ACSI

Research / Engage / Influence /

Engagement Report

2022 – 2023 Public Summary

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DRIVING POSITIVE CHANGE

Driving Positive Change

The 2023 financial year was one of ACSI's busiest and most productive on record. Most importantly, a high percentage of priority companies continued to make progress on significant ESG issues.

ACSI extended its work on cultural heritage and the circular economy in FY23, and also raised the bar on long-running priorities. A shift in Australian climate policy saw more companies either set or accelerate their pathways to Net Zero.

Key Outcomes and Themes

Meeting the climate challenge

Increasing number of companies setting net zero commitments.

Six advisory votes on climate

Circular economy strategies are increasing with construction companies competing to design out waste.

Boards, remuneration and accountability

Sexual misconduct, bullying and racism still challenging for Australian boards, including in the mining industry.

23 companies made changes to remuneration schemes after ACSI engagement.

16 gender diversity targets improve and appointment rate of women soars.

Cultural heritage frameworks

Mining and energy companies are responding to ACSI's challenge to lift their game on First nations agreements and relations.

Workforce: Modern slavery, safety

44 companies engaged on Modern Slavery with ACSI's new research giving insight into better practices.

BHP Group joins the growing number of companies having to report underpayments with up to 30,000 people affected.

ACSI safety research delves into disclosures of 76 companies.

306

Formal company engagement meetings

Met with **194** companies in the ASX 300 to discuss ESG issues

29 out of 30

Climate risk priority companies have now set net zero commitments

23 companies

Governance priority companies made changes to improve practices on executive pay

89%

of all priority companies have made improvements on key ESG themes

more than **35%**

ASX300 board seats are held by women

Company resolutions

2,011

The number of resolutions ACSI provided research on

DRIVING POSITIVE CHANGE

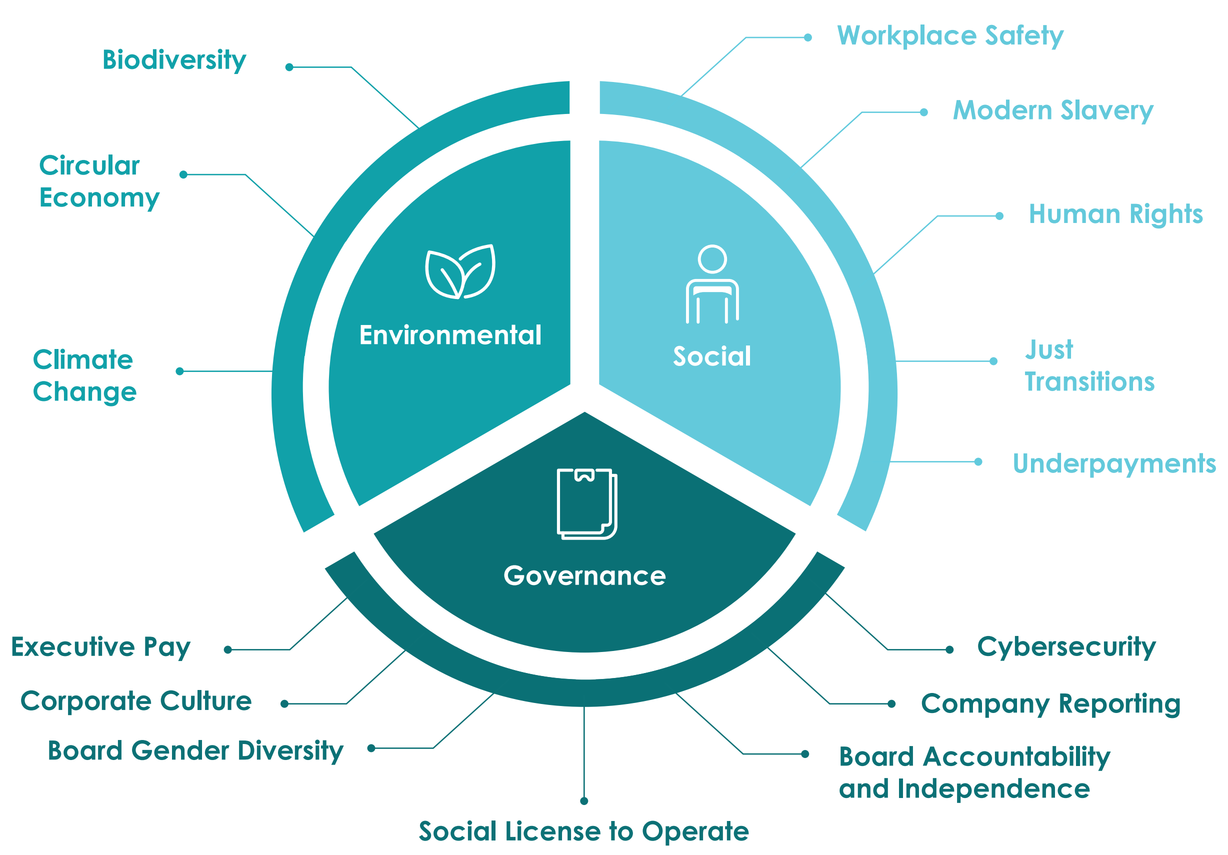
How do we engage?

Our company engagement usually involves meeting with board representatives and management teams of ASX300 companies to discuss a range of ESG matters.

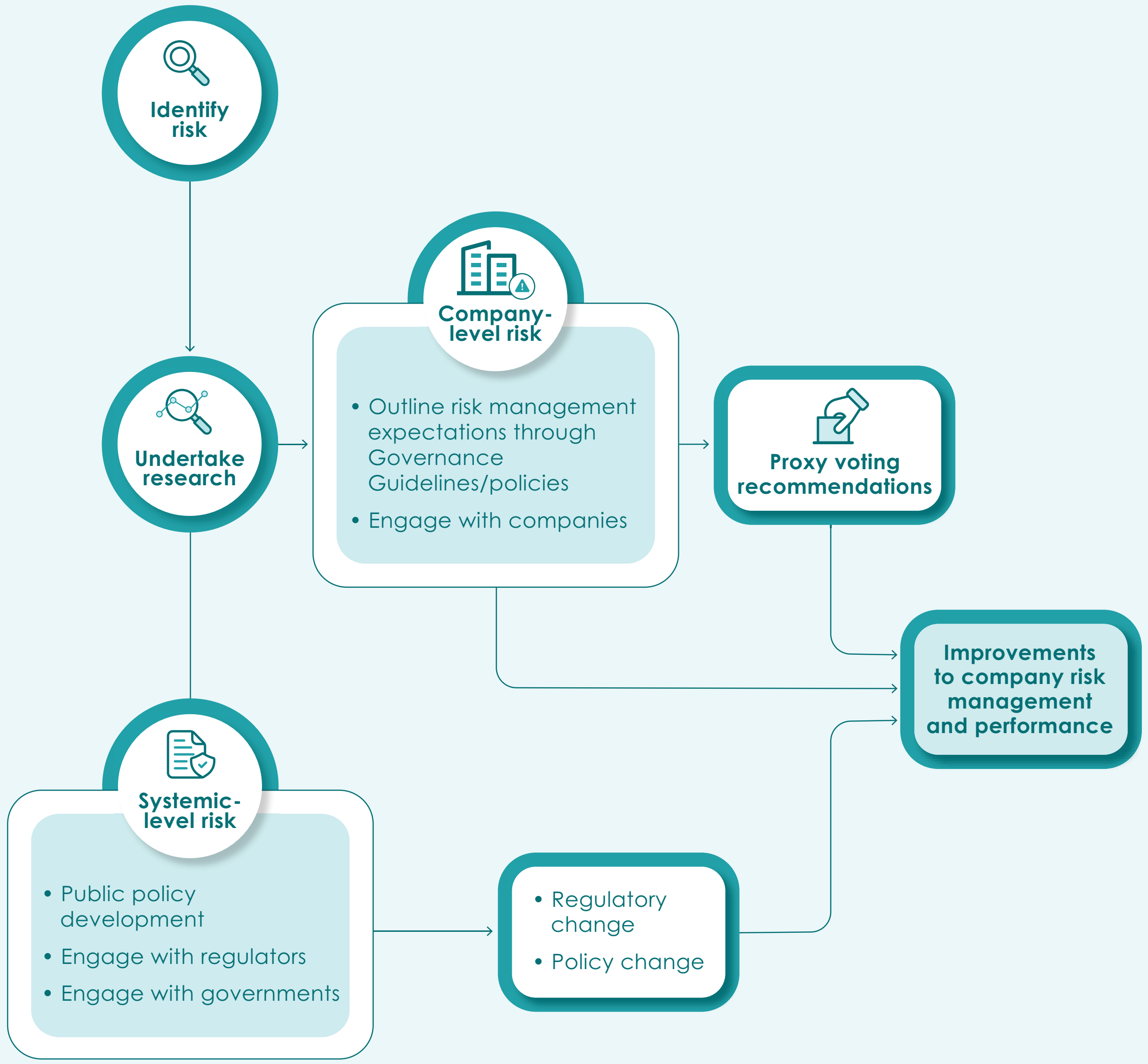
Each year, ACSI sets priority themes for engagement, aligned to material ESG factors. When setting engagement priorities, ACSI's process is to assess the materiality of the issue, the exposure of investors and the objectives that need to be met to address investor concerns.

We note that company actions will be influenced by a range of internal and external factors. Our engagement is a catalyst for change, but we cannot and do not seek to claim 'sole credit' for each change we may contribute to.

What do we engage on?



How ACSI works to influence the management of ESG risks



Climate Change

ACSI's engagement on climate change continues to focus on 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. This includes engagement to drive the adoption of the Task Force on Climate-related Financial Disclosures (TCFD) framework, net zero commitments and the accompanying pathways to achieve those aims.

ACSI's climate change priorities are generally part of multi-year engagements to ensure companies are setting Paris-aligned targets but also providing clear disclosure of progress against these targets in the short, medium and longer term.

Based on ACSI's analysis, company-specific goals vary but typically consider:

- Transparency, governance and policy;
- Transition-risks and their financial impacts;
- Physical-risk disclosure and mitigation;
- Short, medium and long term emissions reduction targets;
- Just transitions; and
- The governance of lobbying activities

ACSI's engagement has contributed to change in FY23, with all 30 priority companies making some progress. Notably:

- All priority companies have now either committed to, or are now already reporting, their climate risks and opportunities using the TCFD guidelines. ACSI continues to engage with companies on the quality and depth of their TCFD analysis of material climate risks and opportunities.
- 29 of 30 target companies now setting net zero amitions in place. What is included in net zero ambitions and commitments is also a focus for the team. The majority of net zero commitments cover only operational Scope 1 and 2 emissions. In some cases, companies do not provide clear detail on what emissions are covered by their relevant net zero commitments. In some sectors, Scope 3 emissions represent a material portion of a company's emission profile, so this issue is a focus of engagement discussions.
- A majority of the priority companies explicitly link, or have committed to link, executive incentive pay to climate change objectives.
- Six priority companies have adopted advisory votes on climate, following investor engagement. These companies have put forward climate transition plans for a shareholder advisory vote with varying levels of shareholder support.
- 22 of the 30 priority companies have set short-term targets for emissions reduction to drive their decarbonisation efforts.
- All 30 of the priority companies have now set medium-term emissions reduction targets or abatement ambitions, reflecting ongoing engagement with ACSI to further develop company transition pathways.
- All 30 priority companies have also now set long-term targets, including some setting targets to reach net zero operational Scope 1 and 2 emissions.

ACSI's engagement on climate risk has contributed to clear change in FY23, with all 30 priority companies making progress.

ACSI and its members have engaged with a selection of companies in materially exposed industries on just and equitable transition pathways, to ensure that companies have plans and strategies in place to manage the impact of asset closures on affected workers and communities. The coming year will see policy advocacy work in support of the establishment and scope of the recently announced Net Zero Authority. Company engagement will focus on practical application of closure policies including engagement practices, opportunities for reskilling/retraining and reporting/managing of impacts on workers and communities.

The governance of industry associations is an ongoing issue, with previous examples of industry bodies conducting advocacy activities which potentially undermine the policy positions of companies that make up their membership. Investor engagement on these issues has contributed to a material uplift in how companies report on practices, standards for lobbying and measures taken where associations are identified as misaligned. Examples of changed company practice include BHP significantly upgrading its reporting to investors, and Rio Tinto reviewing industry association memberships in relation to their work on climate lobbying.

Finally, ACSI has also continued to encouraged companies to adopt a 'say on climate' at their AgMs to provide investors with a non-binding vote on climate strategy. This step has seen many Australian companies boost their transparency, accountabilty and efforts on climate strategy.

Incitec Pivot joins 'say on climate' alumni

Incitec Pivot put up its climate transition plan at its February 2023 AGM following engagement with ACSI, garnering investor support of just under 90% for its strategy.

Ahead of the vote, the company released a refreshed climate strategy with plans to decarbonise hard-to-abate businesses. This was in spite of strategic challenges that might have affected its future structure and strategy, including a potential demerger of its Dyno Nobel and Fertilisers business and, at the time of the vote, an ongoing strategic review of its Waggaman, Louisiana, ammonia manufacturing plant.

Incitec Pivot has since agreed to sell the Waggaman facility with the sale completing in December. Incitec will need to revise its climate strategy accounting for the divestment. ACSI will continue to engage with Incitec and monitor those strategic developments.

ACSI's work in climate policy and advocacy

The past year also saw a sharp uptick in climate policy advocacy. In partnership with other investor groups, ACSI has for many years publicly advocated for the introduction of **mandatory climate disclosures** to ensure investors have the necessary information to assess climate risks within their portfolios. The consultation on climate-related financial disclosures, released by the then recently-elected Federal Government in late 2022, aligned with our approach.

ACSI sees the adoption of mandatory climate reporting as a logical step towards a global baseline for sustainability reporting. Given that ACSI members invest across global markets, there is a strong appetite for consistency and comparability in the approach to disclosure.

The current lack of a standardised approach to climate reporting means the quality of reporting varies widely across companies. This is particularly evident each year when ACSI undertakes its assessment of ASX200 companies' climate-related disclosures. Mandatory disclosure of climate data, including emissions, targets, strategy and risk management processes, would enable investors to identify the adequacy of responses to climate risk and opportunity.

Over 2023, ACSI engaged with policy makers on the design of an updated Safeguard Mechanism to advocate for alignment between Australia's climate targets and emissions reductions required under the Safeguard Mechanism.

ACSI was also part of a coalition of investors highlighting the need for sector pathways to guide Australia's transition to net zero. The Government has now committed to developing sector pathways.

ACSI has been publicly advocating for policy action to support a 'just transition' to a low carbon economy and, in December 2022, released our research report on what companies and policymakers can do to tackle these issues.

The report outlines a detailed set of investor expectations of listed companies and the policies that ACSI recommended governments put in place to support a just transition. Pleasingly, the Australian Government announced in May 2023 the establishment of a Net Zero Authority to oversee and drive the transition.

The **Climate Change Authority** consultation in June 2023 on Setting, Tracking and Achieving Australia's Climate Targets provided ACSI and its members with an opportunity to further our advocacy on key focus areas including setting a science-based 2035 target, the development of sectoral pathways and more transparency around the development, purchase and use of offsets.

Finally, ACSI also joined a cross-section of industry organisations to sign a joint submission on implementation of the ISSB standards and to call for the passage of the **Climate Change Bill** in September 2022.

Case Study:
WOODSIDE PUTS ENERGY INTO INVESTORS

After Woodside's 2021 Climate Report received the lowest level of support seen to date globally, with only 51% of votes being supportive at the AGM in May 2022, ACSI stepped up its engagement with the group.

Investors have been focused on the time frames and milestones associated with Woodside's new energy business. Other matters consider include the reliance on offsets as part of decarbonisation strategy and Scope 3 emissions reductions targets.

Engagement during the period focused on how the strategy would be impacted by the integration of the BHP Petroleum business, when a revised climate strategy would be shared with stakeholders and whether/when an updated climate strategy at Woodside would be provided for a non-binding 'say on climate' vote.

Woodside publicly committed to hold another say-on-climate vote in 2024 for a refreshed climate strategy, and every three-years thereafter.

The company also committed to proactively enhancing engagement with shareholders in future on matters of key strategic significance, including climate.

ACSI will seek to continue engagement with the Woodside board and management team on strategy and climate issues.

Circular Economy

Creating a circular economy is critical for the future of business and essential to meet net zero targets. For investors, there are material financial risks in companies continuing a "business as usual" approach.

Broader than minimising waste and increasing recycling, circular economy principles are about **designing out waste** – a key factor in driving down the emissions from the creation, use and disposal of products, and reducing impact on nature and biodiversity.

For long-term investors, there are also complementary opportunities in cost reduction, supply chain resilience and new sources of revenue.

Last year, ACSI's engagement priorities focused on how circular objectives were integrated across a range of sectors, including food, packaging (plastic and glass), aluminium, cement and

steel. As demonstrated through research by the Ellen MacArthur Foundation, these sectors provide the largest opportunity, both upstream and downstream, to reduce emissions through adopting circular practices.

Designing out waste

In engagement with ACSI, building materials and cement companies have highlighted a multitude of cost and greenhouse gas emission benefits in adopting circular principles – including by increasing the use of recycled products from demolition as inputs in new building materials with an aim to decreasing costs, embodied emissions and waste.

Huge demand for lower-emission products has created a competitive incentive for companies to offer the lowest embodied-carbon products to customers.

ADBRI and Boral are among the Australian companies to have publicly adopted targets to increase their use of substitute materials to make lower carbon concretes – known as 'supplementary cementitious material' and 'refuse-derived fuel' which are sourced from waste construction and demolition material as alternative 'circular' fuels.

Companies in the construction value chain both upstream and downstream are integrating circular practices.

The companies see this process as delivering lower carbon products by reducing embodied carbon within buildings, highlighting the benefits of the circular economy in reducing emissions, dependence on virgin materials and need for waste removal.

For long-term investors, there are also complementary opportunities in cost reduction, supply chain resilience and new sources of revenue.

Plastics recycling stalls

The collapse in November 2022 of soft plastics recycling company REDcycle highlighted the fragility and flaws in Australia's plastic packaging and recycling system – and its reliance on major retailers Coles and Woolworths to offer a solution for the packaging of the products they stock and sell.

ACSI has held multiple engagements with supermarket groups before and after Red Cycle's demise on these issues. Both Coles and Woolworths are now members of the Soft Plastics Taskforce, a government-backed industry collaboration to develop interim and long-term solutions for soft plastic recycling in Australia in the wake of the collapse of REDcycle.

For FY24, ACSI has reviewed its priorities and set objectives to evaluate how a company is integrating circular economy principles within corporate strategy.

As the race to reduce emissions accelerates globally, ACSI is seeking a demonstrable uplift in companies' adopting and reporting on their circular practices and ambitions to reduce virgin material inputs and waste outputs, to assist in emissions reduction targets.

Case Study:
SOFT PLASTICS AND HARD ISSUES

In late 2022, **Coles** and **Woolworths** surprised the community by announcing that they would be suspending soft plastics collections at their stores until further notice.

This followed revelations that REDcycle, the only company collecting and arranging the processing of the waste, had been stockpiling collected soft plastics in warehouses instead of recycling it.

Suspension of the REDcycle operations had wide community impact – not just for the supermarkets, which had been collection points, and frustrated consumers, but for council waste collection services and costs as well as throwing up serious regulatory, safety and integrity issues.

Coles had been partnering with REDcycle for over 10 years to run its biggest recycling program.

Given the dependence on REDcycle by both supermarket chains, ACSI engaged with Coles on its contingency plans and the adequacy of its governance of the relationship, and risk-mitigation strategies, after the collapse.

It was positive to see both major supermarkets announcing that they would take responsibility for **all** REDcycle's legacy stockpile of soft plastics, committing to recycle as much as possible. However, there was uncertainty over the quality and size of the stockpiled waste.

During the year, the Australian Competition and Consumer Commission (ACCC) provided competition exemption that allowed the major supermarkets to form the Soft Plastics Taskforce to identify interim and long-term solutions to plastic waste management and recycling.

Coles also emphasised that the REDcycle collapse highlighted the need for ongoing supplier engagement and oversight, and a set of broader challenges that Coles alone could not solve including the lack of national consistency on this issue and recycling infrastructure generally.

The Soft Plastics Taskforce has now released a roadmap, outlining an interim plan to restore community access to soft plastics recycling through Australian supermarket collection points.

ACSI will continue to engage on progress against the roadmap and development of long-term solutions to recycle soft plastics and reducing their usage.

GOVERNANCE

Governance

Accountability, Remuneration, Board Composition and Culture

Governance risks for investors continue to extend well beyond how boards meet the letter of the law to how they set and guide culture in their organisations.

Each year, many priority issues in this area 'self-select' – usually where remuneration structures or board performance have deviated from investor expectations. Often these issues have resulted in significant investor votes against company-backed resolutions.

However, not all governance priorities flow from voting issues, with ACSI's focus expanding in recent years to include the oversight of corporate culture in leading companies. Examples of this include the response of banks and other financial institutions to the issues exposed in the Hayne Royal Commission, or in the actions of mining companies to address the sexual harassment issues exposed in the WA Parliamentary Inquiry report *Enough is Enough* and other work in the sector including Rio Tinto's *Everyday Respect* report.

These cultural issues represent real financial and reputational risk for investors and owners of those companies.

ACSI also continues to scrutinize executive pay practices as these incentives clearly drive behaviour in the management of listed companies. ACSI works to ensure that remuneration levels are appropriate and aligned to the delivery of value to investors over the long-term. In July we published the 22nd edition of our longitudinal study on CEO Pay outcomes, which now has almost a decade of ACSI-calculated realised pay outcomes (the value of cash and equity actually received by CEOs).

Alongside the priorities set at the beginning of the year, ACSI undertakes important 'everyday' engagement meetings which also have a positive impact on ESG practices.

Remuneration

ACSI prioritises engagement with all companies where we have captured remuneration concerns as part of our voting research, especially where we make a negative voting recommendation on aspects of incentive schemes.

In FY23, 31 companies were on ACSI's priority list for improvement, of which 23 were either fully resolved or made strong positive progress.

ACSI recommended votes against remuneration reports where bonus outcomes were out of step with performance targets and, more importantly, the investor experience. Persistently high annual incentive outcomes where shareholder returns have been mediocre over the same timeframes, are a cause for concern.

In long-term incentive schemes, ACSI is alert to outcomes that allow significant vesting of shares for executives even if the relative performance of a company is below peers or the comparable index.

Alongside the priorities set at the beginning of the year, ACSI undertakes important 'everyday' engagement meetings which also have a positive impact on ESG practices. At one entity, ACSI challenged is plans to allow early vesting of new strategic performance measures, rather than allowing the allocation to run its full course. The company subsequently made substantial changes to the strategic targets, by removing that opportunity for early vesting and adding a positive absolute-TSR gateway.

ACSI works to ensure that remuneration levels are appropriate and aligned to the delivery of value to investors over the long-term.

Sexual Harassment and Corporate Culture

In 2022 and 2023, ACSI continued to engage with companies employing remote workforces on how they are measuring and managing their corporate culture to stamp out sexual assault and harassment, bullying, racism and other objectionable behaviours.

This work has been a focus for investors following **Rio Tinto's** ground-breaking Everyday Respect Report, produced by former discrimination commissioner Elizabeth Broderick, and the broader WA Parliament FIFO inquiry.

All companies that ACSI spoken to by ACSI recognise the issues and have taken action to change physical work environments – including enhanced safety features, lowered alcohol-consumption limits and modified rostering – and to train their people.

The challenge for most is to develop metrics that effectively monitor whether or not necessary improvements have been made.

BHP Group's 2022 annual report, provided greater disclosure of consequence reporting on conduct issues, disclosing that 103 case of sexual harassment had been substantiated during the year – of which 101 resulted in either termination of employment for the perpetrators. In the report, CEO Mike Henry said he was "ashamed that these behaviours still occur in BHP. We are fiercely determined to stop them from happening."

Some companies, however, chose not to go into detail and will be the focus of further engagement.

One common theme from engagement is an expectation that if new systems are working, there should be an increase in the number of complaints in the short-term as staff feel more confident in the ability to report incidents and have them acted upon.

Responsible Gambling

Gambling harm permeates all levels of Australian society. Statistics suggest that Australians outspend the citizens of every other country and lose the most per adult[1].

A key focus of ACSI's ongoing engagement in this area is to seek evidence and explanation from companies on the efficacy of their policies, such as the application of 'self-exclusion' regimes for problem gamblers, and commitments to fund social programs.

This year ACSI's focus was on assessing and evaluating companies' management of regulatory risk and work to maintain social licence to operate.

ACSI will continue engagement at various levels with companies in the sector to gain further detail on implementation and results from their responsible gambling initiatives, and to monitor the development of best practice behaviours and outcomes.

Recent Policy Developments

There has been significant movement in the regulatory space for gambling harm reduction. This includes NSW's recent trial of cashless gambling, Victoria's changes to pokies (including changes to load-up limits, mandatory closures and slower spin rates), and the most recent parliamentary recommendation to ban all online sports betting related advertising.

This year, ACSI will closely monitor these policy developments and seek to understand how the ASX200 gambling companies will be impacted by and prepare for these changes.

1 https://www.aph.gov.au/Parliamentary_Business/Committees/House/Social_Policy_and_Legal_Affairs/Onlinegamblingimpacts/Report

GENDER DIVERSITY ACSI'S PROGRESS

Gender Diversity ACSI's Progress

ACSI's long-running campaign to improve board gender diversity hit a new milestone this year, with the average ASX300 board now comprised of more than 35% women. Larger companies are leading the way - in the ASX20, the average was closing in on 45%, with six of Australia's largest 20 companies having 50%, or more, women on their boards by 30 June 2023.

The pace of change continued with the appointment rate (women versus men) for the six months to 30 June 2023 running above 44% for boards in the ASX300.

As positive as these achievements are, some companies have made little progress in recent years and ACSI issued a new voting recommendations policy to recognise new market standards (see case study on page 23).

It was positive that sixteen priority engagement companies appointed skilled women directors during the year.

At industrial property giant Goodman Group, was one example of a company that improved diversity after appointing Hilary Spann and Vanessa Liu. Since then, Goodman has added former LendLease executive Belinda Robson to the main board and Kitty Chung recently joined as a director of Goodman's Hong Kong-based logistics arm, which is one of the three entities comprising the group.

Case Study:
RAISING THE BAR FOR BOARD GENDER

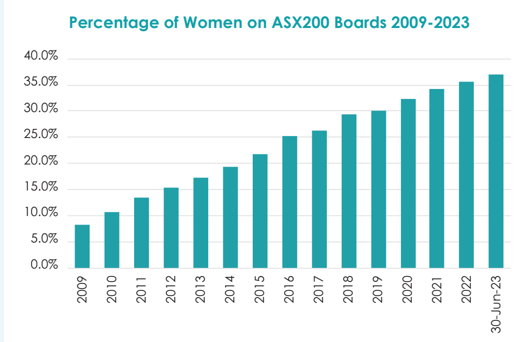
Since introducing our gender diversity voting recommendations policy in 2019, ACSI has helped drive significant change in board composition among ASX300 companies.

A board without any women – even one with fewer than two – is now the exception, rather than the rule.

However, the substantial progress across the market hides the fact that many companies have made little progress. In light of new market standards, ACSI updated its diversity policy to reflect that the goal of 30% gender diversity on Australian boards has shifted from an expectation to a minimum standard. This policy is being applied for the upcoming 2023 AGM season.

ACSI has identified 43 high priority companies across the ASX300 which have fewer than 25% women on their board.

ACSI will engage with these companies in FY24 to seek a time-bound commitment to meet those expectations – or face recommendations against elections of male directors in the upcoming AGM season.



In the past decade of ACSI's engagement with boards on gender diversity, the typical response has shifted from "why" to "why not", as recognition grows that better-performing boards have diverse skills and backgrounds to draw on.

Where once the arguments against having women directors included a lack of sufficient candidates with 'appropriate' qualifications, the steadily rising appointment rate of women directors to ASX300 companies, which hit a peak of 46% in 2022 (47.5% to date in 2023), has shown that the potential pipeline of appointees is no longer an issue (if it ever was).

Workforce

Safety, Modern Slavery, Underpayments

As long-term investors, ACSI members have a strong interest in supporting better worker conditions, health and safety in companies.

During the year, ACSI continued to engage with ASX300 companies identified as having either poor performance and/or opaque reporting practices in the areas of safety, supply chain identification and monitoring, or payroll management.

This includes circumstances where companies have experienced workplace fatalities, self-reported underpayments or lower quality modern slavery reporting practices.

In April 2023, ACSI published its second benchmarking study of ASX200 companies' mandatory modern slavery reports in collaboration with Pillar Two.

ACSI uses its research to improve market practice. Using the findings of our study, ACSI has since contacted every ASX200 board providing ratings and recommendations for improvements. We recognise that there is still a long way to go, even for the more transparent companies.

Safety

ACSI closely monitors ASX300 companies' safety performance and reporting, with an emphasis on understanding the nature of any workplace-related tragedies.

ACSI encourages companies to disclose not just incidents, but the outcome of investigations, changes to safety practices, and the board's oversight of these events.

A recent example of poor disclosure occurred when ACSI first learned of a tragic fatality that occurred in June during a July engagement meeting with a company. It had not previously been publicly reported and was only disclosed in pre-AGM documentation.

Our 2023 research on safety reporting delved into the disclosures provided by 76 companies operating in sectors considered to have inherently high safety risks.

This research highlights the areas of focus for ACSI's engagement program on behalf of members. In addition to engaging with companies involved in serious workplace incidents, ACSI's engagement also focused on companies that lack comprehensive safety disclosures despite operating in at-risk sectors.

Our objective with those companies is to to reinforce the importance of going beyond 'lagging' measures of safety and to provide 'Leading' indicators such as near misses and severity measures, as well as encouraging the separate safety reporting of their contractor workforce.

ACSI's research has consistently shown that a significant portion of safety incidents involve contractors, making it crucial for companies with material safety risks to provide greater transparency of how they manage and measure the well-being of its contractor workforce.

This year, ACSI also extended its research and engagement to include the work of companies on mental health and silicosis.

Modern Slavery

ACSI continues to take an active role in driving improved reporting of modern slavery risks through our research partnership with Pillar Two, and contribution to the review of the Modern Slavery Act.

ACSI completed and released its second round of benchmarking for all ASX200 modern slavery statements submitted during 2022. Key findings from the research include:

- Most ASX200 companies have incrementally improved their disclosure of modern slavery risk although progress is slow in some sectors.
- 34% of companies improved compared to their 2021 assessment. Many of these were from a low base, but the improvement is nonetheless welcome.
- Few companies made meaningful disclosures of more complex actions such as supplier capacity building (6%) or training for boards/ senior leadership (3%).
- Just 8% of company statements reported identifying a modern slavery incident or allegation.

Given the scale of the challenges and opportunities for improvement, ACSI has conducted multiple webinars and information sessions for companies and other stakeholders (including government and investors) to present our research findings.

Modern Slavery Act Review

One development during the year that could significantly impact company practice in the ASX300 is the review of the Modern Slavery Act. In May 2023, a report containing 30 recommendations to strengthen the Modern Slavery Act 2018 was tabled in Parliament.

Overall, several recommendations aligned with ACSI's position, and our engagement with companies, with the most notable proposals being:

- A new due diligence requirement;
- Appointment of a Modern Slavery Commissioner at the federal level; and
- Introduction of penalties for non-compliance including, failure to submit a report, submitting a report that knowingly includes materially false information and failure to put a due diligence system in place.

ACSI is of the view that with the third round of modern slavery statements being rolled out, companies are now in a better position to report under the requirements of the Act. On this basis and building on our experience in company engagement, ACSI made submissions to the review of the Act.

Drawing on our engagement across the ASX300, ACSI participated in the government's modern slavery conference in June 2023 presenting views on the importance of industry wide collaboration.

Through FY23, ACSI held 54 meetings with 44 ASX 300 companies where modern slavery issues were raised. In these engagements, ACSI focused on moving companies away from descriptive disclosure to discussing the outcomes of their policy, risk assessment, remediation, and effectiveness practices across reporting periods.

ACSI also emphasised the critical role that quantitative and qualitative indicators play in monitoring progress. Better data means that companies and investors can assess the efficacy of actions taken to address modern slavery risk in company operations and supply chains.

Another key focus concerned remediation. ACSI encouraged companies to align their grievance handling processes with the UNGPs to ensure a victim-centred approach and to enhance their transparency of remedial practices, including disclosure of incidents of modern slavery.

ACSI encouraged companies to ensure a victim-centred approach and to enhance their transparency of remedial practices, including disclosure of incidents of modern slavery.

Collaborative Engagement

In 2023, ACSI continued its work in leading and supporting engagements with focus companies as a participant in Investors Against Slavery and Trafficking Asia Pacific (IAST/APAC) initiative. In FY23, we participated in 6 meetings with ASX300 companies.

This ongoing program has been positively received by listed companies, enabling them to understand the importance of modern slavery risks from a range of investors, and resulted in ongoing dialogue to improve disclosures and address concerns.

Underpayments

ACSI has continued to engage with companies on their oversight of issues relating to both their direct employees and workers in franchisee networks.

In spite of almost 10 years' bad publicity of major underpayments of workers in a variety of industries, cases keep happening.

In early June 2023, Australia's largest listed company, BHP Group, revealed that it had discovered $US280 million ($A430 mn) in underpayments to around 30,000 employees. It also found incidences at newly-acquired Oz Minerals.

BHP Group told the market that current and former employees in Australia over a 13-year timeframe were affected, with the issues including incorrect public holiday deductions since 2010 and "approximately 400 current and former employees at Port Hedland are entitled to additional allowances due to an error with the employment entity in their contract".

Geraldine Slattery, BHP's President Australia apologised for the failing saying "We are sorry to all current and former employees impacted by these errors... This is not good enough and falls short of the standards we expect at BHP. We are working to rectify and remediate these issues, with interest, as quickly as possible."

Importantly, the company has worked to remediate the issues and implement systems to ensure that further issues do not occur. As part of that work BHP is using Protiviti, a global assurance firm, to conduct a thorough review of all payroll systems. A dedicated hotline and website was also set up to assist employees.

ACSI has also continued engagement with **Coles, Woolworths and Super Retail Group** (amongst others) regarding instances of underpayments. In all cases, engagement has focused on obtaining details of forward-looking controls to prevent future underpayments, monitoring the status of remediation and assessing the scope of payroll reviews.

Cultural Heritage

In 2022, ACSI developed a new engagement framework based on our policy and research on company engagement with First Nations people.

ACSI selected 11 companies for focused engagement work including meeting with boards, senior management and specialist teams as required at each company. Cultural heritage was on the discussion agenda at 36 engagement meetings during the year.

ACSI's focus over 2022-23 included information-gathering on current practices (as there are still relatively low levels of disclosure in ASX300 companies) and seeking responses to company specific issues or incidents. ACSI identified gaps in reporting of focus companies, including progress in renewing relationships, reviewing and rewriting agreements (particularly companies' use of 'gag' or similar clauses), and seeking information on whether heritage teams were appropriately resourced and sufficiently empowered to minimise investor risk.

There were several 'live' instances of companies either in dispute with the traditional owners of land on which they operated or instances where members of local indigenous communities raised public concerns with current or future projects – Fortescue Metals Group, Santos and Woodside Energy were all in the news during the year.

ACSI engaged with those companies to understand how they were approaching the issues, as well as utilising our relationships indigenous representative organisations to understand their perspectives.

In 2023-24, ACSI will continue to track progress against engagement targets. The choice of targets in the mining, oil and gas industries has been informed by ACSI's detailed research paper and consultation with First Nations representative bodies.

ACSI will add additional companies during the year where we see risks emerging – such as at groups entering into production – to ensure their approaches are consistent with investor expectations.

As an example, ACSI (which is participating in the PRI Advance human rights program) arranged a briefing with the Human Rights Law Centre on the legacy of the defunct Panguna copper mine on Bougainville Island which had been run by a Rio Tinto affiliate. An impact assessment study of the mine's impact, which aims to identify what actions will most help the people of Bougainville, is expected to provide interim reporting in 2024.

The other significant event that occurred while this report was being prepared was the repeal of Western Australia's nascent cultural heritage legislation which had been aimed at re-weighting the scales more in favour of traditional owners but had been roundly criticised by both indigenous peoples and land users.

ACSI will continue to follow developments in that space, and the planned overhaul of Federal legislation.

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