

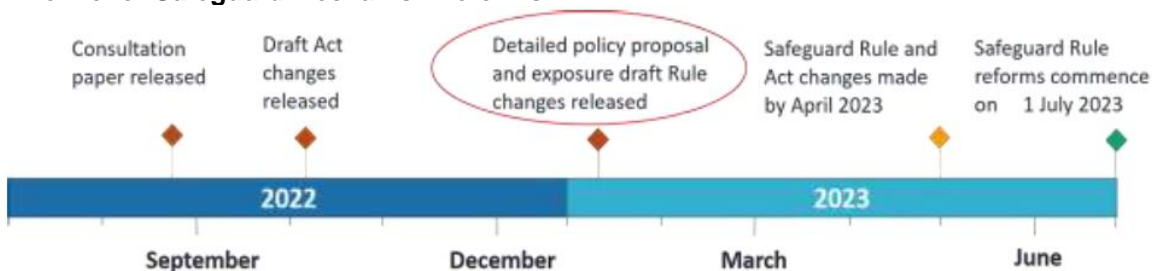
# WaveStone ESG Report Quarter ending March 2023

## Changes to the Safeguard Mechanism – Initial review of portfolio impacts

On 30 March 2023, the Australian Federal Parliament passed the Safeguard Mechanism (Crediting) Amendment Act 2023 (SM), with the new arrangements taking effect from 1 July 2023. Australia, through the passage of the Safeguard Mechanism Bill, has committed to reduce national emissions to 43% below 2005 levels by 2030, and to net zero emissions by 2050. The Safeguard Mechanism (SM) provides a legislated framework that limits Scope 1 emissions of large industrial facilities producing more than 100,000 tonnes of carbon dioxide equivalent (CO<sub>2</sub>e) each year. The mechanism covers approximately 219 facilities.

The Safeguard rules commence on 1 July 2023 and target industrial facilities with emissions greater than 100,000 CO<sub>2</sub>e. There are two phases in the period to 2030, a 2-year transition phase until the end of FY25 and a 5-year period to FY30 reflecting the changes in full.

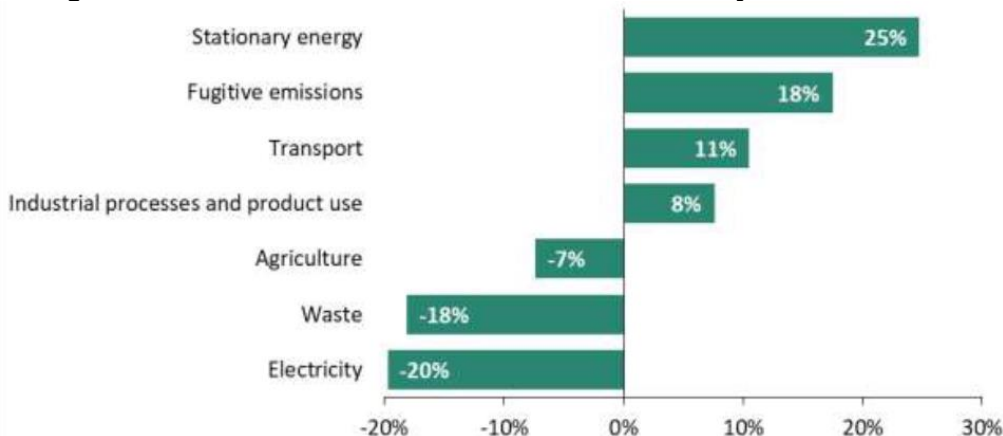
### Timeline for Safeguard Mechanism reforms



Source: Safeguard Mechanism Reforms DCCEEW.gov.au.

Industrial sector emissions are among the fastest growing in the economy. While total emissions in Australia are declining, this is primarily due to increased renewable generation in the electricity sector and land use changes captured via ACCUs. To date the Safeguard baselines have sat at a level with a large headroom over actual emission levels. With little incentive to decrease, emissions from industry have increased since 2005.

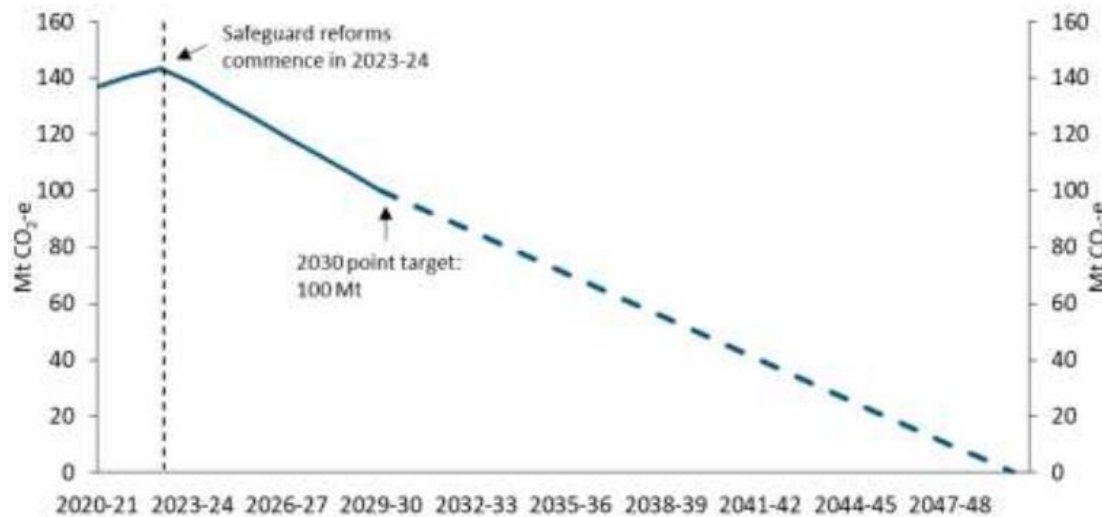
### Change in Australia's emissions between 2005 and 2022 by sector



Source: Safeguard Mechanism Reforms DCCEEW.gov.au

The Government has assigned the Safeguard Mechanism (SM) target based on each projects' proportional share of national emissions in 2020-21. Each facility's baseline will ratchet down by 4.9% per annum to 2030, in line with Australia's climate goals. A hard emissions cap has also been introduced along with an emissions budget of 1,233m tonnes of CO<sub>2</sub>e through to June 2030, at which point annual emissions must not exceed 100m tonnes CO<sub>2</sub>e.

### Indicative emissions decline trajectory to net zero by 2050



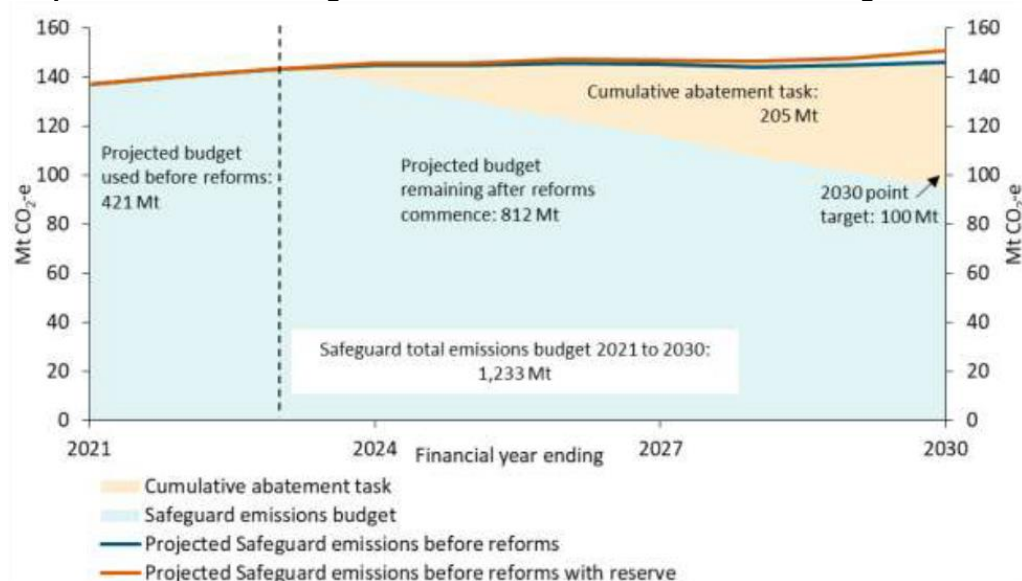
Source: Safeguard Mechanism Reforms DCCEEW.gov.au

The Safeguard Mechanism (SM) only applies to designated large facilities. In total, the ~219 covered facilities generated 137mt of CO<sub>2</sub>e in FY21, or about 28% of Australia's 487mt pa of CO<sub>2</sub>e emissions. The proposed reform aims to deliver a cumulative 205mt of CO<sub>2</sub>e abatement by 2030 to reduce emission levels from these facilities to 100mt CO<sub>2</sub>e per annum in 2030. This will ensure that the emission reductions from the Safeguard facilities are on track and aligned with the Government's proposed trajectory to reach net zero by 2050.

Without the reforms, aggregate emissions for existing SM facilities are projected to reach 136mt by 2030 and total emissions including new entrants are projected to reach 146mt by 2030.

The cumulative effects of multiple small emitters, such as agriculture and much of the transportation sector, are not contemplated by the mechanism.

### Proposed emissions budget and indicative abatement task for Safeguard facilities



Source: Safeguard Mechanism Reforms DCCEEW.gov.au

### **Offsets will need to be domestically sourced**

International offsets are not proposed to be part of the initial reforms. The Government may consider allowing access to high integrity international offsets at some future time and will consult in 2023 on the possibility of establishing the legislative framework for international units.

Safeguard Mechanism Credits (SMC), which can be traded or banked until 2030, will be issued to facilities with emissions running below baseline.

To ensure flexibility, no limits will be placed on ACCU use. However, where facilities are using over 30% offsets to meet their requirements, the Government's position is they will need to explain to the regulator their decisions for doing that. Cost and availability of technology for decarbonisation can be tendered via this process.

### **Actual emissions also have to fall**

The mechanism requires actual emissions to fall. Not only are net emissions required to fall under the Safeguard but actual emissions, excluding carbon credits, are also required to fall. This is monitored by comparing the five-year average of total emissions leading into the current year to the past five-year rolling average (n-3 from 1 July 2024 and n-2 from 1 July 2027).

Forcing the total emissions of all facilities to fall should act to limit the use of offsets to meet net emissions targets. If implemented, this requirement will have implications for harder to abate sectors such as the airlines, which plan to utilise offsets to meet decarbonisation targets in conjunction with sustainable aviation fuel (SAF). Please refer to our June 22 ESG Quarterly Report for a detailed discussion on SAF.

### **Cost containment measure**

The Government proposes to implement a cost containment measure to prevent excessive prices. The Government has proposed a maximum price of \$75 per tonne of CO<sub>2</sub> in 2023-24 for Safeguard Mechanism Credits (SMCs), increasing with the CPI plus 2% every year. This will prevent excessive price volatility and upside price risk without impeding the development of the offset and SMC market. These measures will be reviewed in 2026-27.

### **Trade exposed facilities**

There will be differential treatment of emissions intensive, trade exposed facilities to ensure that Australian businesses are not competitively disadvantaged relative to international competitors. This will be done via a reduction in the baseline decline rate, depending on how impacted a particular facility is. The "discount" applied will vary with the minimum baseline decline rate for trade exposed facilities is set at 2%, representing a 2.9% discount to the standard decline rate of 4.9%.

Affected industries may also be able to tap into the \$600m Fund set aside by the Government under the Safeguard Transformation Stream of the Powering the Regions Fund to subsidise the cost of cleaner technology.

The Government is also proposing to investigate the feasibility of an Australian carbon border adjustment mechanism (CBAM), potentially similar to that proposed in the EU, to prevent carbon leakage. This could function via an import tariff on trade with countries without an equivalent climate policy and is likely targeted at the steel and cement sectors.

### **New facilities**

While not an explicit requirement of the Safeguard Act, the Government's Position Paper proposed that all new covered facilities would have their baseline calculation determined using an international best practice, adapted to the Australian context. However in its announcement of the passage of the Safeguard Act, the Minister for Climate Change made two very important statements about how international best practice would be applied to new gas projects:

- 1) New gas fields supplying existing liquefied natural gas facilities will be treated as new facilities so that they are given international best practice baselines for the CO<sub>2</sub> in their new fields. For these fields' reservoir CO<sub>2</sub> emissions, best practice is zero net emissions given the existence of low-CO<sub>2</sub> fields and opportunities for carbon capture and storage. This will effectively mean that all CO<sub>2</sub> emissions from new gas fields will either need to be avoided or offset through the surrender of Australian Carbon Credit Units (ACCU) and Safeguard Mechanism Credits (SMCs); and,

- 2) In relation to the Beetaloo basin in the Northern Territory, all new gas entrants in the basin will be required to have net zero scope 1 emissions from entry.

### **Landfills**

Landfills will have a different/customised coverage and baseline setting versus other facilities within the SM and only emissions from waste deposited post June 2016 will be covered. It is anticipated that baselines will be set in a manner recognising that waste facilities do not have an identifiable production variable, and that the majority of associated emissions take place in the years after the waste is deposited.

Landfill baselines will however decline at the same rate as other facilities (4.9% per annum). Most landfills that are expected to be included in the mechanism capture over 70% of the methane produced at their facilities and are therefore likely to have net emissions well below baselines and not be impacted by the declining baselines for several years.

The Clean Energy Regulator notes there is additional work to be done on landfill methodology so this is intended to be reviewed and addressed as part of the 2026-27 review of the Mechanism.

As methane drawdown is not yet possible, it is envisaged that covered facilities will be able to offset all their emissions (CO<sub>2</sub>, CH<sub>4</sub>, N<sub>2</sub>O) by purchasing carbon credits which are almost exclusively issued for projects that sequester or avoid carbon dioxide.

### **Portfolio Implications**

While the mechanism is imperfect and much of the finer detail is yet to emerge, we welcome the certainty on the way forward the legislation provides to industry. The scheme acts somewhat like a progressive carbon tax, creating scarcity within the industrial sectors emission budget which in turn should drive abatement. Value can be attributed to compliance and facilitates the trading of offsets (both ACCUs and SMCs). The phased introduction of the changes, the gradual ratcheted (-4.9% pa) emissions reduction requirement and the ability to use offsets gives time for companies to adjust/adapt strategies as necessary and likely means initial facility requirements can be more easily met through operational changes before the harder abatement work begins later in the decade.

With clearer goals to work toward and as final details emerge, we anticipate increased and improved disclosure of decarbonisation strategies from the affected companies.

We have undertaken an initial screen of affected companies and commenced engagement with our portfolio names on the likely impacts of the Safeguard changes. Below is a summary of our current understanding of the positioning of a selection of the names based on this preliminary work. Although an imperfect comparison as it looks to group wide rather than facility specific plans, we have also included in tabulated format, a summary of each company's current 2030 and 2050 decarbonisation strategy and, for interest, the 2030 trajectory we think this may imply.

#### **Santos Limited (STO)**

According to current baseline data, Santos has 10 facilities falling under the Safeguard Mechanism (SM).

Santos is working with the Government and the regulator to better understand what the impact of the Safeguard Mechanism (SM) will be, specifically on Barossa given its higher levels of CO<sub>2</sub>. There is currently an expected lag between when Barossa will start, at this stage, first half 2025 and the commencement of carbon capture and storage (CCS) at the project. Based on getting all the permits and approvals, their estimate for the CCS facility start-up at Bayu Undan is around 12-18 months post first gas. Santos is hoping they can expedite their approvals to see if the CCS facility can be up and running at the same time as Barossa.

There is a fair amount of uncertainty regarding what the offset alternatives are for Santos. Given limits on their use they will likely need to seek approval to purchase offsets for more than 30% of their emissions. There may also be an ability to offset one years' emissions with some emissions reductions from future years via offset banking.

Negotiations with the Government and regulator are ongoing so there remains a lot of uncertainty at this stage on a number of fronts. It is unclear whether Barossa will be captured as a new project given FID was undertaken a couple of years ago. If it is considered a new project, we presume industry baselines will apply but how they will be categorised and determined remains unclear.

### **Woodside Energy Group Ltd (WDS)**

Woodside has 6 facilities captured under the Safeguard Mechanism (SM).

Much like Santos, it remains early days for Woodside in terms of determining the financial impact of the changes. This will become easier as details emerge on the on the final mechanism rules and clarity is obtained on the starting baselines for the facilities.

In its decarbonisation plan WDS is targeting a 15% reduction in net equity Scope 1 and Scope 2 emissions by 2025 and a 30% reduction by 2030 with Net Zero by 2050 suggesting its strategy is broadly aligned with the Government's targets. Woodside's decarbonisation plans are primarily reliant on offsets. Offsets are used flexibly to meet the groups targets while asset and technology decarbonisation plans are finalised and implemented. The groups primary project is a planned 100MW solar plus battery system near Karratha. This system will supply Pluto LNG and potentially other customers in the region and has the potential to expand to 500MW with time. WDS has also managed to apply design improvements to achieve a reduction in forecast emissions from Pluto Train 2. This 'design out' work has resulted in a final design for Pluto Train 2 that is a lot lower than their starting base and places the project among the lowest carbon intensity LNG sources globally. We suspect this suggests the project should fare well if subject to industry benchmarking.

As we see it the primary issue for Woodside is their reliance on fairly cheap international offsets, which are excluded from the SM. The company's 2022 disclosures indicated an average cost of offsets of US\$15/tonne covering emission targets out to 2025. The exclusion of international credits from the scheme means future requirements will need to be met domestically. To the extent these are "higher quality" credits, this may also come at a higher cost.

Woodside has not made any statements regarding the financial impact of the changes outside of noting it welcomes the regulatory certainty the finalisation of Safeguard Mechanism (SM) brings. The company plans ongoing engagement with the Government as the mechanism rules are finalised.

### **BHP Group Ltd (BHP)**

BHP has 17 facilities captured within the Safeguard Mechanism (SM) framework, spanning its Pilbara iron ore assets (6 facilities, ~32% of total Safeguard Scope 1 emissions), BM Alliance in met coal (6 facilities, ~50%), Nickel West (3 facilities, ~7%), Olympic Dam in copper (~3%) and Hunter Valley thermal coal (~8%).

BHP is targeting a reduction in its Scope 1 & 2 emissions by 'at least' 30% by FY30 relative to a FY20 baseline, and to be net zero by 2050 (Scope 1, 2 & 3 basis). BHP's FY20 baseline emissions were 14.5Mt CO<sub>2</sub>e, and 11.0Mt CO<sub>2</sub>e in FY20. This implies BHP requires only ~1Mt of further abatement to achieve a 30% reduction by the end of this decade (but note that BHP says this is a minimum, so could be more aggressive under the right conditions).

BHP is undertaking a number of decarbonisation projects to help towards its 2030 target. This includes: (1) 3,000,000+ MWh of renewable generation build-out by FY25; (2) Switching to renewables from purchased electricity at Escondida & Spence (already implemented in CY22); (3) Carbon sequestration at Nickel West; and (4) Electrification of mining fleet at Escondida & locomotives at WAIO. BHP plans to spend ~US\$600m pa over the next five years on reducing Scope 1 & 2 emissions, and ~US\$4bn by FY30.

BHP has also stated it may utilise carbon credits and/or offsets in a 'transitional capacity' whilst abatement options are being assessed.



## Rio Tinto Ltd (RIO)

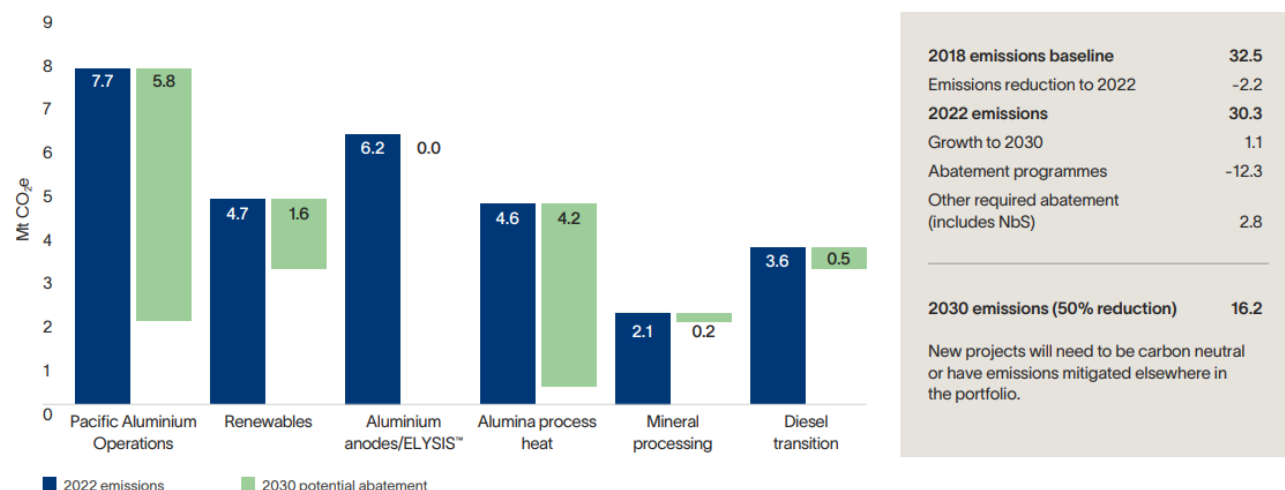
Rio Tinto has 19 facilities that are captured in the Safeguard Mechanism (SM). Whilst the majority of these facilities (11) relate to RIO's Pilbara iron ore operations, we estimate reported emissions – as defined by the SM - from their Pilbara iron ore facilities represent only ~25% of emissions.

RIO is targeting a reduction in its Scope 1 & 2 emissions by 15% by 2025, by 50% by 2030 relative to 2018 baseline, and to be net zero by 2050. RIO believes its 2030 target is aligned with the Paris Agreement goal to limit global warming to 1.5°C. RIO's Scope 1 & 2 emissions (used as the baseline) were 32.5Mt CO<sub>2</sub>e and 30.3Mt CO<sub>2</sub>e in 2022, which implies ~15Mt CO<sub>2</sub>e absolute abatement in emissions is required by 2030.

There are five key areas that RIO is targeting to achieve its 2030 goal. (1) Pacific Aluminium operations represent ~25% of RIO's 2022 Scope 1 & 2 emissions which can be mitigated by a shift to renewables, although this will depend on the impact this could have on the broader grid. (2) Broader gas-to-renewables transition, principally at the Pilbara iron ore operations with deployment of 1GW of renewable build-out. (3) In the alumina refining process, RIO uses coal and gas to generate steam in boilers and gas to generate heat for calcination; this can be mitigated through electrification, including the use of renewable energy to create hydrogen. (4) Reduction of emissions in mineral processing of titanium dioxide, iron ore pelletisation, boron and lithium. Note that these assets sit outside Australia so will fall outside the boundary of the SM. (5) Transitioning RIO's diesel fleet to battery electrification; each year RIO uses ~1.3bn litres of diesel contributing to 3.6Mt CO<sub>2</sub>e (~12% total Scope 1 & 2 emissions).

RIO estimates total investment of ~US\$7.5bn in decarbonisation projects, most of which will be deployed towards the latter part of this decade.

RIO also assumes further abatement, including "nature-based solutions" (NbS) will contribute to 2030 and 2050 goals. These include developing CO<sub>2</sub> offsets at / near existing assets, as well as securing carbon credits from the market. Of its planned ~15Mt CO<sub>2</sub>e absolute abatement by 2030, up to 15-20% could come from offsets.



Source: Rio Tinto

## Northern Star Resources (NST)

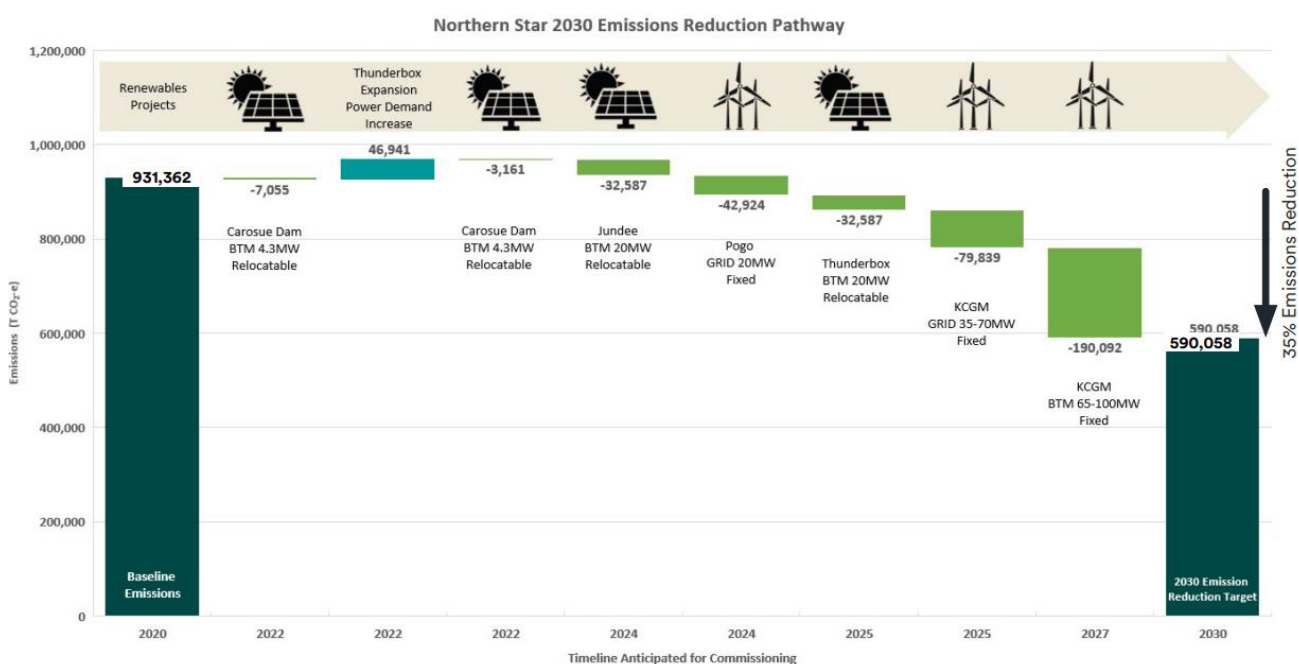
NST has four facilities that are captured in the Safeguard Mechanism (SM): Fimiston and Carosue Dam (part of the Kalgoorlie Production Centre), Thunderbox and Jundee (part of the Yandal Production Centre).

NST is targeting a 35% reduction in Scope 1 & 2 emissions by 2030 vs 2020 baseline, and to be net zero by 2050. Total Scope 1 emissions in 2020 were 710kt CO<sub>2</sub>e and Scope 2 emissions were 480kt CO<sub>2</sub>e (although we note that 100-200kt of Scope 1 & 2 emissions relate to Pogo, which is in Alaska). NST's 2030 target implies an absolute reduction of emissions by ~340kt CO<sub>2</sub>e.

NST's 2030 strategy principally incorporates switching to renewable sources of power from a combination of self-generated (Scope 1) and purchased (Scope 2) supplies. NST has not provided specific splits of the reduction in Scope 1 and 2, but if we assume all 'behind the meter' (BTM) projects are Scope 1, and all grid is Scope 2, then we estimate ~80% of the 2030 target will be achieved by switching to renewable power purchase agreements (PPAs). This seems achievable, as long as there is enough concurrent renewable capacity build-out of the grid in WA over this timeframe.

NST's longer-term 2050 goal to be net zero will require further switching to renewable power sources plus the electrification of its fleet. NST has also stated that it will likely also have to use offsets to achieve its 2050 target, although has not quantified how large this could be.

NST has not quantified the impact of the SM on its operations, but it notes that its 2030 target must be enacted in a way that "reduces costs and maintains security of supply". Given the majority of the target is achieved from renewable switching which may come at a relative cost advantage (given cheaper priced renewable PPAs) this could actually result in a net benefit, all else equal. Electrification of the fleet is a harder-to-abate area which will likely result in higher sustaining capital.



Source: Northern Star

### Qantas Airways Limited (QAN)

QAN's domestic operations will be covered by the SM.

Although they are still working through the details, QAN are very confident their existing 2030 and 2050 decarbonisation plans align with the SM.

Their ability to achieve their targets, particularly in the long term, is somewhat dependant on the timing and size of development of a SAF industry in Australia. If SAF development lags, Qantas could purchase ACCUs to cover what they cannot achieve through fuel efficiencies.

QAN has a stated target of 1.5% per annum in fuel efficiency improvements to 2030. It is already investing in lower emission fleets, with fleet renewal to the 15% more fuel efficient NEO's for Jetstar having commenced in July 2022 and QAN domestic to commence its renewal (to the A321 and A220s) from late 2023. QAN also sees an opportunity to lower emissions via fuel optimisation through improvements to its flight planning systems and the sharing of flight analytics with pilots.

With regard to offsets, at this stage only about a quarter of QAN's offsets are sourced domestically. Under SM, this proportion may need to increase which should be assisted as the planned wheatbelt project in WA comes online.

Where facilities rely on offsets for more than 30% of their emissions reduction targets they will be required to justify their reason for doing so with the Clean Energy Regulator. Cost and availability of technology were cited in the Government's press release as potential justifications and could be valid arguments for QAN. Details are expected to appear in the rules.

### **Cleanaway Waste Management Ltd. (CWY)**

Cleanaway has 2 landfill facilities captured in the Safeguard Mechanism (SM): the Melbourne Regional Landfill and Lucas Heights Landfill.

Cleanaway is confident their existing 2030 decarbonisation strategy aligns with the Government's Safeguard targets. With respect to 2050 they see themselves as aligned to the science of a 1.5 degree target. Their strategy places a stronger initial focus on landfill methane, given work on this front will have a greater impact on warming outcomes, while action is taken more broadly on carbon.

Cleanaway's strategy sets out targets for methane and carbon dioxide emission reduction separately, with the company targeting a 34% and 43% reduction by 2030 in each respectively. CWY's 2050 target is for net zero carbon dioxide and a 57% reduction in methane. Methane emissions will be lowered by improving the capture efficiency of landfill gas. Carbon dioxide emissions will be reduced initially through fleet optimisation and surrendered LGC's associated with landfill gas generation. Longer term CWY are investigating and testing the use of fuel cell and hydrogen vehicles within the fleet, with ACCU's to be relied upon to offset hard-to-abate emissions.

While this will likely take time to play out there is a potential point of contention in CWY's longer term (2050) strategy which, with regard to methane emissions, currently falls short of the Government's net zero CO<sub>2</sub>e target. This could be resolved through the acquisition of offsets, which is allowed under the SM but we note some contention on the use of CO<sub>2</sub> offsets for methane emissions which will be something to investigate further.

CWY has not yet fully quantified the impact of the recent mechanism changes to earnings as there is still quite a bit to be settled in terms of reporting and where the various liabilities may sit. They have time as work is ongoing on how landfill emissions will be treated within the mechanism and it is envisaged landfill assets will not be affected until FY25 at the earliest.



## Current emission levels and decarbonisation plans for a selection of WaveStone portfolio companies

| ASX Code | Current Total Emissions (Scope 1 - Most recent reported)             | Reported to the Australian Clean Energy Regulator (Scope 1 2021-22 mt CO2e) | Baseline year for targets | Baseline emissions for corporate carbon policy (not captured by the Safeguard Mechanism) | Interim Plan (2030 unless specified)                                      | 2050 Plan  | Implied Trajectory of existing Carbon Strategy (to 2030) | Primary Mechanism for emission reduction   |
|----------|--|---|---------------------------|--|---|--|--|--|
| WDS      | 5.36mt   | 8.99  | Average 2016 to 2020      | 3.54mt   | 15% reduction in net equity Scope 1 & 2 emissions by 2025 and 30% by 2030 | Net Zero by 2050   | -3.9%  | Solar Project - 100MW of solar plus battery system near Karratha. Plus a heavy reliance on international offsets. WDS has disclosed the purchase of international credits to cover targets out to 2025 at a average cost of US\$15/t.  |
| STO      | 4.75mt absolute or 0.49kt CO2e/Mmboe                                 | 7.28  | 2020                      | 50kt CO2e/Mmboe  | <4.1mt CO2e and <33kt CO2e/Mmboe  | Net Zero by 2040   | -4.1%  | CCS is the cornerstone of STO's abatement plans. Emissions intensity is 35% higher than WDS due to the higher reservoir CO2 content in its fields. STO also has plans to abate 1.8mt (2006-2021) via a West Arnhem Land Fire Abatement program.  |
| QAN      | 4.7mt - From FY22 Sustainability Report                              | 3.06  | 2019                      | 12.4mt - FY19 CO2e emissions   | 25% reduction in emissions from 2019 levels                               | Net Zero by 2050   | -2.6%  | Increasing the use of SAF and improving operational and fleet efficiency. Residual emissions commitment versus targets will be met with offsets. Wants SAF to represent 10% of fuel mix in 2030 and 60% in 2050. Carbon offsets will be used to meet any shortfall (it currently has a large proportion of international offsets in its mix). Emissions capped at 2019 levels. |
| CWY      | 1.16mt   | 1.06  | 2022                      | 1.42mt   | 34% reduction in CH4 and 43% reduction in CO2 emissions                   | 57% reduction in CH4 and Net Zero CO2                      | -6.8%  | Gas capture and electricity generation/flaring. Operational efficiencies. ACCU's for hard to abate emissions.  |
| BHP      | 9.2Mt (7.9Mt adjusted for divested ops) (FY'22 Annual Report, pp.47) | 6.38  | 2020                      | 14.5Mt CO2e  | 30% reduction by FY'30 (Scope 1 & 2 basis)                                | Net zero by 2050 (Scope 1 & 2 basis, from operated assets) | -3.5%  | 1) 3,000,000+ MWh renewable generation build-out by FY'25; 2) Switching to renewables form purchased electricity at Escondida & Spence; 3) Carbon sequestration (Nickel West)) Electrification of mining fleet (WAI0, Escondida); and, 5) Offsets  |
| RIO      | 22.8Mt - global & 12.6Mt - Australia (FY'22 Annual Report, pp.65)    | 10.63   | 2018                      | 32.5Mt CO2e  | 15% reduction by 2025 & 50% reduction by 2030 (Scope 1 & 2 basis)         | Net zero by 2050 (Scope 1 & 2 basis)                       | -5.6%  | 1) Switching generated & purchased electricity to renewables (49% of 2030 reduction); 2) Addressing process heat at alumina refineries and mineral processing operations (29%); 3) Diesel transition of fleet (3%); and, 4) Offsets ("nature-based solutions") (19%).  |
| NST      | 710.3kt  | 0.56  | 2020                      | 931kt CO2e   | 35% reduction by FY'30 (Scope 1 & 2 basis)                                | Net zero by 2050 (Scope 1 & 2 basis)                       | -4.2%  | 1) Switching to owner-operated renewable capacity (~19% of FY'30 reduction)<br>2) Switching to renewable PPAs (~81%)   |

Source: Company data, CER and WaveStone estimates.

## Carbon Emission and Intensity Tracker:

| WaveStone - Australian Share Fund (WASF)   | Carbon Emissions Scope (tonnes CO2e) |         |        |
|--|--------------------------------------|---------|--------|
|  | Scope 1                              | Scope 2 | Total  |
| Portfolio – WASF                           | 17,129                               | 5,444   | 22,573 |
| Benchmark - S&P ASX 300 Accumulation Index | 34,451                               | 10,405  | 44,856 |
| Difference                                 | -50.3%                               | -47.7%  | -49.7% |

Source: MSCI ESG (as at 31/03/2023)

| WaveStone - Australian Share Fund (WASF)   | Carbon Intensity Scope (tonnes CO2e/sales) |         |        |
|--|--|---------|--------|
|  | Scope 1                                    | Scope 2 | Total  |
| Portfolio – WASF                           | 78.11                                      | 22.86   | 100.97 |
| Benchmark - S&P ASX 300 Accumulation Index | 93.53                                      | 35.05   | 128.58 |
| Difference                                 | -16.5%                                     | -34.8%  | -21.5% |

Source: MSCI ESG (as at 31/03/2023)

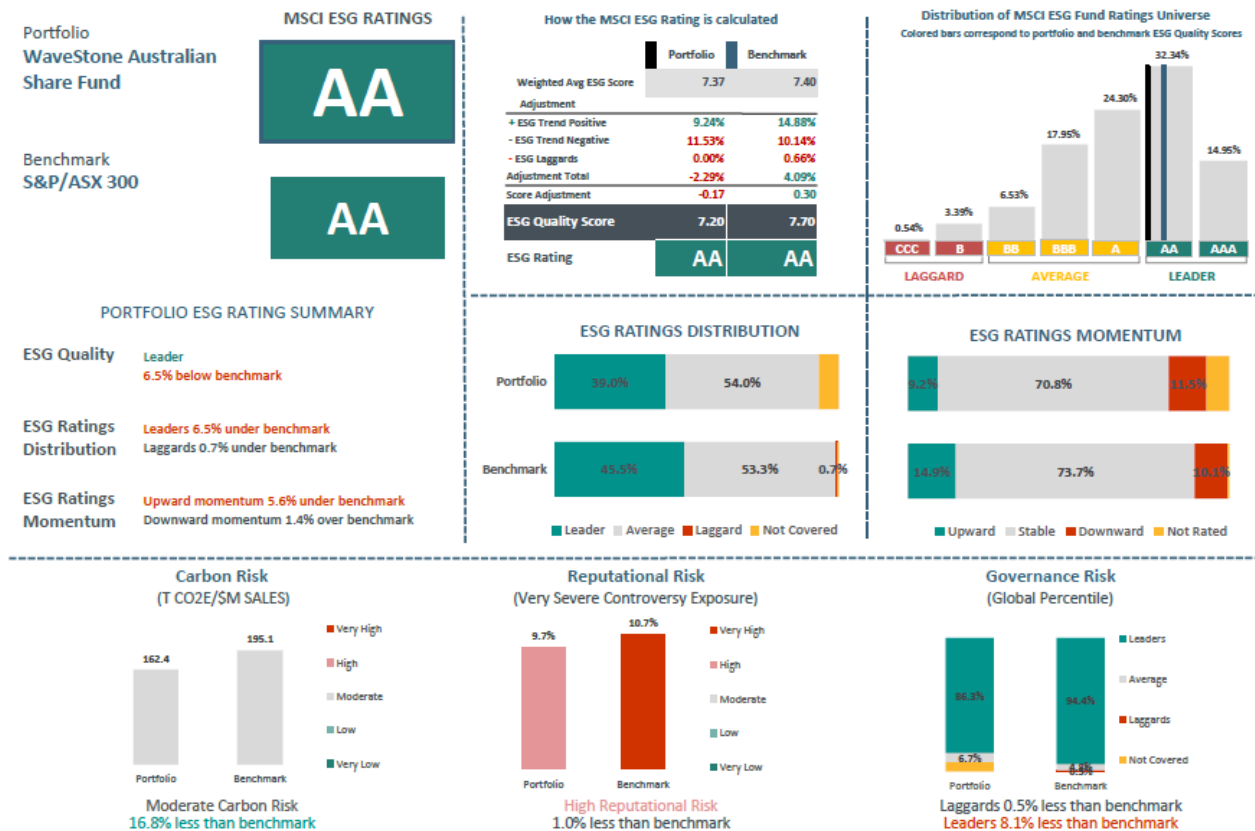
## Engagement

### ESG-related Engagements during the Quarter

| Company | ESG Category                         | Topics  |
|---------|--------------------------------------|---|
| PLS     | Governance<br>General                | Key management hires including new CFO (dual-role), Remuneration, Culture   |
| NEC     | Governance                           | Candidates for new Chair  |
| STO     | Environment                          | Sustainability initiatives  |
| XRO     | Social<br>Governance                 | 700-800 employee headcount reduction – XRO's approach and staff support   |
| WOR     | Environment                          | Sustainability initiatives  |
| WDS     | Environment                          | Carbon emission reduction plans   |
| STO     | Environment                          | Carbon emission reduction plans   |
| RIO     | Governance<br>Industry<br>Engagement | Board representation, managing geopolitical risks   |
| QAN     | Environment                          | 1H23 result, interplay of FY24 targets with competitive landscape, infra delivery and fleet efficiency  |
| KLS     | Environment                          | EV transition of bus fleet  |
| WES     | Environment                          | Financial and environmental costs of extracting lithium   |
| DMP     | Social                               | Staff wages & attracting talent   |
| LIC     | Governance                           | Succession  |
| ORG     | Environment<br>Governance            | 1H23 Result, Brookfield / EIG Offer, Funding requirements and ideal corporate structure for participation in transition to renewables, government gas policy, interplay of corporate decarbonisation targets with system security in a shortfall scenario |
| TWE     | Social                               | Responsible service of alcohol  |
| ASX     | Governance                           | Remuneration structures   |
| EDV     | Social                               | Social – gaming and alcohol regulation  |

|     |                           |   |
|-----|---------------------------|---|
| TCL | Governance                | CEO succession, management of exec expectations. Board and Management interaction |
| BLD | Environment<br>Governance | Remuneration structures. Sustainability initiatives                               |
| ALL | Governance                | Remuneration  |
| WBC | Governance<br>General     | Resignation of Chair  |

## MSCI ESG Ratings\*



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## Memberships and initiatives

- Principles of Responsible Investment (PRI)
- Climate Action 100+
- 40:40 Vision

## Links to WaveStone Policies

- ESG Policy: **WaveStone ESG Policy**
- ESG Activity Report: **WaveStone ESG Activity Reports**
- Proxy Voting Policy: **WaveStone Proxy Voting Policy**
- Proxy Voting Records: **WaveStone Proxy Voting Records**
- Engagement Policy: **WaveStone Engagement Policy**
- **WaveStone PRI Transparency Report 2020**
- **WaveStone PRI Assessment Report 2020**

## Want more information?

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