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ACSI

ESG REPORTING TRENDS

A detailed assessment of ESG reporting in ASX200 companies

May 2021

ABOUT ACSI

Established in 2001, ACSI exists to provide a strong, collective voice on environmental, social and governance (ESG) issues on behalf of our members.

Our members include 36 Australian and international asset owners and institutional investors. Collectively, they manage over $1 trillion in assets and own on average 10% of every ASX200 company.

Our members believe that ESG risks and opportunities have a material impact on investment outcomes. As fiduciary investors, they have a responsibility to act to enhance the long-term value of the savings entrusted to them.

Through ACSI, our members collaborate to achieve genuine, measurable and permanent improvements in the ESG practices and performance of the companies they invest in.

ACSI staff undertake a year round program of research, engagement, advocacy and voting advice. These activities provide a solid basis for our members to exercise their ownership right

36 Australian & international investors

Leading voice on ESG issues and advocacy

ACSI members own around 10% of every ASX200 company

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Introduction

Environmental, social and governance risks and opportunities (ESG) are no longer an emerging area of investment strategy and management, they are inextricably entwined with long-term performance outcomes. On behalf of our members, ACSI has been engaging with ASX-listed companies on their ESG performance and disclosure for more than a decade and, as this report shows, the level and quality of ESG reporting in the ASX200 has significantly improved during that time.

ESG integration is particularly important for our members who collectively hold, on average, 10% of every ASX200 company. Many events during 2020 – destruction of cultural heritage and management of employees and communities amongst COVID-19 uncertainty – demonstrated the financial materiality of ESG issues for companies, investors and broader stakeholders. Additionally, longer term fundamental ESG issues like climate change, worker safety and serious injury prevention, sexual harassment and other cultural issues were in focus.

Our members' diverse investment portfolios expose them to a range of material ESG factors. By integrating ESG into investment decision-making and valuation, ACSI's members actively protect superannuation beneficiaries by assessing information disclosed by companies about their ESG risks and opportunities.

ACSI's annual ESG reporting project is an important tool to assist our members on integrating ESG factors into their company assessments, and because environmental, social and governance risks and opportunities are financially material, it is important that companies provide timely and accurate public disclosures of ESG information. Our annual study, alongside communication to company boards about their level of disclosure over the last 14 years, has seen vast changes across the landscape of ESG disclosure in the Australian market.

This report has, each year since 2008, assessed the quality of ESG reporting by ASX200 companies, covering a broad range of financially-material ESG risks and opportunities. The assessment gauges how well companies identify, monitor, and manage material ESG risks and opportunities.

ACSI's study, and accompanying letter to boards explaining each company's rating, has helped support the evolution of ESG reporting, accelerating the number of companies providing high quality ESG disclosures to investors. There are now 120 companies considered to be in the top two levels of reporting ('*Detailed*' & '*Leading*'), up from a paltry 39 in 2008. The number of companies considered to provide no ESG-related disclosure has reduced by two-thirds (2008: 31, 2020:13), and the number of companies providing lower levels of reporting ('*Basic*' & '*Moderate*') has nearly halved - from 130 to 67.

Key findings

Pandemic fails to dint ESG disclosure in ASX200

Even amid the significant business and community uncertainty and operating impacts of COVID-19, ESG reporting standards continued to improve, with 32 companies in the AX200 significantly improving their reporting resulting in upgrades. Downgrades were also reduced to single-digit levels (seven companies for 2020).

Company recognition of ESG value drivers coupled with investor engagement continues to drive an uplift in ESG reporting

There are now 120 companies considered to be providing the two highest levels of disclosure, *'Detailed'* and *'Leading'*, a gain of more than 10% on 2019 and a three-fold increase compared to 2008 – demonstrating that companies increasingly understand the importance of communicating their ESG performance to investors.

For the first time in the study, the biggest cohort in the ASX101-200 is now companies with a *'Leading'* rating

30 companies are now considered to *'Leading'*, compared to just one in 2008 when the study began, demonstrating the impact of comprehensive and collaborative investor-company engagement. Year-on-year change between 2019 and 2020 reporting include was positive with the number of *'Detailed'* reporters jumping from 12 to 15, and the number of *'Leading'* companies jumping from 24 to 30.

Use of Sustainable Development Goals (SDGs) continues to rise

More than half the index now mapping their risks across the SDGs, or using the framework to guide their reporting. Climate Action (Goal 13) and Decent Work & Economic Growth (Goal 8) continue to be the top two most cited ESG issues.

'No reporting' companies are now on the fringe

Increased company recognition of the materiality of ESG performance, alongside comprehensive and collaborative engagement between investors and companies over the last decade, has seen this cohort, those that provide no ESG disclosure, fall to just 6.5% of the ASX200 – down two-thirds from when ACSI began this study in 2008.

Larger companies (ASX100) continue to lead the market, although mid-caps are rapidly catching up

While ASX100 companies represented 65% of 'Leading' companies, mid-cap (ASX101-200) companies are now the highest proportion of this cohort since the study began.

'Leading' reporters are by far the largest group in the ASX200, well over double the next highest category

There are now 86 companies considered *'Leading'*, up from 79 in 2019.

ASX101-200 continues to house the weakest reporting groups (78%)

More than three out of every four of the shrinking number of ASX200 companies rated as *'No reporting'* and 'Basic' are in this cohort.

76 cents of every $1 invested in the ASX200

76 cents of every $1 invested in the ASX200 is invested in companies rated as *'Detailed'* or *'Leading'*.

Methodology

This is the 14th year that ACSI has assessed the Environmental, Social and Governance (ESG) reporting of Australia's largest listed companies. We started evaluating ESG reporting in 2008. Since our first analysis was published, we have expanded our research from the ASX100 to the ASX200 and historical graphs have been converted to reflect the year of reporting[1].

Research objectives

We began this research with the aim of encouraging companies to improve their ESG reporting. Over the years, there is an observable impact, with the number of comprehensive ESG reports increasing annually. Each year we write to the chairs (or lead independent directors) of the companies assessed in this report, informing them of their rating, providing a peer comparison, and encouraging improvement where necessary. For those companies that are either downgraded or classified as *'No reporting'*, we ask the company to explain how they plan to improve. We also use the data we collect to inform our company engagements of emerging issues and focal points, such as this year's work on climate, safety and workforce reporting.

Methodology

The research and conclusions in this report are based on a desktop analysis by ACSI analysts. ACSI uses all publicly available sources for ESG disclosures, including annual reports, ASX announcements, and sustainability and other standalone corporate reports, to identify ESG reporting leaders and laggards. This year's benchmarking is based on information publicly disclosed in the 12 months up to 31 March 2021.

ESG disclosure not performance

The ESG rating each company receives is not based on the company's management and performance of ESG risks, but rather the extent to which the company reports. We assess reporting of ESG governance and management practices, performance data and target-setting for material risks.

Levels of reporting

'No reporting'
There is no meaningful reporting on ESG management or performance. To move beyond 'No reporting', a company must do more than discuss ESG risks or make a commitment to ESG management. There must be reporting on ESG risk management processes and performance.

'Basic'
The company reports on material ESG risks to a limited extent. For example, the company might provide basic information and statistics on safety and diversity, but not on other ESG risks. Alternatively, the company may identify a range of ESG risks, but the information provided is superficial and does not include qualitative or quantitative performance metrics.

'Moderate'
The company identifies and provides a moderate level of meaningful reporting of its ESG management. This is supported by performance data which goes beyond one or two material risk areas.

'Detailed'
The company identifies and provides detailed reporting of a range of material ESG risks and supports this discussion with performance data for multiple risks and at least one quantitative or qualitative target for a material risk is included. This can include diversity, zero harm, Green House Gas (GHG) emissions reduction or other climate-related activity.

'Leading'
The company provides comprehensive reporting of their material ESG risks and mitigation strategies. It demonstrates performance against a substantive number of material risks areas and discloses the process for identifying and explaining why the ESG risks are important for its business. To be 'Leading', we must see reporting of targets and performance data across a range of different risk areas, with a discussion of the materiality of those issues and how they are incorporated into the company's overall strategy.

[1] Because of this change, 2007 reporting which only covered the ASX100 has been removed from graphs to homogenize trends. In previous reporting, this inaugural year was referred to as 2008 data based on the year of publication, not the year of reporting.

Research findings

ASX200 trends

Even in a year where the global pandemic caused massive market-wide and economic upheaval, ACSI found that 2020 reporting delivered a significant 9 per cent increase to 86 in the number of companies considered to provide *'Leading'* levels of ESG disclosure to investors.

> The number of *'Leading'* companies, those that provide the most comprehensive ESG disclosure, continues to accelerate, representing 43% of the ASX200, with 65% of these companies sitting in the ASX100.

This ongoing improvement in disclosure levels in the ASX200, which ACSI continued to focus on in company engagements, was a pleasing outcome in a period where many companies faced existential threats and disruptions, due to lockdowns and border closures, and the majority were burdened by the costs and logistics of trying to operate safely for the benefit of employees, contractors and customers.

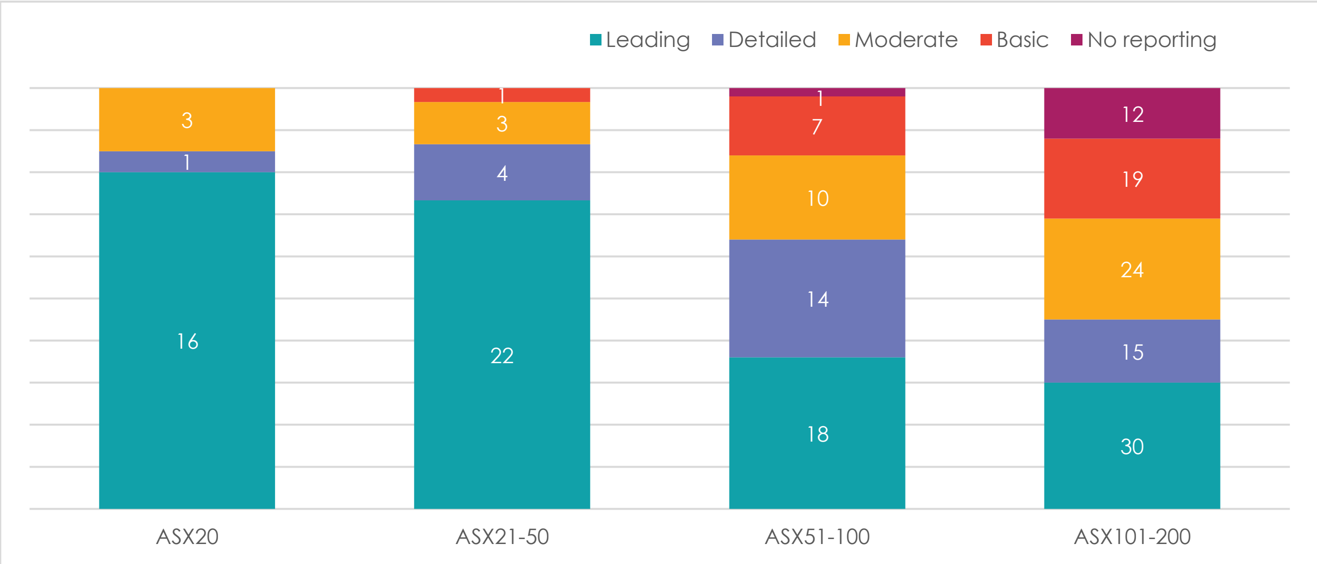
During 2020, ACSI ensured that in each of our 315 formal engagement meetings we held with ASX-listed boards we stressed this was a time not to lose sight of the need for better performance and disclosure across a range of ESG factors. Importantly, in these meetings we found companies were just as focused on the importance of ESG performance and communicating this to stakeholders. Retaining this focus on both the company and investor side was a significant factor in 32 companies receiving an upgrade in rating – and the smallest number of downgrades (7) since 2016.

> Investors continue to favour companies with higher levels of reporting, with 76 cents in every dollar invested in the ASX200 concentrated in companies rated as *'Detailed'* or *'Leading'*.

Table 1: ASX200 ratings

ASX200	2018	2019	2020
'No reporters'	16	20	13
'Basic'	33	34	27
'Moderate'	44	37	40
'Detailed'	40	30	34
'Leading'	67	79	86

Graph 1: ASX200 ratings composition



Similar to prior years, mid-capitalisation stocks (ASX101-200) showed more variability in reporting than the larger companies (Graph 1). Despite this, for the first time the largest cohort of reporters in the ASX101-200 are companies ranked at '*Leading*' levels of disclosure, demonstrating that the 'tail-end' of the ASX200 is committed to improving.

Even so, 78% of companies, or three in every four, with the lowest levels of disclosure continue to be in the mid-cap index, despite the cohorts classified as '*Basic*' and '*No reporting*' shrinking overall.

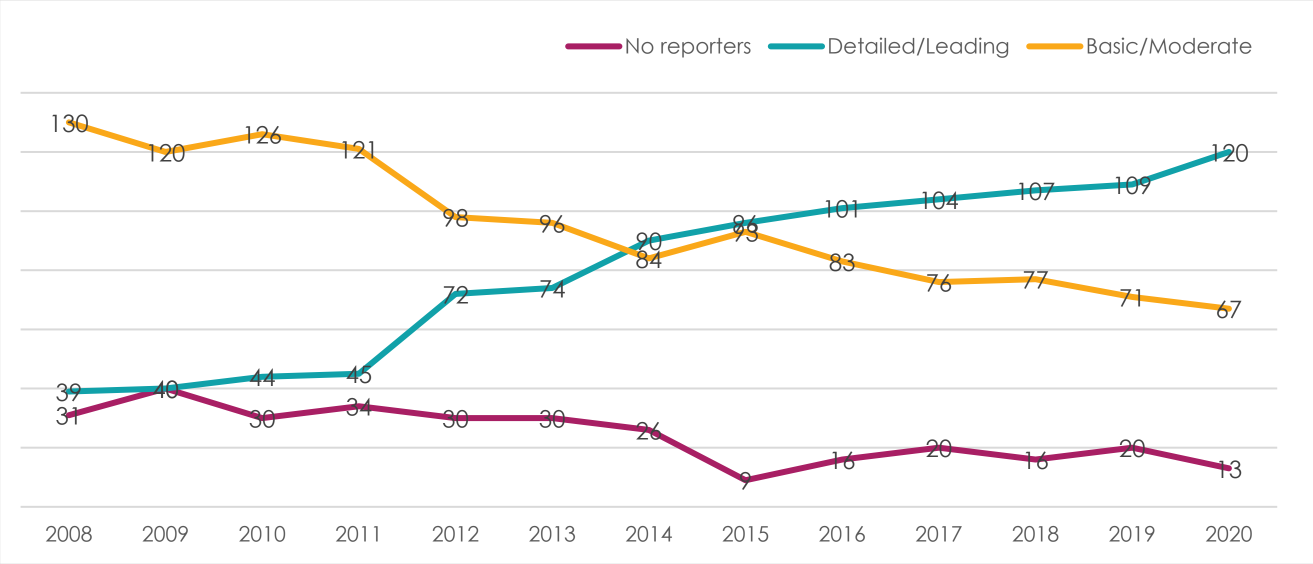
Long-term trends

The financial relevance of ESG metrics, both performance and disclosure, is a mainstream agenda item in investor-company engagement meetings, with companies often the key driver in raising particular risks and opportunities for discussion. That comprehensive, collaborative, and long running engagement ACSI has had with ASX-listed boards, combined with conveying each company rating and engaging companies on it as a part of this project, has had significant impact on the depth and quality of disclosure.

> The landscape of ESG reporting has been completely transformed through investor-company engagement and the increased focus on the financially material nature of ESG factors.

As shown in Graph 2 (below), there has been a three-fold increase in the number of '*Detailed*' and '*Leading*' reporters since 2008. At the same time, there has been an enormous reduction in the number of '*No reporting*' companies. Companies providing no ESG disclosure now represent only 6.5% of companies in the ASX200.

Graph 2: ASX200 long-term ESG reporting trends

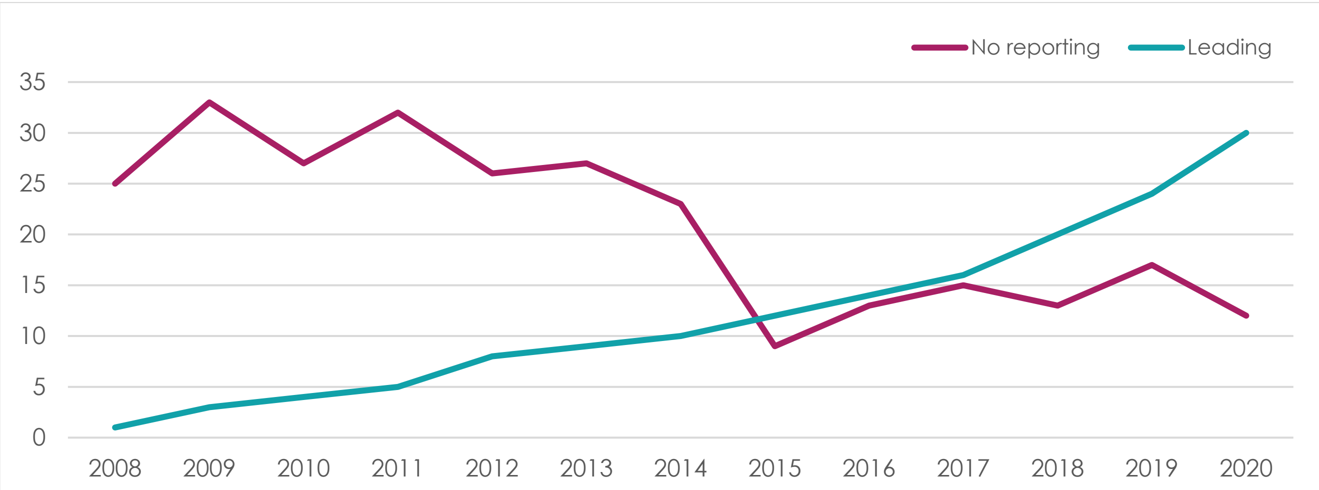


Mid-cap companies now dominated by *'Leading'* reporters, with a big shift in how these companies addressed ESG between 2015-2020

Additionally, 2020 was a breakthrough year for the mid-cap companies. For the first time ever, the biggest cohort of companies in the ASX101-200 was that with a *'Leading'* rating. As shown in Graph 3 (below), there are now 30 companies in this group compared to just one in 2008 when ACSI began this longitudinal study.

The acceleration to better reporting began with a big shift during the 2014/15 period, demonstrating the impact of investor engagement and the influence of the ASX100 best-practice companies pulling up the tail-end of the index.

Graph 3: Changes in the lowest and highest levels of reporting in the ASX101-200



Sector level reporting

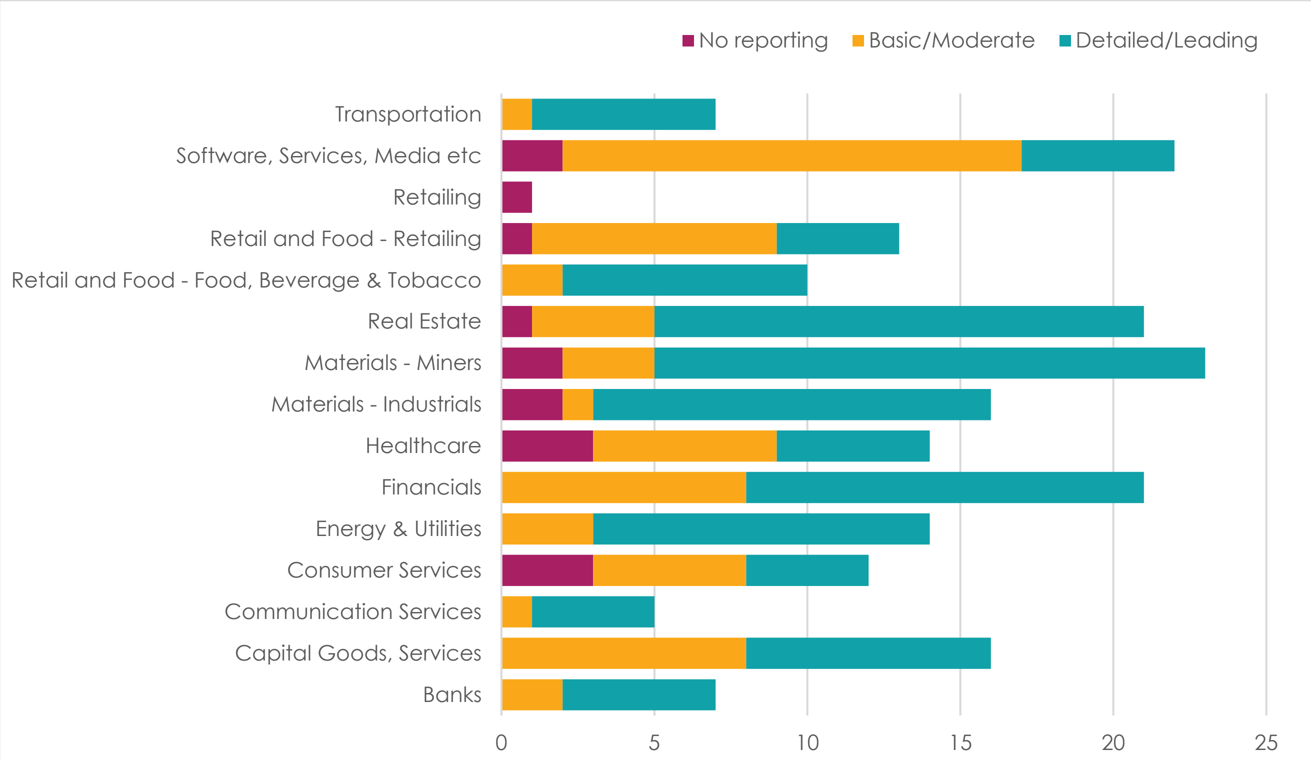
Sectors with over 70% of companies with a '*Detailed*' and '*Leading*' rating

Materials – Industrials, Transportation, Communication Services, Retail and Food - Food, Beverage & Tobacco, Energy & Utilities, Materials – Miners, Real Estate and Banks

ESG reporting by sectors again continues to vary in quality, however, most sectors have improved year-on-year. Analysis of 2020 reporting showed that eight of the 15 sectors had more than 70% of component companies rated as providing the market with '*Detailed*' or '*Leading*' disclosure.

As has been typical in past years, the largest number of '*Detailed*' and '*Leading*' reporters occurs in sectors with visible environmental and social risks (such as climate and safety-related risks in the materials sector) and those industries where ESG-related actions generated direct bottom-line benefits (such as premium rentals to property groups from building and maintaining greener buildings).

Graph 4: ASX200 ESG reporting by sector



Frameworks used in reporting

Sustainable Development Goals

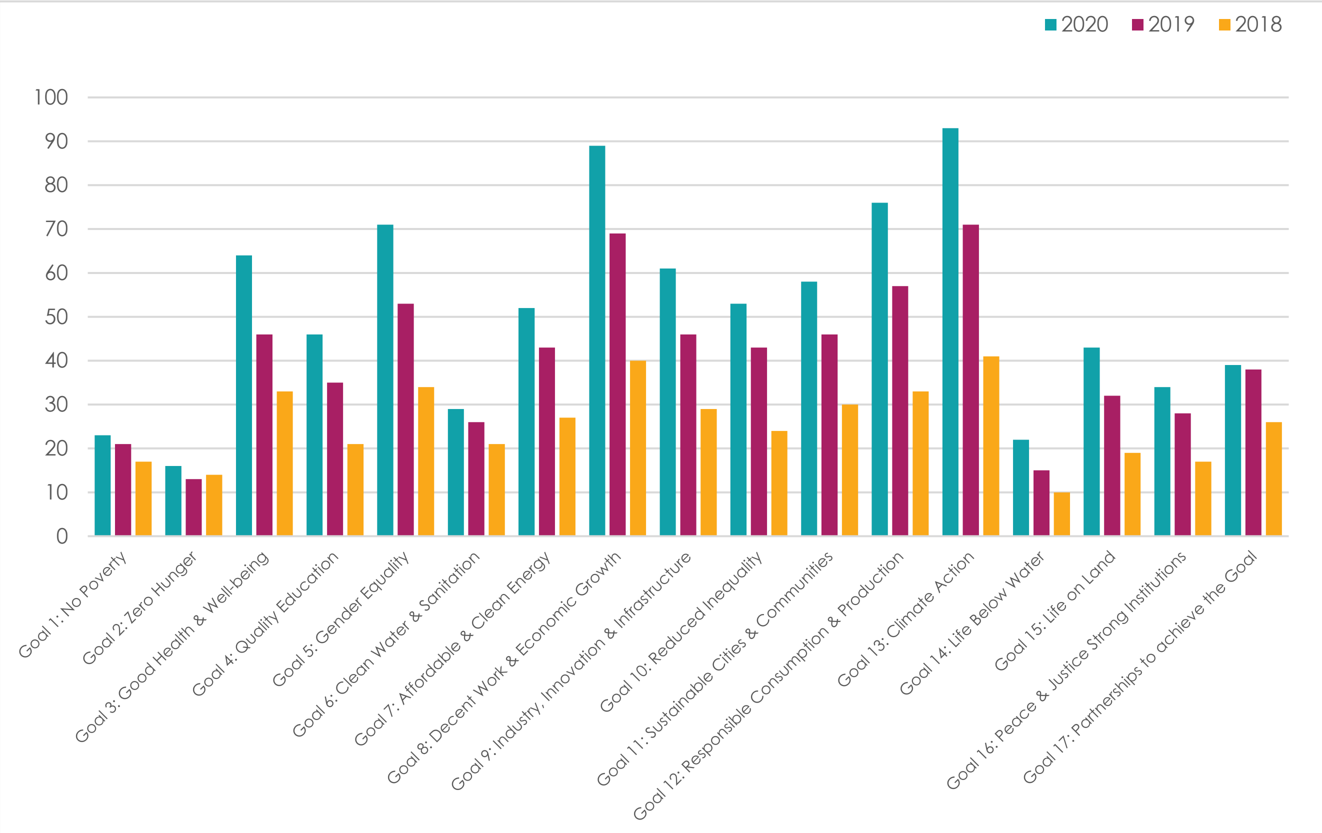
More than half the ASX200 has now adopted the 17 Sustainable Development Goals (SDG) framework, either mapping their risks against specific SDG goals or using the framework to guide their reporting.

Majority of ASX200 companies are now using the SDG framework (108 companies), with Climate Action and Decent Work & Economic Growth, the top priorities recognised by companies to be addressed.

Climate Action (Goal 13) continues to be the most cited ESG issue being addressed in company reporting, demonstrating that the slowdown and economic impacts of COVID-19 did not shift the focus away from the most significant structural change facing companies, investors and broader stakeholders.

The top five SDGs referenced by companies included (in order); Goal 13: Climate Action, Goal 8: Decent Work & Economic Growth, Goal 12: Responsible Consumption & Production, Goal 5: Gender Equality and Goal 3: Good Health & Well-being. These five areas have been in the top 5 SDGs since its inception, with Climate Action having always been the most frequently referenced SDG.

Graph 5: SDG targets disclosure by ASX200 companies



Integrated Reporting<IR>

Integrated Reporting has had lower levels of adoption in the Australian market compared to other jurisdictions. In 2020, we continued to see the same 10 companies adopting and using the Integrated Reporting approach, including; AGL Energy Limited, Australia & New Zealand Banking Group Ltd, Appen Limited, Brambles Limited, Dexus, Lendlease Group, National Australia Bank Limited, Stockland, Transurban Group and Vicinity Centres.

Table 2: Use of <IR> in the ASX200

Year	ASX200
2020	10
2019	10
2018	7
2017	4
2016	4

LEADERS

Each year, we identify companies which have consistently outperformed others in their ESG reporting and those that have consistently provided no ESG information. Those listed as 'Leaders' in table below, have reported at a '*Leading*' level for the last four or more
consecutive years.

Abacus Property Group	Mirvac Group
AGL Energy Limited	National Australia Bank Limited
Amcor Plc	Newcrest Mining Limited
AMP Limited	Nufarm Limited
Australia & New Zealand Banking Group Ltd	Orora Limited
Alumina Limited	Origin Energy Limited
Aurizon Holdings Limited	Orica Limited
BHP Group Limited	Oil Search Limited
Boral Limited	Qantas Airways Limited
Beach Energy Limited	Rio Tinto Limited
BlueScope Steel Limited	South32 Limited
Brambles Limited	Sandfire Resources Limited
Commonwealth Bank of Australia	Sims Limited
Coca-Cola Amatil Limited	Stockland
Charter Hall Group	SkyCity Entertainment Group Limited
CIMIC Group Limited	Spark New Zealand Limited
Cromwell Property Group	Super Retail Group Limited
CSR Limited	Sydney Airport
Downer EDI Limited	Transurban Group
Dexus	Tassal Group Limited
Fortescue Metals Group Ltd	Telstra Corporation Limited
Growthpoint Properties Australia	Unibail-Rodamco-Westfield
Insurance Australia Group Limited	Westpac Banking Corporation
IGO Limited	Wesfarmers Limited
Iluka Resources Limited	Worley Limited
Incitec Pivot Limited	Woolworths Group Limited
Lendlease Group	Woodside Petroleum Limited

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