Perennial Partners

Perennial Better Future Survey Report

TAKING THE ESG PULSE OF ASX LISTED COMPANIES

2022

WWW.PERENNIAL.NET.AU

In the spirit of reconciliation, Perennial acknowledges the Traditional Owners of the Country in which we work, the Gadigal people of the Eora nation, and recognise their continuing connection to land, waters and culture. We pay our respects to their Elders past, present and emerging.

We accept the invitation in the Uluru Statement from the Heart to walk together in a movement of the Australian people for a better future.

Executive Summary

Welcome to the fourth edition of our Better Future corporate survey which is sent to ASX listed companies. The survey was designed and sent to ASX-listed companies to take their "ESG Pulse". The survey seeks to obtain the views on where companies have been, where they are now and where they are going on all things ESG (Environmental, Social and Governance).

55 ASX-listed corporates participated in the 2022 survey. As a thank you for the time and effort of the executives who completed our survey, we planted a tree for each participant in Australia through our tree planting partner, One Tree Planted.

This summary report outlines the key results of the survey, important themes and conclusions. It also draws comparison to previous years' responses to evaluate how thinking on ESG-related topics has evolved since 2019.

Following watershed years for sustainable investment in 2020 and 2021, 2022 witnessed continued progress towards most ESG initiatives. For listed corporates, there has been a period of operating challenges with the rising rate environment, full employment levels, inflationary pressures and an energy crisis.

We are pleased that our 2022 survey found that companies are still committed to improving their ESG and sustainability outcomes. In particular, it was interesting to compare the results from smaller companies versus larger companies throughout the report. Overall, whilst smaller companies appear to be less progressed and sophisticated on ESG targets, they appear to be motivated to drive improvements.

Perennial Better Future Strategy

Perennial is considered a top 10 responsible investment leader in Australia.* Perennial is committed to integrating and considering ESG and sustainability across all elements of the investment process.

Our Better Future strategy is the next generation of authentic ESG investments. It is focused on finding companies that are making a positive contribution to a better future, while pursuing strong, consistent returns for investors.

This strategy includes the Perennial Better Future Trust and the eInvest Better Future Fund (Managed Fund) quoted on the ASX under the code IMPQ.

*RIAA benchmarking report 2022

The Survey

The survey was sent to approximately 200 ASX-listed corporates with responses received in November 2022. The survey asked corporates 29 questions related to ESG and sustainability. Approximately 60% of companies included a company name.

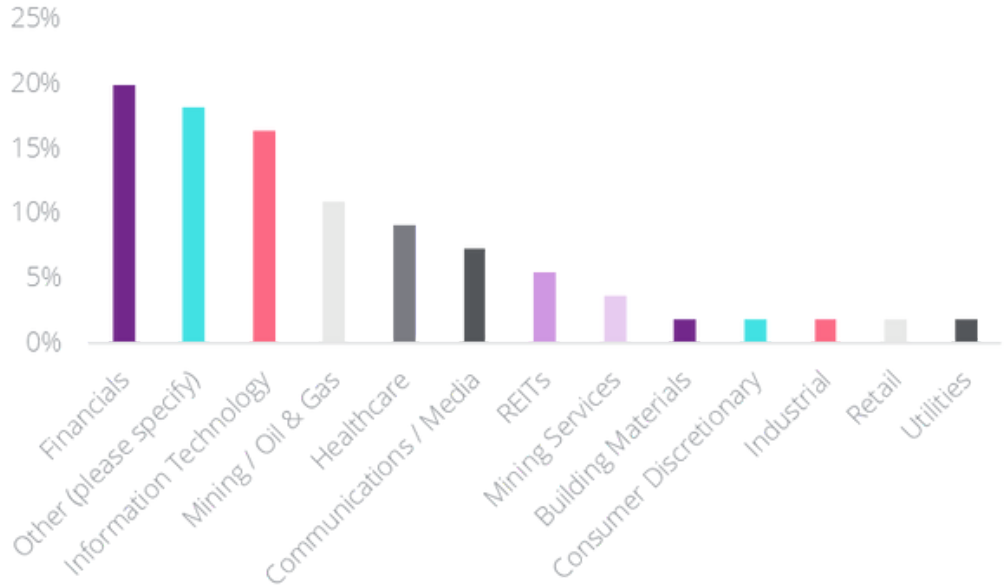
The respondents came from a diverse range of industries, with financials, IT and mining/oil and gas best represented. The survey captured a cross section of company sizes with 18% of respondents with a market cap <A$200m, 31% between A$200m - $1bn, 33% between $1bn - $5bn and the remaining 18% with >A$5bn market cap. This year there was an increase in participation from smaller companies.

For the use of company size analysis in this report, we have defined larger companies as those with a market cap >A$1bn.

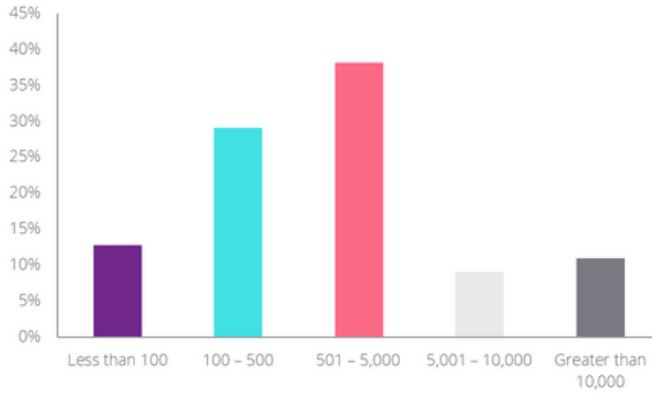
Respondents

PRIMARY BUSINESS INDUSTRY

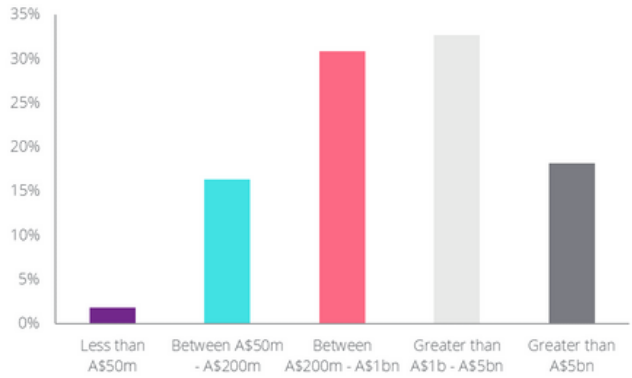
Financials, IT and Mining / Oil & Gas sectors most represented



NUMBER OF FULL TIME EQUIVALENTS



MARKET CAPITALISATION AS AT 31 OCTOBER 2022



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Key Findings

Sustainability Focus Areas

Even though ESG priorities have moved around from year to year, generally Greenhouse Gas (GHG) Emissions, Diversity, Governance and Modern Slavery were considered the most important to ASX-listed corporates. However, in 2022, Cyber Security emerged as the most important theme.

ESG and sustainability is set to remain crucially important to corporates in the medium term. On a scale of 1 least important to 10 most important, on average, respondents indicated ESG and sustainability as being 7.7 out of 10 on a scale of importance in the next 5 - 10 years.

What 3 areas of ESG are becoming more important or material to your business and will be of focus in the next 12 - 18 months?

2019	2020	2021	2022
Diversity	GHG Emissions	GHG Emissions	Cyber Security
Safety	Modern Slavery	Diversity	GHG Emissions
Governance	Safety	Modern Slavery	Diversity
	Governance	Cyber Security	

Sustainability Focus Areas (cont.)

After 2 years of GHG Emissions & alignment with the Paris Agreement taking the top priority for corporates, in 2022, Cyber Security concerns took the number 1 position, up from 4th position in 2021. This was consistent across both larger and smaller companies, demonstrating the risks of increasing cyber attacks and the material concerns this brings including reputational risk, fines and regulatory attention, customer loss and litigation.

Interestingly, biodiversity emerged as a priority in larger companies, but was not as front of mind for smaller companies. On a backward looking basis, only 3% of companies had biodiversity as an area of focus, however on forward looking basis, 16% of corporates indicated it as a theme of priority.

What 3 areas of ESG has your company focused on and improved outcomes in the last few years?

2019	2020	2021	2022
Diversity	Governance	GHG Emissions	Diversity
Governance	GHG Emissions	Diversity	GHG Emissions
GHG Emissions [1]	Diversity	Governance	Governance
Safety	Safety	Modern Slavery [2]	Cyber Security [3]

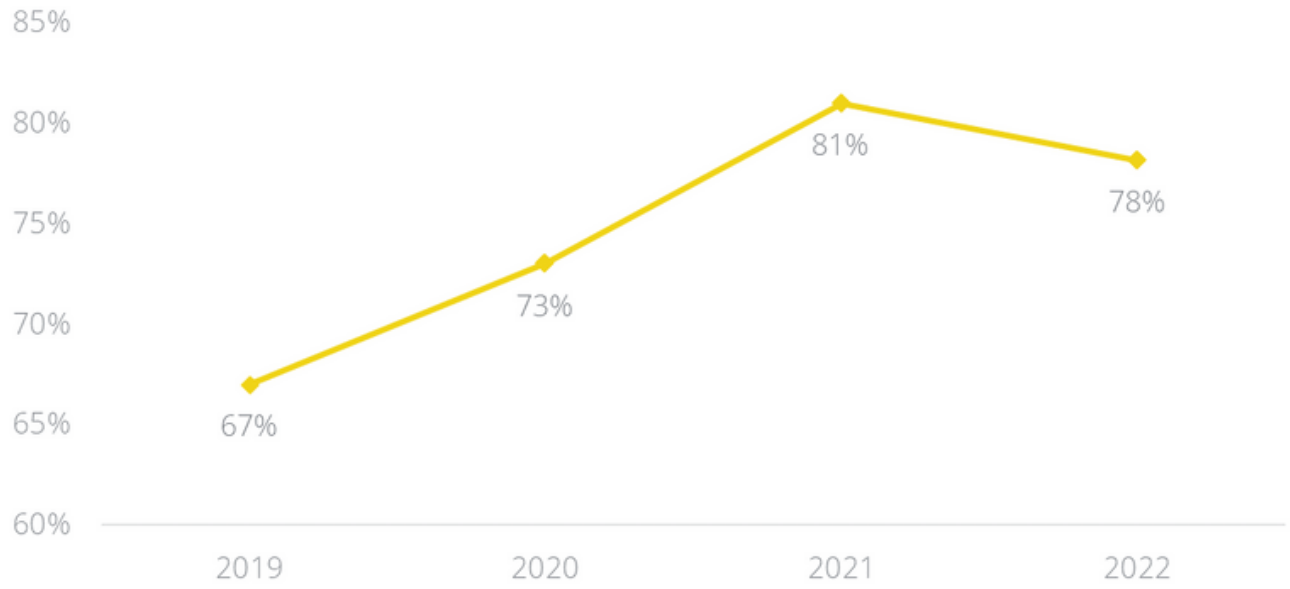
Diversity, GHG Emissions and Governance were the top backward looking focus areas for corporates. Overall, social factors have dominated importance over the last 4 years.

1: GHG Emissions including alignment with the Paris Agreement
2: Worker Rights, Modern Slavery and Human Rights Defenders
3: Cyber Security was a new response option in 2021

Business Strategy and Stakeholders

For a company to demonstrate meaningful ESG performance and change, we expect to see it integrated into the business strategy and have dedicated senior accountability (including at the board level). Focusing on ESG & Sustainability generally leads to improved performance, and investors play a critical role in driving positive change. The RIAA Benchmark Report Australia 2022 notes that responsible investment products continue to outperform the overall market in the domestic equity category on all time frames.[4]

Does your business strategy specifically reference ESG and sustainability? (% yes)

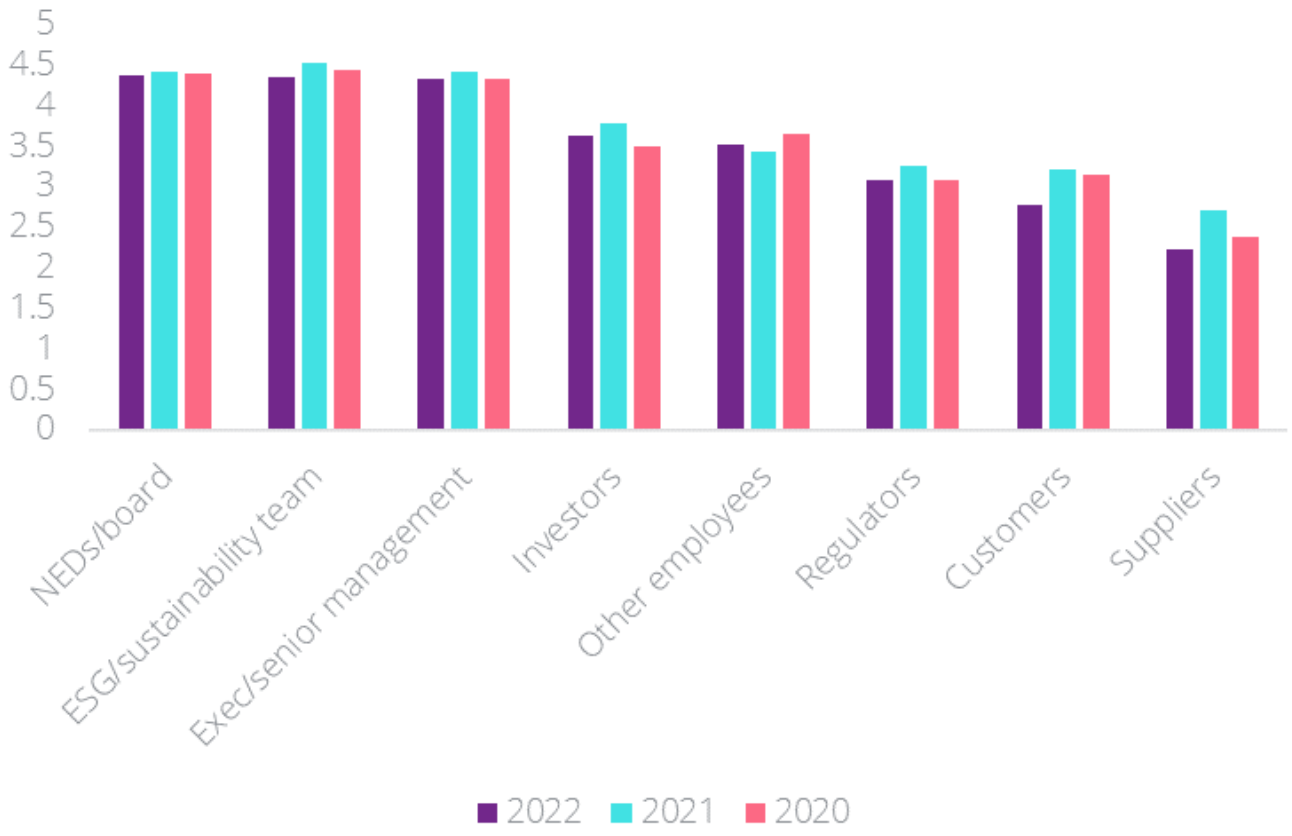


With 78% of respondents indicating yes, a similar proportion of corporates in 2022 have ESG and sustainability referenced in their business strategy to 2021. However, there is still a larger company skew with 82% of larger companies versus 74% of smaller companies referencing ESG and sustainability in their strategy.

4 RIAA Responsible Investment Benchmark Report, Responsible Investment Association Australasia

Business Strategy and Stakeholders (cont.)

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 5, where 5 is the highest)



In 2022, Non-Executive Directors (NEDs)/board topped the charts for the group of stakeholders which is encouraging the adoption of more sustainable/ESG practices, up from 2nd position in 2021, indicating a greater top down focus on ESG and sustainability within corporates. This year, Executive directors (Exec)/senior management came in second place.

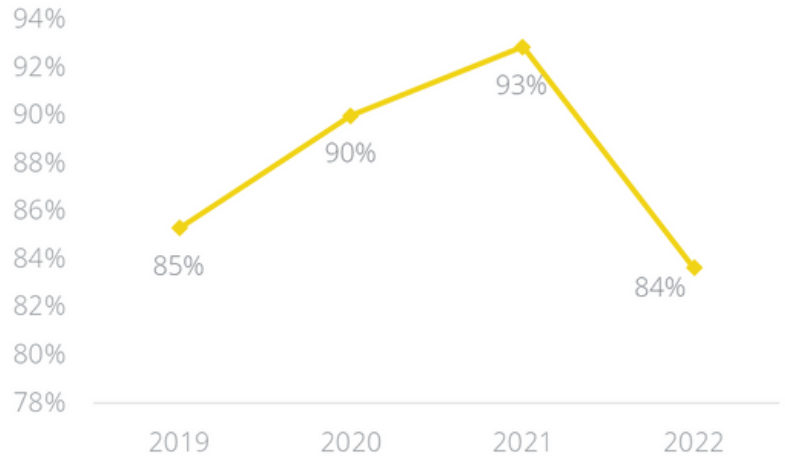
Conversely, customers and suppliers became less of an influence, dropping in double digit percentage from 2021.

There is a size effect to the drivers for sustainability. For larger companies, consistent with 2021, the ESG/Sustainability Team was the biggest driver, however for smaller companies, which may not have a dedicated ESG or sustainability team, Exec/senior management have the biggest influence.

Additionally, 49% of corporates surveyed in 2022 had a dedicated ESG and sustainability employee. This figure is largely skewed to larger companies which are 2.3x more likely to have a dedicated resource.

Business Strategy and Stakeholders (cont.)

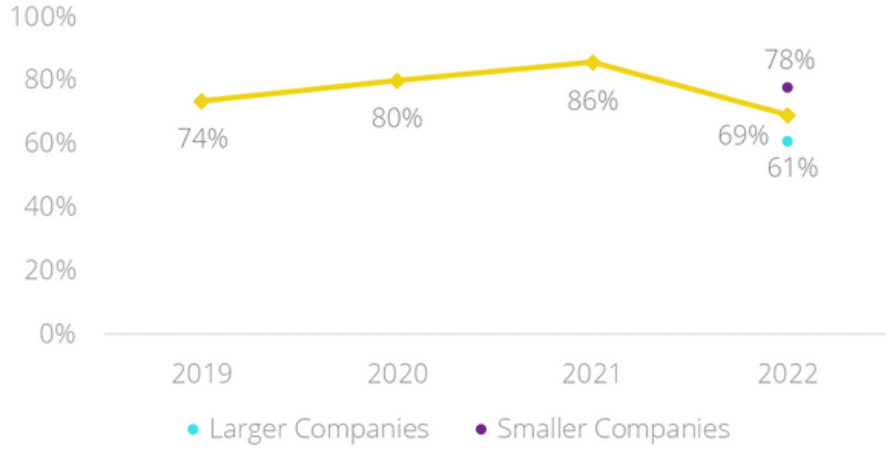
Engaging with investors on ESG and sustainability issues is beneficial to our company



The percentage of companies which agreed that engaging with investors on ESG and sustainability issues is beneficial to their company is overwhelmingly positive, however, in 2022 it declined to 84%, which is the lowest level since the survey begun. This could be a result of the other pertinent issues taking corporates' attention during 2022.

Additionally, when asked if sustainability reporting has become burdensome, 33% agreed or strongly agreed, in line with 2021.

We have experienced positive business outcomes as a result of focusing on Sustainability and ESG



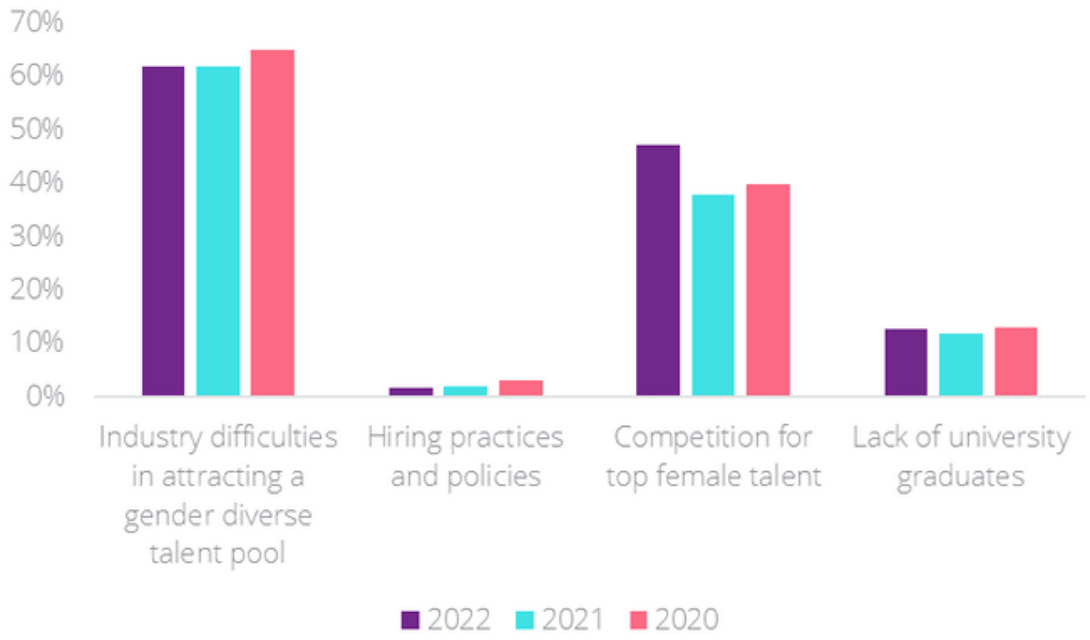
Positive business outcomes as a result of focusing on ESG and sustainability matters in 2022, also declined year on year.

Interestingly, the proportion of smaller companies, 78%, that answered agree or strongly agree was significantly higher than the proportion of larger companies, which trailed behind at 61%. This could be a result of the incremental positive from improving ESG performance where smaller companies have historically lagged. The only company to "strongly disagree" with the statement was an IT company. 29% of companies neither agreed nor disagreed and 100% of REITs and 80% of healthcare respondents found ESG to improve business outcomes.

Gender Diversity

Diversity has been continuously identified as an area of focus for corporates over the last 4 years, however achieving gender parity has still proved difficult in senior levels of corporate Australia. We dive into some of the dynamics of gender diversity in our survey.

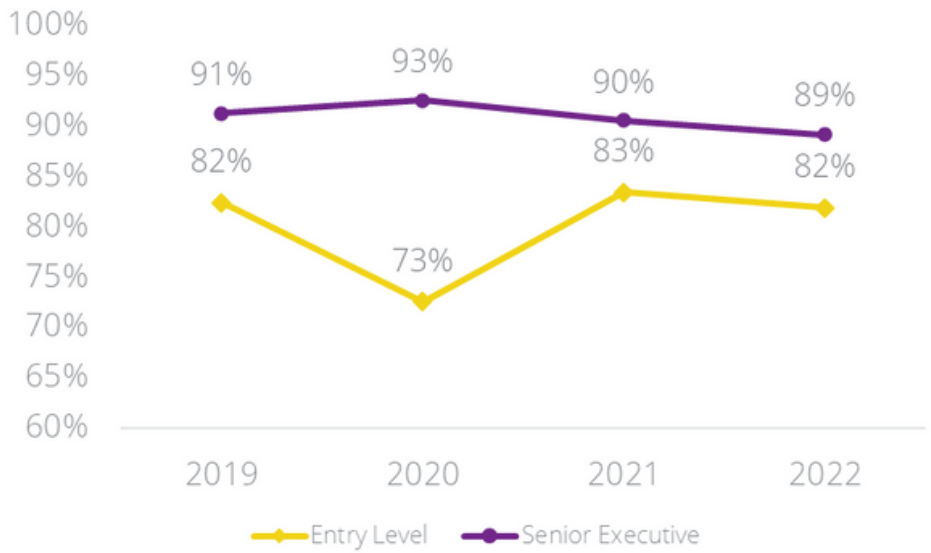
What are the inhibitors to your company achieving a gender diverse workplace? (select all that apply)



Industry difficulties in attracting gender diverse talent pools was the biggest inhibitor to achieving a gender diverse workplace in 2022, consistent with prior years. Competition for top female talent remained in 2nd position and intensified in 2022. Lack of university graduates remained stable.

Our company is focused on increasing gender diversity in:

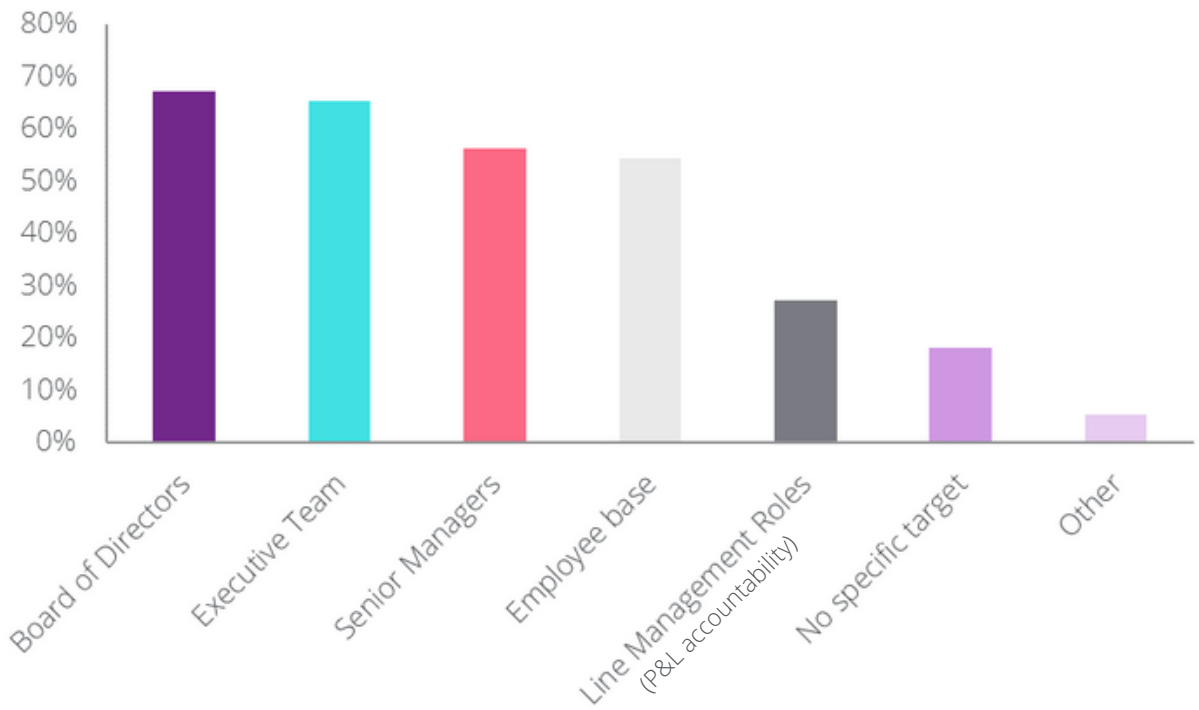
- **senior executive ranks**
- **entry level employment**



It remains a key priority to improve gender diversity in corporate Australia.

Gender Diversity (cont.)

Please indicate where you have diversity targets in place (select all that apply)



Gender diversity targets for the Board of Directors are the biggest focus for companies, followed by the Executive Team.

27% of companies indicated that they had targets for line management (profit and loss accountability) roles. We would like to see this figure improve overtime, given line management roles will typically lead the pipeline to executive positions. In 2023, a key area of focus for the Better Future Team is engaging with companies on increasing the representation of women in line management roles.

Smaller companies were more likely to have diversity targets in place at the employee level. 18% of companies still have no specific gender diversity target. However, overall, most companies indicated that they have gender diversity targets in place across all roles.

Sustainability Resourcing

This year, 49% of companies who responded to the survey have a dedicated ESG/Sustainability person or a team that spends 75% or more of their time on ESG matters. Although this is a decline from 2021, when evaluating the responses of larger companies versus smaller companies, notably 68% of larger companies have a dedicated employee compared to only 30% of smaller companies.

Some companies mentioned they have a team member which spends a portion of their time on sustainability matters, while others have ESG and sustainability responsibilities integrated in other business divisions.

Additionally, the investor relations executive commonly took responsibility for ESG among the respondents.

Do you have a dedicated ESG/Sustainability person or team who spends 75% or more of their time on ESG or Sustainability related matters?

Do you have a dedicated senior board member who is responsible for ESG/Sustainability?

Do you have a dedicated senior executive member who is responsible for ESG/Sustainability?

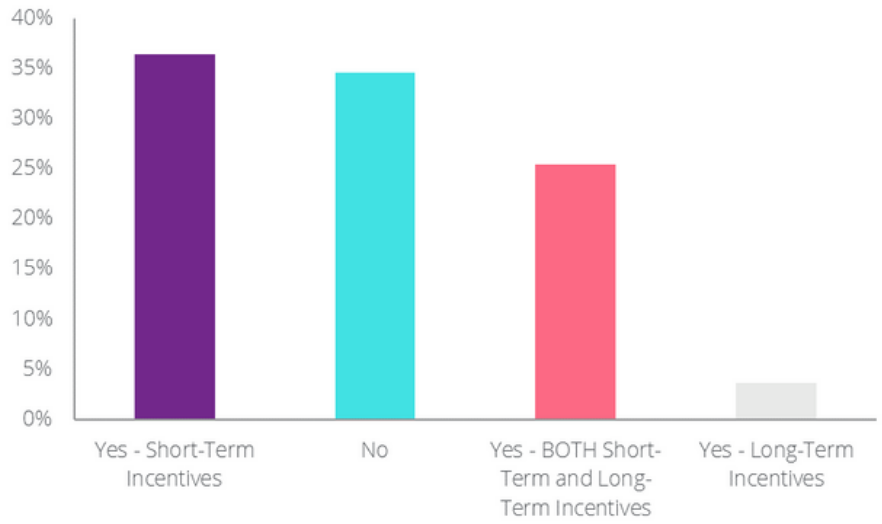
The majority of respondents that have a dedicated ESG/Sustainability person or team also had a dedicated senior executive member responsible for ESG matters (78%). Whether they also had a dedicated board member was more equally divided (52%).

In relation to companies with a dedicated board member, there is a size effect, with 50% of larger companies answering yes versus 37% of smaller companies. It is also common for sustainability matters to fall under the Audit and Risk board committee's responsibility.

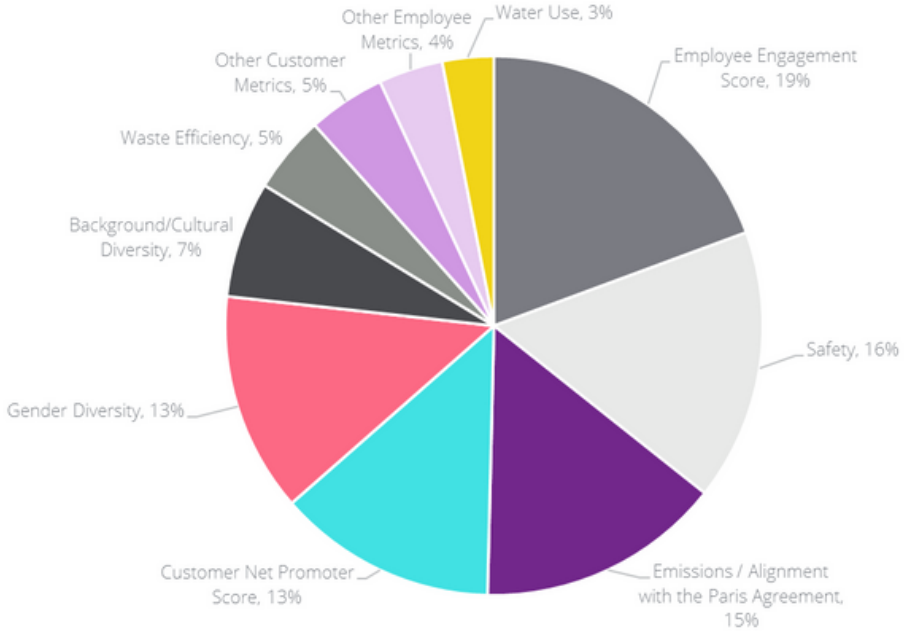
Remuneration

Tying ESG/Sustainability outcomes to remuneration is a key way to hold management to account for ESG performance.

Is Sustainability or ESG a specific KPI as part of executive remuneration?



If yes, what sustainability or ESG KPIs do you include as part of executive remuneration? Or if you intend to in the future, which metrics would you consider?

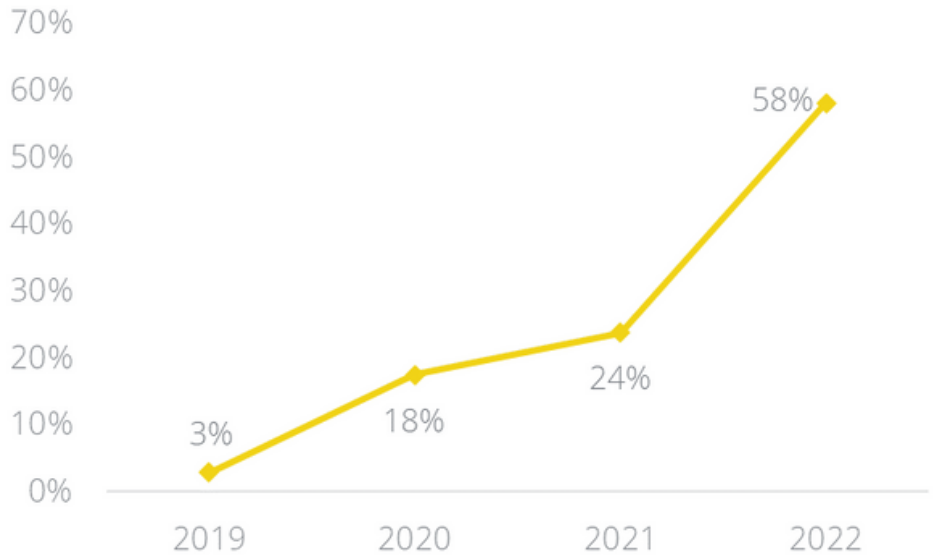


Pleasingly, 65% of companies have ESG or sustainability as a specific KPI versus 45% in 2021, although long-term incentives as part of the remuneration policy continue to lag. There is a significant size effect in the data, with 48% of smaller companies indicating that they do not have remuneration associated with ESG as a KPI, compared with 21% of larger companies.

Interestingly, 69% of companies that have a dedicated ESG executive member had ESG or sustainability as a specific KPI as part of executive remuneration. This is compared with 56% of companies that do not have a dedicated executive member.

Remuneration (cont.)

Investors have consistent and clear expectations regarding our remuneration policy



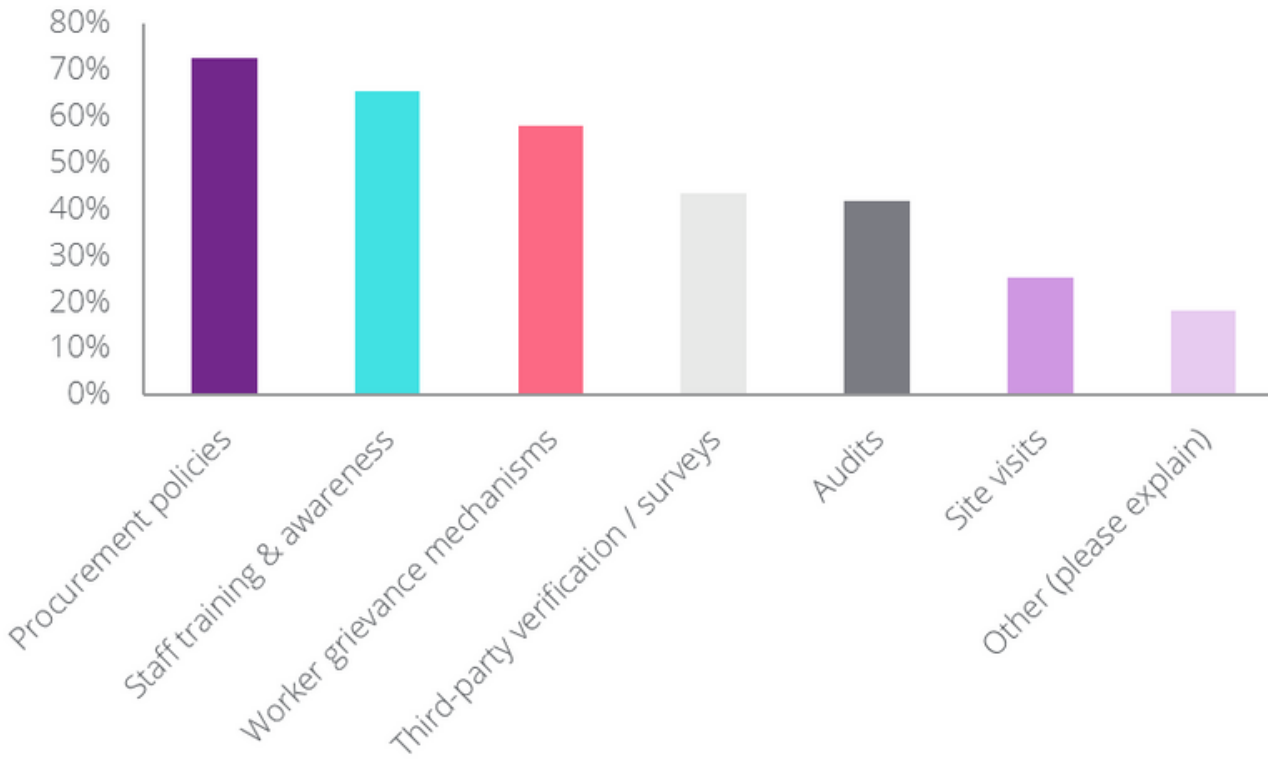
58% of companies indicated that their investors have consistent and clear expectations regarding their remuneration policy, a noticeable increase from previous years.

Additionally, 46% of respondents agreed or strongly agreed that they are feeling increasing pressure on remuneration policy/corporate governance practices from proxy advisors, up from 40% in 2021.

Modern Slavery and Supply Chain

Modern Slavery risk was not identified as a key focus area for corporates this year, as other issues take priority. However, it remains critically important to a companies social license to operate and may put the business at risk of regulatory intervention, rising expenses, remediation and disruptions to the supply chain.

What are the initiatives taken to identify Modern Slavery risks in your supply chain?

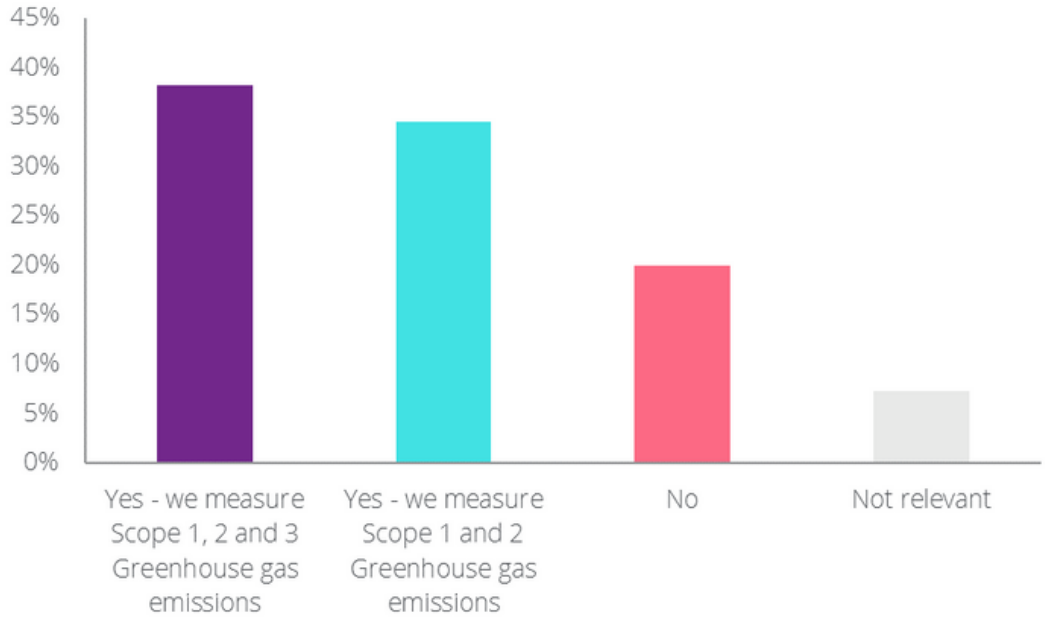


Procurement policies are the most common way to manage Modern Slavery risks. Pleasingly, staff training and awareness programs occurred in 65% of companies surveyed. Additionally, 25% of corporates undertake site visits to suppliers. Overall, larger companies are much more likely to have policies around Modern Slavery than smaller companies which could be a result of resourcing or the Commonwealth Modern Slavery Act 2018 reporting requirements.

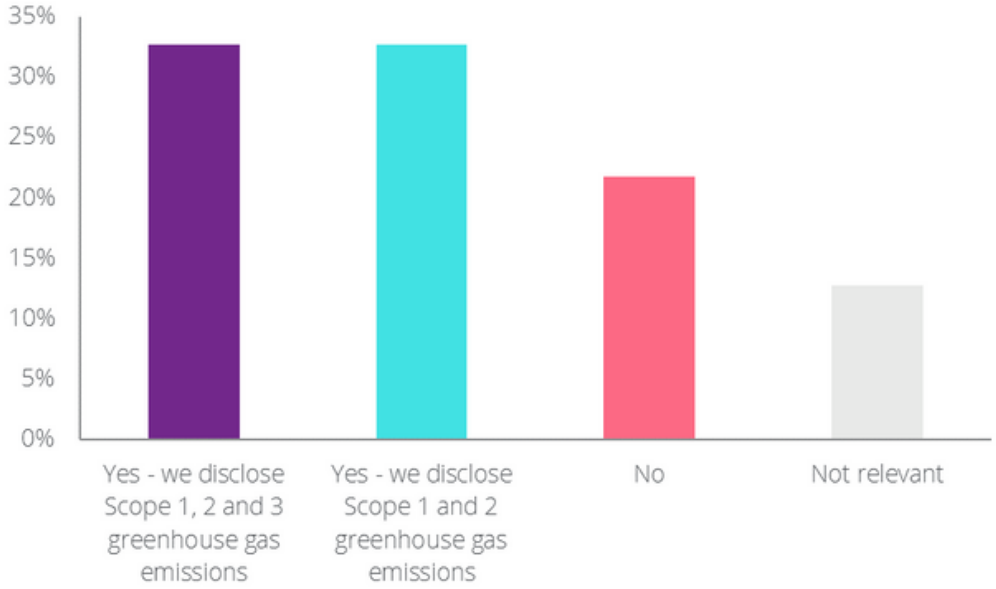
Environmental Measures and Targets

Disclosure of GHG Emissions will continue to be a key target area of engagement for the Better Future Team. The Better Future Team has previously outlined a goal of portfolio companies reporting at least Scope 1 and 2 GHG Emissions by 2024, and setting targets to align with the Paris agreement by 2025. This goal applies to any company that has been held in the Better Future trust for an extended period to allow a solid period of engagement.

Our company measures our Greenhouse Gas Emissions (select all that apply)



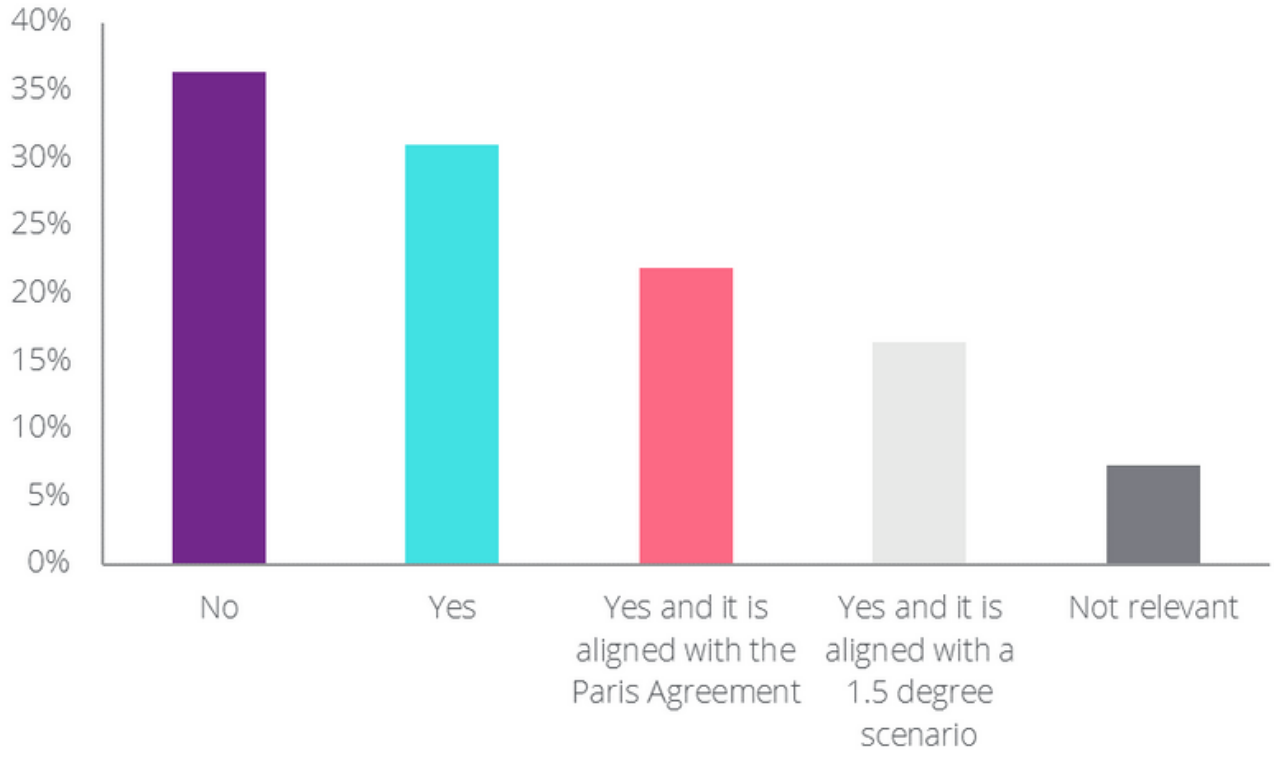
Our company discloses our Greenhouse Gas Emissions (select all that apply)



Overall, 73% of companies measure either Scope 1 and 2 or Scope 1, 2 and 3 GHG Emissions. However, 20% of those surveyed do not report their GHG Emissions.

Environmental Measures and Targets (cont.)

Our company has a target or goal associated with reducing GHG Emissions (select one)



Although 64% of companies have a target or goal associated with reducing GHG Emissions, only 16% are aligned with a 1.5 degree scenario.

Smaller companies in the IT sector comprised 100% of companies indicating "not relevant". Additionally, these companies cited that measuring and disclosing their GHG Emissions was also "not relevant". This may be associated with the view that their emissions profile is small therefore it is insignificant. We believe that it is important for every company to understand their emission profile as upstream and downstream stakeholders will be asking for the information for their own GHG inventory management.

Overall, 83% of Mining/Oil&Gas companies indicated that they had a target or goal associated with reducing GHG Emissions, while 64% of Financials had implemented a target.

Environmental Measures and Targets (cont.)

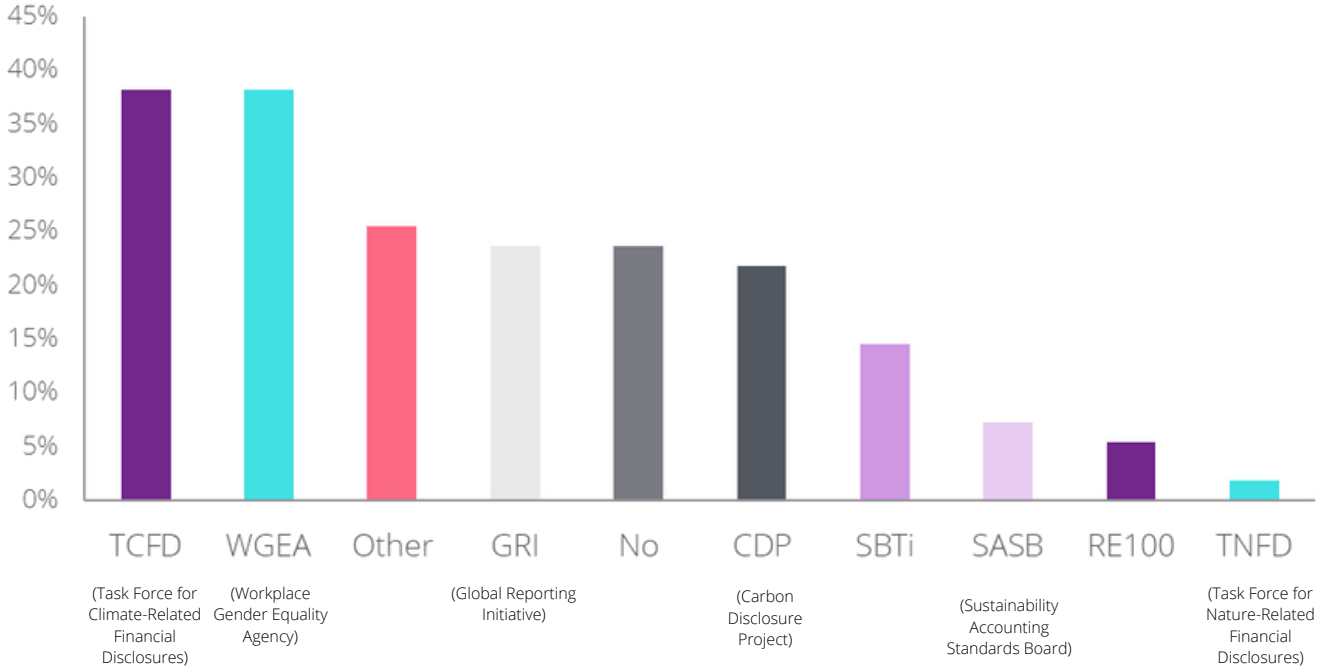
We see carbon offsets as an important element of our net zero strategy strategy

Over half of our respondents identified that offsets will form a part of their net zero strategy.

Reporting and Engagement

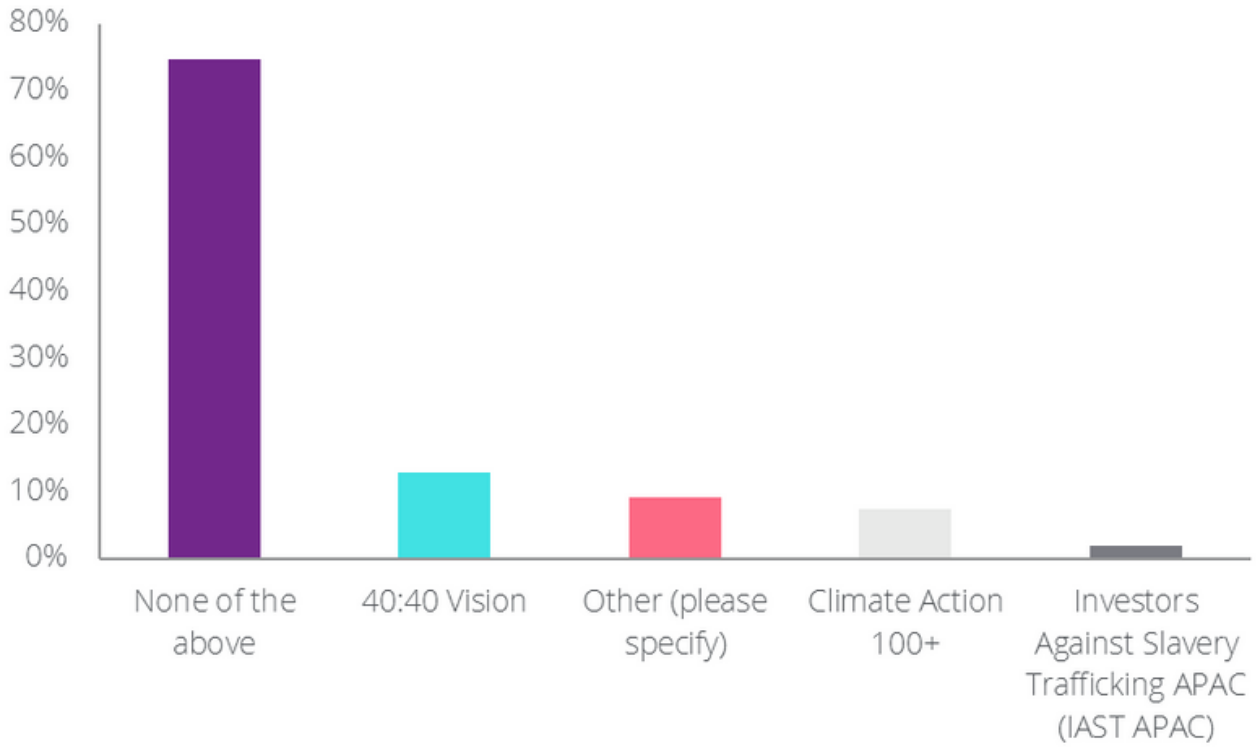
ESG Reporting and stakeholder engagement will continue to be necessary to document ESG performance and progress. However, given a lack of globally consistent sustainability reporting methods, corporates have found it challenging to navigate reporting frameworks and informational disclosure.

Does your company report ESG and/or Sustainability metrics? If so, please select the reporting initiatives you support.



Task Force for Climate-Related Financial Disclosures (TCFD) and Workplace Gender Equality Agency (WGEA) are the most popular ESG reporting standards, consistent with 2021. WGEA was the most common reporting framework for smaller companies. Overall, reporting was much more common across larger companies. 24% of companies still do not report ESG and/or sustainability metrics.

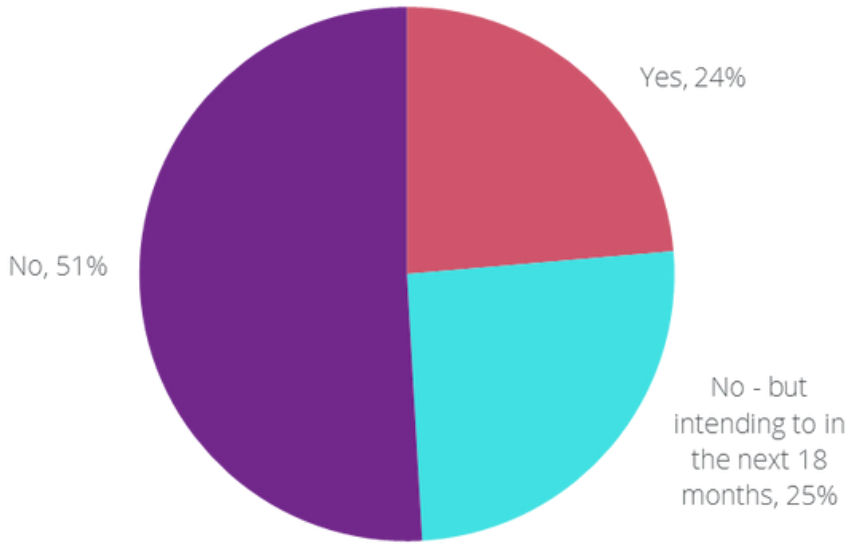
Do you engage with any of the following collaborative investor groups?



Despite making significant progress, Australian collaborative engagement groups did not reach 75% of respondents, given their focus on globally significant businesses. 33% found that collaborative engagement groups have helped to shape strategy, while the majority of corporates disagreed.

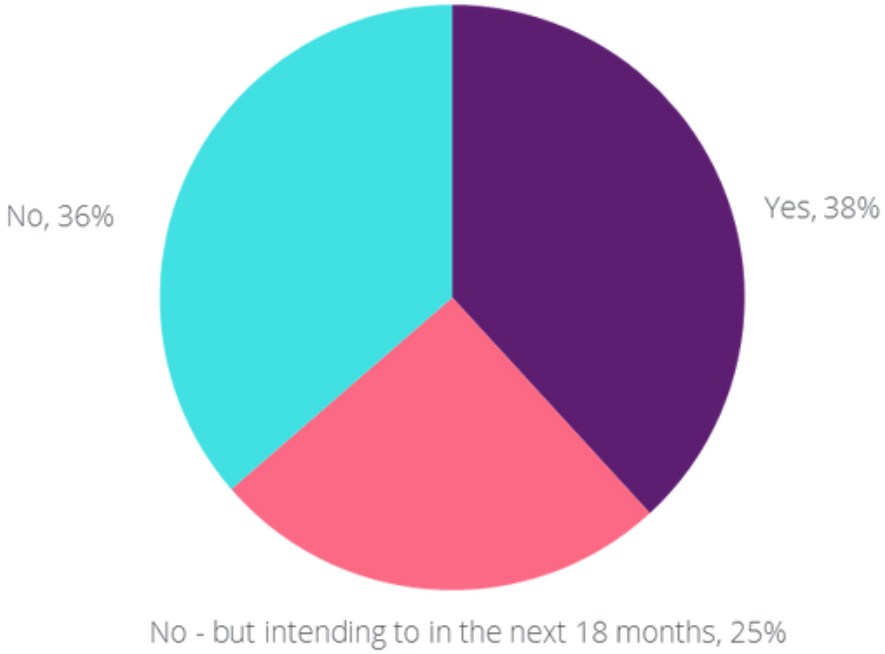
Reporting and Engagement (cont.)

Have you launched a Reconciliation Action Plan (RAP)?



Encouraging portfolio companies to report under the Reconciliation Action Plan (RAP) framework is a key priority for the Better Future Team looking ahead. While only 24% of companies surveyed have a RAP, an additional 25% intend to release a RAP in the coming 18 months. Overall, larger companies are more likely to have a RAP, but a higher proportion of smaller companies intend to start reporting a RAP in the next 18 months. 46% of larger companies and 56% of smaller companies indicated that they do not intend to report a RAP.

Do you have auditors verify your ESG/Sustainability information?



64% of companies have or intend to have their ESG information verified in the next 18 months. ESG verification is an important next step to ensure consistency and accuracy of ESG reporting.

Conclusion

Overall, there was mixed progress identified in our survey this year compared to the previous year. The mixed progress is likely partly attributable to the size effect of the data, but also potentially indicative of other pertinent, non-ESG and sustainability matters that corporates were concerned with in 2022.

Nevertheless, it is pleasing to see corporates' continued commitment to ESG and sustainability matters, and the progress and appetite for improved ESG & Sustainability performance amongst smaller companies.

The Better Future Team looks forward to our continued engagement with corporates and driving improved ESG outcomes through our investments, particularly on the focus areas noted by corporates including Cyber Security, GHG Emissions and Diversity.

The Perennial Better Future Team

L to R: George Whiting, Head of Institutional and Retail Business Development – Perennial Better Future, Emilie O'Neill, Co-Head of ESG and Equities Analyst, Damian Cottier, Portfolio Manager, and Madeleine Huynh, ESG & Assistant Equities Analyst.