

ENGAGEMENT REPORT

2019 FULL-YEAR SUMMARY

RECORD YEAR FOR ENGAGEMENT

In a year which finished as it started – with the forced departures of both the Chair and CEO at a Big Four bank – the increasingly crucial roles played by responsible investors and their representatives in achieving positive change were highlighted.

ACSI held almost 300 meetings with more than 200 organisations in 2019, effecting significant change or commitments to improve from 112 of a record 174 priority companies.

HIGHLIGHTS

64% 112 COMPANIES MADE IMPROVEMENTS

288 FORMAL ENGAGEMENTS



204 ASX300 COMPANIES MET



WHY WE ENGAGE



ACSI's engagement activities, coupled with its research, advocacy and voting advice, are part of the active ownership work of our Members, who are long-term institutional investors.

Our belief is that directly engaging with company decision-makers on environmental, social and governance (ESG) issues contributes to not just better individual organisations but is an essential part of delivering improved long-term returns and more sustainable outcomes for our Members' beneficiaries.

Each year ACSI, with the support of its Members, identifies key ESG themes for focussed engagement on selected companies in the ASX300, adding themes and companies when specific issues arise e.g. a failure of a tailings dam.

Having set objectives for our priority companies, we use an escalating engagement approach – initial recognition by a company that there is a substantive issue, followed by focussed engagement with

companies to achieve positive change in behaviours and practices for all stakeholders.

Where systemic issues are identified, we pursue them with regulators, legislators, industry bodies and other policy makers.

Where issues emerge or differences of opinion arise, we seek to effect change before recommending a vote 'against' a resolution.

Collectively, ACSI's Members speak for, on average, close to 10% of every ASX300 company and manage more than \$2 trillion in assets on behalf of superannuation beneficiaries.

We have been engaging with companies since our inception in 2001. Recently, some of our engagement themes (related to culture, governance and remuneration) have been highlighted by high profile examples, such as those outlined in the Financial Services Royal Commission, where many of the Commissioner's final report recommendations and observations are consistent with our own observations and work.

ENGAGEMENT THEMES AND HIGHLIGHTS 2019

Climate change

Climate change, and the need to adapt to a low-carbon future, is a source of both investment risk and opportunity. We encourage companies to identify the relevant strategic and physical risks, disclose their strategies, and to set and report against targets used to manage such risks.

We encourage companies to report against the Task force on Climate-related Financial Disclosures (TCFD) global framework.

STEP-CHANGE IN CLIMATE CHANGE

Eighteen of our 20 priority companies made material improvements in their management of climate change risks and opportunities.

Industry associations with views not aligned to their members are increasingly coming under scrutiny.

Board diversity, independence and renewal

Our belief is that boards with more diverse make-ups, with an appropriate mix of experience and skills, produce better outcomes for investors. Included in that is the expectation of regular review and refreshment of the talent pool.

There is evidence, for example, that companies with a significant weighting of women directors perform better than their counterpart all-male boards.

GENDER DIVERSITY – ACSI MEMBERS HELP ASX200 HIT 30%

34 priority companies appointed women to their boards – many for the first time.

Board gender diversity topped 30% in the ASX200, reflecting ACSI's many years of engagement and strategic voting work.

ACSI is now looking at strategies to drive acceptance of its 40-40-20 policy.

Workforce issues

Human rights and workforce issues, including modern slavery reporting and the just transition of workers affected by industry transitions such as climate change, encompass the entire supply chain as well as direct operations of listed companies.

We encourage companies to actively engage with the relevant stakeholders and to disclose information on how they identify, prevent, mitigate and account for these risks and the impact on the people involved.

WORKFORCE – WAGE UNDERPAYMENTS AND MODERN SLAVERY

Eight of 10 priority companies on workforce and supply chain issues, including modern slavery, made improvements although ACSI remains concerned by endemic issues.

ACSI engaged with several priority companies on wage underpayments. Around \$500m of underpayments were revealed by ASX-listed companies in 2019, including Woolworths.

Governance – remuneration, culture & accountability

Corporate culture, the shared values and norms that drive behaviour in an organisation, was identified as a frequent failing in the Financial Services Royal Commission. ACSI seeks to engage with companies on how they are defining, assessing overseeing and guiding that culture to avoid the financial and reputational impacts of the past.

ACSI also identifies companies where remuneration structures and outcomes do not accord with investor expectations and seeks to encourage change.

GOVERNANCE – REMUNERATION AND BOARD ACCOUNTABILITY

Westpac Bank was the most high-profile of the 7 priority companies which announced succession plans following engagement on board and management accountability.

Structural improvements in executive remuneration were made in 27 priority companies including higher hurdles, reduced quantum and improved alignment with long-term investors.



CLIMATE CHANGE

ACSI made significant progress in 2019 through engagement with our 20 climate change priority companies. ⁴

Material improvements were made by 18 priority companies during the year. As company reporting has improved under ACSI's scrutiny, we have refined our approach from advocating in 2017 that companies adopt the TCFD framework, to working with companies on setting detailed objectives, based on their reporting so far. That has allowed us to accelerate the pace of change by pushing companies towards best practice reporting and management of climate risk.

In each meeting, companies make it clear that the leverage and voice of ACSI members are core drivers for change in all our priority companies, with several adopting the TCFD framework because ACSI and our members were asking.

As the climate challenges grow in this new decade, ACSI and its members can demonstrate clearly the significant impact engagement has had (and will continue to have) on company behaviours and practices.

WHAT WAS ACSI SEEKING?

Over the year we sharpened our focus to consider more critically how boards are managing and mitigating climate change risks and opportunities and how this is reported to investors in a meaningful way.

Our objectives for each company were bespoke, depending on where they were along the journey of TCFD reporting, and the level of sophistication employed for climate risk within the business.

18 of ACSI's 20 priority companies made material progress

For those whose climate reporting is more mature, objectives included one or more of the following:

- Undertaking transition-risks analysis by modelling their resilience against well-below 2-degree Celsius scenarios and articulating how their corporate strategy and assets are economically viable in a carbon-constrained world.
- Assess and undertake a physical-risk analysis (compliant to the IPCC RCP 8.5) for assets in different geographical regions or, for insurers, their exposure to underwritten assets and impacts on premiums.
- Begin to set emissions reduction and efficiency targets for short and medium-term timeframes, with the view of achieving 'net zero' emissions by 2050. We are also pushing companies to provide a narrative on their decarbonisation pathway after 2030.
- Disclose commitments for 2020 on what the company plans to deliver, or build on, regarding their climate-related disclosure.

Additionally, for a subset of companies, we engaged on the need:

- For companies with workforces that will be impacted, to explain their approach to a 'just transition' with a focus on their strategic planning, assistance for displaced workers and commitment to stakeholder engagement.
- To assess and disclose their industry-associations memberships and how those associations' policies and advocacy activities align with, or deviate from, the company's stated positions and objectives.



BOARD DIVERSITY & RENEWAL

ACSI has always believed that more diverse boards perform better – a view recently supported by one of the world's leading investment banks, [Goldman Sachs](#).

A decade of escalating engagement to improve board gender diversity saw representation of women on ASX200 boards finally break through the 30 per cent barrier in mid-2019.

Thirty four of our priority companies for greater gender diversity appointed women directors after an intensive engagement program.

ACSI's recent work prioritised ASX200 companies with zero and one-woman boards, as well as the ASX201-300 with zero women.

This was one of ACSI's most successful campaigns, resulting in 75 meetings – many companies engaged for the first time, enabling us to discuss a range of ESG issues important to our Members.

ARB Corporation welcomed its first woman to its board table in 30 years as a public company, appointing Karen Phin as a director of the off-road vehicle accessories group.

More than half of the women appointed in 2019 were new to the ASX200 director pool, undermining assertions that these boards are only appointing from the current group of women directors.

Leading company boards are searching deeper and wider for appropriate talent to steer their companies over the longer term, rather than falling back on old networks or 'name' directors.

While **ACSI did recommend votes against the elections of 16 directors on diversity grounds**, there were also a significant number where boards gave us sufficient commitment about planned appointments.

FOCUS AREAS FOR 2020

We will re-engage to ensure timetables and promises are kept, as well as pursuing remaining companies with poor gender representation at board level.

WOMEN APPOINTEES AT PRIORITY COMPANIES

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Boards appointed their first woman to the board.

AMA Group (Nicole Cook)
ARB Corporation (Karen Phin)
Arena REIT (Rosemary Hartnett)
HUB24 (Ruth Stringer)
Jumbo Interactive (Sharon Christensen)
Megaport (Naomi Seddon)
Money3 Corp (Kate Robb)
Polynovo (Robyn Elliott)
Ramelius Res. (Natalia Streltsova)
Sundance Energy (Judy Buie)
Syrah Resources (Sara Watts)

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Boards appointed their second woman to the board.

ALS Limited (Leslie Desjardins)
AMP (Andrea Slattery, Debra Hazelton)
Beach Energy (Sally-Anne Layman)
Bega Cheese (Patria Mann)
Bingo Industries (Elizabeth Crouch)
Brickworks (Robyn Stubbs)
BWP Trust (Alison Quinn)
Cleanaway (Samantha Hogg)
Corporate Travel (Sophie Mitchell)
Costa Group (Jane Wilson)
Credit Corp (Trudy Vonhoff)
GWA Group (Alison Barrass)
Independence Group (Kathleen Bozic)
Monadelphous Group (Sue Murphy)
Nanosonics (Lisa McIntyre)
Nearmap (Tracey Horton)
NextDC (Jennifer Lambert)
Northern Star Res. (Mary Hackett)
Perenti Global (Andrea Hall)
Regis Res. (Lynda Burnett)
Reliance W/wide (Christine Bartlett)
Seven Group (Kate Farrar)
Smartgroup Corporation (Carolyn Colley)



GOVERNANCE – REMUNERATION & CULTURE

Of the 37 companies on ACSI's 2019 radar over executive remuneration issues, 27 made substantial improvements to their remuneration practices after engaging with us.

Last year was still a record for 'strike' outcomes on remuneration votes – and that was in the year after Australia's banks set new records for shareholder protest votes over Royal Commission revelations.

Among the 17 strikes recorded, three were second strikes – **Westpac**, **Harvey Norman** and **NRW Holdings** – although none resulted in a board spill.

FINANCIAL SERVICES A WORK IN PROGRESS

Financial services companies remained high on ACSI's agenda, with many responding to investor and community concerns by making significant changes to their governance and remuneration structures.

Even after the Royal Commission revelations, companies in the sector were dogged by the emergence of further weaknesses – such as failures to comply with major transactions reporting laws.

Most prominent among them was **Westpac Bank** which was sued by regulator AUSTRAC over mishandling reporting of more than 23 million transactions.

Following engagement with ACSI and its Members, major changes to the board and senior executive team were announced, including the departures of both the Chair and CEO.

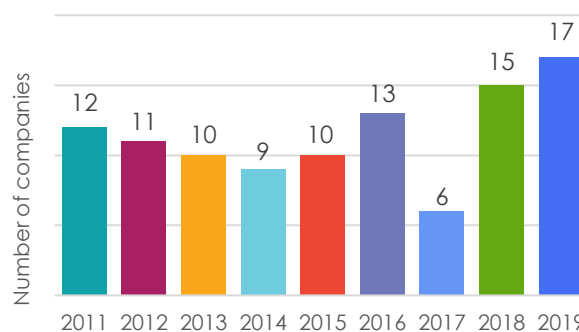
On his termination, departing CEO, Brian Hartzler, accepted a deal that would see him receive no bonus and forfeiture of all unvested incentives – a penalty potentially worth several million dollars.

Westpac's board has also withheld bonuses for other executives, pending the outcome of two independent reviews of its systems and practices leading up to the AUSTRAC litigation

CASH FOR DOING THE DEAL

ACSI has long opposed discretionary bonuses to executives, particularly when they relate to acquisitions, or asset purchases/sales, and are not measured against real value delivered to shareholders over the long term.

First and Second Strike Votes in the ASX200



We recommended a vote against significant cash payments at two of Australia's largest companies in 2019, each of them drawing votes of between 20 per cent and 30 per cent against.

WOOLWORTHS' RECORD UNDERPAYMENTS

Although not a priority under this year's remuneration priorities, supermarket giant **Woolworths** revealed late in the year that it had uncovered underpayments estimated to be as high as \$300 million which will have to be paid to lower level managers in its stores.

Following engagement, Woolworths has now publicly committed to 'zeroing' FY20 bonus payments for the CEO in 2020, and a 20 per cent fee reduction for the Chair, with potential for further consequences once its independent review is completed.

TOO MUCH, TOO MANY, TOO LONG

In its engagements, ACSI also discusses the roles played by individual directors, carefully weighing whether to support their elections.

Decisions to oppose a director are not taken lightly and we endeavour to meet with the individual to discuss our concerns and obtain their perspective before making a recommendation.

During the year we made recommendations 'against' or indicated to companies that we would have difficulty supporting the re-election of, a small number of directors.

Where we opposed a director's election it was most often because of their performance in a critical role at a company where investors suffered significant loss.

ACSI also looks closely at whether a director may have too high a workload, or is 'over boarded', and whether long service (more than 10 years) may impair their independence.



WORKFORCE

ACSI and its members have spent some time in the recent years developing a more sophisticated approach to assessing how companies are treating and valuing a key asset – their employees.

Much of this work has revolved around seeking better disclosure and assurances, not to mention quantified evidence, that leading companies are abiding by appropriate global benchmarks for human and worker rights – not just of their direct employees, but those of contractors and people in their supply chains.

Following our 2019 ESG Report, and its new work on how companies are reporting and managing **worker safety**, ACSI engaged with more than 20 companies which had reported fatalities in 2018 and 2019, seeking details on what happened, what the company had done as a result, and executive pay outcomes in the wake of these tragedies.

Assessing these issues has now become part of our priority engagement programs, not to mention research and policy work (e.g. ACSI is talking to the ASX about making fatality reporting mandatory for ASX-listed companies).

HORTICULTURAL WORKERS A FOCUS

ACSI held three meetings with **Coles Group** representatives in 2019 ahead of a shareholder resolution proposal at its AGM to improve its supply chain and human rights practices. The resolution received a strong 17% support.

Since 2015, ACSI has been engaging with a number of retail groups and others exposed to the use of labour hire operators providing services to growers and farmers in the horticultural industry. Coles, and its former owner **Wesfarmers**, were among those companies where we have sought improved disclosure and practices in ensuring direct and indirect suppliers adhere to global standards of payment and conditions for workers. ACSI and Members believe that there is significant reputational and financial risk in not having best-practice oversight of these issues.

During meetings with these groups, ACSI suggested that best practice would include robust independent auditing, and public reporting of actions taken to remedy supplier non-conformance.

UNDERPAYMENTS GO OVER THE TOP

Perhaps the most disturbing development of 2019 was how many of Australia's largest companies confessed to underpaying employees.

Australia's largest private sector employer, **Woolworths**, has revealed a record \$315m in staff underpayments.

More than \$500m of underpayments have been attributed to ASX-listed companies including **Wesfarmers** (in its Bunnings and industrial divisions), **Qantas**, **Super Retail** and **AP Eagers**.

Those revelations underline the importance of work done by ACSI and its members in the wage underpayments and employee rights areas.

FOCUS AREAS FOR 2020

ASX-listed companies will begin mandatory reporting this year under Australia's new Modern Slavery legislation.

During 2019, the advent of reporting and what companies were doing to prepare for it, was discussed in almost every company engagement.

ACSI has also been deeply involved in working with the Home Affairs department's unit responsible for administering the new law.

As part of its focus on workforce indicators, ACSI is undertaking research on how ASX200 boards measure and influence corporate culture, which will inform future engagements in this area.

The paper will compare Australia with examples of best practice from around the world. ACSI will identify priority companies across the spectrum based on the research outcomes observed by investors.

