ESG and Sustainability Quarterly Report – December 2022

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Antares December 2022 Quarter ESG & Sustainability Activity

36 **ESG specific research initiatives**

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

14

Environmental

- Water rights and access
- Plant based foods
- Land rehabilitation
- Net zero targets
- Innovation in lower emissions intensive products
- Energy transition opportunities
- Divestment of emissions intensive assets
- Renewable energy policy
- Energy efficiency
- Sustainable packaging

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Social

- Relationship capital
- Human capital
- License to operate
- Culture
- Safety and mental health
- Industrial relations
- Responsible gaming
- Local community engagement
- Social procurement
- Community based social impact
- Organisational values
- Tobacco
- Cybersecurity

7

Governance

- Board composition
- Board subcommittees
- Agency risk
- Remuneration
- Incentive structures
- Anti-money laundering
- Greenwashing

6 key strategic engagements

1. Engaged with resources company on succession planning.
2. Provided feedback to industrial company on deficiencies in LTI structure.
3. Engaged with biotech company on lack of appropriate hurdles in STI and LTI structures and encouraged better transparency and disclosure in remuneration framework.
4. Engaged with consumer staples company on the sustainability of tobacco sales and disclosure following ASIC note 271.
5. Provided feedback to industrials company on prospective sale of coal related assets.
6. Continued to engage with small cap company on improving transparency and disclosure to enable better forecasting and demonstrate social impact

1 **portfolio decision across the funds influenced by ESG insights**

- Reduced IGO (governance)

331 **resolutions at** **46** **meetings**

311 were voted "for",
20 were voted "against".

Key themes in against votes were:

- Protest votes against remuneration
- Shareholder initiated proposals
- Board spills

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Antares key ESG & Sustainability – key examples during the quarter

Issue	Context	Research / Findings	Action / Outcomes
Divestment of coal related assets (Environmental)	Aurizon (AZJ) acquired One Rail in August and as part of an undertaking with the ACCC, Aurizon agreed to divest One Rail's coal haulage business in NSW and QLD. The sales process had been delayed and there was press speculation that AZJ's price expectation sought to capture additional growth opportunities.	Our analysis suggests that the divestment of East Coast Rail and the expected growth in Aurizon's bulk business will see its coal exposure significantly decrease. Our view is that this is likely to see the ESG discount that has weighed on Aurizon partially unwind.	We wrote to Aurizon and proposed that the value to AZJ in a successful transaction and the expected unwind of AZJ's ESG discount (from having less coal exposure) would far outweigh a higher transaction price that reflected growth options and stressed the importance of completing the sale. AZJ signed a binding sale agreement with Magnetic rail Group for the East Coast Rail business on 16 December for an equity value of \$425m. ECR's debt facilities (\$500m) will also be assumed by the new owner.
Tobacco and greenwashing (Social)	In December, ASIC issued infringement notices against an investment manager for misleading statements overstating the exclusion of tobacco. The investment manager excluded tobacco manufacturers from their universe but not distribution, and did not make this distinction in product disclosure statements. Alongside this, ASIC issued Note 271 on avoiding greenwashing in sustainability related products.	Across listed companies we estimate that tobacco exposure is anywhere between 1-10% of sales. We note that none of the listed companies that distribute tobacco publicly report their sales exposure.	We engaged with one of our portfolio companies to discuss the sustainability of tobacco sales in its business model. We also alerted the company to Note 271 and the need to publicly disclose tobacco exposure to enable investors to make informed investments. The company believes that the direct earnings impact from ceasing tobacco sales would be minimal given it is a low margin product, however noted it was still in demand from customers and drives foot traffic. In addition, it sees supermarkets as a regulated channel for tobacco sales in the context of a growing illicit market and noted that government policy has been effective in reducing volumes over time.

Remuneration (Governance)	**A portfolio biotech company released its 2022 remuneration report.**	**Our analysis coupled with proxy research suggested that the remuneration framework lacked appropriate KPIs and hurdles. Disclosure on remuneration was also opaque**	**We engaged with the company on the lack of transparency on any KPIs and hurdles, noting that proxy research had deemed the remuneration structure as “poor”. The company noted that it does have appropriate KPIs and hurdles in its STIs and LTIs, however does not disclose them because they are commercially sensitive. The company also asserted that biotech peers all take a similar approach. Antares strongly encouraged the broad disclosure of parameters in the next remuneration report and gave examples of how this could be done without revealing commercially sensitive information. The company agreed to pass our feedback onto the Board.**

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