

# Vote Bulletin: AGL Energy Ltd.

Company	<b>AGL Energy Ltd. (ASX: AGL)</b>
Market and Sector	Australia, Utilities
Meeting Date	22 September 2021
Key Resolutions <sup>1</sup>	<p><b>Item 3.b:</b> Election of a candidate not nominated by the Board</p> <p><b>Item 6.a:</b> Amendment to the Constitution</p> <p><b>Item 6.b:</b> Ordinary resolution on Paris Goals and Targets</p>
Key Topics	Board quality and effectiveness; climate and natural capital
Board Recommendation	The board recommended voting AGAINST items 3.b, 6.a, and 6.b
<b>BlackRockVote</b>	BlackRockvoted AGAINST items 3.b and 6.a and FOR item 6.b

## Overview

AGL Energy Ltd. (AGL) is Australia’s leading integrated essential service provider. The company “delivers 4.5 million gas, electricity, and telecommunications services to residential, small and large business, and wholesale customers across the country.”<sup>2</sup> AGL operates Australia’s largest electricity generation portfolio, representing approximately 20% of the total generation capacity within Australia’s National Electricity Market.<sup>3</sup> AGL is also Australia’s largest carbon emitter, largely attributable to its coal-fired power station operations.<sup>4</sup> As such, AGL is included in BlackRock Investment Stewardship’s (BIS) [climate focus universe](#).<sup>5</sup>

BIS has had a long and constructive history of engagement with members of AGL’s board and management team. During the past year, BIS continued to focus our discussions on corporate governance and sustainability issues that we believed drive long-term shareholder value, including how the company is addressing climate-related risks and opportunities and the energy transition, as well as what role, if any, coal-fired operations might play in its portfolio overtime.

BIS has also engaged on AGL’s plans “to undertake a demerger to create two leading energy businesses with separate listings on the Australian Securities Exchange (Accel Energy and AGL Australia).”<sup>6</sup> In these

<sup>1</sup> AGL Energy Ltd. “[Notice of Annual General Meeting](#),” 12 August 2021.

<sup>2</sup> AGL Energy Ltd. “[Who we are](#).”

<sup>3</sup> See footnote #2.

<sup>4</sup> AGL Energy Ltd. “[Notice of Annual General Meeting](#),” 12 August 2021. Page 14.

<sup>5</sup> The BIS climate focus universe covers over 1,000 carbon-intensive public companies that represent 90% of the global scope 1 and 2 greenhouse gas (GHG) emissions of our clients’ public equity holdings with BlackRock.

<sup>6</sup> AGL first announced the demerger plans on 30 March 2021 and confirmed them on 30 June 2021. Under the demerger proposal, AGL Energy will become Accel Energy, an electricity generation business focused on the accelerating energy transition. Accel Energy will demerge a new entity, AGL Australia Limited, a multi-product energy-led retailing and flexible energy trading, storage and supply business.

discussions we have sought to understand how each company will build upon AGL's existing climate commitments and how the board and management team will address labor implications – including potential employee redundancies – that may result from the demerger. The company has announced plans to hold a shareholder vote on the demerger in 2022.<sup>7</sup> The company advised that following the demerger, each new company will publish a detailed climate change roadmap relative to AGL's existing emissions reduction trajectory.<sup>8</sup> As disclosed in AGL's most recent sustainability report, shareholders will be provided with an opportunity to have their "say on climate" reporting for both Accel Energy and AGL Australia at the first Annual General Meeting (AGM) for each company.<sup>9,10</sup>

## **Rationale for BlackRock's Vote**

### **Item 3.b: Election of a candidate not nominated by the Board**

**BIS voted AGAINST Mr. Ashjayaan Sharif's self-nomination as a director. While we do believe it is beneficial for new directors to be brought onto the board periodically to refresh the group's thinking, we support the Board's view that Mr. Sharif's current skill set and experience are not yet suited to add to the effectiveness of the Board.**

At this year's AGM, Mr. Ashjayaan Sharif – a Bachelor of Arts student at Melbourne University and an active leader in the School Strike for Climate movement – put himself forward as a candidate for election to AGL's Board of Directors.<sup>11</sup>

BIS believes a balance between the knowledge and experience of seasoned directors and the fresh perspective of newer directors best serves the interests of our clients as shareholders. Furthermore, as described in the BIS commentary, "[Climate risk and the transition to a low-carbon economy](#)," we support representation of climate expertise appropriate to the company's business model to ensure adequate consideration of climate-related risks and opportunities in strategy and operations. BIS encourages boards to regularly appoint new members who will be well positioned to contribute to a company's future success. However, based on the information provided by Mr. Sharif and our multi-year engagement with members of AGL's Board and management team, we support the Board's view that Mr. Sharif's current skill set and experience are not yet suited to add to the effectiveness of the Board.<sup>12</sup>

Further, the Board has announced that it is undertaking succession planning and seeking to appoint an environmental, social, and governance (ESG)/climate specialist to AGL's current Board for 2022. The Board is also "working to identify Directors with skills and experience in climate change risk and ESG, energy markets, environmental issues, digital retail, technology, customer markets and other relevant skills and experience that will be required for the demerged entities."<sup>13</sup> BIS will continue to engage with the Board to discuss new director appointments further and determine if future proposed candidate(s) offer the experience and skills that would enhance the Board's quality and effectiveness, particularly as it relates to the company's climate change roadmap prior to and following the demerger.

### **Item 6.a: Amendment to the Constitution**

**BIS voted AGAINST the proposal to amend the Constitution, a requirement under Australian voting rules to allow ordinary resolutions to be placed on the agenda at a company's AGM.**

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AGL Australia will retain the AGL brand. See "[ASX & Media Release – Confirmation of intention to demerge, announcement of dividend actions and affirmation of earnings guidance](#)," 30 June 2021.

<sup>7</sup> AGL Energy Ltd. "[Notice of Annual General Meeting](#)," 12 August 2021. Page 4.

<sup>8</sup> AGL Energy Ltd. "[Accelerating Our Transition – FY21 TCFD Report](#)," Page 29.

<sup>9</sup> AGL Energy Ltd. "[Accelerating Our Transition – FY21 TCFD Report](#)," Page 1.

<sup>10</sup> A noteworthy development across various markets globally this proxy year (July 1, 2020 – June 30, 2021) was proposals to approve a company's climate action plan, commonly referred to as "say on climate." See page 51 in BIS' special report, "[Pursuing long-term value for clients](#)" to learn more.

<sup>11</sup> AGL Energy Ltd. "[Notice of Annual General Meeting](#)," 12 August 2021. Page 8.

<sup>12</sup> AGL Energy Ltd. "[Notice of Annual General Meeting](#)," 12 August 2021. Page 4.

<sup>13</sup> AGL Energy Ltd. "[Update on CEO Terms and Board Succession Planning](#)," 12 August 2021.

## The full resolution reads as follows:

*To consider, and if thought fit, to pass the following resolution as a special resolution:*

*"To insert into our company's constitution the following new clause 32.4: Member resolutions at general meeting - The Members in general meeting may by ordinary resolution express an opinion or request information about the way in which a power of the company partially or exclusively vested in the directors has been or should be exercised. However, such a resolution must relate to an issue of material relevance to the company or the company's business and cannot either advocate action which would violate any law or relate to any personal claim or grievance. Such a resolution is advisory only and does not bind the directors or the company."<sup>14</sup>*

As required under the Australia Corporations Act 2001, a resolution calling for an amendment to the company's constitution is first necessary to allow for the subsequent ordinary resolution (in this case item 6.b). A group of shareholders owning 5% of voting shares or 100 shareholders (with no minimum holding size or length of holding period) may file a resolution.

BIS is generally not supportive of constitutional amendment resolutions. Our concern is that the relative ease of filing introduces the risk of potentially distracting and time-consuming proposals being submitted by shareholders whose interests are not necessarily aligned with those of the broader shareholder base.

### **Item 6.b: Ordinary resolution on Paris Goals and Targets**

**BIS voted FOR the proposal requesting that AGL commit to scope 1, 2 and 3 emissions reduction, capex and remuneration targets for the proposed demerged companies (Accel Energy and AGL Australia) in line with the Paris Agreement. BIS supports this proposal as it is consistent with our request of companies in carbon-intensive industries such as AGL. It is also our view that this proposal is not overly prescriptive nor unduly constraining on management's decision making and will help AGL further advance its commitments to transition away from coal-fired power over time.**

## The full resolution reads as follows:

*To consider, and if thought fit, to pass the following resolution as an ordinary resolution:*

*"Shareholders request the Board disclose, in association with forthcoming demerger scheme documents:*

- 1. Short, medium and long-term targets for reductions in the proposed demerged companies' Scope 1, 2 and 3 emissions (Targets) that are aligned with articles 2.1 (a) and 4.1 of the Paris Agreement;*
- 2. Details of how the proposed demerged companies' capital expenditure (sustaining and growth and transformation) will align with the Targets; and*
- 3. Details of how the proposed demerged companies' remuneration policies will incentivise progress against the Targets.*

*Nothing in this resolution should be read as limiting the Board's discretion to take decisions in the best interests of our company or the proposed demerged companies, or the Board's ability to limit the disclosure of commercial-in-confidence information."<sup>15</sup>*

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<sup>14</sup> AGL Energy Ltd. "[Notice of Annual General Meeting](#)," 12 August 2021. Page 3.

<sup>15</sup> AGL Energy Ltd. "[Notice of Annual General Meeting](#)," 12 August 2021. Page 3.

Proposal 6.b – brought forward by the Australian Centre for Corporate Responsibility (ACCR) – requests “that AGL commit to scope 1, 2 and 3 emissions reduction, capex and remuneration targets for the proposed demerged companies (Accel Energy and AGL Australia) that are aligned with the Paris Agreement.”

Although the Board argues it recognizes “the critical importance of decarbonisation of the electricity sector and the acceleration of the energy transition,” and has also informed shareholders that “the proposed demerger has been designed to enable both companies to respond to this transition in a more focused and effective way,” it maintains it is not currently in a position to make Paris aligned targets for scope 1, 2 and 3 emissions for AGL Australia and Accel Energy.<sup>16</sup> According to AGL, “it does not consider it is in the best interests for Accel Energy or AGL Australia to make the commitments set out in this resolution at this time as it would create uncertainty about the provision of affordable and reliable electricity to its customers.”<sup>17</sup>

BIS recognizes the company’s efforts in disclosing its climate roadmap and reporting of climate-related risks and opportunities under the Task Force on Climate-related Financial Disclosures (TCFD) framework. However, our conviction is that companies should disclose reduction targets for scope 1, scope 2 emissions and accompanying greenhouse gas (GHG) reduction targets. In the case of companies in carbon-intensive sectors such as AGL, we believe companies should also disclose scope 3 emissions. As we highlight in our commentary, “[Climate risk and the transition to a low-carbon economy](#),” a significant portion of the transition to a low-carbon economy hinges on the eventual retirement of fossil fuels, and it is particularly important for investors to understand the scope 3 emissions profile of oil, gas, and coal companies as the primary source of fuel transitions from carbon-intensive solutions to cleaner alternatives. In the event that the demerger proceeds, we encourage both new entities to commit to this level of transparency for the benefit of the companies and their shareholders. BIS thus supports this proposal as it is in alignment with our views on climate-related disclosures by companies in carbon-intensive industries.

In addition, given that the proponent states that it “does not expect the information requested in this resolution to be included in the demerger scheme documents, but at a time appropriate to inform shareholders’ decision-making on the proposed demerger,” it is BIS’ view that this proposal is not overly prescriptive and will help AGL further advance its commitments to transition away from coal-fired power over time.<sup>18</sup>

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<sup>16</sup> AGL Energy Ltd. “[Notice of Annual General Meeting](#),” 12 August 2021. Page 14.

<sup>17</sup> See footnote #16.

<sup>18</sup> AGL Energy Ltd. “[Notice of Annual General Meeting](#),” 12 August 2021. Page 18.

## About BlackRock Investment Stewardship (BIS)

BlackRock Investment Stewardship (BIS) plays a key role in BlackRock's fiduciary approach. As an essential component of our responsibility to our clients, BIS engages with companies to advocate for the sound corporate governance and business models that drive the sustainable, long-term financial returns that enable our clients to meet their investing goals.

Our approach is from the perspective of long-term, minority shareholders in public companies on behalf of our clients. We look to boards and executive management to serve the interests of long-term shareholders and other stakeholders. Our active and ongoing dialogue with the leaders of these companies gives us a valuable perspective on their long-term strategies, financial performance, and the business challenges they face.

As stewards of our clients' assets we have a responsibility to make sure companies are adequately managing and disclosing environmental, social and governance (ESG) risks and opportunities that can impact their ability to generate long-term financial performance — and to hold them accountable if they are not. Engaging with companies is how BIS builds an understanding of a company's approach to governance and sustainable business operations, how we communicate our views, and how we ensure companies understand our expectations. If a company falls short of our expectations and we have been given the authority to vote the company's shares, we would hold them accountable by voting in the best long-term economic interests of those clients that have given us proxy voting authority. As detailed in our [Global Principles](#), proxy voting involves logistical issues which can affect BlackRock's ability to vote such proxies, as well as the desirability of voting such proxies. As a consequence, BlackRock votes proxies on a "best-efforts" basis.

We are committed to transparency in our stewardship practices. Our vote bulletins provide detailed explanations of key votes relating to a range of business issues including ESG matters that we consider, based on our [Global Principles](#), [market-level voting guidelines](#), and [engagement priorities](#), material to a company's sustainable long-term financial performance. We publish select vote bulletins after the shareholder meeting to provide transparency for clients and other stakeholders into our approach to the votes that we believe require more detailed explanation.

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