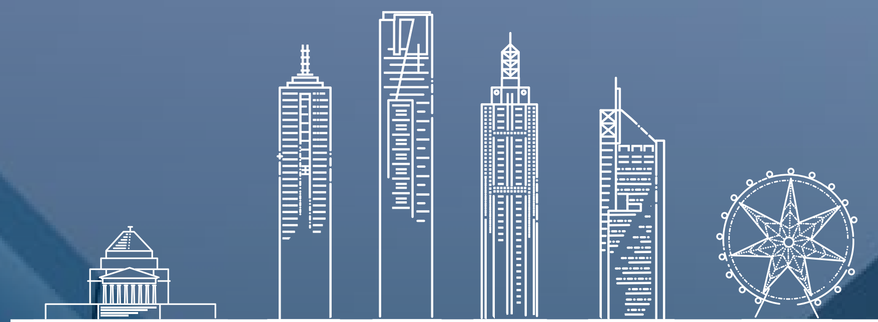
Georgeson

2023 AUSTRALIAN AGM SEASON REVIEW



A review of key trends from ASX300 Annual meetings in 2023

CONTENTS

Introduction 3

Corporate governance 4

- Executive remuneration 5
- Director elections 12
- Cybersecurity 14
- ESG disclosures 17
- Non-financial metrics 21
- Big super flexes its muscles 26
- Say on Climate 28

Global perspectives 30

Introduction

2023 was an eventful year for ASX listed issuers and investors alike

Amid a cost-of-living crisis, subdued economic growth and rising interest rates, investors pressured issuers to deliver greater returns while being more astute with capital expenditure and managing their social licence to operate. These forces played out in a number of high-profile controversies involving some of Australia's most iconic consumer and professional services brands.

As one barometer of this market friction, several major issuers suffered strikes against their remuneration reports as they tried to balance societal expectations, brand integrity and executive pay. Across the ASX300, there was a near-doubling of remuneration strikes to 41, up from 21 in 2022. The severity of investor protest votes was also notably higher, with 13 companies receiving votes against their Remuneration Reports of over 50%, including 3 with over 80% – an unprecedented degree of investor pushback.

An intense focus is also being directed at cybersecurity and what issuers are doing about it, following some further high-profile incidents during 2023 and scrutiny from the Australian Government and financial regulators.

Yet despite these controversies and economic conditions, the share market in aggregate delivered on the upside, with the benchmark S&P/ASX200 Accumulation Index advancing 7.8% for the year, and finishing 2023 within reach of an historic high.

Compared with previous years, there were fewer formal shareholder proposals seeking improvements to climate disclosures and other ESG issues. There was also a drop in the number of company-initiated 'Say on Climate' proposals, following a significant spike in these proposals in 2022 and companies generally favouring a three-year period before seeking renewed shareholder approval.

These declines in company-specific climate disclosure proposals were, however, largely counterbalanced by Australian Government commitments to align Australian issuers' disclosures with new global standards promulgated by the International Sustainability Standards Board (ISSB). Australian regulators also adopted an increasingly tough stance on greenwashing by both issuers and investors, signalling a heightened focus on consumer protection and market integrity.

The Georgeson team in Australia supported a broad cross-section of issuers, both as a dedicated shareholder engagement adviser and in partnership with our Computershare colleagues, highlighting our unique, integrated and comprehensive offering.

I expect 2024 to be another interesting year in the ASX issuer corporate governance and activism landscape. We look forward to working closely with you to navigate the challenges to come and secure a successful outcome at your next AGM.

Andrew Thain
Managing Director
Georgeson
Australia and New Zealand

Corporate Governance: 2023 meeting season review

The latest market analysis from Georgeson, exploring the evolving ESG landscape across the ASX300

‹RETURN TO CONTENTS›

Remuneration strikes spike: A key barometer of institutional investor disquiet

Compared to other major equity markets, Australia has a unique 'Say on Pay' structure whereby a vote against a company's remuneration report of 25% or more counts as a 'strike'.

If a company incurs strikes at two successive AGMs, it is then required to put forward a Board spill resolution, which is subject to a 50% majority voting requirement for incumbent directors to retain their positions.

In practice, history shows that these **contingent spill resolutions rarely pass after a second strike**, as most investors (even those opposed to the remuneration report itself) are generally not prepared to go so far as to unseat the entire board. However, companies are very sensitive to investor pushback against their executive remuneration structures and therefore, are generally motivated to avoid incurring a strike.

Remuneration strikes also attract a lot of negative publicity during AGM season, especially when they occur at prominent 'household brand' companies. So, for good reasons, issuers tend to **actively engage with major investors and proxy advisers** to avoid a first strike, and even more so to avoid a second one after having over 25% of votes cast against by investors who were unhappy with remuneration structures at the previous AGM.

Companies are very sensitive to investor pushback against their executive remuneration structures and therefore, are generally motivated to avoid incurring a strike

Executive remuneration

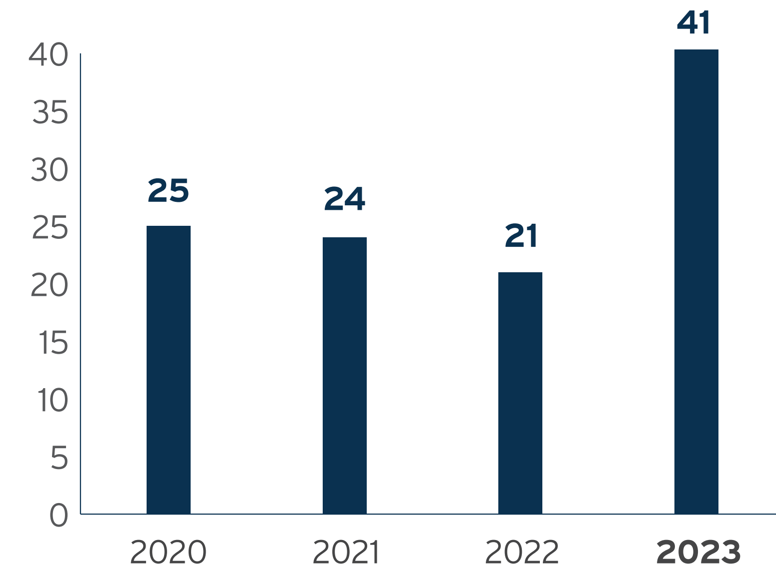
The 2023 experience compared to previous years

Against a background of widely publicised corporate controversies, **2023 proved to be an especially big year for remuneration strikes** at ASX300 companies.

The number of strikes from 2022 to 2023 nearly **doubled from 21 to 41**. This significant rise is particularly remarkable when compared to relatively lower numbers in 2020 and 2021, representing a record high since the initiation of the two strikes rule in 2011.

A higher incidence of strikes has been observed across all sub-indices, including at the top of the market. These are also **unprecedented figures since 2011**.

Number of Remuneration Strikes ASX300 2020-23



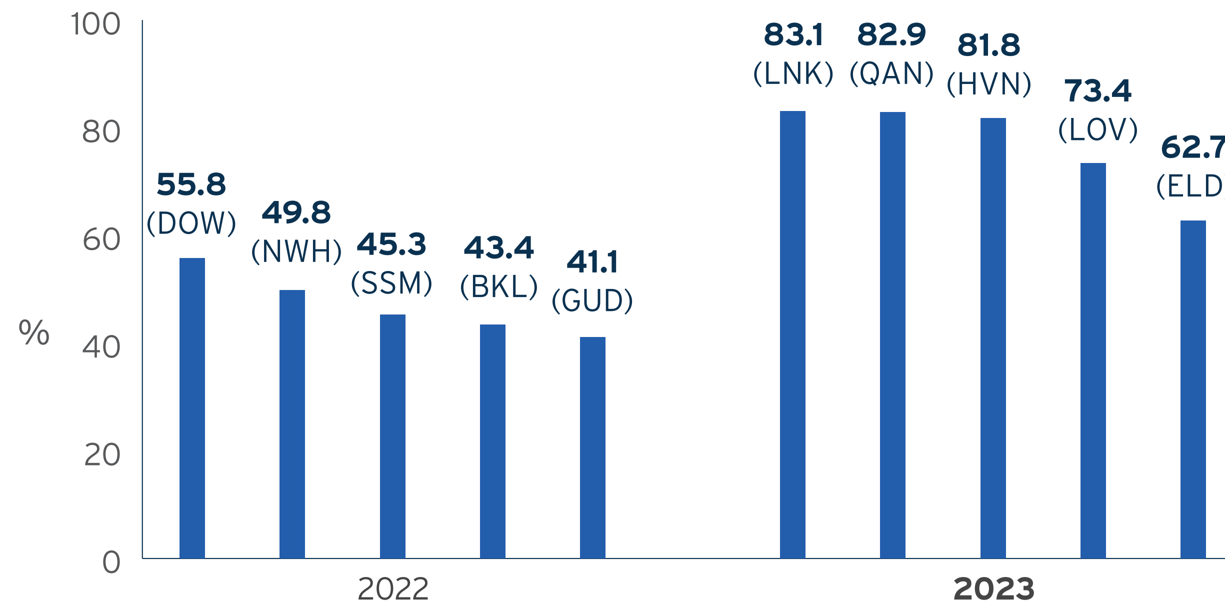
Number of Remuneration Strikes by sub-index 2022-23

Index	2022	2023	Change from 2022 to 2023
ASX50	4	6	▲ 50%
ASX51-100	3	6	▲ 100%
ASX101-200	6	15	▲ 150%
ASX201-300	8	14	▲ 75%

Executive remuneration

The severity of strikes at the top end of the range has increased with **the highest against vote at 83.1%** and all top five against votes being over 60% in 2023. By contrast, the largest strike in 2022 was 55.8%. In 2022, only one issuer received over 50% of votes against **compared to 13 issuers in 2023**.

Top 5 highest votes against Remuneration Report in the ASX300, 2022-23



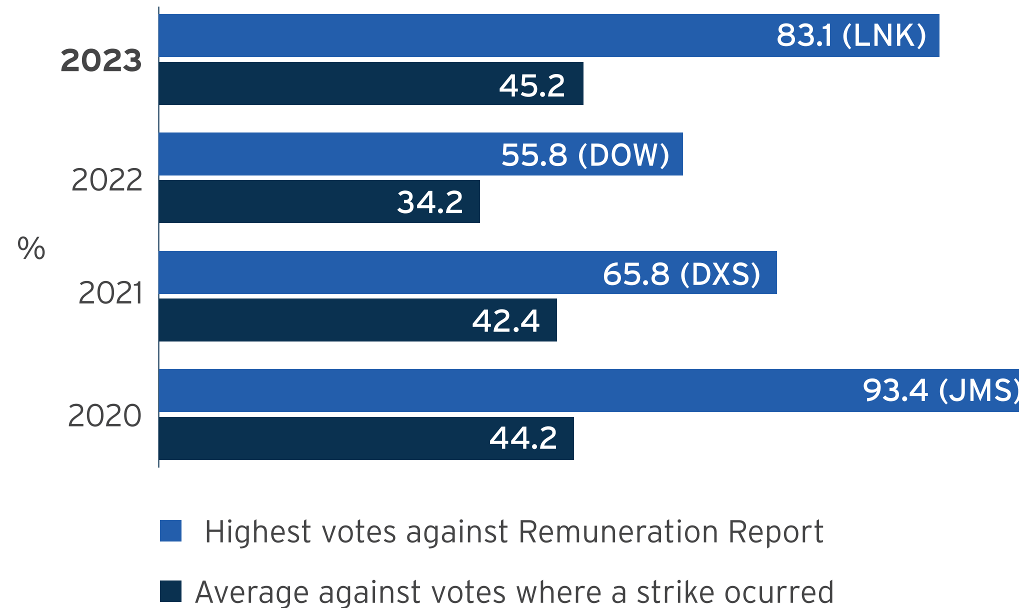
Number of strikes with over 50% of votes against Remuneration Report ASX300, 2020-23

	2020	2021	2022	2023
Number of strikes with >50% of votes against (ASX300)	7	8	1	13

Executive remuneration

With the number of strikes significantly increasing, the average of against votes where a strike has occurred also **grew from 34.2% in 2022 to 45.2% in 2023**, closer to the averages of 2020 and 2021.

Highest votes against Remuneration Report and average against votes where a strike occurred ASX300, 2020-23



Just **two of the strikes incurred by ASX300 companies were 'second strikes'**, which means that many issuers that incurred a first strike in 2022 (13 out 15) managed to avoid a repeat in 2023 – whether through making changes to their remuneration plans, persuading investors why support was warranted despite not delivering on all their expectations, or a combination.

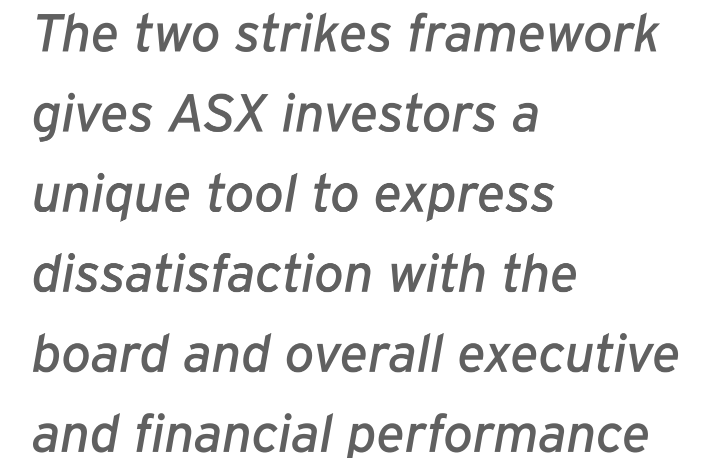
The average against vote where a strike occurred grew to 45.7% in 2023

Executive remuneration

In three cases (Dicker Data Limited, Link Administration Holdings Limited and Lovisa Holdings Limited), the strikes incurred at the 2023 AGM were in fact the third consecutive remuneration strike. These strikes did not trigger a contingent board spill resolution, as the relevant Corporations Law provision 're-sets' after two years (i.e. the 2023 votes technically constituted a new 'first' strike).

Finally, for one issuer (NRW Holdings Limited), the 2023 'second strike' constituted its sixth consecutive remuneration strike. The resulting board spill resolution was resoundingly defeated at the AGM, with 97.9% of votes cast against. However, investors sent a strong message to the company using a different mechanism, with over 50% of them lodging votes against the re-election of the long-standing Remuneration Committee Chair, who resigned his position prior to the AGM.

In a further two companies that received a strike in 2022 (Blackmores and Newcrest Mining), there was no shareholder vote in 2023 as these issuers were no longer listed on the ASX due to having been acquired by foreign entities.



The two strikes framework gives ASX investors a unique tool to express dissatisfaction with the board and overall executive and financial performance

Why the uplift?

So why the spike in remuneration strikes in 2023? There are typically many company-specific issues in play in any given case, however some general factors across most remuneration strikes include:

- Increasing community and **shareholder focus on high remuneration of senior executives** at a time of cost-of-living pressures, inflation and rising interest rates. This is particularly interesting when comparing to 2020 data when COVID-19 severely affected the economic outlook but the number of strikes in that year was 25 for the ASX300 in contrast to 41 in 2023.
- Major investors such as **superannuation funds are increasingly accountable to their own stakeholders** (members) and are therefore more sensitive to being seen to support high executive salaries.
- **Where a company has experienced significant reputational issues, workplace safety incidents or fatalities.** In this regard, the two strikes framework gives ASX investors a unique tool to express dissatisfaction with the board and overall executive performance, even if not directly linked to remuneration.

After 12 years of operation, the two strikes rule is still being used to remind issuers about the importance of aligning the interests of executives with those of all stakeholders, particularly investors and customers.

Issuers have felt the weight of institutional investor dissatisfaction in 2023

GEORGESON RECOMMENDS

Remuneration strikes are one of the most visible signs of institutional investor disquiet with companies' governance and/or executive performance. Consequently, they are one of the most telling barometers of the state of an issuers' standing with key investors and proxy advisers.

- **Companies that have received a strike should analyse the voting decisions of their major investors** and seek to understand the rationale for those decisions. These will generally be driven by published policy positions (whether of the investor itself or its proxy advisers).
- **Any changes being considered should be canvassed with key investors and proxy advisers** well in advance of the following year's AGM. This is so that companies are not left guessing whether their changes have in fact addressed the concerns that led to the strike before the issue is locked into a voting proposal. This proactive engagement also affords issuers the opportunity to canvass investors on ideas they may have to improve the company's executive remuneration arrangements.
- Once remuneration arrangements are locked in, **consider how the intent and outcomes are explained** in the annual report. Linking to performance and company strategy is crucial to securing investor support.
- Some more specific suggestions on engagement approaches are included in our separate article on the role of non-financial metrics in executive remuneration plans, on **p. 21.**

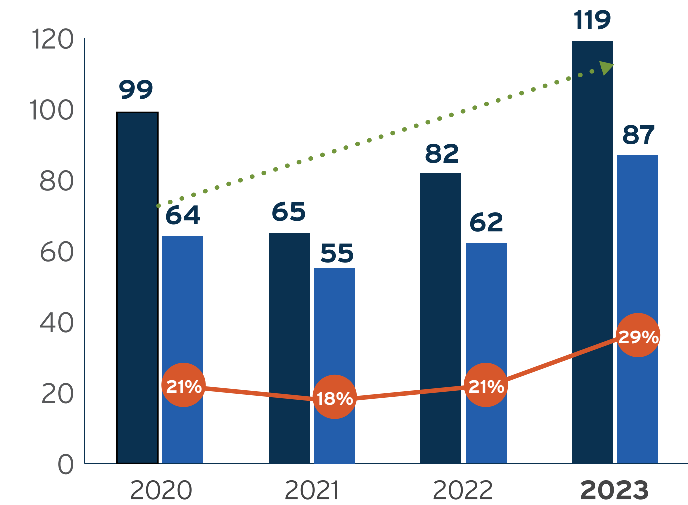
Significant votes against directors

Across the ASX300, there were **119 board-endorsed candidates** (new or existing directors) at 87 companies where more than 10% of votes were cast against. This includes 48 directors at 38 companies where the vote against was **higher than 20%**, and a further 16 directors at 14 companies where it was higher than 30%.

Since 2020, there has been an upward trend in the number of issuers and individual director candidates receiving more than 10% of votes against.

Significant votes against directors accounts when a proposal to elect/re-elect a board member receives 10% or more votes against them

Figure 7: Significant votes against board nominated candidates ASX300, 2020-23



Total number of proposals with significant* votes against board-nominated candidates

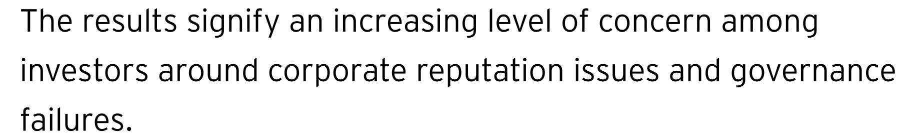
Total number of issuers with significant* votes against board-nominated candidates

% of issuers with significant* votes against board-nominated candidates within the ASX300

Trend of the total number of proposals with significant* votes against board-nominated candidates

* Significant votes against directors accounts when a proposal to elect/re-elect a board member receives 10% or more votes against them.

Director elections



The results signify an increasing level of concern among investors around corporate reputation issues and governance failures.

Importantly, they also highlight an evolution in the approach being used by many key institutional investors, proxy advisers and NGOs to **hold individual directors to account** rather than (or in addition to) employing more traditional means such as supporting shareholder proposals or voting against remuneration reports to register their dissatisfaction.

These factors were most clearly at play with a large dissenting vote of more than 30% against an incumbent director at Qantas Airways. Another notable case was a targeted campaign led by climate-focused NGOs against one long-standing director at Woodside.

Other reasons reported by investors for opposing directors included **concerns of 'over-boarding', insufficient gender or ethnic diversity** in overall board composition, chronic share price under-performance and perceptions of inadequate risk management, for example around cybersecurity.

Going forward, Georgeson expects that votes on director appointments and re-elections will become a more important part of boards' engagement dialogue with key institutional investors. In many cases, this will in effect be an escalation step for investors who have sought changes in the past but remain unsatisfied with the degree of progress.

Shareholder Nominated Directors

There were four companies that received nominations of non-board endorsed director candidates during 2023. Two of these (Aristocrat Leisure and National Australia Bank) were for the election of media commentator Mr Stephen Mayne, while a third (ASX Limited) was for a self-nominated former securities industry executive, Mr Philip Galvin. All three of these proposals were soundly defeated at the respective AGMs, with against votes of over 98% in each case.

The fourth director nominee in this category was an independent candidate for the Board of Endeavour Group, Mr Bill Wavish, whose candidacy was supported by the company's largest shareholder, the Bruce Mathieson Group. Mr Wavish received a sizable vote in favour of 27.75%.

Cybersecurity and data privacy: What does it mean for Australian issuers?

Cybersecurity and data privacy are long-familiar topics for issuers in the technology and communications sectors.

However, the expansion of smart technology, generative artificial intelligence (AI), ubiquitous data collection and continual digital disruption make cybersecurity **an imminent risk across all industries**. Recent data breaches affecting top Australian corporations underscore the critical importance of **making cybersecurity a priority** topic on ASX issuers' strategic and risk management agendas.

A September 2023 survey from the Office of the Australian Information Commissioner (OAIC) showed that **only 15% of Australians believe that their personal information is protected** against hackers, whilst 92% would like businesses to do more to protect them.[1]

In November 2023, a report commissioned by ASIC concluded that significant gaps remain in Australian companies' cyber capabilities, with 58% of participating entities being found to have limited or no capability to adequately protect confidential information, and 33% not having a cyber incident response plan[2].

In addition, the Australian Government's review of the Privacy Act **underpins the need for issuers to lift standards**. This review foreshadows many key changes, such as a new definition of "personal information", new civil penalty provisions for mid/low-tier breaches, tighter transparency obligations for organisations collecting personal data, and empowering consumers to make informed decisions[3].

[1] Cross-jurisdictional Information Access Survey 2023 (oaic.gov.au)
[2, 3] ASIC calls for greater organisational vigilance to combat cyber threats | ASIC

Cybersecurity is an ESG issue

Among institutional investors, cybersecurity and data privacy breaches are largely considered under the "S" of ESG issues. This is because their victims are mainly individual consumers who, in providing data to corporations, are exposed to identity theft and financial fraud amongst other cyber risks.

As numerous recent high profile cases attest, data privacy incidents can not only affect the company's operations but also **cause a loss of trust** from clients and harm a company's reputation. This is on top of the **direct financial risks** of threats of extortion and ransomware that can undermine solvency and commercial viability.

In addition to these risks, there are **particular sub-issues** within the corporate governance space that amplify the complexity of addressing cybersecurity challenges:

- Investors, proxy advisors, clients and other stakeholders expect cybersecurity responsibilities to be placed on directors given their duty to **act with care and diligence**. For instance, major proxy advisor Glass Lewis includes BitSight cybersecurity rating score in their proxy reports, **giving investors an actionable data point** of the resilience of your cyber strategy.
- During the 2023 AGM season we observed a notable trend of **increased votes against the re-election of directors who were members of Risk Committees** at corporations which suffered data breaches. This signifies a growing demand for accountability in their oversight of cyber governance and risk.
- Boards are expected to understand cyber risks and have specific skills at their disposal, either within their membership or ready to hand from specialist advisers. However, **there is a skill shortage in this field** making these expectations challenging to fulfill.
- **Issuers find it hard to disclose information** and assure investors that their cyber risks are being adequately managed without disclosing too much, as this could potentially reveal critical information that can be exploited by hackers.

GEORGESON RECOMMENDS

Board members and key management personnel should take accountability for cybersecurity due diligence. In the event of a breach, ASIC, the AOIC and other regulators will look at the root cause of the incident, assess what was in place for risk management and resilience and how Boards responded to cyber risks.

Below is some practical groundwork that companies should consider to ensure maximum preparedness:

- Assume that because you collect data from clients and other stakeholders your systems are vulnerable. Hence, be proactive and ensure there is an incident response plan in place. Do not wait until it happens to respond.
- Undertake a materiality assessment to determine how important cybersecurity risks and data privacy are for your business and integrate cybersecurity into the overall company strategy.
- Align operational practices and reporting to national and international standards such as AS27701 and ISO/IEC27701.
- Know your supply chain – including outsourced data centres – and have due diligence processes in place to manage these.
- Prepare and maintain an updated Data Privacy policy and be transparent about what data you collect, why you do so and how you manage it.
- Promote cyber education and good practices amongst management and all staff.

Anticipating 2024: Mandatory climate disclosures and other ESG reporting requirements

Significant changes to listed companies' sustainability and climate-related reporting requirements were established at both national and global levels during 2023 and will take effect from 2024.

New reporting standards have set a common baseline for non-financial disclosures globally, while in Australia, mandatory climate-related disclosures will likely come into effect for larger corporations, including ASX-listed companies, **from 1 July 2024**, unless stated otherwise by the current consultation.

These new reporting requirements will impact not only the way issuers report on ESG factors but also how well companies integrate those considerations into their business strategies and operations. Inevitably, these changes will **heighten scrutiny of disclosures by investors**, regulators, and service providers such as ESG ratings agencies.

Consequently, adapting to this rapidly evolving ESG landscape can become a complex challenge if issuers do not **quickly familiarise themselves** with the new requirements.

Internationally, the Task Force on Climate-related Financial Disclosures (TCFD) and the Sustainability Accounting Standards Board (SASB) have consolidated under the IFRS Foundation's **International Sustainability Standards Board (ISSB)**, which published two new standards in June 2023:

- **IFRS S1 General Requirements for Disclosure of Sustainability-related Financial Information** is a guideline for companies to disclose all their sustainability-related risks and opportunities that have a financial implication.
- **IFRS S2 Climate-related Disclosures** sets out the requirements to disclose specific climate-related information based on the recommendations previously made by the TCFD.

ESG disclosures

Both standards are focused on **meeting the information needs of investors**. This new baseline is intended to provide reporting entities with a **clearer and simplified data collection** and reporting process, ensuring information is comparable and understandable for investors as the providers of financial capital.

Complementing these international measures, in June 2023 **the Australian Government committed to the implementation of mandatory climate disclosures** and alignment with the global reporting requirements, in the context of the local statutory framework and financial reporting standards.

In October 2023, the Australian Accounting Standards Board (AASB) published an Exposure Draft of new **Australian Sustainability Reporting Standards (ASRS)**. The proposed disclosure requirements are set out in three draft standards:

- ASRS 1 *General Requirements for Disclosure of Climate-related Financial Information*,
- ASRS 2 *Climate-related Financial Disclosures*, and
- *ASRS 101 References in Australian Sustainability Reporting Standards*.

ASRS 1 and ASRS 2 are based on IFRS S1 and S2 respectively, with some variations (for instance, using language to be suitable for not-for-profit organisations as well as for-profit entities and initially have a focus on climate only). ASRS 101 provides a listing of Australian and international source documents that are referenced in the ASRS Standards.

Consultation on the draft ASRS requirements closed on 1 March 2024, with reporting by larger entities to commence from the first reporting period after 1 July 2024 (and in subsequent years for smaller entities). Yet, this timeline is subject to the successful passage of the legislation.

New reporting standards have set a common baseline for non-financial disclosures globally

For investors, **these new regulatory developments are also a game-changer**, as they will allow them to shift their focus away from simply encouraging greater disclosures from issuers to how well and how seriously companies are implementing their sustainability and climate-related strategies, under a common reporting framework. In other words, regulatory changes are increasing the level of rigour through which investors will scrutinise issuers.

Meanwhile, the adoption of common and comparable reporting standards will reduce the scope for misleading or overstated disclosures, while **companies will also remain under intense scrutiny** from the Australian Competition & Consumer Commission (ACCC) and the Australian Securities & Investments Commission (ASIC) regarding any 'greenwashing' practices.

The shift towards mandatory climate-reporting is also becoming the new norm globally with countries including **New Zealand, Hong Kong, U.S., UK, and those in Europe** leading the way.

How can issuers better prepare for mandatory climate reporting?

Although it seems like the 'alphabet soup' of ESG reporting is becoming more complex, these changes mean that **sustainability and climate-related reporting are finally on a pathway to simplification**, standardisation and effective universal application.

For ASX issuers seeking to stay ahead of the curve, adapting quickly and embracing these changes needs to be understood as an **opportunity and as a source of competitive advantage**, not just as a compliance exercise.

The shift towards mandatory climate-reporting is becoming the new norm globally

GEORGESON RECOMMENDS

To keep on track, Georgeson suggests:

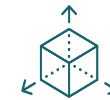
- Familiarising yourself with the new standards even if your company is not directly affected by the new regulations in the immediate term.
- Performing a gap and peer analysis against the ASRS and ISSB standards to understand where your strengths and weaknesses are and how equipped you are for mandatory disclosures.
- Preparing your team for robust data collection, due diligence and reporting processes ahead of seeking to engage auditing and assurance providers.
- Ensuring your Board is well informed about legislative changes, investors' expectations, and how your climate change strategy is embedded in the business strategy.

Navigating remuneration reform: How and where do non-financial performance metrics fit in?

2023 was the first year of the new remuneration governance requirements for 'Significant Financial Institutions' (SFIs) regulated by the Australian Prudential Regulation Authority (APRA).

These institutions include Australia's larger listed banks, insurers, and superannuation responsible entities.

Key requirements, spelt out in APRA's Prudential Guide CPS 511[4], had their origins in the findings of the Financial Services (Hayne) Royal Commission in 2019[5]. They include requirements that SFIs must:



Give 'material weight' to non-financial measures in performance-related pay awards;

Include 'malus' (pre-vesting) and 'clawback' (post-vesting) mechanisms for recovery of variable remuneration awards already made;

Include clearly defined criteria by which a remuneration award would be adjusted downwards (potentially to nil) in the event of adverse risk or conduct outcomes; and

Extend deferral periods of long-term remuneration awards (up to a minimum of six years in the case of CEOs).

4 APRA finalises requirements for remuneration disclosure | APRA

5 Misconduct in the Banking, Superannuation and Financial Services Industry | Royal Commissions

Non-financial metrics

Insights

The first tranche of reporting by SFIs in 2023 has provided some interesting insights into their adopted approaches, representing relevant lessons for issuers in other market sectors.

One approach adopted by some SFIs has been to **add new metrics in their Long-Term Incentive (LTI) plans**, alongside traditional financial metrics and with a specific percentage weighting. Examples include:

- **AMP Limited's** introduction of a Reputation Index, using an external provider to measure reputational performance relative to a customised sub-set of peer companies over multiple years. This comprised 30% of the CEO's LTI opportunity.
- A new *Customer Experience* performance hurdle introduced at **Insurance Australia Group Limited**, utilising existing internal data on 'Transactional Net Promoter Scores' to establish uplift targets and hurdles for future LTI award vesting.

Another approach, generally adopted by Australia's **Big Four Banks**, has been to retain traditional financial targets such as Total Shareholder Return (TSR) as the key drivers for the entirety of LTI awards, but then subject a significant proportion (up to 50%) of the award to a retrospective assessment against a series of risk-based criteria (e.g., compliance breaches, material inactions) at the time of vesting (i.e. some four to six years in the future).

In this way, Boards retain discretion to modify LTI awards based on so-called 'non-financial' risk and reputation considerations, even in cases where financial performance has been strong.

Non-financial metrics

Market reaction

Implementation of the CPS 511 requirements has posed significant challenges for issuers and investors alike. Some key questions they have had to confront include:

- What is a 'material weighting' to non-financial measures in the overall remuneration plan design?
- What objective, measurable targets and hurdles can be applied to these measures, or are Board judgement and governance processes sufficient?
- What are the risks of distracting boards and executives from their primary responsibility to deliver financial returns to shareholders?
- Is there a risk that non-financial metrics can be more easily 'gamed' to reward executives, even at times of manifest financial under-performance?

These questions have been reflected in a somewhat equivocal response from some investors and at least one major proxy adviser (Institutional Shareholder Services) to the first round of CPS 511 remuneration disclosures by Australia's major banks. Whilst appreciating that these changes stem from a specific regulatory requirement, some major investors remain sceptical about the practical implications.

Countervailing this, among Environmental Social and Governance (ESG)-focused investors there is increasing recognition that issues such as **reputation, climate mitigation or customer satisfaction** are in fact material to a company's long-term financial sustainability and therefore are potentially mischaracterised as 'non-financial' in the first place.

Broader implications for issuers

The experience of Australia's major listed financial institutions in implementing the CPS 511 requirements provides guidance for ASX issuers across all sectors.

In particular, the requirement to **identify and track progress against 'non-financial' measures** has strong echoes of other challenges issuers are currently facing – for example:

- How to measure, track and incentivise progress towards Net Zero carbon emission targets under Australia's new mandatory climate disclosure framework, and
- Expected tightening of existing disclosure requirements such as Modern Slavery and Workplace Diversity reporting.

Increasingly, we expect many key investors and regulators to demand tangible progress on these issues and, where appropriate, reflect this in the way executives are compensated.

These changes are shaping best practice in remuneration governance across all industries.

Non-financial metrics

GEORGESON RECOMMENDS

Some points we suggest Boards and Remuneration Committees consider for 2024 and beyond are:

- **Substantiation of STI award decisions.** Institutional investors and proxy advisers are losing patience with STI scorecards that are solely based on qualitative assessments, without disclosure of the actual metrics that were used (either proactively or retrospectively).
  - Whilst these concerns may not have been sufficient to warrant a vote against remuneration reports in the past, investors may not be so accommodating in future unless genuine efforts are seen to be made.
- **Balance of financial returns vs non-financial measures.** Investors will be keen to hear a coherent narrative from Boards about how they have balanced maximising financial returns to shareholders while delivering on broader stakeholder and community requirements.
  - Ideally, this narrative should be anchored in the language of financial materiality of long-term ESG risks from the perspective of long-term investors.
- **Art vs Science of LTI Awards.** Boards should be prepared to convincingly explain to investors why and how they use discretion to determine remuneration outcomes, especially in cases where the shareholder experience does not align with the awards being provided to executives.

Big Super flexes its muscles

Another highlight of the 2023 voting season was the central role played by the country's largest superannuation fund, AustralianSuper, in frustrating the acquisition of major energy utility Origin Energy by a global private equity giants Brookfield and EIG.

This transaction was supported by Origin's board and had obtained necessary clearances from Australian competition and foreign investment regulators, but required approval of at least 75% of total votes cast (and 50% of shareholders by number) at a Scheme Meeting in December 2023 to secure passage.

AustralianSuper's holdings of approximately 17% of total shares were sufficient to ensure that the proposal did not proceed, with the proposal falling short of the 75% of total votes threshold (achieving 69% of total votes cast, though supported by 78% of shareholders by number).

The outcome of this contested Scheme meeting was retention of a significant Australian utility company in the public ASX market, based on a strong conviction of a major fiduciary investor that the privatisation bid had understated the value of the company and its strategic value in the energy transition, despite the Board and regulators' beliefs to the contrary.

On a broader level, the Origin Scheme Meeting result was a salutary example of the ever-increasing influence of Australia's now AU$3.5trillion pension fund sector not just on regular corporate governance and ESG engagement issues, but also more directly on key capital market transactions.

Other key signposts of this trend have been evident in recent years, notably the privatisation of Sydney Airport by a consortium of industry superannuation entities in 2022, and various transactions (not all of them ultimately successful) in the healthcare and communications sectors since 2019.

AustralianSuper's holdings of approximately 17% of total shares were sufficient to ensure that the proposal did not proceed

Big Super Flexes its muscles

GEORGESON RECOMMENDS

- For ASX directors and executives, this heightened participation by major Australian superannuation funds – and indeed by their offshore counterparts from Europe, Canada and the US in particular – adds an extra dimension to the traditional planning and financing model for major corporate transactions.
- In Georgeson's view, successful execution of these transactions will increasingly require targeted engagement with investment teams at major asset owners as well as with their stewardship and governance professionals.
- Increasingly, capital market transactions such as mergers, IPOs and private equity deals will need to be framed more around value delivery for investors that have multi-generational investment horizons, rather than more short considerations such as premiums to current trading prices, operational synergies or taxation efficiency alone.

Say on Climate and shareholder resolutions

Say on Climate

Say on Climate resolutions are non-binding proposals put forward by companies to seek shareholder endorsement of their climate risk management, targets and transition plans.

After a significant spike in 2022, when eight ASX300 companies submitted Say on Climate proposals, in 2023 there were just three, from Orica and Incitec Pivot, and Westpac. All these proposals were passed by more than 90% support.

The decline in the number of Say on Climate resolutions does not signify a reduction in issuers' focus on climate risks in the Australian market. Rather, the explanation lies in a combination of the following:

- The vast majority of ASX issuers that submitted climate reports for shareholder approval did so in 2021 and 2022, with a general commitment to seeking further approval every three years. Consequently, **their next formal Say on Climate proposals are not expected until FY2024 or 2025**.
- Most of the focus in 2023 was on the imminent introduction of mandatory climate disclosures for large reporting entities for reporting periods after July 2024 (as discussed on page 17). These new provisions will **increase the consistency and comparability of climate disclosures** across the market according to common reporting standards, making endorsement of company-specific disclosure requirements less necessary.

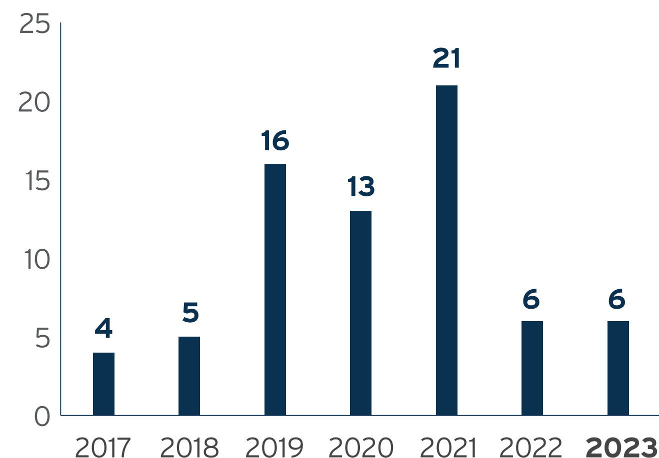
Shareholder Climate Proposals

In a similar vein, there were significantly fewer shareholder proposals[6] seeking specific actions from issuers on climate-related topics in 2023 compared with previous years. The six issuers were Santos, Woodside, Whitehaven, New Hope Corporation, National Australia Bank and Westpac.

[6] i.e. proposals submitted by a requisite number of shareholders, but opposed by management. These are distinguished from Say on Climate votes (as discussed on the previous page) that are proposed by management as advisory resolutions.

Say on Climate

Number of issuers receiving climate related – shareholder proposals ASX300, 2017-23



There are several factors contributing to the lower incidence of shareholder proposals:

- The first is the **inherent difficulty of passing these resolutions** under Australia's regulatory structure given they are not formally put to a shareholder vote unless the company's constitution is amended.
- As noted earlier, the emphasis shifted towards the introduction of mandatory climate disclosures for future corporate reporting, while **several companies voluntarily adopted Say on Climate proposals in 2022 and 2023**. These factors combined to make the submission of company-specific shareholder proposals by activist NGOs a less compelling strategy than previous years.
- Key proponents of ASX shareholder proposals, **Market Forces** and the **Australasian Centre for Corporate Responsibility (ACCR)**, expanded their horizons to other key APAC markets – in particular Japan, where they sponsored a number of shareholder proposals at major banks and energy utilities, often in partnership with other NGOs and/or investors. These campaigns were still closely linked to their Australian activism, given Japanese companies' status as major financiers and/or consumers of Australian fossil fuel commodities.
- Shareholder proposals on other topics such as **diversity and inclusion, culture and biodiversity** are slowly starting to gain traction, in contrast to lower number of climate-related resolutions from shareholder activist groups.

Global perspectives

Take a look at other markets across the globe.

<RETURN TO CONTENTS>

European season review excerpt

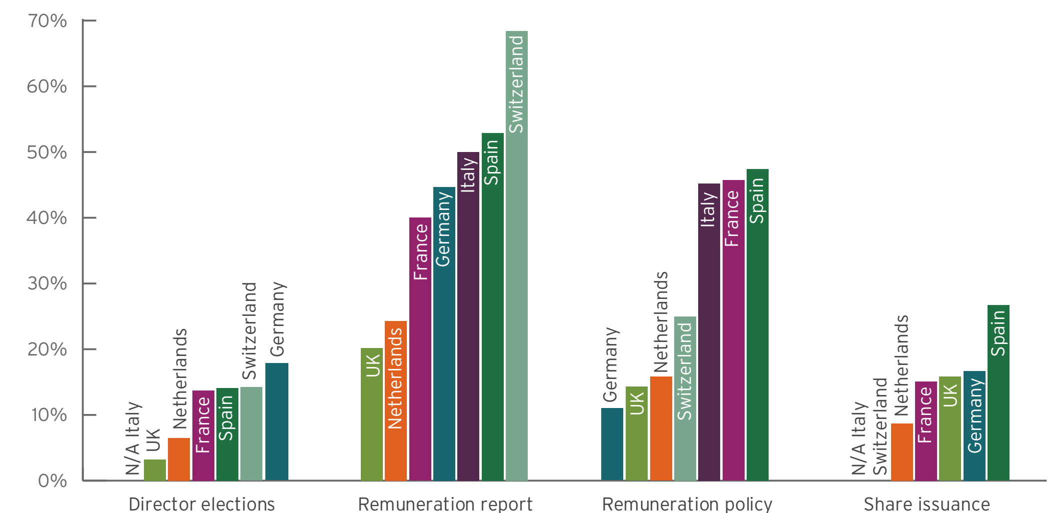
Each year Georgeson publishes an annual review of the European AGM season which covers the most important takeaways and developments across seven European markets, as well as predictions for how shareholder priorities and expectations will change. You will also read about instances where companies received higher opposition than their peers and why some investors chose not to support these resolutions.

Key trends

- Resolutions relating to the remuneration of executives continue to be the most contested resolution type in Europe. The share of remuneration-related resolutions that were contested (i.e. received at least 10% opposition) across the seven regions that were included in last year's report decreased from 37.1% in 2022 to 36.1%.
- Of these seven markets, the UK saw the lowest proportion of contested remuneration reports (20.2%), the same as last year, and Switzerland had the highest share of contested resolutions of this type (68.4%)
- Germany had only 1 contested remuneration policy in 2023, meanwhile Spain had the highest share of contested remuneration policies across the seven markets (47.4%)

The graph below shows the level of dissent – expressed as a percentage of contested resolutions (10+% against votes) – across four major categories of resolutions common across major European markets, namely director elections, remuneration report, remuneration policy and share issuances.

On average 11.7% of director elections, 42.9% of remuneration report resolutions, 29.2% of remuneration policy resolutions and 13.8% of share issuances resolutions were contested.



European season review excerpt

Say on Climate board proposals

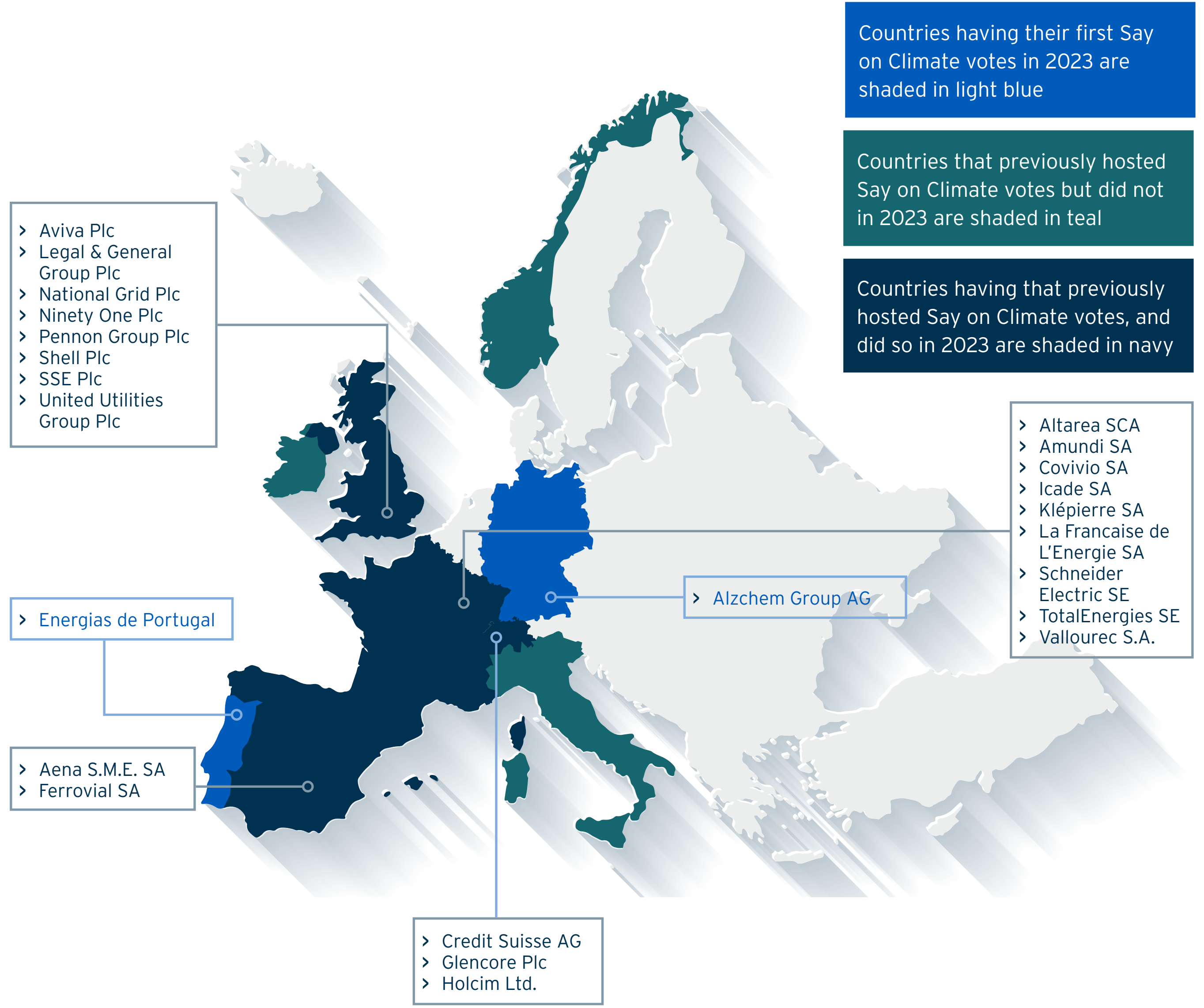
The 2023 AGM season was the third year that companies voluntarily proposed so called "Say on Climate" resolutions. During the year under review (1 July 2022 – 30 June 2023), 24 companies across Europe have put forward board-sponsored advisory resolutions on their climate disclosures and action plans at their AGMs.

In the 2022 AGM season (1st July 2021 to 30th June 2022), there were 36 companies which held votes on climate-related proposals, which was three times as many as compared to the 2021 AGM Season (1st July 2020 to 30th June 2021). In the 2023 AGM Season, we have therefore seen a decrease in the amount of Say on Climate proposals announced, with only 24 companies putting forward such a proposal, a 33.3% decline relative to 2022. If we look solely at the first six months of 2023 and 2022, the number of Say on Climate resolutions dropped from 31 in 2022 to 18 in 2023, a 42.1% decrease. Germany, through Alzchem, and Portugal, through Energias de Portugal, hosted their respective country's first Say on Climate vote.

The level of support from shareholders at the 2021 AGM season for this type of proposal in Europe was on average 97.0% and in all cases above 88.7%. However, during the 2022 AGM season there was increased scrutiny amongst shareholders and proxy advisors which led to the average level of support falling to 91.0%, with the lowest level of support being 76.3%. The level of support during the 2023 AGM season has remained stable with the 24 proposals having an average level of support of 91.0%. The lowest level of support during the 2023 AGM season was 53.1%, which is the lowest level of support since the inception of board-proposed Say on Climate votes. The graph below shows the level of support for all Say on Climate board proposals put forward in the 2023 AGM season across Europe.

European season review excerpt

Besides Say on Climate, E&S shareholder proposals that have gained traction are somewhat limited to those put forward by key activist groups and institutional investors. The shareholder proposals of note include those put forward by Follow This and coalitions of institutional investors. This year, Follow This targeted "big oil" with the aim of imposing absolute emission reduction targets for 2030, meanwhile institutional investors focused on compelling companies to hold annual Say

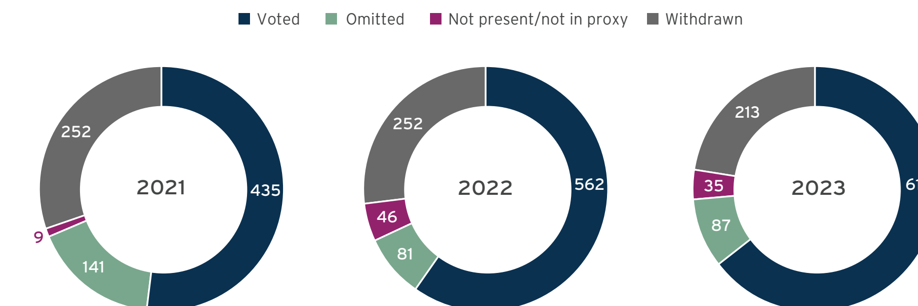


U.S. season review excerpt

Every year, Georgeson US closely monitors voting outcomes during the US proxy season to discern significant trends impacting our clients' meetings. 2023 was yet another significant year in terms of US annual meeting vote outcomes; across shareholder-sponsored proposals, director elections and say-on-pay we are seeing a direct impact of the evolution in institutional investor voting behavior related to the progress of ESG topics.

An examination of US 2023 proxy season voting statistics for companies who are members of the Russell 3000 index and held annual general meetings from July 1 2022 to June 30 2023 yields a number of notable observations. 947 shareholder proposals were submitted in 2023, maintaining the consistent growth in proposal submissions observed in the past few years. 612 shareholder proposals were voted this year, up from 562 voted during the 2022 season.

Shareholder proposal activity, 2021 – 2023.



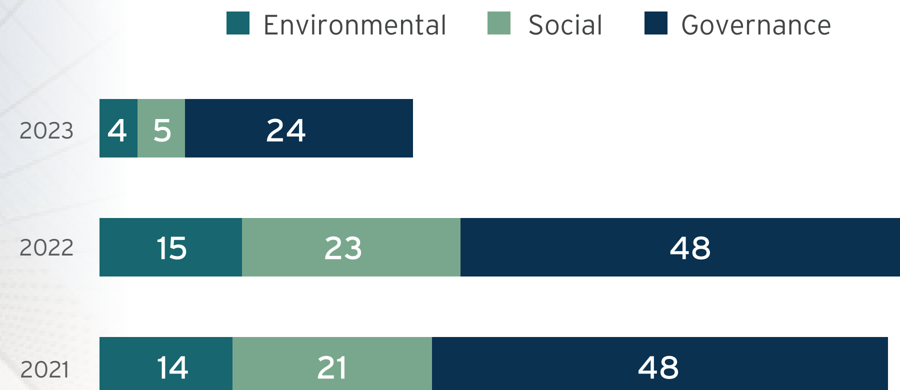
Of the 612 proposals voted in 2023:

- 86 related to environmental matters
- 207 involved social issues
- 251 related to governance issues, and
- 68 voted proposals related to anti-ESG issues

Across E, S and G, 4, 5 and 24 proposals have passed in each respective category. This translates into passage rates of approximately 5%, 2%, and 10% respectively (excluding anti-ESG proposals). Overall, the number of proposals receiving majority support has declined significantly year-over-year compared to 2022 from 88 (16% of all proposals voted) in 2022 to 33 (5% of all proposals voted) in 2023.

U.S. season review excerpt

Passing proposal activity, 2021 – 2023.

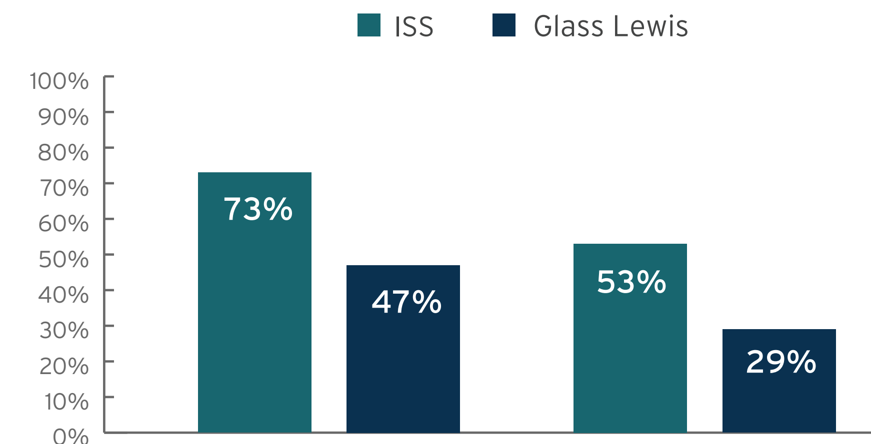


Thematically, across shareholder-sponsored proposals there were a number notable developments this year.

Environmental: Environmental topics remained a key focus of shareholder-sponsored proposals in the 2023 proxy season. The volume of environmental-focused proposals appears to have increased slightly from 2022. Average support for environmental proposals in the 2023 proxy season is down from last year's 38% average (2022) at around 23% (2023). One factor contributing to dampened support may be that the environmental proposals in 2023 season have seen significantly less support from both ISS and Glass Lewis.

"FOR" recommendations on environmental proposals of all kinds have decreased by similar amounts, roughly 20 and 18 percentage points for ISS and Glass Lewis respectively.

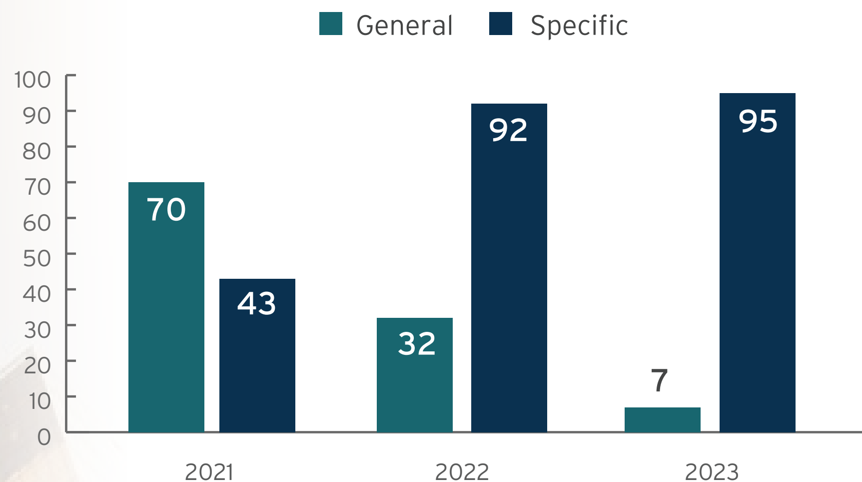
Impact of ISS and Glass Lewis, 2022.



U.S. season review excerpt

Social: The volume of shareholder proposals focused on social topics increased this year, with 421 social-focused proposals filed, surpassing the 2022 high of 409. This year, average support for all social proposals, including anti-ESG, dropped by 7 percentage points, from 26% to 19%, and only 5 shareholder proposals received majority support, compared to 23 in 2022. Support across nearly all social proposal themes is down. This year, diversity, equity and inclusion related proposals remained a major focus for proponents. Consistent with previous years, proponents have made more specific and detailed requests of companies.

Trend towards greater specificity in diversity proposal topics



Governance: The volume of governance-focused proposals appears to have decreased in 2023, with 340 proposals filed (including 21 anti-ESG proposals), compared to 2022 wherein 355 proposals were filed. This year, average support for all governance proposals was 28%, and only 24 shareholder proposals received majority support, compared to 48 in 2022. Of the governance-focused proposals voted this year, there was a notable increase in proposals related to two topics: the requirement of an independent chair and executive compensation.

Anti-ESG: The number of anti-ESG proposals significantly increased in the 2023 season from 5% of all proposals submitted in 2022 to over 9% of proposals in 2023, with 94 proposals submitted. The majority of anti-ESG proposals were related to social topics.

U.S. season review excerpt

Director Elections

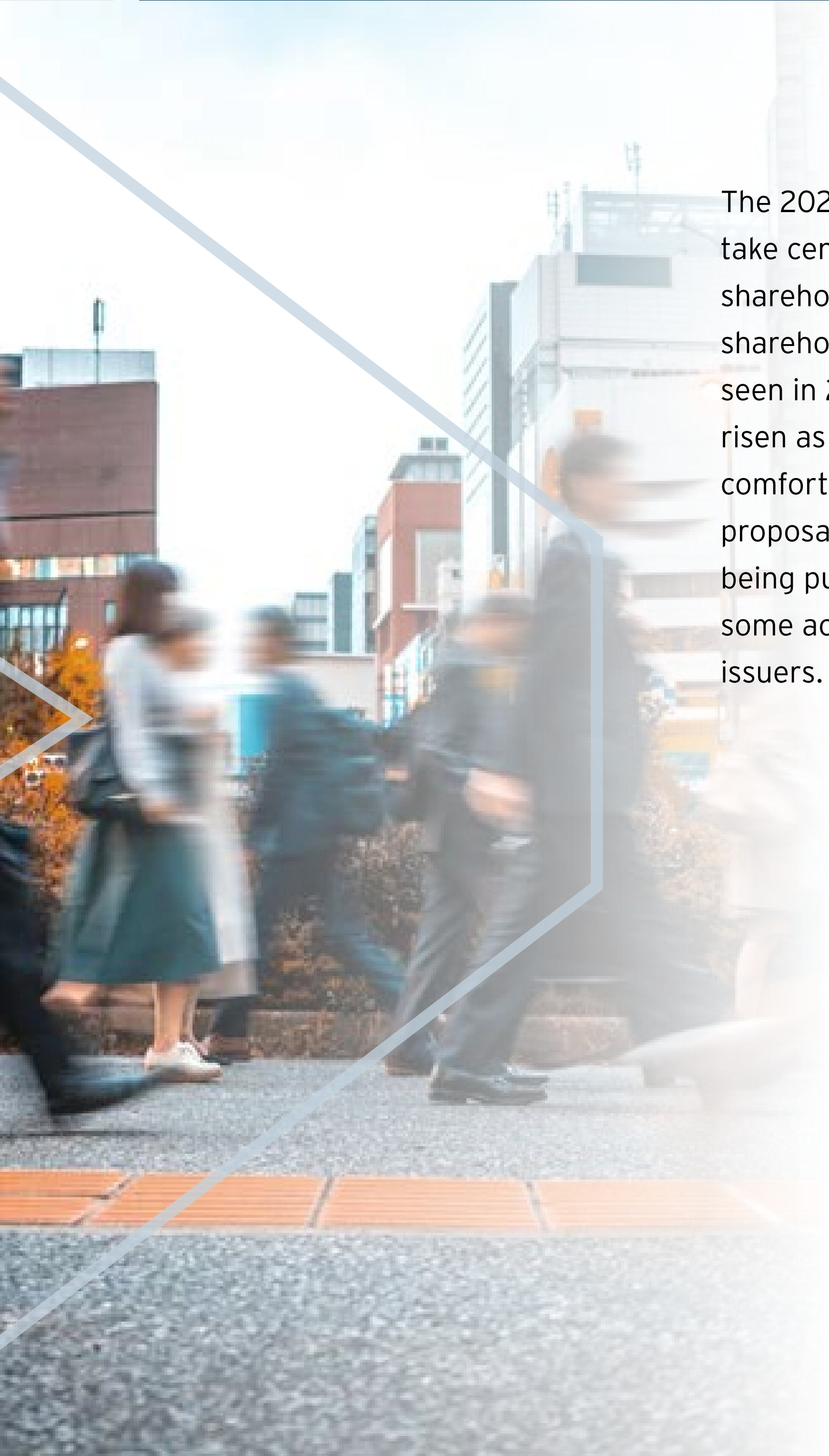
- Director election support at Russell 3000 continued to be strong, averaging 94.4% for the proxy year 2023, similar to average support of 94.7% for the full proxy year 2022.
- 46 directors received less than majority support, down 15 from 2022.
- Directors receiving 95+% support declined (with 68.1% directors receiving such support in 2023 compared to 70.5% in 2022).

Say on Pay

- Say on pay vote results for the 2023 proxy season at Russell 3000 companies saw an average support of approximately 90% of votes cast in favour (excluding abstentions), similar to the support received in the proxy year 2022.
- S&P 500 companies have garnered higher support this year, with approximately 89% of votes cast in favour, up from 2022 when they received 87% favourable support.
- 58 Russell 3000 companies failed to receive majority support for their say on pay proposals in the 2023 season.

More detailed analysis of overall thematic trends from this season can be found in the US team's June 2023 report, "An Early Look at the 2023 Proxy Season" available here. This report provides additional context around evolving shareholder proposal topics, executive compensation themes, and director election concerns from midway through the 2023 season (through meetings occurring 12 May, 2023).

Japan season review excerpt



The 2023 AGM season in Japan saw shareholder activism take centre stage with an unprecedented level of contested shareholder resolutions. Although the number of shareholder resolutions has not quite matched the number seen in 2020, the level of support for these resolutions has risen as foreign institutional investors have become more comfortable with the format and structure of shareholder proposals in Japan. Similarly, there is a trend of proposals being put forward at a wider variety of companies, with some activists focused on a specific topic across multiple issuers.

The attention to Environmental & Social issues across the Nikkei 225 shifted in 2023 from nuclear power to climate change. In previous years, environmentally driven shareholder resolutions across the Nikkei 225 were dominated by requests to utility companies to phase out nuclear power. However, there is now an increasing focus on requesting companies to include specific climate disclosures within their annual reports. Historically, shareholder resolutions requesting companies to report on climate change have received higher levels of support from investors and proxy advisors than other shareholder proposal types.

Over the last few years, it has been observed a reshaping of the Corporate Governance landscape in Japan as well as shifts in the expectations of investors within the market. Shareholder activism has taken a prominent place initiated both by traditional activists as well as foreign institutional investors.

Japan season review excerpt

Key trends

- The share of Nikkei 225 companies that had at least one contested proposal (10%+ opposition) was 51.6%. The overall number of contested resolutions increased to 332 in 2023, up from 246 in 2021 and 321 in 2022. In total, 12% of board-sponsored resolutions received 10% or more opposition, compared to 11.1% in 2022.
- The share of Nikkei 225 companies that had at least one contested proposal (10%+ opposition) was 51.6%. The overall number of contested resolutions increased to 332 in 2023, up from 246 in 2021 and 321 in 2022. In total, 12% of board-sponsored resolutions received 10% or more opposition, compared to 11.1% in 2022.
- Across the Nikkei 225, all management-sponsored resolutions were approved by shareholders during the 2023 AGM Season. The same was true in 2022 and in 2021.
- 13.6% of director elections were contested during the 2023 AGM season, a 1.1% point increase from 2022.
- The share of remuneration resolutions that were contested fell from 7.2% in 2022 to 1.4% in 2023.
- The number of shareholder resolutions that received 10% or more votes in support has increased from 32 in 2022 to 41 in 2023.
- Proxy advisors continue to have a big impact on the outcome of proposals, and there is a clear correlation between negative proxy advisor recommendations and lower vote results.

About Georgeson
— a Computershare company

Established in 1935, Georgeson is the world's original and foremost provider of strategic services to corporations and investors working to influence corporate strategy. We offer unsurpassed advice and representation for annual meetings, mergers and acquisitions, proxy contests and other extraordinary transactions. Our local presence and global footprint allow us to analyse and mitigate operational risk associated with various corporate actions worldwide.

For more information, visit
www.georgeson.com/au

The content of this report is intended to provide a general overview of the relevant subject matter and does not constitute legal advice. It is important that you seek independent legal advice on all matters relating to your AGM, compliance with the ASX Listing Rules and other applicable legal and regulatory requirements.

Unless stated otherwise, the content of this report is based on data relating to Computershare's ASX listed issuer clients and does not relate to all ASX listed issuers. Any broader ASX 300-specific analysis contained in this report is based on data provided by CGI Glass Lewis.

©2024 Computershare Limited. Computershare and the Computershare/Georgeson logo are registered trademarks of Computershare Limited. No part of this document can be reproduced, by any means, without the prior and express written consent of Computershare.