ENGAGEMENT REPORT

2021 HALF-YEAR SUMMARY

BUILDING MOMENTUM

ACSI's engagement team has made solid progress on our priorities so far in 2021. ACSI held a record 118 meetings between 1 Jan to 30 June, which is an average of almost one engagement every week day. The team enhanced engagement with additional 'deep dive' research projects on modern slavery, workforce indicators and the circular economy.

THE HALF IN NUMBERS

45%	79 OF OUR 176 TARGETS HAVE ALREADY MADE IMPROVEMENTS
118	FORMAL ENGAGEMENTS (incl. NGO meetings)
96	ASX300 COMPANIES MET
5	NGO BRIEFINGS HELD

Highlights:

- **Say on climate –** Engagement on say on climate saw seven ASX200 companies commit to giving investors a non-binding vote on their climate reports from 2022.
- **Woolies dumps NT liquor plan –** After a year of engagement with ACSI, members and other investors, and an independent review, the controversial Dan Murphy's outlet in Darwin has been shelved indefinitely.

KEY OUTCOMES & THEMES

MEETING THE CLIMATE CHALLENGE

Seventeen of ACSI's 23 climate priorities have now set net zero targets following extensive engagement.

Some of the most carbon-intensive companies, such like **AGL, ADBRI, Ampol**, and **BlueScope**, have made progress in 2021.

ACSI steps up its circular economy work.

Read more

BOARDS, REMUNERATION AND ACCOUNTABILITY

AMP and **Crown** struggle for stable boards, management and business, while **Boral's** board reforms accelerate under a new owner, Kerry Stokes.

LendLease and Bapcor make positive pay changes.

Seven gender diversity targets improve and focus shifts to executive ranks.

Read more

CULTURAL HERITAGE FRAMEWORKS

Rio Tinto has made commitments to further changes on First Nations engagement.

ACSI **engages with a further 14 mining, oil & gas companies** on their approach to cultural heritage so far this year.

Read more

WORKFORCE: MODERN SLAVERY, SAFETY

Ansell ends its deal with problematic TopGlove, and LendLease works on improving its safety records and disclosure.

Our latest research reviews the first round of Modern Slavery Statements from ASX200 companies – and they leave plenty of room for improvement.

Read more

CLIMATE CHANGE

Climate change updates

In the lead up to the pandemic-delayed COP26 in Glasgow this November, there are signs of accelerating activity by companies, investors and policy makers to implement and address more aggressive climate policy.

Almost every extreme weather event, whether it be flood, fire or melt, is being examined through a climate change lens, increasing the urgency in capital markets for companies to identify and discuss how they are dealing with both real and potential transitional and physical impacts.

These range from **Origin Energy**, articulating its plan to cut back generation from its coal-fired Eraring plant and replacing output with cheaper renewable-sourced power in the wholesale market, to **Australian Agricultural Co.** (AACo), noting in its recent full-year results that investors should continue to expect earnings headwinds thanks to 'reduced meat sales volumes…expected to continue into FY22 after lower calving in 2018-2020 due to prolonged drought and the Gulf Flood event'.

ACSI has held 33 meetings with 10 climate change priority companies, as well as co-ordinating several more meetings on the concept of a 'Say on Climate'.

Concrete steps to net zero

Working with companies to set net zero ambitions, particularly when they sit in hard-to-abate, difficult-to-decarbonise industries with no defined pathway, has been a focus of many of ACSI's engagements in the first half of 2021.

ADBRI has taken a significant step forward by publicly stating an ambition to reach net zero by 2050. The company expressed a willingness to work with investors on setting more rigorous short and medium-term targets to inform a decarbonisation roadmap, which will be disclosed to investors ahead of the FY22 AGM. ADBRI's progress demonstrates the benefit of regular engagement to give an investor perspective on the importance of net-zero targets. Global sector leaders, such as HeidelbergCement, LafargeHolcim, Taiwan Cement and Marshalls plc, have already set net zero or science-based targets, which demonstrates that steps can be taken.

Stepping off the gas

After a challenging 2020, **Ampol** is planning for significant changes that will emerge in the fuels and energy space in Australia post-2030 as use of internal combustion engine vehicles decelerates. Ampol's decarbonisation and transformation plan will see significant changes to its core business post-2030 as it transitions to the future-energy space (such as green hydrogen production). Ampol is setting targets to decarbonise and adapt its existing convenience retail and fuels and infrastructure operations over short, medium and long-term horizons.

The pace of change for Ampol has been, in part, dictated by Government policy, which has elected to subsidise fuel production from Australia's two remaining refineries, including Ampol's Lytton refinery in Brisbane, to bolster Australia's security of supply for another six years at least. In addition, ACSI notes that Ampol would look at incorporating climate investment into its capital allocation framework and plans to integrate climate-related metrics into remuneration.

'Say on Climate' gains momentum

The past year has seen the 'Say on Climate' initiative gather significant support globally. The concept is aligned with ACSI's climate-change policy and can help add significant depth to climate-related engagement if appropriately applied. ACSI has taken a leading role, coordinating joint engagement by ACSI and CA100+ members with climate priority companies to encourage adoption.

Financial sector shift

How banks and insurers are providing services to the oil and gas sector has shifted in 2021. **Westpac** has been the most active, updating its approach at its half-year results. In future, the bank's new customers will need to be publicly Paris-aligned before Westpac approves lending. Westpac believes that APRA's climate vulnerability assessments with the major banks will drive (much-anticipated) consistency and comparability in scenario analyses. **NAB** has also committed to review its approach to oil and gas. NAB is using the IEA's *Net Zero by 2050* report to inform its approach. NAB representatives have indicated that the demand for gas needs to be considered on a regional basis and that Asia will have higher demand than Europe and North America.

At the same time, the pressure around lending criteria will likely move more quickly than it did for coal. NAB also updated its scenario analysis and announced a pathway to net zero by 2050.

Having been a strong climate reporter for many years, Bluescope is clearly taking significant steps into ensuring that its climate settings and strategy will be indivisible from its corporate strategy.

QBE updated its policy on insuring oil and gas. Subject to revenue thresholds that increase over time, QBE will not provide cover for oil and gas projects that they consider are unaligned with the Paris Agreement from 2030. QBE's current exposures are minimal and not expected to increase. The company emphasised its climate change advocacy work with relevant industry bodies.

BlueScope Steel appointed experienced New Zealand executive Gretta Stephens as Chief Executive of Climate – the first ACSI has seen in the ASX200.

The appointment speaks to the trend in ASX200 companies 'upskilling' their executive teams to ensure they have sufficient resources and capability to address climate risk and identify strategic opportunities.

Steelmaking is highly exposed to any tightening of rules around carbon emissions because of the emissions and energy usage in current processes.

As well as Stephens' appointment, Bluescope launched a $10 million feasibility review into reconfiguring its long-mothballed No.6 blast furnace at Port Kembla to incorporate low-carbon technology.

The timing of the study into reviving No.6 coincides with the recognition that the only operating furnace at the steelworks, No.5, is due for a reline later this decade – an exercise that will cost significant downtime and capital investment.

While the shutdown is still a few years away, planning begins early because of the need to find replacement steel supply for customers, as will investigating the relining and multiple avenues open for integrating different climate change technologies and advancements expected to develop between 2030-2050.

CIRCULAR ECONOMY

Environmental degradation will accelerate if the global economy continues to on a linear path of extraction and consumption of natural resources, transformation of these into goods and services and then disposal into landfill (known as the 'take, make, use, dispose' approach).

Negative impacts arising from the linear system – waste, environmental degradation and scarcity – come at cost to the environment and society and lower investor returns.

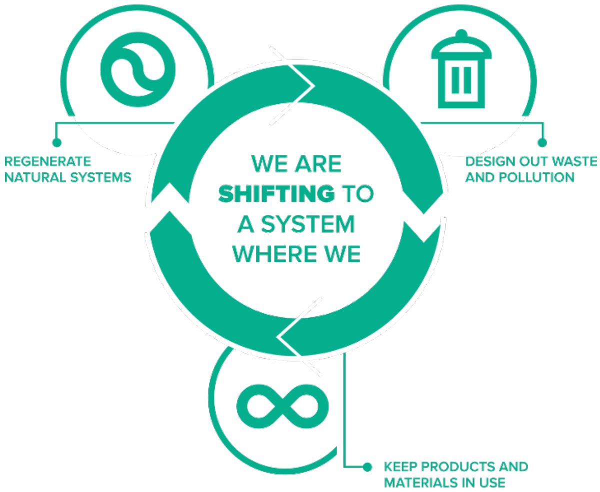
Current and future risks to investors and companies, include:

- Increasing waste disposal fees and regulatory shifts on recycled content and landfill;
- Change in consumer preferences as a result of increasing consumer awareness;
- Large contribution to greenhouse gas emissions, including to the remaining 45% of "hard to abate" emissions (that are not tied to the energy transition);
- Reduction in global biodiversity due to unsustainable extraction, consumption and pollution; and
- Increasing adoption of extended producer responsibility laws – placing responsibility for a product's end-of-life on the manufacturer.

ACSI's engagement with companies along with research informs its investor members about why the circular economy matters, how investment risks might be addressed and opportunities for companies and investors from the shift to a circular economy.

ACSI also engaged with one of the leading global experts and advocates for the circular economy, the Ellen MacArthur Foundation (**EMF**), for its analysis and guidance on global developments and the gaps in the Australian market. EMF focuses on the increasing financial importance of moving to a circular model, including impacts on climate change, biodiversity and regenerative long-term growth.

EMF also highlighted the large-scale opportunities of a circular system, with the potential to contribute significant economic and environmental value.



Source: [Ellen MacArthur Foundation]

ACSI's research aims to widen the focus from waste management solutions to a more holistic approach of re-designing the system to a model enabled by the continuous flow of materials. We aim to increase understanding of how companies are managing risks associated with the transition, and to scope the impact on institutional investors of that transition.

Priority targets will include companies that fall within the five sectors with the greatest potential to reduce GHG emissions – aluminium, steel, cement, food and plastics. This scoping study will feed into more targeted engagement and policy development.

Amcor is integrating circular principles into its long-term packaging design and strategy. Recognising that some plastic packaging is essential, such as for medication and food products, the company has signed up to the US Plastics Pact and, more recently, the ANPAC Plastics Pact – regional collaborations which set roadmaps to 2025 focused on reducing unnecessary plastics, innovating for reusable, recyclable or compostable plastics and circulating existing plastics.

Amcor has signaled its biggest opportunity lies in innovation of product design, particularly in traditionally 'unrecyclable' products such as soft plastics, as well as demonstrating what can be made with 100% recycled resins and chemicals. It is targeting 100% recyclable standardised products, which will cover more than 20% of plastic packaging produced globally. This will be achieved through collaborations with NGOs, branded goods manufacturers and retailers, and working with governments where critical recycling infrastructure is required.

CORPORATE GOVERNANCE

Accountability, Remuneration and Board Composition

Persistent engagement with priorities that either received remuneration 'strikes' or significant stakeholder protest votes during 2020 has already prompted some significant changes in remuneration practices.

ACSI will continue to engage with remuneration targets ahead of upcoming AGMs, seeking commitment to either structural change or improved disclosure to ensure that investors have a full understanding of board remuneration approach.

Showing the impact of engagement, a number of boards have met with members of the engagement team to seek feedback on proposed changes to remuneration structures prior to implementation. Some of them we were able to commend while a small number were provided with feedback for improvement. Either way, board consultation on these issues indicates overall respect for investor opinions.

Seven Group Holding (SGH) took control of **Boral** , ending up with just under 70% of the company. Boral has been on ACSI's governance watchlist for a number of years due to its long-term underperformance for investors and for board renewal. SGH launched its bid after board renewal began at the end of 2020, with a number of director retirements and Chair Kathryn Fagg announcing her intention to hand over the role at the 2021 AGM.

After the offer closed in July, Seven placed Ryan Stokes as Chair, with Fagg retiring and two other board members slated to go at the October AGM. SGH nominee Richard Richards, kept out of the Boral boardroom last year due to investor opposition, is now officially a director. SGH said the board will appoint a lead independent director.

For a company that once dominated Australia's non-bank financial services, **AMP** has shown the consequences of poor investment decisions on governance structure and its future.

Chair David Murray, who joined in mid-2018 as part of the reform process, left in August 2020 to be replaced by Debra Hazelton. In April 2021, CEO Francesco De Ferrari (also appointed only in 2018) departed.

This was followed by the departure of Boe Pahari, who briefly headed AMP Capital until a furore around what that promotion signalled given his previous sexual harassment of an AMP employee.

AMP Capital is also being demerged, to be run by US fund manager Shawn Johnson, which leaves AMP's newest CEO, former ANZ bank executive Alexis George, to forge a future for a company that has taken a big reputational hit.

ACSI and members have had detailed discussions with AMP around cultural issues, following the completion of an external review of AMP by consultancy Symmetra, to understand how the board is implementing findings to ensure a 'speak up' culture in AMP.

CASE STUDY

WOOLIES ABANDONS NT PLANS

An example of the benefit of persistent engagement played out this half when **Woolworths** abandoned its six-year ambition of a Dan Murphy's outlet in Darwin.

Alcohol abuse is one of the Northern Territory's biggest social issues. Woolworths' planned outlet was a scale larger than any other liquor store in the city and within walking range of three vulnerable Aboriginal communities.

ACSI had been meeting with the company, affected-commu nity representatives, and other civil society groups since early in 2020. In engagement, it became apparent that Woolworths had not adequately assessed or engaged on the community risks, relying on strong support in other areas, including from local government and media.

NT lawmakers, in fact, made changes to legislation, including one in late 2020 that approved the Dan Murphy's licence.

Conscious of continuing concerns about the potential damage to the company's standing and value, Woolworths sensibly engaged an independent review panel, headed by respected lawyer Danny Gilbert. The Gilbert review recommended not to proceed, which was endorsed by Woolworths' board and management, along with a wholesale review of how it conducted community engagement in future.

While the outcomes does not mean that a Dan Murphy's store will never open in Darwin, it does mean that any future plan will be preceded by more careful consideration of impacts on the communities and Woolies' social licence.

CASE STUDY

CROWN UNDER SCRUTINY

Crown Resorts has been on ACSI's governance radar for many years, and events of the past year – the NSW Casino Inquiry and Royal Commissions in both Victoria and Western Australia – have underlined the risks for investors where there is a lack of independent oversight in the boardroom. Recent hearings in Melbourne (Perth's casino inquiry was delayed until Victoria's was finished), have unearthed evidence of misconduct and worrying attempts to avoid regulatory requirements.

The 2020 Bergin inquiry in NSW inquiry, which focused on Crown's suitability to hold the licence for a casino at Barangaroo, focused on the 2016 arrests of Crown staff in China who were breaching China's gambling and money control laws. Evidence emerged of Crown's association with junket operators linked to organized crime, and James Packer's ability to exert undue influence on management – supported by a formal controlling shareholder agreement that gave Packer's private interests access to non-public financial information. Damning evidence was also heard regarding breaches of anti-money laundering laws, ongoing risk management failings, and poor governance by 'independent' directors.

The Victorian Royal Commission is testing not only whether Crown is suitable to hold the licence to the lucrative Melbourne casino, but whether it is actually in the public interest for it to do so.

Eight weeks of damning public hearings placed both in question. At the time of this report being compiled, counsel assisting the commission have submitted to Commissioner Ray Finkelstein that it is open for him to find that Crown is unsuitable as casino licence holder, and that it is not in the public interest. These were stunning recommendations against a company that has enjoyed a 30-year monopoly with minimal regulatory interference. Counsel also submitted that Helen Coonan is not a suitable associate or capable of implementing Crown's reform.

In coming to these conclusions, counsel pointed to:

- Accusations Crown underpaid state gambling taxes by up to $480m by improperly deducting loyalty program benefits (hotel nights, free parking etc.) from taxable revenue;
- Crown facilitating a $160mn "hotel transactions" scheme where high-rollers could transfer up to $500,000 from China to the Crown Melbourne hotel for gambling, breaching the Casino Control Act, Anti-Money Laundering legislation and other laws.

ACSI notes that renewal of board and management has begun. Former Lendlease CEO, Steve McCann, will become CEO while the board has been bolstered with former gambling industry executives Nigel Morrison and Bruce Carter are joining in 2021. Coonan has publicly flagged she will step down at the end of August.

We will also continue to monitor the Victorian Royal Commission proceedings and we note that the Commission's final report is due on 15 October 2021.

BOARD GENDER DIVERSITY

The number of companies without women directors is under 10 across the ASX300 – an historic low. Even better, the appointment rate of women to ASX200 boards is running at 45-50% to date this year – which means that women are attaining directorships at almost the same frequency as men, improving the talent pool for Australia's largest company directorships.

More broadly, women now hold on average almost 34% of board seats in the ASX200, and 32% in the ASX300. In the ASX20 and ASX50, that is above 36% and climbing. A handful of laggards in the diversity space, such as **Silver Lake Resources**, and **Chalice Mining** appointed women to the board after the half-year.

ACSI is communicating with priority companies in this area, to better understand their plans and aims on board diversity. Application of our voting policy is not a 'box-ticking' exercise, and we consider a range of factors before making a negative recommendation.

Brainchip Holdings lost its only woman director in late May due to a family illness. ACSI engaged with Brainchip shortly after, with the company committing to review its diversity policy and acknowledging our expectations when finding a replacement director. ACSI will assess progress ahead of the 2022 AGM.

In addition to work on non-executive directorships, ACSI has been working with the **40:40 Vision initiative**, which is seeking to have ASX200 companies commit to a target level of women in their senior executive ranks by 2030. Already, a solid number of companies have signed on to the initiative, and we expect to see significant improvement by this time next year.

CULTURAL HERITAGE

Sometimes it takes a disaster to galvanise action and education on long-standing issues. This occurred for investors and mining companies in the wake of **Rio Tinto's** destruction of the Juukan rock caves in 2020. The event has led to a significant shift in how companies, and investors, deal with First Nations people.

ACSI takes pride in having worked hard with our Members on several fronts over the past year to drive change at Rio Tinto and a re-evaluation of interactions with indigenous peoples by extractives sector companies globally.

Following Juukan, ACSI identified 25 companies for priority engagement to understand how they consider and manage such risks, including:

- Approach to relationships with First Nations and Indigenous stakeholders.
- Governance frameworks.
- Action taken to identify and manage risks.
- Company stance on regulatory or legislative changes.

As a result, ACSI, directly engaged in the first half of 2021 with 14 ASX300 companies exposed to these risks.

From that, we learned that one of the first responses by the extractives sector, particularly Rio, has been to expand their cultural heritage teams – which, due to pandemic constraints, has led to shortages of appropriately skilled people and significantly higher salaries.

Another positive was **Orica's** declaration in May that it had empowered workers to stop laying charges on mine sites if they have any concerns about indigenous heritage impacts. Orica provided the explosives used at Juukan.

Rio investors secure additional disclosure

ACSI, its members, and a group of international investors won significant concessions in March through repeated engagement with **Rio Tinto**. The miner agreed to regular reporting of progress on its work with Juukan's traditional owners, the **Puutu Kunti Kurrama and Pinikura peoples (PKKP).**

Rio committed to additional disclosures on the progress of heritage measures being undertaken, with the global investor agreement covering additional disclosures on:

- Progress against Rio's commitments and internal work-streams, external obligations and recommendations.
- How Traditional Owners' views are being sought and considered and their perspectives on how successfully commitments are being met.
- Enhanced governance arrangements in place to oversee progress against these actions.
- How the company is working to advocate for enhanced sector-wide cultural heritage management and how this is consistent with Rio Tinto's internal standards.

ACSI leads global consultation

ACSI has also been collaborating with the **Church of England Pension Fund**, leading a global investor group of 67 institutional investors with assets of $US10.2 trillion to assess current practices and build a base for future engagement to encourage best practice.

Of 78 companies approached by the global initiative to provide detailed information related to their management of Indigenous community relations, ~60 companies have responded (77%), and their responses analysed. All but three of 22 Australian companies in the sample responded after engagement by ACSI.

Working with First Nations groups, companies and investors, ACSI's policy and advocacy team has also coordinated a working group and produced a consultation paper aimed at providing a policy framework for future dealings with indigenous groups which we hope will have effect beyond Australia's borders. That policy is now in its final stages of consultation.

WORKFORCE

MODERN SLAVERY, SUPPLY CHAINS, SAFETY

ACSI was, once again, disappointed to see many companies take advantage of further extensions to the mandatory modern slavery reporting deadlines offered by the Federal Government.

The modern slavery statements issued by 151 ASX200 companies were captured as part of a research report commissioned by ACSI to evaluate the first reporting cycle under the *Commonwealth Modern Slavery Act 2018*.

The report provides evidence of a wide divergence in reporting quality and actions taken by companies to identify, remediate and prevent modern slavery risks in supply chains. The findings and recommendations of the report will shape ACSI's future engagement with companies about modern slavery risks and disclosure.

ACSI recognises that its members are also subject to modern slavery reporting requirements, which may include demonstrating modern slavery risk-assessment of investee companies. ACSI expects that our engagement with companies on modern slavery risks will prove useful to members in this regard.

Investor initiative under way

ACSI is proud to be a co-convenor of the investor-led initiative Investors Against Slavery and Trafficking Asia-Pacific **(IAST APAC**), which has identified a group of ASX200 companies most at risk of modern slavery manifesting in their operations.

Through engagement with these companies in the APAC region, the initiative seeks to promote effective actions which can identify, remediate, and prevent instances of modern slavery, labour exploitation, and human trafficking. IAST APAC is modelled on the "Find It, Fix It, Prevent It" project being run by CCLA (Churches, Charities and Local Authorities) in the UK.

ACSI is engagement lead for three companies as part of the IAST APAC initiative. Engagement meetings have been secured with all three companies under the auspices of IAST APAC with assistance from support investors.

Following the inaugural round of mandatory public modern slavery statements, ACSI-led engagements have been focussed on operational responses to modern slavery risk and seeking improved transparency on actions taken.

Core engagement objectives at focus companies that ACSI is seeking to achieve with support investor assistance, include:

- Increased supply chain-mapping transparency.
- Improved risk-assessment processes and transparency.
- Enhanced audit transparency.
- Develop engagement and remediation strategies with affected groups where instances of modern slavery are identified.
- Develop targets and KPIs.
- Demonstrate actions taken and provide case studies, and
- Grievance reporting and handling transparency.

ACSI is also supporting the efforts of lead investors at five other companies as part of IAST APAC, by helping shape engagement objectives and participating in meetings with management representatives of the focus companies.

Safety – raising the bar

Through our annual ESG data gathering, ACSI now has significantly greater insight into what is best practice – and what is not – when it comes to safety reporting.

That has enabled greater focus in our engagements with companies across the ASX300, resulting in aspects of safety being on the agenda in almost every meeting.

Principally, ACSI has been engaging to drive companies to produce more granular reporting on safety behaviours and outcomes, to provide investors with information and perspectives that go beyond the usual 'lagging' statistical measures of lost-time and total recorded injury frequency rates.

ACSI has secured commitments from a number of companies that their next round of reporting will include enhanced safety disclosures – for some, it will be their first disclosures. We will review that reporting and determine whether priority aims for our members have been met.

Fatality forces change to lift construction

Property and construction giant **LendLease** has been, unfortunately, a frequent reporter of workplace-related fatalities and serious injuries in its global operations, with eight fatalities in the past decade.

While LLC employs ~8000 people directly, it can have up to 50,000 contractors working for it across the globe at any one time.

In the last year it was involved in the high-profile collapse of a glass ceiling at Curtin University in Perth, resulting in one death and at least one other person seriously injured.

In engagement, the company told ACSI that incident is still under investigation, with the entire structure being recreated offsite, somewhat similar to an aircraft investigation, and processes being reviewed to avert a repeat.

LendLease also acknowledged investor concern about the less-publicised death of a contractor working on fitting handrails to a lift in a Malaysian shopping centre project.

The company revealed that the death occurred while the contractor was working in the shaft outside. As a result, LendLease now prohibits designs that require workers to enter the lift-shaft in fitouts. The contractor also agreed to provide external reporting of workplace fatalities in its annual Sustainability Report, and Lendlease added 'elevator installation/fit out' to its list of acute high risk activities in the 2021– hopefully helping eliminate repeat tragedies.

ACSI also analysed safety reporting data in the ASX200 for our investor members, outlining our expectations of:

- Timely public disclosures of serious or fatal incidents involving employees, contractors, or members of the public, and outcomes of investigations and the company's response.
- Disclosure of high-potential incidents or near misses for companies in at-risk sectors.
- Separate disclosures of safety statistics for employees and contractors.
- Detailed disclosures of outcomes where executive remuneration is linked to safety performance.
- At the very least, disclosures of lagging safety indicators such as Lost-time injury frequency rate (LTIFR) and Total-recordable injury frequency rate (TRIFR) by less at-risk companies.

Information on severe incidents or injuries (and near misses) provides investors with a better indication of the effectiveness of safety management at a company.

Multiple severe incidents are more likely to indicate a material regulatory, reputational and investment risk. While LTIFR and TRIFR measure overall productivity loss rates due to incidents, they do not give insight into the seriousness of individual injuries or illnesses.

Contractor safety data allows investors to identify any disconnect between the safety practices and culture of companies' own workforces, and those of their contractors.

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