EQUITY

A magazine from ASA – The voice of retail shareholders

Shareholders want to be heard

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ASA News and Events

If you have an idea for an *EQUITY* article, please contact the Editor.

From the CEO

By **Rachel Waterhouse**, CEO

Lockdowns are still in place for a large number of Australians, with many economists predicting that consumer spending will bounce back when vaccinations increase and restrictions ease. At the time of writing this update, the S&P/ASX200 doesn't appear to be troubled by the restrictions, continuing to perform strongly after last year's end of March tumble.

I look forward to seeing everyone in person before the end of the year and I hope to see you soon.

Virtual Investment Forum – Grow your portfolio through LICs and ETFs

We are excited to be running a Virtual Investment Forum in late November, in which we will explore Listed Investment Companies (LICs) and Exchange Traded Funds (ETFs). We know many members hold LICs and ETFs and that others would like to know more about these investment vehicles.

ETFs are a low-cost way to earn a return similar to an index or a commodity, and can help to diversify your investments. You can buy and sell units in ETFs through a stockbroker or share trading platform, the same way you buy and sell shares.

LICs are incorporated as a company and listed on an exchange and many operate like a managed fund, with an external or internal fund manager who selects and manages the company's investments. They allow investors to be exposed to a broad range of assets per transaction. The LIC sector had a strong profit reporting season with many companies declaring increases in dividends.

Like many investors, I am continuing to learn more about these asset vehicles, and I recently purchased two ETFs to add to our portfolio as part of my husband and my investment plan, so that we could gain access to global markets and shares.

Our Virtual Forum will be held live across two half days on the 23 and 25 November, and recordings will be made available afterwards. We are excited about the Forum, and the opportunities it will create, and I encourage you to attend it. Thank you to all of our sponsors. Please visit australianshareholders.com.au/virtual-investment-forum to see the program and speakers.

Voting intentions

As the voice of retail shareholders, often companies will meet with and listen to us because we represent the views of non-institutional investors. This is assisted by us holding a significant number of proxies.

As we enter the AGM season, we'd appreciate your ongoing support in this way. Please provide your proxies to ASA, either for a specific AGM or as a standing proxy, so that we can continue to represent the retail shareholder class.

As always, thanks to our company monitors, who take the time to review a company's performance and provide voting intentions for ASA members. You can find the voting intentions on the ASA website.

Estate planning video series

The estate planning short video series is proving to be popular with members: "It's a fantastic series!"; "It's close to being the best $55 I've spent in recent memory!".

Peter Bobbin, Principal Lawyer at Coleman Greig Lawyers, lays out what you need to know, so look for the series in the education/resources section of the ASA website.

What's happening this month

The October issue of EQUITY has a range of articles relevant to the retail investor, including: on BHP and Woodside; SMSF and expenditure rules; highlights from a 2021 First Half trading behaviour survey; the impact of a crisis on a share price; CEO pay and upcoming AGM issues; class actions in Australia; and an examination of Evolution Mining.

ASA Online Forum

Did you know that ASA has an online forum for members? This forum provides members with an opportunity to post content, comment and build your knowledge through engaging with other members on retail investor issues.

The online forum is moderated by member Bill Dodd. We very much appreciate his support and the work he puts into the online forum. John Cowling and Damien Stryker, our Policy and Advocacy Coordinator, also moderate and post content in the online forum.

I encourage you all to sign up to the forum. If you have a user ID, but cannot remember your password, you can reset it, or get in touch with us and we'll help you to reset it.

Tell us what you think

Feedback helps us to know how we're going and to improve our services to members, so send through any comments to me at ceo@asa.asn.au or call on 0402 336 352.

CEO pay and AGM season issues

By Fiona Balzer, Policy and Advocacy Manager, ASA

Company insiders, shareholders and other stakeholders know the company's remuneration framework impacts the company culture.

A poorly constructed or poorly implemented framework leads to executives and staff focusing on the wrong levers and behaviours. It allows systemic problems to grow, as highlighted so well in the final report of the Royal Commission into Misconduct in the Banking, Superannuation and Financial Services.

Shareholders expect the board and it's directors to act as effective stewards. ASA holds the directors accountable for the remuneration structure and its consequences on behalf of retail shareholders.

We want to know that the directors have asked the question: "How much is too much?" And to know they have investigated what culture and behaviours their existing and future remuneration schemes are likely to encourage.

Our ASA company monitors read and vote on the company remuneration reports. As these can be quite complex, it is helpful that a number of organisations research the topic and publicly release their reports.

The Australian Council of Superannuation Investors (ACSI) released results of its 20th survey of large companies' remuneration. *CEO Pay in the ASX200* is the 11th report conducted by research partner and proxy advisor, Ownership Matters.

ACSI members include 36 Australian and international asset owners and institutional investors that collectively manage over $1 trillion in assets and own on average 10% of every ASX200 company.

The research analyses data published by companies for the 2020 financial year and reflects the impacts of the COVID-19 pandemic on company performance and remuneration outcomes.

The research finds that pay outcomes for CEOs at Australia's leading companies fell to their lowest levels in more than a decade in the 2020 financial year, and almost one third of ASX100 CEOs received no bonus in the past financial year.

Median realised pay for ASX100 CEOs fell 3.6% to $3.99 million. For ex-ASX100 CEOs it dropped 22% to below $1.70 million. Median reported pay (statutory pay or total pay according to Australian regulations) fell 18.6% to $3.68 million, the lowest level since 2006.

Shareholders are happy to support a decent reward for the CEO for a job well done, but we sometimes see executives doing very well while shareholders suffer poor returns. It was expected remuneration levels would fall during the pandemic and it was positive to have the expectation satisfied.

Aon and Governance Institute of Australia have also released a report on remuneration, showcasing the results of the 2021 *Board and Executive Remuneration* survey. This survey combines data of 413 organisations across various industries and sizes. This includes board and executive data from 283 of the ASX300 in addition to the members of the Governance Institute and clients of Aon, so its broader than the information shareholders see in individual annual reports. It similarly showed remuneration being put on hold.

This moderation on remuneration is one of the reasons ASA expects the AGM season to be reasonably benign on the remuneration front.

There will a great deal of focus on what has led to Crown Resorts regulatory woes, but with all the changes of executive and directors there are few directors to vote against. The two longest serving directors have held the role since 2018. Crown has developed a comprehensive remediation plan and has made substantial progress in implementing it.

There will be a focus on companies that have thrived and paid executive awards, while retaining government assistance such as the JobKeeper payment. However, this is an ever-reducing number of companies. Harvey Norman, for example, announced after its year-end that it has repaid all of the wages support and assistance received by controlled entities in Australia of $6.02 million (FY21: $3.63 million and FY20: $2.39 million) to the federal government via the Australian Taxation Office. The remainder of the payments had been received by the franchisees and not repaid.

Much of the heat is expected to be on the corporate actions such as mergers and acquisitions, proposed schemes and demergers. Retail shareholders are interested in how directors will be looking after their interests and how they should view these transactions.

What's next after a positive earnings season

By Craig James, CommSec Chief Equities Economist

Twice a year, CommSec provides a detailed look at the company profit reporting (earnings) season.

The latest earnings season has just been completed. In total, 171 companies reported their earnings results (142 companies reported full-year results to June 30 and 29 companies issued half-year results).

Overall, August 2021 reporting season was better than the past two but short of the results obtained in 2017. The good news was that companies lifted profits and trimmed losses. As a result, cash at hand is now at lofty levels. This has permitted more companies to issue dividends, special dividends or buybacks.

Not all companies are using the cash to issue dividends. Caution still exists. In fact, 19% of companies won't issue a dividend (long-term average, 15%). Those that are issuing dividends are providing bumper capital returns.

The profit results further emphasised how positive conditions had been for many listed companies over the past year supported by government and central bank stimulus, economic recoveries overseas and improved local job market conditions. And, while a stand-out of the earnings results from listed companies was the increases in dividend payments, there wasn't a shortage of companies wanting to pursue growth opportunities.

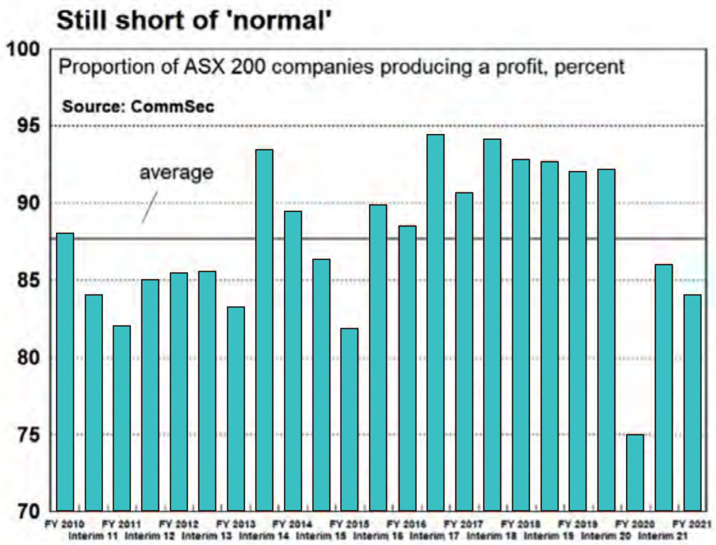
While 82% of companies reported a profit, this is short of the near 88% long-term average. But more companies reported either higher profits or smaller losses.

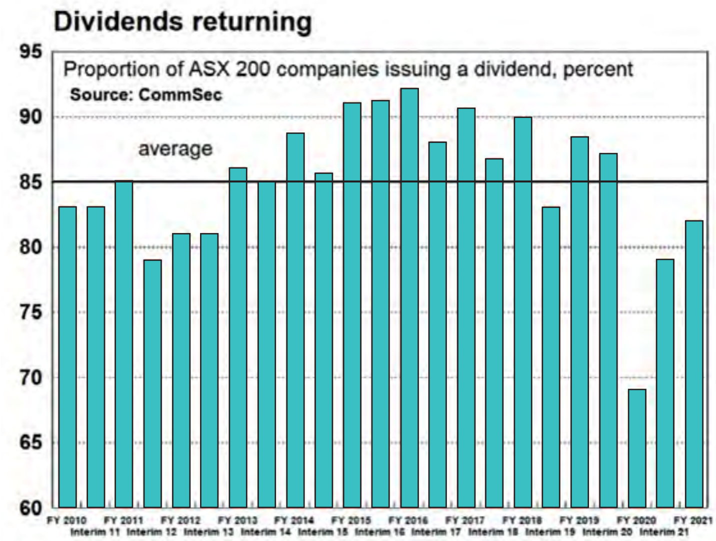
A key trend in the reporting season has been the desire of companies to reward shareholders for their loyalty. Dividends announced totalled $41 billion. And, a key issue for companies over the reporting season has been to determine what "living with COVID (LWC)" will mean, with some predicting tougher times ahead.

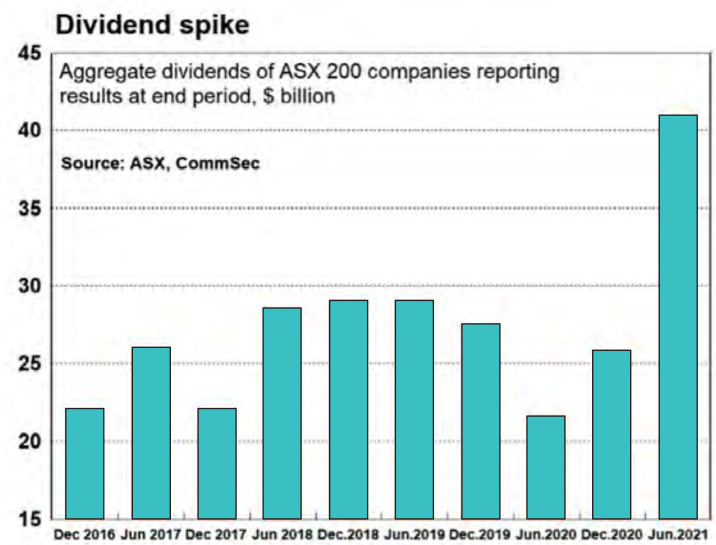
Looking ahead

The answer to all questions is COVID-19. Economies will re-open in coming months, allowing some return to the "normalcy" of daily life when vaccination rates hit critical levels of 70-80%. It is hoped that this will allow us to effectively be LWC without over-loading health systems. But while lockdowns may soon become a thing of the past, the economic recovery is expected to be bumpy as Aussies adjust to LWC.

But much can change in a relatively short period of time. Back in May and June, Australia was seemingly on top of COVID-19 and then the Delta variant became dominant, driving economies back into lockdown. Businesses in many







economies re-open with services like travel, hospitality, recreation and personal services potentially outperforming.

Of course, the biggest "wildcard" remains our top trading partner China. The country has recently dialled-back its demand for Aussie resources on concerns about inflated raw materials costs, yet another clamp-down on pollution in the steel industry and speculative activity in the property sector. Weaker commodity prices, especially iron ore, suggest that miners' cash flows will be more subdued in the year ahead. Nevertheless, resources earnings growth is likely to remain healthy with late cycle commodities and the pivot to renewables supportive of profits.

Corporate Australia is cashed up. While some of the funds are being returned to shareholders, there is ample scope for increased investment and/or consideration of mergers and acquisitions. Given the uncertainties posed by COVID-19, the risk is that some companies may turn conservative and fail to embrace the opportunities presented by the re-opening of economies. Investors need to be focused on the strategies adopted by companies, especially the balance found between short-term and longer-term considerations.

With the health crisis lingering and COVID-19 booster shots to be rolled out, healthcare companies will continue to be "safe haven" beneficiaries in the coming financial year. The pipeline of residential and infrastructure construction will remain healthy until at least early 2022, supporting construction materials companies. And, insurers will continue to benefit from rising premiums.

After rising 24% in 2020/21, the ASX 200 is still up by around 21% on a year ago. While earnings over the past year have partly validated higher share prices, valuations are still high, with the price-earnings ratio at 19.61. At the same time, outlook in the "new COVID" environment is still cloudy. Central banks are mulling issues such as whether the recent spike in inflation is more transitory or permanent and the implications for monetary policy. While stimulus could be pared back as the economy regains its pre-Delta footing, interest rates are likely to remain anchored at record low levels until 2023/24, with the investor search for yield and attractive dividend yields of Aussie-listed companies supporting share prices.

As a result, we remain cautious about the outlook for the share market, expecting the S&P/ASX 200 to be in a range of 7,500-7,700 points by mid-2022. Despite our caution, if the forecast is achieved it would translate into an attractive annual gain of around 12%.

The full report can be found here: https://www.commsec.com.au/content/dam/EN/ReportingSeason/august2021/CommSec_Reporting_Season_Wrap_August2021.pdf

Changes to laws around class actions leave investors high and dry

By Miranda Nagy, Principal, Maurice Backburn Lawyers

The priorities and actions of the Morrison government have been under the spotlight lately, with the pandemic stretching on late into a second year thanks in large part to a bungled vaccine rollout and inadequate quarantine arrangements that are sending our largest cities and economies into lockdown after lockdown.

In early in 2020, while attempting to deal with the evident challenges that accompany a global pandemic, the federal government convened a partisan inquiry into class actions and the litigation funding industry. This is despite not having taken any meaningful action to respond to the recommendations of three independent reports – from the Victorian Law Reform Commission, the Productivity Commission and a ground breaking year-long inquiry by the Australian Law Reform Commission. These all found the class action regime was working well, but improvements, such as allowing contingency fee billing as an option, could drive down costs to participants and improve client outcomes and access to justice.

So, why another inquiry? The reason, quite simply, is that the previous reports had failed to give the government the outcome that it wanted – a way to demonstrate to its voter base that it could strangle class actions in Australia.

Under the scrutiny of a recent Senate inquiry, neither Treasury officials nor anyone from the Australian Institute of Company Directors could name a single "opportunistic class action", a popular refrain from a government claiming to protect the interests of retail shareholders. In 2020, there were 14 shareholder class actions launched, in 2019 there were 11 – hardly numbers that warrant drastic changes to an effective justice system.

Despite all of this, there have been recent changes to the *Corporations Act 2001 (Cth)* that make it more difficult to pursue corporate wrongdoers who fail to disclose information to the market, effectively giving a free pass to serious misconduct. In addition to watering down continuous disclosure legislation, other changes now force litigation funders to register their class actions funding as managed investment schemes, rather than recognising the people participating in class actions are not investing in a product. They are people that have been wronged and are seeking some redress for the alleged illegal conduct. There is the threat that lawyers running class actions might also be captured by the same inapt requirements, all in the name of restricting how people that have been wronged can access legal remedy when they need it.

As part of the suite of changes to the *Corporations Act* that passed the Senate in August 2021, the government made permanent a "fault" element, requiring that a company must have acted with "knowledge, intent or recklessness" to be liable for breach of the continuous disclosure laws and subject to a class action. Compare this to an individual overlooking disclosing something to their insurer when seeking cover. In this situation, the insurance agency can void a legitimate claim even if the individual can prove the mistake wasn't intentional. There is a penalty here to the individual for inadvertent non-compliance with a disclosure requirement.

From now on, large, well-resourced companies who pay people to monitor their disclosure obligations (which investors rely on) will not be subject to the same playing field as retail investors. Australia appears to be the only developed western economy where shareholders relying in good faith on corporate disclosures can be denied a remedy for misstated profits and misleading accounts. It doesn't seem right or fair, but it's an indication of where the federal government's priorities lie.

Of real concern is that under the new laws, companies that misstate their profits and publish financial accounts that are seriously wrong may well face no consequences. This is because under the changes a company that publishes incorrect accounts may say it wasn't knowing, negligent or reckless, because it relied on its auditor. And, because the disclosure obligation is on the company, the auditor will be able to say it wasn't "involved" in any contravention by the company (because there won't be one). But the real kicker is that because of Treasurer Josh Frydenberg's laws, no one – not the company nor its auditor – will be liable for misleading or deceiving investors and investors will be left high and dry.

Effectively, these changes are giving corporate wrongdoers a free pass from the government. They put the interests of the powerful business lobby ahead of those of individuals such as members of ASA, for whom market integrity and transparency are critical to making sound investment decisions.

I would suggest that the federal government's efforts in this area would be better directed to focusing on curbing the corporate wrongdoing that gives rise to class actions and how to enhance, rather than limit, access to justice. And perhaps, there are bigger, more pressing issues than a class actions regime that is functioning pretty well. E

Miranda Nagy spoke about class actions in August on an ASA webinar. You can find it in the webinar library here: Webinar recordings (australianshareholders.com.au)

The heavy cost of a crisis to share prices

By Craig Badings, Partner, SenateSHJ

How much is an organisation's reputation worth? What is the financial impact of a damaged reputation?

Much is said and written about personal brand and company reputations. And these two questions are often asked but not answered. But we set out to do just that here.

When all is said and done, reputation rests on three pillars: context, stakeholders and culture.

Context is critical because what happens around you can dictate the level of risk associated with an organisation's operations and your business decisions. That is true from a government, social, environment and economic perspective.

What was acceptable 20 years ago may not be today. What is right according to the letter of the law, may not be perceived as right according to shifting community moral standards.

Stakeholders are equally critical. If organisations fail to engage with stakeholders – listen to them and tap into their zeitgeist – they increase their reputation risk.

Finally, there is culture, probably the most important factor. An organisation can have the best reputation and risk management practices in the world but if its culture is not aligned with its values or purpose, it dramatically increases its risk exposure. Almost every crisis in which SenateSHJ has been involved, as well as most I've read about, stem from poor behaviours.

The mark of culture is defined by the smallest behaviours management is prepared to accept. Misjudgement or mismanagement in this regard can land it in a crisis. It costs money and damages reputation equity. Reputation accounts for a large portion of an organisation's intangible asset value. In fact, a Cap Gemini EY study in 2003 found that 80% to 85% of market value of S&P 500 comprises intangible value.

So, what is the true impact of a crisis on this intangible value? To find out, SenateSHJ worked with Gautham Ravi, a data scientist from UTS.

The study, *Crisis Value Erosion*, included ASX- and NZX-listed companies which had experienced a major crisis over the past 10 years. Among them were NAB, AMP, CBA, Cochlear, Qantas, AWB, Channel Seven, Ardent Leisure, BHP, David Jones and NZX company Michael Hill.

The findings were eye-opening.

The hit to their market capitalisation ranged between $12 million to $6.4 billion. On average, they experienced a 30% drop in earnings per share (EPS). Share prices took between eight to 12 months to recover and in some instances, had yet to recover to pre-crisis levels at the time of the research.

The total loss in market capitalisation across all 11 companies was A$12.606 billion. Market capitalisation loss was calculated from the time of the crisis to the point of share price recovery or the point at which the share price flatlined.

In one instance, it took nine years for one company's share price to recover to pre-crisis levels while another recovered swiftly because of the positive and prompt actions taken by management.

The research also considered daily media sentiment, closing share prices and share price recovery time. Besides the obviously large financial implications, in the case of two companies, media sentiment took years to turn positive. In one instance, it still hadn't when we completed the research.

Most of these crises could be attributed to culture. Specifically, this included one or a combination of the following: an imbalanced focus on shareholders versus the customer, poor governance, underreporting, understaffing, unrealistic deadlines, poor training and staff development, a lack of accountability and measurement, and management style.

Despite the cost to a company, the impact on personal reputations and the potential loss of executive and other jobs, just 50% of Australian organisations have a crisis communication plan, and only 18% test their plans annually.*

This is worrying given what is coming. Corporate culture has been tested in new ways during the pandemic, but a much larger culture test awaits post the pandemic.

The challenge for many companies will be the potential cost of taking short cuts to get ahead quickly. It may require behavioural trade-offs that can lead to damaging reputation results.

Corporate behaviour and by implication, culture will be severely challenged and with it, loom reputational risks. In this environment, leadership must set out clearly acceptable behaviours that shape cultures and lead to sustainable results and reputations.

Culture is moulded daily by management and individuals. It is set by the values and norms these teams and individuals want and act upon. Sadly, the benchmark is often set by the worst behaviour the business is prepared to tolerate.

This pandemic has brought with it a lack of certainty and ambiguity about the future of businesses. Management teams will need to deliver even greater clarity on expectations around culture and how they manage the behaviours which reflect it.

A strong culture is a powerful differentiator. It is difficult for competitors to replicate. It is one of the best magnets for new talent and a great retention strategy for existing employees. And, it is ultimately attractive for suppliers and customers alike. But businesses need to act now to make sure the culture they create reinforces and rewards behaviour that bolsters their best reputation in the COVID-19 world we live in and beyond.

Getting this right provides the most powerful risk and reputation shield and enhances shareholder confidence.

**SenateSHJ's Reputation Reality Report 2020*

Evolution Mining in the spotlight

By Jake Lees, ASA Finance Intern

Evolution Mining is a premier global mid-tier gold producer. It is the third-largest gold miner in Australia, both by scale and market cap. In addition to Red Lake in Canada, the company holds four mining assets in Australia: Cowal (NSW), Mungari (WA), Mt Rawdon (QLD), Mt and Carlton (QLD). It also holds an economic interest in the Ernest Henry copper-gold operation (QLD). By prioritising mining in Australia and Canada, Evolution eliminates any of the geopolitical risks of mining in riskier countries, as do many of its competitors. It is open to all qualities of gold, silver and copper.

Drivers of the gold price

Fluctuations in the gold price are caused by changes in demand, supply, production and macro-economic trends.

Supply/production: Australia leads the world in global gold reserves, holding about 20%, with Russia ranked second and South Africa ranked third. Australia, Russia and China are the top three major gold producers globally, providing over 30% of the world's gold supply. Around 244,000 metric tonnes of gold has been discovered to date (187,000 Mt has been produced, plus there are current underground reserves of 57,000 Mt). To put this in perspective, all the gold in the world that has ever been mined would still only fill one and a half Olympic swimming pools.

There are positives and negatives in this statistic. The positive is that this will affect the amount of gold that can be extracted, and therefore reduce supply, creating upward pressure on the price of gold. However, the downside is that mining companies' operational costs will potentially increase, as all the easily extractable gold has been extracted. Underground mining will make it harder and more costly for companies to mine the precious metal.

In addition to this, and to meet environmental standards, gold mining companies have focused on the phasing out of mercury amalgamation (a dangerous chemical used as one of the methods to extract gold). This has reduced gold mining output, thereby putting further upward pressure on the supply of gold.

Demand: The four main sources of demand for gold are jewellery, investment, technology and central banks' store of wealth. Jewellery is the main source of demand for gold, accounting for over 48% of gold demand. It has experienced an increase in demand year-on-year on the back of strengthening economies in developing countries, especially in Africa and India where there is a strong culture of portraying wealth by wearing gold jewellery. China and India make up half of the gold jewellery consumption. These market trends greatly influence the overall gold industry.

Another major application to gold demand is investment, representing around 29%. Gold demand from national central banks has also been growing especially from banks of developing countries in Latin America, the Middle East and Asia. Recent changes to the Basel III banking regulations have moved gold from a tier 3 asset to a tier 1 asset, meaning that banks can hold gold on their balance sheets.

Macro-trends: In the past 50 years (1970-present), the price of gold has increased at a strong and steady rate, upping its value by approximately 619% (from US$252-US$1,800 per ounce). In contrast to this growth, from 1850-1970, the gold price was relatively flat. The reason that the gold price has increased drastically is because the US removed itself from the gold standard in 1973 after President Richard Nixon halted convertibility in 1971, meaning other countries were now unable to redeem dollars for gold.

With the US printing more and more dollars to fund government expenditure, the role of the US dollar as a store of wealth has been challenged. Since the US removal from the gold standard, US debt has increased 70x. From 2000 to 2018, gold and US debt had an 88% positive monthly correlation, suggesting that further increases in government debt will put upward pressure on the price of gold.

In the current market, the US Federal Reserve and other central banks have increased their spending due to recovery programs for COVID-19, resulting in increased budget deficits and ensuing high debts. Most OECD governments' balance sheets have doubled in the past 12 months.

Why does an increase in government debt result in a higher gold price? Gold is used as a hedging device. This means that it is negatively correlated with the dollar. When the value of the dollar depreciates, gold appreciates, and vice versa. As governments' expenditure programs are covered by government "printing" extra money to meet this expenditure, this, in turn, expands the money supply in the economy. This is the definition of inflation. When there is inflation, the dollar weakens as it buys less due to reduced purchasing power, resulting in an increase in the gold price.

Evolution's governance and strategy

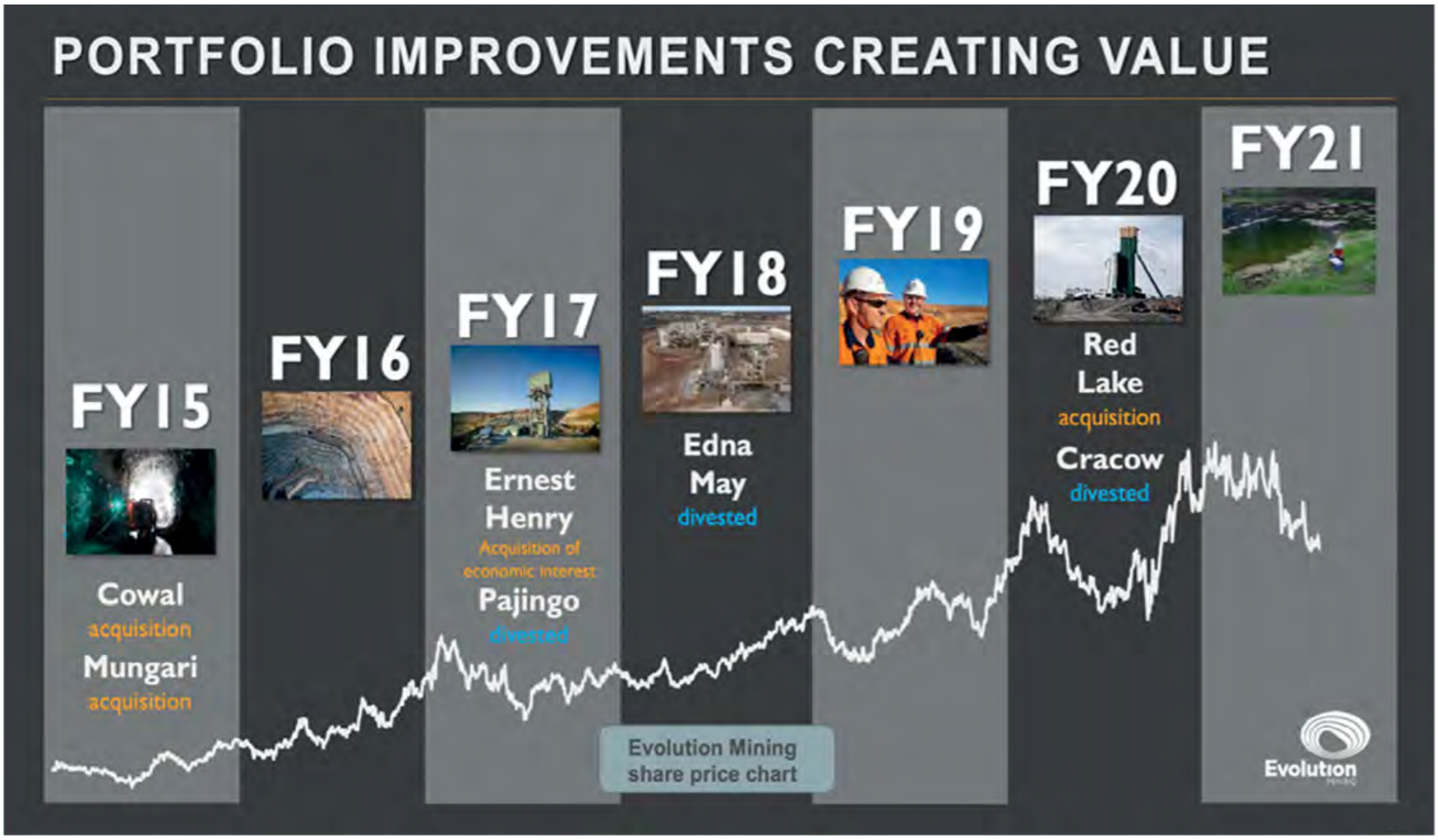
The Evolution Mining board has a great deal of experience in the mining industry. The majority of its directors have previously worked for mining companies and claim expertise in their specific skillset. The company usually outperforms its targets and remains honest and transparent to shareholders.

Executive chairman and CEO Jake Klein previously operated a mining company in China, which he later sold for more than A$2 billion. Evolution boasts a strong list of credentials. One that stands out is the company's sector-leading MSCI ESG rating of AA, which is attributed to its strong focus on sustainability.

Evolution's strategy is to be a long-run mid-tier producer that is large enough to fund its growth and small enough to deliver meaningful shareholder value accretion. The company wants to maintain a portfolio asset range of between six and eight gold mines, generating positive returns with mining lives of 10 years plus. It also aims to uphold and build a reputation of sustainability, reliability, and transparency.

Evolution's portfolio goal is to upgrade its assets over time through exploration, acquisition and divesting of underperforming assets. As seen in Figure 1, the company has achieved growth in the share price through its acquisitions and divestments.

Figure 1



How the numbers are evolving

On 7 September 2021, Evolution was trading at A$4, with a market capitalisation of A$7.4 billion. In the 2021 financial year, it achieved an all-in sustaining cost (AISC) of A$1,215 per ounce, the highest rating among its global gold mining peers. Alongside this, the company regularly cautiously provides a gold reserve price assumption of A$1,450 per ounce (US$907/oz) when calculating profit and revenue guidance. This assumption compares to the actual gold price achieved in FY21 of A$2369/oz (US$1766/oz). Consequently, Evolution hits its guidance for future financial years. Shareholders may value this as honest conservative reporting from the company.

In FY21, Evolution achieved a record statuary net profit after tax (NPAT) of A$345.3 million, a 14% increase from FY20. The group achieved gold production from all its assets equal to 680,788 ounces. Evolution's current resources comprise 26.4 million ounces (Moz) of gold mineral resources (up 74% year-on-year), along with 904,000 tonnes of copper resources.

Using the price and cost information above, if we deduct the AISC (A$1,200) and other costs (A$500) from the company's achieved gold price of gold (~A$2,400), we derive a profit margin of A$700/oz. With reserves (9.9Moz) this derived profit will yield a potential profit in the ground of A$5 billion. Comparing this to Evolution's market capitalisation of A$7 billion implies the remaining A$2 billion represents the market's estimate of the value of 26Moz of gold mineral resources (measured – 0.5Moz, indicated 18.7Moz, and inferred 7.2Moz) plus all the company's copper and silver resources.

An evolving asset base

Evolution is heavily focused on the organic growth of its cornerstone assets: Cowal, Red Lake, and Mungari. It holds a wonderful investment in the Cowal underground project and a longer-term development of satellite open pits, which is targeting an increase in annual production of 350 Thousand ounces (koz) and an extended mine life of 17 plus years.

Evolution recently acquired the Battle North Gold mining company which neighbours its Red Lake asset in Canada in a move to increase production, decrease transportation costs and ultimately improve efficiency. This allows it to ramp up production to ~200koz pa by FY24, and increase mining life to 15 plus years, with the aim further increasing production to 350kozpa by FY26.

Recently, Evolution's successful acquisition of a Northern Star asset, the Kundana operations, allows for the expansion of its existing Mungari mine. The two mines are in close proximity, which strategically improves efficiency for the Mungari asset. This is similar to the Red Lake growth strategy. Evolution is set to expand the Mungari asset to increase production to 200Koz pa and extend mining life to 13 years plus.

The bottom line

Evolution Mining, along with all gold mining companies' future share price, is linked to investors' perception of future gold prices. If the gold price increases significantly, the majority of the gold mining stocks should see an increase in their share price. However, it should be kept in mind that companies' operational costs may increase because of underground mining (gold becoming harder to extract), and this may affect profit margins, and ultimately the company's share price. Evolution's growth projects could have a major impact on its success. So monitoring these, and examining whether these assets hit their guidance, could have major implications on the share price.

Jake Lees is a second year UTS student, studying a Bachelor of Business, majoring in finance and economics. He has a strong interest in macroeconomics and is enthusiastic about the financial system and markets.

BHP's gamble with oil

By Duncan Seddon, BHP Monitor

When I started work with BHP in the early 1980s, the oil division was charged with looking after the company's 50% ownership of the Bass Strait oil province. It had about 200 employees and made over $200 million a year in profit. Ignoring US business magnate and philanthropist John D. Rockefeller's advice that oil exploration was strictly for gamblers, BHP wanted more of the action and embarked on large punts in the oil market. And, like all addicts there is always the next bet (investment) that would bring eternal riches (the next Bass Strait). Most of the investments turned out to be bets on donkeys running in races for thoroughbreds. It is somewhat amusing to note that in the oil industry, one of main statistical methods for improving the odds (minimising the investment risk) is the Monte Carlo simulation. Like all addicts, the addiction was sped along with the occasional winner. In the 1990s, BHP backed Hamilton Oil which proved to be a good stayer in the smaller operations of the North and Irish Seas. This experience improved the betting performance and got the company into the Group 2 races in the Gulf of Mexico (GOM), the Caribbean, and northwest Australia – and with some success. Inevitably hubris led to bigger bets and in the early 2010s, the company decided to back American Shale which was highly fancied at the time. This proved to be the wrong horse (poor acreage), in the wrong race (gas from shale rather than oil from shale) at the wrong time (prior to the development of the Bakken oil-shales).

As an aside, oil developments also make addicts of national governments but here it is more like heroin than gambling. Oil generates enormous amounts of cash – think petroleum resource tax, corporate tax, tax on high salaried employees, GST and so on. This is too tempting for national governments, so opponents of the industry tend to lock up vast prospective acreages from exploration, such as Australian Bight, Leonard Shelf (Barrier Reef) and the east coast of the US.

Oil and gas exploration and development are fundamentally different to exploration and development in the minerals business. Oil and gas developments demand very high capital costs as well as high capital returns over a short lifetime, often less than 10 years. On the other hand, BHP's Tier 1 mineral assets (Pilbara iron ore, Olympic Dam, Escondida Copper and the Jansen Potash project) have very long lifetimes requiring lower injections of capital over many decades of life. Petroleum has always been in cultural conflict with the operations of the hard rock part of the company. It is this cultural conflict that, in my opinion, has led to the company divesting this problem child by an arrangement with Woodside. Whether or not Woodside is better at playing Monte Carlo is a question for the future.

Forget the idea that this is due to a wish to reduce carbon emissions. BHP has a joint ownership (venture) with BP (remember Beyond Petroleum) in the GOM called Mad Dog. This winner produces 150,000 bbl/d oil at US$70/bbl with a cost base of about US$20/bbl. Do the maths. 150,000 x 365 x $50 US dollars per year. Feel the adrenalin flowing. Does anyone think these two outfits would contemplate abandoning such an asset to save the planet?

Your Monitor must sign off here. He is examining the form (annual reports) for some runners in the Offshore West African races. Prior to investing in oil, he recommends reading *The Gambler* by Fyodor Dostoyevsky (1866).

Woodside agrees to buy BHP's oil and gas division

By Geoff Read, Woodside Monitor

Woodside (WPL) has agreed to enter into a "merger commitment" to buy BHP's oil and gas business in a deal which will double the size of WPL and place it in the world's top 10 for energy and liquified natural gas (LNG).

The exact contract has not been written and much work needs to be done to bring it to conclusion in the first half of 2022. So, until then we will not have all our questions answered and with transactions of this size and complexity the devil is always in the fine print.

The date of effect will be backdated to 1 July 2021. In addition to the agreement of WPL shareholders, the deal also requires the agreement of regulatory authorities in multiple countries. This is not expected to be onerous but could be time consuming.

Woodside and BHP each produce and sell approximately 100MM barrels of oil equivalent (BOE) each year. The agreement anticipates that in exchange for BHP's assets, Woodside will issue WPL shares to BHP such that the ownership of the combined company is in the proportion 52% to existing WPL shareholders and 48% to BHP. BHP has stated that it will allocate these shares proportionately to its own shareholders.

The major assets which will transfer from BHP to WPL include 50% of the Bass Strait gas field, 16.6% of the North West Shelf, 26% of the Scarborough gas field, offshore WA. WPL already has 16.6% of the North West Shelf and 74% of Scarborough, so these assets are well known. There are some complex conditions if the Scarborough development receives approval before 15 December 2021. See the WPL announcement for more detail. (Exxon owns the other 50% of Bass Strait.)

Other producing assets are located in the Gulf of Mexico (both US and Mexico territory), Algeria, Trinidad and Tobago. Various exploration areas around the world are also included. The BHP petroleum head office is in Houston Texas.

BHP petroleum insiders have long complained that they did not get a fair go in a minerals company. Apart from the rigid culture, they complained that capital investment decisions always favoured minerals. This is because oil and gas developments always have very high start-up costs resulting in a lower internal rate of return. However, because they are long life assets, they yield a higher net present value than their minerals equivalents.

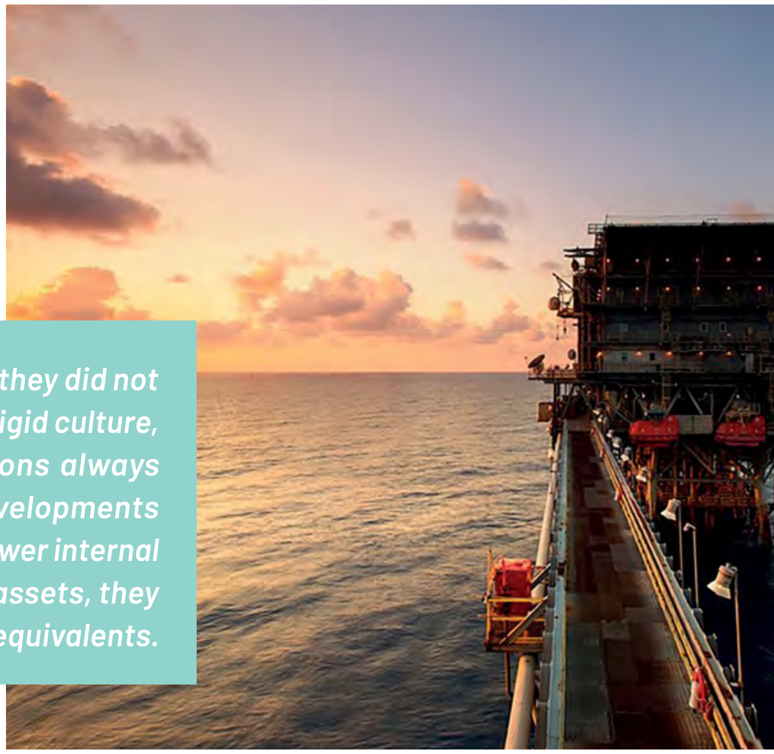
The advantages of this transaction are:

- It is being done at a fair value to both companies and is not linked to a particular share price or oil price.
- It is settled in shares rather than cash or debt.
- The assets of both companies are high quality by world standards and located in OECD countries.
- Woodside's carbon commitments are extended to include the BHP assets.
- It leads to a company of large scale with financial resilience, a strong balance sheet and very low debt (12%).
- There are anticipated synergy benefits of US$400 million.
- The anticipated annual revenue is US$8 billion and operating cash flow of US$3 billion.
- The combined portfolio is diversified and yields 46% LNG, 29% oil and condensate, and 25% domestic gas. (This is a higher percentage of oil than the present WPL.) E

For Further reading

https://files.woodside/docs/default-source/asx-announcements/2021-asx/woodside-merger-teleconference-and-investor-presentation.pdf?sfvrsn=653020cf_4

https://files.woodside/docs/default-source/asx-announcements/2021-asx/woodside-and-bhp-to-create-a-global-energy-company.pdf?sfvrsn=b505b483_4



Growing wealth in the share market: change, challenges, and disruption

By Danielle Ecuyer, Author and Founder of Shareplicity

Even though we'd like to imagine a world that keeps on going with little change, the past 18 months has shown us that we should always be alert to "expecting the unexpected" or the black swan event.

It's during these periods of volatility and uncertainty that the winning companies cannot only access capital, they can also weaponize their share prices and raise cheap equity or make record-breaking acquisitions.

A look back in history will reveal, I believe, that the early COVID-19 years will have marked a time of great corporate consolidation and change, where the strong became stronger and the weak were unable to grow or adapt swiftly enough to survive.

The unique events of the pandemic-induced recession and recovery have also created a pull forward in earnings and disruption, which is being played out in share markets.

To a large degree, the disruption has been driven by the need and ability of companies to adapt and survive the changed behaviours of consumers and workers, as well as strategic shifts to expand or consolidate competitive advantage.

The same can be applied to the 21st century climate challenges and opportunities of decarbonisation and adaptation.

But what happens when these two tsunamis collide with the investing world?

Let's look at two of the largest recent corporate deals to highlight the changes afoot.

The first is the full scrip A$39 billion offer for Afterpay by payments and fintech innovator Square. According to Jacqueline D Reses, who co-authored a white paper called *Fintech Revolution*, there are US$16 trillion in financial listed companies globally that are at risk of disruption.

The race for the hearts, eyes and wallets of Gen Z and millennials has an incumbent financial behemoth such as J.P. Morgan worried. CEO, Jamie Dimon noted in the January 2021 earnings call that we should be absolutely afraid of fintech disruption.

Afterpay has not only been a winning investment, but the likes of Square (Cash App), PayPal (Venmo) and Shopify have also underscored market beating returns for investors.

Commonwealth Bank might be the most expensive Australian bank on valuation but CEO Matt Comyn is not taking the fintech threat lightly and has a continued commitment to invest in new technologies like the StepPay facility.

Another seminal deal is the scrip merger of BHP's oil and gas assets with Woodside for $19 billion. The transaction reflects BHP's commitment to self-disrupt and reinvent itself. BHP's strategic shift is more socially and environmentally aligned with the 21st century challenges of climate change, as well as seeking a transition to ensure shareholders can participate in a 100-year, growth story in resources such as potash for future food security.

The 52-year-old Macquarie Bank is another case in point. CEO Shemara Wikramanayake recently announced a reduction in future dividends to invest for the future.

"A company's objective should not simply be to grow; it should be to grow such that it creates value. A company creates value when its investments earn a return higher than the opportunity cost of capital."
- Morgan Stanley, *The Math of Value and Growth*

Shares are a financial security representing a percentage of a company which, in turn, is an ecosystem of people and corporate culture defined by leaders.

Too many investors get caught up, time and again, with the quantitative financial ratios – cheap, expensive, low yield, high yield and the narrative of "value, growth or quality" seemingly to overlook the qualitative characteristics that are just as important, if somewhat harder to measure or define.

I aim to keep my investing proposition as simple as possible.

You want to own companies that can grow, adapt, self-disrupt and expand their competitive advantage. These winners will generate both capital and income (total return) for you over time.

Apple, Warren Buffett's largest stock holding is a fine example. Apple has become the poster stock for growth and value or growth at a reasonable value. Probably to the surprise of many experts, Apple continues to capture the lion's market share for smartphones and growth in iProducts.

A recent Morgan Stanley study of its European interns revealed that 74% would purchase an iPhone and 75% already owned one. That is referred to as "customer love" – a strong indicator of a winning company.

The customer loyalty for the hardware products, combined with the evolution in the recurring income services/software businesses, has made Apple the largest listed company globally (US$2.6 trillion). Be in no doubt, Apple has minted investing millionaires.

The winning companies

The winning companies and wealth creators of the 21st century will most likely not be the leaders of the last few decades. Like the boiling frog, change can seem glacial until it's a waterfall.

As one CNBC commentator mused, are you holding the stock with a "forever" valuation (high for future growth) or a stock with a "melting ice cube" valuation (value trap)?

Staying focused on what makes a quality "forever" investment requires an attention to not only the quantitative but also the qualitative measures and an appreciation that great companies are able to successfully invest not just for the now, but the future, letting you the shareholder reap the returns.

Danielle Ecuyer has worked in senior positions at some of the world's most prestigious investment firms, advising global investment managers. She now applies her skills and experience to manage her own investment portfolios. Following the success of *Shareplicity: A simple approach to share investing, Danielle has been a sought-after market commentator and her second book, Shareplicity 2: A guide to investing in US stock markets was released in July 2021.*

SMSFs and non-arm's length expenditure rules

By Darin Tyson-Chan, Publisher and Editor of smstrustee news

Recently, the ATO announced it had finalised its interpretation of non-arm's-length expenditure (NALE) through the release of Law Companion Ruling (LCR) 2021/2.

Unfortunately, it did not deliver what sector stakeholders had been hoping for. In particular, it failed to resolve concerns over certain general expenses and how they may trigger the NALE rules.

Just as a reminder, the thought process behind NALE is that if an SMSF has not paid a proper commercial charge for a particular service, the income associated with that expense will be deemed non-arm's-length income (NALI), as defined in the *Income Tax Assessment Act*, consigning that income to be taxed at the highest marginal tax rate, being 45%.

The industry's greatest concern over the application of the NALE rules was the fact the draft version of the ruling, LCR 2019/D32, gave no consideration to the actual dollar amounts that may trigger these harsh provisions.

In effect, it meant a general expense of an inconsequential amount could easily taint all the income of the fund as NALI if the rules are applied strictly.

After the release of Law Companion Ruling by the Commissioner of Taxation LCR 2019/D32 in mid-2018, there was a consultation period and many conversations were had about introducing a *de minimus* rule. This basically would have provided a safeguard ensuring if a general expense was by nature considered NALE but was insufficient to have a material effect on the fund, it would not trigger the rule and the harsh tax treatment would not eventuate.

Alas, this detail was not included in LCR 2021/2.

The situation prompted three accounting bodies, Chartered Accountants Australia and New Zealand, the Institute of Public Accountants and The Tax Institute, to immediately call for a review of LCR 2021/2 as the ATO's current stance is really demanding perfection when it comes to the general expenses of an SMSF.

They were concerned that the slightest error, no matter how small, could now subject the entire income of the SMSF to be taxed at the highest marginal tax rate.

There is still hope the situation can be resolved as the regulator has already stipulated it will not be applying any enforcement resources to police the NALE rules until the 2023 financial year. This means there is still close to 11 months for the industry and the ATO to sort the situation out. Rest assured, that engagement is already happening.

The alarm around the application of the NALE rules is justified given the severity of the resulting penalty. As such, it is hoped LCR 2021/2 will be amended to include some sort of materiality measure to the general expenses of an SMSF when it comes to NALE to avoid uncertainty under the ATO's current interpretation of the rule. As many ASA members run their own SMSFs, it is important they ensure they comply with all relevant rules and regulations. If you are uncertain, please consult your accountant or tax agent.

The voices of "mum and dad" investors are growing louder

By Dr Irene Guiamatsia, Head of Research, Investment Trends

COVID-19 and the extraordinary measures taken by governments and policy makers in response has certainly disrupted the investing landscape in a significant way. As Australians adjust to a "new normal" in their daily lives and evaluate their saving, spending and investing decisions, it is useful to consider which recent trends might outlive the turbulence and which will fall away.

Unless one has been living under a rock, the "rise of the retail investor" is now a phrase well entrenched in the vernacular. As financial markets belatedly awoke to the reality of a once-in-a-century pandemic, hordes of existing and wannabe investors saw upside potential and took exposure to cash equities (shares, ETFs) via online platforms, many doing so for the very first time.

Investment Trends' most recent study of the Australian online investing market reveals the number of active retail online investors, that is those who bought or sold exchange-traded securities in a 12-month period, nearly doubled compared to pre-pandemic levels, from 750,000 to 1,430,000.

Why did the market grow?

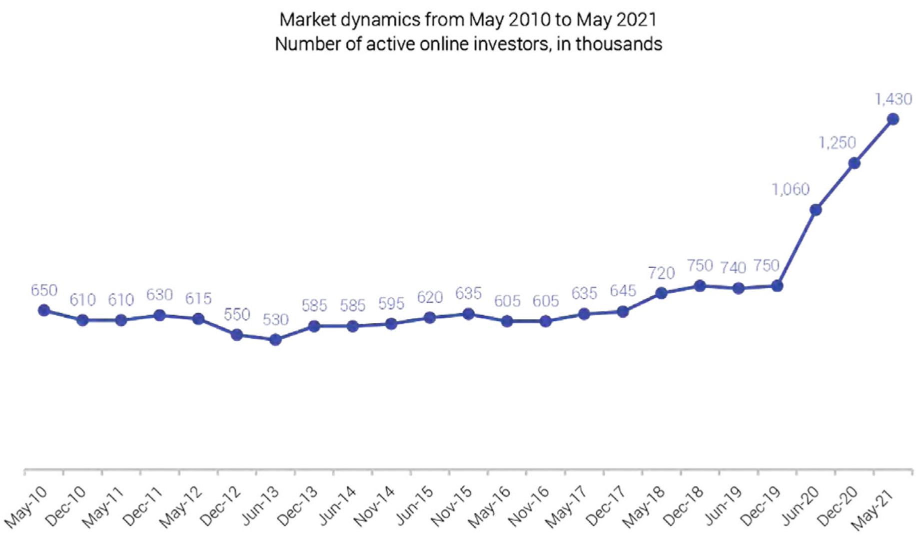
This is a simple question but requires a nuanced response.

A good place to start is to note the past 20 years strongly disprove the notion that financial crises are rare events – as evidenced by the GFC, the Greek sovereign debt crisis, and now COVID-19. Today's investors, both young and old, have had the opportunity to witness first-hand the large market corrections and subsequent effects of central bank intervention. And in March 2020, many had little qualms about catching a falling knife and inflows of new online investors have been sustained since.

On several occasions since the onset of the pandemic, we've asked first-time online investors what prompted them to start investing with an online platform. With remarkable consistency, the top three reasons have been – in order:

- the ability to trade with small amounts of money
- the desire to learn a new skill
- the low interest rate environment

Figure 1



In other words, while the impact of monetary policy cannot be overstated and lockdowns gave many the free time to research and stock pick (and extra cash in the bank), the availability of low-cost online platforms on the supply side was an all-important contributor to this perfect storm.

Education is the name of the game

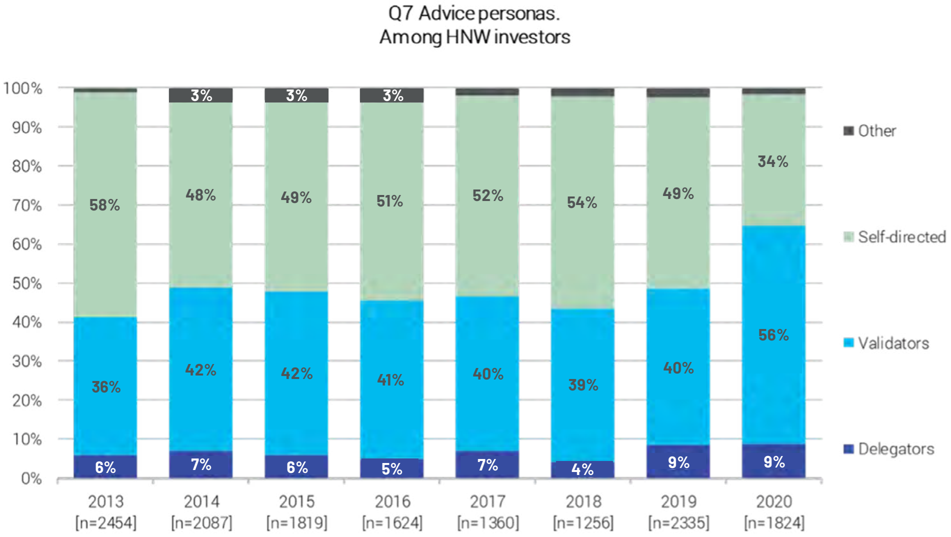
The common moniker used to refer to retail investors – "mum and dad" investors – is quickly losing relevance. Most new online investors are under the age of 40 and in fact, one in six are Gen Z (aged 18-25). This cohort is also more likely to be female, helping to boost female participation in a male-dominated sector.

The expansion of access to this wealth-building mechanism is to be lauded but comes with challenges. The reddit-fuelled Gamestop/AMC episode is an example of investors getting caught up in FOMO, making rash short-sighted investing decisions and following crowds with disputable wisdom is at times.

Our research strongly affirms that investors are hungry for knowledge, resources and tools to help them build long-term wealth. To fulfill that need, the various parties involved (such as online platforms, research providers and regulators) have the momentous task of curating and delivering information at scale to address this rapidly expanding market, yet tailor content in a way that resonates with each customer segment.

When it comes to perceived trustworthy information sources, the chasm across the age spectrum couldn't be wider: Young investors are vastly more likely to trust third-party educational websites, influencers and (interestingly) the regulator, whereas pre-retirees and retirees most often turn to their online platform.

Figure 2



Investors are increasingly vocal

As the number of online investors grow, a different but related trend is simultaneously unfolding, albeit with much less fanfare: Post pandemic, investors are vastly more likely to indicate they would be open to working collaboratively with a financial adviser to seek a second opinion or validate their investment ideas – the "rise of the validator" has certainly arrived.

A good illustration of this engagement model is in the emerging area of environmental, social and governance (ESG) investing, where end-investors seeking to do good with their investment portfolio are the ones taking the lead and driving the conversation with advisers, involving themselves in every step of the process, up to and including portfolio allocation decisions.

So far, this significant shift in attitudes to financial advice has gone unnoticed since it has yet to result in an actual increase in the uptake of financial advisers nationwide – but it does indicate a potential shift around the corner.

This is yet more proof that Australian retail investors want their voices heard and everyone should pay attention.

About Investment Trends:
Investment Trends is the leading specialist market research organisation in the global wealth management industry

Investment Trends

Harnessing the value of the intangible economy through Impact Accounting

By John Cowling, ASA Executive

> ***"I believe we're going to see unicorns that don't just make a billion dollars but that touch and improve a billion lives."***
>
> **Sir Roland Cohen**
>
> Chair, Global Steering Group for Impact Investment

Listening to the latest podcast gem from Phil Muscatello (check it out in the ASA Podcast Library), I could not be but inspired by the work of Sir Ronald Cohen. This Egyptian-born businessman is recognised as a pioneer in venture capital and social finance, and he has a message for the finance industry: It's time to shift from just evaluating risk and return and add "impact" into investment calculations.

As investors, of course we want a return on our money. But we would also like to know the companies in which we invest are doing good to both people and the planet. ESG tries to help us with this, but it's hard to put numbers on the impact such polices provide. This is where "impact accounting" steps in.

We can use normal financial ratios to measure both financial return and risk to impact-weighted accounts. If you compare two companies and say they both make a $200 million dollars of profit, but on an impact-weighted basis one is making a $300 million positive return to society, but the other one is making a $100 million negative return, then investors will begin to look at these companies in a different way. Think of a healthcare company versus a coal mine, both might make the same accounting profit, but they have very different impacts on society.

When thinking about impact accounting, we have two myths to explode. The first is that we can't measure impact. In fact, the Harvard Business School Impact-Weighted accounts research shows you can.

The second myth is that if you strive for impact, you're going to come out with a worse profit. We're beginning to see examples of companies that are proving exactly the opposite – that you can make more money by focusing on impact. We're also beginning to see how we can save money this way as well. One of the examples of this is the idea of a social bond where you charge a more favourable interest rate if the bond issuer achieves set social goals and by doing so ultimately saves money for themselves and for society more generally.

The initiative to create a consistent method for measuring impact is a joint venture between Harvard Business School (HBS) and Rethinking Capital. Sir Ronald Cohen is chair of the Impact-Weighted Accounts Initiative (IWAI) and George Serafeim is the Charles M. Williams Professor of Business Administration at HBS.

> **Rethinking Capital is an international think-tank that brings together accounting and other intangible assets experts to co-create and to solve complex problems. They believe that the rules that govern the economy need to be rewritten to reflect our transition from an industrial to an intangibles-based economy.**
>
> **Like Sir Ronald Cohen, they believe we are facing crises in all parts of our global system – the natural environment, the social and political and the global economy. And, like Sir Ronald they want to do something about it.**

Rethinking Capital believes we need to create a more inclusive and sustainable form of capitalism that works for every person and the planet. Environmental damage, growing income and wealth disparity, stress, alienation, and depression are growing even in developed economies amid an otherwise seemingly substantial economic boom. They are examples of how our current system of creating and distributing value is broken.

We need to be able to factor into our decision-making (including investing) the consequences of our actions, not only for financial and physical capital, but also for human, social and natural capital.

Impact-weighted accounts have line items in their financial statements, in the income statement and the balance sheet, which are added to supplement the statements. These statements show not only financial health and performance but include an estimate of a company's positive and negative impacts on employees, customers, the environment and the broader society.

By employing existing Generally Accepted Accounting Principles (GAAP), updating double-entry bookkeeping and existing international accounting standards, we can create a true view of shareholder equity and realisable profit that incorporates all intangible assets, especially the company's "social license".

By creating such balance sheets, the interests of all stakeholders become incorporated into decision-making. We move from decisions being made solely for profit in the short-term to one where decisions can be made in the best long-term interests of all stakeholders.

The aspiration of the HBS joint venture with Rethinking Capital is to gain an integrated view of performance which allows investors and managers to make informed decisions based not only on monetized private gains or losses, but also on the broader impact a company has on society and the environment.

HBS found 56 companies that have experimented with monetary impact valuation in producing their profit and loss accounts. Of these, 86% are measuring environmental impacts, 50% are estimating employment/social impacts, and 20% are estimating product impacts. There is broad representation across all industry sectors, with the chemicals sector represented the most with 12 companies performing monetary impact valuations.

However, most companies today only measure inputs and activities rather than impacts. Except for a few companies that have published environmental or total profit and loss accounts, impacts are not valued and integrated into accounting statements to illustrate their full value implications. The aim of the HBS/Rethinking Capital joint venture is for companies to measure and disclose impact through impact-weighted accounts that we hope will eventually become standard management and governance tools.

HBS reports that the number of publicly listed companies reporting ESG data has grown exponentially in the last two decades. While only 12% of the largest 100 companies in each of 49 countries (that is of 4,900 companies) issued sustainability reports in 1993, that number grew to 75% in 2017, according to a KPMG Survey. Impact accounting is coming, and the pace of adoption is accelerating.

So, you might ask, what does mean to me?

Let us throw you a few things to think about:

In an article written by Ronald Cohen and George Serafeim a year ago, they noted: "Accounting for impact took a major step forward in July 2020 with our publication of the cost of the environmental impact of 1,800 companies when measured by the Impact-Weighted Accounts Initiative (IWAI) at HBS.

"Next year, the IWAI will publish the cost of product and employment impacts too, providing a complete picture of the impact companies create."

According to the authors, by looking at the numbers it becomes apparent that many companies are creating environmental costs that exceed their total profit (EBITDA). Of the 1,694 companies which had positive EBITDA in 2018, 252 companies (15%) would see their profit more than wiped out by the environmental damage they caused, while 543 companies (32%) would see their EBITDA reduced by 25% or more. This includes airlines, paper and forest products, electric utilities, construction materials, containers and packaging companies.

Within other industries, a huge variation is revealed in the environmental damage companies create. In food products, for example, environmental costs range from 5% of EBITDA for (Nestle (US$1.6 billion) to 62% for Associated British Foods (US$1.8 billion).

In the oil and gas industry, where 75% of companies would see more than a 25% reduction in EBITDA, a few best performers have overtaken their competitors in reducing the negative impacts of their operations. And, in semi-conductors, industrial conglomerates, beverages, food, and staples retailing, significant variation is similarly found between leaders and laggards.

Companies can create positive impacts through their products and employment, which do not show up in their bottom line. Intel's employment impact is an example. In 2018, it created approximately US$3.6 billion of positive impact in the US through the wages it paid and the jobs it provided in areas of high unemployment. Intel can increase this impact by improving its level of diversity and offering more equal opportunity for racial minorities and women to advance within the company.

Impact accounting will have far-reaching consequences. First, instead of taxing all of us to remedy the negative impacts of pollution, or for paying below the minimum wage, or producing products that cause obesity and ill health, governments will be able to tax companies directly for the harm they create.

Governments will also be able to provide direct incentives in the form of reduced taxes, subsidies, or preferential procurement for companies to deliver positive impact through their products, operations, and employment practices.

Second, and we are seeing this already in Australia, investors will price the environmental and social impacts of companies into their investment analysis. More than US$30 trillion globally has been invested into ESG and impact investments, (this is roughly equivalent to 20 times the total value of the ASX) despite the absence of all the relevant data with investors attempting to integrate climate change, employee diversity and customer health into their long-term investment decisions.

Third, impact accounting will allow customers, be they individuals or companies, and employees to align their purchasing, career and investing choices with their personal values. This is especially appealing to millennials.

"Impact-washing" is currently widespread because relevant impact data is scarce. For example, all automobile manufacturers claim that their products benefit society more than the products of their competitors. But when HBS measured all manufacturers' product impact, according to safety, affordability, customer satisfaction, fuel efficiency and emissions, they found that only a few companies, such as Tesla, Renault, Hyundai and Nissan, can justifiably make these claims.

Last year, HBS identified 56 leading organisations around the world that practice some impact-weighted accounting. This list is growing every week. Danone, the French food leader, recently published earnings per share that are weighted for its environmental impact.

Detailed guides now exist for the preparation of impact-weighted accounts that reflect the operational, employment and product impact a company has on people and the environment.

The COVID-19 crisis has already highlighted the flagrant inequality in many societies and intensified the need in the minds of the public for a fair and sustainable recovery. We suggest this will accelerate the shift to impact-driven policies.

We can confidently predict that impact accounting will reshape investing. Well done, Sir Ronald and HBS for leading the way.

Sir Roland has pioneered the establishment of several outcomes funds and impact funds.

These breakthrough models can dramatically scale up proven and/or innovative interventions that better people and the planet.

Why the "S" in ESG is at the top of the agenda

By Madhumita Mukherjee and Vincent Wales, Altiorem

The COVID-19 pandemic, together with the Black Lives Matter and MeToo movements, have increasingly turned the attention of ethical investors towards social factors such as human rights, equality, and health and safety. These areas are serving as a catalyst for change and reshaping the way investors view the role of companies, especially in terms of their relationship with stakeholders such as employees. The increasing focus on the importance of people in business has pushed the "S" in ESG to the top of the agenda.

Pandemic-driven challenges, rising inequalities and growing calls for social cohesion have sparked increased scrutiny on the social practices followed by companies. As social factors are gaining prominence, investors are paying closer attention to understand if companies are fulfilling their social responsibilities in the current climate.

Some of the key social themes that have emerged in the wake of COVID-19 and are at the centre of conversations right now include the following.

Employee welfare

Managing employee wellbeing has become a top priority for companies, especially after the historic shift to remote working last year. From working from home to pressures to be sustainable, companies are considering working styles that offer greater flexibility and boost employee productivity at the same time. In a remote working environment, fostering social values through collaboration and promoting diversity practices to grow relationships, drive positive cultural change and help contribute to building a happier workforce have all increased in focus. Such an approach is backed up by studies which further reaffirm that diversely structured companies are more likely to outperform less diverse peers when measured on profitability. Many Australian companies, including Appen, have made conscious efforts to create collaborative work cultures through webchats, internal community forums where employees share their ideas and day-to-day updates while working from home. Such initiatives are supporting remote teams by assisting them to strengthen professional ties.

Employee healthcare and safety

Workplace health and safety has been at the forefront of considerations during the global pandemic. Companies are ensuring their employees, especially those in the essential industries, are suitably equipped and have adequate space to work safely.

Organisations are also implementing suitable healthcare systems that are beyond mere physical care protections to address the rising mental health concerns of remote workers. By improving healthcare options through telehealth facilities and mental health counselling sessions, they are effectively addressing their employees' needs and are thriving in an unpredictable business environment. Commonwealth Bank's "A Better Day" initiative, launched last year, is providing mental wellbeing support to its employees through personalised mental healthcare programs.

Global organisations are responding to the current crisis by creating additional value for their employees through significant contributions in the name of public health and safety. With a clear link between positive social engagement and the reputation of a company, it is essential for investors to know how to measure the social performance of investee firms while integrating social factors in ESG analysis. Research shows that incorporating social elements is a holistic approach to investing that not only supports returns over the long-term, but also makes an investment thesis more robust, especially when market volatility is high.

As Australian companies continue to expand their social impact efforts, here are some of the ways to assess the progress:

- Identifying the key performance indicators

Recognising appropriate indicators can enable investors to determine if social goals are being met. For example, are companies integrating the Sustainable Development Goals and Global Reporting Initiative (GRI) to disclose key performance indicators such as the rate of employee turnover? Understanding indicators like employee turnover provides insights into employee engagement which has implications for productivity and company reputation.

- Knowing the frameworks used in reporting

Companies should follow universally used guidelines, including the GRI, to report their sustainability practices. With this set of standards, they should report their performance data, market information, and disclose socially material topics that are affecting their stakeholders. This makes it easier for investors to compare a particular company's efforts with its peers.

- Understanding social scores

By considering social scores, investors can gauge a company's exposure to social risks and commitment to social activities more effectively. Companies with good social scores generally prioritise long-term value creation over short-term gains and are more resilient. These social scores are determined by different rating agencies as well as internal investment processes.

We remain in the foothills of societal expectations for corporate engagement in ESG issues. However, COVID-19 has shown how a change in perception and action can be brought about in a short period of time, with momentum firmly on ESG's side. E

Research update: ESG issues impacting your investments

By Team Altiorem

Each month, Altiorem shares its newest and most popular research pieces with ASA members, keeping you up-to-date and hopefully, sparking your interest in some of the pressing environment, social and governance (ESG) issues that are affecting your investments. Its research summaries make it simple to understand key concepts (without being an expert) and thus, make informed decisions and smarter investment choices.

New research from Altiorem

Responsible investment benchmark report 2020 Australia
by Responsible Investment Association Australasia

Details the size, growth, depth and performance of the Australian responsible investment market over the 12 months to 31 December 2019 and compares these results with the broader Australian financial market. Reviews the practices of 165 investment managers who are applying responsible investment to some or all of their investment practices.

How ESG issues become financially material to corporations and their investors
by Harvard Business School

This working paper advances a framework that illustrates how ESG issues become financially material and effect company and industry valuations. The framework comprises five stages of the pathways to materiality.

Strengthening financial resilience among rural and refugee communities in Rwanda
by United Nations Capital Development Fund

UNCDF has improved financial inclusion by implementing its Expanding Financial Access and Digital and Financial Literacy (REFAD) program in Rwanda, and by working with local partners to help create digital financial solutions and improve financial literacy for rural and refugee communities.

Trending Research from Altiorem

How to read a financial institution's policy: Analysing cluster munitions divestment policies
by Profundo

Financial institutions consider cluster munitions companies as inappropriate business partners and have made efforts to restrict their investment. Unfortunately, their policies contain loopholes that could still allow their financing. Several steps have been introduced to help analyse a financial institution's policy and prevent cluster munitions exposure in portfolios.

Pensions in a Changing Climate
by ShareAction

A critical review and gap analysis of the pension industry's positioning in regard to the recommendations from the Task Force on Climate-related Disclosures. The review includes a rating index of the world's 100 largest public pension funds with rankings linked to both their approach and engagement.

Investing in a time of climate change: The sequel 2019
by Mercer

This report is intended to help investors understand how climate change can influence their investment performance in both the short- and long-term. The research uses scenarios from the Cambridge Econometrics transition-risk climate model, to consider three scenarios: 2°C, 3°C and 4°C temperature increases, with evolved pathways and magnitude.

We believe Altiorem can help ASA members better incorporate sustainability issues when investing and voting. Head over to Altiorem and become a member at **www.altiorem.org**. Membership is free and includes access to all research, and soon we will be offering webinars, e-books and more benefits for members.

BRICKBATS & BOUQUETS

Brickbats

Brickbat to the MotorCycle Holdings (ASX: MTO) which failed to seek approval under Listing Rule 10.1. Oops being listed is so hard! This rule requires shareholder approval for the exercise of options to renew leases with related parties. Since 2011, the group has leased 11 premises which are 50% owned by director David Ahmet or an entity controlled by him under 13 separate leases. These leases have been properly disclosed since the IPO in 2016 with an associated waiver of LR 10.1 in 2016 so that shareholder approval was not required for the exercise of options to renew the leases in 2016. But when MTO exercised options to renew the Ahmet leases for a further five years from 1 July 2021, ASX assessed lease as a "substantial asset" by reference to the rent over the term (including any options to renew) exceeding 5% of MTO's equity interests as set out in the most recent accounts lodged with ASX.

Who would have thought of aggregating the leases? ASX and most of the investing world, that's who.

The rent payable by the MTO group under each individual Ahmet lease over the new term and the option term does not exceed 5% of MTO's equity interests. However, in aggregate, the rent does exceed 5% of the equity interests. MTO hadn't thought to aggregate the leases or checked. There will be a resolution on the AGM notice of meeting to put this right.

Brick bat to Evolution Mining (ASX: EVN). In acquiring various assets in the Eastern Goldfields from Northern Star for $400 million on 22 July, the board of Evolution Mining chose to make an institutional placement at $3.85 compared to the average share price over the previous 5 days of $4.59 to cover the costs of the transaction.

The resultant Share Purchase Plan (SPP) to existing retail shareholders was oversubscribed by a factor of two, resulting in major scale backs and a return of cash to disappointed shareholders. Evolution's chair Jake Klein said: "We appreciate the overwhelming support from shareholders for the SPP which reflects a strong endorsement of this pivotal transaction that will transform Mungari to establish the operation as the fourth cornerstone asset in the Evolution portfolio."

It's a pity the board didn't increase the SPP cap to reward loyal retail shareholders who were ready to contribute more.

Bouquets

Bouquet to ASIC's Warren Day who has a regular segment on ABC Melbourne Drive. He recently discussed different ways information is presented to potential investors to help people better understand the risks involved and avoid getting caught up in hype. Those new to investing may not be aware of their behavioural biases and can be vulnerable to strategies that are designed to get them to trade more or pay too much without properly considering the risks. Some tactics may also be illegal and involve market manipulation.

Members are welcome to send in their suggestions to equity@asa.asn.au. Comments included here do not necessarily reflect those of all members.

Webjet well positioned for travel restart

What the company does

Webjet is a digital travel business, spanning wholesale and consumer markets, primarily through its WebBeds and Webjet Online Travel Agency (OTA) divisions.

Developments in the financial year

The Webjet financial year was altered to a 31 March end date. Results for this year reflect a nine month period. COVID-19 travel restrictions remained in place for the entire period and the company's performance was affected accordingly, with an EBITDA loss of $56.3 million recorded. No dividend was paid for FY21, while payment of the 9c dividend withheld in FY20 will be reviewed at the end of first half FY22.

ASA's historical issues with the company

ASA did not support the 2020 remuneration report due to issues with the long-term incentive (LTI) for the managing director (MD).

ASA did not support the award of 4.5 million options to the MD (exercise price: $3.08), which are due to vest in tranches of 1.5 million after one, two and three years, provided a share price appreciation target of $3.39, $3.73, and $4.10, respectively, is met.

ASA's concerns related to the low targets for vesting of the options and the potential quantum on offer for each of the years. Since last year's AGM, Webjet's share price has traded above all three hurdles in a range of $3.44 to $6.33.

If Webjet's share price in 12 months remains at its current price of $5.88, the approximate value of any year one options exercised would be $4.2 million. This is despite little improvement in COVID-19 related travel restrictions and the company being in a holding pattern over the past 12 months. ASA asked whether safeguards to prevent windfall outcomes had been considered. The chair of the remuneration committee said they hadn't and there were no loss safeguards applied either.

Debate and voting at the AGM

Opening the meeting, chair Roger Sharp reflected on the company's financial performance over FY21. He provided thoughts on the coming year, namely how travel recovery would remain episodic and not uniform. He said the company's geographic diversity was a core strength, as different regions achieve pre-pandemic normality at different rates. He believed that Webjet would emerge leaner, faster and stronger, although the timeframe was uncertain.

MD John Guscic said reducing cash burn had become the company's primary focus. This was achieved by reducing costs and extending term debt. He stated that Webjet would emerge 20% more cost efficient at scale and would have positive operating cash flow in first half of FY22.

He outlined the performance of Webjet's two main divisions.

WebBeds had been profitable since July. It expected that domestic markets would be the first to open and had pivoted its business model in this direction. Domestic refers to citizens travelling within their own countries (UK, France, Spain) rather than domestic travel within Australia.

Webjet OTA experienced booking spikes depending on the current state of border restrictions in Australia. This aspect was profitable when state borders were open, but retracted in periods of border closure like those currently in place.

Guscic believed Webjet would return to the pre-eminent position of being one of the S&P/ASX 200's fastest growing companies when conditions normalised.

Shareholders asked about the expected timing of WebBeds becoming the global leader in providing hotel inventory, what technological improvements it was making, its investment in blockchain technology and how it manages debtors after the Thomas Cook experience from a few years earlier.

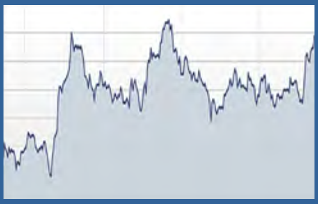
The formal business of the meeting saw the chair and newly appointed director Denise McComish re-elected with over 98% of votes in favour. The resolution to refresh the 15% placement capacity from an earlier convertible notes issue was carried with similar support.

ASA did not support the remuneration report for the reasons previously outlined. Webjet avoided a first strike, but received a strong protest vote of 17.2% against. The company has resolved to further engage shareholders regarding remuneration structure next year.

Outlook statements

The outlook for FY22 is uncertain with the recovery of the travel sector tied to the success of the world's vaccine rollout. The UK and US vaccine rollouts are well advanced and European markets are starting to reopen. Webjet believes that all its divisions will quickly rebound as markets open.

WEBJET AGM



1 year chart

MONITOR: Jason Cole assisted by Mike Robey

Date	31 August 2021
Venue	Hybrid (Webjet - 509 St Kilda Rd Melbourne or via Lumi AGM Platform).
ASA proxies	269,526
Value of proxies	$1.52m
Proxies voted	Yes, on a poll
Market cap	$2.08b
Pre-AGM meeting	Yes, with Roger Sharp (Chair), Brad Holman (Chair of Remuneration Committee) and Carolyn Mole (Investor Relations)