Australia & New Zealand

GLASS LEWIS

2021 Proxy Season Preview

www.glasslewis.com

GLASS LEWIS

Table of Contents

About Glass Lewis 3

Introduction 4

CGI Glass Lewis Guidelines 5

Conflict of Interest arising from Related Party Transactions 5

Board Diversity 5

Regulatory Updates 7

ASIC Extension on Virtual Meetings 7

APRA Updates Prudential Standard on Remuneration 7

2021 Engagement 9

Common Issuer Questions & Concerns 9

2021 AGM Results to June 30 10

Remuneration Report Proposals 10

Election of Director Proposals 11

Other Proposals 12

ESG Considerations & Shareholder Proposals 13

Say on Climate 13

Shareholder Proposals 13

Campaigns by Market Forces and ACCR 16

Connect with Glass Lewis 18

About Glass Lewis

Glass Lewis is the world's choice for governance solutions. We enable institutional investors and publicly listed companies to make sustainable decisions based on research and data. We cover 30,000+ meetings each year, across approximately 100 global markets. Our team has been providing in-depth analysis of companies since 2003, relying solely on publicly available information to inform its policies, research, and voting recommendations.

Our customers include the majority of the world's largest pension plans, mutual funds, and asset managers, collectively managing over $40 trillion in assets. We have teams located across the United States, Europe, and Asia-Pacific giving us global reach with a local perspective on the important governance issues.

Investors around the world depend on Glass Lewis' **Viewpoint** platform to manage their proxy voting, policy implementation, recordkeeping, and reporting. Our industry leading **Proxy Paper** product provides comprehensive environmental, social, and governance research and voting recommendations weeks ahead of voting deadlines. Public companies can also use our innovative **Report Feedback Statement** to deliver their opinion on our proxy research directly to the voting decision makers at every investor client in time for voting decisions to be made or changed.

The research team engages extensively with public companies, investors, regulators, and other industry stakeholders to gain relevant context into the realities surrounding companies, sectors, and the market in general. This enables us to provide the most comprehensive and pragmatic insights to our customers.

Join the Conversation

Glass Lewis is committed to ongoing engagement with all market participants.

info@glasslewis.com | www.glasslewis.com

Introduction

In our annual Australian & New Zealand Season Preview, we aim to give readers insight on the trends and hot issues to look out for in the upcoming annual general meeting (AGM) Proxy Season. We also highlight recent or upcoming changes to our CGI Glass Lewis voting guidelines as well as key updates by regulators.

2021 is the second year of the COVID-19 pandemic and with travel restrictions still in place, many of the challenges ASX and NZX-listed companies faced in 2020 remain relevant. However, resilient boards and companies have also adapted to the pandemic through shifts in business strategy, operational changes, and financing initiatives. Shareholders will again need to consider board and executive performance – and remuneration – in the context of these challenges and adaptations.

We continue to see momentum in the environmental, social and governance (ESG) space, as companies look to improve their reporting on sustainability and continued prevalence of shareholder resolutions on Australian AGMs.

This includes the emergence of the new “Say on Climate” proposals, an initiative launched by TCI Fund Management. A few Australian companies have since committed to put non-binding Say on Climate resolutions to vote at their 2022 AGM.

Shareholders will also be interested in our review of vote results from AGMs held in the first half of 2021. We treat these recently held AGMs as a guide for what might be in store in the second half of the year.

In the following sections to this Season Preview, we discuss:

- Changes to CGI Glass Lewis’ voting guidelines relating to conflict-of-interest and board diversity.
- Regulatory updates in Australia, particularly around the holding of virtual shareholder meetings and CPS511.
- Themes we have encountered in our engagements with boards to date.
- AGM vote results for meetings held in the period 1 January to 30 June 2021.
- Environmental and social shareholder resolutions that can be expected at upcoming AGMs and the results of such resolutions put forward at AGMs in the first half of 2021.

CGI Glass Lewis Guidelines

CGI Glass Lewis annually reviews its policy guidelines and will at times make changes after carefully considering shareholder interests, market trends, and changes in regulation within Australia and New Zealand. Our updated guidelines are made available to the public prior to the main proxy season which takes place in the second half of the calendar year.

In our policy guidelines for 2021/22, we have made two key revisions:

Conflict of Interest arising from Related Party Transactions

Non-executive directors (NEDs) will at times engage in professional, consulting or business relationships (i.e. related party transaction or RPTs) with a company where he or she also serves as a member of the board. CGI Glass Lewis believes RPTs, especially where they are considered material, are a significant conflict of interest for the NED and ultimately compromise their independence.

Previously, CGI Glass Lewis applied an absolute dollar threshold approach to determine if a NED's RPT is material. Going forward, we will evaluate materiality by comparing the value of the NED's RPTs against NED fees.

If the value of any professional or consulting services provided directly by the NED exceeds 30% of NED fees, the RPT will be considered material and the NED will not be considered independent. Where transactions of any nature are made with an entity at which the NED has an interest, the RPT will be considered material if we believe the NED's beneficial indirect interest in the transaction can plausibly exceed 30% of their fee for serving as an NED.

This change will make our materiality assessment more meaningful as materiality thresholds will vary by individual circumstances. NED fees received by an individual are more tailored to an individual's financial circumstances than a one-size-fits-all number. This approach will also appropriately scale up and down the ASX indices as NED fees are correlated with company size.

Consistent with our previous approach, we will continue to consider qualitative factors before recommending against a NED with RPTs, such as the nature of the transaction, the rationale provided by the board, as well as mechanisms in place to address potential conflicts of interest.

Board Diversity

As discussed in our 2020/2021 guidelines, we have introduced changes to our board diversity policy effective from January 1, 2021 for ASX300 companies.

Prior to this date, our guidelines were that CGI Glass Lewis would consider recommending against members of the board at ASX300 companies should the board have zero women directors. This has now changed so that if a company board with six or more directors (including the MD) has less than two women directors, we may consider recommending shareholders vote against board members. Similarly, if a company board has five directors, we expect to see at least one director that is a woman.

We may provide exceptions if the company demonstrates high representation of women in the senior management team or otherwise discloses a credible plan to address the lack of diversity on the board and in the senior management team in near future periods.

The intention of this change is to further promote gender diversity among boards. We wish to ensure boards have an open and diverse culture and believe that having more than one director that is a woman provides reassurance that board gender diversity is not tokenistic.

While we believe diversity of thought is important at smaller boards, we did not wish to limit director appointments on small boards to a single gender and so our guideline change at this time is principally targeted at boards with six or more directors (comprising a majority of boards).

This policy will also come into effect for NZX50 companies from January 1, 2022.

Regulatory Updates

ASIC Extension on Virtual Meetings

In response to the ongoing COVID-19 pandemic, the Australian Securities and Investments Commission (ASIC) extended its “no action” position on virtual meetings held during COVID-19 restrictions to October 31, 2021 or otherwise until appropriate measures are passed by the Australian Parliament.

As such, companies can continue to hold their AGMs online without breaching the Corporations Act.

ASIC has also provided guidance on how virtual meetings should be held using technology. These virtual meetings will still need to provide shareholders with a reasonable opportunity to participate and to raise questions to the board.

Following the expiry of this position, unless further extensions are provided or other measures are passed, shareholder meetings will need to be conducted consistent with pre-COVID-19 laws which require shareholder meetings to be held in-person.

APRA Updates Prudential Standard on Remuneration

In November 2020, the Australian Prudential Regulation Authority (APRA) released for consultation a revised draft of its prudential standard on remuneration (revised CPS 511). CPS511 was designed by APRA to strengthen market practice, underpin sound remuneration practices and enhance accountability in the institutions it regulates.

The draft standard has moved to a more principles-based approach that is designed to be risk based and proportionate, with more comprehensive requirements for larger, more complex Significant Financial Institutions (SFIs).

The revised CPS 511 includes several revisions. The key revisions for SFIs include:

- “replacing the 50 per cent cap on financial measures for variable remuneration with a requirement that material weight be assigned to non-financial measures, combined with a risk and conduct modifier that can potentially reduce variable remuneration to zero; and
- a reduction in the minimum deferral periods for variable remuneration from seven to six years for CEOs, from six to five years for senior managers and from six to four years for highly paid material risk takers”.

SFIs are required to conduct an annual compliance review which would typically include a self-assessment, examining both the design and outcomes of the remuneration framework.

Furthermore, the Banking Executive Accountability Regime (BEAR) under the Financial Accountability Regime (FAR) will be extended to all APRA regulated entities.

APRA is planning to finalise the CPS 511 in the second half of 2021. Entities will be expected to comply with the new CPS 511 requirements beginning from January 1, 2023, under a staged implementation approach:

- January 1, 2023 - for an authorised deposit taking institutions (ADIs) that are SFIs or a group headed by these SFIs.
- July 1, 2023 - for insurer or registrable superannuation entity (RSE) licensees that are SFIs or a group headed by these SFIs.
- January 1, 2024 - for all other non-SFIs.

2021 Engagement

CGI Glass Lewis has a comprehensive issuer engagement programme in Australia and New Zealand. We engage throughout the year with the boards of ASX and NZX-listed entities of all sizes, from micro-caps to the largest companies.

Common Issuer Questions & Concerns

Without going into the specifics of the questions and challenges raised by any one issuer, during engagement meetings held in the first half of 2021 we have identified two common talking points:

1. Continuing from last year, boards of companies which are still experiencing a negative impact of COVID-19 have asked about shareholder expectations in relation to executive bonuses or pay increases in the context where FY2020 bonuses or pay packets generally were suppressed.
2. Boards, especially in the ASX300 and NZX50, have either made improvements or are looking to improve their disclosures on sustainability. Many of these companies asked about new trends or market practices emerging in this space.

Based on the first item, we expect that ASX-listed companies will still be struggling with paying for performance in the context of the COVID-19 pandemic. Boards who previously were harsh on remuneration in FY2020 are weighing up the implications of paying minimal bonuses for a second year running. Some are also questioning whether holding executives to a pre-covid standard of profit performance makes sense for bonus setting. We expect that remuneration committees are re-assessing performance targets in a mid-covid and post-covid world.

In terms of the second item, we are encouraged that there is high prevalence of ESG awareness and disclosure across ASX and NZX-listed companies. We expect companies to make more enhancements to the quality of their ESG-related disclosure this year, with a number of companies issuing ‘stand-alone’ sustainability reports or outlining how the board provides oversight around sustainability matters.

We note that a significant number of companies in the ASX100 have already included ESG measures in their remuneration structures. Based on conversation during engagement, we expect that it will also become more prevalent for companies outside the ASX100 to incorporate these types of measures in their incentive plans in the near future.

2021 AGM Results to June 30

During the period 1 January to 30 June 2021, 55 ASX300 entities held their AGM. In considering what may lie ahead for the September – November AGM season, we reflect on the protest votes seen at the AGMs held in the first half of the year.

Remuneration Report Proposals

A total of eight strikes were recorded at the AGMs in the first half of 2021, which was an increase from two and four strikes recorded in the corresponding first half year periods of 2020 and 2019, respectively.

Protest Votes (20%+ against): Remuneration Report Proposals, First Half 2021

AGM Date	Company	% of Votes Against (Poll)
6 May 2021	Rio Tinto Limited	60.8% (First Strike)
30 April 2021	Oil Search Limited	54.1% (First Strike)
19 February 2021	Eclipx Group Limited	52.1% (First Strike)
8 April 2021	Scentre Group	51.0% (First Strike)
28 May 2021	Appen Limited	47.6% (First Strike)
23 February 2021	Technology One Limited	38.2% (First Strike)
26 May 2021	Brainchip Holdings Limited	36.1% (First Strike)
21 May 2021	Dicker Data Limited	28.9% (First Strike)
30 April 2021	AMP Limited	23.8% (No strike)
20 May 2021	Galaxy Resources Limited	23.3% (No strike)
6 May 2021	Iress Limited	22.9% (No strike)
28 May 2021	Electro Optic Systems Hldgs Ltd	20.2% (No strike)

Protest Votes (20%+ against): Remuneration Report Proposals, First Half 2020

AGM Date	Company	% of Votes Against (Poll)
8 May 2020	AMP Limited	67.3% (First Strike)
13 May 2020	Sigma Healthcare Limited	29.6% (First Strike)
8 April 2020	Scentre Group	23.3% (No strike)

AGMs held in the first half of the year relate largely to December year-end companies, for whom their 2021 AGM were the first meetings following full-year results that were impacted by the COVID-19 pandemic.

The most significant of the strikes was against Rio Tinto's Remuneration Report. This followed the destruction of an indigenous heritage site, the Juukan Gorge caves, in May 2020. The event led to significant backlash from investors and the public, and ultimately resulted in the retirement of CEO Jean-Sébastien Jacques. However, some viewed the good leaver status of the departing CEO as a failure to enforce proper accountability for the issue.

Other strikes in the first half of 2021 were a result of shareholders' disapproval of some ill-suited awards, especially in the context of pandemic and recession. This included generous short-term bonuses, one-off awards and upward adjustments to the incentive outcomes.

Election of Director Proposals

During the first half of 2021, four AGMs saw protest votes against directors in excess of 20%. This compares to only one such meeting in the first half of 2020 and six in the first half of 2019.

Protest Votes (20%+ against): Election of Directors, First Half 2021

AGM Date	Company	Proposal	% of Votes Against (Poll)
24 February 2021	Select Harvests Limited	Re-elect Frederick Grimwade	32.2%
20 May 2021	Galaxy Resources Limited	Re-elect Florencia Heredia	29.8%
18 May 2021	Nickel Mines Limited	Re-elect Yuanyuan Xu	27.2%
5 June 2021	Rio Tinto Limited	Elect Megan Clark	26.5%

Protest Votes (20%+ against): Election of Directors, First Half 2020

AGM Date	Company	Proposal	% of Votes Against (Poll)
21 May 2020	Galaxy Resources Limited	Re-elect John S.M. Turner	40.9%
21 May 2020	Galaxy Resources Limited	Re-elect Peter J. Bacchus	20.7%

Once again, Rio Tinto is featured on the list, with Megan Clark facing scrutiny for her role as chair of Rio Tinto's Sustainability Committee due to the recent events in the Juukan Gorge.

The high protest votes against directors at Select Harvests, Galaxy Resources and Nickel Mines were likely connected to more traditional governance concerns of over boarding, related party transactions, and board independence, respectively.

We have not observed any significant protest votes due to criticisms of handling of the COVID-19 response.

Other Proposals

There were several other proposal types which received high protest votes, mostly connected with remuneration. These included the approval of equity grants for executives and NEDs. We believe the protest votes against the remuneration reports provide a clearer view of shareholder sentiment.

One notable exception is with regard to ESG-themed shareholder proposals, which are discussed at length in the next section.

ESG Considerations & Shareholder Proposals

ESG continues to grow as a key focus area for companies and investors. Shareholder resolutions put up by activist groups Market Forces and Australasian Centre for Corporate Responsibility (ACCR) have been prominent over the past few years and continue to attract significant shareholder attention and debate through 2021. New initiatives have also been prominent in the corporate arena in regard to climate change.

Say on Climate

In 2020, a new Say on Climate initiative was launched in by TCI Fund Management, an activist fund run by Chris Hohn, and its charitable foundation, the Children's Investment Fund Foundation (UK) (CIFF). The aim of the initiative is to generate a widespread increase in focus of listed companies and their investors on developing and delivering Paris-aligned plans, with increased accountability around the substance of and performance against those plans through annual shareholder votes.

Glass Lewis has published an overview of this global phenomenon, describing different styles of Say on Climate proposals seen across international AGMs held in 2021. The overview also provides a narrative of the benefits, limitations, and challenges of such proposals.

Locally, ACCR has joined the Say on Climate initiative. Following requests by ACCR, some ASX-listed companies are committing to put non-binding Say on Climate resolutions to vote at 2022 AGM. ASX-listed companies include Woodside Limited, Santos Limited, OilSearch Limited and Rio Tinto Limited, each of whom held an AGM during the first half of 2021.

We expect that other major energy and materials companies will also be pressured to follow suit as their AGMs approach in the second half of the year.

Shareholder Proposals

The first six months of 2021 saw nine shareholder resolutions at five AGMs. This was lower in absolute number than prior year, but an increase in number of companies targeted as there were 13 shareholder resolutions at four AGMs in the first six months of 2020 (see over).

Support for Shareholder Proposals, First Half 2021

AGM Date	Company	Proposal	% of Votes For
5 June 2021	Rio Tinto Limited	Lobbying Activity Alignment with the Paris Agreement	99.0% (by Poll)
5 June 2021	Rio Tinto Limited	Paris-Aligned Greenhouse Gas Emissions Reduction Targets	99.0% (by Poll)
5 May 2021	QBE Insurance Group Limited	Reducing Investments and Underwriting Exposure to Fossil Fuel Assets	21.4% (by Poll)
15 April 2021	Woodside Petroleum Limited	Disclosure of Paris-aligned Capital Expenditure and Operations	20.1% (by Proxy)
15 April 2021	Santos Limited	Disclosure of Paris-aligned Capital Expenditure and Operations	13.3% (by Proxy)
30 April 2021	Oil Search Limited	Disclosure of Paris-aligned Capital Expenditure and Operations	9.6% (by Poll)
15 April 2021	Santos Limited	Facilitating Nonbinding Proposals	5.4% (by Poll)
15 April 2021	Woodside Petroleum Limited	Facilitating Nonbinding Proposals	5.2% (by Poll)
5 May 2021	QBE Insurance Group Limited	Facilitating Nonbinding Proposals	3.6% (by Poll)

Note: Votes not put to poll have been expressed by proxy with the exclusion of abstain and discretionary votes.

Support for Shareholder Proposals, First Half 2020

AGM Date	Company	Proposal	% of Votes For
30 Apr 2020	Woodside Petroleum Ltd.	Climate Change and Energy Advocacy Report	51.7% (by Proxy)
3 Apr 2020	Santos Ltd.	Climate Change and Energy Advocacy Report	46.7% (by Proxy)
30 Apr 2020	Woodside Petroleum Ltd.	Alignment with The Paris Agreement	44.0% (by Proxy)
3 Apr 2020	Santos Ltd.	Alignment with The Paris Agreement	43.7% (by Proxy)
7 May 2020	Rio Tinto Ltd.	Paris-Aligned Emissions Reduction Targets	36.9% (by Poll)
7 May 2020	QBE Insurance Group Ltd.	Reducing Investments & Underwriting Exposure to Fossil Fuel Assets	13.2% (by Poll)
7 May 2020	QBE Insurance Group Ltd.	Facilitating Nonbinding Proposals	12.7% (by Poll)
7 May 2020	Rio Tinto Ltd.	Facilitating Nonbinding Proposals	8.8% (by Poll)
7 May 2020	QBE Insurance Group Ltd.	World Heritage and Ramsar Properties	6.7% (by Poll)
3 Apr 2020	Santos Ltd.	Facilitating Nonbinding Proposals	6.7% (by Poll)
30 Apr 2020	Woodside Petroleum Ltd.	Facilitating Nonbinding Proposals	6.3% (by Poll)
7 May 2020	QBE Insurance Group Ltd.	Facilitating Nonbinding Proposals	4.3% (by Poll)
30 Apr 2020	Woodside Petroleum Ltd.	Corporate and Sector Reputation Advertising	2.6% (by Proxy)

Note: Votes not put to poll have been expressed by proxy with the exclusion of abstain and discretionary votes.

In the case of Rio Tinto, the board had recommended that shareholders vote in favour of the resolutions relating to emission targets and climate-related lobbying on the basis that the proposals were consistent with Rio Tinto's own goals. This made Rio Tinto the first Australian company to endorse shareholder proposals on climate policy. Both resolutions received nearly full support from shareholders (i.e. 99% of poll votes cast were in support).

Outside of Rio Tinto, while shareholder support for shareholder ESG proposals has been steadily increasing over the past few years, the high levels of support in the 44% - 52% range seen at the 2020 AGMs of Woodside and Santos was not repeated in 2021. This is likely attributable to the 2021 proposals being worded so as to describe planning for operational wind downs, which was seen as a step too far compared to the 2020 proposals, which cleanly asked for additional disclosure and target-setting on the topics of lobbying activity and emissions.

Campaigns by Market Forces and ACCR

The resolutions described above remain largely driven by Market Forces and ACCR. In consideration of what is to come in the second half of 2021, we have reviewed public disclosures by the two groups.

Market Forces publicly describes four campaigns on its website (accessed July 7, 2021).

Campaign	ASX Companies Highlighted	Topic
Banks	ANZ, Commonwealth Bank, NAB, Westpac	Big Four banks' role in supporting the fossil fuel industry.
Super	n/a	Superannuation fund investment in fossil fuel industry.
Insurance	QBE, Suncorp, IAG	Insurer role in supporting the fossil fuel industry.
Fossil fuel subsidies	n/a	Government subsidies to fossil fuel industry.

Those ASX companies identified above were also identified in Market Forces campaigns in our 2020 Season Preview. We expect ongoing resolutions at some of those financial institutions identified above.

ACCR does not publicly disclose campaigns as Market Forces do on their website. Instead, we have summarised the list of companies criticised in the headlines of news articles published from 2 January 2021 to 12 July 2021, which provides insight into their current focus. We have divided the list into general topics:

ASX-listed companies criticised in ACCR headlines over climate matters:

- AGL Energy
- Woodside Petroleum
- BHP Group
- Santos
- Rio Tinto

From the above list, only AGL and BHP are expected to hold an AGM in the second half year. Whether or not they will become the target of shareholder proposals remains to be seen.

ACCR news reports also credit companies with climate commitments, including Say on Climate initiatives, and other commitments on the topic of modern slavery and wage theft. However, we find their critical news articles are more likely to reflect an interest at lodging a shareholder resolution.

In consideration of the previous level of activity both ACCR and Market Forces have had in lodging shareholder resolutions at ASX-listed entities, we expect that the actual AGM targets in the second half of FY2021 will very likely include additional companies not identified above.

Connect with Glass Lewis

Corporate Website | www.glasslewis.com

Email | info@glasslewis.com

Social | @glasslewis Glass, Lewis & Co.

Global Locations

North America

United States
Headquarters
255 California Street
Suite 1100
San Francisco, CA 94111
+1 415 678 4110
+1 888 800 7001

44 Wall Street
Suite 503
New York, NY 10005
+1 646 606 2345

2323 Grand Boulevard
Suite 1125
Kansas City, MO 64108
+1 816 945 4525

Europe

Ireland
15 Henry Street
Limerick V94 V9T4
+353 61 292 800

United Kingdom
80 Coleman Street
Suite 4.02
London EC2R 5BJ
+44 20 7653 8800

Germany
IVOX Glass Lewis
Kaiserallee 23a
76133 Karlsruhe
+49 721 35 49 622

Asia Pacific

Australia
CGI Glass Lewis
Suite 5.03, Level 5
255 George Street
Sydney NSW 2000
+61 2 9299 9266

Japan
Shinjuku Mitsui Building
11th floor
2-1-1, Nishi-Shinjuku,
Shinjuku-ku,
Tokyo 163-0411, Japan

DISCLAIMER