



LIFTING THE SUSTAINABILITY SKIRT

A new report shows smaller listed companies have a long way to go when it comes to disclosure of ESG risks.

The transparency and disclosure of sustainability issues among Australia's top 200 listed companies is generally improving, according to the findings of a benchmark report undertaken from an investor's standpoint to identify those that pursue best practice. A wide variation in disclosure exists, however, and levels remain at a generally low standard. As a whole, listed businesses have a long way to go, especially small- and mid-cap stocks.

There are exceptions. About 10 per cent are standout leaders. These businesses are moving ahead of their cohort through a combination of financial and sustainability outcomes. We hope to lift poor reporting and transparency by shining a light on the leaders.

A sustainability report should be the absolute minimum requirement for a company to show it is committed to policies that care for its communities, people and the planet. While standalone reports don't guarantee the best data, we find they generally help to produce better quality disclosures. Whether it is a standalone report or an integrated report, there is a strong correlation between what gets measured and reported with what gets improved and remediated.

When it comes to the supply chain, only 45 per cent showed they had adequate knowledge of this area. While this number is up 11 per cent on 2018, there is still a long way to go. Our view is that a business can make no material headway in assessing

its sustainability risks if it does not have a basic understanding and acknowledgement of its supply chain and associated risks. We expect an improvement in these numbers as companies publish modern slavery statements.

In total 43 per cent of companies publish a human rights statement, a rise of nine per cent compared to last year. That improvement comes from small- and mid-cap companies, because many larger ones already report on these measures. We believe a corporate human rights policy is not just the moral thing to do, it is also smart for business. Having a policy is only part of it. Investors want to see it is embedded in business practices.

The fourth major sustainability measure is the environment. Our report shows that less than 60 per cent of companies disclose their carbon emissions, and only 12 per cent set meaningful and accountable emissions targets. Australian businesses can do better and we believe companies need to drastically cut their emissions. As investors, it is extremely important that we can see companies are taking real steps around this. This helps to strengthen the brand, encourage resilience, help prevent further regulation, increase innovation, as well as deliver a competitive edge and bottom-line savings.

It is also worth highlighting some of the aspects we consider make good sustainability reports.

We like to see companies go beyond simply recycling paper. When management thinks deeply about what the whole business does and who it might affect, risks can be mitigated.

Companies should also look at where their products are being sold, and where they source raw materials. We like to see commentary on which parts of the supply chain management has examined, and what standards have been applied.

It helps to know how many suppliers companies have, how they are managed and whether audits are undertaken. Membership of industry bodies that could leverage supplier standards should be considered.

Companies also need to know that, if they operate in areas of perceived high corruption or decreased visibility, then the burden of reporting is increased. They need to transparently show how they are operating responsibly.

There needs to be a human rights policy setting out company standards with respect to labour for employees and contractors. They should be examining supply chains for the risk of forced or child labour or slavery. They should comply with impending modern slavery legislation. There should be appropriate grievance policies and procedures.

We don't believe it when companies say they have thousands of suppliers, and that they don't have a single problem with modern slavery, human rights abuses or environmental issues, especially when they have offshore supply chains. We look for global accords and voluntary principles companies have an opportunity to recognise and implement.

We also ask about how companies report to shareholders and other interested parties on these topics, whether it is consistent and what standards are used.

Clear and quantifiable carbon emission reduction targets and initiatives to reduce them are also a focus. How companies assess their carbon footprint throughout their business, whether energy use is addressed and efficiencies considered and whether alternative renewable sources are explored are also examined.

This data is collected by our analysts. It is then used to find appropriate companies to invest in, and those to avoid, as well to identify areas of engagement. The list of what makes a good sustainability report is long and instructive.



Nathan Parkin, investment director and
Matt Nacard, CEO, Ethical Partners

These leading Australian companies have transparent supply chains, factory audits, voluntary commitments to UN-based good business practices, carbon emission targets, well as water, waste and energy saving initiatives. They also have engaged and proactive boards and management teams.

Telstra takes supply chain auditing seriously. It is a member of the Joint Audit Committee, a collaborative group for sustainable global telecoms sourcing. It has introduced modern slavery training for its procurement teams, some second-tier supplier auditing and supplier forums for education.

Mirvac's This Changes Everything campaign and positioning integrates ESG factors into its everyday business activities. It has integrated environmentally-friendly residential communities with urban, community shopping centres, and it has divested its retail assets that were not consistent with this strategy.

Kathmandu has taken a leadership position in sustainability and, since 2012, has been conducting supply chain audits. It was the first southern hemisphere company acknowledged by the Fair Labour Association, in the US. It has a supplier code of conduct and received an A rating from Baptist World Aid.

Vicinity will have the largest property solar program in Australia by spending more than \$75 million on solar energy generation at its centres to produce 31,000 MWh of clean energy, reducing consumption from the national grid by up to 40 per cent. Financially, the strategy makes sense as it will generate an expected internal rate of return (IRR) of 12 per cent.

Bega has a high level of commitment right up to its board for progressing

ESG initiatives. It manages the perceived conflict between farmers and shareholders well through its responsible approach to doing business and ensuring strong supplier and community support. It has implemented on-farm environmental management systems for its suppliers, monitors all production facilities for energy intensity, has product waste management technology, is using 80 per cent certified palm oil, has emissions and energy saving targets and has committed to early adoption of the federal government-sanctioned Sustainable Packaging Guidelines.

Bluescope takes a lifecycle approach, looking at the impact of a product from start to finish. It works to ensure its business practices align with the UN Guiding Principles on Business and Human Rights. It attends and engages in NGO forums on topics such as modern slavery. It is also a founding member of ResponsibleSteel, a global organisation created to improve sustainability standards in steel supply chains. It has signed a renewable energy power purchase agreement, equivalent to 20 per cent of its Australian electricity consumption. It has started a full review of its supply chain to ensure supplier values are similar to those under which it operates, has 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.