Engagement Impact Report 2021

Issued August 2021

www.regnan.com

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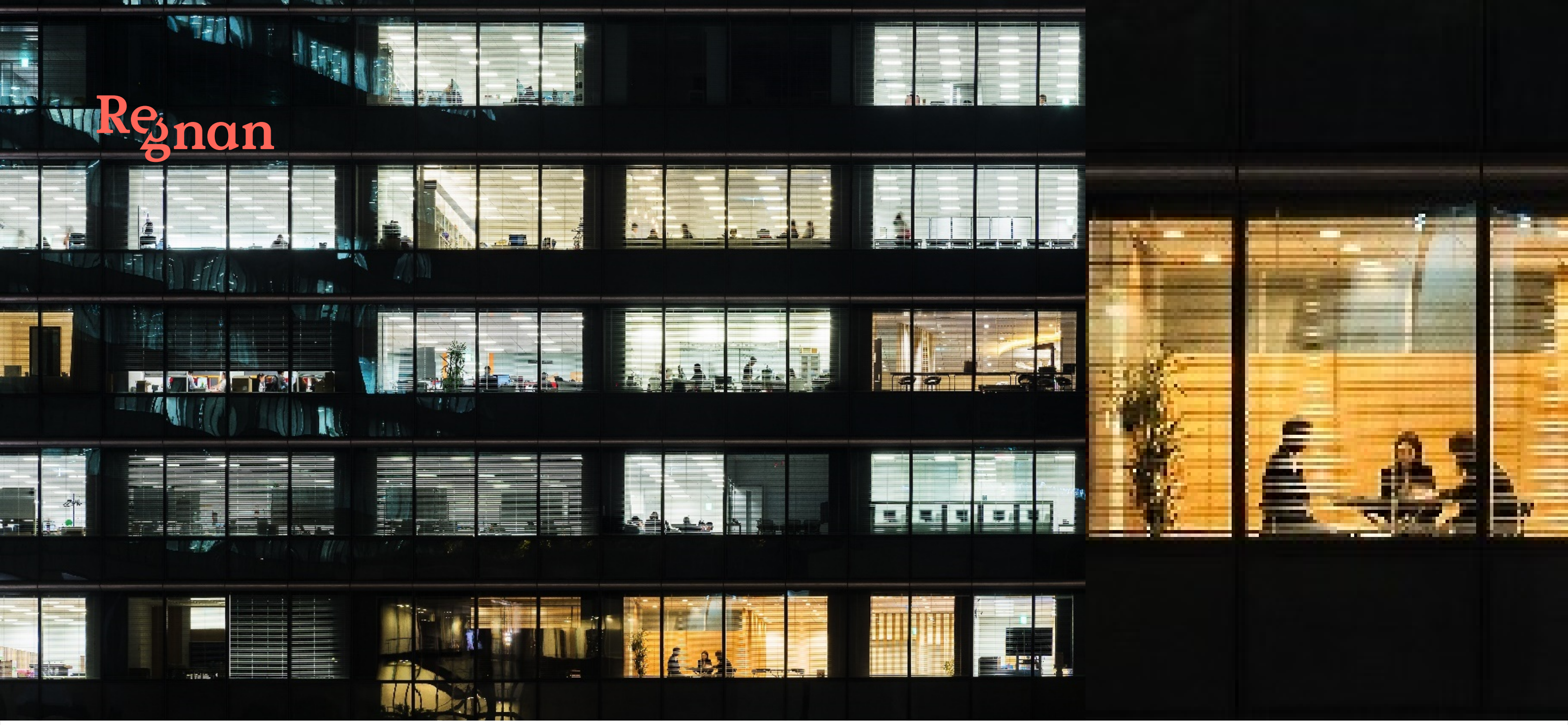

Contents

Regnan has a long and proud history of providing insight and advice to investors with an interest in long term, broad-based or values-aligned performance.

Since its inception, Regnan has grown into a globally recognised responsible investment leader. We support some of the world's most influential investors, investor networks and responsible investment initiatives.

Since 2019 Regnan has expanded into investment funds management. More information is available at www.regnan.com

The role of active stewards

Global events continue to reveal the interconnectedness of our world, shining a light on vulnerabilities within the system.

As discussed in this report last year, the pandemic has highlighted the need to consider interdependencies beyond the boundaries of portfolios. However, the need to consider interdependencies is equally true for many environmental, social and governance (ESG) issues – raising important questions about the role of finance in contributing to real world outcomes.

Building on our co-authorship of the Principles for Responsible Investment's (PRI) Active Ownership 2.0, we have sought to put this into practice ourselves, applying its core principles of outcomes common goals and collaboration, not only in our own work but by encouraging its adoption by the sector more broadly.

Our involvement in the PRI's follow up piece Making Voting Count sets out how these themes can be applied in the development and implementation of principles governing investor voting on shareholder proposals.

…Increasingly our engagement efforts are focused on areas of systemic risk…

Increasingly our engagement efforts are focused on areas of systemic risk. For instance, our research on sustainable agriculture identified the need for structural shifts in the sector if we are to meet the nutritional needs of a growing global population.

This is not an issue that can be solved by a single company in isolation and therefore our engagement efforts are focused on a range of participants throughout the value chain.

Collaborating for impact has always been a part our collective engagement model. This year has seen changes to the way we work with clients to further these aims, for instance jointly undertaking company engagements with HESTA on cultural heritage.

Moreover, is our work behind the scenes in support of our clients' own engagement and stewardship efforts – as 'critical friends' and collaborators. Our advocacy efforts have also sought to build capacity and encourage collaboration across the sector.

Details of these engagement and advocacy activities are included in this report. Further details on many of our key research themes are available on our website www.regnan.com/insights/

2021 highlights

Undertook collaborative engagement on cultural heritage

Introduced a series of detailed engagement guides to support clients' own engagement on a range of ESG topics

Co-authored the PRI's 'Making voting count: principles based voting on shareholder resolutions'

Released a dedicated report on our engagement on Modern Slavery

87

engagements

92%

of active engagements have demonstrated progress

57%

of companies engaged multiple times to secure change

51

Engagements discussed TCFD and climate risk management

An approach evolved over two decades

For twenty years we have engaged with S&P/ASX200 listed companies on behalf of our clients on a range of issues we consider to be 'unattended risks' – that is, issues that have the potential to materially impact the performance of specific investee companies over the long term and which may not be sufficiently managed.

Over this time it has become increasingly apparent that this means engaging both with those companies bearing the risks, but also those organisations contributing to them. We do this via engagement with listed companies and advocacy with those shaping the enabling environment, for instance, regulators.

When engaging with companies our approach is guided by the nature of the risks to the company's business model and context, the amount of progress already demonstrated, and an assessment of what a suitable response might look like – recognising that this may vary between companies, even within the same sector or facing the same issue.

To build the case for change in a manner that is best able to secure improvements, we meet with directors and company leaders as our primary engagement method. Ultimately we want the companies in which our clients invest to do well. It is therefore not in our interest to make unnecessary demands or denounce them publicly, nor to trigger superficial or tokenistic responses.

While we often share examples of leading practices or cite relevant case study examples, we do not typically prescribe how a company should go about addressing a specific issue. Our primary concern is that the underlying risk is managed in a way that best suits its operating context.

We engage to protect and enhance portfolio value through:

Clear objectives

Careful targeting of engagement objectives to outcomes that add value, to the company and/or in reducing systemic risk.

An outcomes focus

While we report our engagement activity to keep our clients well-informed, our focus is on assessing impact, defined as the extent to which risks have been mitigated and opportunities realised.

Collaboration

We regularly provide input to help shape the enabling environment (e.g. ASX guidelines, global disclosure frameworks and industry initiatives).

Our engagement process:

Identify target companies

Research-based assessment

Consideration given to the likelihood of change and whether the issue is being addressed by others (the 'additionality' of our perspective)

Set change objectives

Objectives set at thematic and stock level

Informed by deep knowledge of the company and ESG issues

Objectives address material risks

Constructive engagement

Two-way dialogue at board and/or senior management level

Not a 'chat' – targeted and outcomes-focused but not formulaic

A trusted sounding board that recognises the unique value drivers for that business and its broader role in the system

Track progress

Monitor for evidence of change

Focus on public evidence such as corporate disclosures and encourage peer to peer sharing to support continued gains

Impact achieved

Risks mitigated

Opportunities realised

Ongoing monitoring that change is sustained

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Year in review

We continued to increase our engagement on a range of social issues, building on our ongoing work on political lobbying and stakeholder relations. This includes, but is not limited to, relationships with customers, suppliers, Indigenous Peoples and the broader community to ensure companies have a full understanding of the context in which their decisions are made. This year also saw the implementation of a new mandate on cultural heritage (see page 13).

During the year we undertook 87 engagements with 44 companies. While an increase on the previous year, we also deepened our engagement, meeting with 57% of companies multiple times to secure the changes sought.

This meant that the proportion of meetings with management increased relative to those with the board as we sought meetings at multiple levels within the organisation to best build the case for change. This is important as the disclosure and management of issues like climate change mature, with effective engagement increasingly requiring more detailed and technical discussions.

Our primary method of engagement continued to be via one-to-one meetings (including via videoconference), representing 89% of all our engagements, up from 75% the prior year.

The remainder of engagements included detailed letters, active participation in ESG briefings or responses to company surveys seeking investor input.

The number of planned engagements, that is those sought on client-mandated objectives, was consistent with historical levels at 76%.

A quarter of the companies engaged were new to the current program, ensuring that we continue to refresh and expand our coverage and influence.

Expanding our coverage

While our engagement has traditionally focused on the S&P/ASX200, we are increasingly recognising the role of a number of these companies as issuers of bonds. As a result, we have expanded our activities to include the perspective of debt holders. This has included seeking enhanced ESG performance from issuers, as well as the quality of disclosure and performance within sustainability bonds issued by ASX200 companies.

Further, we have expanded our engagement to selected ASX300 companies where we have identified opportunities to engage with companies important to client portfolios. This occurs where these companies face material ESG risks for which there is a strong case for change, particularly as many of them grow.

87

engagements

44

companies

89%

engagement via meetings

57%

of companies engaged multiple times to secure change

50.2%

of S&P/ASX200 by market capitalisation covered in engagements

How do know if our efforts are successful?

Engagement is a means by which investors exercise the ownership rights they have in companies. High quality engagement provides a channel for a more nuanced, two-way exchange of views. Ensuring that this is done in an effective and targeted manner requires a robust framework by which to measure the impact of our actions.

Even when change has been secured, continued vigilance is required

We recognise that this is by no means a perfect science – we can't know what companies would have done if we had not engaged. But by acknowledging these challenges, we can begin to consider how to best address them.

Our focus in assessing our engagement progress (effectiveness) is the extent to which the underlying concerns have been addressed, and where possible the extent to which this can, in part, be attributed to our efforts.

Sometimes the company engaged will itself come back to us to provide an update on what it has done based on its discussion with us (and others), in which case the task of verification is easier. In other cases, we need to monitor closely for evidence of change and of our influence when judging the impact of our efforts.

In instances where an issue is more evolved or generally recognised by the market, numerous stakeholders may be approaching a company with whom we have engaged.

While we seek to identify issues early, meaning that we are often amongst the first to raise an issue, others may also have engaged before the change is evident. In these cases we consider four key questions:

1. How robust is the evidence of change?
2. How substantive was our discussion on the issue?
3. Is there evidence of our influence in the company's response?
4. How aligned is the company response to our engagement?

Even when change has been secured, continued vigilance is required – a change in management, strategic priorities or resourcing, may see issues resurface.

What do we mean by engagement impact?

In simplest terms, we are seeking to ensure that the engagement we undertake makes a difference.

It is therefore about the measure of Regnan's own impact, as distinct from the impacts of the companies themselves.

Despite setting a high bar by which progress is determined, we consistently secure in excess of three-quarters of active stocks in the program demonstrating progress against our pre-determined change objectives.

How do we know if our efforts are successful? (cont.)

Consideration 1:
Robustness of the claim

First, we establish whether progress has been made, considering whether the change is something the company claims privately or whether it has been disclosed publicly. How formal are the claims regarding the changes made? For instance, is it in a publicly available policy, or ideally within its own market disclosures supported by internal approval processes or external verification?

Consideration 2:
Substantiveness of the discussion

We look at how substantively we have discussed an issue with the company and consider whether the engagement was significant enough to have had influence. Although referencing an issue may have added weight to the work of others, this is not enough for us to consider ourselves as a meaningful contributor to the change.

Consideration 3:
Evidence of influence

We consider the information the company shared in response to our engagement at the time. Was it apparent that it was aware of the issue and was work already underway? If so, we consider whether our encouragement influenced the disclosure of these actions more broadly to the market and other stakeholders.

Consideration 4:
Evidence of alignment

We consider how aligned the company's response is to our engagement. Are the details consistent with our concerns/discussion? For example, did the company prioritise the components we highlighted as most material in their circumstances?

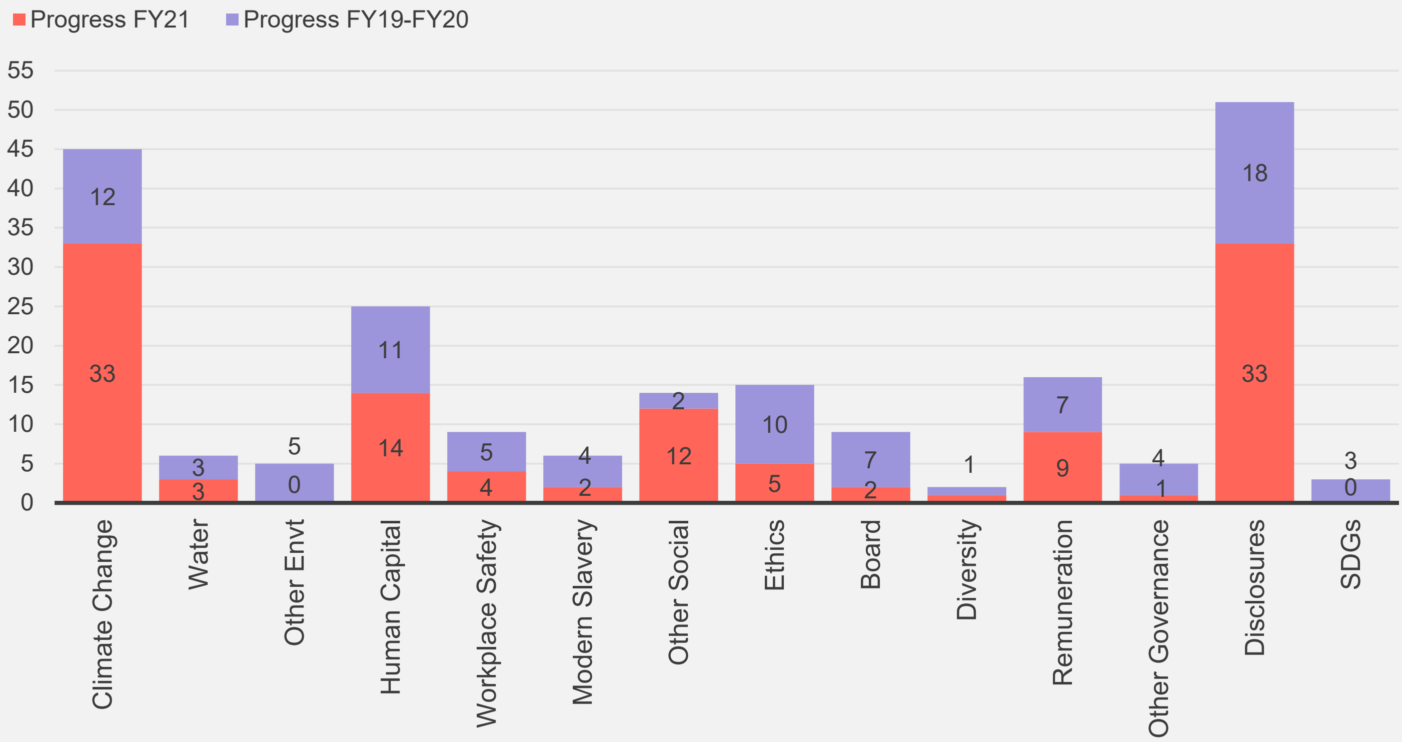
Summary of Regnan engagement impact 2021

Using the considerations detailed on page 8 and 9, we have measured progress for our current active engagements, defined as those where we have engaged with the company during the last three years.

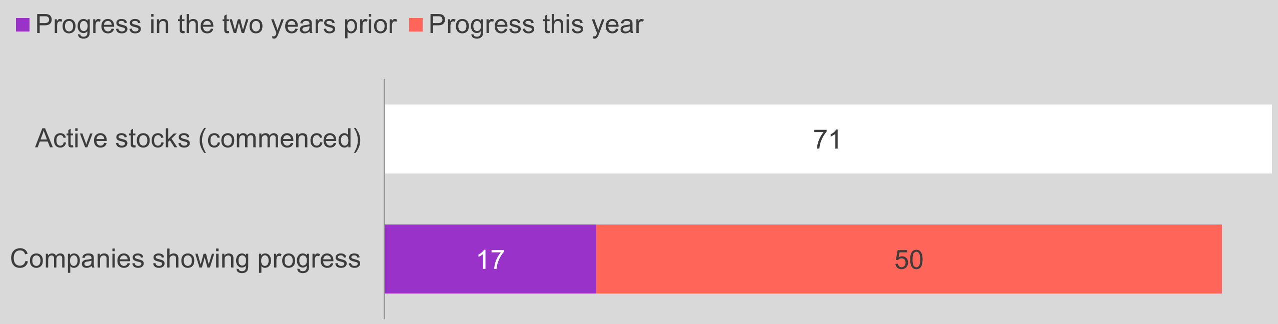
Progress is evident in our longstanding work on climate change, strategic human capital and remuneration. Our initial efforts on modern slavery other social issues such as political lobbying and stakeholder management are also evidencing progress.

Further highlights are provided from page 11.

Change evident following engagement - by topic | Year to 30 June 2021



Program Progress Summary | Year to 30 June 2021



The type of progress matters

While we have always been accountable to our clients for the impact of our activities, we have been working to increasingly make ourselves publicly accountable. In addition to reporting on the proportion of engagements showing progress, last year we also shared greater detail on the nature of this progress – whether it was strategic, related to oversight, procedures, policy or disclosure.

This year we also provide a more comprehensive update on our engagement by key themes and continue to explore how we might best convey the significance of the progress achieved, considering such things as how difficult the change was to secure and how material it is to value creation over the long term.

Examples of change evidenced by companies in FY21

Progress on strategy **6%**	Includes changes in strategic direction and/or business model in order to better manage ESG risks or realise ESG opportunities.	• Evidence of transition pathways supported by clear plans and targets • A more strategic focus on human capital, including learning and development programs that directly supports strategic execution
Progress on oversight arrangements **15%**	Includes structural governance enhancements as well as enhanced capacity and capabilities.	• Evidence that the monitoring of industry associations has expanded to consider lobbying activities undertaken 'behind closed doors' • Enhanced clarity of where and how discretion will be applied in remuneration • Greater evidence of the incorporation of ESG risks into core risk processes
Enhancements to policy **5%**	Includes new and/or enhanced policies as well as improved measurement and demonstration of their effectiveness.	• Evidence of a more nuanced approach to considering oil and gas as sector exposures • Continued enhancements to climate policy
Enhancements to risk management mechanisms **34%**	Includes new systems, training programs or approaches to address material ESG concerns. Progress supports the overall risk management of these issues.	• Reduced reliance on third party data in climate assessment with evidence of greater scrutiny by the end user of this information • Improvements in climate analysis to better understand the potential implications of physical risks
Enhanced disclosure **55%**	Information available to the market supporting integration into investment decision making and the identification of changes achieved via engagement.	• Enhancements to remuneration disclosure that support more effective scrutiny of short term incentive outcomes • Scenario analysis published for specific projects • Disclosure of the governance arrangements in place for Joint Ventures

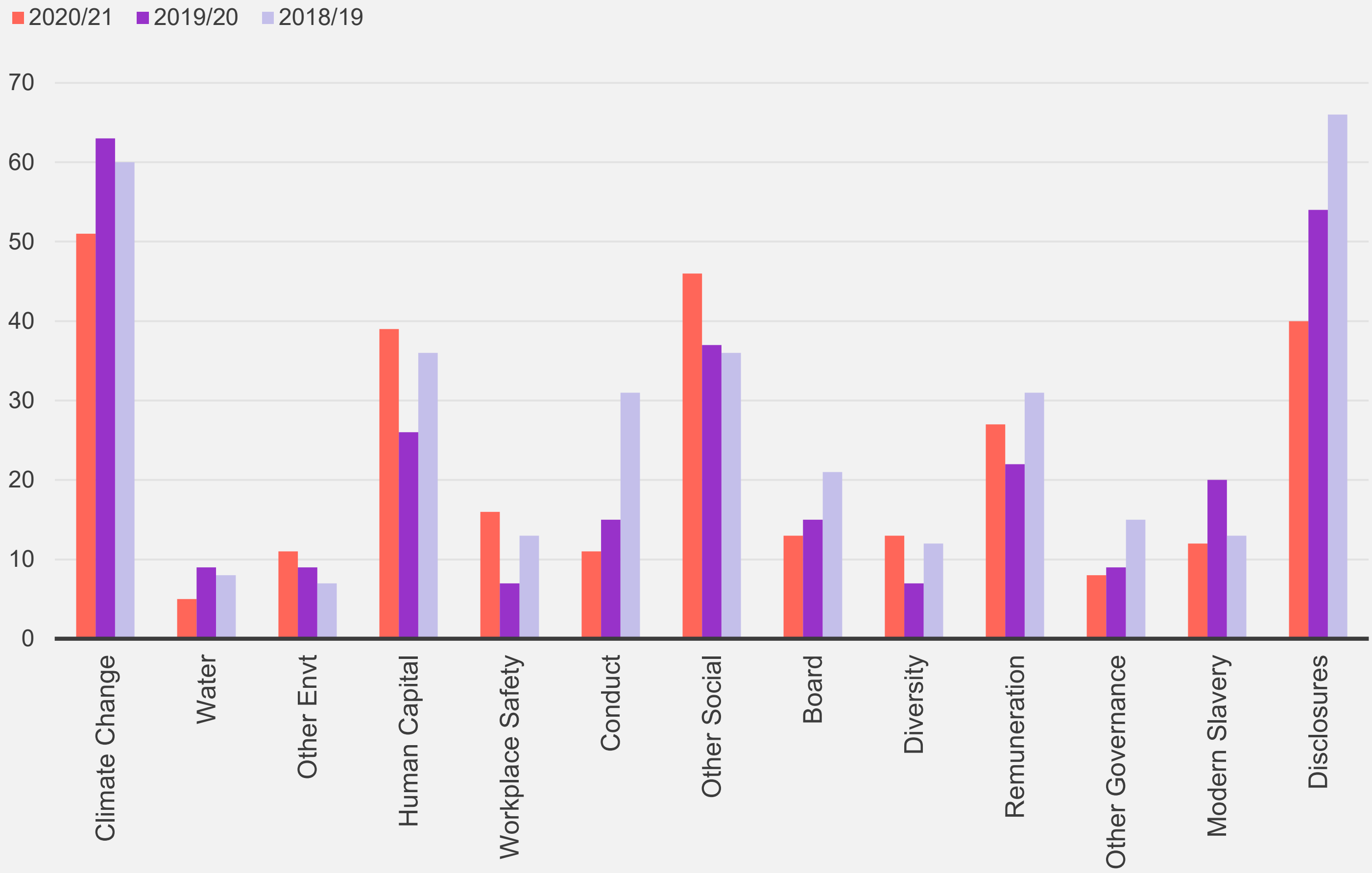
Progress and update on key engagement themes

This year we provide a more comprehensive overview of a number of the key themes of our engagement over recent years, including new engagements on cultural heritage and Indigenous relations as well as sustainable agriculture. Consistent with our approach, our engagement has prioritised those companies for which the issue is deemed most material.

Whilst the themes may be consistent, our approach remains bespoke. This means that the aspects of the issues emphasised and changes sought will vary according to the key business risks and strategy of the company, as well as the maturity of its current response.

The themes discussed in this report are not exhaustive, but provide an overview of many of our activities. As in previous years, we continue to engage on those issues identified as most material to individual companies and to client portfolios. In many cases, including on matters of corporate governance, these are highly bespoke.

Engagement by topic (3 year history)



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Update:

Cultural heritage and Indigenous relations

Summary of engagement

Rio Tinto's destruction of cultural heritage sites at Juukan Gorge has highlighted broader concerns around the management of cultural heritage as well as the relationships between companies and Indigenous communities. The focus therefore of joint engagement we have undertaken with Australian superannuation fund, HESTA, has been on other companies where these issues are likely to be relevant. This includes:

- For high land disturbance activities
- In regions where land disturbance has previously been low, increasing the likelihood of presence of cultural heritage sites
- Where regulatory regimes are not effective in balancing stakeholder priorities
- Where communities do not have strong property rights in traditional lands
- Legislative regimes are poorly aligned with global standards relevant to Indigenous Peoples, such as the principle of Free, Prior and Informed Consent (FPIC)

Initial engagement has revealed scope for enhanced practice across the extractive industry given the potential for ongoing reputational impacts on the sector as a whole.

2020

Engagement commenced

Companies engaged:

- Alumina
- BHP Group
- Evolution Mining
- Fortescue Metals Group
- Iluka Resources
- Mineral Resources
- Newcrest Mining
- Northern Star Resources
- Origin Energy
- Rio Tinto
- Saracen*
- South32

* Now merged with Northern Star Resources

Examples of publicly-evidenced progress consistent with Regnan engagement:

Given its early stages, a fuller assessment of progress will be made as companies make further disclosures of their activities. However, prior engagement, not directly under this thematic, has seen a number of companies better placed to respond to this issue given:

- An enhanced articulation and understanding of FPIC;
- Greater oversight of the public policy participation, including via industry associations.

Looking ahead our engagement will focus on:

- The efficacy of internal reviews, including attention to and insights from the Joint Parliamentary Inquiry into Juukan Gorge and involvement of traditional owner groups in reviewing company performance.
- Continued evolution of company approaches where gaps remain, for example the involvement of non-executive directors in engagement with host communities.
- Those companies well placed to lead the industry discussion and response on this issue, including via participation in public policy.

Additional considerations for active owners

Communities are also impacted by unlisted and global stocks. This means that concerns cannot be addressed by engagement with local listed players alone.

During the year we jointly hosted a session with The Investor Forum to provide an update on the issue to international investors, encouraging consideration not just of the Australian context but the broader applicability.

Active participation in legislative reform will also be important investor response to this issue.

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Update:

Sustainable agriculture

Summary of engagement

Following the release of our thematic research paper, Catalysing Sustainable Agriculture and Food Production, we have begun engaging with a number of companies involved in the agricultural value chain.

Initially this work has focused on building awareness and acknowledgement of the challenges presented from an expansion of existing agricultural and food production systems to meet the needs of a growing global population.

Recognising the need to produce more food, but in ways that are socially, ecologically and economically sustainable, will require a fundamental transition of current agricultural and food production systems. This in turn will require transformation of the types of food produced, the ways in which food is grown, and reconsideration of the vast quantities of waste generated by current agricultural and food production systems.

These require the consideration of soil health, land availability, waste, emissions and water intensity. Achieving these transformations is made more difficult by deepening climate change. Increasingly extreme weather will add to yield volatility, presenting adaptation challenges across multiple growing regions, reinforcing the need for greater attention and action on this issue.

Examples of publicly-evidenced progress consistent with Regnan engagement:

While it is too early to assess meaningful progress we were encouraged by the early consideration evident on aspects of this issue and frankness of our discussions regarding the extent of the challenges.

Looking ahead our engagement will focus on:

Our initial engagements have confirmed the presence of barriers to acting alone on this issue, confirming the need to engage not only with those companies directly involved in agricultural activities but also with those sectors for which agricultural activities are prevalent within their value chains. These include:

- Buyers of agricultural products, for instance food manufacturers and supermarket retailers
- Suppliers to agricultural companies, especially where these have direct links to the issues raised – both on the risks and opportunities side, for instance water solution providers and fertiliser companies
- Financiers and advisers to the sector, for instance banks and insurers with sizeable agricultural exposures or agronomy businesses

2021

Engagement commenced

Companies engaged:

Costa Group

Elders

Incitec Pivot

National Australia Bank

QBE Insurance Group

Woolworths Group

Additional considerations for active owners

The systemic nature of this issue means that momentum is likely to be dependent on the support and collaboration from key institutions, with limits to the impact of individual issuers acting alone. This means that effective intervention will encourage and potentially foster such collaborations.

Update:

Carbon and climate in financial services

Summary of engagement

Economy-wide exposures see the financial services sector exposed to almost all dimensions of climate-related risk. Initially our engagement sought enhanced disclosure of fossil fuel exposures and related risk management practices in order to determine stranded asset risk and prioritise future engagement.

As this became more commonplace, we expanded our engagement objectives in 2016 to seek analysis, disclosure and action on physical and systemic risks. Accordingly, we expanded our target companies to include insurers and selected diversified financials.

We continue to seek practices aligned with the latest science and market analysis to support the transition of the economy.

Examples of publicly-evidenced progress consistent with Regnan engagement:

- Detailed breakdowns of sector exposure, for instance between thermal and metallurgical coal
- More detailed positions on oil and gas exposure
- Inclusion of physical risk analysis and acknowledgement that these risks are likely to be priced in long before they materialise
- Inclusion of climate considerations in stress testing lending portfolios to inform risk appetite decisions
- Evidence of increased links to segment strategies, including the development of products to support climate resilience amongst retail customers
- Enhanced disclosure of the results of a company's engagement of its own clients

2013 **Engagement commenced**

Companies engaged:

AMP
ANZ Banking Group
Bank of Queensland
Challenger
Commonwealth Bank
Insurance Australia Group
Macquarie Group
National Australia Bank
QBE Insurance Group
Suncorp Group
Westpac Banking Corporation

Looking ahead our engagement will focus on:

- Evidence of more detailed consideration of physical and systemic risk to inform business decision making.
- Increased disclosure on the scenarios used for analysis (including details of relevant assumptions) to enable a more rigorous assessment of the work undertaken.
- Evidence of climate considerations in broader company strategy.
- Evidence of constructive contribution to public and political discourse based on the insights yielded from scenario and other analysis.
- The alignment of lending and investment activities with the Paris Agreement and the company's own public commitments.
- The extent to which the full range of climate-related risks and opportunities are actively monitored and embedded into decision making.

Additional considerations for active owners

Increasingly when discussing Paris alignment, we have challenged financial institutions to think not only about the date by which their own financing activities are considered Paris aligned, but the emissions that their current lending, investing and underwriting activities may be entrenching beyond a Paris aligned timeframe for achieving net neutrality, irrespective of whether they continue to finance.

This approach acknowledges the role of the finance sector in the system-wide changes required to avoid dangerous climate change and the systemic risks it would bring. It is consistent with the TCFD requirements for asset owners and mangers to manage climate risks at the **product and investment strategy level**, rather than simply within individual companies.

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Update:
Modern Slavery

Summary of engagement

Our initial engagement has focused on encouraging good practice examples early in the compliance regime to support continued improvements in company responses to issues of modern slavery. We encouraged companies to:

- Consider exposures beyond their supply chains where they are likely to be more material
- Plan for what to do when modern slavery is identified, given the heightened risks to both companies and individuals at this time
- Use both formal and informal mechanisms in effective detection of modern slavery
- Consider both the risks to the rights-holder and to the company
- Prioritise impact over disclosure
- Act to reduce the risk of people becoming modern slaves from the outset

Further details of our engagement are set out in a separate summary report available on our website.

2018 **Engagement commenced**

Companies engaged:

Adairs	Oil Search
BlueScope Steel	Qantas Airways
Coles Group	QBE Insurance Group
Coca-Cola Amatil	Ramsay Health Care
Costa Group	Rio Tinto
Evolution Mining	Sandfire Resources
Fortescue Metals Group	South32
GPT Group	Suncorp Group
Lendlease Group	Sydney Airport Holdings
Macquarie Group	Tabcorp Holdings
Medibank Private	Wesfarmers
Monadelphous	Westpac Banking Corporation
National Australia Bank	Woolworths Group

Examples of publicly-evidenced progress consistent with Regnan engagement:

- More formal recognition of the material risks associated with modern slavery, for instance the inclusion of labour arrangements as a material risk in mainstream filings and evidence of enhanced oversight.
- Enhanced acknowledgement of the role of companies in helping people become less vulnerable to modern slavery from the outset.
- Improvements in a company's supplier screening processes to address the limitations of formal grievance mechanisms by offering alternate methods to gather the views of the employees of its suppliers. This was implemented after we raised concerns in our discussions with the company.

Looking ahead our engagement will focus on:

As more statements become available, we will prioritise our engagement on those issues and sectors where we have more specific concerns, drawing on better practice examples to encourage continued improvement.

We will also explore opportunities to work collaboratively with listed companies to support real world improvements for those subjected to modern slavery.

Additional considerations for active owners

There is much in the area of effective action of modern slavery that can be considered pre-competitive, making it an area with significant potential for collaboration.

This is true for collaborations within the financial sector but is also true for the potential to collaborate with investee companies as well.

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Update:

Conduct culture

Summary of engagement

There has been a significant increase in awareness and acceptance of the role of boards in overseeing conduct culture since our engagement formally commenced in 2015, three years prior to the Royal Commission into Misconduct in the Banking, Superannuation and Financial Services Industry and APRA's cultural self-assessment requirements.

As a result, our engagement has been able to move on from arguing the case for enhanced board oversight (a significant feature of our early work on this topic) to methods for the proactive identification of conditions that elevate conduct risk and how they are overseen.

Examples of publicly-evidenced progress consistent with Regnan engagement:

- Oversight responsibilities for conduct included within the board charter and charters of relevant subcommittees
- Enhanced disclosure of the activities undertaken, including whether these activities have been overseen by the board
- Enhanced monitoring and disclosure of breaches and resultant actions
- Evidence of increased board attention to ethical dilemmas, coupled with enhanced disclosures
- Specific enhancements to the Code of Conduct
- Evidence of actions to address root causes of cultural issues related to conduct

2015 Engagement commenced

Companies engaged:

AMP
ANZ Banking Group
Bendigo and Adelaide Bank
Challenger
Commonwealth Bank
Estia Health
G8 Education
Insurance Australia Group
IOOF Holdings
Japara Healthcare
Macquarie Group
National Australia Bank
Origin Energy
Perpetual
QBE Insurance Group
Regis Healthcare
Rio Tinto
Suncorp Group
Tabcorp Holdings
Telstra Corporation
Virgin Money UK
Wesfarmers
Westpac Banking Corporation
Woodside Petroleum
Woolworths Group

Looking ahead our engagement will focus on:

Given the focus on the financial services sector post the Royal Commission, we will continue to direct our engagement to those sectors with similar underlying characteristics where conduct risks are also likely to be elevated.

Many of the recommendations and observations within the Commission's final report are equally relevant to a host of other sectors where we will encourage that the lessons of the financial services sector can be learned. For instance: the treatment of vulnerable customers; the extent to which customers understand complex contract arrangement (especially over multi-year periods); misalignment between conduct and employee incentives; the use of intermediaries; and the role of lobbying in establishing rules that are not in the best interests of the customer.

Additional considerations for active owners

In addition to conventional ethical controls, conduct culture should be considered within the context of organisational culture more broadly, with implications for the quality of human capital management, including by amongst middle management.

Attention to other relevant areas of human capital management including wellbeing, diversity and inclusion can become compromised where financial and other pressures tighten.

Update:

Strategic human capital

Summary of engagement

While human capital has become more material with the growing prevalence of service-oriented companies on the ASX200, its disclosure has lagged other areas of ESG. As a material strategic issue shaping intangible assets such as organisational culture, capabilities and strategic execution, we have sought enhanced board oversight, interrogating enhanced internal and external reporting. Similar to conduct, we have observed increased board acceptance of the need to oversee the management of organisational culture and talent.

2015 **Engagement commenced**

Companies engaged:

Adbri (formerly Adelaide Brighton)
AGL Energy
AMP
Alumina
Ansell
ANZ Banking Group
Bank of Queensland
Bendigo and Adelaide Bank
BlueScope Steel
Challenger
Cochlear
Commonwealth Bank
Coles Group
CSL
Elders
Fortescue Metals Group
Gold Road Resources
Healius
Insurance Australia Group
IOOF Holdings
Lendlease Group
Macquarie Group
Medibank Private
Monadelphous
Myer Holdings
National Australia Bank
NEXTDC
Origin Energy
Oil Search
Qantas Airways
QBE Insurance Group
Ramsay Health Care
Sonic Healthcare
South32
Suncorp Group
Tatts Group (now merged with Tabcorp)
Tabcorp
Telstra Corporation
Vocus
Westpac Banking Corporation
Worley Parsons

Examples of publicly-evidenced progress consistent with Regnan engagement:

- A more strategic focus on the development of digital skills and capabilities in support of strategic execution.
- Enhanced recognition of the strategic contribution of strategic human capital, including disclosure of associated risks to the market.
- Change management and strategic human capital management skills brought onto on the board.
- Evidence of greater board oversight, as evidenced by changes to board charters and committee structures.
- Expanded disclosure of employee metrics, providing greater insight into human capital performance.

Looking ahead our engagement will focus on:

Engagement under this thematic has largely been closed. We will continue to monitor how effectively oversight is exercised with objectives to be pursued on a case by case basis. This includes where strategic human capital supports the achievement of other strategic change objectives, for instance supporting transition under our engagement on new energy.

Additional considerations for active owners

Companies and investors alike are also keen to point to the business case for diversity. This provides an opportunity to engage on the disclosure of the tangible (and intangible) benefits realised by organisations from improvements in diversity, equity and inclusion (DEI) as well detailing the work underway to create inclusive cultures more supportive of the realisation of these benefits in the future. Further details can be found in our 2021 research paper Beyond diversity: equity and inclusion as an overlooked opportunity for investors.

Update:

Physical risks of climate change

Summary of engagement

As emissions reduction activities continue to fall short of what is required to mitigate climate impacts, adaptation to these changes can no longer be left as an issue for the long term. Decisions are already being made on infrastructure built today that will need to withstand different conditions. Nearer term, impacts are evident in sectors such as agriculture and aquaculture with implications both for these businesses and those with exposure to them via their value chains.

Our own research has identified more than a third of the ASX200 as having elevated exposure to the physical risks of climate change, with the potential to impact financial performance over the short to medium term.

Despite this, initial climate scenario analysis has typically focused on transition risk, potentially stalling adaptation efforts. While we have seen some improvements in recent years, especially amongst companies we would consider to be high risk, opportunities remain for this analysis to be more granular and better embedded within company decision making.

2013 **Engagement commenced**

Companies engaged:

AGL Energy
Alumina
ANZ Banking Group
Aurizon Holdings
Australian Agricultural Company
Bank of Queensland
Bega Cheese
Bellamy's Australia
Bendigo and Adelaide Bank
BHP Group
Challenger
Commonwealth Bank
Coles Group
Costa Group
Fortescue Metals Group
Graincorp
Incitec Pivot
Macquarie Group
National Australia Bank
Newcrest Mining
NEXTDC
Nufarm
QBE Insurance Group
Rio Tinto
South32
Suncorp Group
Sydney Airport Holdings
Tassal Group
The a2 Milk Company
Treasury Wine Estates
Wesfarmers
Westpac Banking Corporation

Examples of publicly-evidenced progress consistent with Regnan engagement:

- Site by site assessments of environmental risks, including how these are expected to change as a result of climate change.
- Stronger recognition of the physical risk of climate change (evident in mainstream filings).
- Development of products to help clients become more climate resilient.
- Acknowledgement of the potential for supply chain disruption as a result of climate change and the need to manage this risk.
- Expansion of a company's physical risk analysis to consider interdependencies with surrounding infrastructure.
- A formal physical risk assessment undertaken at our prompting, revealing vulnerabilities in direct contrast with the assumptions the company conveyed in our initial meeting.
- Contract terms changed to transfer risks from climate events.

Looking ahead our engagement will focus on:

- Ensuring that physical risk analysis is undertaken at a sufficiently granular level and updated as more detailed information becomes available.
- Increased disclosure of the source data for analysis to enable a more rigorous assessment of the work undertaken.
- Confirming that the findings are well integrated business decision making.
- Encouraging greater consideration of risks within the value chain given interdependency risks.

Additional considerations for active owners

As highlighted by the pandemic, consideration of interdependency risks is key. However, they are often overlooked when considering physical risks, reinforcing the need for a systems approach.

A system-wide view also provides opportunities to identify the most cost effective options for adaptation, many of which may lie beyond the organisational boundary or can only be achieved via collaboration.

Regnan

Update:

New energy

Summary of engagement

There are a number of forces driving changes within the energy value chain beyond decarbonisation; the role of technology, regulation and reduced barriers to entry. All of which bring the potential for disruption.

Our interest is in the successful management of transition-related risks. This includes such things as the quality and frequency of supporting analysis and consideration of the human capital considerations required to respond to an increasingly uncertain market environment – all supported by disclosure that is useful to investment decision making.

Examples of publicly-evidenced progress consistent with Regnan engagement:

- Evidence of organisational commitment to transition supported by clear plans and targets to support meaningful progress.
- Increased ambition in medium term emissions reduction targets.
- Formal (rather than aspirational) goals in place for net neutrality.
- Enhanced resourcing to support effective analysis and action.
- Increased disclosure of scope 3 emissions and associated reduction targets.
- Evidence of enhanced governance of public policy participation, including that undertaken by industry associations.

2015 **Engagement commenced**

Companies engaged:

AGL Energy
Ampol (formerly Caltex Australia)
Beach Energy
Origin Energy
Oil Search
Santos
Spark Infrastructure
Woodside Petroleum

Additional companies engaged on stock specific mandates with links to these themes:

BHP Group
BlueScope Steel
Rio Tinto
South32

Looking ahead our engagement will focus on:

- Increased disclosure of milestones, metrics and/or targets to enable investors to track transition progress.
- Evidence that climate considerations are embedded within risk management, strategy and capital allocation with changes monitored appropriately.
- Appropriate responses to the International Energy Agency's (IEA) Net Zero by 2050 report.
- Greater attentiveness to the capacity and capabilities required for successful transition.
- Greater consideration of value chain emissions, including evidence of the underlying assumptions of how these are estimated.
- Evidence of constructive contribution to public and political discourse.

Additional considerations for active owners

Decarbonisation is evident within a number of companies within the energy value chain. However, where this has been achieved via divestment, it does little to progress the achievement of the Paris Agreement goals. By simply having these assets in the hands of a different operator, the climate risks still exist within client portfolios, most typically in the form of physical risks (see also page 19). It is only through technological and economic transformation that the Paris goals will be met and the associated risks of failure to meet the goals be mitigated.

This remains a dynamic area with new information requiring continual reassessment of risk and recalibration of responses, highlighted this year by the release of the IEA's Net Zero by 2050 report and the implications for the actions of companies and investors alike, especially where commitments have been made to align with 1.5ºC limits.

Regnan

The role of advocacy

Where there are structural issues impeding a company's or sector's ability to address ESG risks, we may also undertake broader advocacy work to address these.

This may include: discussions with regulators; participation in government and other consultations; bespoke research; and other forms of public commentary, including in the media.

This year that has included a focus on supporting the stewardship practices of others to enhance the number and quality of voices seeking change.

Focus on capacity building

In addition to the specific advocacy activities mentioned elsewhere in this report, we have focused much of our efforts on amplifying the messages of Active Ownership 2.0 published for PRI members in 2019 and co-authored by Regnan.

This has included participation in a number of PRI and other events, as well as podcasts and in media commentary.

It has also seen our involvement in the development of a follow up paper, Making Voting Count , highlighting how voting on shareholder proposals can support better stewardship outcomes.

More specifically on engagement, we have developed a series of tools to support enhanced practice, emphasising a focus on practices designed to deliver outcomes. This included a series of engagement guidance notes to support clients in their own engagement – helping to prioritise their efforts and constructively challenge the companies with whom they engage. We also facilitated a number of training sessions and workshops for practitioners, including as part of a series developed for members of the Investor Group on Climate Change.

What about when engagement fails or progress is too slow?

We will alert clients to instances where we think the achievement of engagement objectives would be best supported by the use of additional stewardship tools. For instance, by helping clients to align their public engagement (via voting) with our engagement discussions.

Where we judge that changes are unlikely to progress, we make these concerns known to enable clients to review their approach, including where they may have existing escalation frameworks in place.

We may also discuss our concerns with non-client investors, peers and other relevant stakeholders.

The volume of shareholder resolutions put to AGMs has increased in recent years, with a number now receiving sizeable support from investors.

During FY21 we provided perspectives on a range of proposals to assist in client voting deliberations. Each is reviewed on a case by case basis, typically involving engagement with both the company and the proponent, as well as drawing client attention to the relevant public commitments and frameworks that might influence their decision making.

Additional considerations for active owners

Making Voting Count sets out how investors can develop and apply high-level principles to govern their use of voting on shareholder resolutions.

It positions voting as a widely accessible complement to engagement. Rather than simply serving as an escalation tool, shareholder resolutions can also provide a vehicle through which unequivocal shareholder support for continued action can be communicated, including to affirm existing approaches in support of their continuation.

Regnan

Companies engaged during FY21

We met with 42 companies during the year

Adbri (formerly Adelaide Brighton)
Adairs
AMP
Alumina
ANZ Banking Group
Bank of Queensland
Bendigo and Adelaide Bank
BHP Group
BlueScope Steel
Challenger
Commonwealth Bank of Australia
Costa Group
CSL
Elders
Evolution Mining
Fortescue Metals Group
Gold Road Resources
Healius
Insurance Australia Group
Iluka Resources
Incitec Pivot
Macquarie Group
Mineral Resources
Monadelphous
National Australia Bank
Newcrest Mining
Northern Star Resources
Origin Energy
Qantas Airways
QBE Insurance Group
Ramsay Health Care
Santos
Saracen*
SkyCity Entertainment Group
Sonic Healthcare
South32
Suncorp Group
Tabcorp Holdings
Wesfarmers
Woodside Petroleum
Woolworths Group
Xero

* Now merged with Northern Star Resources

We wrote to 2 companies during the year

Beach Energy
Telstra Corporation

About Regnan

Regnan is a standalone responsible investment business division of Pendal Group Limited (Pendal). Pendal is an Australian listed investment manager and owner of the J O Hambro Capital Management Group. Regnan's focus is on delivering innovative solutions for sustainable and impact investment, leaning on over more than 20 years of experience at the frontier of responsible investment. "Regnan" is a registered trademark of Pendal.

The Regnan business consists of two distinct business lines. For funds issued outside of Australia, the investment management business is based in the United Kingdom and sits within J O Hambro Capital Management Limited, which is authorised and regulated by the Financial Conduct Authority and is registered as an investment adviser with the SEC. For funds issued and distributed in Australia, Pendal Fund Services Limited is the issuer and responsible entity. "Regnan" is registered as a trading name of J O Hambro Capital Management Limited.

Alongside the investment team is the Regnan Insight and Advisory Centre (Regnan Centre) team of Pendal Institutional Limited in Australia, which has a long history of providing services on environmental, social and governance issues. While the investment management team will often draw on services from and collaborate with the Regnan Centre team, they remain independent of the Regnan Centre team and are solely responsible for investment management.

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