

M O R R O W
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Governance Newsletter

Interview with ACCR's Dan Gocher



The ACCR is a not-for-profit organisation that conducts research on issues of corporate behaviour and engages with companies on matters that concern its members. Since 2017 the ACCR has led public advocacy campaigns focussed on human rights and climate change issues. It has lodged advisory shareholder resolutions targeting large ASX-listed companies including BHP Billiton and Woolworths.

Morrow Sodali recently spoke with Dan Gocher, Director of Climate & Environment from the ACCR, to gain an insight into the workings of the ACCR. He spoke about how it engages with stakeholders and Australian companies on their environmental, social and governance (ESG) practices. Dan highlights the key areas that the ACCR will focus on in the months leading to the 2018 AGM season and describes how the ACCR measures its success.

Can you explain what the ACCR does and where the group fits amongst broader corporate governance stakeholders in the Australian market?

ACCR pursues and promotes improvements to large, Australian-listed companies' environmental, social and governance (ESG) practices. Our power to influence corporate behaviour is premised on two central ideas:

- that a company's negative impacts on the environment and society can also undermine that company's interests, and the interests of its shareholders; and
- that although listed corporations are primarily representative democracies, they are also to some extent, participatory democracies.

Given the influence of corporations on our lives and our planet, shareholders have a unique role and responsibility in ensuring the sustainability of our future. The ACCR was established to strengthen responsible investment practices in Australia to this end.

The ACCR does research on ESG issues and engages with listed companies in relation to specific ESG risks. We use shareholder resolutions to escalate engagement with companies, particularly where private investor-corporate engagement has failed to deliver an outcome. Shareholder resolutions are commonplace overseas but are an under-utilised mechanism in Australia. Resolutions are not deployed in every engagement we do, but on some issues, they have proven to be the most effective tool available.

While voting against director re-election or the remuneration report is not uncommon in Australia, these actions are not well tailored to highlighting environmental, social or policy content related governance issues. In many situations, shareholder resolutions are a better way to address ESG underperformance.

Over the coming six-month period, what are the ACCR's top three areas of focus in respect of shareholder advocacy?

- Resolving misalignments between company policies and interests, and advocacy positions taken by trade associations, for example, on climate and energy policy.

- Seeking greater alignment of company operations and expenditure with the Paris Agreement.
- Ensuring that companies have measures in place to identify and reduce gender pay inequity.

How does the ACCR measure success?

With companies, we measure success through material improvements in company behaviours, leading to better risk management and better outcomes for shareholders, people and the environment. Our ambition for these improvements is generally higher than that of institutional investors. We aim to present credible proposals with targets that will stretch companies to make solid gains, rather than produce cosmetic or very incremental change. We also see it as a success when we don't have to lodge a resolution.

With investors, we measure success a bit differently. We're looking for greater transparency and voluntary disclosure by funds about their own activities, including their engagements and voting records. We look at the level of fund activity on an emerging risk issue. We try to get a sense of how serious fund engagements with companies are, and whether they are using their leverage with companies effectively.

With few exceptions, investor-corporate engagement in Australia has been conducted in private. Conversations that happen beyond the realm of public scrutiny have a tendency to result in 'feel good' comfort-focused outcomes, and our concern with this approach is that it leads either nowhere or to unambitious targets and incrementalism. We don't think conducting engagements beyond the scrutiny of members best serves member interests, so one measure of our success will be if we are able to change that. Frequently, we get told by listed companies, "we didn't know investors cared about this issue," whilst, at the same time we get told by institutional investors, "we've engaged on that issue, repeatedly".

How best can ASX-listed companies engage with the ACCR on its matters of concern?

Meet with us! If we've reached out, chances are we think we've put our finger on an area of risk a company might not be fully alive to. We could be wrong, and if so we'd really like to know about it. But responsiveness is often a pretty good indicator of attentiveness to the issue.

Sincerity of engagement is key. We are interested in how companies are living their policies, in the alignment of policies with purpose, and in the genuineness (or not) of a company's commitment to understanding ESG risks.

With regard to recent campaigns and shareholder resolutions that have been proposed at recent AGMs, how is the ACCR evolving the ways in which it collaborates with institutional shareholders?

As our profile has developed, so have our relationships with institutional investors, both here and abroad. The ACCR does not file shareholder resolutions for the sake of doing so; we consult widely with investors both here and abroad, and seek to address commonly identified investment risks. Our outlook is that of a universal owner. In our view, many Australian institutional investors are just starting to operationalise the fact they are universal owners. As a consequence, many ASX companies don't understand that being the cause of negative social or environmental externalities for short-term management gain isn't attractive to long-term shareholders. We are looking forward to a period of deepened engagement with investment sector leaders on the pressing issues of our time.

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