

### Workshop. Waste, Community, Carbon and Employees

BofAML hosted 14 Australian companies and four buy-side firms in Sydney on 5<sup>th</sup> April to discuss ESG related issues including Waste, Community, Carbon and Employees. Encouragingly, there was open debate on issues and the solutions being deployed by corporates.

### Waste. China ban + rising supply, low demand = problem.

Packaging is helpful to extend life of food and plastic has inherent quality advantages. China's ban on plastic waste import in Jan 2018 has exposed a serious flaw in the system, with a lack of plastic waste treatment facilities in Australia. Recycling initiatives which are helping include Coles' (Wesfarmers Ltd) use of recycled plastic in own brand spring water bottles and Costa's providing mushroom stems (waste byproduct) to pig farmers.

### Community investment helps with license to operate

Increased investment in the community is taking place as corporates emphasise their social license to operate. A history of community investment can become an important differentiator when bidding for contracts. CSL's \$40m pa and Westpac's \$155m pa partially go towards education programs targeting Science, Technology, Engineering and Mathematics. Lendlease is retraining auto workers and Stockland is building "liveability".

### Reducing carbon footprint

The companies are preparing for a decarbonized future, with best practice often found in greenfield operations. An example of progress on renewables is South Australia, where one third of detached houses have solar panels installed on the roof. Similarly, Qantas has an app which allows pilots to track the fuel efficiency of their trips and compare with peers.

### Engaged employees

By 2025, 75% of the workforce will be Millennials, and 88% of Millennials seek flexible working arrangements - job hours, location and experience. Technology disruption and rising social awareness place a greater importance on communication from business leaders. AMP is actively promoting paternity leave as part of gender diversity.

### Buy-side feedback

Buy-side firms conduct their own due diligence with some input from 3rd party ESG data providers. The sectors with higher perceived ESG risks are Resources, Industrials, Diversified financials and industries with weak regulation. When an ESG issue arises at a stock, investors are keen to understand extent of disclosure – was it foreseeable and what is the company doing to fix it? Investors are on the look-out for stocks with improving ESG scores and those where active engagement can see a turnaround.

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# Waste

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## Panel: Costa Group, Replas and Wesfarmers (Coles supermarkets)

Costa Group is a horticultural company and major supplier of fresh produce to supermarkets. Replas is a privately owned plastics recycling company. Coles is a major supermarket in Australia and part of Wesfarmers Limited.

Key themes which emerged were:

- Coles' recycling rate is 73%. The two main types of waste in supermarkets are packaging (cardboard and plastics) and discarded produce;
- Packaging is helpful to extend life of food. Plastic has inherent quality advantages and is less energy intensive than paper;
- China ban: Historically, 60%-70% of the world's plastic waste has been shipped to China. Since Jan 2018, China has enforced the ban on importing plastic waste. There is a lack of recycling infrastructure in Australia which is creating a serious issue. There is significant supply of plastic waste but not enough demand to buy recycled plastic product.

Example initiatives to tackle waste include:

- Coles Brand natural spring water bottles are now made from recycled plastic which saves 1.9 million kgs of virgin plastic a year;
- Coles has partnered with SecondBite to donate fruit, vegetables, meat and bakery items. Since 2011, 25 million kilograms of fresh food has been donated to disadvantaged Australians.
- Use of recycled plastic to make seats
- Costa's citrus business now uses drip irrigation which allows for precise water and fertilizer volumes. Water usage dropped from 20mgl per hectare to 8mgl.
- Coles. 6m recyclable crates to use with suppliers, e.g. Costa's citrus products. Suppliers pack food in the crates. Crates are currently used for hard fruits. Next steps are with soft fruits and seafood (which is currently packaged in polystyrene, and a larger number of smaller suppliers). In FY17, Coles' crates initiative reduced 32kt of polystyrene and cardboard.
- Increased in-store messaging and on meat packs about what can be recycled.
- Mushroom stems contain 90-95% water. Costa donates the stems (byproduct) to farmers as cattle feed. Looking at ways to extract water and reuse. Also, looking at ways to crush and turn into a capsule, given nutritious value.

# Investing in the community

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## Panel: CSL Limited, Lendlease, Stockland, Westpac

CSL is a global biopharmaceutical company. Lendlease is a global property and infrastructure development company. Stockland develops, manages and owns residential, retail and commercial properties. Westpac is one of Australia and New Zealand's largest banks.

Key themes which emerged were:

- Increased investment in the community as corporates emphasise their social license to operate. This typically manifests itself in corporate philanthropy, looking for ways to enhance living standards and education;
- Community investment levels were: a) CSL's FY17 spend \$40m ie. ~1.6% pre-tax profit. Lendlease invest through a Foundation primarily to support staff and their family. Stockland spend ~\$6m/yr. Westpac's FY17 philanthropic spend was ~\$155m excluding Foundation;
- A history of community investment can become an important differentiator when bidding for projects, particularly Government contracts; and
- Investing in education initiatives provides lifelong skills.

Example initiatives of investing in the community include:

- Westpac is investing in STEM (science, technology, engineering and mathematics) education initiatives. A scholarship programme was created for 100 students pa under the Bicentennial Foundation
- Westpac assists women from underprivileged background secure employment via Fitted for Work initiative. Similar initiatives have seen +2k jobs created for disadvantaged citizens;
- Stockland's Live Life Get Active initiative saw a community lose 2500kg. The initiative has helped Stockland to connect with potential customers;
- Lendlease retrained and deployed workers from closed auto manufacturing plants for the North Connex road project in Adelaide. Similarly, the Barangaroo skills exchange saw 10k trainees on site;
- CSL's partner medical research institutes wanted STEM students and scientists to come back to Australia. CSL established a \$25m fund to bring scientists back to Australia).
- CSL partnered with the Australian Government to provide vaccine in impoverished Papua New Guinea.
- Measure the liveability index. SGP has found that a high score on the index leads to higher referrals by customers

# Reducing carbon footprint

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## Panel: AGL Energy, CEFC, Qantas and Sydney Airport

AGL Energy owns and operates power generators and retails gas and electricity. The Clean Energy Finance Corporation (CEFC) is a Government Owned Entity providing finance for renewable energy, energy efficiency and low emissions technologies. Qantas is an airline operating in Australia and internationally. Sydney Airport owns and operates an airport in Sydney.

Key themes which emerged were:

- Qantas has a target of 1.5%pa fuel efficiency reduction by 2020 and 80% net emissions reduction by 2050. Fifteen staff are focused solely on aircraft improvement, besides fleet replacement;
- The companies are preparing for a decarbonized future. In South Australia, one third of detached houses have solar panels installed on the roof; and
- Best practice is often found in greenfield sites such as 6 star rated Indian airports, Scandinavian and US airlines (biofuels) and opportunities to invest in manufacturers of equipment – e.g. lithium mines (batteries for EVs), charging stations, distributed energy (making grid fit for purpose).

Example initiatives of reducing carbon footprint were:

- The new 787-9 Dreamliner for Perth to London is 20% more fuel efficient.
- Aircrafts use ground power rather than auxiliary power units when docked at terminals;
- The CEFC has invested \$4.8bn, with over 50% deployed in renewables (wind and solar). The rest of the funds are invested in energy efficiency initiatives in real estate, agriculture, transportation and distributed energy tech companies).
- Capital substitution cycle as plants come to end of life. AGL Energy is substituting with renewable sources through \$2-\$3bn investment in solar and wind;
- Qantas has an app which allows pilots to track the fuel efficiency of their trips and compare with peers.
- Sydney Airport replaces equipment (eg baggage carousels) with more energy efficient kit. It provides fit-out guidelines to retail tenants to reduce footprint.

# Engaged employees

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## Panel: AMP Bank, Mortgage Choice and NIB

AMP is a wealth, investment management and banking company. Mortgage Choice is a mortgage broking company. NIB provides health and medical insurance.

Key themes which emerged were:

- By 2025, 75% of the workforce will be Millennials, 88% of Millennials want workspace to offer flexibility. This relates to job hours, location and experience;
- There is disruption and rising social awareness in every sector. Ongoing communication is required from business leaders;
- Companies need to evolve to agile working practices which develop skills and allow employees to rotate into new teams;
- Training and upskilling opportunities can be seen as more valuable than wage growth;
- Employee satisfaction has links with customer satisfaction
- Maternity and paternity leave opportunity can further promote equality.

Example initiative of engaged employees were:

- A separate remuneration bucket was set-up to top-up for gender pay inequality

# Buy-side Panel

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## Panel: AMP Capital, Ausbil, BT Investment Management and UniSuper

Key themes which emerged were:

- ESG factors such as climate change, labour issues, corporate governance affect the sustainability of earnings;
- Alpha generation. Buy stocks with improving ESG momentum. Often low quality ESG stocks but starting to improve – could generate alpha through active engagement to turnaround and fix issues
- Firms conduct their own due diligence with some input from 3<sup>rd</sup> party ESG data providers. The ESG process is integrated in portfolio decision-making
- When an ESG event happens (eg oil spill), examine:
  - What happened, disclosure?
  - Why did it happen, was it foreseeable?
  - What is the company doing to fix it
- High ESG risk sectors: Resources, industrials, diversified financials and industries with weak regulation.
- Proxy resolutions increasingly being used as an activist tool. Customers are increasingly scrutinizing.

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