

Ausbil ESG Advocacy and Engagement Report, 2019

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Annual Report

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Guide to readers on stock names

This report is intended to be used as a reference report given the breadth and depth of issues, companies and groups with whom we have engaged. For brevity, we refer to companies by their ASX ticker code, however a glossary of ASX stock tickers and full company names is provided at the end of this report.

PRI (Principles of Responsible Investment): Ausbil is a signatory to the PRI, and is active through the PRI network globally in promoting the responsible investment program of the organisation, reporting on PRI guidelines, and driving advocacy. The PRI is the world's leading proponent of responsible investment. <https://www.unpri.org/>

Executive summary

“For us, the integration of ESG, with active engagement and advocacy, drives better-informed investment decisions”

ESG advocacy and engagement highlights

In 2019, Ausbil completed another big year of advocacy and engagement across a spectrum of ESG issues that are critical to investors, focusing on improving the sustainability of company earnings, and how companies perform.

- **Modern slavery.** Ausbil continued to show leadership on human rights and the Modern Slavery Act (MSA), including advising the Australian Border Force (Australian Federal Government) as part of a panel of experts on the MSA in conjunction with the MSA guidelines, and as one of the main authors of an Investor Guide to the MSA.
- **Climate change.** On climate change and the TCFD (Taskforce on Climate-related Financial Disclosures), Ausbil continued to engage on TCFD reporting with companies. We developed a proprietary model for assessing climate-related risk for Australia’s largest companies, their ability to grow earnings, and the very sustainability of their business models.
- **Plastic pollution.** Ausbil became the first Australian company to sign the landmark Investor Declaration on Plastic Pollution (as part of the Plastic Solution Investor Alliance), a declaration citing plastic pollution as a clear corporate brand risk and pledging to find solutions through corporate commitments and policy.
- **Human rights in supply chains.** Ausbil was recognised for our work on advocating for human rights in supply chains with Måns Carlsson-Sweeny, Head of ESG Research, recognised with an Anti-Slavery Australia Freedom Award Certificate of High Commendation. Ausbil also completed two primary research field trips to Thailand and Cambodia to investigate human rights abuses in the fishing industry and supply chains, and the impact of sexual discrimination and harassment in supply chains, respectively.
- **Lonsec award.** Ausbil’s work on integrating ESG in our investment process was acknowledged by the industry, with Lonsec recognising the Ausbil Active Sustainable Equity Fund as the winner of its Sustainable Investment Award.
- **Advocacy in resources.** Ongoing constructive ESG advocacy with industry groups included close work with the Minerals Council of Australia, working proactively with many of the leaders of Australian resources, energy and mining services companies.
- **Engaging with leaders.** We continued constructive and progressive engagement across a range of ESG issues through 170 active engagements, predominantly with the chairs, boards, executive leaders and the key decision makers of Australia’s largest companies.

Our ESG activities are focused on a simple rationale: we believe that the integration of ESG makes for better-informed investment decisions. We are not in the business of ‘green-washing’. We believe the importance of ESG lies in improving the sustainability of business models and earnings, and how companies behave in achieving these fundamental economic goals.

This year, Ausbil engaged 114 of Australia’s largest companies, many the largest in the world in their sector, in 177 engagements focused on achieving better ESG and investment outcomes.

We believe ESG makes financial and investment sense for companies, in evolving towards more sustainable business models, reducing risk, and reducing their negative impacts on society. This reports records our efforts this year in this regard.

Winner: Ausbil Fund recognised at Lonsec awards for ESG

Winner: Ausbil Fund recognised at Lonsec awards for ESG investing and engagement

In 2019, Lonsec awarded the Ausbil Active Sustainable Equity Fund as the winner of its Sustainable Investment Award.

The Lonsec Sustainable Investment Award seeks to recognise and highlight success in incorporating ESG into investment approaches to add value to investors.

An ESG (environment, sustainable and governance) approach is fully integrated in Ausbil's investment decision making process, driven by a focused ESG Research Team, and overseen by one of Australia's most respected Chief Investment Officers, Paul Xiradis.

The Ausbil Active Sustainable Equity Fund is a true-to-label sustainable and responsible investment fund that actively engages companies to improve on all measures of ESG, and actively exercises its voting rights accordingly.

What gives our Active Sustainable Equity Fund its edge is our reach into the boards and management of Australia's listed companies. Our active advocacy and engagement with these companies helps us achieve better ESG and Investment outcomes.

Mr Xiradis' track record is one of the longest in the country, the core active equity strategy starting in 1997. Mr Xiradis was early in seeing that the only way forward in active investment was to integrate ESG firmly in the firm's culture, approach and decision making. Excellence in corporate governance (G) has always been a critical consideration in Ausbil's process, from the very beginning in 1997. Over 10 years ago, Ausbil added environment (E) and social (S) considerations to the investment process, bringing together the full ESG approach across all funds.

Ausbil's ESG Research Team focuses on encouraging companies to adopt best practice in ESG risk management, which can, in turn, help them become more sustainable businesses. This also helps increase the universe of companies in which we are willing to invest, and contributes to a better society.

For a copy of the PDS for the Ausbil Active Sustainable Equity Fund, please visit www.ausbil.com.au.



Paul Xiradis, Executive Chairman, Chief Investment Officer and Head of Equities, and Måns Carlsson-Sweeny, Head of ESG Research accept the Lonsec Award for Ausbil's Active Sustainable Equity Fund.

2019: A lot happened in ESG

2019: A lot happened in ESG

As a year, 2019 underscored the importance of a pre-planned and consistent focus on ESG issues as major events sent major companies reeling. Here are just some of the ESG issues that hit the headlines this year.

The Hayne Royal Commission into misconduct in the financial services and banking industry was one such issue, and saw major banks and financial institutions, alongside many smaller ones, brought to task for various types of misconduct, client trust, and breaches in their general fiduciary duty to the community and society. This saw sanctions, record fines, and litigation as these institutions entered a major phase of remediation that continues in 2020.

With the Hayne Report released in February 2019, by the end of the year there seemed to be a clearer path to remediation until WBC reported wholesale money laundering breaches in November 2019, capturing the ire of AUSTRAC and other regulators, and costing the Chief Executive his job. For an industry already under deep regulatory scrutiny, the financial transaction reporting breaches added another layer of controversy and scrutiny for banks and financial institutions.

Another issue was the problem of underpaid workers in private businesses, including listed companies where, one way or another, workers were short-changed on entitlements, salaries and conditions. Franchising issues flowed over from 2018 as an area demanding ongoing focus on ESG and remuneration practices. The franchise industry was also the subject of a government inquiry.

Sadly, shocking cases of human trafficking continued to make headlines. One such example was the tragic loss of 39 Vietnamese immigrants who were trapped in a lorry in Southern England, amongst many other cases, highlighting the plight of migrants today, and the need to place human rights at the fore for any company with supply chains.

Another human rights issue that appeared in 2019 was the lawsuits brought against technology giants, Apple, Dell, Microsoft and Tesla, after Congolese children perished in cobalt mines. Among many other uses, cobalt is predominantly an essential metal for the batteries used in laptops, smart phones and other electrical equipment. This is expected to become a landmark human rights case and we will watch its progress closely.



Integrating ESG in our investment process: Nicholas Varcoe, ESG Analyst (left of picture), discusses Ausbil's full integration of ESG in our investment process at a Bloomberg ESG panel, November 2019.

2020: What's the ESG outlook?

2020: What's the ESG outlook?

In 2020, we are expecting a number of areas to expand and develop as key ESG focus points, including, but most certainly not limited to the following.

Modern slavery and human rights. Mandatory reporting on modern slavery (under the MSA) begins in 2020, and will come with significant focus from industry, media and policy makers. There is likely to be revelation on slavery across supply chains that will bring this issue to the forefront. Under the Australian Modern Slavery Act 2018, all organisations with more than \$100m in annual revenue, and operations in Australia, are required to report (from 2020-21) against seven mandatory requirements focused on the risks of slavery in operations and supply chains, actions taken to mitigate and remove these risks, and the effectiveness of such actions. Key risk sectors include garment, manufacturing and retail, electronics, fishing and agriculture, cleaning, mining, construction materials, and the building industry. Whilst the biggest risks are in supply chains overseas, Australia is not immune to these risks. We expect to see increased scrutiny, from investors who need to understand the risk of slavery in companies in which they invest, increased media activity and a broadening out to other human rights issues.

Climate change. Climate change will remain a major issue in 2020, with the drought supporting the need to take a clearer and more sustainable path. The TCFD (Taskforce on Climate-related Financial Disclosures) is an important part of this in setting the foundation of measurement, reporting and transparency that can help set a foundation for positive change. TCFD reporting will become compulsory for PRI signatories, and constitutes reporting on climate change governance, analysis of impact on investments under different climate change policy scenarios, as well as metrics and targets. Ultimately, it shows how a company is positioning to operate in a decarbonised world. Over 70% of companies in the MSCI World Index have supported the Paris Agreement, called for a price on carbon, and/or will use a price on carbon in their financial reporting. We expect to see increased engagement, such as through CA100+ (Climate Action 100+) which now has 367 signatories controlling US\$34 trillion in AUM. Ausbil was an early member of this initiative. Companies are on notice from regulators on climate change, with regulators increasingly commenting on climate change as a policy issue, including APRA, ASIC, the Bank of England and the Reserve Bank of Australia (RBA). This highlights the need for investors to consider climate change more holistically.

Australian bushfire crisis and drought. The bushfires that started in late 2019 across the east coast of Australia, and escalated into 2020 following a prolonged period of drought, reinforced the need for investors to understand companies' water usage, sourcing, storage and risk management, as well as emergency response plans. This impacts multiple industries, including mining and resources, processing, primary industry, manufacturing and energy production, amongst many others.

Waste. We expect the war on waste to gain momentum with significant media coverage and rising consumer awareness. China no longer accepts certain waste types from Australia, and while other SE Asian countries have attempted to take-up the shortfall, a number have also imposed import restrictions due to inefficient infrastructure. China recently made a significant announcement about phasing out plastic bags. There is significant political will in Asia, and ambition to leap-frog the west in areas such as waste-to-energy conversion. In this area, we expect to see increased investor action, such as the Plastic Solutions Investor Alliance (PSIA), to which Ausbil became Australia's first signatory.

Fair pay. Wage theft and incidence of underpaid workers is likely to be a running issue through 2020 as small, and large companies alike, wrestle with their own compliance, and in some cases, financial remediation, as new cases come to light from audits and reviews.

Responsible investing. The responsible investing industry will continue to evolve with the 'divestment model' becoming less attractive as a philosophy in favour of the 'engagement model' which is applied at Ausbil. The engagement model is based on the philosophy that steady engagement, and greater transparency, can achieve greater progress and change, through collaboration. We believe engagement is the more powerful force for long-term change as divestment can lead to unintended outcomes.

2020: What's the ESG outlook?

Sustainable development goals. The UN Sustainable Development Goals (SDGs) will be increasingly adopted by large multinationals, globally, and in Australia. The 17 SDGs are set by the UN as goals for 2030, and include the following: no poverty, zero hunger, good health / wellbeing, quality education, gender equality, clean water, affordable and clean energy, decent work and economic growth, industry / innovation and infrastructure, reduced inequalities, sustainable cities, responsible consumption and production, climate action, life below water, life on land, peace / justice and strong institutions, and partnership. The SDGs will likely continue to translate into policy and law, such as with the Modern Slavery Act, and there will be increasing expectations for SDG alignment by investors. While we do not structure our approach to mirror the UN SDGs, we do cross-reference these in our work (please see our detailed mapping of the SDGs against our engagement focus at the end of this report). We believe there is a danger in companies deploying and referencing the UN SDGs as labels and, in effect, 'greenwashing' their ESG approaches without achieving true depth in their advocacy and engagement activities.

Governance and proxy voting. In the governance area, we expect to see continued scrutiny, particularly on LTI grants and associated hurdles, the treatment of non-core earnings, and one-off bonuses with no performance hurdles. We also expect to see shareholder resolutions targeting ESG issues, particularly membership of industry associations with different views on climate change.

Money laundering. The recent money laundering issue is expected to overflow into 2020 as AUSTRAC responds. The first to face money laundering issues was CBA (resulting in a major settlement of around \$700m). WBC followed, with the regulator, AUSTRAC, taking the bank to court. What other breaches might be reported in 2020? We see this as moving beyond banks, across all types of financial institutions and licensees and potentially other high-risk industries, such as gambling.

Bank remediation. We expect ongoing Royal Commission remediation issues, including governance issues and litigation. Following the Hayne Inquiry, continued fallout includes uncertainty on remediation costs as implementation costs are high, remediation charges having been substantially higher than expected to date. Regulators have become more ambitious on litigation, and there are potential class actions. The post-Royal Commission focus might shift from remediation (refunds) to re-basing of fees as banks and financial firms reflect on their products through the lens of what meets community expectations. APRA proposes requirements on remuneration to enhance conduct, risk management and accountability, including greater emphasis on non-financial performance hurdles, and minimum deferral periods for variable remuneration.

Franchising. The 2019 franchise inquiry might put unconscionable conduct in franchise industry in the media spot light in 2020, as the industry is impacted by its recommendations. Key recommendations included the establishment of a franchising taskforce, to help shift the balance of power from franchisors towards franchisees, disclosure of additional financial information on franchisees' performance, greater transparency on supply arrangements and rebates for the franchisor, whistle-blowing protections, make it lawful for franchisees to collectively bargain with their franchisor, and much more.

Aged care. The Royal Commission into aged care, currently underway, will examine evidence of alleged substandard care, abuse and systematic failures, and outline recommendations for improvement. There are significant anecdotes of poor conduct practices that we believe will come out in the inquiry, with significant and profound consequences for how this sector operates, and how it will be regulated going forward.

Mining health and safety. In mining and resources, we expect the focus on health and safety that was triggered by the tailings dam disasters of Samarco (BHP in 2015) and Brumadinho (Vale in 2019) to remain at the forefront for governments, regulators, investors and industry bodies. This will impact not just the flow of capital, but also change the economics of many projects so that appropriate levels of occupational safety are priced into extraction and processing models.

In-depth: Environment advocacy and engagements in 2019

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“Failure to meet climate change mitigation and adaptation has been highlighted as the number-one environmental risk by the World Economic Forum. Ausbil believes climate change presents both investment risks and opportunities. Managing climate change is critical for many companies in terms of the sustainability of their earnings”

This year, we focused on achieving outcomes in the following areas

Climate change

Ausbil has been actively advocating and engaging on climate change on a number of fronts. Firstly, Ausbil continues to collaborate within the Climate Action 100+, engaging with companies on the key goals of the initiative. Secondly, Ausbil became the first Australian company to sign the International Declaration on Plastic Pollution, which will form the basis of active plastics and recycling engagements and advocacy moving forward. Thirdly, Ausbil has been advocating with industry, including a number of positive engagements with the Minerals Council of Australia. Fourthly, Ausbil has made significant progress on its proprietary climate change scenario analysis, which is an important element of Ausbil’s TCFD (Taskforce on Climate-related Financial Disclosure) reporting, and will assist in deeper engagements with companies on climate change. Finally, Ausbil has undertaken a number of climate-related engagements with leading Australian companies, including in the resources and energy sectors.

Ausbil presented at the CSR Asia Conference in Bangkok, Thailand, on a panel on ESG integration, together with MSCI and GMO. Ausbil made the point that while we encourage companies to improve their ESG disclosure, the data that is reported by companies is just one of many inputs in our ESG integration. Ausbil discussed that the TCFD reporting standard will likely be the new norm in terms of climate change reporting globally, and discussed our involvement in Climate Action 100+.

Climate Action 100+

Ausbil is a collaborating member of Climate Action 100+, an investor initiative formed in 2017 to ensure the world’s largest corporate greenhouse gas emitters take necessary action on climate change. The companies include 100 ‘systemically important emitters’, accounting for two-thirds of annual global industrial emissions, alongside another 60 with significant opportunity to drive the clean energy transition. This Climate Action 100+ initiative made significant headlines in 2018 and 2019. For instance, in December 2018, Royal Dutch Shell Plc and Climate Action 100+ developed a joint statement outlining how they intend to lead the industry on this issue, and how it aligns with the Paris Agreement on climate change. This includes an ambition to reduce their net carbon footprint by ~50% by 2050, and by ~20% in the interim. Ausbil is a support investor in six company engagements. For more on Climate Action 100+ see <http://www.climateaction100.org/>

In-depth: Environment advocacy and engagements in 2019

Resources: the Minerals Council of Australia

During the year, Ausbil had three engagements with the Minerals Council of Australia (MCA), including discussing the benefits of TCFD (Taskforce on Climate-related Financial Disclosures) reporting.

Ausbil was invited to speak on an ESG panel at the Minerals Council of Australia's Minerals Week 2019 conference in Canberra, to speak on the changing investor demands for sustainability reporting and performance. Ausbil's presentation included an introduction to Climate Action 100+, the importance of TCFD and how Ausbil integrates ESG in the investment process. The other panellists were from RIO, NHC, YAL and the Canadian Minerals Association.

Ausbil also met with the MCA and the Canadian Mining Association to give stakeholder feedback on the MCA's 'Enduring Value' framework for sustainable development. Ausbil outlined the changing investor requirements on climate change and encouraged the MCA to make TCFD reporting mandatory for its members. We also discussed the potential benefits of adopting a system to benchmark sustainability performance and drive healthy competition within the MCA through a 'race to the top' on climate reporting.



Industry advocacy, TCFD and climate change: Måns Carlsson-Sweeny, Head of ESG Research, on a panel at the Minerals Council of Australia's annual conference 'Minerals Week' in Canberra, February 2019.

In-depth: Environment advocacy and engagements in 2019

Advocacy on steel and energy

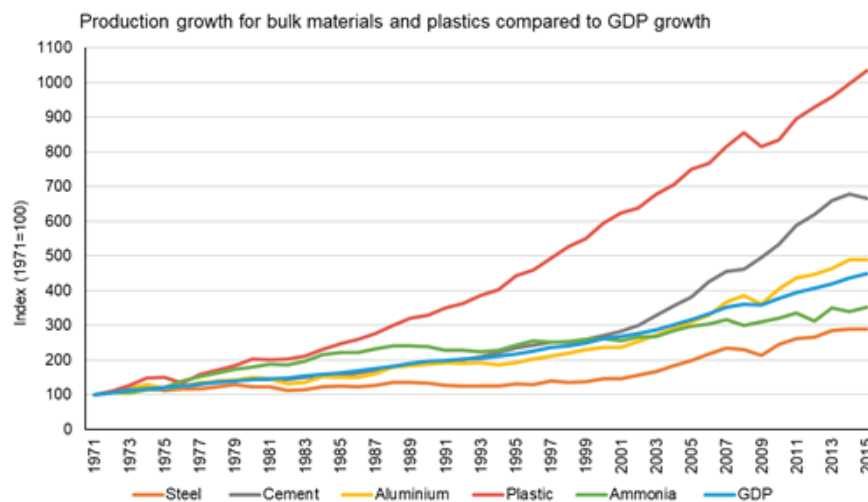
Ausbil presented at the **Responsible Steel Forum in Wollongong**. The Responsible Steel Forum is a global multi-stakeholder standard and certification initiative for the steel industry. Steel is needed in a prosperous and decarbonised world, but investors will want to see a glide path that supports the Paris Agreement, and TCFD reporting. The challenge, globally, is to balance population growth with increased demands for affordable energy at a time when we need to cut CO2 emissions. Ausbil also took the opportunity for a site tour of BSL's Port Kembla steelworks.

Ausbil also participated in a roundtable discussion with commissioners from the Australian Electricity Market Commission (AEMC) which focused on investor views on climate change, how to invest in the transition to a decarbonised world and required policy changes to help promote this transition.

Plastics and recycling

In 2019, Ausbil became the first Australian company to sign the landmark **International Declaration on Plastic Pollution (IDPP)**, a declaration citing plastic pollution as a clear corporate brand risk and pledging to interact with leading companies to find solutions through new corporate commitments, programs, and policies. This is a global initiative of **As You Sow**, a non-profit organisation that promotes environmental and social corporate responsibility through shareholder advocacy, coalition building and innovative legal strategies. In becoming a signatory to the Investor Declaration on Plastic Pollution, Ausbil joined 40+ market participants from North America, Europe, and Canada as the **PSIA's (Plastics Solution Investor Alliance)** first Australian representative. Ausbil will be advocating and engaging further on plastics and recycling in 2020. For more information about work on plastic pollution, visit www.asyousow.org

We are being swamped in plastics



Source: IEA (iea.org)

Plastic production has grown dramatically when compared to other commodities and chemicals, and even growth in world GDP, as illustrated in Figure 1. As a signatory to the IDPP, and through our membership of the PSIA, Ausbil will utilise the global reach of this platform, whilst opening up communication around current best practice with other global investors, and the companies we research, rate and monitor as part of our ESG engagement. Read our paper on plastics at <https://www.ausbil.com.au/research-insights/esg>

In-depth: Environment advocacy and engagements in 2019

Company Engagements on Environment

In the area of **Environment**, our engagements predominantly focused on:

- TCFD (Taskforce for Climate-related Financial Disclosure),
- links between climate change and executive remuneration,
- emissions reduction targets,
- the role of gas as a transitional fuel in a decarbonised world,
- carbon sequestration,
- physical climate change risk analysis,
- climate change modelling,
- uptake of renewable energy
- tailings risk management,
- alignment with industry associations on climate change and the Paris Agreement,
- water risk management,
- the role of financial institutions in the decarbonisation / opportunities in renewable energy investment,
- NABERS rating trends,
- waste management,
- plastics and recycling,
- circular fashion,
- environmental compliance,
- management of community concerns about environmental risk management,
- energy usage in data centres, and
- changes to environmental regulation in China, amongst others.

Companies we engaged with on these **Environment** matters included: **ASX, AWC, BHP, BSL, CCL, CWY, EVS, IAG, MGR, MQG, NCM, NCM, NST, OGC, ORG, OZL, QBE, RIO, S32, SFR, SM1, STO, WHC** and **WOW**.

For some colour on our engagements in this area, here are some that we undertook with a selection of Australia's and the world's largest companies.

- On **TCFD reporting**, and climate change scenarios, we explored scenario analysis and **emissions reduction targets**, and **climate change strategies** with WHC and RIO. The discussion with RIO included feedback on their climate change report as well as a discussion on a 'just transition'. We also discussed rehabilitation, technology changes that can change the CO2 emissions intensity of steel production in the long term, such as carbon capture storage and hydrogen. We also engaged with ORG on interim **CO2 emissions** targets as part of their transition to TCFD reporting. We also discussed STO's approval process for Narrabri, opportunities for carbon credits/carbon capture storage in the Cooper Basin, TCFD scenario analysis and the long-term global forecasts for demand for gas in a decarbonised world. On **tailings dam safety, mine safety** and **scope 3 emissions**, targets, Ausbil engaged with BHP on their ambition to set targets for scope 3 emissions, and on the re-start of Samarco. We also discussed with BHP how they have progressed with **environmental remediation** following the tailings dam failure in 2015, and in light of Vale's more recent devastating tailings dam failure in Brumadinho. Ausbil has extended our engagement with mining companies on tailings dam safety, broadening our discussions with other major mining companies, including AWC, NST, NCM and S32. Our engagement with NCM on tailing risk management extended to the practice of **deep sea tailings** at their gold mine, Lihir, and water risks at the Cadia gold mine. Engagements were also undertaken with SFR and EVN on **environmental strategies, licencing, environmental mine management**, and **high-resolution weather forecasting**.

In-depth: Environment advocacy and engagements in 2019

- On **energy efficiency**, we have been engaging with BSL on opportunities to increase energy efficiency, and on the links between **climate change** and **executive remuneration**. Similar discussions were undertaken with OZL, focusing on their hybrid diesel-solar-wind solution, and **CO2 emissions reduction** plans. We also discussed energy usage at data centres in our engagements with the Australian Stock Exchange.
- On **climate change risk modelling**, we held engagements on climate change risk modelling and scenario analysis with IAG and QBE, two of Australia's largest insurers. As mentioned earlier in this report, in 2019 Ausbil started to develop a proprietary scenario-based TCFD climate change risk model that is helping inform and sharpen our engagements in this area, and is a unique tool that will help us to assess the climate change risk for companies across all sectors in the Australian market.
- On **coal**, Ausbil held discussions with S32 on the divestment strategy for energy coal in South Africa. The future of coal and the **transition to alternative energies**, and how this will play out for coal producers was discussed with both S32 and WHC.
- On **renewable energy**, engagement with MQG, now a major player in renewable energy with their ownership of Green Investment Group, focused on the myriad of investment opportunities in renewable energy and the **sustainability** factors driving those opportunities.
- On **plastics**, as part of our increasing focus on **waste and plastics recycling**, Ausbil undertook engagements with CCL on their usage and management of plastics, and on their business-specific focus on **dietary sugar reduction**. Engagements on waste and plastics recycling were also undertaken with CWY on their future waste and recycling capabilities, and with WOW on their efforts in expanding recycling.
- On **environmental biodiversity**, we held discussions with AWC on plans to expand their biodiversity focus and protection, and with LYC on **radioactivity risk management** across their rare earths mining and processing activities.
- On **environmental licensing**, we held discussions with S32 on licensing and community engagement at Cerro Metoso.

In-depth: Social advocacy and engagements in 2019

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“Business models that rely on underpaid workers, modern slavery or weak regulation will likely lead to unsustainable earnings, and can be terminal for companies that fail to act. Brand damage can be costly and time-consuming to restore. By contrast, good labour practices can lead to economic benefit”

This year, we focused on achieving outcomes in the following areas

Advocacy on modern slavery and human rights

Modern slavery and human rights has been a continuing focus for Ausbil over the past few years, in which time we have seen Australia enact a Modern Slavery Act in 2018. This work on measuring and combating the extent of modern slavery in the supply chains of companies has only just begun. Ausbil has been advocating for progress and guidance in this area.

During 2019, Ausbil continued to consult with the Federal Government on the Modern Slavery Act. Ausbil was appointed as an investor representative on a panel of experts assisting the Federal Government to write the guidance paper for the Modern Slavery Act. Ausbil was nominated by RIAA's Human Rights Working Group to help consult with the Government on ensuring investor reporting requirements were clear in the new legislation.

Following the publication of the draft guidance in March 2019, Ausbil engaged with the Australian Border Force (formerly this sat with the Department of Home Affairs) to provide additional guidance for investors, clarifying their reporting obligations. The guidance was published on 26 September and can be found at <https://www.homeaffairs.gov.au>

Ausbil was a co-author (one of two primary authors) for the Modern Slavery Act investor guide, which is a document that aims to assist investors with the Australian Modern Slavery Act (to be used in conjunction with official government guidance). The purpose of the investor guide is to provide support for investors specifically on how to report on the Modern Slavery Act. In our view, there are no good precedents on investor reporting under the UK Modern Slavery Act, which is why we believe investors need additional guidance. Rather than focusing on legal compliance, the investor guide sets out best practice standards in an area that is uncharted territory. The document has also been shared with the Investor Alliance for Human Rights, which is a global network of investors of which Ausbil is a member. The publication can be found at <https://www.ausbil.com.au/research-insights/esg>

Human rights in supply chains

Human rights in supply chains has remained a major focus for Ausbil, especially as most major companies in Australia source goods, labour, inputs and commodities through complex and sometimes opaque supply chains. Part of our advocacy in this area has been in ratifying important investor statements on human rights and forced labour. Such advocacy helps establish the principles and foundations on which subsequent advocacy and company engagement activity can build.

As a point of principle, in 2018 Ausbil signed a global investor statement (as part of our participation in ICCR's Investor Statement on Bangladesh), together with other investors, urging the Bangladesh Government not to abandon the Accord on Fire and Building Safety. Ausbil's engagement strategy is focused on promoting and encouraging industry best practice through information gleaned from field trips and international leaders on ethical sourcing. Ausbil has developed expertise and a knowledge bank of practical ideas that can help reduce human rights risk in the supply chain. Real progress can be achieved in encouraging Australian companies to adapt to such practices and measures. Positively, a number of companies responded by adopting our ideas with subsequent improvement in their supply chain risks.

In-depth: Social advocacy and engagements in 2019

In 2019, Ausbil co-signed an investor statement on forced labour risks in global supply chains. The investor statement, which has been developed by the Business and Human Rights Resource Centre / KnowTheChain in consultation with investors, including PRI, is currently supported by over 120 global investors, including some from Australia, covering over US\$4.8 trillion in assets under management. The statement defines investor commitments, and allows investors to publicly demonstrate support of the United Nations' Sustainable Development Goal 8.7 which aims to eradicate forced labour.

Local and global collaborations on human rights

On human rights we have collaborated with the following organisations.

RIAA Human Rights Working Group: Ausbil is an active member of the Responsible Investment Association Australasia (RIAA), which champions responsible investing and a sustainable financial system in Australia and New Zealand. RIAA is dedicated to ensuring capital is aligned with achieving a healthy society, environment and economy, and has over 240 members managing more than \$9 trillion in assets globally. <https://responsibleinvestment.org/hrwg/>. In 2019, Ausbil co-wrote an investor guide on the Modern Slavery Act, which provides guidance on investor reporting against the Australian Modern Slavery Act.

Investor Alliance for Human Rights: Ausbil continues to actively collaborate with the Alliance. The Investor Alliance for Human Rights is a collective action platform for responsible investment that is grounded in respect for people's fundamental rights. For more, visit <https://investorsforhumanrights.org/>

Primary field research

Thailand. Where appropriate, Ausbil undertakes primary research field trips to obtain first-hand experience on the issues with which we engage. This year, Ausbil undertook field trips to Thailand and Cambodia. In 2019, Ausbil visited BSL's facilities in Map Ta Phut in eastern Thailand. This included a tour of the new MLC-3 facility built for the production of a metal coating line with an in-line painting technology that became operational in 2019. Ausbil also discussed progress on the Modern Slavery Act with BSL, and the drivers behind the strong safety performance in Thailand versus other plants. We also discussed the benefits of promoting gender diversity, and environmental risk management systems.



Thai fishing boats, increasingly employing migrant workers from Myanmar and Cambodia in squalid, modern slavery conditions that impact global seafood supply chains, even in Australia.

Top 20 fishing countries by risk for the existence of modern slavery

High Risk	Medium Risk	Low Risk
<ul style="list-style-type: none"> China Japan Russia Spain South Korea Taiwan Thailand 	<ul style="list-style-type: none"> Chile India Indonesia Malaysia Mexico Morocco Peru Philippines Vietnam 	<ul style="list-style-type: none"> Denmark Iceland Norway United States

Source: Tickler, D., Meeuwig, J. J., Bryant, K., David, F., Forest, J. A. H., Gordon, E., Joudo Larsen, L., Oh, B., Pauly, D., Sumaila, U.R., & Zeller, D. (2018). Modern slavery and the race to fish. Nature Communications, 9. Global Slavery Index.

In Thailand, Ausbil also visited a seafood processing company which is a JV that supplies seafood to Australian supermarkets, amongst others. This included a tour of the seafood processing facilities and an in-depth conversation about the Thai fishing industry, following allegations of extreme labour rights abuses of migrant workers, and how the government of Thailand has responded with reforms and increased surveillance. We discussed how the company manages its own workforce, how they monitor suppliers, and the work involved in getting MSC certification.

Our conclusions on the Thai fishing industry can be found in our paper on human rights in supply chains at <https://www.ausbil.com.au/research-insights/esg>

In-depth: Social advocacy and engagements in 2019



Cambodian garment workers: The ILO (International Labour Organization) has just voted to define sexual harassment abuses as human rights abuse.



Gender diversity and human rights: Måns Carlsson-Sweeny, Head of ESG Research, speaks at the Business of Women at Work conference in Cambodia, October 2019.

Cambodia. In October 2019, Ausbil undertook another field trip to Cambodia to continue research on the impact of sexual harassment, this issue having been rightly elevated in importance by the recently ratified ILO C190 Convention on Violence and Harassment. This is a major breakthrough as it acknowledges and defines sexual harassment as a human rights issue. The Australian NGO, CARE, estimates that sexual harassment costs Cambodia's main export industry, the garment industry, approximately US\$90m annually in lost productivity, driven by staff turnover, sick leave, absenteeism and lower morale.

To this end, Ausbil presented at the Women in Business Conference in Phnom Penh, Cambodia. This was a regional conference organised by CARE, Australian Aid and Better Factories Cambodia, focused on the issue of sexual harassment (please see our note on this topic from last year at <https://www.ausbil.com.au/research-insights/esg>). The audience consisted of global brand companies, civil society groups and politicians. We continue to engage on this issue.

Social: Some detail on our advocacy activities this year

This year, Ausbil undertook an intense program of social advocacy, woven through our annual company engagement meetings. As an institutional investment manager, Ausbil works with investors responsible for significant volumes of capital, including Australian superannuation funds, global pension funds and some of the world's largest pools of investment capital.

Advocacy on modern slavery, labour and human rights in supply chains

This year, Ausbil took many opportunities to advocate for the importance of adopting Modern Slavery Act guidelines in highlighting the risks of modern slavery from an investment perspective. To this end, Ausbil participated in a panel at the **Conference of Major Superannuation Funds** in Australia, focused on the MSA and investor implications. Ausbil emphasised that the MSA and consequent disclosure requirements are natural steps for investors seeking to integrate ESG, and represent best practices in mitigating such risks.

Ausbil presented on a panel at the **Knowing Your Supply Chain Summit**, organised by the **Department of Home Affairs**, on best practice reporting under the Modern Slavery Act. The audience included some 400 corporate leaders and government officials from Australia and overseas. At this forum, Ausbil was able to promote the idea that best practice reporting for investors is both internal and external, as modern slavery is a tangible and measurable investment risk to earnings and business model sustainability. Ausbil has been leading the market in assisting companies in solving how they can capture and report data on the risk of modern slavery in supply chains, and the risk mitigating opportunities in mapping out their supply chains to identify a wider set of ESG risks.

In-depth: Social advocacy and engagements in 2019

Ausbil presented on a panel at the **St Bakhita's Day Ethical Sourcing Seminar** and Expo organised by the **Sydney Catholic Anti-Slavery Taskforce**. The event included, for example, the Deputy Leader of the Opposition, Tanya Pilbersek MP and Alex Hawke MP, the Catholic Archbishop of Sydney, and many more thought and community leaders, industry and policy leaders. The panel on which Ausbil presented was focused on the role investors can play in terms of driving positive change on modern slavery, and the need for practical solutions through engagement with investee companies.

We authored an educational blog post on the Modern Slavery Act from an investor perspective for the **Business & Human Rights Resource Centre (BHRRC)**. This is part of the BHRRC's blog series, 'The Australian Modern Slavery Act and Beyond', which offers different perspectives from experts on the Modern Slavery Act, reflecting on its provisions, goals and roles. The series aims to provide insights into the Australian approach, and assist in informing similar developments underway in other parts of the world.

Ausbil presented at a seminar on the Modern Slavery Act organised by **CARE Australia**, on why modern slavery and human rights are more than just ethical issues for investors, how the MSA represents natural progress and will raise awareness, how engagement is key for investors, and what we would like to see companies do to mitigate the risk in their supply chains. The audience consisted of corporations, lawyers and investors.

We hosted an event with **Elevate**, an expert consultant on labour rights in supply chains, together with a small group of other investors, focused on the latest trends in responsible sourcing, and scoping investor needs for MSA reporting.

Ausbil presented on a panel, together with the **Department of Home Affairs** and the founder of Outland Denim, at the **Legacy Sustainable Fashion Summit** in Sydney, for an audience of 200 representatives from the fashion industry. Ausbil spoke about best practice in labour rights, the limitations of audits, the importance of supply chain consolidation, and how brand companies need to set prices that give suppliers a reasonable chance at providing a living wage to their workers.

Ausbil presented the investor perspective on supply chain risk management at the **TRANSFORM Green Building Council** event in Sydney, to an audience of property and building materials companies, on the importance of labour rights, and practical steps companies could take to reduce risks in their supply chain.

Ausbil attended a **UN Global Compact** event focused on forced labour, and best practice for detecting and preventing forced labour in supply chains. Ausbil also attended a webinar on living wages by **Oxfam**, and met with the **Mekong Club** (advocates of human rights) to discuss ideas and practical engagement points with businesses in order to mitigate the risk of modern slavery and human rights in the supply chain.

Ausbil participated in a roundtable discussion on modern slavery hosted by **Conexus Financial**. Other participants were Australian asset owners and commissioners from the **Finance Sector Commission on Slavery** (including representatives from the ITUC, UN University and the University of Washington), and chaired by the CEO of the **PRI**. The group discussed ideas on how the finance sector can move forward and be a positive catalyst for change on modern slavery, globally.

Ausbil participated at a panel discussion on modern slavery, together with the **PRI**, **WBC** and the **University of Washington, School of Law**. The panel at the Modern slavery event, hosted by **KPMG** and the **Australian Human Rights Commission** shed light on the relevance for investors, and what constitutes effective engagement.

Ausbil hosted a modern slavery multi-stakeholder discussion at our offices to discuss how to progress action on modern slavery beyond just legal compliance. The group was gathered on the initiative of the **Minderoo Foundation**. Other participants included various corporates, the Business Council on Human Rights, Sydney Catholic Anti-Slavery Taskforce and Monash University.

Ausbil also presented on the Modern Slavery Act to the ESG Working Group of the **Financial Services Council (FSC)**, including details on the guidance, and how the Act applies to FSC's circa 100 members.

In-depth: Social advocacy and engagements in 2019

Ausbil presented on a panel together with **ACSI** at **Frontier's Client Conference on the Modern Slavery Act** and implications for investors, including tools available, interpretation of the Act, and best practice on engagement with companies.

Ausbil presented together with **RIAA** on a panel on ESG integration at the **Refinitiv Australian Regulatory Summit**, focused on our views on climate change, ESG engagement, modern slavery and a range of other ESG topics.

Ausbil participated on a panel at the event, **The Modern Slavery Act in Practice-strategies and processes for action (with GHD & ISCA)**, hosted by the Supply Chain Sustainability School, together with TCL and the Australian Property Council. The panel focused on the Australian Modern Slavery Act, outlining the relevance of modern slavery from an investor perspective, what we believe companies could do to mitigate the risk of finding slavery in their supply chains and how companies need to take a broader human rights perspective on their supply chains, not just focus on modern slavery in isolation. The audience included companies from a wide range of industries.

Ausbil facilitated a session on the Modern Slavery Act at the Catholic Conference (**Anti-Slavery Taskforce-Catholic Archdiocese of Sydney**) together with Dr James Cockayne (**Financial Sector Commission on Modern Slavery and Human Trafficking in New York**). The session focused on investor reporting requirement and best practice.

Ausbil presented on a panel at the **ASI (Australian Superannuation Investment) Conference** in Hobart, together with **Department of Home Affairs, ACSI** and Australian Super. The session covered what the Modern Slavery Act means for investors in terms of risk assessment, engagement and reporting.

Ausbil participated in a briefing to businesses in Tasmania by the **Department of Home Affairs** on the Modern Slavery Act, where Ausbil outlined investor expectations. The event was attended by various businesses, not-for-profits and government organisations from Tasmania.

Ausbil moderated a panel at the **Financial Services Council Summit** in Sydney. The panel was on the Modern Slavery Act with representatives from Christian Super, the **Department of Home Affairs** and WBC.

Ausbil Investment Management's Head of ESG Research, Måns Carlsson-Sweeny, was recognised in 2019 with an Anti-Slavery Australia Freedom Award Certificate of High Commendation for his work in combatting slavery in investment supply chains. Carlsson-Sweeny was recognised for his contribution in identifying the risk of modern slavery in investment, and promoting better awareness around slavery in the investor community.



Måns Carlsson-Sweeny, Head of ESG Research, is recognised for his work with Ausbil in combatting modern slavery, with Dr David Cooke, Managing Director and Chairman of Konica Minolta.

In-depth: Social advocacy and engagements in 2019

Company Engagements on Social

Social issues dominated the engagement agenda again in 2019, and these related to a wide range of topics, including:

- ethical sourcing,
- labour rights,
- modern slavery risk management in global supply chains,
- culture and staff engagement,
- occupational health & safety (OH&S),
- gender diversity,
- underpaid workers,
- problem gambling,
- customer satisfaction,
- bribery and corruption,
- human capital development,
- sourcing from disputed land areas, and
- sexual harassment.

Companies engaged on Social matters included: **A2M, ALL, AMP, APX, AZJ, BHP, BSL, BXB, CGF, COH, COL, CWY, DHG, DMP, DOW, EVN, FLT, FMG, GXY, IPL, IVC, JBH, LLC, LYC, MPL, MYX, NEC, NST, NUF, ORI, QBE, RIO, S32, SGM, SGP, SOL, SSM, SUN, SVW, TAH, TCL, TLS, TPM, TWE, WOR, WOW** and **WPL**.

To further illustrate the nature of our engagements in this area, here are some that we undertook on Social this year with some of Australia's and the world's largest companies.

- On the risk of **modern slavery**, 2019 focused on preparations for the Modern Slavery Act (MSA). Ausbil encouraged companies to adopt industry **best practice** to pre-empt issues with modern slavery as well as other **labour rights** issues in **supply chains**. Ausbil is promoting a number of ideas based on industry best practice, gained from extensive engagement on this topic for many years. In 2019, Ausbil shared this information on best practice in MSA reporting through dedicated meetings with companies including TAH, BSL, COH, WOW and TCL. Ausbil also engaged with CGF, QBE and JBH on the MSA, and provided detailed stakeholder feedback on RIO's MSA statement in relation to the UK MSA, and upcoming reporting for the Australian MSA. In addition, Ausbil had dedicated meetings with BHP regarding management of labour rights issues in the shipping industry, and with SSM in regards to engagement with subcontractors.
- On **diversity**, including **gender diversity**, Ausbil held discussions on the benefits of increased focus on gender diversity with companies including NST, COH, BSL, SGP and CWY.
- On **corporate culture**, and its impact on companies, Ausbil held a large number of meetings where cultural factors, such as **staff engagement, cultural transformation, human capital development**, and **cultural indicators**, were discussed with companies including QBE, EVN, AMP, WOW, TLS, DHG, TPM, TWE, NEC, LLC, IAG, TAH, IVC, APX, SEK, A2M, SUN and ALL. Cultural factors are also closely tied to **safety performance. Safety risk management**, performance, safety bonuses and safety culture were central discussion topics in a number of engagement meetings, including with SGM, FMG, CWY, DMP, NST, MPL, SSM, WPL, LLC, ORI, BSL, AZJ, BXB, DOW, MLX and SOL.

In-depth: Social advocacy and engagements in 2019

- On **industrial relations** and **enterprise bargaining**, which continued to be a frequent engagement topic and in 2019, Ausbil engaged with SWW, WOW and AWC.
- On clientele, discussions about **customer satisfaction** were held with MPL and AMP. One specific engagement was undertaken with NUF on **health concerns around glyphosate** in response to the lawsuit against Monsanto.
- On **underpayment of workers**, as also noted under Governance later in this report, Ausbil engaged with WOW in response to the announced underpayment of workers in 2019, with focus on how the issues were detected, and how WOW is remediating the issue. Ausbil has also followed up on previous conversations about anecdotal legacy issues of underpaid workers in a subsidiary acquired by DOW, and obtained significant insights into how the company is monitoring and managing that risk. Ausbil also continued its engagement on this topic from prior years with DMP to ensure progress is being made on remediation and transparency.
- On various company controversies, Ausbil also engaged with companies on a number of specific issues, often in relation to allegations that appeared in media or anecdotally. One example from 2019 included the alleged **sale of unaffordable contracts** to vulnerable Australians by TLS as raised by the ABC. In another case, we engaged with TCL in regards to their **hardship policy** and the **collection of administration fees**. Ausbil also continued its engagement with IPL in regards to the sources of **procurement of rock phosphate**. Finally, Ausbil engaged with WOW following media allegations that its ALH joint venture enticed gamblers with free drinks. Following the announcement of the demerger of Endeavour Liquor Group, Ausbil engaged with the company on the drivers behind that decision.

In-depth: Governance advocacy and engagements in 2019

In-depth: Governance advocacy and engagements in 2019

“Corporate governance is a key component in Ausbil’s proprietary ESG research, which includes assessment of management quality, alignment between executive remuneration and shareholders’ best interests, board quality, board independence, solid risk management frameworks, and more”

Company Engagements on Governance

In the area of Governance, our engagements predominantly focused on:

- better alignment between executive remuneration and shareholder wealth creation. For instance, in 2018 Ausbil voted against the remuneration report of many companies and had in-depth discussions with such companies in 2019 on improvements we would like to see before we can support their remuneration reports,
- better understanding of regulatory outcomes and risk management by banks and other financial institutions in the wake of the Hayne Commission,
- better understanding of companies’ succession planning for boards and management teams, and better communication of this through their shareholder engagement, and
- improved sustainability reporting.

Many engagements focused on issues ranging from **executive remuneration** to **board composition** (particularly in relation to pre-AGM meetings). However, while many pre-AGM meetings are specifically organised to cover AGM matters, such meetings are also a good opportunity to engage on a wider range of other ESG topics, ranging from **modern slavery** to **climate change**, **corporate culture**, **conduct risk management**, **whistle blower protection**, **gender diversity**, **sustainability disclosure / reporting**, **JV-partner risk**, **cyber security**, and many more.

Naturally, the outcomes from the Hayne Commission on **conduct in financial services and banking**, and the subsequent and serious allegations by AUSTRAC on alleged shortcomings in **money laundering** risk management by Westpac, and potentially others, were also major engagement themes throughout 2019.

Companies engaged with on these **Governance** matters included: **AD8, ALL, ANZ, APT, AWC, AZJ, BHP, BSL, BXB, CSL, CTD, DMP, DOW, GXY, IAG, IGO, ILU, MQG, NAB, NST, ORG, QBE, RIO, SM1, TAH, TLS, TWE, WBC** and **WOW**.

For more depth on our engagements in this area, here are some that we undertook on **Governance** this year with some of Australia’s and the world’s largest companies.

On **governance** and executive remuneration, we engaged extensively on AGM resolutions, mainly focused on **board composition**, **executive remuneration**, and **long and short-term incentives** with companies including ALL, BHP, QBE, S32, BSL, AZJ, MQG, ILU, CSL, SGP, COL, WOW, JBH, AD8, GMG, SWM, NST, MSB, NAB, ANZ. In some cases, engagement on executive remuneration was done through an external consultant, such as in the case of our engagement with GXY on this issue. Three of the four major banks (with the exception of CBA, though they received a strike in 2018) received strikes from shareholders against their **remuneration reports** in 2018, which meant significant changes were made to executive remuneration structures and outcomes in 2019.

On **board composition** and **succession planning**, some engagements extended beyond remuneration and reports into **board composition**, **director succession**, **independence of directors**, **management succession planning**, and **shareholder resolutions**. In this area, we engaged with ORG, S32, BHP, COL, NAB, and ANZ.

In-depth: Governance advocacy and engagements in 2019

- On the **underpayment of workers**, Ausbil engaged with WOW about the underpayment of store managers, including a discussion on a suitable impact on bonuses and director fees as a result of underpayment, and WOW's **sustainability reporting**.
- On **sustainability reporting**, Ausbil was active in advising companies on appropriate and acceptable standards of reporting. We engaged with many companies on sustainability reporting, including with APT, WBC, DMP, NST and TAH. Ausbil presented at WBC's sustainability council. We also held dedicated sustainability reporting meetings with DMP (particularly around occupational health and safety reporting), APT, GXY, TWE, WOW and TAH. We were invited to provide feedback on sustainability reporting by IGO, AWC and JBH, and to provide stakeholder feedback on current sustainability reporting for ANZ, DOW, BXB, TLS and RIO.
- On **conduct in banking and financial services**, Ausbil engaged with companies on the findings and implications of the Hayne Commission, including progress on the **customer remediation program, conduct risk management**, impacts on **staff engagement** internally, new training programs and **whistle-blower protection**. Specific engagements focused on company-relevant issues, for instance with WBC, through meetings and at WBC's Sustainability Briefing, and with NAB in conjunction with the announcement of the final Hayne Commission report, and management and chairman changes. Ausbil also discussed the outcomes from the Hayne Commission with CBA, ANZ and IAG, including the impact of future remediation costs, interactions with regulators, and more.
- On **know your customer, responsible lending** and **money laundering**, Ausbil held follow-up meetings with WBC on the interpretation of responsible lending regulation and at the end of the year, though in-depth discussions with the company about the AUSTRAC allegations in relation to short-comings in **anti-money laundering risk management**. **Anti-money laundering** and **counter-terrorism financing** was also a topic discussed with buy-now-pay-later firm, APT.
- On **culture and governance**, a great deal of time was spent on culture (see Social engagements section above), with many conversations related to the findings by the Hayne Commission. Such examples were discussed in meetings on conduct and cultural risk factors in the financial industry with MQG as well as the four major banks, ANZ, CBA, NAB and WBC.
- On **joint-venture (JV) partner risk**, engaged with IGO about JV partner risk management and co-operation at the Tropicana mine. With ILU, we engaged on their co-investment with the International Finance Corporation in Sierra Leone, and what it means for the company's **social licence to operate** in Sierra Leone.
- On **cyber security**, Ausbil also engaged a number of companies on their approach to cyber security risk management, including TAH and TLS.

Backing our ESG philosophy: Proxy voting in 2019

Backing our ESG philosophy: Proxy voting in 2019

At Ausbil, we back our active approach to engaging on governance issues by actively voting at company meetings. This helps us maintain active alignment with our values, and signals to companies that we are prepared to back our ESG conviction and policy by exercising our votes.

We see voting as an important part of our fiduciary duty, and as one way we ensure that ESG concerns figure in corporate governance. If we believe that a resolution may have a damaging effect on the interests of shareholders, including on ESG issues, we will vote against the item put forward by the board.

In voting decisions, where relevant, we examine and consider the recommendations of independent third-party proxy advisors but, nevertheless, retain full independence when exercising our votes. Ausbil records all voting behaviour.

Ausbil actively determined on 844 resolutions presented by Australian companies in 2019 at 134 company annual and extraordinary meetings.

On key themes in voting during 2019, Ausbil registered votes on the following:

- against votes on LTI grants that were considered poor from an incentive perspective, and insufficiently demanding in terms of performance hurdles,
- against votes on director elections due to concerns about board composition and skills, and
- against votes on remuneration reports where incentive payments were not deemed to be aligned with financial and/or ESG outcomes.

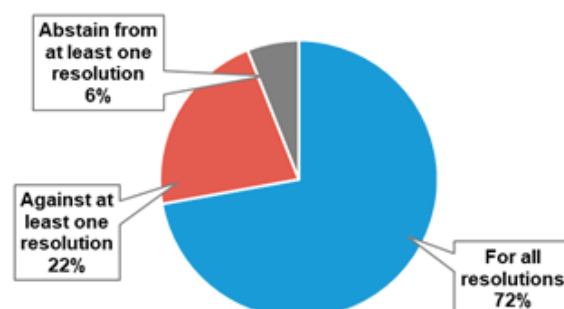
Key voting statistics

2019: Key active voting statistics	
Total board votes considered	134
Covering the following number of individual resolutions	844
Active votes against all board resolutions	25
Active votes against all proxy recommendations	25
Total shareholder resolutions considered	7

Source: Ausbil

These voting statistics illustrate the independence Ausbil maintains in voting on the ESG performance of companies, with Ausbil voting against 25 board resolutions, and also voting against the recommendations of proxy advisers on 25 occasions.

Ausbil's Active Proxy Voting Summary 2019



Source: Ausbil

Backing our ESG philosophy: Proxy voting in 2019

Of the 844 resolutions presented at 134 meetings in Australia, Ausbil voted 'Against' at least one of the resolutions at 22% 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.

Ausbil's full ESG and voting policy can be accessed here: www.ausbil.com.au/research-insights/esg

Mapping to the UN SDGs: Some perspective

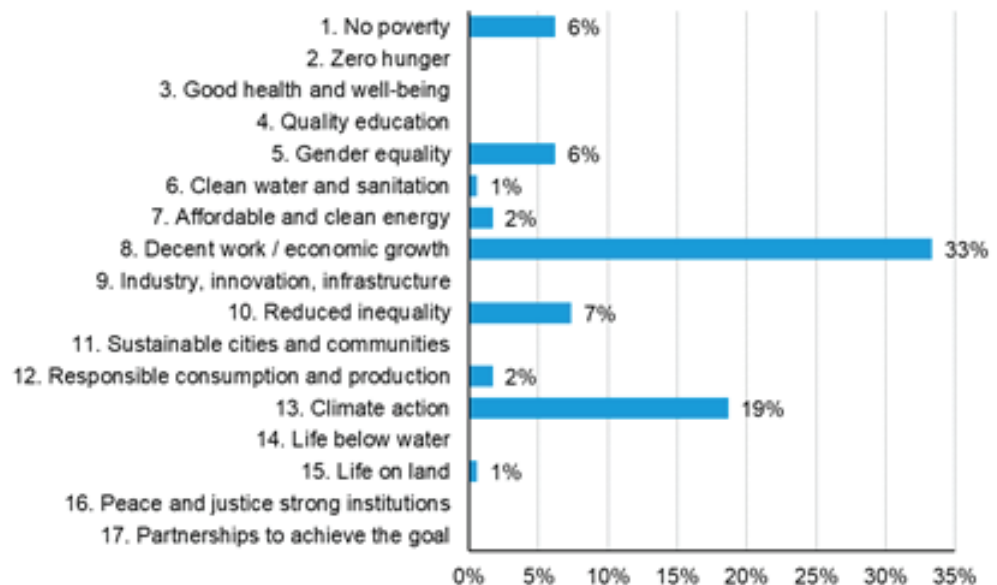
Mapping to the UN Sustainable Development Goals (SDGs): Some perspective

Ausbil engages on a wide range of ESG topics, some of which are company-specific and some that are on a thematic level. These engagements are carried out with individual companies, others with regulators, industry associations or at industry events. As discussed, while the engagements are not directly carried out with the UN SDGs in mind, or targeting the UN SDGs as such, many of those topics and themes that Ausbil engages on align with the UN SDGs, particularly with goals 5, 7, 8, 12 and 13, as illustrated below.

More specifically, Ausbil's engagements align with SDG goals 5.1 and 5.2, such as advocacy work done on sexual harassment and discrimination in the garment industry through company-specific engagements and presentations, and participation in CARE Australia's regional event, 'Women in Business' in Cambodia. This topic also links with the work Ausbil has done on modern slavery, where women are over-represented. To some extent, progress on this topic also contributes to SDG goal 10.2. In addition, Ausbil's engagement on gender diversity at the board level, and the use of pay gap analysis contributes to SDG goal 5.5.

Ausbil's 2019 engagements mapped to the UN SDGs

Alignment with UN SDGs: % of engagements



Source: Ausbil, UN Sustainable Development Goals

Ausbil's 2019 engagements mapped to the UN SDGs

As an active member of Climate Action 100+, Ausbil has engaged with relevant companies about increased use of renewable energy and energy efficiency, which ties in with SDG goals 7.2 and 7.3. In addition, engagements with companies and industry associations around increased reporting against the TCFD standards and disclosure on how a company's strategy is aligned with a decarbonised world through scenario analysis are also aligned with SDG goal 13.3.

Modern slavery and labour rights in supply chains have been a significant engagement theme for a number of years, and includes engagements with the Australian government, the financial industry as well as specific companies about the Modern Slavery Act, and mitigation of the risks of slavery and human rights abuses, particularly in global supply chains. Those activities align with SDG goals 8.7 and 8.8, but also SDG goal 16.2.

Another big engagement theme for Ausbil is plastics (recycling and reduction of waste), which links into SDG goals 12.5 and 12.6, and to some extent goal 14.1. In 2019, Ausbil became the first Australian signatory to the Plastics Solution Investor Alliance and has had some engagements about the increased recycling of plastics. Further engagement activities on plastics and waste recycling are planned for 2020.

Other common ground includes SDG goal 3.6, reducing the number of global deaths and injuries from road traffic accidents through engagement with companies where road fatalities are a common operational risk (including mining and delivery of fast food); and SDG goal 6.4 where Ausbil has engaged with a number of mining companies about water risk management near communities and areas of water scarcity. Similarly, Ausbil has had targeted engagements on community relationships, which contribute to progress on SDG goal 11.4. Some engagement activities in 2019 on biodiversity plans and bribery and corruption risk management tie in with SDG goals 15.5 and 16.5.

To read more about the UN SDGs, visit: <https://sustainabledevelopment.un.org/>

Glossary of stock tickers and company names

A2M	The a2 Milk Company	MPL	Medibank Private
AD8	Audinate	MQG	Macquarie Group
ALL	Aristocrat Leisure	MSB	Mesoblast
ALU	Altium	MYX	Mayne Pharma
AMP	AMP	NAB	National Australia Bank
ANZ	ANZ	NCM	Newcrest Mining
APT	Afterpay Touch	NEC	Nine Entertainment Co
APX	Appen	NHC	New Hope Coal
ASX	ASX	NST	Northern Star Resources
AWC	Alumina	NUF	Nufarm
AZJ	Aurizon Holdings	NXT	NEXTDC
BHP	BHP	OGC	OceanaGold
BSL	BlueScope Steel	ORG	Origin Energy
BXB	Brambles	ORI	Orica
CAR	Carsales.com	OZL	OZ Minerals
CBA	Commonwealth Bank of Australia	QBE	QBE Insurance Group
CCL	Coca-Cola Amatil	RIO	Rio Tinto
CCP	Credit Corp Group	S32	South32
CGF	Challenger Group	SEK	Seek
COH	Cochlear	SFR	Sandfire Resources
COL	Coles Group	SGM	Sims Metal Group
CSL	CSL Limited	SGP	Stockland
CTD	Corporate Travel Management	SM1	Synlait Milk
CWY	Cleanaway Waste Management	SOL	Washington H. Soul Pattinson and Co
DHG	Domain Holdings Australia	SSM	Service Stream
DMP	Domino's Pizza	STO	Santos
DOW	Downer EDI	SUN	Suncorp
EVN	Evolution Mining	SVW	Seven Group Holdings
EVS	Envirosuite	SWM	Seven West Media
FLT	Flight Centre Travel Group	TAH	Tabcorp Holdings
FMG	Fortescue Metals	TCL	Transurban Group
GMG	Goodman Group	TLS	Telstra
GXY	Galaxy Resources	TPG	TPG Telecom
IAG	Insurance Australia Group	TWE	Treasury Wine Estates
IGO	Independence Group	WBC	Westpac Banking Corporation
ILU	Iluka Resources	WES	Wesfarmers
IPL	Incitec Pivot	WHC	Whitehaven Coal
IVC	InvoCare	WOR	Worley
JBH	JB Hi-Fi	WOW	Woolworths Group
LLC	Lendlease Group	WPL	Woodside Petroleum
LYC	Lynas Corporation	YAL	Yancoal Australia
MGR	Mirvac Group		
MLX	Metals X		

Contact details

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

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About us

About Ausbil Investment Management

Ausbil is a leading Australian based investment manager. Established in April 1997, Ausbil's core business is the management of Australian and global equities for major superannuation funds, institutional investors, master trust and retail clients. Ausbil is owned by its employees and New York Life Investment Management a wholly-owned subsidiary of New York Life Insurance Company. As at 31 December 2019, Ausbil manage over \$11.9 billion in funds under management.

Ausbil is a signatory to the Principles for Responsible Investment (PRI) and has a dedicated environmental, social and governance (ESG) research team who provide an in-house service. ESG research is integrated into Ausbil's investment process. Ausbil believes that a consideration of ESG issues as developed by well-founded ESG research can identify mispriced stocks and assess a company's earnings sustainability. Similarly, engagement on ESG issues can drive long-term value and reduce the risk of value destruction.

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