ESG and Sustainability Quarterly Report December 2023

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Antares December 2023 Quarter ESG & Sustainability Activity

42 **ESG specific research initiatives**

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

17

Environmental

- Energy transition
- Low carbon steel
- Electric vehicles
- Waste management
- Sustainable packaging
- Aerated autoclaved concrete
- Sustainable aviation fuel
- Sustainable packaging
- Data centre energy efficiency
- Water security

16

Social

- Labour hire practices
- Redundancies
- Responsible gaming
- Illicit tobacco
- Minimum wage
- Safety
- License to operate
- Student housing
- Grocery pricing
- Aging workforce

9

Governance

- Disclosure
- Capital allocation
- Related party transactions
- AGM resolutions
- JV agreement
- Re-election of directors
- STI targets
- Performance and risk management
- Organisational restructure

7 key strategic engagements

1. Engaged with small cap company on benchmarking of CEO remuneration.
2. Provided feedback to technology company on quantifying STI and LTI target for better transparency and understanding of the remuneration structure.
3. Met with independent director of small cap company to discuss board composition and management expectations.
4. Met with the board of materials company ahead of AGM to gain clarity on contentious resolutions and also to discuss governance of JVs.
5. Met with board representatives from materials company to discuss succession, board structure and safety performance.
6. Formally wrote to board of small cap company on concerns around governance, disclosure, deteriorating earnings quality and balance sheet concerns.
7. Industrial company improved disclosure in one of its segments in response to previous engagement that demonstrated doing so would address undervaluation of the segment.

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

- New position in Champion Iron (low carbon material).
- Reduced positions in APM Human Services International (governance).

344 **resolutions at** **51** **meetings**

323 were voted "for",
19 were voted "against", 2 "abstained".

Our against votes related to remuneration, board spills, termination payments, amendments to company's constitution and approval of transition plan assessments

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Antares key ESG & Sustainability – key examples during the quarter

Issue	Context	Research & Findings	Actions, Outcomes & Implications
Water & Sustainability (Environmental)	Water is a critical environmental resource used in the wine industry for growing grapes. During the quarter, Treasury Wine Estates (TWE) acquired the DAOU winery in Paso Robles, California which has previously been identified as a high-risk region from a water security perspective. In recent years TWE has also conducted a water review to ensure sustainable water resources.	We met with TWE to discuss the DAOU acquisition which included a discussion of water security. The acquisition comes with water rights and is located in the Adelaida region in California, which is close to the coast and has good water availability and management in place. In addition, we visited a number of TWE's wineries and vineyards in the Barossa valley to observe some of the water management and sustainability practices put into place to secure its future against a warmer climate (high use of recycled water, shade cloths over premium crops). We have also conducted discussions with industry participants around the role sustainability practices have in articulating brand credentials.	TWE appears to be relatively well advanced in its management of water resources across its asset base and has brought this lens to its M&A strategy. We believe this is important in securing long term value from its assets. While the wine industry seems to be of the view that sustainability credentials do not enable a price premium for wine products, we believe that this will increasingly become a hygiene factor. A lack of industry coordination of adoption of standards such as SWA (Sustainable Winegrowing Australia) is part of the problem, however we note that TWE is industry leading in this regard.
Illicit Tobacco (Social)	Metcash's (MTS) 1H24 result showed tobacco volumes declined 12.2%. Management cited acceleration of illicit trade and alternatives as the main reasons for volume decline.	We estimate that the listed supermarkets derive between 1-10% of group sales from Tobacco. The decline in the legal tobacco market has been ongoing but has accelerated as heavy excises have been levied on tobacco each year which has resulted in a growing illicit trade in both cigarettes and vape products. Discussions with tobacco distributors suggest that the declines are not confined to Metcash but are industry wide. To date, despite media reports on crackdowns, enforcement efforts on illicit tobacco do not appear to have been successful in restoring the legal trade.	Our research suggests that tobacco is a very low margin product and so the earnings impact is both minimal and manageable. However, the significant volume declines seen in the last 6-12 months present an issue for some MTS customers for whom it is a foot traffic driver. We believe moderate declines in tobacco are manageable in the context of the broader business but will continue to monitor whether the acceleration continues.
Management Incentives (Governance)	We reviewed the remuneration report of a portfolio company ahead of the remuneration vote at its AGM. Proxy advisors had recommended voting "against" due to the same performance metrics being used for both STI and LTI targets, as well as a lack of disclosure for some targets.	We met with the company to discuss the concerns raised around the disclosure and nature of the STI and LTI metrics. A key reason for the lack of disclosure was a concern by the board around share price volatility that might result if consensus expectations were to move to these challenging targets in the event they are not achieved. We note that this company has experienced significant share price volatility through mis-management of expectations and executive changes over the past 12 months. We also clarified that while STI and LTI metrics are the same, the time frames differ.	We presented the view that better disclosure tends to lead to lower share price volatility and provided examples of other ASX listed companies to demonstrate this point. The company has agreed to provide this disclosure in FY24. Our team decided to vote "for" the remuneration report on the basis that the structure is sound with the LTI and STI being over different time frames. We also note that the new CEO has executed a successful turnaround and believe that the framework is supportive of this continuing.

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