

# MEDIA RELEASE

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## ESG engagement driving major change in corporate practices: Ausbil

**New Release - Ausbil 2018 ESG Annual Report: Unprecedented change in governance, climate change and social policies.**

Måns Carlsson-Sweeny, Head of ESG Research at Ausbil Investment Management, said 2018 was a significant year in terms of ESG developments for Australian businesses.

“Over the year we saw the Royal Commission on Misconduct in the Banking, Superannuation and Financial Services Industry, a Government Inquiry into the franchise industry, various shareholder resolutions on ESG issues and the passing of the Modern Slavery Act by the Australian and NSW governments. Several of these developments have had a major impact on the views of investors on how to fully value companies,” he said.

Modern slavery was particularly topical in 2018. According to the UN, 40 million people, worldwide, live in modern slavery conditions, with an estimated 24.9 million of these in forced labour. It is estimated that in Australia alone, some 15,000 people could be living in modern slavery conditions. This is one example where ESG engagement with corporates across global supply chains can help redress some of these human rights abuses.

In 2018, Ausbil actively engaged in 22 ESG areas across 17 different GICS industry sectors, with chairs, chief executives, and other corporate leadership, from the biggest companies in Australia to fast growing mid and small caps. Over 60% of ESG engagement meeting attendees were chairs, board directors and executives.

The past year has also seen companies implement a range of measures to act on climate change.

“Several companies have now adopted the Taskforce on Climate-related Financial Disclosures (TCFD) reporting framework, which provides better transparency on the risks and opportunities from climate change. The Climate Action 100+ initiative has also grown to a major engagement initiative with significant scale and leverage,” he said.

As of December 2018, 310 investors with more than US\$32 trillion in assets under management have signed The Climate Action 100+.

In terms of corporate governance, Mr Carlsson-Sweeny said 2018 witnessed a historically high number of strikes against remuneration reports at AGMs, as shareholders took a particularly hard line on misalignment of remuneration and outcomes.

“During the AGM season in 2018, fund managers (including Ausbil) exercised their right to vote against several remuneration reports,” Mr Carlsson-Sweeny said. While our approach is collaborative, Ausbil actively exercises fund voting rights in ESG where it believes there is a need to formally register disagreement.

“While some individual companies have made significant changes to their executive remuneration structures, we believe these large ‘against’ votes, combined with continuous engagements, will hopefully lead to further improvements in governance in the coming year,” said Mr Carlsson-Sweeny.

This year, Ausbil exercised its voting rights on 881 resolutions at 145 annual and general meetings, including voting on remuneration reports, a number of which Ausbil voted against.

### Investors increasingly focusing on ESG risks

According to a recent survey<sup>1</sup> of 1,100 financial professionals around the world, ESG risks are increasingly becoming a key factor in investment decision-making.

### About Ausbil Investment Management

Ausbil Investment Management Limited is a leading Australian based investment manager. Established in April 1997, Ausbil's core business is the management of Australian equities for major superannuation funds, institutional investors, master trust and retail clients. Ausbil is owned by its employees and New York Life Investment Management (NYLIM), a wholly-owned subsidiary of New York Life Insurance Company. As at 31 January 2019, Ausbil manage over \$11 billion in funds under management.

Some 81% believe governance issues affect share prices (sometimes, often or always), 63% believe environmental issues affect share prices and 57% believe social issues impact share prices. Respondents also said the impact of ESG on share prices, fixed income and sovereign debt would only grow over time.

### The advantage of ESG in investing

For a number of years, Ausbil has incorporated ESG into the investment process for all funds it manages and has a dedicated in-house ESG team producing proprietary research, as it strongly believes good ESG practices improve the sustainability of earnings, and materially reduces the risks to those earnings.

The investment house undertook a record number of active ESG engagements, meeting with 170 companies in the past year, accounting for over \$1 trillion of Australia's market capitalisation, or 56.1% of the ASX by value as at end December 2018.

Ausbil believes that the integration of proprietary ESG research can add significant advantages in the investment process, including:

- in the pre-emptive identification of earnings risks,
- for greater insight when forming a view on earnings versus consensus forecasts,
- as a deeper and broader assessment of management quality and effectiveness,
- in identification of fundamental weaknesses or threats to a company's business model, operations and ESG impact, and
- in holistically assessing the sustainability of company earnings, and a company's true value.

"Corporate culture is also a cornerstone in Ausbil's ESG analysis," Mr Carlsson-Sweeney said. "Many of the risks we flagged in 2016, including concerns about cultural factors in the banking and franchise industries, became very topical in 2018," Mr Carlsson-Sweeney said. "They continue to be a focus of our ESG engagements in 2019."

### A good reason to go active

As an active investor, Mr Carlsson-Sweeney added that Ausbil could help directly influence corporate ESG behaviour in a way that can be difficult for some passive investors to achieve.

"Active investors, by contrast, have many more avenues through which they can engage and influence ESG behaviours such as capital allocation, meetings with governors and management, direct company engagement and advice, shareholder activism, exercise of voting powers, education and thought leadership, and policy action.

"Ausbil believes that change for the better, on ESG factors, is achievable, desirable, and essential for the sustainability of company earnings and business models.

ENDS

1. UNPRI / CFA Institute Survey (2018), ESG integration in the Americas: markets, practices, and data.

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