MORROW SODALI

ISSUES FOR COMPANIES: 2020

TABLE OF CONTENTS

ISSUES FOR COMPANIES: 2020

Morrow Sodali launched this year's series of articles – **Issues for Companies: 2020** – to alert and advise clients about important issues facing them during the 2020 annual meeting season. Since publication of the series on our website in February, the COVID-19 global pandemic has surged to the forefront, taking precedence above all other issues facing global communities. Coming on the eve of the annual meeting season, the pandemic and its social distance restrictions require issuers to rethink their plans for convening annual meetings and in some cases to consider whether postponement is a viable option. We support the conclusion reached by the vast majority of our clients to use technology to facilitate hybrid or virtual annual meetings rather than postponing them. The Securities and Exchange Commission and regulators around the world as well as stock exchanges, state legislatures, and NGOs have made efforts to reduce regulatory obstacles to corporate reporting and the use of technology for shareholder meetings. Institutional investors, advocacy groups and proxy advisory firms have also softened some of their policies to meet the extraordinary demands of the pandemic. Indeed, COVID-19 has forced both companies and investors to think more deeply about the importance of ESG, corporate purpose and sustainability in ways that were barely contemplated before the arrival of the global pandemic.

In this year's client memo, **A Common-Sense Approach to Corporate Purpose, ESG and Sustainability**, we described the changing environment and the difficult questions it was raising for companies and institutional investors even prior to the advent of COVID-19. Today it is increasingly evident that that at their 2020 annual shareholder meetings issuers will face challenges to their sustainability in entirely new ways, as the evolving global pandemic pushes ESG issues to the forefront of the governance dialogue and investors grapple with the most effective ways to effectively assess ESG risks and opportunities.

1. **ESG Integration**
   Environmental and social issues have joined corporate governance as key risks and opportunities for companies. Academic studies confirm ESG's impact on corporate financial performance. The challenge for companies is to explain how their ESG policies and practices are central to their risk management, value creation, business strategy and long-term performance goals. The parallel challenge for investors is to integrate ESG and intangibles into their investment models as well as their stewardship policies and their oversight of portfolio companies.

2. **Corporate Purpose and Culture**
   In August 2019 the U.S. Business Roundtable joined BlackRock and other large institutional investors in redefining corporate purpose to include responsibility for stakeholders as well as shareholders. This shift away from shareholder primacy recognizes that the board of directors must represent a broader set of constituents affected by the company's business. Internally, expanded corporate purpose focuses a spotlight on corporate culture, human capital management, tone at the top and reputation risk in addition to shareholder return.

3. **Sustainability**
   In another major shift of focus, "sustainability" has subsumed the long-standing issue of short-term versus long-term business practices. Sustainability embraces a broad set of topics that includes climate change, environmental practices, social policies and the interests of stakeholders, employees, customers and even the communities and economies affected by corporate activities. The proliferation of competing definitions, standards and metrics relating to sustainability complicate companies' disclosure practices and their efforts to maintain comparability in the marketplace.

4. **Corporate Reporting and Shareholder Communication**
   ESG, corporate purpose and sustainability test the limits of traditional disclosure rules that govern corporate reporting. At the same time, these issues create an opportunity for companies to "tell their story"

in their own voice. To do so companies can make more effective use of comply-or-explain reporting, develop new approaches to traditional disclosure, or introduce integrated reporting techniques. Pressure for customized narratives on endogenous sustainability issues is likely to encounter legal concerns, require greater collaboration among traditional corporate roles and reduce reliance on compliance with external standards.

5. Board Accountability

The buck stops with the board of directors on matters of ESG, corporate purpose and sustainability. Trust in the board's ability to oversee the corporation requires greater transparency about board composition, diversity and skills. Investors want more detailed information on a growing list of board responsibilities, including compensation, technology, cyber security, ethics, conflicts of interest, responsiveness to stakeholder interests, willingness to engage and the effectiveness of the board's self-evaluation process.

6. Engagement

Companies' willingness to have their directors and senior executives engage in direct meetings with investors is now firmly established. Questions remain as to how the practice should be conducted. Should there be separate governance/ESG road shows, or should ESG topics be combined with IR and financial communications? Which directors should be involved and under what circumstances? Which shareholders should be targeted? Answers to these questions require careful analysis of the ownership profile as well as the company's competitive issues, strategic goals and vulnerability to activism.

7. Compensation

Compensation will maintain its position as the critical issue for companies, investors and proxy advisory firms in 2020. Investor demand for specifics on how companies are integrating sustainability performance metrics into their compensation programs will create pressure for companies that do not formulaically include measurable environmental and/or social metrics into their incentive programs; for those companies that already include non-financial metrics in their assessment of executive performance, whether they are quantifiably measured or merely qualitatively in a discretionary manner that does not include specific targets, may be scrutinized. Additionally, updates to ISS and Glass Lewis methodologies for evaluating Say on Pay in 2020 create additional uncertainty with respect to each firm's Say on Pay recommendation.

8. M&A and Activism

Will there be more activism in 2020 because ESG expands the issues that activists can exploit? Or will there be less activism because ESG requires companies to increase their communication and engagement, thereby strengthening their relationship with investors and reducing their vulnerability to activism? The 2020 annual meeting season will begin to answer this question. In any case, there will continue to be activism focused on underperformance and strategic differences, particularly on M & A transactions ("spoilers" seeking "bumpitrage"). If past trends continue, there will be more behind-the-scenes activism and more settlements; "active ownership" by "passive" institutional investors will increase; strategic activists will maintain their role as a legitimized market force.

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ESG INTEGRATION

Investors expect companies to integrate environmental, social and governance (ESG) topics into business decision making.

But why is this important and how can companies effectively develop their ESG approach to meet investor expectations?

In today's landscape, there is still active debate about (1) the link between ESG and corporate financial performance and (2) how institutional investors should integrate ESG factors into their investment decision-making. Accordingly, we identify action steps you can take to better position your company's ESG approach and disclosures.

Link between ESG and corporate financial performance

An increasing amount of academic research is signalling that attention to ESG factors can lead to better financial performance for both companies and investors[1].

1 *Clark, G., Feiner, A. and Viehs, M. (2014). From the Stockholder to the Stakeholder: How Sustainability Can Drive Financial Outperformance. SSRN Electronic Journal.*
This paper examined more than 200 sources including academic research, industry reports, newspaper articles and books – and concluded that:
1. 90% of the cost of capital studies show that sound ESG standards lower the cost of capital.
2. 88% of the studies show that solid ESG practices result in better operational performance.
3. 80% of the studies show that stock price performance is positively influenced by good sustainability practices.

ESG covers a wide range of factors, ranging from board structure and executive remuneration to environmental responsibility, corporate culture and employee well-being and satisfaction. Studies show that companies demonstrating strong management of these factors can reduce cost of capital, improve operational performance, increase shareholder returns and achieve long-term sustainability.

ENHANCED MANAGEMENT OF ESG ISSUES

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LOWERED COST OF CAPITAL	IMPROVEMENT OF OPERATIONAL PERFORMANCE	INCREASED SHAREHOLDER RETURNS

Performance of responsible investment and mainstream funds

AUSTRALIAN SHARE FUNDS	1 Year	3 Years	5 Years	10 Years
Average responsible investment fund (between 17 and 34 funds sampled depending on time period)	-1.24%	5.70%	6.43%	12.39%
Morningstar: Australia Fund Equity Large Blend	-5.49%	4.87%	4.42%	7.95%
S&P/ASX 300 Total Return	-3.06%	6.65%	5.60%	8.91%
INTERNATIONAL SHARE FUNDS	**1 Year**	**3 Years**	**5 Years**	**10 Years**
Average responsible investment fund (between 7 and 38 funds sampled depending on time period)	-0.03%	11.18%	9.48%	9.50%
Morningstar: Equity World Large Blend	-0.68%	6.37%	8.42%	8.97%
MSCI World Ex Australia NR AUD	1.52%	7.49%	9.81%	9.57%
MULTI-SECTOR GROWTH FUNDS	**1 Year**	**3 Years**	**5 Years**	**10 Years**
Average responsible investment fund (7 funds)	-1.13%	4.75%	5.65%	7.66%
Australia Fund Multisector Growth	-2.26%	4.39%	4.92%	7.02%

Source: Responsible Investment Association Australasia

Outperformed by the average RI fund

Underperformed by the average RI fund

As ESG casts such a wide net, not all variables can be studied at once to concretely conclude that all forms of ESG management demonstrably improve company performance. Ongoing research is still needed to identify the most relevant ESG factors that influence performance of individual companies in diverse industries. However, the economic relevance of ESG factors has been confirmed and is now building momentum among investors and companies alike.

What does ESG integration mean for investors?

Investors employ a variety of methods and strategies to integrate ESG in decision-making processes. Many variables are involved, and approaches differ between investment managers and even between teams. At a high level, we are seeing investors integrate ESG from the investment, voting and engagement fronts:

A myriad of investment strategies such as positive and negative screening, impact investing, shared value investing, and low carbon investing seek to deliver long term competitive financial returns.

Globally the quantity and level of investor support for ESG-related shareholder resolutions such as remuneration, human rights and climate change are increasing.

Investors are increasingly seeking proactive, year-round engagement to secure commitments from senior management and the Board on ESG topics.

Institutional investors and investment managers typically employ multiple strategies either in combination or tailored to particular asset classes or products. This means that there is no clear benchmark for what ESG integration means in practice. ESG rating agencies typically use a universal ESG framework and research is primarily used by investors to understand at a high level, the ESG exposure of the overall portfolio. However, companies that score higher on rankings aggregating a universe of ESG metrics, do not necessarily deliver better shareholder returns if financial materiality and strategy are not considered. As a wide variety of sustainability information is available, investors are looking to determine what ESG information is financially relevant and how this may impact the company.

What should companies do?

To better position the company's ESG approach and disclosure, companies should consider the following:

1. Get the board of directors and senior management to buy into the benefits of integrating ESG factors into decision-making. Commitment from the top is an essential first step before bringing middle management into the conversation. All levels of management must be deeply involved in implementing material ESG policies.

2. Define the company's purpose – why it exists and the role that it plays in the world. Articulating their corporate purpose enables companies to understand and explain the broader stakeholder impacts of the business. This analysis in turn will underpin and guide the company's future ESG focus and activities.

3. As ESG transcends a single business division, set up a steering committee to ensure appropriate integration, accountability and responsibility for collective management and reporting. This steering committee should include representatives from the financial, investor relations, legal and compliance, human resources, CSR, culture and operations teams to ensure a balanced, company-wide perspective.

4. Engage with internal and external stakeholders (including investors) to assess the materiality of ESG topics to the company and wider supply chain.

5. Based on the outcomes of materiality analysis, invest in programs and resources to establish internal controls, manage the company's material ESG risks and opportunities and generate data for monitoring and reporting.

6. Design and embed processes to integrate ESG into senior management decision making, through controls, metrics, monitoring and reporting mechanisms. Incorporate ESG into executive remuneration and key performance indicators (KPIs).

7. Disclose the company's material ESG topics and related management activities. It will become increasingly clear for investors and other stakeholders the companies that are integrating ESG into their business and those that are not. The gap between those with only basic disclosure and those more advanced will continue to expand. Companies should decide whether they want to be seen as leaders or laggards. While investors typically do not have a preference for a specific standard, the most widely used frameworks for sustainability reporting include Global Reporting Initiative (GRI), Sustainability Accounting Standards Board (SASB) and Task Force on Climate-related Financial Disclosures (TCFD) Recommendations.

8. Execute a separate ESG roadshow for current and prospective investors to demonstrate the company's commitment to ESG.

9. Integrate ESG into quarterly earnings calls and other IR communications activities.

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CORPORATE PURPOSE AND CULTURE

By the end of 2019 a number of extraordinary pronouncements signaled that corporate governance had reached an inflection point. In the U.K., the British Academy published Principles for Purposeful Business. In the U.S., the Business Roundtable issued its Statement on the Purpose of a Corporation. In Switzerland, the World Economic Forum published The Davos Manifesto 2020.
These statements gave voice to evolving trends and assumptions that had been transforming corporate governance over the course of the last decade....

1. Recognition that environmental, social and corporate governance policies (ESG) represent material risks and opportunities directly impacting financial performance;
2. Reassessment of the shareholder primacy doctrine and the narrow view of corporations as nothing more than profit machines;
3. Adoption of "sustainability" as both a strategic goal for companies, an antidote to short-termism and a path to strengthen public trust in business and the capital markets;
4. Acknowledgement that companies must serve the interests of their "stakeholders" as well as their shareholders;
5. Reassertion of the principle that corporations must be accountable for the human, social and public policy implications of their activities, with an urgent focus on climate change;

6. Understanding that a corporation's "culture" is reflective of its integrity, its internal well-being, its sustainability and its reputation.

7. Acceptance of expanded board accountability for ESG issues, sustainability, purpose and culture and working with the CEO to integrate these factors into business strategy;

8. Emergence of the integrated reporting movement [www.integrated reporting.org] with its program of integrated thinking and integrated management as the basis for corporate reporting.

BlackRock's Annual Letter

On January 14, 2020, right on cue, BlackRock Chairman and Chief Executive Larry Fink published his annual letter to corporate CEOs. This year's letter, entitled "A Fundamental Reshaping of Finance," is clearly intended as a wake-up call for both corporations and institutional investors. It explains what sustainability and corporate purpose mean to BlackRock and predicts that a tectonic governance shift will lead to "a fundamental reshaping of finance." BlackRock does not mince words. The letter calls upon corporations to (1) provide "a clearer picture of how [they] are managing sustainability-related questions" and (2) explain how they serve their "full set of stakeholders." To make sure these demands are taken seriously, the letter outlines the measures available to BlackRock if portfolio companies fall short of achieving sustainability goals: votes against management, accelerated public disclosure of voting decisions and greater involvement in collective engagement campaigns.

In setting forth its expectations for sustainability reporting by portfolio companies, BlackRock cuts through the tangle of competing standard-setters and recommends that companies utilize SASB materiality standards and TCFB climate metrics. In our view, individual companies should regard these recommendations as a starting point – not a blueprint – for their own sustainability reporting. No single analytical framework can work for the universe of companies of different sizes, in different industries, in different stages of development, in different markets. If a company determines that it needs to rely on different standards and metrics, the business and strategic reasons that justify its choices will be an effective basis for a customized sustainability report and statement of purpose.

As ESG casts such a wide net, not all variables can be studied at once to concretely conclude that all forms of ESG management demonstrably improve company performance. Ongoing research is still needed to identify the most relevant ESG factors that influence performance of individual companies in diverse industries. However, the economic relevance of ESG factors has been confirmed and is now building momentum among investors and companies alike.

Corporate Purpose

The immediate practical challenge facing companies and boards is how to assemble a statement of corporate purpose. What should it say? What form should it take?

In discussions with clients we are finding that a standardized approach is not the best way to answer these questions. Defining corporate purpose is not a compliance exercise. It does not lend itself to benchmarking. One size cannot fit all. No two companies have the same stakeholders, ESG policies, risk profile, value drivers, competitive position, culture, developmental history, strategic goals. These topics are endogenous and unique to individual companies. Collecting information and assembling all the elements that play a role in corporate purpose requires a deep dive into the inner workings of the company. It has to be a collaborative effort that reaches across different levels, departments and operations within the company. The goal of these efforts is to produce a customized, holistic business profile.

Other approaches that suggest a more standardized approach to corporate purpose and sustainability are also worth consideration:

- Hermes EOS and Bob Eccles published a "Statement of Purpose Guidance Document" in August 2019. It envisions "a simple one-page declaration, issued by the company's board of directors, that clearly articulates the company's purpose and how to harmonize commercial success with social accountability and responsibility."

- CECP (Chief Executives for Corporate Purpose) has for 20 years been monitoring and scoring "best practices of companies leading in Corporate Purpose." Many of CECP's best practices take the form of short mission statements that do not necessarily include specific content relating to ESG issues or stakeholders. However, CECP is fully aware that times are changing. Its most recent publication, *Investing in Society*, acknowledges that the "stakeholder sea change in 2019 has redefined corporate purpose."

A case can be made for combining the statement of purpose and sustainability report into a single document. Both are built on the same foundational information. Both are intended for a broad-based audience of stakeholders rather than just shareholders. Both seek to "tell the company's story" in a holistic narrative that goes beyond traditional disclosure to reveal the business fundamentals, character and culture of the enterprise as well as its strategy and financial goals. Does it make sense in some cases for the statement of corporate purpose to be subsumed within a more comprehensive sustainability report?

Corporate Culture

Corporate culture, like corporate purpose, does not lend itself to a standard definition. Of the many intangible factors that are now recognized as relevant to a company's risk profile and performance, culture is one of the most important and one of the most difficult to explain. There are, however, three proverbial certainties that have developed around corporate culture: (1) We know it when we see it -- and worse, we know it most clearly when its failure leads to a crisis. (2) It is a responsibility of the board of directors, defined by their "tone at the top." (3) It is the foundation for a company's most precious asset, its reputation.

A recent posting on the International Corporate Governance Network web site provides a prototypical statement about corporate culture:

> A healthy corporate culture attracts capital and is a key factor in investors' decision making. The issue of corporate culture should be at the top of every board's agenda and it is important that boards take a proactive rather than reactive approach to creating and sustaining a healthy corporate culture, necessary for long-term success.

The policies that shape corporate culture will vary for individual companies, but in every case the board of directors plays the defining role. The critical task for a "proactive" board is to establish through its policies a clear "tone at the top" and then to ensure that there is an effective program to implement, monitor and measure the impact of those policies at all levels within the company. In many cases, existing business metrics will be sufficient to monitor cultural health. Some obvious examples: employee satisfaction and retention, customer experience, safety statistics, whistle-blower complaints, legal problems, regulatory penalties, media commentary, etc. For purposes of assessing culture, these diagnostics need to be systematically reviewed and reported up to the board of directors with the same rigor as internal financial reporting.

In this emerging era of sustainability and purposeful governance, investors and other stakeholders will continue to increase their demand for greater transparency about what goes on in the boardroom and how directors fulfill their oversight responsibilities. A proactive board must also be a transparent board. The challenge for directors: How can they provide the expected level of transparency while still preserving confidentiality, collegiality, independence and a strategic working relationship with the CEO?

As boards ponder this question, they may want to consider whether the annual board evaluation can be made more useful and relevant. During its annual evaluation process, could the board not only review its governance structure and internal processes, but also examine how effectively it is fulfilling its duties with respect to sustainability, purpose, culture and stakeholder representation? Could the board establish its own KPIs on these topics and review progress annually? How much of an expanded evaluation process and its findings could the board disclose publicly?

Conclusion – A Sea Change?

In addition to the challenges discussed here, the evolving governance environment brings some good news for companies. First, the emphasis on ESG, sustainability, corporate purpose, culture and stakeholder interests should help to reduce reliance on external box-ticking and one-size-fits-all ESG evaluation standards. Second, the constraints on shareholder communication in a rules-based disclosure framework will be loosened as companies seek to tell their story holistically in sustainability reports and statements of purpose. Third, as the BlackRock letters make clear, institutional investors will be subject to the same pressures and scrutiny as companies with respect to their integration of ESG factors into investment decisions and accountability for supporting climate change and sustainability. Fourth, collaborative engagement, rather than confrontation and activism, will play an increasingly important role in resolving misunderstandings and disputes between companies and shareholders.

The 2020 annual meeting season will mark the beginning of a new era in governance and shareholder relations.

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SUSTAINABILITY

2020 arrived with what *Global Proxy Watch* headlined an “Epic Escalation” in institutional investors’ focus on climate change, ESG and sustainability. This escalation, notably highlighted by BlackRock’s annual letter to CEOs and by statements from prominent business organizations and institutional investors around the world, did not come as a surprise. For most of the last decade there has been a growing conviction, particularly among institutional investors, academics and governance professionals, that the issues collectively embraced by the term “sustainability” have a material impact on companies’ financial performance and on the long-term returns of investment portfolios. Part of what makes this escalation “epic” is that it alters the behavior not only of executives managing corporations, but also of the asset managers and asset owners who are the providers of capital.

In this issue we take a brief look at some of the implications for institutional investors, companies, boards and corporate executives in the U.S., Europe/Latin America and Australia/Asia-Pacific.

What is new in the way institutional investors in key markets are focusing on ESG and sustainability?

U.S. PERSPECTIVE

Despite different views on sustainability issues, there is a clear consensus among investors that ESG ISSUES MATTER in terms of risk, opportunities and financial performance. Individual companies are asking which issues are material to them, how should they be measured and how should their policies and oversight be reported.

One of the main differences for the U.S. market compared to the other markets is that the approach to ESG issues has been more of a bottom-up approach, rather than the top-down regulatory-driven approach seen in other markets. This is not expected to change in the near term. Some U.S. asset managers take a more prescriptive approach to ESG issues, such as gender diversity and climate change, asserting their views through shareholder proposals, proxy voting policies, engagement or public messaging like BlackRock's 2020 letter to CEOs.

Leading U.S. asset managers have also made clear their intention to integrate ESG and sustainability into their investment decisions.

Companies will see the impact of these ESG integration efforts in their engagement campaigns and proxy voting results in 2020. BlackRock and State Street Global Investors have taken the lead role in articulating their expectations for both companies and institutional investors in 2020 and beyond.

EUROPE

In Europe, unlike the U.S., there is a growing political push to include ESG issues in the regulatory agenda. Companies are already taking note of the EU non-financial reporting directive. There are also stewardship codes and formal stewardship duties governing investors' oversight of portfolio companies.

In Europe shareholder proposals play a relatively minor role. Nevertheless, sustainability issues play a prominent role at shareholder meetings. For example, in France there is a recently passed legislation to introduce corporate purpose as an agenda item at companies when it is enshrined in the articles of incorporation. In Spain there is now a mandatory vote on non-financial information.

Another trend has been an increasing willingness by investors to vote against directors' discharge resolutions. In Germany, the Netherlands and Switzerland, there have been high-profile cases of votes against director discharge and more such initiatives are expected.

Engagement continues to be the preferred tool for European institutional investors to address sustainability. They have a taken a leadership role in several major collaborative engagement initiatives such as Climate Action 100+.

European institutional investors are taking a systematic approach to ESG integration. In Dec 2019, The Global Sustainable Investment Alliance released its Global Sustainable Investment Review. When asked whether they are going to incorporate TCFD disclosures into their investment analysis, over 20% of European investors (UK 50%) replied positively, with an additional 40% confirming they will be doing so by the end of 2020.

AUSTRALIA/ASIA-PACIFIC

2019 has been a watershed year for ESG and sustainability. This was partly driven by recent highly-publicized corporate culture and conduct failings at Australia's four largest banks (culminating in a Royal Commission). In addition, unseasonal wildfires of epic magnitude, known as "mega-fires" have made climate change a reality for the Australian public.

The prominence of climate change issues in public life increased pressure on institutional investors and asset owners to focus both on companies' sustainability and on the potential impact on investment portfolios.

The Australian compulsory system of superannuation and retirement saving (whereby 9.5% of every worker's salary is withheld and invested) means that every working Australian has personal exposure to the investment markets, creating a self-reinforcing cycle focused on ESG and sustainability.

Australian institutional investors are pursuing several approaches to ESG integration:

- Pricing and factoring it into investment models (quantitative)
- Analyzing it as an indicator of 'quality' (qualitative)
- Targeting specific ESG topics (e.g. clean water, clean energy, green property)
- Selecting the better sustainability performers (e.g. best in class companies)
- Excluding poor sustainability performers (e.g. negative screening)
- Impact investing (i.e. selecting investments that target a measurable environmental or social impact)

The Responsible Investment Association of Australasia (RIAA) in its annual RIAA Benchmark Report (released in 2019) stated that the Australian responsible investment market continued to grow in 2018, with $980 billion in assets under management, a rise of 13% over 2017. As such, the amount of assets being managed in accordance with responsible investment principles in 2018 represented 44% of Australia's total $2.25 trillion in professionally managed assets.

How do ESG and sustainability affect the roles of corporate boards and management?

U.S.

The general view in the U.S. market has long been that boards make policy - including the purpose of the corporation and its mission. While working with the CEO to determine strategy, exercising oversight of and seeking verification that risks are being managed and strategy is working.

Given that ESG issues are now central to how every company operates, the board should focus carefully on the specifics of its responsibilities. It should determine which ESG issues are material to the business, what policies are required, how policies and strategies are implemented by the CEO and management, how effectively the company's culture is aligned with ESG and how to communicate all this information to stakeholders.

Shareholders are increasingly interested in understanding how the board and management work together collaboratively to oversee and manage ESG issues. The board should explain what it does, including how it communicates. Management should bring the board into internal communications relating to ESG, including the CEO, CFO, General Counsel, Corporate Secretary, Investor Relations, Human Resources, and CSR executives between other ESG managers and the board.

EUROPE

In 2019, investors were already demanding more information about corporate purpose and specifically we are noticing growing investor expectations around climate change disclosure. The board's responsibility in 2020 will be to authenticate corporate purpose, take the lead on culture and work with the CEO in setting strategy to achieve sustainability. This board responsibility is made explicit in several corporate governance codes across Europe, including Italy, the Netherlands and the UK.

AUSTRALIA/ASIA-PACIFIC

The Australian legal framework makes clear that directors are responsible for ESG. Australia's Corporations Law defines the general duties of directors broadly including risk oversight. The most recent (2019) iteration of the ASX Corporate Governance Principles and Recommendations is explicit regarding sustainability and ESG Recommendation 7.4 states: *"A listed entity should disclose whether it has any material exposure to environmental or social risks, and if it does, how it manages or intends to manage those risks"*. Responsibility for this disclosure lies with the Board Risk Committee.

Climate risk is a now a concern of the Australian public, investors and, importantly, regulators. There is consensus among organizations such as the Australian Prudential Regulatory Authority, the Australian Securities and Investments Commission and the Reserve Bank of Australia that the Board is responsible for addressing climate risk. Former high court judges have also weighed in on the issue.

At the Business Roundtable on Climate and Sustainability (in late November 2019) Kenneth Hayne QC stated:*" . . . in Australia, a director acting in the best interests of the company must take account of, and the board must report publicly on, climate-related risks and issues relevant to the entity"*.

Should ESG and sustainability metrics be included as KPIs in executive compensation plans?

U.S.

It is still uncommon to find ESG metrics in U.S. companies' executive compensation plans. However, the answer to this question may depend on the sector in which a company operates. For example, public utility companies have certain ESG-related data points they are legally obligated to report to regulators. These data points are often included in their executive compensation plans. For extraction companies (e.g., mining, oil & gas, forestry), environmental impact and safety are key operational metrics directly related to 'License to Operate ("LTO").' As a result, ESG metrics are often already embedded in executive compensation plans for these sectors.

In our view, investor pressure will increase for ESG factors to be included in KPIs and disclosures in executive compensation plans generally. Pressure will be focused on boards to ensure that ESG metrics are included in their overall executive compensation planning.

Non-financial metrics (as well as non-GAAP metrics) in executive compensation programs often face more scrutiny from both the regulators and investors. If a company decides to add an ESG-related metric, robust disclosure has to follow as to why it is material to the company's business and how executives' accountability is being measured.

For investors, instead of insisting on an ESG-related metrics in executive compensation programs, there is always a broader goal of understanding companies' unique operational, legal requirements and challenges as context for evaluating comprehensive metrics.

EUROPE

ESG metrics in compensation are increasingly found in investor remuneration guidelines. The UK's influential Investment Association, in the update to its guidelines in November 2019, stated:

> "Remuneration committees should consider including strategic or non-financial performance criteria in variable remuneration, for example relating to environmental, social and governance (ESG) objectives, or to particular operational or strategic objectives. ESG measures should be material to the business and quantifiable. In each case, the link to strategy and method of performance measurement should be clearly explained."

Elsewhere in Europe, we are aware of at least one notable collective engagement initiative by investors where this is an explicit requirement. More such collective activities are sure to follow in 2020.

From the perspective of companies however, there is still little guidance on what measures might they use to meet investors' expectations for robustness and transparency.

AUSTRALIA/ASIA-PACIFIC

Australian investors recognize that executive remuneration drives long-term value creation. The inclusion of sustainability metrics in the executive remuneration plan is directly aligned with that goal.

Companies are responding by including a range of ESG / sustainability factors in their executive remuneration plans, e.g. safety, culture, diversity, and customer satisfaction. Some companies are also starting to explain climate risk management (e.g. emissions reduction) measures in their executive remuneration plans. In 2020, investors will push for more detail from companies on these issues.

What steps should issuers take to deal effectively with shareholder expectations about sustainability?

In all global markets, investors are challenging companies to provide comprehensive, robust and transparent disclosure of their strategy and sustainability goals. They want to understand the purpose of a company's long-term strategy, environmental and social responsibility for all stakeholders, its program for and the board to achieve sustainability.

Once a company has made these disclosures, active engagement with investors should follow. Transparency and communication should always be the main focus of both investors and issuers. Proxy voting is important, but engagement should not be limited to proxy-related issues.

With respect to ESG-related disclosure, companies can in turn ask investors not only what data they want to see, but also how the data is utilized in their investment and voting decisions. Mutual understanding makes engagement more meaningful and effective. ESG is not a destination but rather a journey. Collaboration between issuers and investors is always the goal.

While issuers are influenced by local requirements, here are some key steps issuers can take to meet shareholder expectations:

- Identify what sustainably issues are material to individual companies
- Explain how these issues are being managed and mitigated
- Articulate how the Board is maintaining oversight of these matters

At a practical level, this means that companies should:

1. Make clear and comprehensive disclosures regarding the material sustainability issues
2. Be balanced in their reporting (what went well, what could have gone better and what the areas for future focus are)
3. Be very explicit regarding climate risk, noting that there is a clear preference for reporting in accordance with the Taskforce on Climate-related Financial Disclosures reporting framework
4. Engage with investors on ESG in a pro-active manner (even where "there are no issues")

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CORPORATE REPORTING

Pressure on companies for information relating to ESG and sustainability opens the door to a new era in corporate reporting. Investors are demanding more fulsome disclosure on topics such as corporate purpose, culture, stakeholder interests, reputation risk and intangibles that impact companies' strategy and long-term performance. Companies are expected to provide detailed explanations and metrics on specific topics such as climate change, diversity, compensation and human capital management, including how these topics are linked to business strategy and financial results. At the same time, the marketplace continues to expect a degree of standardization that allows for comparability similar to that achieved through financial reporting and the audit. How all this can be accomplished is very much an open question.

State Street Global Advisors described the situation in May of last year when it launched its proprietary "R-Factor" for environmental and social scoring:

> . . . there are significant limitations to the data that has been available about companies' and issuers' ESG practices. Governments don't require companies to formally report on ESG and climate-related data. As a result, *companies are on their own to determine what is material to business performance* . . . There are numerous third parties that provide ESG data and ratings, but these data providers have different methodologies with varying degrees of transparency. [Italics added] **[https://www.ssga.com/cash/ref_doc/esg-in-money-markets.pdf?ts=1556712921867]**

Today, nearly a year later, with the 2020 annual meeting season fast approaching, the situation remains largely unchanged. What has changed, however, is the continued mobilization of international opinion confirming the importance of ESG and sustainability issues and the need for companies to report and measure them, without consensus on how to do so.

In the face of investor demand for ESG information and metrics, individual companies face a bewildering array of choices and little consistent direction from regulators or NGOs. Both regulatory and private-sector efforts to achieve standardization and comparability are still fragmented, leaving companies "on their own" to determine how best to tell their story in company reports and at shareholder meetings.

Companies looking for external guidance in developing appropriate ESG/sustainability content should consider the following sources:

1. **The World Economic Forum International Business Council**
   Chaired by Bryan Moynihan, Chairman and CEO, Bank of America, the WEF IBC Task Force, in collaboration with Deloitte, EY, KPMG and PwC, published a consultation draft in January 2020 entitled "Toward Common Metrics and Consistent Reporting of Sustainable Value Creation." This report endorses the Davos concept of "stakeholder capitalism" and proposes a detailed set of "core metrics" and "expanded metrics" for the purpose of enabling companies to address ESG and sustainable value creation in their ". . . mainstream reports and proxy statements and integrated into core business strategy ;and governance processes." **[https://www.weforum.org/whitepapers/toward-common-metrics-and-consistent-reporting-of-sustainable-value-creation]**

2. **SSGA's R-Factor Scores**
   In his January 28, 2020 letter, SSGA CEO Cyrus Taraporevala describes the firm's proprietary R-Factor as ". . . a transparent scoring system that measures the performance of a company's business operations and governance as it relates to ***financially material and sector-specific ESG issues***." SSGA is deliberately making R-Factor scores available to companies for the purpose of ". . . providing a roadmap to incorporating sustainability into the company's long-term strategy." The R-Factor score can be a useful starting point for companies seeking to understand how their current ESG policies and reporting are viewed by one of their most influential investors. The score and the sources from which it is derived can also provide a roadmap for planning an engagement cam-

paign with SSGA and other large investors. **[https://www.ssga.com/us/en/individual/etfs/insights/informing-better-decisions-with-esg]**

3. SASB and TCFD, as recommended by BlackRock

BlackRock CEO Larry Fink's annual letter to CEOs **[https://www.blackrock.com/corporate/investor-relations/larry-fink-ceo-letter]**, published January 14, 2020, demands accelerated ESG disclosure by portfolio companies and states a clear preference for the use of SASB's materiality standards and the climate disclosure framework of the Task Force on Climate-Related Disclosures (TCFD). As we have indicated in previous publications, BlackRock's criteria can also serve as a starting point for companies developing their own customized reporting methodology and content.

4. Benefit Corporations and Certified B Corps

Benefit corporations, which are authorized in 35 U.S. states and the District of Columbia, were launched in 2007 to promote not only profit and shareholder return, but also a wide range of stakeholder, social, community and environmental benefits. Businesses can also become "certified as B Corps," a category that has attracted global interest, including such high-profile companies as Unilever and Danone. The rise of the sustainability movement suddenly lifts the curtain on B corporations and brings the concept into the mainstream for listed companies. The CEO of one recent convert cited the company's ability as a B Corp to "meet higher standards of social and environmental impact, transparency and accountability to stakeholders, rather than just shareholders." This statement is exactly in line with the goals of BlackRock, SSGA and other institutional investors seeking improved corporate reporting on sustainability and ESG issues.

5. Integrated Reporting

The global Integrated Reporting movement [integratedreporting.org] is gaining traction as both a management technique ("integrated thinking") and a method to develop holistic corporate reporting. As discussed in a previous publication, **[https://www.morrowsodali.com/insights/a-common-sense-approach-to-corporate-purpose-esg-and-sustainability]** integrated reporting provides a framework and techniques needed for companies to overcome internal barriers and establish collaborative procedures that produce the kind of holistic narrative required for effective ESG and sustainability reporting. Integrated annual reports and integrated sustainability reports are being produced by leading companies in all markets around the world.

While third-party perspectives are useful, the starting point for corporate reporting must always be internal. Individual companies should start with an analysis of their business fundamentals and circumstances, their strategy and goals, their risks and opportunities and, most important, their owners and stakeholders. As a precedent and model for producing the type of customized content and metrics required for ESG/sustainability reporting, we suggest that companies look to the practices they have developed for explaining their executive compensation plans and conducting say-on-pay engagement campaigns. The effort to explain in detail how pay and performance are linked and how pay anomalies are rooted in business strategy requires managements and boards to analyze investor expectations, prepare a customized narrative and then engage directly with shareholders. We have found this discipline to be effective for a wide range of governance issues where a good business case is needed to rationalize decisions that diverge from best practice standards or proxy advisory firms' policies. Similar customized communications and engagement programs have been effective for dealing with activists and for marshaling shareholder support for M & A transactions. We believe that this type of disciplined, proactive approach will develop around ESG practices and sustainability reporting as well.

Conclusion

For the immediate future there is no single path to effective ESG/Sustainability reporting. New ideas and new metrics are evolving so rapidly that today's suggestions are likely to be outdated tomorrow. The goal, however, is fixed. Sustainable funds, sustainability indices, academic studies and media stories verify that sustainability improves performance – all confirm that "Sustainable investing" is here to stay.

John Wilcox,
Morrow Sodali Chairman,
New York, US

BOARD ACCOUNTABILITY

Director Responsibility

Over the last decade, as asset owners and asset managers have built their in-house environmental, social and governance (ESG) stewardship capabilities, they have taken an increasingly active role in the proxy voting process and closely scrutinise the resolutions being put to them. They view proxy voting as being central to their role as good stewards of their members' and clients' capital. Related to this, many asset owner Chief Executive Officers, Chief Investment Officers and superannuation and pension fund Trustees now take a direct interest in their fund's proxy voting activities.

Notwithstanding this heightened focus on proxy voting, until recently, investors were often still reticent to vote against directors on the basis that:

- The Chair, the Nomination Committee and the board collectively all have a strong role to play in the director appointment process (and only in exceptional circumstances should this power be overridden).

- It was believed that as outsiders looking in, it is very difficult for investors to assess how diligent and effective an individual director has been (hence a high level of reluctance to vote against them).

- The board was analysed collectively as a whole, with its decisions not attributable to individual directors.

However, in the past few years, Morrow Sodali has observed a trend toward increased efforts to evaluate individual directors, as investors (both asset owners and asset managers) are becoming more comfortable voting against directors on the basis of accountability. This has been driven by:

- Investors' increased focus on ESG issues.
- Investors' heightened expectations for board policies and oversight.
- Rising levels of stakeholder (including superannuation fund/pension members, civil society, media) scrutiny regarding issues for which directors are accountable.
- Investors' ability to dissect board actions to determine individual director performance based on the facts before them.

We are also observing that where an individual has moved on from a company (or is on the board but not up for re-election) and potential issues regarding their performance or a lack of accountability come to light, investors will potentially vote against that individual's appointment / reappointment as a director at another unrelated company, thereby holding the individual personally accountable for their actions elsewhere.

OECD Corporate Governance Principles:

Board members should act on a fully informed basis, in good faith, with due diligence and care, and in the best interest of the company and the shareholders.

Investor Stewardship Group's Corporate Governance Principles for US companies:

Principle 1: boards are accountable to shareholders.

Principle 4: boards should have a strong, independent leadership structure.

Principle 5: boards should adopt structures and practices that enhance their effectiveness.

Australian Corporations Act 2001, Section 180: Care and diligence – directors and other officers

(1) A director or other officer of a corporation must exercise their powers and discharge their duties with the degree of care and diligence that a reasonable person would exercise if they:

> **(a)** were a director or officer of a corporation in the corporation's circumstances; and
> **(b)** occupied the office held by, and had the same responsibilities within the corporation as, the director or officer

German Stock Corporation Act§ 93(1):

In conducting business, the members of the management board shall employ the care of a diligent and conscientious manager. They shall not be deemed to have violated the aforementioned duty if, at the time of taking the entrepreneurial decision, they had good reason to assume that they were acting on the basis of adequate information for the benefit of the company.

Consequently, it is critical that boards demonstrate their diligence and accountability by such measures as the following:

1. A rigorous and robust board evaluation and assessment framework and process;
2. The preparation of a well thought out and detailed board skills matrix;
3. Clear governance policies and broader ESG disclosures including narrative that assists in providing insight into how the board is thinking about issues, including its accountability;
4. Regular engagement with key investors on a range of issues, including ESG to build mutual respect and trust.

Board evaluation

In the fourth annual Morrow Sodali Institutional Investor Survey, 67% of respondents indicated that both an external third-party assessment and internal self-evaluation are equally important as the most effective form of board evaluation. In the U.S., 93% of Fortune 100 companies included at least some disclosure on board evaluations in their proxy statements.

> 67% of respondents indicated that both an external third-party assessment and internal self-evaluation are equally important as the most effective form of board evaluation

Some investors noted that corporate issuers should be mindful that conducting board evaluations without providing meaningful disclosure may become a contentious issue when engaging with investors.

One investor also noted that there is no single best approach, but the evaluation process undertaken by the board should be well articulated and justified in terms of how it adds value to ensuring the right mix of skills, how director accountability/attentiveness are assessed and how the process ensures an adequate level of board refreshment.

ESG Disclosures

ESG disclosures, if done well, help explain a company's purpose and culture. This is increasingly important, particularly in cases where investors do not have the opportunity or resources to get out "on the ground" and into the operations of a company.

ESG disclosures can bring corporate operations and activities to life and can impart to investors (and other stakeholders) a sense of what issues a company faces and how they are being managed (from the board right down to operations at a site level). Investors want to know:

- What are the material ESG issues facing the company?
- How is the company managing those issues? Who is responsible?
- How is the company performing?
- What has gone well, what could be done better and what the future focus will be?

In assessing corporate reporting, investors look for a balance of narrative, metrics and case studies. Furthermore, reporting should be balanced and should include both good and bad news. Companies can at times be reluctant to report on the "bad" news, fearing negative perception. However, investors recognise that things can go wrong. What they are keen to understand is how a company responds to problems. Candor, rather than cover-up, can provide positive insight into the integrity and culture of the company.

Engagement

Engagement with board directors is often the only mechanism for investors to get to know individual directors and ascertain their level of commitment, conviction and contribution. Face-to-face engagement also provides insight into the character of individual directors. On meeting and engaging with directors, investors reflect on how the director conversed with them, levels of openness, humility, approachability and, connectedness "to the real world".

Engagement is critical to building a two-way mutually respectful relationship. It builds trust between investors and companies and, crucially, it means that when issues arise, companies have access to their investors and can ensure that they respond appropriately. Companies that respond reactively often find that investors are reluctant to engage ("you are only calling us because you have a problem"). Proactive engagement lays the groundwork so that companies know who to call when issues emerge and can therefore be more effective in garnering the support they need.

In the Morrow Sodali Investor Survey, a total of 67% of respondents indicated that when engaging with listed companies and their directors, they look to understand the company's business strategy and capital allocation and to understand how the boards oversee corporate culture and tone at the top. Additionally, 85% of survey respondents indicated that climate change is the most prioritised sustainability topic of their corporate engagements.

Board Skills Matrix

The Board Skills Matrix (BSM) is a tool that is becoming increasingly important to investors as well as policy makers.

> In Australia, both the ASX Corporate Governance Principles and Recommendations and the Australian Council of Superannuation Investors Governance Guidelines emphasise the importance of having and disclosing a BSM.

> The New Zealand Stock Exchange provides guidance that "an issuer may choose to use a skills matrix to help ensure the correct mix of skills is achieved when considering appropriate appointments to the board."

> The London Stock Exchange recommends that "[t]he board must have an appropriate balance of functional and sector skills and experience in order to make the key decisions expected of it and to plan for the future."

> The South African King IV Code on Corporate Governance recommends that there should be a "...balance of knowledge, skills, experience, diversity and independence to objectively and effectively discharge its governance roles and responsibilities."

> Neither The New York Stock Exchange nor the U.S. Securities and Exchange Commission provide specific guidance for a BSM, however many companies provide disclosure of directors' skills in a matrix as a matter of good corporate governance.

For the reasons outlined above, the disclosure of a detailed board skills matrix has become of greater interest to investors, and companies are increasingly being scrutinised in this regard. A high quality BSM provides investors and other stakeholders with the opportunity to make a more informed (and hopefully independent) judgment of the skills and experience on the board. Investors often rely on BSM disclosures when determining whether directors are in fact contributing relevant background and experience to drive the company's strategy.

Often, BSM disclosure is in the form of a table, with a list of skills and experience and an accompanying description. However, companies are now constructing quantified and even director-specific matrices. This greater level of transparency indicates that the company 'has nothing to hide' and is confident of their board appointees' qualifications.

We believe it is in companies' and investors' best interests to provide a detailed BSM, particularly, owing to the fact that:

- There is increased scrutiny by investors of board qualifications, diligence, accountability and oversight practices;
- There is increased willingness to hold individual directors accountable;
- BSMs improve board transparency, strengthening credibility and trust;
- BSMs assist companies in identifying gaps in board skills and expertise and can play a critical role in ensuring a rigorous and robust approach regarding succession planning.

EXAMPLE 1: QUANTIFIED

SKILLS AND EXPERIENCE	Number of Directors (out of 4)
TECHNOLOGY • Strong understanding of information technology processes, cyber risk, digital disruption • Experience at a senior executive level managing technological risks	3
FINANCIAL EXPERTISE • Strong financial background involving corporate finance, deep understanding of taxation principles and accounting • Previously held a CFO role	2
GOVERNANCE AND RISK • Strong understanding and application of good governance practices and disclosures • Expert in public policy, regulation and risk management	2
FMCG EXPERIENCE • Senior executive experience in the fast-moving consumer goods (FMCG) industry • In-depth experience of merchandising, customer service and supply chains	3

EXAMPLE 2: DIRECTOR SPECIFIC

SKILLS AND EXPERIENCE	JANE DOE	JOE BLOGGS	RICHARD ROE	JOHN SMITH
TECHNOLOGY • Strong understanding of information technology processes, cyber risk, digital disruption • Experience at a senior executive level managing technological risks	✓		✓	✓
FINANCIAL EXPERTISE • Strong financial background involving corporate finance, deep understanding of taxation principles and accounting • Previously held a CFO role	✓	✓		
GOVERNANCE AND RISK • Strong understanding and application of good governance practices and disclosures • Expert in public policy, regulation and risk management		✓		✓
FMCG EXPERIENCE • Senior executive experience in the fast-moving consumer goods (FMCG) industry • In-depth experience of merchandising, customer service and supply chains		✓	✓	✓

Director Appointments

New appointments to the board can occur when there is vacancy or where additional skills are required to address strategic issues facing the company. Such appointments often need to comply with the relevant jurisdiction's Listing Rules. Therefore, it is important to provide investors a clear explanation of why a director's appointment is warranted.

– APPROACH 1 –

Director A has been elected on the board, however the company has not outlined the rationale to their appointment and there may be a possible related-party relationship between the Chair and the new director.

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Investors raise governance concerns and with limited disclosure regarding their appointment, may vote against their election.

– APPROACH 2 –

Company X has expressed their need to enhance the skills represented on the board, particularly in the area of sustainability. The board has clearly disclosed within the company's governance disclosures and ongoing communications that there is a need for sustainability expertise on the board to mitigate and better understand ESG factors affecting the business.

The appointee's background includes Chief Sustainability Officer at a listed company, a member of the G20 Environment Sustainability Working Group and a PhD in Ecosystem Biology and Sustainability from the Queen's University Belfast.

↓

Investors are more willing to support the nominee where the disclosures around their skills align with the board's strategy. To further support this disclosure, some companies provide in-depth disclosure of the nominee background and indicate how and why their appointment is highly relevant to filling a gap in skills.

Recommendations

1. Review the company's business strategy, life cycle, and key risks and opportunities, to determine the relevant pool of boardroom skills and criteria.

2. Develop and disclose a detailed BSM that addresses skills and links succession planning and future appointments to achieving the company's strategy.

3. Ensure director biographies are up to date, with detailed descriptions of their professional career linked to the BSM.

4. If there may be a contentious appointment to the board or a situation that may pose risk, consider undertaking engagement with investors to mitigate concerns and address any governance issues prior to the AGM. Use this time to properly brief directors on their talking points with investors and the wider public.

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ENGAGEMENT

The new rules for engagement in 2020 and beyond.

WHO SHOULD BE INVOLVED IN ENGAGEMENT CAMPAIGNS?

In the past, engagement with a company's investors, if it occurred at all, was generally a responsibility of senior management. Companies focused primarily on financial communications through Investor Relations programs. Board involvement was rare, occurring mainly in cases of crisis, underperformance, activism, or contests for control. The one clear exception was the UK – and to varying degrees in other principles-based governance jurisdictions – where informal but close relations between institutional investors and corporations had long been a common practice.

Engagement is very different today. The Board of Directors is now on the front lines. There are several reasons for promotion of the board to the lead role. First is the significant increase in the concentration of share ownership in asset managers that follow a so-called "passive" investment strategy. These giant and influential institutions, which include index funds, pension funds, sovereign wealth funds and state sector funds, have led the recent movement to focus attention on the business risks and value opportunities related to intangibles and ESG. These large investors want to engage with the Board of Directors who they believe are responsible for ESG policies and oversight of 'non-financial' risk management. Another factor is the advent of Say-on-Pay voting. The need for companies to explain and justify extraordinary pay practices opened the boardroom door to direct engagement between directors and shareholders. This was particularly true in the United States, where directors had long been shielded from contact with shareholders. Today there is a growing trend to hold directors accountable not only for pay, but for a long list of issues collectively referred to as ESG, sustainability, climate change, culture and purpose, which are all ultimately tied to the company's most precious asset, its reputation. Directors are the guardians of corporate reputation. These ESG responsibilities have become so important that investors are now willing to withhold votes for directors or support dissident slates in cases where boards are deemed not to have met their responsibilities. In addition to a broader range of topics on engagement agendas, active participants now include not only shareholders, but also stakeholders, proxy advisors, ESG research, activist shareholder groups and various standard-setters and NGOs.

Deciding who at the company should be involved in engagement ultimately comes down to the campaign's purpose and goals. The list of potential participants should start at the top with directors. The CEO should be involved where issues involve financial performance or business strategy. Investor Relations executives, General Counsel/Corporate Secretaries and CFOs all play important roles either directly or in preparation for engagement. With the new focus on intangibles and ESG issues, Human Resources and Sustainability or CSR (Corporate Social Responsibility) teams may also be required to provide input. While bringing together all the appropriate players may pose a challenge, particularly for large global companies with complex, departmentalized management structures, the effort to develop an integrated approach can help companies achieve a fully-informed, effective engagement campaign.

WHAT ARE THE SALIENT TOPICS OF ENGAGEMENTS?

ESG issues continue to gather momentum on the engagement agenda, as asset owners, fund managers and the general public increasingly focus on sustainability as a core concern. ESG and sustainability issues are truly global, with differing degrees of urgency locally. In Australia, for example, compulsory superannuation has exposed every working Australian to ownership in listed companies, with the result that individual superannuation fund members, along with their investment managers, want to know their contributions are being responsibly invested for the future. These concerns have achieved a high profile in the face of recent global natural disasters. Climate change and its consequences are now everyday matters in Australia and around the world, and companies are being held accountable to help deal with them.

Corporate culture and corporate purpose are increasingly recognized as drivers of both ESG risks and opportunities. Companies are expected to have a clear understanding of their business enterprise in a broad socioeconomic context. Boards of directors must demonstrate their ability to articulate corporate purpose and explain how their company instils and maintains a healthy corporate culture.

ESG topics can differ in materiality depending on the market sector and investor engagement priorities. While climate change continues to be a key concern for many investors, with specific focus on SASB (Sustainability Accounting Standards Board) and TCFD (Task Force on Climate-related Financial Disclosures) standardization, they are also paying closer attention to other traditional governance issues. Executive pay, which is commonly labelled a "perennial governance issue," remains high on the engagement agenda for nearly all institutional investors. Seeing pay as a measure of the board's independence and integrity, investors are particularly attentive to the link between pay and performance, internal pay equity, and even to pay quantum in the context of rapidly rising CEO pay and expanding global wealth inequality.

Companies must now assess engagement topics at multiple levels: (1) company-specific ESG business, financial and operational issues; (2) local market-related regulatory, social and even political impact; (3) global and macro-economic implications. *For engagement to be effective, corporate reporting must meet the growing expectations of investors for a comprehensive narrative that addresses both non-financial and financial topics as well as the interests of both stakeholders and shareholders.*

HOW SHOULD ENGAGEMENT CAMPAIGNS BE CONDUCTED TO ACHIEVE MAXIMUM EFFECT?

Preparation and planning are essential for the conduct of a successful engagement campaign. The following steps are suggested for companies planning to engage with shareholders for a particular ESG issue or in the context of a general meeting proxy solicitation:

- Develop a slide deck of specific issues that can serve as a guide for the engagement campaign. Topics will include, for example, matters of strategic importance to the company, issues of concern to investors and shareholders, problems highlighted in the media, issues raised by proxy advisory firms and issues that have surfaced at previous shareholder meetings, or during IR and governance roadshows.
- Conduct a thorough analysis of the ownership base and develop a profile of owners' policies and expectations.
- Monitor stock trading to detect ownership and stock price movements that signal changing investor sentiment, potential activism or change of control threats.

- Rather than being reactive to external factors, take the initiative to set the agenda and control the messaging during the engagement campaign.
- Engage with investors ‘out-of-sync’ from your reporting periods and annual meeting schedule in order to highlight new developments at the company and to provide sustained engagement throughout the year.
- Determine who from the company will be most effective to convey your message and strengthen credibility with shareholders, generally including appropriate board members as well as key management team members.
- Be sure to follow up on commitments made during the engagement.
- Remember that engagement is not limited to organized road shows and face-to-face meetings but should be part of a continuous program of communication.
- Be careful to avoid inadvertent selective disclosure of material, non-public information.

The quality of companies’ disclosure around ESG and extent to which it assists investors in their decision-making process will shape engagement in 2020. Investors want to understand how companies are integrating and reporting ESG issues relating to their businesses. For example, with climate change at the top of the list of ESG priorities, there is an expectation from large funds that companies should report under the SASB and TCFD frameworks. Deeper levels of disclosure are expected around board skills, culture and other non-financial topics.

WHY ENGAGE – WHAT ARE THE BENEFITS?

Engagement has evolved over the last few years, with large investors taking the lead in voluntarily intensifying their stewardship activities around ESG issues. Investors’ engagement strategies are also evolving. In the international arena collective engagement initiatives are increasingly common. Initiatives are not limited to traditional one-on-one meetings but now include writing collective letters to companies, active public media campaigns, collaboration on sustainable initiatives and formal coalitions (increasing their AUM clout) to help achieve defined objectives at specific targeted companies. There has been some movement on the regulatory front as well. In Europe, the Shareholder Rights Directive II that took effect in June 2019 requires investors to increase disclosure and transparency about interactions with companies during shareholder engagements. In the UK, the Investor Forum, a community interest company set up by institutional investors in UK equities, is becoming more vocal and involved in seeking change at UK listed companies with poor ESG disclosure and practices. Some investors are also undertaking targeted engagement at their clients’ request, based on clients’ ESG expectations about specific ESG issues. Impact investing is increasing. We expect these trends to continue in 2020 and beyond.

In the face of all these pressures, the benefits to companies of taking a proactive approach to engagement are clear:

- Establishing credibility and a relationship of trust with key investors
- Telling the company's story holistically
- Pre-empting activism and dissident shareholder activity
- Educating the market as to company fundamentals
- Attracting long-term investors rather than short-term opportunistic investors
- Reducing risk
- Discovering opportunities for value creation
- Avoiding undervaluation in the marketplace
- Improving internal collaboration and teamwork
- Building an enterprise culture which strengthens the allegiance of employees and other stakeholders
- Reducing the cost of capital
- Achieving sustainability for the business enterprise

Both companies and investors now understand that engagement is worth doing for its own sake. Investors want portfolio companies to engage. Companies in turn increasingly understand that engagement is an essential responsibility of running the business.

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COMPENSATION

A conversation with Susan Choe, Senior Director and Bill Ultan, Managing Director, Morrow Sodali's Corporate Governance Consultancy

Susan, since you and Bill are deep into proxy season, can you discuss some key compensation themes or highlights for 2020?

SC: *There are several noteworthy items to highlight for 2020, that potentially could have a material impact on a company's say on pay. So first the use of special one-off awards, second program changes that were made for the following fiscal year and not the year under review. Third, the push to include ESG performance metrics in incentive programs and lastly, updates to the ISS and Glass Lewis quantitative pay for performance assessments.*

Can you tell me a bit more about the use of special one-off awards?

SC: *The focus in the past generally centered around the magnitude as well as whether performance criteria were tied to the awards. Now there are increasing questions on the repeated use of special grants. So if the company grants these types of awards on a recurring basis in successive years or even several years apart,* *investors are raising concerns about the efficacy of the compensation program. In other words, investors are asking whether the compensation program is flawed and needs reexamination and redesign.*

BU: *Today one of the most common triggers for opposition beyond pay-for-performance disconnects are the use of one-time grants, especially those that are not tied to performance criteria.*

Now the second point you raised, Susan, pertains to post fiscal year compensation decision.

SC: *That's an interesting one. Historically we've observed that when it comes to assessing a company's Say on Pay, ISS and Glass Lewis generally took into account the pay programs and decisions associated with the fiscal year under review. They do, however, note in their analyses, company disclosure that pertains to any changes and or decisions that apply to the following year and beyond. But going forward, we believe that concerns around post fiscal year decisions may play a bigger role than in the past. We know that Glass Lewis recently clarified and formalized its position, that it will review significant post fiscal year changes, especially if changes touch upon issues that are deemed material to the firm's recommendations. We also recently observed an instance where ISS opposed the company's Say on Pay, partly due to pay issues related to the following fiscal year decisions.*

Bill, your thoughts on the topic?

BU: *One high level comment: As Say on Pay has evolved over the last decade, companies and boards have continued to struggle with how to gain support for decisions that the Compensation Committee may have made multiple years earlier. So Susan's point about additional disclosure is critical. It speaks to the broader communication effort to provide context for these decisions.*

It seems that ESG is all around us and it's one of the most widely discussed topics today. How does that tie into your third point about integrating ESG performance metrics into executive compensation programs?

SC: *You're absolutely correct, it has been and continues to be one of the most prevalent topics that investors are raising during engagements with their portfolio companies. They're keen to understand whether and how ESG factors are being considered when determining executive pay. When we speak to our clients and their boards, they do tell us that they're seriously and closely examining the viability of incorporating ESG metrics into their pay programs, but they do express concerns over the difficulty in determining which metrics are most effective. Also companies with strong sustainability programs evaluate holistically the company's ESG performance as it is truly embedded into their long-term strategy. In essence, executives are already being measured on these ESG factors. We don't recommend that a company take the plunge merely because some of its peers have begun to do so or tie a small percentage to an ESG metric narrowly for the sake of favorable optics. It's a very multifaceted process with significant consequences and that must be undertaken with care.*

BU: *Even when the measures are qualitative (not quantitative), a board benefits from highlighting the focus and impact that ESG factors have on executive compensation.*

Susan, since the updates to the ISS and Glass Lewis quantitative pay for performance models seem to be a perennial issue, can you briefly describe what your clients can expect in 2020?

SC: *On the ISS front, while relative TSR (Total Shareholder Return) will continue to be the dominant metric in the quantitative screen, the firm is replacing the use of GAAP metrics with four Economic Value Added (EVA) metrics and a Financial Performance Assessment (FPA) test which serves as a modifier in determining the overall quantitative pay for performance concern rating. The GAAP metrics will continue to be included in the reports, but ISS had indicated that they will be for display purposes only. The significance of this change is that there is little visibility into the ISS EVA calculations, not only for the target company but also for its peers. This means less transparency and more uncertainty about how a company will fare under the ISS model. For Glass Lewis, due to a data vendor change from Equilar to CGLytics, the firm has indicated that there will be notable changes to a company's peer group in 2020, which obviously can have a material impact on the quantitative pay for performance outcome.*

Bill, anything further on the ISS and Glass Lewis pay for performance model updates?

BU: *It's worth observing the continuous pattern of advisory firms moving the bar on Say on Pay speaks to why it's so important for issuers to stay connected to their actual shareholders and make sure they are clearly articulating the Compensation Committee's rationale for pay decisions, the merits of the program, and the connection to performance and strategy. We can count on ISS and Glass Lewis continuing to redefine their methodologies on this issue.*

Susan, any last minute advice?

SC: *One of the most important areas that we advise our clients on is on the quality of their disclosure and corporate reporting. Especially as companies prepare their proxy statements for 2020, in particular the CD&A, since we're talking about compensation, not only is effective disclosure critical, but it's often a determining factor in mitigating investors' and proxy advisors' concerns about the merits of pay programs.. How a company crafts its story and messaging will go a long way in resonating with a company's top holders and other stakeholders and it remains the most important medium of communication next to direct engagement.*

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Q&A with Mike Verrechia, Managing Director, Morrow Sodali's M&A and Activism Advisory Group

What were the most popular demands put forth from activists in 2019?

MV: *Shareholder activists continue to pressure companies from all angles and their demands really depend on company-specific situations and weaknesses to exploit in their campaigns. In 2019 some of the more popular demands called for board representation, calls to sell assets, split the company, institute a share buyback, fire the CEO, and to oppose M&A transactions.*

Are board seats still the most sought after goal?

MV: *A proxy fight for board seats, or at least the threat of a fight for board seats, remains the big gun in the arsenal of shareholder activists. That said, over the last twelve to twenty-four months we've seen many activists refrain from pulling the trigger on an actual proxy fight and instead employ different tactics in leveraging their position to effect change within a company.*

In particular, we've recently seen more exempt solicitations, or withhold campaigns, targeting a company's board nominees than in previous years. For an activist who wants to voice displeasure in the performance of existing management and board members, this is a far less costly alternative to running their own board candidate(s) in a full-blown proxy contest. Depending on the level of support achieved in this type of "withhold" campaign, an activist may decide to become more aggressive in year two and actually nominate a slate of their own director nominees.

Also, we've recently seen an increase in opposition to M&A deals.

Tell me more about activism in M&A.

MV: *Over the last couple of years, we've seen various parties take opposing stances on a number of deals. These opposition strategies include vote no campaigns, competing bids, formally soliciting votes against a deal in a proxy contest, or sometimes just spreading rumors about the deal to cast doubt on its process or suggesting that "better" deals may have been out there and not fully explored.*

All of these are potentially effective in blocking, or at least casting doubt on the deal's ability to close. For deals we've worked on over the last couple of years we've been successful in achieving the necessary vote despite opportunistic campaigns. Some of those have gone on to face additional pressure from a regulatory perspective, but ultimately ended up successfully closing.

International activism rose in 2019, particularly in Europe and Asia. Do you see that continuing?

MV: *I think it's reasonable to expect that US activists will continue to look at non-US markets for campaign targets. Activism outside the US can present challenges for US activists who not only need to have a strong thesis to effect change, but also be in a position to understand how their contest will work from a mechanical perspective. I think it is fair to expect US activists to lean more on pressure campaigns than actual proxy fights when targeting outside of the US.*

More contests continue to reach early settlement. Why are settlements desirable for either side?

MV: *Without question, there were fewer proxy contests in 2019 than in previous years. In fact overall contests were down roughly 7.5% from the previous year. However, even with the decrease in contests, settlements continued to be the dominant endgame for shareholder activist campaigns.*

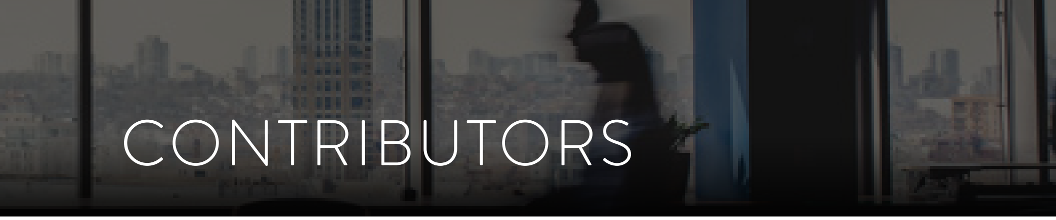
Both sides of a proxy contest, company and activist, need to look carefully at the costs and benefits of a contest and determine how they define a "win." For many companies and boards, finding a solution that can avoid a proxy contest before it begins is the most desirable solution. What changes that perspective really depends on what the "ask" is from the activist. If the demands are reasonable, and the company and board are motivated to settle, then an agreement will likely be reached. If the activist overreaches then the ball gets advanced and sometimes goes all the way to a shareholder vote at the meeting.

From an activist perspective, getting a win in a contest strengthens their fund's track record and helps attract additional investors. However, being able to claim victory in a campaign, without having to spend the money to fight, can be just as valuable.

How do you expect companies to prepare for activism in 2020?

MV: *The best form of activism preparedness is to fully understand what a potential proxy contest would look like based on the company's current shareholder profile. If companies are not conducting that type of study, they frankly should be. Many companies have been very proactive in their shareholder engagement programs over the last few years. Not just from a simple check the box approach to having outreach, but also from the perspective of understanding their complete share register and the various ways to communicate effectively with each shareholder constituency.*

We've been working with many companies who are concerned about the potential for an activism event much earlier in their annual meeting process. Getting an early start at profiling the changes in a company's shareholder base, and how those changes impact various voting scenarios, provides critical insight in devising an effective defense campaign.



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Mr. Wilcox has served as Morrow Sodali's chairman since 2006. From 2003 to 2008 he was Senior Vice President and Head of Corporate Governance at TIAA-CREF, one of the world's largest private pension systems. Prior to joining TIAA-CREF he was chairman of Georgeson & Company, the U.S. proxy and investor relations firm.

During his career he has specialized in corporate governance, capital markets regulation, director education, cross-border standard-setting and investor communication. He is the author of treatises on proxy voting, shareholder communications and board responsibility. His articles and white papers have appeared in The London Financial Times, The New York Times, The New York Law Journal, Directors & Boards, The American Lawyer, Insights, Pensions & Investments, The Corporate Governance Advisor, the Harvard Law School Forum on Corporate Governance and Financial Regulation, the Journal of Law and Contemporary Problems and other professional publications and blogs. He has testified before Congress and regulatory agencies in markets around the world on matters relating to securities regulation and is on the faculty of a variety of director education programs.

Mr. Wilcox received a B.A. from Harvard College, where he was a member of Phi Beta Kappa, an M.A. from the University of California, Berkeley, where he studied as a Woodrow Wilson Fellow, a J.D. from Harvard Law School and an LL.M degree from New York University Graduate School of Law.

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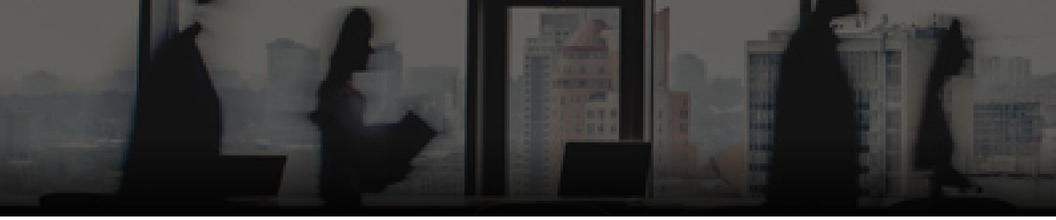
Bill Ultan is a Managing Director at Morrow Sodali and a member of the firm's Senior Leadership Team. As manager of the firm's Corporate Governance Consulting Group with over 30 years of experience in the field, Bill has guided companies through a wide range of governance and takeover challenges, including contentious shareholder proposals and compensation-based initiatives, proxy contests, tender offers, and other corporate control matters. He previously was a senior member of the firm's Stock Surveillance and Proxy Solicitation departments.

Bill's vast experience has been gained through years of observing shareholders and proxy advisory firms, assessing compensation practices and governance policies, and analyzing voting results and solicitation strategies. He prepares many strategic assessments and counsels officers and directors of public companies across a diverse range of industries and market capitalizations.



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David Shammai is a Corporate Governance Director, Cross-Border, focusing on the firm's growing corporate governance activities across Europe/UK, the US and Australia.

Prior to joining Morrow Sodali in February 2018, Mr. Shammai was with APG Asset Management, one of the world's largest fiduciary fund managers, were he served as a senior corporate governance specialist involved in voting, formulation of policy and company engagement with its portfolio of listed companies. Previously, David held senior consulting and corporate positions at KPMG and the Royal Bank of Scotland Group plc.

Mr. Shammai is currently a member of the Standing Advisory Group of the Public Company Accounting Oversight Board. He is a former member of the Corporate Governance Advisory Board of the Council of Institutional Investors (CII) and is frequent speaker at corporate governance events with a particular interest in the incorporation of sustainability and governance factors in the investment process. David's academic background is in law and accountancy from Tel Aviv University and the London School of Economics.

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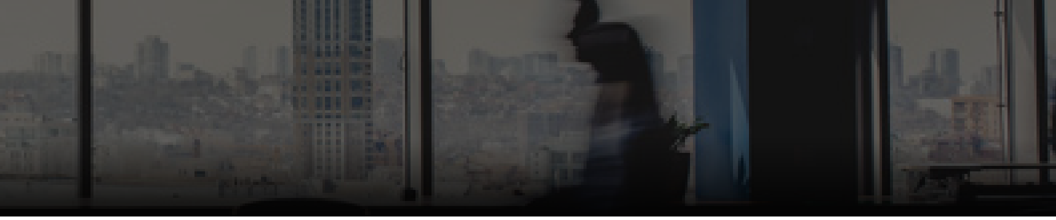
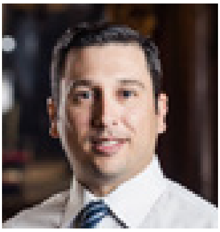
Daniel Oh is Managing Director, Corporate Governance, US. As a member of the firm's Corporate Governance Consulting Group, Daniel advises corporate clients with respect to governance practices across the full range of environmental, social and governance ("ESG") issues. Daniel has more than 19 years of experience in a diverse range of roles, covering corporate governance, equity research, investor relations, investment stewardship, financial valuation, portfolio management, and business strategy. Daniel joins Morrow Sodali from Barrick Gold Corporation (NYSE:GOLD)(TSX:ABX) where he served as Senior Vice President, Investor Engagement and Governance, leading Investor Relations and shareholder engagement on governance from 2016 through 2019. Prior to joining Barrick, he was Vice President, Investment Stewardship for BlackRock Inc., where he was responsible for managing corporate governance and ESG issues of more than 1,300 North American and European companies and advising BlackRock investment teams on corporate governance and sustainability practices.

He also led BlackRock's shareholder engagement efforts, including engaging with company management, board members, chief sustainability officers, general counsels, and corporate secretaries. Prior to joining BlackRock, Daniel held senior corporate governance roles at State Street Global Advisors and Institutional Shareholder Services (ISS). Earlier in his career with Bear Stearns and Citigroup, he conducted equity research for both the buy-side and the sell-side.





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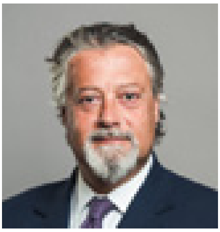
Mike is Managing Director of the Activism & Contested Situations Advisory Group at Morrow Sodali. He is also a member of the firm's Executive Committee. With 20 years of experience, Mike provides strategic counsel in matters of shareholder activism in contested director elections, mergers and acquisitions, corporate governance, and proxy solicitation.

Several contested situations in which he has served include Newell Brands/Starboard, Olympus Corporation/ValueAct, Natus Medical/Voce Capital, Blackwells Capital/SuperValu, Anheuser Busch/InBev, Martin Marietta Materials/Vulcan Materials, Mylan Labs/Icahn, Sodastream International/Teleios, Caesarstone Ltd./ Kibbutz Sdot-Yam, Sotheby's Inc./Third Point, Breeden Partners/H&R Block and Ranger Governance/Computer Associates.

In the last year, Mike has also provided guidance to issuers in some of the largest successful M&A transactions including Connecticut Water Service/SJW Group, Pfizer/Medivation salesforce.com/MuleSoft & Demandware, Monsanto/Bayer, RiteAid/Walgreens and Time Warner/AT&T.



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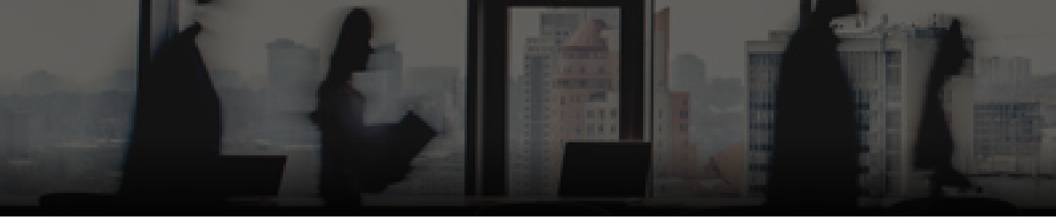
Andrea leads business development in Italy, Greece and the Nordic Countries. With almost 20 years' experience in the industry, Andrea provides strategic counsel to Boards and management. He is a Founding Partner of Morrow Sodali.

Andrea has been involved in more than 600 mandates including bond and equity corporate actions, ordinary and contested proxy solicitations, Governance and remuneration assessments, cross-border takeovers, activisms and many other corporate actions.

Andrea has almost 30 years' experience in the financial markets. He is a member of the ICGN and ECGI. He sits on the three ICGN Committees: Remuneration, Shareholders Rights and Cross-Border Voting and has actively participated in the transposition of the Shareholder rights' Directive in various European countries. He has been a member of the OECD Latin American Roundtable Related Party Transactions Task Force. He is a frequent speaker at global conferences focusing on governance, shareholders meetings and Board matters. In his initial career he dealt with equity asset management, derivatives, Eurobond and fixed income trading. He is also Chartered Public Accountant.



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Kiran has over 13 years' experience in investor relationship management and leads our EMEA and LATAM client investor engagement strategies around corporate governance, responsible investment (ESG), event driven and activist situations. His relationships with global institutional investors and boutique investors bring us a wealth of expertise, knowledge and access to corporate governance specialists, ESG analysts and portfolio managers.

His extensive track record in corporate advisory, combined with his deep institutional investor expertise, corporate engagement experience and strong global networks help our clients navigate increasingly complex governance challenges, engagement strategies and M&A activity. Kiran is the author of our Institutional Investor Survey, our publication focusing on forward-looking investors trends around Corporate Governance, ESG and Activism.

Kiran has from time to time represented select activist shareholders. This experience and perspective has proven to be an invaluable insight for his corporate clients. Some of the most notable situations in which Kiran has assisted include Schneider Electric's board renewal, Whitbread/Elliott's activism situation and Repsol ESG engagement activities.

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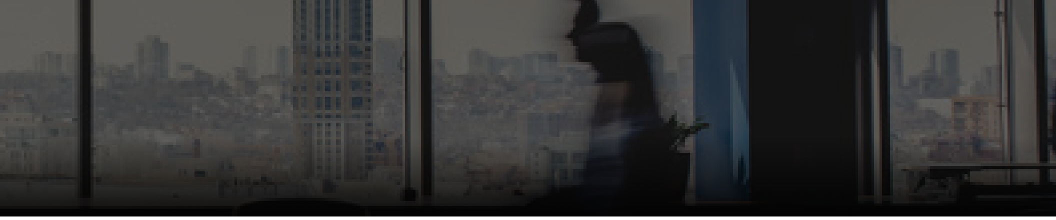
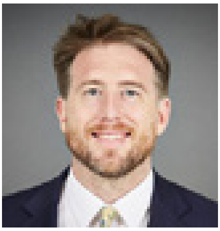
Susan is Senior Director of the US Corporate Governance Consultancy at Morrow Sodali. She brings a depth of knowledge and experience to help companies assess and strategically manage their corporate governance, executive compensation, ESG and shareholder engagement imperatives. She also advises companies on prevailing trends, market practices and overall investor climate on key emerging governance and compensation topics to help minimize the risk of shareholder activism.

Prior to relocating to our London offices in the Fall of 2018, Susan was based in our New York City headquarters. Before joining the firm, Susan served as Director in the Corporate Governance and Executive Compensation Consulting Practice at Aon Hewitt. In that role, she advised primarily US-listed large market capitalization company boards and senior leadership on executive pay plans and associated governance matters, and at times, FTSE 100 companies on similar topics.

Her knowledge and experience in corporate governance began at ISS, where she served as a Lead Advisor of the ISS consulting arm, helping large public companies navigate the challenges of the proxy advisory firm's policies; and prior, as a senior member of the ISS US Research Executive Compensation team. Earlier in her career, she served as an actuarial consultant in the Actuarial Risk Consulting and Management Practice at Aon plc.





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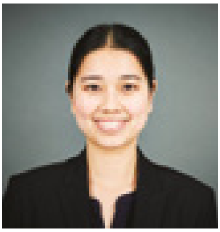
Ben is an experienced communications professional with a background in investor and public relations, working with both public and private companies across a variety of sectors in the Australian market.

He has advised companies on transactions including IPOs, Mergers and Acquisitions, Capital Raisings, and Joint Venture arrangements.

As Director, Client Services for Morrow Sodali, Ben is responsible for managing the Client Services team and working with other areas of the business, including Governance, to deliver client programs which involve a wide range of corporate initiatives. These include hostile bid defences, annual general meetings, proxy fights, capital raisings and M&A.

Ben's technical capabilities and expert judgement on shareholder engagement and corporate reputation matters, combined with his commitment to customer excellence, ensures he is able to provide clients with outstanding value and results.



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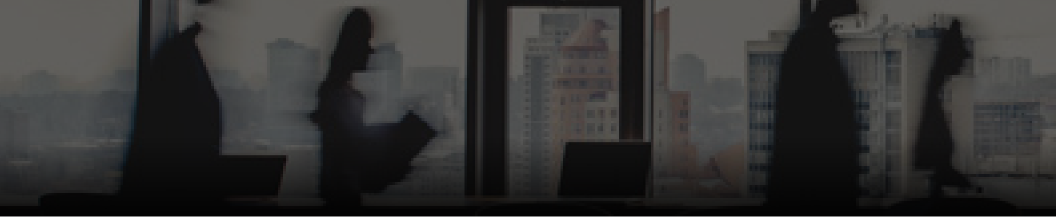
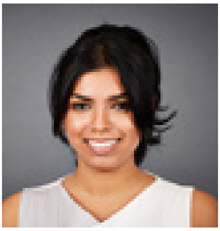
Emily is an Environmental, Social and Governance (ESG) specialist advising and supporting ASX300 companies with their framework implementation and disclosure strategy. In this role, she guides management on best practice ESG approaches and disclosures.

Prior to joining Morrow Sodali, Emily held the position of Sustainability Senior Consultant, Strategic and Reputational Risk at Deloitte where she advised on emerging ESG risks and opportunities including climate risk; tested the effectiveness of governance and risk management processes in place to add and protect value and provided assurance and advisory services related to the GRI Sustainability Reporting Standards.





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As Senior Associate, Corporate Governance for Morrow Sodali, Pratiksha assists ASX boards and senior managers with best practice for governance-related matters. She specialises in sustainability, and board and remuneration disclosure. Pratiksha is also a specialist in the Global Reporting Initiative (GRI) reporting guidelines.

Pratiksha's experience has included working with some of Australia's largest issuers, including Spark Infrastructure, South32, Aventus Property, Amcor and Ardent Leisure.

Pratiksha is able to provide clients with exceptional value through her technical expertise, customer focus and results driven approach.

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Maria provides strategic corporate governance support to ASX-listed companies and assists with their ESG reporting and disclosure. Prior to joining the Corporate Governance team, Maria engaged with institutional and retail shareholders in the Investor Services team at Morrow Sodali. Previously, she worked at ANZ Bank, where she was trained and accredited in asset finance.

ABOUT MORROW SODALI

Morrow Sodali is a leading provider of strategic advice and shareholder services to corporate clients around the world.

The firm provides corporate boards and executives with strategic advice and services relating to corporate governance, shareholder and bondholder communication and engagement, capital markets intelligence, proxy solicitation, shareholder activism and mergers and acquisitions.

From headquarters in New York and London, and offices and partners in major capital markets, Morrow Sodali serves more than 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.

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