

## Regnan’s Engagement & Advocacy in 2014/15

### Engagement at a glance

Our engagement program drives improved ESG governance and long-term thinking needed for stocks to yield higher quality returns. Regnan’s experienced in-house research team identifies the risks and opportunities on which we communicate with leading ASX-listed companies seeking improved consideration of ESG in business decisions. More details on our engagement program on page 3.

|             |        |                             |             |              |         |
|-------------|--------|-----------------------------|-------------|--------------|---------|
| 81          | 44     | 11                          | 57%         | 78%          | 63%     |
| Engagements | Stocks | New & Renewed Relationships | Index Cover | Face to Face | Planned |

### Advocacy at a glance

Regnan contributes to the public debate surrounding ESG issues. Regnan is an active media commentator and provides submissions to government and other policy makers to support ESG objectives. More details on our advocacy program on page 5.

|             |       |                   |                   |
|-------------|-------|-------------------|-------------------|
| 2           | 11    | 7                 | 24                |
| Submissions | Media | Speakers Provided | Alerts to Clients |

### Letter from the Managing Director

Dear Stakeholder,

For the past fourteen years, Regnan (in its current and previous guises) has pursued its mission, as mandated by its institutional investor owners and clients, to mainstream ESG, to ensure the proper integration of ESG risk factors into asset pricing and investment processes, and to constructively encourage change in corporate practices to better address ESG risk and opportunity. Even five years ago, it was not unusual to encounter ASX-listed company directors who had not heard the term ESG, or if they had, did not understand its import.



Now, in 2015, much has advanced. Assets under management of Principles of Responsible Investment (PRI) signatories have reached US\$59 trillion; ESG-flavoured investment options are available to most beneficiaries of large pension funds; grass-roots activism has prompted a mainstream focus on a range of ESG themes, including risks associated with climate change; and issues such as diversity have been take up by veteran market actors, such as the AICD.

Growing ESG-focused institutional might is receiving increasing recognition globally and at home. Recognition has induced discomfort for some and this has driven increased scrutiny of responsible investment initiatives. This should be read as a positive sign of maturing practice and a necessary step on the pathway to broad acceptance and universal uptake.

Nonetheless, it is our belief that we must be wary of complacency. A recent Regnan survey found that many market actors have concerns about the state and direction of ESG, believing the field to have been captured by process rather than substance and activity rather than impact. We have also noted with some concern the growing belief that if governance in an issuer is of a high standard, the management of environmental and social risks can be taken for granted. Regnan's deep-dive stock-specific research and engagement reveals this assessment of the interrelationship between E, S and G factors to be manifestly false, and potentially a source of risk in itself.

In 2015 our in-house research capability has continued to provide real time, material value at-risk assessments of individual stocks within the S&P/ASX200. We use that research to drive a substantive, complex and often challenging engagement program, which has entrenched progress from previous years, identified emergent risks and areas for future focus, and shaped our thinking about additional interventions required to future proof companies. With this in mind, we will be continuing our expansion of stewardship and advisory services, including detailed assessment of ESG integration within investment processes. To enable a nimbler service, Regnan's own structure has evolved, reverting to its two original owners, while maintaining long-term relationships with our core clients, whom we thank for their ongoing support and counsel.



Amanda Wilson  
Managing Director  
28 July 2015

#### **About Regnan**

Regnan – Governance Research & Engagement was established to investigate and address environmental, social and corporate governance (ESG) related sources of risk and value for long term shareholders in Australian companies. Regnan has evolved to become a global leader in both long-term value and sustainable investment.

Regnan's team of experienced analysts conduct in-depth research to produce rigorous, relevant ESG investment analysis. From this research and insight, we tailor solutions to meet the needs of our clients who include asset owners, fund managers, wealth managers, retail and investment banks. Clients use our ESG analysis for stock selection, portfolio construction and stewardship activities.

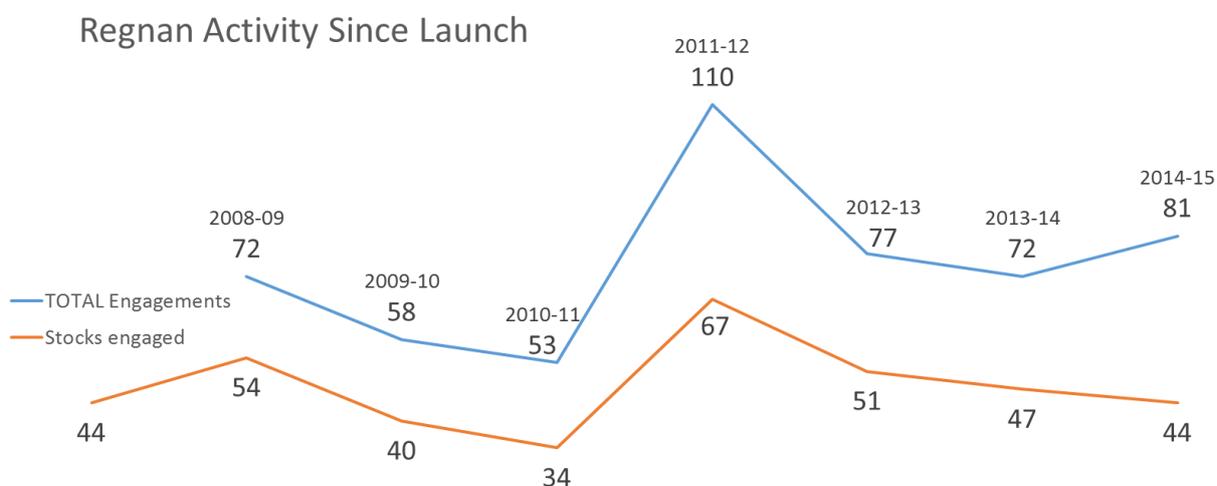
Our engagement and advocacy is undertaken on behalf of institutional investor clients with over \$61 billion invested in S&P/ASX200 companies, or approximately 4.3% of this index at the start of the reporting year (1 July 2014). These institutions include Advance Asset Management; Commonwealth Superannuation Corp; BT Investment Management; Catholic Super; HESTA Super Fund; NTGPASS; Vanguard Investments Australia; VicSuper; and the Victorian Funds Management Corp.

## Engagement details

Regnan undertook **81 engagements with 44 stocks** during 2014/15, which collectively represented **57% of the S&P/ASX200** (by market weight as at 30 June 2015).

Engagement typically involves multi-year efforts, so the same stocks may be engaged in consecutive years. Even so, 11 of the 44 stocks engaged were new relationships (where there had been no engagement in the prior two years).

**78% of active stock engagements show progress over the life of the mandate** – typically 2-3 years.



**The number of engagements undertaken has increased this year** – our second highest year since we launched in 2007. The spike in activity in 2011-12 related to implementation of the ‘two-strike rule’ (shareholder vote on pay plans) which drove large volumes of inbound engagement requests.

The increase in activity this year primarily relates to dialogue – discussions typically initiated by the listed company as they seek to consult institutional investors, often focusing on matters relating to the company’s next AGM (dialogue: 2014/15: 30; 2013/14: 22; 2012/13: 21).

Dialogue plays a number of important roles. It opens lines of communication for when concerns arise. It enables us to inject investor perspectives when the company is especially receptive to input – achieving change with less effort than engagement typically involves and pre-empting future concerns.

**Growth in dialogue has been on top of a stable base of planned engagements** – where the engagement relates to specific change objectives set in advance by Regnan in consultation with our clients.

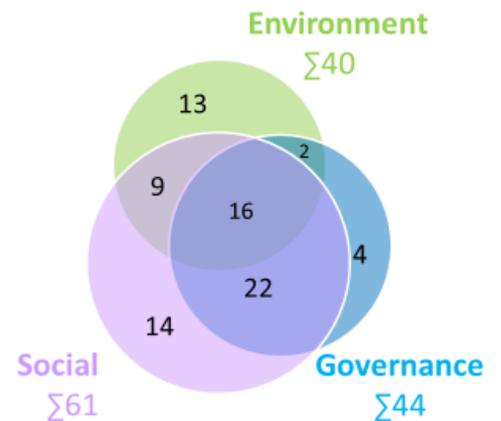
### Engagement by topic

Regnan’s engagement covers a broad range of topics across the span of ESG. We have substantial focus on environmental and social topics alongside traditional corporate governance and AGM voting matters. Many engagements address multiple aspects and **it is increasingly rare for our discussions to be limited to only corporate governance matters** (4 G-only engagements 2014/15 v 14 in 2013/14).

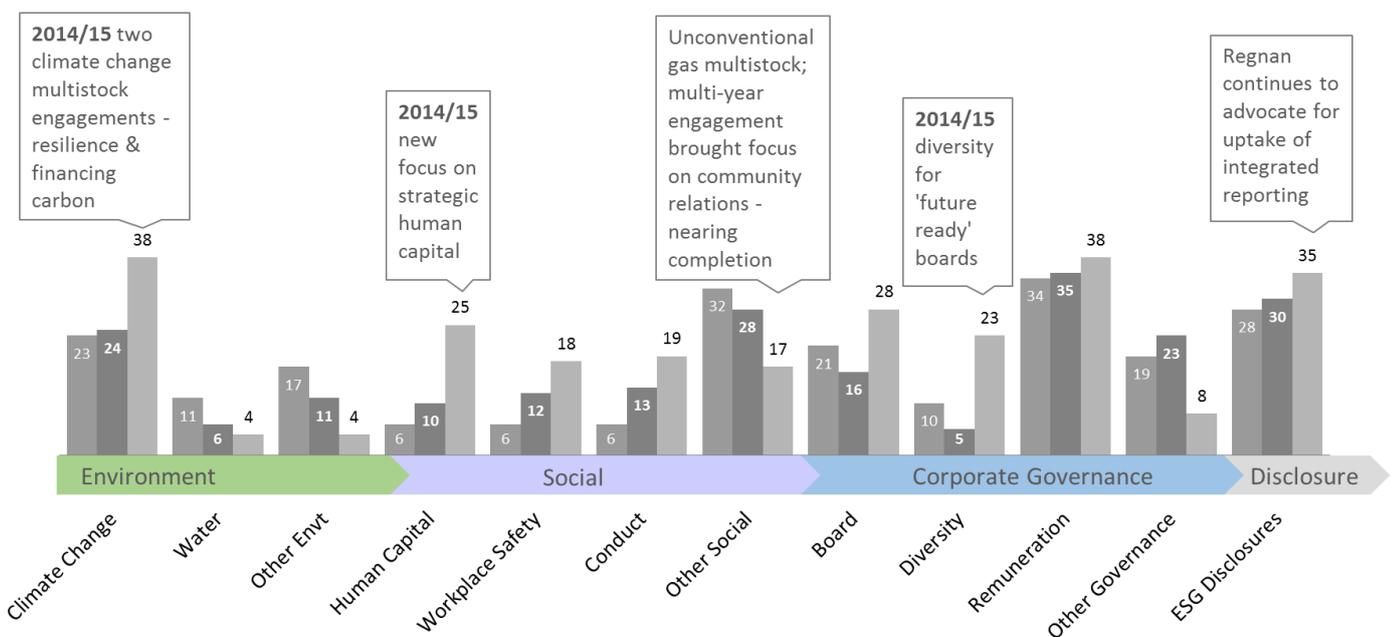
**We again increased the number of engagements addressing social issues** (61 in 2014/15 v 48 in 2013/14). Community relations continues to be a key theme including for unconventional / coal seam gas stocks. Strategic human capital and diversity for ‘future ready’ boards have also featured strongly this year.

Environmental engagement has also expanded. Climate change continues to be a key topic. **During 2014/15 we focused on resilience for stocks most exposed to the physical impacts of climate change** and lenders activities in **financing carbon**. More information on our climate resilience engagement is available at: <http://regnan.com/climate-change-resilience-engagement>

Engagement by area 2014/15  
(proportional)



### Engagement by Topic – 2014/15 and 2 prior years



## CASE STUDY – Unconventional oil and gas, including coal seam gas (CSG)

Ongoing stakeholder concern and the technical complexity of extraction led to unconventional oil and gas (UOG) being a key engagement theme for the fourth consecutive year. **Regnan has undertaken sustained engagement on UOG risks – engaging with every UOG stock in the S&P/ASX200 and holding 25 meetings in total with 8 stocks – since 2010.**

The initial focus on coal seam gas extended to include shale gas and tight oil in parallel with changes in the industry.

In meeting with relevant listed stocks and sharing our in-depth research and UOG principles, Regnan has sought to move past the complexity of the issue and foster a constructive dialogue to identify key areas where ESG risks can be mitigated.

**Full case study, including our advocacy activities, online at <http://regnan.com/regnans-engagement-on-unconventional-oil-and-gas-uog-development-in-australia>**

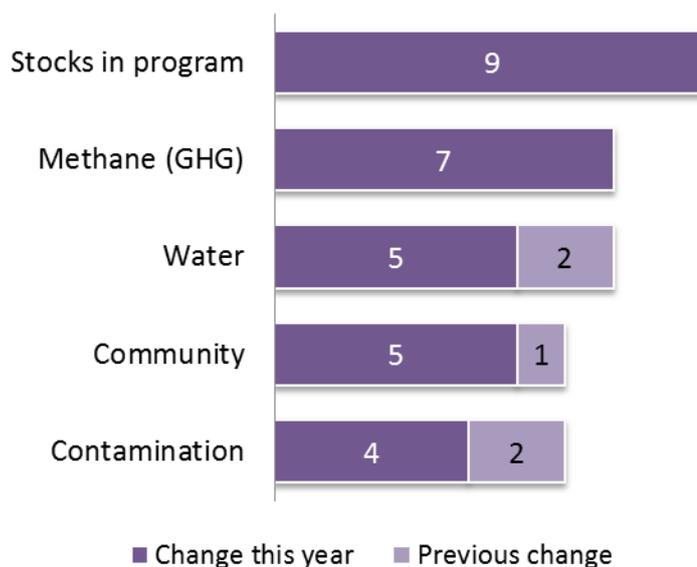
### Advocacy details

During 2014/15, Regnan:

- Increased advocacy on board diversity, including input to the introduction of the Thirty Percent Club to Australia, and on ABC's *The Business*.
- Contributed to debate on proposed changes to directors' liability standards, publicly in the media and in private discussions, challenging the rationale, evidence-base and detail of proposals.
- Was active on assurance priorities for integrated reports and financial reporting; injecting an investor perspective into consultations dominated by the accounting profession; and supporting changes likely to enable more useful dialogue between investors and investee boards.

**Our submissions are available in full at: <http://www.regnan.com/public-submissions>**

### Unconventional Oil and Gas Stocks Evidencing Change - by Topic



*Collaborating, promoting actionable expectations and sharing best practice has resulted in positive change among a majority of the stocks engaged.*

## Regnan in the media

Topics covered in the media in the past year closely aligned to Regnan’s ongoing engagement and advocacy priorities. Regnan’s opinion was most sought on corporate governance, especially in relation to the role of the board, its accountability and its assessment of risk. Staff were also interviewed on climate-related risk and Regnan joined public debate on the topics of diversity, corporate culture and risk through various opinion pieces.

## Media highlights

‘Maurice Newman, the million-dollar smiler’, *The Sydney Morning Herald*, 5 Jul 14

Interview on the AICD’s proposal to introduce an ‘honest and reasonable’ director defence, *Lateline* (ABC TV), 8 Sept 14

Interview on UN climate change summit and carbon pricing, *The Business* (ABC TV), 25 Sept 14

‘What shareholders should be looking for from their boards’, *The Business* (ABC TV), 30 Sept 14

‘Investments look at risk’, *The Australian Financial Review* (Letters), 9 Oct 14

‘The ethics test’, *The Australian Financial Review*, 11 Oct 2014

‘Lessons from ANU’s divestment decision’, *Carbon and Environment Daily* (online), 13 Oct 14

‘Focus on culture’, *The Australian Financial Review* (Letters), 4 Jun 15

‘Directors should care about diversity’, *The Australian Financial Review* (Letters), 5 Jun 15

Interview on board accountability, *The Business* (ABC TV), 18 Jun 15

Find more online at <http://www.regnan.com/media-appearances>

Regnan contributed to:



FINANCIAL REVIEW



smh.com.au  
The Sydney Morning Herald



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