

ESG and Sustainability Quarterly Report –September 2022

For Adviser use only

We provide an update on our research and engagement for the September Quarter as well as a snapshot of key ESG issues and opportunities we have looked at during the period.

Antares September 2022 Quarter ESG & Sustainability Activity

47 ESG specific research initiatives

carried out by the team across numerous topics through engaging with companies and domain experts

21

Environmental

- Greenwashing
- Standards compliance
- Emissions reduction
- Scope 3 emissions
- Energy policy
- Thermal coal
- Coal fired generation
- Renewable energy
- Water security
- Green construction
- Bio fuels
- Capital formation
- Plastics

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Social

- Leadership
- Relationship capital
- Culture
- Safety
- Modern slavery
- Employing disadvantaged people
- Responsible gaming
- Responsible service of alcohol
- Sexual harassment
- License to operate
- Government relationships
- Regulation
- Health outcomes and interventions

9

Governance

- CEO succession
- Remuneration
- Incentives
- Sustainability oversight and accountability
- Capital management and allocation

9 key strategic engagements & engagement results

1. Disclosure recommendation presented by Antares adopted by small cap in FY22 results.
2. Engaged with small cap on greater transparency of ESG metrics in short term incentives.
3. Engaged with tech company on reliability and accountability of forecasting.
4. Presented on precision medicine to healthcare company on opportunity to drive better health outcomes.
5. Engaged with tech company to drive better transparency and disclosure.
6. Engaged with retailer on need for hard metrics to measure management of ESG risks
7. Provided feedback to consumer company that ESG disclosures lagged peers.
8. Engaged with seven resource companies over reporting season on our view that closure/rehabilitation costs across the sector are potentially understated.
9. Questioned industrial company on staff morale and employee engagement strategies.

2 portfolio decisions across the funds influenced by ESG insights

- Added Proteomics International Laboratories (PIQ) (precision medicine, health outcomes)
- Added Mineral Resources (MIN) (clean energy materials)

22 resolutions, at 4 meetings





22 were voted “for”,
0 were voted “against”.



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Antares key ESG & Sustainability issues snapshot: Environment

Issue	Context	Research and Findings	Action
 <p>Emerging risk on rehabilitation provisions in resource companies</p>	<p>The recent release of the ERA sustainability report highlighted a blow out in remediation costs from \$973m to \$1.9b (range of \$1.6b-\$2.2b). RIO as majority shareholder (86% ownership) will need to contribute to this liability, and have stated publicly that they are committed to doing so.</p>	<p>Our research has explored if this was an ERA specific issue or a broader industry remediation issue. Broadly speaking costs are increasing with general inflation. However, companies now also need to rehabilitate to a higher standard given community expectations/focus. RIO are looking at offsetting carbon with rehabilitated areas and have 600k ha of land that provides an offset to carbon emissions. It also looking to recover more materials from waste stream, particularly water.</p>	<p>During reporting season, we engaged with seven companies in the resources sector on their closure and rehabilitation liabilities/provisions. Key questions asked were:</p> <ol style="list-style-type: none"> 1) Quantum of current provisions 2) How provisions have been estimated 3) How often provision estimates are being revised 4) How they are reported back to the organisation 5) Recent trends in costs and requirements <p>A wide range of responses have been collected and we are now systematically working through the data to identify potential risks.</p>
 <p>The future of coal and coal fired power generation</p>	<p>Energy prices have soared as the combination of the Ukraine conflict and underinvestment in coal and coal related assets has limited supply growth.</p>	<p>The current environment has caused a number of companies to rethink their strategies around the future of coal and coal related assets:</p> <ul style="list-style-type: none"> • AGL is in the early stage of its strategic review which includes options for its coal-fired generators including the possibility of early closure. In considering these impacts, the company is balancing various stakeholders including the impact on system reliability, the impact on shareholder value from an early exit of a low cost highly cash generative asset, and the potential impact on energy prices • Origin Energy has acknowledged that there is now a higher chance of its Eraring coal-fired power station running for longer than the target closure date of 2025 given the current state of the electricity market. • Aurizon noted that a lack of investment has meant that most of its coal customers have been unable to take advantage of high spot prices, but the company is seeing increased requests for more access to the network and options to extend contracts being exercised. • Our research also suggests that some global ESG funds are becoming more sophisticated in their approach to energy related companies in moving beyond exclusion towards driving improvement and change. 	

Antares key ESG & Sustainability issues snapshot: Social

Issue	Context	Research and Findings	Action
 <p>Precision medicine and health outcomes</p>	<p>Precision medicine (or personalised medicine) is a field of medicine that looks at the genetics, environment, and lifestyle of a person in order to select treatment that could work best for them.</p>	<p>Australia is at the forefront of the precision medicine revolution currently underway. This approach is leading to better outcomes in patient treatment, recovery and costs to the community. Our research has revealed there are several ASX listed companies that are seeking to commercialise precision medicine solutions in both diagnostics and therapy.</p>	<p>Antares is invested in some of the companies in the precision medicine field across its portfolios.</p> <p>In addition, we recently met with Medibank to propose the idea that Precision Medicine (genomics & proteomics) could drive better health outcomes and add significant value for MPL shareholders. Testing across large populations such as MPL customers can identify customers at risk of disease, thereby allowing lifestyle or behavioural change as well as monitoring and early intervention. We see the possibility of health benefits for customers and claims savings for MPL.</p>
 <p>Employee morale at Qantas</p>	<p>There have been well publicised issues around operational reliability in the aviation sector as travel rebounds post borders reopening. This follows two years of stand downs and pay freezes during the pandemic. Further, Qantas made deep cuts to its workforce via redundancies during this period.</p>	<p>During the quarter we focused our efforts on understanding the difficulties front line employees have been facing.</p> <p>A key issue has been absenteeism due to illness and associated isolation periods. QAN has had on average 300 pilots per day in isolation in the recent period. On morale, management spoke to gratitude expressed by staff on recent roadshows for QAN's efforts in securing job keeper, the aviation assistance package and placements during the pandemic. Recent changes to staff travel were also well-received, while loyalty bonuses have more than made up for pay foregone.</p>	<p>We have focussed our efforts on understanding the state of staff morale and state of the brand given the brand damage that has unfolded.</p> <p>These findings give some reassurance that Qantas is engaging with staff however we continue to monitor the situation.</p>

Antares key ESG & Sustainability issues snapshot: Governance

Issue	Context	Findings	Action
 <p>CEO succession</p>	<p>As we emerge from the pandemic we are seeing a number of CEO's across the ASX 200 retire as part of "the great resignation".</p>	<p>A number of companies in Antares portfolios have seen CEO transitions.</p> <p>In addition, we have seen a small number of retention payments awarded to senior management.</p>	<p>Antares engaged with at least four portfolio companies on CEO transitions during the September quarter.</p> <p>Where we have had the opportunity to do so, we have engaged with boards to understand the governance process of appointing a new CEO, including key characteristics and competencies desired in candidates. We have sought to build an understanding of the existing senior leadership teams in place to ensure that corporate memory is retained and execution of strategy is de-risked during the period of transition. For each appointment Antares undertakes background due diligence on new CEOs to ascertain their experience and track record. We have also taken the opportunity to meet with CEO-elects where possible to understand their leadership philosophies, strategic agendas and view of company culture.</p>
 <p>Sustainability disclosure and reporting</p>	<p>Sustainability reporting across ASX listed companies has improved in recent years with many moving to disclose more to investors on ESG and sustainability initiatives and metrics</p>	<p>Over reporting season, our team have scrutinised a number of sources of data including sustainability reports, annual reports and modern slavery statements. We find a large dispersion in terms of the quality of reporting. Some companies are making broad statements on the management of risks without providing metrics that give insight into the effectiveness of risk mitigating activities. With companies allocating an increasing portion of STIs towards ESG measures, we have also found a varying degree of transparency and specificity of associated ESG metrics.</p>	<p>We have focussed our efforts on companies where we believe reporting fails to provide insight and metrics on how material ESG risks are being managed.</p> <p>During reporting season, we identified three companies and engaged with them to provide feedback that investors require metrics to monitor whether risk mitigating initiatives are producing the desired outputs and outcomes. We requested that these be provided in future reporting periods.</p> <p>In addition we suggested to two companies that greater transparency on ESG metrics contained in STI measures is warranted.</p>

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