

# Wavestone ESG Activity Report - 2020

## ESG activity – March quarter 2020

Through the quarter our team had extensive contact with our portfolio companies in relation to the key risk factors identified with relation to COVID-19 and steps taken to mitigate them, particularly in an effort to keep employees safe and assets productive. We focussed particularly on our resources and energy companies given the remote nature of many of their operations, fly-in-fly FIFO) out workforces, complex supply chains and the interface with vulnerable local indigenous communities.

In particular our conversations with **BHP, RIO Tinto, Northern Star, Woodside and Oil Search** (as well as other non-owned companies) highlighted several key risks to maintaining employee safety and well-being as they faced the outbreak of COVID-19. With employees being the heart of their operations, the challenge of 'getting it right' was non-negotiable.

The most common theme emanating from our discussions all was an absolute commitment to safety, with operational planning for COVID-19 established in early January and well before government mandates kicked in. These moves saw a dramatic reduction in on-site personnel through change in rostering and deferral of non-essential maintenance. FIFO workers now undergo mandatory isolation on many sites before engaging in work practices and extreme social distancing measures including restrictions on interacting with local vulnerable communities have been enacted.

In addition to operational risk, we noted a substantial effort by many companies and in particular BHP to show strong "social leadership" in Australia and supporting the local communities by such measures as:

1. Bringing forward invoice payments to suppliers to support the viability of their businesses during COVID-19
2. Announced they would hire an additional 1,500 workers on a rolling 6-month basis to support operations. Many of these include trade workers stood down from the aviation industry, one of the worst hit sectors from COVID-19.
3. Contribute capital to community funds charged with delivering health, mental health and indigenous programs

So what was the outcome? The resource industries' pre-emptive work has paid off, with proportionately lower infection outbreaks at operational sites and operations remain relatively unaffected. From a social governance perspective, we have noted that the resource and energy sector has been given dispensation given to continue operations even when tougher restrictions for other parts of society have been enacted. While it's easy to assume a default position that the government needs the income from mining and would have let them operate anyway, in our view, this wouldn't have been possible if the sector hadn't addressed their ESG responsibilities and let COVID-19 spread through their operations.

## ESG activity – June quarter 2020

During the quarter our team met with BHP, Fortescue Metals and Rio Tinto to discuss their approach to indigenous relationships and specifically land use agreements. Below we share some of these thoughts:

The catalyst for this investigation were the allegations against Rio Tinto for destroying the Juukan Gorge Caves without permission that were reported on the ABC on 29th May 2020. Like many, we were shocked by the relationship breakdown between Rio Tinto and the traditional owners of the land, the Puutu Kunti Kurrama and Pinikura (PKKP) people, which ultimately became aired in the public domain at that time.

Our concerns are two-fold:

1. Is the mining industry behaving in an ethical manner regarding Indigenous engagement and do they take it seriously?
2. Will the fall-out from Rio Tinto's actions negatively impact the industry structure for miners and impair the future profitability of their assets?

Regarding the first issue, our view is that miners generally seek to reach an amicable relationship with the indigenous community to develop and operate assets, which includes initial engagement, operational protocols and financial assistance. This approach is important given the long-term nature of mining operations a healthy co-operative relationship is required between all parties for a sustainable business to be undertaken.

Indeed, our experience is that the focus on indigenous communities has increased over time, not just by miners but also oil and gas companies. Meetings with the Indigenous Affairs teams at BHP and FMG during the quarter reinforced this view. That said this approach isn't perfect and tensions often arise given the complex issues

relating to land use agreements which can evolve over time and complicate the original foundations that underpinned the original development consent.

With respect to the Juukan Gorge Caves issue, we are of the opinion that RIO's behaviour and broader industry issues need to be separated. While we were able to have direct access to Rio Tinto Iron Ore Management and have conveyed our disappointment to them, our interactions didn't offer any additional insight than was contained in company press commentary which doesn't surprise given the scrutiny. RIO has since announced a Board-led review into its processes. We now have to await the findings/facts from these enquiries to be published to inform our views of subsequent actions that we may need to undertake.

The Western Australian Government is in the midst of consultation process for a review into the Aboriginal Heritage Act. With much of the consultation period already concluded, there appears a consensus that whilst the current statutory process works reasonably well it could be more contemporary. It is clear that indigenous stakeholders want to be empowered to take ownership of managing their heritage, and become strategically involved in land use proposals. In addition, the Government has also indicated that proposed reforms will also include an improved system for land use approval that strike the right balance between protecting Aboriginal culture and economic development. In our view, given the above information we are unlikely to see a material deviation from the current industry structure for the miners as a result of the industry reforms being considered.