

FEBRUARY 2021

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Engagement Report

TOWARDS A BRIGHTER, FAIRER WORLD.



A SUMMARY OF OUR PROGRESS ON THE ISSUES THAT MATTER TO INVESTORS
CLIMATE CHANGE, MODERN SLAVERY, THE SOCIAL IMPACT OF MINING,
EXECUTIVE PAY AND GOVERNANCE IN THE S&P/ASX300

PLATYPUS
ASSET MANAGEMENT





Furthering our Commitment to ESG.

An Open Letter from our CEO.

Platypus Asset Management is committed to environment, social and governance research and engagement for two reasons:

1. Integrating ESG in investment decisions can lead to better investment outcomes. This is because ESG issues can materially impact earnings and valuations in companies and across sectors.
2. As active owners and stewards of our clients' capital, we are committed to advocating for more sustainable practices from the companies we invest in. We strive to create positive change by encouraging companies to do better on environmental and social issues.

In 2020, our investment team asked Australian listed companies to do things differently on our investors' behalf.

When Rio Tinto destroyed rock caves at Juukan Gorge in the Pilbara, thought to be the oldest Aboriginal site in Australia, our portfolio managers wrote to the board and asked for change.

When drought and bushfires ravaged our country last Christmas and New Year, our investment team asked resource companies how they were working towards the Paris Agreement and who is overseeing this work at the board level.

When the Walk Free Foundation started assembling an investor coalition to tackle modern slavery across the S&P/ASX100, we signed up.

When CEO pay was put to shareholders for an annual vote, our investment team scrutinised hurdles and incentive structures to ensure the size and structure of pay packets were in line with shareholder expectations.



Our progress on ESG – committing to transparency

In 2020, we ramped up our commitments on ESG across the firm and across our funds.

We hired a head of ESG and Engagement, Kristen Le Mesurier, who has almost 10 years' industry experience in ESG investing in Australian equities.

We have reviewed and sharpened our proxy voting policy so that investors and companies are clear on the governance practices that we will and won't support.

We updated our ESG investment policy and included statements on climate change and modern slavery to ensure our position is clear on both issues. We have publicly pledged our support for the Paris Agreement.

We have publicly released our full voting record for 2020. It is available on our website.

On ESG integration, we have assessed the risk of modern slavery across the Platypus Australian Equities Fund, as well as carbon exposures, transition risks and stranded asset risk.

What's next – in 2021

This will be an exciting year for Platypus. In addition to the pointy engagement agenda we have in place on climate change, modern slavery, gender diversity and the social impact of mining for the Platypus Australian Equities Fund, we are launching a new fund called the Socially Aware Fund.

It will be one of the country's first quant funds with tried and tested ESG factors and an ambitious and public engagement agenda to drive change across its holdings. Our capability also involves flexible screening – clients will be able to choose the sectors or stocks they would like screened out on ethical or ESG grounds, with the investment implications clear at the outset.

We look forward to working with you in 2021.

A handwritten signature in black ink, appearing to read 'Gary Adamson', is positioned above the printed name and title.

Gary Adamson
CEO, Platypus Asset Management



Good Governance at Every Level.

We Insist on it.

In 2020, the global pandemic focused attention on the size of executive pay and cash bonuses. It was a year in which many workers would have struggled financially without government assistance. Companies that received government assistance like JobKeeper yet paid executives cash bonuses were heavily scrutinized by investors. Some companies in this boat received a strike even though bonuses related to the previous financial year.

Other companies sought shareholder approval to retrospectively amend the hurdles attached to previous short and long term incentives, arguing that Covid-19 was an unexpected and uncontrollable economic shock that made executive incentives almost unachievable. While the global pandemic could not have been foreseen, we do not agree that black swan events deliver boards the right to waive previously set hurdles and retrospectively lower the bar. Australian workers are typically not offered the same privilege.

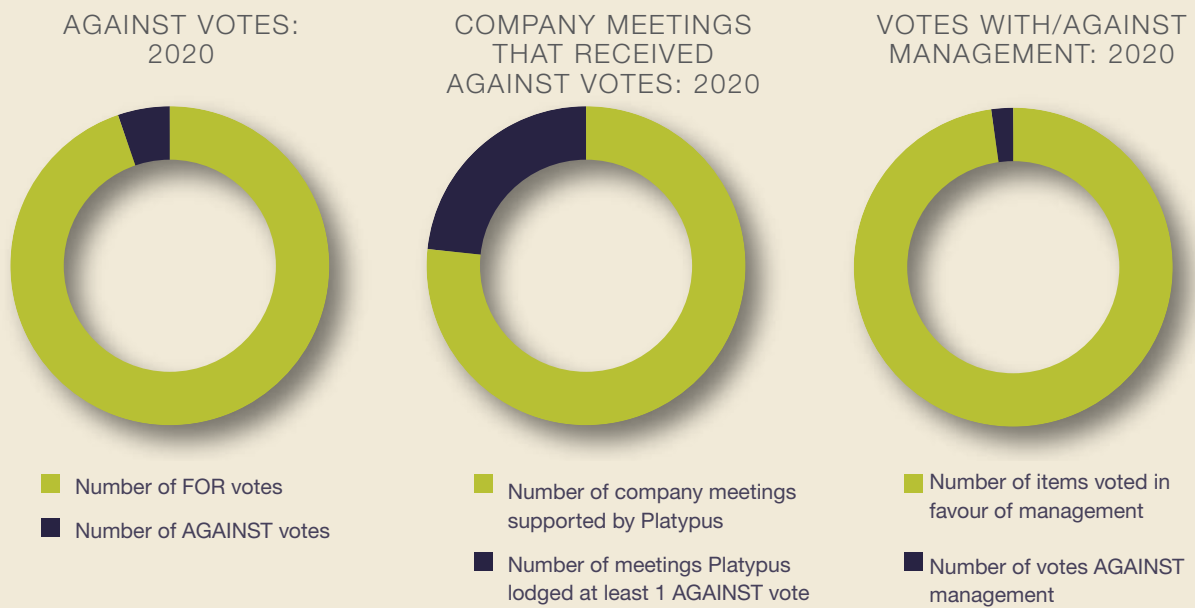
Another area that proved important to investors was director elections and accountability, with directors who have overseen poorly performing companies being voted against, as well as directors responsible for poor capital management.

Platypus voted on 33 company meetings this year, with three companies held by the Platypus Australian Equities Fund to have received a strike on their remuneration reports. These companies were Polynovo, Northern Star Resources and Qube Holdings. We voted in favour of remuneration at these companies but did so because we have a history of discussing remuneration productively with these boards and we are hopeful of improving remuneration practices. In the weeks that followed those AGMs, we met with the boards, shared our concerns, and set up follow up meetings to discuss the company's progress addressing the issues we have raised. We will report on our progress over the year.

For the Platypus Australian Equities Fund, we voted against resolutions at the following company meetings: Rio Tinto Ltd (shareholder resolutions), Macquarie Group (shareholder resolutions), Strike Energy (remuneration), Super Retail (remuneration), REA Group (remuneration), NextDC (placement), Cochlear (shareholder board resolution) and BHP Group (shareholder resolutions). In each of these instances, we lodged against votes because of our view that those resolutions were not in the interests of shareholders, in line with our proxy voting policy.

A summary of Platypus's voting record is shown below.

Platypus Australian Equity Fund Voting Record 1 Jan 2020 to 31 Dec 2020



A full record of our voting activity for the year is publicly available on our website, together with all of the resolutions that Platypus voted against.

Our discussions with companies focus on much more than executive pay and other governance issues. In 2020, we had 43 one-on-one meetings with company boards and executives on ESG issues including succession planning, corporate actions, safety and the environment. Many of these meetings directly addressed climate change, modern slavery, gender diversity and the social impact of mining, as discussed in more detail below.



The Social Impact of Mining.

How We're Helping Protect Over 60,000 Years of Culture.

Mining can involve some very challenging trade-offs between production and the environment. To some extent, this is par for the course – mining is literally about disturbing the land for resources.

Rio Tinto's blasting of the culturally significant Juukan Gorge caves in the Pilbara in May 2020 exposed some much more intangible social impacts – the destruction of cultural heritage and a sense of cultural loss. With it, came a spotlight on the myriad of trade-offs, stakeholders, social governance considerations and potentially outdated laws and approval processes that exist today.

Rio's actions were legal and agreed upon within the boundaries of the Western Australian Aboriginal Heritage Act 1972. Rio had an agreement with the traditional owners of Juukan Gorge, the Puutu Kunti Kurrama and Pinikura People (PKKP) under a Participation Act agreed upon in 2011, and has been operating in the area for 50 years. In 2014, Rio commissioned an excavation of the site and removed 7,000 cultural heritage artefacts for preservation.

Rio had been meeting with the traditional owners at least every 6 months between 2013 and the blast in May 2020. In early 2020, PKKP elders flew over the area to observe the development alongside Rio.

Yet the controlled blast of the mine site grounds saw one of Australia's oldest known Indigenous heritage sites destroyed, causing significant distress for the traditional owners of the land, the PKKP.

We held shares in Rio for the Platypus Australian Equity Fund at the time of the blast. We sold our holding in September 2020.

As investors, we have long understood the investment risk that the social and environmental impact of mining poses to our portfolio. It is one of the risks that we carefully consider when making investment decisions, and boils down to a company's ability to ensure a stable operating environment in which both companies and communities can prosper. To this end, the Juukan Gorge incident was extremely disappointing. Rio's relationship with PKKP was clearly not stable and led to a terrible outcome for all.

As active owners, we also understand the role that investors like us can play in ensuring that a Juukan Gorge incident does not happen again.

Below is a summary of the work we did while we held Rio Tinto to understand the circumstances that led to the blast and hold the company to account for the destruction of such culturally significant land. Given the iron ore mining activities BHP also conducts in the Pilbara, we have engaged with BHP on its relationship with traditional owners and the legal and regulatory regimes on cultural heritage currently in place. We do not currently hold Fortescue Metals Group in the Platypus Australian Equity Fund.

We have also summarised the engagement work we are doing more broadly on the social impact of mining, in an attempt to address the power imbalance that appears able to exist between large listed miners, local communities and traditional owners of the land.

Engagement with Rio Tinto, BHP and meetings with experts

■ **RIO**, 3 June 2020 – small group meeting with chair Simon Thompson regarding the Juukan Caves blast. Discussed the circumstances that led to the blast, the relationship with the PKKP, the approvals, the archaeological and cultural significance of the site, the attempts to mine around significant sites, the leadership changes at Rio and PKKP levels, the commitment to review the incident.

■ **RIO**, 4 August 2020 – met with the CFO and discussed corporate culture and the circumstances that led to the Juukan Caves incident.

■ **RIO**, 6 August 2020 – met with investor relations and provided feedback on our assessment of corporate culture, board and executive oversight of the management of community relations at Rio.

■ **Traditional owners**, 14 August 2020 – met with a group of traditional owners with agreements with miners in the Pilbara including Rio on the shortcomings of legal and company specific approaches for dealing with heritage matters, what they would like to see change. Agreed that our discussions are confidential.

■ **RIO, letter from Platypus to director Michael L'Estrange**, 17 August 2020 – our CEO and head of qualitative investments sent director Michael L'Estrange (responsible for Rio's internal review of the Juukan Gorge incident) a formal request to consider the following as part of its internal review:

1. Review all current agreements with traditional owner groups for alignment with current social values and provide a mechanism for traditional owners to object to and prevent mining activity at culturally significant heritage sites.
2. Integrate the Cultural Heritage Business Group in the business so that it reports directly to the executive team of each business division and has oversight by the board.

■ **RIO**, 28 August 2020 - met with chair Simon Thompson and director Michael L'Estrange following receipt of our letter dated 17 August 2020. Discussed the need to encourage traditional owners to raise concerns at any point in the production process, before and after Participation Agreements are agreed and any section 18s are obtained. Discussed the need to manage heritage, culture and the social impact of mining in the same way as safety and the environment is managed, with responsibility to sit at all management levels and oversight at the board. Discussed our requests contained in the letter.

■ **University of Queensland Dr Deanne Kemp, Director of Centre for Social Responsibility in Mining**, 24

September - met with experts on social impact of mining to discuss issues faced by stakeholders including traditional owners and the potential for another Juukan Gorge incident in the current legal and regulatory regime. Discussed the need for independent research in the field of social science to measure the social impact of mining activities.

■ **Traditional owners**, 25 September 2020 - met with traditional owners to discuss whether their relationship with miners including Rio has improved since Rio's conclusion of its internal review into the incident. Agreed that our discussions are confidential.

■ **BHP**, 25 September 2020 - met with BHP on its position with respect to current and future section 18s, cultural heritage experts and reporting lines, reviewing and renegotiating traditional owner agreements.

■ **BHP**, 1 October 2020 – participated in a roundtable with BHP on ESG issues including its relationship with traditional owners and its Heritage Advisory Council

■ **BHP**, 4 November 2020 - further discussion with BHP on ESG issues including an update on its Heritage Advisory Council, current and future section 18s and its participation agreements.

In an attempt to ensure an incident like Juukan Gorge does not happen again, we would like Australian mining companies to commit to the following:

- To review all Participation Agreements and Section 18s in light of current archaeological and cultural knowledge of sites and social norms.
- To remove all 'gag clauses' from Participation Agreements, preventing those bound by the agreement from speaking freely and openly about concerns about mining activities on sites of cultural or archaeological significance. It is not enough for a company to state that gag clauses will not be enforced.
- To allow a right to appeal or object to pre-existing Participation Agreements.

- To ensure there are clear lines of responsibility and accountability for community relations internally.
- To fund authentic and preferably independent research on the impacts of mining operations on communities and cultural heritage. Social specialists and indigenous people must hold positions of authority and have influence internally to balance corporate self-interest.
- Those responsible for community relationships sit in the relevant mine team rather than in a centralised corporate affairs or human resources division.

The legal and regulatory environment

The Juukan Gorge incident exposed some inadequacies of the current legal and regulatory regime governing mining in the Pilbara, namely the Western Australian Aboriginal Heritage Act 1972. An interim report by the Joint Standing Committee on Northern Australia (a Commonwealth joint parliamentary inquiry), titled *Never Again*, released in December 2020, outlines early recommendations for reform. A more detailed review of the WA Act as well as the role Federal legislation should play will be contained in the final report which is expected some time in 2021.

WA's Act has been up for review, in some form, since 2012. Rewriting the act was listed as a priority for Labor before their election win in 2017 but the third and final consultation on the draft bill was pushed back due to COVID-19. Given the WA election is in March 2021, the reformed Act may not be passed for the next few months.

A significant area for review relates to section 18 approval. Once approval is granted it cannot be revoked, renegotiated or objected to, even in the light of new information. In the case of the Juukan Gorge, the excavations undertaken in 2014 revealed the site to be more than double the age of previous estimates, by which point the Section 18 had already been granted.

We support a thorough review of the Heritage Act and a careful balance between allowing for reasonable appeals and amendments vs the need for enough certainty for miners to invest.



Climate Change.

Actions Speak Louder than Words.

In 2020, the World Economic Forum named the failure to mitigate and adapt to climate change as the key concern for the Forum's network of business leaders, NGOs, academics and others. The group ranked it as the number one risk by impact and number two risk by likelihood over the next 10 years. These rankings have been the case for as long as we can remember.

As investors, we recognize the investment risk that climate change poses to our portfolios. We also recognize the role we can play in mitigating that risk by using our seat at the table with companies to drive change and hold companies to account.

Highlights of our work on climate change in 2020 follow:

1. We have publicly stated our support for the Paris Agreement, being to hold temperature increases to 2 degrees above pre-industrial levels and to try to limit increases to 1.5 degrees Celsius. Further details are contained in our ESG investment policy, available on our website.
2. We have assessed the current carbon footprint of the Platypus Australian Equities Fund relative to its benchmark.
3. We have assessed transition risks at a stock level for the Platypus Australian Equities Fund, as well as the risk of stranded assets using Sustainalytics climate data.
4. We have asked every company held by the Platypus Australian Equities Fund how the board is managing and disclosing the long-term risks associated with transitioning to a low carbon economy.



5. We have developed a targeted engagement plan for 2021 that supports the goals of Climate Action 100+. More specifically, we will be seeking the following from the higher risk companies in our portfolio in 2021:

- a.** Action on governance and clear accountability at the board level for climate change policy.
- b.** Quantitative emissions targets and emissions intensity targets relative to the Paris Agreement.
- c.** Science based emissions targets, being targets founded on the latest climate science.
- d.** Disclosure on climate scenario analysis.
- e.** Reporting under the Carbon Disclosure Project.
- f.** Disclosure on lobbying activities, which we expect to be consistent with the Paris Agreement.

6. We have joined Climate Action 100+, the global investor coalition on climate change, and asked to join the Qantas engagement. Aviation is a particularly challenging sector given its reliance on fossil fuels and the need for aviation in a globalized world. Alternative fuels is the key to decarbonisation, given that the most technologically advanced aircraft are still only 15% more efficient than the first generation. Policy support and an industry-wide effort is likely to be required. We look forward to working on sustainable aviation in 2021.



Human Rights and Supply Chain.

Tackling Worker Exploitation.

Right now, as many as 40 million people are thought to be subject to modern slavery, which includes forced labour, debt bondage, human trafficking and child labour. The illegality of these practices means that these people are often hidden from sight, and the victims' vulnerability means they rarely have a voice. According to the Global Slavery Index 2018, over 70% of those trapped in modern slavery are women and children.

Unfortunately, it appears that Covid-19 has magnified the problem. Some groups of workers have slipped from being underpaid and poorly treated to being bonded to their employers,

relinquishing passports or other identification in exchange for loans for food to attempt to feed their families.

Australia is not immune from modern slavery. In fact, it's likely to be present in the vast majority of supply chains, as little as one step removed. This is because Australian businesses often operate in and source from Asia, where 75% of victims are thought to be working. There are also recent examples of modern slavery in Australia itself – for example, fruit picking.

Australian companies that are prepared to investigate their supply chains deeply and thoroughly enough are likely to find instances of modern slavery. Thanks to Australia's new Modern Slavery Act 2018, all Australian-domiciled companies earning revenue of over \$100 million a year are required to start mapping the human risks in their supply chains and publicly report on their efforts.

In 2020, we deepened our independent assessments of the modern slavery risks that might lie in our Australian Equities portfolio.

We obtained data on a range of factors that indicate that an exposure might exist – across sectors, sub-sectors, and at the individual stock level. This enabled us to identify the companies where the most risks lie, and structure our engagement program for 2021 accordingly.

The data includes the following for each company in ASX200:

- Any past examples or instances of modern slavery
- Where the company's operations are and the extent to which that presents risk
- The types of contractual arrangements companies have with workers
- The level of wages and how lowly paid workers are (an indication of vulnerability)
- Where the supply chains exist geographically
- Which materials are used in the company's products/services
- The margins and how much cost pressure exists in the company's supply chains.

In addition to the identification of companies most at risk of modern slavery, we discussed companies' efforts to understand and map their chains. We also asked every single company that the Australian Equity Fund invests in pointed questions on the following:

1. Their policy or process around identifying modern slavery in their chains.
2. Their remediation process when they find instances of exploitation.
3. The countries in their chain that are most susceptible to modern slavery and what they are doing to mitigate this risk.
4. Which operations are most susceptible and what they are doing to mitigate this risk.
5. How they audit suppliers.

6. Who is responsible for overseeing all of the above.

Having now assessed the risk of modern slavery in the companies in which we invest and had numerous discussions on their approach to identify and mitigate the risks, we will be stepping up our engagement agenda in early 2021. We will publish a list of companies we will focus on in 2021, together with the specific areas we would like to see addressed. We commit to reporting back to our clients on progress.

In recognition that engagement may be even more effective when the world's largest investors join forces, we joined an Australian engagement group with other asset managers and asset owners. The Investor Action on Slavery and Trafficking, alongside the Walkfree Foundation and in line with CCLA's Find It, Fix It, Prevent It engagement program in Europe, is targeting real change on this issue across the ASX100. We have asked to be involved in the companies held by our Australian Equity portfolio.



Working with other investors.

Our commitment to collaborative engagement.

We are committed to driving change in the companies we invest in and we recognize that change is sometimes most likely to occur when the world's largest investors join forces. To that end, we joined several important collaborative engagement groups in 2020:

- Climate Action 100+
- Investor Action on Slavery and Trafficking, alongside the Walkfree Foundation, targeting the reduction of modern slavery in global supply chains among the ASX100
- Farm Animal Risk and Return Initiative (FAIRR), a global engagement initiative tackling ESG issues arising in intensive farming and agriculture.