



## Coast Capital ESG Investment Principles

Coast Capital believes that sustainability of environmental and human resources is a precondition for commerce to thrive and grow. Furthermore, we believe that companies which are managed to decrease their business's impact on the environment and which have compelling and rightful policies in treatment of key stakeholders – shareholders, clients, employees and the communities in which they operate – are more likely to create value for investors over time. Conversely, companies which engage in destructive environmental or social business practices are more likely to destroy value for investors and expose themselves to adverse legal considerations for their conduct in the future.

Coast Capital further believes that institutional investors, given their control over the boards and management teams of their invested companies, hold important and crucial power in ensuring the adherence by these companies to adequate, if not robust, social, environmental and governance standards. Given our actively engaged investment practice, we believe that we are well positioned to ensure, where necessary and appropriate, an improvement in ESG principles at the companies in which we invest.

## Advisory Board Members

Coast Capital maintains strong relationships with experienced ESG executives, who serve as an integral component of our broader Advisory Board and investment process.

- **Truman Semans**, CEO & Planning Team Chair, OS-Climate
  - Co-Founder, Intersect
  - Founder & CEO, Element Strategies
  - Co-Founder, US Partnerships for Renewable Energy Finance
  - Partner, Green Order / Cleantech Group
  - Director, Pew Center on Global Climate Change
- **Edwin Mongan**, Director, Transparency & Sustainability, Sultan Global
  - Head of Environment & Regulatory, Crisis, Emergency Mgmt. & Security, BHP
  - Director of Energy & Environment, Dupont

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# Historical ESG Investments and Engagements

## Petrobras

**Synopsis:** Petrobras, the leading Brazilian E&P company, had plans to build a pipeline across the Amazon in 2006. This pipeline formed a grave threat to many ecosystems in the Amazon, was very costly, and unlikely to cover its cost of capital. Given these concerns, Petrobras traded at a significant discount to peers.

**Action Plan:** We composed a white paper which outlined the likely, deleterious environmental and financial impacts of the pipeline. We circulated this analysis among key institutional investors in the company, who agreed that management should abandon plans for the pipeline.

After accumulating a small stake in the company, we wrote a letter to management and the board and asked for an immediate repeal of plans for the pipeline. Our fellow investors (which jointly controlled over 30% of the company's capital) also addressed management and the board in writing, echoing our sentiments.

**Outcome:** Within two weeks of our first communication, Petrobras announced that it would abandon the pipeline. This was a positive development – both economically and environmentally – and led to a meaningful appreciation in the share price.

## Hess Corporation

**Synopsis:** In the summer of 2012, Hess Corporation was valued at 4.5 times depressed EBITDA, even though the company held one of the largest reserves of non-conventional oil in the United States. Though making no contribution yet to earnings, these reserves were worth the entire market value of the company.

Furthermore, Hess consistently undermanaged or lost money on non-core activities such as marketing – Hess Petrol stations – and oil trading. The company's terrible history of capital allocation and questionable business practices in Africa were in breach of governance and fiduciary guidelines and had exacerbated local civil conflicts.

**Action Plan:** We worked with leading CEO's in the energy industry to formulate a turnaround plan for the company. Our analysis suggested that the company could double its equity value by selling non-core assets – trading and marketing – and cutting back capex, especially in West Africa. At the time of our investment, Hess had \$14.5 billion in market valuation and was investing \$7.5 billion in capex, two-thirds of which was going to speculative projects that had historically generated zero return on investment. Hess would create enormous value for investors by focusing its investments on non-conventional oil assets in North America.

**Outcome:** We shared our detailed write-up and plans for Hess with the companies leading investors and recruited new activist investors to champion our plan. Within a year of our approach, Hess had:

- appointed several new board members,
- disposed of its marketing and trading operations, and

- dramatically curtailed its investments in West Africa in order to focus on American non- conventional assets.

Over the life of our investment from 2012 to 2014, Hess stock doubled in value. Equally important, the company improved its governance practices by walking away from Western African assets which often necessitated engaging in dubious business practices and created funding for repressive local regimes. In addition, Hess dramatically improved the environmental impact of its operations by focusing on low cost and lower impact non- conventional oil assets.

## **Current Engagements: Gold Mining Industry**

**Synopsis:** When ore bodies are explored in open pit or underground mining, significant quantities of overburden are stripped away to access and recover the precious ores. The disturbed rock impacts the natural flow of water. Metal sulfides in the rock become acidic once exposed to air and water creating a source of polluted water. The water that seeps from the mine often contains a toxic brew of heavy metals, as well as chemicals used in the extraction process (i.e. arsenic). Additionally, mines frequently operate in water scarce regions, which adds to the need to fully treat used water.

**Action Plan:** Coast Capital is working to ensure the adoption of new technologies used in the treatment of (polluted) water used in mining.

The central water treatment mechanism in most mines is the electrochemical reactor, which uses electrocoagulation (“EC”) to clean water. EC is effective for removing metals and sparingly soluble materials from solutions. In an EC system, an electric current is passed between sacrificial electrodes causing metal ions to displace from the electrodes into the aqueous environment. When a sufficient concentration of the metal ions is introduced into the aqueous environment coagulation starts, creating a colloidal suspension.

A more sophisticated reactor uses chemistry in order to remove target analytes as well as metals:

- Use of pH to drive targeted species to form less soluble particles which can be physically removed. This is the method meaningfully reduces arsenic pollution (a major pollutant of the gold mining industry).
- If chemical conditions produce a metal oxide flocculant and the metal electrodes are properly chosen, then a metal oxide suspension can be created within the liquid and preferentially removed from the solution when the metal oxide surface flocculates are separated.
- Proper choice of metal ions introduced into the system can also generate other non-oxide species which have low solubility and be used to incorporate ions which are normally highly soluble in the liquid. This is the method used for removing borate.

On an average mine which has adopted this process, the following changes have been observed:

- Electrical Conductivity reduced from 6840  $\mu\text{S}/\text{cm}$  to 1250  $\mu\text{S}/\text{cm}$
- Calcium hardness reduced from 2460 mg/L to 203 mg/L

- Sulfate reduction from 3590 mg/L to 9.03 mg/L (Very significant reduction)
- Dissolved SiO<sub>2</sub> reduced from 116 mg/L to 1.10 mg/L

More specifically, the following changes in contaminant concentration have been observed:

Total dissolved solids have declined from 1,860 mg/L to 850 mg/L. Of pollutants which previously exceeded NDEP guidelines, Arsenic levels declined notably (0.208 mg/L to 0.0000489 mg/L), as have Sulfate (926 mg/L to 120), Manganese (0.113mg/L to 0.00364 mg/L), Iron (1.44 mg/L to 0.212 mg/L), Aluminum (0.647 mg/L to 0.067) and total Nitrogen (16 mg/L to 3.6 mg/L). Furthermore, the primary waste stream is a landfillable – ready solid material.

In addition to its focus on water treatment, Coast Capital proactively seeks to improve the social outreach programs of all local stakeholders:

- Greater local employment
- Local business grants and educational support
- Sense of community & partnership

Finally, Coast Capital invariably works to improve the economic alignment & incentive schemes aligning management to investors, and we actively enforce minority shareholders' rights in securing necessary changes.

## **Current Investments: Clean Economy**

Coast Capital is a lead investor in the largest road-based shared transportation services provider in the UK and across North America. We are working to appoint more competent management teams and improve the company's cost of capital – which will help ensure much more rapid growth at this company. Coast Capital is also a lead investor in the dominant recycling and waste management company in one of the most advanced economies in the world. This company has developed the most advanced recycling process for specific product lines and is able to dismantle industrial products into re-sellable, recycled raw materials (recyclates). We look forward to the company's continued growth and expansion, and endeavor to ensure adoption of its processes and technologies in the developed (and developing) world.