

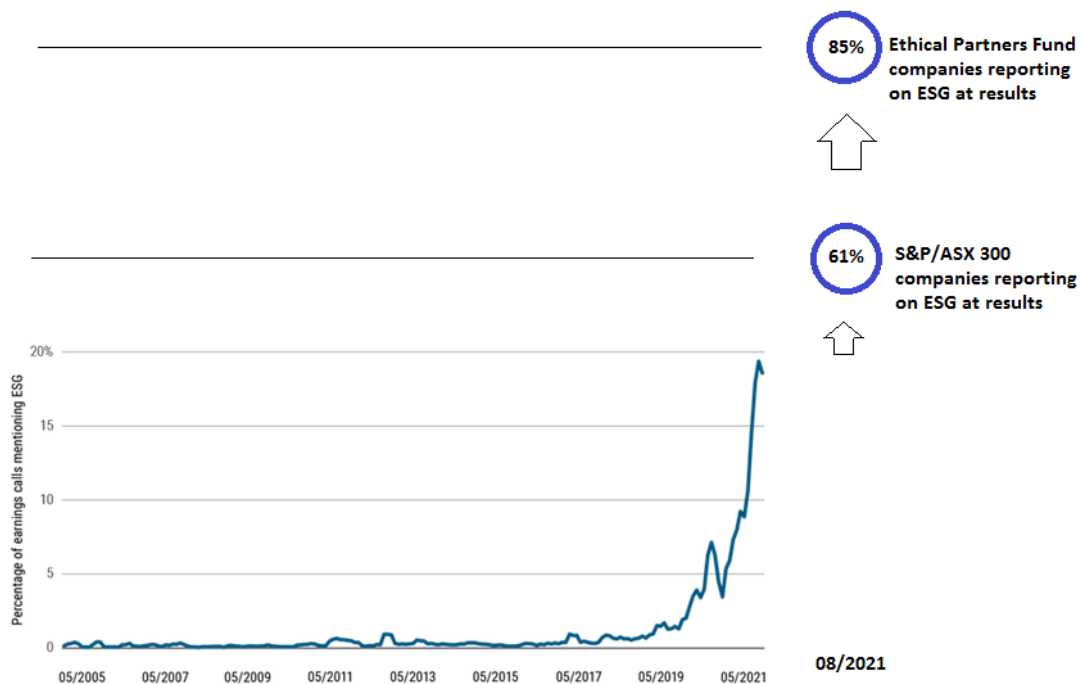
ESG in FY21 Full Year Reporting Season: Off the Chart!

This reporting season it was very clear to see the acceleration of ESG issues across the entire ASX, which was obvious in the **marked increase of the discussion of ESG issues in reporting season presentations and on earnings calls**. Far from being the domain of the investor meeting with the sustainability team, or the once-a-year Sustainability report, ESG is now front and centre of more than half of all ASX Reporting Season presentations and earnings calls, which is a marked difference to what investors have seen and corporates have previously focussed on during these presentations.

A recent report by Pimco in May this year found that the mention of ESG issues on corporate earnings calls had skyrocketed since the onset of the pandemic. Pimco found that on their analysis of 10,000 global companies that **before 2018, less than 1% of Earnings Calls mentioned ESG. In 2019 that rose to 5% of earnings calls, and in May 2021, that rose again to 19% of earnings calls.**

It was very clear to us that there was an even bigger increase this reporting season though, so we thought we would do some internal analysis. **Our sustainability team then reviewed every FY21 Full year Financial Results presentation for all S&P/ASX 300 companies that reported, to see whether ESG was included and found that the mentions of ESG issues has shot up again to 61%.**

When comparing this reporting season then, to the chart from the Pimco research in May 21 – this reporting season was indeed – **off the chart....**



Pleasingly, we found that **in our Ethical Partners Australian Share Fund, 85% of our portfolio companies discussed ESG during their reporting season presentations** (78% discussing ESG in a detailed way with another 7% mentioning ESG in a more general way). We believe that this reflects the higher ESG focus of our portfolio companies and is a pleasing nod to the success our EPORA process of screening for companies leading in their attention to ESG.

Our finding that **24% more of our portfolio companies discussed ESG in their reporting season presentations than across the whole S&P/ASX 300** was even more pleasing when we consider that we are significantly overweight the small cap end of the market (on further breakdown by market cap, the mentions of ESG in reporting season presentations equated to 57% of ASX 100 companies, 58% of ASX 200 companies and 38% of ASX 300 companies).

We also are pleased to say that **we have already engaged with the 3 of our portfolio companies that did not discuss ESG in their earnings presentations**, one of which is a new float, on the need to improve their ESG disclosures and attention.

Ethical Partners looks forward to continuing to engage with all our portfolio companies about the disclosures, strategies, targets, and programs noted in these results presentations. *Of course, we remain very aware that corporate outcomes are far more important than investor presentations*, but Ethical Partners is encouraged and excited to see the marked improvement in the inclusion of ESG in reporting season presentations - which we believe is **indicative of the rapidly increasing understanding that ESG risks and opportunities are central and integral parts of a company's financial operations, accounting, and strategy and additionally, of an investor's analysis.**

Reporting Season August 2021 Highlights: ESG on the Agenda: *Please note: this report discusses reporting season across the ASX, and the below companies are not necessarily held in Ethical Partners portfolios, unless noted as such.*

The energy transition was the hot topic...

Decarbonisation and the move to a low carbon economy was front and centre of the reporting season presentations with companies from Origin to Santos, to Woodside & BHP, to name just a few.

The AFR also noted the escalation of ESG issues this reporting season and reported that the word defining this reporting season was *"transition"*. Chanticleer also co-opted Hemmingway's famous quote to comment that *the transition crisis has "ensnared Australia's big energy players gradually, then suddenly"*.

This reporting season saw Origin report a big downturn in core profit, post a statutory loss, tell shareholders that it will turn off generation at Eraring for extended periods to keep the plant profitable, and that *"the transition to renewables has occurred and the question now is how to navigate this reality with as little financial pain as possible"*. AGL also posted over \$2 billion in statutory losses, and discussions centred around the influx of cheap wind and solar creating a weaker outlook for energy prices, and their demerger. Whitehaven Coal has also removed from their mining plans and impaired the values of multiple coal reserves and South 32 discussed their divestment of South Africa Energy Coal as they work towards new decarbonisation targets.

Nine more corporate Net Zero Targets were announced during this reporting season...

Ethical Partners was pleased to see two of our portfolio companies included in these new Net Zero Targets – BlueScope and SCP. We also saw two property companies Dexus and Charter Hall Retail REIT bringing forward their net zero targets to 2022 and 2025, and previous portfolio company Goodman Group reaching their carbon neutral target 4 years ahead of schedule.

These new commitments mean that 59% of our Ethical Partners Australian Share Fund Portfolio is now covered by Net Zero commitments, which is particularly pleasing noting once again the small cap tilt of the fund (54% of the ASX 100 is now committed to Net-Zero Targets but this number is much lower across the S&P/ASX 200/300). Concerningly, there are still 7 of the most emissions intensive companies across the ASX without a target, but we are pleased to note that none of these companies are included in our portfolio.

ESG driven M & A was the other hot topic of reporting season this year...

The AFR also reported that the biggest trend of reporting season was the *“merger fever” of the fossil fuel industry in the face of mounting ESG pressures*. The wave of consolidation across the sector has been further described by the AFR as also being described as a *“kodak” moment*, *“a business school case study before our eyes”* and an *“existential moment” for the sector*.

Just in reporting season we have seen the BHP share price negatively impacted through their proposed divestment of their oil and gas assets to Woodside, the proposed acquisitions of Western Areas by IGO, BHP and Andrew Forrest, and the proposed acquisition of Meridian’s Australian Assets by Telstra & Ampol and the merger of Oil Search and Santos, driven by ESG concerns or opportunities. *We believe this is a trend that will only accelerate as divestment and decarbonisation pressures increase.*

According to a recent Deloitte Study, 30% of respondents are willing to pay a premium if the target has positive ESG attributes, so Ethical Partners also sees ESG driven M&A as a real portfolio opportunity for investors, and a meaningful incentive for companies to improve their ESG credentials.

Future facing commodities were another hot topic of the earnings calls...

From BHP and Rio’s expansions into potash and lithium to FMG’s plans for hydrogen and ammonia, to race for nickel in the above-mentioned acquisitions of Western Areas, the merger of Orocobre and Galaxy, and the expansion plans for IGO and OZ Mineral, the minerals required to enable the energy transition were certainly the talk of the market.

Emissions reductions was another detailed focus...

Transport emissions reductions were a focus in the presentations from BHP, Fortescue Rio, S32, Oz Minerals, Northern Star Resources, Sealink and James Hardie, as well as Qantas and Adbri’s discussions on *sustainable fuels*.

We also saw earnings calls from miners such as Newcrest and Oz Minerals focussing on *renewables and electrification*, Rio and Bluescope talking about opportunities in and progress towards *low carbon steel*, and Rio’s prototypes to *decarbonise aluminium*.

Partnerships to accelerate decarbonisation were another common topic....

Partnerships that were noted in reporting season presentations Rio’s partnerships for zero emission haulage, Qantas’s partnership with BP to develop Sustainable Aviation Fuel or Bluescope’s capex allocation to partnerships and collaborations on breakthrough technologies.

Ethical Partners welcomes the increase in collaborative initiatives, as called for in SDG 17, that we are seeing across the ASX as companies attempt to address their ESG challenges: both to improve individual companies ESG progress, but also in the recognition that it will require action across all companies, sectors, and the economy as a whole to truly address global challenges.

Sustainable opportunities were discussed across the ASX....

We saw Monadelphous discussing their wind farm and hydrogen opportunities, and multiple other companies highlighting the sustainable opportunities they are pursuing, including Downer, Amcor, Orora, Alumina, Viva, Wagners Holding Company, and SG Fleet. Worley particularly noted their increased projected revenue stream from, and investment in, their sustainability projects.

Decommissioning costs was another big focus

Particularly relating to the BHP and Woodside deal, notably coinciding with the passage of *The Offshore Petroleum and Greenhouse Gas Storage Amendment Bill, which creates a trailing liability for offshore petroleum companies, effective retrospectively from January 1 this year*.

Waste and Circular Economy was another topic of note in reporting season....

With Amcor, Cleanaway and Pact Group noting their increased recycling programs and the growth opportunities presented by the circular economy. Brambles's earnings presentation noted their increased attention to regenerative supply chains, multiple afforestation projects and their development of the first closed loop upcycled plastic platform in the market. Other companies such as Ansell, Endeavour, Mirvac and Unibail-Rodamco-Westfield CDI noted programs to decrease waste to landfill and Coles and Woolworths discussed their food waste programs.

Ethical Trade and Modern slavery were an emerging topic in earnings presentations...

We were also particularly pleased to see a focus on Modern Slavery and Supply chains from companies like City Chic, who provided a detailed "Ethical Trading Update" in their earnings call and announced they had mandated a ban on cotton goods from the Xinjiang region, Turkmenistan, and Uzbekistan, and have begun tracing their Tier two and Tier three suppliers. JB HiFi also noted their ethical sourcing initiatives in their reporting presentation, whilst Bluescope noted the completion of the engagement, assessment, and improvement of 230 prioritised suppliers.

This was a particularly welcome inclusion given the release of reports from Monash University and ACSI over the last two months calling for improved due diligence and disclosures in ASX companies Modern Slavery reports.

Diversity has also been a notable topic of conversation in reporting season presentations...

From *board and management gender diversity* and the *40:40 initiative* (for which Ethical Partners is a lead investor and has been pleased to have two of our target companies - Mirvac and IGO - recently sign up); to *indigenous and LGBTQI diversity* noted in Woolworths reporting season presentations, *disability diversity* noted in Medibank's presentations and *neurodiversity programs* discussed by NextDC.

These conversations around diversity are very timely given the *release this month of data on the gender pay gap*, showing that many ASX listed firms are paying female executives 30-35% less than their male counterparts, and *the news this week that S&P/ASX 200 companies failed to appoint a single female CEO last year*, as well as the *recent landmark Respect@Work report* by the Sex Discrimination Commissioner and the emerging issues with sexual harassment in the mining industry.

Sustainability linked finance was another ESG issue noted in several reporting presentations ..

Including Ramsey, Incitec Pivot and QBE. Ethical Partners believes that the increasing use of these loans is a very welcome development for ESG at both company and banking sector level.

Other hot topics related to the "S" in ESG this reporting season....

Included the *repayment of Jobkeeper* (which Ethical Partners was particularly pleased to note included portfolio company Mirvac): *Mental Health*, which was highlighted in 35% of earnings calls, and portfolio company CBA appointing a Group Chief Mental Health Officer: the *social licence* of Crown casino and the uncertainty around their operating licence: *Data Privacy and Cybersecurity*: COVID protections, paid vaccination leave and testing at Woolworths: *Greater transparency around care performance* at Estia and other post royal commission remediation: as well as decreased *employee safety rates* at Rio, Evolution, Northern Star and South 32.

Leaders and highlights from Ethical Partners portfolio companies:

We were also pleased to note *that many of the Earnings/Financial End of Year presentations that we rated as leading in their ESG inclusions were by our portfolio companies, all of whom Ethical Partners has engaged deeply over the past few years on these issues. Some of these examples are listed below.*

Bega's FY 2021 Reporting Season presentation opened with their sustainability vision for circularity, water, waste, soil, biodiversity, GHG emissions, nutrients, packaging and logistics and animal care. They also used the reporting call to announce their new targets for 40% reduction emissions by 2030 and net zero by 2050. The presentation also detailed the alignment of their strategy with the SDGs and discussed their initiatives on improving the nutritional profile of their range, their goals to remove 1,000 tonnes sugar from portfolio by 2025, their gender diversity progress and salary equity review, their emissions reduction roadmap development, their targets for increased recycled packaging content and zero waste to landfill manufacturing site, their water saving initiatives and peanut supply chain water resilience planning and their grants to farmers for water and effluent management. <https://www.begacheese.com.au/wp-content/uploads/2021/08/FY2021-Full-Year-Results-Presentation.pdf>

SCP's FY 21 August reporting season presentation included their announcement of their Net zero 2030 Target, and contained details of their renewable projects, climate resilience action plans at 11 high risk centres, their covid rental assistance, their 25% by 2025 water reduction targets, their 60% diversion of operational waste from landfill by 2030 targets and their target for 40:40:20 gender diversity by 2021. https://www.scaproperty.com.au/Resources/pdf/Investor%20Presentation_aug.pdf

Bluescope's FY 21 August reporting season presentation included the announcement of their broadened 2030 targets, their new 2050 net zero goal, details of the capex towards their initial five year climate investment program and their widened climate change team as well as their work on supply chain and inclusion and diversity. <https://s3-ap-southeast-2.amazonaws.com/bluescope-corporate-umbraco-media/media/3102/1h-fy2021-investor-presentation.pdf>

Woolworths FY 2021 August Reporting Season presentation included discussion of their diversity in terms of gender, LGBTQI and indigenous employees, their achievement of a 27% decrease in Scope 1 and 2 emissions, their Net Positive 2050 target, their target of Zero organic food waste to landfill by 2025, their progress towards 100% solar green electricity by 2025, their removal of 2,500 tonnes of plastic in FY21, their progress towards sustainable own brand sourcing, the improvements in their nutritional profile achieved so far, their first wind farm PPA, and their COVID protections and vaccination support for workers. (Please note, this company is not held in the Ethical Partners Australian Share Fund).

https://www.woolworthsgroup.com.au/content/Document/ASX%20announcements/2021/F21%20Analyst%20presentation_FIN_AL.pdf

Qantas presentation discussed their Net Zero emissions by 2050 target, progress on waste and single use plastic, their worker protections during covid, including their staff mental health support, vaccination leadership and advocacy for stood down workers, as well as announced the creation of a new Chief Sustainability Officer role to accelerate ESG strategy, and included details of their commitment of capex to Sustainable aviation fuels and their partnerships with BP to develop production of SAF by 2025, discussed their commitments to producing an updated climate risk scenario analysis, emissions reduction pathway and interim target by 2022, and a formal internal carbon price by 2023, and also discussed their customer offsetting program.

https://investor.qantas.com/FormBuilder/_Resource/_module/doLLG5ufYkCyEPjF1tpgyw/file/2021FY/FY21-Presentation.pdf

Mirvac's presentation discussed their 80% decrease in their carbon footprint, and their 2030 targets of net positive carbon, net positive water and zero waste to landfill as well as their attainment of 5 star + ratings for 18 buildings, their 49% decrease in water intensity and diversion of 95% of construction waste from landfill in FY21, their targets for 25% recycled content, their innovate RAP, an \$8 million spend in social procurement and their attainment of 50:50 board gender diversity and 40:40:20 women in senior roles. <https://mirvac-cdn-prd.azureedge.net/-/media/Project/Mirvac/Corporate/Main-Site/Corporate-Theme/images/Investor-Centre/Reporting-Suite/Full-Year-2021/6-MGR-FY21-Results-Presentation.pdf?la=en&hash=6599226B6F19EEEBD6C2EA95B37062A4D9A0FFD5>

Australian Clinical Labs first Reporting Season presentation as a newly listed company ACL's outlined their initial ESG areas of focus and planning. We were particularly pleased and gratified to see this

inclusion in their presentation after several close and deep engagement between ACL and Ethical Partners on developing their strategy and disclosures. The presentation included details on the progress towards their first sustainability report, the inclusions of SDG's into their strategy and reporting, their new programs and commitment to measure their GHG emissions and disclose them in 2022, their digitisation and transport optimisation programs, their increased renewables, cybersecurity and privacy targets and plans, and their diversity target of 40% women at board and senior management and commitment to salary audits. <https://investors.clinicallabs.com.au/announcements/asx-announcements/>

Other portfolio companies reporting season presentation ESG highlights included - A2 Milk funding research to assess asparagopsis to reduce methane in cows, converting coal boilers to alternative fuel and installing solar - LAG's second Severe weather in a Changing Climate and new Responsible Investment Policy - Meridian's process heat electrification program, EV charging network and updates on their Forever Forest program - IGO adopting an internal carbon price, emissions reduction programs, commitment to understanding Scope 3, and their plans for carbon removal and offset program - Evolution – their commitment to Net Zero emissions by 2050 and an emissions reduction of 30 % by 2030, as well as Indigenous Rights/ First Nations engagement's - Medibank noted their focus on reducing waste and the achievement of being ranked as top 20 global companies for gender diversity - Nib discussed their transition to 100% renewable energy, their Responsible Investment Policy, their diversity and inclusion plan, and their programs to support Ngati Whatua Orakei members - Platinum noted the launch of their carbon emissions disclosure and offset and their reporting on carbon footprint of their funds, and offset program - TPG – discussed their commitment to be powering AU operations by 100% renewable electricity by 2025, vaccination leave

We look forward to discussing all these presentations in more depth with both our portfolio companies and our clients, and monitoring each company's progress to, and accountability to, these commitments over the coming 6 months.

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External sources referenced:

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- UBS ESG August 2021 Reporting Season Rundown
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- AFR: <https://www.afr.com/companies/energy/m-and-a-decarbonisation-dominate-energy-and-resources-20210826-p58m38>
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