



PERENNIAL

2020 Report

SUSTAINABLE FUTURE SURVEY

*Taking the ESG Pulse of
ASX listed companies*



Damian Cottier
Portfolio Manager &
Senior Equities Analyst



Emile O'Neill
ESG & Equities Analyst



"PRI-commissioned research indicates that engaging with companies on ESG issues can create value for both investors and companies, by encouraging better ESG risk management and more sustainable business practices."

Principles of Responsible Investment

With thanks to:

Dan Birch
Pyke Gunning
Christelle-Hannah Manila

EXECUTIVE SUMMARY

We have completed the second edition of our Sustainable Future corporate survey which was sent to ~250 listed companies in Australia. The survey is designed to take the “ESG Pulse” of ASX listed companies. The survey 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. Australia has experienced devastating consequences of climate change during 2019 and 2020. The bushfires and subsequent floods in the last 12 months have brought climate change and Green House Gas emissions to the forefront for corporates and investors. We focus on environmental trends, but also dive into social and governance issues which have increased in relevance during the Coronavirus pandemic.

We also include analysis on how corporate responses have changed since our initial survey in 2019.

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

The Perennial Sustainable Future Trust

Perennial is focused on integrating ESG and sustainability in the investment process and understanding how corporate sustainability is considered and changing over time.

A key aspect of our approach is our Sustainable Future Strategy, which is available through the Perennial Smaller Companies Sustainable Future Trust and the ASX quoted eInvest Future Impact Small Caps Managed Fund (ASX: IMPQ). These funds seek to invest in smaller and mid cap companies that are contributing to a better future.

The annual Sustainable Future survey is part of our engagement with corporates. It provides us with data to analyse the current and changing dynamics of corporate ESG and sustainability.

The Survey:

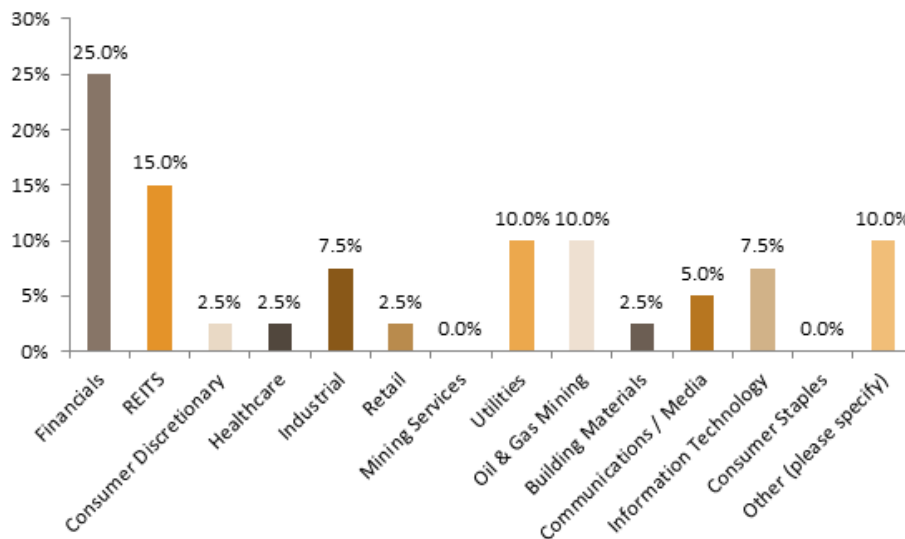
The Survey was sent to ~250 Australian listed companies during June 2020 in the midst of the Coronavirus pandemic. The survey comprised of 20 questions.

While the survey was anonymous to encourage frank responses, we expect that companies with dedicated ESG resources are more likely to have responded to the survey which means the results are likely over-represented by the views of these types of companies.

Full details of the questions and responses are set out in the Survey Detail section of the report.

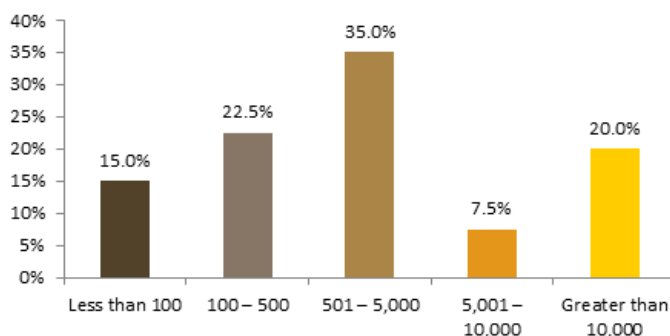
The Respondents:

The respondents came from a range of industries broadly representative of the Australian index. The respondents were also diverse in terms of size of employees and market capitalisation.

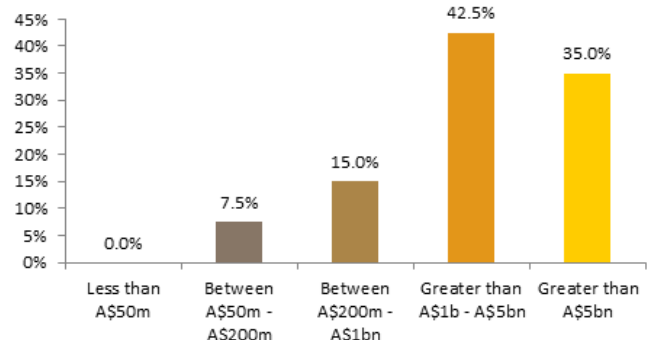


Approximately 10% have been characterised by the companies as “other” including industries like Environment, Materials Science and Chemicals.

What is the approximate number of Full Time Equivalents (FTEs) of your organisation as at May 31, 2020?



What is the Australian market capitalisation of your company as at May 31, 2020?



contents

sustainable. opportunity.

4

KEY FINDINGS:

ESG focus areas

5

The importance of ESG

Gender Diversity

6

Emissions, water and waste targets

7

National energy policy

TCFD adoption

Remuneration expectations of investors

8

ESG-remuneration targets

Stakeholders driving ESG adoption

9

Comparing 2019 and 2020 responses

KEY FINDINGS

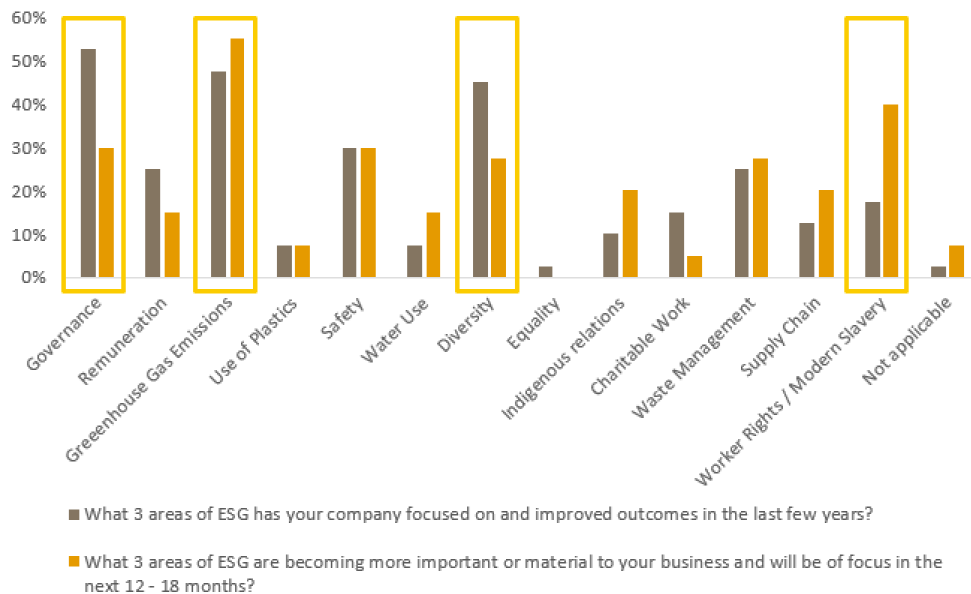
How are ESG focus areas changing?

We asked corporates about their ESG focus areas in the past, versus focus areas for the future. Focus areas for those surveyed during the last few years, compared to the next 12-18 months, suggest less of a focus on “governance” and more of a focus on “environmental” and “social”.

Key changes include:

- Reduced focus on governance;
- Reduced focus on remuneration;
- Increased focus on modern slavery;
- Increased focus on indigenous relations;
- Increased focus on water use;
- Increased focus on greenhouse gas emissions.

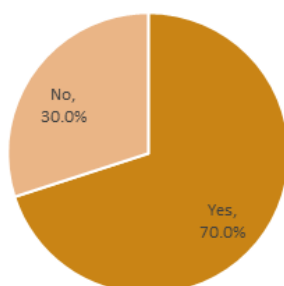
Another somewhat surprising outcome is a reduced focus on diversity.



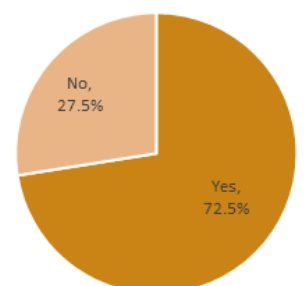
Is ESG a key strategic focus for companies?

72% of respondents have a corporate strategy specifically referencing ESG or sustainability, which is up from 67% last year. 70% of corporates surveyed have a dedicated ESG or sustainability resource.

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



Does your business strategy specifically reference sustainability and ESG?



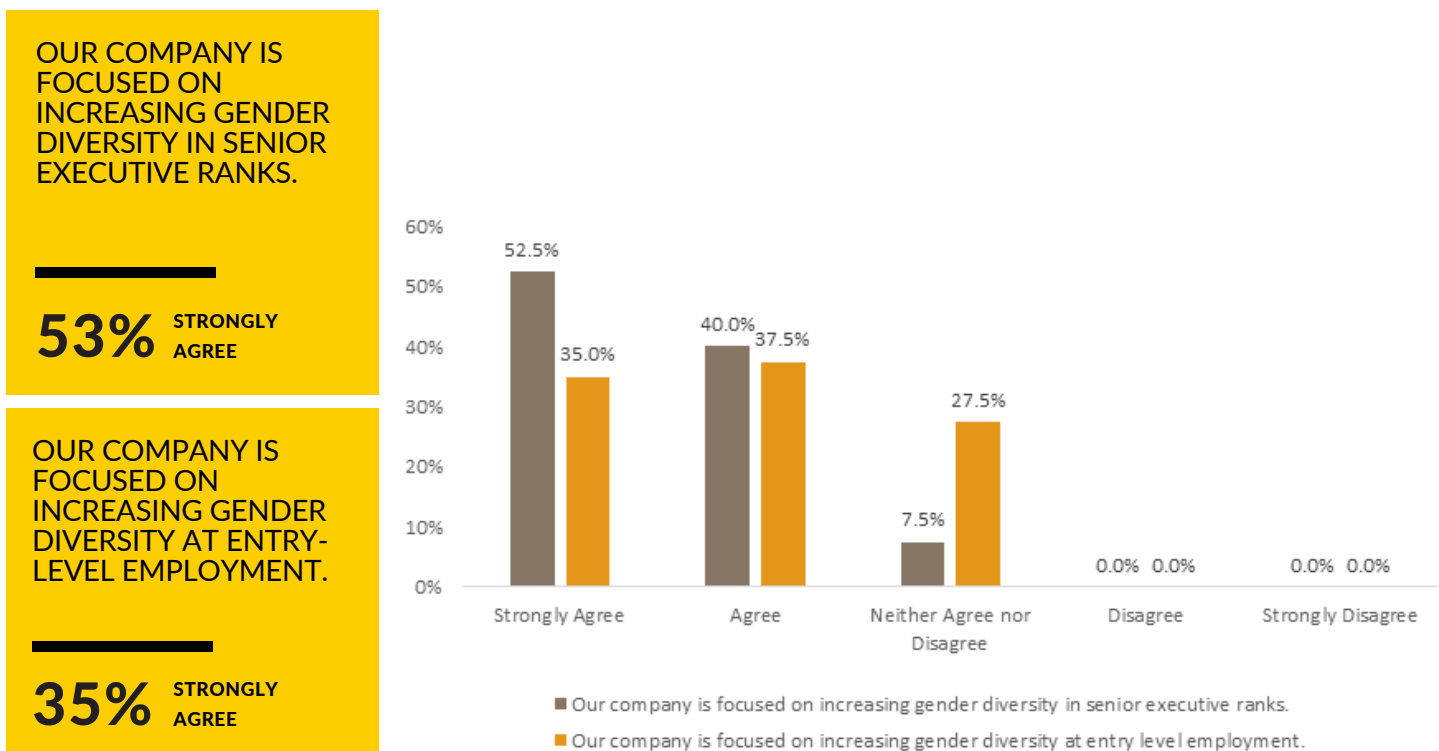
How do companies view the importance of ESG?

90% of corporates agreed or strongly agreed that engagement with investors on sustainability and ESG issues is beneficial for their company. This compares to 85% in the survey last year, representing the increased attention on ESG issues from the investment community over the past 12 months. 80% of respondents believed that they had experienced positive business outcomes as a result on focusing on sustainability and ESG.



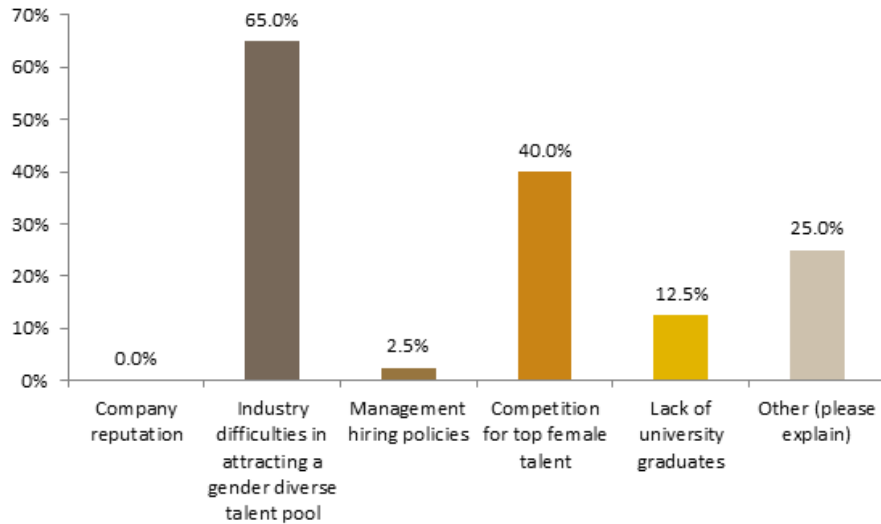
How important is gender diversity?

53% strongly agree that increasing gender diversity in senior executive levels is the focus for corporates. This compares to 35% who strongly agree that increasing gender diversity at entry level employment is a focus. The greater focus on senior and executive diversity may represent the challenge of corporates maintaining and attracting female talent at more senior ranks.



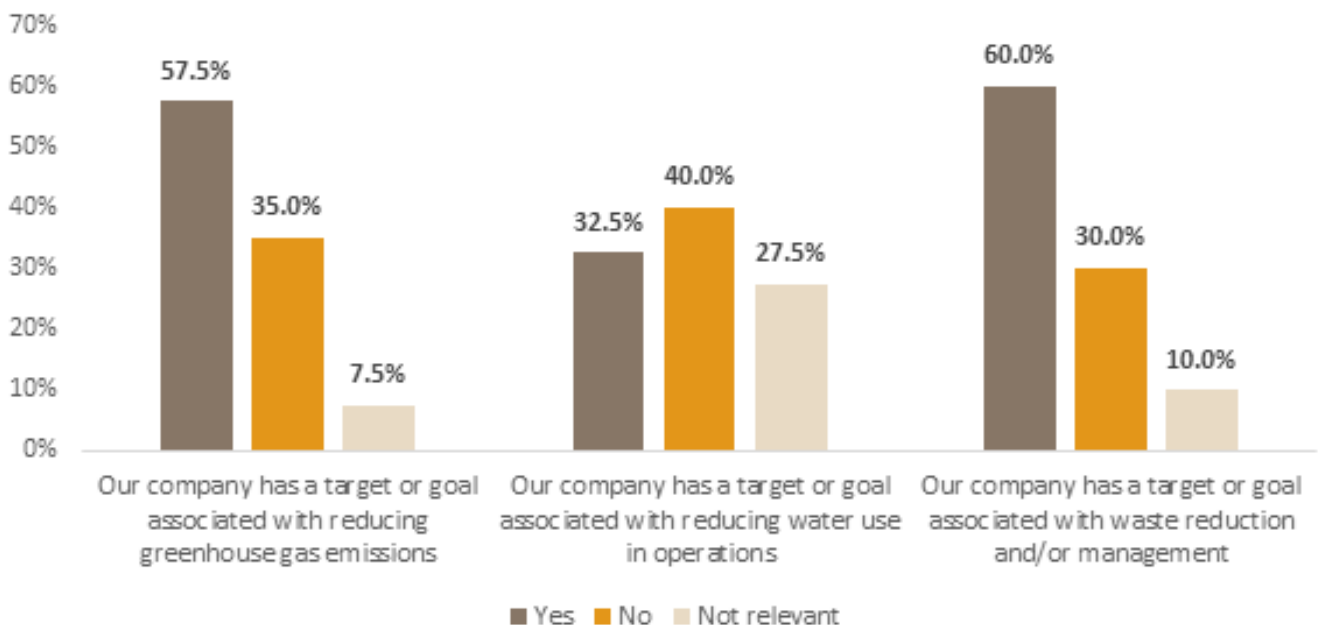
What is inhibiting companies on gender diversity?

Gender diversity at the senior management and executive level continues to be challenging for corporates, more so than at the entry level employment. Key reasons include industry difficulties and competition for top talent. 25% indicated other reasons such as, being a small company or having a low staff turnover.



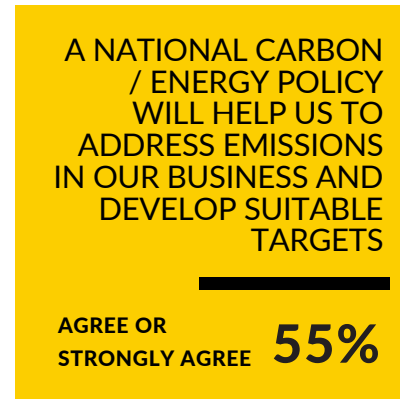
Do companies have emissions, water and waste targets?

Greenhouse Gas (GHG) emissions remain important and more corporates are disclosing emissions as well as producing targets for emission reductions. Waste Reductions & Greenhouse Gas Emissions were commonly reported as having targets or goals, while Water Use was less frequent. Interestingly, the percentage of companies producing waste targets has increased the most year-on-year at 60%, up from 53% in 2019.



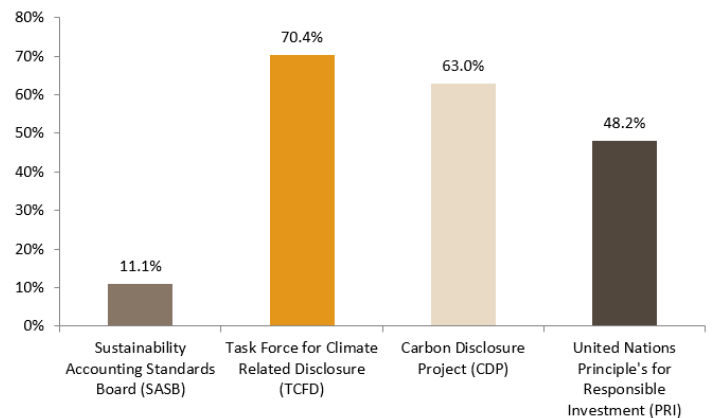
Will a national energy policy assist companies?

The European Union has released the EU Green Deal to guide the COVID-19 recovery. This provides a clear pathway for sustainable investment including 30% of funding set aside for climate investment. A national energy policy or sustainability plan would provide certainty to allow corporates to plan and invest for a more sustainable future. 55% of respondents agreed or strongly agreed that a national carbon / energy policy will help to address emissions and develop suitable targets.



TCFD adoption was the most commonly reported ESG framework.

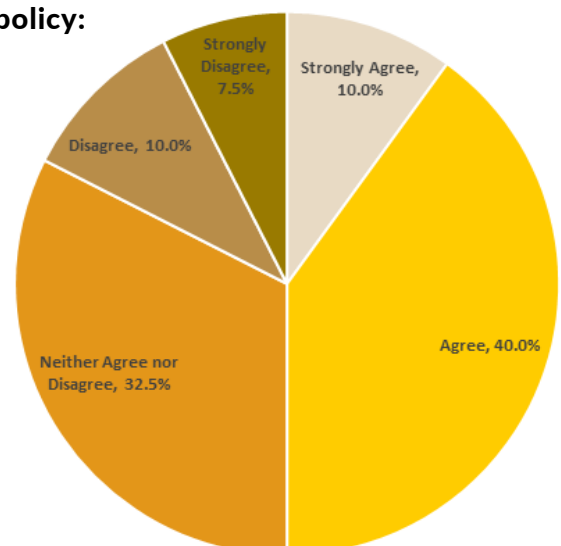
Of those respondents who report under an ESG framework, Taskforce on Climate-related Financial Disclosure (TCFD) and Carbon Disclosure Project (CDP) are the most common.

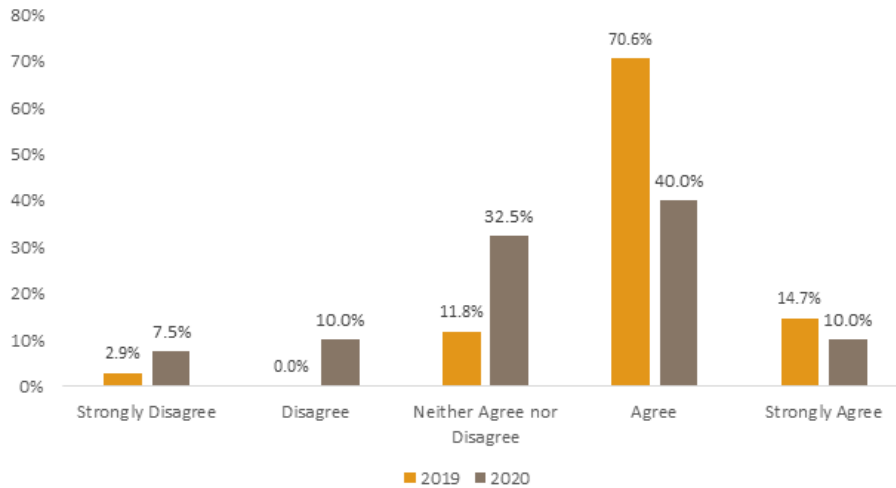


How do companies think about the remuneration expectations of investors?

Only half of respondents strongly agreed or agreed with the statement that investors have clear expectations in relation to the remuneration policy. We think this is a key area to watch going forward given investors have conflicting attitudes around how management should be incentivised – particularly in a COVID-19 impacted environment.

Investors have consistent and clear expectations regarding our remuneration policy:





Interestingly this was quite different from the response to a similar question last year. Approximately 85% of corporates in our 2019 survey believed that investors had clear expectations around the remuneration policy.

Do companies have ESG-remuneration targets?

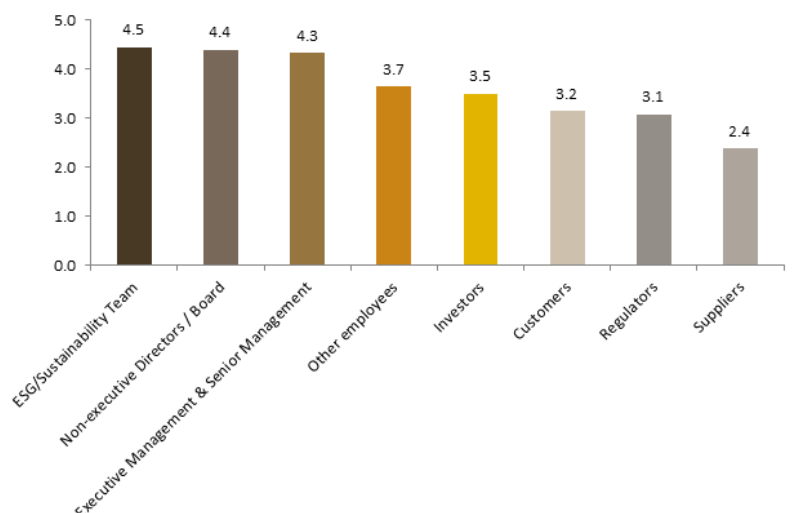
Targets	Response
Shareholder returns	93%
Culture and safety	75%
Other business specific financial targets	68%
Other non-financial metrics	68%
Returns on equity/capital	53%
EPS growth	45%
EBITDA growth	40%
Material ESG factors	40%

93% of respondent incentive structures have shareholder returns as a metric. Material ESG factors featured in 40%, and Culture and safety in 75% of corporates incentive structures. The key element to monitor is the robustness of the target including the impact to variable remuneration if the targets are not met.

Note: Corporates selected all that applied

Which stakeholders are driving ESG adoption?

ESG & Sustainability teams are driving the adoption of more sustainable practices, which demonstrates their importance to corporates. 70% of those surveyed have a dedicated sustainability employee. Interestingly, last year, directors were the biggest driver of more sustainable practices followed by employees.

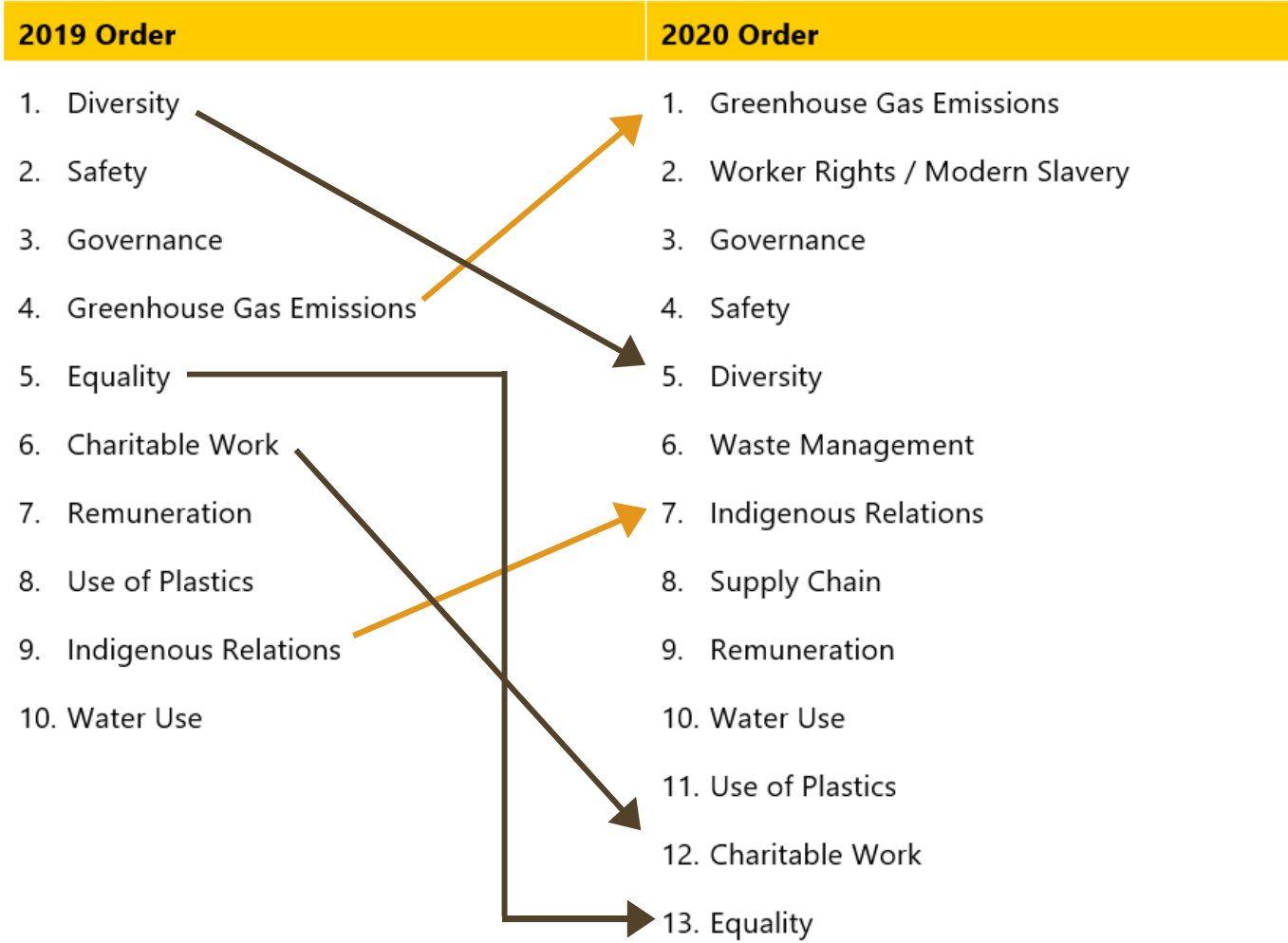


Note: Score is weighted average response where 5 is the highest

Interesting changes since last year

Comparing 2020 responses with those in 2019 on the question “What areas of ESG will be of focus in the next 12 - 18 months?” we can see that greenhouse gas emissions is expected to become more in focus compared to last year, while diversity has reduced in focus. Charitable work has also declined, while Indigenous Relations has had an improvement.

Note: The order represents the highest to lowest percentage of corporates that selected the response. Worker rights / Modern Slavery, Supply Chain and Waste Management are new options for the 2020 survey. In the 2019 survey, participants could select all that applied, while in the 2020 survey, participants could only select their top 3.





Issued by: The Investment Manager, Perennial Value Management Limited, ABN 22 090 879 904, AFSL: 247293. Responsible Entity: Perennial Investment Management Limited ABN 13 108 747 637, AFSL: 275101. This report is provided for information purposes only. Accordingly, reliance should not be placed on this information as the basis for making an investment, financial or other decision. This information does not take into account your investment objectives, particular needs or financial situation. While every effort has been made to ensure the information in this report is accurate; its accuracy, reliability or completeness is not guaranteed. Past performance is not a reliable indicator of future performance. Gross performance does not include any applicable management fees or expenses. Net performance is based on redemption price for the period and assumes that all distributions are reinvested. Fees indicated reflect the maximum applicable. Contractual arrangements, including any applicable management fee, may be negotiated with certain large investors. Investments in the Trusts must be accompanied by an application form. The current relevant product disclosure statements, additional information booklet and application forms can be found on our website www.perennial.net.au. Use of the information on our website is governed by Australian law and is subject to the terms of use.