Responsible Investment Association Australasia

12 May 2014

Judith Fox
National Director, Policy & Publishing
Governance Institute of Australia
GPO Box 1594
Sydney NSW 2001
By email: Judith.fox@governanceinstitute.com.au

Dear Judith Fox,

Re: Submission to the Governance Institute draft guidelines for corporate engagement.

The Responsible Investment Association Australasia (RIAA) welcomes the chance to make this submission on the exposure draft Guidelines for improving engagement between ASX-listed entities and their institutional investors.

RIAA is the industry body representing responsible investors across Australasia, focussed on promoting the concept of responsible investment, accelerating its uptake and deepening its impact. RIAA has over 150 members who manage over $500 billion including fund managers, super funds, asset consultants, financial advisers, dealer groups, responsible investment researchers and analysts, engagement service providers, proxy advisers and others involved in the industry, across the full value chain of institutional to retail investors.

This submission is informed by the RIAA's Corporate Engagement Working Group, constituting a cross section of RIAA members including fund managers, asset owners, retail advisers, engagement service providers and proxy advisers. RIAA's Corporate Engagement Working Group has been established with the purpose of providing a forum for members to share plans and experiences on company engagements undertaken and to arrange collaboration on specific company engagements where appropriate.

RIAA response:

Corporate Engagement as a core pillar of responsible long-term investing and active ownership

At its broadest definition, the size of the responsible investment industry in Australia is best reflected by the 120 signatories of the UN Principles for Responsible Investment (PRI). These Australian signatories manage just under $1 trillion of assets under management. This substantial and increasingly mainstream part of the finance sector have acknowledged that environmental, social and corporate governance (ESG) issues impact on the performance of their investments and that there is a duty to act in the best long term interests of members by managing these ESG factors.

With this growth of responsible investment comes a strong growth in one of the key tools available to responsible investors – corporate engagement. It is our view that engagement is an ever more important part of an active ownership strategy of responsible investors, and indeed has a long history from within the ethical investment community.

Indeed, a key principle of the PRI talks directly to engagement – "Principle 2: We will be active owners and incorporate ESG issues into our ownership policies and practices" - and recommends engagement as one of the options for implementing this principle.

As such we see it as timely that the Governance Institute help to drive these voluntary Guidelines with the aim of clarifying the types and methods of engagement in recognition of this growing trend to more active ownership.

RIAA also agrees with the Governance Institute that effective engagement between investors and ASX-listed entities leads to mutually beneficial outcomes and better long-term performance.

From the view of RIAA and our members, our primary objective is to enable effective and efficient engagement with companies, whilst respecting and enabling the many different forms of engagement appropriate to different types of investors, including private meetings, collaborative engagements and active participation at AGMs.

A pluralistic approach to engagement
From the perspective of RIAA's diverse membership base, a pluralistic and broad approach to engagement is both healthy and important. Our members employ multiple methods of engagement, from direct private meetings, letter writing, to posing questions at AGMs, to collaborative investor engagements, directly or through intermediaries, from institutional to retail.

In this context, we agree with the definition of engagement put forward by the Governance Institute (page 8) that acknowledges retail investors as key participants in corporate engagement, with many retail investors also being long-term investors. It's RIAA's view that any discussion about engagement must maintain an understanding of the role and place of retail investors in the broader investor "mosaic", as described in Guideline 1.

Indeed, with the rapid rise in more responsible investment practices, we expect to see an ever more pluralistic approach to engagement, including the possible coming together of both retail and institutional investors on particular engagements, or even investors combining with other stakeholders such as civil society groups (as we're increasingly witnessing internationally). RIAA sees this as a natural progression of responsible and active ownership and can result in mutually beneficial outcomes for investors and companies.

Better disclosure of the process of engagement for both investors and ASX-listed companies:
Many of the Guidelines are focused on clearer communication from both ASX-listed companies and investors on methods and policies for engagement to help both parties better understand their significant counter parties (Guidelines 1, 3, 5, 6, 7 & 9).

LEVEL 2, 20 COOPER STREET
SYDNEY NSW 2010 AUSTRALIA
+61 2 8228 8100
INFO@RESPONSIBLEINVESTMENT.ORG
WWW.RESPONSIBLEINVESTMENT.ORG
ABN 988 248 315 60

RIAA agrees that both companies and investors should evidence accountability, and to other stakeholders for what, if any, engagement activity is undertaken, including disclosing any principles or policies that guide this. Indeed, the precedent globally is for development of clear positions on engagement, including policies and their disclosure, and we see this as the direction likely to occur in Australia.

Taking the UK Stewardship Code as an example, there is the inclusion of clear guidelines on when and how investors will escalate their stewardship activities. RIAA believes that this is the direction Australia will and should head and acknowledges that work is underway in Australia to deliver such a code.

Process of engagement:
RIAA's working group has identified a spectrum of engagement that acknowledges this escalation of engagement, ranging from an initial letter of inquiry through to calling an extraordinary general meeting, with many steps in between. Any such spectrum is missing from the draft Guidelines.

The Governance Institute should consider articulating what such a process of engagement looks like in the final Guidelines. Although this need not be prescriptive, it would be valuable to outline what the stages of engagement that are commonly used look like, in order to assist in the mapping of the engagement landscape.

Clarifying valid issues for investor engagement:
RIAA believes that the Guidelines could benefit from more explicit detail of the types of issues that investors engage upon, especially those of an ESG nature. Noting that this is difficult to comprehensively outline, there are at times limitations imposed by companies on the issues that will be considered as valid shareholder business, and as such investors who raise such issues can be dismissed by a company on those grounds, thereby limiting their ability to engage.

With an increasing proportion of the investment community seeking to understand ESG risks as part of a long-term, responsible investment approach, limitations on what is valid shareholder business seem increasingly out dated and less justifiable by companies. What is valid shareholder business, and indeed what poses a material risk from a long-term investment, ESG perspective, covers a wide range of issues (often broad and systemic) that investors will increasingly want to engage upon.

It is not conducive to the effective engagement that these Guidelines aim for when a company can simply dismiss an attempt at engagement by an investor. If an investor – whether institutional or retail – has an ESG concern, there should be an opportunity to engage (or indeed put that concern forward at an AGM) without it being dismissed.

Guideline 16 should be expanded upon to further clarify such issues in the interests of improving discussion on "long term strategic issues, including investment risk, many of which may be ESG-related".

Conclusion:
RIAA thanks the Governance Institute for this chance to comment on the draft Guidelines on Engagement.

LEVEL 2, 20 COOPER STREET
SYDNEY NSW 2010 AUSTRALIA
+61 2 8228 8100
INFO@RESPONSIBLEINVESTMENT.ORG
WWW.RESPONSIBLEINVESTMENT.ORG
ABN 988 248 315 60

Simon O’Connor
Chief Executive Officer
simonoc@responsibleinvestment.org
02 8228 8102; 0401 360 500

RESPONSIBLE INVESTMENT
ASSOCIATION AUSTRALASIA
INCORPORATING THE RI ACADEMY

LEVEL 2, 20 COOPER STREET
SYDNEY NSW 2010 AUSTRALIA
+61 2 8228 8100
INFO@RESPONSIBLEINVESTMENT.ORG
WWW.RESPONSIBLEINVESTMENT.ORG
ABN 988 248 315 60