Selector High Conviction Equity Fund Quarterly Newsletter No.74

December 2021

In this quarterly edition we review SFML performance, attribution and ESG. We explore the qualitative factors behind a great business in our article "Firms of Endearment".

Looking at future trends, we delve into the ongoing structural shift towards personalised healthcare and profile an Australian health insurer leading this space. Some are calling the next era for business operators as the "efficiency decade" and we explore one of its pivotal technologies, Artificial Intelligence (AI) through the lens of Appen.

Our discussion on proxy advisors returns in our piece "Proxy advisors under the spotlight". We finish with ESG by reviewing high level disinfection company, Nanosonics, as well as the potential impact of a Carbon Tax on the portfolio.

Photo. Santa's coal haul for naughty children. Change is invariably required to address climate change, but where do we start? Santa?

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Selector is a Sydney based fund manager. Our team combines deep experience in financial markets with diversity of background and thought. We believe in long-term wealth creation and building lasting relationships with our investors.

We focus on stock selection, the funds are high conviction, concentrated and index unaware. As a result, the portfolios have low turnover and produce tax effective returns. Our ongoing focus on culture and financial sustainability lends itself to strong ESG outcomes.

Selector has a 17-year track record of outperformance and we continue to seek businesses with leadership qualities, run by competent management teams, underpinned by strong balance sheets and with a focus on capital management.

CONTENTS

IN BRIEF – DECEMBER QUARTER

Dear Investor,

As is often the way, we end the quarter with more questions than answers. Post COVID lockdowns, and the reopening of international travel, one would have hoped the way forward was a little clearer, even smoother. However, that is to assume things are known when in fact they are dwarfed by the many unknowns.

Global pandemic aside, there are some powerful forces at play. The long duration digital transformation of world economies continues at pace. This will lead to the demise of many established business operators and limit the prospects of many more, while ushering in a sea of new opportunities.

Capital is flowing freely into avenues usually restricted to the few. Exhibit A and B being the explosive growth in venture capital (VC) investments and digital cryptocurrencies.

In May 2021, The Economist wrote, *"The recent expansion of the crypto-universe is a thing of wonder. Only a year ago there were about 6,000 currencies listed on CoinMarketCap, a website. Today there are 11,145. Their combined market capitalisation has exploded from $330b to $1.6t today—roughly equivalent to the nominal GDP of Canada. More than 100m unique digital wallets hold them, about three times the number in 2018"*.

In its 27 November 2021 weekly edition, The Economist led with an article on adventure capitalism.

"In the past five decades, the venture-capital (VC) industry has funded enterprising ideas that have gone on to transform global business and the world economy. Seven of the world's ten largest firms were VC-backed. VC money has financed the companies behind search engines, iPhones, electric cars and mRNA vaccines."

Such changes may be slow out of the gates, but once in motion, its impacts are long felt. The adoption of electric vehicles (EV) is a case in point. During the company's investor day in December, leading online auto operator, carsales.com, noted global EV sales volumes are expected to rise from 2m in 2020, to 34m by 2025 and 74m by 2040.

Similarly, a recent survey undertaken by carsales.com also noted an acceleration to full digital retailing, with 37% of respondents willing to purchase a used car completely online, compared to the current one percent.

Perhaps not as surprising is the shift to working from home and adaptions to the traditional office environment. This will unsettle the long held view that you can't go wrong with property, in this case commercial. Consider the following comments from global software electronics designer Autodesk, with a workforce of over 11,500 globally and a market capitalisation of US$56b. Presenting their U.S. third quarter earnings update in November, the company noted a restructure of sorts is underway.

"As we enter Q4, we intend to take steps to reduce our real estate footprint because the pandemic has spurred changes in the way we work, and we've moved to a hybrid workforce. As a result, we anticipate we will reduce the square footage of our facilities portfolio by approximately 20% worldwide."

We doubt this type of internal analysis is limited to Autodesk. Only time will tell how profound the property wide ramifications will be.

Likewise, the 26th Climate Change Conference held in Glasgow (COP26) during October and November, and the agreements that followed, will continue to influence society, businesses, governments, and individuals, to transition to a more environmentally sustainable footing.

With such transformational shifts underway, the topic of inflation should be considered across a broader perspective. Today, its impact is being felt directly. At the Federal Open Market Committee meeting in December, U.S. Federal Chairperson Jerome Powell stated inflation at 6.8% is running well ahead of the 2% long run goal, with some real risk that it could become more entrenched. But the danger lies in interpreting numbers influenced by all matter of inputs and outputs.

To that end, the Fed is sticking to its mandate in promoting maximum employment and stable prices. In doing so, and based on current data available to the

Committee, the Fed Fund rate is expected to lift three times over the course of 2022, from current levels of 0%-0.25% to the upper level of 0.9%.

In contrast, the Reserve Bank's Governor Philip Lowe, has reconfirmed the local cash rate will stay at the current record low level of 0.1% until at least 2023.

While today's focus is clearly on inflation, the generational structural impacts also being felt needs deeper appreciation. Disruption, so often an overused buzzword, accurately portrays outcomes never imagined.

And it's leaving no stone, or industry, unturned. Across the workforce it's prompting many career transitions, exacerbated by skill shortages and strong demand in new industry arenas. In our opinion, herein lies the biggest risk to any enterprise; the loss of key personnel impacting the cultural setting of an organisation. It also highlights why founder led businesses are more highly sought, as they allow for the focused pursuit of aspirational long range targets.

In the short run, markets will remain focused on the key economic numbers of inflation, growth and unemployment. This will influence investor behaviour and drive short term outcomes.

In the long run, what matters more is having the understanding and preparedness for the profound changes unfolding. To that end, putting all things aside, the collective winners will be those with the best business economics, run by culturally aligned teams.

In this quarterly edition we explore further the factors behind a great business in our *"Firms of Endearment"* article.

Looking at future trends, we delve into the ongoing structural shift towards personalised healthcare, discuss why some consider this next era for business operators as the "efficiency decade", as well as consider the rise of Artificial Intelligence (AI) through the lens of Appen, a portfolio holding and global leader in providing language and data solutions to technology companies.

Our discussion on proxy advisors returns in this quarterly, in our piece *"Proxy advisors under the spotlight"*. This time we challenge the practice of static voting recommendations and the resulting misalignment with the reality of running a modern-day international business.

Finally, our Environment, Social and Governance (ESG) review includes high level disinfection company, Nanosonics, and the potential impact of a Carbon Tax on the portfolio.

For the December quarter, the Portfolio recorded a gross positive return of **3.52%** compared to the S&P ASX All Ordinaries Accumulation Index, which posted a gain of **2.48%.** For the 2021 calendar year, the Portfolio delivered a gross positive return of **26.09%** compared to the Index which posted a gain of **17.74%.**

This past year has been eventful and life impacting. We wish our clients and readers the best for the new year.

We trust you find the report informative.

Regards,

Selector Investment Team

"Not everything that can be counted counts, and not everything that counts can be counted."

Albert Einstein

In our field of endeavor, investing is very much about connecting the dots.

PORTFOLIO OVERVIEW

Table 1: Performance as at 31 December 2021*

	3 Month	6 Month	1 Year	3 Year	5 Year	10 Year	15 year	Since Inception
Fund (net of fees)	3.05	8.59	23.56	20.24	17.56	19.12	8.73	11.92
Fund (gross of fees)	3.52	9.94	26.09	22.68	19.82	21.36	10.76	14.06
All Ords. Acc. Index	2.48	4.58	17.74	14.82	10.43	11.01	6.45	8.66
Difference (gross of fees)	1.04	5.36	8.35	7.86	9.39	10.35	4.31	5.40

Inception Date: 30/10/2004

**Performance figures are historical percentages. Returns are annualised and assume the reinvestment of all distributions.*

Graph 1: Gross value of $100,000 invested since inception

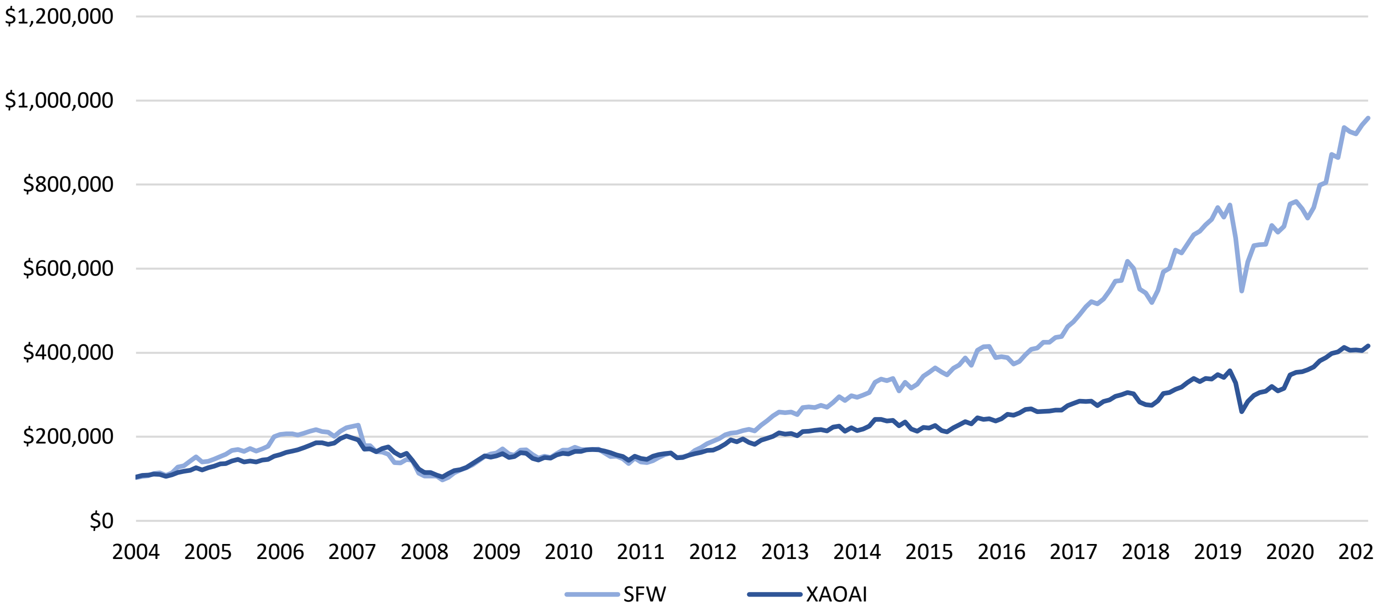


Table 2: Fund’s Top 10 Holdings

Top 10 December 2021	%	Top 10 September 2021	%
Altium	6.07	Domino's Pizza Enterprises	7.80
James Hardie Industries	5.83	James Hardie Industries	5.86
Reece	5.56	Aristocrat Leisure	5.71
Domino's Pizza Enterprises	5.18	carsales.com	5.32
Aristocrat Leisure	5.02	Altium	5.28
carsales.com	4.95	ResMed	4.87
TechnologyOne	4.77	TechnologyOne	4.68
ResMed	4.23	Reece	4.35
CSL	4.00	Cochlear	4.02
Cochlear	3.74	Seek	3.82
Total	**49.35**	**Total**	**51.71**

Table 3: Unit prices as at 31 December 2021

Unit Prices	Entry Price	Mid Price	Exit Price
	$3.9939	$ 3.9839	$3.9739

Selector employs a high conviction, index unaware, stock selection investment strategy. The Fund's top 10 positions usually represent a high percentage of its equity exposure. Current and past portfolio composition has historically been very unlike that of your average "*run-of-the-mill index hugging*" fund manager. Our goal remains focused on truly differentiated broad-cap businesses rather than the closet index hugging portfolios offered by most large fund managers.

Table 4: ASX sector performance – December 2021 quarter

S&P ASX Industry Sectors	Quarter Performance (%)
Materials	12.44
Utilities	10.02
A-REITS	8.93
Telecommunications	4.87
Industrials	1.14
Consumer Discretionary	0.00
Healthcare	(0.08)
Consumer Staples	(0.49)
Financials	(3.35)
Information Technology	(6.14)
Energy	(8.82)

Table 5: Fund's industry weightings

Industry group	December 2021 (%)	September 2021 (%)
Software & Services	25.93	23.93
Consumer Services	15.41	19.21
Health Care Equipment & Services	14.10	15.00
Media & Entertainment	9.78	10.40
Capital Goods	8.70	7.23
Materials	5.83	5.86
Diversified Financials	4.84	4.60
Pharmaceuticals, Biotech & Life Sciences	4.65	4.37
Cash & Other	3.03	1.03
Automobiles & Components	2.28	2.36
Insurance	2.27	2.49
Household & Personal Products	2.01	2.32
Consumer Durables & Apparel	1.17	1.19

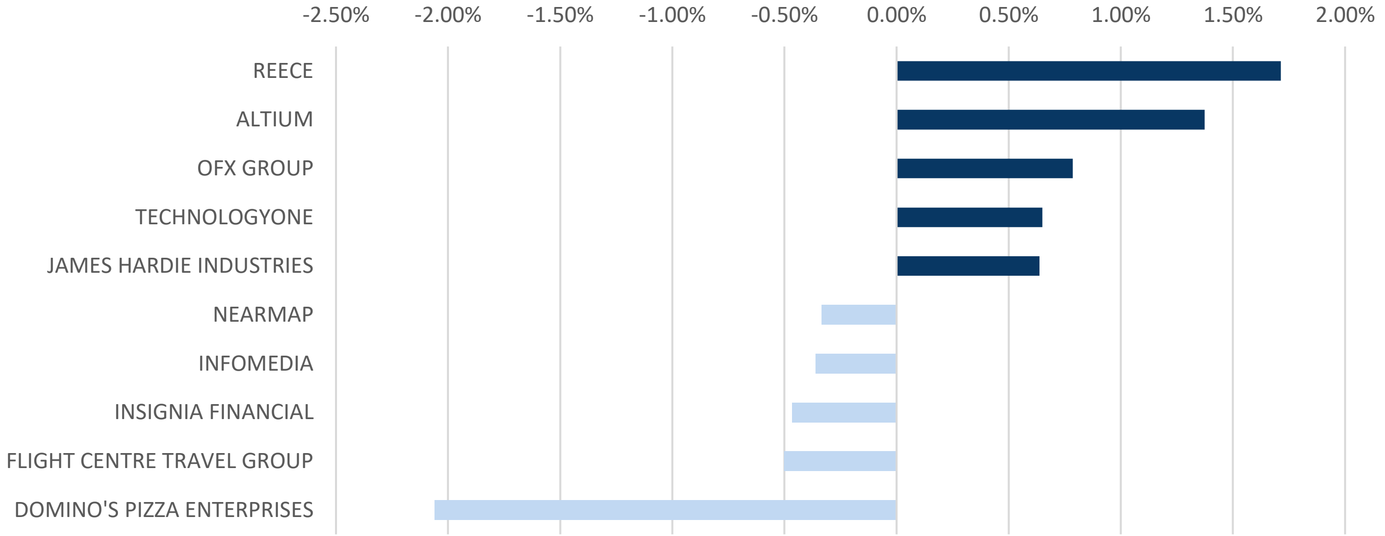
Table 6: Portfolio turnover as at 31 December 2021

Period	Turnover %
1 Year	8.57
2 Years	6.32
3 Years	7.06
5 Years	7.01
10 Years	7.17
Since inception	6.78

- Turnover shown as annualised percentages
- Turnover = Lesser of purchases or sales divided by average funds under management for the period

PORTFOLIO CONTRIBUTORS

Graph 2: Contributors and Detractors – December 2021 quarter



Top quarterly contributors

1. Reece (ASX:REH)

At the 2021 annual general meeting, Reece released its first quarter trading update, recording strong results across its two key regions. Group sales rose by 13.2% to $1.8b, comprising ANZ up 9% and U.S. up 18.6% on a U.S. dollar reported basis. First half operating profits are expected to grow at 8-11%.

CEO Wilson notes *"Sales revenue for the first quarter has been positive, reflecting momentum from FY21. We have continued to see growth in both regions which has exceeded our expectations. However, the future continues to be unpredictable with inflation dynamics, supply chain disruptions together with tight labour markets and wage inflation we are expecting to accelerate in Q2 and persist for the balance of FY22. As an essential service we will rely on our adaptive and resilient business model to protect and preserve our business today, whilst creating a position of strength to accelerate our long-term strategy."*

Reece has a current market capitalisation of $15.4b and net debt of $506.7m.

2. Altium (ASX:ALU)

In November, Altium hosted its Annual General Meeting commenting that the first four months of the fiscal year had been strong across the entire group. For FY22, the company has signalled a 'return to winning', reiterating guidance of 16-20% growth in revenue (US$209m-US$217m) and an underlying EBITDA margin of 34-36%. While guidance will be reviewed in February, based on current trading, Altium is confident results are not likely to be at the lower end of the provided range.

Altium has a market capitalisation of $5.2b, net cash of US$192m.

3. OFX Group (ASX:OFX)

Global foreign exchange and payments firm OFX Group delivered a record half year result with clear momentum evident across the business. At a group level, net operating income rose 27.3% to $68.6m while underlying operating profits lifted 88% to $20.3m, representing an underlying EBITDA margin of 29.5%.

OFX's technology offering combined with its superior customer service has resonated well within the company's target markets of High Value Consumer, Corporate and Enterprise. Revenue across these segments grew at 28.1%, 16.2% and 40.5% respectively.

The half also marked a return to growth for Enterprise, which excludes meaningful contribution from recent deals with the ATO, Pearler, Douugh and WiseTech Global. Additionally, the healthy Enterprise pipeline provides significant earnings latency.

In December, the company announced that it had entered into an agreement to acquire corporate foreign exchange business Firma Foreign Exchange Corporation. Based in Edmonton, Canada, Firma has 194 employees and services over 9,600 corporate customers.

Firma is a profitable business recording revenues of $51.9m in FY21 and $10.9m in operating profits (EBITDA). The $98m cash and debt funded acquisition is expected to complete in Q1 FY23 subject to customary approvals. For OFX, this acquisition is equivalent to 5 years of organic growth, increasing Corporate and North American revenue by 93% and 121% respectively.

At completion, OFX will have net debt to pro-forma EBITDA of around 1.5x, with the ability to de-leverage by FY26 through strong cash flow generation.

OFX has a market capitalisation of $577m and net cash of $63.1m.

4. TechnologyOne (ASX:TNE)

Global enterprise resource planning (ERP) software provider TechnologyOne reported its full year 2021 result with revenue rising 4% to $312m and net profit before tax lifting 19% to $97.8m.

SaaS annual recurring revenue (ARR), seen as a better indicator of management execution and business quality, delivered organic growth of 43% to $192.3m. At balance date ARR was $257m.

TechnologyOne has now reached a SaaS tipping point, with the company announcing an end to its on-premises sales offering by October 2024. Described as a 'watershed' moment, the company expects most legacy customers to shift to the cloud, joining the 637 enterprise customers that have moved to date.

While near term growth will be driven by migration to SaaS, the U.K., and Digital Experience Platform (DXP) are poised to contribute meaningfully longer-term. Research and development spend remains a high priority, rising 13% to $77m, representing 24% of revenue.

At a group level management confirmed its financial target of achieving $500m in ARR by FY26 with base operating margins of 35%, remains on track.

TechnologyOne also announced the acquisition of Scientia Resource Management (Scientia), a U.K. company servicing the higher education sector. Scientia provides Syllabus Plus, a market leading timetabling and resource scheduling product, to over 150 leading Universities across the U.K. and Australia.

Despite entering the U.K. in 2006, TechnologyOne is yet to reap the full benefits, having just turned a small profit in the first half of 2021.

With the U.K. total addressable market estimated at three times that of Australia, this acquisition confirms CEO Edward Chung's confidence, *"This acquisition forms part of our strategic focus to deliver the deepest functionality for Higher Education and it will accelerate our growth and competitive position in the U.K. as well as have significant benefits in the Australian Higher Education market."*

The acquisition is expected to cost £12m, with £6m paid upfront. The remaining £6m will be dependent on progressive earnout milestones out to FY23, fully funded from existing cash reserves.

TechnologyOne has a market capitalisation of $3.7b and net cash of $142.9m.

5. James Hardie Industries (ASX:JHX)

Financial summary

Leading fibre cement producer James Hardie recorded a strong second quarter performance. At a group level, total sales lifted 23% to US$903.2m, while adjusted net income (NOPAT) excluding asbestos payments increased 29% to US$154.9m.

Operating (EBIT) margins improved to 27.2% from 26.6% despite inflationary cost pressures and increased investments in growth initiatives.

Foundational strategic initiatives

Since taking the reins in 2019 CEO Jack Truong has transformed performance across all business lines. Sales are higher, margins stronger and production performance now of a consistently high standard.

Truong has got the basics right. In summary, the global strategy has delivered:

1. World class manufacturing via the execution of LEAN
2. Partnership with customers and a shift to a Push-Pull strategy
3. Supply chain integration servicing the customers
4. A globally integrated management system operating across the organisation, referred to as

HMOS (Hardie Manufacturing Operating System)
5. Delivery of consistent financial results

Strategic update

In 2021, CEO Truong extended the push-pull strategy with three new strategic initiatives enabling James Hardie to grow consistently above market. These include:

1. Marketing direct to the homeowner to create true demand for its products
2. Driving profitable growth in existing and new segments such as repair and remodel (R&R)
3. Commercialising global innovations by expanding into new categories

Direct marketing

By engaging directly with the ultimate decision maker, the female homeowner, James Hardie is driving true demand for its products. This approach, of building a consumer brand, enables a continuous pool of future customers to consider the merits of the group's product offering, outside the cyclical building industry.

James Hardie has progressed this initiative by marketing across television, social media, print media and regional influencers to guide the consumer through the purchasing journey. Early metrics are positive with brand awareness lifting 109%, website traffic up 81% and leads rising 61% within target markets.

This consumer led model aims to drive brand loyalty and word of mouth promotion of James Hardie's higher value products. James Hardie currently has single digit brand awareness.

R&R focus

The company has identified 44m homes in the U.S. over 40 years old where James Hardie can create demand for re-siding and remodelling. Reaching a 5% share or 2m homes would double the annual U.S. new build opportunity.

James Hardie aims to drive growth through its differentiated high value products, which offer modern and contemporary design aesthetics, alongside traditional features of product durability, low maintenance and non-combustibility.

As the product mix shifts towards high value products, sales and margins improve for James Hardie and its distribution partners. Early execution has seen group price mix rise 9% for the quarter, largely attributed to the shift from Cemplank, the lower margin fighter brand to Hardie plank.

The real opportunity is to drive greater uptake of colour and Hardie innovation products, which sell at a substantially higher price point. To illustrate, the price of Cemplank, averages US$475 a square foot verse Hardie plank at US$750 and US$1,200 for colour, while Hardie innovation products sell for 1.7x colour at US$2,040 a square foot.

Innovation

The third pillar to James Hardie's growth ambitions is product innovation. In May, James Hardie launched three new product platforms:

1. Hardie Textured Panels in North America,
2. Hardie brand VL Plank in Europe and
3. Hardie brand Fine Texture Cladding in Australia.

Early market acceptance and penetration has seen James Hardie commit to delivering more new products within six months and regularly thereafter. During the quarter, research & development expenses rose 30% to US$8.3m.

North America

In the group's largest market, North America, James Hardie continues to deliver record results. Volumes grew 14% while price mix rose 9%, resulting in net sales of US$635.3m, up 23%. Operating profits increased 23% to US$182.5m, while margins remained broadly flat at 28.7%. Business momentum is strong, as management executes well across LEAN manufacturing, marketing to the homeowner and driving high value products.

Europe

Europe continued its positive trajectory with volume and price mix growth of 15% and 8% respectively, resulting in net sales of €104.6m up 23%. Operating margins rose by 2.5% to 13.6% driven by improved scale and a higher fibre cement contribution.

Asia Pacific

In the Asia Pacific market, sales increased 15% to A$196.6m while operating margins declined from 31.7% to 30.8%.

All three regions are executing on the global strategy despite increased freight and input costs impacting margin gains.

Capital expansion

To sustain future demand, James Hardie is adding new manufacturing capacity. Production at Prattville, Alabama continues to ramp up, with the addition of a third and fourth manufacturing line. Summerville will be commissioned by March 2022 to produce Cemplank.

In addition, new greenfield sites across each region have been earmarked to manufacture high value products. Management expects this extra capacity will enable organic growth and drive future market share gains. James Hardie expects capex spend to sit within a range of US$250m and US$350m from FY22 to FY24.

January 2022 - CEO dismissal

James Hardie notified shareholders in January that after only a three-year tenure, the board has found cause to terminate CEO Jack Truong. CEO departures are an all-too-common occurrence in public company life. Only few are suited, as this increasingly demanding role takes its toll.

This announcement was unique in that Chairman Michael Hammes provided the explicit reasoning behind the shock decision.

From an outsider's perspective, since his appointment as CEO 2019, it was hard to fault Truong in terms of operations or execution.

The financial track record under his watch has been impressive. We make no apologies for our admiration of the way Truong took the best of what James Hardie had to offer and made improvements, some basic and others profound. The business alignment, global employee engagement and operational excellence were the hallmarks of a re-energised organisation.

CEO Truong spoke of transforming James Hardie from a big, small company to a small, big company. This was evident in the introduction of LEAN manufacturing principles across the group's operational plants. Renewed focus on re-engaging with customers and product innovation becoming high priorities.

All these benefits were being reflected in growing market share and strong regional performances, particularly in the key U.S market.

Unfortunately, the Board's unexpected announcement spoke of the severity of recent employee interactions, making the decision to terminate the CEO's role necessary.

Along with the news of Truong's dismissal notice, management also provided a trading update, lifting 2022 full year earnings guidance from a previous range of US$580m-US$600m to US$605m-US$625m.

Board and management reconfirmed their confidence heading into 2023 in addition to the appointment of Sean Gadd as the group's new North American President. Gadd, alongside CFO Jason Miele, has been part of the executive leadership team integral to the group's development stretching back to 2004 and 2007 respectively.

The company will update investors further at the upcoming third quarter earnings call in February.

Below we provide extracts from the investor briefing discussing the termination event and additional comments from the Board led by Chairman Michael Hammes and incoming interim CEO Harold Wiens.

Background

"In 2016 and 2017, the Board and senior management – key senior management identified the need, as you know, for a strategic transformation to ensure the future growth and profitability of the company. As we all know, we had a spectacular growth and performance up to that point but had reached a bit of a stall, especially here in North America.

Since 2018 and 2019, the entire team at Hardie, from the floor up through senior management team, including such key leaders as Sean and Jason, have successfully transformed the company into a new and totally revitalised James Hardie, driven by the new strategy and outstanding execution.

Our strategy is now embedded deep into the organisation, as I said, from the line employees in our plants all the way up through the very, very deep and strong executive team, and we are all incredibly proud of that and very confident in that strategy."

Termination

"After extensive due diligence, the Board determined that Jack's management style was inconsistent with the James Hardie Global Code of Conduct and the Board took the necessary action of termination.

A little background for all. Multiple employees in the company raised concerns about Jack's work-related interactions over the past several months. The concerns were raised in a variety of manners, including our hotline as well as concerns voiced expressly to Board members, including myself. The Board immediately took -- undertook extensive due diligence including, but not limited to, the use of an expert, independent consulting firm with many years of experience in this and outside counsel.

On its initial feedback, the first independent review, the Board had discussions with Jack, I personally and the Board had discussions with Jack. We provided him support for behaviour change and continued to monitor the situation very closely. The Board provided opportunities for this sincere change. We're looking for a sincere change, to occur.

But based upon additional employee concerns raised and further extensive due diligence over these last few months, it was clear that sincere change did not occur and Jack's behaviour remained inconsistent with the James Hardie Code of Conduct. While not discriminatory, and I urge that – I emphasize that, it was not discriminatory behaviour, Jack's behaviour was cited by the management survey of these 30 or 40 people as intimidating, threatening and not respectful of the individual. And frankly, the report back to us through this independent, very confidential survey was the work environment has become overtly hostile as a result."

Strategy

"Regarding our strategy, it remains unchanged and unwavering. We will continue to execute on our foundational initiatives that help forge our transformation. First, lean manufacturing; second, customer engagement; and third, supply chain integration.

And we'll drive profitable growth into the future, leveraging the 3 strategic initiatives that we introduced in May 2021. First of all, we're going to market directly to the homeowner to create demand; second, to penetrate and drive profitable growth in existing and new segments; and thirdly, to commercialise global innovations. Based on the strategy and the team in place, I envision a seamless transition.

Our strategy, along with the world-class leadership team at every single one of our 5,000-strong hard-working employee base will drive us to meet our mission of being a high-performance, global company that delivers organic growth above market with strong returns."

Sean Gadd North American President, Jason Miele CFO

"As Mike mentioned, alongside us here in Chicago are Sean Gadd and Jason Miele. Today, I promoted Sean to the role of President of North America. Sean has been the key leader within our North America business driving our transformation over these past 3 years. His deep involvement in developing our strategy, his strong relationships with our customers and his proven track record of execution make him the right leader to drive our North American business forward.

Also with us is our CFO, Jason Miele. And as you know, Jason has been our CEO through our transformation to a new James Hardie. His leadership has been also critical to our success during this period. I will lean on Jason to ensure the corporate functions and responsibilities are running smoothly. His oversight and leadership in this regard will allow me to have a primary focus on driving the operational business globally."

Comment

The business is performing strongly, and the changes made under Truong's leadership appear well accepted and long lasting. The critical next step will be the appointment of a new CEO. We wouldn't be surprised if the leader is chosen from within the current leadership team, providing continuity and cultural alignment.

James Hardie has a current market capitalisation of A$22.0b and net debt of US$815m.

Bottom quarterly contributors

1. Domino's Pizza Enterprises (ASX:DMP)

At its 2021 annual general meeting, Domino's released a trading update for the first seven weeks of FY22. Network sales rose 8% and SSS increased by 4.3%. Growth rates varied across regions and remains unpredictable due to lockdowns and ongoing changes to consumer behaviours.

Japan experienced a first quarter of compounding sales prior to a national State of Emergency at the end of September. This has impacted sales with management unable to forecast at this stage whether FY22 sales will surpass FY21. Momentum has continued in new store openings, rising by 42, with management focused on meeting the long-term market opportunity.

The group continues to expect a record year for store openings, with the majority to be added in the 2H.

Domino's has a market capitalisation of $10.9b and net debt of $447.3m.

2. *Flight Centre Travel Group (ASX:FLT)*

Flight Centre Travel Group has continued its strategic expansion within the Asian corporate travel sector with the launch of its leading FCM travel management business in Japan. This will be undertaken via a joint venture (JV) with Tokyo-based NSF Engagement Corporation. As the fourth largest corporate travel market, access to Japan will significantly enhance Flight Centre's ability to win new local and multi-national accounts and provide existing customers with an improved offering.

Flight Centre has a current market capitalisation of $3.7b.

3. *Insignia Financial (ASX:IFL)*

Insignia Financial formerly known as IOOF Holdings provided a business update in October. Funds under administration remained largely in line with expectations recording net outflows of $0.9b. The Evolve offer continues to record growth while the acquired ANZ Pensions & Investments and MLC platforms experienced net outflows. Management is focused on stemming this trend and has seen early signs of stabilisation during the quarter. Funds under management recorded net outflows of $1.4b, due to one-off mandate losses and distributions.

Simplification

Management remains focused on net operating margin expansion through business simplification. The recent MLC acquisition provides a unique opportunity to overhaul inefficient systems and deliver synergies from the consolidation of back-office functions. Insignia remains on track to achieve $218m of annual synergies by FY24, and $80-$100m by FY22. This excludes any potential synergies from the unification of products and platforms.

CEO Mota explains this in his comments, *"within the first six months of ownership of MLC, we are making significant progress in transforming our business' operating model to deliver on our strategic priorities. Our focus remains on simplifying the business allowing for greater concentration on delivering future growth. We are evaluating the opportunity to accelerate the extraction of further synergies albeit with some additional integration costs, and expect to be able to conclude and report on this analysis by the interim results."*

Insignia Financial has a market capitalisation of $2.4b.

4. *Infomedia (ASX:IFM)*

Infomedia, a leading Software as a Service (SaaS) provider in parts, service and data insight solutions to the automotive industry, held its Annual General Meeting in November.

Executive changes

With the announcement of CEO Jonathan Rubinsztein's departure in October, Non-Executive Director Jim Hassell stepped in as Interim CEO. In his address, Hassell highlighted the company's strong operational momentum, aided by the rollout of the Next Gen Platform and cross-sell opportunities within the newly acquired SimplePart business.

Further, Interim CEO Hassell announced four key priorities for FY22:

1. Delivering on FY22 guidance
2. Improving the value proposition for both customers and staff
3. Ensuring right mechanisms and systems in place to manage and scale the business
4. Providing greater transparency in the company's internal and annual reporting

SimplePart Acquisition Update

With the completion of the U.S. based SimplePart acquisition in June, Infomedia is transforming its offering into an end-to-end solution that is deeply embedded in customers daily operation.

For Infomedia, the SimplePart acquisition broadens its capabilities through the integration of real-time VIN-specific data into the parts and service platform. In addition, SimplePart's e-commerce offering enables automakers and dealers to utilise data-driven analytics to enhance and personalise the customer engagement process beyond initial sales of a vehicle.

As the industry shifts towards a model focused on creating deeper customer engagements, Infomedia remains well positioned to benefit by enabling customers to make faster and more personalised decisions in the aftersales market.

Guidance

Management reaffirmed FY22 revenue guidance of $117m-$122m, alongside aspirations to double revenue to circa $200m by 2025.

Infomedia has a market capitalisation of $582m and net cash of $67m.

5. Nearmap (ASX:NEA)

Leading aerial imagery and location intelligence company Nearmap announced that its key growth metric Annualised Contract Value (ACV) for its North American (NA) operation is on track to surpass the established Australian and New Zealand (ANZ) business by the end of 2021. This is a milestone given image capture in North America commenced only eight years ago, compared to the 14 years of domestic operation, and speaks to both the scale of opportunity and go-to market strategy in that market.

Nearmap has committed to continued investment in this strategic market, expecting to double the capture footprint in FY22 to cover circa 80% of the population, up to three times a year. The company confirmed its FY22 ACV guidance range of between $150m-$160m, an increase of between 17%-25%.

Nearmap has a current market capitalisation of $714m.

ENVIRONMENTAL, SOCIAL AND CORPORATE GOVERNANCE (ESG)

- **ESG risk of the portfolio**

Table 7: SFML ESG Scores

Company Name	ESG Roadmap	ESG Score
ARISTOCRAT LEISURE	2.0	8
ALTIUM	2.0	6
APPEN	2.0	8
ARB CORPORATION	2.0	6
BLACKMORES	2.0	6
BREVILLE GROUP	2.0	3
CARSALES.COM	2.0	8
COCHLEAR	2.0	7
COMPUTERSHARE	2.0	8
CSL	2.0	8
DOMINO'S PIZZA ENTERPRISES	2.0	5
FINEOS CORPORATION HOLDINGS	2.0	6
FLIGHT CENTRE TRAVEL GROUP	2.0	8
FISHER & PAYKEL HEALTHCARE CORPORATION	2.0	8
IOOF HOLDINGS	2.0	5
INFOMEDIA	2.0	4
IRESS	2.0	7
JAMES HARDIE INDUSTRIES	2.0	7
JUMBO INTERACTIVE	2.0	6
MEGAPORT	2.0	4
MEDICAL DEVELOPMENTS INTERNATIONAL	2.0	6
NANOSONICS	2.0	8
NEARMAP	2.0	6
NIB HOLDINGS	2.0	9
OFX GROUP	2.0	7
POLYNOVO	2.0	7
REA GROUP	2.0	9
REECE	2.0	9
RESMED	2.0	8
RELIANCE WORLDWIDE CORPORATION	2.0	9
SEEK	2.0	9
TECHNOLOGYONE	2.0	7

ESG 2.0 Roadmap

Consideration			
Environment	Climate Targets	Renewable targets	Progress against target
Social	Human Capital Management	Community (including MS*)	Best Interests
Governance	Board effectiveness	Shareholder interests	Risk & Litigation

Roadmap scorecard
9 filters applied to each portfolio business

*Modern Slavery (MS)

The ESG 1.0 Roadmap, developed in-house in 2019, defines ESG issues that may impact companies and applies a score of 1 or 0 for each of the 12 areas under consideration. The ESG 2.0 Roadmap iteration was created in 2021, with changes integrated into our portfolio models thereafter. The ESG 2.0 Roadmap consists of 9 areas under consideration.

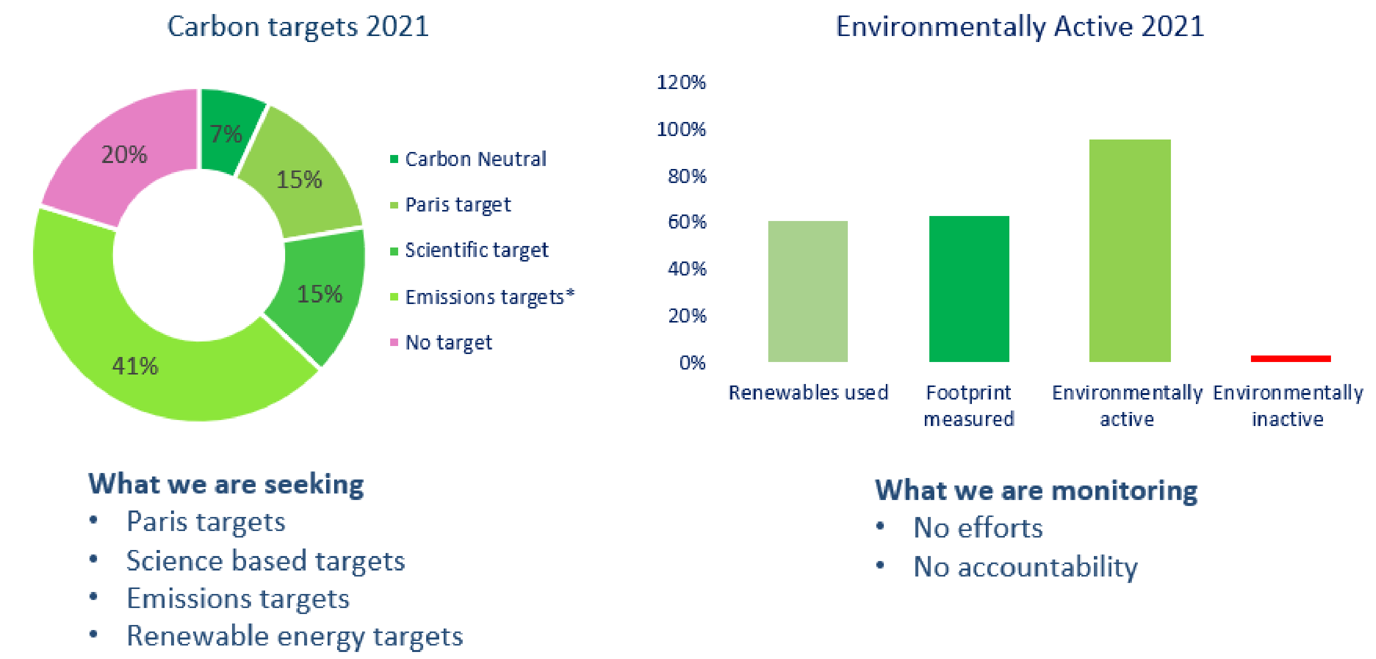
The following is a breakdown of each consideration:

- Climate targets – Assessment of the company's plans relating to carbon neutrality, Paris commitments, scientific targets, or emission targets. "0" rating for no effort.
- Renewable targets – Assessment of the company's documented use of renewables mix or implemented targets for renewable energy.
- Progress against targets – Measuring progress made against announced targets. "0" rating for no effort.
- Human Capital Management – "Is there a history of human rights violations, workplace and IR disputes, discrimination and harassment claims?"
- Rating of the company's employee engagement, turnover and productivity. Compare the company's work, health and safety (WHS) standards against peers, including their recording and track record of incidents.
- Community – Rating of the company's community engagement and social licence to operate. Consider whether the company has a framework on social issues across its supply chain, including labour standards, child labour, health & safety, discrimination, and harassment.
- Best Interests – "Is the company behaving in a manner that is in the best interests of stakeholders."
- Board effectiveness – Assessment of the board including industry experience, independence, age, diversity, tenure, equity ownership and capacity.
- Shareholder interests – Assessment of the remuneration structure, shareholder communication, corporate disclosure, and reliability of financial statements. Test the factors against the company's corporate strategy and whether they are in line with shareholder interests. ssss
- Risk & Litigation – Rating of the company's internal risk and control framework.

The ESG Roadmap is reviewed quarterly with data updated annually by reporting companies. Further detail on our ESG Roadmap can be found in the SFML ESG & Voting Policy 2021, available at https://selectorfund.com.au/esg

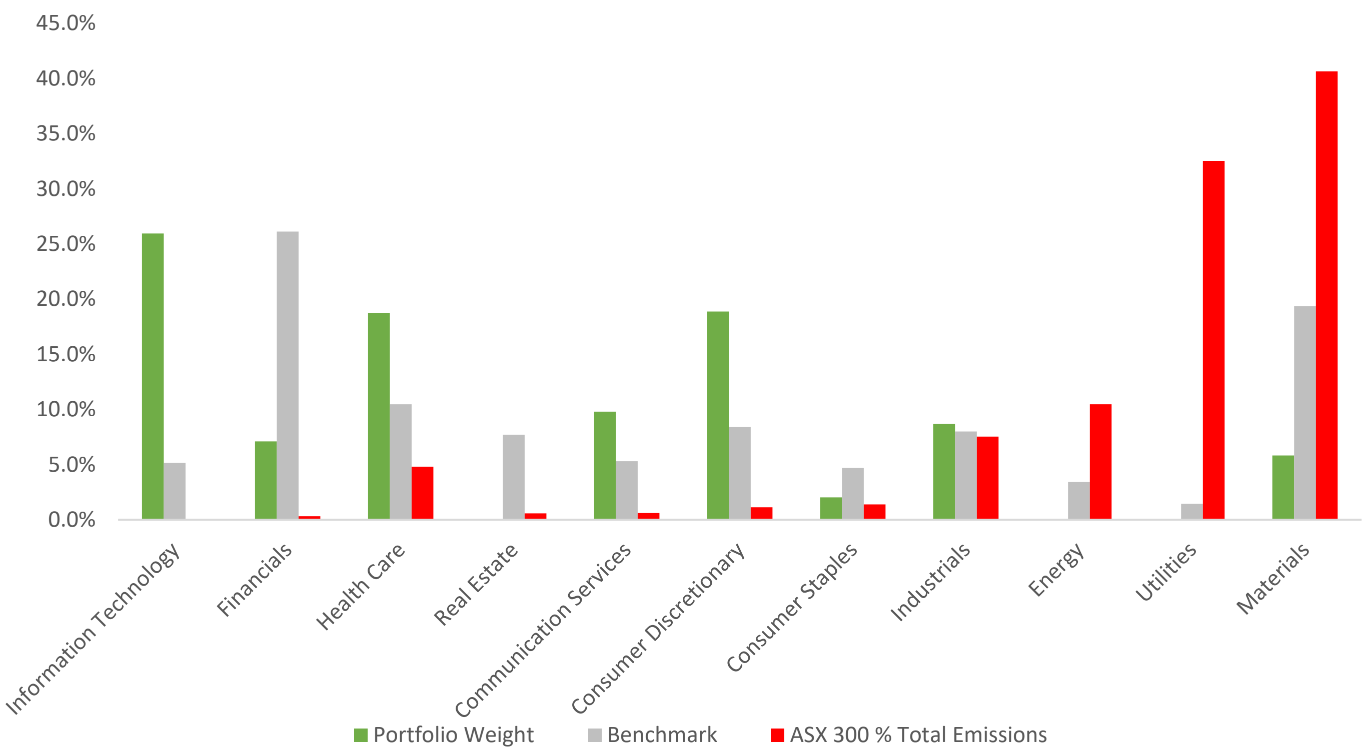
- **Carbon Risk Analysis**

Figure 1: Portfolio Reporting 2021



Source: SFML Research

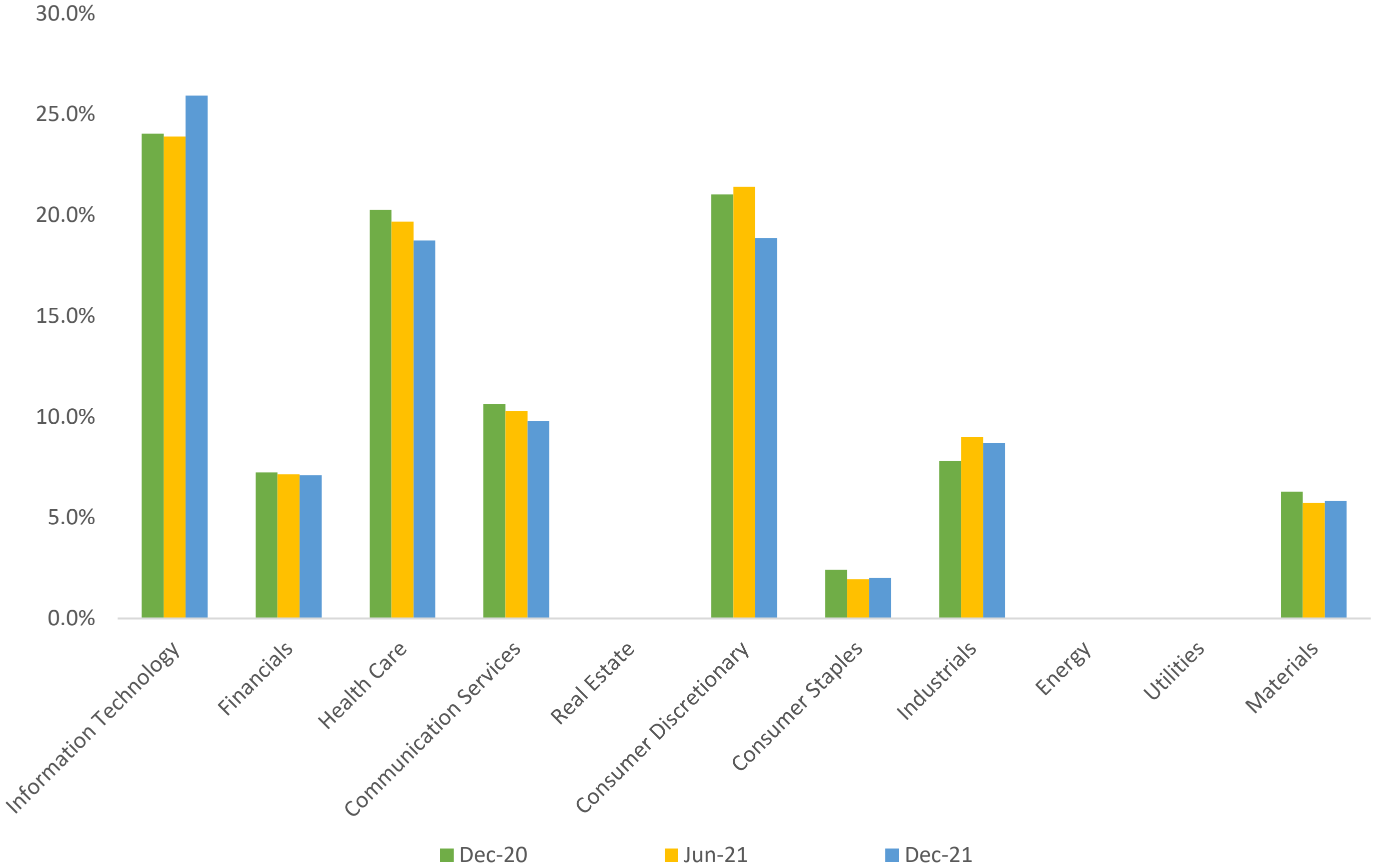
Graph 3: SHCEF vs ASX 300 Carbon Exposure 31 December 2021[1]



Source: Refinitiv

[1] *ASX 300 Index estimated using Vanguard Australian Shares Index ETF*

Graph 4: Portfolio Carbon Exposure Periodic Change



Source: Refinitiv

Table 8: SFML Portfolio carbon intensity

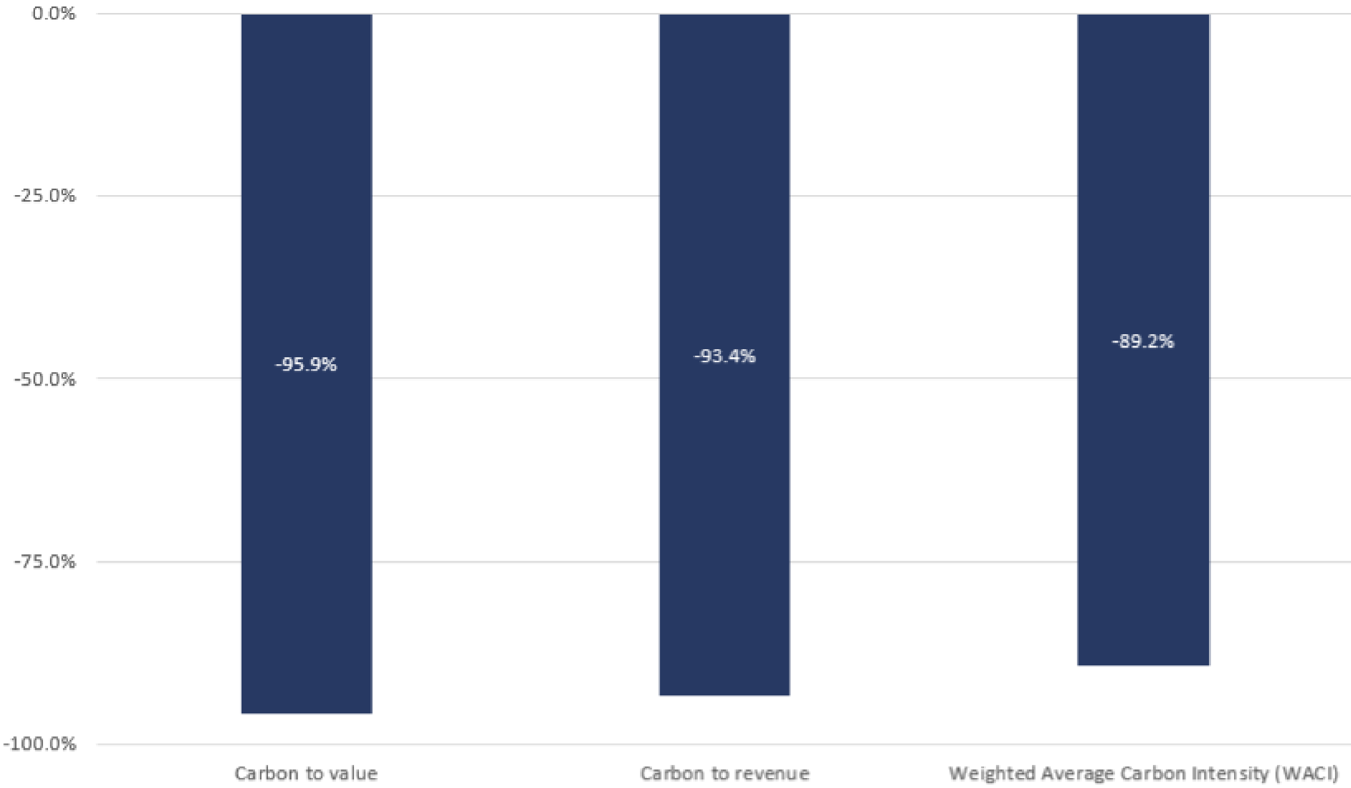
Carbon intensity method[1]	SFML	Benchmark[2]
Carbon to value invested	4.74	116.22
Carbon to revenue	18.62	280.83
Weighted Average Carbon Intensity (WACI)	21.90	202.37

Source: Refinitiv

1. Denominated in tonnes per CO2e/AUD$m
2. Benchmark used is Macquarie True Index-Australian Shares Fund, an approximation of S&P ASX30

- ***Carbon to value invested*** – this calculation is the aggregation of estimated owned constituent greenhouse gas emissions per $1m market capitalisation as at 31 December 2020. It allocates the emissions investors are responsible for based on their level of ownership, enabling them to measure their contribution to climate change.
- ***Carbon to revenue*** – this calculation reflects the aggregation of estimated owned constituent greenhouse gas emissions per $1m generated in apportioned revenues. It allocates the emissions investors are responsible for based on their ownership of company revenues.
- ***Weighted Average Carbon Intensity (WACI)*** is the weighted average of individual company's estimated carbon intensities (emissions over revenues), weighted by the investment proportion of the constituents.

Graph 5: SFML Carbon Intensity Relative to ASX 300



Source: Refinitiv

SFML's carbon to value invested and carbon to revenue are both lower than the S&P ASX 300 index, at 95.9% and 93.4% respectively. SFML's WACI is 89% lower than the index, due to no exposure to Energy and Utilities sectors, and low exposure to the Materials sector.

Table 9: SFML Top 10 emitters and total Portfolio Revenue impact of AUD$90 Carbon tax

Portfolio	LTM Revenue ($m)*	Estimated CO_2 Emissions (Tonnes)	$90 Carbon Tax ($m)	Impact on LTM Revenue (%)
SFML Top 10 Emitters	40,915.18	1,304,349	117.39	(0.29%)
SFML Portfolio – Total	52,335.96	1,371,583	123.44	(0.24%)
ASX300 Top 30 Emitters	458,387.54	216,705,671	19,503.51	(4.25%)
ASX 300 Index – Total	938,332.01	233,754,518	21,037.91	(2.24%)

Source: SFML & Refinitiv Estimated CO2 Emission data

* LTM (Last Twelve Months) revenue as of 31 December 2021

*Note: ASX 300 index revenue impact from a carbon tax is **9.5x** larger than SFML portfolio*

Table 10: Fundamentals behind comparing SFML Top 10 Emitters and ASX300 Top 30 Emitters

Portfolio	Percentage of Total Portfolio	Percentage of Total Portfolio's Emissions
SFML Top 10 Emitters	44.85%	95.10%
ASX 300 Top 30 Emitters	32.33%	92.71%

Source: SFML & Refinitiv Estimated CO2 Emission data

*Note: ASX300 Top 30 Emitters revenue impact from a $90 carbon tax is **14.8x** larger than SFML Top 10 Emitters*

Table 11: SFML Portfolio Top 10 Emitters Carbon Tax Scenario Testing

Company	CO_2 Emissions (Tonnes)	FY21 NPAT (AUD $m)	EPS FY21 ($)	Value of Carbon Tax ($)	Cost of Carbon Tax ($m)	Impact on NPAT (%)	EPS Post Carbon Tax ($)
JHX	603,840	353.83	0.79	90	54.35	(9.78%)	0.72
CSL	344,000	3,197.71	7.03	90	30.96	(0.78%)	6.97
ALL	129,024	820.00	1.29	90	11.61	(1.24%)	1.27
CPU	63,953	254.74	0.45	90	5.76	(1.67%)	0.45
REH	43,835	286.00	0.44	90	3.95	(1.17%)	0.44
FLT	34,328	-433.46	-2.18	90	3.09	(0.71%)	-2.19
DMP	33,539	184.01	2.13	90	3.02	(1.17%)	2.10
RMD	22,171	638.87	4.40	90	2.00	(0.16%)	4.39
ARB	16,405	112.90	1.40	90	1.48	(0.92%)	1.37
FPH	13,253	503.23	0.87	90	1.19	(0.17%)	0.87

Source: SFML & Refinitiv Estimated CO2 Emission data

We provide a more detailed review of the impact of a carbon tax on SFML's portfolio in the article below, *SFML 2022 Climate Commitment*.

- **How ESG factors are incorporated into research and decision-making processes**

We believe ESG is incorporated into our investment process and our research efforts. We make this distinction to provide further insight.

ESG incorporation into investment process

ESG consideration is integrated into the three core areas of our investment process:

1. Corporate engagement program
2. Quantitative modelling program
3. Voting program.

The three programs of work listed above are applied consistently to each business that we research. Ultimately, we are seeking businesses with leadership qualities, run by competent management teams, underpinned by a strong balance sheet and with a focus on capital management. Each of these four elements has its roots in culture and ESG.

We believe Culture and ESG are intertwined. We consider them both integral to our assessment of a business. Voting is the other half of ESG, all resolutions are documented, researched and voted inhouse.

Our ongoing focus on the individual culture and financial sustainability of a business lends itself to strong ESG outcomes at a business and portfolio level. This is evidenced by portfolio emissions significantly lower than index emissions, coupled with outperformance since inception.

ESG incorporation into research

All research is undertaken in-house by the Portfolio Managers and investment team. This is an intensive, granular and in-depth approach to continuous learning. We seek businesses with leadership qualities, run by competent management teams, underpinned by strong balance sheets and with a focus on capital management. This approach lends itself to strong ESG outcomes. Our approach is to fully integrate ESG into each of these four areas.

This is a risk out process. We are trying to take as much risk off the table as possible before we invest. The key areas of risk we focus on are board and management competency and the culture they are responsible for, business qualities, balance sheet and capital management. We believe a common-sense approach holds that a net cash balance sheet carries lower risk and more optionality than an optimised or extended balance sheet. We ultimately compare equity risk to a risk-free rate.

Before we invest, we seek to understand which risks a business can control verse those outside its control. For this to be possible, risk must be reported in a consistent and transparent fashion, to avoid any surprises. Here we are considering the possibility of assets becoming stranded (environment) or compromised (Social, Governance, legal, IP, cybersecurity as examples).

Risk sits in each bucket of E, S and G. Our program of corporate engagement has aided our understanding of risk in the S and G buckets since inception. In more recent years we have taken progressive steps to better understand Environmental risk and today, we are actively seeking better financial disclosure from the companies we invest in.

Our conviction in this process generates a concentrated portfolio of our best ideas, or our highest quality stock picks. The aim is to capture as much real earnings per share growth as possible over the long-term.

Our approach has been consistent since inception. It is framed by our Roadmap. This template is both qualitative and quantitative in nature, it focuses our research efforts on the aspects of ESG that we hold important in assessing the risk associated with a long-term investment. This internal scoring system is integrated into our financial model.

Our Roadmap provides a repeatable framework that drives our corporate engagement program, our quantitative program of financial modelling including our stock universe data screen, and our structured voting program. It also holds a strong relevance to our portfolio construction.

Our Roadmap has a material bearing on our investment process from screening ideas to portfolio construction. As an example, we highlight the top left-hand corner of the Roadmap, “Individuals we can trust”. If we are unable to establish confidence in management, board and the culture that they are responsible for, we will not invest in a business. We are index unaware and have the luxury of sitting on the sideline or saying no to an investment.

We believe culture and ESG are intertwined, with the former driving the later. We have focused on the culture that drives the social attributes and governance process within a business since inception.

In 2019 we developed our ESG Roadmap which provides an additional framework for integrating ESG into our research. It is also incorporated into our financial models. This is an iterative approach whereby we are building upon successful initiatives and discarding those that do not add value to our process.

We have taken progressive steps to better understand environmental risk. We measure emissions targets and renewables use across the portfolio. We also measure portfolio emissions against index emissions.

We have long had confidence that our process drives strong ESG outcomes in relation to social and governance issues. We believe our long-term outperformance and low turnover is evidence of this. It is now also apparent, from the portfolio reporting discussed above, that we are driving equally strong ESG outcomes in relation to environmental issues.

In addition, we use our templates and framework to actively seek better transparency and financial disclosure from the companies we invest in.

- **Examples of where ESG issues have been integrated into investment analysis and decision-making processes including company engagement and voting**

As part of our corporate engagement program, in March 2021 we met with incoming IRESS Chairman Roger Sharpe. In April 2021, we met with the Investor Relation representative at Jumbo Interactive. In both meetings we presented a case for technology companies with relatively small carbon footprints, to pursue carbon neutrality based on clear financial outcomes. We used Technology One as a case study.

- Technology One (TNE) is carbon neutral via purchased certified credits.
- Carbon neutrality has driven financial and marketing benefits for TNE, above the cost of offset and the positive contribution to society.
- Two key area of benefits are seen in:
    1) New logo wins for the TNE SaaS engine; and
    2) Staff retention and new hires.

▪ Details of any ESG research sources (internal and external) used during the reporting period.

We endeavour to read widely. This includes publicly disclosed documents, such as annual reports, sustainability statements, company and board charters and broker research. We subscribe to news services, various publications and a global business transcript service that also collates broker research and financial data.

SFML also recently integrated a new financial platform, Refinitiv, which provides extensive ESG coverage and data insights across ASX All Ordinaries securities. Refinitiv’s reported and estimated emissions data has been used to generate the detailed analysis of SFML’s portfolio emissions as seen above. Refinitiv will also enable data to be refreshed more frequently.

All research is undertaken in house by the Portfolio Managers and investment team. This is an intensive, granular and in-depth approach to continuous learning. We believe this is a differentiated approach that generates strong ESG outcomes.

FIRMS OF ENDEARMENT (FOE)

"The social transformation of capitalism is being driven by cultural changes of tectonic proportions that corporations, governments, and business schools ignore at their peril…Companies that do not understand capitalism's evolving identity – what many are now calling "Conscious Capitalism" – could have a short life expectancy because the forces driving this makeover are essentially unstoppable. They have become part of who we are in these times. Every company has the choice of going with the flow of these forces and being lifted to new heights or being drawn under by the churning rip tides of historic changes."

You could be forgiven for thinking this excerpt was written this year. Recent events have unleashed enormous discussion on what is acceptable in society, what is tolerable and what has now permanently changed.

The pressures being felt are twofold. Internally, organisations are working to remain relevant and retain staff. Externally, the push for accountability is increasingly putting pressure on companies and boards to step up. These are not easy times for businesses, and some are not only rising to the challenge but forging a stronger path.

The excerpt above is from the book *Firms of Endearment (FOE)*, authored by Raj Sisodia, David Wolfe and Jag Sheth. First written in 2007, with a second edition followed up in 2014, it reinforces the view that enduring companies do more than just focus on profits. In fact, in doing so, many end up being hugely profitable.

At its core, FoE illustrates the need for businesses to represent and care for all stakeholders, rather than just a few. The authors define FoE as "*a company that endears itself to stakeholders by bringing the interests of all stakeholder groups into strategic alignment. No stakeholder group benefits at the expense of any other stakeholder group, and each prospers as the others do. These companies meet the functional and psychological needs of their stakeholders in ways that delight them and engender affection for and loyalty to the company."*

Not surprisingly, a key outcome of the research work undertaken showed that *"While financial data surely is important in analysing a company's strength and past performance, qualitative indicators are even more important in assessing a company's future prospects."*

There are five main FoE stakeholders, understood through the acronym SPICE;

1. Society – local and broader communities
2. Partners – upstream and downstream such as suppliers and retailers
3. Investors – individual, institutional
4. Customers – individual, organisations
5. Employees – all

Today, we refer to these loosely as Environmental, Social and Governance (ESG). Back then it was pointed out that the United Nations "triple bottom line", looking at performance relative to people, the planet and profits, was an emerging reporting requirement for businesses in Europe. Now, it is mandated.

1976 Nobel Prize winner, Milton Friedman said, "*There is one and only one social responsibility of business – to use its resources and engage in activities designed to increase its profits so long as it stays within the rules of the game*." This view however struggles to hold in a digitally engaged society, where companies who do the wrong thing or don't do enough are open to the criticisms of the masses.

Patagonia, the respected outdoor clothing company, has shown how doing good can also lead to positive financial outcomes. In the book *The Responsible Company,* Founder Yuon Chouinard reflects on the firm's first 40 years of existence and offers the following insight.

"In this light, a responsible company owes a return not only to stockholders but to something that has come to be called stakeholders, entities dependent on or beholden to the company, but also on which the company depends. In addition to stockholders, there are four key stakeholders, employees, customers, communities, and nature."

Mark Fitzgibbon CEO of health insurer NIB at the group's recent annual general meeting offered his own take on this, "*Profits follow Purpose*", underlined by the company's corporate vision, "*Your better health*".

Albert Einstein said it most eloquently, "*Not everything that can be counted counts, and not everything that counts can be counted.*"

Networks - people

FoE have needed to evolve, giving way to new forms of organisational architecture. In much the same way that ant colonies self-organise into a working ecosystem, the same could be said of the internet. As the authors of FoE comment, *"no one runs it, but it magically works. And now, a growing number of companies are embracing the idea of self-organisation. This doesn't mean they lack executive direction and leadership. But the leadership at the top is more catalytic and inspirational than directive. The leadership that makes things work is down in the lower echelons where the rubber meets the road, and it is often not from a single person but from the group*."

The "*command and control*" business model is out. Information technology now aligns to an operational outcome, where employees are tasked to resolve and perform and act in the interest of all stakeholders.

So, why is this?

In short, the internet has dissolved business's information dominance. The balance of power is now in the hands of the masses. The rules of engagement have changed, forcing companies to operate with greater transparency to build community trust.

Focusing on the right outcomes

Investors who focus on the wrong inputs will end up with the wrong outcomes. Case in point are annual general meetings that centre on executive remuneration without proper understanding of the inner workings of the business.

To say an executive's remuneration is too high or excessive without connecting the dots is to look only at the surface. Dig a little deeper and you'll find there's more than first meets the eye; the spend on research and development, the depth of the executive team, the scope of global operations, the latency within the balance sheet, the focus on sensible capital deployment, adherence to operational excellence, the small number of tuck-in acquisitions and the bigger transformational ones.

These things don't just happen, they are worked on to produce an outcome, one that delivers for all stakeholders, including the management team.

As FoE notes, "*employee compensation should not be evaluated in a vacuum. Employee compensation is not an independent variable. Employees either benefit or burden every dimension of a company's existence. The extent to which they deliver one or the other is primarily a function of company culture and leadership's view of employees' value to the company.*"

Once you tug at a thread, thinking that it requires mending, it unravels. Investors who fail to heed the advice from FoE, are prone to do more damage than good.

It is therefore common for the importance of human capital to be downplayed. Just as companies track brand equity and customer feedback, employee equity should also be added to the mix. The two main indicators of strong employee equity are low turnover and high productivity. Founder-led businesses invariably understand this piece well, appreciating the contribution of trusted employees more than anything else. An organisation's value is increasingly found not on the balance sheet, but in the ranks of employees who make things happen.

When COVID hit, it became one of financial survival. Those who were in the direct firing line of the fallout, namely the travel industry, had no option but to cut staff and bunker down. Others who were able to soldier on, including the likes of employment group SEEK and hearing implant leader Cochlear, chose a different path. They maintained staff, reassured them of their value to the group and continued their reinvesting programs.

These actions come at a short-term cost, but they send a powerful message to employees and others that their roles matter and the company will do what's right for the whole and the long run benefit of all stakeholders.

Table 12: FoE financial performance

Cumulative share price performance	3 Years	5 Years	10 Years	15 Years
U.S. FoEs	53%	151%	410%	1,681%
International FoEs	47%	154%	512%	1,180%
U.S. S&P 500	57%	61%	107%	117%

Source: Firms of Endearment

Suppliers were similarly not forgotten. Disruption in production chains and freight logistics forced a refocus. Business leaders who have scrambled to meet demand orders now appreciate the need to work with suppliers at all levels. Carrying excess inventory, having deeper supply systems and allowing for better payment terms so that both supplier and customer benefit, has shown its worth. It might come at a short-term financial cost, but the outcome is more trusting and long-lasting relationships.

Plumbing suppliers, Reece and Reliance Worldwide Group performed strongly during COVID not just due to heightened demand, but because they were able to maintain product supply to meet this demand. It's no coincidence this long-term adherence to reliable service came to the fore and delivered so successfully during the most difficult of trading periods.

All stakeholders

The authors correctly identified this important trend many years before its public emergence. In 2007 they undertook an extensive screening process of assessed SPICE stakeholder firms. It comprised of a selective group of businesses that made the shortlist based on quantitative and qualitative filters, covering a multi-stakeholder approach.

This exercise yielded a set of 28 U.S. publicly traded companies deemed to fit FoE. They repeated this exercise for non-U.S. companies, compiling 15 listed businesses. U.S domiciled businesses included the likes of Costco, FedEx, Starbucks, Southwest Airlines and Adobe Systems, to name a few. Non-U.S. companies included BMW, IKEA, Cipla (India) and Unilever.

The cumulative share price performance of these organisations was then compared to the U.S. S&P 500 Index over periods ranging from three years to 15 years, as shown in Table 12.

The results bear out the enduring value created when a holistic approach is taken, challenging the conventional wisdom that Milton Friedman first proposed.

Final Comment

It is no longer good enough to focus solely on the shareholder. A much broader shift is warranted, one rooted in a cultural setting that is less materialistic and more subjective in servicing the needs of many.

You may not agree with these findings, but in today's rapidly evolving marketplace, what seems to matter most over the long-term runs' contra to past accepted norms. Here the authors of FoE had the foresight to correctly gauge the shifting winds of life.

"*Endearing behaviour by a company toward its stakeholders is one of the most decisive competitive differences ever wielded in capitalistic enterprise.*" ***SFM***

THE U.S. HEALTHCARE SYSTEM, LEADING THE TRANSITION TO PERSONALISED CARE

Within the Biopharma sector, an emerging trend post the initial wave of COVID has been the personalisation of patient healthcare.

Something that was very rarely mentioned as little as two years ago is now at the forefront of many companies' strategic plans.

To understand personalised healthcare, it's first worth delving into value-based care, the very framework that makes this approach possible.

Value-based care origins

Value-based care isn't a new term. In fact, it was coined in 2006 by Michael Porter and Elizabeth Olmsted Teisberg, in Porter's book Redefining Health Care. However, it wasn't until 2010, through the Obama Government, that the emergence of value-based care began within a country's healthcare system.

For Michael Porter, value-based care was seen as the solution to curbing rising healthcare costs. This new model would help refocus the care delivery model and its stakeholders towards accountability and a measurable set of criteria to govern the quality of care provided to patients.

Porter comments on this in his book, *"the way to transform health care is to realign competition with value for patients. Value in health care is the health outcome per dollar of cost expended. If all system participants have to compete on value, value will improve dramatically."*

Fast forward to 2021, the U.S. healthcare system continues to lead on this front, joined by only a handful of countries that have enforced a value-based care model.

It's a big leap for a country whose system was previously regarded as misaligned and profit-motivated, to one that is now leading a healthcare transformation with the potential to revolutionise patient care. So, it begs the question, what was the rationale for such a radical change?

A closer look at the traditional U.S. healthcare system is needed to realise the underlying long-term impact of misaligned stakeholders and its broader effect on a country.

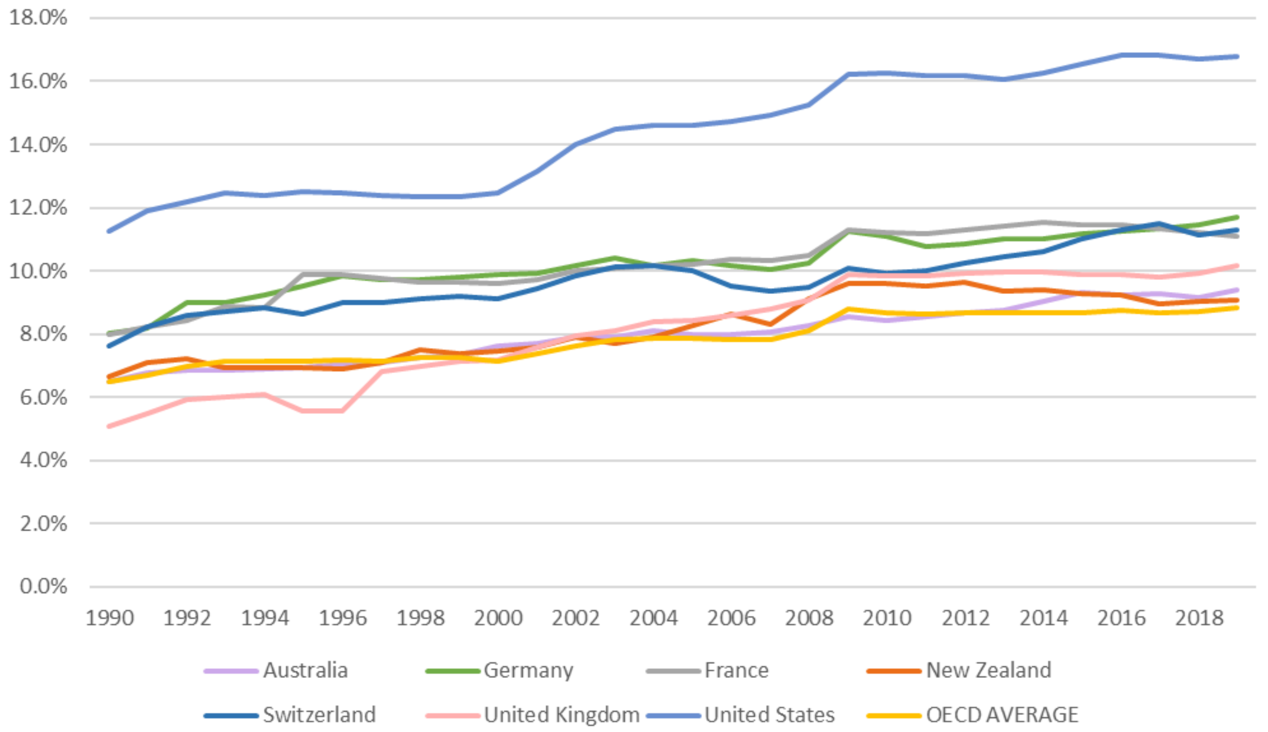
History of the U.S. system: Painting the picture of the impacts of misaligned stakeholders

A business system designed to have minimal government intervention has been effective in many sectors globally. In part due to a reliance on competition, which has helped accelerate innovation and drive down costs.

However, it is a different story within the healthcare sector. The idea of profit-motivated stakeholders in an already complex system, has led to the unintended consequence of rising healthcare costs, with no signs of reversing.

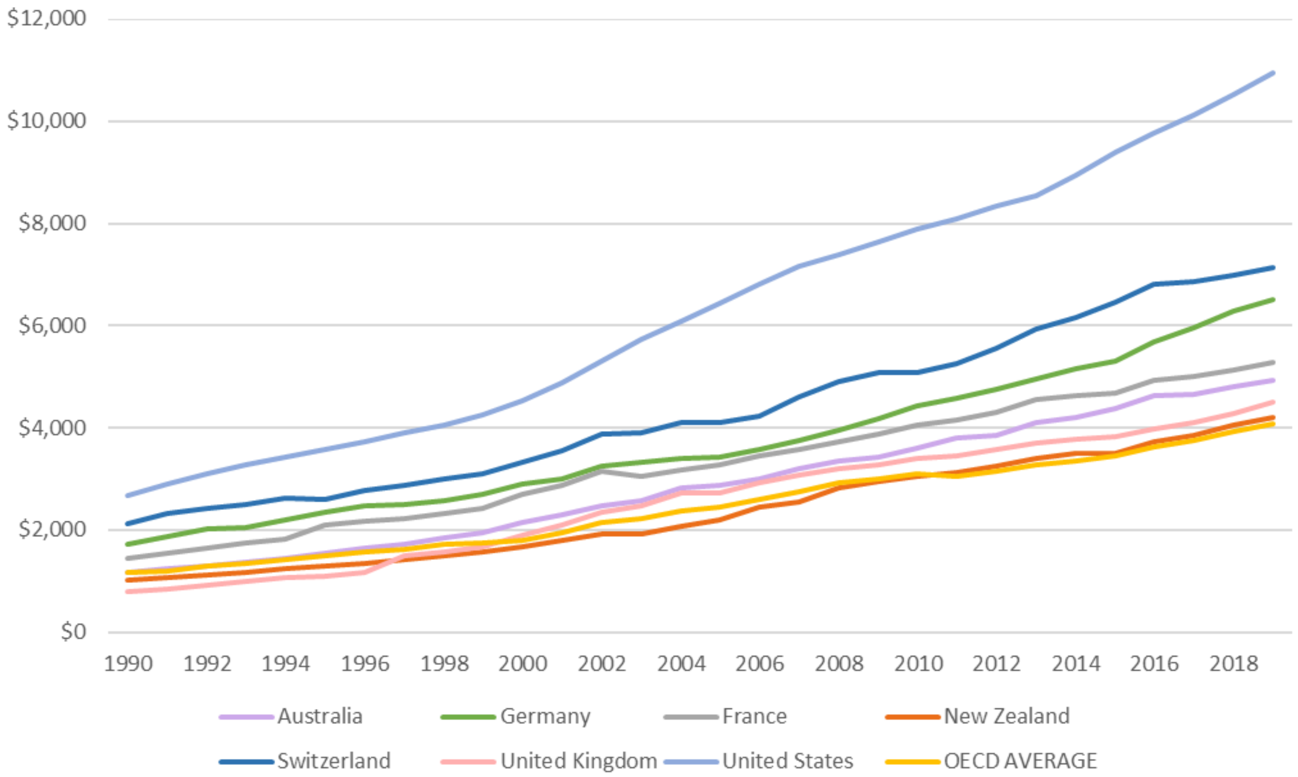
As a result, U.S. healthcare expenditure has become the most expensive globally, with the average cost per person of just under US$11,000 as of 2019.

Figure 2: Healthcare expenditure as a percentage of GDP



Source: OECD Health statistics 2020

Figure 3: Healthcare expenditure – per person cost representation



Source: OECD Health Statistics 2020

When trying to understand where the issues lie and who is at fault, it becomes clear how misaligned all stakeholders are.

Ask patients and the blame falls on the manufacturers for excessively high drug costs. They remain unsatisfied with the quality of care but prefer prescription medication to lifestyle changes.

Doctors believe responsibility lies in an excessively complex system, which has led to heightened administrative costs from both regulators and health insurers.

For manufacturers, the speed of innovation and pressures from competition has caused exponential rises in research and development (R&D) costs just to bring a drug to market. With only one in 100 new drug applications making it to market, the need for incentives to promote continual innovation can only come through lucrative pricing.

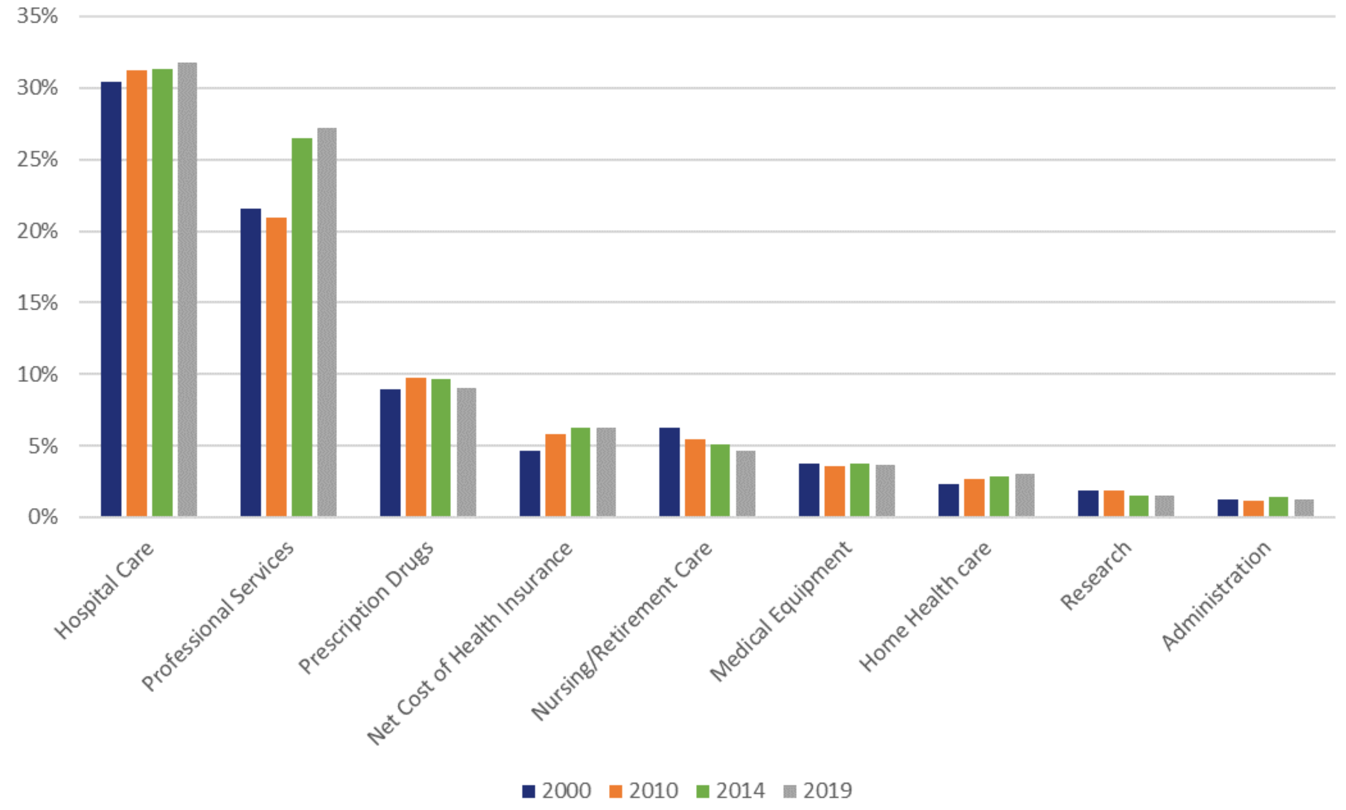
Further, with portions of reimbursement falling back onto manufacturers and pushback from health insurers, one can begin to understand why there has not been any advances in reducing health care costs.

As shown in Figure 4, the breakdown of costs by segment contradicts the "on the ground perspective" of key stakeholders.

For patients, the biggest perceived cost of prescription drugs makes up less than 10% of total spend.

However, when health insurance plans are designed in a way where 20% of all drug costs are an out-of-pocket expense, compared to only 5% within hospital settings, it is easy to see why the blame goes to the manufacturers.

Figure 4: Segmentation of U.S. healthcare expenditure



Source: CMS 2020 National Health Expenditure Accounts

Reforms - Building the infrastructure for realignment through value-based care

Prior to reforms in 2010, volume-based care was the primary way physicians were compensated under Medicare and Medicaid. The system rewarded physicians for conducting more examinations, but not for the quality of the care delivered.

As expected, the overutilisation of costly examinations drove up healthcare costs and profits for physicians, but meant patients incurred higher out-of-pocket expenses with no additional benefit.

It was not until 2010 through the Affordable Cares Act that stakeholder alignment began to emerge. Under the Act, which was rolled out over five years, three outcomes were being addressed:

1. Improving population health through expansion of coverage and access across all states
2. Enhance the patient experience via improvements in quality and efficiency of care
3. Reduce costs per capita spend as a by-product of value-based payment reforms

Accordingly, the U.S. has seen health insurance coverage across the population increase, from 83% in 2010 to 92% in 2019, with a third being covered under the public system. No surprise, with a larger portion of the population falling under this group, use of professional services (out of hospital care) increased, accounting for a sizeable portion of the rise in Figure 4.

Rewriting the reimbursement model

In 2015, Congress passed the Medicare Access and CHIP Reauthorisation Act (MACRA), to accelerate the shift to value-based care. At its crux, it encourages quality over quantity when it comes to patient care, by shifting the way physicians are paid and reimbursed.

What followed across the next four years was the rollout of targeted, merit-based schemes for physicians initially through Medicare Part B patients in 2017 (Medicare Incentive-based Payment System) and then the wider population in 2019 (Advanced Alternate Payments Model).

Under this system, subscribed physician reimbursement is based on the success of meeting specific quality measures, including:

1. Quality of care given to patients (40% weighting) and reporting quality to regulators (25% weighting)
2. Cost-efficiency of care (20% weighting)
3. Continual improvement activities within physician's patient care and physician's internal operations (15% weighting)

How the model works

In the same way a Long-Term Incentive works, physicians are required to meet certain criteria for each of the above pillars. Due to the varying degrees of care, physicians can elect a criteria framework depending on what aligns best with their profession.

Once the framework is set, the physician needs to successfully outperform the prescribed criteria over the next two years, to receive a positive reimbursement of the physician's Medicare part B payments.

For calendar year 2021, physicians have the potential to earn a positive payment adjustment of up to 9%. Likewise, failing to meet the criteria can also lead to a reduced Medicare payment adjustment of up to 9% for the 2021 performance period.

To meaningfully benefit from the scheme, physicians need both scale, as denoted by the volume of Medicare Part B patients, and continual operational improvements to enhance patient reporting, plus the quality and cost effectiveness of care delivered. This often means regular monitoring and active management of patients, which requires additional operational expenses for the physician.

Consolidation of care

Due to the intensified pressures of a new care delivery model, the U.S. has seen a shift from independent practises to integrated, end-to-end Healthcare Delivery Networks. Otherwise known as Accountable Care Organisations (ACOs), these are groups of physicians operating in medical groups, solo-practises and in hospital settings, coming together under a vertically integrated network.

The benefit is organisations can use scale to navigate the additional regulatory and administrative requirements, whilst enjoying a wider pool of Medicare patients to maximise the potential rebates under a value-based system.

With 70% of physicians sitting within this integrated network, the U.S. is succeeding in shifting the focus of physicians collectively back to the end patient. As these networks work closely with health insurers when formulating plan beneficiaries, alignment of key stakeholders in pursuing the goal of improving care, and by extension targeting reduced system costs, becomes evident.

Leveraging chronic disease management to realign stakeholders and personalise care to patients

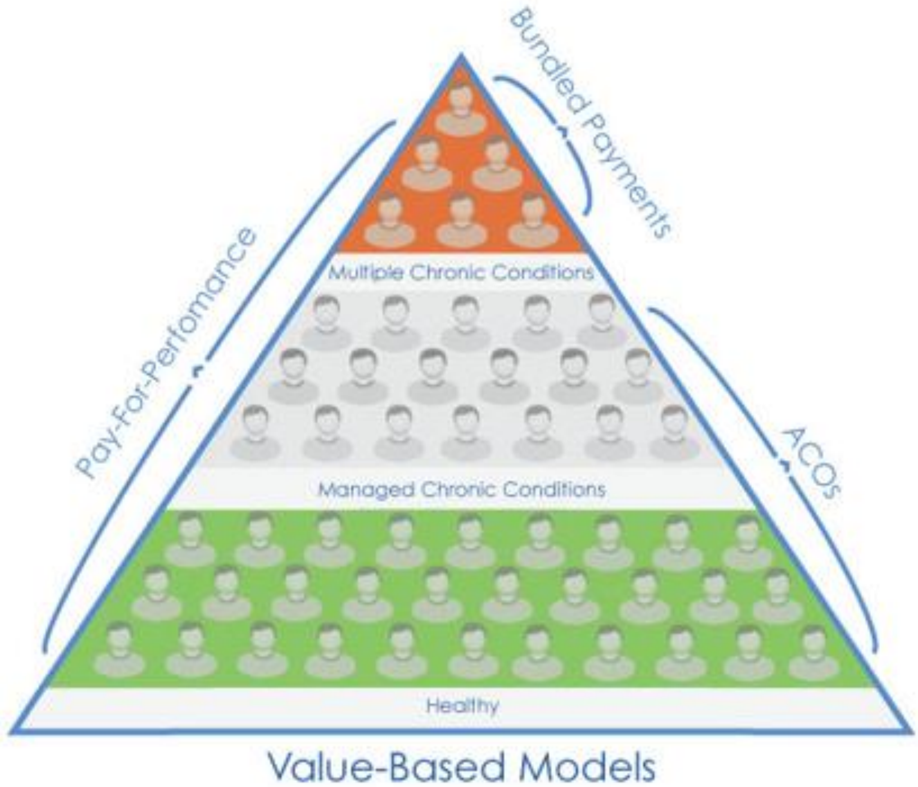
Through coordinated care, ACOs are responsible for improving care and bringing down costs. With the value-based model criteria rewarding cost-efficiencies, effective chronic-disease prevention and management has emerged as a key area to meet the required rebate targets.

The goal under this model is to identify and implement specific chronic care management processes, which illustrate improvements for the end patient. For example, reduced costs of treatment over a period of time. As a result, ACOs are driven by the aim of reclassifying patients as "healthy," representing a measurable, outcome-based endpoint for successful chronic disease management.

The other key focus is prevention. ACOs need to actively manage patients with no existing chronic conditions through regular screening and check-ups. The purpose of this is to both maintain a high quality of care and minimise the possibility of patients developing chronic conditions.

Through a tier structure as shown in Figure 5, ACOs can segregate the patient population to quantify the quality of care delivered over a given period, to receive value-based payments.

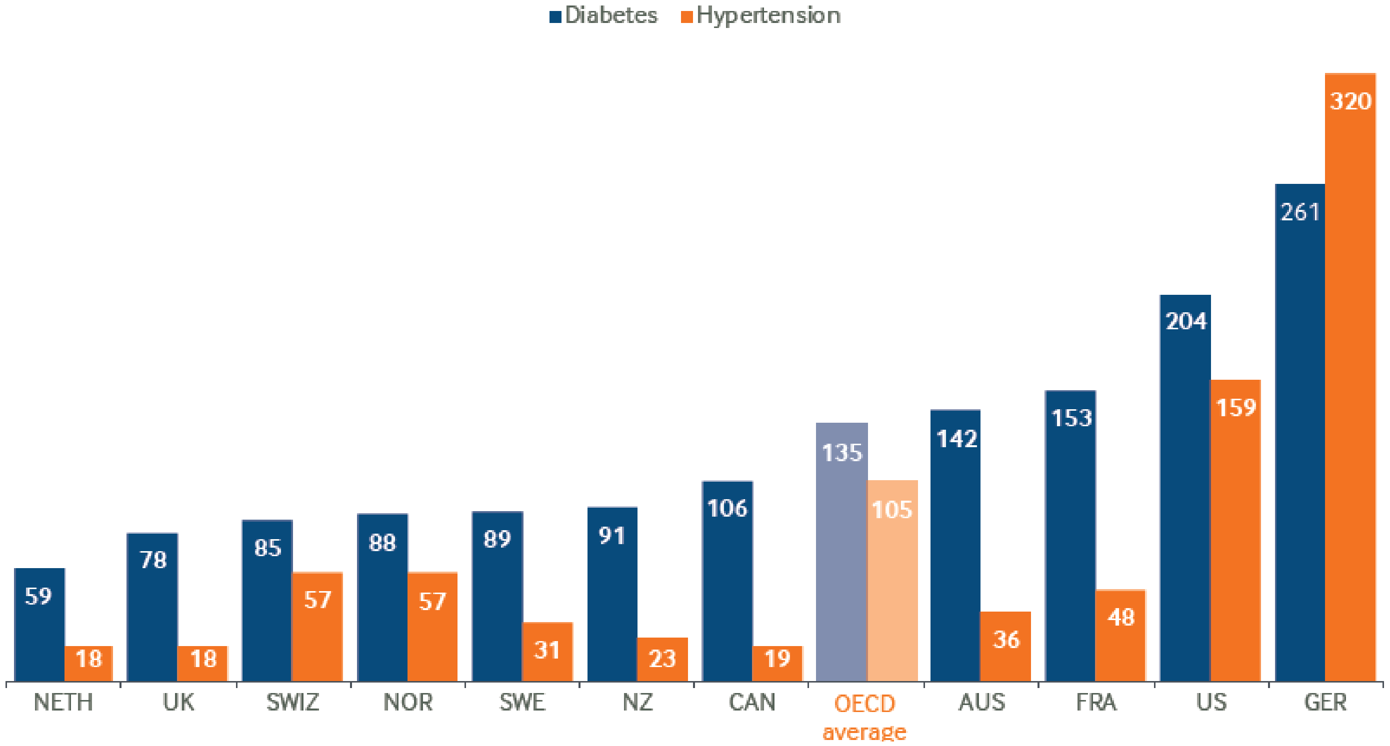
Figure 5: Chronic disease classification in identifying value-based outcomes



Source: Eric Chetwynd

Figure 6: Rates of hospitalisation from preventable causes

Discharges per 100,000 population



Source: OECD Health Statistics 2019

For patients with Multiple Chronic Conditions, bundled payments have been introduced to incentivise specialist and hospital networks. Through this incentive, out of network specialists are rewarded for keeping patients healthier and out of the hospital, from preventable causes.

By doing so, the Centers for Medicare & Medicaid Services (CMS) can incentivise all health care providers across the entire patient population. This in turn aligns patients and physicians towards improving the quality of care delivered.

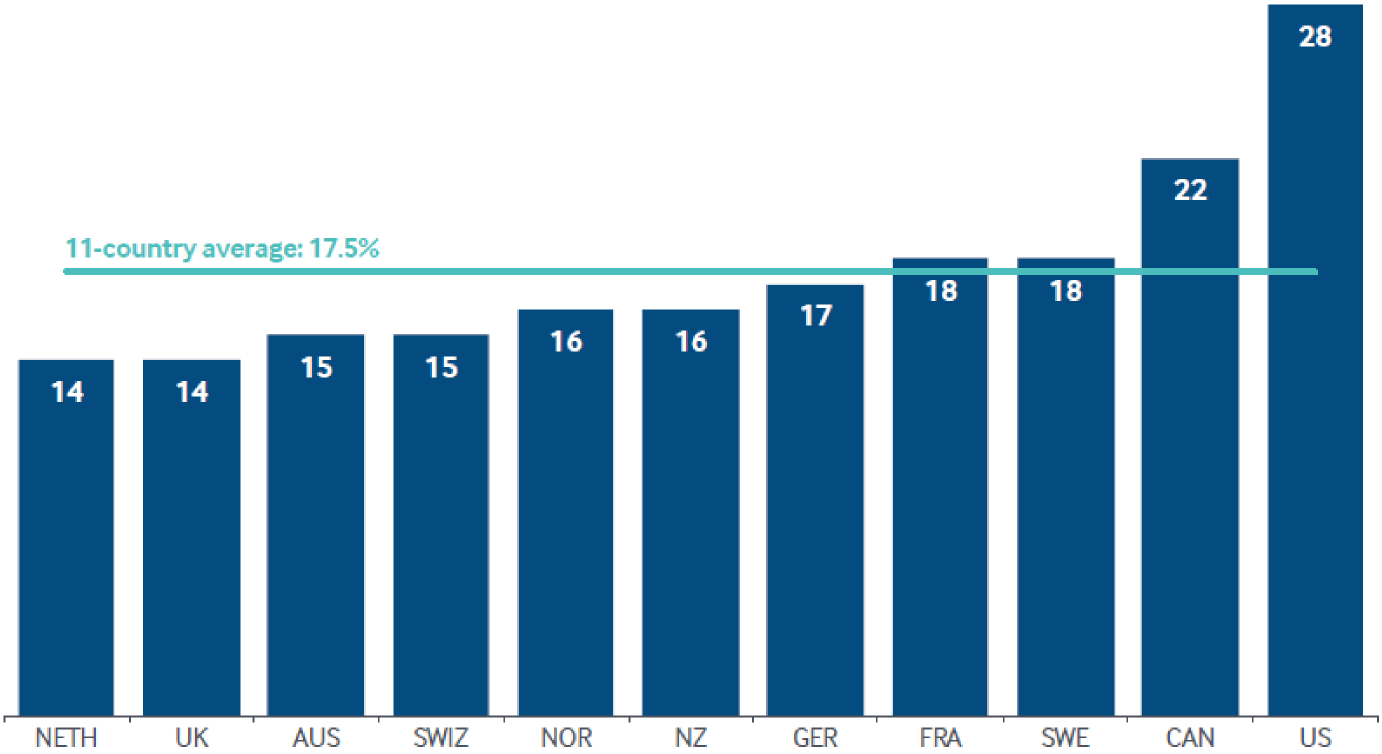
Likewise, health insurers are targeting better management of chronic diseases to reduce overall claim costs and actively support the value-based model.

New regulations introduced in 2020 to cap a patient's out-of-pocket expenses at US$8,500 per person, or US$17,100 for a family plan, will only help to accelerate the response from insurers.

As shown in Figure 6, poor management of chronic conditions has been a key contributor to rising healthcare costs in the U.S., particularly through preventable costs flowing through Hospital Care.

Adding to the problem is the large socio-economic gap amongst U.S. citizens and the behavioural preference to consume medication, verse changing lifestyle habits. This has contributed to an increase in the number of individuals living with multiple chronic diseases, such as diabetes, high blood pressure (hypertension), heart disease and cancers.

Figure 7: Percentage of the population with two or more chronic diseases



Source: 2016 Commonwealth Fund International Health Policy Survey

Fast forward to 2021, chronic disease rates has continued to rise and 40% of the U.S. population now live with two or more chronic diseases.

Moreover, The Center for Disease Control and Prevention (CDC) estimates Chronic Disease and Mental Health expenditure, represents close to 90% of total healthcare costs.

With the fundamental infrastructure in place, physicians, manufacturers and health insurers are working closer than ever to manage patient's existing chronic conditions, and ensure the right tools are available to identify and prevent the progression of pre-stage chronic diseases among the patient population.

Using technology to personalise care

The top five U.S. health insurers cover over 50% of the population. In such a concentrated environment, technology has become critical to effectively manage members.

To free up capacity to invest in more proactive and targeted patient management schemes, avoidable patient readmissions need to first be reduced. This is where health insurers are leading the way through personalised patient care.

Focusing on chronic disease management, the top providers are leveraging existing scale within member population and partnerships to better predict, screen and identify early chronic disease symptoms.

To curb the rate of members transitioning into the chronic disease bucket, insurers are taking a more personal approach to understand members' lifestyle behaviours, socio-economic status and underlying conditions. In return, insurers are anticipating improved patient treatment compliance and health awareness, leading to lower reimbursement costs and by extension a greater value offering.

This integrated and targeted care approach allows physicians to offer more patient-first care, with the aim to move more patients out of a chronic disease status and contain healthcare costs.

With manufacturers favourably aligned by lucrative pricing and market dynamics, incentives to develop revolutionary medicines and medical equipment for chronic disease management remains compelling. Thus, the U.S. is leading by example in aligning stakeholders to combat chronic disease progression.

Whilst costs aren't expected to decrease dramatically, due to the nature of personalised care it will at least curb the excessive rise of healthcare expenditure. Hopefully with the fundamentals in place, market forces of competition can now drive the intended outcome of lowering the cost of care.

Looking forward

With COVID already causing significant rises in healthcare costs over the last two years, personalisation and preventative care is likely to remain at the forefront of all strategic plans.

Nevertheless, the reforms made in the U.S. healthcare system should be considered by many other advanced economies, with the capabilities to facilitate a change on this magnitude.

With chronic conditions increasingly prevalent in younger demographics, you only need to look at the U.S. to see the potentially negative long-term effects.

Closer to home, the merging of science, technology and industry mindset is forging change. This is best illustrated through an increasing number of targeted drug therapies and improving imaging techniques.

In Australia, one of the leading proponents of this new approach is Newcastle based health insurer, NIB. Their strategic intent was articulated at the group's recent investor day held in November.

The following article provides an overview of management's aim to transform the traditional healthcare insurance sector. ***SFM***

NIB – YOUR BETTER HEALTH

CEO Mark Fitzgibbon is not one to sit around. Under his stewardship, the Newcastle based health insurer NIB has delivered strong underlying organic growth, alongside strategic bets on new business opportunities.

We profiled the company in our December 2012 Quarterly Newsletter. The business began life as a mutual in 1952, before listing on the Australian Stock Exchange in 2007 at the offer price of $0.85 per share, giving the group a market capitalisation of $440m.

Today, the shares trade at $7 and the company is valued at $3b, having grown significantly into new adjacent businesses.

Core – private health insurance

The group's core underlying business is private health insurance. The Federal Government's introduction of Medicare in 1984 effectively put a lid on new policyholder growth, until a circuit breaker in the form of Lifetime Health Cover, introduced in 1999, boosted new membership.

Over the ensuing years, solid policyholder growth has helped NIB capture a national market share of circa 9%, trailing industry leaders Medibank Private and BUPA, both sitting in the mid 20% range.

The company's success opened opportunities for smaller investments in adjacent fields, including workers and student insurance, expansion into the New Zealand private health insurance market, and more recently travel insurance.

While these adjacencies have grown, the group's Australian Residents Health Insurance (ARHI) continues to be the most dominant division.

Volume vs value

CEO Fitzgibbon, who has been at the helm of NIB since listing, has shown industry foresight. Today, the take up of private health insurance sits in the low 40% range, a far cry from the 60% plus levels enjoyed prior to 1984. COVID should have driven higher coverage but many, including younger audiences, question its value.

To date, NIB and the other 30 odd competitors operating in the private health insurance arena, have been offering little product differentiation. The industry is also subject to annual price reviews, resulting in premium rises for those wanting to maintain their health cover.

In a world where data analytics, digitalisation and the adoption of technology are carving ways for new approaches, CEO Fitzgibbon knows that traditional methods aren't going to cut it.

The demands of consumers are shifting. To entice the youth of today, businesses will need to hang up the old cookie cutter approach for more on-demand, flexible and personalised experiences.

Investor day – a 'healthcare company'

Whilst it's too soon to predict how healthcare might look in the future, CEO Fitzgibbon is unflinching in his confidence that we are on the cusp of *"profound transformation"*.

Speaking at the Amazon Web Service (AWS) Summit Online during 2020, Fitzgibbon iterated his views.

"We are rapidly moving towards a future of more concerted disease prevention. With more and more data, and by applying machine learning, we're increasingly able to predict disease risk in individuals and with that, hopefully prevent many or more precisely treat the risk of that disease.

We will see more and more virtual and digital health … it will seem very odd that once upon a time we saw doctors face to face with the obvious risk of cross-infection and sitting in waiting rooms with lots of sick people."

"Sooner than what many of you may anticipate, especially because of COVID-19, we will simply connect with doctors via telehealth and have symptom checkers and other diagnostic tech at home or wherever we happen to be in the world to allow doctors to diagnose and treat us.

In this world, prevention truly trumps our past and present preoccupation with cure; we become about healthcare rather than sick care and we'll probably get to live to be 200 by the end of this Century."

Investor day

The company held an investor day in November 2021, its first since 2016. The update highlighted NIB's transition from a private health insurer into a healthcare company provider. Operating within the private health insurance arena today, the business is confined to a total addressable market opportunity of $25b.

In contrast, the total healthcare spend in Australia sits at around $200b, or just under 10% of the country's gross domestic product (GDP), while in New Zealand this is circa $26b.

Much of the opportunity to participate beyond the provision of private health insurance is restricted, due to existing government policy. This remains a political hot potato, with the main concern centred on any moves that endorse a U.S. centric private healthcare system.

CEO Fitzgibbon remains committed to tap into areas of the market ripe for disruption, including the Government's National Disability Insurance Scheme (NDIS) and the $35b out-of-pocket medical market segment.

Today

While outlining its visions for the future, the company also profiled its 2025 internal aspirations for existing business lines. Here, the intention is to continue signing up more members while reducing lapse rates among existing policyholders.

In the ARHI segment, NIB ended the 2021 year with 642,152 policyholders. By 2025, this number is expected to total 800,000; a combination of 600,000 direct NIB customers and 200,000 from white label arrangements. This has been the company's bread and butter approach and it has proven hugely successful in the past.

NIB's net profit margin, or the percentage of remaining revenue after all claims have been paid, suggests a 6%-7% level is both fair and socially responsible. In 2021 NIB collected over $2.5b in premiums, while earning a net margin of 9.7%, positively inflated due to knock on effects of COVID that restricted hospitalisation procedures. It would be fair to say that while the number of policyholders is set to rise under NIB's outlook, the net margin earned should be lower.

In the remaining health insurance segments of International Workers, International Students and New Zealand ARHI, policyholder growth is also on the agenda.

The aim by 2025 is for these segments to sit at levels of 100,000, 220,000 and 150,000, respectively. Currently the numbers are 172,462 for the combined inbound Workers and Students segment and 120,148 for New Zealand ARHI.

Tomorrow

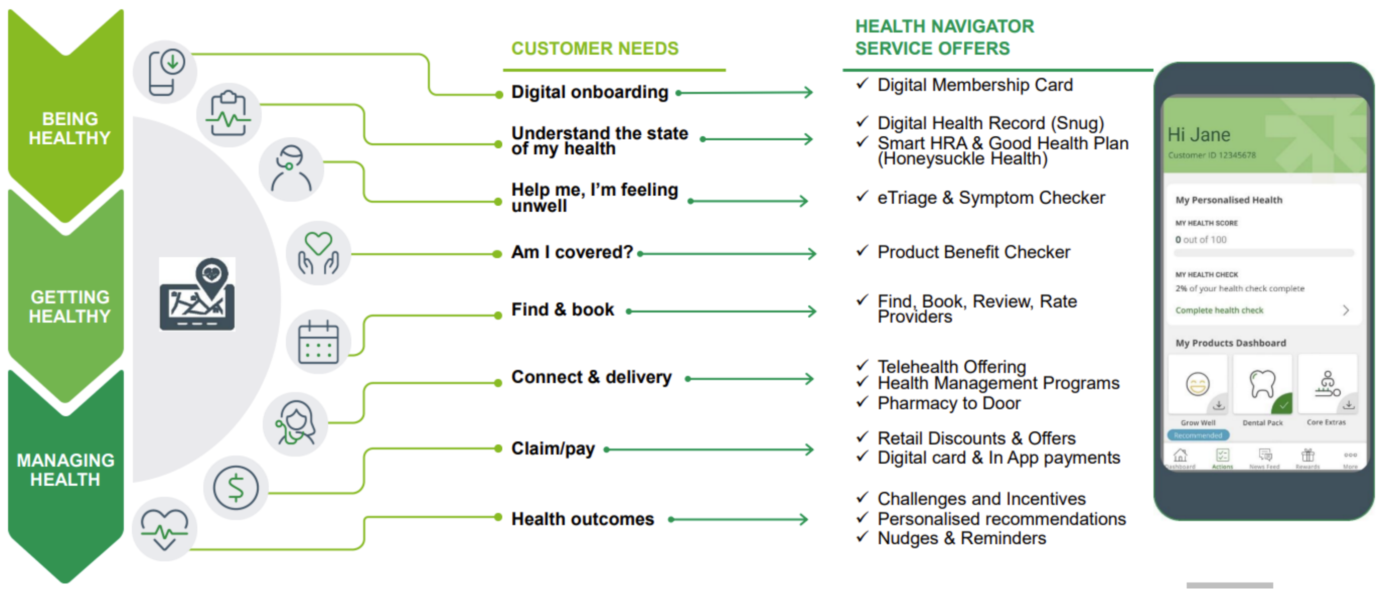
Technology has opened the door for more personalised experiences. For instance, review mobile app store offerings and you'll find countless options on how to track personal health goals and targets.

NIB wants a piece of this pie. The technical groundwork has been laid, complemented by the establishment of industry joint venture partnerships with the likes of U.S. based Cigna Corp, a US$72b healthcare and insurance leader.

The company is now focused on using data science and technology, such as Artificial Intelligence, to create more integrated experiences end-to-end.

Figure 8 below is illustrative of the personalisation roadmap NIB now envisages.

Figure 8: Personalisation experience



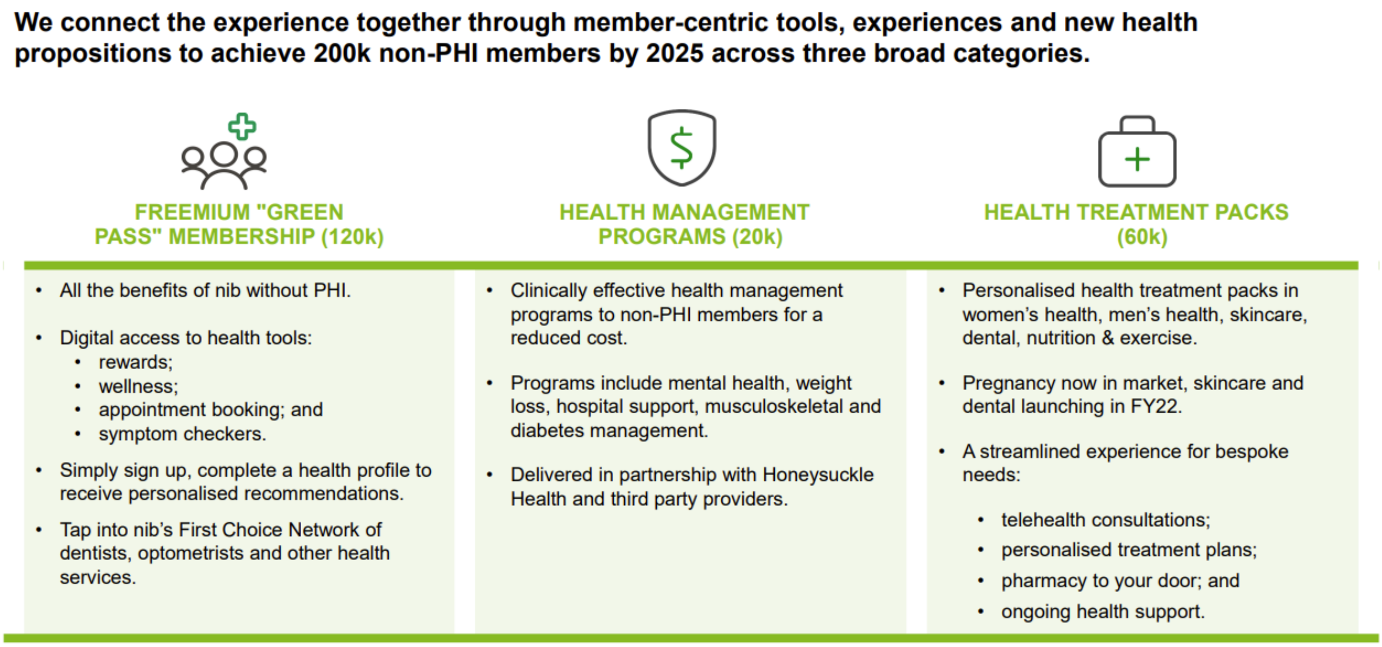
Source: NIB 2021 Investor Day Presentation

Green Pass

Perhaps synonymous with the company's corporate colours, NIB has introduced the Green Pass as the first step in the membership engagement process. Its aim is to allow consumers avoid costly annual membership commitments while at the same time raising health awareness.

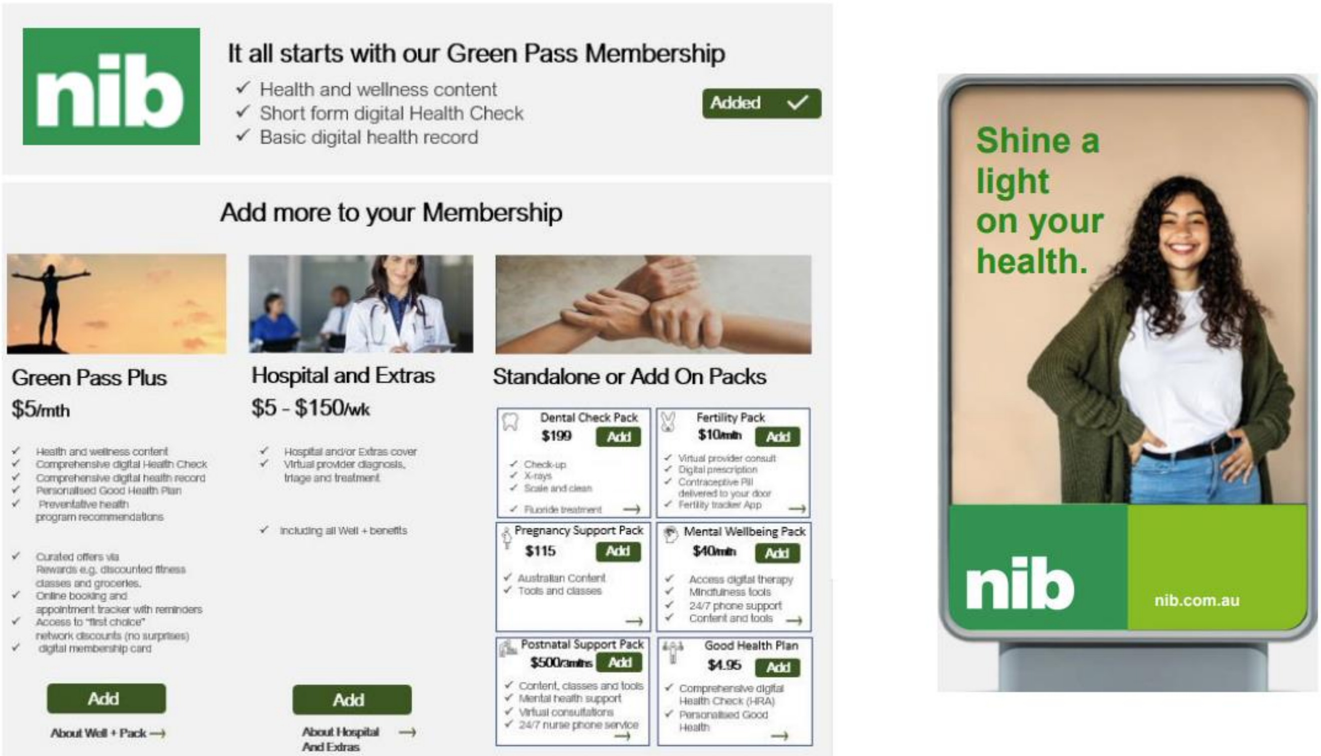
This so called "freemium" model will encourage members to take advantage of all the digital health tools within the NIB offering and tailor solutions to meet their specific needs, for example pregnancy or skincare. In doing so, it aims to raise the individuals' health awareness, without the need to commit to an insurance policy. Figure 9 and Figure 10 illustrates this.

Figure 9: New markets



Source: NIB 2021 Investor Day Presentation

Figure 10: NIB Green Pass



Source: NIB 2021 Investor Day Presentation

Giving members the opportunity to also engage with NIB's provider network of general practitioners and specialists directly, will hopefully encourage preventive action while promoting personal health awareness. The value is empowering members to pick and choose what is relevant, rather than the traditional tick the box formula.

As Figure 9 highlights, NIB is aiming for 200,000 of these new non-personal healthcare insurance (PHI) members by 2025. In time, these members may see merit in converting to full-cover policies.

Honeysuckle Health

In December 2019, NIB and U.S. based Cigna Corp teamed up to establish a joint venture, Honeysuckle Health. Operating independently to NIB, Honeysuckle Health will provide services to the group and others who wish to tap into its tools for their own members.

Honeysuckle Health aims to use data science and a patient's health record to measure and identify individual disease risk. The ultimate objective is to help prevent, mitigate or manage these risks through healthcare programs and personal interventions.

CEO Fitzgibbon who chairs the joint venture is a strong promoter.

"It's a giant step in our ambitions to play a more substantive and cost effective role in healthcare. As a business we're determined to help our members, in collaboration with their doctors, keep healthy rather than simply be there for them when they're already sick or injured. And with over 740,000 avoidable hospital admissions in Australia every year, representing approximately 7% of all hospitalisations, we think there's an enormous role for the joint venture to play.

The purpose of the joint venture is to help people lead healthier lives. It will do this by using data science to understand their current and future health risks and needs and then actively help them prevent, manage, or treat that risk. What we are attempting is the antithesis of what today is too much about cure versus prevention and 'one size fits all' healthcare."

Not everyone is as supportive, however. Health specialists and hospitals cite such a move will promote a shift to a U.S. style healthcare model. In September 2021 the ACCC considered the proposal as well as industry feedback, determining conditional approval to establish a health service buying group[2] for other healthcare payers.

The ACCC stated that, *"The Honeysuckle Health buying group is likely to result in public benefits by providing greater choice for insurers and other healthcare payers, increasing competition between buying groups, and giving participants improved access to information that would assist them to develop and offer more competitive insurance products and services."*

Specifically, the group aims to undertake healthcare analytics to drive more tailored programs and services, which are then contracted out to providers.

In the U.S., Cigna Corp has undertaken a similar approach under the wholly owned health services company, Evernorth. Primarily, the group provides ancillary services covering pharmacy solutions, care co-ordination, and health intelligence solutions for employers and government programs. The 2020 acquisition of Express Scripts Pharmacy, one of the country's largest home delivery pharmacy businesses, is illustrative of services now offered under the Evernorth banner.

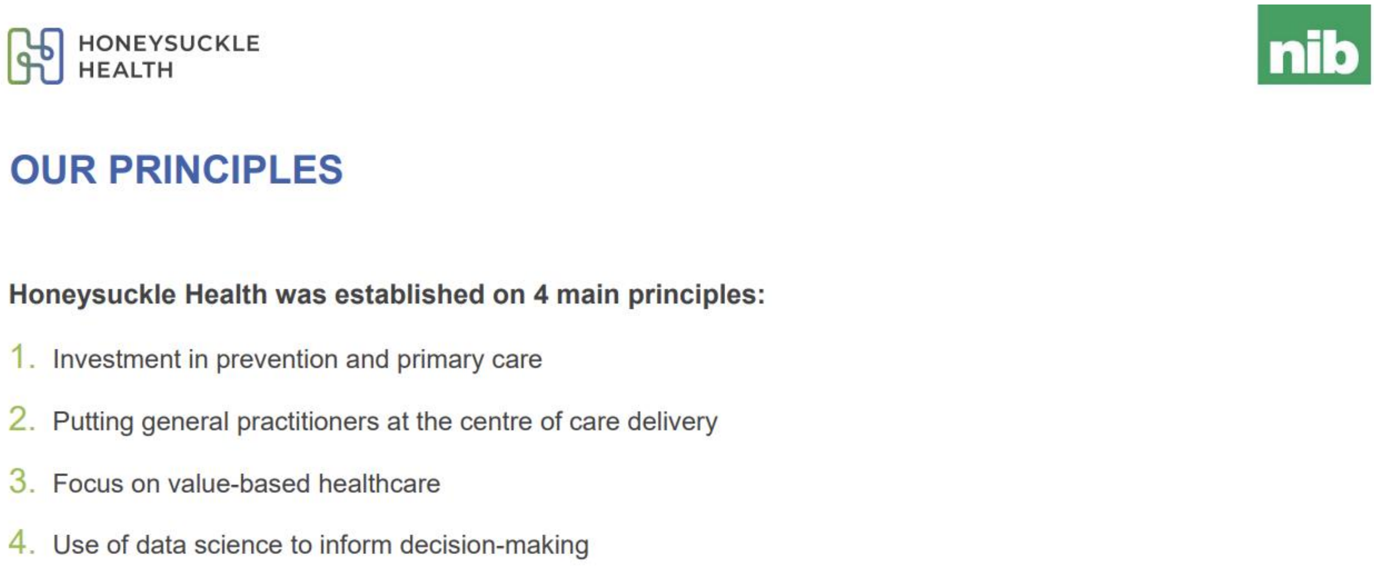
Figure 11, Figure 12 and Figure 13 outline the vision established by the joint venture partners, guided by four main principles and three business lines.

Figure 11: Honeysuckle Health vision

Source: NIB 2021 Investor Day Presentation

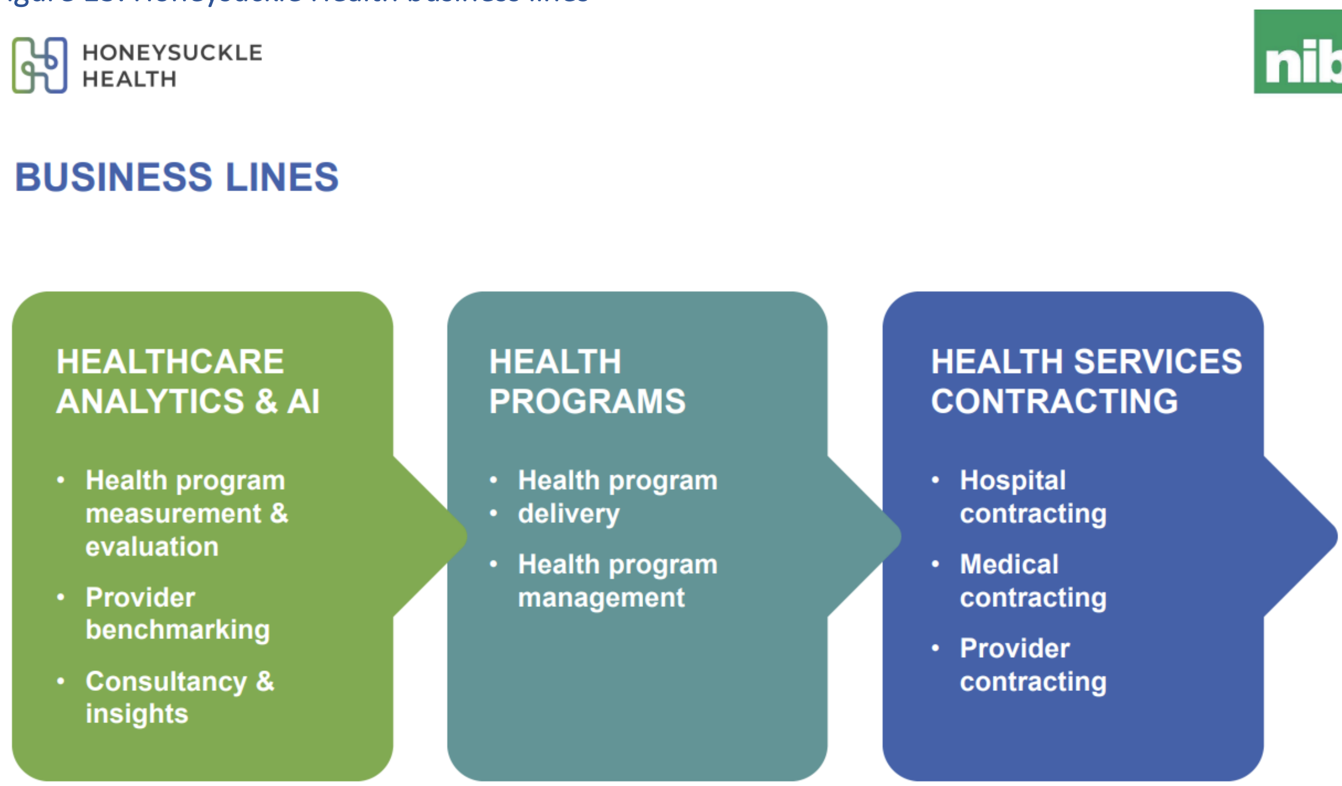
[2] *A health service buying group can purchase services from and manage contracts with hospitals, GPs, non-GP specialists and allied health providers*

Figure 12: Honeysuckle Health principles



Source: NIB 2021 Investor Day Presentation

Figure 13: Honeysuckle Health business lines



Source: NIB 2021 Investor Day Presentation

The group's 2025 aspirational target for the joint venture is shown in Figure 14.

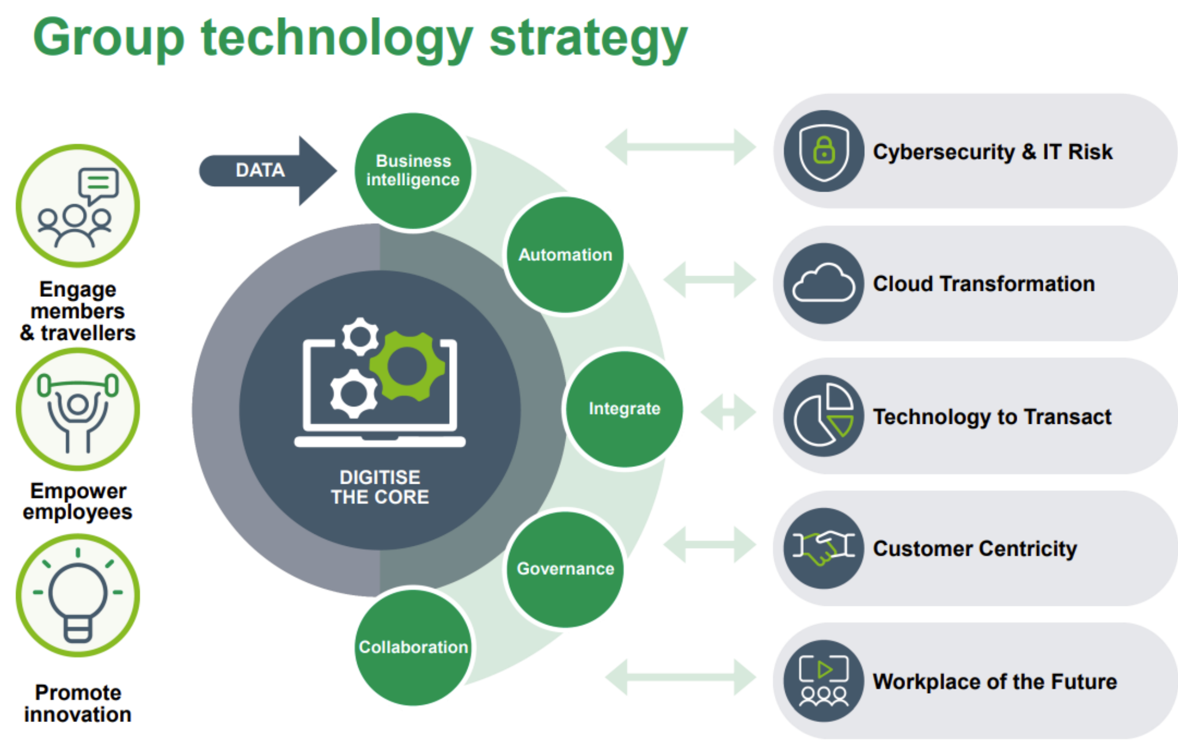
Technology

Technology lies at the heart of all these offerings. The company is investing across the entire ecosystem, which will see a short term hit to profits, but a long-term point of differentiation. Figure 15 outlines the digital transition.

Figure 14: Honeysuckle Health aspirational 2025 targets

Source: NIB 2021 Investor Day Presentation

Figure 15: Digital ecosystem



Source: NIB 2021 Investor Day Presentation

Final comment

Our article on Firms of Endearment spoke about the need to service all stakeholders. The health industry is no exception. To meet the shifting demands of the consumer, a transition from a "one size fits all" approach to a model centred on personalisation and value is imperative.

Digital technology is driving these outcomes and providers, including the likes of NIB, are showing leadership in pursuing a better, more relevant healthcare model. ***SFM***

THE "EFFICIENCY DECADE"

Ask Domino's Pizza CEO Don Meiji what era we're in and he'll tell you *"This is an efficiency decade, the most efficient player will win."* Chairman Jack Cowin would add that "*It's a race to scale*". In the pizza selling business, where value is your draw card, scale and efficiency are critical.

To that list, we would add people as the third important component. A company that can harness the benefits of scale and drive increasing operational efficiency, all connected by a culturally aligned workforce, will be hard to beat. By playing the long game, in much the same way that compounding drives exponential investment returns, incremental operational improvements provide efficiencies, scope for increasing reinvestment and widens the gap over competitors.

None of this is possible, however, without people. Identifying, retaining, and rewarding key staff post COVID has become a serious challenge. The loss of key talent is inevitable but maintaining a cultural connection between past and present allows a business to flourish and grow.

The Domino's European investor day, conducted online on 20 October, was testament to this very point. Operational in six European regions, all are led by seasoned Domino's operators:

1. Group – CEO Don Meij, began as a pizza delivery driver in 1987
2. Europe – CEO Europe Andre ten Wolde, joined Domino's in 2005
3. Netherlands – CEO Netherlands Misja Vroom, joined Domino's in 1994
4. France – CEO France Andrew Bradley, joined Domino's in 2003
5. Germany – CEO Germany Stoffel Thijs, began as a delivery driver in 1997
6. Denmark – Country Manager Denmark Kellie Taylor, began as a pizza maker in 1993

Even for the casual observer, the executive experience residing within the Domino's family is impressive. If we were to extend this list to include operators in Australia, New Zealand and Japan, a similar profile would prevail.

Scratch the surface further and the individual regional depth is just as long. In the Benelux region, covering Netherlands, Belgium and Luxembourg, Domino's is the number one Quick Service Restaurant (QSR) operator in terms of store count, surpassing McDonalds and Pizza Hut.

Having taken ownership in 2006 with just 63 stores, the Benelux region now boasts 448 stores, with aspirations of growing to 800 by 2033.

With a growing team of leaders, underscored by the fact that 95% of current franchisees started their career as drivers, Domino's presence in this region stands as a centre of excellence of what can be achieved in other parts of Europe.

This is the path forward in the newer markets of Germany and France. A critical component of this is the emerging leaders' program, established to nurture talent and bring them through the system. Attracting outside operators is not how Domino's operates, having seen the failings in Australia when the brand grew too quickly.

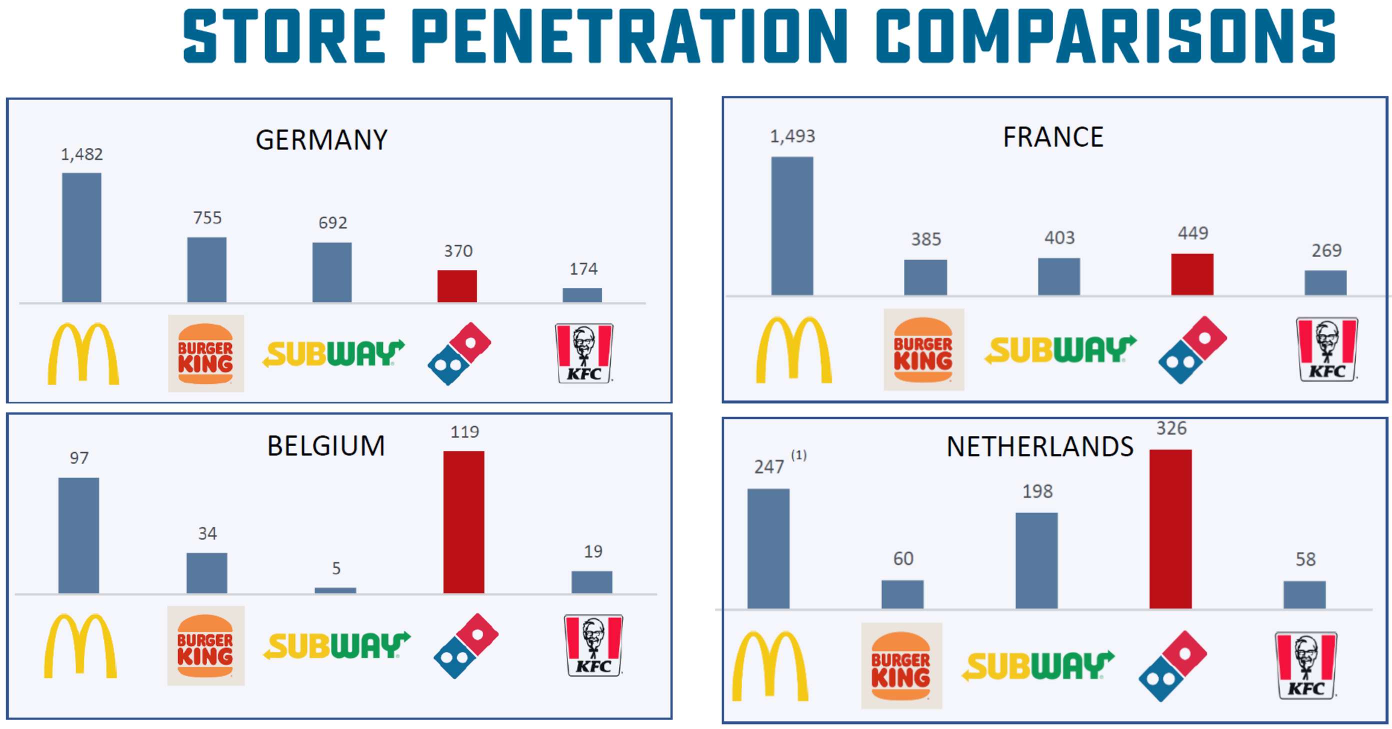
With 370 and 449 stores operational in these two respective countries, the goal is for each to grow to 1,000 over the coming decade.

Within the group's existing six operating regions, the population base of 185m currently supports 1,300 Domino's stores, with management targeting 3,050 out to 2033.

2033

The groundwork has been laid. Leadership with tenure are in place. A proven, locally adaptable business model is the group's source of truth while at the centre, Domino's High Volume Mentality provides the binding ingredient.

Figure 16: Domino's store network v competitor QSRs



Source: Domino's Pizza Enterprises European investor day presentation October 2021

Nearmap

While aerial imagery company, Nearmap is yet to turn a bottom-line profit, the group's positive annual contract value (ACV) trend is reflective of increasing consumer demand.

In October, we gained insight into the company's product progress at the annual showcase event, NAVIG8. Here we can single out one particularly enlightening keynote interview between Nearmap's Don Weigal, Vice President of Products, based in San Francisco and Dr Tom Celinski, Chief Technology Officer, based in Sydney.

Nearmap's history can be traced back to 2007, from a small online start-up to its current standing as a global operator, servicing Australia, New Zealand, the U.S., and Canada. The company's one goal is "*to empower all kinds of businesses and organisations, no matter what size or industry, with reliable aerial data*."

Weigal and Celinski's discussion described the four key business pillars, which collectively form the moat-like qualities enabling the company to address an increasingly large and growing addressable market.

1. Capture systems

The company's key intellectual property involves the aerial capturing of images. Planes are equipped with the company's aerial photography system, HyperCamera. The first camera release, HC1, was unveiled in 2009 and involved mainly off the shelf technology. HC2 followed in 2014 and remains the current camera technology deployed across all markets.

We are currently awaiting the roll-out of HC3. Previous learnings have led to significant self-modifications, using custom designed component parts. While Celinski wouldn't divulge all the technical aspects prior to its formal release, he did volunteer a few comments confirming its uniqueness.

Firstly, this next iteration will be on an entirely different scale to HC2. Capture efficiency, achieved by flying faster and at higher altitudes, will enable expanded coverage at a lower overall cost.

Secondly, it will offer more detailed and higher resolution content.

Lastly, HC3 is pushing boundaries on what can technically be done, allowing for more end product solutions.

Patents have been filed in national and international markets, and prototype testing has been successfully undertaken. The company confirmed the commercial rollout remains on track for financial year 2022.

2. Coverage

Originally servicing just the local market, the company's coverage now extends to offshore markets. In Australia, over 90% of the population is captured through a frequency of six flyovers per annum.

In the newer geographies of New Zealand and Canada, capture coverage stands at 73% and 64% respectively. In the U.S., sights are set on lifting the current 72% captured rate to over 80% through a significant expansion program. In a normal year, the company undertakes three flyovers.

AI is incorporated with each flyover program and content is available for subscribers.

The frequency of capture increases its relevance, while the expansion of coverage extends its appeal.

3. Content

Since 2009, the content component has "*evolved dramatically*". What began with 2D, and oblique images has expanded to include 3D. The company has incorporated Machine Learning (ML) and Artificial Intelligence (AI), providing deeper insights and greater product content.

The company points out the value is in the insights. This has led to the development of AI product attribution packs focusing on specific business needs, such as swimming pools, solar roof panels and roof characteristics. It's a growing library of content, with 11 now available. The number of AI iterations continues at pace with the company's technology stack a fourth generation.

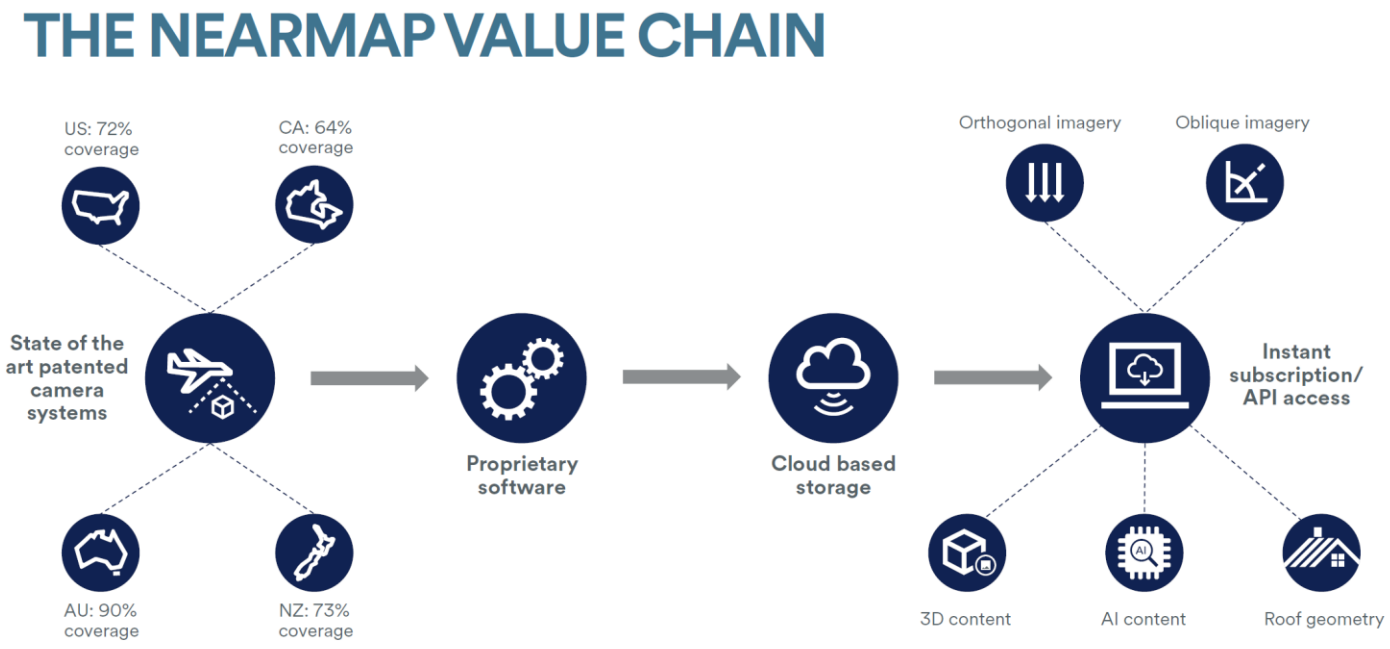
4. Workflows

Focus across all three pillars above has helped attract a diverse customer set, benefiting from an expansion in products, insights, and AI capability.

Customer access is via the group's MapBrowser web application and through software connected via Application Programming Interfaces (API). With MapBrowser, available across both mobile and desktop devices, users can access historical imagery catalogues and an increasing selection of product sets to address workflow needs.

Figure 17 graphically highlights the key competitive features of the Nearmap business. From capture, processing, storage, and AI content, Nearmap offers the only fully vertically integrated imagery solution, all delivered via the cloud on a subscription basis.

Figure 17: Nearmap vertically integrated offer



Source: Nearmap FY21 results presentation

Nearmap people

In harnessing the benefits of business scale, Nearmap's technology roadmap is driving greater operating efficiency, leading to a compelling differentiated market offer. The critical piece is forging a culturally aligned group of individuals with the skill sets and motivation to deliver.

The group is led by CEO and Managing Director, Rob Newman, a trained engineer with deep information technology experience. Having joined in 2011, he took on the CEO role in 2015 as the business transformed the leadership team.

The appointment of current Independent, Non-Executive Chairman Peter James in 2015, with digital and technology experience in tow, provided a solid base to support management's aspiration. While having little ongoing direct involvement, Founding Chairman Ross Norgard remains a Non-Executive Director, with a current shareholding of 4.9% of the group's issued capital.

Having insiders step up is a sign of success. In August 2021, the company announced progress on this front. Case in point is the appointment of current Chief Financial Officer (CFO) Andy Watts, who joined Nearmap in 2016, as the group's new Chief Growth & Operations Officer. Watts has a strong financial understanding, but his deeper knowledge of the organisation and the managerial team is equally important.

In his new role, CFO Watts will be primarily responsible for ensuring alignment of the group's go-to-market functions across the geographical regions and the financial long-term business targets.

CFO Watts will also oversee the company's U.S. progress. Tony Agresta, in his newly promoted role as General Manager for North America, will report directly to him. Agresta has also been with the business since 2016, providing that cultural connection with Watts and the rest of the Nearmap team.

Key executives

Extending beyond the board, CEO and key executives including Watts and Agresta, there is depth to the team. The NAVIG8 conference showcased many of these individuals as they outlined the company's sales, marketing, and technological progress. In these areas, key executives include Dr. Tom Celinski as Chief Technology Officer, Harvey Sanchez as Chief Marketing Officer and Dr. Mike Bewley Senior Director of AI Systems.

The board is taking proactive steps to drive greater shareholder alignment, with the intention of issuing retention options to these key executives. This will exclude CEO Newman who is highly incentivised, directly owning 2% of the company's issued shares.

Final comment

The coming decade will come with many challenges, but it will also reward those that have the insights to plan long term, the confidence to scale operations, the investment desire to drive efficiency and the cultural setting to reward engaged employees. ***SFM***

APPEN – A PIECE IN THE AI PUZZLE

Periods of rapid change have often been driven by what is known as Industrial Revolutions. The last three largely resulted from advancements in automated machinery, electricity and the internet.

The next industrial revolution is upon us now. Klaus Schwab, founder and executive chairperson of the World Economic Forum, describes this Fourth Industrial Revolution as the perfect storm of advanced technologies, amalgamating, to enable significant efficiencies and transform the way we live.

Schwab notes, *"the changes are so profound that, from the perspective of human history, there has never been a time of greater promise or potential peril"*. Schwab further highlights *"like the revolutions that preceded it, the Fourth Industrial Revolution has the potential to raise global income levels and improve the quality of life for populations around the world."*

The technologies driving this are:

- Artificial intelligence (AI)
- Blockchain
- Quantum computing
- Virtual reality and augmented reality
- Biotechnology
- Robotics
- The Internet of Things (IoT)
- 3D printing

AI demand

Already, AI has seen real-world momentum across various industries. COVID has undoubtedly accelerated attention here.

Like the revolutions that have come before, disruption in previous ways of doing things is certain. New AI applications, driven by improved computer processing power and increasing innovation, will be central to this.

Governments are also recognising the strategic importance of AI. We covered this in our June Quarterly Newsletter, "AI – The Power of Compounding" and highlighted the urgency of the U.S. government's initiatives.

In the U.S., the National Security Commission on Artificial Intelligence (NSCAI) was established under the fiscal year 2019 National Defense Authorization Act, with the aim to research ways to advance the development of AI for national security and defence purposes. In March 2021, the NSCAI released its final report to the U.S. Congress, after two years of work.

The Commission's Chair Eric Schmidt, the former head of Google's parent company Alphabet, speaking to the 756-page report highlighted its significance.

"To win in AI, we need more money, more talent and strong leadership. Collectively, we as a commission believe this is a national security priority and that the steps that are outlined in the report represent not just our consensus, but also a distillation of hundreds and hundreds of experts in policy and technology and ethics."

Split in two parts, the report covers Defending America in the AI Era and Winning the Technology Competition. The first focuses on defence implications covering national security and the second promoting national competitiveness and protecting U.S. advantages against China, as its key competitor.

The report considers the four pillars of action required: leadership, talent, hardware and innovation.

On leadership Chair Schmidt notes, "If I've learned anything in studying the way the government works, leadership — especially from the top — is critical to get the bureaucracy to move to the next challenge and the next opportunity. We're proposing the setting up of a Technology Competitiveness Council at the White House, and the DoD and the [intelligence community] should be organized as well for this competition."

On innovation, the fourth pillar, Chair Schmidt outlines areas where the U.S. needs to win, including AI, 5G (telecommunications network), synthetic biology, semiconductor manufacturing and energy. Focusing specifically on the semiconductor space he notes, "We need to revitalize domestic semiconductor manufacturing and ensure that we're two generations ahead of China."

Delivering on this program will come at a significant cost, as outlined by the accompanying Letter from the Chair to the Commission.

"The federal government must partner with U.S. companies to preserve American leadership and to support development of diverse AI applications that advance the national interest in the broadest sense. If anything, this report underplays the investments America will need to make. The $40 billion we recommend to expand and democratize federal AI research and development (R&D) is a modest down payment on future breakthroughs. We will also need to build secure digital infrastructure across the nation, shared cloud computing access, and smart cities to truly leverage AI for the benefit of all Americans. We envision hundreds of billions in federal spending in the coming years."

The report's recommendations are now with the Biden administration and Congress. If accepted, the U.S. is aiming to have the country AI-ready by 2025.

China in response has also prioritised AI in its five-year plan. The nation is advantaged with four times the software engineers and a culture of longer working hours than their western counterparts. Ongoing political tensions will drive greater competition and increased spend in AI.

In fact, the IDC Worldwide Artificial Intelligence Spending Guide 2020, forecasts the AI industry will rise to US$110b by 2024. Within this, the AI data training market is expected to double from US$2.5b today to US$5b by 2024.

What is AI?

Taking a step back, it's worth understanding what AI is. IBM describes AI as leveraging *"computers and machines to mimic the problem-solving and decision-making capabilities of the human mind."*

Wilson Pang, Chief Technology Officer of Appen notes *"Artificial intelligence is the science and engineering of making computers behave in ways that, until recently, we thought required human intelligence."*

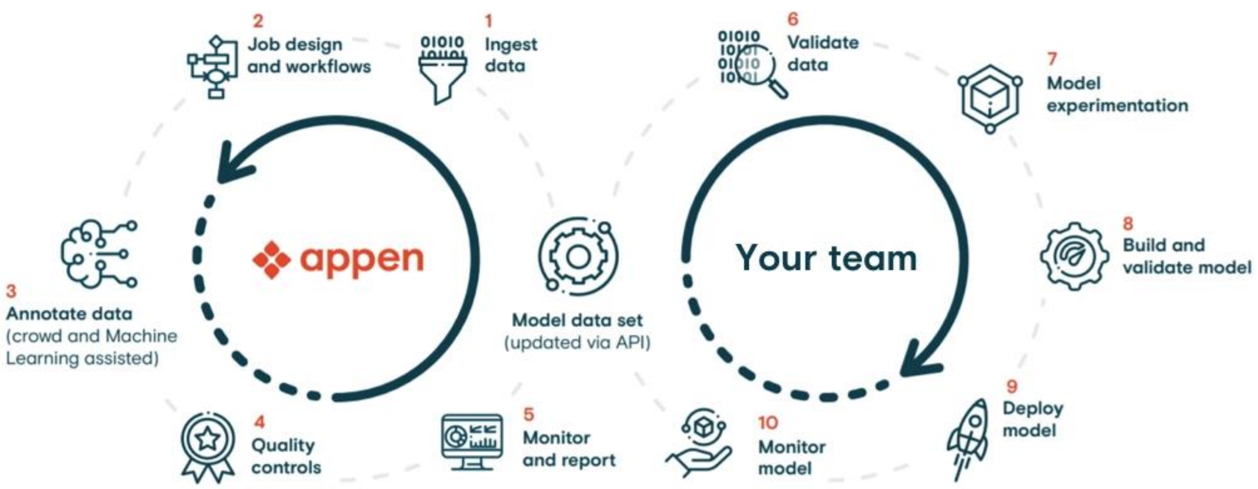
For AI models to develop and learn, they require large volumes and diverse sets of examples called training data. Models can learn from unstructured data (unlabelled data), however, the more traditional technique is to provide associated meaning, known as labelled or annotated data.

Appen

Appen operates in the field of labelling data for AI applications. The company provides the technology, crowd workforce, industry expertise, and services for any labelling needs across collection, classification, annotation, transcription, or translation.

Appen has a diverse and scalable solution for data engineers to outsource their data labelling requirements. Figure 18 provides a snapshot of this. Below we also provide a timeline of Appen's history and delve deeper into how the business has evolved over time.

Figure 18: Appen's offering



Source: www.appen.com

Table 13: Appen timeline

Date	Description
1996	Formed by Julie Vonwiller after leaving a research position to begin an automated speech recognition company at her Sydney home.
1999	Chris Vonwiller leaves Telstra to take over family business.
2007	Appen begins helping clients analyse relevance content.
2009	Private Equity investor Anacacia Capital acquires majority stake.
2011	Merger with Butler Hill, a U.S. competitor specialising in automated text recognition and analysis technology. The group is rebranded into Appen Butler Hill. Bill Pulver becomes CEO of the newly merged entity.
2012	Acquire Wikman Remer, a firm based in San Rafael, California, which developed tools and platforms for employee engagement, online moderation and curation.
2015	Lists on the ASX with an initial offer price of $0.50, raising $15m.
2015	Mark Brayan appointed as new CEO, replacing Lisa Braden-Harder.
2015	Numerous material contracts won from major customer Microsoft.
2015	Appoint current CFO Kevin Levine.
2016	Acquire Mendip Media Group for $2.5m, a provider of transcription services in the U.K. The company has a strong presence in the government sector.
2017	Office in Detroit opened to better support automotive companies.
2017	Opened office in Beijing, China.
2017	Purchase Leapforce for US$80m, a U.S. competitor that specialises in search relevance with a strong crowd platform. Funded through working capital, $72.6m of debt and a $5m share purchase plan.
2018	Wilson Pang joins as Chief Technology Officer (CTO) to oversee the company’s technology vision, platform and product evolution.
2019	Acquire Figure Eight for US$175m with additional earn out of approximately US$37m. Funded via A$285m placement and A$15m share purchase plan at an offer price of $21.50. Acquisition represents a 5.7x FY18 revenue multiple.
2019	Two new hires are added to leadership team; Jon Kondo, Senior Vice President of Sales and Marketing, and Roc Tian, Senior Vice President of China.
2020	Provide a trading update, confirming guidance will not be met as a result of COVID and major customer reprioritising resources to new projects in the fourth quarter.
2021	Announce a board renewal with William Pulver to retire and Richard Freudenstein named as an independent non-executive director and Chair-elect.
2021	Acquire Quadrant Global, a global leader in mobile location and point-of-interest data for US$25m in cash and up to US$20m in Appen shares. Quadrant CEO Mike Davie will join the Appen team.
2021	Chris Vonwiller retires as Chair and director of Appen after serving 12 years in the role. Richard Freudenstein assumes the role of Chair.

Source: SFML Research

Early history

Appen was founded from humble beginnings in 1996 within the suburban garage of Julie Vonwiller, a renowned linguist. The business was initially focused on speech recognition services, processing data requests for a range of global customers.

Chris Vonwiller, Julie's husband, later took over management responsibilities and added search relevance capabilities, which is the core revenue driver today.

With the assistance of private equity investor Anacacia Capital, Appen expanded internationally through a merger with U.S. company Butler Hill in 2011. While growth was solid, demand for data had yet to take off. The company's valuation at the time of its ASX listing in 2015, at a market capitalisation of $50m, was reflective of this.

Initial AI boom

Demand for labelled data used in AI grew significantly post listing. Appen experienced considerable growth from large global technology customers, including Microsoft and Amazon, who were adopting AI across their search engine, ecommerce and social media products.

Appen's large crowd workforce enabled the business to scale its services and complete large data labelling projects at speed. The unexpected surge in demand for data led to multiple earnings upgrades.

Customer concentration resulted, with Appen's top five customers now contributing approximately 90% of total revenue. While the risks to the business increased, Appen became a highly cash generative company with the ability to reinvest into product and technology.

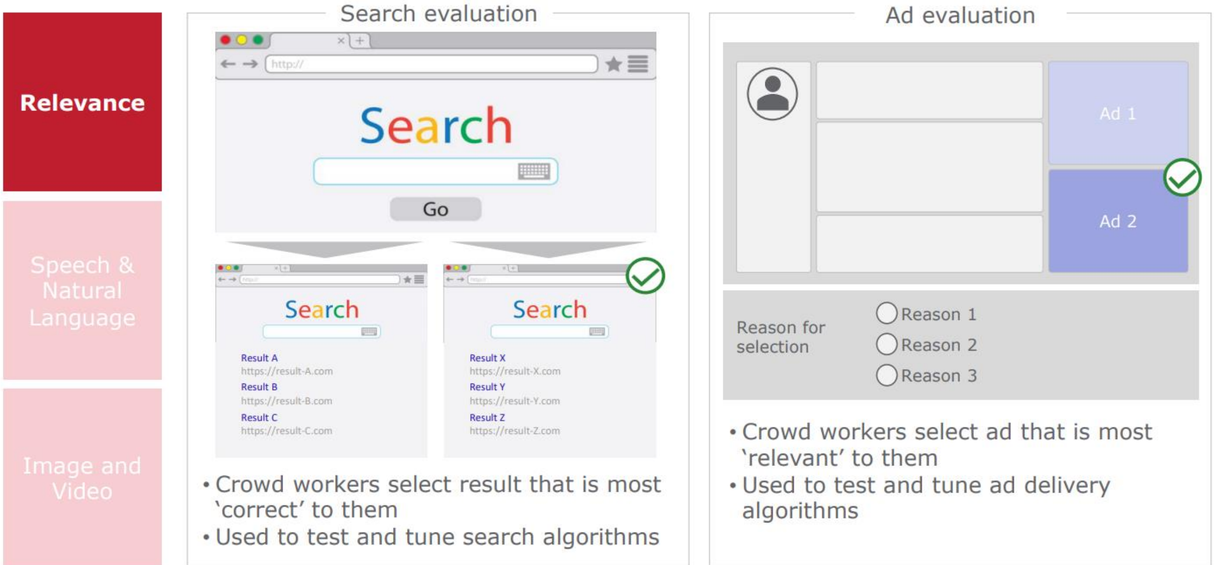
Business

Appen's offering complements the growing need for scalable and diverse data sets to improve AI applications. Most of the company's revenue is derived from Relevance judgements. As the name might suggest, this data aims to improve search engine relevance and create a better filtered search, as seen in Figure 19.

Appen's website notes that *"artificial intelligence prioritises the searcher's intent and will adjust based on results the searcher wants to see. This has made for a better searching experience and is going to transform the way all industries from e-tail to financial services operate."*

As consumer preferences change across different regions and cultures, Relevance projects require data to be regularly refreshed and updated. The more data it has, the better it works. Salesforce, a leader in providing cloud-based customer relationship software, reiterates the importance of getting this right noting, *"customers today expect personalised experiences; collecting quality data is more important for businesses than ever."*

Figure 19: Relevance judgements to support search and social media



Source: Appen 2019 Tech day market

Appen differentiates here with its over one million flexible contractors, across 180-plus countries and expertise in more than 235 languages.

While Relevance is core, Appen also provides human intelligence at scale, with an annotation platform to label data across modalities, including image, text, speech, audio and video. This segment is more competitive as the barriers to entry are lower. Technology and automation of crowd tasks are essential here.

While additional investment will be required to stay competitive, Appen differentiates itself with its breadth of data modalities, and 25-year track record of organising and completing large scale projects. Its value is recognised by customers seeking high-quality data and expertise.

Customer reprioritisations

Appen's revenue concentration means that any change in sentiment can have a material effect on the business; both positively and negatively. This occurred towards the end of 2020 as major technology players began facing external pressures, including:

- Changes to privacy rules such as IDFA (Identity for Advertisers) for Apple users to opt-in to tracking data.
- Multiple anti-trust cases, brought about by state and federal regulatory bodies in the U.S., in relation to monopolistic behaviour around digital advertising.

These concerns led to a pivot from digital advertising to new product areas. While Appen has been involved in 100 new projects since January 2021, the data requirements have yet to ramp up. This has driven perceived earnings uncertainty and slowed the momentum that was so evident in the business.

Investing in capabilities

Appen has consistently been clouded with risks. Earnings are difficult to forecast given the project nature of its major customer work. Pricing pressure and in-house labelling have also been seen as areas of disruption.

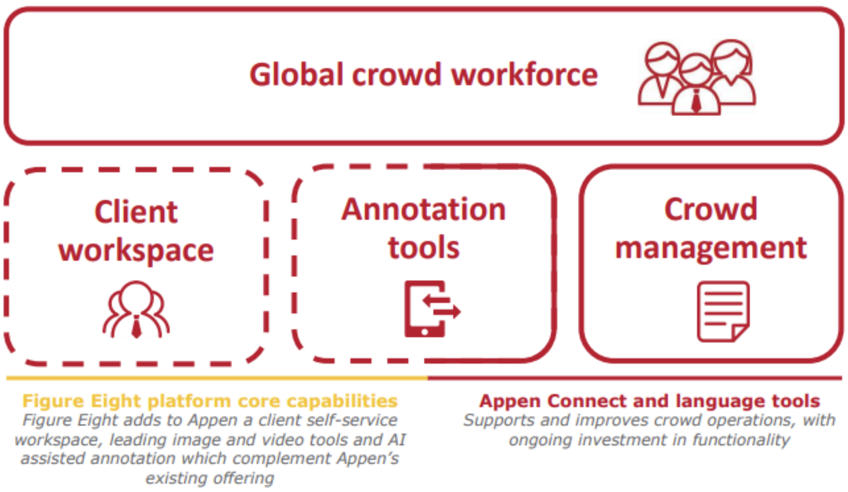
As demand for Appen's services surged, management stepped up activities. They took the initiative to acquire businesses that would reduce risk by adding capabilities, customers and scale.

In 2017, the company acquired U.S. competitor Leapforce for US$80m, consolidating its position as the leader in the data annotation space. The only other major provider to exist in this space now is Lionbridge, which was recently acquired by Canadian listed group Telus International for US$935m.

While the acquisition brought revenue and cost synergies, the real value lay in the consolidation of Leapforce's crowd platform into Appen Connect. Appen has since introduced significant automation to improve the onboarding process and crowd experience.

Following this was the purchase of Figure Eight in 2019, a best-in-class annotation platform, for a total consideration of A$286.5m, funded by a capital raising at a $21.50 offer price. The acquisition was highly complementary to Appen's leading crowd workforce, both de-risking and accelerating Appen's technological ambitions. Figure 20 illustrates this.

Figure 20: Technological acquisition



Source: Appen Figure Eight Acquisition Presentation

Securing a data labelling platform in Figure Eight has meant Appen could take on more projects, both enhancing the go-to-market proposition and expanding its offering to enterprise customers.

The customer benefit is evident. Firstly, as a self-service platform, users can create, manage and monitor data labelling projects. Secondly, the breadth of data modalities is filling a gap for Appen's large technology customers, in turn driving platform usage.

This is positive for customer growth and diversification, and at the same time improves the predictability of future projects and revenue.

At the time of the acquisition, CEO Mark Brayan noted that *"Figure Eight's 'Human-in-the-Loop' machine learning platform transforms unstructured text, image, audio, and video data into customised high-quality training data for a variety of use cases including autonomous vehicles, consumer product identification, natural language processing, search relevance and intelligent chatbots."*

The company has since secured one enterprise-wide platform agreement with an existing major customer, valued at more than US$80m. Furthermore, four of Appen's top five major global technology customers use the annotation platform, proving its ability to service a range of use cases and data types that their own platforms cannot.

Transition to product-led

The Figure Eight platform rounded out Appen's offering and allowed the business to focus on internal product improvements. All the signs now point to a business in transition, moving from contracted services, which can be lumpy and hard to forecast, to a technology and product-led organisation with repeatable earnings. This is a clear pivot to where the customers are moving. Figure 21 reflects this.

Management have lifted investment in software development, which sits at 11% of revenue compared to negligible spend in FY18.

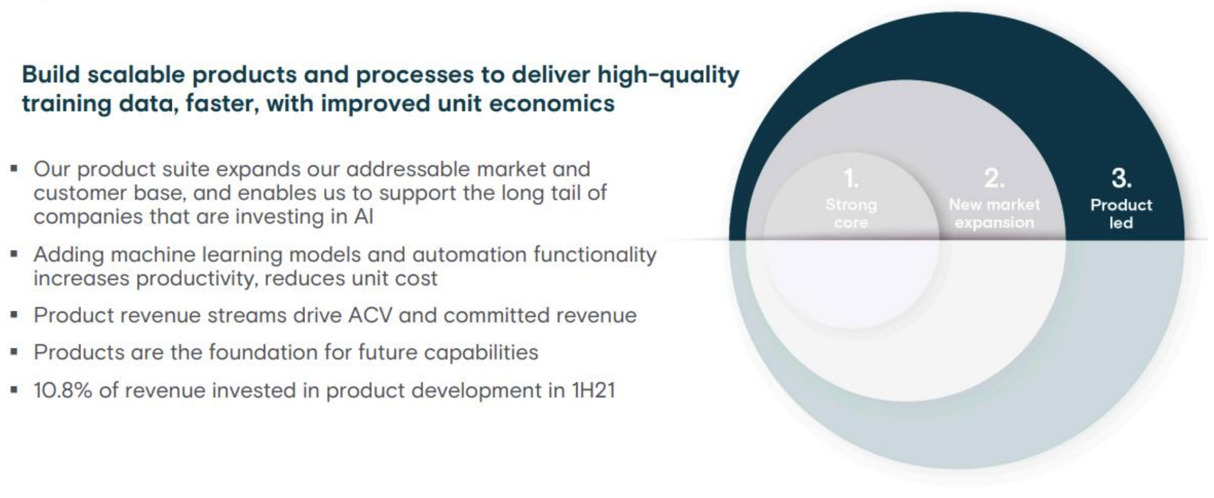
Appen has targeted increased automation across its labelling and crowd platform. The company has to-date delivered:

- Crowd matching to appropriate projects
- Fraud identification
- Built in quality controls
- Pre-labelling across various data modalities

This has streamlined a range of business processes and discontinued some previous manual support and delivery roles. Annualised gross labour costs savings of US$15m (before reinvestment) are expected to be realised in FY22 and reinvested into growth areas including China, Government and Enterprise.

It's early stages in the company's product-led journey. The new Head of Product Sujatha Sagiraju is expected to take the offering beyond data labelling and into other facets of helping people with AI.

Figure 21: Product-led



Source: Appen 1H21 Results Presentation

Figure 22: New, scalable products

Source: Appen 1H21 Results Presentation

New products

At its 2021 Investor Day, Chief Technology Officer Wilson Pang showcased significant progress across three new products, as seen in Figure 22.

These new products are further illustration of the technologically driven, product-led approach Appen is taking to improve overall data solution outcomes. CEO Brayan explains this approach can *"unlock new markets, drive growth and deliver high-quality training data, faster, at larger scale and with improved unit economics."*

In addition, a diverse product offering enables Appen to service a growing pipeline of organisations shifting to AI who are struggling to launch projects due to a shortage of skills and expertise, barriers to acquiring sufficient high-quality data, and a myriad of other factors.

Segments

In FY20, Appen recorded group revenue of US$412.7m and underlying operating profits (EBITDA) of US$75.4m, representing operating margins of 18.3%.

New segment reporting was also introduced to better reflect the two parts of the business. Each segment offers a different proposition and should be considered separately. They include:

- Global Services (80% revenue) – where the crowd uses the customer's annotation platform to label data. Consists of customers' Relevance projects.
- New markets (20% revenue) – data labelled on Appen's platform, as well as Enterprise, China and Government customers.

This will be supported by four service units, namely, Product, Engineering, Crowd and Human Resources, and Corporate.

Global Services

Global Services recorded FY20 revenue of US$328.1m up 6% and EBITDA of US$88.3m up 27%. This division represents around 80% of group revenue.

Momentum has slowed as major customers re-prioritise ad-related projects to new AI products and applications. Non-ad related revenue has returned early in 2021. The earnings from Global Services will be used to fund the other emerging verticals.

New Markets

New Markets consists of Enterprise, Government, China, and Global Product. It is in essence a "start-up business". This segment is focused on developing new customer verticals and driving AI use cases through the annotation platform. Appen has over 320 active customers in this segment.

In FY20, New Markets delivered revenue growth of 34.0% to US$84.5m. China has been the standout, growing revenue by a multiple of 5.8x to US$7.5m in 1H21, while government has been slower than expected.

The New Markets division is expected to grow at strong double-digit levels, which is more aligned to AI industry growth rates. With management investing in this segment, losses of US$7.4m were recorded during the half, impacting overall group margins.

Table 14: Group financial snapshot

Metrics (US$m)	FY19	FY20	1H21
Revenue	372.2	412.7	196.6
Underlying EBITDA	70.2	75.4	27.7
Underlying EBITDA margin	*18.9%*	*18.3%*	*14.1%*
Underlying NPAT	44.9	45.3	12.5
Underlying diluted EPS (cps)	37.33	36.61	10.01
Cash flow conversion	*82.0%*	*104.0%*	*101.0%*
Product development spend	14.8	35.3	21.2
Product development % of revenue	*4.0%*	*8.6%*	*10.8%*
Shares on issue (m)	121.1	122.3	123.1
Market capitalisation (A$m)	2,720.1	3,020.7	1,344.5
Net cash	52.8	60.5	66.0
Net assets	337.9	374.6	372.8

Source: SFML Research

Masked profits

The New Markets division, a model that can service high growth markets, is currently incurring losses. Management has clearly prioritised growth here, with yield to follow.

In the interim, losses have masked the highly profitable Global Services segment. This segment generates operating margins of 26.9% in FY20, well above group margins of 18.3%. The division reflects the benefits of scale with operating leverage evident.

FY21 guidance

Appen has guided for underlying FY21 EBITDA between US$81m-US$88m, including costs associated with the acquisition of Quadrant Global. This represents 7.4% growth at the low end of guidance.

Earnings will be second half weighted and CEO Brayan's confidence in achieving the lower end of this range, is underpinned by the group's high-quality pipeline and strengthening order book.

Operating metrics

Appen reports gross margins of around 40% and operating (EBITDA) margins in the high teens. Crowd costs remain the dominant expense.

Crowd project delivery on client platforms is paid by the hour, while tasks on Appen's platform are charged per data point. The opportunity is to improve crowd productivity on their platform through automation. This could lead to future margin improvements as more customers transition to Appen's platform.

Margin expansion remains a longer-term opportunity, with continued investment in sales, marketing and software development the main priority.

Capital management

Appen is highly cash generative and has net cash of US$66m. The business is capital light, holding no inventory and employing contractors on an as-needed basis. By virtue of these low capital requirements, Appen has been able to effectively scale as demand increases, while generating leverage in the business.

The strategic acquisitions made thus far are also evident of the latency that exists within the business.

One recent example was the acquisition of Quadrant Global, a mobile location and point of interest data business. Appen agreed to pay an upfront fee of US$25m and potential earn out payments of US$20m in equity. Based in Singapore, Quadrant uses a local crowd for data verification.

Combining Quadrant with Appen's platform of one million-plus crowd workers, that can collect relevant local information across 170-plus countries, delivers immediate scale to this start-up business.

Future acquisitions will be critical as the company looks to accelerate its transformation into an AI powered provider of AI data and solutions.

Management

Current non-founders CEO Mark Brayan and CFO Kevin Levine have been at the helm of the company since 2015. Since their arrival, the business has delivered strong revenue growth while undergoing its own transformation.

The business is managed prudently, with management showing a preparedness to reinvest and a clear focus in making longer-term decisions. Transparency and communication with shareholders has been lacking, however, we value the preparedness to change this under the company's new reporting structure.

Importantly, Appen has strengthened the executive team to be better armed in its shift towards technology and product innovation. Additional hires include Jen Cole as Head of Enterprise and Eric de Cavaignac as Head of Transformation. This is a step in the right direction for the business as it drives growth in the ever-changing field of AI.

Summary

While Appen has faced significant external market pressure in recent times, management remains focused on the longevity of the business. Early reinvestment has positioned Appen with a unique proposition; a quality annotation and crowd platform, catering a large breadth of data modalities and scalability across its one million-plus crowd.

Appen remains the leader in data annotation and is expected to further transform its offering to support the growing needs of enterprises adopting AI. The company is highly cash generative, and its scale should ultimately bring latency to the business as opportunities arise in the future.

The industry dynamics are strong, with AI expected to usher in transformative change.

Appen CTO Wilson Pang iterates this best. In his book, *Real World AI*, he notes *"Companies that aren't working towards an AI strategy today are likely to fare as well as companies that decided not to pursue a web strategy in 2002 or a mobile strategy in 2008. It's absolutely required if you want compete in the market."*

We remain in the early innings of the journey, and with the Fourth Industrial Revolution to accelerate this change, players such as Appen are expected to benefit from these long-term tailwinds. ***SFM***

PROXY ADVISORS UNDER THE SPOTLIGHT

The government-imposed restrictions triggered by COVID has changed many processes, as individuals and businesses alike take the necessary steps to operate.

Investors too have had to adapt. Notably, in-person annual general meetings (AGM) with shareholders came to a halt. In its place virtual meetings, open to investors and interested parties, have stepped in. This may not satisfy all shareholders, but if done sensibly represents a positive step that should be encouraged.

This view differs from many in the investment community, particularly bodies like the Australian Shareholders Association (ASA) and proxy adviser Ownership Matters (OM). Their concern is company boards might use COVID to permanently render offline meetings a thing of the past.

The Government's draft bill seeks to amend the Corporations Act to allow for hybrid meetings – a mixture of online and in-person gatherings for shareholders. If permitted by a company's constitution, AGMs will be able to be solely held online. This is where the concern lies, that lack of personal engagement will reduce transparency and avoid scrutiny.

We agree that virtual-only is not the right course to take, but let's dig a bit deeper here. Before COVID, meetings were largely held offline. Shareholders would make the pilgrimage to city hotel locations, where proceedings took place. Travel, health, or time constraints, however, made this a difficult process for many investors. What COVID has enabled is in fact an opening up of AGMs to a wider audience, to more scrutiny and all recorded for later review.

Online isn't perfect and some investors genuinely struggle with computer engagement, but it remains a progressive step and certainly not what is being suggested by many opponents of the constitutional change.

The bigger issue are proxy advisers who continue to engage with boards behind closed doors on topics of concern. When AGMs are held, and questions raised, it is often in response to these interactions. The ASA are very consistent in asking questions at AGMs. They disclose their position and are transparent in their concerns.

Proxy advisors on the other stay hand silent Questions are rarely asked, and individual shareholders are none the wiser as to why certain AGM items are voted in certain ways. While the four main proxy advisor groups offer recommendations on how to vote, their influence can lead to profound implications on resolutions put forward.

As things stand, several businesses have suffered votes cast against resolutions incorporating constitutional change that would permit virtual meetings. Flight Centre Travel Group, despite openly declaring it had no intention of exclusively holding meetings online, still received a strong no vote at its October AGM. Being a special resolution, it required a 75% vote in favour and was passed with a 79% yes vote.

Disappointingly, despite concerns that companies are using COVID as a pretext to shift permanently online, proxy advisors refrained from engaging or questioning the company's intention at the meeting. In so doing they have remained silent rather than openly engaging with the wider shareholder community. No wonder that some, including the Federal Government, have seen fit to consider changes to the current reporting status of proxy advisors.

Megaport

Chairman and Founder of automated connectivity operator Megaport started the company's 2021 annual general meeting (AGM) with some background.

"*As I set out in my letter from humble beginnings, Megaport is now a global leader in automated connectivity. Our vision was simple, be the world's leader in software-defined connectivity. What started out in 2013 as a Software-Defined Network in Australia, now services over 2,200 customers in over 760 locations in 136 cities across 23 countries*."

The business has raised new capital on multiple occasions and undertaken significant investment to build out the market opportunity. Monthly recurring revenue (MRR), the company's key financial metric, for the quarter ending September 2021 was running just north of $100m, with the company servicing 2,332 customers and progressing several significant projects.

The growth in cloud services adoption and shift in consumption of telecommunication needs has underpinned Megaport's commercial success to date. The traditional on-premise, fixed telecom arrangements are giving way to open platforms such as Megaport's Software-Defined Wide-Area Network (SDN -WAN). CEO Vincent English describes this shift, "*The buying behavior for IT services has evolved significantly in the past few years. Today's IT decision makers are focused on using platforms and tools to achieve the infrastructure and agile experience. They demand end-to-end control, ease of use and services that work together with minimal to no manual work. In essence, automation and integration are now fundamental requirements.*

The shift in the IT enablement landscape has guided our journey from a service providing connections with data centres to a global platform powering holistic connectivity solutions for all aspects of IT enablement. Through this journey, cloud connectivity has continued to play a central role in our success, representing 65% of the connections that happen on Megaport's Software-Defined Network today."

Since listing in 2015, the business has hit important milestones, with more planned. The initial successes enjoyed in Australia now extend into Asia and the U.S. CEO English outlines the progress made, "*Megaport achieved group EBITDA breakeven in June 2021. This is a strong validation of our business model and there is additional operating leverage on the investments to date. Asia Pacific, for example, is Megaport's most mature market and generated a profit after direct network cost margin of 73% in June 2021. Europe achieved EBITDA positive position for the entire fiscal year in 2021. And North America, which represents the largest target addressable market, is growing at the fastest rate with 47% growth year-over-year in monthly recurring revenue.*

The Megaport mission for this year is to scale up, scale out. This is a commitment by everyone at Megaport to accelerate our growth and our innovation cycle to increase our lead in the NaaS space. With a proven business model, the trust of partners and customers and a leading platform built for innovation, we are well positioned to achieve this. We are investing in revenue growth by making investments in further market expansion, product and service innovation. And most critically, the people responsible for making Megaport the transformational technology company that is changing the way IT services are built today and tomorrow."

The purpose of this background is to illustrate the company's achievements and the effort involved. Start-ups are never easy and attracting the right talent as the business matures and develops is a constant challenge.

Founders seem to understand this point but external bodies, including proxy advisors, struggle with this concept, remaining rigid in their voting approach.

This was on show at the October 2021 AGM. The granting of 100,000 options each to three newly appointed non-executive directors was defeated 56.9% to 43.1%.

Proxy advisors also handed in a first strike to the company's remuneration report, with a 27.9% vote against. Making matters worse was the inability of Chair Slattery to vote his collective 12m shares, representing approximately 7% of the group's issued base. One would have considered that as a founder, his judgement on these matters would have been seen in a positive light and in the best interests of all shareholders.

All-in-all it was a dejected Chair that continued with proceedings.

So why such a negative response to the granting of options?

During March through to July 2021, the company appointed three new independent directors, adding to the two already in place and sitting alongside the Chair and CEO. Seven members now make up the board, significantly bolstering experience and depth.

Two of the new directors, Michael Klayko and Glo Gordon, come with impressive executive backgrounds, particularly in the field of telecommunication and software organisations. Gordon is also based in the U.S., providing important on the ground market insights.

Megaport's remuneration policy is very much known and consistently applied. Chair Slattery's ethos is to reward and encourage shareholder alignment wherever possible. It represents a founder's mentality. To that end the company has only one long-term incentive plan in place, the Megaport Limited Employee Share Options Plan (ESOP), which is open to eligible participants, including directors.

It was proposed each new director would be granted 100,000 options. These would be split into two 50,000 lots, with vesting occurring over two years, being the end of 2022 and 2023. Each option converts into one Megaport share, with an exercise price equal to the share price at the time of appointment.

Based on share prices at the time of the AGM, two of the directors were in the money and one was underwater. However, we doubt this was why proxy advisors voted against the resolutions. More likely they oppose option structures offered to non-executive directors, for risk of influencing the independence of directors.

In the U.S., issuing equity to directors is more common and while some Australian investors and proxy advisors are unlikely to endorse such an approach, it reflects the reality of attracting global talent, particularly when the business is internationally orientated.

Taking a one size fits all approach is disappointing and reflects the hazards of allowing proxy advisors to vote on behalf of all institutional investors who abdicate their voting responsibilities to these groups. This is a case in point and the significance of the against vote reflects this outcome.

While proxy advisors couldn't agree on granting options to non-executive directors, they had no trouble re-electing them, virtually unopposed to the tune of 99% in favour. Additionally, the non-executive director's remuneration pool was lifted from $1m to $1.5m.

It appears, but one wouldn't precisely know, these individuals are deemed good enough to be on the Board and be paid more, yet not quite good enough to be granted equity in the business.

More broadly it sends a message to the company and Chair Slattery in particular, that it is the proxy advisors and not the Board who are in charge. Despite 12 resolution items and the contentious nature of these issues, not one question was asked throughout the AGM proceedings.

Chair Slattery summed up his frustration and disappointment before closing the meeting,

"That concludes the items of business. In a couple of minutes, I will close the voting system. A reminder of the online voting instructions is now on screen. Please ensure that you've cast your vote on all resolutions.

So, I'll now pause for you the time to finalize those votes.

I think I also might probably use some of this time just to say I'm obviously pretty disappointed with our shareholders who have treated the resolutions on the directors' options that are there. It's a very competitive market, and we've managed to get hold of some of the best people, I think, in the world and the industry and the space that we're operating in. And the message that's certainly being sent to myself and the Board and the executive and members there that we're actually not really in control at all of trying to get the best talent in the world.

And to vote those resolutions down for 100,000 options issued at market, it's really not -- I think it's not really friendly to getting the best people in the world. And I think the situation with proxy advisers, they're incredibly founder unfriendly. And I think they're very technology company unfriendly. I think I'll just let institutions know that one of the things that I've always enjoyed is bringing technology companies to the Australian Stock Exchange and to share in prosperity and innovation with institutions.

And yes, I don't know why I kind of keep doing that because in terms of other businesses and things that are there because as a founder, my votes don't get counted, I'm excluded. And I think it's actually pretty disappointing. But it's up to the institutions to do what they want. I'll give another 30 seconds before I close the voting."

It does beg the question, why do institutions stay invested in a business where they can't trust those in charge? ***SFM***

PS. On the 17 December 2021, the company announced that it would be holding an extraordinary general meeting on 28 January 2022 to put to shareholders once again, resolutions to grant options that was voted down at the recent annual meeting.

A extract from the Chairman's letter explaining the board's actions is reproduced below.

"We want to be able to hire experienced Directors with relevant industry experience within the markets in which we operate. That requires us to be flexible for the right skills and experience so that we can remain competitive and align with the relevant market expectations.

On a global basis, this means competing with opportunities that Directors have in much larger and more technology-centric markets, such as the US.

Our concern as a Board is that the rigid governance rules apply restrictions on our ability to do this effectively and which ultimately hinders our ability to achieve our goals and objectives.

Support for the election of Relevant NEDs was resounding. Greater than 99% of shareholders voted "for" their re-appointment. Shareholders understand the contribution of these Directors to the business and what we are trying to achieve for our shareholders.

However, disappointingly proxy advisors recommended that shareholders vote against their pay – specifically, against granting them 100,000 options as part of their remuneration package."

NANOSONICS – SUSTAINABILITY

Nanosonics, a global leader in infection control solutions, is a business that at its core has strong social leanings. The COVID-19 pandemic has highlighted the importance of robust disinfection practices around the world, which aligns with Nanosonics' mission to *"improve the safety of patients clinics, their staff and the environment by transforming the way infection prevention practices are understood and conducted and introducing innovative technologies that deliver improved standards of care."*

In August 2021, Nanosonics published its second annual report on Environment, Social and Governance (ESG) performance. Renamed under the broader term, *Sustainability*, the report builds on previous achievements, provides an insight into future targets and presents a strengthened alignment with the Global Reporting Initiative (GRI) Standards: Core Option.

Chairman Maurie Stang notes, *"The principles of ESG are connected to, and embedded in, all aspects of our business. Importantly, it manifests in the care delivered to patients, and the objectives of our R&D across our areas of interest in infection prevention. Fundamentally, it informs the way we care about the environment, people and embracing the true principles of governance. These continue to be the drivers of our success today, and into the future."*

Corporate governance and board structure

SFML's approach to corporate governance involves fostering a set of relationships between a company's management, board, shareholders, and external stakeholders. We examine the effectiveness of the board through a host of factors, including industry experience, independence, age, diversity, tenure, equity ownership and capacity.

The Nanosonics' board is strong. Made up of seven directors, five of whom are independent, there is a breadth of skills and diversity as recognised in the board skills matrix, published in their 2021 Corporate Governance Statement. The executive team is equally as strong, led by CEO Michael Kavanagh since October 2013, who is highly regarded across all levels of the organisation.

Research and Development (R&D)

R&D continues to be a core element of Nanosonics' mission and ESG strategy. During 2021, the benefit of the group's ongoing R&D investment, averaging 17% of revenue since 2015, was evident with the unveiling of its newest technology platform, Coris.

Offering automated cleaning of flexible endoscopes, Coris could be the solution to a significant unmet clinical need. Today, over 60m endoscopic procedures are conducted annually. The current cleaning of endoscopes, a flexible tubed camera lens that is inserted into the body, is a largely manual process involving 50 to 200 steps. Incorrect disinfection of the flexible endoscopes can also lead to biofilm contamination, which has been associated with chronic patient infections. Coris, potentially a new standard of care, has demonstrated significant superiority in the decontamination of biofilm.

Stakeholder engagement and materiality

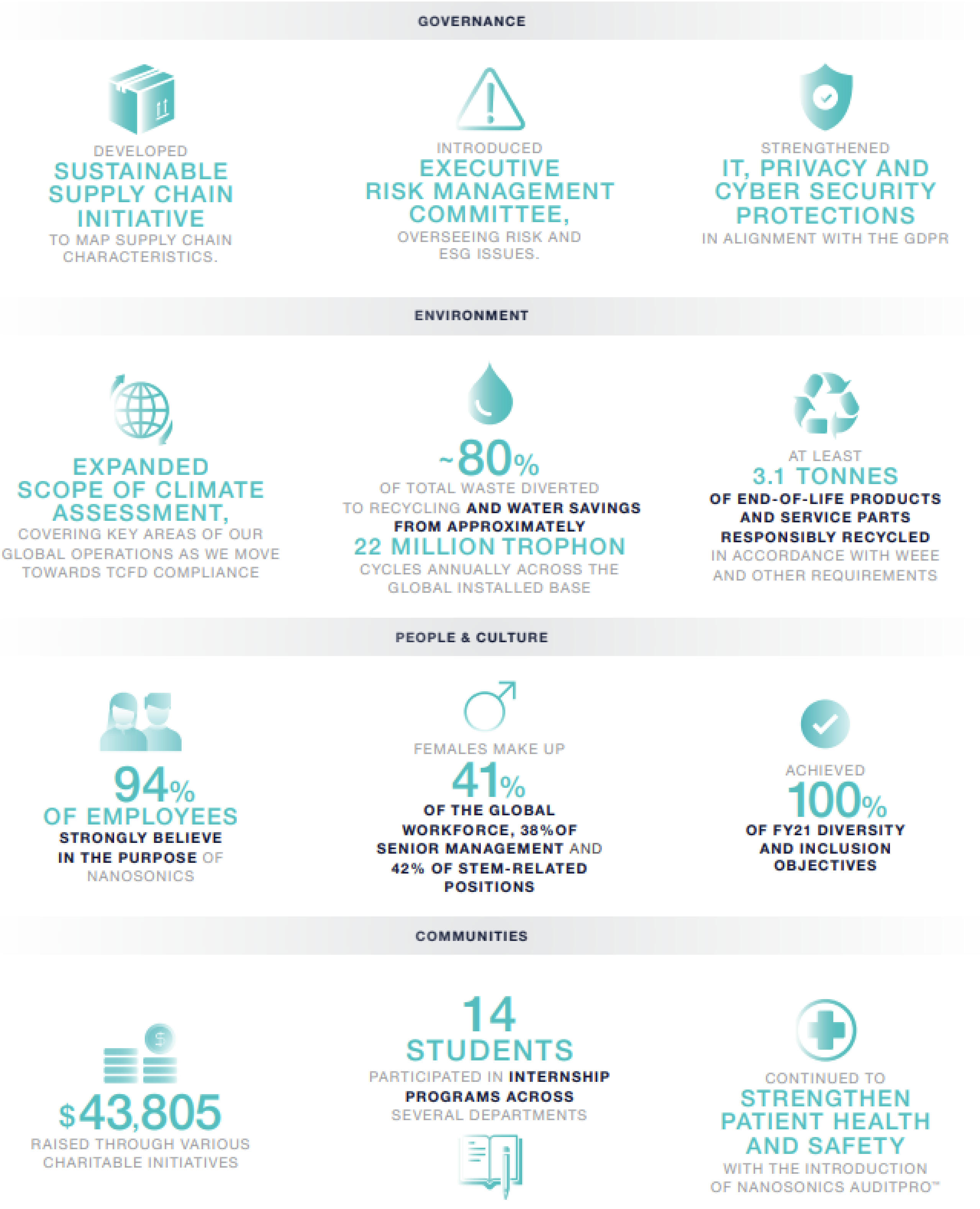
In 2019, Nanosonics conducted a comprehensive materiality assessment. This involved the company gathering a list of topics, such as business ethics and product safety and quality, which were evaluated based on their importance to key stakeholders and their impact on the business, society and the environment. During 2021, the topics were reviewed by management for relevance and further consolidated for reporting purposes.

Additionally, Nanosonics operates an open-door policy when it comes to both informal stakeholder engagement and structured formal activities, such as employee surveys, town hall meetings and supply chain initiatives. These activities help bring to light, and provide further insight, into material key issues and concerns.

As such, this year's Sustainability Report has been refreshed with a clearer focus on the identified issues across the following four key areas: Governance; Environment; People & Culture; and Communities. Figure 23 highlights the key achievements across each topic in FY21.

We provide further detail on each below.

Figure 23: ESG key achievements at a glance



Source: Nanosonics 2021 Sustainability Report

Governance

"Good governance is the cornerstone of any successful company."

The Sustainability Report identifies the following three key areas of achievement in FY21:

1. **Development of the Sustainable Supply Chain –** The purpose of this initiative was to obtain a better

understanding of ESG opportunities and risks that exist within the company's supply chain. Tier 1 suppliers were initially targeted, and the intention is to expand this to Tier 2 and so in future years. Alternate suppliers will be sought to replace *"at-risk"* suppliers if ESG related harms are not able to be curtailed.

2. **Refresh of Risk Management Framework** – this resulted in the formation of an Executive Risk Management Committee, and a Risk Management Policy and Framework that will oversee risk and ESG related issues.
3. **Update of Privacy and Cyber Security** – this will ensure all policies align with the General Data Protection Regulation (GDPR), which is of particular importance following the release of Nanosonics' data, traceability and compliance management system, AuditPro.

Environment

"At Nanosonics, we recognise that environmental stewardship is an essential element of our social license to operate."

At SFML, we believe all companies and organisations have a responsibility to consider the risks of climate change and to ensure their business is resilient in a low carbon future. It was pleasing to read that climate change had been a key focus for Nanosonics in FY21. The business is in the process of developing a three-year strategy to address climate-related issues, taking into account the Task Force on Climate Related Financial Disclosures (TCFD), of which SFML became a supporting party earlier in the year.

Table 15 sets out key environmental metrics, including their energy and emissions, and waste and water usage over the past two years. Most notably, the group has been able to recycle 80% of waste through continuous improvement of processes and development of waste minimisation practices.

It was also notable to see the company's shift towards a circular economy model. This model aims to eliminate waste and pollution, keep products and materials in use, and regenerate natural systems by reusing, repurposing, remanufacturing and recycling goods as they reach their end of life. During the year, approximately 2.8t of end-of-life units and parts, namely components of the Trophon EPR installed base, were recycled by a third part contractor in the U.S., along with 341 kg of electrical equipment in Europe.

Table 15: Environment metrics

ENVIRONMENT	FY21	FY20
Climate change		
Electricity consumption (kWh)	1,773,176	625,440 - 1,170,815[5]
Renewable energy usage (kWh)	297,780	74,197[5]
Scope 1 emissions (tCO_2e)[6]	0[7]	–
Scope 2 emissions (tCO_2e)[8]	1,282	–
Recycling & waste		
Recyclable e-waste diverted from landfill (kg)	3,141	1,411
Responsibly disposed chemical and clinical waste (kg)	865[9]	2,335
Water		
Consumption (ML)	6.3	–

4. Calculated based upon 0.35t per cubic metre (m^3).
5. Our FY20 calculation is based on an estimate for Nanosonics' proportion of the Lane Cove premises, as provided by the landlord.
6. Based upon our Australian premises in Lane Cove and Thornleigh, New South Wales.
7. Nanosonics has not identified any direct processes which generate greenhouse gas emissions from electricity generation, chemical processing, transportation or fugitive emissions in Australia. There are negligible greenhouse gas emissions from leased vehicles in Europe. We intend to capture our international carbon footprint in the next reporting period.
8. Based upon our Australian premises in Lane Cove and Thornleigh, New South Wales. Scope 2 emissions calculated based upon total energy consumption at these premises multiplied by National Greenhouse Accounting Factor of 0.78kg CO_2/kWh.
9. Our FY21 results have significantly reduced from the prior reporting period as a result of a change in the Company's internal R&D activities.

Source: Nanosonics 2021 Sustainability Report

People and Culture

"We recognise the tremendous value that our human capital provides to the Company."

We believe culture and ESG are intertwined. We consider them both integral to our assessment of a business. Companies with superior cultural behaviours are better disposed to responsible management of ESG issues. They increase shareholder wealth through higher staff engagement and retention (people), they pursue business leadership through consistent reinvestment (business), and they are better managers of financial risk (balance sheet), including cash flows and earnings (capital management).

During the year, Nanosonics sought feedback from over 330 employees globally through an annual engagement survey, of which an impressive 97% participated. The results are equally as impressive, with 94% of employees firmly believing in the company purpose and 93% believing their work contributes to the goals of the company. Other key employee engagements included Management Listening Tours and regular Town Hall meetings with the CEO and Chief People & Culture Officer.

Diversity is another key strength. For FY21, 100% of the diversity and inclusion objectives were achieved. This included maintaining 29% female representation at the board level and 38% of senior management. Further, the workforce now represents over 29 different nationalities. Table 16 presents the improving trends across key People and Culture metrics.

Table 16: People and Culture metrics

PEOPLE AND CULTURE	FY21	FY20	FY19
Workplace			
Total employees (No.)	339	311	286
Employees returning from parental leave (%)	100	–	–
Safety			
Lost Time Injury Frequency Rate (LTIFR)	6.94	–	–
Total Recordable Injury Frequency Rate (TRIFR)	6.94	–	–
Whistleblower reports	0	0	–
Diversity and inclusion			
Women as a percentage of the total workforce (%)	41	41	36
Women in STEM roles (%)	42	39.8	–
Women in Senior Management [11] (%)	38	32	30
Women in Board roles (%)	29	29	17

Source: Nanosonics 2021 Sustainability Report

Communities

"Nanosonics recognises that our success as a business depends upon maintaining and strengthening our social licence to operate."

During FY21, Nanosonics focused on three key areas:

1. Human Rights
2. Contributions
3. Education

Human Rights

Recognising potential areas of concern regarding human rights and modern slavery practices was a key component of the Sustainable Supply Chain Initiative. No "*at-risk*" suppliers were identified in FY21 based on the group's assessment of their immediate suppliers. In FY22 the company is working to complete a full assessment of their Tier 1 suppliers, which represents around 80% of total suppliers.

During the year, Nanosonics published their inaugural Modern Slavery Statement for FY20, in response to the requirements of the Modern Slavery Act 2018 (Cth). Their second statement shortly followed in December, which sets out the company's efforts in FY21. At first glance, both statements appear to be high level and in early stages of development. We welcome their intentions to expand their modern slavery program to include, among others, external relevant best practices.

Contributions

Nanosonics remains committed to maintaining its longstanding relationships with charities, including the Cancer Council of Australia and St Vincent de Paul Society. During FY21, the group raised circa $44k across various initiatives.

Education

Nanosonics continues to recognise the importance of supporting the next generation of students. During the year, Nanosonics invited 14 students to participate in their internship program across a diverse range of areas within the business. This was up from 10 students in FY19.

Summary

We recognise that Nanosonics is in the early stages of their ESG reporting journey and we look forward to seeing how future initiatives play out, in particular their three-year strategy to address climate-related activities, and an expanded modern slavery program. Nanosonics' efforts in FY21 highlight the company's strong commitment to sustainability and their global mission: Infection Prevention. For Life. ***SFM***

SFML 2022 CLIMATE COMMITMENT

Are revenue and earnings at risk from climate change?

As reports of the devastating effects of climate change rise, so do the voices discussing how to tackle the anthropogenic causes of this phenomenon. One of the much-discussed solutions today is a carbon tax, which would put a price on greenhouse gas emissions.

A carbon tax will lower the earnings of all companies. High carbon emitters will pay a higher proportion of their earnings, which will drive proportionate share price declines. We don't think this is currently being measured and nor is it well understood. In 2022 SFML has committed to understanding this potential impact on our portfolio.

What is a carbon tax?

The term carbon tax is essentially shorthand for a tax regime that makes it more expensive for producers of goods and services to emit greenhouse gases that contribute to global warming. Most proposals would likely also cover emissions of methane, nitrous oxide, and possibly other types of gas.

A carbon tax is a tax levied on the carbon emissions required to produce goods and services. Carbon taxes are intended to make visible the 'hidden' costs of carbon emissions, which are only felt in indirect ways like more severe weather events, bushfires, rising water levels and unseasonal temperature patterns.

Carbon dioxide is the gas that we emit the most of, according to a 2016 EPA report, accounting for roughly 82% of greenhouse gases produced by human activities. Fluorinated gases make up a much smaller percent of emissions, but they're considered particularly potent. It might make sense to include them too, but little if any reporting exists.

The basic idea of a carbon tax is simple. The implementation and implications less so. By making it more expensive to pollute, polluters will be more active in searching for ways to cut emissions, which will incentivise more innovation. They will also switch to more environmentally responsible options already available.

The thought is that a carbon tax could get us to a place where there are lower global emissions, without making dramatic changes to the way many people live. This type of tax will be recognised by students of economics as a Pigouvian tax. That is, a tax on the negative externalities like pollution that aren't included in the market price but end up being absorbed by society at large.

The economist Arthur Pigou recommended taxing the producers whose processes create such negative externalities, by setting a tax to equalise the marginal private cost and the marginal social cost. The idea is to correct the market failure. To apply Pigou's principle, however, requires measuring the externalities so that the tax is set appropriately.

That's the general concept. But there are wrinkles in putting that idea into action to protect the environment.

Implementation issues are significant

Perhaps the biggest hurdle is implementation:

- How much is the tax at the start point?
- How does the tax rise over time?
- Where does the tax rate stop?
- Where in the supply chain is tax applied, extraction through to consumption?
- How do borders impact the application of tax, without driving consumers to imports?
- How to solve for regressivity and rebates?

These questions come before the most important issue. That is, what's the economic impact of a carbon tax on GDP growth, job loss and job creation, and of course, who and what benefits from the potentially huge revenues captured by a carbon tax.

These areas remain complex and politically charged. No doubt a carbon tax will remain unpopular with some, and common sense to others. The developed countries with operational carbon initiatives we highlight below, have either overcome the issues, or assumed experimental action will lead to solutions that outweigh the negatives.

Where has a carbon tax been implemented?

According to the World Bank's carbon pricing dashboard, 45 national jurisdictions have carbon pricing initiatives today. Some countries have adopted emissions trading systems (ETS) instead of carbon taxes. That's another type of market-based approach that is sometimes called cap and trade. We have included developing countries in the table below.

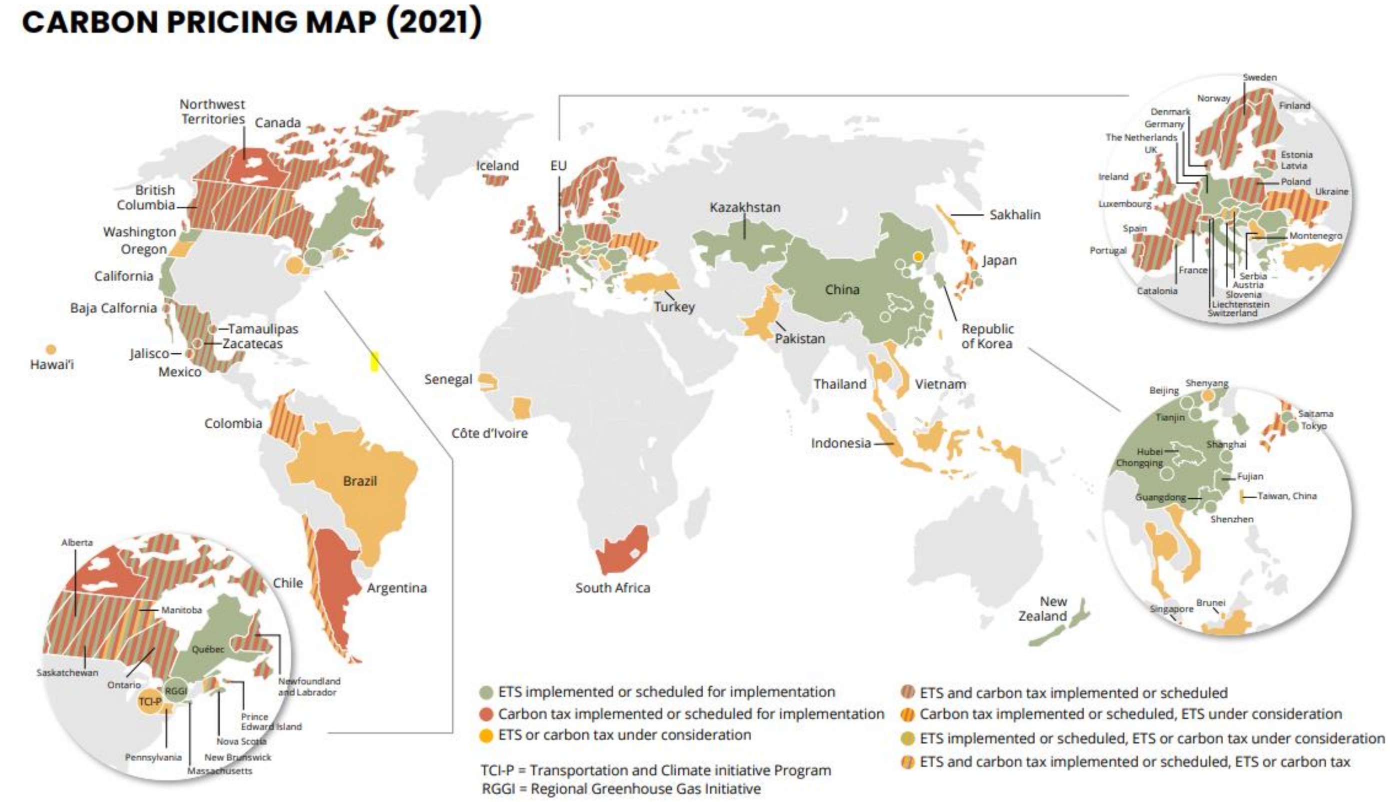
Since the first carbon taxes were introduced in the 1990s, there's been slow but steady growth in the number of taxes introduced around the world. Most recently in July, the European Union released a plan to impose a fee on imports of certain products as part of its climate package. That could be an opening for more global coordination on the cost of carbon. Figure 24 provides an illustration of this, and the growing carbon tax commitments and considerations being made across national jurisdictions.

Table 17: Carbon pricing by country

Country	Instrument	Established	Est US$ Cost per CO2 tonne	2021 US$ Cost per CO2 tonne	% Change
Finland	Carbon tax	1990	$1.75	$62.25	3457%
Poland	Carbon tax	1990	$0.11	$0.08	-27%
Netherlands	Carbon tax	1990	$20.00	$35.24	76%
Sweden	Carbon tax	1991	$26.00	$137.24	428%
Norway	Carbon tax	1991	$38.98	$69.33	78%
Denmark	Carbon tax	1992	$15.58	$28.14	81%
Slovenia	Carbon tax	1996	$7.45	$20.32	173%
Estonia	Carbon tax	2000	$0.31	$2.35	658%
Latvia	Carbon tax	2004	$0.56	$14.10	2418%
Switzerland	Carbon tax	2008	$11.92	$101.47	751%
Liechtenstein	Carbon tax	2008	$11.92	$101.47	751%
Iceland	Carbon tax	2010	$8.51	$39.35	362%
Ireland	Carbon tax	2010	$20.20	$39.35	95%
Japan	Carbon tax	2012	$1.15	$2.61	127%
United Kingdom	Carbon tax	2013	$7.51	$24.80	230%
France	Carbon tax	2014	$9.65	$52.39	443%
Spain	Carbon tax	2014	$27.58	$17.62	-36%
Portugal	Carbon tax	2016	$7.45	$28.19	278%
Canada	Carbon tax	2019	$15.00	$31.83	112%
Singapore	Carbon tax	2019	$3.69	$3.71	1%
Luxembourg	Carbon tax	2021	$23.49	$23.49	0%
Australia	Carbon tax	2012	$16.92	Abandoned 2014	N/A
European Union	ETS	2005	$19.05	$49.78	161%
Germany	ETS	2021	$29.36	$29.36	0%
South Korea	ETS	2015	$9.10	$15.89	75%
New Zealand	ETS	2010	$12.44	$25.76	107%
Switzerland	ETS	2011	$19.51	$46.10	136%
China	ETS	2021	N/A	N/A	N/A
UK	ETS	2021	$30.00	$30.00	0%

Source: World Bank

Figure 24: Actual carbon programs implemented



Source: Citi Research

Does a carbon tax work?

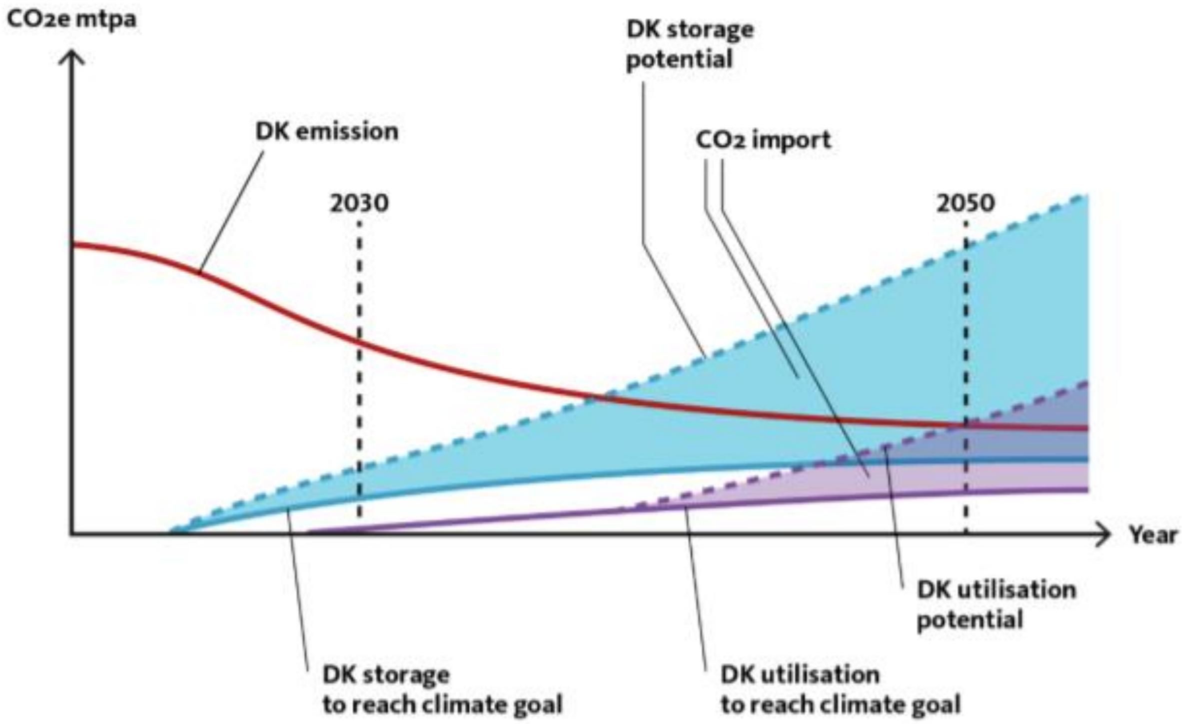
Among the countries that have implemented carbon tax programs, some have been around longer than others. Finland, Poland, Norway, Sweden, Denmark, the Netherlands, and Germany all introduced taxes on carbon in the 1990s. The results of these taxes in lowering emissions are mixed.

According to data from the World Bank, on a per capita basis, carbon dioxide emissions increased in Norway between 1990 and 2015 and stayed about the same in the Netherlands. They dipped in Germany, went down in Finland, Poland, and Sweden, and dropped dramatically in Denmark. It should be noted that Sweden started out much lower than the others.

Even with its success though, Denmark remained above the world average, and above other European countries like France and Spain. By comparison, Belgium dropped its emissions during the same period in a pattern that was like Finland's, but they didn't have a carbon tax.

One of the interesting points about Denmark is that part of the revenue was used to provide subsidies for technologies with lower environmental impacts. They are investing for the future. Using a series of six roadmaps designed in 2011, Denmark fostered innovation in CO_2 capture, CO_2 storage and transport, and CO_2 utilisation.

Chart 1: Danish vision of CO_2 reductions to 2050 and beyond



Source: Mission CCUS – a roadmap for Carbon Capture, Utilisation and Storage

Chart 1 indicates the need for forward looking investment, which may not generate any return today. This is rarely an attractive prospect for investors. It requires either a government incentive scheme or a funding mechanism external to investors who seek a return.

It is an important side note, and possibly one of the strongest reasons to advocate for a carbon tax. Reducing emissions, while a positive step, will not achieve 2050 objectives. New technologies are required to achieve these lofty goals and they require significant investment.

In October 2021, Blackrock CEO Larry Fink proposed that the OECD countries and China invest US$100b annually in technology focused on climate solutions for the developing world. His thesis is that it will require a US$1t investment annually to decarbonise the developing world.

This grand proposal has merit, it is after all rich countries that are responsible for the lion's share of emissions, and it is also clear that developing nations can't fund environmental reform.

Fink's plan, however, was dismissed by critics who quickly seized on the gap in maths which equates to US$900b annually that remained unfunded. Without a clear funding pathway these types of proposals lack credibility. Fink, a Democrat, has actively discouraged U.S. CEO's from advocating for a carbon tax.

It is clear, from Table 17, that businesses face increasing revenue and earnings risk over time. Once implemented, carbon tax prices have increased in all but three developed countries, with half this sample recording triple digit percentile increases. Moreover, Switzerland Norway, Finland and France have current tax rates north of A$80 per tonne of CO_2 emissions. We discuss the implications of this in relation to our own portfolio below. In Table 24, we use A$80 as our base case for scenario testing a carbon tax on the SFML Portfolio.

Who has pending legislation?

Table 18: Proposed carbon tax

Country	Anticipated	Proposed US$ Cost per tonne CO2
Indonesia	2022	$2.10
Brazil	TBD	TBD
Austria	2022	$33.81

Source: World Bank

As Table 17 shows, in 2012 Australia briefly flirted with a carbon policy of its own. Unfortunately, this was abandoned in 2014 and, as shown in Table 18, Australia has nothing on the horizon.

Labor leader Kevin Rudd was elected as Prime Minister in 2007 on a platform of addressing climate change, but his emissions trading scheme initiative disintegrated under the weight of political bickering between his government, the Coalition, and the Greens.

The carbon tax was introduced in 2012 by the Gillard government, only to be dumped by the Abbott government as soon as it came to power and replaced with a more than $3b taxpayer subsidy, doled out to applicants that promised to cut carbon emissions.

The ill-fated Australian carbon tax lasted just two years. But as the graph below indicates, it had an immediate impact. Emissions dropped almost immediately after it was introduced, as businesses moved to technologies that emitted less. That price signal had an impact. When it was dumped in 2014, carbon emissions rose again almost immediately. Emissions have since levelled, possibly due to the shutdowns of some large coal-fired power stations during the past two years.

While economists believe carbon taxes are the preferred way to price emissions, politically they've been a hard sell.

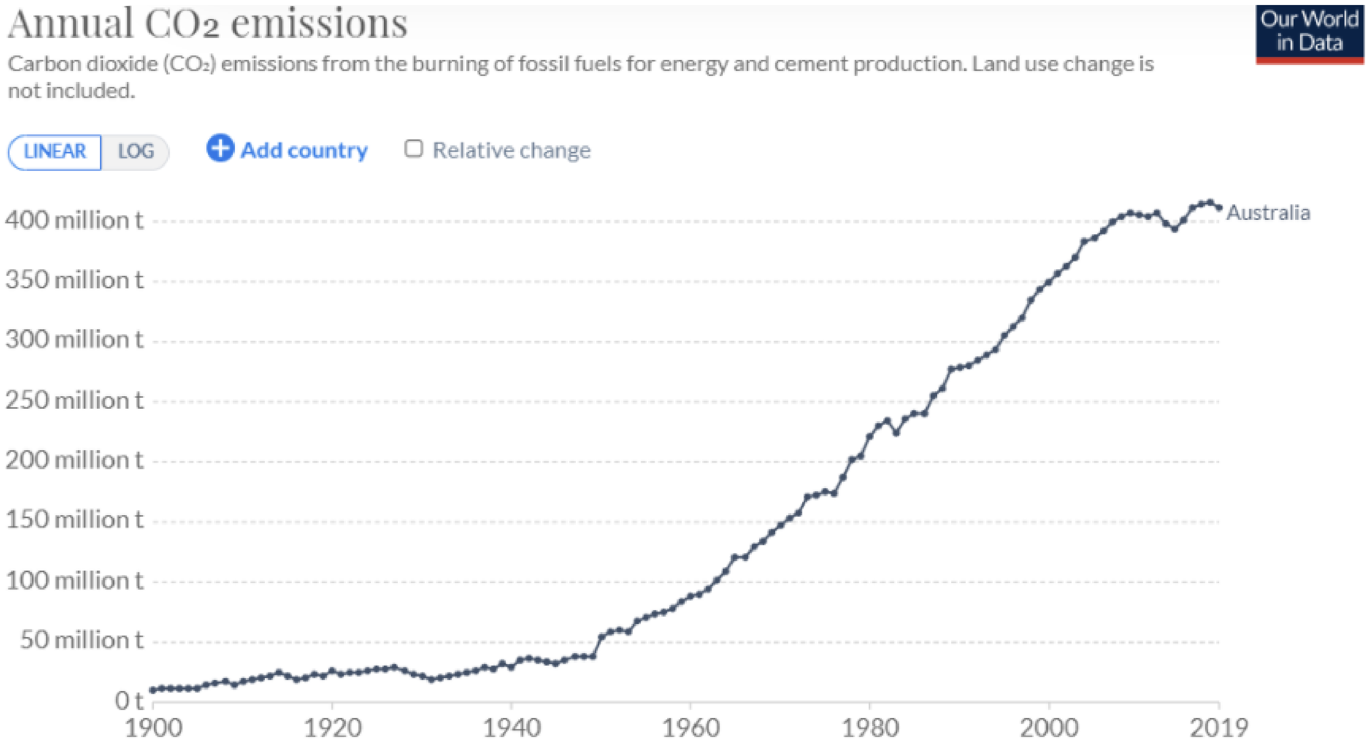
"The difference between Labor's policy and ours is that Julia Gillard introduced a scheme where big polluters paid Australian taxpayers. Tony changed it so that Australian taxpayers pay big polluters," the unnamed Australian Government minister said.

It'd be funny if it wasn't so tragic. But the joke is now on us, and the tragedy is that it will cost us dearly.

ABC Journalist Andrew Verrender believes *Australia will be haunted by the decision to drop the policy*.

Australian businesses are about to be whacked with a carbon tax. Not by Canberra, but by Brussels and Washington, with the increasing possibility that Ottawa, Tokyo and even London may follow suit, free trade agreements aside.

Chart 2: Australian annual CO_2 emissions



Source: Global Carbon Project; Carbon Dioxide Information Analysis Centre

While this scenario is yet to play out, even if the Australian Government delays the introduction of a carbon scheme, corporate earnings remain at risk. The biggest problem will arise if the U.S. imposes mooted carbon border taxes on Chinese made goods.

As our biggest export destination, particularly for iron ore, any action against China will have an immediate impact on the earnings profiles of our biggest miners, including BHP, RIO, and Fortescue, amongst many others in our Materials sector. Given the continued tensions between the superpowers, that is highly likely.

Then there is our second biggest trading partner. In July 2021, Japan announced it was radically revising its emissions target ambitions and announced an accelerated plan to decrease imports of coal and LNG, two of our biggest exports.

In that same month, the European Union released a plan to impose a fee on imports of certain products as part of its climate package. The EU Carbon Border Adjustment Legislation is still rough but will include aluminium, iron, steel, cement, natural gas, oil and coal.

Table 19: 10 Biggest Exporting Industries in Australia

Rank	Industry	Exports $b
1	Iron Ore Mining	123.1
2	Oil and Gas Extraction	39.8
3	Coal Mining	37.6
4	Liquefied Natural Gas Production	34.8
5	Gold and Other Non-Ferrous Metal Processing	29.4
6	Meat Processing	15.9
7	Grain Growing	8.2
8	Alumina Production	7.4
9	Pharmaceutical Product Manufacturing	6.9
10	Copper, Silver, Lead and Zinc Smelting and Refining	6.8

Source: IBISWorld

That is at least $309b in exports that could get slugged for their emission intensity. If the levy is just 5%, that is $15b in lost revenue. That could be an opening for more global coordination on the cost of carbon.

U.S.

In the early 1980s, when scientists first twigged that carbon emissions were harming the environment, a group of American economists from Harvard argued climate change was a cost that was not being recognised.

Not only was it barely visible, but the real damage was also only likely to be seen in generations to come, way beyond the normal investment horizon.

Back then, they argued a tax on carbon emissions from all sources was the most efficient way to deal with the problem and, for a while, Washington agreed.

In the 1990s, U.S. Democratic Vice President Al Gore (1993-2000), was one of the first politicians to grasp the seriousness of climate change and to call for a reduction in emissions of carbon dioxide and other greenhouse gases. His advocacy of the Kyoto protocol, which he symbolically signed, gained considerable momentum.

It didn't take long, however, for the fossil fuel industry to take up arms against the proposal. Basically, it was very unpopular.

That's when Republicans shifted stance. Instead of a tax, they preferred a complex market-based trading system that put a price on carbon. The result was that the Kyoto bill never made it to the senate for ratification.

When the Obama administration gained office, a cap and trade, which had features like a carbon tax, was introduced but failed. Then in 2010, the Kerry-Lieberman bill, an explicit carbon tax, also failed. The U.S. has never introduced a national system, although various U.S. states have carbon prices.

Senate discussions continue but much water still needs to flow under this bridge. One thing that became clear in 2021 is that global environmental responsibility has strong momentum. It continues to build, and change is inevitable.

How is SFML placed for change?

In our January 2021 Quarterly Newsletter, we examined SFML Portfolio sector emissions verses the index. The evidence presented was twofold: significantly lower portfolio weights for the highest carbon emitting sectors verses the index, and significantly higher portfolio exposure to the lowest carbon emitting sectors verses the index.

With no exposure to the Energy and Utilities sectors and low exposure to Materials, the three dirtiest sectors, and strong exposure to Healthcare and IT, two of the three cleanest sectors, our portfolios are much better placed to deal with a carbon pricing impost verse the index.

This has not changed much since 2021, courtesy of our low turnover mentality.

Here we present updated portfolio data that adds to the findings we shared one year ago.

**A note on the methodology. In 2021 we qualified the data presented and it's important to do so again, as limitations do exist. Not all companies provide data and not all data is comparable.*

Defining the carbon intensity of SFML Portfolio

Carbon to value invested – this calculation is the aggregation of estimated owned constituent greenhouse gas emissions per $1m market capitalisation as at 31 December 2020. It allocates the emissions investors are responsible for based on their level of ownership, enabling them to measure their contribution to climate change.

Carbon to revenue – this calculation reflects the aggregation of estimated owned constituent greenhouse gas emissions per $1m generated in apportioned revenues. It allocates the emissions investors are responsible for based on their ownership of company revenues.

If we consider SFML's $C0_2$ emissions at an "ownership" level, we can use OFX as a simplified example. SFML owns an aggregated 10% of the OFX business across SFML's combined portfolio holdings, accordingly SFML "own" 10% emissions, 10% market capitalisation, and 10% of OFX revenue. Hence this is calculated by taking SFML owned $C0_2$ emissions and dividing by the market capitalisation and revenue of OFX. As a comparison, the index calculation assumes 100% ownership constituent companies' emissions, market capitalisation and revenue.

SFML's carbon to value invested and carbon to revenue are both lower than the S&P ASX 300 index, at 95.9% and 93.4% respectively.

Weighted Average Carbon Intensity (WACI) is the weighted average of individual company's estimated carbon intensities (emissions over revenues), weighted by the investment proportion of the constituents. This accounts for security weights within a portfolio. It seeks to show an investor's exposure to carbon intensive companies rather than apportioning the emissions the investor owns in the economy. The higher weightings in James Hardie (JHX), Aristocrat Leisure (ALL), and CSL (CSL) drive lower WACI verse carbon to revenue and carbon to value.

SFML's WACI is 89% lower than the index, due to no exposure to Energy and Utilities sectors, and low exposure to the Materials sector.

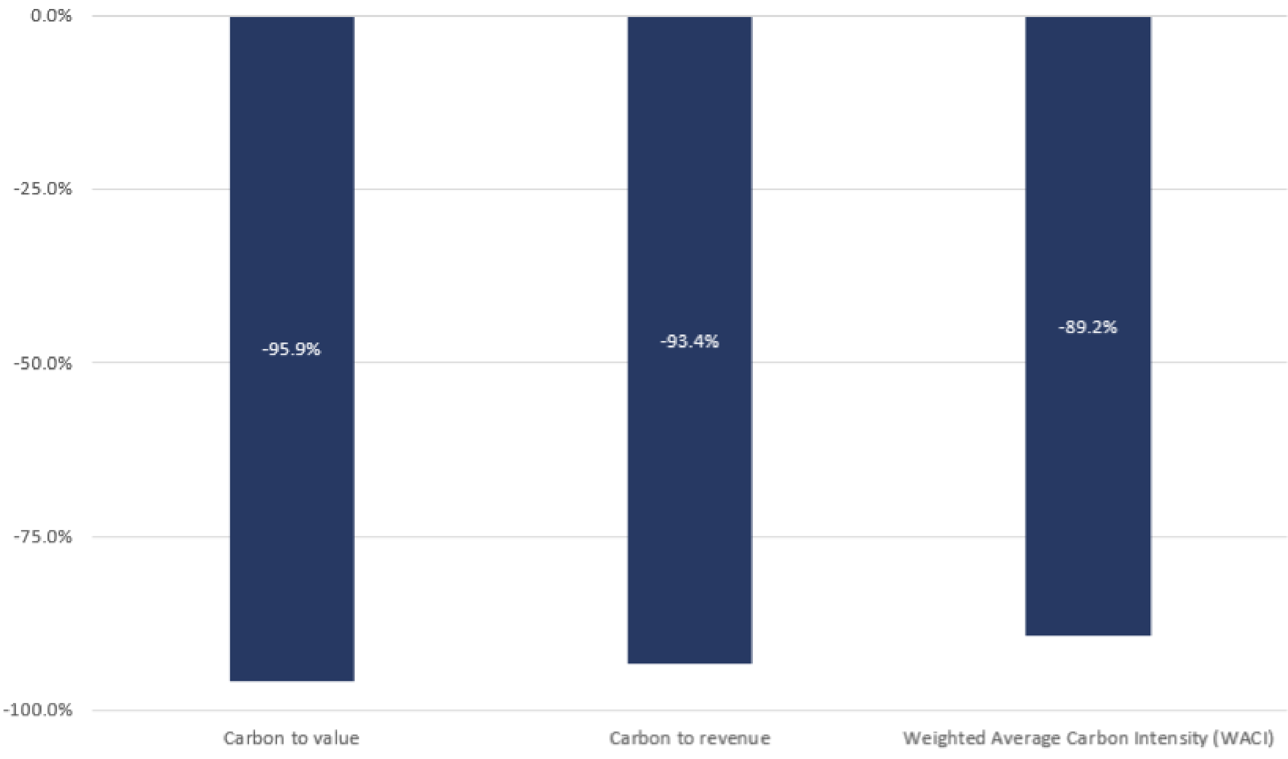
Table 20: SFML Portfolio carbon intensity

Carbon intensity method[1]	SFML	Benchmark[2]
Carbon to value invested	4.74	116.22
Carbon to revenue	18.62	280.83
Weighted Average Carbon Intensity (WACI)	21.90	202.37

Source: Refinitiv

1. Denominated in tonnes per CO2e/AUD$m
2. Benchmark used is Macquarie True Index-Australian Shares Fund, an approximation of S&P ASX300

Chart 3: SFML carbon intensity relative to S&P ASX 300



Source: Refinitiv

Assumptions have been made to reach these conclusions. SFML used Refinitiv estimated $C0_2$ emissions when reported $C0_2$ emissions were not available. We also recognise that reported $C0_2$ emissions data has gaps. We are mindful that "green washing" of financial products is rife. Weak or non-existent frameworks often results in data being manipulated or exploited. That said the data presented here adds further confirmation to the materials we presented in our January 2021 quarterly, which was also published on our website. We welcome any feedback from our stakeholders.

Peer comparisons

From the data presented above in Table 20 and graphically in Chart 3 the implications of a carbon tax become apparent. The revenue and earnings decline for SFML portfolio is substantially lower than the revenue and earnings impact on the S&P ASX 300 Index.

Today this effectively remains as a hidden liability. A drag on index performance will, almost certainly, be exposed by future carbon imposts that may be applied by state or federal governments, including those of our trading partners.

We believe this data may be of interest to our institutional clients who are required to benchmark, and whose performance is then compared to peer returns. These large super funds blend various investment styles, SFML included, to achieve a broad set of investment objectives governed by internal and legislated risk and return parameters. Increasingly carbon-based metrics are being included in these parameters.

Australian Super present carbon intensity in its Annual Climate Change Report. Called out under its 2020/21 Highlights (page 4), it uses a similar set of calculations, based on their own data sources (which differ to SFML). Australian Super report a 13% improvement on its carbon to revenue calculation verse its relevant Australian Equities benchmark (S&P ASX 300).

Impact of an A$90 carbon tax

To model a carbon tax impact on an SFML Portfolio, we have included a scenario analysis in the table below. This illustrates how an A$90 carbon tax would impact the revenues of our portfolio, in comparison to an investment that mirrors the S&P ASX 300 Index. Our initial view was this scenario should largely bare out the data we have already presented, and this appears to be the case.

Table 21: SFML top 10 emitters and total portfolio revenue impact of A$90 carbon tax

Company	LTM Revenue ($m)	Market Cap. ($m)	Estimated CO_2 Emissions (Tonnes)	Realisation of a $90 Carbon Tax ($m)	Impact of $90 Carbon Tax on LTM Revenue
JHX	3,828.18	24,627.51	603,840	54.35	(1.42%)
CSL	13,655.28	139,181.73	344,000	30.96	(0.23%)
ALL	4,139.10	29,131.28	129,024	11.61	(0.28%)
CPU	3,398.69	12,074.59	63,953	5.76	(0.17%)
REH	6,012.38	17,434.50	43,835	3.95	(0.07%)
FLT	1,897.27	3,511.37	34,328	3.09	(0.16%)
DMP	1,905.26	10,200.48	33,539	3.02	(0.16%)
RMD	4,413.15	52,283.68	22,171	2.00	(0.05%)
ARB	465.43	4,282.29	16,405	1.48	(0.32%)
FPH	1,200.43	17,783.42	13,253	1.19	(0.10%)
SFML Top 10 Emitters	**40,915.18**	**n/a**	**1,304,349**	**117.39**	**(0.29%)**
SFML Portfolio – Total	**52,335.96**	**n/a**	**1,371,583**	**123.44**	**(0.24%)**

Source: SFML & Refinitiv Estimated CO2 Emission data

Table 22: S&P ASX 300 top 30 emitters and total portfolio revenue impact of A$90 carbon tax

Company	LTM Revenue ($m)	Estimated CO_2 Emissions (Tonnes)	Realisation of a $90 Carbon Tax ($m)	Impact of $90 Carbon Tax on LTM Revenue
ASX 300 Top 30 Emitters	458,387.54	216,705,671	19,503.51	(4.25%)
ASX 300 Index - Total	938,332.01	233,754,518	21,037.91	(2.24%)

Source: SFML & Refinitiv Estimated CO2 Emission data

SFML Portfolio revenues would be negatively impacted under an A$90 carbon tax by 0.24%. Under the same scenario, the top 30 S&P ASX 300 earnings would be negatively impacted by 2.24%. In rough terms the index negative revenue impact is 9.5x larger than that of the SFML Portfolio.

It should be noted that the data in Table 21 identifies the top 10 carbon emitters in the SFML portfolio, which differs from our top 10 holdings by weight, which we regularly publish in this newsletter. Revenues of our top 10 emitters decline by 0.29% under our scenario testing vs 0.24% across the entire portfolio. This represents 95% of portfolio emissions as shown in Table 23.

The data in Table 22 represents a consolidated summary of the top 30 emitters within the S&P ASX 300 Index. Revenues of our top 30 S&P ASX 300 holdings decline by 4.25% under our scenario testing, verse 2.24% across the entire index. Consistent with the SFML data, this represents 93% of index emissions also shown in Table 23.

Using this subset of data, which accounts for the much longer tail of the index, in rough terms the index's negative revenue impact is 15x larger than that of the SFML Portfolio.

Our climate commitment in 2022 is to test the SFML Portfolio earnings per share (EPS) against a notional carbon tax levied at A$80, A$90 and A$100. Our top 10 emitters under these scenarios are included in Table 24.

Table 23: SFML top 10 emitters vs S&P ASX 300

Portfolio	Weighting (Percentage of Total Portfolio)	Percentage of Total Portfolio Emissions
SFML top 10 emitters	44.85%	95.10%
ASX 300 top 30 emitters	32.33%	92.71%

Source: SFML Research

Table 24: SFML Portfolio top 10 emitters carbon tax scenario testing

Company	Shares on issue (m)	CO_2 emissions (tonnes)	FY21 NPAT[1] ($m)	EPS $ FY21[1]	Value of Carbon Tax[1] ($)	Value of emissions[1] ($m)	CT impact on NPAT	EPS $ Post CT[1]
					80	48.31	(8.69%)	0.73
JHX	444.29	603,840	353.83	0.79	90	54.35	(9.78%)	0.72
					100	60.38	(10.87%)	0.71
					80	27.52	(0.69%)	6.98
CSL	455.13	344,000	3,197.71	7.03	90	30.96	(0.78%)	6.97
					100	34.40	(0.86%)	6.97
					80	10.32	(1.10%)	1.27
ALL	637.40	129,024	820.00	1.29	90	11.61	(1.24%)	1.27
					100	12.90	(1.37%)	1.27
	559.75	63,953	254.74	0.45	80	5.12	(1.48%)	0.45
CPU					90	5.76	(1.67%)	0.45
					100	6.40	(1.85%)	0.45
	645.98	43,835	286.00	0.44	80	3.51	(1.05%)	0.44
REH					90	3.95	(1.17%)	0.44
					100	4.38	(1.28%)	0.44
	199.35	34,328	-433.46	-2.18	80	2.75	(0.63%)	-2.19
FLT					90	3.09	(0.71%)	-2.19
					100	3.43	(0.79%)	-2.19
	86.52	33,539	184.01	2.13	80	2.68	(1.04%)	2.10
DMP					90	3.02	(1.17%)	2.10
					100	3.35	(1.30%)	2.10
					80	1.77	(0.14%)	4.39
RMD	145.31	22,171	638.87	4.40	90	2.00	(0.16%)	4.39
					100	2.22	(0.18%)	4.39
					80	1.31	(0.81%)	1.37
ARB	81.53	16,405	112.90	1.40	90	1.48	(0.92%)	1.37
					100	1.64	(1.03%)	1.37
	576.43	13,253	503.23	0.87	80	1.06	(0.15%)	0.87
FPH					90	1.19	(0.17%)	0.87
					100	1.33	(0.19%)	0.87

Source: SFML & Refinitiv Estimated CO2 Emission data

1. Denominated in AUD

The notional carbon tax was applied to the published or estimated emission tonnes. The impost calculated at each of the three levels was deducted from the published Profit before tax (PBT) for each of the top 10 emitters. Tax was applied at each companies prevailing corporate rate. This delivers a Carbon tax adjusted Net Profit after Tax (CTANPAT) for the carbon impost. The adjusted Earnings Per Share (EPS) was calculated by dividing the CTANPAT by the shares on issue.

We make the following observations. James Hardie (JHX) is our largest emitter and is the sole portfolio exposure to the materials sector, which is the largest sector contributor to total S&P ASX 300 emissions. An A$100 carbon tax has a material impact, reducing JHX earnings by >10% on an annual basis. At this level of impost, the remaining 9 largest emitters would each have earnings reduced by <2% on an annual basis. At an A$80 carbon tax, four of our top 10 emitters would have earnings impacted by 1%-2%, with the balance impacted by <1%.

Eyes wide open

A carbon tax is an economic model designed to dissuade polluters from continuing economic activity that damages the globe we inhabit.

The implementation of this type of tax is a complicated and often unpopular pathway, which is heavily politicised, meaning discussion can be dominated by the strength of lobby groups most affected.

Some commentators, and large swathes of public opinion, believe successive Australian Governments have failed to take progressive steps to establish an economic platform to tackle climate change.

The fact that 45 countries, both developed and developing, have taken material steps forward over the past three decades would support this view.

This is not the debate at hand.

Our belief is that Australian corporates are unlikely to remain sheltered from the true cost of carbon emissions. Increasingly it appears carbon imposts will come from offshore regulation.

Not all corporates have the same business models, so the impacts will be felt disproportionately, and performance drags will become apparent.

The data we have presented shows that a clear liability sits within the dirty industries that make up the Materials, Energy and Utility sectors. We have a long-term track record of low exposure to these sectors. This is not to say that individual business cannot make successful transitions to clean and profitable business models and themselves become attractive.

The question we are asking is, how are we placed today for future scenarios where carbon liabilities are exposed. While we hope we have provided a consistent and compelling message, we know the answer is by no means set in stone, but we are better off approaching inevitable change with eyes wide open. ***SFM***

COMPANY ENGAGEMENTS – DECEMBER 2021 QUARTER

Date	Company	Description
6-Oct	PNV	PolyNovo GS Small/Mid-Cap Healthcare Conference
7-Oct	PME	Pro Medicus GS Small/Mid-Cap Healthcare Conference
7-Oct	MP1	Megaport Morgans Conference
7-Oct	JIN	Jumbo Interactive Morgans Conference
7-Oct	FLT	Flight Centre Travel Group Morgans Conference
7-Oct	TLX	Telix Pharmaceuticals GS Small/Mid-Cap Healthcare Conference
8-Oct	EBR	EBR Systems Morgans Non-Deal Roadshow
11-Oct	FLT	Flight Centre Travel Group Barrenjoey Industry Insight Call
12-Oct	CSL	CSL Annual General Meeting
12-Oct	GQG	GQG Partners UBS Pre-IPO Management Meeting
12-Oct	WTC	Wisetech Global Management Meeting
13-Oct	NEA	Nearmap Citi ANZ Investment Conference
13-Oct	CPU	Computershare Citi ANZ Investment Conference
13-Oct	WTC	Wisetech Global Citi ANZ Investment Conference
13-Oct	NHF	NIB Holdings Citi ANZ Investment Conference
13-Oct	JIN	Jumbo Interactive Management Meeting
13-Oct	ALL	Aristocrat Leisure Management Meeting
14-Oct	Chemist Warehouse	Chemist Warehouse Citi ANZ Investment Conference
14-Oct	NXT	NEXT DC Citi ANZ Investment Conference
14-Oct	ALU	Altium Management Meeting
14-Oct	ARB	ARB Corporation Annual General Meeting
14-Oct	NEA	Nearmap Management Meeting
15-Oct	KMX.NYSE	CarMax Barrenjoey Management Meeting
15-Oct	RMD	ResMed Barrenjoey Industry Insight Call
18-Oct	ALL	Aristocrat Leisure PlayTech Acquisition and Capital Raising Conference Call
18-Oct	IFM	Infomedia Management Meeting
19-Oct	COH	Cochlear Annual General Meeting
19-Oct	CSL	CSL Annual Research & Development Briefing
19-Oct	NAN	Nanosonics Management Meeting
20-Oct	FLT	Flight Centre Travel Group Annual General Meeting
20-Oct	NEA	Nearmap GS Tech Forum
20-Oct	NHF	NIB Holdings Management Meeting
20-Oct	DMP	Domino's Pizza Enterprises Investor Day
21-Oct	FLT	Flight Centre Travel Group Management Conference Call
22-Oct	DMP	Domino's Pizza Enterprises Management Meeting
22-Oct	MP1	Megaport Annual General Meeting
26-Oct	JHX	James Hardie Industries UBS Industry Insight Call
26-Oct	RWC	Reliance Worldwide Trading Update Conference Call
26-Oct	CAR	carsales.com Barrenjoey Industry Insight Call
26-Oct	PNV	PolyNovo Annual General Meeting
26-Oct	APM	APM Human Services International Ltd GS Non-Deal Roadshow

Date	Company	Description
27-Oct	SEK	SEEK Macquarie Management Meeting
27-Oct	BKL	Blackmores Annual General Meeting
27-Oct	APM	APM Human Services International Ltd GS Non-Deal Roadshow
28-Oct	RWC	Reliance Worldwide Annual General Meeting
28-Oct	MP1	Megaport Management Meeting
28-Oct	JIN	Jumbo Interactive Annual General Meeting
28-Oct	REH	Reece Annual General Meeting
28-Oct	MVP	Medical Developments International Annual General Meeting
29-Oct	RMD	ResMed 1Q22 Results Conference Call
29-Oct	CAR	carsales.com Annual General Meeting
29-Oct	CSL	CSL Management Meeting
1-Nov	BKL	Blackmores UBS Management Meeting
3-Nov	DMP	Domino's Pizza Enterprises Annual General Meeting
4-Nov	NHF	NIB Holdings Annual General Meeting
4-Nov	MP1	Megaport Citi Industry Insight Call
5-Nov	REA	REA Group 1Q22 Results Conference Call
9-Nov	NHF	NIB Holdings Investor Day
9-Nov	APX	Appen Citi Industry Insight Call
9-Nov	JHX	James Hardie Industries 2Q22 Results Conference Call
9-Nov	OFX	OFX Group 1H22 Results Conference Call
9-Nov	OFX	OFX Group Management Meeting
9-Nov	FCL	FINEOS Corporation Holdings Annual General Meeting
10-Nov	JHX	James Hardie Industries Management Meeting
10-Nov	OFX	OFX Group Barrenjoey Management Meeting
11-Nov	RMD	ResMed Credit Suisse Annual Healthcare Conference
11-Nov	CPU	Computershare Annual General Meeting
11-Nov	BRG	Breville Annual General Meeting
11-Nov	REA	REA Group Annual General Meeting
11-Nov	NEA	Nearmap Annual General Meeting
11-Nov	JIN	Jumbo Interactive Barrenjoey Management Conference Call
15-Nov	NHF	NIB Holdings UBS Management Meeting
15-Nov	IFL	IOOF Holdings UBS Management Meeting
16-Nov	BRG	Breville UBS Management Meeting
16-Nov	JIN	Jumbo Interactive UBS Management Meeting
17-Nov	RMD	ResMed GS Industry Insight Call
17-Nov	SEK	SEEK Annual General Meeting
18-Nov	LAZY.NAS	Lazydays Holdings Barrenjoey Management Meeting
18-Nov	ALU	Altium Annual General Meeting
18-Nov	ALL	Aristocrat Leisure FY21 Results Conference Call
18-Nov	NHF	NIB Holdings JPM Industry Insight Call
19-Nov	RMD	ResMed Annual General Meeting
19-Nov	WTC	Wisetech Global Annual General Meeting

Date	Company	Description
19-Nov	DMP	Domino's Pizza Enterprises Jarden Management Meeting
19-Nov	NAN	Nanosonics Annual General Meeting
19-Nov	ALL	Aristocrat Leisure JPM Management Meeting
23-Nov	ARB	ARB Corporation Taylor Collison Industry Insight Call
23-Nov	ALL	Aristocrat Leisure Management Meeting
23-Nov	TNE	TechnologyOne FY21 Results Conference Call
24-Nov	MP1	Megaport Morgans Technology Conference
24-Nov	VHT	Volpara Health Technologies Morgans Technology Conference
24-Nov	TNE	TechnologyOne Management Meeting
24-Nov	CSL	CSL JPM Industry Insight Call
24-Nov	DMP	Domino's Pizza Enterprises Management Meeting
24-Nov	TNE	TechnologyOne Barrenjoey Management Meeting
25-Nov	FPH	Fisher & Paykel Healthcare HY22 Results Conference Call
26-Nov	FLT	Flight Centre Travel Group GS Management Meeting
1-Dec	FPH	Fisher & Paykel Healthcare Management Meeting
1-Dec	FPH	Fisher & Paykel Healthcare MST Management Meeting
2-Dec	FPH	Fisher & Paykel Healthcare GS Management Meeting
2-Dec	SDR	SiteMinder Barrenjoey Initiation Call
7-Dec	CAR	carsales.com Investor Day
7-Dec	SDR	SiteMinder Barrenjoey Management Meeting
7-Dec	PLY	PlaySide Studios JPM Management Meeting
8-Dec	ALL	Aristocrat Leisure Management Meeting
8-Dec	IRE	Iress Management Meeting
8-Dec	ALL	Aristocrat Leisure JPM Industry Insight Call
8-Dec	MP1	Megaport Citi Industry Insight Call
9-Dec	CPU	Computershare JPM Management Meeting
13-Dec	VHT	Volpara Health Technologies Management Meeting
13-Dec	IFM	Infomedia Management Meeting
14-Dec	RMD	ResMed JPM Industry Insight Call
14-Dec	NEA	Nearmap Morgan Stanley Management Meeting
14-Dec	CSL	CSL Vifor Pharma Acquisition and Capital Raising Conference Call
15-Dec	CSL	CSL Vifor Pharma Acquisition and Capital Raising Conference Call
15-Dec	CPU	Computershare Financial Reporting Investor Conference Call
15-Dec	MP1	Megaport Barrenjoey Product Demonstration
20-Dec	OFX	OFX Group Firma Foreign Exchange Acquisition Conference Call
20-Dec	OFX	OFX Group Management Meeting
21-Dec	CSL	CSL Management Meeting