

Wavestone ESG Activity Report - 2019

ESG activity – March quarter 2019

Catherine attended a round table lunch on 21st March 2019 with Geoff Brunsdon from AICD, fund managers and Melinda White of the 30% club. The 30% Club has a goal of increasing the number of women on Boards of ASX companies. It has recently extended their mandate from the ASX200 to include ASX300 companies and was seeking our support when speaking with Directors about the importance of diversity at the board table.

WaveStone is a founding partner in Future Im/pact (www.futureimpact.com.au) which is an employee value proposition and campaign that aims to attract and retain diverse talent in the investment management industry. Catherine and Kirsty attended the Sydney event of Future Impact launch on 19th March meeting with predominantly female graduates.

ESG activity – June quarter 2019

We attended a detailed briefing from BHP where senior management discussed the Group's strategy relating to tailings dams management. We felt the session was important given the recent tragedy at Vale's Brumadinho Mine in Brazil in late 2018, coming soon after a similar accident at BHP's and Vale's Samarco mine in 2015. Moreover, we felt BHP provided leadership hosting the briefing given a dearth of information regarding the operation of tailings dams across the mining industry.

BHP is the first mining company to provide a detailed presentation regarding the operation and governance processes regarding management of its tailings dams.

BHP has an interest in 76 tailings facilities globally, including 67 facilities with direct operational responsibility. We note only 15 of these are attached to operating mines, the majority relate to decommissioned mines. This imbalance recognises that responsibility and liability extend well beyond a mine's operational life and BHP's valuation can be impacted by poor management of these potential long-term liabilities.

All tailings dams are classified under a recognised standard industry code where risk factors are assigned from low to extreme based on "where modelled, hypothetical, most significant failure mode without controls" results in (1) either potential loss of life; (2) impact on environmental and cultural values and/or (3) infrastructure and economics of the region.

We note this assessment is on the basis of unmitigated risk and does not consider the current physical stability of the asset itself, or controls put in place to mitigate risk. Under this assessment criteria, BHP has advised it has exposure to 8 extreme risk assets, including 6 operated.

Of BHP's highest-risk assets (Extreme and Very high), a significant proportion relate to historical mining activities in North America, with some dams 100 years old and no longer being used (inactive).

So, what's changed at BHP since Samarco? BHP undertook an extensive Dam Risk Review in 2016 to identify significant tailing facilities across the portfolio, as well proposed new facilities and then considered potential risks associated with dam failure across these assets. This review concluded there were no immediate concerns regarding dam integrity, but recommended 400 action points to improve ongoing management, of which 93% are now completed.

BHP also explained that tailings dams management is a multi-faceted process and goes far beyond an annual capex budget per se. There is a 4-pronged approach to tailings risk management at BHP involving

1. Maintenance of dam integrity: including critical components of design, construction, operations and maintenances, change management, monitoring and review.
2. Governance of dam facilities: including an accountable Dam Owner, A Responsible Dam Engineer and Independent Engineer of Record.
3. Monitoring surveillance and review: encompassing monitoring systems, routine surveillance, Dam inspections by both internal and external parties, comprehensive safety reviews and finally Tailings review boards.
4. Emergency preparedness and response: including identifying and monitoring to designated safety thresholds, mapping potential impacts from failures, establishing procedures for if a failure were to occur and testing and training exercises.

Operated tailings facilities in the portfolio¹

Classification is based on the modelled, hypothetical most significant failure mode without controls – not on the current physical stability of the dam.

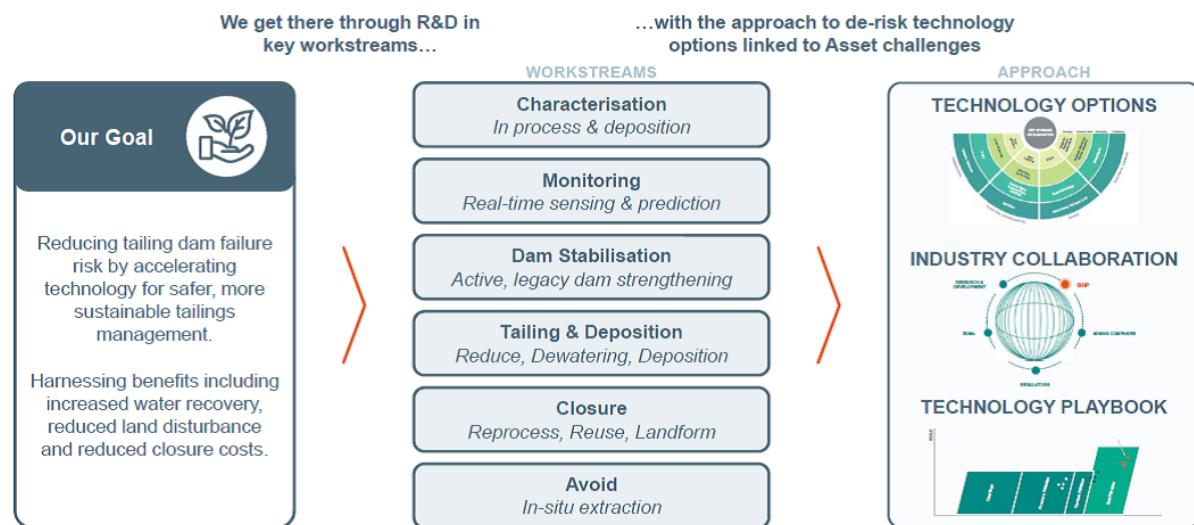


More recently, since the Brumadinho incident, BHP has stepped up its risk management of tailings facilities. A new Tailings Taskforce has been established and will be accountable for enhancing tailings risk management and improvement and assurance for BHP's facilities. We can see from the chart below this includes 6 separate workstreams with a goal to reducing tailings dam failure.

On an industry level, BHP is providing leadership through active lobbying as part of its membership of the International Council of Mining and Metals (ICMM). This body together with the United Nations and the Principles of Responsible Investment have agreed to establish an international standard for the operations and risk management for all tailings facilities across the industry.

BHP tailings technology strategy

Accelerating the pathway to safer, more sustainable management



Conclusion

In conclusion, the briefing highlighted the long-tail risks that are present from tailings dams for the mining industry and the lack of a simple solution to solve these risks. We were therefore encouraged by BHP's increasing transparency regarding this issue and their focus on controlling and mitigating risks regarding their own portfolio. Specifically, we appreciate that BHP has committed substantial human and financial resources to handle this task and given their leadership position, have encouraged the company to provide leadership relating to managing tailings risk across the mining industry.

ESG activity – September quarter 2019

Brambles - The Brambles' share price fell 15% after an underwhelming FY19 result. Investor concern is growing over consideration of establishing a plastic pallet pool inside one of their key customers in North America. To investigate further we undertook a series of meetings across the US in September 2019 including a number of BXB's competitors and customers. The clear conclusion was the market would not bear the additional cost impost of the plastic pallet. Accordingly, if this strategy was pursued, we assess that the returns for the business would deteriorate and hit the company's valuation.

We have written to the company expressing our view. Whilst this is still work in progress, the company has acknowledged our comments. We will continue prosecuting our case on this matter going forward.

BHP Group - In our discussions with the Board on their revised Remuneration Proposal, we have put forward a request that they have a direct link in the KPIs for action on climate change. BHP have confirmed an intent to strengthen that link for period starting 1 July 2020.

ESG activity – December quarter 2019

Westpac - After the AUSTRAC announcement, WaveStone contacted Westpac investor relations shortly afterwards to express our concern about AUSTRAC's statement of claim. We were offered the opportunity to speak with the CEO, Brian Hartzer one on one that afternoon despite being a small shareholder. We listened to what Hartzer had to say and he was disappointed about the child exploitation claims and the breakdown in the relationship with AUSTRAC. Over the weekend we had the opportunity to digest the statement of claim and could see that the Board needed to act. The subsequent week we engaged with investor relations again and spoke to two of the NED's on the Board.

The upcoming AGM meant swift decisions had to be made and we thought the initial departure of Hartzer, the Chair of the Risk Committee and Maxsted's decision to leave in 2020 were the right decisions. However to register a protest vote, we voted against the remuneration report but for the remaining Directors as we thought retaining the banking experience of Peter Marriott and Nerida Caesar on the Board was vital for the continuity of the governance of the bank rather than the majority of the directors leaving. We continue to monitor the situation closely and look forward to the statement of facts from AUSTRAC.