EthicalPartners
FUNDS MANAGEMENT

2019 ETHICAL STANDARDS REPORT

Transparency + Disclosure in the Australian Company Landscape

A letter from
Our Investment Director and CEO

Why invest ethically?

At Ethical Partners Funds Management (EPFM) we strongly believe that companies that have sensible management teams, strong cash flows, appropriate debt levels and that treat the world and people in a better way, will also do better than the market in the long run. By focussing on the companies with the best practises when it comes to knowing where their products came from, who made them and what impact they had on the planet, we believe we are lowering risk. From a shareholder's point of view we are lowering operational, reputational and obsolescence risk and highlighting areas of potential upside.

We believe that how a company addresses these issues can tell us a lot about its management team, its ability to think about the future, its culture, its ability to innovate and its risk management.

Considering this, from an investment standpoint, we generally have more confidence investing in companies that are ahead of the pack with respect to sustainability issues. This is because we believe that companies that do sustainability well will be more resilient, more successful and are better long term investment prospects. We believe that by assessing sustainability issues in conjunction with traditional financial metrics and management meetings we can better understand businesses.

How do we do this?

Using sustainability data to assess company risk and encourage good business practice is key in our investment process. We have a clearly defined and formal investment process that assesses cash flow, balance sheet, management, social, environmental, country and industry risks for individual companies. Our team has applied our investment process across more than 200 companies, which has involved assessing almost 3000 individual data points and undertaking over 350 company meetings in the past year. The sustainability assessment is done in-house, directly by our investment analysts with support from our Sustainability Manager. We strongly believe this leads to a better understanding of risk and opportunities at companies and also helps in our valuation work. Our view is that, over time, higher multiples will ultimately apply to more thoughtfully managed businesses.

The findings in this report do not reflect what our investors are exposed to through Ethical Partners' equities portfolios but rather where company sustainability practice and disclosure is at across the Top 200 listed Australian companies as a whole. The data in this report reflects the company by company findings of our empirical research into large, mid and small caps. As a specialist equities manager which has some expertise in small and mid caps, we have found that global benchmarks and "off the shelf" ESG research has not been detailed enough to make determinations on ESG factors outside of the market's largest companies. Accordingly we have done this work ourselves. We do not weight our findings by market cap but report by company number, which shows up a number of different conclusions, namely that company transparency needs to improve right down the market cap scale.

Our company engagement

We also believe deeply in using the knowledge we have gained in applying our investment process to engage with and encourage businesses on increasing disclosure and sustainability practices. We feel the investor voice is key both to creating change in corporate behaviour and also in raising the corporate's understanding of sustainability and social responsibility issues. Whilst we address all aspects of sustainability in our process and interactions with companies, this year we have had a particular focus on supply chains, ethical sourcing, high risk countries and transparency and corporate trust (especially across the financial sector).

What is this report about?

This report has been complied to benchmark our findings of where the Australian company landscape (Top 200) is at with respect to human rights, supply chain, sustainability reporting, carbon emissions and initiatives for conserving natural resources, and to point to where we think those trends are headed. More transparency and disclosure will lead to a greater awareness, understanding and appreciation of company risk for both investors and the corporate sector as a whole whilst a lack of disclosure equals heightened risk. We strongly believe that companies cannot afford to sit on their hands at the same time as the community is demanding higher standards.

The Journey

We also acknowledge that this process is a journey and a work in progress and we at Ethical Partners are happy to support those companies that are early on the journey, when there is a clear and genuine commitment. We believe the first part of this is policy commitments, reporting, and looking with an eye to find social, environmental and governance issues and to fix them. Of course, the quality of reporting and also the proof of progress, remediation and a positive trajectory are crucial, and we encourage companies to clearly show this through their reporting and interactions with investors. We look forward to reporting on these improvements and trends in coming years.

We also respect that all companies have different operations and ways of doing business, but as ethical investors, we want to see companies strive to do whatever they do in a more responsible way.

Thank you

Lastly, we would like to take this opportunity to sincerely thank our staff and our clients. We understand the enormous responsibility of being a steward of your capital and the accountability that we have to deliver good returns for our investors, whilst advocating for improved corporate behaviour, and better social, environmental and governance risk management.

Nathan Parkin Matt Nacard

Ethical Partners Australian Share Fund – Positive Portfolio Characteristics

The Ethical Partners 2019 Ethical Standards Report looks primarily at market wide characteristics with regards to sustainability, supply chain and human rights policies. An investment in the Ethical Partners Australian Share Fund Unit Trust (EPASF) gains exposure to significantly more positive company characteristics than that of the broader market. 72% of companies held in the EPASF publish a sustainability report versus 58% for the broader market. Two thirds of EPASF companies have what we would say is adequate knowledge of their supply chain versus less than half of the companies in the broader market. Similarly a greater proportion of companies in EPASF have a human rights policy. These are positive inclusion factors which complement the negative screening out of coal, coal seam gas, uranium, gambling, alcohol, predatory lending, tobacco and weapons usages. We also pay regard to where a company does business, being cautious if a company has substantive operations in known corrupt jurisdictions.

Transparency and Disclosure in the Australian Company Landscape: This Report

This report highlights Australian company disclosures and reporting transparency. It also summarises our assessments of what Australian companies are doing to address key risks in human rights, supply chain, sustainability, carbon emissions, environmental impact and initiatives for conserving natural resources, culminating in an assessment of whether these companies are generally improving or declining in their policy and practice.

THE EPORA

Ethical Partners uses a proprietary company selection process call the Ethical Partners Operational Risk Analysis (EPORA) to determine suitable companies for our client portfolios.

EPORA inputs include a company's public disclosures such as sustainability reporting, supply chain code of conduct, corporate governance reports, annual reports and their position statement on human rights, amongst others.

We also consider information gained from NGO, academic, industry body and media sources, as well as including general topical, and emerging, sustainability themes and issues into our analysis. Importantly, we then augment this research by talking with company management, where we also voice any advocacy issues and assess their commitment to those principles.

Every member of our investment team is responsible for compiling the data used in this report, which we then use in-house to determine appropriate stocks for investment, and those to avoid.

In the following pages we present the numbers and commentary on where, in our view, the Australian listed company landscape is at with respect to ESG related disclosure and practice.

Transparency and Disclosure in the Australian Company Landscape:

THE ISSUES

The data presented in this report is based on our investment process. It shows clearly:

Issue 01

The transparency and disclosure of sustainability issues for Australia's listed companies is **generally improving;**

BUT

Issue 02

Although the Australian company disclosure on sustainability issues varies widely, we believe it is generally of a low standard and we believe Australian companies as a whole have a long way to go, especially for small and mid cap companies;

HOWEVER

Issue 03

The exception is a few (roughly 10%) companies that are standout leaders; some examples of which will be presented later in this report. These leading companies are getting even further ahead of their cohort and the combination of their financial and sustainability outcomes helps in maintaining a premium rating, in our view.

WE HOPE

Issue 04

We at EPFM hope to further encourage:

(a) those who have poor reporting and transparency of sustainability to look to these leaders for ways in which to improve their reporting,

(b) additionally, for those have improved their reporting in this financial year, we strongly encourage a future trajectory of further improvements in both the quality of their reporting, and in providing clear accountability and evidence of their practice of their policy commitments to their investors and the public.

Transparency and Disclosure in the Australian Company Landscape:
THE NUMBERS

SUSTAINABILITY

REPORT

2019 58% | **2018** 57% | **Change** 1%

6/10

Less than 6 out of 10 companies release a Sustainability Report at all. Unfortunately, this statistic has only increased by 1% in the past year.

Why look at Sustainability Reporting?

At EPFM, we believe that a Sustainability Report is an absolute minimum requirement for a company to show its commitment to, policies on and positive trajectory towards, caring for their communities, people and the planet. While a separate Sustainability Report does not automatically guarantee the best data, we have found that generally those companies that report separately usually produce better quality disclosures.
In addition, we strongly believe that what gets measured and reported correlates strongly to what gets improved and remediated. We also believe as investors we have the right, and the need, to understand sustainability issues in detail to assist with both our investment decisions and our engagement with companies towards improving practice.

SUPPLY CHAIN

KNOWLEDGE

2019 49% | **2018** 34% | **Change** 11%

5/10

Only 45% of Australian companies meet our assessment of some supply chain knowledge in their reporting. This has shown an 11% increase in companies reporting on their supply chain since 2018, and whilst we believe that this trajectory is pleasing, there is still a long way to go.

Why look at Supply Chain?

It is our view that a business can make no material headway in assessing the sustainability risks to its people, its customers and its suppliers if it does not have a basic understanding and acknowledgement of its supply chain and the associated risks. We expect these numbers to increase dramatically as the momentum towards Modern Slavery statement implementation occurs. We celebrate this important and vital registration, and encourage companies to comply fully. It is also important to note that as supply chain understanding and reporting improves, this low bar of "some" knowledge will come with increasingly more expectation of the quality of supply chain knowledge and the remediation of problems that are found.

HUMAN RIGHTS

POLICY

2019 43% | **2018** 34% | **Change** 9%

4/10

Only 43% of companies EPFM assessed are currently disclosing a Human Rights Policy. Encouragingly, there has been a 9% increase in the disclosing of human rights policies in the last year, but as with sustainability reporting, there is still a long way to go.

It is also a noteworthy finding that the improvement from company reporting and disclosure is now heavily skewed to small and mid-cap companies, with many large corporates already reporting such measures. 19 of the 22 companies that included a Human Rights policy for the first time and 23 of the 28 companies that showed improved knowledge of their supply chain were small and mid-caps.

Why look at Human Rights?

A Human Rights Policy is a fundamental governance and operational requirement in Ethical Partner's view. As per the UN Global Compact website, "enlightened companies recognise that (having a Human Rights Policy) is not only the moral thing to do, but also the smart thing to do for their business".

Ethical Partners also acknowledges that a policy is just the beginning and that investors must also be able to see the embedding of these policies and the outworking of them in the businesses practices.

ENVIRONMENTAL

DISCLOSURE

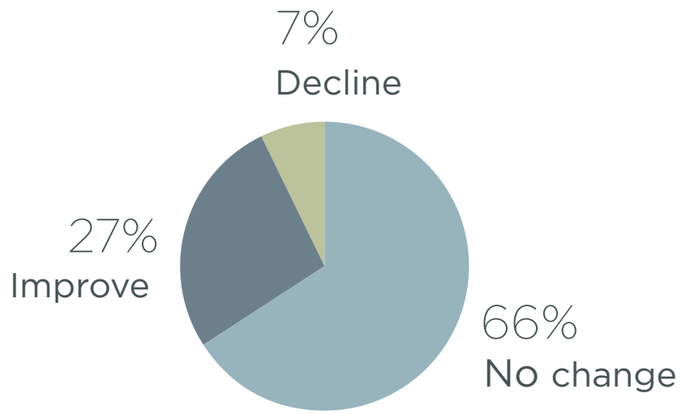
Less than 6 out of 10 companies disclose their carbon emissions. Only 12% of companies have set emissions targets.

6/10

It is clear that companies will have to drastically reduce their emissions if the world is to reach the Paris Agreement targets. At EPFM, we would argue that starting to measure emissions and publicly disclosing them is the first step in this. Additionally, we believe that setting emissions reduction targets shows us that the company is serious at a senior management level about their intentions to reduce emissions, that they are measuring their progress towards a quantified goal, and that they are willing to be held accountable for this progress.

We further believe that as investors, our ability to see that a company is looking seriously at their carbon footprint is extremely important: both for risk management, but also to identify companies leading the way in a changing regulatory, political and social landscape. We also believe that setting targets brings many positive impacts for companies which are important for investor confidence, including strengthened brand reputation, resilience against regulation, increased innovation, a competitive edge and bottom line savings. Of course, we also want to see a company has developed the relevant policies, management oversight and budgetary allowances to make these targets reachable, and always continue to engage and monitor commitment and progress beyond policies and targets with companies.

WHAT IS CHANGING?



IMPROVE	58	**27%**
DECLINE	14	**7%**
NO CHANGE	142	**66%**
TOTAL COMPANIES	214	

ARE COMPANIES IMPROVING OR DECLINING?

How is this Assessed?

When our analysts assess a company, they give it a rating that compares the company's overall ESG reporting, disclosure and practices to last year.

We rate companies "Improve", "Decline" or "No Change". We aim to monitor these trends each year.

The graphic above summarises the results across 214 stocks.

THE IMPROVERS

58 companies were given an Improve rating by our analysts and this represented over a quarter of all companies we assessed.

Of the (17) companies that we rated as "best in class" last year, approximately 90% of this group improved their ESG reporting, disclosure or practices again over the year. Encouragingly, the best are getting even further ahead.

The reasons that companies were rated as having improved by our team were many and varied and included:

- Additional supplier audits including year on year increase in number of suppliers assessed
- Extending training programs to staff around Modern Slavery
- Senior management personally visiting supplier factories to monitor conditions
- The introduction of sustainability KPIs into management incentives
- Capital expenditure initiated to treat waste water
- Companies joining or initiating an industry group to work collectively with suppliers
- Power Purchase Agreements signed to source renewable energy
- Companies publishing their first Sustainability Report
- Alignment of company strategy with UN Sustainability Goals
- Companies committing to a Human Rights Policy

THE DECLINERS

Disappointingly, 14 companies Declined in our analysts' rating over the year. We acknowledge that all companies are coming from a different base and some who had generally good disclosure and practices in the past were just "less good" than last year.

But still, this is a worrying trend. Then there were some companies who had poor disclosure and practice before 2019 but just delivered less transparency this year than last.

Just under half of the 14 businesses in this group actually fail to make it into the Ethical Partners investment universe at all. Some reasons included of why companies were rated as Decline were:

- A poor response in relation to the findings of the Royal Commission into Misconduct in the Banking, Superannuation and Financial Services Industry
- A worse year on year outcome in relation to worker safety
- A worse year on year outcome in relation to carbon or greenhouse gas emissions or setting emission targets above current levels with no explanation
- A worse year on year outcome in relation to worker safety
- A poor management attitude to committing to practices in relation to ESG issues and Social or Environmental Responsibility
- No clear targets or intentions in relation to saving water, energy or waste
- Ceasing to publish ongoing sustainability reporting
- The emergence of product safety issues for a company's customers
- Ongoing breaching of environmental standards or requirements
- Issues in relation to underpaying employees

GLOBAL MOMENTUM

ALL OVER THE WORLD, NOTABLE MAJOR GLOBAL FINANCIAL INSTITUTIONS, GOVERNMENTS AND CONSUMERS ARE PAYING INCREASING ATTENTION TO SOCIAL AND ENVIRONMENTAL RISK: WE HIGHLIGHT A FEW RECENT HIGH PROFILE CASES.

SOCIAL

Firstly on the social front, the 142 year old London Metals Exchange proposed a new responsible sourcing policy. This will require an assessment of the source of metals sold on the exchange and potential audits of high risk sources in order to combat child labour, money laundering, bribery and corruption in the industry. We see a clear link here between business risk and ethical considerations. In fact the LME calls it "a commercial imperative". This is a continuation of the trend we are seeing in Australia.

That is, businesses are drawing the link between supply chain, sustainability and environmental factors relevant to their business and overall business risk. This is one of the reasons why the ESG-oriented process we employ across our investment universe is called the Ethical Partners Operational Risk Assessment (EPORA). Other reasons LME states for introducing the requirements are values related, for it to maintain its global leadership position and to pre-empt and shape policy before regulatory change occurs. On the government front, there is an increasing international trend towards mandatory corporate human rights due diligence.

Australia has recently introduced Modern Slavery legislation, with the proposed NSW legislation having the potential for being the strongest legislation worldwide. The Federal Modern Slavery Legislation began on 1st of July this year, and at EPFM we are encouraging companies to comply. We are also more confident in investing in companies that have taken this new requirement seriously and are going beyond basic compliance with the Act to make meaningful changes to their business practices to prevent slavery. The UK Modern Slavery Legislation was reviewed in May, with the view of strengthening the act to include public naming of those who have not complied and the possibility of a new civil penalty scheme. The recent UK Anti-Slavery commissioner has gone even further and is calling for a company's profits from modern slavery to be seized under the proceeds of crime laws as "tainted money". In May, the Dutch parliament adopted the mandatory Child Labour Diligence law, France adopted the French Duty of Vigilance Act in 2017. The EU has adopted Non-Financial Reporting requirements under Directive 2014/95/EU requiring large companies to publish reports on the policies they implement in relation to environmental protection, social responsibility and treatment of employees, respect for human rights, anti-corruption and bribery and diversity on company boards. Courts worldwide are legislating even more widely. Samsung was recently sued in France for misleading advertising on claims that they were an "ethical company", whilst conditions in their overseas factories were dangerous and inadequate.

Lastly, consumers are demanding that the companies they buy from pay attention to social and environmental impacts. Nearly two-thirds (64 percent) of consumers around the world will buy or boycott a brand solely because of its position on a social or political issue, as per the 2018 Edelman Earned Brand study, a finding repeated in countless studies. At EPFM, we strongly believe companies that are addressing this expectation from their customer base will have better opportunities in the long term.

ENVIRONMENTAL

On the environmental front, in April 2019 the Governors of the Central Banks of England and France urged, in an open letter, that financial regulators carry out climate change stress tests and that if the transition to a low carbon economy is managed poorly then some companies may cease to exist. Locally, APRA released results of their first climate risk survey of regulated entities in March 2019 and "called on entities to move from gaining awareness of the financial risks to taking action to mitigate against them". In March the Assistant Governor of the Reserve Bank of Australia also warned about the impact of climate change on our economy, noting that few of the forces affecting our economy and financial stability "have the scale, persistence and systemic risk of climate change". In May, the EU also released their proposal to establish a taxonomy of sustainable investments, creating a benchmark to help investors compare the carbon footprints of their investments.

Divestment continues from fossil fuel companies around the world, with the notable recent divestment of Norway's Government Pension Fund in June where Norway's parliament voted for the fund to exit $13 billion dollars of investments in coal and oil. In June 2019 the FTSE reclassified coal and oil as non-renewables, a significant move as funds such as the Norway fund use this FTSE classification as the basis for divestment. This means that oil and gas companies would have to invest substantial sums in greener revenue streams to escape the "non-renewable" category. Furthermore, the UK announced last week its new Green Finance Strategy to ensure financial risks and opportunities from climate change are integrated into mainstream financial decision making, and also became the first country in the G7 to legislate to move to net zero emissions by 2050. The Economic Secretary to the Treasury and City Minister John Glen argued that financial services will have a bigger role to play than any other sector in tackling climate change.

Finally, the Poseidon Principles were released in June 2019 by 11 major global banks, as part of the efforts to reduce the GHG emissions of the shipping industry by 50% by 2050. It will require the signatory banks to measure the carbon intensity of their shipping portfolios on an annual basis and assess their climate alignment relative to established decarbonisation trajectories. We see this as a very positive move toward banks holding customers accountable for their climate impact and increasing transparency, and expect to see initiatives such as this spread across many more industry sectors.

At EPFM, we believe that companies that are developing a serious response to their environmental impact are being both good global citizens and appropriately managing the growing risks related to environmental issues from a political, social, regulatory and investment viewpoint.

STOCK EXAMPLES

Pleasingly many companies' disclosure and practice are already way beyond the simple measures.

We have identified some Australian companies with fully transparent supply chains, factory audits, voluntary commitments to United Nations based good business practices, carbon emission targets, water, waste and energy saving initiative. They also have engaged and proactive Boards and management teams.

THE EXCELLENT

Telstra (TLS)
is a good example of a company that has taken supply chain auditing seriously. It is a member of JAC (Joint Audit Committee) which is an industry wide collaborative group for sustainable global Telecoms sourcing. The company has introduced Modern Slavery training for its procurement teams, some second tier supplier auditing and supplier forums for education.

Mirvac (MGR)
the "This Changes Everything" campaign and positioning successfully integrates ESG factors into everyday business activities. It has integrated environmentally friendly residential communities with urban, community shopping centres. It has divested its retail assets that were not consistent with this strategy.

Kathmandu (KMD)
has taken a leadership position in sustainability. KMD has been conducting supply chain audits since 2012. It was the first Southern Hemisphere company to be acknowledged by Fair Labour Association. KMD has a Supplier Code of Conduct and received an "A" from Baptist World Aid.

Vicinity (VCX)
will have the largest property solar programme in Australia spending more than $75m on solar energy generation at its centres generating 31,000 MWh of clean energy reducing its consumption from the national grid by up to 40%. Financially the strategy makes sense too as it will generate an expected IRR of 12%.

Bega (BGA)
is a company that in our view has a high level of commitment right up to Board level for progressing ESG initiatives. The company has managed the perceived conflict between farmers (costs) and shareholders (profits) well through its responsible approach to doing business and ensured strong supplier and community support. Bega has also implemented on-farm environmental management systems for its suppliers to utilise, monitors all production facilities for energy intensity, has product waste management technology, is committed to using 100% certified palm oil (80% now), has emissions and energy saving targets and has committed to early adoption of Sustainable Packaging Guidelines.

A group of Australian property owners have come together in a **The Property Council of Australia (PCA)** working group to take a non-competitive collaborative approach to supply chain assessment. The group comprising of representatives from General Property Trust, Lend Lease, Vicinity, Stockland, Mirvac and others is developing a supplier screening questionnaire in order to better assess supply chain risk. The answers to the questionnaire will be shared across industry participants. This will reduce the burden on suppliers as well as give the industry a better understanding of supply chain risks.

Bluescope (BSL)
takes a life cycle approach looking at the impact of a product from start to finish. BlueScope is working to ensure its business practices align with the UN Guiding Principles on Business and Human Rights. BlueScope is one of the few corporates we have seen attending and engaging in NGO forums such as the impact of the Modern Slavery Act on corporations. The company is also a founding member of ResponsibleSteel, a global organisation created to improve sustainability standards in steel supply chains. The company has also signed a renewable energy power purchase agreement, equivalent to 20% of BlueScope's Australian electricity consumption, started a full review of its supply chain to ensure suppliers are operating under a similar set of values as those under which BlueScope operates, introduced climate change reporting in accordance with recommendations of the Task Force for Climate-related Financial Disclosures (TCFD) and released a Statement on Human Rights and a Responsible Sourcing Standard.

THERE ARE ALSO COMPANIES WE HAVE LOOKED AT THAT HAVE "GOOD POLICY" BUT HAVEN'T BEEN ABLE TO PUT THAT POLICY INTO PRACTICE

THE NOT SO GOOD

There are also companies we have looked at that have "good policy" but haven't been able to put that policy into practice. One company's track record included several high profile industrial accidents (13 spills in the last decade) affecting surrounding communities. Disclosure to the Environmental Protection Authority and the public has been poor. This coincides with increased water usage, waste and energy usage over the last 12 months.

Companies will sometimes focus on relatively unimportant and low risk sustainability aspects of their group rather than genuinely high risk aspects of their business. Pages can be devoted to paper saving and recycling efforts in their offices, with minimal space devoted to larger actual business risks.

Other companies deal in products and markets that we deem too high risk and difficult to assess. One such company has not been part of our investment universe due to the nature of its business, its geographic locations, its balance sheet and the increasing regulatory restrictions around product usage due to potential health risks.

WHAT MAKES A GOOD SUSTAINABILITY REPORT?

IN OUR EXPERIENCE IN REVIEWING HUNDREDS OF SUSTAINABILITY REPORTS WE REPORT BELOW ON SOME OF THE ASPECTS THAT COMPRISE A GOOD SET OF SUSTAINABILITY DISCLOSURES.

We like to see companies go beyond items in the office like recycled paper (although still important!) and community donations. When management thinks deeply about what the business does, and who it might affect, risks can be mitigated (for example: reputation, brand, sales growth, quality). How can a company make a positive impact on the community through its core business practices, not just philanthropic donations?

- What countries or regions are products being sold in and where are raw materials being sourced including manufactured goods and components? We like to see some commentary on which parts of the supply chain management has examined and what standards are being applied. A map showing factory locations is useful.

- How many suppliers there are and how they are managed and are audits being done? Is there segmentation analysis taking place for identification of higher risk countries?

- Does the company belong to any industry bodies that can leverage suppliers' standards or make it an easier assessment process (for example: the property industry)? Is there any way to help create such an industry body?

- If companies are operating in areas of perceived high corruption or decreased visibility, companies must be aware that the reporting burden is increased, not decreased. Companies need to transparently show how they are ensuring that the business is operating in a responsible way when local governments or international laws cannot necessarily ensure that.

- Companies should have a Human Rights Policy that sets out what standards the company has with respect to labour, both for direct employees and those who contract on their behalf. Companies should show how they comply with this policy and how this is evaluated.

- Companies should be in the process of examining supply chains for the risk of forced/child labour and modern slavery and be ready to comply with the impending Modern Slavery Legislation.

- Companies (usually those in extractive industries) should be aware of how operations impact the local community, including land rights and addressing Free Prior and Informed Consent.

- We look for companies to have appropriate grievance policies and procedures.

- We don't usually believe it when companies say they have many thousands of suppliers and there is not one single problem around modern slavery, human rights abuses or environmental issues, especially when supply chains extend offshore. We ask how companies remediate any issues that are found (we assume most companies will have something to share). We like to see companies acknowledge these issues and investigate them and then show what has been done to ensure these problems do not occur again.

- We look for which Global Accords and voluntary principals are recognised. How are these implemented? How does a company show compliance with them?

- We ask what reporting do companies produce for shareholders and other interested parties. Has this been consistent? What standards are being used?

- Does the company have carbon reduction emission targets and are these linked to sales growth in any way ie emissions intensity or absolute targets?

- What initiatives is the company undertaking to decrease carbon emissions and meet these targets?

- Is the company assessing the carbon footprint throughout the business, into Tier 2 and 3 and addressing carbon emissions further up the supply chain?

- For the banks, are they looking at fossil fuel/ renewable lending ratios?

- Is the company addressing energy usage, looking at efficiency or using alternative sources of renewable power?

- How does the company save water? What measures are being undertaken to increase water efficiency? What measures is the company taking to deal with waste?

- Is the company looking at circular economy models and sustainable design? Are they changing materials used to increase recycling and decrease waste? Are they looking at ways to improve supply chains to decrease excess production and decrease unsold goods?

- Has the company looked at industry specific environmental risks and reported on them?

- Has the company reported on air pollution? Environmental incidents or spills? Hazardous waste? Toxic chemicals?

- What are the climate risks that might affect the business? Has the company thought about reporting in line with TCFD? Has any climate scenario testing been done?

- Is the company involved in any industry organisations/lobbying/political donations/conflicts of interest? If so, are they disclosed.

- Has the company looked at how addressing these social and environmental issues can save money as well? What capex has gone into this? Show how it has benefited the business – cost cutting, consumer loyalty, brand reputation, new opportunities.

- Can the business show a deep and ongoing commitment to ESG right up to the board level e.g.: the integration of sustainability into KPI's, employee incentivisation and performance appraisals. Show the lines of reporting and oversight for ESG issues and with whom the responsibility rests.

- Is the company open to questions, forthcoming with information and willing to learn and improve?

BEHIND THE ACRONYMS

WHILST THERE ARE A PLETHORA OF DIFFERENT SUSTAINABILITY TERMS, MEASURES, INDEXES AND ACRONYMS, WE HAVE CHOSEN TO REPORT ON A FEW THAT WE HAVE MEASURED AND FIND USEFUL.

MODERN SLAVERY/CHILD LABOUR

29%

Currently only 29% of the companies we reviewed had policies around child labour and modern slavery. Shockingly, there are 152 million children worldwide who are victims of child labour, mostly concentrated in the agriculture, service and mining sectors (United Nations, 2019)

In addition, there are an estimated 25 million slaves worldwide, 4,300 of which are in Australia (Australian Human Rights Law Centre, 2019)

NUMBER OF COMPANIES 62

At EPFM we believe that it is imperative that all companies address the risk of child labour and modern slavery in their operations and supply chains. We believe that an important first step in this are policies that address these risks, codes of conduct for the companies themselves AND their suppliers, and transparency and reporting around their investigations, remediations and actions to protect against these crimes.

Several of the companies that we found did have policies on these issues have already reported under the UK Modern Slavery legislation and we expect to see the number addressing these issues jump with the new Australian Federal and NSW Modern Slavery Legislations. At EPFM, we applaud this legislation as an incredibly positive development in this area and strongly encourage all companies to fully comply with the legislation and reporting which begins in the financial year 2020.

GLOBAL REPORTING INITIATIVE (GRI)

27%

Only 27% of the companies we assessed report against the Global Reporting Initiatives (GRI)

This compares to 63% of the largest 100 global companies and 75% of the Global Fortune 250 who report applying the GRI reporting framework.

Unfortunately, this is consistent with the general perception that Australia is lagging behind in sustainability reporting on a global stage.

NUMBER OF COMPANIES 57

The GRI Standards were the first global standards for sustainability reporting. They were one of the recognised frameworks and reporting techniques encouraged by the EU in their 2014 directive obliging large multinational corporations to provide non-financial disclosure to markets.

An important part of the GRI is the materiality process, which allows companies to narrow their focus to the data points on which the company has the biggest impact. We have no preference for a particular sustainability reporting framework, as long as a company is looking at their sustainability and reporting on it effectively.

SUSTAINABLE DEVELOPMENT GOALS (SDG'S)

21%

21% of the companies we assessed refer to the SDG's in their sustainability reporting or public disclosures.

NUMBER OF COMPANIES 45

The Sustainable Development Goals for 2030 are a set of 17 global goals adopted by the UN in 2015 as the blue print to achieve a better and more sustainable future for all. It is acknowledged that fulfilling these ambitions will take an unprecedented effort by all sectors in society – and business has to play a very important role in the process (UN Global Compact, 2019). We believe that the global challenges represented in the SDG's (such as climate, water, food, poverty, conflict and inequality) are very much in need of solutions the private sector can deliver. This both creates growing markets and opportunities for innovation and future business growth and also in addresses their responsibility to act ethically and sustainably, and to address any harm their businesses may create. We strongly encourage companies to look at how they can align with and contribute to the SDG's, and to report clearly on this.

TCFD

11%

Only 11% of the companies we assessed address the TCFD in their reporting.

The TCFD was set up to create a set of comparable and consistent disclosures that companies can use to demonstrate climate change resilience, and provide investors with increasingly important information on risk management.

NUMBER OF COMPANIES 24

The TCFD requires a company to make disclosures on governance, the board and management's role in assessing, managing and overseeing climate related risks and opportunities, their strategy and approach to these risks and opportunities, risk management, identification and the metrics and targets that are used to assess these strategies and risks. They encourage scenario analysis, to better understand how a business might perform under different future states in order to enhance critical thinking about a businesses and climate change. We also see reporting under the TCFD as a very positive sign of an awareness of and commitment to better understanding a business's relationship to the environment, which we hope will also lead to more responsible business behaviour in order to mitigate its environmental risks and effects.

UN GLOBAL COMPACT

14%

Only 14% of the companies we assessed mention the UN Global Compact.

NUMBER OF COMPANIES 30

The UN Global Compact encourages companies to do business responsibly by aligning their strategies and operations with their Ten Principles, which address human rights, labour, environment and anti-corruption. They also encourage the uptake of the Sustainable Development Goals. We do not require adherence to this or any other particular sustainability principles, however a business acknowledging and aligning their activities to principles such as the UN Global Compact is a positive sign of their awareness of the need for businesses to act responsibly.

CDP

8%

Only 8% of the companies assessed mention CDP reporting.

NUMBER OF COMPANIES 18

The Carbon Disclosure Project (CDP) is a standardised global reporting framework that aims to help a company ensure that an effective carbon emissions reduction strategy is integral to their operations, and makes their emissions disclosures publicly available. Over 7,000 companies globally have reported to the CDP, establishing the most comprehensive collection of self-reported environmental data in the world. The CDP also recognises top performing companies, with high quality disclosures, in its annual scoring process.

At EPFM we also believe that self-reporting through the CDP shows a commitment to lower carbon emissions and increase transparency, identifies leaders and show us as investors, that a company is working towards a deep awareness of their environmental footprint, which we see as an integral first step in beginning to address and mitigate their impacts.

ABOUT US

Ethical Partners is an independently owned, specialist equities asset manager which was established in August 2018. Ethical Partners is currently managing approximately $1.5bn of Australian equities portfolios on behalf of its clients, which include superannuation funds, charities, school foundations, religious organisations, high net worth individuals and others.

The business is owned and managed by Nathan Parkin, the Investment Director, and Matt Nacard, the CEO. The Directors and staff are co-invested alongside clients in the Ethical Partners Australian Share Fund.

Ethical Partners Company Values

We remain committed to managing our own business in line with our three principles of Responsibility, Accountability and having the Confidence to be different.

Responsibility.

We are responsible for our clients' money. We are responsible, where appropriate, for influencing the way companies conduct their business. The financial services industry as a whole has a responsibility to do things better and have a positive influence on the environment, human rights and society. We want to play an important part in this.

Accountability.

We are accountable for the decisions we make to all our stakeholders. We are accountable for performance. We are accountable for our clients' money. We realise that there are consequences to the actions we take. We will stand by our decisions and what we believe in. We won't always be right but we will always be accountable.

The confidence to be different.

We understand that our views on companies, the market and the way we invest may be different to a majority of others. We have the confidence in our process, our approach and our decisions. Sometimes the best decisions for the long term are the ones that aren't recognised at the time or require courage of their conviction in the short term.

Ethical Partners Team

At EPFM, every member of the team is involved in the sustainability research, data and company assessments and engagement process, and have all had important input into this report. We feel this is an important part of the difference in our approach at EPFM and an integral part of our culture.

Nathan Parkin
Investment Director

Nathan Parkin is the Investment Director and covers banks and selected industrials as well as being responsible for portfolio management decisions. He has 22 years' experience in Australian financial markets including most recently as Deputy Head of Equities at Perpetual Investments. He was at Perpetual for 12 years (over two periods) and as Deputy Head of Equities he directly managed over $6.5bn in funds under management. Nathan was the Portfolio Manager for Perpetual's Australian Share Fund, Industrial Share Fund, Ethical SRI Fund (that won a number of industry awards) and Institutional mandates. He has also had experience as an equity analyst, equities dealer and Head of Institutional Business. His not for profit work includes fund raising and school Board membership.

Matt Nacard
Chief Executive Officer

Matt Nacard is the Chief Executive Officer and covers the REIT, utilities and financial services sectors as well as being responsible for overall operations for Ethical Partners. He has 16 years' experience in financial services, most recently as Co-Head of Asia Equities at Macquarie Securities where he managed up to 430 people across nine markets. He has been a rated equities analyst in both Australia and Asia. As someone who is passionate about equities research, while at Macquarie he was the Head of Equities Research in Australia from 2010 to 2013 and Head of Hong Kong Research from 2008 to 2010. Matt has done various not for profit work including strategic input, Board membership and fund raising for various charities.

Andrew Wilson
Senior Analyst & Dealer

Andrew Wilson is a Senior Analyst and is responsible for Dealing and coverage of the insurance, consumer, building materials and resource sectors. He has 12 years' experience in Australian financial markets on both the buy side and sell side. Most recently Andrew worked at Bank of America Merrill Lynch in their Equities division and prior to that was working at Ord Minnett in their Emerging Companies team. Andrew previously spent time working on the buy side at 452 Capital where he was in charge of dealing.

Robyn Parkin
Sustainability, Research & Advocacy

Robyn Parkin's role at Ethical Partners involves coordinating its sustainability research and education, as well as coordinating and facilitating Ethical Partners' advocacy and engagement activities. Robyn is also a Manager of the Ethical Partners Tatrai Giving Fund. Robyn is currently studying a Masters of International Development through RMIT in Melbourne and also holds postgraduate qualifications in International Public Health from UNSW.

Kapil Gahir
Analyst

Kapil Gahir is an analyst and is responsible for stock research across various sectors. He has 9 years' experience in financial markets across unlisted buy side and sell side. Kapil was most recently at Australian Super in its infrastructure investments team and prior to that was at Deutsche Bank in its real assets buy side division. Kapil started as an investment banking analyst at Deutsche Bank working across industrials, consumer, healthcare, property and utilities.

Renee Hetreles
Office & Administration Manager

Renee Hetreles is the Office and Administration Manager. Having over 20 years' experience in banking and financial markets, her knowledge of financial products includes several different asset classes including equities. Her focus has always been providing clients and stakeholders quality service in a middle office/back office capacity. Her most recent role was managing the accounting and administration at agricultural company IKON Commodities Pty Ltd. Starting her career at Credit Suisse, Renee spent over eight years managing the back office at J B Were.

Jacob Tran
Portfolio Analyst

Jacob Tran is the Portfolio Analyst and is responsible for investment operations functions in the business. He has seven years of experience in financial services across various roles within funds management. Jacob was most recently at Alliance Bernstein as an Associate in its Portfolio Management Group and prior to that was at Perpetual as an analyst in its Investment Operations team.

Responsibility. Accountability. The confidence to be different.

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