

# Australia Regional Brief

This Regional Brief reports on the corporate governance topics and trends Vanguard’s Investment Stewardship team observed across Australia during the 2023 proxy year; it includes data on the proxy votes cast by the Vanguard-advised funds during the period.<sup>1</sup> We provide this brief, and other publications and reports, to give Vanguard fund investors and other market participants an understanding of the engagement and proxy voting activities we conduct on behalf of the Vanguard-advised funds.

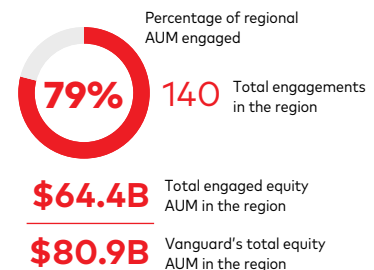
Vanguard’s Investment Stewardship team conducts proxy voting and engagement on behalf of the Vanguard-advised funds. Our approach to evaluating portfolio companies’ corporate governance practices is centered on four pillars of good corporate governance, which are used to organize this brief: board composition and effectiveness, oversight of strategy and risk, executive compensation/remuneration, and shareholder rights.

During the past proxy year (July 1, 2022, through June 30, 2023), the team conducted 140 engagements with 107 companies in Australia, representing \$64.4 billion in equity assets under management (AUM). The funds voted on 2,027 proposals at 320 companies.

## At a glance



## Regional AUM engaged



<sup>1</sup> Vanguard’s Investment Stewardship program is responsible for proxy voting and engagement on behalf of the quantitative and index equity portfolios advised by Vanguard (together, “Vanguard-advised funds”). Vanguard’s externally managed portfolios are managed by unaffiliated third-party investment advisors, and proxy voting and engagement for those portfolios are conducted by their respective advisors. As such, throughout this document, “we” and “the funds” are used to refer to Vanguard’s Investment Stewardship program and Vanguard-advised funds, respectively.



## Board composition and effectiveness

Our primary focus when evaluating a company's corporate governance profile is ensuring that the board of directors has the appropriate level of independence and mix of backgrounds, skills, experience, and diversity of personal characteristics to effectively provide independent oversight of management, company strategy, and material risks.

In Australia, shareholders vote on the election of individual directors at least every three years. Shareholders are generally not able to vote on the election of all directors on the board in a given year; therefore, "staggered" or "classified" boards are the norm.

**Board composition.** In the first half of 2023, we continued to engage with boards about how they think about director skills and experience, as well as succession planning and ongoing director education. We heard from many directors that they are focusing on maintaining a broad set of skills on the board. Many directors we engaged with also mentioned boards' increasing attention on recruiting directors from outside Australia to reflect the expansion of their business strategies to different global regions.

**Board diversity.** In August 2022, we identified and engaged with dozens of Australian Securities Exchange (ASX)-listed companies whose boards did not appear to meet the ASX Corporate Governance Principles' recommendation that ASX-listed companies contain no less than 30% of each gender on the board.<sup>2</sup> Our aim was to better understand how each board planned to account for these recommendations. ASX-listed companies must comply or explain why they are not applying or meeting the recommendations of the ASX Corporate Governance Principles.

Where regulation or market practice dictates, we look for companies to establish appropriate director nomination procedures accompanied by robust disclosure outlining their board composition strategy inclusive of gender diversity considerations. Overall, we observed that boards in Australia appeared to be taking thoughtful approaches to updating board recruitment processes to balance requirements for diversity of personal characteristics with diversity of skill and experience. Several boards also shared challenges that they encountered in increasing their levels of board diversity; challenges included director recruitment and the use of staggered board elections.

The funds' policy for portfolio companies in Australia and New Zealand, published in July 2022, noted that the Vanguard-advised funds may vote against directors at companies that were not meeting the ASX Corporate Governance Principles' recommendation. In a limited number of cases during the 2022 Australian proxy season (October 2022–November 2022), the funds voted against nomination committee members where we assessed that the board had not taken appropriate steps and/or there was not adequate disclosure to address the ASX Corporate Governance Principles' recommendation.

<sup>2</sup> See [www.asx.com.au/documents/asx-compliance/cgc-principles-and-recommendations-fourth-edn.pdf](http://www.asx.com.au/documents/asx-compliance/cgc-principles-and-recommendations-fourth-edn.pdf).

**Director capacity.** The 2023 proxy year was the first year that the funds' Australia/New Zealand voting policy specifically incorporated guidelines on director capacity and commitments. Although

we identified a small number of companies where we had questions about this topic, director capacity and commitments was not a frequent topic of discussion in the region.



## Notable votes from the 2023 proxy year include:

At **AGL Energy Limited**, Australia's largest utility company, the Vanguard-advised funds supported the addition of four independent directors, as detailed in an **Insights piece** published earlier this year. All four independent directors were proposed by another investor, Galipea Partnership. The funds supported the directors' elections, as we determined that all the nominees brought experience, skills, and expertise that, in our view, would complement AGL's existing board and align with AGL's strategic direction.



## Oversight of strategy and risk

On behalf of the funds, we evaluate board oversight and disclosure of material risks case by case, in accordance with each company's unique profile, taking into account the board's assessment of material risks and regional and sector-specific context.

In the 2023 proxy year, Australia and New Zealand experienced economic conditions similar to those of many other markets: rising inflation, market volatility, and a prolonged series of interest rate increases by each country's reserve bank. We held numerous engagements with directors and executives whose companies faced acute exposure to these changes, including companies in the real estate and banking sectors. The impacts of potential mortgage defaults, increased tenancy vacancies, and reduced housing affordability in Australian real estate investment trusts were common topics in our engagements. We observed that

leading companies anticipated these trends and developed appropriate approaches to adapt and diversify their operations.

**Disclosure of material risks.** In addition to broader macroeconomic risks, environmental and social matters remained salient in the market. During the 2023 proxy year, the Australian government issued a consultation on mandating the International Sustainability Standards Board framework for climate risk reporting for public companies; companies and investors are awaiting the conclusions of those consultations.<sup>3</sup> It is likely that mandatory climate-related reporting requirements will begin in

<sup>3</sup> See [treasury.gov.au/consultation/c2023-402245](https://treasury.gov.au/consultation/c2023-402245).

July 2024 for the largest Australian companies, with other companies transitioning into the new reporting regime over time. Company directors and executives shared their perspectives on the potential reporting requirements with us via our engagements throughout the year, and more generally, how they were seeking to provide decision-useful disclosures on material risks to shareholders.

### **Shareholder proposals on environmental risks.**

We continued to see Australian companies in certain sectors, particularly the materials and energy sectors, receive shareholder proposals on environmental topics. Most of these proposals centered on companies' climate emissions reduction targets and transition plans.



## **Notable votes from the 2023 proxy year include:**

**Santos Limited**, an Australian energy company, received a shareholder proposal requesting the company disclose information demonstrating that its capital allocation to oil and gas assets will align with a scenario in which emissions reach net zero by 2050. We engaged with Santos leaders ahead of the company's 2023 annual meeting to discuss the company's approach to managing material climate risks. The Vanguard-advised funds did not support the shareholder proposal, as we determined that the company's existing disclosure on its plans to meet its climate-related targets, and more specifically, its capital allocation disclosure, was sufficient.

**Woodside Energy Group Ltd**, an Australian energy company, received a shareholder proposal at its 2023 annual meeting similar to the one Santos received, but the proposal at Woodside Energy specifically asked for disclosure on the production guidance for the company's oil and gas assets, plans for decommissioning and rehabilitating oil and gas assets, plans for supporting staff to transition to new employment when oil and gas assets are closed, and details of how the value in the company's oil and gas assets will be redeployed or returned to shareholders. To inform the funds' votes, we engaged with Woodside Energy leaders ahead of the 2023 annual meeting to discuss the company's approach to managing material climate risks. The funds voted against a management Say on Climate proposal at Woodside Energy's 2022 annual meeting, and we focused our 2023 engagement on several questions about how the board oversaw material climate-related risks. The Vanguard-advised funds ultimately voted against the shareholder proposal because we assessed that the board had sufficient oversight of climate-related risks and that the company's existing disclosure on this topic was adequate.



## Executive remuneration

When reviewing executive remuneration, we assess how remuneration practices are linked to long-term investment returns.

In the 2023 proxy year, we engaged with many companies on the constructs of their executive remuneration plans.

**Remuneration reports.** In Australia, shareholders have an annual advisory vote on a company's remuneration report, which outlines the pay outcomes for key executives in the previous year; shareholders also vote on the approval of the grant of equity awards to directors. If a company's remuneration report receives an "against" vote of 25% or more from shareholders, the following year's remuneration report must explain how the board has incorporated shareholders' concerns. If a company's remuneration report receives an against vote of 25% or more at an annual shareholder meeting, in the second consecutive year, shareholders will have an additional conditional resolution on the ballot, known as a spill resolution. The spill

resolution asks whether shareholders would like all directors to stand for re-election at an extraordinary general meeting (EGM). If the spill resolution is approved, the company must hold an EGM in the subsequent 90 days, at which shareholders must vote on the re-election of all directors.

During the 2023 proxy year, our engagements with company directors and executives on executive remuneration focused on pay outcomes, companies' response to shareholder feedback on remuneration, and how companies in the financial and insurance sectors were implementing new remuneration requirements from Australia's prudential regulator. (We discussed this topic in detail in our [2022 Annual Report](#).)



## Notable votes from the 2023 proxy year include:

At **Bapcor Limited**, an Australian-based provider of automotive parts and accessories, the Vanguard-advised funds voted against the termination benefits for the company's former CEO due to concerns that the potentially high payout may not benefit long-term shareholder value. See our [2022 Annual Report](#) for additional information.

At **Corporate Travel Management Ltd.**, an Australia-based business travel management company, the Vanguard-advised funds did not support the remuneration report due to concerns related to the company's use of discretion, which allowed 100% of the long-term incentive plan to pay out despite the targets for the plan not having been met. See our [2022 Annual Report](#) for additional information.

At **Atlas Arteria**, a global owner, operator, and developer of toll roads, the Vanguard-advised funds supported the company's remuneration report even though the board had exercised discretion on the outcomes of the short-term incentive plan. The board exercised downward discretion on the safety metric in the short-term incentive scorecard because of the death of an employee at a company that Atlas Arteria has an indirect interest in. The board also exercised upward discretion on the CEO's total short-term incentive outcome in light of his navigating significant events for the business during the year, including executing a major transaction. We engaged with board directors ahead of the annual meeting and gathered additional context that gave us comfort that the board's use of discretion was well-justified and balanced; the funds consequently supported the proposal.



## Shareholder rights

We assess structures that boards put in place to allow shareholders to effectively exercise their foundational rights.

In general, shareholders in Australian companies have extensive rights protected in law; therefore, we don't often engage with company leaders on the topic of shareholder rights. Occasionally,

there are some specific circumstantial issues that arise, such as the use of virtual shareholder meetings during the COVID-19 pandemic.

# Proxy voting data

The type and volume of proposals voted on in Australia has remained relatively consistent year over year. The funds supported more shareholder director nominee resolutions in proxy year 2023 (57%), driven by their support of four dissident candidates at AGL Energy's annual meeting in 2022, as described earlier in this brief. In cases where the funds did not support management

Say on Pay resolutions (7% of cases), the funds' votes were largely driven by concerns about the alignment of executive pay outcomes with company performance, as well as structures that might not have supported the alignment of pay outcomes and company performance over the long term.

Australia					
Alignment with our pillars	Proposal type	Management		Shareholder	
		Number of proposals	% for	Number of proposals	% for
Board composition and effectiveness	Elect directors	756	96%	7	57%
	Other board-related	25	28%	—	—
Oversight of strategy and risk	Approve auditors	31	100%	—	—
	Environmental and social	6	100%	13	0%
Executive remuneration	Management Say on Pay	308	93%	—	—
	Other remuneration-related	631	94%	—	—
Shareholder rights	Governance-related	109	100%	10	0%
Other proposals	Adjourn/other business	4	100%	—	—
	Capitalization	95	99%	—	—
	Mergers and acquisitions	32	100%	—	—

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