PERENNIAL

Sustainable Future Survey

2019 Report

"The investment decisions we make today will have a profound, lasting impact on our economy, our environment, and our quality of life for generations to come."

Michael W. Frerichs – Illinois State Treasurer

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EXECUTIVE SUMMARY

In February 2019 Perennial Value Management sent out the inaugural Sustainable Future survey to 250 listed companies in Australia.

The following will outline the results of the survey and establish some themes and interpretations and conclusions.

The Perennial Sustainable Future Trust

The Perennial Sustainable Future Trust was built on the foundation of the importance of company engagements within the Mid Cap to Small Cap investment universe of Australian listed companies. Perennial has successfully run a Smaller Companies fund for 15 years. Over this time Perennial's Portfolio Managers and Research Analysts have found that active engagement with companies' boards and management has helped guide successful investment and allocation decisions. The level of engagement has and continues to be key.

There are many ESG funds currently available for Investors in Australia that have little to no engagement with the companies they invest in. Investment decisions are often achieved via a quantitative screen with use of external data providers.

Perennial therefore believe that there is an opportunity for potential positive investment returns by using the existing engagement model. However, more importantly engagement with these companies can help drive better ESG behaviours for the growing companies of Australia to provide a sustainable future.

The Survey:

The Survey was sent to 250 Australian listed companies. The survey comprised of 15 main questions, with some questions having multiple parts. For full details of the survey please refer to the appendix.

The survey respondents are all anonymous as we wanted to encourage honest and unbiased answers.

Not all 250 companies completed the survey. The average time for completion of the survey was 5 minutes. All respondents that started the survey completed it.

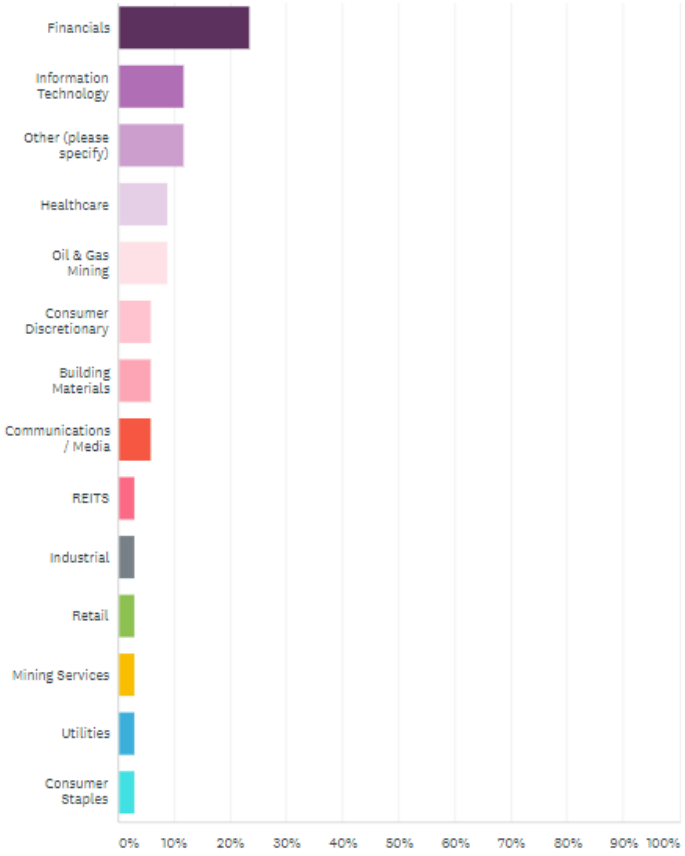
The Main Results and Conclusions from the Survey:

The first three questions of the survey we were able to identify the type of respondent. Unsurprisingly given the investment parameters of the Sustainable Future trust the companies where we got the most replies from were from the Mid Cap to Small Cap range of the market.

- Question 1: In which industry does your business operate?
- Question 2: What is the market cap of your company?
- Question 3: How many FTE's does your company have approximately?

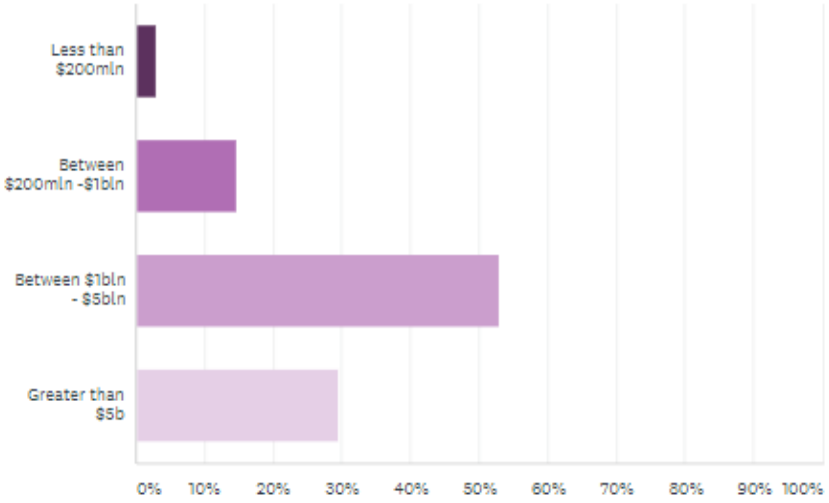
The first question: In which industry does your business operate? The results of this question provided us with confirmation that there was a good broad range of industries represented in the survey. This is also a good representation of the Mid Cap / Small Cap investable universe for the Sustainable Future Trust. As with question 1, question 2 and 3 on market cap and number of employees show there is a bias of our respondents towards the Mid Cap / Small Cap range of the market.

Question 1: In which industry does your business operate?

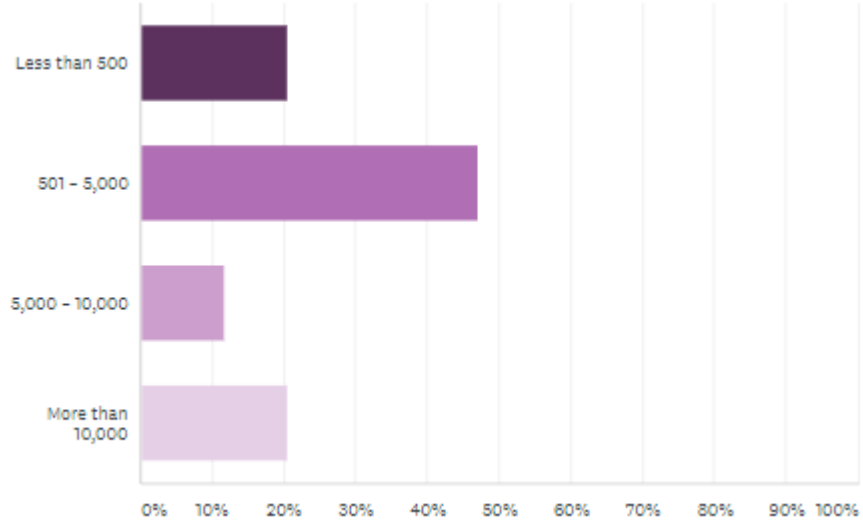


** Other: Materials, Utilities & Oil & Gas, Transportation, Waste Management*

Question 2: What is the market cap of your company?



Question 3: How many FTE's does your company have approximately?

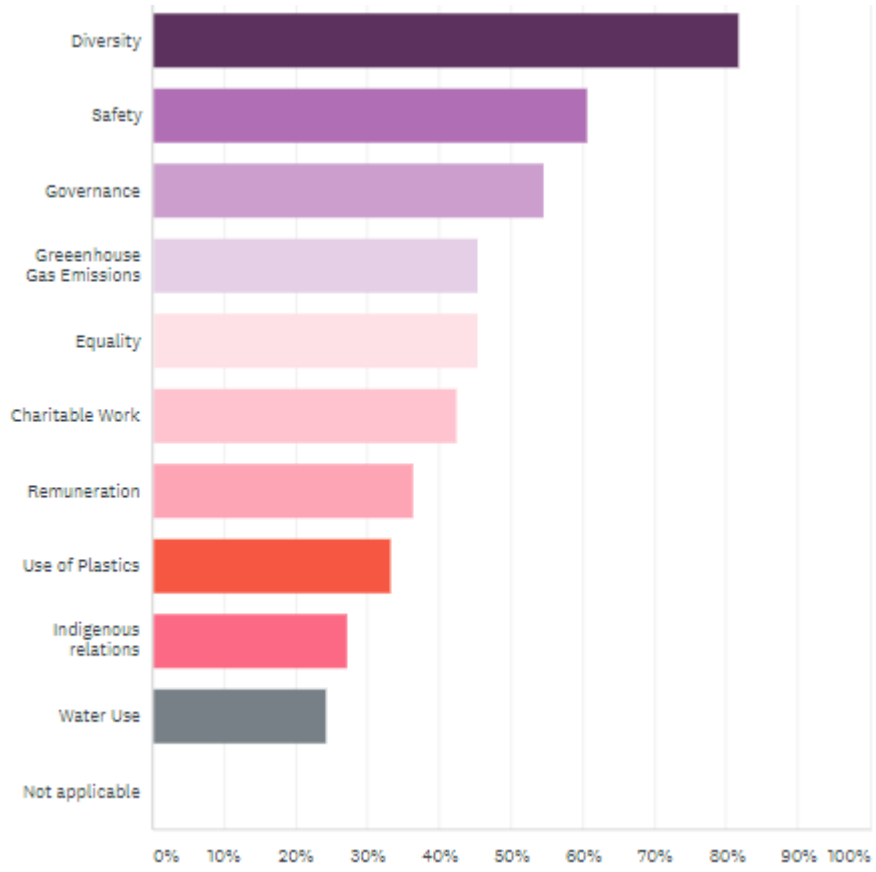


The responses from Question 4, 5 and 7 were probably the most telling. In these questions we were seeking to find out what has been and is currently the most important ESG theme that companies are focussing on.

- Question 4: Which areas of ESG are important commercially for your business?
- Question 5: In which of the following areas has your company materially improved Sustainability and ESG practices over the past 3 years?
- Question 7: In which of the following areas is your company seeking to improve sustainability-and ESG practices in the next 12 to 18 months?

Governance, Diversity, Safety and Equality were consistently at the top of all three sets of responses. It would be fair to say that even though Greenhouse Gas Emissions were prominent in all three sets of answers, from this sample of Australian companies they tend to be more focussed on the S and G components of ESG. Perhaps to a certain degree companies are focussing on what is the most controllable area of running their business, governance and people. It is also important to note that Diversity was the clear stand out answer for Question 7 – which areas companies are seeking to improve in the next 12 – 18 months.

Question 7 – which areas companies are seeking to improve in the next 12 – 18 months.



This is also reconfirmed in Question 9 – where we asked the companies: To what extent do you agree or disagree with the following statements? Of the 8 statements we asked about:

- Our company is focused on increasing gender diversity in senior executive ranks.
- Our company is focused on increasing gender diversity at entry level employment.

Both these statements scored the highest with respondents selecting “Agree” and “Strongly Agree”.

For Question 10 we asked: To what extent do you agree or disagree with the following statements. Engagement with investors on sustainability and ESG issues produces positive outcomes?

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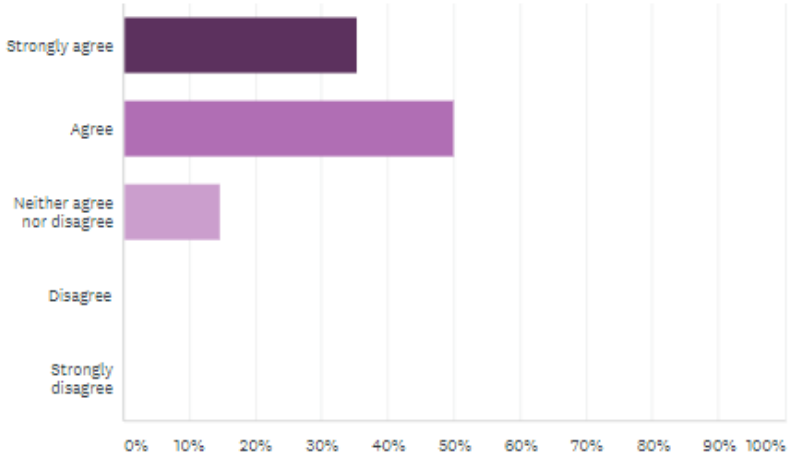

Whilst these results could be biased by the fact that Perennial are investors, we believe this is one of the key findings of the survey, and one of the main beliefs we have about investing in the smaller market capitalisation space. Investor engagement on ESG issues will and does drive more positive outcomes. We have had discussions with companies that are seeking investor information on how to manage ESG issues better. At the end of the day investors play an ever increasingly significant part in driving corporate behaviours. The answer to this question confirms these beliefs.

Towards the end of the survey we had four questions that were more focussed on Environmental factors:

- Question 11: Our company measures our greenhouse gas emissions (Y/N)
- Question 12: Our company has a target to reducing our greenhouse gas emission? (Y/N)
- Question 13: Our company has a target to reducing water usage (Y/N)
- Question 14: Our company has a target to reduce our waste? (Y/N)

70% of the companies replied that they do measure greenhouse gas emissions but only 55% of the companies surveyed have a target to reduce their greenhouse gas emissions.

Only 32% of companies have a target to reduce their water usage and only 52% of the companies have a target to reduce waste.

Conclusion

The sample set of respondents from the 2019 survey were mainly Mid Cap to Small Cap businesses. The main focus in terms of areas of ESG that these companies have been addressing have been Governance, Diversity, Safety and Equality. Environmental concerns whilst important were ranked below these more Social and Governance areas.

When looking to the future these companies ranked Diversity as a major focus area for the next 12 to 18 months. This was supported by results highlighting focus on increasing gender diversity at both entry level employment and senior executive levels.

Pleasingly the companies that responded agreed that investor engagement does overwhelmingly lead to more positive outcomes on sustainability and ESG issues. Engagement we believe is a key to improving corporate behaviours and something that is very important in Perennial's investment decision making process.

Despite 70% of these companies measuring their greenhouse gas emissions only 55% have a stated emissions target. On water usage and reducing waste only 32% and 52% respectively of the companies have an explicit target.

It is Perennial's intention to run this survey next year and annually into the future. We will then develop a time series of data in which we can analyse and report on the changing focus areas of ESG of Australian Listed Companies.

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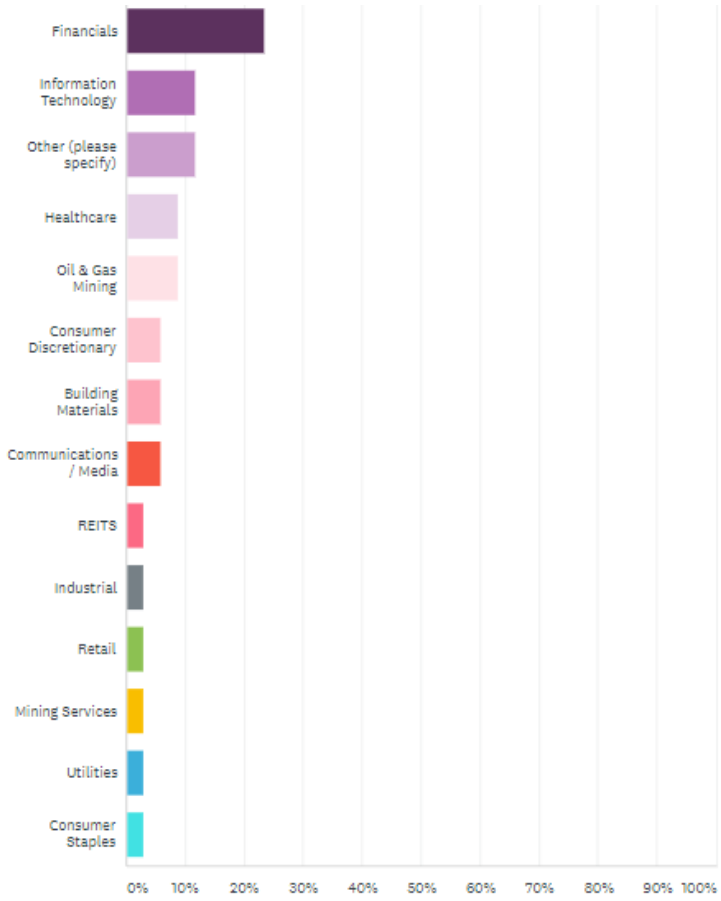
Appendix: Complete Survey Questions and Results

Question 1: In which industry does your business operate?



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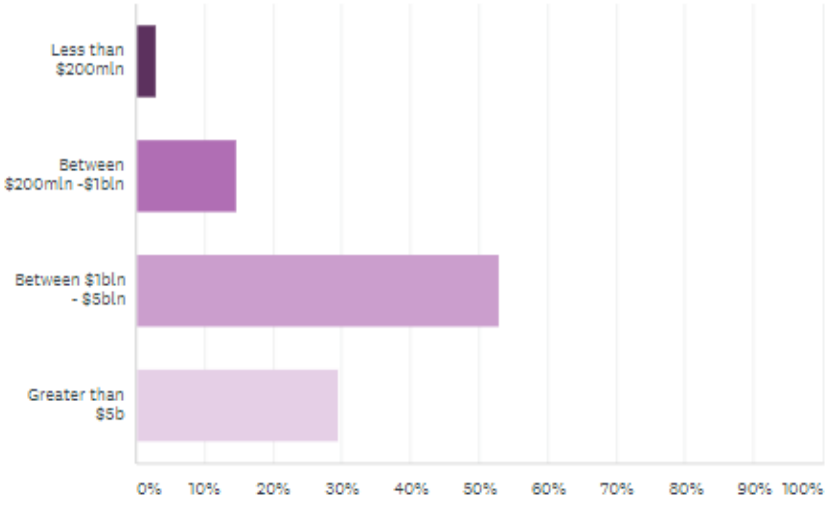
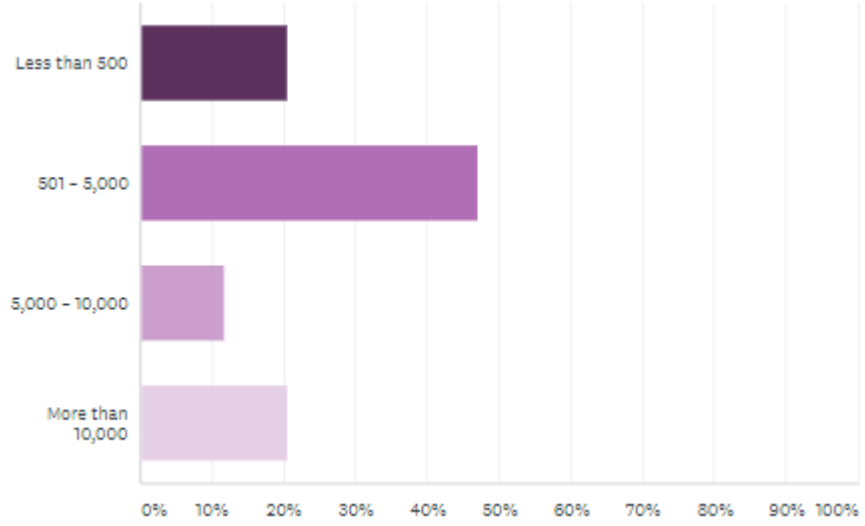
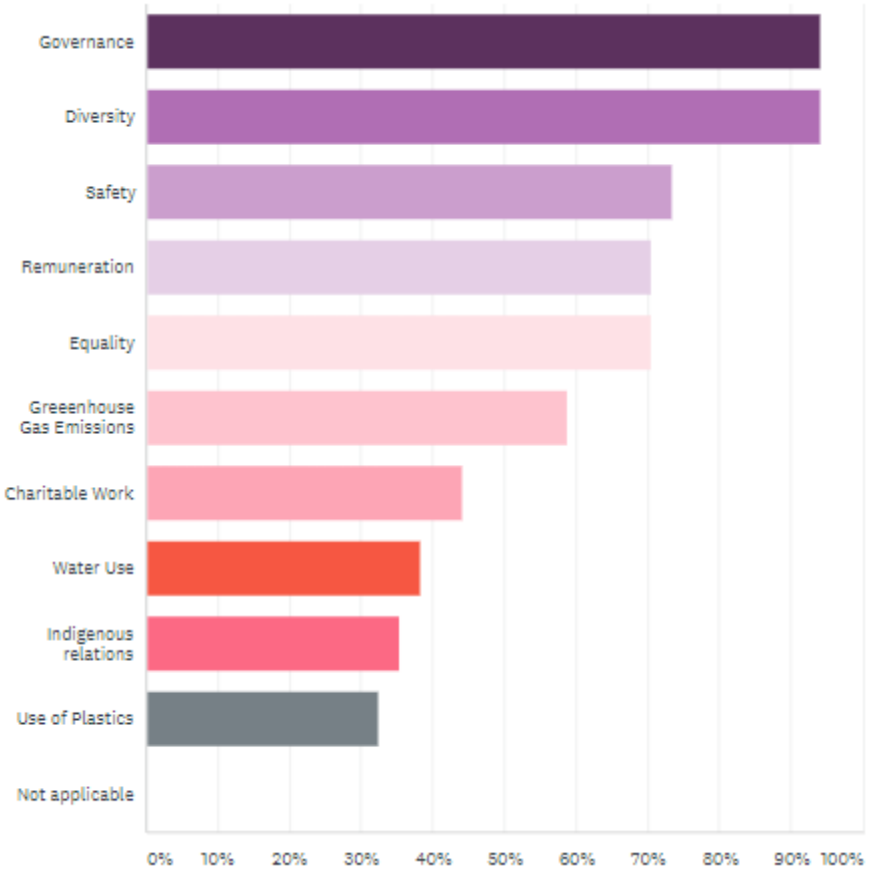
Question 2: What is the market cap of your company?



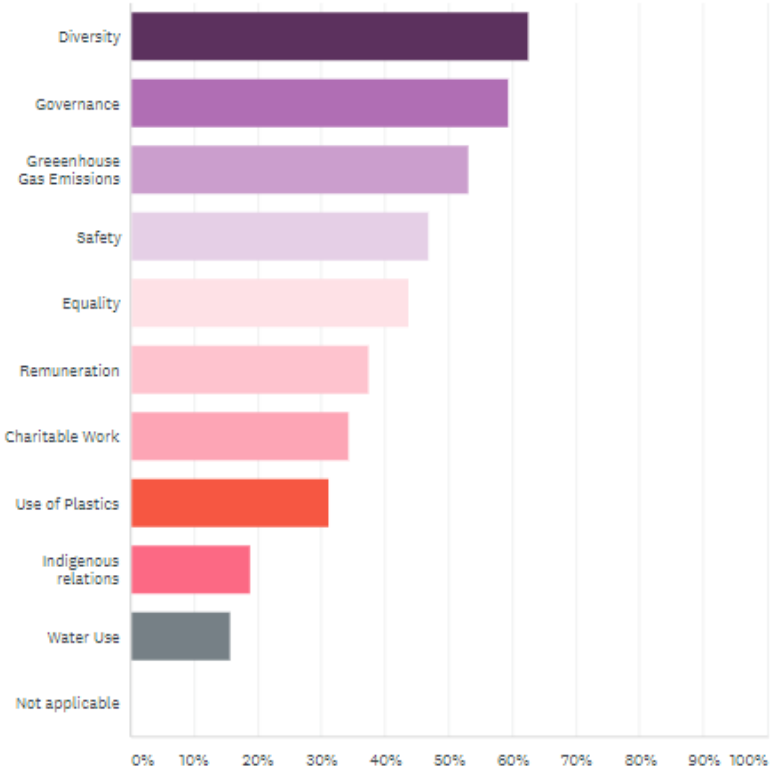
Question 3: How many FTE's does your company have approximately?



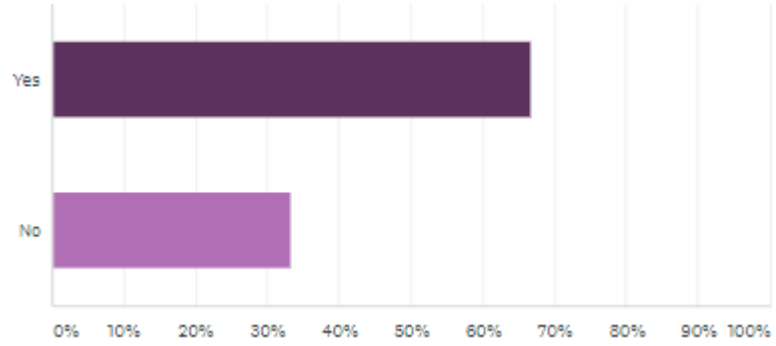
Question 4: Which areas of ESG are important commercially for your business (can choose more than one)



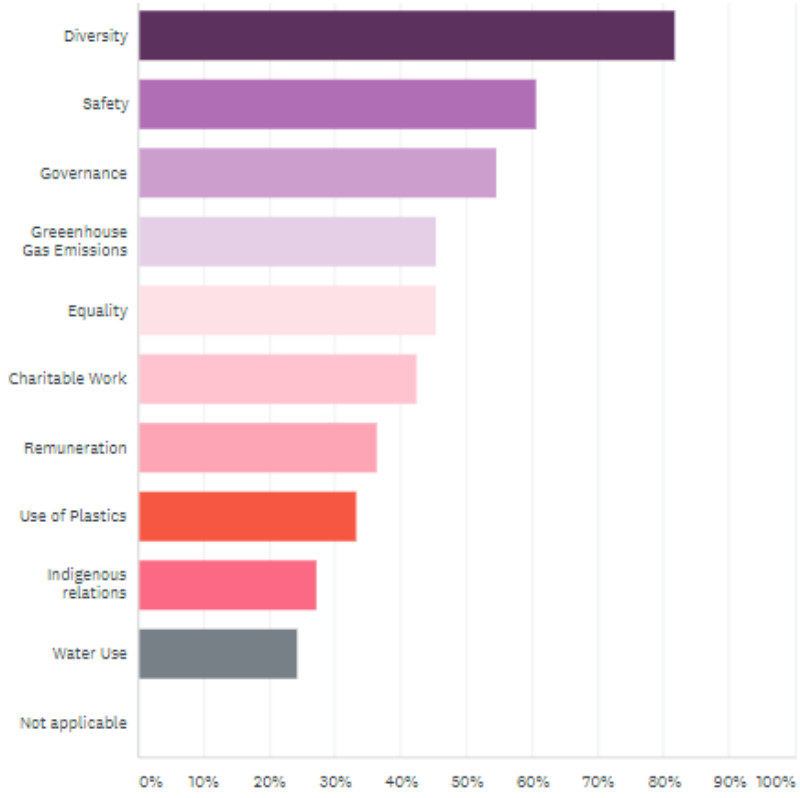
Question 5: In which of the following areas has your company materially improved Sustainability and ESG practices over the past 3 years?



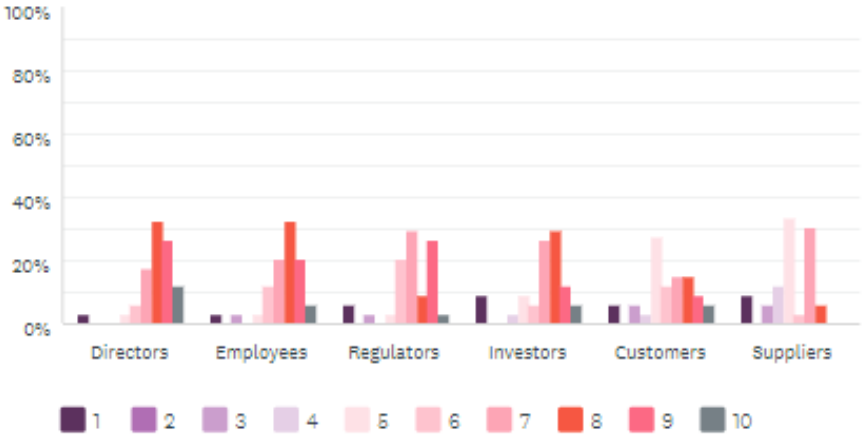
Question 6: Is Sustainability and ESG specifically referred to in your business strategy?



Question 7 – which areas companies are seeking to improve in the next 12 – 18 months?

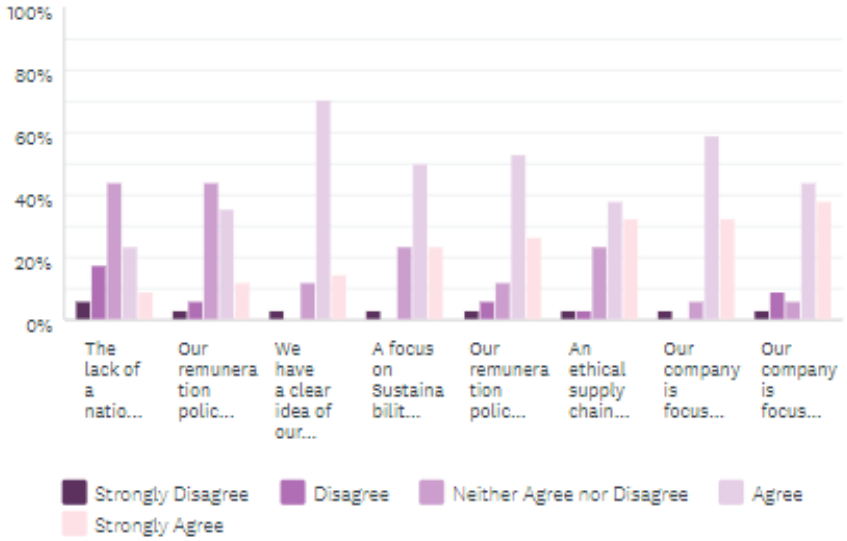


Question 8: Please indicate the extent to which each group of stakeholders is encouraging the adoption of more sustainable/ESG practices in your business? (from 1 to 10 where 10 is highest)

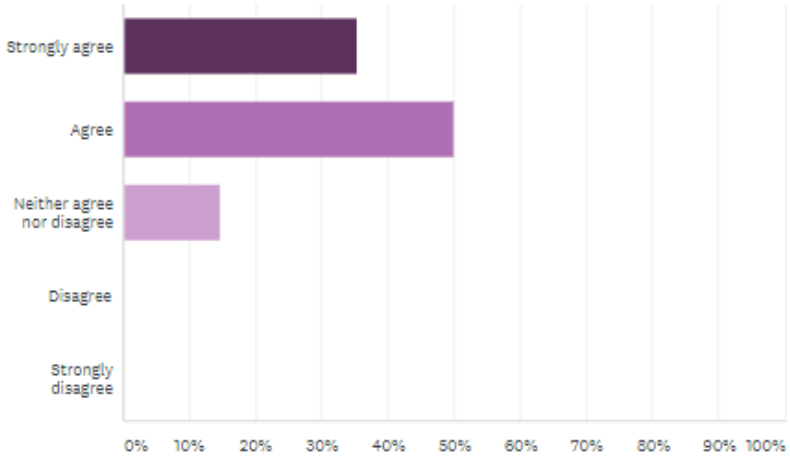


Question 9: To what extent do you agree or disagree with the following statements?

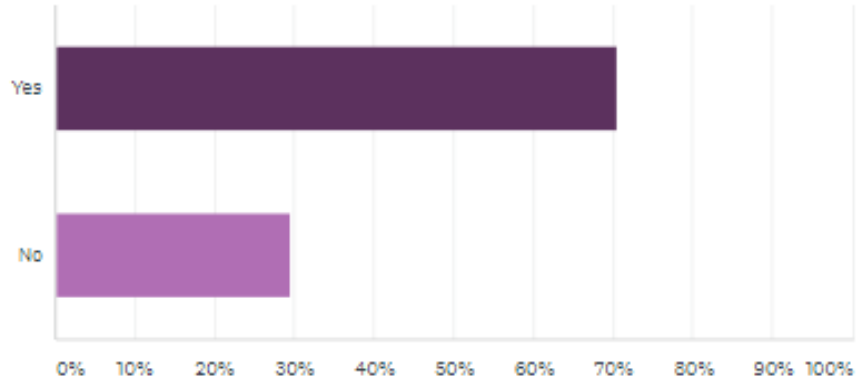
- The lack of a national carbon/energy policy results in material uncertainty in our business.
- Our remuneration policy has been driven by investor demands.
- We have a clear idea of our investor expectations in relation to remuneration policy.
- A focus on Sustainability and ESG has improved our business.
- Our remuneration policy is designed to produce optimal outcomes for our business.
- An ethical supply chain is important to your business.
- Our company is focused on increasing gender diversity in senior executive ranks.
- Our company is focused on increasing gender diversity at entry level employment.



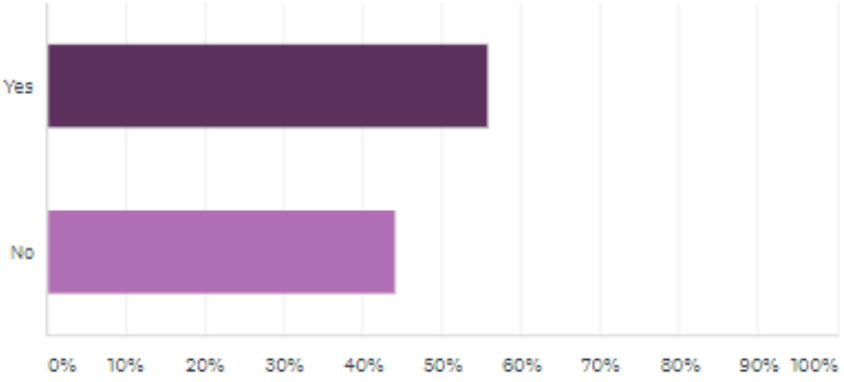
Question 10: To what extent do you agree or disagree with the following statements. Engagement with investors on sustainability and ESG issues produces positive outcomes?



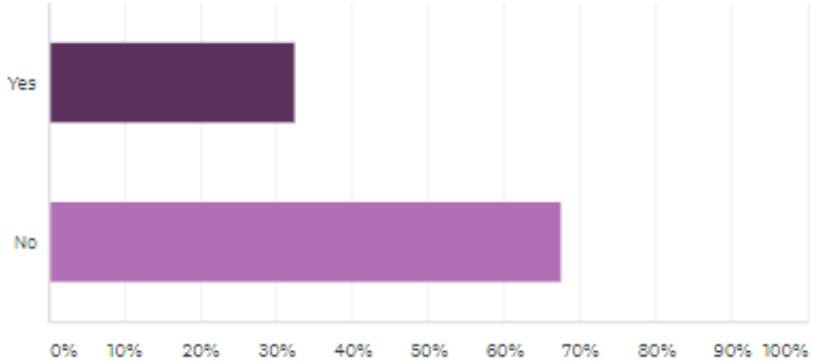
Question 11: Our company measures our greenhouse gas emissions (Y/N)



Question 12: Our company has a target to reducing water usage (Y/N)



Question 13: Our company has a target to reducing water usage (Y/N)



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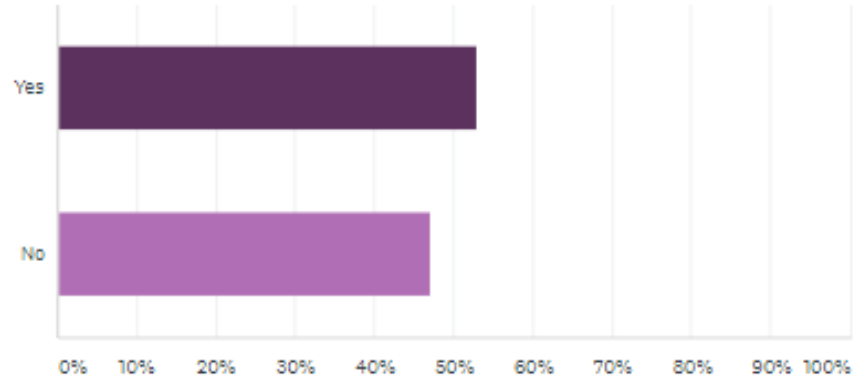
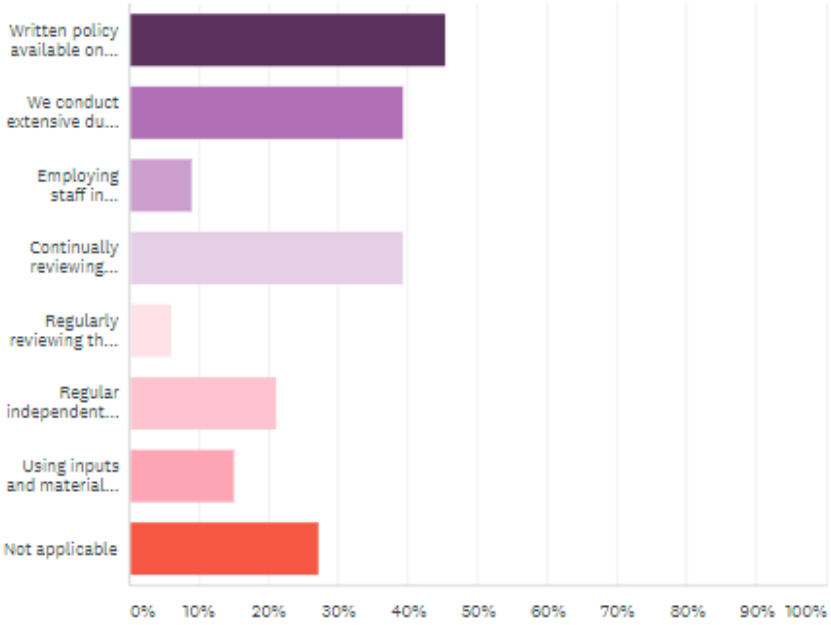
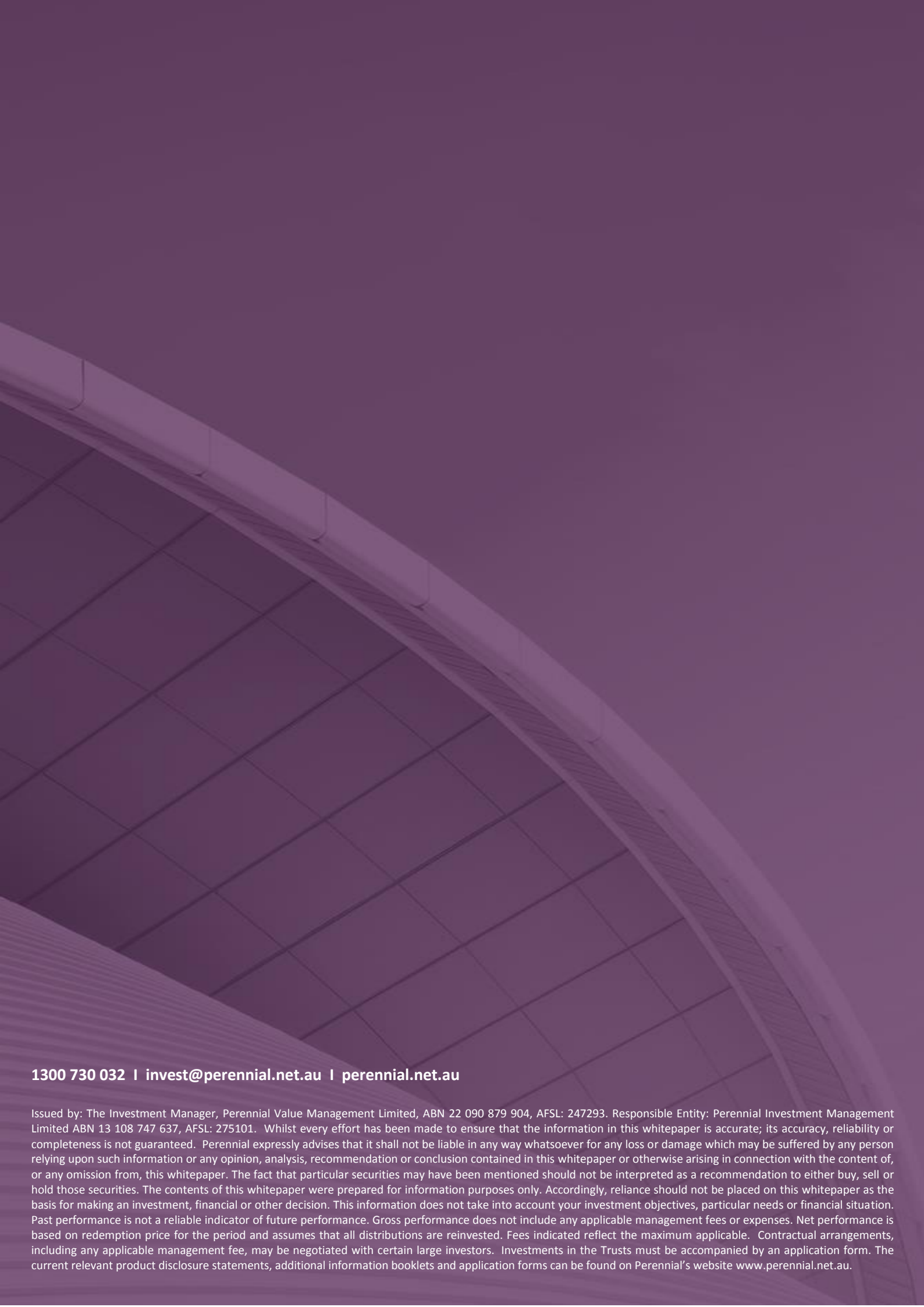


Question 15: What best describes your approach to ethical sourcing and upholding an ethical supply chain (select all that apply):





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