MORROW SODALI

DECEMBER 2017

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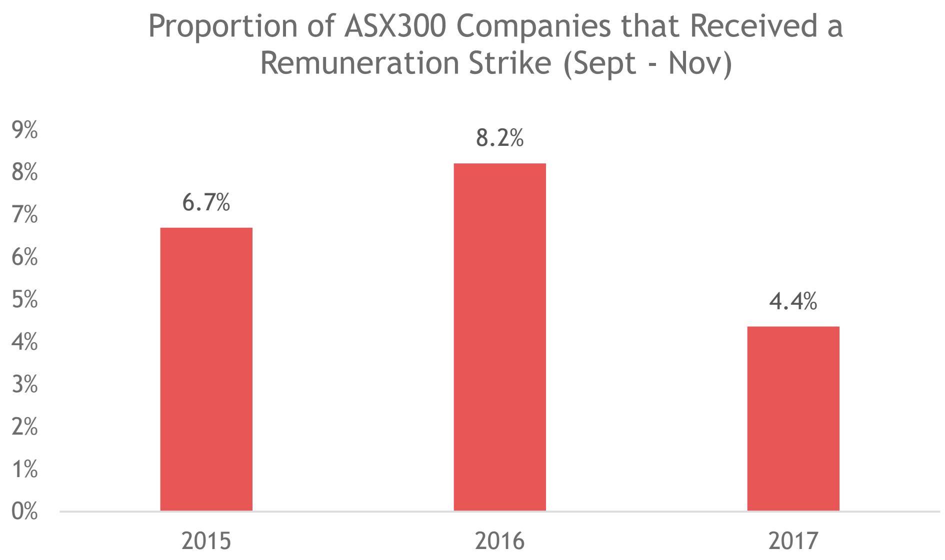
AGM Season Review

AUSTRALIA

CONTENTS

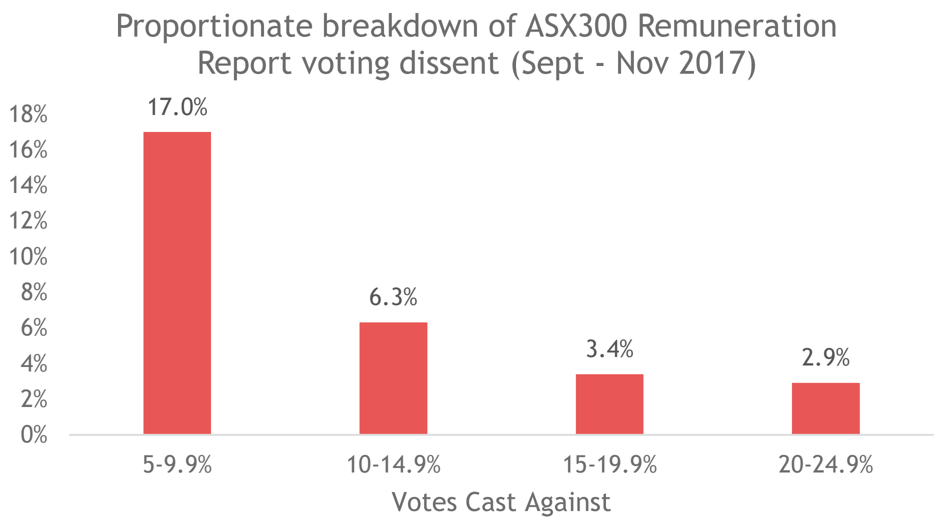
2017 AGM SEASON VOTING HIGHLIGHTS

Between the months of September and November 2017 there were nine strikes recorded at companies within the S&P/ASX 300 index. Only two spill resolutions were put to a vote during this period, with one of them gaining some number (16%) of votes in favour.



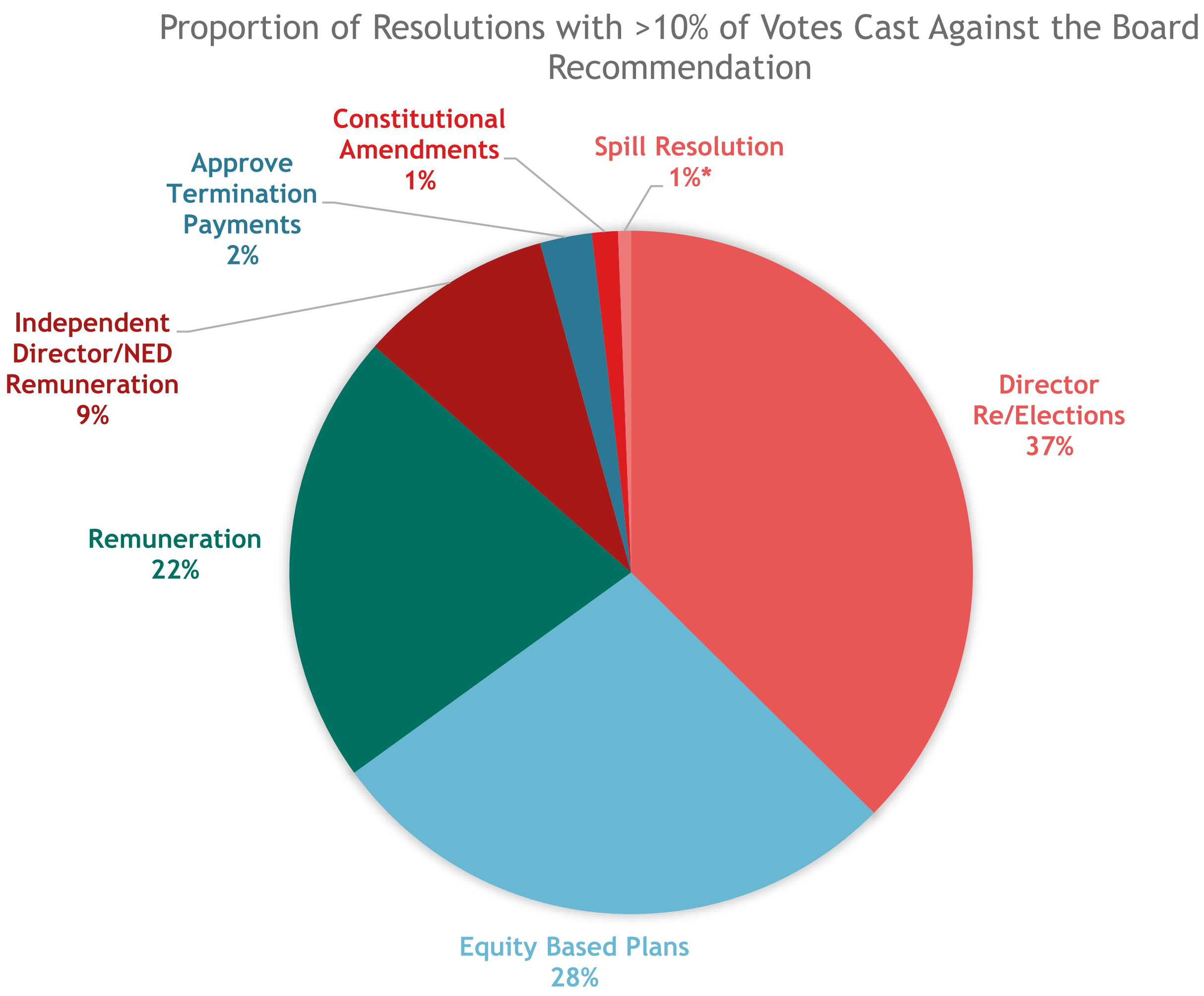
Source: Proxy Insight, Morrow Sodali analysis[1]

Irrespective of the decline in remuneration strikes this past AGM season, approximately one-third of S&P/ASX 300 constituents with AGMs between September and November received greater than 5% of votes cast against the approval of the remuneration report. Approximately 6% of S&P/ASX 300 companies received more than 15% of votes cast against the remuneration report but enough shareholder support to avoid a remuneration strike.



Source: Proxy Insight, Morrow Sodali analysis

[1] Date range for both 2015 and 2016: September-December; Date range for 2017: September-November

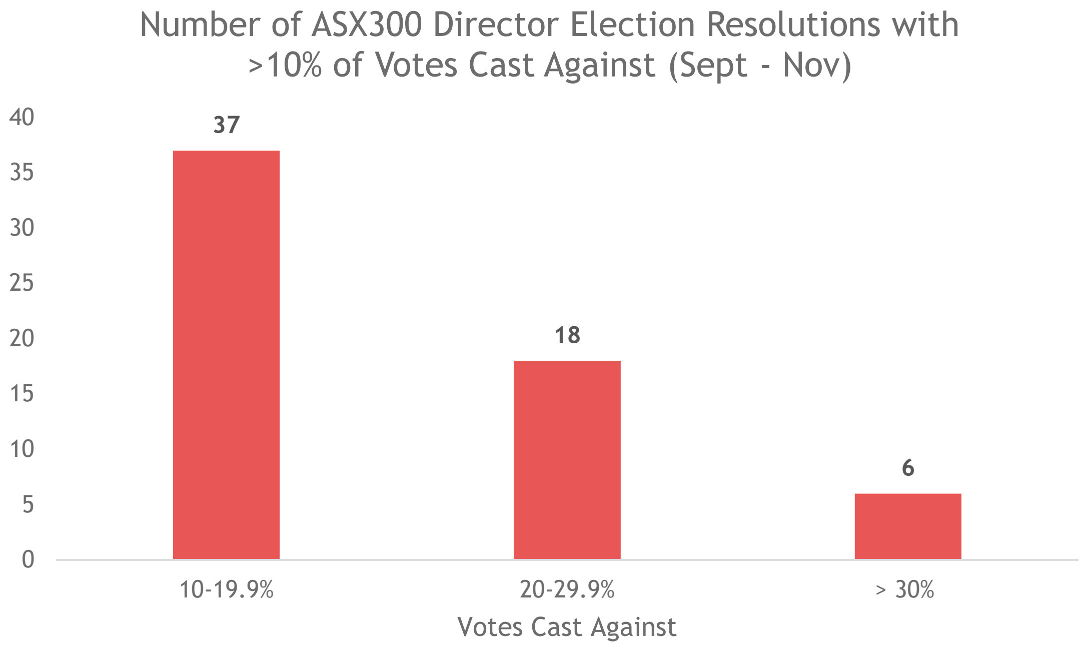


Source: Proxy Insight, Morrow Sodali analysis
*Indicates votes cast in favour of the resolution

When analysing the types of resolutions that received high levels of shareholder voting dissent (i.e. - more than 10% of votes cast being directed opposite to the board recommendation on any particular resolution), Morrow Sodali highlights that 37% of those resolutions were related to director (re)elections.

High levels of dissent were also observed in relation to separate voting approval of equity based (LTI) plans and the annual approval of the remuneration report.

Note that this analysis is biased by the number of resolutions put forward to shareholders under the respective categories (director election resolutions by far being the highest by number), which therefore indicates that although there were fewer strikes recorded this past AGM season, shareholder grievances pertaining to aspects of executive and non-executive director remuneration remain in focus.



Source: Proxy Insight, Morrow Sodali analysis

Shareholders appear to be holding non-executive directors accountable this season as a vote breakdown indicates that a meaningful number of candidates received a high volume of votes cast against their (re)election. Irrespective of the voting dissent recorded towards director election resolutions, Morrow Sodali observed that there were no instances where a board endorsed non-executive director candidate had not been (re)instated on a simple majority vote.

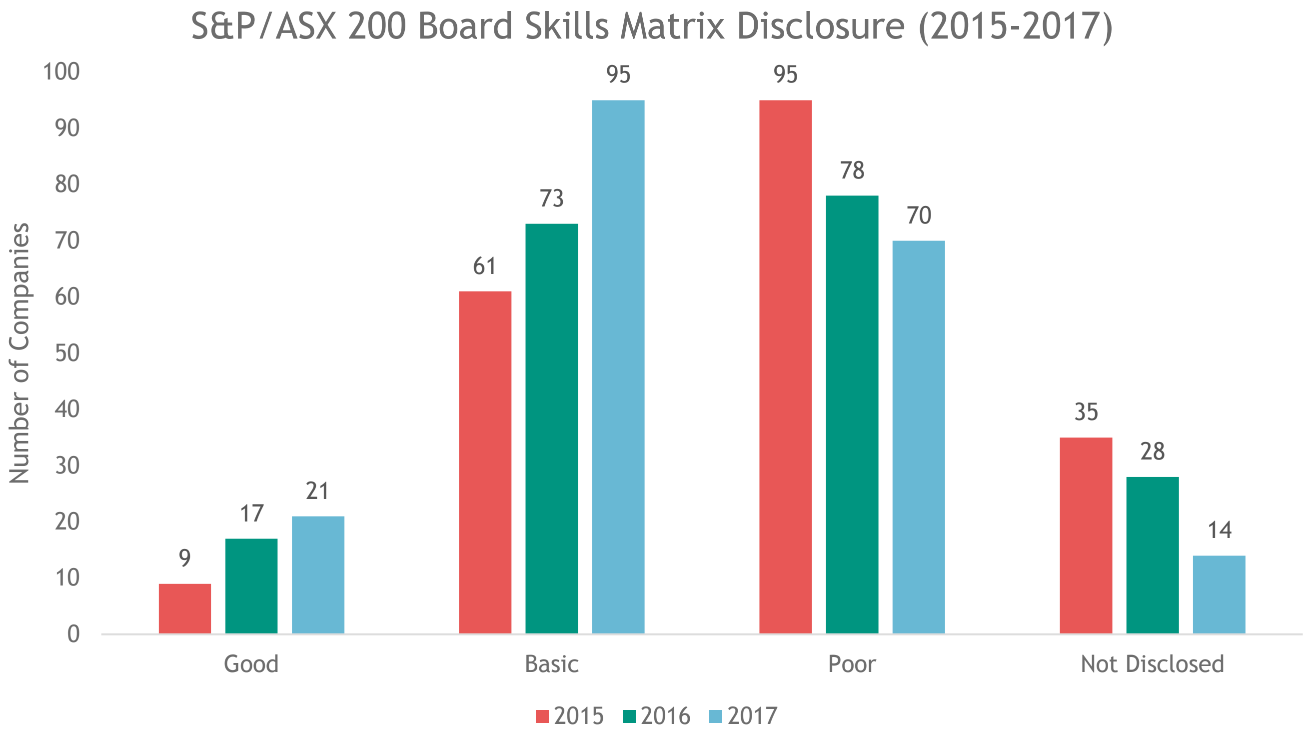
BOARD SKILLS MATRIX: PROGRESS IN MEANINGFUL DISCLOSURE

Under the ASX Corporate Governance Council's Recommendation 2.2, all listed companies should "have and disclose a board skills matrix setting out the mix of skills and diversity that the board currently has or is looking to achieve in its membership."

A Board Skills Matrix (BSM) can be a helpful tool for shareholders and governance stakeholders in evaluating board composition and identifying potential gaps in the board's skillset. Proxy advisors have indicated that they will consider the information disclosed in a Company's BSM when making their recommendations in relation to board member nominations.

Morrow Sodali has, for a third consecutive year, conducted a review of BSM disclosures for S&P/ASX 200 companies. As in previous years, Morrow Sodali used the same criteria to assess the depth and quality of these disclosures.

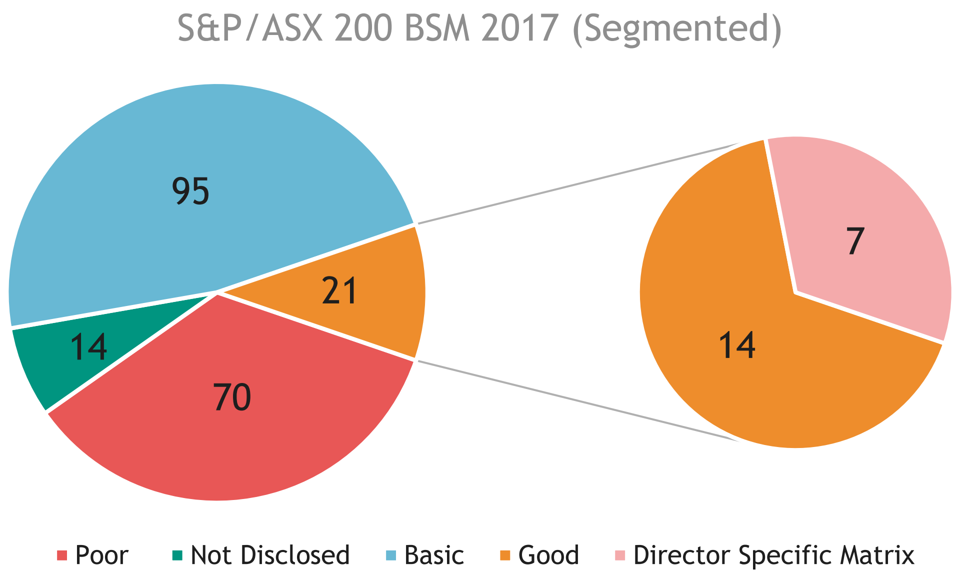
Qualitative Assessment Parameters of 2017 BSM Disclosures (S&P/ASX 200)	
Rating	Description
Good	Enhanced disclosure, quantified or director specific; and an accompanying narrative; and links to strategy or discloses identified board skills gaps.
Basic	Generally includes a simple table disclosure with brief or no narrative; and skills represented are quantified (or assessment of strength is indicated qualitatively and categorically; e.g. - strong, very strong, adequate...).
Poor	Very brief wording, no matrix, not quantified, not director specific, no skills gaps identified. Generally includes a broad list of non-attributed skillsets the board states that it requires to effectively oversee the business.
Not disclosed	Complete absence of BSM disclosure and recognition of ASX Recommendation 2.2.



Source: ASX Disclosure, Morrow Sodali Analysis
Note: 2016 figures exclude 4 companies that had recently listed at the time of the 2016 analysis (and had yet to publish an inaugural Governance Statement)

At the time of Morrow Sodali's initial review of BSM disclosures in 2015, only a few companies (9) had provided enhanced detail around director skills and experience that not only reflected the current state of the board, but also provided some insight into how the board believes it should be constituted in the future to align with the strategic objectives of the company and linking to shareholder wealth creation. This has now increased to 21 companies.

Interestingly, **there are now seven ASX companies that break out director specific information** under their BSM disclosures and no longer simply report on the board in aggregate. These companies are ANZ Bank, Caltex Australia, Janus Henderson Group, Mineral Resources, Regis Resources, Invocare and Greencross.



Source: Morrow Sodali Analysis

The number of companies that now fall into the ‘basic’ disclosure category has increased from 61 companies in 2015 to 95 in 2017. The number of companies falling into the ‘poor’ category has been decreasing and the number of companies that do not disclose a BSM has more than halved since 2015 to 14 companies in total.

There is an observable trend over the last three years whereby companies are improving their BSM disclosure to satisfy the requirements of institutional shareholders in assessing director quality and in particular, the appropriateness of newly nominated director candidates to ASX boards. With a stronger climate for shareholder activism and higher dissenting votes on director election resolutions occurring in Australia, many companies appear to be responding by providing more meaningful BSM disclosure. Irrespective of this, there remains a material proportion (just under half) of companies in the S&P/ASX 200 index that either provide poor or no disclosure in respect of the BSM.

ESG DISCLOSURE AND SHAREHOLDER ACTIVISM: THE TIDE HAS CHANGED

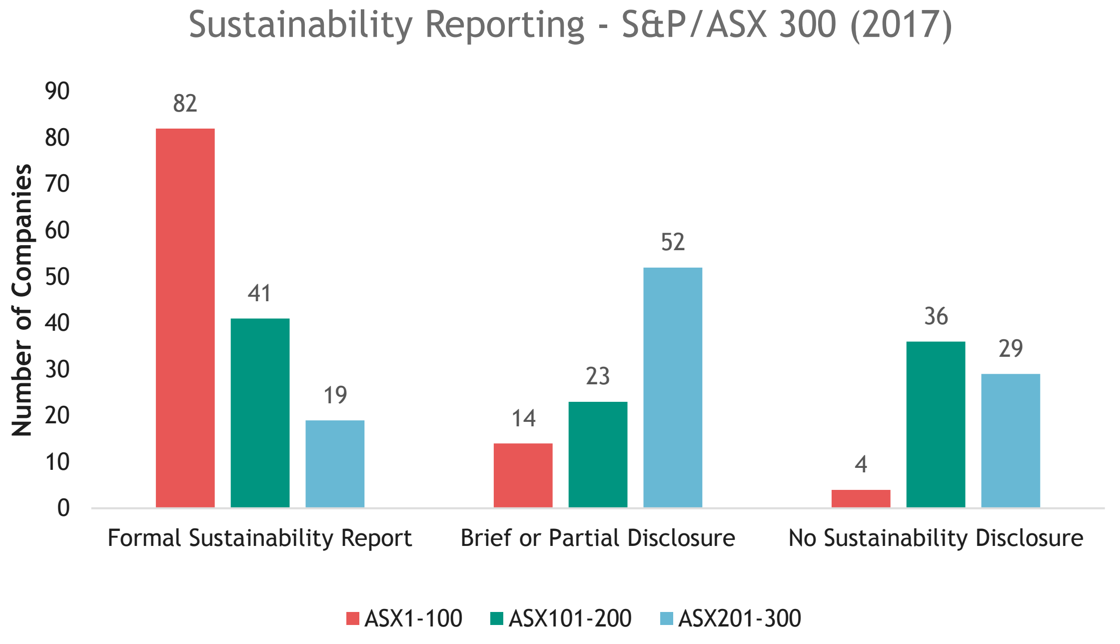
Institutional investors and ESG research and ratings providers highly regard companies that adopt widely used ESG reporting guidelines such as the GRI Standards, Integrated Reporting and the Sustainability Accounting Standards Board (SASB) guidelines. According to ACSI, the best ESG reporters in Australia use internationally recognised external standards.

In July 2017, ACSI published a report entitled "Corporate Sustainability Reporting in Australia", the purpose of which was to present the status of ESG reporting amongst Australian companies. ACSI noted in its report that 59 S&P/ASX 200 companies used the GRI or Integrated Reporting as a framework for their sustainability reporting.

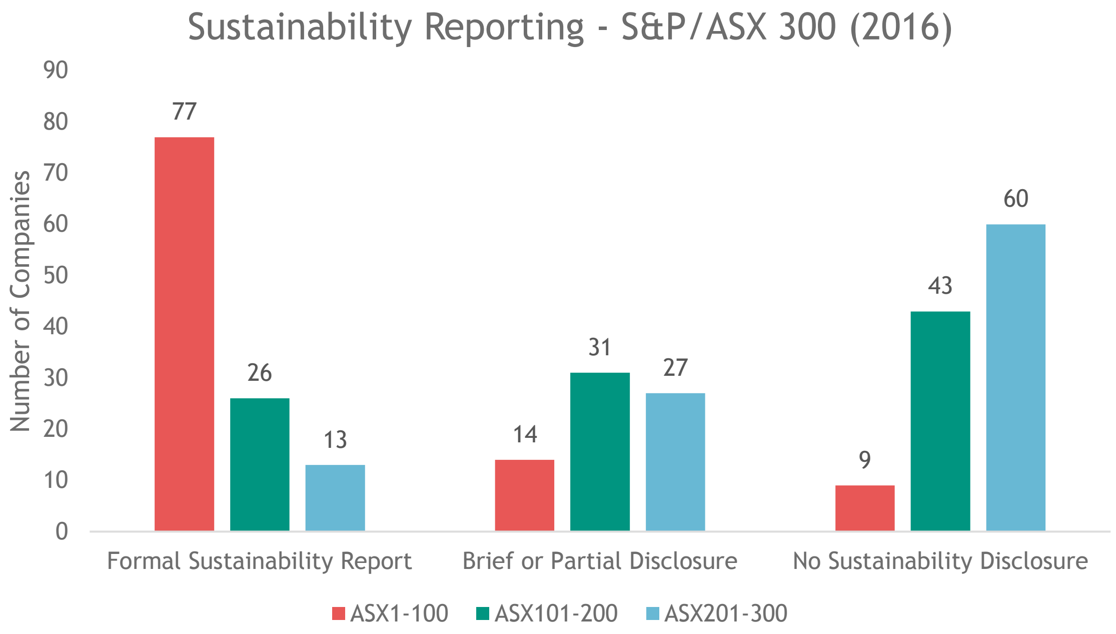
It should also be noted that in June 2017, the Task Force for Climate Related Disclosures (TCFD), a Financial Stability Board initiative, published its final recommendations that aim "to provide a foundation to improve investors' and others' ability to appropriately assess and price climate-related risk and opportunities." ACSI has endorsed this new framework and has also stated that "it is anticipated that the framework will be adopted by investors and companies as the 'gold' standard for disclosure." To date, 103 investors, stock exchanges and companies have affirmed their commitment to support the voluntary recommendations of the TCFD, including ANZ Banking Group, BHP Billiton and Cbus Super.

Morrow Sodali has conducted a review of the sustainability-related disclosures of S&P/ASX 300 companies and examined if:

- The company provides a separate sustainability report or formal ESG report that forms part of the annual report, corporate governance statement or company website ("Formal Sustainability Report").
- The company provides partial disclosure around environmental and social risks, but not in aggregate, across its public disclosure documents ("Brief or Partial Disclosure").
- There is a complete absence of sustainability-related disclosures across reporting documents, ASX announcements and the company website ("No Sustainability Disclosure").



Source: ASX Disclosure, Morrow Sodali Analysis



Source: ASX Disclosure, Morrow Sodali Analysis

Based upon the review of sustainability-related disclosures for S&P/ASX 300 constituents for two consecutive years, Morrow Sodali observes the following:

- The overall number of companies within the S&P/ASX 300 that publish a formal sustainability report has increased significantly since 2016 (up 22% to 142 companies in 2017).
- In 2017, there is only a handful of companies (4) within the S&P/ASX 100 that do not disclose any kind of ESG-related information.
- The number of companies within the S&P/ASX 101-200 category that are publishing a formal report has increased by 58% in 2017 to 41 companies, however almost as many companies within this category still do not publish any ESG-related disclosure.
- Fewer companies within the S&P/ASX 101-200 and 201-300 brackets provided no sustainability-related disclosure in 2017 or stated that they do not face any material ESG risks.

Australian companies should note that there is an increased demand by investors and activist groups for more ESG and sustainability-related disclosures. The Responsible Investment Association Australasia (RIAA) has found that in 2016, responsible investment constituted $622 billion in assets under management, which represents around half of all assets professionally managed in Australia (44%). A report by the Australian Centre for Financial Studies also indicates that for Australia and New Zealand between 2014 and 2016, the value of assets under professional management that were subject to a responsible investment strategy grew by 247%.

Following the Paris Agreement and over the past few years, there has been a considerable increase in ESG activist campaigns in Australia and globally. Institutional shareholders are seen to be concerned with climate change as their primary long term ESG-related risk. In Australia, activist groups such as Market Forces and the Australian Centre for Corporate Responsibility (ACCR) have been targeting some of the largest ASX-listed companies this past AGM season, putting forward shareholder resolutions that are mainly focused on increasing disclosure around climate change. All of these resolutions have either failed or were withdrawn prior to a vote, however the same cannot be said for many companies overseas.

Morrow Sodali has observed that institutional shareholders have been updating their voting policies in regards to ESG-related resolutions, specifically:

- In January 2017, **Fidelity** made a change to its voting policy stating that it "may support shareholder proposals that request additional disclosures from companies regarding environmental or social issues, where it believes that the proposed disclosures could provide meaningful information to the investment management process without unduly burdening the company."
- **Blackrock** states in its 2017-2018 Investment Stewardship Priorities report that "for directors of companies in sectors that are significantly exposed to climate risk, BlackRock expects the whole board to have demonstrable fluency in how climate risk affects the business and management's approach to adapting and mitigating the risk ... where we have concerns that the board is not dealing with a material risk appropriately, as with any other governance issue, we may signal that concern through our vote, most likely by voting against the re-election of certain directors."
- In its 2017 Investment Stewardship report, **Vanguard** stated that "this past year, we engaged with more companies on this issue [climate change] than ever before, and for the first time our funds supported two climate-related shareholder resolutions in cases where we believed that companies' disclosure practices weren't on par with emerging expectations in the market. As with other issues, our point of view has evolved as the topic has matured and, importantly, as its link to shareholder value has become more clear." Vanguard further commented that "companies should expect that we're going to focus on their public disclosures, both about the risk itself and about their board's and management's oversight of that risk" and "when we consider a shareholder resolution on climate risk, we give companies a fair hearing on the merits of the proposal and consider their past commitments and the strength of their governance structure."

It should be noted that major investors such as BlackRock and Vanguard voted in favour of the non-board endorsed ESG shareholder resolutions filed at the 2017 AGMs for Exxon Mobil and Occidental Petroleum.

	Company	Board Rec	Shareholder	Ownership	Resolutions	Vote Result
1	Woolworths Limited (WOW)*	Against	ACCR	0.0097%	Constitutional Amendment	Withdrawn
					Human Rights Report	Withdrawn
2	BHP Billiton Limited (BHP)*	Against	ACCR	0.0075%	Constitutional Amendment	7.1%
					Climate Change and Energy Advocacy Report	9.1%
3	Commonwealth Bank of Australia (CBA)*	Against	Market Forces	0.0077%	Constitutional Amendment (Regarding Board Oversight of Climate Change Objectives)	2.94%
4	Downer EDI Limited (DOW)*	Against	Galilee Services	0.0035%	Constitutional Amendment (Regarding Board Oversight of Climate Change Objectives)	3.27%
5	Origin Energy Limited (ORG)*	Against	Market Forces	0.0169%	Constitutional Amendment	4.67%
					Climate Change Reporting	13.77%
					Transition to Low Carbon Technologies	3.43%
					Methane Emissions Reporting	4.84%
6	Santos (STO)	Against	Market Forces	0.018%	Amend the Constitution	6.97%
7	Exxon Mobil (XOM)	Against	New York State Common Retirement Fund	N/A	Report on Climate Change Policies	62.1%
8	Occidental Petroleum Corporation	Against	Wespath Investment Management	N/A	Assess Portfolio Impacts of Policies to Meet 2 Degree Scenario	67.3%

*Indicates an AGM that was held between September and November 2017

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