ENGAGEMENT REPORT

2020 HALF-YEAR SUMMARY

PIVOTING IN THE PANDEMIC

ACSI's engagement team has enabled Members to continue driving change in priority companies for the benefit of their fund beneficiaries.

Not only did ACSI pursue the 2020 objectives set by the Member Council in March, it shifted its engagement focus to address how ASX300 companies were tackling COVID-19 impacts as well as high-profile issues including the disastrous Juukan Gorge destruction by Rio Tinto.

HIGHLIGHTS	
34%	52 COMPANIES HAVE MADE IMPROVEMENTS
87	FORMAL ENGAGEMENTS
67	ASX300 COMPANIES MET
3	NGOs AND SHAREHOLDER RESOLUTION PROPONENTS MET

INVESTING FOR THE FUTURE

MEETING THE COVID-19 CHALLENGE

ACSI wrote to the Chairs of every ASX300 company to encourage appropriate oversight and structure in capital raisings during the crisis following highly dilutive raisings.

Bonuses paid during the pandemic are currently under scrutiny.

Read more

BREAK-OUT ISSUES

Rio Tinto's social credentials tested by the destruction of Juukan Gorge caves.

BHP Group launched an industry associations reform plan after extensive investor engagement.

AMP Limited scrutinised over promotion of an executive sanctioned for harassment of a female employee.

Read more

INVESTOR IMPACT ON CLIMATE CHANGE

Eight of 22 focus **companies made further progress on climate change.**

Woodside investors protest the company's for slow progress on climate disclosures at its AGM.

AGL and Origin set the pace for tying climate change into executive remuneration.

Read more

GOVERNANCE, CULTURE AND MODERN SLAVERY

ACSI engages ASX300 companies on modern slavery reporting readiness

First strike companies making progress on improving remuneration schemes

Costa Group adapts itinerant workforce for COVID-hit harvesting.

Read more

FOCUS ON COVID-19

In March, the ACSI team began tracking how ASX300 companies were responding to the COVID-19 pandemic, seeking detailed information on their responses to the needs of workers, customers and communities.

Information gathered during those discussions has informed our development of research projects but, more importantly, is being used to inform ACSI's approach to its remuneration voting advice during the AGM season.

Our focus has been:

- **The impact on companies' workforces, suppliers and contractors** as 'non-essential' operations are shuttered and workers displaced, as well the measures being put in place to manage the risk to employees' health, safety and mental wellbeing.
- **What changes are being made to executive remuneration** in light of the impacts on staff, customers, investors?
- **The financial implications for companies and investors,** including how equitably existing shareholders are being treated in capital raisings as well as information on cost savings, withdrawal of market guidance and dividends.
- **How companies are offering support and assistance** to affected customers and the broader communities in which they operate.

In April, ACSI released a research piece for members on these issues and the resulting engagement highlighted the relevance of governance and ESG issues in the current pandemic. That report's findings, and our engagement responses, included:

WORKFORCE, HEALTH AND SAFETY

- **Only four companies initially announced the number of workers stood down or made redundant** - Qantas, Flight Centre, Crown Resorts and Star Entertainment, which accounted for more than 45,000 people. ACSI has asked each company met how they have changed working conditions of direct and indirect employees, and what kind of government assistance they might be receiving.
- **Engagement with companies has focussed on the safety of the workforce.** While many companies were able to allow their desk-based workforces to operate from home, other faced significant logistical issues in providing appropriate safety practices and gear, as well as relocations across state, and even national, borders.
- **A number of companies made immediate, but time-limited, reductions to executive and director incomes – but what about incentive schemes?** ACSI stressed in meetings that boards needed to be aware of external perceptions and to consider using negative discretion, or at least have solid explanations for paying incentives at maximum or stretch levels, in an environment where hundreds of thousands of people were losing their livelihoods.

CONTINUOUS DISCLOSURE AND FINANCIAL MATTERS

- **ACSI wrote to the Chairs of every ASX300 company** to impress upon them the need to ensure that any capital raisings were conducted to minimise cost and dilution of existing investors, with strong oversight by the board.
- **Withdrawals of earnings guidance and deferral or cancellation of distributions to investors** also prompted ACSI to engage with boards on being careful to ensure that rewards to executives continued to align with investor experience.

CUSTOMERS AND COMMUNITY

- **Our research identified hardship programs being offered to customers and suppliers.** ACSI encouraged companies to consider community impacts of the pandemic and their long-term role and reputational impacts of their actions during the crisis.

BREAK-OUT ISSUES

Rio Tinto's late-May detonation of the ancient Juukan Gorge sites created shockwaves still reverberating around the globe.

Treasured by their traditional custodians, the Puutu Kunti Kurrama and Pinikura peoples (PKKP), the rock shelters had been used by human inhabitants for at least 46,000 years.

ACSI began meeting with representatives of Rio just one week after the tragic event, and has since expanded that to engagement to include indigenous organisations, state and federal government representatives, as well as industry peers to learn what best practice is for maintaining relationships and preserving the heritage of indigenous custodians.

Our aim was to ascertain how investors can help to ensure an event like this will never happen again.

The Parliamentary Joint Standing Committee on Northern Australia has been conducting public hearings to establish facts and determine whether there needs to be additional legislative protection of such heritage areas, given that existing laws failed to protect Juukan.

On evidence provided by Rio, through its submission, oral evidence, and the board review the company's destruction of these irreplaceable areas has been more than a decade in the making – with managers and the board missing many opportunities and signposts along the way.

ACSI made a submission to the inquiry and gave evidence in August.

Rio responded to investor concerns, that financial penalties for executives were insufficient accountability, by terminating the three key executives most responsible for the disaster, including the CEO. ACSI supports these actions given the events happened on their watch and were preventable. We will continue to engage on board accountability.

ADAPTING OUR PRIORITIES

The events at Rio Tinto and AMP, and the broader impacts of the COVID-19 pandemic, have again 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. Changes to the relevant S&P/ASX indices, as well as corporate actions including mergers, takeovers or current events – influence which companies, and how intensively, ACSI engages.

CULTURE QUESTIONED

AMP Limited's culture again came into sharp focus after investor groups (including ACSI and its members) sought to understand its appointment of a new AMP Capital CEO.

AMP's announcement in June that it had replaced its AMP Capital chief, with the London-based Boe Pahari, sparked fierce public and internal criticism because of his role in harassment of a woman executive.

The board described Pahari's behaviour as "lower level" conduct breaches, even though the investigation resulted in significant financial sanctions. The female victim left AMP shortly after the incident and recently went public with her version of events.

The head of AMP's Australian business, Alex Wade, departed "effective immediately" in early August, with later media revelations that his sudden exit was "triggered by a series of complaints about his conduct, including allegations the former private banker had sent explicit photos to female colleagues".

Persistent engagement, including a threat by some fund managers (many of which invest money for ACSI Members), to call an extraordinary meeting to remove directors resulted in AMP Chair David Murray resigning – barely two years into his appointment to lead a reform of the troubled finance house.

Also out were fellow AMP director, and AMP Capital chair, John Fraser, while Pahari was demoted.

AMP has since announced that virtually the whole company is under review and up for sale.

ACSI continues to engage with the re-shaped AMP board.

INDUSTRY ASSOCIATIONS REFORM

BHP Group improved reporting on the alignment of its industry associations' policies and lobbying with the company's climate policies after wide input from the global investor community.

The new approach involves significant reform of key minerals industry groups in Australia to ensure that lobbying by the industry groups is, at a minimum, consistent with the aims of the 2015 Paris Agreement to minimise global climate change.

At its 2019 AGMs in Australia and London, BHP suffered a near-30% vote in favour of shareholder resolutions, supported by ACSI Members, that sought to have it withdraw from associations with advocacy inconsistent with Paris goals.

DISCOUNT LIQUOR COSTS WOOLIES

Woolworths' five-year persistence with an application to build its first Dan Murphy's outlet in the Northern Territory on a site near several vulnerable communities resulted in investors engaging with the retail group, and its critics, several times.

While the company's application to build the store, on land controlled by the Darwin Airport, was officially rejected last year, subsequent changes to NT law have enabled it to apply to the territory's Civil Administrative Tribunal (NTCAT) for a new hearing.

Alcohol consumption, and its social side-effects, are a serious issue in the NT which has enacted some of Australia's toughest licensing laws to rein in the problem.

The proposed store will be located close to three indigenous, and 'dry', communities. Its proximity to one of Darwin's busiest roads also has residents concerned about the potential for serious incidents once it opens.

ACSI members met with board and management representatives to understand Woolworths' perspective on the issues and the work done to mitigate community impacts. In addition, ACSI organised engagement with one of the leading opponents, the Foundation for Alcohol Research and Education (FARE).

Investors are concerned over the potential reputational and commercial damage for Woolworths if appropriate safeguards are not put in place.

CLIMATE CHANGE

In spite of a heightened awareness of climate issues after Australia's intense summer bushfire season, the even greater global impact of COVID-19 on communities, companies and financial markets changed the agenda for many in the short term.

Climate is, however, the long-term challenge for this generation and ACSI continues to engage with ASX300 companies on how they are addressing the risks and opportunities of a carbon-constrained future. We have also been seeking greater disclosure of their pathways to meeting the goals of the Paris Agreement in their short, medium and long-term strategies.

Pleasingly, we have seen significant improvements to disclosure and commitments on several fronts – including the post-June 30 announcements by leading energy groups AGL and Origin to incorporate climate targets into their incentives hurdles.

Our annual ASX200 ESG disclosure survey found:

TCFD ADOPTION

- 60 companies had adopted the Task Force on Climate-related Financial Disclosures framework (TCFD), up from 11 when it first came out in 2017. From engagement we know there's a significant pipeline of others likely to adopt in FY21.
- Strong uptake among companies in higher-risk sectors – Energy & utilities, Transport, Materials, Insurance and banks and Real estate companies.

NET-ZERO TARGETS:

- Across the ASX200 – 18 companies have now set net-zero commitments, most of them aiming for 2050.
- For those companies that have set Net Zero commitments many need to provide investors with further detail on how they plan to achieve Paris goals, or on measures such as investment, capital expenditure and R&D.

CASE STUDIES

Cement group **ADBRI Limited** is making material changes to climate reporting**:**

- In early 2020, ADBRI addressed the key areas, and more, in which investors were asking for initial disclosure.
- Disclosures included discussion on alignment of ADBRI's strategy to the IEA's SDS 2030 targets for cement manufacturers through key leverage points; alternative products and fuels, clinker-to-cement ratios, green electricity and step-change technologies.
- Additionally, ADBRI has set 5-year emissions reduction targets, increasing alternative fuels usage and formally committed to undertaking and disclosing scenario analysis looking at a range of scenarios including one well-below 2°C.

Woodside Petroleum engaged with investor groups on its climate approach ahead of its 2020 AGM:

- Shareholder resolutions on Paris goals and targets, and on climate-related lobbying were supported by a large group of investors after they determined that Woodside's disclosures lagged peers.
- Woodside did release a 'Next Steps' document with high-level commitments to improve reporting on targets and strategies to reduce emissions over the short, medium and long terms, and how its business plans generally align with the Paris Agreement. Investors were keen, however, for Woodside to commit to disclose details of its climate-scenario testing, including a 1.5°C scenario, so they could better understand impacts on capital expenditure and investment.
- Woodside also committed to reporting on its industry association memberships by November 2020.

Coca-Cola Amatil was among our first engagements on **plastics and the circular economy**, we discussed CCL's existing commitment to collect and recycle, by 2030, the equivalent of all bottles and cans they sell. The company confirmed that all single-use plastic bottles in Australia (under 1litre) are now made of 100 per cent-recycled materials.

CORPORATE GOVERNANCE

REMUNERATION, CULTURE AND ACCOUNTABILITY

A feature of the 2019 AGM season was the sharp increase in the number of remuneration report 'strikes' as investors signalled discomfort with some companies' practices.

As noted earlier under our COVID-19 section, remuneration resolutions will be carefully weighed in the 2020 AGM season to ensure executive outcomes appropriately reflect not just investor experience, but how the company dealt with its workforce and communities during the pandemic.

ACSI has been encouraged by the significant number of companies that have voluntarily raised such matters for discussion in engagement, with several seeking our input on changed incentive scheme designs.

ACSI has cautioned companies to ensure their incentive structures will not deliver undeserved 'free kicks' for executives when the market price recovers.

BOARD DIVERSITY

Demonstrating the positive impacts of engagement over-time, the ASX200 director pool edged over 30% representation of women in FY20.

When ACSI began its drive to eliminate zero-women boards in the ASX200, in 2015, there were then 34 companies without a female director. Today, only one company in the ASX200 remains, **Silver Lake Resources**, following a spate of appointments in the first half of 2020.

Perhaps the biggest gain in 2020 to date was to see the only remaining member of the 2015 cohort, **TPG Telecom**, complete its merger with Vodafone by reforming its board to include two experienced listed company directors, Helen Nugent and Arlene Tansey.

Of 38 companies in the ASX200 with either zero or just one woman on their boards, 15 made appointments – and a further two have committed to do so before the close of calendar 2020.

In the ASX201-300, five of 17 companies with zero-women boards made appointments.

The progress has meant that ACSI has had to use its voting recommendations sparingly 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 31.5% women, while in the ASX300 it is 29.5%.

Leading companies are still raising the average, some 106 companies in the ASX200 index now have boards comprising at least 30% women, 13 of them with 50% or more.

BOARD COMPOSITION

ACSI has always believed that a board comprised of a majority of independent, appropriately skilled individuals with diverse backgrounds and experience offers the best prospect of success for investors.

Corporate governance guidelines from regulators and other organisations stress the need for director independence, particularly on specialized board committees such as audit and remuneration.

Each year, when providing voting advice, we look at the composition of ASX300 companies' boards, and will frequently recommend against director candidates who are affiliated.

In New Zealand-based, ACSI's concern has been that director candidates would continue to be put up at each AGM after changes to NZ Stock Exchange listing rules which now stipulate directors only have to be put up for election once every three years.

Depending on the year in which directors are appointed, that means an AGM can be held without a single director nominated – a governance issue for investors wanting to hold directors to account.

After engagement, several NZ companies with Australian listing have agreed to have at least one director up for election each year.

WORKFORCE

SAFETY, MODERN SLAVERY

In the lead-up to Australian companies producing their first modern slavery reports under the new Australian law, ACSI has actively quizzed almost every ASX300 company met on its progress in identifying risks in this area.

We have also urged companies to push ahead with reporting in calendar 2020, rather than taking advantage of the extended deadlines offered by the Federal Government in light of the pandemic.

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, and more stringent application of targets when safety is a component of incentive schemes.

A number of companies are coming onto ACSI's radar for safety practice failings, particularly where there are fatalities or serious injuries, but apparently few accountability consequences for 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.

Since 2015, use of labour hire by suppliers in the horticultural sector has been a focus for ACSI, which has engaged frequently with the major supermarket groups that buy from primary producers, as well as some of the producers – such as Costa Group - where shortfalls in behaviours have been reported.

The seasonal worker space has continued to be an area of interest during the pandemic due to the difficulties of interstate movement and international travel.

On a positive note, Costa revealed that the affected workers, most of whom were Tongan nationals who have a long work history with the company, have been deployed in both South Australia and New South Wales during the COVID-19 crisis in a 'win-win' solution – international travel bans have not only restricted the workers' ability to return home, Costa has also struggled to find sufficient workers for harvesting of its citrus and berry crops.

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