Ausbil Investment
Management Limited
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2020

Ausbil ESG Advocacy and Engagement

Annual Report 2020

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Executive summary: Ausbil's ESG year in a snapshot

> "2021 will be another demanding year for ESG as the world attempts to extract itself from the impacts and risks of the pandemic, and return to a relatively more normal existence. We will be assessing and monitoring companies on all fronts, and across all issues in the three domains of ESG"

Welcome to our 2020 report on ESG advocacy and engagement. It would be an understatement to claim that 2020 was a dramatic year. The bushfires at the start of the year, the onset of COVID-19, the elevation to pandemic levels, the fastest market crash and recovery in history, the release of the largest coordinated fiscal and monetary stimulus response in history, and the fastest development of a vaccine makes 2020 a year we will not forget. This is our report on the year that was, and our outlook on the year ahead, including the major themes that are shaping the ESG landscape, with a deep dive into the active engagement and voting that underpins our impact and effect.

- **Forced labour in global supply chains.** Ausbil continues our leadership and active engagement in the area of human rights, modern slavery, and transparency and fairness across global supply chains.
- **Climate change and decarbonisation.** Our work on the peak-environmental issue of our time continued with focus on fossil fuels, advocacy for climate-related financial reporting and clear emissions disclosures and targets across all sectors.
- **Engagement with indigenous peoples.** Ausbil increased our focus on the rights and engagement of indigenous peoples in Australia, and overseas, advocating and engaging with companies on improving relations, prioritising solutions, and specifically with Rio Tinto on reparations for the destruction of Juukan Gorge, with a view to encourage the industry to improve their practices in this area.
- **The war on waste.** Ausbil continued its efforts in the war on waste, with some focus on plastics as a signatory to the Investor Declaration on Plastic Pollution (IDPP). This includes waste management, recycling and conversion to energy as we seek to impact on Australia's listed companies the importance of a proactive renewable approach to waste.
- **The increasing importance of good corporate culture.** This year saw a number of failures in corporate culture, including high profile sexual harassment and bullying cases. Ausbil maintains a watching brief on early signs of cultural failures as part of our ESG risk assessment.
- **Arresting the cybersecurity leviathan.** Ausbil has increased our advocacy and active engagement in the area of cybersecurity, which in 2020 saw some major cyberattacks. More recently, there was an attack on the Australian Securities and Investment Commission (ASIC).
- **Finally, Ausbil engaged with Australia's leading listed companies to achieve transparency and change in behaviour**. For a detailed overview of our advocacy and engagement across all issues, and with specific companies across 2020, please see a snapshot of our active engagements in Section 3, and our detailed quarterly engagement reports in *Appendices: Ausbil's Quarterly ESG Advocacy and Engagement Reports*.

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The year that was: A synthesis of major themes and achievements

A year full of surprises began with catastrophic bushfires, immediately reinforcing the risks of climate change and the crucial role ESG has to play in helping find solutions. The COVID-19 pandemic brought in a whole new world of risks, such as the fair treatment of workers under stimulus schemes, and governance under pandemic conditions. COVID-19 also added more pressure to existing risks we have been monitoring, such as modern slavery, human rights in supply chains, corporate culture, climate change and cybersecurity, amongst many others.

In ESG, we believe 2020 represents a major point of inflection in progress towards renewable energy, amongst a number of pandemic-accelerated technological developments that have changed the world in which we live, perhaps permanently.

Other key ESG developments in 2020 included, a number of corporate culture scandals, the blasting of Juukan Gorge in the Pilbara by Rio Tinto and the rights of indigenous peoples, a growing commitment to decarbonisation by many corporates and countries, the increased focus on labour conditions in supply chains, and an array of governance, culture and remuneration issues.

We engaged intensively across 2020. In response to 2020's ESG challenges, Ausbil held over 170 engagements with the boards and leaders of Australia's most powerful and influential companies. Many of these meetings focused on positive change and growth companies had achieved in ESG performance, and many to outline a clear path of expectations for ESG performance to improve. As for every year, Ausbil maintained detailed analytical and issues-based data on each company monitored to ensure continuity in our engagements, and to keep companies accountable for undertakings made in relation to changing and improving their ESG footprint and performance, now and in the future.

We advocated intensively across 2020. In addition to corporate engagements, Ausbil also engaged and advocated with regulators, industry associations and other stakeholders, sometimes as collaborative partners, sometimes to instigate change. We enjoy strong collaborative relationships and have worked this year on modern slavery, climate change, decarbonisation and corporate governance. We have also worked in collaborative advocacy with peak bodies like PRI and RIAA (Responsible Investment Association of Australia), and governments and regulators on initiatives of international relevance and concern.

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Snapshot of 2020's active engagements

As with all years, our 2020 engagement calendar included focused meetings with the leaders and boards of Australia's listed companies. We are grateful and privileged for the ability to meet with the leaders of these companies, especially given the fact that we often challenge what they are doing and ask them hard and searching questions on how they are seeking to change. The following chart illustrates the share of meetings by ESG issue, demonstrating the depth and breadth of our active engagements.

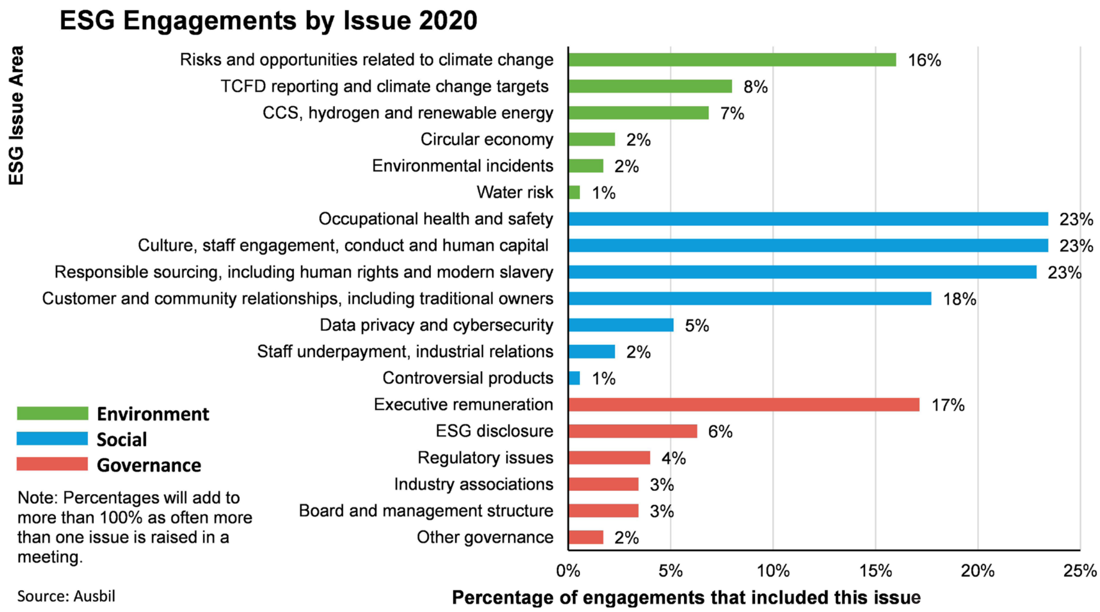

Chart 1: Engaging across many ESG issues that matter, not just a few.

> "Every year, Ausbil issues an ESG engagement plan, which as far as possible, contains specific goals, objectives, milestones and rationale for each engagement theme"

In 2020, the 'S' for social in ESG accounted for a large share of our active engagement and advocacy, particularly in the areas of responsible sourcing, human rights, labour rights and the Modern Slavery Act, all of which featured in almost 25% of all company meetings. Engagement on corporate culture, such as staff engagement, diversity and human capital development, occupational health, safety performance, and the impact of COVID-19 on staff wellbeing featured in almost 25% of our focused engagements with companies. Other common topics included customer satisfaction and community relationships, particularly in relation to engagements with traditional owners. Data privacy and cybersecurity accounted for another 5% of all company meetings, while other key topics related to the 'S' in ESG covered areas like industrial relations, staff underpayment and specific engagements related to the responsible serving of alcohol.

The 'E' for environment in ESG saw deep and accelerated discussions around the risks and opportunities related to climate change, and the transition to a decarbonised world, topics which featured in some 15% of all company engagements in 2020. TCFD (Taskforce on Climate-related Financial Disclosures) reporting, climate change targets and scenario analysis (with a view to estimating the potential risks to different businesses) were strongly represented in some 10% of our engagements this year. Other key environmental topics included climate change and the role of industry association membership, energy efficiency, hydrogen and renewable energy, potable and irrigation water risk, environmental incidents, and engagements on the circular economy (including recycling).

On the 'G' for governance in ESG, Ausbil had a number of pre-AGM meetings, mainly to discuss executive remuneration (featured in over 15% of all company engagements in 2020), but also board composition and succession, independent directors, management succession planning, regulatory issues (such as anti-money laundering with the AUSTRAC investigations), and other governance issues. As usual, we actively assessed and voted all holdings for which we are responsible – see a summary of voting late in this report.

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Focus on key issues in ESG: 2020 and beyond

Focus area; Forced labour in global supply chains

In 2020, COVID-19 materially increased the risk of labour exploitation in that under emergency conditions in some sectors, labour rights and fairness in the workplace were overshadowed by the need of many companies to take drastic action in order to remain solvent. This was the case in local markets, and across global supply chains many workers became increasingly vulnerable, lending further support for the greater scrutiny that comes with the Modern Slavery Act. COVID-19 has led to an increase in vulnerable workers around the globe, driven by increased poverty and supply chain disruption. The pandemic has also made it more difficult for companies and NGOs to audit their supply chains due to travel restrictions. Before COVID-19 struck, it was estimated that over 40 million people were subject to modern slavery conditions, including a significant number in forced labour. Sadly, we believe that this number is likely to be much higher since the onset of the pandemic.

A modern emergency closer to home than people suspect

- **An estimated 40+ million people live in modern slavery** conditions, including some 25 million in forced labour and 15 million in forced marriage.
- There are **5.4 victims of modern slavery for every 1,000** people in the world.
- **1 in 4 victims of modern slavery are children.**
- Of 25 million people in forced labour, some 16 million people are exploited in the private sector such as domestic work, construction or agriculture; 4.8 million persons in forced sexual exploitation; and 4 million persons in forced labour imposed by state authorities.
- **Women and girls are disproportionately affected** by forced labour, accounting for 99% of victims in the commercial sex industry, and 58% in other sectors.

Figure 1: Key global data points in forced labour and modern slavery (before COVID-19)

Source: International Labour Organization (ILO), Global Estimates of Modern Slavery: Forced Labour and Forced Marriage , Geneva, September 2017.

An illustrative example of modern slavery, though just one of millions of different stories, is the treatment of Uighurs in China. An ethnic minority, Uighurs have reportedly been placed in camps in the Xinjiang region where they allegedly work under forced labour conditions. Workers have been forcibly moved from the region into other provinces where they are used as forced labourers, meaning a number of supply chains beyond cotton are likely to be supported by forced labour. That is a major concern for both the local and global apparel industry as the Xinjiang region accounts for a significant part of the global cotton supply chain. The US has responded to the treatment of the Uighur population, and others working in China's cotton industry, stating that it would ban cotton and tomato products (also a product of Xinjiang). Canada and the UK are also acting on the Xinjiang issue and there is a possibility that the Australian government will also take action.

Ausbil has engaged extensively with corporates about modern slavery and human rights issues for many years. We have also been heavily involved with the Australian Federal Government in regards to the Australian Modern Slavery Act over a number of years, assisting the government in writing the guidance for the Act, and currently as the sole investor representative on the panel of experts advising the government on implementation. Ausbil is also on the steering committee for an investor initiative, begun in 2020, Investors Against Slavery and Trafficking (IAST), which is a collaborative engagement focused on ASX-listed and Asian companies.

In our view, there is often a fine line between what legally or technically constitutes 'modern slavery' (such as forced labour and bonded labour) and just poor labour rights. Our experience during COVID-19 only reinforces this view. For instance, workers in the Bangladeshi garment sector have for a long time been paid a wage that was lower than the prevailing 'living wage'. While in our view, this is part of a wider problem of labour exploitation, it is not captured by the legal definition of 'modern slavery'. However, in 2020, when orders dried up due to COVID-19, many workers faced income and job losses with no access to social welfare, which led to many taking loans from their employers, thereby moving into the realm of bonded labour, which is captured under the legal definition of 'modern slavery'. This highlights how investors need to take a wider lens on human rights and labour rights and not just focus on 'modern slavery' in isolation. Diligence is required to combat the challenge of modern slavery, which is a complex legal and ethical minefield where Australian companies can demand higher standards, transparency, and human rights across all parts of their global supply chains.

Ausbil engaged extensively with companies, both on a direct basis and through industry events, encouraging companies to adopt risk management frameworks that we believe are best practice, many of which are published in the RIAA investor toolkit on human rights in supply chains, of which we were a co-author: **www.ausbil.com.au**. We encourage companies to take a wider human rights lens than just the Modern Slavery Act itself as a broader compliance issue. We are pleased to see a number of companies taking up practical ideas that we have put forward for improvement, thereby reducing brand risk and earnings sustainability risk.

Focus area: Climate change and decarbonisation

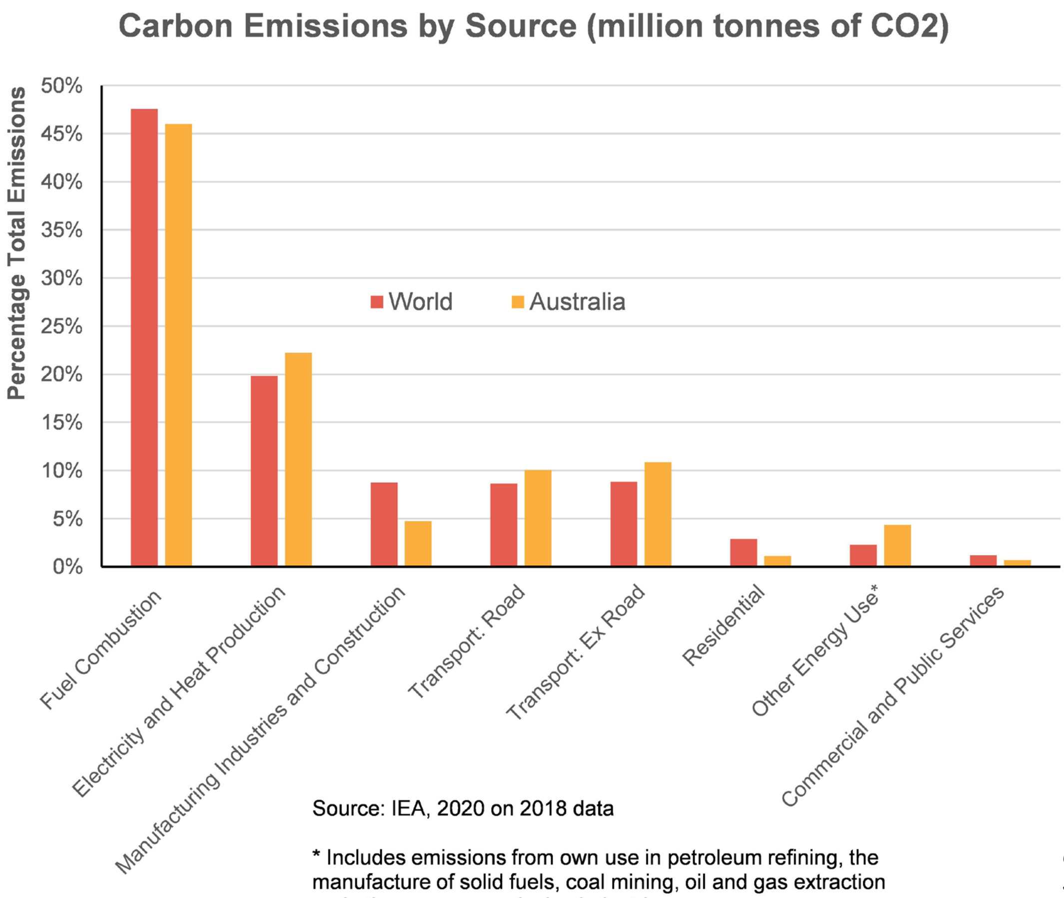
The science is clear; the world needs to decarbonise. 2020 witnessed an acceleration in decarbonisation commitments which one might partially ascribe to a fundamental shift in the thinking on climate health during the pandemic. This acceleration was aided by commitments to net-zero emissions targets by China, who set their zero plan date at 2060. Countries that have committed to emissions reductions in line with or better than the Paris Agreement requirement are outlined in Figure 2. At the time of writing it remains to be seen whether Australia will follow its main trading partners (China, the US and others) to set a similar net-zero goal. We also believe the US election result means the US will take a much tougher stance on decarbonisation going forward, which could result in challenges for carbon-heavy exports to the US.

Figure 2: Landscape of emissions reduction commitment by country

Source: www.climateactiontracker.org, data as at November 2020

Global companies have also commenced setting new climate change commitments for their contribution to the net-zero emissions targets. In Australia, some companies have also increased their climate change targets and commitments.

Chart 2 illustrates the major sources of carbon emissions in Australia and the World, and underscores the world of emissions which we have designed, and one which the world is designing to move away from for mere survival.



Source: IEA, 2020 on 2018 data

* Includes emissions from own use in petroleum refining, the manufacture of solid fuels, coal mining, oil and gas extraction and other energy-producing industries.

Chart 2: Australia's carbon emissions by source against the rest of the world

The nature of human endeavour and initiative has seen many developments on which significant progress is being made. Many mining companies, which often have long lead times on their investment decisions, have increased focus on commodities that are expected to be in greater demand in a decarbonised world, such as copper, lithium and rare earths. Other companies, such as energy companies and utilities, are increasing their efforts in carbon-capture and storage (CCS) and a range of industrial users are increasingly committing to source from renewable sources.

Carbon capture storage has been around for a long time and for the energy sector, the increased decarbonisation pressure globally means crunch time is approaching for companies to prove that the technology is both financially and operationally viable at large scale. Much has been written on the role that hydrogen can play in the decarbonisation process too, particularly green hydrogen that uses an electrolysis process which can be powered by renewable energy. While this is at an early stage of development, we believe it is an area that could be a long-term game changer once the cost curve comes down. Blue hydrogen depends on the success of a carbon capture scheme in the Australian gas sector. We expect increased research and company announcements about hydrogen across 2021.

From our engagements with companies in 2020 the picture is clear; decarbonisation is gaining momentum, and has been accelerated rather than slowed with the pandemic. We continue to see long-term structural challenges in areas such as thermal coal, and substantial new opportunities in renewable energy technologies and low-carbon products.

> At all times we will remain committed to expecting the highest standards of behaviour from companies, and where this is lacking, we will advocate, engage and vote in ways that encourage them to adopt a path towards complete ESG sustainability

Progress on fossil fuels

As part of our commitment to climate change and decarbonisation, Ausbil further tightened investment exclusions for the Ausbil Active Sustainable Equity Fund (Fund). Previously, the Fund had excluded material investments in controversial activities such as uranium, thermal coal, gambling, alcohol, tobacco, weapons and armaments and pornography. From 1 January 2021, this exclusion list includes exploration, mining and/or the distribution of fossil fuels, including oil, gas, oil sands and all coal. The energy transition is well underway and smart capital is investing in the future of energy that is cleaner, renewable, and contributes to the sustainability goals around climate change. The Biden Presidency is expected to accelerate policy initiatives supportive of the substitution of fossil fuels with renewable fuel sources making this a very exciting time to be in sustainable investing.

Figure 3: Ausbil's sustainable fund excludes fossil fuels

In 2020, Ausbil refreshed our climate change policy (available on our website: www.ausbil.com.au), which also details Ausbil's proprietary climate change risk analysis, including scenario analysis across three different time frames. Ausbil engaged with a wide range of companies on climate change in 2020, including Task Force on Climate-related Financial Disclosures (TCFD) reporting and climate change scenario analysis, links between climate change and executive remuneration, setting credible climate change targets and pathways to the Paris Agreement, water risk and much more.

Ausbil also engaged with industry associations, such as the Minerals Council of Australia, on climate change and decarbonisation. Ausbil is also a member of IGCC (Investor Group on Climate Change) and has been a member of Climate Action 100+ since inception where Ausbil is a 'support investor' on six specific company engagements. Climate Action 100+ is an investor-driven collaborative engagement (https://www.climateaction100.org). Climate Action 100+ offers a strong governance framework around climate change risk; focuses on reduced GHG emissions across the value chain consistent with the Paris Agreement's goal of limiting global average temperatures to below 2 degrees Celsius (above pre-industrial levels), ultimately aiming for just 1.5 degrees; and advocates for enhanced corporate disclosure in line with the recommendations of the TCFD. The Climate Action 100+ initiative now has over 500 institutional investor signatories globally, which has seen significant growth in both signatories and net-zero commitments. However, as the latest progress report outlines, there are still gaps in target coverage, with only a small proportion of net-zero goals, including in the most material Scope 3 (indirect) emissions.

In climate and decarbonisation, Ausbil will continue with our advocacy and affiliations in this space, focusing on promoting the benefits of TCFD adoption, the implementation of clear targets for emissions and decarbonisation, and on the overall climate-impact behaviours of the companies we monitor.

Focus area: Engagement with indigenous peoples

While indigenous connection and access to traditional lands might seem an obvious right in 2021, it has only been a legal right in Australia for some 30-years. On 3 June 1992, the High Court of Australia, in Mabo v Queensland (No 2), upheld the claims of five plaintiffs from the Meriam people of the Torres Strait Islands that as indigenous peoples they enjoyed native title based on their connection to the land, their customs and land-management practices prior to the settlement of Australia. This quashed the long held doctrine of terra nullius (nobody's land) which had been used to justify the annexation of land by European settlers. This ruling led the way for indigenous land owners to access traditional lands and waters alongside other owners and users of land, and where resource rights existed, to share in the value of royalties generated. This is typically undertaken through commercial relationships to share royalties between indigenous corporations and resource extraction companies that represent all members of local communities, and applies these royalties in the furtherance of social, educational, cultural, medical and economic wellbeing in indigenous communities.

With this as context, the Juukan Gorge incident in May 2020, and the ensuing parliamentary inquiry into the events, brought significant investor, media and public attention to the state of engagement between mining companies and traditional owners of the land. Figure 4 shows a photo of the sacred site at Juukan Gorge before its destruction, and reproduces an explanation of the history and importance of this land in the words of the local indigenous peoples as taken from their submission to the parliamentary inquiry.

Figure 4: Juukan Gorge, facts in the words of the traditional owners

A photo of Juukan Gorge in the traditional lands and waters of the Puutu Kunti Kurrama people and the Pinikura (PKKP) people. On the morning of 24 May 2020 Rio Tinto detonated explosives destroying the Juukan 1 and 2 rock shelters. Juukan 1 and Juukan 2 record human occupation going back approximately 46,000 years, having harboured thousands of artefacts, including grinding stones, rock seats, a blade quarry and flaked stone materials, and remains of a belt made of human hair that has been genetically identified to match PKKP descendants. The destruction of Juukan 1 and Juukan 2 has caused immeasurable cultural and spiritual loss and profound grief to the PKKP People. The PKKP submission to the inquiry into the destruction of 46,000 year old caves at the Juukan Gorge in the Pilbara region of Western Australia does not reproduce photos of the destroyed site because of the significance of the loss, and because of cultural sensitivities. The lands and waters of the Puutu Kunti Kurrama people and the Pinikura people cover approximately 10,888 square kilometres of Western Australia's Pilbara region, between Onslow and Tom Price. The rights and interests of the Puutu Kunti Kurrama and Pinikura peoples to these lands and waters were recognised in the #1 and #2 v State of Western Australia decision on 2 September 2015.[i] The Juukan Gorge was only 400m long (550m to the Purlykuti Creek centre) by 70m wide at its maximum. There were a number of rock shelters along the distinctive, deep and narrow ironstone gorge, described, as a consequence of the separate archaeological excavations in 2014, as Juukan 1 and 2 (located near the Gorge's eastern end) and Juukan 3 and 4 (located near the western end). Each of these rock shelters held a 'museum of information', harbouring thousands of artefacts. Many of these sacred objects are now stored either in a shipping container or are on display at the administration building at the Brockman 4 mine site, or at the Rio Tinto Heritage building in Dampier, and PKKP access to them is restricted. *Note that these words have been respectfully reproduced from the words of the PKKP people in this submission as they are best qualified to note the significance to their heritage.*[ii]

Naturally, this incident brought Rio Tinto into sharp focus, and set-off many active engagements between the company and Ausbil as outlined in the detailed reports that appear later in this document. Apart from precipitating a parliamentary inquiry, reviews of indigenous relations across resources companies, and a national reconsideration on the state or indigenous relations, it also shone a spotlight on inadequacies in the Aboriginal Heritage Act in WA, which is expected to be reviewed and updated. Currently, Section 18 of the Act allows for the State Government to override concerns voiced by traditional owners if they deem it necessary. We believe poor management of the relationship with traditional owners can cause significant reputational damage to a company and also hamper its ability to develop new assets going forward. There is no future in mismanaging or abusing indigenous relationships. Across 2020, Ausbil had a series of engagements with Rio Tinto, and all of Australia's major mining companies (including BHP, Fortescue Metals, and many others), on the management of relationships with traditional owners in Australia, and in any other countries where they operate. While Juukan Gorge is a tragic loss, the ongoing conversations with the mining industry have been positive in making it clear that institutional investors have no tolerance for mistakes and mismanagement such as caused the loss of Juukan Gorge.

i The PKKP Aboriginal Corporation RNTBC. (2021). Retrieved from www.pkkp.org.au

ii Parliament of Australia. (2020). Inquiry into the destruction of 46,000 year old caves at the Juukan Gorge in the Pilbara region of Western Australia. Puutu Kunti Kurrama People and Pinkura People Submission to the Joint Standing Committee on Northern Australia Inquiry into the Destruction of 46,000-Year-Old Caves at the Juukan Gorge in the Pilbara Region of Western Australia. https://www.aph.gov.au/Parliamentary_Business/Committees/Joint/Northern_Australia/CavesatJuukanGorge/Submissions

We are undertaking further advocacy work on indigenous relationship. Ausbil is the incoming chair of the RIAA (Responsible Investment Association of Australasia) Human Rights Working Group where investors collaborate on human rights, and we expect that the treatment of traditional owners will be a major topic for 2021. Our aim with engagement and advocacy is to ensure that Juukan Gorge cannot happen again.

Focus area: The increasing importance of good corporate culture

Corporate culture remains a critical factor for company success, but it can be a difficult factor to measure due to its intangible nature. Ausbil adopts a number of methodologies for monitoring, tracking and assessing corporate culture. Under the recent pandemic conditions, investor attention to the 'S' in ESG, or social factors, has been elevated. For Ausbil, this makes perfect sense. Increasingly, company value is driven by intangible factors (as opposed to tangible assets), social factors, such as staff engagement, corporate culture, supplier relationships and more. These factors can make or break a company.

Ausbil undertakes proprietary ESG research that places significant emphasis on corporate culture, using a wide range of input sources, and which generates significant insights, and impacts our investment decisions. Among other things, we track general staff engagement, CEO approval rates, and importantly, specific comments and narratives by staff about culture.

Ausbil continued to engage on a number of corporate governance issues, including executive remuneration and alignment with the best interests of shareholders, board composition and diversity, and succession planning, among many others.

In 2020, a number of engagements related to treatment of staff, customers and suppliers in the pandemic environment. In 2020, we saw a number of culture-related incidents in S&P/ASX 200 companies, some of which led to board and management changes. A number of high profile examples include QBE, AMP and Cleanaway, all of which witnessed either the removal, demotion or resignation of a CEO, even in a few cases where that CEO had otherwise led strong financial performance but whose cultural behaviours did not support their continuation as a leader. In some cases, boards acted swiftly as a sign that culture matters to the overall value proposition of quality companies, but in other cases, less so. In 2021, we will maintain an active watch on culture, in all its permutations and combinations, and it will continue to figure in both our ESG ratings, and Ausbil's assessment of a company's overall value.

Focus area: The war on waste

According to the ABS, Australia generated some 75.8 million tonnes of solid waste in 2018-19, representing a 10% increase over the previous two years (since 2016-17). Only half of all waste was sent for recycling (around 38.5 million tonnes), while 27% was sent to landfill for disposal (20.5 million tonnes). The following chart illustrates total waste generated against proportion recycled by waste type, highlighting the sectors where there is significant room for improvement. For example, plastics account for 2.5 million tonnes of waste, but only 9% was sent for recycling (227,000 tonnes), while 84% was sent to landfill (2.1 tonnes), including 32% of plastic waste which was high density polyethylene (HDPE) which can be recycled. In plastics, households are the largest contributor, supplying 47% of all plastic waste (1.2 million tonnes); with manufacturing second at 15% (380,000 tonnes).[iii]

iii Australian Bureau of Statistics. (2020). Waste Account, Australia, Experimental Estimates: Waste generation, management and economic response by industry and household in alignment with System of Environmental-Economic Accounts (SEEA). Retrieved from https://www.abs.gov.au/statistics/environment/environmental-management/waste-account-australia-experimental-estimates/latest-release#data-download

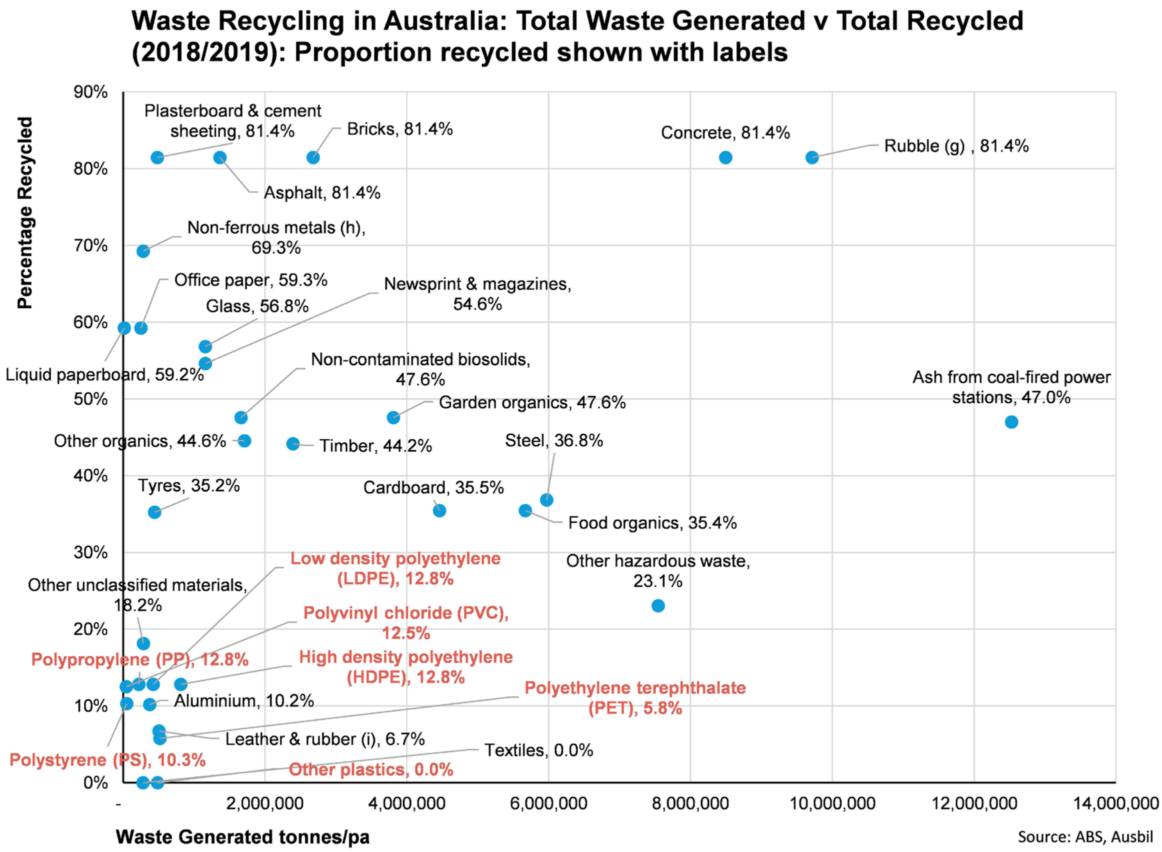


Chart 3: Snapshot on recycling with room for major improvement

The war on waste continues into 2021. We have seen the domestic recycling rate rise to 60% over the last two years, and we do not foresee momentum in this space to slow down any time soon. Australia has a national target that 100% of Australian packaging is recyclable, compostable or reusable by 2025 at the latest, with federal parliament passing legislation banning the export of unprocessed waste overseas[iv]. We are seeing similar tends globally, with the introduction of more national waste import standards around the world, including bans on single-use plastic and the EU committing to a levy on non-recycled plastic waste from 2021.

There have been a number of catalysts domestically which have improved the outlook for better recycling numbers, including the waste export bans from China, announcement of the National Waste Policy Action Plan in Australia, and further infrastructure spending by state governments to facilitate materials processing (for plastic, tyres, mixed paper and cardboard). This has resulted in greater policy direction and clarity over the export ban for Australian industries. As a result, Industries are progressing their approach to waste with, for example, supermarkets pressuring suppliers and their supply chains to innovate recyclable alternatives, and factoring in health and safety for consumers and staff. This is particularly important as organic waste is one of the main contributors to national waste, with Australia targeting a 50% reduction in food waste by 2030, led by the federal government's National Food Waste Strategy.

Like a phoenix rising from the ashes, new business models have emerged from the war on waste. For example, the waste to energy market continues to evolve as the economics become more attractive for industrial and consumer users, and as a function of international waste bans, particular the China waste ban. Local investment is accelerating in the reprocessing, resource recovery and re-manufacturing of waste and materials. New and innovative packaging material has evolved, with technology in bio-based packaging such as bio-surfactants and bio-plastics that promise significant future potential as consumers show more willingness to pay for responsible plastics. However, the shift to new materials is not as simple as it appears, with a need to review and fully test alternatives for their complete impact on ESG issues and health, for example the use of palm oil for bio-based packaging has sourcing issues. We maintain a watching brief on such developments as the industry seeks to improve.

As detailed in last year's ESG engagement report, Ausbil is a member of the Plastics Solutions Investor Alliance (PSIA) having been the first Australian investor to sign their global initiative, Investor Declaration on Plastic Pollution (IDPP). We believe taking strong action on plastics and waste provides significant opportunities in moving towards achieving the UN Sustainable Development Goals and provides an important element in the greater decarbonisation process. Moreover, companies seeking to do so are enjoying an increasing benefit in terms of customer support and satisfaction as consumers question those who have not switched to recycled and recyclable materials. In 2021 Ausbil will continue our engagements on the war on waste plastics and the drive to renewable, recoverable, recyclable and reusable technologies.

iv Blue Environment. (2020). National Waste Report 2020. Retrieved from: https://www.environment.gov.au/system/files/ pages/5a160ae2-d3a9-480e-9344-4eac42ef9001/files/national-waste-report-2020.pdf

Focus area: Arresting the cybersecurity leviathan

Hacking is a growing and relatively invisible menace to individuals, companies, and in some cases, the integrity of critical health, financial, payment and communications systems. Hackers and cyberterrorists are sometimes motivated by financial gain, and sometimes by other motives, like politics and general 'muckraking'. Whatever the reason, cybersecurity has been rising in importance, underscored by the recent hacking of the Australian Securities and Investment Commission (ASIC). In 2020 we saw a number of cyberattacks on companies of which the public are aware, however, through our active engagement with companies we also learnt, unequivocally, that the number of cyber-attack attempts had risen dramatically, and this trend was seen across many different industries, as well as government and regulatory bodies.

Email phishing, whaling, malware and ransomware are the most common types of attacks, with many companies over the past year facing close calls. On a macro level, cyberattacks can potentially disrupt or disable the operation of critical infrastructure. On a micro level, attacks can cause data breaches of personal information and have a ripple effect into the privacy of everyday citizens. Corporates are becoming more aware of the ramifications of cyberattacks as seen in the increase in class actions, and penalties / fines from breaches of the law. As a result, companies are ramping up their defence mechanisms. From our own engagements, we have seen an increased trend in board level discussions to prioritise spending in cybersecurity, including working with reputable providers of detection and response software and equipment, business continuity planning, and crisis management programs.

As we enter 2021, we expect investment in cybersecurity to accelerate, particularly as many workplaces maintain remote working for flexible workplace arrangements, and by companies that are keen to bolster their own systems, and their supply chains.

Proposals such as a cybersecurity benchmark, which was recommended in a report commissioned by the Australian Strategic Policy Institute, call for federal and state governments to use their $20 billion technology spend to create a de-facto benchmark for improved cybersecurity, and to implement mandatory cybersecurity insurance. This is an area where people are looking to government to lead, and ensure a whole of system approach to protecting citizens and businesses from cyberattack. We maintain an active and growing brief focused on developments in this area as we head into 2021, and advocating for companies to research and improve their cybersecurity strategy and processes.

5

Snapshot on 2020's active voting

Actively voting at meetings is the third part of a three-pronged approach to change, where the two other avenues for change are advocacy and engagement. Voting is powerful in that it ensures that board and management listen to what investors have to say, especially on ESG, governance and remuneration matters. Ausbil evaluates every meeting resolution in its own right, and we independently determine a position based on our house view on the ESG issues at play, and each company's performance

Across 2020, Ausbil actively researched, evaluated and determined on 998 meeting resolutions presented by ASX-listed companies at 155 company annual and extraordinary meetings. The key voting statistics are outlined in the following figure.

- Total meeting votes considered: **155**
- Covering the following number of individual resolutions: **998** resolutions
- All FOR votes submitted: **110**
- Active votes AGAINST a board recommendation: **22**
- Active votes AGAINST a proxy recommendation: **44**
- Shareholder proposed resolutions: **16**

Figure 5: Ausbil's key active voting statistics for 2020

Of the 998 resolutions presented at 155 meetings in Australia, Ausbil voted 'Against' at least one of the resolutions at 20% of the AGMs/EGMs, underscoring that all resolutions are considered on their individual merit, and voted on accordingly. By way of note, an 'Abstain' or abstention from voting is predominantly recorded where Ausbil has participated in a capital raising that requires that Ausbil abstains from voting.

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Conclusion

2021 will be another demanding year for ESG as the world attempts to extract itself from the impacts and risks of the pandemic, and return to a relatively more normal existence. We will be assessing and monitoring companies on all fronts, and across all issues in the three domains of ESG. We will continue to hold management to account and support the progress of ESG across all the companies we analyse. In 2021, rolling issues will continue across all the areas we have presented in this report. There will also be new issues, actions and events that will warrant a fresh look at companies, and deep analysis and engagement. At all times we will remain committed to expecting the highest standards of behaviour from companies, and where this is lacking, we will advocate, engage and vote in ways that encourage them to adopt a path towards complete ESG sustainability. We look forward to keeping you posted on our progress across the year.

Other Key Ausbil ESG Documents

- Ausbil ESG Policy
- Ausbil Climate Change Policy

All available at **www.ausbil.com.au**

Contact Details

If you have any questions, or would like to discuss any of the above advocacy or engagements in further detail, please don't hesitate to contact Ausbil's ESG team.

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A short notice on the COVID-19 public health event, and how it can impact investments

Given the currently evolving issues around the Coronavirus (or Covid-19) globally, which has officially been designated a pandemic by the World Health Organisation, we wish to notify that, as with many firms, business may be disrupted. A public health crisis, pandemic, epidemic or outbreak of a contagious disease, such as the recent outbreak of Coronavirus (or Covid-19) in Australia, Italy, China, South Korea, the United States and other countries, could have an adverse impact on global, national and local economies, which in turn could negatively impact investment returns in any of Ausbil Investment Management Limited's registered managed investment schemes (the Funds). Disruptions to commercial activity relating to the imposition of quarantines or travel restrictions (or more generally, an inability on behalf of authorities to contain this pandemic) may adversely impact any investment, including by delaying or causing supply chain disruptions or by causing staffing shortages. The outbreak of Coronavirus has contributed to, and may continue to contribute to, volatility in financial markets. The impact of a public health crisis such as the Coronavirus (or any future pandemic, epidemic or outbreak of a contagious disease) is difficult to predict, which presents material uncertainty and risk with respect to any investment or fund performance.