

Effective Disclosure & Stakeholder Engagement Forum

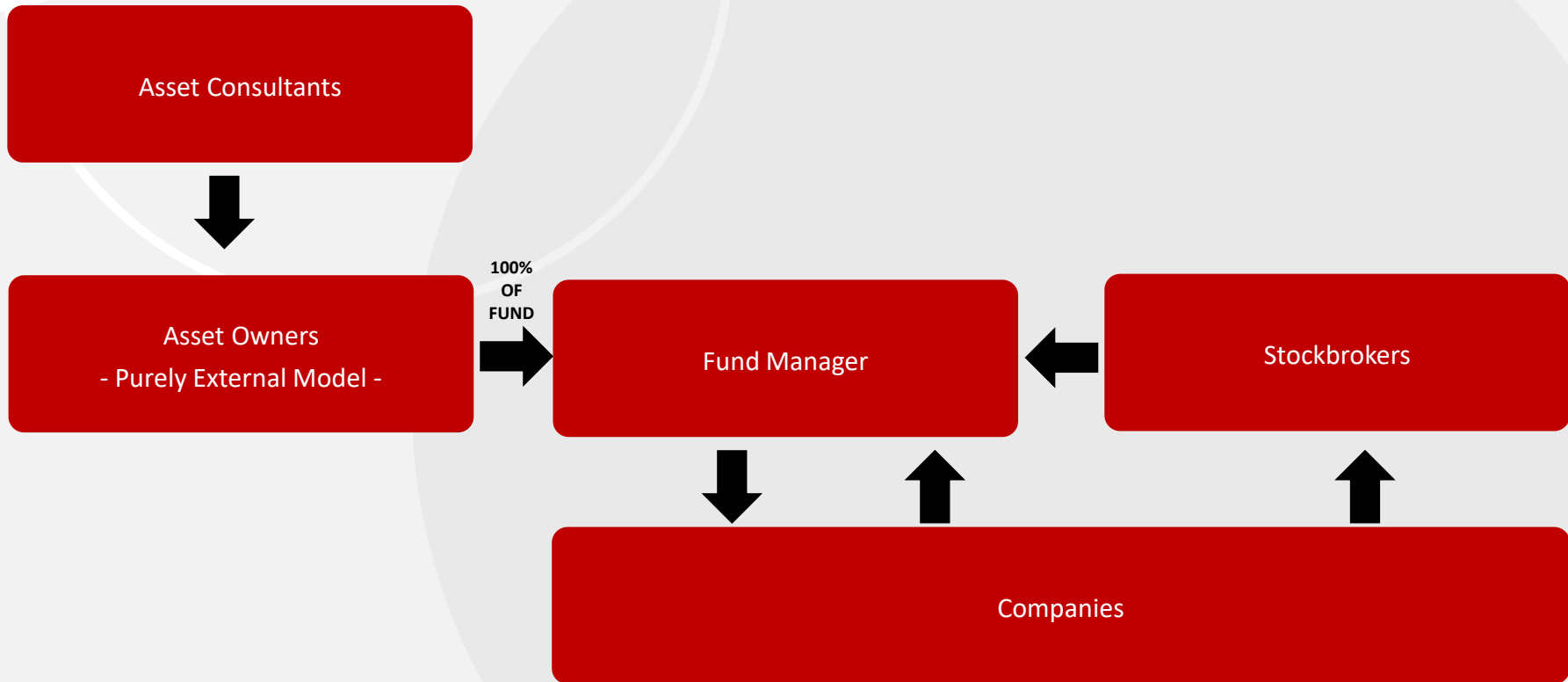
ESG and its Critical Importance to Listed Entities



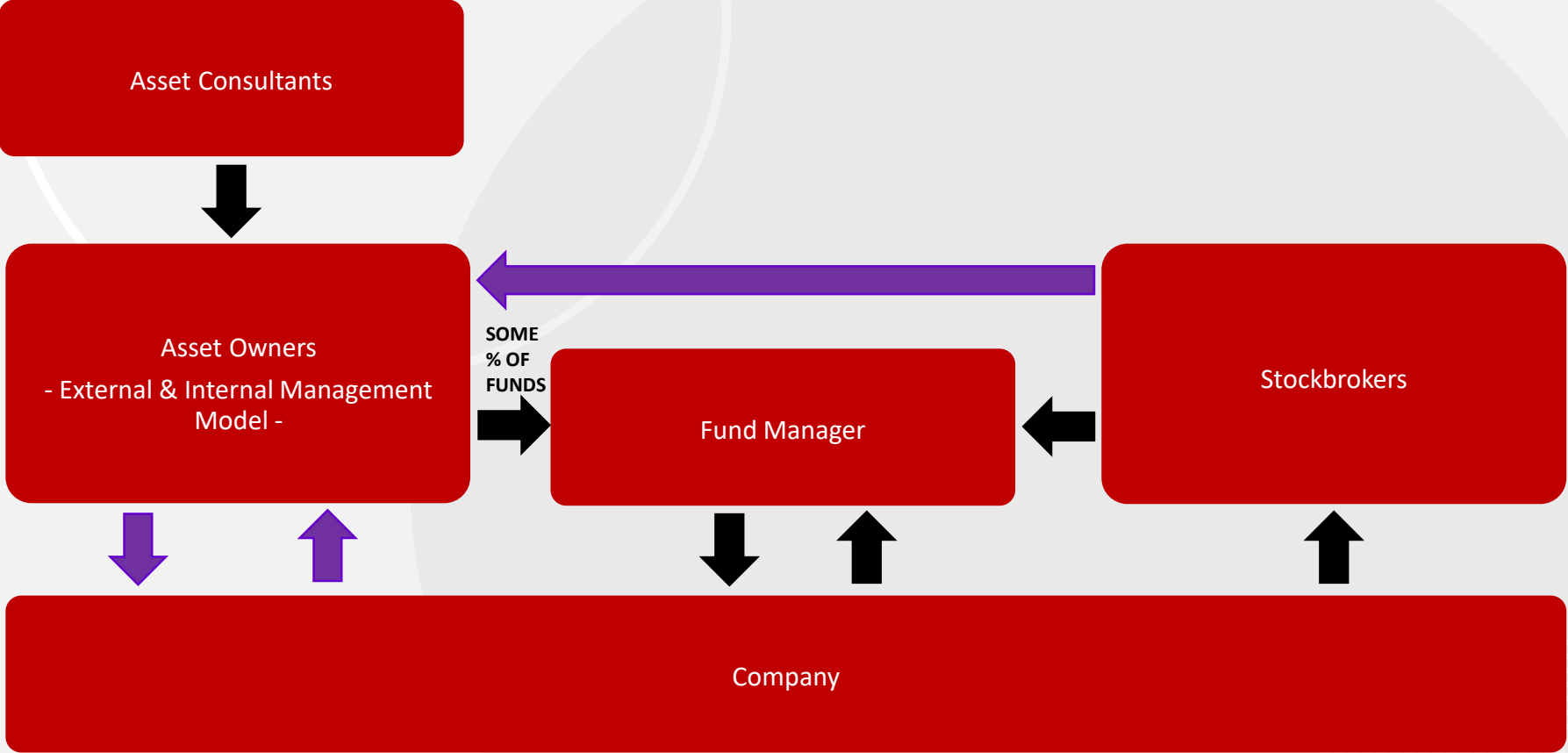
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ANDREW GRAY, Director, ESG &
Stewardship, **AUSTRALIANSUPER**

The Investment Chain – Asset Owner External Investment Model



The Investment Chain – Asset Owner External & Internal Model



The Three Pillars of ESG

1

ESG Process
Integration

2

Stewardship

3

Values-based
approaches



Pillar 1: ESG Process Integration

- Maximising investment outcomes (both returns & risk) from integrating consideration of ESG issues
- Approached through an investment lens

Asset Owner

- Incorporate ESG into internal process
- Monitor external manager ESG integration
- Across all asset classes (equities, bonds, property & infrastructure)
- Long term investment horizon

Fund Manager

- Incorporate ESG into investment process
- May have an ESG specialist or be done by mainstream analysts/portfolio managers
- May have a shorter term (1-3 year) investment horizon than Asset Owner

Stockbroker

- Likely dedicated ESG analyst doing specialist ESG research
- Some push to integrate ESG into mainstream analysis
- Historically aimed at fund managers buying/selling activities
- Now also targeting asset owners & therefore also considering governance, stewardship and a longer term focus



Pillar 2: Stewardship

- **Maximising investment outcomes (both returns & risk) from exercising the rights & responsibilities of ownership**
- **Approached through an investment lens**

Asset Owner

- Beneficial owner so ownership rights and responsibilities ultimately sit with the asset owner
- May be delegated to fund manager (e.g. voting). Trend is to reverse this (Fiduciary Capitalism)
- Voting increasingly supported by engagement with companies
- Collaborative activities may be undertaken (e.g. ACSI)
- Proxy advice may be sought

Fund Manager

- May have had voting delegated to them on behalf of the asset owner
- Traditionally sought meetings with management, now may seek governance meetings with boards as part of increased ESG activities

Stockbroker

- Not an owner so no formal ownership rights/responsibilities
- May publish research to support asset owner/fund manager stewardship activities



Pillar 3: Values-based Approaches

- **Incorporating values based views in the investment process**
- **Approached through a values lens**
- **Negative screening or investing for positive impact are two common approaches**

Asset Owner

- May incorporate ethical screens and/or offer a dedicated sustainability option
- Does not change the need for ESG integration
- Growth in 'Impact Investing' i.e. investing with a specific intention to achieve a positive social or environmental impact

Fund Manager

- May incorporate ethical screens at the request of the asset owner
- Not typically seen as a source of improved investment outcomes
- Does not change the need for ESG integration
- Increasing number of impact investing funds

Stockbroker

- May publish research to support asset owner/fund manager consideration of screening and impact issues



The 3 Pillars of ESG: Reflections

- While they are all commonly referred to as “ESG”, each pillar is distinct - can do one without the other
- Lens is important

Investment Lens:

- ESG Integration
- Stewardship

DO NOT CONFUSE!



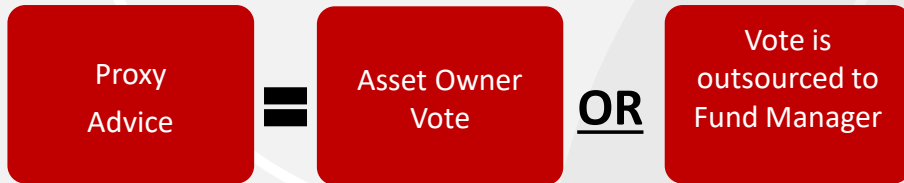
Values Lens:

- Values-based approaches

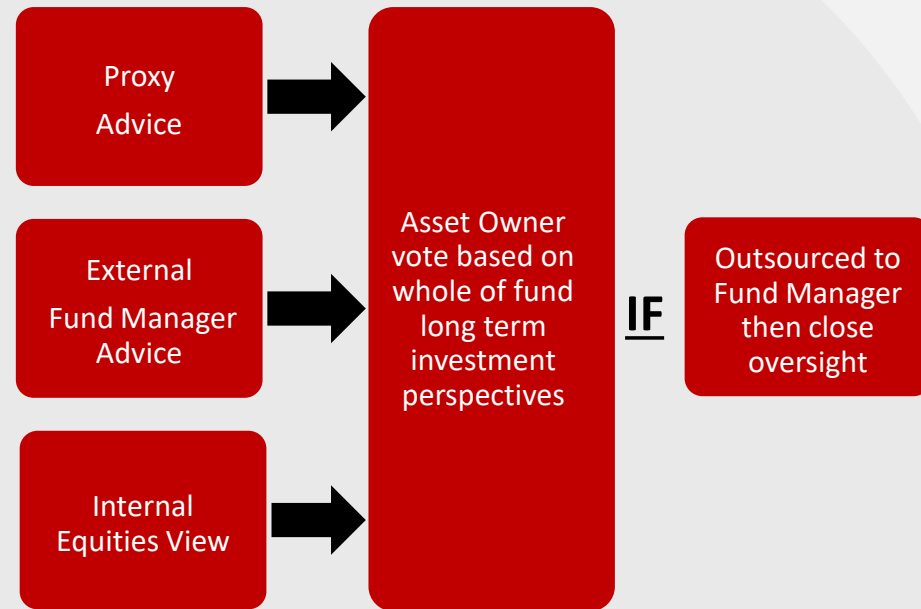
The Role of Proxy Advisors



The 'Old World'



The 'New World'



Proxy Advice is now only one input that is considered.

Growing Activism By Asset Owners (Fiduciary Capitalism)

1. Growing activism → Greater influence for consideration of long term issues → Greater focus on ESG issues throughout the investment chain

2. Active ≠ Activist. Asset owners are a source of patient long term capital

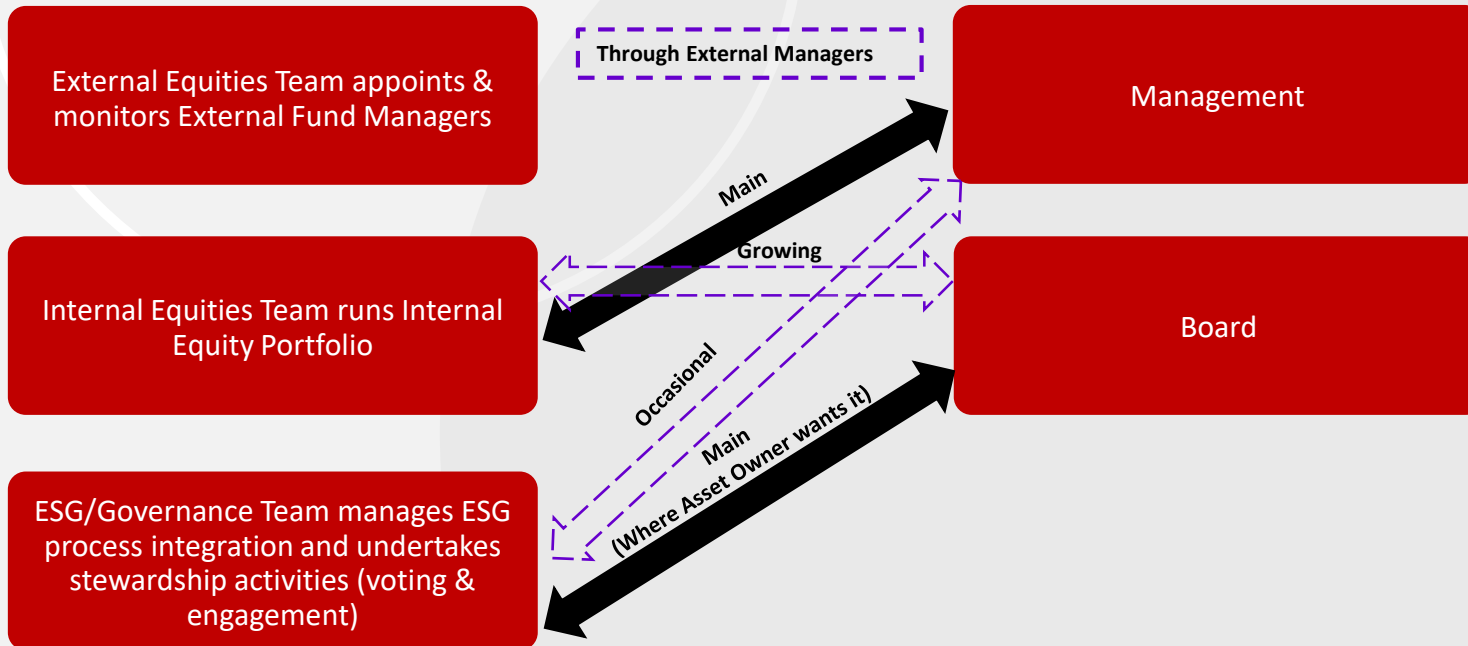
3. Development of internal investment = Asset owners developing strong in-house investment skills = Strong emphasis on ESG and stewardship issues through an investment lens



How to interact with an Asset Owner

Asset Owner Structure

Company



KEY QUESTIONS TO ASK:

- Does the asset owner have internal management? If so who are the internal portfolio manager/analyst contacts?
- Does the ESG/Governance team want a direct company relationship? If so who are the ESG/Governance contacts?




The Impact of Activists/NGO's

1. Activists/NGO's → Pressure on asset owners to divest/engage → Increasing enquiry from asset owners to companies on how issues are managed → Improved reporting, transparency and practices are useful for all

2. The rise of shareholder resolutions

In summary – a checklist of ESG relationships



PRIMARY – THE UNDERLYING RELATIONSHIPS THAT EXIST BETWEEN A COMPANY AND INVESTORS

	<u>Relationship</u>	<u>Purpose</u>	<u>Relevance of ESG</u>	<u>Role of IR</u>
	Company management with Fund Manager.	For Fund Manager to get investment insights.	ESG issues are increasingly raised as they are believed to impact investment outcomes.	Co-ordinate the relationship Historical IR 'bread and butter' relationship although ESG topics are new/emerging.
	Company management with Fund Manager within an Asset Owner (the Asset Owner's 'internal team').	For Fund Manager (within Asset Owner) to get investment insights.	ESG issues are raised as they are believed to impact investment outcomes - particularly given the long term investment horizon of the Asset Owner.	Identify whether Asset Owner has an internal Fund Manager If so, co-ordinate the relationship.
	Company Board with Governance Team at an Asset Owner.	For Asset Owner to fulfil its stewardship function – i.e. to ensure the Board is adequately representing its interests as the beneficial owner (whether the shares are held directly (internally) or via an external Fund Manager).	Governance issues are a priority – e.g. effective Board functioning and remuneration E & S issues will be raised with a stewardship focus – i.e. whether the company has the appropriate governance around them to protect/enhance long term value.	Identify whether Asset Owner has an active governance team. If so, co-ordinate the relationship. As this is an emerging relationship the format, structure and timing of these meetings is still evolving. Identify organisations that may represent Asset Owners on governance/stewardship relationships – primarily ACSI and Regnan. Co-ordinate these relationships.



In summary – a checklist of ESG relationships

SECONDARY – ADDITIONAL INTERACTIONS THAT HAVE EMERGED IN PRACTICE



	<u>Relationship</u>	<u>Purpose</u>	<u>Relevance of ESG</u>	<u>Role of IR</u>
	Company Board with Fund Manager.	<p>As Boards have started to get more active talking to investors, Fund Managers have started to recognise Boards as a potential source of investment insight.</p> <p>Board perspective provides a cross check on what company management have told them.</p>	<p>Governance issues – e.g. effective Board functioning and remuneration – have become mainstream investment issues for Fund Managers.</p> <p>Other ESG issues are raised as they are seen to impact investment outcomes.</p>	Co-ordinate the relationship. As this is an emerging relationship the format, structure and timing of these meetings is still evolving.
	Company Board with Fund Manager within an Asset Owner (the 'internal team').	<p>As Boards have started to get more active talking to investors, Fund Managers have started to recognise Boards as a potential source of investment insight.</p> <p>Board perspective provides a cross check on what company management have told them.</p> <p>The internal Fund Manager will often attend a meeting set up between the Board and Governance Team because it is expedient to do so.</p>	<p>Governance issues – e.g. effective Board functioning and remuneration – have become mainstream investment issues for Fund Managers.</p> <p>Other ESG issues are raised as they are seen to impact investment outcomes.</p>	<p>Identify whether Asset Owner has an internal Fund Manager.</p> <p>If so, co-ordinate the relationship having regard to the logistics between Governance Team and internal Fund Manager (i.e. determine which one the Asset Owner wants to be the primary point of contact for meetings with the Board).</p> <p>As this is an emerging relationship the format, structure and timing of these meetings is still evolving.</p>

In summary – a checklist of ESG relationships



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SUPPORTING – RELATIONSHIPS THAT MAY NEED TO BE UNDERTAKEN TO SUPPORT/ENHANCE THE RELATIONSHIPS THE COMPANY HAS WITH INVESTORS

	<u>Relationship</u>	<u>Purpose</u>	<u>Relevance of ESG</u>	<u>Role of IR</u>
	With Proxy Advisors.	<p>To ensure proxy advice supports the Board's recommendation on shareholder votes.</p> <p>To communicate the company's message on voting issues through the proxy advisor to the end investor.</p>	<p>Covers key governance issues including director elections and remuneration.</p> <p>Increasing number of shareholder proposals that may cover other ESG issues.</p>	<p>Co-ordinate the relationship remembering that this does not take precedence over the direct relationship between the company and the investor.</p> <p>Investors are becoming increasingly active and relying less exclusively on proxy advice.</p>
	With ESG researchers.	<p>To communicate the company's message on ESG issues through the ESG researcher to the end investor.</p> <p>ESG researchers may undertake quantitative scoring and other analysis which may be used in investment analysis by investors.</p>	<p>Typically, a broad based assessment of the company's approach across all ESG issues is performed. Likely to be adjusted for the ESG issues that are the most relevant for the company.</p>	<p>Co-ordinate the relationship remembering that this does not take precedence over the direct relationship between the company and the investor. The level of use of external ESG research is mixed amongst investors.</p> <p>Good performance on external ESG ratings may be important from a reputational perspective (e.g. Dow Jones Sustainability Index) even though investors may not rely heavily on them.</p>