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## **Annual Engagement Report to Clients 2011/12 (extract)**

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## 1 Annual report 2011/12

During the year to 30 June 2012, Regnan undertook 110 engagements, compared to 53 in the year to 30 June 2011. The proportion of this activity classified as dialogue was steady at around 30%. This more than doubling of activity has been enabled by utilising the expanded Regnan team, following integration of Monash Sustainability Enterprises, supported by a part-time engagement manager role. This approach has, in our view, enhanced the quality as well as the quantity of engagement; by utilising company, sector, and issue specialists.

### Engagement by format

	2011/12		2010/11	
Letter	34	31%	3	6%
Meeting	67	61%	40	75%
Teleconference	9	8%	10	19%
	<b>110</b>		<b>53</b>	

#### 1.1 How and who we engaged

Face to face engagement has increased (from 40 to 67), while teleconference has remained static. We attribute this positive development in part to having offices in both Sydney and Melbourne, providing greater facility for face to face meetings.

The high quantity of engagement at board level was maintained with 41 face to face meetings with directors in 2011/12 (2010/11: 26). Access to directors has improved noticeably, which we attribute to an appreciation of Regnan's constructive approach to issues of concern.

A large increase also occurred in engagement by letter. This is due to activity on a number of engagement themes applicable across multiple companies, being:

- ATI Alliance carbon tax media campaign (September 2011 quarter) - 10 entities engaged.
- Companies with declining climate change disclosure (March 2012 quarter) - 12 entities engaged.
- Externally managed trusts (June 2012 quarter) - 8 entities engaged.

In many cases, letter contact has led on to meetings. We view this as a highly effective way to progress such issues.

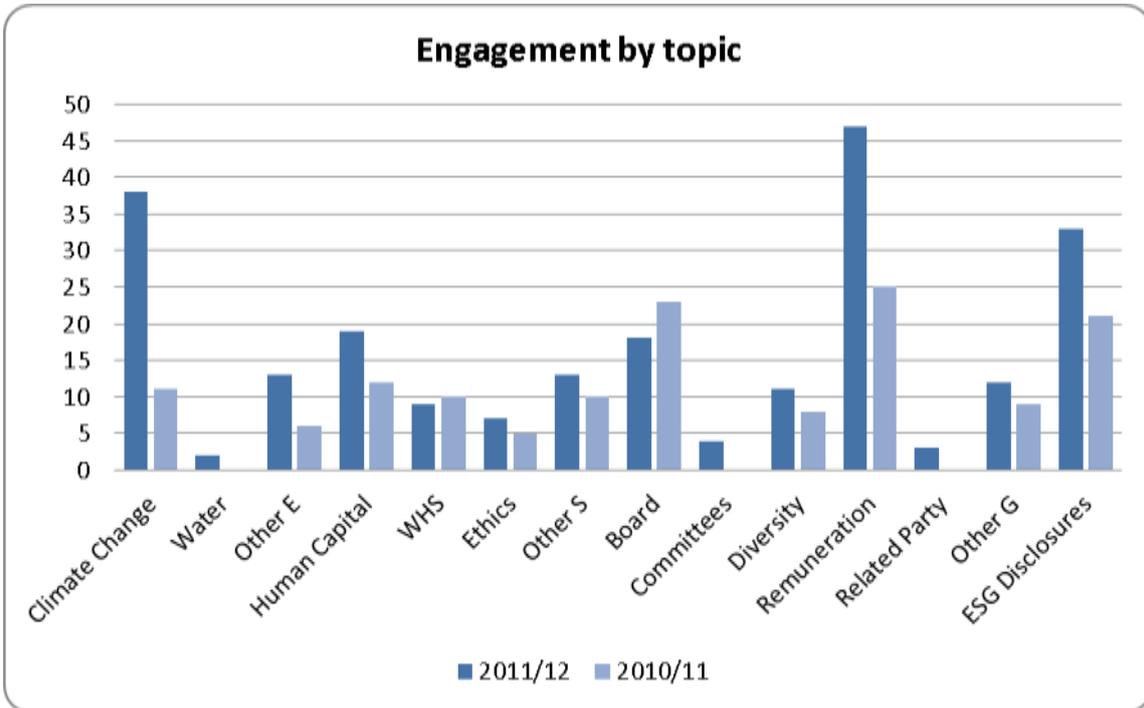
We engaged 67 listed entities (up from 34 the prior year) representing 57% of the market capitalisation of the S&P/ASX200 at 11 July 2012.

#### 1.2 What we engaged on

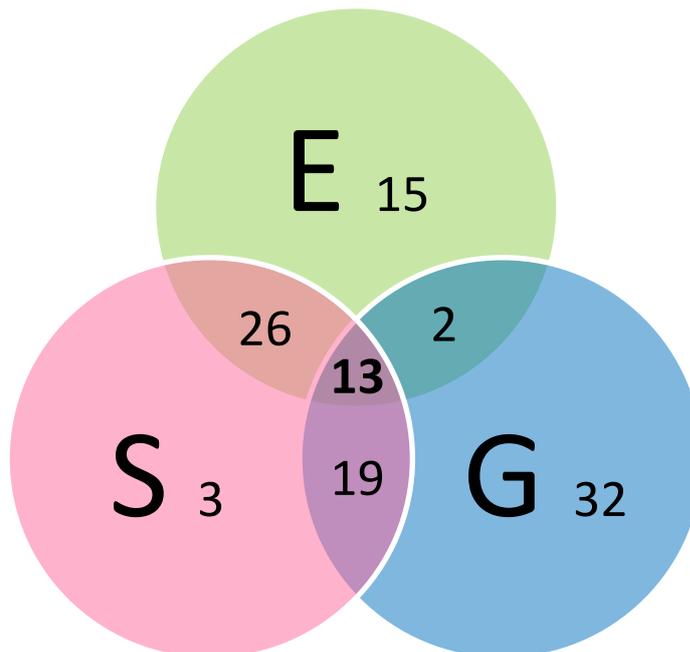
229 distinct topics were raised in engagement in 2011/12 (2010/11: 140).

Remuneration remained our number one topic for discussion, being raised in 47 engagements in 2011/12 (2010/11: 25) and grew slightly in share of all topics raised. Climate change grew significantly in total and share (being raised 38 times 2011/12 versus 11 2010/11), becoming the second most frequently raised topic in 2011/12. This reflects two key climate themes pursued in the period noted above.

ESG disclosure remained a key theme raised in engagement, maintaining its place as the third most frequently raised topic in 2011/12. Board declined slightly in absolute terms and share, while other topics remained around steady.



Corporate governance was the sole topic engaged on in 32 cases and environment in 15, whereas social risks were the sole topic on only three occasions. In 13 instances, topics across the ESG spectrum were raised.



### 1.3 Advocacy

Regnan appeared in the media 23 times during 2011/12, including television appearances, articles, and quotes, mostly in influential publications with national readership. A full listing is presented in appendix 1 and is published on Regnan's website.

Regnan also undertook a wide variety of other advocacy activities. Key submissions and activities are listed below.

#### Remuneration

Elevation of Regnan's concerns about current remuneration practices through:

- Two roundtable lunches held to explore common ground on the need for executive remuneration reforms. Attendees included company directors, asset owners and fund managers.
- Meeting with Ernst and Young to provide overview of Regnan approach to ESG and investor concerns regarding executive remuneration.
- Regnan provided a panellist to discuss investor concerns with executive remuneration at Ernst and Young's annual human capital forum.
- Regnan presented at a forum on remuneration hosted by AustralianSuper with around 15 funds attending.

#### Board composition

- Meeting with AICD to discuss approaches to improving diversity on ASX200 boards.

#### Unconventional oil and gas

- Regnan confirmed support for 'Extracting the Facts: An Investor Guide to Disclosing Risks from Hydraulic Fracturing Operations' ('fracking guide') and was successful in encouraging a number of clients to join in this support.
- Regnan raised awareness of investor concerns about ESG risks of unconventional oil and gas through international and domestic media coverage of Regnan's support for the fracking guide, including the AFR and Wall Street Journal 'market watch' website.
- Knowledge shared through Regnan's presentation on coal seam gas risk management to the UNPRI Australian Network Meeting.

#### Corporate influence

- Regnan made a submission calling for removal of the facilitation payments carve-out to the charge (under the Australian Criminal Code) of bribery of foreign official.
- Regnan reviewed and endorsed the ICGN's Guidelines on Political Lobbying and Donations, and ICGN's Model Contract.

#### Span of oversight/control

Regnan's position paper on corporate governance practices in externally managed trusts, co-signed by eight institutional investors, was published and sent to the boards of all listed trusts in the S&P/ASX200, effectively sustaining focus on the risks inherent with such structures.

### **ESG disclosure**

Regnan enhanced best practice ESG disclosure by:

- Contributing investor views on G4 sustainability reporting guidelines, an initiative of the Global Reporting Initiative.
- Providing feedback on the gap between investor needs and the current reporting of two ASX-listed participants in the Integrated Reporting Pilot Program.

### **Climate risk and general insurance**

Over the prior proposal period, we have pursued dialogue on climate risk and the general insurance industry, through which Regnan:

- Communicated the strong interest of investors in this area and the need for ongoing active response by insurers.
- Shared knowledge on current approaches and controls used to manage the physical and market risks of climate change.
- Promoted the role of insurers in contributing to the public debate on climate change mitigation and the Carbon Disclosure Project.

### **Other**

- Regnan addressed a plenary session of the Conference of Major Superannuation Funds (CMSF) about the importance of collaborative advocacy to systemic ESG issues alongside the chair of the UNPRI, the CEO of CBUS, a trustee of the UK's USS and the General Secretary of the International Trade Union Confederation.
- Regnan briefed Department of Finance officials on ESG issues in investment.

## Appendix 1: Media coverage July 2011 – June 2012

*Please contact us if you would like a copy of any of the articles mentioned below.*

- 'News Ltd launches internal inquiry', ABC1, Lateline Business, 21 July 2011
- 'Investors demand high standards', Australian Financial Review, 21 July 2011
- 'Scandal highlights governance worries', Australian Financial Review, 22 July 2011
- 'Centro directors hear convictions', ABC1, Lateline Business, 31 August 2011
- 'Investors vent anger at "injustice"', Australian Financial Review, 1 September 2011
- 'Supersize my salary', The Australian, 7 September 2011
- 'Executive scope too narrow', Australian Financial Review, 12 September 2011
- 'Recipe for CEO pay takes the cake', Australian Financial Review, 27 September 2011
- 'Industry funds mulling News Corp vote', Australian Associated Press, 30 September 2011
- 'Governance groups outraged by King's "over the top" payout', The Australian, 1 October 2011
- 'Super funds consider anti-Murdoch move', Sunshine Coast Daily, 1 October 2011
- 'Wesfarmers bid to lower bonus hurdle', The Australian, 6 October 2011
- 'Conflict questions raised as Ken Henry nabbed by major bank', ABC Radio: PM, 6 October 2011
- 'Argus slams exec pay critics', Australian Financial Review, 13 October 2011
- 'Investors weigh environmental, social risks of coal seam gas', The Sustainability Report, 4 November 2011
- 'Banks under fire over bonuses to bosses', ABC Radio: PM, 9 November 2011
- 'Only a few cash in', Sydney Morning Herald, 11 November 2011
- 'Crazy CEO pay needs to strike home', The Australian, 30 November 2011
- 'Time for talking over on executive gender equality', The Australian, 11 January 2012
- 'Investors want News board overhauled', Australian Financial Review, 3 April 2012
- Live interview on court findings that James Hardie directors breached directors duties, ABC News24, 3 May 2012
- 'Pension funds get nervous about CSG', Australian Financial Review, 18 May 2012
- 'Get HR on board', Australian Financial Review, 15 June 2012