

## WaveStone ESG Activity Report - 2018

### ESG activity – March quarter 2018

**Woodside Petroleum:** In the lead up to the WPL AGM, WaveStone engaged with Board member and Head of Remuneration Committee Melinda Cilento to discuss the changes proposed by the company. CEO Peter Coleman is paid significantly more than the next level of executives – which for us is a flag on succession planning. WPL has announced changes to their incentive program, merging STI and LTI into one Incentive program. We are engaging with WPL early to ensure that the hurdles set for key executives are in alignment with shareholders, especially given that the company will be investing significant capital over the next five years to expand their operations.

**Oil Search:** A magnitude 7.5 earthquake struck PNG on the 26th of February 2018. The Exxon-operated PNG LNG facility was quickly shut down. All of Oil Search's employees as well as in the Exxon-JV were safely evacuated. There was damage to camp facilities at the Hides Conditioning Plant as well as to the Komo airfield. OSH have always been at the forefront of community engagement in PNG. They donated US\$5M in cash and kind to the relief efforts in the Highlands. OSH facilities have been used as a coordination point for delivery of aid. Aid workers (UNWFP) have also used OSH helicopters and personnel to help with distribution of emergency supplies. OSH's commitments to the PNG community has been an integral part of its commercial success.

### ESG activity – June quarter 2018

**Gateway Lifestyle:** WaveStone first invested in Gateway Lifestyle at the time of its IPO in June 2015. We had previously engaged with the board to invoke a change of CFO in November 2016. Through 2018 we held multiple meetings with the Chairman. After an earnings downgrade in May 2018, which saw the stock fall to \$1.72 we reiterated our concerns over the ability of the management team to maximise the underlying value of the business. Post these meetings, we built more confidence that the Board would take the necessary actions to ensure the share price better reflected the underlying value of the business. In early June, WaveStone was approached by an advisor, seeking to secure an option over units in Gateway Lifestyle at a price of \$2.10. Under the agreement WaveStone and its investors would be protected and would fully participate in an increased takeover price. After due consideration it was determined that WaveStone would vend a portion of its holding into the option agreement, ensuring the party reached the threshold to launch an indicative offer. With the increased evidence of corporate interest in the sector and our concerns over Gateway's ability to execute, we determined this was the appropriate mechanism to accelerate the process to better reflect the underlying value of the business. Subsequently, Hometown lodged an indicative non-binding offer at \$2.10 which was rejected by the Board. Since this initial proposal, further corporate activity rapidly followed. On 21 June Brookfield lodged a non-binding proposal at an indicative price of \$2.30 (cum distribution). This was quickly followed by a follow up bid from Hometown at similar prices. At the time of writing this report in mid-July, a potential takeover remains a reasonable probability. Gateway Lifestyle is currently trading at ~\$2.30 and we consider our engagement with the board and our participation in the option agreement with Hometown to have assisted in bringing about a catalyst to ensure the share price better reflects the underlying value of the business.

## ESG activity – September quarter 2018

**Bingo Industries:** From the time of its listing in late 2016, Bingo Industries has received a high level of media scrutiny and scepticism from parts of the investment community. With this background we appreciated it was important to engage proactively with the Board and management on all matters ESG as well standard operational and financial metrics. We recently met with the Chairman Michael Coleman, and noted his longer-term association as an Independent long before the IPO, as well as his broader industry knowledge and commitment to recycling as evidenced through his role as Chairman of Planet Ark. In addition to this specific knowledge, his broader experience as a non-executive board member at both Macquarie Bank and the Reserve Bank (two extremely sophisticated and prestigious institutions), equips him well to ensure shareholder interests are embedded strategically and operationally. From a governance perspective, a majority non-executive board has been assembled to counter the perceived influence from the Tartak family with direct CFO reporting protocols to the Chairman. The recent appointment of Barry Buffier, former head of the NSW EPA as a non-executive Director, brings more domain expertise, extensive regulatory experience as well as strengthening the non-executive balance on the board. The importance of its social licence to operate is acknowledged, and the group's annual Sustainability Report details its achievements in landfill diversion, emissions abatement and improved employee safety. We assess that the Board and management have acted prudently by funding the recent Dial A Dump acquisition with equity and including a large component of vendor consideration in scrip. The company has much ahead of it operationally through integration of the acquisition and its wider geographic expansion. The deliberate strategy to expand and deepen the management team better equips the company to deliver on its ambitious growth plans. After our meeting we consider we have opened effective dialog with the Bingo Board. The Board appears well equipped with a strong commitment to recycling and has a deep reservoir of corporate experience. We will continue to update our investors on such matters on a go forward basis.

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