LIGHTHOUSE

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MORROWSODALI

2019 AGM SEASON

AGM VOTING HIGHLIGHTS
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*All data provided in this publication covesr the 2019 calendar year.

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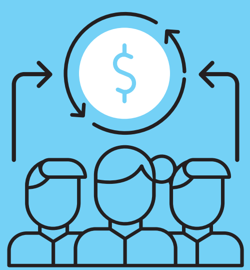
AGM
VOTING HIGHLIGHTS

The 2019 Australian Annual General Meeting (AGM) season was anything but mundane with proxy advisors and investors holding directors accountable by recommending and voting against their election. Key trends witnessed include a continued focus on Board accountability and culture. Investors are increasingly requesting engagement with companies to understand the context and drivers regarding executive remuneration, director election/re-election (and broader Board succession planning) and shareholder proposals. Where there is a disconnect between investors' expectations and the company's position/practices, investors are increasingly becoming more comfortable in lodging a negative vote.

This has been driven by the following trends:

Post the Australian Royal Commission into Misconduct in the Banking, Superannuation and Finance Industry and recent events around anti-money laundering, AUSTRAC issues and underpaid wages (outside of the banking sector), there has been an evolving focus on the role and composition of Boards. As an example, Boards are expected to be able to articulate and monitor company culture, and to an extent, specific Board members are increasingly held into account when cultural factors result in misconduct or poor outcomes for shareholders and other stakeholders (such as vulnerable workers).



There has been a growing spotlight on how company specific remuneration structures support long term value creation. As the importance of non-financial risks increases, the Australian Prudential Regulation Authority (APRA)'s proposal to elevate the importance of non-financial risks in remuneration structures has been another key discussion topic.

Globally, there has been strong investor, regulatory and wider stakeholder focus on climate risk management and the role of companies in the transition to a low carbon economy. Institutional investors are taking proactive steps to address the risks associated with climate change in their portfolios, by engaging with companies, voting on environmental related resolutions and factoring climate risk into their investment decision making. However, for investors to achieve meaningful change they need the companies in their portfolios to take action and manage the risk.

This has resulted in:

1. An increased appetite by proxy advisors and investors to hold individual directors accountable for company performance via the director re/election process.
2. An unprecedented number of companies receiving strikes against their remuneration report largely due to a disconnect between remuneration structures and disclosures, and remuneration outcomes.
3. An increase in ESG activism with the number of ESG shareholder proposals almost doubling from last year largely driven by climate-related resolutions.

26 remuneration strikes in the S&P/ASX 300 in 2019 compared to **21** in 2018

12 companies targeted by environmental and social activists in 2019 compared to **7** in 2018

47 directors in the ASX300 who attracted more than 20% votes against their re-election

31 shareholder resolutions in 2019 compared to **17** in 2018

DIRECTOR ELECTIONS

ASX300 COMPANY DIRECTOR ELECTIONS

724
Number of director elections this year

1
Board-endorsed director voted off their board

47
Director elections receiving >20% dissent

95%
Average support for directors

REMUNERATION

Board and executive remuneration continued to be a highly contentious issue in 2019, with 26 strikes recorded against ASX300 companies compared to 21 strikes in 2018.

Under the two-strikes rule, a company that received a first strike against its remuneration report in 2018 could face a Board spill resolution if it received a second strike in 2019. Of these 26 companies which received a strike in 2019, five of these companies received a second strike and one company received a third consecutive strike however no board spill resolutions were passed.

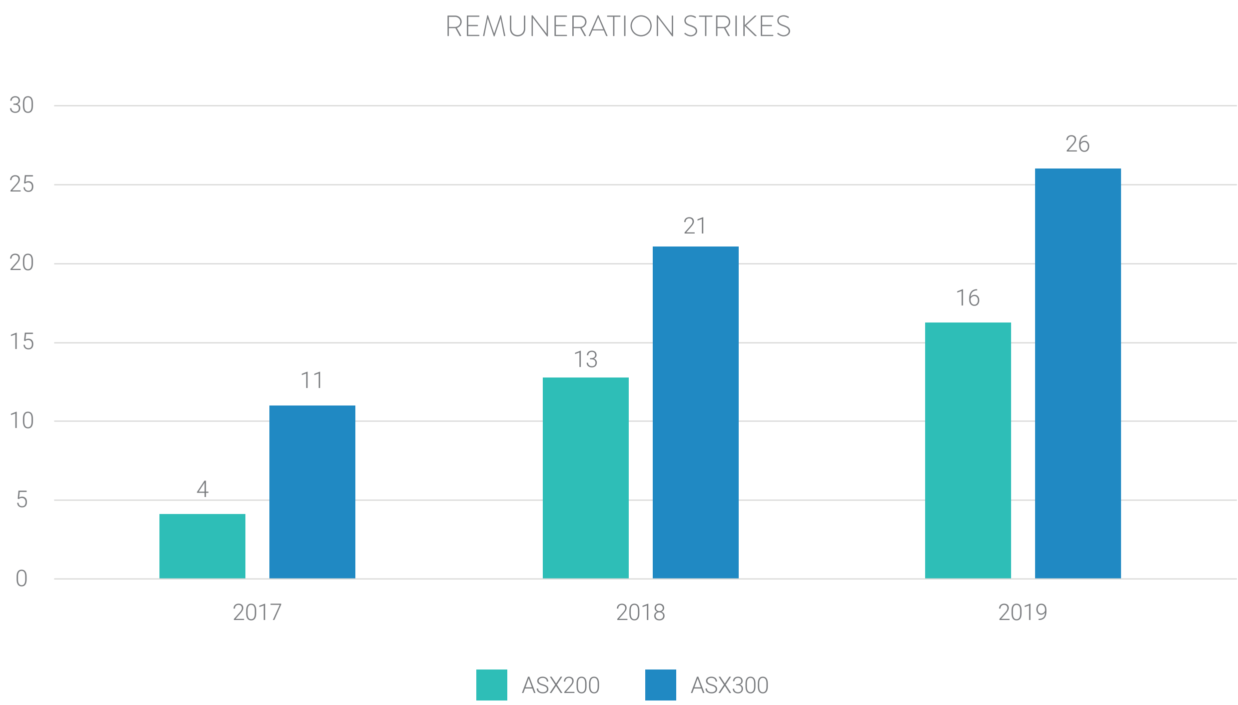
ASX300 RECOMMENDATIONS AGAINST REMUNERATION REPORTS BY PROXY ADVISORS

37
Institutional Shareholder Services ^

28
CGI Glass Lewis ^^

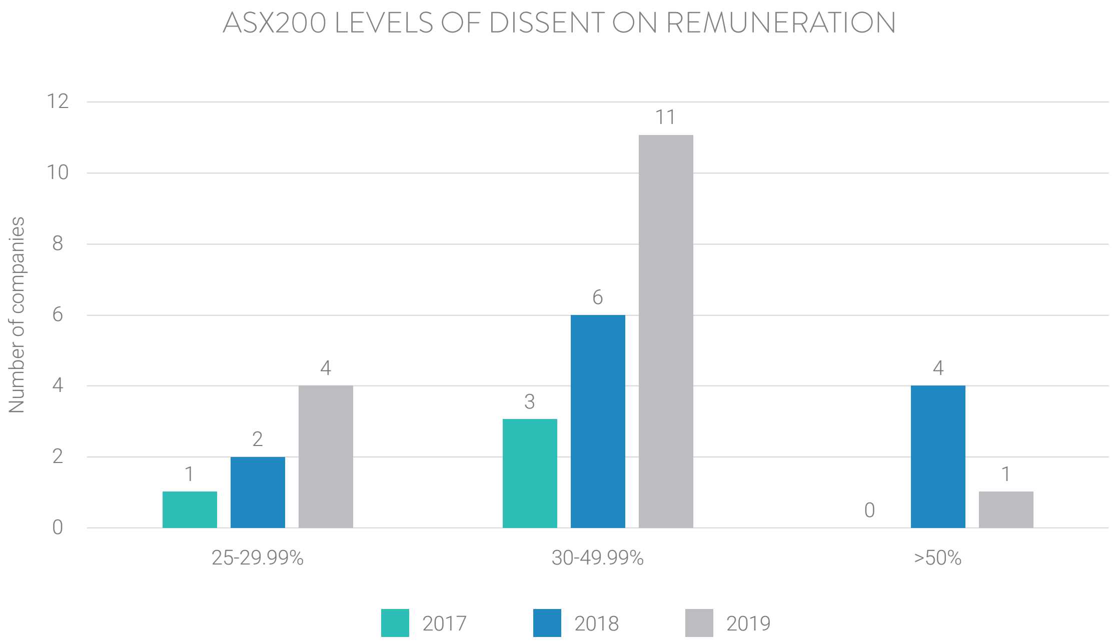
53
Ownership Matters ^^^

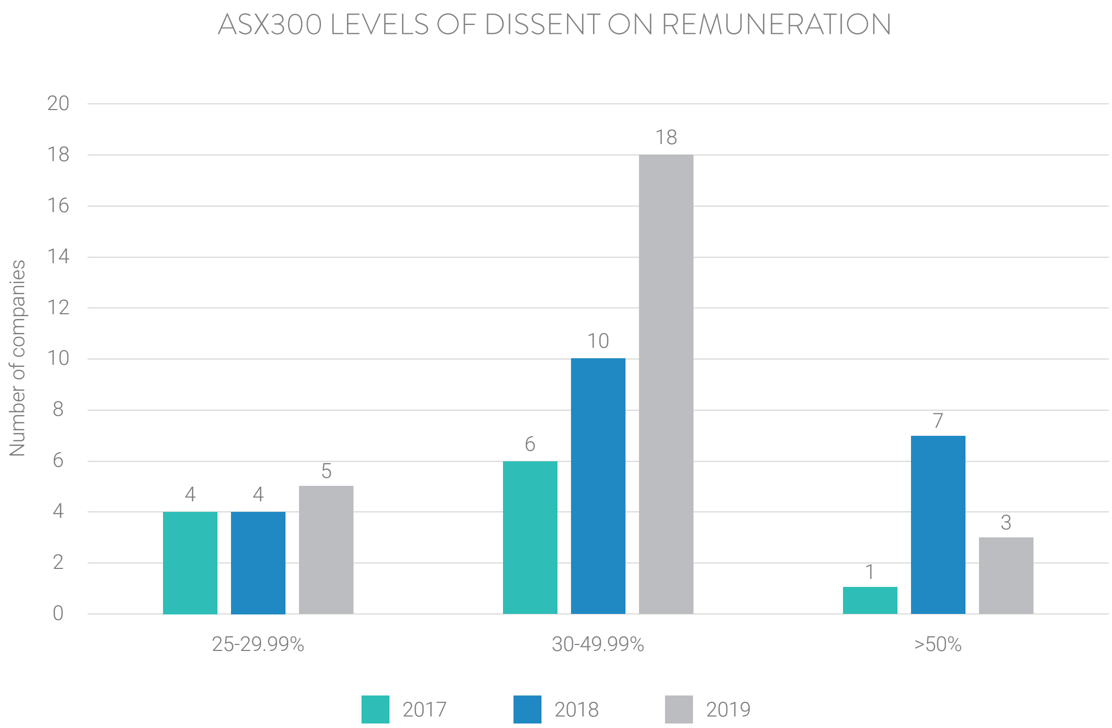
^ sourced from ISS portal | ^^ sourced from Proxy Insight | ^^^ sourced from Ownership Matters


REMUNERATION STRIKES
30
25
20
15
10
5
0
4
11
13
21
16
26
2017
2018
2019
ASX200
ASX300


2019
STRIKES
26 companies received a strike, five of these companies received a second strike and one company received a third consecutive strike however no board spill resolutions were passed.

Whilst 2018 saw a higher number of companies receive strikes that were greater than 50% against a company's remuneration report, dissent in the 30-49.99% range continued to substantially increase.





SHAREHOLDER ACTIVISM

Shareholder activism has grown exponentially this year due to investors seeking to make companies and company Boards accountable for how they are disclosing and managing material risks and opportunities. Of particular note are shareholder resolutions related to environmental and social matters requisitioned at a company's AGM. Although ESG related resolutions failed to attract sufficient shareholder votes to be approved, such resolutions are effective in garnering significant attention and can be used as a tool by which to agitate for changes in a company's operations. This in turn can indirectly impact the decision making of management and the Board. As such, companies are increasingly concerned about the growing level of supportive votes for shareholder resolutions and how it impacts their strategy and reputation. Throughout 2019, we observed the following trends:

- In 2019, 12 companies were targeted by activists compared to 7 companies in 2018. This increase has been driven by the expanded focus of activists. Whilst fossil fuel intensive companies have been traditionally targeted, the financial sector is also being held into account acknowledging the role of investment and underwriting in the wider supply chain.
- Whilst resolutions have been largely lodged by Market Forces and ACCR, we have seen some institutional investors such as Australian Ethical Investment and LUCRF co-file resolutions demonstrating that some investors are willing to go beyond being active owners and adopt a more activist approach.
- Climate change has been the predominant focus of the shareholder resolutions, particularly in the energy and resources, insurance and financial sectors. Activists are requesting additional disclosures concerning alignment of the business with the Paris Climate Agreement, emission targets and public lobbying.

- Across all AGMs we have seen an increased number of questions pertaining to ESG issues, such as climate change and human rights. Activist groups are typically well prepared and ask questions tailored to the company's operations. This may relate to the company's purpose, specific projects that the company has invested in, statements that management or the Board may have made in the past and wider industry trends.

Issuer	AGM Date	Resolution type	Proponent	Support FOR
Rio Tinto	09-05-2019	Amend Constitution	Market Forces	2.36%
		Transition planning disclosure		6.00%
QBE Insurance	09-05-2019	Amend Constitution	Market Forces, Australian Ethical Investment	2.31%
		Fossil fuel exposure reduction targets		7.83%
AGL Energy	19-09-2019	Amend Constitution	Market Forces	6.57%
		Transition planning disclosure		Not disclosed
		Public health risks of coal operations	ACCR	Not disclosed
Suncorp Group	26-09-2019	Amend Constitution	Market Forces	4.19%
		Fossil fuel exposure reduction targets		Not disclosed
Origin Energy	16-10-2019	Amend Constitution	Market Forces	6.79%
		Transition planning disclosure		5.35%
		Indigenous rights	ACCR	5.52%
		Public health risks of coal operations		6.56%
		Paris goals and targets disclosure		7.90%
		Lobbying		Withdrawn
Insurance Australia Group	25-10-2019	Amend Constitution	Market Forces	5.51%
		Fossil fuel exposure reduction targets		Not disclosed
Qantas Airways	25-10-2019	Amend Constitution	ACCR, Mercy Investment Services	3.42%
		Human rights risks		23.56%
BHP	07-11-2019	Amend Constitution	ACCR	15.32%
		Lobbying		27.07%
Coles Group	13-11-2019	Amend Constitution	ACCR, LUCRF Super, St Columban's Mission, Mercy Investment Services	3.36%
		Supply chain practices		Not disclosed
Westpac Banking Corporation	12-12-2019	Amend Constitution	Market Forces	8.04%
		Transition planning disclosure		Not disclosed
Australia and New Zealand Banking Group	17-12-2019	Amend Constitution	Market Forces	5.38%
		Transition planning disclosure		14.69%
		Lobbying	ACCR	16.53%
National Australia Bank	18-12-2019	Amend Constitution	Market Forces	5.83%
		Transition planning disclosure		12.89%
		Lobbying	ACCR	15.07%

HOW ARE COMPANIES RESPONDING?

Our experience shows that companies achieve better voting outcomes when they constructively and positively engage with activists about their proposed resolutions and proactively communicate their work and stance with wider stakeholders, including shareholders. This is because activists groups generally:

- Thrive on using the public domain to promote their own position and try and take control of the message
- Make a company look defensive where it adopts a position of 'dignified silence' even though it may be doing the right thing in practice but not publicly entering into the 'debate'

It is therefore essential that a company avoids being reactive and defensive, but rather, comprehensively and effectively engaging with its investors and activists before its AGM so it takes control of the messaging and mitigates potential dissenting votes.

Better practices that we observed this season included:

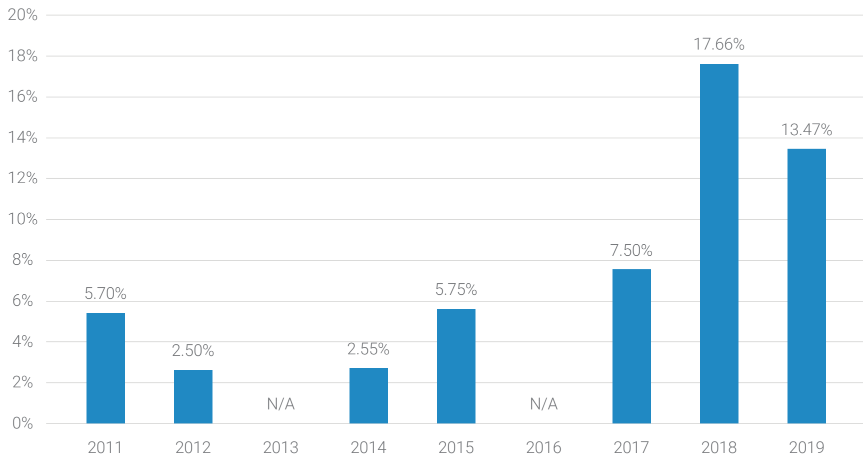
- Proactive engagement with the civil society group itself prior to the lodgement of a proposal. These meetings allow for two-way communication whereby a company can better understand an activists' concerns and at the same time, the company can provide how it is working towards mitigating these concerns. At this stage, some companies have avoided a resolution being lodged by engaging and pragmatically meeting the requests being made.
- Targeting engagement with known ESG conscious investors and top holding beneficial owners. Identifying beneficial owners ensures that investors who control the voting mandate are engaged and encouraged to exercise their vote. This is particularly important in Australia where the presence of superannuation funds that control their voting mandate means that voting power is taken away from external investment managers.
- Lodging ASX announcements to articulate a company's response to shareholder resolutions. This clearly demonstrates that the company takes the matter (and ESG more broadly) seriously. Whilst there are no formal requirements regarding continuous disclosure and a shareholder resolution is unlikely to affect a company's share price, as a matter of good ESG disclosure companies should seek to communicate what they have already done and are committed to doing and outline how it would not be appropriate for investors to support the shareholder resolution.
- Setting up engagement meetings with proxy advisors before research is published. This gives companies an opportunity to provide additional details and clarify any questions that proxy advisors may have.
- Engagement with key investor ESG organisations such as the Australian Council of Superannuation Investors, Climate Action 100+ and the Responsible Investment Association Australasia. This is considered best practice to ensure their members have the opportunity to listen and engage with the company on key concerns. At these forums, engagement with a Board level representative, such as the Chairperson demonstrates to investors that issues are taken seriously by senior management and the Board.

SHAREHOLDER RESOLUTIONS

NUMBER OF COMPANIES TARGETED BY ACTIVISTS IN 2019

Companies should keep a vigilant watch on ACCR and Market Forces as they are the two biggest activists in Australia.

AVERAGE SUPPORT OF SHAREHOLDER RESOLUTIONS NON BOARD-ENDORSED



Note: The shareholder proposal in 2016 was board-endorsed and received >99% support. No shareholder proposals were lodged in 2013.

BOARD SKILLS MATRIX

A board skills matrix (BSM) serves to disclose, in aggregate, the skills and experience represented on the Board by individual non-executive directors. The 4th Edition of the ASX Corporate Governance Principles and Recommendations require ASX300 to disclose a BSM.

There is no prescribed format nor are there specific skills and experiences mandated. However disclosure of non-financial skills regarding matters such as culture, board succession and risk management are now expected to be represented on the board and truthfully disclosed (in addition to the more tangible 'technical' skills).

Reasons to disclose a BSM:

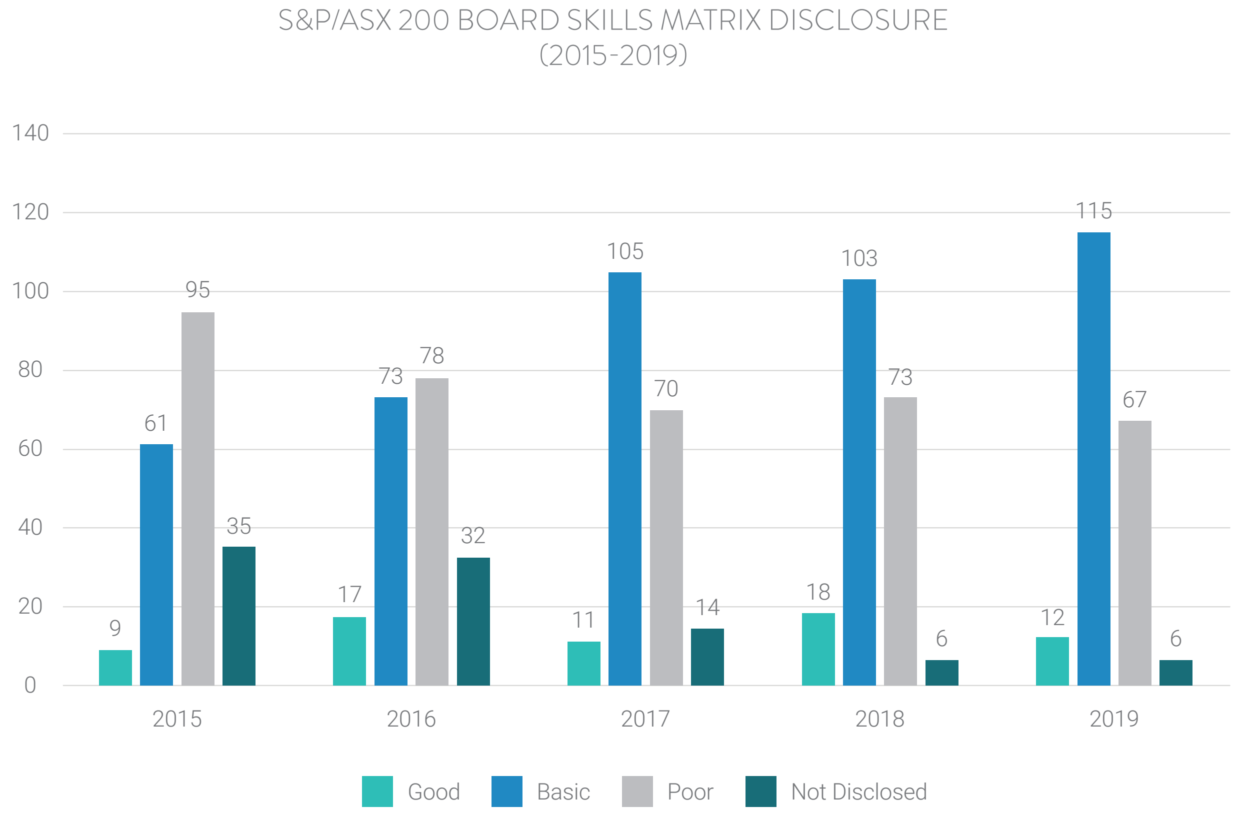
- The ASX Corporate Governance Principles & Recommendations require it
- Increased scrutiny regarding Boards' accountability and oversight
- Impacts voting decisions from large investors and proxy advisors assessment of skills and 'fit'
- Improves transparency – a lack of disclosure may negatively impact trust levels
- Indicates areas of gaps in skills and expertise, relevant for succession planning

4th Edition of the ASX Corporate Governance Principles and Recommendations	
Recommendation 2.2	A listed entity should have and disclose a Board skills matrix setting out the mix of skills that the Board currently has or is looking to achieve in its membership
Commentary	A Board "skills matrix" is a tool that can help the Board identify any gaps in its collective skills that should be addressed by providing professional development to existing directors or taking on new directors. It can also assist the Board in its succession planning. Disclosing the Board skills matrix gives useful information to investors and helps to increase the accountability of the Board in ensuring it has the skills to discharge its obligations effectively and to add value. The Board should regularly review its skills matrix to make sure it covers the skills needed to address existing and emerging business and governance issues relevant to the entity. There is no prescribed format for a Board skills matrix. It can set out either the mix of skills that the Board currently has or the mix of skills that the Board is looking to achieve in its membership or both. If an entity chooses to do the former, this need only be done collectively across the Board as a whole, without identifying the presence or absence of particular skills by a particular director. Commercially sensitive information, such as the fact that the Board may be looking to acquire a particular skill as part of an as-yet unannounced and incomplete plan to move into a different field of activity, can be excluded. Whichever format it follows, it would be helpful to investors for the entity to explain what it means when it refers to a particular skill in its Board skills matrix and the criteria a director must meet to be considered to have that skill.

For the fifth year, Morrow Sodali has analysed BSM's of companies in the S&P/ASX 200 based on the following qualitative assessment:

Qualitative Assessment Parameters of 2019 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	Completed absence of BSM disclosure and recognition of ASX Recommendation 2.2

The number of BSM disclosures classified as good/basic has steadily increased over the past 5 years to now represent 63% of ASX200 companies (up from 60% in 2018). However, over 36% of companies remain poor BSM disclosers.



Morrow Sodali has identified the following companies as having a 'good' disclosure:

AGL Energy	Aristocrat Leisure	BHP Group	Bingo Industries
Independence Group NL	Medibank Private	Northern Star Resources	Ramsay Health Care
South32	Sonic Healthcare	Spark New Zealand	Santos

To provide a meaningful BSM disclosure, companies should:

- Consider whether director biographies are explicit in highlighting the skills and experience as listed in the BSM.
- Ensure there is a synergy between what is outlined and what the director brings to the Board.

ESG DISCLOSURES

Increased Board discussions on rebuilding trust and how non-financial risks are being managed is driving a concentrated focus on how companies are:

- Considering ESG to deliver long term, sustainable value
- Making transparent and balanced disclosures regarding ESG in a timely manner
- Engaging with investors and other stakeholders regarding ESG

Morrow Sodali's Institutional Investor Survey, which included feedback from 46 global institutional investors managing a combined $33 trillion in assets under management, found that ESG is an increasingly important area of focus for investors. The survey found that 68% of investors are integrating non-financial factors across all asset companies, and a further 30% of investors are in the process of developing ESG integration and investment strategies. Aligned to this, investors expect detailed disclosure on ESG topics. Overall, 83% of investors said human capital management was the most important topic when asking companies for more detailed disclosure, this was closely followed by climate change and cyber security risk management.

68%
of investors are integrating non-financial factors across all asset companies

30%
of investors are in the process of developing ESG integration and investment

83%
of investors said human capital management was the most important topic when asking companies for more detailed disclosure

This year we have continued to assess the levels of ESG disclosures by ASX300 companies to understand the extent to which companies report on ESG topics. Generally, we have seen:

- The level of improvement in quality of ESG disclosures is slowing, reflecting the maturing nature of the ESG landscape. For Australian companies that have been reporting for the last decade, ESG is not new and is an embedded part of business as usual activity. We have seen the nature of 'material topics' change as business and stakeholder contexts shift, and reporting evolve to meet stakeholder expectations.
- A clear gap still exists between those with basic disclosure and those with more comprehensive disclosure. Those companies that can articulate material topics, link the impact to the purpose of the company and are able to disclose how they measure their impact represent leading disclosures.

We expect the gap between basic and comprehensive disclosures to continue to expand, clearly highlighting those companies that are leaders or laggards in this space.

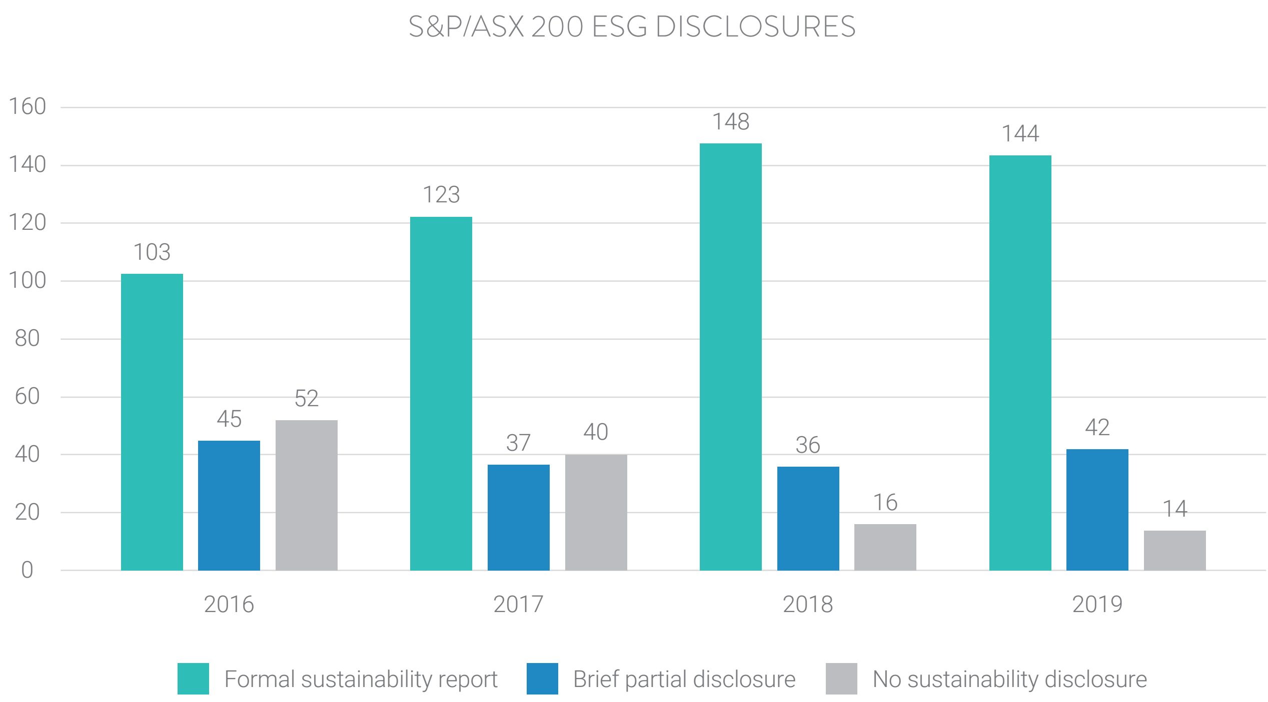
In terms of the content of disclosure, we have seen more detailed disclosure on all these aspects particularly post the Banking Royal Commission and APRA's focus on non-financial risk accountability and improvements.

Generally, we also note that there has been:

- An increased uptake of the integrated reporting principles, signalling a greater connection between financial and non-financial business thinking. Whilst companies may not explicitly reference the Integrated Reporting Framework, we are seeing companies focus on creating long term value across the business and wider stakeholder groups. This follows the US Business Roundtable new statement in August 2019 affirming business's commitment to a broad range of stakeholders, including customers, employees, suppliers, communities, and, of course, shareholders.
- Strong investor, regulatory and wider stakeholder focus on climate risk management and the role of companies in the transition to a low carbon economy. This follows the release of the Taskforce on Climate-related Financial Disclosures (TCFD) recommendations, providing a framework for companies to disclose climate related information across the governance, risk management, strategy, metrics and targets pillars. Companies with material exposure to climate related risks are typically aligning their disclosures with this framework.
- A commitment to disclose modern slavery risks, and increased disclosure on modern slavery and supply chain risk. With the Australian Modern Slavery Act 2018 (Cth) coming into effect on 1 January 2019, companies with an annual consolidated revenue of $100 million are expected to report modern slavery risks in their global supply chains. Stakeholders expect companies to look into their supply chain, and source products in a responsible manner while working with suppliers to improve their social and environmental practices.

Qualitative Assessment Parameters of 2019 ESG Disclosures (S&P/ASX 200)

RATING	DESCRIPTION
FORMAL SUSTAINABILITY REPORT	Formal stand-alone sustainability report or ESG effectively integrated within the annual reporting suite.
BRIEF PARTIAL DISCLOSURE	High level disclosure of ESG topics focused on commitments and initiatives. Little to no metrics and targets that measure the effectiveness of initiatives put in place.
NO SUSTAINABILITY DISCLOSURE	Absence of ESG disclosures in the reporting suite.



More companies have issued sustainability information however the depth of ESG disclosures across the S&P/ASX 200 has plateaued.

MODERN SLAVERY

Slavery did not end with the abolition of the trans-Atlantic slave trade in the 19th century. Rather its form changed and evolved in parallel with the economy. As it currently stands, it is estimated that there are approximately 40.3 million people in slavery. This includes 24.9 million people working in forced labour and/or debt bondage (the remainder being in forced marriage or other exploitative arrangements). Accordingly, the Australian Modern Slavery Act 2018 (the Act) was introduced and aims to combat modern slavery in global supply chains.

The Act establishes Australia's national Modern Slavery Reporting Requirements, namely a Modern Slavery Statement ('Statement'). It requires that an entity with an annual consolidated revenue of at least AUD$100 million over its 12 month reporting period that is either an Australian entity or a foreign entity carrying on business in Australia at any time in that reporting period, will be required to publish Modern Slavery Statements in 2020.

Of those companies in the S&P/ASX 300 companies with an annual consolidated revenue of over AUD$100 million, Morrow Sodali has identified ~51 companies that already make some form of disclosure regarding modern slavery. These disclosures are typically based on the requirements of Section 54 of the United Kingdom Modern Slavery Act 2015 or a high-level overview of corporate policies in place regarding modern slavery.

Publishing a Statement prior to the Act coming into effect shows progressive thinking on the issues. However, it also means that many companies may need to review and amend their disclosures to ensure their Statements reflect the seven mandatory requirements of the Act. Morrow Sodali has also identified ~136 companies that are required to report under the Act, and which do not currently make any form of Modern Slavery disclosure. Of these, Morrow Sodali has identified ~54 companies that intend to report in the near future. Where an entity does not comply with the requirements of the Act, an explanation may be required and/or remedial action may be enforced.

Sectors and industries that are exposed to modern slavery risks include agriculture, food retailing, oil & gas and mining, financial services and where there is use of unskilled, temporary or seasonal labour and short-terms contracts and outsourcing.

> Modern slavery is used to describe situations where coercion, threats or deception are used to exploit victims and undermine or deprive them of their freedom.

Annual reporting period	First reporting period under the Act	Due date for the Statement
1 July – 30 June (Australian Financial Year)	1 July 2019 – 30 June 2020	No later than 31 December 2020
1 January – 31 December (Calendar Year)	1 January 2020 – 31 December 2020	No later than 30 June 2021
1 April – 31 March (Foreign Financial Year – including United Kingdom and Japan)	1 April 2019 – 31 March 2020	No later than 30 September 2020

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