



Research / Engage / Influence /

2023-2024

# Stewardship Report



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# About this report

## What is in this report?

This report outlines ACSI's stewardship activities in support of our members and outlines progress against our key priority areas for the 2023-2024 financial year, including case studies on key issues.

## Why ACSI and our members focus on stewardship

Our integrated work program is designed to strengthen value of listed company investments on behalf our members to benefit their beneficiaries: superfund members. We identify environmental, social and governance risks within listed companies and seek to secure improvements to the way companies manage those issues. We also identify and monitor market-wide and systemic risks and advocate for public policy settings to better align with the interests of long-term investors and their beneficiaries.

Superannuation funds have a duty to act in the best financial interests of their members, and ACSI engages with companies and policy makers to encourage the adoption of good governance, better disclosure and effective risk management practices to improve investment outcomes. By engaging with listed companies and policy makers, our consistent and complementary approach aims to address ESG issues both at individual companies and systemically.

## ACSI's work is underpinned by the following principles:

### ESG performance is financially material

ESG investment risks and opportunities are financially material for long-term investors. However, the short-term outlook of many participants in the investment system means that today's market prices do not always capture these risks and opportunities.

### Ownership rights have an economic value

The formal and informal ownership rights that accrue to investors have genuine economic value, and exercising them can materially improve investment outcomes.

Long-term investors therefore have a responsibility to exercise their ownership rights judiciously as part of their stewardship of assets on their beneficiaries' behalf.

### Markets do not always operate in the interest of long-term investors

The rules governing investment markets and the conduct of individual companies do not always operate in the best interests of long-term fiduciary asset owners and their beneficiaries. There is therefore an opportunity and a responsibility for fiduciary investors to engage with policymakers to better align the operation of the financial system with the interest of their beneficiaries.

## How we support investment stewardship

Investor stewardship seeks to protect and enhance investment value. It includes institutional investors using ownership rights to influence the governance, policies, practices and management of the entities in which they invest. Investor stewardship covers a range of activities, including voting, corporate engagement, collaboration and public policy advocacy.

ACSI supports our members in exercising their ownership rights with a work program designed to positively influence the management of ESG issues at listed companies. The long-term approach of asset owners is integrated into our work and the approach we take with companies.

Through our research, engagement, advocacy and voting advice, we aim to deliver material improvements to ESG practices in the companies our members invest in.

## Our stewardship approach

Our stewardship activities focus on encouraging better management of ESG issues and long-term risk-adjusted financial returns in ASX300 investments.

ACSI's members are large asset owners and universal owners, invested across the ASX300. We target our engagement at the companies our members are most exposed to and which have financially material ESG risks. ESG risks may be different at each company and engagement can differ on each issue.

Our priority issues are set annually, in consultation with our members and with approval by the ACSI Board. Alignment to our members' interests is critical for ACSI to deliver value to our members.

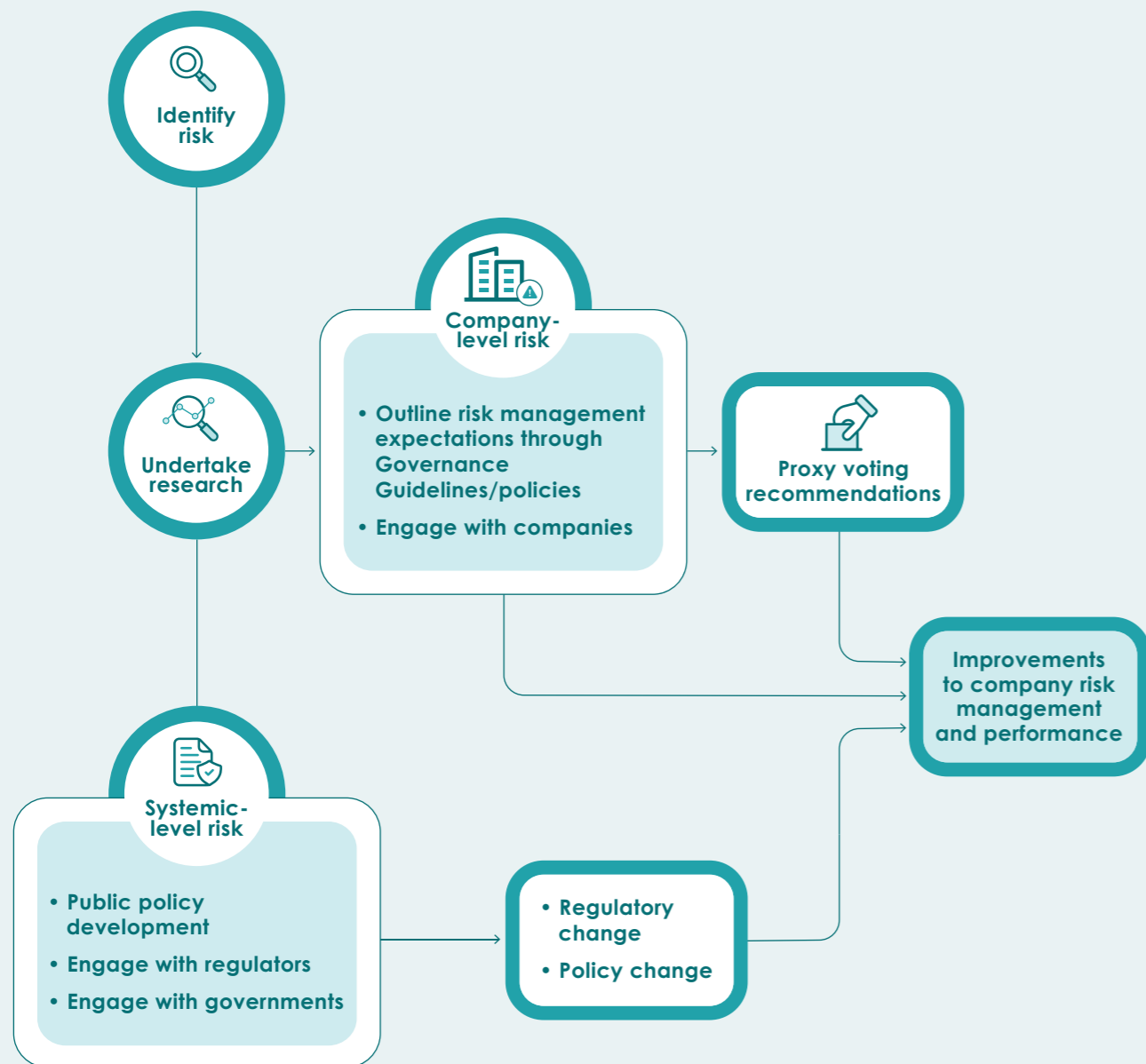
Where a thematic issue includes a system-wide risk, or where policy settings don't work in the interests of long-term investors, ACSI will undertake policy development and advocacy, consistent with and complementary to our company engagement work.

## Research

Investors need a solid understanding of the issues that may impact company performance, including ESG issues.

ACSI's research program, conducted both in-house and by external organisations, seeks to deliver deeper understanding of the material issues significant to our members.

## How do we influence management of ESG issues?



## What do we research?

Our research provides the foundation of our policy and company engagement work and underpins our voting advice. Our research focuses on financially material ESG issues that are important to long-term investors. ACSI's longitudinal research program tracks listed company reporting across issues such as climate change and CEO pay. In consultation with our members, we also undertake thematic research papers on priority issues when we identify a need for deeper knowledge. ACSI's public reports are supplemented by a series of member-only research documents designed to better inform our members on key ESG risks.

## Company engagement

Company engagement involves discussion between investors and the board or senior management of an investee company on long-term issues such as a company's performance, strategy, leadership, and the quality of its reporting.

## How do we engage with companies?

Each year, ACSI sets priority engagement themes aligned to material ESG factors. ACSI assesses an issue's materiality, the investor exposure and what changes are needed to address investor concerns.

Our company engagement involves meeting with ASX300 company board representatives and management teams to discuss a range of ESG matters. These regular engagements between investors and companies can support change in company practice and build long-term value.

We note that company actions will be influenced by a range of internal and external factors. Our engagement aims to improve company practices, but we cannot and do not seek to claim 'sole credit' for each change we may contribute to.

## Public policy advocacy

Public policy settings influence listed companies' performance on ESG issues. Investors may encourage policy makers to align regulatory policy with the interests of long-term investors as part of their stewardship approach.

## How do we advocate for policy reform?

We engage with government, regulators and other financial services sector entities to promote a long-term, equitable and effective regulatory system. This advocacy aims to create an environment in which our members can build long-term value for their beneficiaries.

ACSI's advocacy and policy development includes working to build coalitions in support of policy reform and engaging in public policy consultations with Government and other standard setting and regulatory bodies. Advocating for policy reform involves engagement with key policy makers including the Federal Government, members of parliament and other stakeholders, and ACSI engages across different levels of decision-makers and stakeholders.

## Voting advice

Investors can exercise their right to vote on matters presented at an investee company's meetings. Investors use voting to provide views on a company's strategy, leadership, remuneration, mergers and acquisitions and its ESG practices and disclosure.

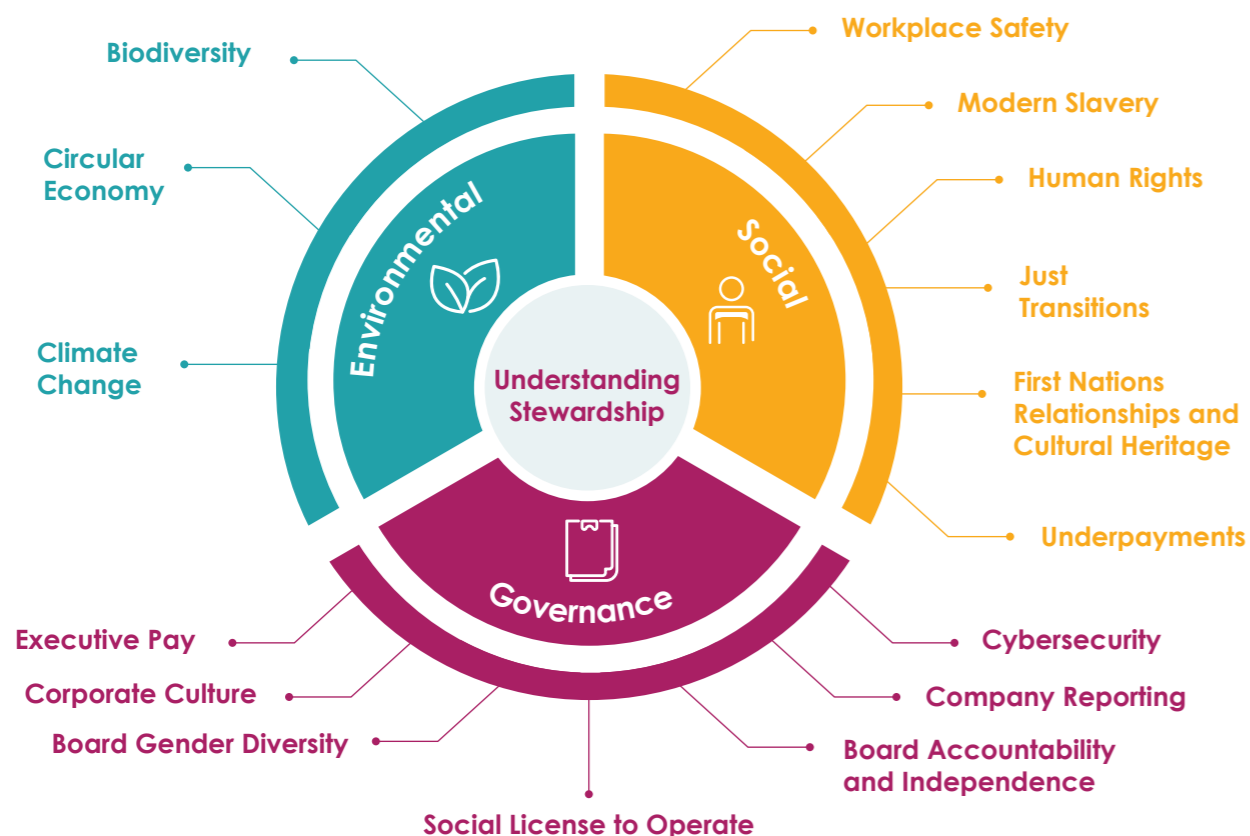
ACSI aligns our engagement work with our voting research and advice, and our voting recommendations are a useful input for subscribers when determining their voting positions.

### What are our priority issues?

ACSI identifies and updates our priority issues annually in consultation with members. Priority issues sit across environmental, social and governance themes.

ACSI's Governance Guidelines are updated and published every two years, acting as a clear statement of our members' expectations of

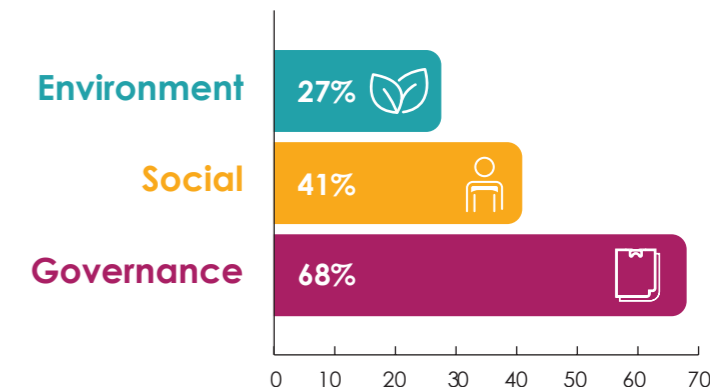
governance practices by the companies in which they invest. The Guidelines provide insights about governance issues of material concern to our members, articulate the issues that we focus on in our company engagement and the factors we consider when determining our voting recommendations.



## A year at a glance

### What is discussed in company engagements?

ACSI engagements typically include multiple ESG topics. The chart below illustrates the spread of themes discussed during the Financial Year.



Environment	Climate Change	Biodiversity and Nature	Circular Economy
Companies engaged with	51	14	11
Number of priority companies	30	11	12
% of priority companies improved	97%	64%	83%

Social	Workforce Issues	Safety	Modern Slavery	First Nations Relationships and Cultural Heritage	Responsible Gambling
Companies engaged with	16	38	61	8	7
Number of priority companies	10	28	19	9	6
% of priority companies improved	100%	79%	79%	100%	83%

Governance	Board and Governance	Remuneration	Diversity
Companies engaged with	165	181	38
Number of priority companies	13	26	67
% of priority companies improved	92%	58%	64%

## Environment

## Climate Change

## Why ACSI and our members focus on climate risk

Climate change risks can have a long-term impact on investment returns. ACSI and its members therefore have a strong interest in portfolio companies managing climate change risk and opportunities. That is why ACSI engages with companies to encourage effective mitigation of those risks.

Unmitigated climate change would have catastrophic impacts across the globe, including impacts on human health, biodiversity, water availability, and disruption of ecosystems.

Climate change is therefore distinctly financial in nature, presenting risks and opportunities for business. There are physical risks associated with rising mean global temperatures, rising sea levels and increased severity of extreme weather events, and transitional risks and opportunities as the economy adjusts to a lower carbon future.

## Research

ACSI's annual report on [ASX200 climate disclosures](#), released in August, found the majority of the ASX200 now report against the Task Force on Climate-related Financial Disclosures (TCFD). It also found 80% of ASX200 market capitalisation is invested in companies that have set some form of net zero aspiration. Despite the improvements made in transparency over time, ACSI's research highlights the fact that gaps remain in the detail and comparability of climate-related reporting. Engagement with companies over recent years has contributed to the significant voluntary adoption of

Long-term investors want to see an orderly transition to a low-carbon economy to reduce negative impacts on the economy, affected communities and ecosystems. A planned transition will result in better economic outcomes and will take account of the needs of various stakeholders with better management of uncertainty and volatility.

ACSI's stewardship focus on climate change is on encouraging companies to ensure their strategies and actions are aligned to the goals of the Paris Agreement - to limit climate change to well below 2°C and, ideally, to 1.5°C. This includes company engagement to drive the adoption of reporting of climate risk, net zero commitments and accompanying pathways to achieve those aims. It also includes advocacy aimed at aligning public policy settings to the goals of the Paris Agreement.

TCFD by Australian companies alongside net zero commitments.

ACSI also analysed the ways in which ASX200 companies have integrated climate-related metrics within variable executive remuneration structures to identify market trends and the performance measures used. Our research found that more than half of ASX200 companies factor in climate change when determining executive bonuses, but details about how those targets will be met and bonuses awarded are often lacking.

## Snapshot

- 29 out of 30 priority companies made progress during the year
- 10 out of 30 priority companies have adopted 'say on climate votes'
- 24% of ACSI engagements on climate change theme
- Mandatory climate reporting legislation passes Parliament
- Net Zero Economy Authority established by Government

ACSI has been considering the climate challenge for many years. Previous research included an [assessment of the alignment of ASX200 companies' climate short, medium and long-term climate targets](#) with a 1.5C scenario. This research, undertaken by

The Climateworks Centre, noted how much work Australian companies needed to do to bring their targets, particularly those in the medium-term, in line with the goals of the Paris Agreement.

## Company engagement

ACSI actively engages with company boards and executives on the way they assess and manage their physical and transition risks associated with climate change. ACSI seeks to both understand the challenges they face and to clearly communicate our expectations.

We expect disclosure to extend to strategies, metrics and targets to manage risk. We encourage companies to conduct and disclose scenario analysis that considers the transition risks of moving to a Paris-aligned economy as well as the physical risks associated with unmitigated climate change.

We also expect a company's advocacy activity (including their industry associations' activities) to be consistent with their policy positions.

Climate change issues are increasingly being included in resolutions at shareholder meetings. We take a case-by-case approach, considering our expectations (as expressed in our Governance Guidelines), the information provided by the resolution proposer and any commitments or improved disclosures from the company as a result of ACSI's engagement, before making voting - including as a result of ACSI engagement - recommendations to our members.

ACSI's climate change priorities are the base for multi-year engagements encouraging companies to not just to set Paris-aligned targets but also provide clear disclosure of progress against these targets in the short, medium and longer term. ACSI's engagement has contributed to positive changes in FY24, with 29 of 30 priority companies making progress.

In 2021, we adopted a policy supporting the provision of an investor 'say on climate' vote for materially exposed companies. Notably, one third of ACSI's 30 priority companies for climate change have now offered shareholders an advisory vote on climate strategy. This is positive, as the adoption of a 'say on climate' vote has often been coupled with improvements in transparency and commitments on climate risk. Woodside was the first company to offer shareholders a second 'say on climate' vote, with Westpac Banking Corp and Orica each providing their shareholders with a 'say on climate' vote and ~ 92% of votes cast were supportive of both.

Engagement will continue over the next 12 to 18 months with the second round of 'say on climate' votes coming up. Following Woodside's vote in April, BHP will come in November, followed by Rio

Tinto and Santos in early 2025. ACSI will undertake detailed engagements with each company on any gaps in the incumbent climate strategies and seek improvements in line with investor expectations.

Given the vital roles that banks play in the Australian economy, climate change remains a priority area for ACSI's engagement with the banks. ACSI has had long-standing engagement with the banking sector to understand how they are managing climate-related risks and thinking about the opportunities. Positively, 2024 saw an uplift in each of the banks'

### Public policy advocacy

The second half of 2023 saw a flurry of climate related policy work. ACSI engaged on the Australian Government's forthcoming mandatory climate disclosures (and accompanying Australian Accounting Standards Board Standards), the carbon leakage review and Australian carbon credit unit Review.

These policy developments could have a major impact on investors including:

**Carbon credits:** ACSI's submission on Australian carbon credit units (ACCU) in October outlined our support for the proposal to increase transparency around ACCU projects. This included views on the general ACCU Scheme Principles (such as the prioritisation of real-world emissions reductions above the use of offsets), the importance of transparency, publishing information, Australian Government purchasing of ACCUs and Native Title consent.

**Carbon pricing:** ACSI's submission to the Carbon Leakage Review noted the need for a carbon border adjustment mechanism and that product standards, multilateral agreements and targeted funding will also have a role in encouraging decarbonisation and addressing carbon leakage.

climate commitments and policies. Each bank set additional financed-emissions targets for emissions-intensive sectors and published plans to meet these targets. A focus of ACSI's engagement has been to understand the expectations banks are placing on customer transition plans, and what would cause them to not provide new or renewed lending to a customer. From our engagement, it is evident that this remains a work in progress.

**Mandatory reporting:** The TCFD winds up in October and the International Sustainability Standards Board (ISSB) is now the default climate-related disclosure framework for issuers of capital – specifically, through IFRS S2 Climate Disclosures (IFRS S1 relates to general sustainability standards). The Australian Parliament has passed legislation that will see mandatory climate reporting for large Australian businesses, including many on the ASX. The Australian Accounting Standards Board (AASB) is concurrently developing reporting standards (based on IFRS S2) to support this legislation. The introduction of mandatory climate reporting standards will influence investor engagement across the market and should serve to close current reporting gaps. ACSI has engaged closely with policy makers with the aim of developing a reporting framework that is fit for purpose and focused on material financial risk.

### Climate disclosures working group

ACSI established a working group to inform engagement on forthcoming mandatory climate-related financial disclosure regime and to develop a shared understanding on what good reporting may look for companies and superannuation funds.

#### Next steps

##### Company engagement

- Focus on credibility of climate-related targets and how companies are planning to meet them.
- Engaging with the enablers: As major providers and facilitators of capital flowing through the economy, banks have a pivotal role in the transition to a net zero economy.
- Just and equitable transitions: ACSI's research indicates that disclosure on just transition risks and strategies in Australian companies remains minimal and further engagement is needed.
- Engagement on second round of 'Say on climate votes including BHP, Rio Tinto, and Santos.

##### Public policy advocacy

- Advocating for purpose fit transition plans for Australian companies.
- Engaging with Government calling for a Paris aligned 2035 target.
- Engaging in the policy processes for the development of guidance to support mandatory reporting requirements.

CASE STUDY

### Climate transparency increasing

ACSI has been advocating for better climate disclosure across the market for well over a decade. Better company disclosure means that investors are better able to assess climate-related risks and opportunities in portfolio companies. The progress on climate reporting across the market is an example of how ACSI's integrated stewardship approach works in action. ACSI engaged with companies to encourage reporting against the TCFD framework – in 2017, just 10% of ASX200 companies did so. This year, 82% used it to disclose their climate-related risks. As disclosure across the market grew, and a global reporting baseline under the ISSB was established, ACSI recognised a clear

role for a mandatory reporting regime to capture laggards and lift the standard of reporting. ACSI has been an important voice in the discussion which saw the mandatory reporting legislation pass through Parliament.

We have also engaged with the Australian Accounting Standards Board (AASB) and Auditing and Assurance Standards Board (AUASB) given their roles in developing the Australian reporting and auditing standards. While ACSI is one of many stakeholders in this policy development, we are encouraged by the level of industry collaboration and input into this important progress.

### Progress through the years



CASE STUDY

### A just transition to a low carbon economy

The transition to net zero is expected to transform our economy and have a huge impact on the people who live and work in regions home to emissions-heavy industries. To achieve the best outcomes, we believe companies need to manage social, environmental and financial considerations.

The Paris Agreement says limiting global temperatures must be done fairly, with 'a just transition of the workforce'. But if this isn't planned and managed carefully, the financial and human costs could be significant. That makes the transition an investment risk for superannuation funds, which manage the retirement savings of millions of Australians.

ACSI has advocated for better climate risk management for years, and ACSI's climate policy makes it clear that it expects companies to plan for an equitable transition and include employee and community impact into that planning.

ACSI consulted widely and developed policy and strategy recommendations, which we shared with listed companies and governments. One of those

recommendations, for a central authority to co-ordinate and oversee the transition, was announced by the Australian Government in 2023 – the Net Zero Authority, which has now been passed by the Parliament. We believe that the advocacy efforts of many organisations, including ACSI, contributed to this outcome.

ACSI also engages with listed companies to encourage them to have plans in place to manage the impact of asset closures on workers and communities. Current and future talks will be aimed at the practical application of closure policies, including worker and community engagement practices, opportunities for reskilling and managing the impacts.

ACSI's research on the issues [A Just Transition to a clean energy economy: Investor expectations and policy recommendations](#) is publicly available, with updates and analysis of company approaches to disclosure on the issues found within ACSI's annual climate disclosures report.

### Timeline





## CASE STUDY

**Focus on sustainable aviation fuel**

Aviation is estimated to account for close to 2.5% of global carbon dioxide emissions with the industry estimating that sector emissions could double between 2019 and 2050 under a 'business as usual' scenario. The use and scale up of sustainable aviation fuels (SAF) is therefore considered by experts an important part of the aviation sector's pathway to meet Net Zero ambitions.

ACSI has engaged with Qantas on the progress against its climate action plan.

Core to Qantas achieving its long-term ambition of net zero by 2050 is the success of, and access to, sustainable aviation fuel (SAF). In recent years, there has been progress in advocating for a domestic SAF industry, with the recent Federal budget providing clear signals and funding to support the creation of an Australian SAF sector.

Through its Qantas Climate Fund, Qantas has also reported on investment in a trial biofuel project with Airbus and the Queensland government. It has also increased membership for its 'SAF Coalition', made up of 11 corporate customers, which provides a

way customers can use SAF to reduce their Scope 3 emissions associated with flying and, in turn, help Qantas mitigate the 'green premium' associated with SAF. Qantas has flagged that customer appetite and interest will be critical for Qantas reaching its 2030 SAF target of 10%.

In late July 2024, Qantas announced that it had further expanded work in this area by putting \$US50 million from its Climate Fund into an alliance of airlines, Airbus, and energy and financing companies "to help accelerate global production of aviation biofuel".

Given the importance of offsets to Qantas' climate transition plan, ACSI would also like to see the company continue to develop disclosures covering assessment of offset integrity and the quantity of offsets acquired and retired. This will be an ongoing focus of engagement along with Qantas' SAF goals and fleet renewal program.

[ACSI participated in the Government's consultation on the issues.](#)

## CASE STUDY

**Carbon capture and storage**

For many years, there has been significant focus on the development of carbon capture and storage technologies.

Santos Limited is one Australian company seeking to deploy these technologies as part of a new 'energy solutions' strategy which is, at this stage, predominantly focused on carbon capture and storage (CCS) projects. The company has reported on work exploring and targeting offtake arrangements with customers to store CO<sub>2</sub> as a service, with appetite from existing South Korean, Japanese and domestic Australian customers. ACSI has been engaging with Santos on these developments and the company's broader climate strategy.

Santos' FY23 climate disclosures made improvements in many areas, providing a clearer

indicataion of the company's transition pathway out to 2030 and further detail on the project pipeline for its CCS projects - execution of which is core to its climate strategy.

Santos has an important first phase of its CCS strategy underway with the company reporting Phase 1 of the Moomba CCS project 89% complete, with first injection of the waste gases expected in mid-2024, followed by run rate disclosures later in calendar year 2024.

ACSI will continue to engage on the resilience of Santos' 'backfill and sustain' projects in a decarbonising and transitioning world, focusing on customer demand and the development of CCS and new low carbon solutions products.



## Environment

## Nature

## Why ACSI and our members focus on nature risk

Biodiversity loss and ecosystem collapse have been identified as one of the top five global risks facing markets in the coming decade.

Biodiversity – the diversity of life in the natural world – is facing destruction at unprecedented rates globally. Biodiversity loss could wipe up to US\$20 billion from the Australian economy annually by 2050 based on current estimates.

Nature-related risk poses a significant financial risk to companies with operations which are dependent on, or impact, biodiversity. However, assessing and reporting on nature-related risks at a company level is more challenging, and is a key priority for ACSI's company engagement program.

## Research

ACSI bases its work on nature and biodiversity on research it published in late 2021. The first of its kind in the Australian market, the research considered biodiversity from an investor perspective, explaining how biodiversity-related risks manifest and canvassing Australian and international responses to

The launch of both the Taskforce for Nature Related Financial Disclosures (TNFD) and collaborative investor group Nature Action 100 signal growing global investor recognition of the financial risks in exposed companies and sectors associated with nature-loss. Both initiatives build on existing reporting frameworks and engagement methods established to address climate-related risk. ACSI is participating in the Nature Action 100, including through collaborative engagements.

Nature, like climate, can be systemic and therefore ACSI engages on public policy measures that may support investors and companies in managing this risk.

date. It also proposed practical recommendations for investors to respond to these risks, covering planning and educating, corporate engagement, managing risk, shaping policy development, and monitoring targets.

## Snapshot

- Eight of ACSI's 11 priorities are working to align with nature-related frameworks
- ACSI joins global collaborative investor initiative Nature Action 100+ to engage on risks

## Company engagement

Addressing biodiversity loss as a systemic risk is still a relatively new area for many investors and companies. Much of our initial engagement has focussed on gathering data to establish what is better practice in addressing, measuring and reporting on these issues.

ACSI's engagement work is focused on biodiversity and nature-related exposures at 11 priority companies across a range of sectors with material exposure to nature impacts and/or dependencies.

ACSI's engagement on nature sits alongside other inter-related themes. The circular economy offers complementary solutions to manage some biodiversity and nature loss risks and should be viewed as one avenue (among other necessary solutions) to addressing the issues of nature loss and climate change. Given the inherent connection with First Nations peoples' land and issues, many companies are drawing on First Nations expertise through constructive engagement and relationships.

ACSI has engaged with the identified companies on how they are assessing nature-related risks, while appreciating that different companies and sectors are starting from different bases of maturity in addressing these risks and opportunities, and we will broaden our coverage as work.

ACSI is assessing the progress of companies identifying and reporting on nature-related risks across their operations and supply chains. There has been progress, with some priority companies setting nature positive strategies, targets on deforestation, measurement of impacts and dependencies and commitments to TNFD.

Whilst the twin challenges of climate change and biodiversity loss are interconnected, with events in each contributing to the other, there are important distinctions including the diversity and location specificity of nature and biodiversity loss. The TNFD seeks to capture location-specific assessments through the Locate, Evaluate, Assess and Prepare (LEAP) framework. Most companies are yet to apply the LEAP framework, even where they have identified biodiversity loss as a business risk.

### Public policy advocacy

Australia is undertaking an important process of reviewing and updating the Environment Protection and Biodiversity Conservation (EPBC) Act, which is the backbone to the country's environmental law framework. ACSI participated consultations on the Government's proposed Nature Positive laws (set to replace the EPBC Act) and will continue to engage with Government. ACSI advocates for improvements to existing laws, on the basis that our economy depends on the long-term sustainability of the natural environment.

ACSI also made a joint submission with the Australian Sustainable Finance Institute (ASFI) on the TNFD's metrics for financial institutions. These are the metrics that the TNFD recommends that financial institutions use to monitor their nature-related impacts, dependencies, risks and opportunities. ACSI sought to ensure that the TNFD metrics for financial institutions are practical and support improved risk management.

#### Next steps

##### Research

- Research planned for 2024 will analyse better practice reporting of nature-related dependencies, risks, opportunities and impacts by a subset of at-risk Australian companies. This is an evolving reporting area, and benchmarking companies now will allow for clearer engagement conversations on where improvement can be made, and allow monitoring of progress over time.

##### Company engagement

- Engage with companies through ACSI engagements and collaborative engagements on adoption of the TNFD.
- Engage with companies on capturing location-specific assessments through LEAP.

##### Public policy advocacy

- Engage with the Government on its Nature Positive Laws.
- Engage with Government on Environmental Protection and Biodiversity Conservation Act review.

#### CASE STUDY

### Investors embrace nature

In 2022, the Australian Government released its state of the environment report highlighted the challenge stating 'overall, the state and trend of the environment in Australia are poor and deteriorating'.

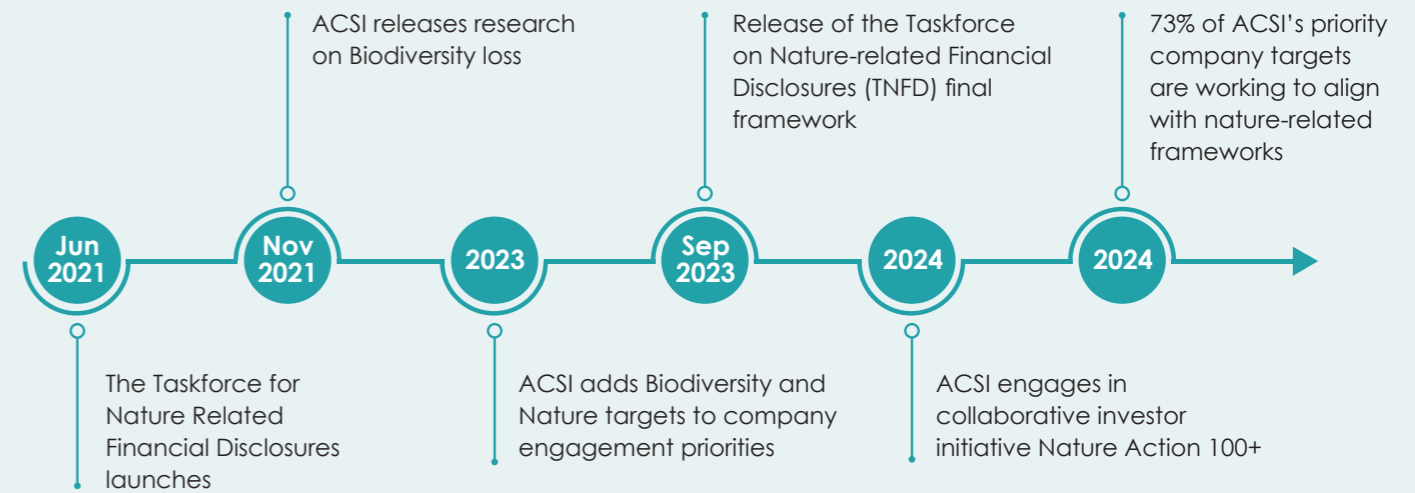
Biodiversity loss is an emerging investment issue and Australian investors are seeking to understand how to manage and address the financial risks to businesses they invest in.

Like other investors globally, ACSI and its members have been building up capability and understanding on management of nature-related

risks. From identifying it as a theme for research in 2021, ACSI then added it as a priority engagement theme in 2023.

Measurement of nature loss and its financial implications is evolving rapidly. The creation of the Taskforce for Nature Related Financial Disclosure (TNFD) signals a global acceleration in investor interest in understanding and managing these risks. ACSI now engages with 11 priority companies and undertakes policy advocacy on nature related investment issues.

#### Timeline



## Environment

# Circular Economy

## Why ACSI and our members focus on circular economy

The circular economy is focused on three key principles – designing out waste, circulating products and materials, and regenerating nature. Adopting and scaling circular practices presents numerous opportunities, including emission reductions and reduced impact on nature and biodiversity loss.

Research in 2021 found that doubling circular economy strategies could cut global emissions by 39%, so these initiatives are an important tool for companies to meet their decarbonisation targets.

## Research

In 2022, ACSI undertook our first research project into the circular economy to identify areas of risk and opportunities. It found the circular economy is crucial to delivering net zero.

Key findings included:

- Adopting circular principles across five key sectors (steel, aluminum, cement, plastics and food) could reduce annual GHG emissions by 9.3 billion tonnes by 2050, could unlock an estimated USD\$4.5 trillion globally by 2030<sup>1</sup> and presents opportunities to conserve natural capital.
- Global finance and investor initiatives are increasing, with over \$8 billion dedicated to circular economy public equity funds in 2021.<sup>2</sup>

The financial risks of continuing 'business as usual' with a linear economy include regulatory changes (such as end producer laws), changing consumer and customer sentiment and higher costs.

The Australian policy landscape is also likely to change, as the Government has made commitments to embrace a more circular economy for Australia. It recently announced the development of a new National Circular Economy Framework.

- Many companies have set recycling and waste management targets and implemented circular initiatives. However, implementing scalable closed-loop strategies that reduce net consumption of materials is in its infancy.
- Public and private sector focus on the circular economy is overwhelmingly concentrated on waste and recycling initiatives but has not yet focused on the need for business models that capture all materials and create zero waste.
- Investors and companies that support and adopt circular principles could reap the benefits from the transition and minimise the effects of future stricter regulation.

## Snapshot

- 83% of ACSI's priority companies made progress in developing and reporting on circular economy strategies
- Economic supplies of recycled materials are making it difficult to attain goals

## Company engagement

ACSI has continued to engage with our priority companies across the retail, packaging and built environment sectors on how they are incorporating circular principles within their strategy, designing out waste and to encourage better disclosure of circular practices and ambitions.

ACSI has had ongoing engagement with **supermarkets** about responsible packaging and waste, and more recently about the progress of the Soft Plastics Taskforce created due to the collapse of the REDcycle soft plastics scheme. Positively, in February, the Soft Plastics Taskforce announced the restart of limited soft plastics collection points on a trial basis in Melbourne. This is small, but welcome progress on an ongoing engagement priority with both retailers.

In engagement with a retail (exposed to high volume and 'churn' of goods) highlighted challenges in adopting a macro strategy due to the diversified nature of the business. Instead, the company identified focus areas for each business unit. Systemic level circularity requires shifts in business models and ACSI recognises that there are challenges inherent in high-volume, low-price retailers. ACSI will continue to engage with the retailers on opportunities to minimise virgin inputs and end-of-life product strategies.

Engagement with a packaging manufacturer demonstrated progress on life cycle assessments and customer demand for 'responsible' packaging. Another packaging manufacturer is progressing well against its recycled content target – principally in glass containers where it is aiming for 60% recycled content by 2025. ACSI's engagement focused on understanding how the company is overcoming challenges to increasing its supply of recycled glass.

### Building demand for circular design

Circular design principles present a significant opportunity for the built environment due to the significant resource consumption and waste generation throughout the infrastructure lifecycle.

In engagement with ACSI, developers emphasised how circular practices will be imperative to achieve Scope 3 decarbonisation targets. With increasing pressure from customers for low-carbon buildings, builders and key suppliers are increasingly working together to meet decarbonisation targets.

Looking ahead to 2024-25, ACSI has developed a draft framework which will be used to drive engagement and assess how companies in the built environment are thinking about circularity.

## Public policy advocacy

ACSI has been engaging with the federal government as it develops its policy plans to make Australia 'more circular'. The Government established a Circular Economy Ministerial Advisory Group in 2023 to provide advice to the Minister for the Environment and Water on transitioning to a more circular economy. Part of the Ministerial Advisory Group's work focused on the role of finance and investment in the transition, so ACSI organised a roundtable in September 2023 for member funds

and the Ministerial Advisory Group. Funds discussed challenges and opportunities for investors in the transition to a more circular economy.

The Government is developing a National Circular Economy Framework policy, and in June 2024 requested ACSI's feedback on an initial outline. ACSI will continue to engage with the Government to support stronger policy to embed more circularity in Australia's economy.

### Next steps

#### Company engagement

- ACSI has developed a draft framework which will be used to drive engagement and assess how companies in the built environment are thinking about circularity in 2024/25.

#### Public policy advocacy

- Continue to engage with the Government to support stronger policy to embed more circularity in Australia's economy.

### CASE STUDY

## Amcor's circular plans

In 2024, ACSI's engagement with Amcor has expanded from solely focusing on the recyclability of Amcor's packaging products and waste, to assessing how Amcor is integrating circularity within its operations and business strategy.

Amcor is making progress across the packaging value chain with its goal of creating a circular economy for packaging. It undertakes this through six strategic pillars including through the supply chain, innovation and design, manufacturing and operations, customer packaging, consumer use disposal and waste management.

Amcor's strategy is supported through use of science-based targets to reduce its emissions from its operations and products, and targets supporting its circular strategy to decrease virgin inputs.

Amcor has developed a lifecycle assessment system 'ASSET' (Advanced Sustainability Stewardship Evaluation Tool) that measures each step for cradle-to-gate or cradle-to-grave for customers to ultimately compare environmental impact of packaging options.

The assessment can lead to new packaging solutions that are lower emissions, result in less waste, use less virgin material, and a reduction in total packaging needs ("light weighting"). In turn, this can lead to improved environmental credentials and cost savings for customers.

ACSI will continue to engage with Amcor on progress against its circular strategy, leadership in advocating for global circular standards and transitioning its products to be circular.



## Social

# Modern Slavery

## Why ACSI and our members focus on modern slavery risks

Modern slavery is a global challenge, with an estimated 50 million people subject to coercive exploitation such as forced labour, debt bondage and child labour. This includes an estimated 41,000 people in Australia.

Alongside its human impact, modern slavery represents a material investment risk due to its potential to undermine shareholder value. Safeguarding human rights builds long-term sustainability by reducing company exposure to significant reputational and financial risk.

## Research

In 2024, ACSI assessed the modern slavery statements of ASX200 companies in the consumer discretionary (22 companies) and consumer staples (11 companies) sectors using Investors Against Slavery and Trafficking (IAST APAC) core metrics for modern slavery action, disclosure, collection, and publication. These sectors were selected because of their risk profiles and engagement focus. This work built on ACSI's April 2023 research on modern slavery reporting more broadly among the ASX200.

Our work aligns with the material exposure of institutional investors and their leverage to drive better practice and help those that are most vulnerable. We expect companies to genuinely engage with the issue, and work with suppliers, contractors, and partners along their supply chains to identify, and respond to, modern slavery risk and address incidents where they occur.

It focused on company disclosures that move beyond policy disclosure to understand the system risks associated with modern slavery and desired changes in practice. Supporting improved disclosure remains a key advocacy and engagement priority.

## Snapshot

- 74% of priority companies made progress on modern slavery risk management
- 61 companies engaged with ACSI on modern slavery

## Company engagement

In FY24, we held 74 company engagements with 61 companies. Whilst most companies have taken foundational actions, we continue to see significant gaps in the way companies assess and address modern slavery risk. It is still unclear:

- › What due diligence practices companies have implemented;
- › How risk is being mitigated; and
- › How issues are being addressed.

These gaps will be of particular focus for ACSI in FY25.

In FY24, ACSI identified 19 priority companies for engagement with 15 of those companies making progress including implementing decent work across its value chain and including living wage assessments; enhanced disclosure on modern slavery risk and operational practices across operations and supply chains; supplier risk assessments, and enhanced disclosure of supplier audit findings.

ACSI is a founding member of IAST APAC and led, and participated in, company engagement as part of the initiative. This ongoing program of direct engagement has been positively received by target companies.

## Public policy advocacy

In November 2023, ACSI was appointed to the Government's Modern Slavery Expert Advisory Group. The group's membership comprises a cross section of business, civil society, union, and academia, and was set up to advise the Attorney-General's department on the operation of the Modern Slavery Act.

ACSI has been a strong voice pushing for consistent progress from businesses in their assessment and management of modern slavery risk, to encourage a proactive approach focusing on improvement rather than mere compliance with reporting requirements. Our most recent research [Compliance without Ambition: Taking stock of ASX200 reporting under Australia's Modern Slavery Act](#) had five recommendations for government. ACSI also participated in the review of the Modern Slavery Act. In its submission to the review, ACSI called for the Modern Slavery Act to be further strengthened to include:

- An independent Anti-Slavery Commissioner, with an important role in monitoring the impacts and functioning of the Modern Slavery Act;
- A due diligence requirement, to support entities to improve their risk assessment and mitigation;
- More robust enforcement of noncompliance, through penalties and other incentive measures;
- Additional detail in the mandatory reporting criteria to support the provision of sufficient granularity in modern slavery statements; and
- Access to remedies for victims.

We are pleased that a number of the recommendations from the review are aligned with ACSI's position and encouraged by the passage of Federal legislation to establish Australia's first federal Anti-Slavery Commissioner. We look forward to working with the Commissioner (when appointed) to strengthen the work to prevent and respond to modern slavery.

## Next steps

### Company engagement

- Engaging with companies to enhance their human rights due diligence practices with a focus on identifying and remediating modern slavery.
- Work with companies to move beyond mere compliance to meaningful disclosure and focus on salient risk.
- Encouraging companies to disclose instances of modern slavery and their role in remediation.

### Public policy advocacy

- Working with the Modern Slavery Commissioner (when appointed) to strengthen the work to prevent and respond to modern slavery.
- We will continue to advocate for better management of the risks and associated reporting.
- Engage with the Government on its response to the review of the Modern Slavery Act.

CASE STUDY

Leaps made to tackle modern slavery, but a long path ahead

Modern slavery takes a terrible human toll on nearly 50 million people around the world, including in Australia. Businesses need to identify, mitigate and report any incidents of modern slavery throughout their organisations and supply chains, because failure to protect human rights can expose companies to significant reputational and financial issues. The impacts on human rights and long-term sustainability make modern slavery a focus for ACSI members.

That's why, in 2018, ACSI advocated for strong regulations to encourage recognition of modern slavery risks, beginning a program of work that continues. The next year, ACSI released research to help businesses to meet new regulatory disclosure requirements. With the Responsible Investment Association Australasia (RIAA), ACSI also produced Modern Slavery Reporting: A Guide for Investors.

Once listed companies had to report under the Modern Slavery Act, ACSI commissioned research to consider the standard of reporting. 2021's report found most companies complied with the minimum requirements, with clear leaders and laggards, 2023's report showed while most companies remain at a foundational level, pleasingly, improvements had been made. While ACSI advocates for improved

reporting, it must be underpinned by greater and more effective action to identify and address instances of modern slavery.

ACSI research has been the basis for discussions with listed companies about their modern slavery risks since 2018. In 2021, ACSI presented research findings to more than 100 ASX200 companies, highlighting potential areas for improvement.

After 2023's research, ACSI informed every company about its results, provided them with sector comparisons and encouraged improvements. ACSI later ran a modern slavery engagement program, speaking with 50 individual companies who were keen to hear how they could better report and mitigate their risks. A seminar on modern slavery risks, presented by ACSI and Pillar Two, drew 100 company representatives.

To address modern slavery in practice, however, much more needs to be done. 2023's report also included specific recommendations for Government. ACSI was therefore pleased to see the Review of the Modern Slavery Act recommended some of those policy positions, although the Government's response has not yet been released.





## Social

## Workforce

## Snapshot

- 83% of priority companies made progress on workforce issues (including workplace safety, culture, sexual harassment, human capital development and underpayments)

### Why ACSI and our members focus on workforce issues

ACSI believes that providing flexible and supportive work conditions and keeping workplaces mentally and physically safe lowers risk and enhances company value over time. ACSI monitors company practices in these areas – including governance and oversight of supply chains, safety and workforce issues – to manage the risks are being appropriately measured and managed.

Workplace safety has been a long-term priority area for ACSI's engagement program. We aim to hold companies and boards accountable for poor safety performance and to identify areas for improvement

in safety governance and culture, alignment with remuneration, and reporting practices.

Sexual harassment, bullying and hostile work environments have also been a focus of ACSI as these issues not only harm individuals, they can also have serious financial impacts on companies and lead to significant reputational damage. As long-term investors, it is in the interests of ACSI's members that the companies in which they invest are well-run, safe, and have supportive and healthy cultures.

### Research

#### Safety

ACSI recently completed its 2024 Safety research, which assessed the disclosures of 78 companies operating in sectors considered to have inherently high safety risks.

The research identified that high-risk companies continue to provide backward-looking safety performance data. However, our focus continues to be on the provision of more comprehensive reporting of health and safety, including the provision of leading measures of safety such as near misses and severity rates and separate safety data on contractor workforces.

ACSI believes leading indicators provide deeper insight into how a company is working to prevent serious incidents and embed appropriate safety practices in its culture. The disproportionately high involvement of contractors in serious incidents underlines ACSI's view that separate disclosure of contractor safety performance will give investors greater insight into where risks lie and how the company is managing the well-being of its entire workforce.

Investors benefit significantly from enhanced transparency and reporting of safety performance as it allows for boards and management to be held accountable for poor outcomes and any systemic issues within a company's culture.

#### Sexual harassment

High profile cases have brought into sharp focus the role of the board, highlighting issues with organisational culture, and raising questions as to whether boards are receiving the information needed to appropriately prevent and respond to sexual harassment.

After the release of the Respect@Work report, ACSI commissioned research from the Australian Human Rights Commission (AHRC) to investigate how companies govern the risks associated with sexual harassment. The report's recommendations aligned with the Respect at Work report and those ultimately adopted in the Anti-discrimination and Human Rights Legislation Amendment (Respect at Work) Act 2022 ("Respect at Work Act").

In November 2023, ACSI published research alongside the Australian Institute of Company Directors assessing how prepared the boards of the ASX 300 were for the new legal landscape. The research, based on a survey and interviews with ASX directors and an assessment of a small sample of public reporting, found mixed levels of preparedness, and a need to move from reactive to proactive focus on these issues.

Investors remain interested in how companies are addressing the prevention and management of positive duty conduct. This research highlighted where challenges remain for boards and how investors can support and encourage greater engagement with this vital issue.

#### Company engagement

##### Safety

For several years, ACSI has monitored the safety performance and reporting of ASX300 companies. ACSI's standard practice is to engage with companies as soon as workplace-related tragedies have been identified (and to encourage companies to publicly disclose these incidents). These engagements support ACSI in understanding the nature of the incident, changes implemented by company in response, and the findings from investigations.

Importantly, and beyond reporting the occurrence of serious and fatal incidents, investors need to assess

the board's oversight and involvement in managing these human, reputational and financial risks. ACSI engages with board and, where appropriate, management to obtain greater insight into the changes made to workplace culture to prevent future occurrences and how the board drives accountability through remuneration outcomes.

On reporting practices, ACSI's objective is for companies, particularly those operating in sectors with inherently high safety risks, to move beyond only disclosing backward-looking measures of safety to more detailed assessments of risk and culture. This includes reporting on leading indicators of safety,

such as severity measures and near misses, that provide a more holistic overview of how a company is managing workplace safety.

The high proportion of fatal incidents involving contract workers has driven ACSI's efforts to have companies separately disclose contractor-related data and explain how the company ensures that its safety culture and practices are aligned amongst its direct and indirect workforce to prevent future harm.

In addition to understanding the causes of fatalities and the changes companies make as result, investors also consider how company boards reflect the incidents in executive remuneration outcomes. ACSI expects boards to meaningfully reflect the consequences of fatalities in remuneration to drive accountability and change.

#### Sexual harassment

ACSI has engaged on sexual harassment since early 2021 and our work with the AHRC. That [research](#) led to eight specific recommendations on how companies could improve and mitigate risk for employees, investors and other stakeholders.

Since 2022, ACSI has engaged with priority companies on going beyond detailing mechanisms and employee education processes to provide hard data on complaint numbers: how many complaints were investigated and established as breaches,

#### Public policy advocacy

ACSI advocated for, and welcomed, the introduction of the positive duty because workplace sexual harassment, bullying and hostile work environments not only harm individuals, they can also have serious financial impacts on companies and lead to significant reputational damage.

and the consequences for those breaches. ACSI does not expect individual cases and people to be named, but for companies to demonstrate how they measure the success, or otherwise, of codes of conduct.

Disappointingly, given the well-publicised issues confronting fly-in/fly-out operations, most major mining groups lack detailed disclosure. Even the best reporter in the group, whose reporting was granular but brief, required improvements. Including divisional and location breakdowns would help investors understand the issues.

Most large resources groups have invested heavily in physical improvements to their remote worksites to minimise risk – increased lighting, more secure door locks, women-only gyms – and more basic improvements to reflect the higher presence of women on sites, such as uniforms designed for women, including maternity versions. Others have altered shift arrangements for fly-in, fly-out workers. Now, they fly out after their last shift instead of the following day, to avoid heavy drinking ahead of flying home.

ACSI will continue to meet with boards to understand how they are building effective cultures that encourage all people to meet their positive duty responsibilities.

### Next steps

#### Research

- Continue longitudinal study on ASX company safety disclosures and workforce indicators.

#### Company engagement

- ACSI will continue to meet with boards to understand how they are building effective cultures that encourage all people to meet their positive duty responsibilities.
- Engage with companies on remuneration practices and safety hurdles.
- ACSI will seek to engage with relevant companies to understand ongoing operational impacts of regulatory changes beyond the use of engineered stone.



## CASE STUDY

**Investors focus on prevention of sexual harassment**

Sexual harassment in the workplace can endanger the mental and physical health of those subjected to it, make them feel unsafe and cut short their employment and careers.

It also has a large financial cost, estimated at around \$3.8 billion to the Australian economy every year, meaning it can be a significant financial risk for companies. That's one of the reasons why, as a representative of long-term investors, ACSI expects companies to be well run, safe for their employees and have a culture that prevents and addresses sexual harassment.

Two events in recent years highlighted this issue for investors. The first was the release of the Australian Human Rights Commission (AHRC) paper, *Respect at Work: Sexual Harassment National Inquiry Report* ("Respect at Work report"), which called on employers to "take reasonable and proportionate measures to eliminate sex discrimination, sexual harassment and victimisation, as far as possible."

The second was a case of sexual harassment at listed company, AMP. An executive was promoted to one of the most senior roles at the company, despite being found to have breached workplace behaviour and equal opportunity policies. The woman who had reported him left the firm.

After ACSI and other shareholders called for an explanation, the company's chair resigned, and the executive was demoted.

ACSI subsequently commissioned research from the Australian Human Rights Commission to investigate how companies govern the risks associated with sexual harassment. The report's recommendations aligned with the Respect at Work report and those ultimately adopted in the Anti-discrimination and Human Rights Legislation Amendment (Respect at Work) Act 2022 ("Respect at Work Act").

In late 2023, ACSI partnered with the Australian Institute of Company Directors (AICD) in research to learn how company boards' understood and complied with their positive duty to prevent sexual harassment under the Respect at Work Act. The report found, in part, that most directors didn't think their boards were prepared for the incoming regime. The report also provided practical suggestions to help Boards address the issues.

These insights help ACSI and its members understand where challenges remain, and spotlight where investors should put their focus.

## CASE STUDY

**Ban on engineered stone**

During the past 12 months, ACSI and our members increased engagements with companies operating in sectors considered to have high exposure to silicosis risks. The engagements focused on understanding the extent of exposure to the issue, the controls and processes in place to manage and minimise harm to stakeholders, and the data companies collect regarding its silica dust exposure or identified cases of silicosis.

Following recommendations from Safe Work Australia, governments around the country agreed on a nationwide ban on using engineered stone. The prohibition, a world first, came into effect on 1 July 2024, and will protect workers from respirable silica dust exposure in various stages of the engineered stone value chain including its manufacturing, supply, processing and installation.

Safe Work Australia has indicated that stronger regulation of all crystalline silica substances will come into effect from 1 September 2024.

ACSI will seek to engage with relevant companies to understand ongoing operational impacts of regulatory changes beyond the use of engineered stone.

## Social

# First Nations Relationships and Cultural Heritage

## Snapshot

- More than 20 company meetings in FY24 including all high priority companies
- Building relationships with First Nations groups to improve understanding and outcomes

## Why ACSI and our members focus on First Nations relationships and cultural heritage

Failure to respect First Nations peoples' rights as custodians of their heritage and lands risks a company's social licence to operate, leading to financial risk for investors.

Respecting the rights of First Nations people is intrinsically linked with managing a company's long-term interests. Significant financial costs can arise from unconstructive relationships with First Nations people. These can stem from production implications, project cancellations or delays, legal

fees, reputational damage, difficulties retaining employees, and even physical damage where conflict arises. Ultimately, a company's long-term success and ability to operate can be undermined.

ACSI identifies and engages with companies facing a material risk to be assured they are effectively manage and mitigate that risk. At a high level, ACSI seeks principled and constructive engagement between companies and First Nations people.

## Research

When the caves at Juukan Gorge were destroyed, ACSI and its members realised that cultural heritage protection was an area that needed to be much better understood by investors, and companies needed to be better managing risks to avoid ongoing destruction. So in 2021, ACSI conducted research to help investors and companies identify good practice in company engagement with First Nations people, risk management and disclosure. The research was undertaken through extensive consultation between investors and First Nations peoples, companies and community groups. ACSI's [Research Report on Company Engagement with First Nations People can be found here](#).

ACSI then drew on the research conducted to develop a [Policy on Company Engagement with First Nations People](#). This Policy sets out ACSI and its members' expectations of companies in how they manage risks to cultural heritage and respect First Nations people's rights. It is a clear statement that ACSI expects companies to establish processes from the very initial stages of project planning that will facilitate constructive engagement with First Nations people whose lands, communities and cultural heritage are impacted by a company's operations, and obtain their free, prior and informed consent before commencing operations. The Policy also expects companies to align practices with international standards, assess and mitigate risks and establish accountability mechanisms, among other expectations. This Policy guides ACSI's engagement with companies.

## Company engagement

ACSI's engagement draws principally on the company expectations established in [ACSI's Research and Policy on Company Engagement with First Nations People](#). Cultural heritage was on the agenda in 25 engagement meetings in FY24, including four as part of collaborative engagement. The focus was on how companies maintain relationships with First Nations groups and ensure agreements reflect better-practice standards.

A company's board is ultimately accountable for ensuring that the company respects the rights of First Nations people, and that standards are applied throughout all levels of operations. The board has a crucial role in setting the tone and priorities that guide company practice. Directors should set expectations, ensure there is sufficient resourcing, and seek appropriate assurance (from staff as well as external advisors where necessary) that risks are appropriately identified, mitigated and managed. It is important to maintain direct and regular engagement between the senior leadership of a company and First Nations communities over the long-term.

For effective risk management, we expect companies that impact First Nations people and face material risks within their operations to:

- **Assess risk:** A company should conduct robust assessments of the relevant risks and impacts both to the company and First Nations people – including their lands, communities and cultural heritage. Risk assessment should be integrated into the company's risk processes and should integrate First Nations people's own assessment of risk.

- **Align with standards:** Companies should establish policies that commit the company to respect First Nations people's rights and cultural heritage, in line with international standards, as set out in the UN Declaration on the Rights of Indigenous Peoples and the UN Guiding Principles on Business and Human Rights, among other sources. Companies should respect the right of First Nations people to self-determination.
- **Develop strong relationships and robust agreements:** Companies must engage in good faith and work to build constructive long-term relationships with First Nations people. We expect companies to obtain and maintain free, prior and informed consent (FPIC) from First Nations people before commencing operations that will impact them, and on an ongoing basis throughout the life of a project.
- **Conduct effective risk management:** Ongoing engagement with First Nations people should be built into policies and risk management frameworks. This should include appropriate board oversight of policies and practices, and accountability mechanisms for the board, management and staff responsible for engagement with First Nations people.
- **Monitor performance:** Companies should set transparent targets and KPIs that reflect international standards and establish accountability mechanisms when KPIs are not met.
- **Disclose:** Companies should provide sufficient information to enable investors to assess the quality of a company's engagement with First Nations people. Disclosure should provide a genuine explanation of a company's risks and approach (including the factors listed above), and how its policies are implemented in practice.

## Public policy advocacy

ACSI contributes to multiple, much-needed law reform processes, including the federal consultation related to Aboriginal cultural heritage reform, which is co-designed by the Government and First Nations organisations. In addition, we participated in the Government's First Nations Clean Energy Strategy Consultation Paper, making the following suggestions to strengthen or complement the Strategy:

- Undertake law reform to improve industry standards of engagement and negotiation with First Nations people.
- Increase resourcing, capacity-building and access to capital for First Nations organisations, including by incentivising investment into clean energy projects that embed genuine partnership with First Nations people. Barriers should also be addressed so that First Nations people are able to participate in the governance, leadership and ownership of clean energy projects.

- Continue without delay the process of law reform co-designed with the First Nations Heritage Protection Alliance to improve cultural heritage laws.
- Facilitate jobs and business opportunities for First Nations people that are culturally safe and support career development and leadership of First Nations people.
- Undertake ongoing monitoring and public reporting against the Strategy.

There have been some small steps towards law reform, although no significant change yet. Much remains to be done to achieve a regulatory system that will better protect the rights of First Nations people and better manage the associated investment risk.

## Next steps

### Company engagement

- Continue engagement with companies materially exposed to this risk in line with our policy.
- Collaborate with other investors through initiatives such as the PRI Advance Collaborative Engagement Initiative on Human Rights and Social Issues.

### Public policy advocacy

- Undertake advocacy with Government on the need to embed international standards, including the United Nations Declaration on the Rights of Indigenous Peoples, in law.

## CASE STUDY

### Investors focus on First Nations relationships and cultural heritage

There are many examples over many years of companies around the world destroying the cultural heritage and contravening the rights of First Nations people.

This impact on First Nations lands, communities and heritage also presents an increasingly recognised investment risk, with potentially significant costs including legal damages, reputational harm, project disruptions and the loss of the right to operate.

A company's long-term success is intrinsically linked to effective relationships with the people it impacts. Companies should interact constructively with First Nations people to mutual benefit. What's more, international human rights standards require the respect and protection of the rights and cultural heritage of First Peoples.

In 2020, the Rio Tinto's destruction of significant sites in Western Australia caused irreversible loss of First Nations cultural heritage. ACSI spoke up to hold the company's board accountable and to encourage Rio Tinto to make transformative changes to its practices.

To gauge the extent of the issues, ACSI and other institutional investors asked 78 mining companies how they engaged with First Nations communities. The responses revealed poor relationship management across markets internationally.

In 2020 ACSI and its members aimed to see better standards of constructive engagement between companies and First Peoples. ACSI work has included education, establishing clear expectations of listed companies and developing a framework for engagement with those companies.

ACSI encourages higher-risk companies to embed Free Prior Informed Consent (FPIC) into their policies and practices, align with international rights standards, have effective risk management and

oversight processes in place and ensure the board is accountable for the company's relationships with First Nations people. ACSI assesses and monitors practices and disclosures, and discusses its concerns with companies directly.

ACSI contributes to multiple, much-needed law reform processes, including the federal consultation related to Aboriginal cultural heritage reform, which is co-designed by the Government and First Nations organisations.

ACSI has also worked to deepen direct engagement with First Nations groups impacted by company operations, and seeks to understand the perspectives of First Nations peoples through discussions with representative bodies.

ACSI's expectations for company engagement with First Nations people can be adapted by investors globally. The detailed framework enables assessment of company practices and aims to accelerate progress. There has been an increase in disclosure and discussion among listed companies about relationship with First Nations peoples. For example, following encouragement from investors and others, Rio Tinto has provided much more transparent disclosure about its interaction with First Nations people, in particular a report that includes unedited feedback from First Nations groups, a much better quality of disclosure. Of course, there remains challenges and room for improvement, right across the market.

There has also been some small steps forward in terms of law reform, although no significant change yet.

## Governance

# Board Skills, Governance, Accountability and Remuneration

## Why ACSI and our members focus on governance issues?

Effective board governance supports companies to achieve their long-term strategy and creates the conditions in which sustainable long-term investment can prosper. ACSI engages with companies to encourage the adoption of good governance standards including the appointment of high-quality boards who can provide effective oversight of management.

With many Australian companies tackling a range of emerging challenges, including cyber security, ESG issues, innovation and cultural change, investors are particularly interested in how the experience and skills of board members are able to support companies in meeting these challenges.

## Why ACSI and our members focus on executive pay?

The manner in which executives are remunerated provides investors with an important insight into the relationship between the board and executives. For ACSI, it is critical that executive remuneration is designed to promote sustainable long-term performance. Short-termism, persistently high

bonus outcomes, and a lack of alignment with shareholders are among the issues ACSI targets as each can adversely affect a company's long-term performance, reputation and social licence to operate.

## Research

**Board skills** - In 2022, ACSI commissioned research assessing the reporting of ASX50 companies on the skills and experiences of their board directors. Such reporting is encouraged by the ASX Corporate Governance Council's Principles and Recommendations. The research found a wide range of disclosure practices, and identified areas where improvements could be made so that investors can better understand director skills and board priorities.

**Executive pay** - Since 2001, ACSI has conducted a [detailed annual survey](#) of CEO pay in Australia's largest listed companies. The research has become Australia's benchmark longitudinal study into CEO pay trends, and for the past ten years has also included unique 'realised pay' data which cuts through complex public reporting to provide a clearer picture of the pay received by Australian CEOs. Some notable results of the research:

## Snapshot

- 10 companies made positive board governance changes including board renewal.
- 13 priority companies made positive changes to executive remuneration practices following investor engagement. These included actions such as raising performance hurdles, improving transparency and better aligning incentives to long-term performance.
- Despite improvements in many companies, there was also a significant increase in shareholders voting against executive remuneration proposals. A record 42 remuneration strike votes occurred in the ASX300.

- Total realised pay has fallen. ASX100 median CEO pay fell from \$3.93m to \$3.87m – the lowest median in the 10 years the ACSI study has collected realised pay data.
- CEOs are receiving consistently high bonus awards. The median ASX100 CEO in FY23 received a bonus at 66.3% of maximum (FY22: 71%).

- Only two ASX100 CEOs and six ASX101-200 CEOs received zero bonus for FY23 meaning that, once again, a CEO has more chance of being terminated than missing out on a bonus (there were 24 termination payments across the full ASX200 sample in FY23).

This research, and our [Governance Guidelines](#), form the base of our company engagements on executive remuneration.

## Company engagement

### Board governance

ACSI's long-held belief is that boards need a mix of expertise to support diversity of thought and background when governing companies. Of 15 board-related objectives set for this financial year, only one remains unresolved.

ACSI's long-held belief is that boards need a mix of expertise to ensure diversity of thought and background when governing companies. Poor performance outcomes often raise the question of board and management accountability. ACSI engages with companies and, depending on the issue, with individual directors, about elections and re-elections to better understand the issues involved.

### Remuneration

Recent voting results indicate a marked increase in shareholder concern over executive remuneration in the Australian market. There were 42 strikes against ASX300 remuneration reports in the year to 30 June 2024 – a record number which is already forming the base for our FY25 engagement priorities.

Of the 26 companies on ACSI's priority list of remuneration targets in FY24, half have demonstrated improvement or set change in motion. Interestingly, many of the companies identified as having poor executive remuneration practices have their primary share market listings outside Australia, where different remuneration disclosures and reporting rules prevail. These include several New Zealand-based groups that ACSI has been engaging with for several years about offering investors non-binding votes on remuneration policies and outcomes to raise their governance standards.

One of the most consistent remuneration issues found by ACSI is a reluctance by boards to disclose sufficient detail of equity grant hurdles, usually couched in terms of competitive concerns, sometimes even retrospectively. With most long-term incentive measures tested over at least a three-year performance period, ACSI finds this position, which ultimately leaves shareholders in the dark, increasingly unsupportable.

## Public policy advocacy

ACSI is a member of the ASX Corporate Governance Council, which, in 2024, consulted on updates to the ASX Corporate Governance Principles and Recommendations (ASX Principles), which set out the corporate governance practices recommended for ASX listed entities. One proposal for the new edition, is for companies to include references to remuneration being in line with strategic objectives, risk appetite and the creation of long-term

sustainable value. ACSI will continue advocate for proposals in line with investors interests.

The draft ASX Principles also propose additional disclosures on the entity's processes for its assessment of director skills, as well as disclosures that aim to give insight as to whether the Board is satisfied it has the right skills and experience.

### Next steps

#### Company engagement

- Continue company engagement with the objective to seek improvement in executive remuneration practices to ensure outcomes align with long-term performance.
- Progress ACSI's long-running engagement program with boards on skills, accountability and diversity.

#### Public policy advocacy

- Advocate for policy proposals on remuneration including through the ASX Corporate Governance Council in line with investors interests.

### CASE STUDY

## Qantas board change

Qantas made headlines during the year for a string of governance issues. The airline experienced serious failures in customer service and employee relations, as well as widespread loss of trust and brand damage, along with a number of high-profile regulatory issues. These issues including the High Court finding Qantas had illegally sacked baggage handling staff, allegations of anti-competitive behaviour in Qantas' use of its airport landing rights, and poor outcomes for customers.

During this period, investors were concerned about the board's oversight of senior management including long-serving CEO Alan Joyce. At the 2023 AGM, the Qantas remuneration report suffered an 82.9% 'against' vote, while non-executive director Todd Sampson received a 33.9% vote against his re-election.

ACSI engaged extensively with the Qantas board as these issues emerged, delivering a clear message about the need for a change in approach from the company and for board accountability. Responding to investor concerns, Qantas took the step of announcing board and executive succession plans in the lead up to the AGM. In February 2024, John Mullen was announced as the new chair of the company as part of the effort to reset culture and rebuild trust in the company. Investors will continue to monitor the board's governance changes.

## Governance

## Diversity

## Why ACSI and our members focus on diversity

Our approach to board gender diversity in listed companies is based on the belief that boards should be comprised of individuals who are able to work together effectively, and who bring diversity of thought to board decision making, to build and maintain a viable, profitable and efficient company over the long-term.

ACSI has consistently raised the bar on gender diversity expectations at board level over the past decade, through our voting recommendation policies and consistent company engagement.

In early 2015, when ACSI accelerated its campaign to improve board gender diversity, fewer than 20% of ASX200 directors were women. Now, due to the advocacy and engagement of ACSI and others, only 30 more appointments of women are needed to hit the target of 40% representation.

ACSI was a founding member of the 40:40 Vision initiative, driven by our member HESTA, and which has set objectives for Australia's leading companies to commit to the gender diversity target of 40:40:20 in their executive leadership teams by 2030.

## Diversity beyond gender member working group

ACSI has formed a Diversity Beyond Gender Working Group with our members. The Working Group has been established to develop a position on diversity factors beyond gender.

## Research

The position will be underpinned by research and informed by discussions with diversity experts, policy makers, companies and directors. We expect to release research covering the relationship between long-term company performance diversity beyond gender, international policy approaches, and case studies of better company disclosures.

## Snapshot

- 40.4% of ASX100 boards seats are held by women (37.5% in ASX300)
- 46.4% of ASX300 director appointments in FY24 were women

## Company engagement

Diversity has a material benefit to governance outcomes and strengthens decision making. That is why we strongly supports efforts to improve gender diversity on boards and management teams, and why, over the last 10 years, our members have engaged with companies to increase the number of women on boards.

Companies should set a timeframe within which they will achieve gender balance (40:40:20) on their boards. In the meantime, ACSI expects no gender to make up more than 70% of board positions in an ASX-listed company.

We work with companies to understand their plans to meet these targets. ACSI encourages companies to advance gender diversity at executive level and to disclose the actions that they are taking to achieve this.

Applying the ACSI Governance Guidelines, we will recommend our members vote against the boards of ASX300 companies with poor gender diversity on a case-by-case basis.

We have also been working in recent years to have boards take responsibility for improving diversity of their senior executive teams.

We regularly discuss the make-up of these C-suite in many of our company engagements, challenging boards to ensure that they are embracing the deepest and widest possible talent pools to ensure sustainable development and performance of their companies for the benefits of investors and other stakeholders.

## Public policy advocacy

The draft ASX Principles propose ASX300 boards should be gender balanced (40/40/20). Another recommendation proposed in redraft updates is for listed entities considering any other relevant diversity characteristics for their Board to disclose those diversity characteristics.



## Next steps

### Research

- Release research report on diversity beyond gender.

### Company engagement

- Continue engagement with companies with less than 40% women on boards, and those remain zero women boards.
- Engage with companies on diversity in executive teams.

### Public policy advocacy

- Support adoption of updated diversity target in ASX principles.



## CASE STUDY

### Zero women boards disappear from ASX200

Organisations that successfully encourage a diverse, inclusive and equitable culture have been found to be more innovative, achieve better performance, have happier staff and incur less incidence of harassment.

In 2015, 34 companies in the ASX200 did not have a single woman on their board. ACSI began a push to encourage listed companies to move to having a minimum 30% of their board seats being filled by women.

Demonstrating the impact of significant work from ACSI and others in the Australian market since then, by 2024, over 37% of directors in the ASX200 were women.

There is still work to be done. Most companies have made substantial improvements. While engagement is generally effective in driving outcomes, laggards in the market remain. In early 2023 ACSI estimated that there were still 95 companies in the ASX300 without the market standard of at least 30% women in their boardrooms. ACSI informed those companies of a new approach to making voting recommendations, under which it recommend votes against certain male directors if diversity does not improve.

ACSI continues to engage with these companies, while also considering diversity at the executive level and exploring ways to boost diversity more broadly on corporate boards. ACSI and our members are also encouraging companies to develop a timeframe within which they will achieve gender balance (40:40:20) on their boards.

ACSI is a member of the ASX Corporate Governance Council, which, in 2024, consulted on updates to the ASX Corporate Governance Principles and Recommendations. Those Principles and Recommendations set out principles based recommendations on the corporate governance practices to be adopted by ASX listed entities. The proposed updates to the 5th Edition of the Principles and Recommendations include a recommendation that ASX300 companies seek to have a gender balanced board (at least 40% women, at least 40% men and up to 20% any gender).



\*Equip Super and Catholic Super classed as one member fund (Togethr Trustees) but two different brands

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Elements of this report rely on information publicly reported by ASX200 companies for the 12 months to 30 June 2024, including annual reports, sustainability reports, TCFD and climate reports, company websites and ASX announcements. ACSI has not independently verified this information including publications referred to in this report.

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