ORD MINNETT
RESEARCH

Ord Minnett Responsible Equities Portfolio

ESG Measurement and Analysis

August 2023

Introduction

The *Ord Minnett Responsible Equities Portfolio* suits investors wishing to share in the long-term prosperity of Australian companies, while also considering their environmental, governance and social (ESG) impacts. The Portfolio is part of the suite of Ord Minnett Direct Equity Portfolios available on the HUB24 investment platform.

Responsible investing, often referred to as ethical or sustainable investing, is an approach where ESG issues are considered alongside financial performance. Investing responsibly seeks to minimise the negative effects generated by business while promoting positive impacts, without compromising investment outcomes.

This report seeks to measure the ESG issues represented within the *Responsible Equities Portfolio*. We also compare the Portfolio's ESG position with that of its benchmark, the S&P/ASX 100 Industrials Index, and the broader S&P/ASX 100 Index. In doing so, we hope to highlight the advantages of investing in a portfolio focused on these issues. Furthermore, in terms of portfolio management, to highlight areas where we can improve the Portfolio's ESG credentials without compromising its financial objectives.

To summarise our analysis, the Portfolio exceeds its benchmark across two issues – Environmental and Social, while it slightly lags the benchmark on Governance.

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Figure 1: Defining Environmental, Social and Governance Factors

Environmental

Environmental factors determine a company's care for the environment and focus on waste and pollution, resource depletion, greenhouse gas emissions, deforestation, and climate change.

Social

Social factors consider a company's relationships with its stakeholders including employee relations, diversity, working conditions, local communities, health and safety, and conflict.

Governance

Governance factors look at corporate policies such as board diversity and structure, executive remuneration, ownership structure, and accounting/tax strategy.

Source: Ord Minnett Research

Ord Minnett Responsible Equities Portfolio

Stock	ASX Code	Industry	Market cap'n ($bn)	Portfolio Weighting	Benchmark Weighting	Sector Call	Share price	Price/ Earnings (FY24E, x)	EPS Growth (FY24E)	Dividend Yield (FY24E)	Franking (FY24E)
Consumer				**3.5%**	**14.2%**	**U/W**					
IDP Education Ltd	IEL.AX	Education Services	6.9	1.2%			$ 24.60	39.1x	20.4%	1.9%	25%
Wesfarmers Ltd	WES.AX	Broadline Retail	55.7	2.3%			$ 49.63	22.4x	1.7%	3.8%	100%
Financials				**39.9%**	**39.2%**	**N**					
ASX Ltd	ASX.AX	Financial Exchanges & Data	11.9	0.8%			$ 62.32	23.9x	0.8%	3.6%	100%
ANZ Group Holdings Ltd	ANZ.AX	Diversified Banks	76.6	9.0%			$ 25.67	11.5x	-5.9%	6.3%	100%
Commonwealth Bank of Australia	CBA.AX	Diversified Banks	175.3	12.8%			$ 105.40	18.6x	-4.4%	4.1%	100%
Macquarie Group Ltd	MQG.AX	Diversified Capital Markets	66.9	7.8%			$ 176.12	15.2x	9.1%	4.1%	40%
National Australia Bank Ltd	NAB.AX	Diversified Banks	88.3	9.4%			$ 28.41	13.0x	-7.3%	5.9%	100%
Health Care				**20.1%**	**13.9%**	**O/W**					
Ansell Ltd	ANN.AX	Health Care Supplies	3.0	1.3%			$ 24.21	19.8x	-18.7%	2.7%	0%
Cochlear Ltd	COH.AX	Health Care Equipment	15.5	3.7%			$ 236.40	44.9x	13.9%	1.6%	35%
CSL Ltd	CSL.AX	Biotechnology	128.2	10.8%			$ 267.61	30.1x	22.8%	1.5%	0%
Sonic Healthcare Ltd	SHL.AX	Health Care Services	16.4	4.2%			$ 34.71	23.0x	0.7%	3.1%	100%
Industrials & Materials				**11.6%**	**13.3%**	**U/W**					
Brambles Ltd	BXB.AX	Diversified Support Services	19.3	2.4%			$ 14.01	17.9x	10.4%	3.4%	35%
Qube Holdings Ltd	QUB.AX	Marine Ports & Services	5.1	4.0%			$ 2.92	21.8x	2.7%	2.8%	100%
Transurban Group	TCL.AX	Highways & Railtracks	43.7	5.1%			$ 14.33	56.2x	95.9%	4.4%	4%
Communications/IT/Utilities				**14.9%**	**12.1%**	**O/W**					
APA Group	APA.AX	Gas Utilities	11.7	3.8%			$ 9.97	30.1x	11.6%	5.8%	0%
Seek Ltd	SEK.AX	Interactive Media & Services	8.8	4.2%			$ 25.13	33.2x	6.3%	2.0%	100%
Telstra Group Ltd	TLS.AX	Integrated Telecommunication Services	48.7	4.4%			$ 4.23	24.0x	9.8%	4.3%	100%
Xero Ltd	XRO.AX	Application Software	18.3	2.6%			$ 122.83	86.8x	60.1%	0.0%	0%
Property				**7.7%**	**7.2%**	**N**					
Charter Hall Group	CHC.AX	Diversified REITs	5.3	3.0%			$ 11.46	14.9x	-11.8%	3.8%	45%
Goodman Group	GMG.AX	Industrial REITs	38.3	3.6%			$ 20.60	19.8x	9.9%	1.5%	0%
GPT Group	GPT.AX	Diversified REITs	8.2	1.0%			$ 4.34	13.9x	1.7%	5.8%	0%
Other				**2.3%**	**0.0%**						
Cash	Cash			2.3%						3.0%	
Portfolio				100%	100%			24.5x	9.9%	3.7%	58%

Source: Thomson Reuters Eikon, Ord Minnett Research. Earnings and dividend estimates are consensus-based. Prices as at 1st August 2023.

A Responsible Investing Framework

To fulfil the portfolio's ESG mandate, Ords has developed a responsible investing framework that is applied to the portfolio to account for ESG impacts. The framework has several objectives:

- **Acceptable parameters** – The portfolio manager seeks to avoid investing in companies operating outside certain parameters. The first parameter is the exclusion of resource companies, primarily based on environmental factors, including water stress, emissions and waste. A further long-term consideration with respect to coal producers is the threat of stranded assets, whereby coal operations are vulnerable to significant value reductions if carbon regulations restrict coal combustion. Accordingly, the Portfolio's investment universe and benchmark is the S&P/ASX 100 Industrials Index.

  Further parameters exclude companies that derive more than 10% of revenue from adult entertainment, alcohol, controversial weapons[1], gaming and tobacco.

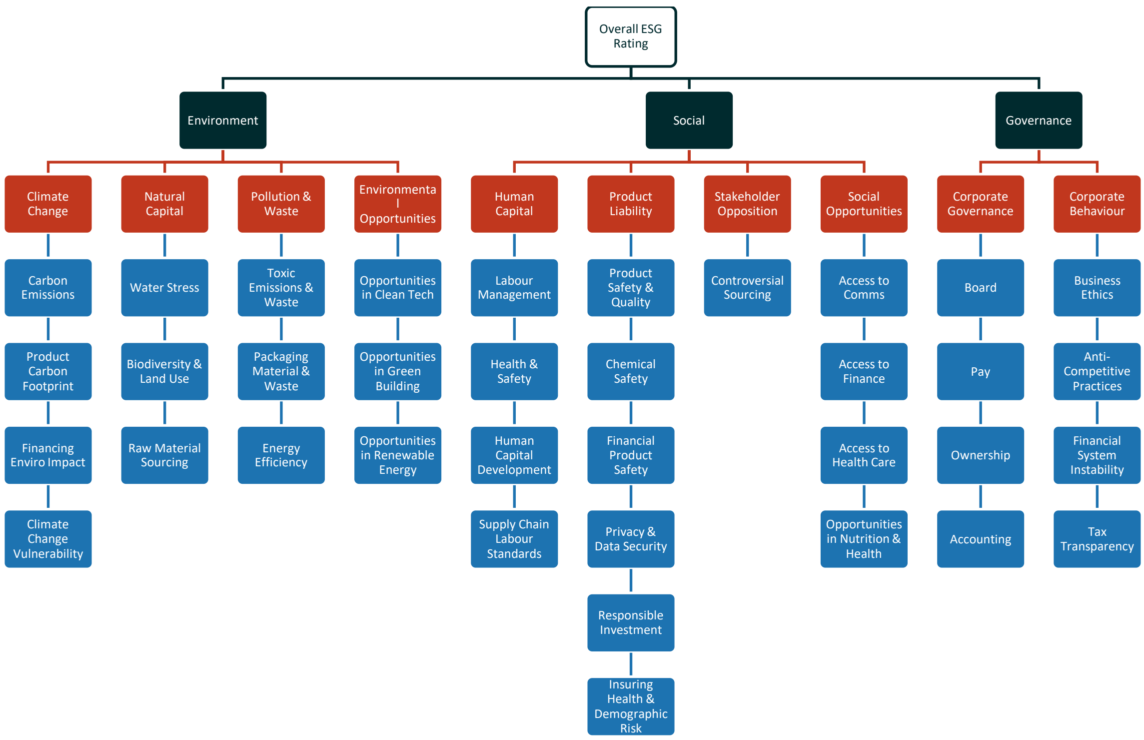
- **Identification of wrongdoings** – The framework helps to identify and measure transgressions by currently-held companies, which allows the investment team to judge the appropriateness of maintaining the investment on ESG grounds.

- **Positive factors** – The framework allows the investment team to identify and target companies that positively impact environment, social and governance spheres, which ultimately leads to a better-aligned portfolio.

As part of this framework, Ords uses MSCI Ratings to source responsible investment measures. MSCI is an independent provider of research-driven insights and tools for institutional investors. This includes comprehensive research and ratings on environmental, social and governance events and risks affecting the performance of public companies.

For each company within the portfolio's investment universe, the ASX 100 Industrials Index, the MSCI ESG ratings system captures over 1,000 data points and evaluates how exposed a company is to material issues and its response. MSCI considers 36 key issues under the three major Environment, Social and Governance categories. This information is then compiled into the production of a company-level ESG assessment, rating and score.

Figure 2: MSCI ESG rating model – key themes and issues considered



Source: MSCI

[1] Controversial weapons include biological, chemical, cluster munitions, landmines, and nuclear weapons.

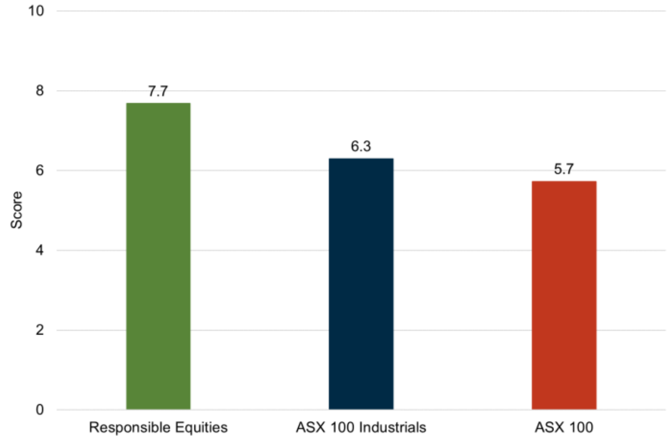
Assessing ESG Measures

To account for the *Responsible Equities Portfolio's* purpose as an investment vehicle for investors seeking to take into consideration a company's environmental, governance and social impacts, this report details how the portfolio performs on these factors. It also makes a comparison with its ASX 100 Industrials benchmark and the broader ASX 100, which also includes resource stocks.

The first set of measurements represent the weighted averages of all key issues under the three main pillars: environmental, social and governance.

Table 1: Broad ESG Measurements

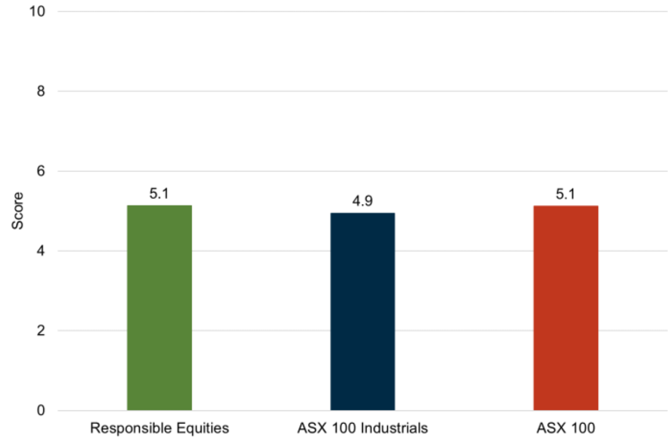
Environmental Pillar Score



Comments

- The Responsible Equities Portfolio scored 7.7, above the Industrials benchmark of 6.3 and the broader ASX 100 at 5.7.
- Portfolio stocks helping drive this result include Ansell, Brambles, Cochlear, Seek and Sonic Healthcare.
- Portfolio stocks with a lower score include CSL, Goodman Group, Qube and Xero.
- Stocks not held, which could have boosted the score include ALS, AMP, Downer and Computershare.

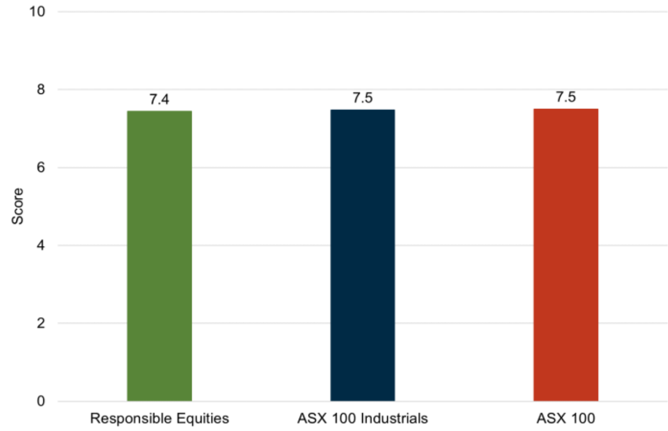
Social Pillar Score



Comments

- While the Portfolio exceeded the Industrials benchmark and is in line with the ASX 100, the social pillar score of 5.1 has obvious room for improvement, as does the broader market.
- Portfolio stocks which dragged the score lower include the bank holdings (ANZ, CBA, MQG and NAB). Charter Hall, ASX and GPT Group were also low on the social pillar.
- Portfolio stocks which scored well include APA Group, Brambles, Goodman Group and Transurban.
- Stocks not held in the portfolio that could have boosted the social score include Lendlease, Mirvac, and Worley.

Governance Pillar Score



Comments

- On governance matters, the Portfolio score of 7.4 is slightly behind the benchmark and the broader ASX 100 scores of 7.5.
- Portfolio stocks that reduced the score include Ansell, ANZ and Macquarie Group.
- Portfolio stocks boosting the score include APA Group, ASX, GPT and Transurban.
- Non-portfolio stocks that could have lifted the benchmark the governance score include Dexus, Scentre Group and Woolworths.

Source: MSCI, Ord Minnett Research

Environmental Factors

Environmental factors focus on a company's influence on the environment and its ability to mitigate various risks that could harm the environment. With the impacts of climate change more apparent, many countries are targeting a reduction in carbon emissions, partly achieved through a tighter regulatory environment for companies. Consumption patterns are favouring more environmentally friendly options, leading to significant industry changes. Furthermore, as the physical effects of climate change become more apparent - changes in weather patterns, storm intensity and rising seas - labour and assets will be at greater risk.

Table 2: Environmental Key Issue Scores

Issue	Responsible Equities	ASX 100 Industrials	ASX 100
Climate Change	**8.8**	7.4	7.0
Natural Capital	**7.4**	6.7	5.8
Pollution & Waste	**5.3**	3.5	3.1
Environmental Opportunities	**5.8**	5.0	5.0

Source: MSCI Ratings, Ord Minnett Research. **Bold** is the best performer in the issue category.

- The Responsible Equities Portfolio exceeded the ASX 100 Industrials benchmark and the broader ASX 100 index on all four environmental key issues. We also note that the Industrials benchmark exceeded the ASX100 (which includes resources companies), on three measures, and equalled the ASX100 on the Pollution & Waste measure, providing support for the narrower Industrials index as the investment universe.
- **Climate Change** – Represents the weighted average of the scores for all issues that fall under the Climate Change theme:
  - *Carbon emissions* – This issue is relevant to those companies with significant carbon footprints. Companies that proactively invest in low-carbon technologies and increase the carbon efficiency of their facilities score well.

    Ansell, Brambles, CSL, Cochlear, Sonic and Transurban contributed positively, while APA Group, Macquarie, Qube and Wesfarmers reduced the score. Stocks not held which could have boosted the score include ALS, AMP, Computershare and WiseTech. Large emitters not held in the portfolio include Coles, JB Hi-Fi, Metcash, and Woolworths.
  - *Product Carbon Footprint* – Evaluates the extent to which companies are exposed to higher input costs for their carbon-intense products due to increased energy costs in a carbon-constrained world. Companies that measure and reduce carbon emissions of their products throughout the value chain and implement programs with their suppliers to reduce carbon footprint score higher.

    Holdings in ASX, banks and GPT Group helped the footprint score, while Ansell, Cochlear and Xero detracted. Benchmark stocks, not held in the portfolio, which could have boosted the score include Bendigo & Adelaide Bank, IAG, Medibank Private and Suncorp. On the other hand, companies with large footprints not in the portfolio include Coles, Metcash, Reece and Woolworths.
  - *Financing Environmental Impact* – Focused on financial companies, this assesses a company's involvement in lending and underwriting, and the environmental risk of industries in a company's loan book. CBA and Macquarie were the top performers on this issue.
  - *Climate Change Vulnerability* - Evaluates insurance companies' exposure to risks to insured assets or individuals associated with the effects of climate change. Companies that have integrated climate change effects into their actuarial models while developing products to help customers manage climate-change-related risks score higher on this issue.

    The Responsible Equities Portfolio does not currently hold any insurance companies so has no exposure to this issue. As a reference however, within the benchmark QBE has the highest exposure, followed by IAG then Suncorp.
- **Natural Capital** – Represents the weighted average of the scores for all issues that fall under the Natural Capital theme:

- *Water Stress* – Evaluates the extent to which companies are at risk of water shortages impacting their ability to operate, losing access to markets due to stakeholder opposition over water use, or being subject to higher water costs. Companies that proactively employ water efficient processes, water recycling and alternative water sources score higher on this issue.

  Holdings in professional services companies assisted the score while Health care and property exposures detracted. Benchmark stocks not held in the portfolio, which are most impacted by water stress include AGL, Cleanaway, Incitec Pivot, Origin and Treasury Wine.

- *Biodiversity & Land Use* – Relevant to companies whose operations risk having a high negative impact on fragile ecosystems. Companies with policies and programs designed to protect biodiversity and address community concerns on land use, score well.

  Holdings in professional services companies assisted the score while APA Group, Qube and Transurban detracted. Benchmark stocks outside the portfolio which score poorly include Atlas Arteria, Aurizon, Cleanaway and Incitec Pivot.

- *Raw Material Sourcing* – Evaluates which companies are exposed to risks of sourcing or utilising raw materials with high environmental concerns. Companies that have policies to source materials with lower environmental impact and participate in initiatives to reduce environmental impact of raw materials production score better.

  The portfolio's holdings in Brambles and Wesfarmers creates exposure to this issue, ranking better than the benchmark. Companies not held in the Responsible Equities Portfolio which are impacted by this issue include Coles, Endeavour, Metcash and Woolworths.

- **Pollution & Waste** – Represents the weighted average of the scores for all issues that fall under the Pollution & Waste theme:
  - *Toxic Emissions & Waste* – The extent to which companies are at risk of incurring liabilities associated with pollution, contamination, and the emission of toxic and carcinogenic substances.

    Holdings in professional services companies assisted the score, while Ansell, APA Group, Qube and Transurban reduced the average score. Benchmark stocks outside the portfolio impacted by this issue include AGL, Cleanaway, Incitec Pivot and Orica.

  - *Packaging Material & Waste* – Evaluates the extent to which companies are at risk of losing access to markets or at risk of facing added costs to comply with new regulations related to product packaging content and end-of-life recycling or disposal.

    There was no significant impact from this issue on the Portfolio. Companies not held in the Responsible Equities Portfolio which are impacted by this issue include Coles, Domino's, Orora and Treasury Wines.

  - *Energy Efficiency* – Evaluates the extent to which companies manage the risk of increases or volatility in energy costs across their operations. Companies that take proactive steps to manage and improve the energy efficiency of their operations score well.

    Financial services companies held in the portfolio tend to be more efficient while APA Group, IDP Education, Wesfarmers and Xero are less efficient. Likewise, in the benchmark index financial services and real estate tend to be more efficient while AGL, Incitec Pivot, Orora and Qantas are representative of less efficient non-portfolio companies.

- **Environmental Opportunities** – Represents the weighted average of the scores for all issues that fall under the Environmental Opportunities theme:
  - *Opportunities in Clean Technology* – Evaluates the extent to which companies are taking advantage of opportunities in the market for environmental technologies. Companies that proactively invest in product and services addressing issues of resource conservation and climate change score higher.

    Portfolio stocks such as CSL, Seek and Xero added to the score while several stocks, including professional services, provide little opportunity. Benchmark stocks not held in the portfolio, which could have boosted the opportunity score include Altium, Cleanaway, NextDC and WiseTech.
  - *Opportunities in Green Buildings* – Evaluates the extent to which real estate companies are taking advantage of opportunities to develop or refurbish buildings with green building characteristics including lower embodied energy, recycled materials, lower energy and water use, waste reduction, and healthier and more productive working environments.

    Opportunities for portfolio stocks include real estate exposures such as Charter Hall, Goodman Group and GPT. Non-portfolio stocks from the benchmark with large opportunities include Region Group, Scentre Group and Vicinity.
  - *Opportunities in Renewable Energy* – Evaluates the extent to which utility companies are taking advantage of financial opportunities linked to the development of renewable power production. Companies that proactively invest in renewable power generation and related services score higher on this key issue.

    Opportunities for portfolio stocks include APA Group, while non-portfolio stocks from the benchmark with large opportunities include AGL and Origin.

Environmental Focus - Greenhouse Gas Emissions

Climate change is arguably one of the biggest economic and political challenges of the 21st century. To reduce the negative impacts of climate change, world leaders in December 2015, through the Paris Agreement, decided to limit global warming this century to 2 degrees Celsius, compared with a pre-industrial period (1861-1880) benchmark, and to pursue efforts to limit the warming further to 1.5 degrees Celsius.[2]

The Paris Agreement requires all member countries to reduce their greenhouse gas emissions and strengthen these efforts in the years ahead. In 2018, the "Emission Gap Report" from the United Nations Environment Program (UNEP) reiterated that achieving the Paris Agreement warming-level target of 1.5 degrees Celsius would require unprecedented and urgent action to expedite the pace of "low carbon transition."[3,4]

In the event that the low carbon transition takes place, demand for carbon intensive products would decline in favour of low/zero carbon products, which would put carbon-intensive companies and industries (for example, coal-based power generation, coal mining, fossil fuel-powered automobile manufacturers, etc.) at risk of having stranded assets. A company may be exposed to low-carbon-transition risks and opportunities through two transmission channels:

1. Exposure through involvement in carbon-intensive operations, and
2. Exposure through involvement in carbon-intensive products.

To understand the exposure of companies to risks associated with these transmission channels., we have measured greenhouse gas emission data through the MSCI platform. The latest compiled data is from the 2019 financial year.

Greenhouse gases include carbon dioxide (CO_2), methane (CH_4), nitrous oxide (N_2O), hydrofluorocarbons (HFCs), perfluorocarbons (PFCs), sulphur hexafluoride (SF_6), and nitrogen trifluoride (NF_3).

Emission of these gases are grouped in three categories:

- **Scope 1** carbon emissions are those directly occurring from sources that are owned or controlled by the company, including combustion of fossil fuels and "fugitive" emissions, which result from releases of GHGs, including the leakage of HFCs from refrigeration and air conditioning equipment, and CH_4 from livestock.
- **Scope 2** carbon emissions are indirect emissions generated in the production of electricity consumed by the company.
- **Scope 3** carbon emissions encompass all other indirect emissions that are a consequence of the activities of the company, but occur from sources not owned or controlled by the company, such as commuting, waste disposal, embodied emissions from extraction, production, and transportation of purchased goods; outsourced activities; contractor-owned vehicles; and line loss from electricity transmission and distribution.

For the *Responsible Equities Portfolio*, as evidenced in *Figure 3* on the following page, average Scope 1 and 2 emissions are clearly lower than they are for the ASX 100 Industrial benchmark and the ASX 100 Index. Inconsistencies in the availability of Scope 3 emissions data restrict their use for reliable comparative purposes.

Extending the comparison, *Figure 4* shows average Scope 1 & 2 Intensity. Carbon intensity represents the Scope 1 + Scope 2 greenhouse gas emissions normalised by sales in USD, which allows for comparison among companies of different sizes. Again, the Portfolio is far less intensive than the benchmark and the ASX 100.

For broader reference, *Figure 5* shows average intensity across each of the industry sectors in the ASX 100. Utilities is clearly the most intensive sector, which is largely attributable to AGL Energy, which operates several coal-fired power stations. Paradoxically, it also operates the largest renewable energy asset base in Australia. Energy and Materials are the next most emission-intensive sectors. The least intensive sectors are Consumer Staples, Consumer Discretionary, Communication Services and IT.

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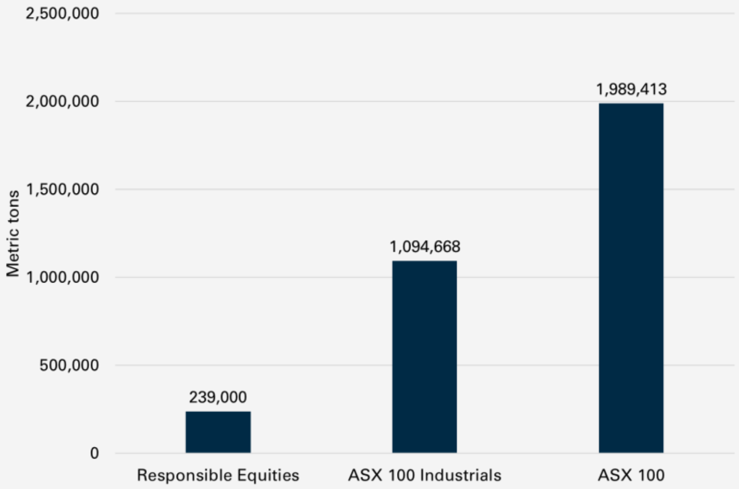
[2] The Paris Agreement, https://unfccc.int/process-and-meetings/the-paris-agreement/the-paris-agreement

[3] United Nations Environment Program (UNEP), Emissions Gap Report 2018, November 2018, http://wedocs.unep.org/bitstream/handle/20.500.11822/26895/EGR2018_FullReport_EN.pdf?isAllowed=y&sequence=1

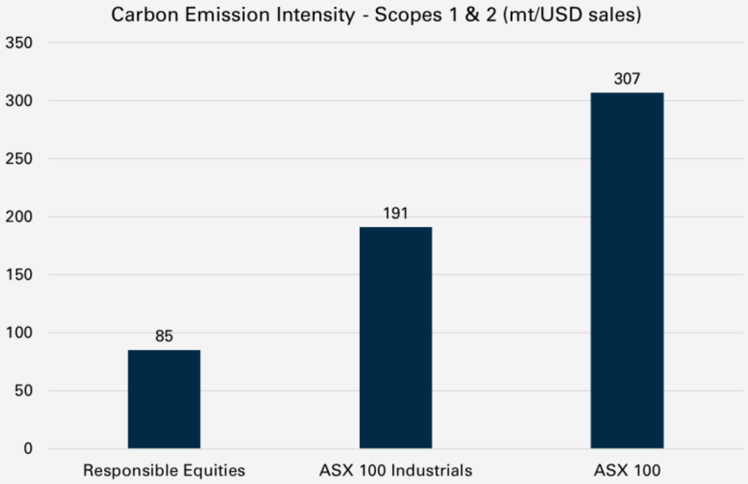
[4] "Low carbon transition" refers to the transition of the global economy from carbon-intensive operations and energy sources to zero or low carbon operations and energy sources.

Figure 3 – Average Scope 1 & 2 Emissions (FY21)



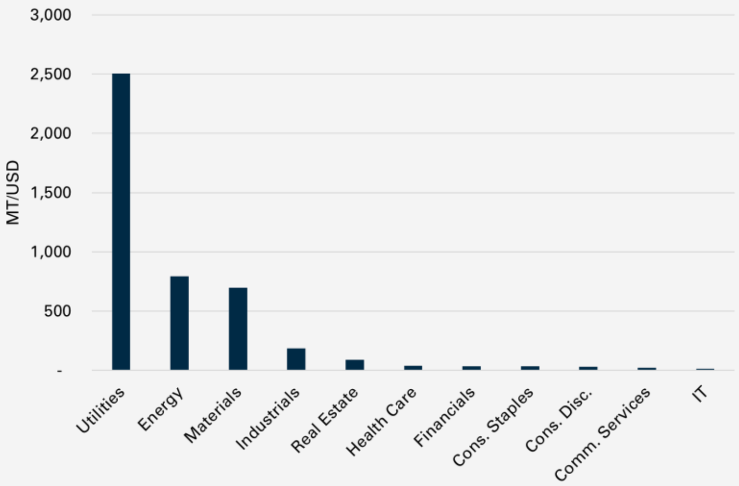
Responsible Equities companies emit 79% less emissions than ASX 100 Industrials companies on average, and 88% less than ASX 100 companies.

Figure 4 – Average Scope 1 & 2 Emission Intensity (FY21)



Responsible Equities companies are 55% less intensive than ASX 100 Industrials companies on average, and 72% less than ASX 100 companies.

Figure 5 – ASX 100 Sector Scope 1 & 2 Emission Intensity (FY21)



Utilities is the most emissions-intensive sector, followed by Energy and Materials…

…while Consumer Staples, Consumer Discretionary, Comm. Services, and IT are the least intensive.

Source: MSCI, Ord Minnett Research. Data sets beyond FY21 are incomplete.

Social Factors

Social factors consider how a company treats stakeholders and focuses on employee relations and diversity, working conditions, local communities, health and safety, and conflict. Human capital management is central to execution of business strategy, expansion, innovation, and business continuity, and is therefore a key area of investor attention.

Table 3: Social Key Issue Scores

Issue	Responsible Equities	ASX 100 Industrials	ASX 100
Human Capital	**4.7**	4.4	**4.7**
Product Liability	5.3	**5.8**	**5.8**
Stakeholder Opposition	**6.6**	5.6	5.7
Social Opportunities	**3.9**	3.2	3.2

Source: MSCI Ratings, Ord Minnett Research. **Bold** is the best performer in the issue category.

- The *Responsible Equities Portfolio* exceeded or equalled the ASX 100 Industrials benchmark and the broader ASX 100 index on three of the four social key issues. It was highest on Human Capital, Stakeholder Opposition and Social Opportunities, but trailed on Product Liability. We note that there were less differences between the issue scores for the ASX Industrials and the ASX 100 indices in Social factors as compared with Environmental factors.
- **Human Capital** – Represents the weighted average of the scores for all issues that fall under this theme:
  - *Labour Management* – The extent to which companies are at risk of workflow disruptions due to labour unrest or reduced productivity due to poor job satisfaction. Companies providing strong employment benefits and performance incentives and offer employee engagement and professional development programs score highest.

    Portfolio stocks which helped to boost the score include ASX, Goodman Group and GPT, while Ansell, Charter Hall, Qube and Wesfarmers weighed on the score. Non-portfolio stocks that could have lifted this issue's score include Dexus, Medibank Private, QBE and Vicinity.
  - *Health & Safety* – Evaluates the extent to which companies are at risk of health and safety accidents, which can also lead to production disruptions, litigation, and liabilities. Companies with comprehensive health & safety management and a superior track record score highly.

    Portfolio stocks which positively contributed to this issue score include APA Group, Goodman Group and Transurban. Non-portfolio stocks scoring above average include Mirvac and Stockland.
  - *Human Capital Deployment* – Evaluates a company's ability to attract, retain and develop human capital based on its provision of benefits, training and development programs, and employee engagement. Companies that proactively manage human capital development through offering competitive benefit packages, implementing formalised training programs, and actively measure employee satisfaction score well.

    Portfolio stocks with a high level of human capital deployment include Brambles, Qube and Transurban, while stocks to score poorly include IDP Education, Macquarie Group and Seek. Non-portfolio stocks that scored above average include Aristocrat, Coles, Harvey Norman and JB Hi-Fi.
  - *Supply Chain Labour Standards* – Focused on retailers and the extent to which their supply chains engage in the sub-standard treatment of workers. Companies that establish labour management policies meeting stringent international norms, implement programs to verify compliance with the policies, and introduce incentives for compliance among suppliers score will on this issue.

    Portfolio stocks exposed to this issue include Wesfarmers.

- **Product Liability** – Represents the weighted average of the scores for all issues that fall under this theme:
  - *Product Safety & Quality* – The extent to which companies are at risk of facing major product recalls or losing customer trust through major product quality concerns. Companies that proactively manage product quality by achieving certification to widely acceptable standards, undertaking extensive product testing and building processes to track raw materials or components score higher on this issue.

    Portfolio stocks scoring well on this measure include Ansell, Cochlear and Sonic Healthcare, while stocks to score poorly include CSL and IDP Education. Non-portfolio stocks that could have improved the portfolio score include Mirvac, Ramsay Health Care and Reece.
  - *Chemical Safety* - Evaluates the extent to which companies are at risk of losing access to markets or at risk of facing costs related to reformulating their products due to the presence of chemicals of concern in their products. Companies that proactively eliminate chemicals of concern from their products score well on this issue.

    Portfolio stock Wesfarmers faced a minor impact from this issue. Non-portfolio companies which are exposed to this issue include Harvey Norman, Orica and Orora.
  - *Financial Product Safety* - Financial institutions are evaluated on product stewardship and transparency, including efforts to mitigate potential reputational and regulatory risks arising from unethical lending practices or mis-selling financial products to consumers. Companies that have governance structures to oversee and respond to customer complaints and financial stewardship programs to engage with customers score well.

    As a general observation, Australian financial stocks score poorly on this measure, with significant improvements required. The findings of the 2019 Royal Commission are evidence of the work required by the industry to satisfy customer expectations. Portfolio stocks in this category include ANZ, CBA and NAB. Non-portfolio stock Suncorp is an outperformer in this issue.
  - *Privacy & Data Security* – Evaluates the extent to which companies are at risk of incurring reputational damage from a data security breach or controversial use of personal data, or having their business model undermined by evolving regulatory requirements on privacy and data protection. Companies with comprehensive privacy policies and data security management systems, and companies that do not have business models reliant on trafficking in personal data score well.

    Portfolio stocks to score well on this issue include APA Group, Brambles, CSL and Transurban, while IDP Education, Seek and NAB were below average. Non-portfolio stocks that scored well include Aurizon, Lendlease and Vicinity.
  - *Responsible Investment* – The extent to which companies' investment portfolios are exposed to ESG-related risks. Companies that integrate ESG risk analysis into their due diligence process across all investment portfolios and asset classes score higher on this key issue.

    Within the portfolio Macquarie Group scores around the average of the benchmark. Non-portfolio stocks that scored well on this issue include AMP, Challenger and IAG.
  - *Insuring Health & Demographic Risk* – Evaluates insurance companies' exposure to emerging risks associated with public health trends and demographic change. Companies that have systems in place to identify and model emerging risks associated with health and demographic changes score highly.

    There was no significant impact from this issue on the Portfolio. Non-portfolio companies which are exposed to this issue include Challenger, Medibank Private and NIB.

- **Stakeholder Opposition** – Represents the weighted average of the scores for the issue that fall under this theme:
    - *Controversial Sourcing* – This key issue evaluates the extent to which companies are at risk of incurring regulatory compliance costs, reputational damage, or supply chain disruptions resulting from reliance on raw materials that originate in areas associated with severe human rights and labour rights abuses. In general, companies able to trace the origin of their raw materials and certify that they were obtained in a way that minimises social harm score higher.

      There were no portfolio companies with any significant exposure to this issue. This is also the case in the benchmark.

- **Social Opportunities** – Represents the weighted average of the scores for all issues that fall under this theme:
    - *Access to Communication* – This key issue evaluates the extent to which telecommunications companies are taking advantage of opportunities for growth in historically under-served markets, including developing countries and under-served populations in developed countries (such as rural areas and the elderly). Companies with considerable operations in developing countries score well on this key issue, as do those with substantial activities focused on expanding access through relevant initiatives and philanthropic efforts.

      Telstra, held within the portfolio, has exposure to this issue.
    - *Access to Finance* – This key issue evaluates the extent to which a financial institution provides lending, financing, or products to under-represented or under-banked communities. Top performing companies will offer products and services to communities with limited or no access to financial products, where weak performers limit their product offerings to more saturated financial markets.

      The overall score for financial institutions providing finance access was relatively low, although portfolio stocks ANZ, CBA and NAB were above the benchmark average.
    - *Access to Healthcare* - This key issue evaluates pharmaceutical companies' efforts to improve access to healthcare in developing countries and for under-served populations in developed markets. In developing countries, companies that adapt their business models to reflect the specific needs of individuals in these markets through areas such as R&D, pricing, and licensing strategies will score well. In developed markets, companies that aim to address differences across the market in healthcare access score well.

      CSL, the single pharmaceutical company in the benchmark and portfolio, was the average of this measure.
    - *Opportunities in Nutrition and Health* – Evaluates the extent to which consumer companies are innovating to take advantage of the market for healthier products. Companies that offer products with an improved nutritional or healthier profile and have sought credible verification for its healthier status score higher on this key issue.

      There was no significant impact from this issue on the Portfolio. Non-portfolio companies which are exposed to this issue include Coles, Domino's, Endeavour Group, Metcash and Woolworths.

Governance Factors

Governance factors consider corporate policies and how a company is governed. They focus on tax strategy, executive remuneration, donations and political lobbying, corruption and bribery, and board diversity and structure. Many high-profile corporate collapses that have occurred over the past decade have been attributed to poor governance practices.

Table 4: Governance Key Issue Scores

Issue	Responsible Equities	ASX 100 Industrials	ASX 100
Corporate Governance	**8.5**	8.3	8.3
Corporate Behaviour	6.6	**7.0**	**7.0**

Source: MSCI Ratings, Ord Minnett Research. **Bold** is the best performer in the issue category.

- The Responsible Equities Portfolio outperformed both the ASX 100 Industrial benchmark and the broader ASX 100 in Corporate Governance, while it lagged both in Corporate Behaviour.
- **Corporate Governance** – Represents the weighted average of the scores for the issue that fall under this theme:
    - *Corporate Governance* – evaluates the extent to which companies' corporate governance practices in specific governance areas - audit, board, compensation/remuneration, shareholder rights - pose financial risks to shareholders.

      Portfolio stocks that lifted the score included CBA, GPT Group, IDP Education and Transurban, while CSL, Sonic Healthcare and Wesfarmers were below average. Non-portfolio stocks that could have lifted the score include Challenger, James Hardie, Metcash and Scentre Group.

- **Corporate Behaviour** – Represents the weighted average of the scores for the issues that fall under this theme:
    - *Business Ethics* – Evaluates industry-specific business ethics issues that are not captured by any of the other standard key issue benchmarks, including but not limited to anti-competitive practices, pricing fraud, controversial customer practices, and insider trading. Companies that have avoided controversies in these areas score higher on this key issue, while companies that have faced moderate or severe controversies over the past three years score lower.

      More ethical portfolio stocks include APA Group, ASX, GPT and Transurban, while companies that detracted from the ethical score include ANZ, CBA and Macquarie. Non-portfolio stocks that could have improved the score include Medibank Private, Mirvac and Stockland.
    - *Anti-competitive practices* – The extent to which companies face regulatory risks relating to anti-competitive practices. Companies that have avoided controversies in this area score higher on this key issue, while companies that have faced moderate or severe controversies over the past three years score lower.

      The portfolio scored well on this measure with only ANZ, Macquarie and NAB registering anti-competitive practices. Within the benchmark, Qantas and Westpac were slightly below average.
    - *Tax Transparency* - Companies are evaluated on their estimated corporate tax gap (i.e. the difference between estimated effective tax rate and estimated corporate income tax rate), revenue reporting transparency and their involvement in tax-related controversies.

      APA Group, ASX, and Qube scored well on this measure, while Ansell, Macquarie, Transurban and Xero were less transparent. Non-portfolio companies with high transparency scores include AGL, Bendigo & Adelaide Bank, Medibank Private and REA Group.

- *Corruption Score* – The extent to which companies are at risk of suffering operational disruptions or loss of market access due to violence, property destruction or sabotage, political instability, demands for bribes, and costly litigation related to corrupt practices. Companies that have programs, guidelines, and clear policies to avoid corrupt business dealings; have strong partnerships with local communities; and have high level of disclosure and transparency score higher on this key issue.

  Portfolio stocks that scored well on this measure include ANZ, Brambles, CBA and GPT Group, while Cochlear, Seek and Sonic Healthcare were below average. Non-portfolio stocks with strong scores include Coles, Orica, Vicinity Centres and Woolworths.

Please contact your Ord Minnett Adviser for further information from this report.

Guide to Ord Minnett Recommendations

Our recommendations are based on the total return of a stock – nominal dividend yield plus capital appreciation – and have a 12-month time horizon.

SPECULATIVE BUY	We expect the stock's total return (nominal yield plus capital appreciation) to exceed 20% over 12 months. The investment may have a strong capital appreciation but also has high degree of risk and there is a significant risk of capital loss.
BUY	The stock's total return (nominal dividend yield plus capital appreciation) is expected to exceed 15% over the next 12 months.
ACCUMULATE	We expect a total return of between 5% and 15%. Investors should consider adding to holdings or taking a position in the stock on share price weakness.
HOLD	We expect the stock to return between 0% and 5%, and believe the stock is fairly priced.
LIGHTEN	We expect the stock's return to be between 0% and negative 15%. Investors should consider decreasing their holdings.
SELL	We expect the total return to lose 15% or more.
RISK ASSESSMENT	Classified as Lower, Medium or Higher, the risk assessment denotes the relative assessment of an individual stock's risk based on an appraisal of its disclosed financial information, historic volatility of its share price, nature of its operations and other relevant quantitative and qualitative criteria. Risk is assessed by comparison with other Australian stocks, not across other asset classes such as Cash or Fixed Interest.

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