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CORPORATE AUSTRALIA TURNS COVID CRISIS INTO ESG OPPORTUNITY

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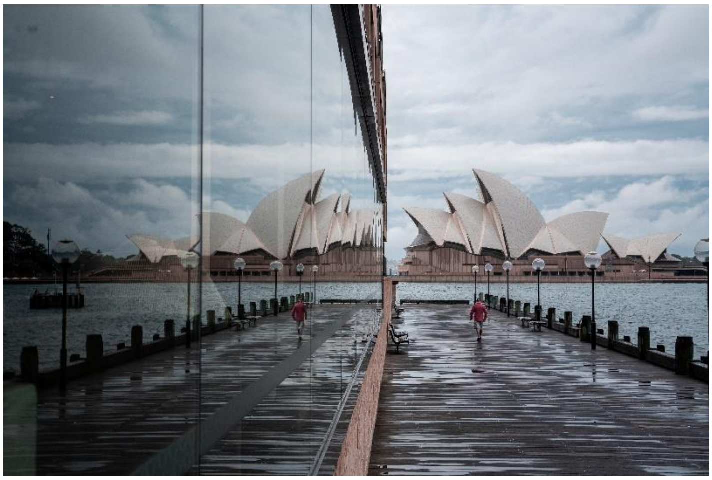
Corporate Australia seized the COVID-19 pandemic as an opportunity to improve engagement with stakeholders, thus sidestepping a potential surge in dissent and conflict at annual general meetings in 2020.

This is among the key findings of the newly released **2020 AGM Season Review** from Australia's leading corporate governance, investor research and engagement firm, **Morrow Sodali**. The report provides a snapshot of voting outcomes, trends, sentiments and reasons for shareholders voting one way or another, with focus on S&P/ASX300 companies.

Jana Jevcakova, **Morrow Sodali's** Managing Director – Corporate Governance, says that while the start of 2020 was filled with uncertainty, that was not indicative of the overall tone of the AGM season.

"When COVID started unravelling in March, many listed companies were under the impression that investors may give them a free pass as they fought to keep their businesses afloat," said Jana.

"However the exact opposite occurred. Through our discussions with large domestic and global investors, we found that many were taking the crisis as an opportunity to really identify which companies take ESG issues seriously, and which simply treat them as a disclosure requirement."



Coupled with the high anxiety and emotion that was felt throughout 2020, this increased degree of investor scrutiny could easily have resulted in a conflict-ridden AGM season, but fears of widespread dissent did not materialise.

For example there were 25 strikes against remuneration reports of ASX300 companies in 2020 which was consistent with the level seen in 2019. However, average support for directors decreased slightly, from 96% in 2019 to 91% in 2020, signalling increased appetite by investors to vote against directors.

"As a result of COVID, companies started seeking support to engage more effectively with their key stakeholders," said Jana.

> Many ASX listed companies recognised the need to increase their levels of communication, specifically how they would incorporate the impacts of COVID into their disclosure, to ensure there was adequate discretion put into remuneration outcomes and to demonstrate that ESG initiatives were maintained, if not enhanced.

"Obviously there were still outliers, but overall as a market I think we were actually quite successful in getting through the season relatively unscathed, and this was largely due to engagement and the efforts that companies have put into reacting very quickly and maintaining the momentum they had on ESG initiatives prior to COVID."

The 2020 AGM season clearly reinforced for companies the need for significant board oversight and proactive engagement with key stakeholders throughout the year to ensure that their governance practices, remuneration outcomes and overall ESG disclosures are aligned with market expectations.

What became obvious as the pandemic continued into the second half of 2020 was that companies with a strong ESG focus turned out to be more resilient and were able to withstand the negative financial and non-financial impacts of COVID-19.

At the same time, ESG-focused funds significantly outperformed the more traditional funds last year, encouraging investors to push these matters even harder.

The voting outcomes and statistics of the **Morrow Sodali** review tell a story of ongoing and intense scrutiny put on companies and individual directors, but also of continuing investor focus on long-term risks rather than short-term issues, particularly with regard to climate change.

Proxy advisors were particularly focused on pay outcomes for executives where the company also received JobKeeper, and on long-term incentive structures which lacked performance hurdles.

With regard to the level of dissent for those companies that received remuneration strikes, eight of them recorded greater than 50% of the final vote result against their remuneration reports. And the very first board spill approval within the ASX300 (since the two strikes rule came into effect in 2011) occurred due to a number of external factors, not just executive pay.

Looking ahead to 2021 and beyond, **Morrow Sodali** says it is very clear that the scrutiny put on companies will only continue to grow. This will come from the well-known ESG-focused investors but also new participants joining the ESG bandwagon on the back of the strong performance of ESG funds.

Climate change will remain at the forefront of investors' focus. With many influential economies and countries pledging to net-zero emissions and the US's commitment to re-join the Paris agreement, more countries are expected to make climate-related reporting mandatory.

The level of sophistication and specific investor focus is at all-time high and this trend will continue. Large Australian superfunds and other asset owners are progressively committing to net zero, and with other initiatives around climate change, diversity, supply chain management and many more, we are entering a new decade ahead.

The forward-looking companies which are paving the way and establishing the trends will ensure that others will sooner or later (have to) follow. From best-in-class standards in climate reporting and embedding sustainability targets in executive remuneration, through to re-aligning business strategies to better adjust to the new norms, these leading companies are building their own resilience and confidently distinguishing themselves with their investors.

Time will reveal which companies are building a strong enough platform to keep up with this ever-changing world, secure their position in the market and reap the benefits of the opportunities this creates.

About Morrow Sodali:

Morrow Sodali is Australia's leading investor research and engagement firm. From headquarters in New York and London, it provides strategic advice and shareholder services to over 700 corporate clients in 40 countries, including many of the world's largest multinational corporations. In addition to listed and private companies, its clients include mutual funds, ETFs, stock exchanges and membership associations.

To download the 2020 AGM Season Review, visit our website.