# ESG and Sustainability Quarterly Report
# March 2024

For Adviser use only

## Antares March 2024 Quarter ESG & Sustainability Activity

**48** **ESG specific research initiatives**

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

**18**

### Environmental

- Renewable energy
- Natural gas
- Water management
- Forest conservation
- Environmental regulation
- Seed technologies
- Waste management
- Energy from waste
- Sustainable packaging
- Toxic chemicals
- Coal haulage
- Sustainability capex
- Vehicle emissions standard
- Biodynamic viticulture
- Energy demand from growth in Artificial Intelligence

**22**

### Social

- Social license
- Safety
- Mental health
- Civil liability claim
- High risk geographies
- Social inflation
- Geopolitical risks
- Culture
- Retail theft and violence
- Employee turnover
- Modern slavery
- Brand reputation
- Government inquiries
- Ethics of compensated human material donation

**8**

### Governance

- Remuneration
- Stakeholder management
- Executive transitions and succession planning
- Misconduct
- Bribery allegations
- Organisational purpose and values

## 4 key strategic engagements

1. Engaged with a small cap company to provide feedback on disclosure, investor relations, governance.
2. Met with the Chair of company to discuss the board's dismissal of CEO following alleged misconduct.
3. Met with an industrial company to discuss repairing brand and reputation, including how the right culture can lead to improved customer experience and operating outcomes.
4. Provided evidence-based feedback to a biotech company that a proposed US listing is unlikely to result in improved outcomes to shareholders.

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

- Exited position in APM (governance and disclosure concerns, balance sheet risk).
- Added Mineral Resources (materials for decarbonisation)

**22 resolutions at 5 meetings**

22 were voted "for"
0 were voted "against", 0 "abstained".

# ESG and Sustainability Quarterly Report
# March 2024

For Adviser use only

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

| Issue | Context | Research & Findings | Actions, Outcomes & Implications |
|---|---|---|---|
| **Sodium Cyanide (Environmental)** | During the quarter, Orica (ORI) acquired Cyanco, which is a major player in the US cyanide market.<br><br>Sodium Cyanide (NaCN) solution is commonly used for gold mining due to its ability to recover gold from ore. When mishandled, cyanide poses a significant environmental threat to the marine ecosystem. | We met with ORI and the former COO of Cyanco to discuss the environmental profile of NaCN. The management acknowledged that NaCN is very toxic to the marine environment but it is generally considered safe to use on land as it breaks down naturally in tailings dams.<br><br>Whilst there is an emerging and environmentally-friendlier alternative product for gold leaching that uses glycine in formulation to reduce the use of NaCN, its efficacy is limited to gold ores containing copper. Furthermore, miners are slow to change their methods and processes. Hence, we currently see little probability of NaCN being substituted. | ORI has been clear in its strategy to diversify its exposure away from blasting and coal by growing into other segments. The acquisition of Cyanco provides end market diversification with gold increasing to 25% of revenue, thereby reducing the coal exposure to ~20%.<br><br>Furthermore, the acquisition complements the existing ORI cyanide business and the North American explosives business. We believe the acquisition of Cyanco is strategically important in securing long-term value from its assets and in expanding its gold mining operations. |
| **Supermarket inquiry (Social)** | During the quarter there has been significant media attention on supermarket profits and conduct with suppliers.<br><br>The ACCC has announced a Supermarket Inquiry, the Senate has established a Select Committee on supermarket pricing and the Grocery Code of Conduct is also under review. | We note that while Supermarket margins are healthy, they are not abnormally high versus global peers. We also note that Australian supermarkets suffer from lower population density and higher geographic dispersion meaning that higher profit margins are required to offset lower asset turns to generate a return on capital.<br><br>Nonetheless, our channel checks indicate that price increases have slower and discounting and promotional intensity has increased over the past quarter in response to the increased scrutiny.<br><br>We have also undertaken channel checks with independent third parties on incidences of alleged bad faith negotiations and found some of these to be valid, particularly with smaller suppliers. | While there is clearly a political element to the inquiries and reviews, we see risk to supermarket margins as scrutiny on pricing increases.<br><br>While grocery inflation is already starting to moderate, we believe the regulatory focus may see inflation moderate quicker for the major chains. With wage and rents still growing above trend, we expect the market will downgrade margin expectations for the major supermarket chains.<br><br>The initial draft from the Grocery Code of Conduct review recommends that the Code becomes mandatory, however we note Woolworths, Coles and Metcash have already voluntarily signed up. It also contained proposals for dealing with smaller suppliers which we believe is a worthwhile topic for engagement between investors and the listed supermarkets. |

| | | | |
|---|---|---|---|
| **Corruption and Bribery (Governance)** | Worley (WOR) lost a legal dispute with the Ecuadorian government regarding $58m which WOR claims it was owed for the service provided. The tribunal noted there was evidence of corruption between WOR's customer and a subcontractor, and has invalidated WOR's claims on the basis of association. Following the ruling, WOR has settled a US$6m costs claim and has taken a $58m write-down.<br><br>WOR has denied allegations of corruption, illegality or bad faith and is considering the options for further legal proceedings. | We met with WOR to discuss systems and governance following press coverage of the Ecuadorian issue. The issue arose due to the fact that WOR kept undertaking work for the Ecuadorian government despite payments stopping. When WOR became aware of the corruption , WOR undertook its own audit but continued to provide services under commercial arrangements. Since then, WOR has reviewed its processes and governance around customer due diligence and cash collections and as a result has implemented a 'Continuation of Service' mechanism to mitigate similar risks.<br><br>On the claims of corruption and bribery, we note that the tribunal decision included no accusations or evidence of corruption and bribery taking place by WOR. WOR has options to appeal should it wish to pursue this matter further. | Based on our assessment, WOR appears to be managing the situation and broader contract risks well relative to history. WOR has made material improvements to contracting mechanisms and policies which has come with its larger scale post the Jacobs deal. It has enhanced due diligence in regions with high geopolitical risks and has initiated the Continuation of Service procedure.<br><br>This is a policy to ensure that when a client fails to settle their due payments within 60 days, the contract is escalated to the CFO for further approval for work to continue. Last year, 6 out of 12,000 contracts went through this mechanism and all contracts were resolved in due course. WOR has also implemented a comprehensive data analysis and project tracking system from Salesforce and Oracle to identify any early signs of red flags.<br><br>Antares has maintained its rating on governance as the policies and contracting systems now in place suggest the risks are well managed. |

**Important information**
***NOT INTENDED FOR OR TO BE DISTRIBUTED TO RETAIL INVESTORS***