2020

Engagement Impact Report FY2020

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Contents

Regnan was originally established to investigate and address environmental, social and corporate governance (ESG) related sources of risk and value for long term shareholders in Australian companies.

Its research is used in the company engagement and advocacy it undertakes on behalf of long term investors invested in S&P/ASX200 companies. As at 30 June 2020, these were BT and Advance Asset Management, Catholic Super, HESTA, Pendal Group, and Victorian Funds Management Corporation.

Regnan became wholly owned by Pendal Group in 2019. Further details of the systems in place to maintain its independence are available on the Regnan website.

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Reassessing the role of engagement

The events of 2020 have brought to the fore important questions regarding the role of corporate engagement. Locally the horror bushfire season, closely followed by the global pandemic and the global conversation on inequality highlighted by the Black Lives Matter movement, have shone a light on the importance of three key issues: capacity, resilience and interdependency.

Engagement has often sought assurances regarding capacity and resilience, as these are among the invisible assets that can receive too little attention when things are going well. This year has provided an opportunity to test and underscore the importance of these, from straightforward aspects such as director overcommitment, to more complex questions of maintaining an appropriate balance between efficiency and resilience.

…the pandemic has revealed the extent of interdependencies within our system…

The third, interdependency, requires us to think about both portfolio level risk as well as risks to the system itself. It is true that investors have long been aware of the risk ESG issues can present to the system – with climate change an often quoted example of this.

But the pandemic has also revealed the extent of interdependencies within our system, many of which lie beyond the boundaries of the portfolios in which we invest. For instance, the adequacy of research and development funding as well as the preservation of social assets and infrastructure, including the health system, are just some examples of what is required of a functioning system and are fundamental to the creation of shareholder value.

Likewise, we have been taking the opportunity to test how current events alter director perceptions of external stakeholders, given that the crisis has highlighted the interdependencies between firms and community interests.

While in many cases it is still too early to determine the full implications, these are questions we will be taking with us into the coming year and beyond.

During the year we co-authored with the Principles for Responsible Investment (PRI), 'Active Ownership 2.0: the evolution stewardship urgently needs' which explores many of these tensions. It questions how as an industry we might best act on the systemic challenges of greatest consequence to universal investors.

Crises present opportunities, opportunities to learn, but also to unlearn, and importantly, opportunities for change. We are seeking to evolve our own approach to engagement and stewardship practice to ensure we can best support our clients and optimise collaborative efforts to make the most of the opportunities presented.

In addition to providing an update on the activities undertaken during the past 12 months, this year's report also shares our early thinking on our future response.

2020 Highlights

Supported client decision making on 24 issues within shareholder resolutions

41 companies engaged

Co-authored the PRI's "**Active Ownership 2.0:** the evolution stewardship urgently needs"

54% of companies engaged multiple times during the year to secure change

Provided feedback on APRA's consultation on draft prudential standard CPS 511 Remuneration

96% of active engagements have demonstrated progress

33 engagements discussed **TCFD** climate risk disclosure

50% of S&P/ASX200 by market capitalisation covered in engagements

Engaged 20 companies on **Modern Slavery**

An approach evolved over almost two decades

We engage 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.

Increasingly this means engaging with both those companies *bearing* the risks, but also those organisations *contributing* to them. We do this via both engagement with listed companies and advocacy with those shaping the enabling environment, for instance, regulators.

In practice, whilst we may discuss similar issues with a range of 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.

Ultimately we want the companies in which our clients invest to do well.

We primarily raise these issues in meetings with directors and senior company leaders in order to constructively build the case for change. 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 might offer 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.

An outcomes focus

While we measure and report on engagement activity, 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 standards).

Our engagement process:

Identify target companies

Research-based assessment

Consideration given to propensity for change and whether the issue is being addressed by others ('additionality')

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

Recognition of unique value drivers for that business supports constructive engagement

Track progress

Monitor for evidence of change

Focus on public evidence such as corporate disclosures

Impact achieved

Risks mitigated

Opportunities realised

Ongoing monitoring that change is sustained

Year in review

83 engagements

41 stocks

54% companies engaged multiple times

50% of S&P/ASX200 by market capitalisation covered in engagements

75% engagement via meetings

40% board level

During the year we undertook 83 engagements with 41 companies. Although a smaller number of companies than in recent years, we met with 54% of them more than once during the year in order to secure the change objectives sought.

Our primary method of engagement continued to be via meetings (including via videoconference), representing 75% of all our engagements.

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, returned to historical levels at 76% following the implementation of a new mandate on modern slavery. Further, the technical nature of our modern slavery and climate scenario discussions saw the proportion of meetings with management increase relative to those with the board.

Increasing complexity of social issues
The last three years have seen a steady increase in engagement on a range of social issues including political lobbying, oversight of brand capital, issues of cultural heritage and stakeholder relations. This includes, but is not limited to, relationships with customers, suppliers, Indigenous peoples and the broader community to ensure an understanding of the context in which business decisions are made.

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

TCFD
The thematic engagement on climate change outlined on pages 13,17 and 18 has also sought enhanced disclosure consistent with the Task Force on Climate-related Financial Disclosures (TCFD) guidelines, raised in 33 meetings this year.

How do we assess whether we are successful?

Engagement is a means for clients to demonstrate their commitment to active ownership and stewardship. 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 measure what would have happened if we had not engaged. But by acknowledging the challenges, we can begin to consider how to best address them.

Our focus in assessing engagement progress (success) is the extent to which the underlying concerns have been addressed as well as 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 is easier. In other cases, we need to monitor closely for evidence of change 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. 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 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?
3. Is there evidence of influence?
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 concerns resurface.

What do we mean by "engagement impact"?

In simplest terms, we are seeking to ensure that the engagement we undertake makes a difference. By this we mean that our efforts contribute to the mitigation of ESG risks and realisation of ESG opportunities for the benefit of our clients.

It is therefore about the measurement of Regnan's own impact, as separate to the impacts of the companies themselves, or the impacts more commonly considered within impact investing, for example.

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 assess whether we 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 is that claim? For instance, is it in a publicly available policy or a formal statement to the market that has been 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 typically enough for us to consider ourselves as a meaningful contributor to the change.

Consideration 3: **Evidence of influence**

We consider the company's response to our engagement. 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. For instance, this has been the case in some of our strategic human capital engagements that identified activities were being taken, however the company had not considered these would be of interest to the market.

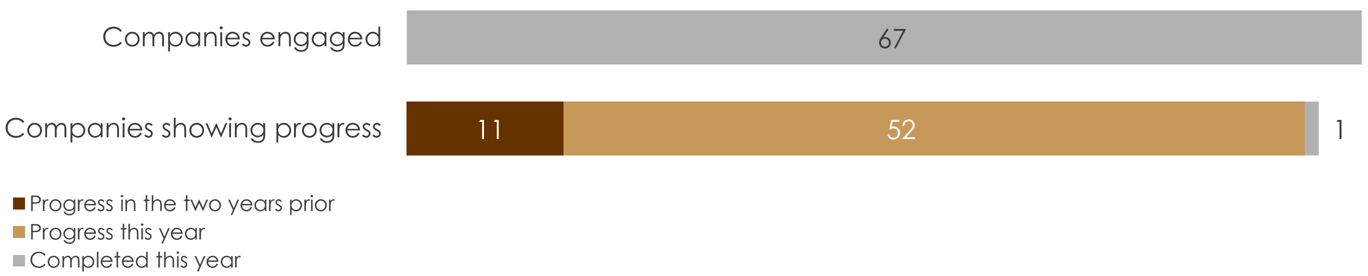
Consideration 4: **Evidence of alignment**

We consider how aligned the company's response is to our engagement. Are the details reflective of our concerns/discussion? For example, did the company advance its response to climate change on the aspects we raised as material? Where there were activities already underway, have there been changes to its approach consistent with our discussion? For instance, to the type of indicators used or changes within the supporting governance frameworks.

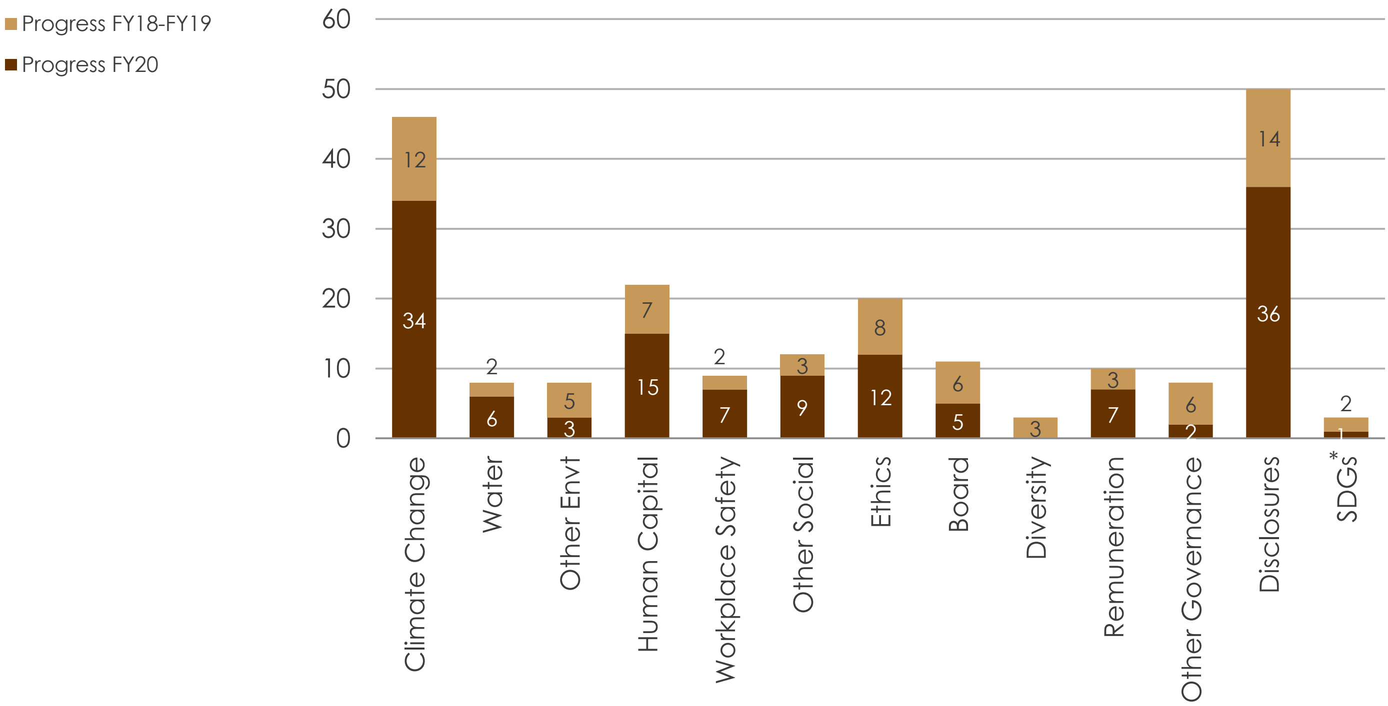
Summary of Regnan engagement impact 2020

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

Program progress summary | Year to 30 June 2020



Change evident following engagement - by topic | Year to 30 June 2020



* Refers to engagement on the SDG framework itself. Engagement on the underlying goals is included within the relevant topic area, for instance water or diversity.

SUSTAINABLE DEVELOPMENT GOALS

Focusing on SDG impact

We have continued to engage on both the Sustainable Development Goals (SDGs) framework and specific goals. Our focus has been on encouraging companies to consider not only the areas where business activities align positively with the goals, but to also consider where the key activities of the business may negatively impact the goals, providing an additional lens through which to view risk.

This is consistent with our focus on impact, with our interest lying much more in the potential for additional progress against the goals rather than considering how pre-existing activities may align with them.

The type of progress matters

While we have always held ourselves to account 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 FY20
Strategic progress 6%	Includes changes in strategic direction and/or business model in order to better manage ESG risks or realise ESG opportunities.	• Diversification in order to manage risks from the physical impacts of climate change • A more strategic focus on people strategy, including how it directly supports strategic execution
Oversight progress 16%	Includes structural governance enhancements as well as enhanced capacity and capabilities.	• Explicit inclusion of oversight of culture and stakeholder relations in board charters • Addition of climate change capabilities • Evidence of company influence on its industry association's position on an emerging social issue
Policy progress 3%	Includes new and/or enhanced policies as well as improved measurement and demonstration of their effectiveness.	• Development of an anti-bribery and corruption policy • Enhancements to whistleblower policy following Regnan raising that the previous policy did not comply with legislative changes
Procedural progress 25%	Includes new systems, training programs or approaches to address material ESG concerns. Progress supports the overall risk management of these issues.	• Stakeholder management expanded to specifically consider the *quality* of stakeholder relationships rather than simply seeking feedback • Enhanced process for water assessments to more explicitly consider water quality and availability
Disclosure progress 50%	Information available to the market supporting integration into investment decision making and the identification of changes achieved via engagement.	• Additional context provided to a fossil fuel company, skeptical of TCFD reporting, contributed to it releasing its first report • Sharing of WHS materials with other industries and local governments to reduce overall risk • Enhanced disclosure of the physical risks of climate change

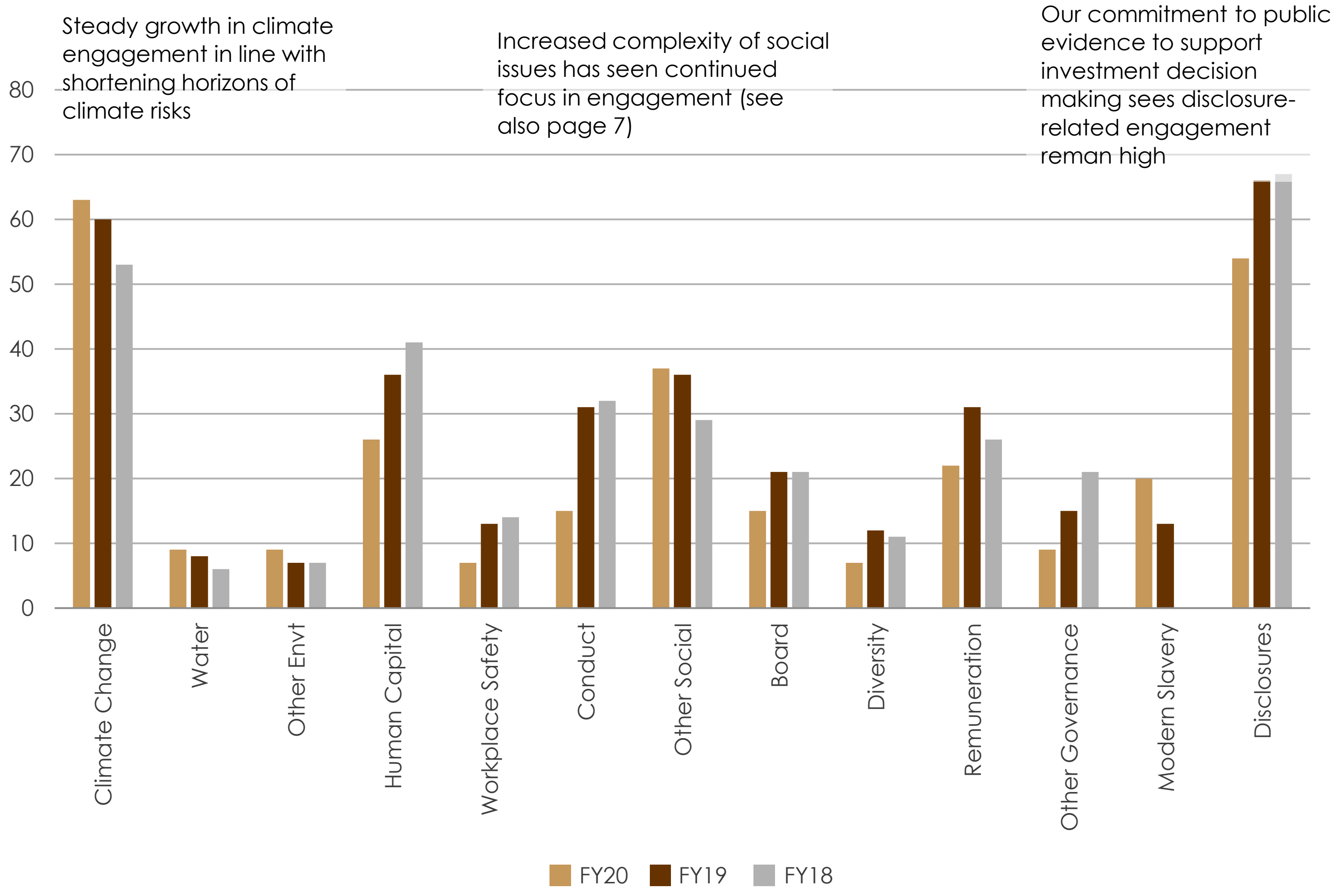
Progress and update on key engagement themes

This year we provide a more comprehensive overview of a number of the key themes of our engagement over recent years. Consistent with our approach, our engagement has prioritised those companies for which the issue is deemed most material.

Whilst many of the themes are 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. In many cases, including on matters of corporate governance, these are highly bespoke.

Engagement by topic



Update: Carbon and climate in financial services

2013

Engagement commenced

Companies engaged:

AMP Ltd
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

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 practice in order to determine stranded asset risk.

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

Examples of publicly-evidenced progress consistent with Regnan engagement:

- Expansion of fossil fuel exposure data beyond project finance to all lending
- Disclosure of detailed breakdowns of exposure within the energy, resources and related sectors
- Inclusion of physical risk analysis, including for high risk sectors, and acknowledgement that these risks are likely to be priced in long before they materialise
- Inclusion of climate considerations in portfolio stress testing
- Evidence of increased links to segment strategies, supported by detailed analysis

Looking ahead our engagement will focus on:

- More detailed consideration of physical and systemic risk
- 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, including potential opportunities within priority segments
- Evidence of constructive contribution to public and political discourse based on the insights yielded from scenario analysis
- The extent to which lending and investment is aligned with the Paris Agreement and the company's own 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 what activities their current lending, investing and underwriting activities may be enabling today. This is especially relevant where this may entrench activities that have productive capacity beyond a Paris aligned timeframe for achieving net neutrality. This is consistent with the TCFD requirements for asset owners and mangers to consider climate risks at the **product and investment strategy level**, rather than simply within individual companies.

Update: Modern Slavery

2018

Engagement commenced

Companies engaged:

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

Summary of engagement

With the first reports under the Modern Slavery Act due this year, engagement has focused on encouraging good practice examples early in (and even prior to) the compliance regime to support continued improvements in company responses to issues of modern slavery. This has included:

- Promoting considerations beyond supply chains where they are likely to be more material.
- Encouraging companies to think through in advance what they would do if they were to uncover instances of modern slavery. This can be a time of high risk for the individual and the company and requires access to appropriate expertise to minimise the risks of unintended consequences.
- The role of both formal and informal mechanisms in effective detection of modern slavery.
- Ensuring that companies consider both the risks to the rights-holder and to the company.
- Encourage a beyond compliance approach that emphasises impact over disclosure.

Examples of publicly-evidenced progress consistent with Regnan engagement

Given its early stages, a fuller assessment of progress will be made as companies release their next, and for many their first, disclosures. Already we have seen:

- Labour arrangements now included by a company as a material risk in mainstream filings with evidence of enhanced oversight
- Some enhanced discussion of the role of companies in helping people become less vulnerable to modern slavery from the outset

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.

Additional considerations for active owners

As many of our clients will themselves be preparing modern slavery statements, we have drawn their attention to better practice examples via our regular client reporting to help support them in developing their own responses.

This is in addition to engaging in a way that seeks meaningful change on their behalf and on behalf of those experiencing modern slavery.

Update: Conduct culture

2015

Engagement commenced

Companies engaged:

AMP Ltd
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
Perpetual Ltd
QBE Insurance Group
Regis Healthcare
Rio Tinto
Suncorp Group
Tabcorp Holdings
Virgin Money UK PLC
Wesfarmers
Westpac Banking Corporation
Woodside Petroleum
Woolworths Group

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. This has been driven by increased interest from a range of stakeholders, including investors, but also regulators, government and the community at large. This has been most notably examined during 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 how this might be best discharged. This includes the proactive identification of the conditions that may give rise to elevated conduct risk and how the effectiveness of this oversight is assessed and disclosed to the market.

Examples of publicly-evidenced progress consistent with Regnan engagement:

- Specific inclusion of oversight responsibilities within the board charter and relevant subcommittees
- Enhanced disclosure of the activities undertaken or reviewed by the board relating to conduct
- Enhanced oversight mechanisms and consideration of the role of remuneration and the potential for mixed messages on conduct within the organisation
- Enhanced monitoring and disclosure of breaches and resultant actions
- Evidence of increased board attention to ethical dilemmas, coupled with enhanced disclosures
- Specific policy enhancements, including Code of Conduct and Whistleblowing

Looking ahead our engagement will focus on:

Given the focus on the financial services sector post the Royal Commission, we will 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); connections between conduct and reward; 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 within middle management), wellbeing, diversity and empowerment.

Attention to these can become compromised where financial and other pressures tighten; a tension between cost-efficiency and resiliency.

Update: Strategic human capital

2015
Engagement commenced

Companies engaged:

AGL Energy
AMP Ltd
Ansell
ANZ Banking Group
Bank of Queensland
Challenger
Cochlear
Commonwealth Bank
CSL Ltd
Healius
Insurance Australia Group
IOOF Holdings
Lendlease Group
Macquarie Group
Medibank Private
Myer Holdings
National Australia Bank
NEXTDC
Origin Energy
Qantas Airways
QBE Insurance Group
Ramsay Health Care
Sonic Healthcare
Suncorp Group
Tatts Group (now merged with Tabcorp)
Telstra Corporation
Westpac Banking Corporation

Summary of engagement

While human capital has arguably become more material with the growing prevalence of service-oriented companies on the ASX200, its disclosure has often 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. Further, that this be supported by appropriate expertise well positioned to interrogate enhanced internal and external reporting. Similar to conduct, we have observed an increased acceptance by boards to actively exercise stewardship over organisational culture and talent.

Examples of publicly-evidenced progress consistent with Regnan engagement:

- Formal oversight of people strategy and activities set out within the relevant board subcommittee charters
- Appointment of a chief people officer
- Enhanced market disclosures on the role of people strategy in supporting strategic execution
- Disclosure of the evolution of practices to support the attraction and retention of employees within competitive skill categories
- Increased disclosure of people metrics to enable an assessment of progress of broader cultural change and innovation objectives, together with evidence that these are also more closely monitored internally

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 where opportunities for continued influence are identified.

Additional considerations for active owners

Diversity has long been an area of interest amongst some investors. There are worthy social equity arguments for more diverse and inclusive working environments.

However, companies and investors alike are also keen to point to the business case for diversity. This is an area for greater discussion in corporate reporting with an opportunity to engage on the disclosure of the tangible (and intangible) benefits realised by organisations from greater diversity.

Update: Physical risks of climate change

2013

Engagement commenced

Companies engaged:

AGL Energy
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
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
Tassal Group
The a2 Milk Company
Treasury Wine Estates
Westpac Banking Corporation

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 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 considerations. While we have seen some improvements in recent years, especially amongst companies we would consider to be of high risk, opportunities remain for this to be more granular and better embedded within company decision making.

Examples of publicly-evidenced progress consistent with Regnan engagement:

- 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
- Investment in more resilient infrastructure
- A shift in strategic direction diversifying exposure to physical risk
- Additional resources deployed to the analysis of physical risks from climate change on a site by site basis
- Consideration of the impacts on physical risks on future demand and associated design requirements

Looking ahead our engagement will focus on:

- Ensuring that physical risk analysis is undertaken at a sufficiently granular level
- Increased disclosure of the source data used within the analysis to enable a more rigorous assessment of the work undertaken
- Encouraging that the findings are well integrated into business decision making, including strategic planning where relevant
- Encouraging greater consideration of value chain risks

Additional considerations for active owners

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

It also provides opportunities to identify the most cost effective options for adaptation, many of which may lie beyond the organisational boundary or only be achievable via collaboration.

Update: New energy

2015

Engagement commenced

Companies engaged:

AGL Energy
Ampol (FKA Caltex Australia)
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

Summary of engagement

There are a number of forces driving changes within the energy value chain; decarbonisation, but also 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 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:

- Enhanced resourcing to support effective analysis and action
- Enhanced market disclosure of the assumptions used in scenario analysis
- Completion of detailed site by site climate analysis
- TCFD reporting undertaken by a company previously sceptical of its value
- Increased consideration (and use) of key organisational levers to achieve transition, including cultural change levers
- Growing strategic recognition of climate change and the role of new energy markets
- Increased pace of planned scenario analysis in response to the communication of investor expectations

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
- 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 has addressed near to medium term risks for 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 17). 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.

What about when engagement fails or progress is too slow?

Where we think engagement priorities would be better advanced via other means, we alert clients to our concerns. Typically clients have in place escalation processes within their own stewardship frameworks. Our role may be to provide information to support clients' deliberations on voting and whether or not to continue to hold a stock.

In addition to these activities, we may also discuss our concerns with non-client investors, peers or other relevant stakeholders.

Links to client voting

During the year we enhanced our client reporting to provide a twice yearly snapshot of our engagement program to facilitate considerations of engagement progress in voting deliberations. This is designed to add to the information sources available to clients during the AGM season.

Looking ahead: evolving to support clients' active stewardship goals

Our engagement offering is responsive to clients' evolving needs.

As investors become interested in taking a more active role in engagement, and expect the same of their investment managers, we have been increasingly working with clients in diverse ways, tailored to their needs. This ranges from support for single meetings, including the preparation of briefing materials and coaching, through to the co-creation of entire programs and assisting in the evaluation of their managers.

Additional considerations for active owners

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

During FY20 we provided information on 24 separate issues raised within these resolutions 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.

Increasingly we are also drawing client attention to the relevant public commitments they may have themselves made that might influence their decision making.

In addition to providing a vehicle by which concerns may be escalated where the changes pursued via engagement have not been achieved within a desired timeframe, shareholder resolutions can also provide a vehicle through which unequivocal shareholder support for continued action can be communicated.

The role of advocacy

Where there are structural issues impeding a company or sector's ability to address ESG risks, we may also undertake broader advocacy work. This may include: discussions with regulators; participation in government and other consultations; bespoke research; and other forms of public commentary, including in the media.

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

We do this to raise awareness of the potentially material nature of an issue amongst a wider audience, to challenge prevailing norms, and to draw attention to market failures.

Our advocacy program is designed to support the achievement of engagement objectives.

2020 advocacy highlights

Climate change - We again facilitated an interactive masterclass for Investor Group on Climate Change (IGCC) members supporting their own TCFD adoption and disclosure efforts.

Conduct, culture and remuneration - Consistent with our ongoing engagement on these topics, we participated in the Australian Prudential Regulation Authority's (APRA) consultation on CPS 511, its proposed standard for remuneration.

Support for a Sustainable Finance Roadmap - We continued to be actively involved in the development of a Sustainable Finance Roadmap for Australia via our participation in the Australian Sustainable Finance Initiative (ASFI). Members of the Regnan team were appointed to two roles, one as a member of an ASFI technical working group, the other appointed to serve as a special advisor to the initiative's Co-Chair.

Additional considerations for active owners

Regnan was commissioned by the PRI for a strategic review of the impact and effectiveness of Principle 2 (Active Ownership) as a result of our extensive practitioner experience and insights about active ownership which we have provided to the PRI since its inception.

Drawing on this experience and insight, our recommendations were based on a case for upgrading the PRI's Active Ownership efforts, and encouraging its members to focus on the achievement of desirable responsible investment outcomes versus existing emphasis on process. This is consistent with Regnan's long held view that it is the impact of active ownership activities, rather than its volume, that should guide prioritisation, in order to optimise outcomes for beneficiaries.

Active Ownership 2.0, published for PRI members, summarises the case for change and the model in greater detail. This was co-authored by Regnan Head of Advisory Susheela Peres da Costa and PRI Director of Stewardship, Paul Chandler. It has since been described by KPMG as the emerging "best practice model for effective engagement".

Advocacy update: Responsible policy influence

2012 Activity commenced

Advocacy channels include:

Principles for Responsible Investment (PRI)

Carbon Disclosure Project (CDP)

Task Force on Climate-related Financial Disclosure (TCFD

Proxy Advisers

Industry publications, including Responsible Investor

Corporate policy influence can undermine the integrity of the civic institutions that underpin economic activity. Successful pursuit of narrow interests by a corporation may result in better returns for that company or sector, but may impose costs on long term and/or widely diversified portfolios. Yet the concentration of funds, aims and resources typical of corporations means they can accumulate and deploy influence more effectively than those whose interests are more broadly distributed across the economy.

Summary of advocacy

Elements of this theme have formed part of our engagement since 2003 when we began to engage companies on political donations as part of our *Business Ethics* engagement. From the late 2000s this included strong focus on corporate policy influence. We formalised *Corporate Influence on Public Policy* as an advocacy thematic in 2012, including bribery and corruption, political lobbying, donations and the veracity of public claims.

Since 2015, we have driven attention to this issue through peer networks, including CDP, PRI, and others, as well as engaging company directors extensively on this issue, and providing speakers on the topic at relevant events.

Examples of publicly-evidenced progress consistent with Regnan engagement:

- More explicit inclusion of this issue in voluntary frameworks
- Evidence of increased company influence on an industry association's position on an emerging social issue
- Enhanced market disclosure of how effective oversight is maintained over industry associations, including enhancements to governance processes, as distinct from disclosure on policy alignment
- Recognition and prioritisation of this issue by major responsible investment initiatives, including the PRI

Looking ahead our advocacy will focus on:

- Broadening market recognition of "influence" beyond lobbying to donations and other benefits, public communication campaigns and sponsorships (including of platforms, publications, and media programs)
- Extending governance of integrity in corporate policy influence, with the aim that this becomes a norm
- Broader adoption of Active Ownership 2.0 in the investment community

Additional considerations for active owners

It is not corporate influence per se that we seek to address, but influence that undermines institutional integrity, for instance, through lack of probity or legitimacy. For example, a company (legally) supporting the political campaign of a corrupt candidate in order to secure favourable regulation, undermines community and investor interest in government integrity.

Companies engaged during FY20

We met with 36 companies during the year

AGL Energy
Australia & New Zealand Banking Group
Bendigo and Adelaide Bank
BHP Group
BlueScope Steel
Challenger
Coca-Cola Amatil
Coles Group
Commonwealth Bank of Australia
Elders
Fortescue Metals Group
GPT Group
Healius
Insurance Australia Group
Lendlease Group
Macquarie Group
Medibank Private
Monadelphous
National Australia Bank
Newcrest Mining
NEXTDC
Origin Energy
Qantas Airways
QBE Insurance Group
Ramsay Health Care
Rio Tinto
Santos
Sonic Healthcare
South32
Suncorp Group
Tabcorp Holdings
The a2 Milk Company
Wesfarmers
Westpac Banking Corporation
Woodside Petroleum
Woolworths Group

We wrote to 11 companies during the year

Atlas Arteria
GPT Group
National Australia Bank
Rio Tinto
Sandfire Resources
Santos
Tassal Group
Virgin Money UK PLC
Westpac Banking Corporation
Woodside Petroleum
Worley

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