



# IMPACT DOWN UNDER

*Assessing Performance of Australian companies against the United Nations Sustainable Development Goals*

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**February 2017**

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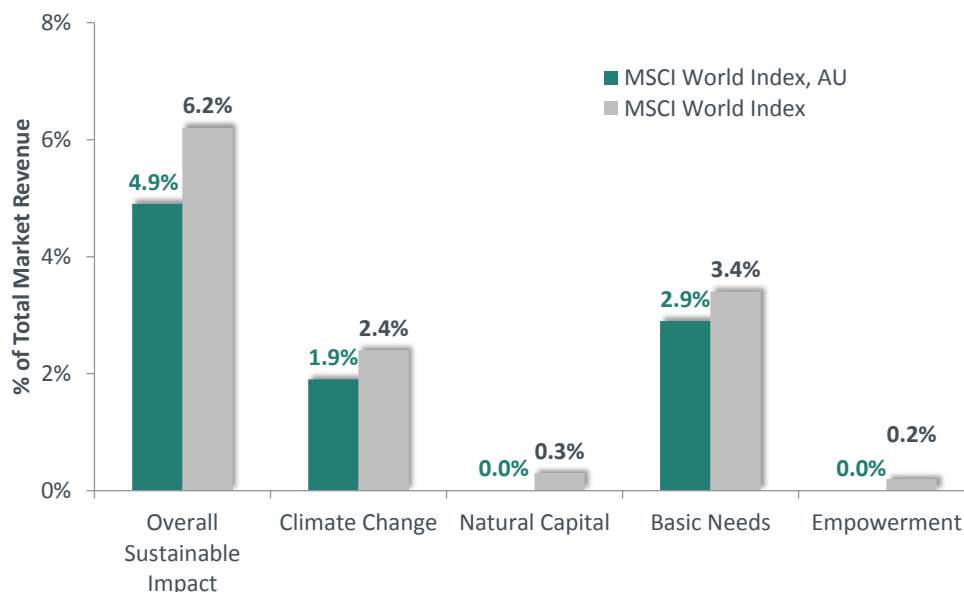
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## KEY TAKEAWAYS

- Australian constituents of the MSCI World Index derived 4.9% of their revenue from involvement in UN Sustainable Development Goals (SDGs) related activities, compared to the MSCI World Index's 6.2%, as of October 2016, with Green Building, Major Disease Treatments and Nutrition being the main areas of involvement.
- CSL and Mirvac are standout examples of sustainable impact involvement in Australia. CSL's involvement in Major Disease Treatment came through its Hemophilia and influenza vaccine products and accounts for 58% of its total revenues. Mirvac's through the development and management of Green Buildings, which accounts for 52% of its revenues.
- The two largest Global Industrial Classification Standard (GICS®)<sup>1</sup> sectors in the Australian peer set – Materials and Financials (59% of the Australian peer set revenue) – have among the lowest sustainable impact involvement, with relevant Sustainable Impact categories, such as SME Lending and Alternative Energy, contributing 0.1% of the total revenue derived from UN SDG activities for Australian constituents of the MSCI World Index.

**FIGURE 1** Proportion of total revenue derived from Sustainable Impact categories for Australian constituents of MSCI World Index compared to MSCI World Index, as of Oct 2016



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<sup>1</sup> GICS®, the global industry classification standard jointly developed by MSCI and Standard&Poor's

## MSCI ESG SUSTAINABLE IMPACT METRICS

Impact investing approaches aim to generate positive impacts on society, or the environment, by directing capital toward companies that are providing products or solutions to social or environmental solutions. Unlike ESG Integration, which uses extra-financial information with the ultimate aim of achieving long-term financial objectives, impact investing explicitly targets positive societal impact alongside financial return. MSCI ESG Sustainable Impact Metrics aims to define a complementary approach to pure impact investing by applying some of the impact investing principles to the listed equity market<sup>2</sup>.

MSCI ESG Sustainable Impact Metrics methodology was used to determine companies' involvement in sustainable impact activities and to compare MSCI World Australia companies' performance to that of the MSCI World Index constituents.

**FIGURE 2** Map of UN SDGs to MSCI Sustainable Impact Metrics themes and categories.

Pillar	UN Sustainable Development Goals	Sustainable Impact Themes and Categories
SOCIAL IMPACT	No Poverty Zero Hunger Good Health & Well-Being Clean Water & Sanitation Sustainable Cities & Communities	 <b>BASIC NEEDS</b> Nutrition Major Disease Treatments Sanitation Affordable Real Estate
	Quality Education Decent Work & Economic Growth Reduced Inequalities Industry, Innovation & Infrastructure	 <b>EMPOWERMENT</b> Education SME Finance
ENVIRONMENTAL IMPACT	Climate Action Affordable & Clean Energy	 <b>CLIMATE CHANGE</b> Alternative Energy Energy Efficiency Green Building
	Life Below Water Life On Land Responsible Consumption & Production	 <b>NATURAL CAPITAL</b> Sustainable Water Pollution Control

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<sup>2</sup> For the full methodology, please see MSCI ESG Sustainable Impact Metrics Methodology and Definitions.

MSCI ESG Sustainable Impact Metrics has been designed to identify companies with products or services that address at least one of the major social and environmental challenges as defined by the United Nations' Sustainable Development Goals (UN SDGs). Designed as a positive screen, this service looks to highlight companies that are deriving revenue from products & services that may have a positive impact on society and the environment.

Using the UN SDGs as a reference, we grouped the social and environmental goals into four actionable impact themes: Basic Needs, Empowerment, Climate Change, and Natural Capital (Fig 2).<sup>3</sup> We then identified how companies can contribute to these goals through their products & services and operations and developed our proprietary taxonomy.

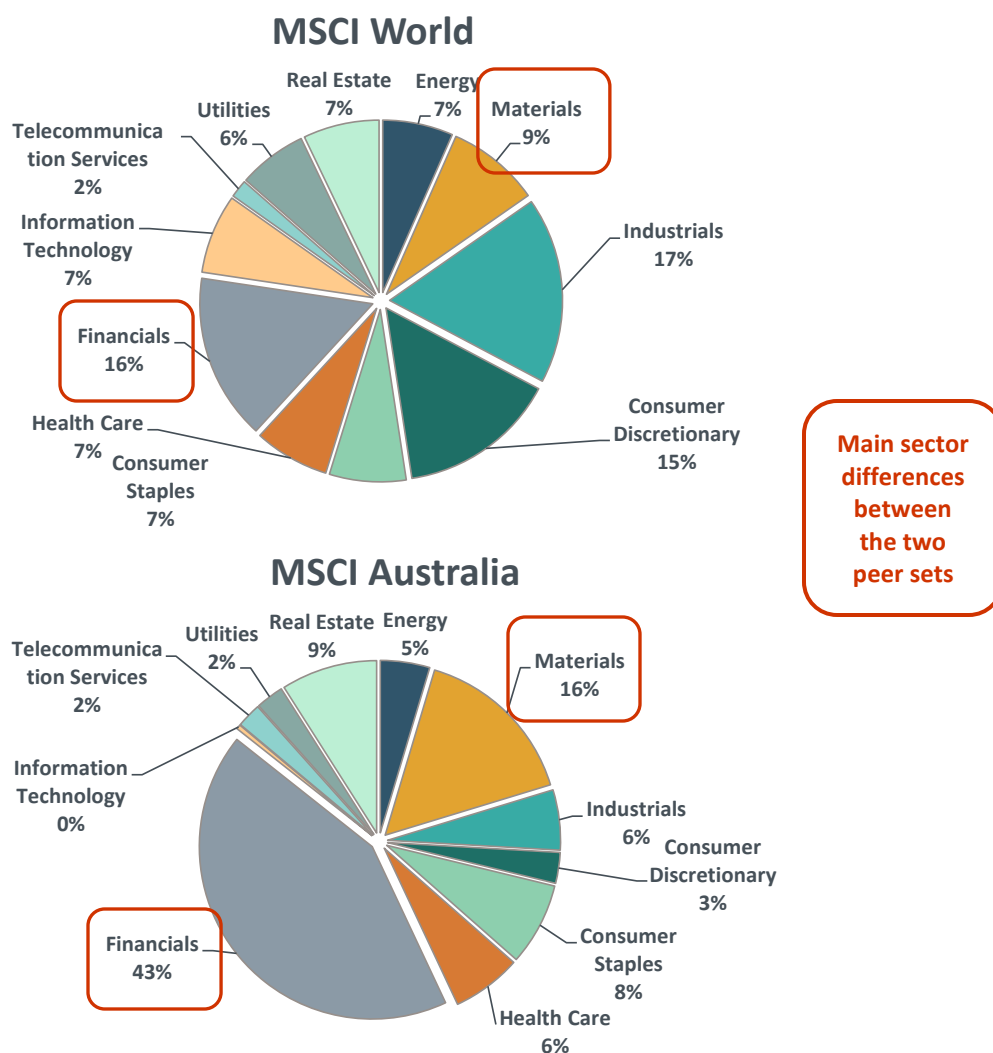
Efforts to quantify a company's exposure to sustainable impact solutions are limited by the current state of available data – sector classifications are too broad, while business segments are reported inconsistently. To help address this challenge, MSCI ESG Research has collected or estimated the percentage of revenue that companies derive from products and services tied to each of these themes.

## PEERSET COMPOSITION

This research note provides a comparison of MSCI World Index and Australian constituents of the Index on their corresponding levels of involvement in activities related to the United Nations Sustainable Development Goals (SDG). The MSCI World Index includes 1,637 constituents in developed markets; the Australian constituents of MSCI World Index account for 72 companies operating across 10 sectors. Based on the sector split, the Australian constituents have a bias towards the Materials and the Financials sectors compared to the wider MSCI World Index (Fig 3).

<sup>3</sup> For the full methodology, please see MSCI ESG Sustainable Impact Metrics Methodology and Definitions.

**FIGURE 3** Sector breakdowns, by revenue, for MSCI World Index and the Australian constituents of the Index, as of October 2016

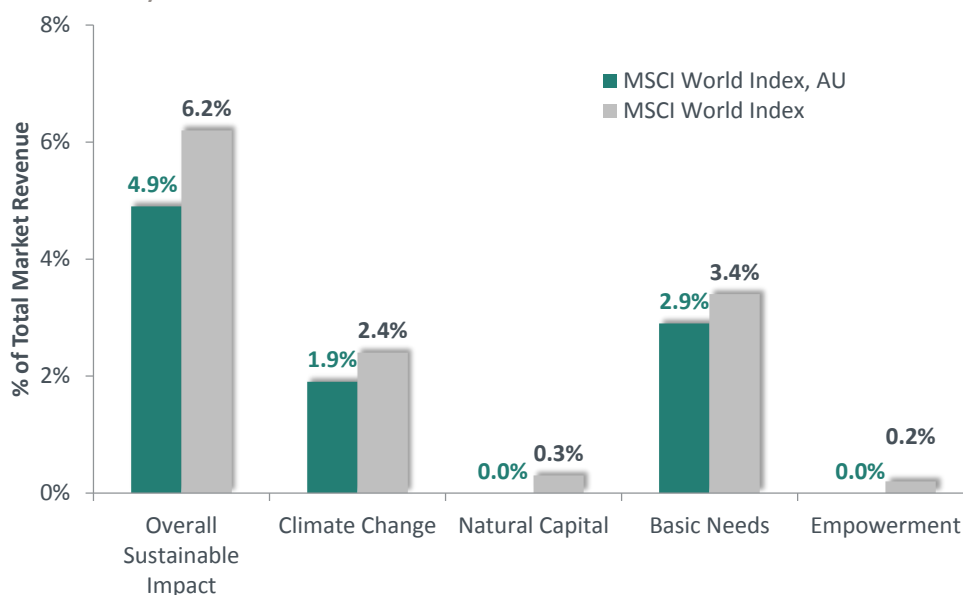


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## AUSTRALIA LEAD GREEN BUILDING & NUTRITION SUSTAINABLE IMPACT REVENUE GENERATION

Australian constituents of the MSCI World Index showed a lower involvement than the wider Index in both overall Sustainable Impact involvement, as well as in each of the separate themes (Fig. 4). Approximately 4.9% of the combined revenue of Australian constituents of the MSCI World Index is derived from Sustainable Impact categories, compared to 6.2% for the MSCI World Index.

**FIGURE 4 Proportion of total revenue derived from Sustainable Impact categories for Australian constituents of MSCI World Index compared to MSCI World Index, as of Oct 2016**



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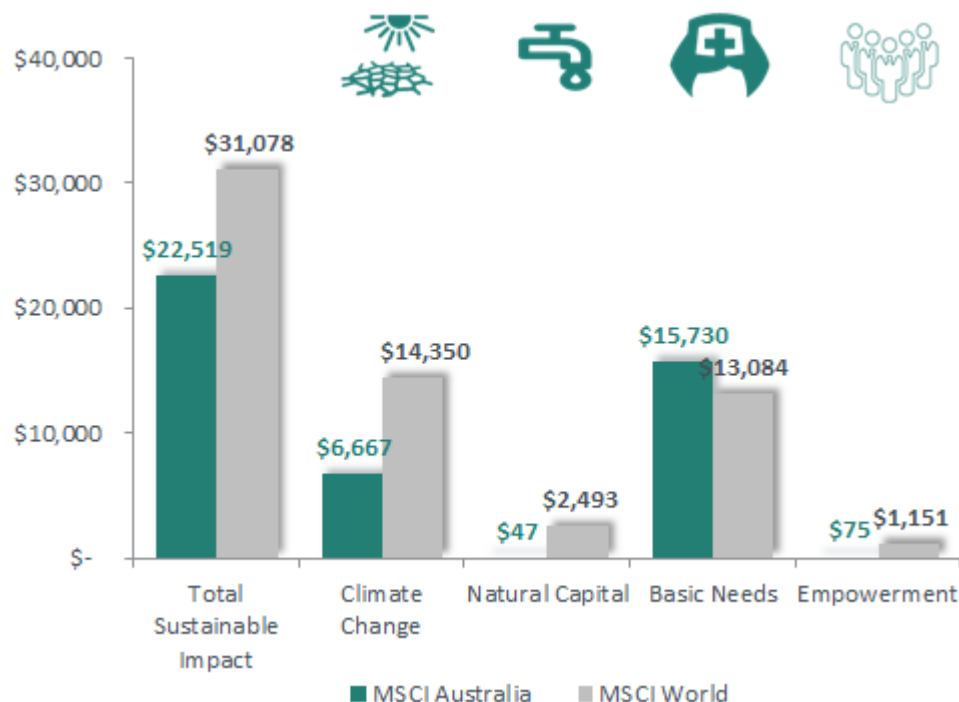
Based on a hypothetical investment of \$1mm in the Australian constituents of the MSCI World Index and the MSCI World Index in a sample portfolio<sup>4</sup>, the revenue generated by companies in the peerset from products and services that provide sustainable impact solutions can be estimated<sup>5</sup>. This shows that the Australian constituents generated greater revenue from the Basic Needs themes under the hypothetical investment (Fig 5).

<sup>4</sup> You cannot invest in an index. None of the information in this report constitutes an offer to sell, a solicitation of an offer to buy, endorsement, review, marketing, or opinion of, any security, financial product or other investment vehicle or any trading strategy.

<sup>5</sup> To be eligible to contribute, a company must generate revenue from products or services that help solve at least one of the world's major social and environmental challenges, while maintaining minimum ESG standards through its operations.

Revenue exposure to Sustainable Impact Solutions reflects the extent to which company revenue is exposed to products and services that help solve the world's major social and environmental challenges. It is calculated as a weighted average, using portfolio or index weights and each issuer's percent of revenue generated from Sustainable Impact Solutions. To be eligible to contribute, an issuer must maintain minimum ESG standards.

**FIGURE 5** Revenue generated from Sustainable Impact Themes from a hypothetical \$1mm USD investment in MSCI Australia Index vs MSCI World Index, as of October 2016



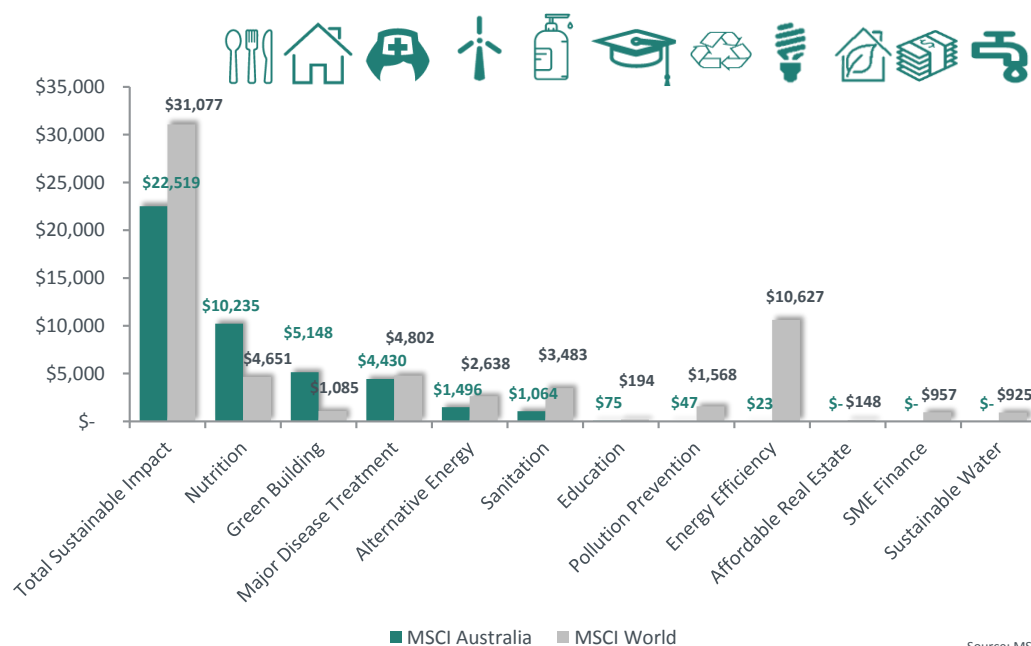
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At the impact category level, MSCI World constituents in general recorded low levels of revenue in Pollution Control, Sustainable Water, Affordable Real Estate, Sanitation, and Education categories; yet Australian constituents of the Index showed no involvement in them at all. Overall, Australian constituents showed lower involvement in the wider MSCI World Index in all but two of 11 categories: Green Building and Nutrition (Fig 6).

Additionally, while the Financials and Materials GICS sectors generate a significant proportion of the Australian constituents' revenues (approximately 59%), there appears to be very little Sustainable Impact involvement in categories relevant to these sectors, such as SME Lending, Alternative Energy and Energy Efficiency.



**FIGURE 6 Revenue generated from Sustainable Impact categories from a hypothetical \$1mm USD investment in MSCI Australia Index vs MSCI World Index, as of October 2016**

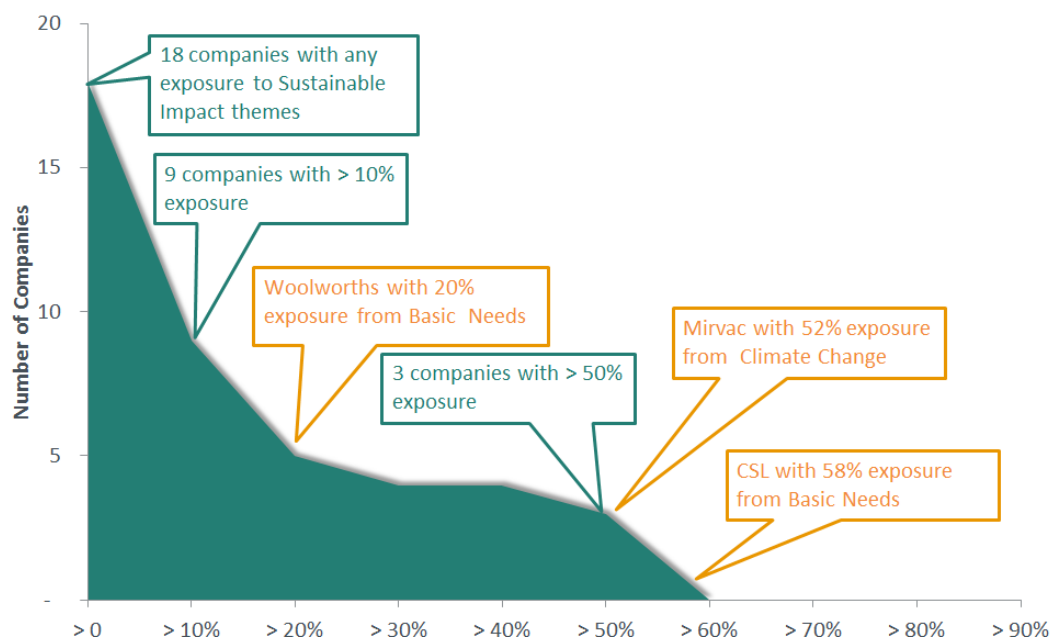


This shows, under this hypothetical investment, that the Australian constituents generated significantly more revenue from products and services related to the Nutrition and Green Building Sustainable Impact categories compared to the MSCI World Index companies, while it also generated a noticeable amount from the Major Disease Treatment category.

## COMPANY SUSTAINABLE IMPACT EXPOSURE

The distribution of Australian constituent companies with exposure to Sustainable Impact themes is shown below, with approximately 25% of companies (18 companies out of 72) having some Sustainable Impact exposure, compared to approximately 46% of MSCI World constituents (Fig7). The top five contributing companies to the Australian constituents' Sustainable Impact solutions are shown in Table 1.

**FIGURE 7 Revenue exposure of Australian constituents to Sustainable Impact themes, as of October 2016**

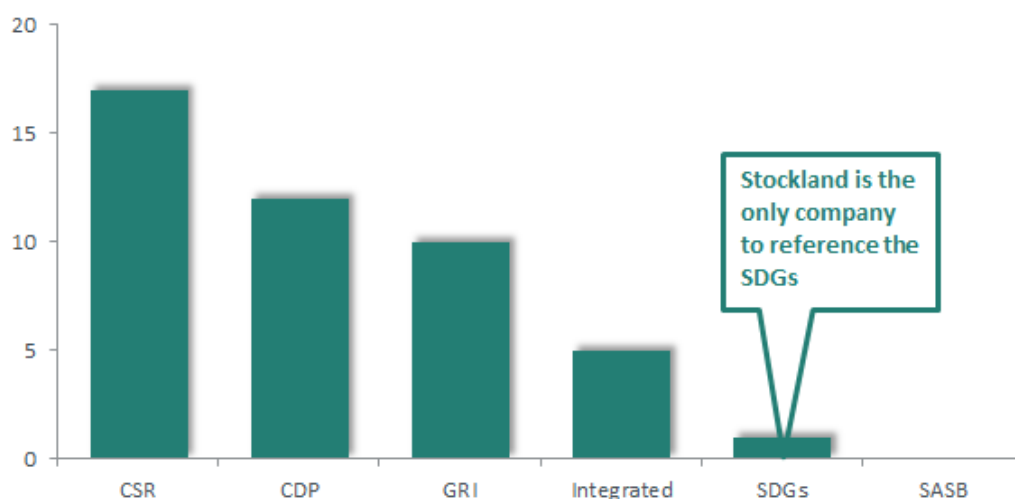


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Increasingly, there have been attempts to create a common language around sustainability strategies and reporting of company activities by third parties, with the UN SDGs, Sustainability Accounting Standards Board (SASB) and Global Reporting Initiative (GRI) all used to different extents by companies around the world. The Carbon Disclosure Project (CDP) is another reporting function for companies to report on and measure their environmental impacts, in areas such as carbon emissions and water usage.

Among the 18 companies with revenue from sustainable impact activities, 17 have some form of Corporate Social Responsibility (CSR) reporting, 16 reporting through CDP with 11 using GRI and three having some mention of SDGs, showing that a common language is beneficial to compare the efforts of different companies (Fig 8). Stockland, a REIT, is the only company among these 18 companies to report on their contribution to the UN SDGs, with the company outlining to which of the SDGs their operations contribute.

**FIGURE 8 Companies using Third-Party sustainability accounting or reporting standards**



*Company Disclosure*

## CASE STUDIES

### CSL – MAJOR DISEASE TREATMENT – 58% SUSTAINABLE IMPACT REVENUE

CSL has an ESG Rating of BBB and an ESG Controversies score of 5 out of 10, demonstrating that the company is able to manage its ESG risks and opportunities, as reflected by its ESG Rating. CSL is a biotechnology company that develops biotherapies and products, such as human plasma products (used to treat hemophilia) and influenza vaccines. The company also focuses on research and development of protein-based medicines for treating human diseases.

In the past, CSL has collaborated with other partners, such as the Karolinska Institute in Sweden, the University of Melbourne in Australia and the Ludwig Institute for Cancer Research in the US, to develop a new drug candidate to prevent development of Type 2 Diabetes. CSL has also made donations of influenza vaccines to Laos and its portfolio of bleeding disorder protein therapy products to the World Federation of Hemophilia.

### MIRVAC GROUP – GREEN BUILDING – 52% SUSTAINABLE IMPACT REVENUE

Mirvac has an ESG Rating of AAA and an ESG Controversies score of 10 out of 10, showing that it is a leader in managing its ESG risks and opportunities, as reflected by its ESG Rating. Mirvac is an Australia property group that develops, owns and manages properties in Australia, across commercial, retail, industrial and residential property types. Mirvac's contribution to sustainable impact is through the development and management of green buildings.

Mirvac has been an Australian leader in green building development and management for a number of years. The company has the highest office portfolio average energy efficiency rating in Australia and has targets to generate 1MW of renewable energy by 2018, as well as educating one million people about green buildings and sustainability.

## CONCLUSION

When comparing the involvement in sustainable impact activities of MSCI World Index companies and Australian constituents of the index, the Australian constituents have a 4.9% total revenue involvement in sustainable impact categories compared to 6.2%. The Australian constituents showed a greater involvement in the Green Building and Nutrition sustainable impact categories and under a hypothetical \$1mm USD investment to replicate the MSCI World Index, as well as a significant involvement in Major Disease treatment. CSL and Mirvac are prime examples of sustainable impact involvement in Australia, with CSL's involvement in treatments for Hemophilia and influenza vaccines, as well as Mirvac's development and management of green buildings.

Table 1 – Australian companies with the top five highest involvement in Sustainable Impact activities

Company	Sustainable Impact Description	Sustainable Impact Revenue %	Contribution to Portfolio Revenue Exposure	Sustainable Impact Theme	ESG Rating	ESG Rating Summary
CSL Health Care	CSL limited business focuses on the development and manufacturing wide range of plasma-derived products and vaccines. In FY 2015, the company derived approximately 58% of its revenue from its plasma-derived products used to treat diseases such as hemophilia, blood disorders, and also from vaccines used to treat influenza, which are among the top 20 diseases of the world and derived approximately 615 mn USD from specialty products (orphan drugs).	58.0%	2.3%	Major Disease Prevention	BBB	CSL has received 19 Forms 483 since January 2014 and four Class II and III recalls in 2016, which indicates that it may be struggling with product quality management. While CSL appears to be taking steps in the right directions with no evidence of new Forms 483 in 2016 (as of September 2016), we remain cautious given its historical record. CSL continues to demonstrate strong efforts to retain talents, with employee satisfaction surveys and a wide range of trainings. CSL's activities to capture growth in the healthcare market in developing countries are limited, but we note some minor progress in this area, with the launch of its three-year donation program, reportedly to begin in 2016.
Woolworths Consumer Staples	Woolworths Limited operates supermarkets, petrol outlets and electronics stores in Australia. In 2015, the company generated an estimated 18% of its revenues from sales of fruits, vegetables, meat, and bread. In addition, it generated 2% of its 2015 revenues from the sale of products like toothbrushes, and household cleaning items.	20%	0.5%	Nutrition, Sanitation	BBB	Woolworths' restructuring program in 2016, which includes the closure of its home improvement chain Masters, will test its labor management programs with 7,700 jobs at risk given the national debates over the removal or reduction of weekend penalty rates and shift allowances and questions over the legality of a current enterprise bargaining agreement. Woolworths has policies to procure seafood, palm oil and timber from certified sources, however this does not extend to all of its branded products. Finally, while Woolworths has achieved its long term carbon reductions target for its offices and distribution centers, it lags industry leaders in reducing carbon emissions in its supply chain.
GPT Group Real Estate	GPT owns and manages green certified properties.	50.8%	0.4%	Green Building	AA	As a result of its strong energy efficiency and tenant engagement policies, GPT Group is among the top performers in the REITs industry, with 53.6% of its portfolio certified to a green building standard and a portfolio average NABERS Energy rating of 4.8 Stars, compared to industry averages of 20.7%. Additionally, GPT

Company	Sustainable Impact Description	Sustainable Impact Revenue %	Contribution to Portfolio Revenue Exposure	Sustainable Impact Theme	ESG Rating	ESG Rating Summary
						Group ensures it is well positioned to compete for the industry's best talent through initiatives such as employee share ownership schemes, partnering with universities to provide training workshops and intensive development programs for high performing employees.
<b>Mirvac</b> Real Estate	Mirvac Group builds and manages NABERS- and Green Star-certified properties.	52.5%	0.5%	Green Building	AAA	Mirvac's willingness, and ability, to take advantage of growth opportunities available from investing in green buildings is demonstrated by strong operational performance giving it an industry leading position, with one of the highest average office portfolio NABERS Energy ratings, at 5.1 Stars, high proportion of green certified buildings as well as innovation in prefabricated construction techniques to reduce cost and resource consumption. In terms of its corporate governance practices, Mirvac has strong board oversight of company management, with an independent majority on its board, as well as having majority independent compensation and audit committees.
<b>DEXUS</b> Real Estate	DEXUS owns and leases NABERS-certified properties.	46.6%	0.3%	Green Building	AAA	DEXUS continues as an industry leader in investing in green building features with stringent NABERS Energy targets for its office portfolio (exceeding these targets for a number of years), above industry average portfolio certification and high levels of green lease take up across its whole portfolio with 77% of leases having green lease clauses included. Tenant surveys and engagement programs, with high levels of tenant satisfaction, also reinforce the company's ability to manage its portfolio. The strength of DEXUS' employee engagement and development is demonstrated by its consistently below industry average levels of employee turnover.

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