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# Perennial Better Future Survey Report

TAKING THE ESG PULSE OF  
ASX LISTED COMPANIES

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# 2021

# Executive Summary

Welcome to the third edition of our Better Future corporate survey which is sent to ~200 listed companies in Australia. The survey is designed to take the "ESG Pulse" of ASX listed companies. It seeks to obtain the views of ASX listed companies on where they have been, where they are now and where they are going on all things ESG (Environmental, Social and Governance).

This report outlines the key results of the survey and important themes and conclusions. It also draws comparison to previous years' responses to assess how thinking on these topics has evolved since 2019.

2020 and 2021 have become watershed years for sustainable investment. We have seen significant inflows into sustainable investment products, intensified focus on climate change and net zero emissions and governments now paying attention to ESG and introducing legislation offshore. The increasing ESG engagement by investors with listed entities has improved disclosure and increased company willingness to engage on ESG topics.

We made a number of changes to the survey this year, including the option to include the company name so that responses can be identified and attributable. This has allowed us to include company examples in this report.

Thank you to the ASX listed companies who took the time to complete the survey. Your response has provided valuable insight into the current and future direction toward a better future.

## Perennial Better Future Strategy

Perennial is considered a responsible investment leader in Australia\*. Perennial is committed to integrating and considering ESG & 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 generating strong, consistent returns for investors. This strategy includes the Perennial Better Future Trust and the elInvest Better Future Fund (Managed Fund) quoted on the ASX under the code IMPQ.

\*RIAA benchmarking report 2020 & 2021



# The Survey

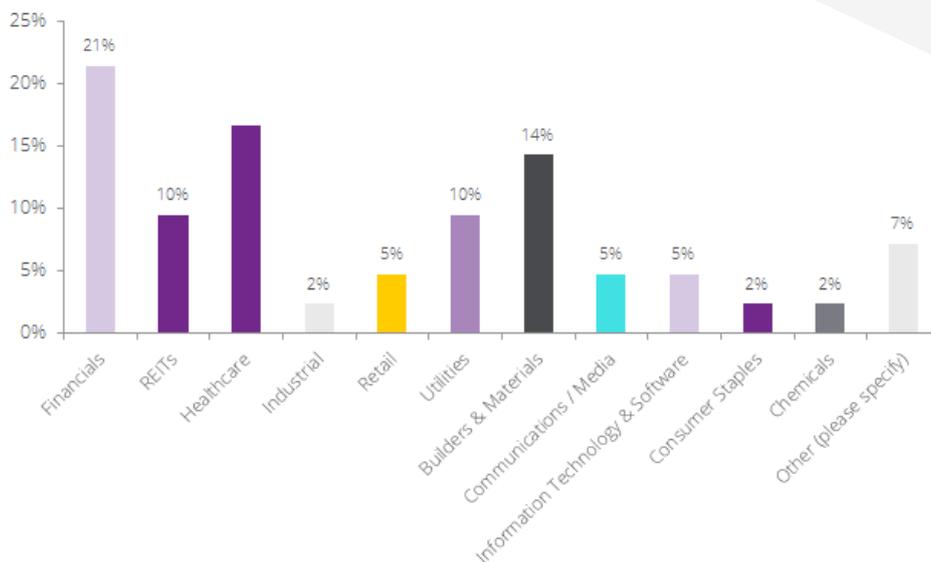
The Survey was sent to ~200 ASX listed companies with responses received in June 2021.

The Survey asked corporates 24 questions related to sustainability and ESG. ~80% of companies included a company name. The respondents came from a diverse range of industries, with financials and healthcare the most common. We had responses from a cross section of company sizes with 9% of respondents with a market cap <\$200M, 24% between \$200 - \$1bn, 29% between \$1bn - \$5bn and the remaining 38% with >\$5bn market cap.

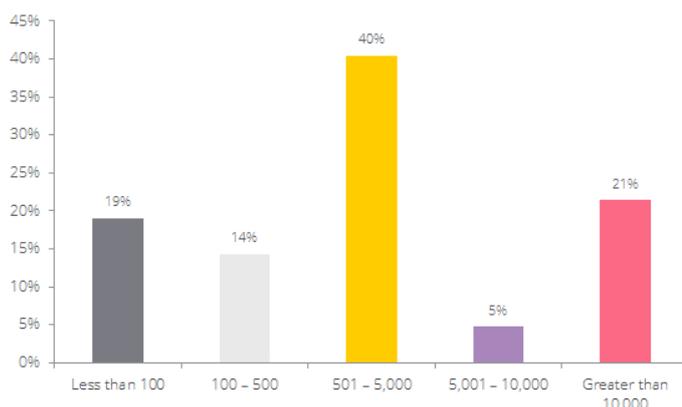
## Respondents

### PRIMARY BUSINESS INDUSTRY

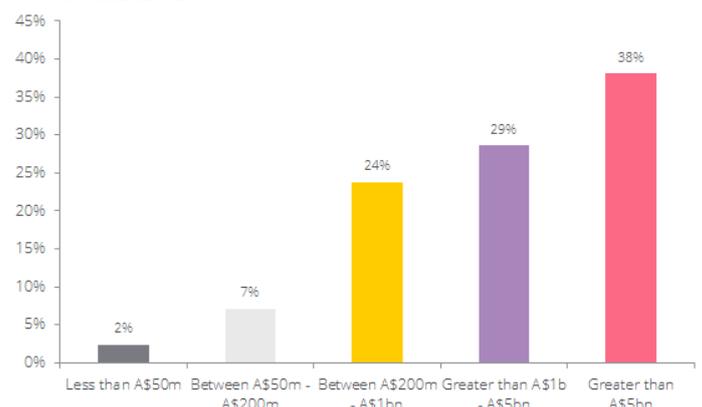
Financials and healthcare most represented



### NUMBER OF FULL TIME EQUIVALENTS



### MARKET CAPITALISATION AS AT 30 APRIL 2021



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# Key Findings

## Sustainability Focus Areas

ESG & Sustainability is set to remain crucially important in the medium term. On a scale of 1 least important to 10 most important, companies selected ESG & Sustainability as an 8.4 out of 10 on a scale of importance in the next 5 - 10 years. For financials, Sustainability was 8.0 importance, healthcare companies rated it as a 7.4, REITs at 9.7, utilities 8.3 and building materials 9.2 out of 10.

Even though ESG priorities have moved around from year to year, generally GHG Emissions, Diversity, Governance and Modern Slavery are considered the most important to ASX listed corporates.

### 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
Diversity	GHG Emissions	GHG Emissions
Safety	Modern Slavery	Diversity
Governance	Safety	Modern Slavery
	Governance	Cyber Security

When asked about the areas of ESG becoming more important to corporates in the next 12 - 18 months, GHG Emissions, including alignment with the Paris Agreement, came in as the number one priority for corporates for the second year in a row. Diversity moved up as a priority, while Modern Slavery and Cyber Security came in equal third.

In addition, ANZ flagged Financial Wellbeing and Cleanaway put Circular Economy as a material business issue.

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

This year, GHG Emissions including alignment with the Paris Agreement was the biggest area of focus and improvement for corporates. Diversity moved up to second place (from third in 2020) and Governance moved down to third (from first in 2020). Interestingly, GHG Emissions, Diversity and Governance have been the top three material ESG issues over the last three years. Modern Slavery became more important to corporates and came in at fourth. This makes sense given the Commonwealth Modern Slavery Act 2018, was required to be reported on this year. Cyber Security was a new option in this years' survey, and ranked well at equal fifth.

2019	2020	2021	
Diversity	Governance	GHG Emissions <sup>1</sup>	↑
Governance	GHG Emissions	Diversity	↑
GHG Emissions	Diversity	Governance	↓
Safety	Safety	Modern Slavery <sup>2</sup>	↑
Equality	Remuneration	Safety	—
Remuneration	Waste Management	Cyber Security <sup>3</sup>	—
Charitable Work	Modern Slavery	Waste Management	↓
Use of Plastics	Charitable Work	Remuneration	↓
Indigenous Relations	Supply Chain	Use of Plastics	—
Water Use	Indigenous Relations	Equality	↑
	Use of Plastics	Indigenous Relations	—
	Water Use	Supply Chain	↓
	Equality	Water Use	—
		Charitable Work	↓

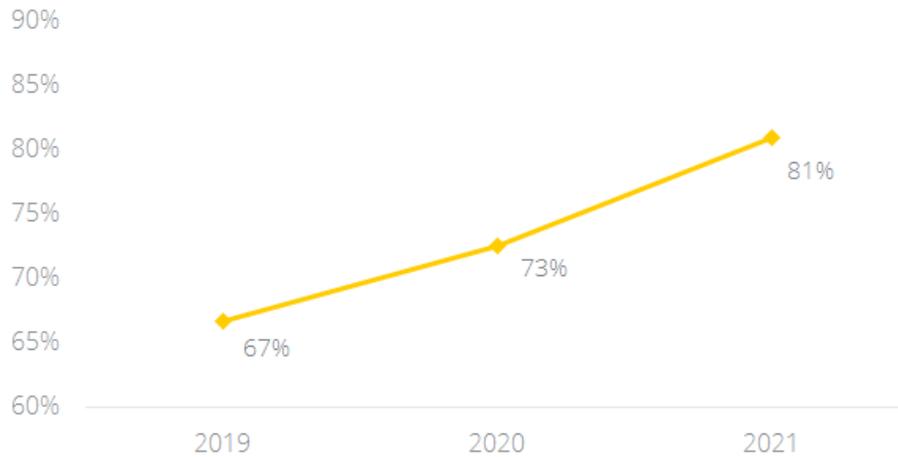
1: GHG Emissions including alignment with the Paris Agreement  
 2: Worker Rights, Modern Slavery and Human Rights Defenders  
 3: Cyber Security was a new response option in 2021



# Business Strategy and Stakeholders

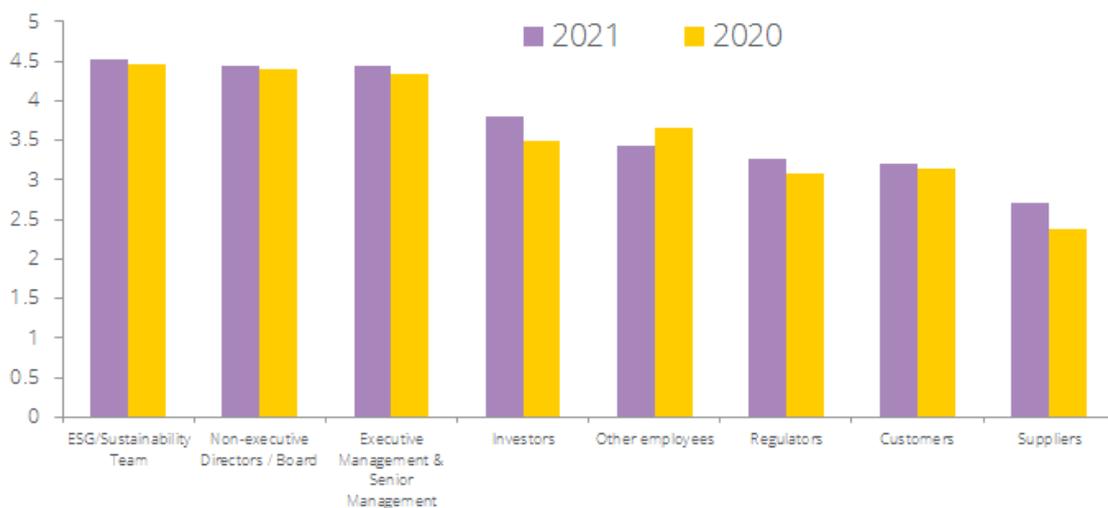
ESG & Sustainability is becoming more material for corporates, as there is more interest from investors and employees.

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



81% of companies have a business strategy that specifically references ESG/Sustainability. This is up from 73% in 2020 and 67% in 2019. This is consistent across both large and smaller companies.

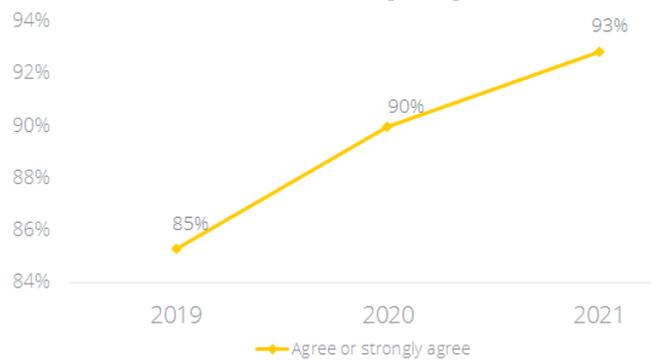
## Please indicate the extent to which each group of stakeholders is encouraging the adoption of more Sustainable/ESG practices in your business? (from 1 to 5, where 5 is the highest)



The stakeholders driving the adoption of more sustainable business practices were consistent with last year. The key groups driving ESG practices were the ESG/Sustainability team, NEDs and Senior Management.

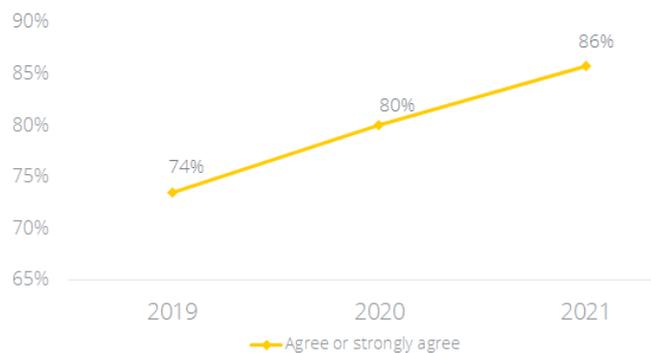


## Engaging with investors on Sustainability and ESG issues is beneficial to our company



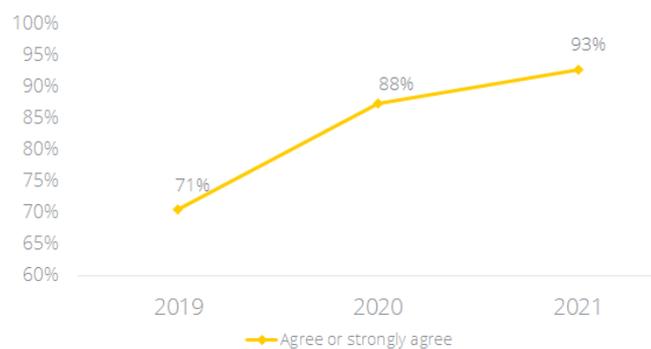
Engaging with investors on ESG issues is becoming increasingly beneficial to respondents. However, when asked if Sustainability reporting has become burdensome, 33% agreed or strongly agreed.

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



ESG and Sustainability is not just important for investors. 86% agreed that it results in improved business outcomes.

## Having an ethical and sustainable supply chain is important to our business



It is no surprise that 93% of companies agreed that having an ethical supply chain is important this year given the introduction of the Commonwealth Modern Slavery Act 2018. This is up from 88% in 2020 and 71% in 2019.

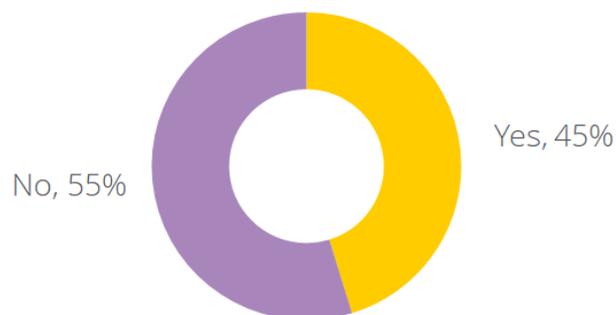
# Remuneration

**When implementing a remuneration policy, we consider: (please rank from 1 - 5, where 1 is considered the most important)**



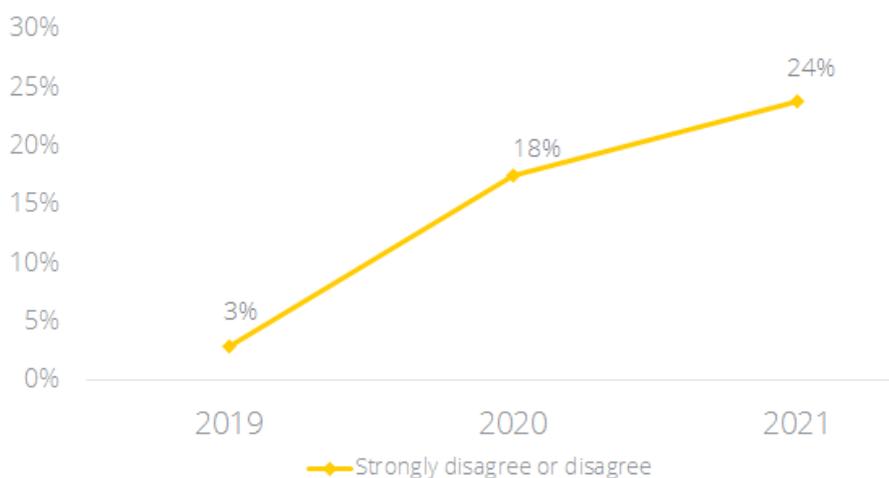
In 2020 and 2021, shareholders were clearly the key consideration in remuneration policy. In 2021, management considerations were higher than the board. Proxy advisors was a new option in 2021 and ranked last. However, over 7% of respondents considered it the most important.

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



Although only 45% of companies have ESG as a KPI, the company commentary provided indicated that this may improve in coming years. For example, Integral Diagnostics, Steadfast, Alpha HPA, Adairs and Domain Holdings have all indicated they will be looking at this going forward. Larger companies are also more likely to have Sustainability linked KPIs.

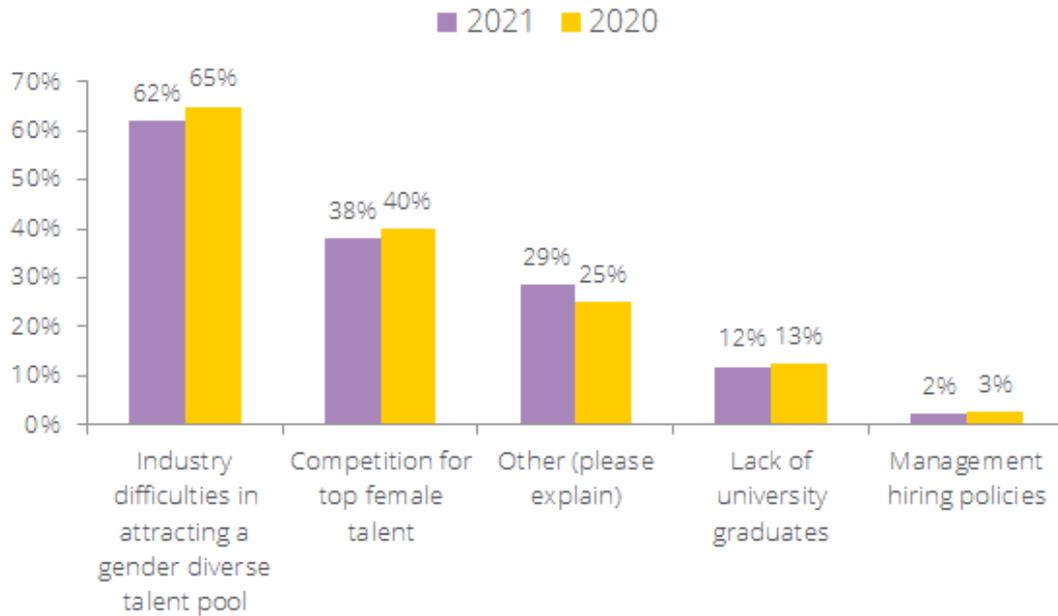
**Investors have consistent and clear expectations regarding our remuneration policy**



Companies are finding that investor expectations on the remuneration policy are diverging. 24% of companies surveyed disagree or strongly disagree that investors have consistent and clear expectations on the remuneration policy. Additionally, 40% of respondents agreed or strongly agreed that they are feeling increasing pressure on remuneration policy/corporate governance practices from proxy advisors.

# Gender Diversity

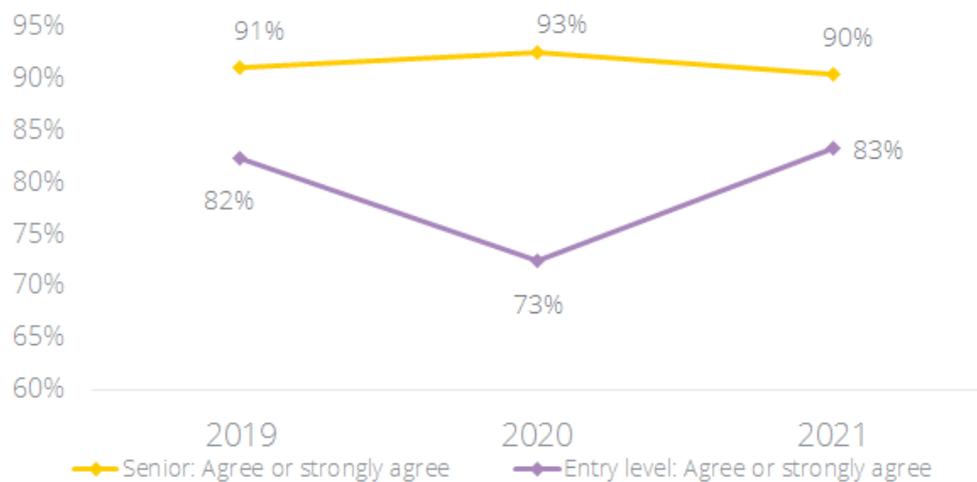
**What are the inhibitors to your company achieving a gender diverse workplace? (select all that apply)**



Industry difficulties in attracting gender diverse talent pools remains the biggest inhibitor to achieving a gender diverse workplace in 2020 and 2021. Competition for top female talent came in second in both years. Some similar comments to last year included low turnover as a driver and that it can not be attributed to one single issue. Imricor Medical Systems rightfully pointed out that "diversity goes beyond just gender."

**Our company is focused on increasing gender diversity in:**

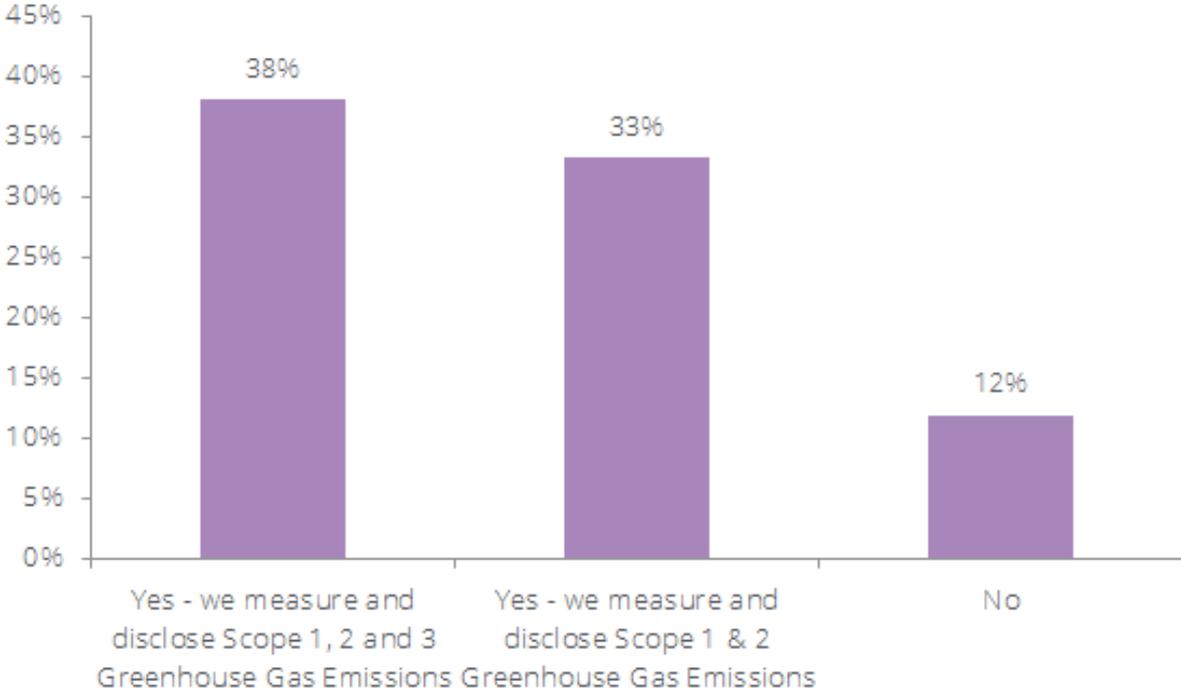
- **senior executive ranks**
- **entry level employment**



Consistent with prior years, increasing gender diversity at the senior level is more in focus than at the entry level.

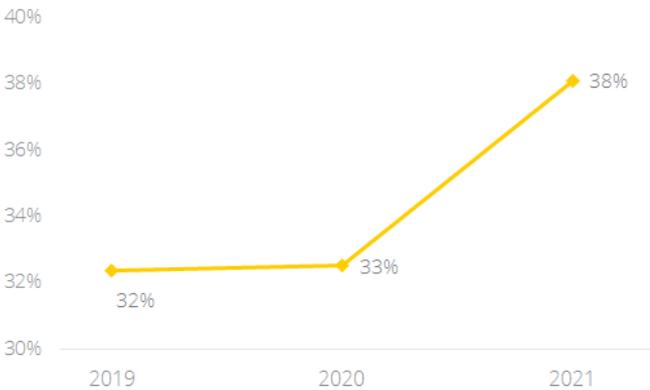
# Environmental Measures and Targets

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



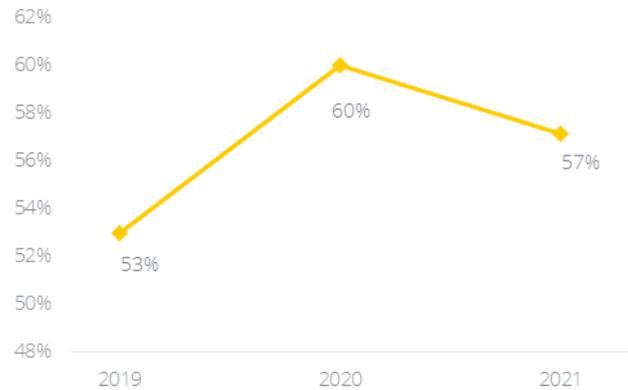
38% of companies measure and disclose Scope 1, 2 and 3 GHG Emissions and 12% do not measure or disclose. 40% have a GHG Emissions target or goal that is aligned with the Paris Agreement.

## Our company has a target or goal associated with reducing water use in operations (% yes)



Although only 38% of companies have a target for reducing water use, it is gradually improving over time.

## Our company has a target or goal associated with waste reduction and/or management (% yes)



Waste reduction targets reduced to 57% of companies surveyed, however remains up on 2019 levels of 53%.

# Sustainability Resourcing

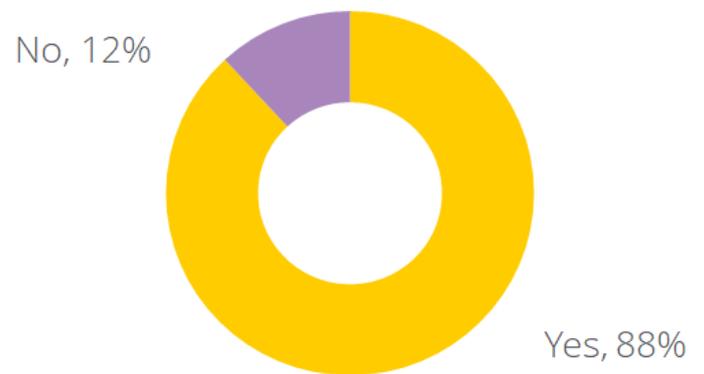
This year, 60% of companies who responded to the survey have a dedicated Sustainability or ESG team, which is important as the survey suggests that these staff members are the biggest drivers of more sustainable business practices in organisations. It was both surprising and pleasing to find that 88% of companies have a board member or senior executive who is responsible for ESG. This demonstrates good corporate governance and a top down effort on ESG & Sustainability.

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



60% of companies have a dedicated sustainability staff member. This rises to 82% for larger companies. Smaller companies Auckland Airport, BWX, Adairs and Calix also reported to having a dedicated sustainability employee.

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

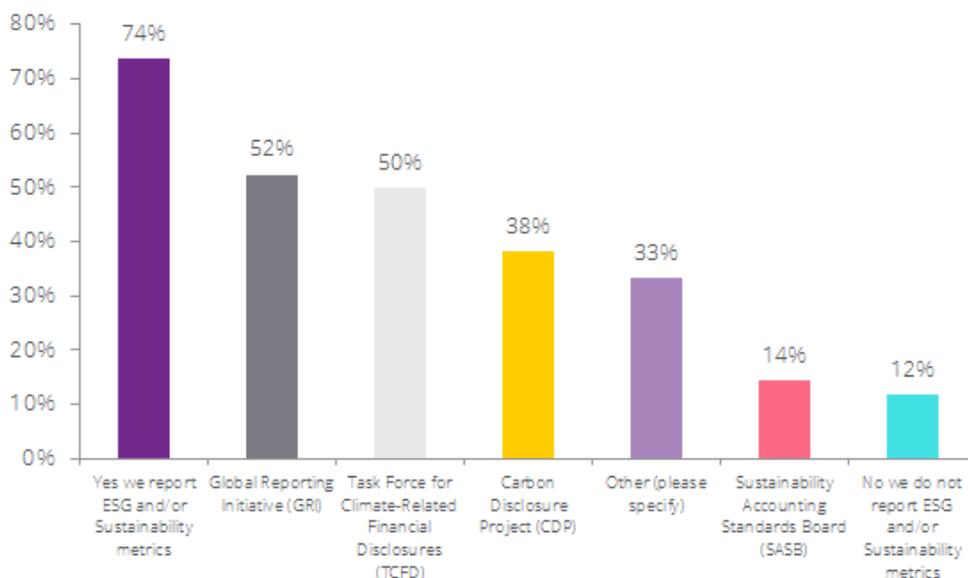


Surprising to us, more than 88% of respondents had a board member or senior executive who is responsible for ESG. Some companies have indicated that they have established board committees to promote sustainability, for example Dexus commented that "We are pleased to have a dedicated Board ESG Committee that is involved in key decisions relating to ESG and reinforces the importance of addressing ESG risks and opportunities." Meridian Energy also has a Safety and Sustainability Board Subcommittee.

## Reporting and Engagement

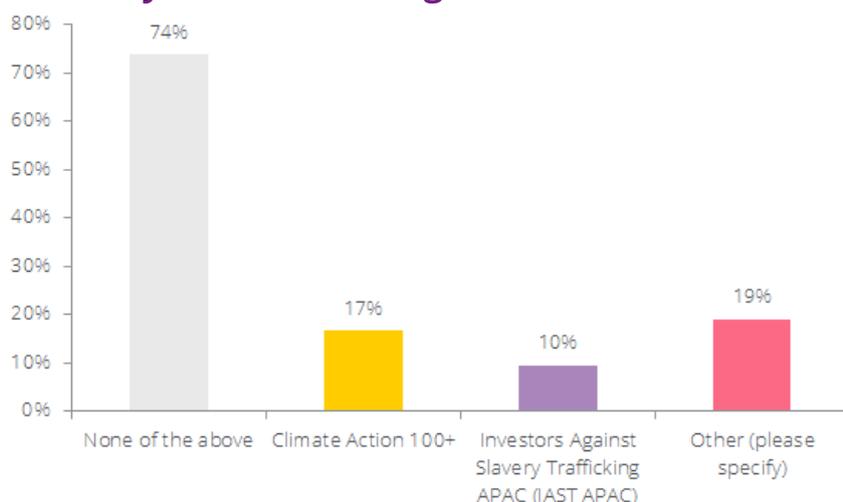
The proportion of companies reporting ESG & Sustainability metrics has not changed significantly year on year. For those that do, GRI and TCFD are the most common reporting frameworks for respondents. 26% of companies engage with collaborative investor groups and the majority find it useful.

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



74% of companies report ESG & Sustainability metrics. GRI and TCFD are most common. For financials, CDP reporting was also prevalent.

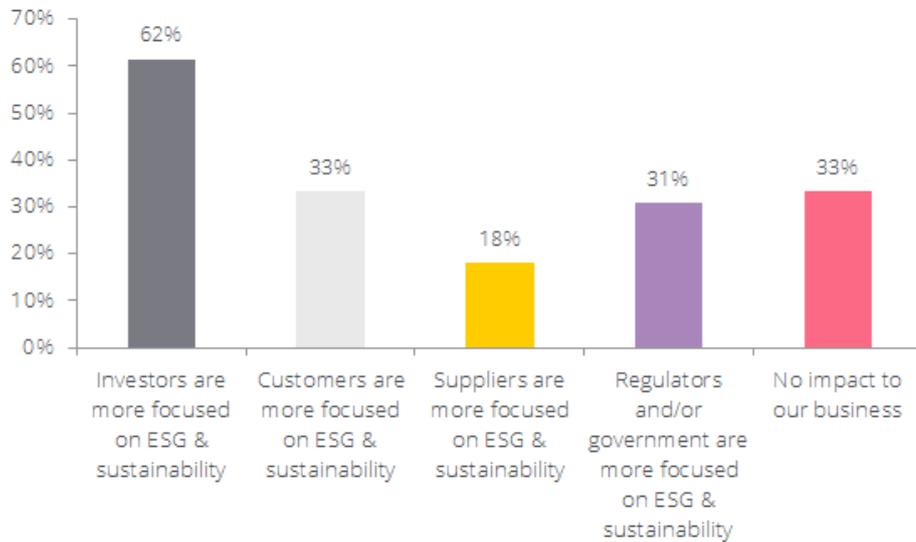
### Do you engage with any of the following collaborative investor groups?



26% of companies engage with collaborative investor groups Climate Action 100+ and IAST APAC and the majority find it useful. QBE stated "Investor groups provide us with an important view of our sustainability priorities." RE100 and 40:40 Vision were also flagged as collaborative investor groups. One comment stated that the groups do not understand sector issues. Smaller companies are not yet the target of these collaborative groups which is why individual investor engagement is important. Engagement is a focus for the Better Future Strategies.

# Impact of COVID

How has COVID impacted ESG & Sustainability in your business? (select all that apply)



COVID has accelerated the focus on ESG & Sustainability with 62% of respondents agreeing that investors are more focused on the topic post the COVID pandemic. Customers and governments are also being seen to be engaged on the topic with 33% and 31% of respondents respectively agreeing that COVID increased their focus on ESG & Sustainability.

## Conclusion

**MANY COMMENTS WERE LEFT ON THE INCREASING FOCUS OF ESG.**



New Energy Solar stated that there is "generally greater demand from investors".



Integral Diagnostics added that "There has been a heightened focus on ESG by all groups in the community."



Sims highlighted the trickledown effect by stating "We've had more investor questions on ESG and customers are asking for more ESG metrics to complete their own ESG reporting. Our business delivers excellent ESG outcomes and we're pleased we can help our customers achieve the same."



Cleanaway said "COVID was clearly a major disruptor for many businesses and something that touched all of our stakeholders. It provided investors with an opportunity to see how truly sustainable companies were, through the lens of how they balanced the competing needs of their stakeholders."

It is pleasing to see that over the last couple of years, ESG & Sustainability has continued to increase in importance for ASX listed companies, and we expect this to be the case over the medium term. Interest in ESG and Sustainability is coming from investors, customers, suppliers and regulators, and we expect that engagement with corporates on ESG will remain an integral part of the investment process for the Better Future Strategies.

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# Talented teams, great opportunities.

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