



# AB MANAGED VOLATILITY EQUITIES

## ENGAGEMENT REPORT AS AT 31 MARCH 2021

During the period from 1 October 2020 to 31 March 2021, AB portfolio managers and analysts engaged with the senior management and/or boards of directors of companies held by the AB Managed Volatility Equities Portfolio on a range of subjects, including climate risk, environmental risk and corporate governance.

Our approach to capturing environmental, social and governance (ESG) considerations in the portfolio means that we incorporate ESG into our investment process to identify investment risks and opportunities. These factors are a component of our research process that help to inform whether we invest in, continue to hold or sell any particular security as they can affect a company's valuation and financial performance.

Summary reports of a selection of our engagements with companies during the period follow.

### BEACH ENERGY (E)

*Result: Positive*

Discussed company's approach to emission reductions on 25 by 25 (25% reduction by 2025). Company highlighted emissions reduction project efforts. In many cases, this is related to reduced methane flaring. Also, there was discussion of renewable energy to replace mechanical lifting for some production sources. Finally, we discussed ongoing efforts to explore Carbon Capture and Storage in the Cooper basin, although that is not in the 25/25 plan.

### COLES GROUP (E)

*Result: Positive*

Coles Group have released new greenhouse gas emissions reductions targets, reaffirming a net zero by 2050 position, targeting a 75% reduction in scope 1 & 2 emissions by 2030 and also highlighting that their scale represents an opportunity for them to influence decarbonisation activities up and down the supply chain. Coles have also outlined the governance structures/board oversight for GHG emissions. We believe customer perceptions are changing rapidly in this space, with activity around retailer selection increasingly being influenced by ESG perceptions, as such we see committing to net zero emissions by 2050 is a minimum. The 2030 target is a positive

step, and Coles may be able to leverage progress towards this target to improve customer perception of their ESG track record.

### EVOLUTION MINING (E/S)

*Result: Positive*

Evolution has engaged a range of stakeholders as they look to refresh their ESG materiality risk assessment and to define the social and environmental topics that matter most to them and their stakeholders. This assessment supports the acceleration of their sustainability performance and aligns their ESG reporting with the Global Reporting Initiative (GRI). The process will result in Evolution having a clear set of ESG goals that allow the firm to assess all actions against and to communicate progress against to stakeholders. The focus on ESG topics by external stakeholders (including regulators and local communities) is increasing, and we believe Evolution's approach will assist them moving forward.

### NIB (S)

*Result: Positive*

Affordability of private health insurance is getting worse at a slower rate but is on a difficult path. This is causing NIB to think more broadly about how to prevent health issues, not just treat them in hospitals.

### SUNCORP (E/S)

*Result: Positive*

Insurer Suncorp in recent years has increased their estimates for weather related natural hazards as weather events become more frequent and severe. We met with the Chair, CEO and CFO and we discussed that this process may not be over, and they should maybe get ahead of it by putting in a buffer on their reinsurance as the climate situation is moving quickly. To manage this, they have taken out additional insurance and altered pricing. Their ability to quickly scale up and help large numbers of customers in need as disasters strike has again been demonstrated in the recent floods and is a key competitive advantage over smaller rivals.

These examples are provided for the sole purpose of illustrating how the research process can be used to help identify investable ideas in the portfolio management process. It should not be assumed that investments in any specific security were or will be profitable.

E: environment, S: social and G: governance

Source: AB

## WOODSIDE PETROLEUM (E)

*Result: Neutral*

Discussed with management 5, 10, and 25-year investment in the energy transition. Includes LNG as a transition fuel, future of hydrogen (not economic without government support), carbon offsets (economic and ongoing) and potential for renewable energy in operations.

## SOUTH32 (E/S)

*Result: Negative*

Media reports emerged of damage to indigenous sites allegedly due to mining beneath as part of South32's met coal operations in the Illawarra. In addition, mines in the region have long been blamed for causing surface disturbance to waterways, evidence of impacts on indigenous sites. These reports make it more likely that regulators will impose further restrictions on any further licences. South32 require a new mine area approved in next 1-2 years.

## INCITEC PIVOT (E)

*Result: Neutral*

Incitec are aware of the negative potential impacts on their business due to the closure of coal mines. They are actively looking to manage their business away from these areas, however it would appear that they are confident in the long-term nature of met coal being required for steel production.

## WHITEHAVEN COAL (E/S)

*Result: Negative*

The Resources Regulator in NSW has rejected Whitehaven Coal's proposed Enforceable Undertaking regarding a number of breaches at its Narrabri operations. This potentially signals resource companies will be held to account for breaches, which has the potential to increase costs into their operations.

## RIO TINTO, BHP & FORTESCUE METALS (E)

*Result: Negative*

The interim report from the Parliamentary inquiry into Rio Tinto's destruction of a significant indigenous site in the Juukan Gorge was released and is negative on some actions taken by the company and the state government. Whilst the report is interim and non-binding, we see it increases the risk that steps are taken that may result in changes to mine plans across WA. This is more likely to impact Rio Tinto but, in our view, could potentially impact all WA based miners (notably Fortescue and BHP).

## SONIC HEALTHCARE (G)

*Result: Positive*

In the early stages of the pandemic, when routine test volumes plummeted and there was a high degree of uncertainty around business outlook, Sonic's management made the decision to minimize staff overtime hours and furlough thousands of staff members. At the same time, the board and senior executives took voluntary remuneration cuts of up to 50% with many other senior staff also accepting temporary pay cuts, demonstrating a thoughtful approach to governance. Since then, given the profitability associated with COVID testing being performed by Sonic's laboratories worldwide, all members of staff who took pay cuts apart from board members have been refunded and all staff have been provided with an additional bonus payment. Additionally, Sonic have good management gender diversity, with 53% of senior leadership roles held by women.

## FLETCHER BUILDING (E/G)

*Result: Positive*

Very thoughtful and appropriate executive compensation decisions during COVID-19. Cancelled management bonuses for the year as they were going to be reducing staff. Reduced base compensation for senior managers during the shutdown. We've also been discussing with them the opportunity for lower emissions cement, and long-term benefits for building materials as the world deals with the effects of climate change.

## AMCOR (E/S)

*Result: Neutral*

Amcor is a potential leader in technology and product development for recyclable flexible packaging. The Bemis acquisition helps with this. However, we have been less impressed with their progress on their climate change goals and limited disclosure on modern slavery, despite operating in a number of high risk geographies.

## WESTPAC BANK (S)

*Result: Positive*

We discussed the lower level details of Westpac's changes in business systems to reduce the chance of anti-money laundering breaches. Related to this we discussed the differences in approach to addressing modern slavery concerns, where the broad principles are similar, but the implementation is different. We remain concerned about the appropriate balance between risk mitigation and serving legitimate client needs. Westpac is clearly focused on reducing the risk of their exposure to any illegal or potentially illegal activity.

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## MODERN SLAVERY (S)

We continued our modern slavery engagement programme.

+ Sonic Healthcare

Sonic Healthcare has not yet assessed the risk of high-risk suppliers who provide personal protective equipment (PPE) such as masks and gloves.

*Result: Negative*

+ Amcor

Amcor provides limited disclosure on modern slavery, despite operating in a number of high risk geographies.

*Result: Negative*

+ Telstra

Telstra has made progress by reviewing working place conditions in India and found that the cost of the initial training programme for new starters was taken out of their pay. They have since banned this practice.

*Result: Positive*

+ BlueScope Steel

BlueScope continues to make progress. Port Kembla will be certified based on the Responsible Steel Principles by the end of 2021 which includes human rights.

*Result: Positive*

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