LIGHTHOUSE

MORROW SODALI

# Sustainable Business Strategies and Reporting Excellence

APAC OCTOBER EDITION

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# Contents



# About Lighthouse

Welcome to Morrow Sodali's Lighthouse, our quarterly publication providing insights on shareholder and ESG trends, along with key market updates in the APAC region.

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# Uncovering the ESG sensitivities within a company's register

Increasing stakeholder attention on environmental, social and governance (ESG) matters has made it critical for companies to improve the quality of their disclosures. But boards and management, seeking to understand how this impacts their organisations, must master a constantly evolving array of acronyms, advisors and associations, agencies, standards and frameworks.

Deciphering how these influences affect the behaviours of key investors, and the company's share register as a whole, adds an additional layer of complexity that is beyond the capacity of any in-house investor relations team to unravel, says Justin Grogan, Morrow Sodali's Senior Managing Director, Corporate Governance & Sustainability APAC.

"It's information that directors and management need, whether to understand the drivers of investor decision-making, to reach good decisions on resource allocation or to determine what their organisations should be disclosing. But it's information that very few of them have ready access to, which leaves them guessing about the intent of their investors," says Grogan. "And that's the role of our Voting Power and ESG Influence Analysis, to provide evidence-based analysis."

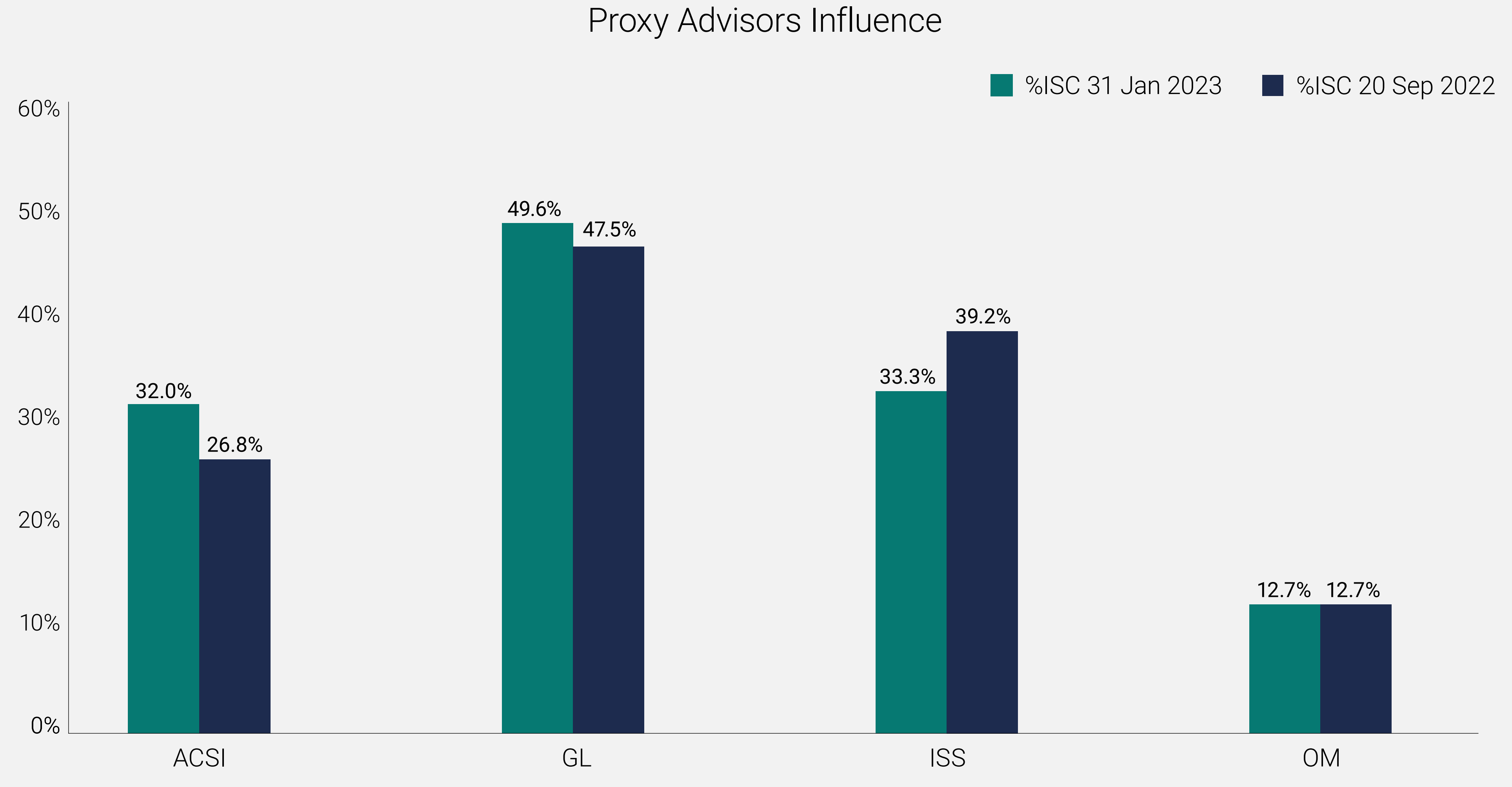
Building upon a standard Beneficial Ownership Analysis, Morrow Sodali can leverage its proprietary global database of institutional investor information to generate unique insights into the most important influences on a company's shareholder base, and then provide regular updates on how these influences are changing over time.

This provides quantitative and qualitative data on the forces shaping investor behaviours, including which proxy advisors' research is most relied upon; which ESG associations have the greatest influence (i.e. Climate Action 100+, ICGN, RIAA, UN PRI, etc); which ESG surveys are most widely used (i.e. MSCI, Sustainalytics, CDP, DJSI, etc); and, which ESG frameworks (i.e. SASB, TCFD, GRESB, etc), are the most important.

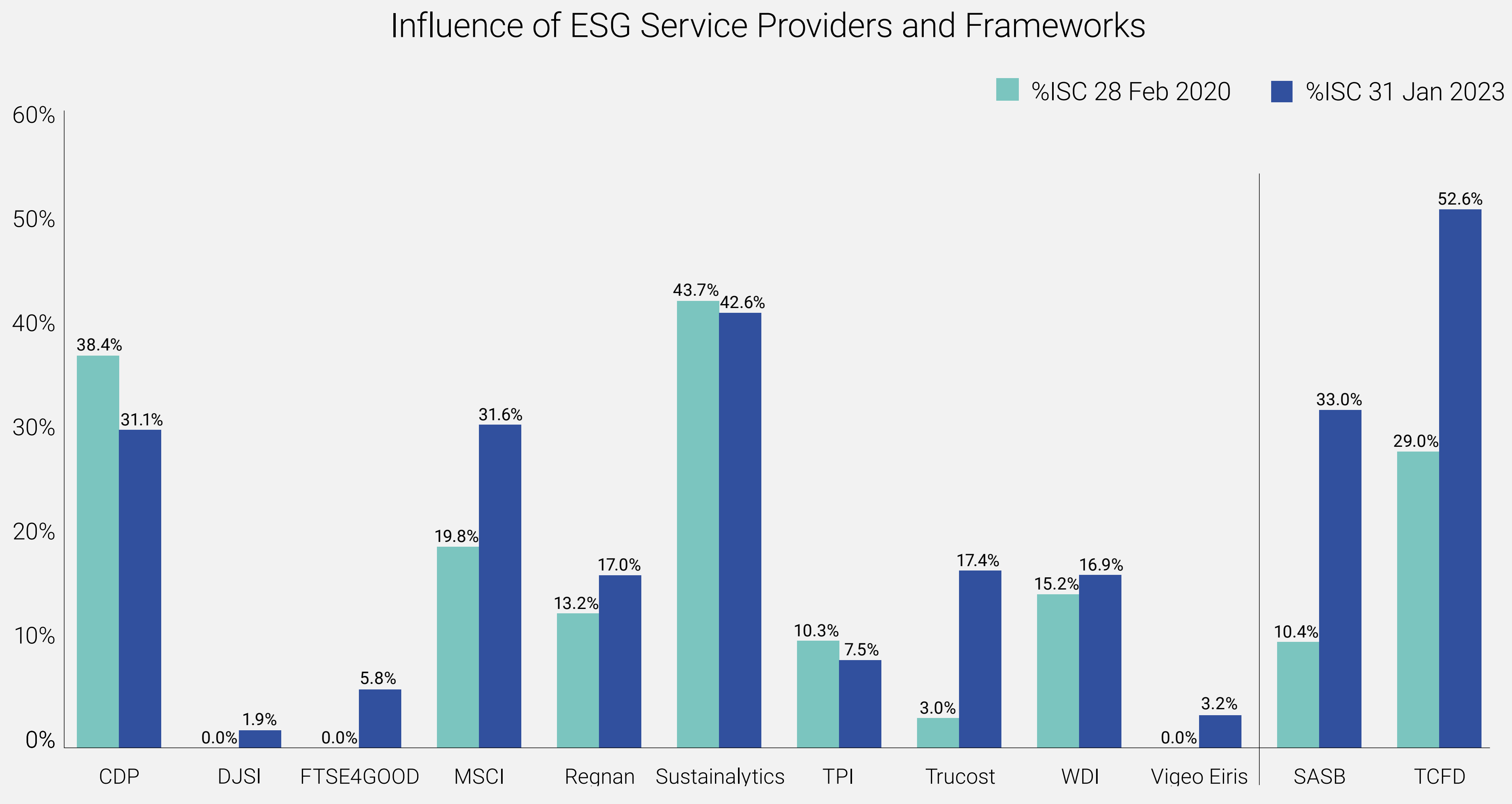
"Summarised in a presentation for the board and management, a Voting Power and ESG Influence Analysis provides up-to-date insights into the consequences of any movements within the register, and the increasing or decreasing influence of various third parties on a company's actual owners.

The result is quantifiable, actionable evidence of which ESG associations, service providers and frameworks are currently driving investor decisions, says Grogan.

"The purpose of a Voting Power and ESG Influence Analysis is to educate boards and management about what is swaying their investors and how various influences are evolving over time. It enables them to better understand the motivations and drivers of investor behaviours, to decide how to most effectively respond to ESG rating surveys, and how to frame the structure of disclosures such as sustainability reports."




*Example of an extract from a Voting Power and ESG Influence Analysis report*




*Example of an extract from a Voting Power and ESG Influence Analysis report*

## Benefits of the Voting Power and ESG Influence Analysis

By combining its global shareholder engagement expertise with specialist advisory capabilities, Morrow Sodali can provide detailed information about a company's institutional and beneficial shareholders and their policies relating to key governance, remuneration and sustainability matters.

This analysis outlines which shareholders subscribe to proxy advisors whose recommendations may significantly impact voting outcomes at AGMs or EGMs. Additional analysis of the ESG ratings agencies, associations and disclosure frameworks can uncover the ESG sensitivities within a company's register.

This information can be used to:

- Ensure that the investors who actually control the voting mandate are identified and appropriately engaged with throughout the year.
- Enable a targeted approach for the board chair and non-executive directors to engage with proxy advisors in the lead-up to an AGM and during the 'off' season.
- Decide where to allocate time and effort when responding to ESG rating surveys.
- Better understand the motivations and drivers of investor behaviour.
- Educate board and management about what is influencing investors and how their influence is evolving over time.
- Align the structure of the sustainability report with investors' requirements and to help determine what information should be disclosed.

> "A Morrow Sodali Voting Power and ESG Influence Analysis will advise companies about who they should listen to, who is important and where they should focus."
>
> **Justin Grogan**

A Voting Power and ESG Influence Analysis can also benefit companies seeking to improve their ratings by ESG data providers such as MSCI and Sustainalytics, says Grogan.

"As part of the service, we help organisations identify where they are under-performing and then make recommendations on how to improve their ratings.

For example, by disclosing more information on their health and safety policies and performance, or on their strategy to transition from carbon – anything that can be identified as a weakness but is deemed important because it is a factor in the rating process and, ultimately, investors are focused on it as a material issue."

Increasingly, stakeholders and proxy advisors are not only focused on disclosure around sustainability and ESG, but they also want to understand issues such as remuneration structures, how a company incentivises management and what sort of governance structures are in place.

"And that, in turn, links into what information a company provides in their broader set of disclosures, such as their corporate governance statement or remuneration report, and how it provides this information," says Grogan.

"Investors and other stakeholders are increasingly demanding more detailed information across a range of issues that they can use to make informed decisions. A Morrow Sodali Voting Power and ESG Influence Analysis will advise companies about who they should listen to, who is important and where they should focus.

Failing to understand these influences is akin to setting sail without a map – when a GPS is available."

# Greenwashing – The risks and regulations you should know about

Greenwashing is a real reputational risk and needs to be on every board's agenda as regulatory scrutiny intensifies, says Jana Jevcakova, Morrow Sodali's international head of ESG.

She notes that greenwashing – where companies misrepresent their products or services as environmentally friendly, sustainable or ethical – is clearly on the radar as consumers, investors, lenders and companies in the supply chain increasingly make decisions on ESG grounds.

Regulators like the Australian Securities and Investments Commission (ASIC) and Australian Competition and Consumer Commission (ACCC) are also cracking down on greenwashing. So far, they've taken action against super funds, an investment product, and mining and energy companies.

**Jana Jevcakova**
Managing Director,
Head of ESG International

In May, ASIC published **a short report** detailing the 35 interventions it had taken against greenwashing over the nine months to March 2023. The interventions ranged from securing timely corrections and issuing public infringement notices to starting civil penalty proceedings.

Meanwhile, the ACCC has begun its own investigations with an internet sweep of 247 businesses in October last year and found 57 per cent of these made vague or unclear environmental claims. The biggest culprits were in the cosmetic, clothing and footwear, and food and drink sectors.

The competition watchdog now has several active investigations underway. It says it will take enforcement action where appropriate and will be asking businesses to substantiate their claims if it has concerns.

The ACCC says businesses using broad claims like "environmentally friendly", "green", or "sustainable" are obliged to back up their claims with reliable scientific reports, transparent supply chain information, reputable third-party certification, or other forms of evidence.

Jevcakova notes that the regulators are sending out a strong message and she expects their activity in this area to only intensify going forward.

She says the consequences of being accused of greenwashing are harsh. It's not just about having to go through legal proceedings, and paying fines and legal fees, but also about the reputational damage that follows.

"If you are accused of greenwashing and stakeholders lose trust in your reporting on ESG matters, they might start questioning everything else. You could ultimately lose the market's trust in your products or services and all the statements you put out," she says.

"If there is a greenwashing allegation, especially if the company is fined, proxy advisors are very likely to recommend against director re-appointments because they haven't fulfilled their duties and there's been a failure of governance at the board level."

In June, the International Sustainability Standards Board (ISSB) issued new standards to improve trust and confidence in company disclosures about sustainability. For the first time, these standards create a common language for disclosing the effect of climate-related risks and opportunities on a company's prospects.

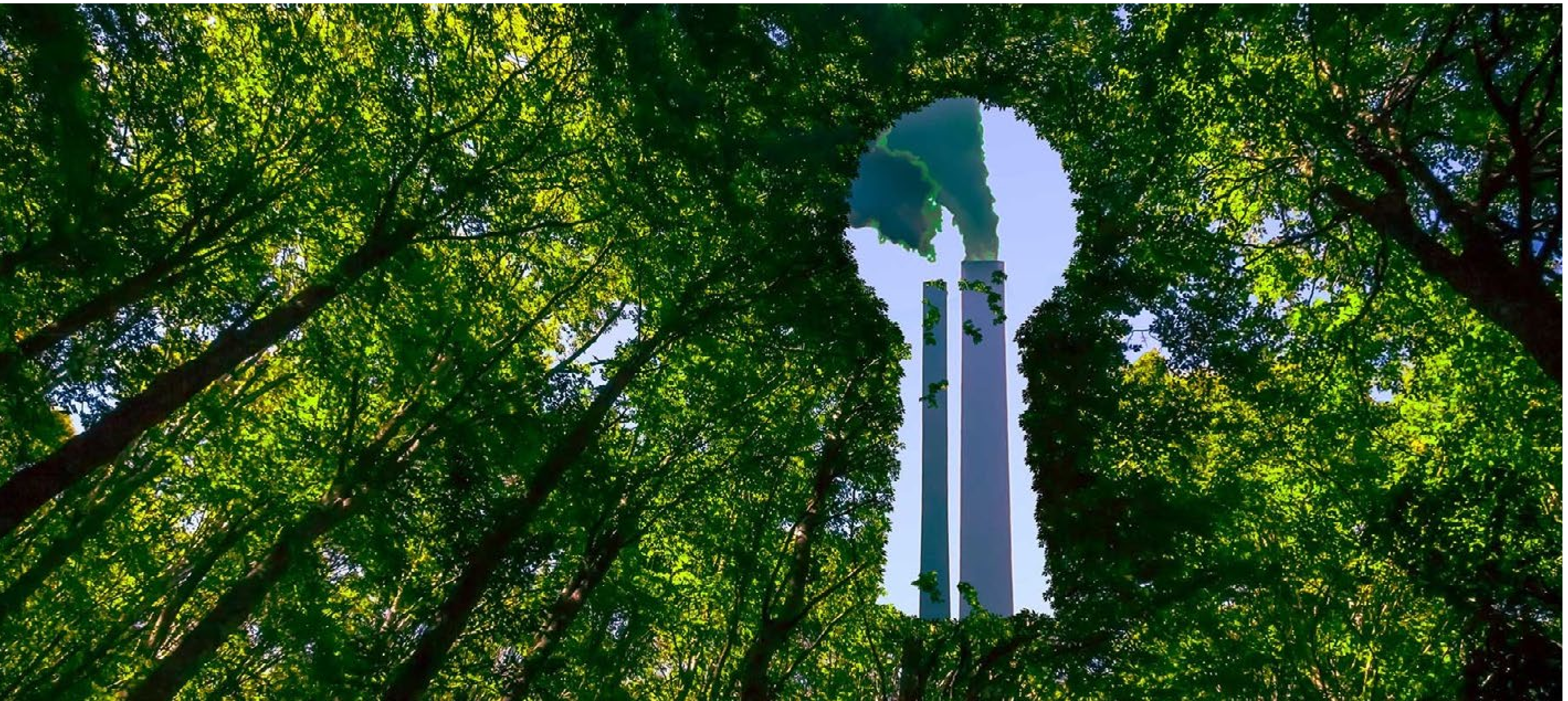
Jevcakova warns companies that sustainability and climate reporting is now just like financial reporting. "You need to have the data, metrics and targets, and be able to back it up. Going forward, the International Financial Reporting Standards (IFRS) will enable sustainability data to be auditable. That should already send the message to those who see sustainability as something 'sitting on the side' and not linked with the business strategy."

Jevcakova says it is very easy for companies to fall into the greenwashing trap.

"This is especially so if they don't take greenwashing seriously or see ESG as something that just requires some box-ticking, or as marketing material or corporate social responsibility. We completely ditched that a long time ago.

"Companies need to think about ESG as embedded in the business. All business decisions need to be made with ESG in mind. And when companies do that, it becomes natural for them to report accurately. They are then reporting about what's happening and should be able to back it up with data. They are then not just providing fluff or boilerplate statements."

Jevcakova has seen lots of different greenwashing mistakes but says: "ASIC is really going after companies around their greenhouse gas emissions and reduction targets. As an example, some companies state that they have a reduction target of say 40 per cent by 2030 and leave it at that. They haven't done their transition and scenario planning or any calculations. They just issue the statements without any short-term targets or other supporting materials whatsoever.



"Another example we've seen, that ACCC also points out, is incomplete and misleading reporting where for example a manufacturer states that 'materials used to make this product have been sourced in Australia'. But in fact, only a small portion was sourced in Australia and the rest comes from China. In a way, the manufacturer didn't lie because some materials were sourced in Australia. But it's misleading. You would assume that if it didn't mention any other countries then all the materials came from Australia."

Jevcakova also talks about "greenhushing" where companies downplay or stop voluntary disclosure of ESG information.

"That's even worse than greenwashing. If a company is in possession of information that it considers material, and that could alter how investors are thinking, it is obliged to disclose that information," she says.

"Some use the excuse that they didn't want to be subjected to claims of greenwashing before they were absolutely certain that the information provided is 'bulletproof'. But that can also be construed as greenwashing. There is a certain level of uncertainty across all forward looking statements, and climate scenarios, risks and targets are no different. Not reporting on it properly may be in breach of the continuous disclosure regime."

Continuing on the subject of emissions reduction targets, Jevcakova says: "If you have targets for 2030, 2040 or 2050, these are quite far ahead in the future. So, investors really want to know how you're going to get there on a marginal level and what sort of calculations and processes you have gone through to say you can confidently reach those targets.

"With climate change specifically, they're also increasingly looking at whether you are going to achieve your targets through offsets. They're looking at whether you plan to change your operations and technology. They want to know about your emissions intensity and whether you are going to invest in research and development and new technology or are just going to rely on someone else to bring the technology to the market."

Jevcakova notes that companies below the ASX 100 are often less skilled at avoiding greenwashing. "They are usually resource-poor, or it's done by someone who already has a full-time job. So, they don't have the time, or their knowledge is insufficient, or they don't know exactly where to even start. There's often also a lack of awareness and a need for education."

So where can these companies start learning how to avoid greenwashing?

Jevcakova says the ACCC has issued **draft guidance** for businesses making environmental and sustainability claims, which includes eight "good practice" principles companies can follow (see breakout).

"The ACCC is still consulting stakeholders on these, but it's very likely that they will come into effect," she says. Indeed, consultations close on 15 September 2023.

Jevcakova adds that Morrow Sodali can help by putting companies through a rigorous assessment and ESG 'health check' that identifies potential gaps and missing or incomplete information in their disclosures, but also looks at what they might be doing wrong across processes, strategies, systems and governance and why, and how they could better disclose their activities to the market. "We can assist with providing quality information and tools to help companies navigate in this environment and actually walk them through the whole process," she says.

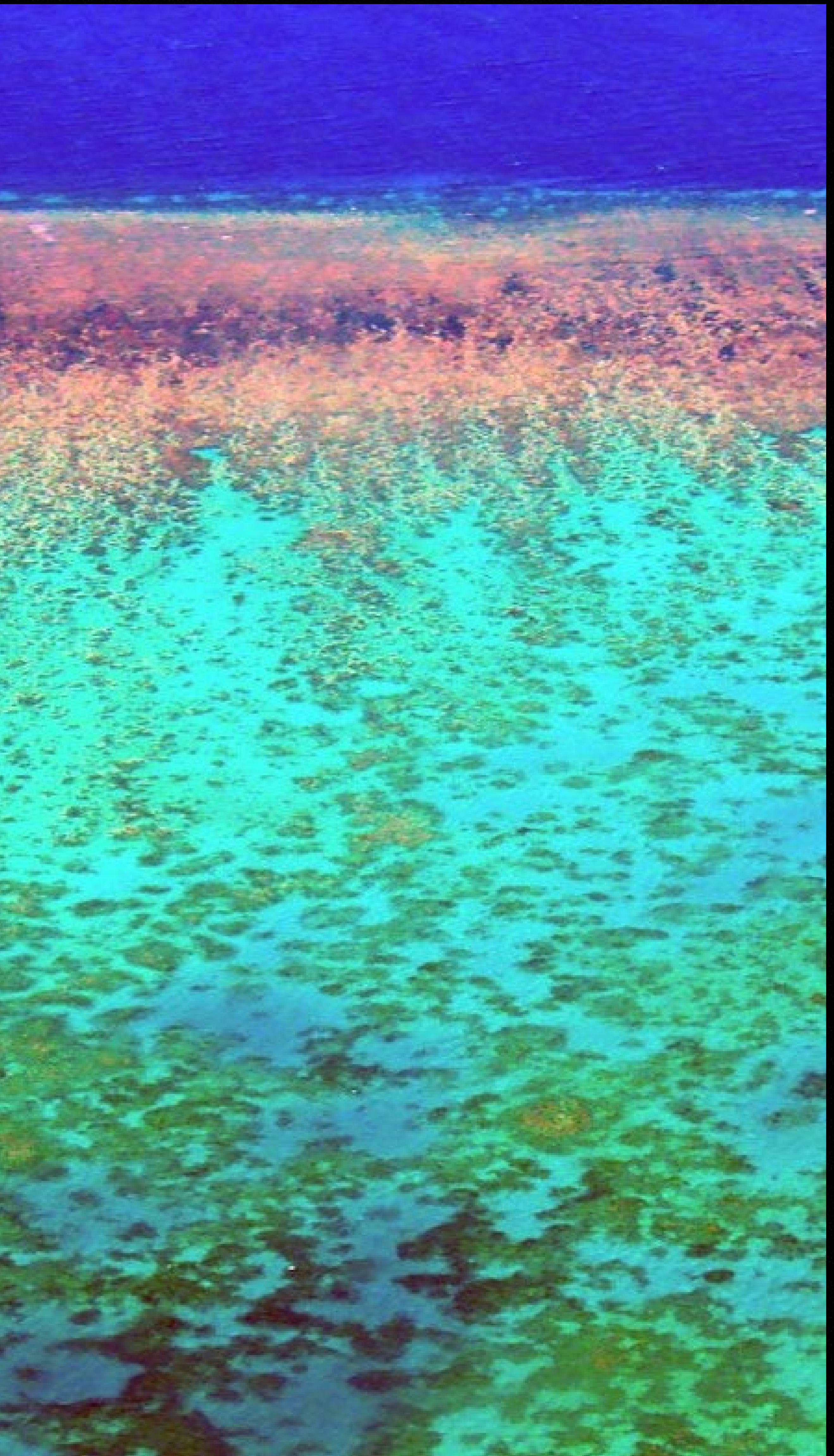
> "We can assist with providing quality information and tools to help companies navigate in this environment and actually walk them through the whole process."

**Jana Jevcakova**

## The ACCC's draft eight "good practice" principles for businesses making environmental and sustainability claims are:

1. Make accurate and truthful claims.
2. Have evidence to back up your claims.
3. Don't leave out or hide important information.
4. Explain any condition or qualification on your claims.
5. Avoid broad and unqualified claims.
6. Use clear and easy-to-understand language.
7. Visual elements should not give the wrong impression.
8. Be direct and open about your sustainability transition.

*Source: The ACCC's **draft guidance** for businesses making environmental and sustainability claims*



# Quick guide: biodiversity disclosures under the new TNFD

The Taskforce on Nature-related Financial Disclosures (TNFD) released its new **framework** at September 2023 Climate Week NYC in September, providing greater clarity and structure for companies as they begin assessing emerging nature-related risks and opportunities.

The recommendations in the report are the product of a two-year innovation and engagement program that has sought to balance the complexity of the science with the creation of practical, cost-effective action by business and financial institutions within the annual corporate reporting cycle.

With the final framework now released, companies are encouraged to start measuring, managing and disclosing their nature-related risks and opportunities, ultimately supporting a shift in global financial flows toward nature-positive outcomes.

## What is the TNFD and why is it important?

The TNFD is a global, market led initiative that supports companies and financial institutions to report and act on evolving nature-related dependencies, impacts, risks and opportunities. The taskforce consists of 40 members representing leading financial institutions, corporates, and market service providers, with over US$20 trillion in assets under management.

"50% of the global economy is under threat from biodiversity loss. However, financial institutions and corporates currently do not have the information needed to understand how nature impacts the organisation and how the organisation impacts nature."

**World Economic Forum, 2023**

The new TNFD framework will enable organisations to:

- deliver comparable, reliable, and consistent disclosures that will help investors, stakeholders and lenders evaluate and price nature-related risks;
- improve nature credentials and trust with stakeholders as nature information becomes scrutinised as much as financial information;
- assess nature risk and exposures to inform an organisation's short- and long-term strategic planning; and
- strengthen the broader financial market by improving the understanding of nature-related risks.

## How does the TNFD framework interrelate with the TCFD framework?

The TNFD framework has been closely modelled on the existing Taskforce for Climate-related Financial Disclosures (TCFD) framework. Organisations that already report under the TCFD can now take a similar approach to TNFD disclosure.

The recommendations have been designed to be consistent with the language, structure and approach of both the TCFD and International Sustainability Standards Boards (ISSB). The goal is to enable integrated climate and nature-related reporting, replicating the four disclosure pillars and all 11 TCFD recommended disclosures, which have now been incorporated into the ISSB Standards (IFRS S1 and IFRS S2) and thus its global sustainability reporting baseline.

## What are the key pillars of the TNFD framework?

The framework is centred around nature-related dependencies, impacts, risks and opportunities and is structured around four disclosure pillars:

**TNFD recommended disclosures**

| Governance | Strategy |
|---|---|
| Disclose the organisation's governance of nature-related dependencies, impacts, risks and opportunities. | Disclose the effects of nature-related dependencies, impacts, risks and opportunities on the organisation's business model, strategy and financial planning where such information is material. |
| **Risk & impact management** | **Metrics & targets** |
| Describe the processes used by the organisation to identify, assess, prioritise and monitor nature-relates dependencies, impacts, risk and opportunities. | Disclose the metrics and targets used to assess and manage nature-related dependencies, impacts, risks and opportunities. |

## Will my company be required to report under the TNFD framework?

The framework has been designed for organisations of all sizes, across all sectors and along all value chains. Although not yet compulsory, it is anticipated that the new guidelines will be adopted as the global baseline of nature disclosure – similar to the TCFD – and eventually mandated by individual countries over the coming years.

## When should my company start adopting the framework?

Organisations can choose to voluntarily adopt the recommended disclosures immediately.

To help organisations conduct the due diligence necessary to inform disclosure aligned with the TNFD recommendations, the Taskforce has developed the LEAP approach. It is expected that this will support organisations to adopt the Framework sooner than expected.

This approach provides guidance on four phases of assessment:

- *Locate* the interfaces with nature across geographies, sectors and value chains;
- *Evaluate* dependencies and impacts on nature;
- *Assess* nature-related risks and opportunities to your organisation; and
- *Prepare* to respond to nature-related risks and opportunities, including reporting on material nature-related issues to shareholders and other stakeholders.

## What questions should I be asking as an executive or director?

There are several top-line questions that company executives and directors should be asking to ensure they adequately understand and have oversight of biodiversity risk:

- Have we assessed the materiality of biodiversity on our company, including financial performance, operational impacts or access to future opportunities?
- Are biodiversity risks and impacts embedded in the company's risk management framework?
- Does the company have a strategic biodiversity plan to align with the company's overarching strategy and purpose?
- Do I have the necessary skills and knowledge to understand how biodiversity affects my company?
- What are the expectations of regulators, investors and other stakeholders in applying the TNFD framework?

## How can Morrow Sodali help?

Morrow Sodali can assist companies to assess their readiness and prepare for reporting under the TNFD framework, while also supporting with integration and disclosure.

Morrow Sodali has the expertise and know-how to:

- review and uplift governance practices to ensure that appropriate structures are in place to oversee nature-related risks and opportunities;
- analyse investor and stakeholder expectations, and conduct industry and peer benchmarking;
- conduct materiality assessments with investors and other stakeholders to identify and prioritise nature-related risks and opportunities;
- assist in preparing disclosures that align with the TNFD Framework and meet rapidly evolving stakeholder expectations; and
- upskill directors and executives in what will be required under the new TNFD framework, along with other reporting and regulatory requirements such as incoming climate-related reporting.

# FY23 reporting season recap – who survived, who thrived and who surprised?

With the FY23 reporting window having drawn to a close, we reflect on a season full of surprises.

Share price volatility was par for the course, with double-digit fluctuations common on announcement day as investors digested the financials and all-important outlook commentary.

As we **foreshadowed in early August**, companies that were able to cut through the noise and clearly articulate their story for easy consumption were generally rewarded.

We saw an abundance of new disclosures and plenty of buzzwords, with "AI-driven efficiencies", "business model resilience", "challenging market conditions" and "tracking towards cash flow positive" all featuring heavily.

Anecdotes from the post-results roadshow circuit revealed that fund managers and analysts were quick to praise management teams who directly and transparently addressed the major issues facing their companies and sectors. Conversely, those who were seen to obfuscate endured some difficult conversations, with many having seen their shares de-rate since the results announcement.

## FY23 performance – not as bad as feared

While earnings were down year-on-year, corporate Australia emerged from a challenging macroeconomic environment in FY23 in better shape than many expected.

Performance versus consensus was mixed, with roughly one-third of companies undershooting, one-third in-line and one-third outperforming.

While management teams pointed to the impacts of rising input costs on margins, companies appear to have managed inflation relatively well, with those demonstrating pricing power outperforming – witness Brambles' 7% share price pop after pushing through of 16% price increases.

Rising interest rates and falling bond yields had a differentiated impact on earnings, with clear winners (insurers, banks, owners of regulated assets) and losers (cash burners and the highly leveraged).

## The consumer remains resilient

One of the key focuses heading into this reporting season was the health of the consumer, and the retail sell-off leading up to August confirmed that hopes were not high.

However, positive pre-announcements and results from the likes of JB Hi-Fi and Nick Scali showed the consumer remains resilient. This was echoed by the big banks, who revealed household savings buffers remain above pre-COVID levels and mortgage arrears were lower than expected.

Discretionary bellwether carsales delivered a strong set of results, with profits quadrupling, while shoe retailer Accent Group's strong sales update showed there is still life in its core youth demographic, sending its shares up 17%.

Since the beginning of August, consumer discretionary names are up 3.5%, however this may prove the calm before the storm, as many reported trading weakness in June and July.

## Cautious outlook and lack of guidance

A clear hallmark of this season was caution around the outlook for FY24.

We previously flagged that the issue of providing guidance would be particularly hotly debated, and this proved to be the case, with many companies guiding to lower-than-expected earnings in FY24.

While overall cash balances were down on the prior year, balance sheets remain in good health. However, boards reinforced their caution by electing to conserve cash, with more companies cutting dividends than increasing them.

Interestingly, small caps have outperformed larger companies so far in FY24, with the ASX Small Ordinaries index up 1.5% since June 30, while the ASX 100 is down 0.75%.

Looking ahead, the market will continue to closely watch the ongoing impacts of inflation and the potential for further rate hikes, with unemployment a key focus over the next 12 months. Now, attention turns to the upcoming November AGM season, where the next tranche of trading updates will reveal where the economic pain is being felt most acutely.

# Preparing for the AGM season

With the arrival of the 2023 AGM season and companies embarking on their pre-AGM governance roadshows, two of Morrow Sodali's experts reveal what they are expecting and how they are advising clients to prepare for it.

Aldi Djajaputra is a Senior Director of Corporate Governance at Morrow Sodali and Matt Gregorowski is Managing Director of Investor Relations at Citadel-MAGNUS, recently integrated into the Morrow Sodali Group.

For their combined client base, it means the ability to access subject matter experts in strategic IR and corporate communications alongside Morrow Sodali's governance and sustainability advisory teams, essentially providing a one-stop-shop for listed companies.

**Aldi Djajaputra**
Senior Director,
Corporate Governance

**Matt Gregorowski**
Managing Director,
Investor Relations

Continuing a trend over the past few years, Djajaputra expects more scrutiny on director elections this year, as proxy advisors and investors are increasingly holding directors accountable for a wide array of environmental, social and governance (ESG) issues.

"In recent years, we've seen an incremental uptick in the number of ASX300 directors with dissenting votes greater than 20% against their election or re-election, which is considered significant," he says. "The increasing voter dissent against directors is typically levelled at companies that have been subject to major ESG issues or controversies – including director over-boarding, poor remuneration practices, cyber security breaches, accounting fraud, money laundering investigations, poor customer outcomes, workplace fatalities, poor management of climate strategy, and board diversity concerns."

Djajaputra notes that because many directors sit on multiple boards, what happens at one company under your watch can also impact your election or re-election on another board. In the Glass Lewis **2023 voting policy guidelines**, the main policy update was the introduction of their approach regarding the assessment of a director's current and past track record at other companies or boards, when providing voting recommendations on their re-elections. Various factors considered by Glass Lewis when evaluating such directors typically include: the severity of issues (based on the impact on company financial performance, share price and social license to operate), a director's role and tenure, and the timing of issues/events when the director was in the role.

"Following a major ESG controversy, there's a strong expectation from proxy advisors that companies are proactively embarking on a board renewal process to demonstrate accountability to right the wrongs of the past," Djajaputra says.

It's why communication with shareholders is so critical, a message Gregorowski highlights as the key consideration going into this AGM season. He argues that while small cap investors use the proxy advisors as a benchmark, most large institutional investors vote on their own accord, often through dedicated governance managers and stewardship teams. Furthermore, the prevalence of activist shareholders on company share registers is becoming more prominent.

"Companies should be engaging with their shareholders ahead of the AGM as a matter of course," he says. "That's to ensure they have a good understanding of the AGM resolutions, but also the board's considerations in making key decisions during the year, such as board succession and setting the remuneration frameworks," says Gregorowski.

"Companies that drive active IR programs and regularly engage with their shareholders and proxy advisors tend to find that when the AGM comes around, they are much more supportive around remuneration and any other issues because they have the right context. It should never be the case that you're having to justify your resolutions to an uninformed investor base.

"What's more, if you have an activist shareholder agitating for change, if you've got clear lines of communication, a good understanding of what you're trying to achieve as a business, the right governance frameworks and a sustainable business model, there's much less likelihood that your shareholder base would be sympathetic to their views."

Djajaputra adds that proxy advisors continue to expect directors to engage with all their stakeholders, including activist shareholders or advocacy groups, such as Market Forces and the Australian Centre for Corporate Responsibility (ACCR). For example, he notes that while proxy advisors often do not support climate-related resolutions filed by activist groups at company meetings, they do expect boards to demonstrate that they are regularly engaging with these groups to understand their concerns.

> Following a major ESG controversy,there's a strong expectation from proxy advisors that companies are proactively embarking on a board renewal process to demonstrate accountability to right the wrongs of the past.
>
> **Aldi Djajaputra**

This AGM season, Djajaputra expects proxy advisors and investors to heavily scrutinise the remuneration decisions of companies that have been subject to ESG controversies. "Boards are generally expected to make tough decisions on executive remuneration in the wake of a material ESG failure. Proxy advisors will be carefully analysing and comparing the extent of board remuneration decisions across different companies, relative to the shareholder experience. This includes board discretion regarding bonus outcomes, including claw back, and the nature of termination benefits paid to departing executives," he says.

Djajaputra believes we could see an increase in the number of remuneration "strikes" this AGM season, as investors increase their pressure on underperforming companies. With a slowing economy impacting the bottom line and the shareholder returns of many companies in FY23, investors and proxy advisors will be increasingly critical of companies that are perceived to be poorly executing their business strategy, including M&A, capital management decisions and climate strategy.

"We could see more investors adopt a more activist-like mindset this year and providing a 'protest' vote against the remuneration report to voice their discontent with a company's underperformance. Pay-for-performance will continue to be a strong focus area for proxy advisors this year, including scrutiny on the robustness of performance targets in a low growth environment, the use of underlying or non-statutory financial measures, and the prevalence of ad hoc retention-based awards," Djajaputra says.

Gregorowski agrees, noting that in FY24 there is going to be an unusually strong focus on company performance because the impacts of this inflationary cycle are only beginning to be felt, and that companies should be using their AGM to keep the market abreast of how they are faring.

"The recent FY23 reporting season showed that consumer-facing companies have weathered the impact of inflation and subdued consumer spending better than was expected. But the flow-on effects of inflation are more likely to become evident in FY24, so the market will be acutely focused on companies' performance updates throughout the year," he warns.

He says many companies use the AGM as a natural point in the corporate calendar to provide commentary on their performance, and that this year the market will be keenly assessing which pockets of corporate Australia end up feeling more of the pain. Also, those companies that can demonstrate their business models are proving to be resilient will reap the rewards.

"There is going to be a lot more reallocation across small cap portfolios in FY24 as investors are increasingly being assessed on their own quarterly performance," he says. "So, if your business is adapting well, whether that be via improved cost efficiencies or sustainable pricing increases, it pays to keep investors up to date. Non-disclosure in this environment can often lead to misaligned or negative expectations."

Communication is one of the ways in which companies that do face a remuneration "strike" can help to assuage their investors ahead of next year's meeting, alongside disclosing what they are doing to address key governance risks.

Another prominent ESG issue that is likely to feature this AGM season – although certainly not new – is gender diversity. In May 2023, the Australian Council of Superannuation Investors (ACSI) released a new voting policy to further enhance accountability on ASX300 companies with poor board gender diversity. This AGM season, ACSI will consider recommending its members vote against directors of ASX300 companies if the board has less than 30% female representation. While ACSI is likely to target male directors in the first instance, the policy will focus on opposing individual directors most accountable for board succession and composition (male or female), for example, the board chair or nominations committee chair.

For companies with poor gender diversity, Djajaputra says it will be critical that companies clearly articulate (both in disclosures and engagements) their commitments and initiatives to improve diversity throughout the organisation, as well as their board succession plans, as this will be a key consideration in ACSI's voting recommendations.

Ahead of any proxy advisor engagement, it's crucial for a board to be across the proxy advisor's voting policies and any concerns they may have raised in the past. More importantly, getting a deep understanding of a company's share register, including the proxy advisors that influence their investors, is a critical component of a targeted and effective shareholder engagement strategy. This is a key focus of Morrow Sodali's shareholder voting power and intelligence services.

"In light of their voting guidelines, proxy advisors can certainly be prescriptive at times when evaluating companies, and similarly, some investors may be driven by singular issues that may not be in the best interests of all shareholders," says Gregorowski.

> There may be a perfect reason why a particular policy approach may not be appropriate for a company's unique circumstances, so the onus is on the company to be on the front foot in communicating this with stakeholders.
>
> **Matt Gregorowski**

"However, where a company decides not to address a particular issue or approach and sticks to its guns, it should be prepared to acknowledge those concerns and provide a cogent explanation for why certain concerns haven't been addressed. There may be a perfect reason why a particular policy approach may not be appropriate for a company's unique circumstances, so the onus is on the company to be on the front foot in communicating this with stakeholders. Otherwise, how can you expect their support?"

Gregorowski and Djajaputra are in fierce agreement that timely communication and disclosure are key with all stakeholders. This is why it makes so much sense that they now sit across from each other in Morrow Sodali's new open-plan offices, a stone's throw away from many of the investors they seek to influence every day.

# Be prepared, or pay the price

It seems the operating environment of businesses becomes more complex with every passing day. While companies are working hard to navigate these complexities, they're increasingly being scrutinised by regulators and their stakeholders. And with news traversing the globe faster than ever, the risks and need to be prepared for a crisis have never been higher.

Recently, the Australian Prudential Regulation Authority released its Corporate Plan 2023-24[1], detailing the regulator's focus areas for the next four years.

In the Plan, APRA's chair John Lonsdale details how the swift collapse of Silicon Valley Bank in March 2023, and the takeover of Credit Suisse a week later, set off alarm in global markets and rattled public confidence around the world.

Without a doubt, he says, the digital connectedness of financial systems allowed for a bank run at a speed never previously witnessed.

Lonsdale notes that the events of March 2023 are one of several changes in the operating environment over the past 12 months that influenced the development of APRA's latest Corporate Plan.

Other considerations included rising interest rates, higher inflation, and ongoing geopolitical uncertainty, as well as rising cyber security threats and the increased frequency and severity of natural disasters linked to climate change.

"One of the various challenges APRA plans to focus on is operational resilience, through an increased focus on cyber resilience, crisis management and operational risk management practices," Lonsdale says.

Government and industry regulators have been open about their willingness to act against companies that don't pay attention to their risks.

1. https://www.apra.gov.au/apra-corporate-plan-2023-24

Indeed, Australian Securities and Investments Commission (ASIC) chair Joe Longo told a recent conference that ASIC would look to make an example of directors and executives who are ill-prepared for cyberattacks, by taking legal action against them.

"For all boards, cyber resilience has got to be a top priority," Longo said.

"If things go wrong, ASIC will be looking for the right case where company directors and boards failed to take reasonable steps or make reasonable investments proportionate to the risks that their business poses. I can assure you that in the right case, ASIC will commence proceedings if we have reason to believe those steps were not taken.[2]"

Joanna McCarthy, Senior Director, Morrow Sodali, says: "The release of APRA's Corporate Plan and the comments made by ASIC are not something that should be alarming. Rather, they are a clear reminder to organisations about the need to bolster corporate resilience, anticipate threats and be prepared to respond. Organisations need to face the risks and focus their attention on crisis preparedness in the same way that government and regulators are – ahead of time, not afterwards."

As with in life, things do go wrong in business and suddenly, nothing is business as usual. So, in addition to strong risk management protocols, McCarthy says companies need to have a detailed plan and processes in place for crisis communications to protect their corporate reputation and, ultimately, shareholder value when or if things go wrong.

Having a well-rehearsed crisis plan enables organisations to respond rapidly and with confidence when uncertainty and chaos can reign as a crisis unfolds. It may be that the usual systems of communication such as email, intranet, web and server access are blocked – for example, if hackers attack your systems. So knowing how to switch seamlessly to alternate communication channels is invaluable.

The implementation of a plan plays a pivotal role in minimising potentially adverse impacts during a crisis and can contribute to the safeguarding of a company's reputation by:

- Equipping leaders with the tools to assess the reputational repercussions of a crisis and determine appropriate communication strategies for each stakeholder.
- Facilitating the swift execution of both external and internal communication during a crisis, recognising the critical importance of a rapid response.
- Establishing a structured framework of responsibilities and pre-prepared communication materials that can be tailored to particular events and disseminated promptly as part of a timely response.

Despite their tailored nature in an unfolding situation, all communications throughout a crisis should uphold the company's brand and values.

"While achieving perfect preparedness for a crisis is unattainable, robust planning goes a long way to minimising risks," says McCarthy.

"Time and again, businesses have paid the price for poorly constructed and ill-timed or non-existent communication to stakeholders. The only change now is that, with increasing regulatory scrutiny and greater penalties, the price for not preparing and not complying just went up."

> "Organisations need to face the risks and focus their attention on crisis preparedness in the same way that government and regulators are – ahead of time, not afterwards."
>
> **Joanna McCarthy**

2. https://www.afr.com/technology/asic-to-target-boards-execs-for-cyber-failures-20230913-p5e4bf

# Who is Morrow Sodali?

Morrow Sodali is the leading independent global consultancy specialising in M&A advisory, annual meeting services, shareholder and bondholder services, corporate governance, proxy solicitation and capital markets transactions.

From headquarters in New York and London, and offices and partners in major capital markets, Morrow Sodali serves more than 1,000 corporate clients in 80+ countries, including many of the world's largest multinational corporations. In addition to listed and private companies, our clients include financial institutions, mutual funds, ETFs, stock exchanges and membership associations.

## Our Purpose:

We bring together all the expertise, information, technology and resources companies need to effectively engage with their shareholders and other important stakeholders to maximise support for strategic events and business as usual initiatives.

## Our Services:

- Corporate Governance Advisory Services
- ESG Advisory Services
- Proxy Solicitation and Shareholder Meeting Services
- Capital Market Intelligence Services
- M&A Shareholder Engagement Services
- Proxy Contests, Hostile Takeovers, Shareholder Activism and Special Situations
- Retail Services and Additional Capabilities
- Debt Services
- Board of Director Services
- Services for Registered Funds - Mutual Funds, Exchange Traded Funds (ETFS) and Closed-end Funds - **Morrow Sodali Fund Solutions**
- Transaction Communications Services
- Investor Relations Services
- Corporate Reputation Services
- Research Services

## Annual recurring clients:

500+
Shareholder meetings

200+
Corporate governance advisory clients

95%
Retention rate annual meeting clients

80+
Countries

1,000+
Corporate clients

# Who is Citadel-MAGNUS?

## Strategic Financial Communications and Investor Relations Advisory

In November 2022, Morrow Sodali announced the acquisition of Australian-based corporate and financial communications firm, Citadel-MAGNUS.

Citadel-MAGNUS is Australia's leading independent corporate and financial communications firm with an experienced team of professionals based in both Sydney and Perth. Citadel-MAGNUS's core Investor Relations, Financial Communications and Board Advisory service offerings are highly complementary to Morrow Sodali's current expertise in ESG advisory, proxy solicitation and research and stakeholder campaign development.

The combination of Morrow Sodali and Citadel-MAGNUS is the largest of its kind in Australia and brings together more than 80 professionals in Australia, across 12+ disciplines, servicing more than 400 ASX listed companies each year.

**Our Expertise**

### Corporate Reputation

- Corporate Brand Profiling
- Issues Management
- Stakeholder Mapping/Engagement
- Community Relations
- Corporate Social Responsibility
- Thought Leadership
- Media & Presentation Coaching

### Investor Relations

- Shareholder & Analyst Communication
- Investor Perception Audits
- Financial Results & Calendar
- ESG Reporting
- Proxy Campaigns
- Shareholder Activism
- Investor Roadshows/Events

### Transaction Communication

- Mergers & Acquisitions
- Initial Public Offerings
- Equity/Debt Raisings
- Corporate Restructures
- Trade Sales
- Asset Divestments
- Post-Merger Integration
- Media Strategy & Management

### Special Situations

- Crisis Preparedness & Management
- Product Failure/Recall
- Restructuring & Financial Issues
- Change Management
- Litigation Communication
- Regulatory/Public Affairs
- Employee Engagement
- Data Breaches & Technology Issues

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