



COMMUNICATION ON ENGAGEMENT

The Australian Council of Superannuation Investors (ACSI)

From: June 30 2020 To: August 1 2022

Statement of continued support

9 August 2022

To our stakeholders,

I am pleased to confirm that The Australian Council of Superannuation Investors (ACSI) reaffirms its support to the United Nations Global Compact and its Ten Principles in the areas of Human Rights, Labour, Environment and Anti-Corruption.

This is our first Communication on Engagement with the United Nations Global Compact. We welcome feedback on its contents.

In this Communication of Engagement, we describe the actions that our organization has taken to support the UN Global Compact and its Principles as suggested for an organization like ours. We also commit to sharing this information with our stakeholders using our primary channels of communication.

Yours sincerely,

Louise Davidson AM

Chief Executive Officer

Description of actions & measurement of outcomes

About ACSI

Established in 2001, ACSI exists to provide a strong voice on financially material environmental, social and governance (ESG) issues. Our members include 26 Australian and international asset owners and institutional investors with over \$1 trillion in funds under management.

Through research, engagement, advocacy and voting recommendations, ACSI supports members in exercising active ownership to strengthen investment outcomes. Active ownership allows institutional investors to enhance the long-term value of retirement savings entrusted to them to manage. ACSI members can achieve financial outcomes for their beneficiaries through genuine and permanent improvements to the environment, social and governance (ESG) practices of the companies in which they invest.

Background

ACSI's work program seeks to improve the performance of Australian listed companies' performance on ESG issues, and to advocate for policy outcomes that strengthen ESG outcomes and to ensure markets function in the interest of long-term investors.

With its longer investment horizons, the superannuation sector in Australia is increasingly focussed on risks that will impact investment performance in the medium to long term – from the risks relating to climate change, natural disasters and ageing populations, to the economic value lost from weak corporate governance systems.

The ACSI work program includes developing research on critical ESG issues, a comprehensive company engagement program, public policy and advocacy, and development of independent voting recommendations at company AGMs. Through our work program we seek to promote greater awareness of the SDGs and contribute to progress on key SDGs.

The SDGs cover key ESG risks that are of concern to ACSI and our members including gender equality, (SDG5) climate change and carbon asset risk, (SDG13) decent work and economic growth (SDG8) and biodiversity loss and supporting a circular economy (SDG 11,12, 14,15).

Through collaboration, and our integrated work program we seek to support the work of the UN Global Compact by:

- Engaging our members in collective action efforts on Global Compact related issues;
- Engaging companies in Global Compact-related issues;
- Participating in partnership projects on corporate sustainability; and
- Participate in Global Compact events at the global and local level.

For more information on ACSI's work program, impact, and how our work aligns to the SDGs, please read our Annual Report [here](#).

Collaboration

We cultivate relationships with Australian and international organisations to share important knowledge and information on ESG issues, including related to the SDGs. We also collaborate with our members to deliver events and other programs that promote ESG issues. Examples include:

- ACSI Annual Conference and member events – Our event program seeks to elevate understanding of ESG issues. At our Annual Conference on July 28 we covered topics such as climate risk and decarbonisation, company culture, corporate accountability, sustainability reporting, greenwashing and First Nations engagement.
- Australian Sustainable Finance Initiative - Through membership of Australian Sustainable Finance Initiative (ASFI) technical advisory group, ACSI is helping shape the development of an Australian sustainable finance taxonomy.
- Australian Human Rights Commission - In the wake public company failings around sexual harassment, ACSI collaborated with the Sex Discrimination Commissioner Kate Jenkins to produce a research report on the state of sexual harassment reporting in Australia's biggest companies. The report drew on information from listed companies, with participation from 56% of ASX200 companies.

We also support the promotion of the goals and principles of the UN Global Compact through collaboration and promotion of activities:

- Sustainable Finance Forum – Delivering on the SDGs – ACSI partnered with the Global Compact Network Australia (GCNA) and the ASX to deliver this event on 8 & 9 June 2021. The event explored:
 - the consequences of the pandemic and the role of investors and businesses in building a more sustainable economy;
 - how investors, financial institutions and companies can deliver on the SDGs;
 - the challenges and opportunities emerging in markets around the world; and
 - the roles of stock exchanges, banks, financial regulators, and others in facilitating SDG investments in Australia and across the Asia Pacific region.
- Speaking at GCNA events including Solving the ESG Disclosure Puzzle webinar in August 2022.
- Engagement with Global Compact Network Australia on policy and advocacy relating to improving company engagement with First Nations peoples.
- Communicating with our members about UN Global Compact and SDGs.

Research

ACSI's research program promotes the principles of the global compact. ACSI's research provides a strong foundation for company engagement and policy initiatives and underpins our voting advice. We produce high quality research on material ESG issues that are important to long-term investor priorities and act to promote ESG performance in listed companies. Examples of research include:

Equality across the board: Investing in workplaces that work for everyone, June 2021

This report outlines the state of sexual harassment reporting in Australia's largest companies and provides eight recommendations to support the prevention of sexual harassment and appropriate management of any incidents. The research was undertaken by the Australian Human Rights Commission (AHRC), led by Sex Discrimination Commissioner Kate Jenkins, and commissioned by the Australian Council of Superannuation Investors.

How we use the research:

- Providing tangible steps for companies and their leaders to improve their approach to sexual harassment
- Developing investors' understanding of how sexual harassment is currently managed within large Australian companies

ESG reporting trends in the ASX200, May 2021 & May 2022

This research report assesses the quality of ESG reporting by ASX200 companies, covering a broad range of financially material ESG risks and opportunities. The report includes statistics relating to ESG reporting trends. As part of this research, we assess how companies in Australia are reporting against the SDGs, and how this is changing each year.

How we use the research:

- Encouraging companies to improve their ESG reporting
- Informing company boards of their rating, providing a peer comparison and encouraging improvement where necessary
- Informing discussions with company directors about ESG issues.

Promises, pathways & performance: Climate change disclosure in the ASX200, October 2020, August 2021 & July 2022

This report provides an overview of the current state of climate-related disclosure in the ASX200. While there has been significant improvement to climate-related disclosure and management, the research indicates there are still key challenges to overcome.

How we use the research:

- Benchmarking companies' disclosure across TCFD adoption, net zero commitments, emissions reporting and target-setting and climate change scenario analysis (transition and physical) for members' portfolio analysis
- Encouraging companies to improve climate change reporting in specific areas.

Company Engagement with First Nations People – December 2021

Through extensive consultation between investors and First Nations peoples, companies and community groups, ACSI conducted research to help investors and companies identify good practice in engagement, risk management and disclosure.

How we use the research:

- To develop a policy to improve our interaction and engagement with companies on social license risk and how they engage with First Nations peoples and communities.
- Communicating ACSI's expectations on engagement with First Nations people to companies

Biodiversity: Unlocking natural capital value for investors – November 2021

Biodiversity loss is an emerging ESG investment risk, with Australian investors seeking to understand how to manage and address the financial risks to businesses they invest in. This report provides the foundation for Australian investors to understand the scale of the issue and the types of financial risks affecting companies across different sectors of the economy.

How we use the research:

- To improve market understanding of how biodiversity loss is a financial risk
- To develop tools to improve investor engagement with companies on management of biodiversity loss

Engagement

ACSI regularly engages business on Global Compact-related issues. In FY21 ACSI held 332 meetings with 198 ASX300 companies.

ACSI seeks to improve the performance of companies on ESG issues through constructive engagement with their boards and management, with the aim of promoting long-term shareholder value and minimising risk. The SDGs have been supported by all countries as the globally recognised goals and targets for sustainable development to 2030. As such they are a vital platform for considering ESG issues and will increasingly be used as a benchmark by companies and organisations in their ESG reporting.

Climate change & circular economy

Adapting to a low-carbon future and minimising climate change impacts generates both investment risk and opportunity. We encourage companies to assess and identify their business and physical risks and to disclose strategies for measuring and managing them using recognised frameworks such as the Taskforce on Climate-related Financial Disclosures (TCFD). We are also working to understand how environmental degradation can be reduced by shifting from the 'take, make, use, dispose' approach to a continuous flow system.

Our engagement outcomes include:

- Half of our 22 priority companies had adopted net zero targets by the end of FY21. Another 18 companies have set short, medium and long-term targets for emissions reduction. An increasing number are adopting or reviewing science-based targets.
- Companies are increasingly providing investors more detailed short, medium and long-term climate transition targets covering Scope 1, 2 and 3 emissions.

Board Diversity

Boards with an appropriate mix of gender, cultural background, experience and skills produce better outcomes for investors. There is evidence that companies with a significant weighting of women directors perform better than their counterpart all-male boards.

Our engagement outcomes include:

- 21 priority companies appointed skilled women directors during FY21. The universe of companies with 'all-male' boards is shrinking. By June 30, just two ASX200 companies lacked a woman director, and both have since made appointments.
- More than 160 companies in the ASX300 now have 30% or more women on their boards. ACSI is promoting its 40-40-20 policy to encourage balance at both board and senior executive levels.

Modern Slavery

FY21 was the first year of mandatory reporting under Australia's new Modern Slavery Act. ACSI has been engaging with companies on the quality of their disclosures.

Our engagement outcomes include:

- Focusing on 12 companies, exposed to horticulture, retail and guest-worker factories in supply chains.
- We worked with a group of investors in the Asia-Pacific on human rights and modern slavery issues at a range of ASX-listed companies seen to be most at-risk, domestically and internationally.

Cultural Heritage

In Australia and internationally, problematic practices exist in how companies interact with First Nations people, which generates risk not only for First Nations communities but also for investors. Issues include 'gag' clauses in

agreements that limit rights, insufficient depth and frequency of contact with Traditional Owners and internal siloes and company cultures that undermine constructive engagement with First Nations people.

Our engagement outcomes include:

- ACSI identified 25 companies with potential exposure to cultural heritage issues and engaged with all to evaluate what steps they have taken to review and update their approach. ACSI continues to track progress among companies in their engagement with First Nations people.
- ACSI played a leading role in discussions with Rio Tinto on improving board governance, management and practices on cultural heritage and First Nations Engagement. The company has committed to report publicly and regularly on cultural heritage management.

Human Rights

ACSI is collaborating with investors internationally to promote better respect for human rights by companies. ACSI is participating in a collaborative stewardship initiative led by the Principles for Responsible Investment (PRI) called Advance, which is focused on human rights and social issues. As a member of the Advisory Committee, ACSI is involved in guiding the initiative to develop tools for investors to promote human rights. ACSI also engages with a number of companies in Australia in relation to their management of human rights and seeks to improve company practices.

Policy and Advocacy

ACSI engages the public and policymakers on the principles of the Global Compact and the SDGs.

ACSI advocates with government, regulators and policy makers to better align financial markets with long-term sustainable investment. Examples include:

Climate change

Climate change poses a significant financial risk for investors and the Australian economy, with an estimated reduction in GDP of 6 per cent by 2070, equivalent to \$3.4 trillion. Therefore, climate change is one of our key priority areas to advance with policy-makers.

In FY21, ACSI updated its policy position on management of climate-change related risks and opportunities.

ACSI also participated in a number of parliamentary inquiries and regulatory reviews, including the Federal Government's Technology Roadmap.

First Nations

There is growing global scrutiny of companies' interactions with First Nations people following the destruction of Juukan Gorge rock shelters by Rio Tinto. Poor practice heightens the risk of significant harm to First Nations communities and financial loss.

In FY21, through our Rights and Cultural Heritage Risk Management Working Group, ACSI has deepened understanding of the issues and developed policies to support its engagement with companies. ACSI has consulted widely with Traditional Owners and other Indigenous groups, listed companies, academics, and international investors through this process.