commit to making improvements.

Overall, boards of ASX200 companies now average more than 33.5% women, while in the ASX300 it is 31.6%.

Leading companies are still raising the average, some 127 companies in the ASX200 index now have boards comprising at least 30% women, 22 of them with 50% or more.

2020 APPOINTMENTS AT PRIORITY COMPANIES	
13 Zero-women appointments	**Bellevue Gold** (Shannon Coates) **Carnarvon Petroleum** (Debra Bakker) **Centuria Industrial REIT** (Natalie Collins) **Charter Hall Social Infrastructure** (Kate Melrose) **Freedom Foods** (Genevieve Gregor) **MACA Limited** (Sandra Dodds) **Navigator Global Investments** (Nicola Meaden Grenham) **New Hope Corporation** (Jacqui McGill) **NRW Holdings** (Fiona Murdoch) **Pro Medicus** (Deena Shiff) **Superloop** (Stephanie Lai) **TPG Telecom** (Helen Nugent, Arlene Tansey) **West African Resources** (Libby Mounsey)
17 One-woman appointments	**Afterpay** (Sharon Rothstein) **Bravura Solutions** (Libby Roy) **Evolution Mining** (Vicky Binns) **Gold Road Resources** (Maree Arnason) **Harvey Norman Holdings** (Luisa Catanzaro) **JB Hi-Fi** (Melanie Wilson) **Jumbo Entertainment** (Susan Forrester) **Magellan Financial Group** (Colette Garnsey) **McMillan Shakespeare** (Kathy Parsons) **Mineral Resources Ltd** (Susan Corlett) **Orocobre Limited** (Patricia Martinez) **Polynovo** (Christine Emmanuel) **QUBE Holdings** (Jackie McArthur) **Sandfire Resources** (Jennifer Morris) **Saracen Mineral Holdings** (Sally Langer) **Washington H. Soul Pattinson** (Josephine Sukkar) **Western Areas Ltd** (Yasmin Broughton)

CLIMATE CHANGE

Awareness of climate issues has gained new momentum following the election of a new US President whose commitments in the area are stimulating actions by both companies and governments – including Australia's own.

Investor engagement during 2020 delivered some of the most material progress we have made on climate change since the TCFD framework was launched. Despite significant short-term disruption to businesses, customers and the economy from COVID-19, the long-term risk that climate change poses to investments, companies and communities meant that ACSI needed to ensure corporate Australia continued to recognise the urgency of planning and action.

Several companies received board endorsement for the first time in 2020 to disclose their long-term decarbonisation strategies which, for many, involves re-shaping their portfolio of businesses and assets, as well as diversifying revenue sources to prosper in a carbon-constrained future.

Such transition plans, with key milestones and targets, demonstrate the influence and effect of ACSI's engagement program in consistently seeking improved disclosure, scenario stress-testing and, crucially, commitments from boards on climate change management.

In our fourth year, since the release of the Task Force on Climate-related Financial Disclosures (TCFD) framework, of engaging companies most immediately exposed to carbon-risk, 2020 culminated in some massive investor wins.

ACSI and its Members have helped move the dial in terms of influencing and changing company practices over the last four years through rigorous application of our climate-change framework, assessing and mapping performance and change against clear objectives set at the start of each year. We communicate our expectations on commitments and disclosures, and to re-engage where expectations are either not met or slower than flagged.

TCFD Adoption

- 75% carbon priority companies improved management and disclosure of climate change.
- Improvements included early adoption of TCFD framework, implementation of oversight and disclosure of risks and opportunities right through to companies setting low carbon strategies and targets for achieving net zero.

Decarbonisation

- Seven companies set long-term agendas for decarbonisation and transformation.
- **Santos, BHP Group, Rio Tinto, Origin Energy, Aurizon**, and leading insurance companies have defined the company strategies and pathways for achieving net zero across the short, medium, and long term.
- Actions included setting targets, diversifying or divesting products and assets, investing in new technology to drive business transformation and working to understand or set partnerships to manage emissions in their value chains.

Net Zero commitments

- Majority of target companies now have net-zero commitments.
- Three of these were set or revised during 2020 on the back of ACSI engagement.
- ACSI is working with another three companies in difficult-to-abate sectors on defining pathways.

Emissions reduction

- More than half of target companies have set either short-term targets (13) or medium-term targets (11).
- ACSI engagement drove 4 companies to work to develop and adopt short term targets and 7 companies to set medium term targets during the 2020 calendar year.

Remuneration linkage

- ACSI continued to press the most carbon-exposed companies on directly linking remuneration incentives to decarbonisation strategies, rather than relying on financial metrics that capture the business impact over time (TSR and ROCE).
- Five companies (**AGL, Origin Energy, BHP Group, Rio Tinto** and **Oil Search**) committed to explicitly link climate strategies to incentive pay.

Banks align to Paris

- Big four banks all commit to lend in alignment with the Paris Agreement and net zero by 2050.
- Will essentially have no thermal coal mining exposure by 2030 and banks are working to understand other industries that pose significant risks such, as agricultural, residential, and commercial property.
- Lending to climate change opportunities over the next 5-10 years will dwarf their exposure to climate risks. **ANZ** and **NAB** have leading commitments in this area.

CASE STUDIES

BHP sets new standards for associations

Engagement program over the last four years, delivered significant progress from BHP Group when it comes to its management and disclosure of both climate risk and how membership of industry associations fits with the company's objectives.

Progress at BHP on our four key areas demonstrates how effective setting targets and engaging company boards on meeting these objectives is, with BHP addressing all ACSI's objectives in August and September:

- Disclosed new 1.5°C analysis and portfolio impacts.
- Undertook portfolio review resulting in simplified structure – including how BHP could adapt to lower-carbon opportunities.
- Disclosed medium-term target to reduce Scope1 & 2 emissions by 30% by 2030 (from FY20 levels using SDA approach) & set Scope 3 emissions targets and actions in steelmaking and transport.
- Committed to link 10% of the scorecard to the delivery of the above objectives.

Santos shifts toward CCS and hydrogen

ACSI's engagement work in the oil and gas sector in 2020 prompted companies to shift up a gear in planning and commitments – epitomised in Santos's new low-carbon strategy.

The Adelaide-based oil and gas group set new targets and talked of plans to be net zero a decade ahead of its peers. Santos is now the only oil and gas company on the ASX that has announced a 20-year plan for how the business is going to evolve in 'future fuels'.

Santos has now articulated how it will both decarbonise and have a sustainable model after the LNG peak.

Santos has already had a successful trial injection of waste CO_2 (extracted from natural gas in the hydrogen-making process) into its permeable reservoirs at its Moomba operation in South Australia's Cooper Basin in preparation for a full-scale CCUS business by 2024 – but is still dependent on a viable carbon credits market and government support to develop a hydrogen market longer term.

In addition, the Cooper Basin has some of the highest-grade reservoirs and lowest cost CCUS project opportunities, with a number of other ASX-listed companies considering similar projects and partnership opportunities.

WORKFORCE

CULTURE, SAFETY AND MODERN SLAVERY

As with corporate governance, breakout issues in the corporate culture and workforce arena were a standout feature of 2020 – many of them resulting in the departures of CEOs.

ACSI is also a key player in the **40:40 Vision initiative** driven by ACSI Member HESTA. This is an investor and business-led initiative to extend ACSI Members' already strong achievements in building gender equity in boardrooms by driving down into executive leadership. The program has set a 2030 deadline for gender equity across all ASX200 companies. 40:40 Vision will see us actively engage with companies, and support investor Members, to achieve commitments and targets. The initiative contemplates the use of investors' voting power, where companies fall short.

Culture

Sexual harassment, bullying and intra-office relationships threw the spotlight on internal cultures at some of Australia's leading brands during 2020.

In September 2020, the board of **Cleanaway Waste Management** advised the market that it had ordered an external investigation into the CEO, Vik Bansal, regarding allegations of misconduct in the workplace. Mr Bansal was found to have acted in an "overly assertive" manner at various times in FY20. Complaints against him included instances of swearing and belittling of staff and putting undue pressure on them to return to the Melbourne head office in May 2020 during the COVID-19 crisis.

Following engagement with investors, Cleanaway's board elected to withdraw share grants to the CEO, valued at ~$2.3m, due to be voted on by shareholders at the AGM.

In early 2021, Cleanaway announced Bansal was stepping down.

AMP was a strong focus for engagement following the appointment of Boe Pahari as AMP Capital CEO because he had been sanctioned previously for sexual harassment of a colleague. A second senior executive departed just weeks later for similar reasons.

Persistent engagement resulted in board changes, including AMP Chair David Murray resigning. AMP also announced the effective demotion of Pahari, and departure of director John Fraser, as well as a range of initiatives to improve culture.

Not all cultural matters relate to executive behaviours – some are just problems with how a company pursues its business, often without proper regard for the impact on customers and communities.

Banks in a post-Hayne era

Pleasingly, the banks continued to enhance disclosure of consequence management outcomes. For example, **ANZ** now provides separate disclosures just for the senior executive team. We are careful what conclusions are drawn based on the numbers and trends from this data (after all, an increase could be either due to worse practices or more rigorous assessment). However, the disclosure demonstrates implementation of the code of conduct and provides a positive signal to investors and employees.

We are also starting to see other companies, such as **Medibank Private,** provide this disclosure.

The biggest gap on consequence management reporting remains in the retail-focussed wealth, investments and advice businesses.

Woolies agrees to liquor review

Woolworths' five-year persistence with an application to build its first Dan Murphy's outlet in the Northern Territory on a site near three vulnerable, and 'dry', indigenous communities was finally approved under an expedited process in mid-December.

ACSI and its Members have been engaging with Woolworths and representatives of the affected communities since early in 2020, stressing the potential reputational and financial risks of the development.

As a result of that high level of concern, Woolworths committed to an independent panel review of its processes, headed by lawyer Danny Gilbert who has been an indigenous advocate for many years.

Woolworths' chair, Gordon Cairns, said that even with approval from the NT Liquor Commission, it will not begin work on the proposed site until the panel's review is completed. It undertook to publicly release the findings.

Alcohol consumption, and its social side-effects, are an endemic problem in the Northern Territory, with local government enacting a range of laws and regulations to try to produce some of Australia's toughest licensing laws.

ACSI will continue to monitor progress on the independent review, the company's engagement with Aboriginal communities and its maintenance of a social licence in the NT.

Safety

On the safety front, following our work in the past two years identifying reporting gaps at both a system and company level, we have stepped up our demands of companies by asking them to produce more granular and forward-looking data, so investors can better assess the risks.

ACSI has also sought more stringent application of targets when safety is a component of incentive schemes.

Many companies are coming onto ACSI's radar for safety practice failings, such as where fatalities occur within a company's operations, but apparently little consequences are applied to either executives or contractors.

ACSI continues to press regulators, particularly the ASX, on making fatality and serious-incident reporting mandatory for ASX-listed companies – including not just recording the event but explaining context and responses.

Modern Slavery

In almost every ASX-listed company engagement during 2020, ACSI's team sought information on their progress on meeting the new modern slavery reporting requirements, and what they might have found during preparing that mandatory report.

If community interest is any guide to the importance of this step forward in protecting human rights, more than 180,000 searches of the register have already been recorded.

ACSI has commissioned research to analyse and evaluate the first year's filings, which will be published towards the middle of 2021.

One interesting development ACSI learned in engagement is that some industry sectors, such as property and mining, industry approaches to reporting in those sectors.

ACSI hopes that a key positive from that approach will not just be consistency of reporting in addressing modern slavery issues in operations and supply chains, but the ability of companies to work together with suppliers of products and services in high-risk areas so that their combined buying power becomes leverage in effecting positive change.

Since 2015, ACSI has looked at various aspects of modern slavery risk in listed companies including underpayment and exploitative working conditions of vulnerable workers in both the franchising and horticultural industries.

We have also encouraged companies to, where appropriate, sign on to the Cleaning Accountability Framework.

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