

WaveStone ESG Report

Quarter ending September 2022

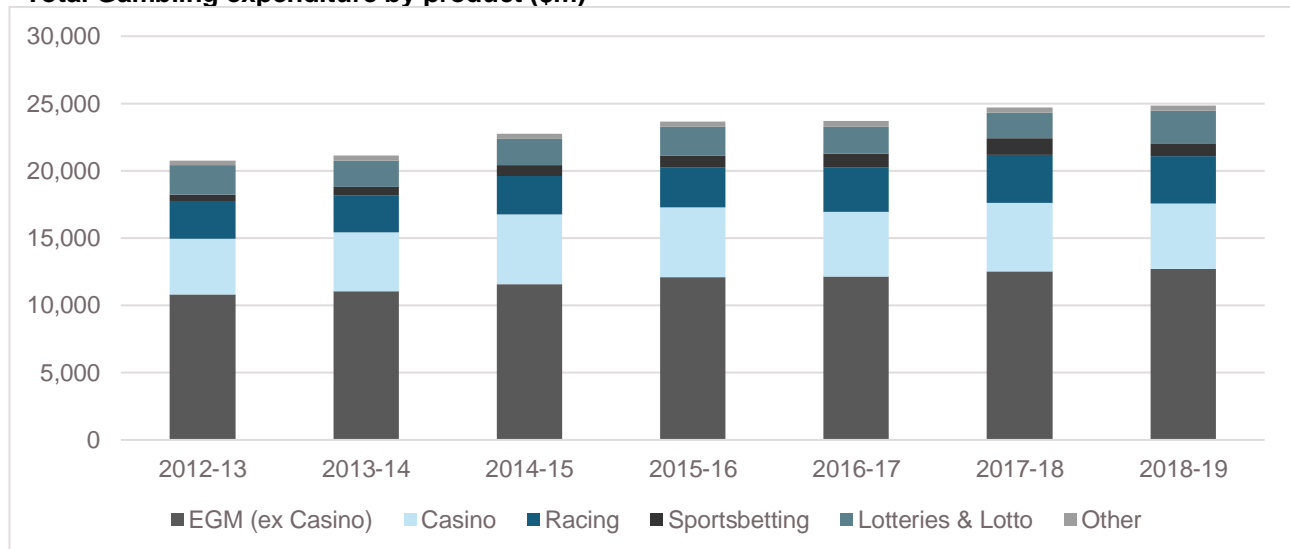
ESG Sector Spotlight – Responsible Gaming

Australia's gaming sector has come under intense scrutiny following the shocking revelations from the Crown and Star inquiries. The NSW Crime Commission is currently undertaking an inquiry into pubs and clubs (due end of October) and Tasmania recently announced that it will introduce mandatory carded play with pre-commitments across all gambling venues by 2024. Regulation across the sector is only increasing so it is imperative that companies instill a culture of responsibility and employ best practice to understand and manage the risks around responsible gambling. This includes:

- Anti-Money Laundering (AML),
- Counter Terrorism Financing (CTF),
- Harm minimisation and
- Know your customer protocols (i.e. source of funds)

Australian gambling expenditure has grown steadily at 2.9% CAGR over the past 15 years to c. \$25bn in 2019. Electronic gaming machines (EGMs) excluding casinos account for c. 50% of gambling expenditure, followed by Casinos (c. 20%), Racing & Sports Wagering (c. 20%) and Lotteries (c 9%).

Total Gambling expenditure by product (\$m)



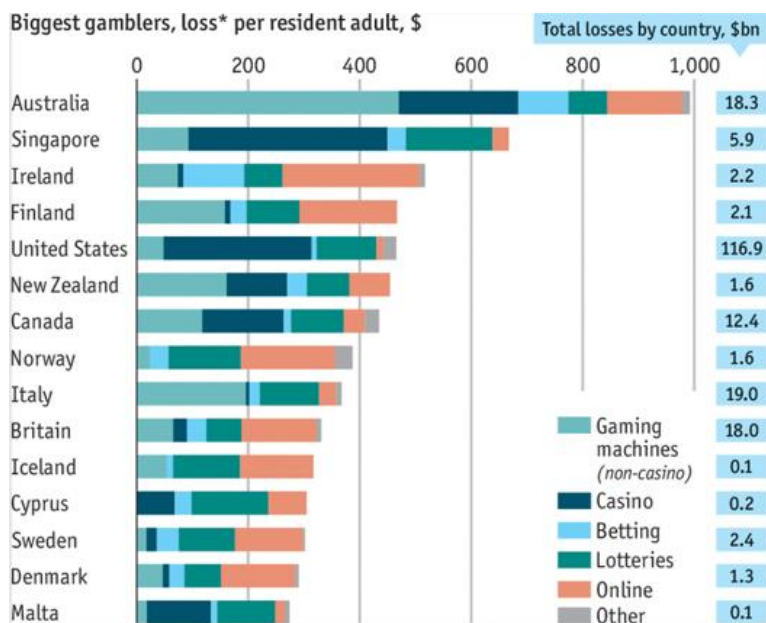
Source: Australian gambling statistics, JP Morgan

Given the broad-based nature of this topic and the materiality of EGMs in Australia, we have focused the content of this report to EGMs. We explore what technologies are available to promote responsible gambling, how ASX-listed companies are responding, the risks of non-compliance and how management are incentivised to promote responsible gambling.

The Fund holds positions in Endeavour Group, Aristocrat Leisure and The Lottery Corporation. Responsible gambling will be one of the key discussion topics when we catch up with Boards heading into AGM season. We share some insights into our meeting with the Endeavour Board last week in this report.

Why responsible gambling important?

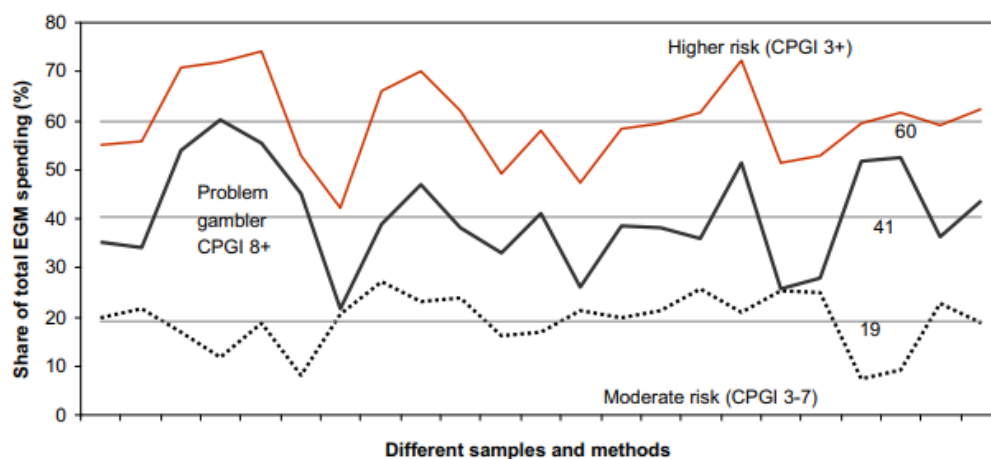
Australia is one of the most penetrated and developed gambling markets in the world with more than 80% of adults participating in some form of gambling. Australia's GGR per adult is 40% higher than Singapore, the 2nd biggest gambling market, and double the average of other Western countries. This is despite online real money gambling (RMG) being illegal in Australia.



Source: The Economist, H2 Gambling Capital. 2016. *Stakes minus payouts, excl expenses

The 2010 Productivity Commission report identified that the social cost of problem gambling to the community is estimated to be around \$4.7bn per year. The single biggest cause of gambling addiction in Australia are EGMs and c40-60% of revenues were derived from problem gamblers.

Figure 5.4 Higher risk gamblers account for a large share of gaming machine revenue
Australian jurisdictions 2003–2009^a



Source: 2010 productivity commission report

Technology tools to improve responsible gambling

The responsibility for gambling regulation in Australia primarily rests with the state governments which has resulted in considerable variability in harm minimisation policies across Australia. To date, efforts to prevent and reduce gambling harm have shown a lack of evidence in effectiveness or have been shown to be largely ineffective. These include; self-exclusion programs, training venue staff to interrupt observable problematic gambling and referring gamblers to help services.

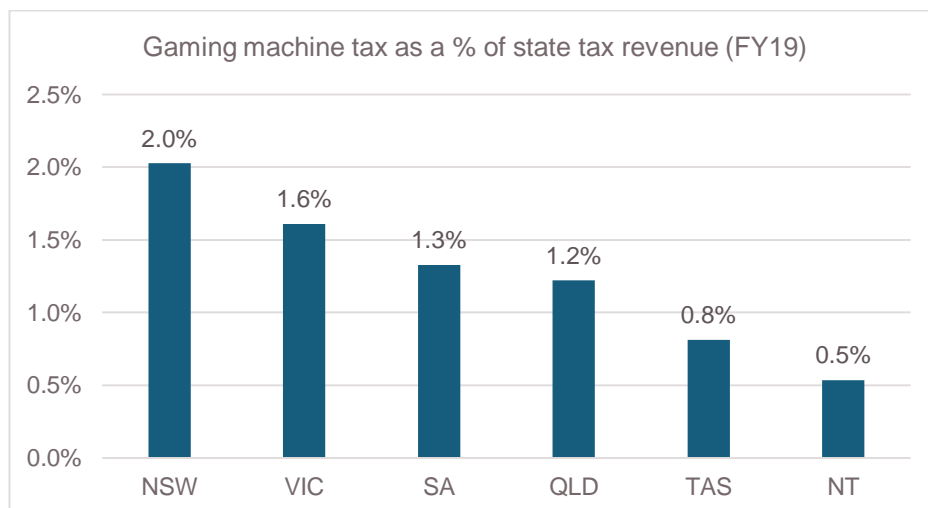
There is an opportunity in Australia to modernise harm minimisation through the use of technology. Two recent technologies that have been introduced are cashless gaming (with mandatory or voluntary pre commitments) and facial recognition.

1. Cashless gaming with mandatory or voluntary pre-commitments

In September 2022, the Tasmania government announced that it is looking to introduce a mandatory card-based scheme with pre-commitments by 2024 across all gambling venues. Key details are:

- Implementation of a mandatory registered card: Cashless with funds loaded using cash or debit card. Players must register their details to access the card.
- Mandatory pre-commitment limits: Players will need to set daily loss limits of A\$100/day, A\$500/month or A\$5,000 per year. When a loss limit is reached, gaming activity will not be allowed until the next default limit.
- Ability to increase limits: Players can request to increase limits however, the \$5,000 per year limit cannot be changed. Limits can be increased above this threshold with certification of the player's ability to sustain the proposed level of financial loss

It is worth noting that in Tasmania gaming machine taxes represent c.0.8% of total state revenue which is below the national average of 1.3%. Governments have a vested interest in the tax revenue benefits derived from gambling; yet governments also have an opposing need to respond to community concerns over the potential harm associated with some aspects of gambling. Balancing these conflicting interests, as well as dealing with other key stakeholders (lobbyists), has been difficult in the past and so the process of regulating the industry has historically been slow.



Source: Various state budget reports, WaveStone Capital

The Tasmanian Hospitality Association (THA) has accused the government of reneging on its promises claiming this policy is an attack on "freedom of choice". The THA believes that only 0.4 per cent of Tasmanians have a problem with gambling, and the government is punishing the 99.6 per cent.

Voluntary pre-commitment has existed in Australia for a number of years. Partial systems have been trialled at venues in New South Wales, South Australia, Victoria and Queensland, often as a component of loyalty or cashless gambling programs. In Victoria, the "YourPlay" voluntary pre-commitment scheme has operated since 2015, but a report found it only accounted for 0.01% of gaming machine turnover. We note

that post the inquiry into Crown, the Melbourne casino is looking to implement mandatory pre-commitment by December 2023.

In 2010, the Productivity Commission recommended the staged adoption of full pre-commitment systems across Australian EGMs, however these plans were discontinued following the amendment to the Commonwealth Gambling Reform Act 2012 and the enactment of the Gambling Measures Act 2012 in March 2014. These reforms prohibit a person to make a non-compliant gaming machine that does not include a pre-commitment system or dynamic warnings – essentially making the onus on the venue to ensure the EGMs are compliant.

Historically voluntary, opt-in models have seen little take-up as players see little benefits for themselves and there is generally a lack of promotion by venues, unless there is a loyalty program attached. And with that, there is a further layer of complexity as incorporating a pre-commitment into a loyalty program may provide players with conflicting messages about gambling spend.

Canada introduced mandatory carded play for Video Lottery Terminals (VLT) back in 2010, however, the program was later scrapped in 2014 following pressure from gambling operators and concerns that the system was not reducing problem gambling. One of the key issues was that personal identification was not linked to cards, so problem gamblers would use multiple cards which ultimately defeated the purpose. Tasmania's policy seeks to address this key policy shortfall by linking the player card to their own personal identification.

Mandatory pre-commitment systems have been introduced internationally with some success in Norway and Sweden. The system required all EGM players to register and set a limit on their daily and monthly spending, as well as time limit per day. An assessment of the impact of these changes demonstrated that losses fell following the introduction of new machines in 2009, whilst calls to gambling helplines reduced substantially, providing indirect evidence that the changes were successful.

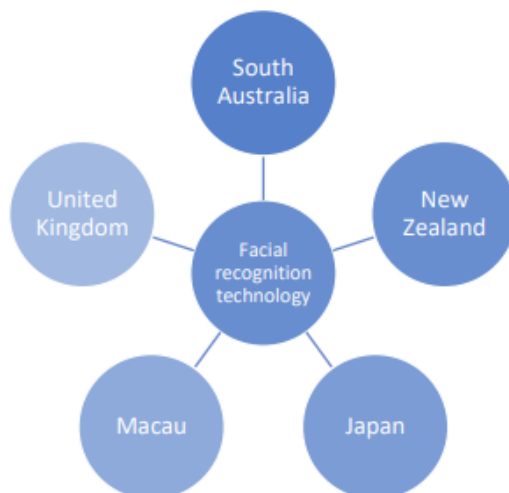
In Finland, the use of personal player IDs rose significantly in 2021 due to regulation, reaching up to 80% of the player base. A survey commissioned by Finland's state-owned operator, Veikkaus, showed that 0.8% of the population were classed as problem gamblers, compared to 1.6% a year ago. In August 2021, a compulsory loss limit was imposed to reduce the amount of money lost by gamblers on slot machines and data had shown that from September and October, up to 100k payers stopped gambling as they had reached their loss limits. Veikkaus is forecasting gambling revenue in 2022 to be 85% lower than 2019 due to these regulatory changes.

It is clear that Tasmania's decision to introduce mandatory pre-commitment has been based on evidence from Nordic countries that a full pre-commitment system can reduce problem gambling – albeit a voluntary or partial, incomplete system that does not require all gamblers to use the system has shown to be largely ineffective in reducing problem gambling. Further, international uptake of limit setting in partial pre-commitment systems is low - usually less than 1% and that people perceive partial systems to be useful only for people with existing gambling problems.

2. Facial recognition technology (FRT)

South Australia, New Zealand, and the United Kingdom use FRT as a tool for identifying excluded or barred patrons entering gambling venues. The benefits of FRT is that it reduces the burden of venue staff to identify and check excluded patrons, as well increasing the accuracy of identifying these patrons.

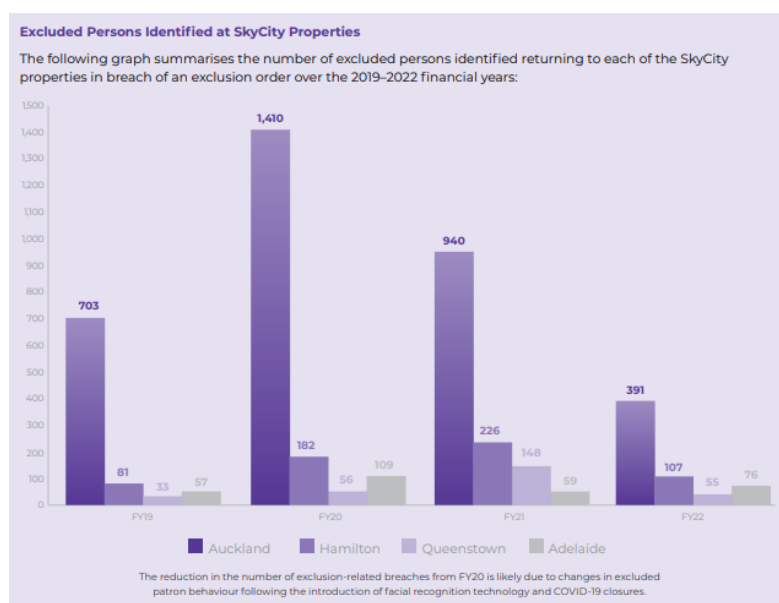
Jurisdictions where facial recognition technology is used



Source: Treasury Tasmania

There has been some evidence that FRT can assist in detecting self-excluded patrons. According to the Chief Executive of Christchurch Casino in New Zealand, Brett Anderson, 'we have been looking at an 88 percent success rate over a recent two-month period'¹ in relation to the facial recognition system used to detect voluntarily excluded persons.

SkyCity Entertainment first introduced FRT in 2019 across its New Zealand and Adelaide properties using cameras positioned at all entry points to the gambling areas to assist in identifying customers excluded from re-entering its casinos. Prior to the adoption of this technology, staff recall was the primary mechanism for identifying excluded patrons, which was prone to error and labour intensive. Pleasingly, the technology was able to identify 4,633 excluded persons returning to Sky City properties in breach of an exclusion order between FY19-FY22.



¹ New Zealand Community Trust, Facial recognition technology to help problem gamblers, <https://www.scoop.co.nz/stories/BU1903/S00250/facial-recognition-technology-to-help-problem-gamblers.htm> . 20 January 2022

However, concerns have been expressed about the technology's efficacy in the UK, as a 2019 trial by the London Metropolitan Police had a success rate of 20% due to short comings with the technology².

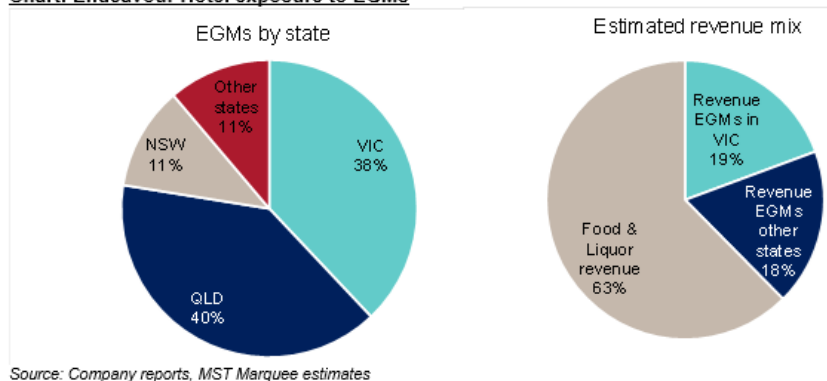
There are 3 key issues the industry will need to address in order to improve adoption of new technologies

- **Privacy** – While FRT & mandatory carded play provide a wide range of benefits to deal with responsible gambling, there is also a lot of privacy concerns surrounding the use of the technology without asking the permission from the players. Careful communication about the benefits of a system in preventing and reducing harm can serve to allay concerns consumers may have about a system that is capable of tracking their gambling spending or movement.
- **Staff training** – ensuring all staff are trained on how to properly use the technology, interpret data and deal with problem gamblers in a safe and appropriate manner.
- **Reliance on technology** – the technology should be approved by the regulator to ensure the effectiveness is in line with government policy. In addition to ensuring the technical feasibility of the system, consumer interfaces should be intuitive and simple to navigate to encourage engagement with all the features of the system.

How are ASX-listed companies leading in responsible gambling?

Endeavour has 150 gaming machines in Tasmania out of a total 12,539 across Australia (c 1% of fleet) and we estimate this is less than 1% of Group EBIT so the exposure is minimal to the overall group. However, we are cognisant of the potential risk that other states may follow in Tasmania's footsteps.

Chart: Endeavour Hotel exposure to EGMs



To manage this potential risk, **Endeavour** has installed voluntary pre-commitment capabilities on over 95% of the gaming machines that it operates. This program is a carded play system that allows customers to preset time and play limits and can be used in conjunction with a third-party monitoring system to allow staff to reliably identify customers who might have a problem with gambling.

In addition, Endeavour has been working with the Responsible Gambling Council of Canada since 2017 and in 2022 they completed a second independent review and audit EDV's gaming operations. The recommendations were as follows:

1. Enhance training programs to assist the gambling team with customer care
2. Extended promotion of voluntary pre-commitment and setting limits for customers
3. Made enhancements to privacy training and procedures
4. Stopped the service of complimentary alcohol in gaming rooms, including where permitted by law
5. Embedded a whistle blower platform to identify any issues across the business

² <https://www.forbes.com/sites/thomasbrewster/2019/07/04/london-police-facial-recognition-fails-80-of-the-time-and-must-stop-now/?sh=406daf75bf95>

WaveStone engaged with the Endeavour Chair and Head of remuneration as part of the 2022 AGM season and we were advised that all of the recommendations from the review had been implemented and that they are confident they can meet the mandatory pre-commitment requirements in Tasmania by 2024.

Endeavour introduced FRT in its South Australian venues in October 2021 to specifically combat problem gamblers with the intention to rollout the technology into other states, subject to regulatory approval. The company is also working with third parties on using data to observe patterns of play on EGMs that might encourage staff to intervene. **Star Entertainment** uses FRT in its Sydney casino and intends to deploy an extra 15 facial recognition cameras as part of its remediation plan to retain its casino license. Star will also soon rollout the technology in its Queensland casinos following the Queensland Review.

In terms of the slot manufacturers, **Aristocrat** is leading the way for the industry in Australia by participating in a 12 week gaming digital wallet trial at Wests Newcastle, in partnership with the NSW government³ which is scheduled for 2023. The opt-in digital wallet will be linked to a player's identity and an Australian bank account, and will include harm minimisation protections such as spending limits and real-time spending data. Aristocrat presented its cashless technology at the most recent Australian Gaming Expo and we were impressed with the product demonstration and ease of use with the customer interface. We look forward to discussing the key learnings from the trial with the company and sharing it with our investors.

We also note that Aristocrat offers voluntary pre-commitment functionality in New South Wales and the ACT via a module in Aristocrats proprietary venue management system (System 7000). This allows players to set spend limits over a period of 1, 7 or 30 days. System 7000 is installed in over 400 venues across New South Wales and the ACT, and 64 of these venues have voluntary pre-commitment enabled.

Tabcorp, through its Max Gaming business, provides gaming services to 84% of EGMs in Australia. All EGMs in licensed venues are required to be monitored by an independent party to ensure that are operating to compliance standard, as well as for taxation and research purposes.

What are the risks of non-compliance & potential response from regulators?

Following the inquiries into both Crown and Star, the Casino Control Acts in each respective state revised the maximum fine for breaches from \$100,000 (WA) or \$1m (VIC, NSW) to \$100m. In line with the Bergin inquiry's recommendation, Victoria passed through legislation to cap cash transactions into poker machines to \$1,000 day at Crown Melbourne and also requested the appointment of a special manager to oversee operations for 2 years.

Historically, financial penalties or fines for breaches within the pubs and club's system for non-compliance or failure to adhere to responsible gambling practices has not exceeded more than a few hundred thousand dollars. A few recent examples include:

- Rose & Crown Hotel Parramatta – fined \$78k for facilitating cash advances for gambling via a system of fake transactions
- Dee Why RSL – fined \$200k for providing services that encouraged the misuse and abuse of gambling activities
- Westtower Tavern & South Tweed Taven – fined \$200k for offering free or discounted alcohol to induce gambling

According to Endeavour's 2022 annual report, a small number of transgressions resulted in less than \$10,000 in fines. In our view, there is a potential risk that the financial penalties for the pubs and clubs may increase at some stage, though it is our understanding that this is not currently being explored by the regulators at this point in time.

In terms of compliance costs, our discussions with private pub and club operators has confirmed that AUSTRAC is stepping up its interest in the space by increasing the number of educational visits and requesting more data (e.g. suspicious matter reports). In response, operators have put in place new bi-

³ <https://www.liquorandgaming.nsw.gov.au/news-and-media/first-trial-of-cashless-gaming-technology>

laws to cease relationships with high-risk customers and invested in better systems to adhere to reporting obligations.

Compliance costs for the casino industry have increased on the back of the casino inquiries. Crown called out the increased cost of regulatory and compliance costs as being \$30m p.a. higher than FY19 (~1.4% of sales). Star Entertainment and SkyCity are likely to see similar step ups in compliance costs, akin to the Banks post the Royal commission. It is likely we will see compliance costs for the gaming industry to increase as a whole .

The NSW Crime Commission (NCC) is currently undertaking an inquiry into money laundering in pubs and clubs with the final report expected to be published by the end of October 2022. One of the main issues raised which caught our attention were EGM credit limits.

EGM credit limits

A credit limit is the maximum credit balance which may exist before a machine's note acceptor must be disabled. The current credit limit in NSW ranges from \$5,000 to \$9,999 depending on the date the EGM was manufactured. By comparison, in other states, it is:

- a) \$1,000 in Victoria
- b) \$1,000 in Northern Territory
- c) \$100 in Queensland
- d) \$99.99 in South Australia

This regulatory loophole effectively allows players in NSW to deposit \$5,000 cash or more at any one time, then immediately cash out, effectively 'washing' the cash . Further, clubs are only required to make reports for transactions over \$10,000 to the regulator AUSTRAC. A ClubsNSW whistle blower has made claims most launderers worked just below the threshold to avoid raising suspicions around money laundering. AUSTRAC's 2016 cheque register campaign revealed a significant number of venues have not reported suspicious activity related to money laundering.

In our view, it would be reasonable to assume that the NCC could reduce the credit levels for EGMs more in line with the other states. Lowering the credit limit would reduce the amount of cash that can be inserted into an EGM at any one time, thereby making it harder for criminals to cleanse illicit money by claiming it back via a ticket or cheque and also minimise harm for problem gamblers that are participating in uncarded play.

How can Boards ensure that responsible gambling/ESG is taken seriously?

Boards should have full oversight and approval of the responsible gaming strategy set by management. It is important that Boards hold management accountable and that there are incentives in place for them to do the right thing.

The below table summarises the incentive structure for management linked towards responsible gaming/ESG, as well as our observations.

Company	Remuneration linked to Responsible Gambling	WaveStone comment
Aristocrat	<ul style="list-style-type: none">○ 30% of mgnt STI is linked towards risk management which includes an ESG component. 70% linked to NPATA, subject to meeting FCF conversion gateway.○ 40% of management LTI limited to individual performance which includes responsible gameplay leadership. 30% TSR and 30% EPS	<ul style="list-style-type: none">○ The % linked towards responsible gameplay is not separately quantified○ The performance metrics in addressing sustainability and responsible gameplay are not publicly disclosed
Endeavour	<ul style="list-style-type: none">○ Link 20% of LTI in place for senior leaders to 'Leading in Responsibility'. 40% linked to TSR and 40% ROFE.	<ul style="list-style-type: none">○ No STI link towards responsible gambling, only customers satisfaction (20% weight) and employee safety

		(20% weight), with other STIs based on financial metrics
Tabcorp	<ul style="list-style-type: none"> 10% of STI related to operational excellence (including risk and compliance). 	<ul style="list-style-type: none"> No LTI linked implicitly towards responsible gaming – 75% TSR and 25% ROIC
The Lottery Corp	<ul style="list-style-type: none"> TLC calculates the STI pool and is then adjusted by a 'Sustainability assessment modifier' at the Board's discretion The individuals STI is then based on a weighted performance scorecard, of which 10% is related to operational excellence in relation to compliance and reputation towards the highest standard of responsible play 	<ul style="list-style-type: none"> No LTI linked towards responsible gaming – 100% TSR based with a review looking to add a ROIC component in FY24
Star Entertainment	<ul style="list-style-type: none"> 10% STI linked towards regulatory compliance and risk management (will increase to 20% for FY23, with the extra 10% weight taken from normalised NPAT) 	<ul style="list-style-type: none"> No LTI linked towards responsible gaming – 33% TSR, 33% EPS & 33% ROIC
SkyCity Entertainment	<ul style="list-style-type: none"> From FY23, SkyCity will introduce a new compliance gateway which incentivises participants to ensure that SKC is responsive to any compliance breaches. STIs will have a 20% weighting towards compliance which encompasses goals specifically relating to anti-money laundering, host responsibility, and health and safety. 	<ul style="list-style-type: none"> The groups FY23 LTI is currently under review given the removal of Crown Resorts from comparative group makes TSR a difficult measure.

The table highlights how there is a wide-ranging approach to integrating ESG/responsible gambling into management remuneration. Clearly, the hurdle has been set higher for the listed-casino operators post the casino inquiries – with both Star and SkyCity lifting the STI weighting for compliance/risk management from 10% to 20%. Interestingly, Endeavour already has 20% linked to leading in responsibility, albeit in the LTI rather than STI, which we view positively as ESG should be viewed with a long term lens in order to be sustainable. We also appreciate the fact that Endeavour has disclosed the following long-term commitments, which can be measured, to ensure they're leading in responsibility:

- By 2025, reach 5 million people with campaigns on responsible consumption and harm minimisation (target per campaign)
- Increase awareness of voluntary pre-commitments through proactive campaigns and communication
- Maintain the largest range of low and zero alcohol alternatives
- Employ innovative technology to identify and support customers who may have a problem with gambling

Aristocrat is the only ASX-listed gaming company to have both an STI and LTI component linked to responsible gaming. However, the disclosure around the performance metrics lacks detail. We will engage with the Board to see what further information they could provide going forward.

We do know from our prior engagements with the Company that Aristocrat remains committed to operating in regulated markets only. This commitment was highlighted in the recent bid for Israeli-based online real money gaming platform, Playtech, where ALL chose to disclose that it would shut down the unregulated Asia part of the transaction. In our view, this ultimately led to the shareholders of Playtech voting against the Aristocrat bid.

Conclusion

Regulation in the Australian gaming industry has historically moved at a glacial pace. The political intention to change the industry for the betterment of overall society is there. However, there are other factors (stakeholders, lobbying, financial considerations) to consider which has historically stifled progress. There remains a risk that the fallout from the casino inquiries could see a potential step change upwards in fines or penalties to the industry as a whole – thereby increasing the financial risk. Nevertheless, our conclusion is that Endeavour and Aristocrat are well-positioned to deal with potential changes in regulation should they arise and will continue to lead the industry in best practice. However, more work needs to be done, and we will keep engaging with companies to ensure they do the right thing.

Carbon Emission and Intensity Tracker:

WaveStone - Australian Share Fund (WASF)	Carbon Emissions Scope (tonnes CO2e)		
	Scope 1	Scope 2	Total
Portfolio - WASF	18,970	5,915	24,885
Benchmark - S&P ASX 300 Accumulation Index	34,360	11,475	45,835
Difference	-44.8%	-48.5%	-45.7%

Source: MSCI ESG (as at 30/09/2022)

WaveStone - Australian Share Fund (WASF)	Carbon Intensity Scope (tonnes CO2e/sales)		
	Scope 1	Scope 2	Total
Portfolio – WASF	87.20	24.40	111.60
Benchmark - S&P ASX 300 Accumulation Index	95.19	40.22	135.40
Difference	-8.4%	-39.3%	-17.6%

Source: MSCI ESG (as at 30/09/2022)

Selection of ESG Insights from the Quarter

Santos Limited (STO) – Environment and Climate

The Federal Court took a decision in late September to set aside the acceptance by the National Offshore Petroleum Safety and Environmental Management Authority (NOPSEMA) of an environmental plan covering the drilling and completion activities in relation to the Barossa Gas project – the drilling site was in the Timor Sea, 140km north of the Tiwi Islands. The Court's decision was based on a finding that Santos had not consulted with each person that it was required by the Regulations to consult with.

The \$3.6B Barossa offshore gas project, which is 46% complete, is meant to be backfill for the Darwin LNG plant – adding 20 years of life to the existing facility which can produce up to 3.7mtpa of LNG. First gas was targeted for 1H2025 – but the stoppage is likely to pose delays to the project. The company has taken the view that the decision should be reviewed by the Full Federal Court on appeal.

Transurban (TCL) – Governance

Transurban received a first strike against its remuneration report at its 2021 AGM primarily due to shareholder frustration that the delays on the West Gate Tunnel project were not reflected in management outcomes. Whilst we shared these concerns, we could see the sense in waiting for a resolution of the issue, so management outcomes could reflect the known financial impacts of any eventual agreement.

Given the importance of this issue, over the course of FY22 we actively engaged with the Chair and Management on remuneration, governance and succession issues, reiterating our desire to see the extra costs associated with WGT reflected in management pay. In our meetings it was clear the board had taken

on the learnings from the FY21 AGM outcome and were intent on reflecting the additional costs and delay at WGT in the FY22 outcomes for the executive team via some form of downward discretionary adjustment. We also recognised the need to find a mechanism that allowed for recognition of individual achievements throughout the year, whilst also ensuring the executive shared the negative impact with shareholders. We regard the -50% downward discretionary impact on the FY22 STI for Scott Charlton, the -20% impact for Henry Byrne, Michelle Huey, Sue Johnson and Hugh Wehby and the -10% for Michelle Jablko and Sue Moorfield as appropriate in this context. We are also encouraged to see the return of the FCF measure in LTI and the extension of the plan to four years.

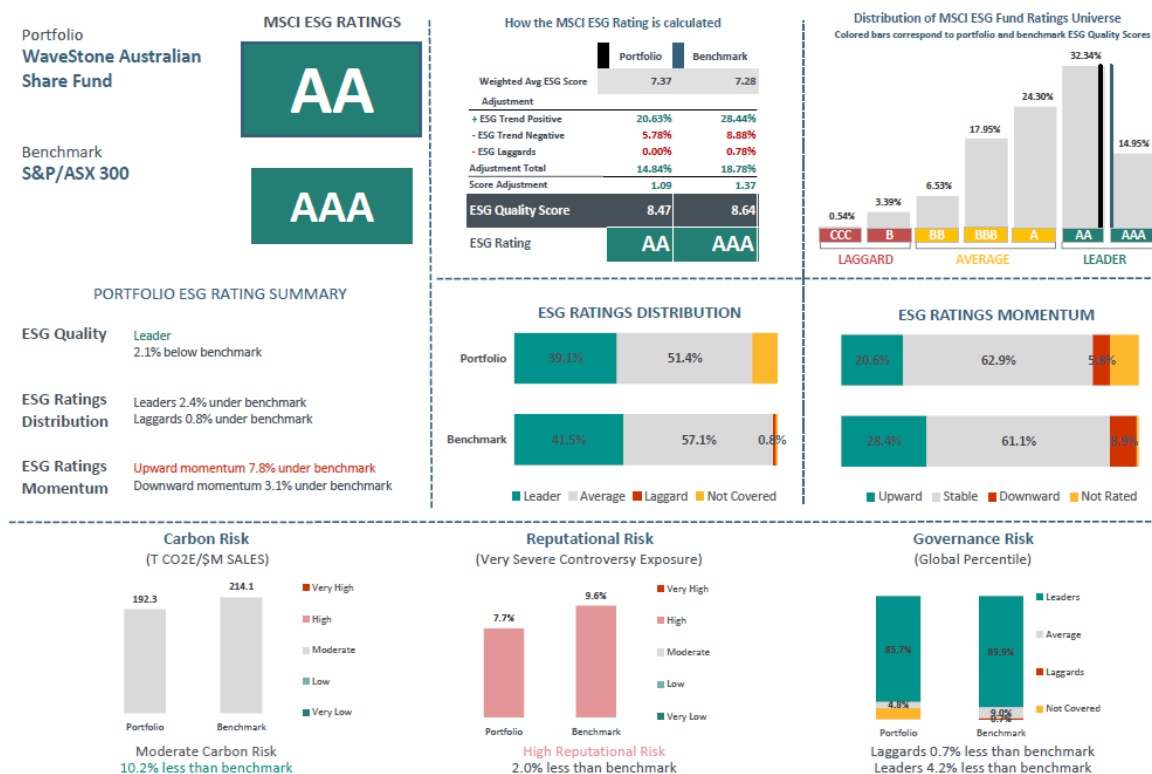
Cleanaway (CWY) – Social

Our discussions with CWY revealed the company recorded three work related fatalities during FY22. While CWY was deemed to be not at fault, this is still a disappointing outcome and our thoughts go out to the family, friends and colleagues of the individuals affected. Following the FY22 result we spent some time with management to better understand the HSE and People and Culture initiatives being undertaken by the new management team.

The variability in the materials handled and processes involved within the waste industry makes HSE risks harder to mitigate. Mark Schubert is now a little over a year into his role and has implemented a number of initiatives to improve group TRIFR and lift process safety. Worley has been engaged to implement a new centralised asset register to more closely monitor and track asset replacement cycles. Branch managers are reportedly well versed in financials with CWY now rounding that out with broader leadership training. These initiatives should help with culture and safety in future years and build on the work management has already done to improve gender diversity within the organisation. HSE and People & Culture metrics comprise 20% and 15% of managements STI respectively.

Pleasingly CWY has increased its female representation from one to three directors (now 33% above CWY stated target for 30%). At a management level, they achieved 25.5% of females in management roles in FY22 versus a 22% target. Female representation at the operational level is lower (at 7.4% versus a 7% target) but pleasingly management have adopted new approaches to shift rostering (such as more flexible timing around school hours) and hiring (training cohorts of women) to directly tackle the issue. Group female representation has been given a strong 10% weighting within the STI.

MSCI ESG Ratings*



Since the June quarter the portfolio's ESG Rating as measured by MSCI has fallen from AAA to AA. While the unadjusted score for the portfolio has remained relatively flat over the period the trend adjustment has declined causing both the portfolio and benchmark rating to come down. Unfortunately, the portfolio's score has just dipped into the AA band with the benchmark sitting toward the lower bound of AAA. Our underweight position in BHP and CBA was the primary driver of this as it resulted in the portfolio being less exposed to the upward re-ratings of these names as the benchmark. This may in part be the effect of timing of the year-end given disclosures typically align with the Annual reporting cycle (CBA is June and the other banks September).

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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**

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