

# ESG and Sustainability Quarterly Report

## June 2023

For Adviser use only

### Antares June 2023 Quarter ESG & Sustainability Activity

## 51 ESG specific research initiatives

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

## 24

### Environmental

- Renewable fuels
- EV charging
- Packaging
- Green steel
- Hydrogen
- Net zero targets
- Decarbonisation strategies
- Scope 3 emissions
- Waste to energy
- Safeguard mechanism
- Sustainable construction materials
- Coal fired generation
- Aircraft fuel efficiency

## 16

### Social

- Organisational culture
- Long term unemployment
- Workplace safety
- Fatalities
- Product safety and regulation
- Diversity
- Cybersecurity
- Return to office
- Automation
- Alcohol consumption trends
- Illicit trade
- Industrial action
- Tobacco distribution

## 11

### Governance

- Accountability
- Board composition
- Board engagement
- Subcommittees
- Management changes
- Sustainability metrics
- Capital allocation
- Incentives
- Modern slavery
- Succession
- Remuneration

## 6 key strategic engagements

1. Engaged with small cap company on potential Board response in the event of a fatality.
2. Engaged with small cap company on lack of net zero targets
3. Provided feedback to biotech on fair value incentive grant methodology in remuneration.
4. Engaged with small cap company on ESG materiality matrix and provided insight into integration of ESG and Sustainability in investment decision making
5. Participated in anonymous Board Confidence Survey, giving feedback on board composition and structure, remuneration, ESG issues and transparency (17 companies).
6. Presented to consumer staples company on opportunity to improve understanding of business through increased disclosure.

## 5 portfolio decision across the funds influenced by ESG insights

- Increased Sandfire (decarbonisation materials)
- Increased Aurizon (ESG discount unwind)
- Added Cleanaway (waste to energy)
- Added AGL (energy transition)
- Exited Ampol (stranded asset risk)

## 67 resolutions at 12 meetings



59 were voted "for",  
7 were voted "against", 1 "abstained".


Our against votes related to remuneration, shareholder initiated resolutions, and board spills.



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### Antares ESG & Sustainability – key examples during the quarter

Issue	Context	Research & Findings	Actions, Outcomes & Implications
 <p><b>Aircraft efficiency (Environmental)</b></p>	<p>Aviation requires high octane jet fuel. Its carbon equivalent emissions are disproportionately high. Furthermore, a jet turbine's power source cannot be replaced with a battery (as they are in cars) as both the weight and the output are unfavourable.</p> <p>Qantas has been investing in sustainable aviation fuels (SAFs) however the path to full adoption is a long one that faces several challenges.</p> <p>We travelled to Europe to meet key suppliers to discuss the issue of emissions from aviation.</p>	<p><b>Sustainable Aviation Fuels (SAF)</b></p> <p>We met with Johnson Matthey, the market leading provider of catalytic converters for internal combustion engines. The technology is very similar to that used in the process to make hydrogen via electrolysis. The company believes the large scale roll-out of SAFs will come with extensive production in the Middle East using green hydrogen generated with solar power combined with stored carbon to reconstitute a hydrocarbon fuel. On top of this, however, more localized centres of production will be required, such as the one currently being built in a joint venture involving Qantas in Kwinana in Western Australia. This will be fed with biofuel, which is another technology that will be used.</p> <p><b>Fleet investment</b></p> <p>We also visited Qantas' major fleet supplier, Airbus Industries, at its headquarters in Toulouse. As of today, all planes leaving its manufacturing lines can fly with around 45-50% SAF in its mix. Heathrow is the only major airport with significant SAF supply, with Qantas a major player in that operation.</p> <p>We also explored the fleet replacement being undertaken by Qantas at present. It is replacing its entire fleet of Boeing 737 and 717 aircraft with Airbus A321Neo and A220 planes. These planes are 25% more emission effective than the existing Qantas fleet. This means that each seat requires 25% less fuel than the old fleet. This a function of:</p> <ul style="list-style-type: none"> <li>• Greater use of lighter composite materials in construction</li> <li>• Better engine technology</li> <li>• More seats per aircraft</li> </ul>	<p><b>Sustainable Aviation Fuels</b></p> <p>Regardless of the scale reached by different alternative fuel initiatives, these processes will no longer leverage the scale of traditional hydrocarbon fuel processing.</p> <p>As a consequence, sustainable aviation fuels are likely to be significantly more expensive. That said, we would expect growing scale in the industry to reduce the cost over time from the current 300 per cent premium SAFs receive today over traditional jet fuel.</p> <p>Our view therefore is that ticket prices are likely to remain elevated given QAN is targeting a 10% mix of SAF by 2030.</p> <p><b>Fleet investment</b></p> <p>There are several implications of QAN's fleet investment:</p> <ul style="list-style-type: none"> <li>• We believe QAN will be on track to meet its 2030 Emission reduction targets of 25% on 2019 levels by 2030, aided by fleet replacement.</li> <li>• QAN will gain an increasing cost advantage over its domestic rival, Virgin, given its new fleet is currently being delivered, while Virgin has not yet ordered its planes and faces a 6-7-year delay on new orders</li> </ul> <p><b>Conclusions</b></p> <p>In summary, the outlook for QAN is that its costs will be higher via the use of more expensive fuel, but its strategic position is enhanced by its early adoption of lower emission planes. Australia is a nation of long distances, both internally and internationally, and relies on aviation. Hence, we believe that QAN will extend its position as the industry leader over the next decade. QAN remains a high conviction portfolio holding across Antares Equities funds.</p>

 <p><b>Safety and fatalities (Social)</b></p>	<p>Unfortunately, there have been 23 fatalities in S&amp;P/ASX200 listed companies that we are aware of in FY23.</p> <p>These are occurring not only in classically high risk sectors such as mining and energy, but also industrials and retail.</p>	<p>Our research indicates that in some cases, the incidence of fatalities has coincided with an ongoing deterioration in safety metrics of several companies.</p> <p>We believe this to be related to tightness in labour markets that is leading to poorer supervision as a result of reduced resourcing and juniorisation of roles. This is supported by our research that has observed the presence of labour issues (high turnover, availability issues) coinciding with safety concerns in these companies.</p>	<p><b>Reporting:</b> Of the 23 fatalities, 7 had not been disclosed by the relevant company but were reported by the media. Of the remaining 16, only 3 were disclosed via ASX announcements with a further 5 disclosed through company press releases and the remaining 8 disclosed in company Annual and Sustainability Reports. Where we have the opportunity to do so, Antares seeks to encourage more timely disclosure via ASX announcements immediately following incidents to allow investors to better engage. We also believe this is important given the materiality of safety to companies' operations, culture and social licence.</p> <p><b>Metrics:</b> Where safety metrics have declined or remain high vs. peers in a portfolio company, Antares seeks to understand the drivers of this deterioration and what action is being taken to improve the safety culture. During the quarter, we engaged with 3 portfolio companies to explore their safety initiatives. Of the 23 companies that had fatalities, 2 do not report safety metrics; they are not held in our portfolios.</p> <p><b>Incentives:</b> All but one of the companies that experienced fatalities have a safety component in management short term incentives (ranging from 10-20% for industrials, 3-17% for mining and energy). However, only a minority have a safety gateway in the STI. In some of these cases the Board nonetheless reserves discretion to adjust STIs. During the quarter we engaged with the Board of one of our portfolio companies (which has had no fatalities) to question if the Board would exercise such discretion in the event of a fatality or serious incident.</p>
 <p><b>Fair Value Awards (Governance)</b></p>	<p>We undertook a review of a biotech company's published remuneration report ahead of its 2023 AGM. We have previously engaged with the company on the use of the "fair value method" where performance rights are issued.</p> <p>Boards differ on their approach in how the value of rights are calculated with some grossing up the value of rights for the probability performance hurdles are not met.</p>	<p>At the 2022 AGM we engaged with the company to ascertain the assumptions behind the 2022 award as we were concerned that the awards were grossed up for the probability of hurdles not being achieved. However, this was not the case and so we voted in favour of the remuneration report but provided feedback that our preference would be for face value, rather than fair value to be used in 2023.</p> <p>Our review of the 2023 AGM resolutions and explanatory notes found that in addition to the fair value being used again, this year's award also includes a grossing up of the rights for the probability management hurdles are not met.</p>	<p>We met with members of the Board to discuss (amongst other matters) this remuneration mechanism and methodology and subsequently formally wrote to the Board expressing that we do not support the awarding of incentives using the fair value method because:</p> <ul style="list-style-type: none"> <li>• The Fair Value method grosses-up the number of rights awarded to compensate for the risk that hurdles are not achieved.</li> <li>• We are of the view that this detracts from the alignment achieved in awarding rights.</li> <li>• Our preference is to strongly encourage awards that are made on a Face Value (using the share price at time of the grant rather than a Black Scholes valuation) basis as an alternative.</li> </ul> <p>We also informed them of our decision to Abstain from voting, rather than voting against the Remuneration report as we viewed it as reasonable in all other respects.</p>

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