FORSYTH BARR

NEW ZEALAND QUANTITATIVE RESEARCH
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Carbon & ESG Ratings of NZ Companies
Charting the Course of Change

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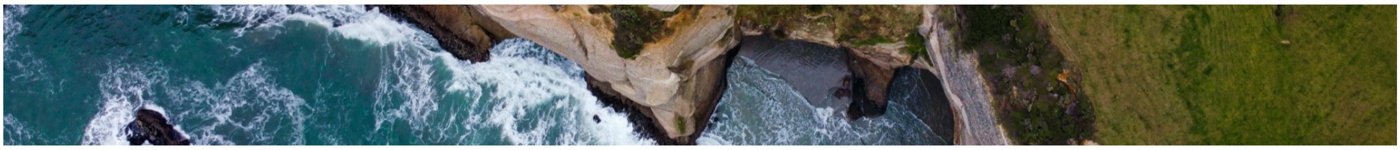
Despite economic uncertainty, geopolitical tensions, and a local election, NZ companies have continued to advance Carbon, Environmental, Social, and Governance (C&ESG) practices over 2023. The necessity for strong C&ESG credentials is clear and supported by a range of established drivers, including NZ's new Climate Disclosure Standards (CDS). Companies are making robust commitments, strengthening policies and embedding widespread action into business-as-usual (BAU) conduct. Even with a heightened focus on greenwashing, momentum continues to build.



We update our C&ESG analysis of NZ companies. Last year we released our inaugural C&ESG ratings for NZ companies under our equity research coverage. Our ratings act as C&ESG due diligence on NZ companies and support our fundamental investment research. The data we collect provides: (1) insight into how a company is preparing for a low-carbon future, (2) a measure of a company's competitive positioning, (3) a supplement for a screen of quality, and (4) a way to identify areas of risk beyond traditional financial analysis that may warrant further investigation.

This helps us better appraise companies and build confidence in the potential for long-term success. In creating our ratings we collected over 8,300 C&ESG-related data points and turned them into an overall score that classifies companies as a *Leader*, *Fast Follower*, *Explorer* or *Beginner*. Our full methodology is publicly available (refer to the separate Forsyth Barr 2023 C&ESG Rating Methodology document) as are the individual scorecards for each of the 58 companies we assessed. This transparency is crucial as we tackle the well-known challenges of ESG ratings. These 58 companies account for ~99% of the NZX's total market capitalisation and contribute ~11% of NZ's total greenhouse gas (GHG) emissions.

The findings of our 2023 project yield two overarching conclusions:

- **Companies are very engaged on this agenda, but external motivations such as regulation and affirmation by investors that sustainability is important are essential to ensure focus is retained. Especially in times of economic uncertainty and geopolitical tensions.** Sustainability practices are now BAU for the majority of companies that Forsyth Barr covers. Most companies now collect and report on a wide range of C&ESG data. With evidence of the growing number of companies meeting several of our criteria, we believe this framework is actively driving companies to improve their C&ESG practices. We emphasise the importance of the investor voice in ESG-related conversations.
- **The easy wins have been tackled.** We see tension between companies that are in the early days, with their sustainability agendas quickly jumping up the leaderboard, and with those that are a few years in, striving to achieve ongoing, tangible results. Except for a small group of *Leaders* we are yet to see commitments and measurement turning into positive outcomes for the environment and society.

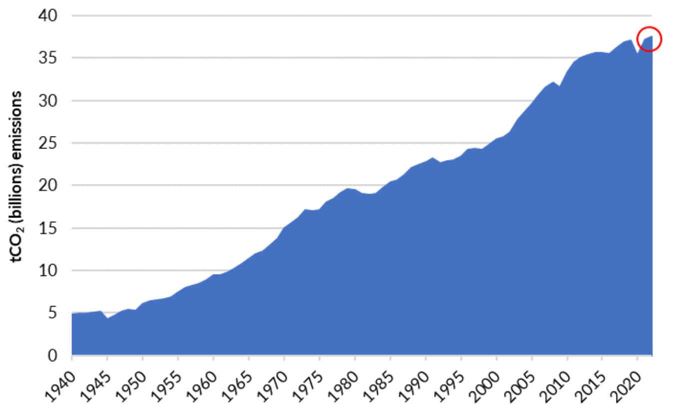
The top three performers are Meridian Energy (MEL), Tourism Holdings (THL), and Precinct Properties (PCT). MEL sits at the top of the table for the second year running. This is a particularly commendable effort given that the framework has undergone a significant evolution as we have built on our insights from last year. We are intentionally moving from a focus on inputs and policy to one of actions and outcomes. Delegat Group (DGL) is the biggest improver, jumping two categories from *Beginner* to *Fast Follower*, skipping *Explorer* altogether. Other notable improvers include Property for Industry (PFI), Winton (WIN), Infratil (IFT), and Serko (SKO).

Executive summary

2023 has been typified by market volatility, interest rates rising to levels not seen since before the GFC in 2008, a cost of living crisis, the ongoing Russian conflict in Ukraine and, more recently, the beginning of the war between Hamas and Israel. Simultaneously, life returned to a familiar pre-COVID style, with supply chain pressures easing and international travel recovering.

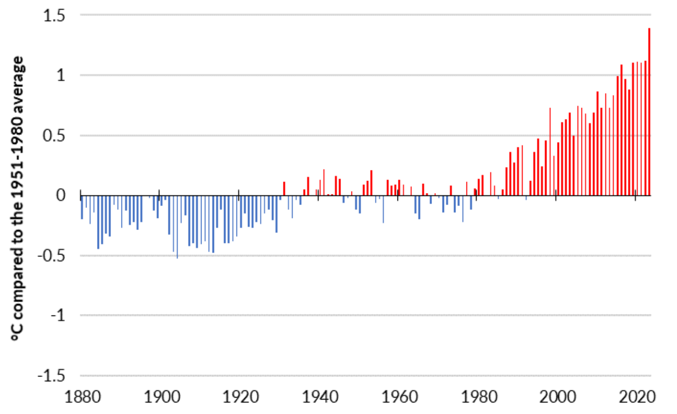
With the return to normality comes the continued upward trend of global carbon emissions. NASA confirmed the summer of 2023 was the hottest on record. In the last six months, Europe, China, and the US have experienced record-breaking heatwaves. Wildfires ravaged North America, Hawaii, southern Europe, and Queensland. Floods in Libya killed and displaced thousands of people. There were weather-related events in Greece, the Canary Islands, and Brazil. And of course, NZ endured its own upheaval with the anniversary weekend floods in Auckland, and Cyclone Gabrielle.

Figure 1. Aggregate world carbon emissions back on the rise post-COVID



Source: Forsyth Barr analysis, Global Carbon Project

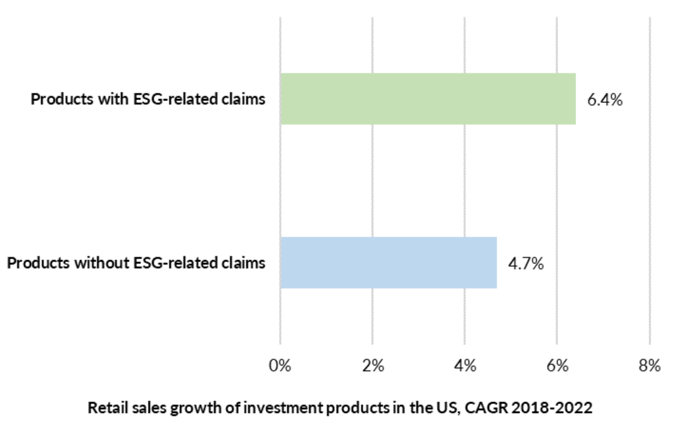
Figure 2. 2023 — the hottest Northern Hemisphere summer on record



Source: Forsyth Barr analysis, NASA Goddard Institute for Space Studies

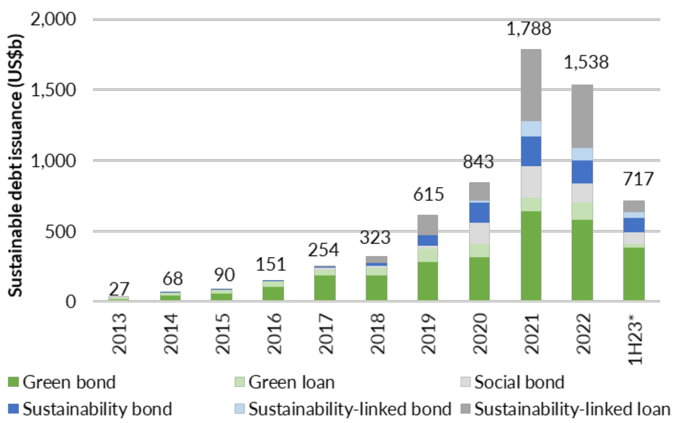
For NZ businesses the necessity for strong C&ESG credentials is clear and supported by a range of established drivers. There is growing evidence that the world is on track to breach 1.5°C of global warming in the near future. Alongside this, there are now well-established motivators driving NZ companies to operate more sustainably. These can include growing and changing consumer demands for sustainable products, market and capital access benefits, regulation, or talent attraction and retention. Some companies need to adapt to reoccurring upheaval from intense weather events, and others believe it is an obligation to act more sustainably. The majority of companies are proactively embracing the trend, while some are reluctant participants driven by compliance. Whatever the motivation, industry in NZ is moving on the sustainability agenda.

Figure 3. Demand for sustainable products is growing



Source: Forsyth Barr analysis, McKinsey & Company, NielsenIQ

Figure 4. As is supply of sustainable debt issuance



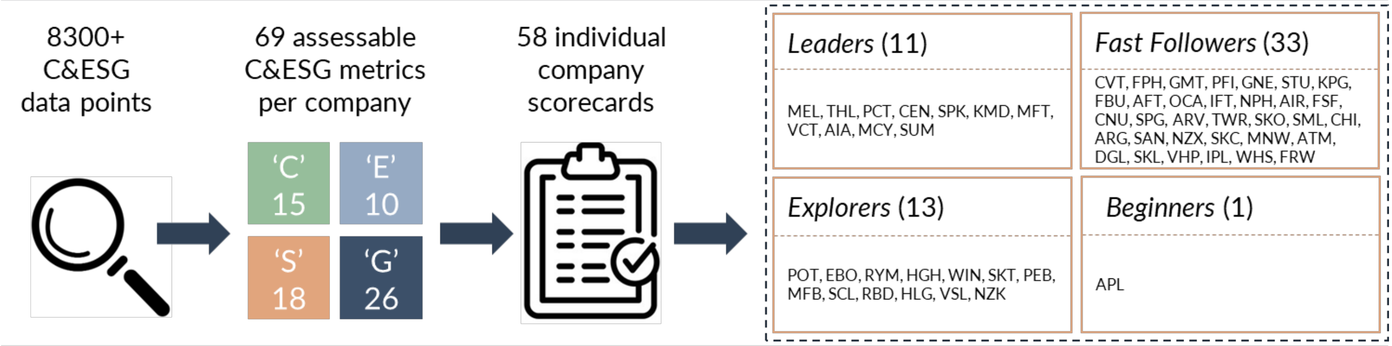
Source: Forsyth Barr analysis, BloombergNEF, Bloomberg L.P
*2H23 data not available

Our C&ESG ratings

Our C&ESG ratings have been designed to solve some of the well-known challenges with current external ESG ratings of NZ companies. Current ratings do not provide enough granular detail with the appropriate geographical nuance for the NZ market. Data is predominantly backward-looking, whereas a focus on the future and outcomes is needed. Further, existing ratings providers do not comprehensively cover an adequate range of NZ companies. Finally, there needs to be more transparency regarding methodologies used and a valid argument for the ratings that contradict each other.

In creating our ratings we collected over 8,300 pieces of C&ESG data and turned it into an overall score that classifies companies as a *Leader*, *Fast Follower*, *Explorer* or *Beginner*. Our full methodology is available (refer to the separate Forsyth Barr 2023 C&ESG Rating Methodology document) as are the individual scorecards for each of the 58 companies we assessed. This transparency is crucial as we tackle the well-known challenges of ESG ratings.

Figure 5. Creating our ratings



Source: Forsyth Barr analysis

From ESG to C&ESG: A distinguishing characteristic between Forsyth Barr's C&ESG ratings and other ESG rating providers is the split of Carbon (C) metrics from the Environmental (E) category. We have found that C metrics dominate the constituent metrics of a typical E rating. We do not want to lose sight of the importance of other E matters, while also giving appropriate weight to the low-carbon transition currently underway.

Findings snapshot

The top three performers are MEL, THL, and PCT. DGL is the biggest improver, jumping two categories from *Beginner* to *Fast Follower*, skipping *Explorer* altogether. Other notable improvers include PFI, WIN, IFT, and SKO. It is important to acknowledge companies that have moved up a category as there are two key factors at play which make this difficult to achieve:

1. **It is year two of our ratings and we have made some meaningful changes** (see the full Methodology for a complete description of these changes). Our questions have evolved, many easy wins have been removed and the focus on outcomes means it is harder to score highly. As a result the average C&ESG score has dropped.
2. **The market is moving quickly on this agenda** causing a tension between those at an earlier stage of their journey and making initial easy gains, and those further advanced who may need time to ratchet up their commitments and seek a cultural change that empowers all staff to engage with the sustainability agenda — not just those tasked to do so.

While we acknowledge there will be minor amendments to the methodology each year, we expect the changes will be considerably less going forward. Our expectation continues to be that we will raise the bar year-on-year as our insights deepen and we find new ways to better assess the quality of responses. We remain committed to being completely transparent with our methodology and the company scorecards, setting the benchmark for best practice C&ESG ratings in NZ.

Figure 6. Forsyth Barr's C&ESG ratings of NZ companies

Source: Forsyth Barr analysis

Key: Up category (yoy), Down category (yoy)

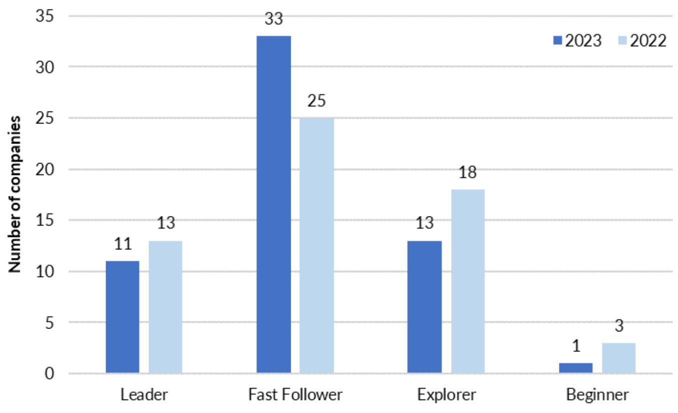
DGL: Up two categories (*Beginner* to *Fast Follower*)

The *Leaders* are ...

- Already well prepared to meet the CDS with 5/11 disclosing climate transition plans (CTP) despite the option of a first year adoption provision
- 8/11 show absolute scope 1 and 2 emissions trending down over the last five years
- 9/11 have identified and disclosed their most material scope 3 emissions sources and any notable omissions
- 9/11 are actively engaged in implementing circular economy principles into their businesses
- 5/11 have contemporary parental leave policies, this compares with just four of the remaining 47 non-*Leaders*
- 11/11 have firmly integrated ESG strategies into their business models
- 11/11 have linked senior executives' remuneration packages to improving ESG performance
- 10/11 have at least limited assurance on their greenhouse gas (GHG) inventories, while eight of these have reasonable assurance on their inventories.

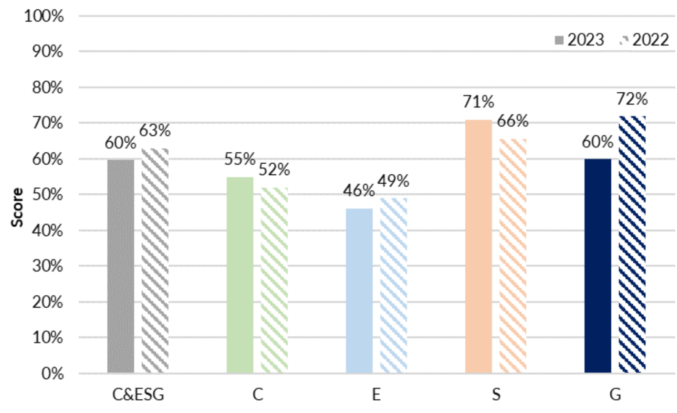
However, none of the *Leaders* are perfect on all the metrics we measure. While strengths and weaknesses differ, all have room for improvement.

Figure 7. Number of C&ESG *Leaders*, *Fast Followers*, *Explorers* and *Beginners*



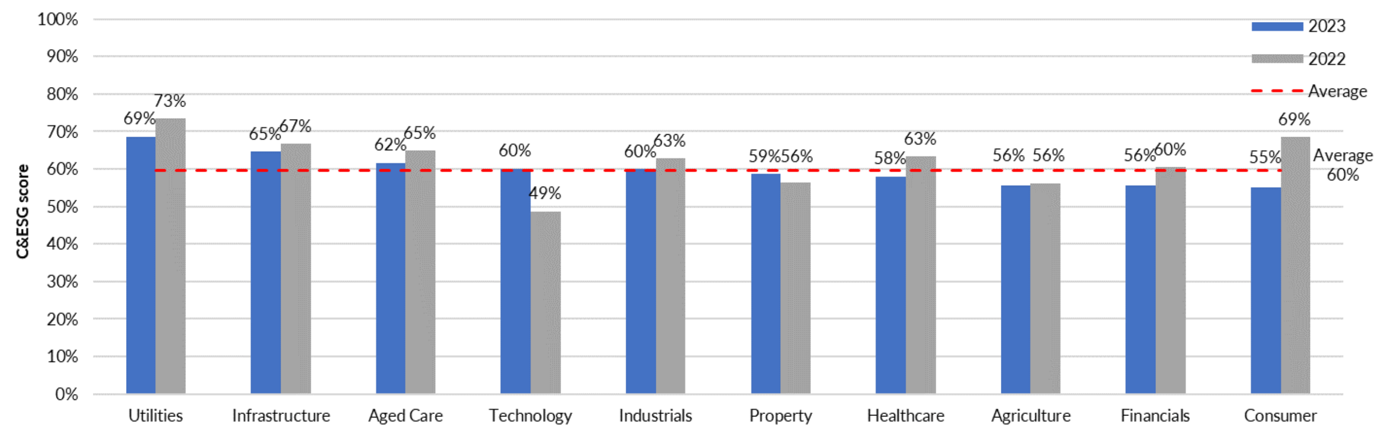
Source: Forsyth Barr analysis

Figure 8. Average C&ESG scores



Source: Forsyth Barr analysis

Figure 9. C&ESG scores by sector 2023 versus 2022 shows lower dispersion between sectors

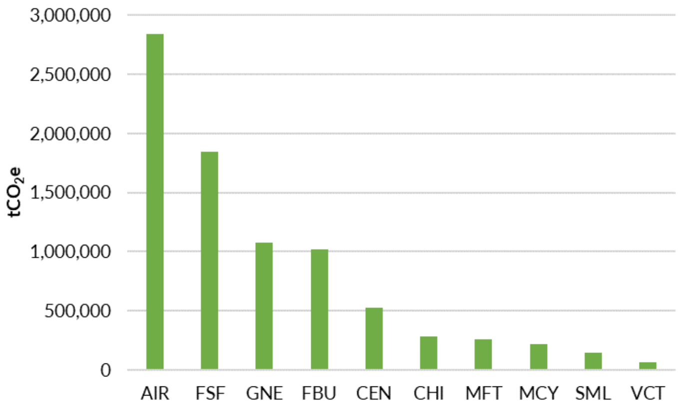


Source: Forsyth Barr analysis

Property was the sector that showed the most robust year-on-year increase for average C&ESG scores. There is a clear financial motivator for strong C&ESG performance by the Property companies, given tenant demand from large organisations wanting green buildings to help fulfil their own carbon targets. In addition, there are options of lower funding costs for green assets. Absolute scores improved for six out of the 10 property companies while four of the companies went up a category and none went down. In addition, PCT moved into the top three overall, and PFI and WIN were among the five biggest year-on-year improvers.

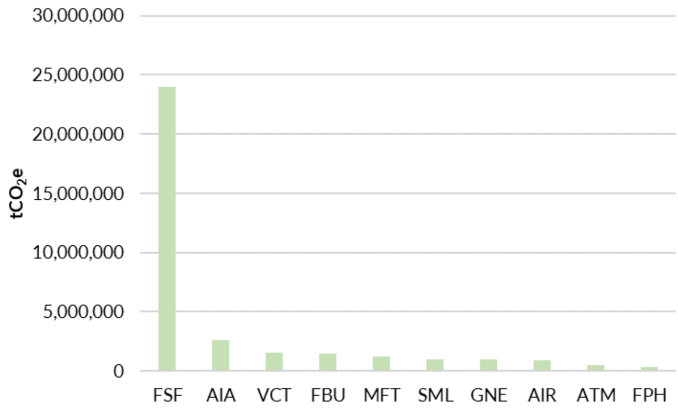
Five companies hold the lever on driving real change in terms of reducing scope 1 and 2 emissions but the entire market is moving, driven by regulation. These five companies are Air New Zealand (AIR), Fonterra (FSF), Genesis Energy (GNE), Fletcher Building (FBU) and Contact Energy (CEN). NZ's emissions profile is unique given its sparse population, rural based economy, and relatively high per-capita transport emissions. Also unique is the high proportion of renewable electricity generation. As we are unable to make significant inroads in emissions reduction by switching from non-renewable to renewable electricity generation, reductions need to come from harder-to-reduce and more costly areas: agriculture, transport and fuel use in manufacturing and construction. With increasingly frequent and severe climate events affecting lives across the globe, all mitigation and adaptation efforts are needed to build resilience for our currently uncertain future.

Figure 10. Top 10 highest emitters (scope 1 and 2)



Source: Forsyth Barr analysis

Figure 11. Top 10 highest emitters (scope 3)



Source: Forsyth Barr analysis

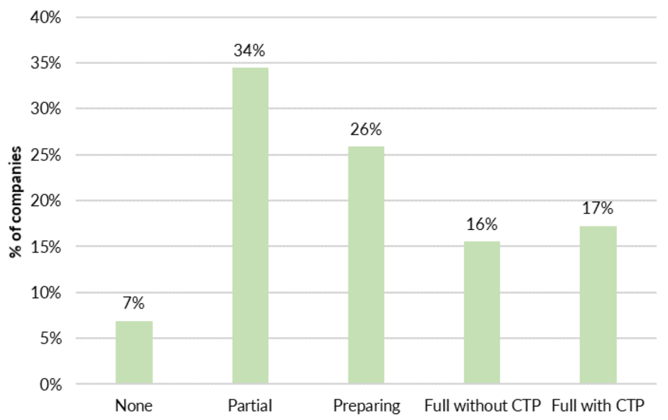
Fear of greenwashing allegations is causing a tightening of wording in disclosures and driving better accountability mechanisms. Last year, 24 companies reportedly had science based targets for emissions reductions. However, this year only 18 companies reported that their emissions reduction targets are validated by the Science Based Targets Initiative (SBTi), while three have submitted their targets and are awaiting validation. This is one example where companies have been tidying up their disclosures and putting robust structure behind their commitments. A further metric we collected which exemplifies increasing accountability is that 43 companies now have executive remuneration linked to sustainability performance, markedly up from 33 last year.

More specifically on Carbon

Climate-related disclosures are improving. Despite this, too few companies have actually managed to reduce emissions. Over the seven years we have been collecting emissions data on the NZX, companies disclosure on greenhouse gas emissions inventories has improved considerably. In 2017 only 41% of companies under our coverage reported their scope 1 and 2 emissions and 33% reported scope 3. Today it is 88% and 78% respectively. Despite this, there are still too few companies that have actually managed to reduce emissions. Of the 33 companies that have been reporting scope 1 and 2 emissions for five years or more only 13 are reporting an actual decrease in absolute reductions. This has regressed from last year's report where we found that of the 27 companies with five years of emissions data, 15 reported a declining trend. Other highlights include:

- Led by the hard-to-abate or high emitting sectors, companies are mostly on their way to meet the requirements of the imminent CDS. There are only four companies where we cannot find any publicly available information highlighting how they are progressing towards meeting the CDS.
- Companies are committed to reducing their emissions, with 18 having SBTi validated emissions targets and 10 disclosing clearly defined CTPs despite adoption provisions for year one of reporting. In addition, disclosure on the pathways to achieve reductions is still opaque, as is information on how much capital companies are deploying to decarbonise. This will improve as CTPs become more commonplace and companies begin to adhere to (emerging) global best practice.
- Nine companies are operating at net zero, up by two from last year. Each of these companies disclose the quantity and type of offsets used to reach net zero.
- Disclosure on scope 3 emissions is relatively strong. Of the 49 companies that report scope 3 emissions, 42 publicly disclose their most material scope 3 emissions sources — a practice we are pleased to see given the historical inconsistencies across sectors with scope 3 emissions reporting.
- There is emerging awareness around the concept of a 'just transition', a concept defined by the International Labour Organization as 'greening the economy in a way that is as fair and inclusive as possible to everyone concerned, creating decent work opportunities and leaving no one behind'.

Figure 12. Forsyth Barr's assessment of how well companies are preparing for the CDS



Source: Forsyth Barr analysis (as at 20 October 2023)

Figure 13. CDS preparedness

Category	Description
Full with CTP	The disclosures are well developed and broadly aligned with the CDS requirements and include a CTP.
Full without CTP	The disclosures are well developed and broadly aligned with the CDS requirements but a CTP is lacking (we note the adoption provision for companies to only disclose progress towards developing a transition plan in an entity's first reporting period should they choose to apply the provision).
Preparing	Stated commitment that work is underway to meet the CDS and will be disclosed by the time required.
Partial	Released some of the information required by the CDS, but not all.
None	No mention of climate change or plans to meet the CDS.

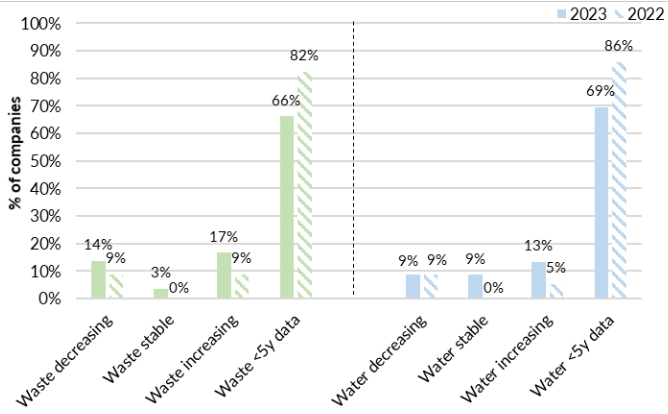
Source: Forsyth Barr analysis

Scoring is difficult on the Environmental front

The Environmental section remains the most difficult to score well. It is also the category where we get the most feedback from companies that it is the least material to their business. Some interesting findings include:

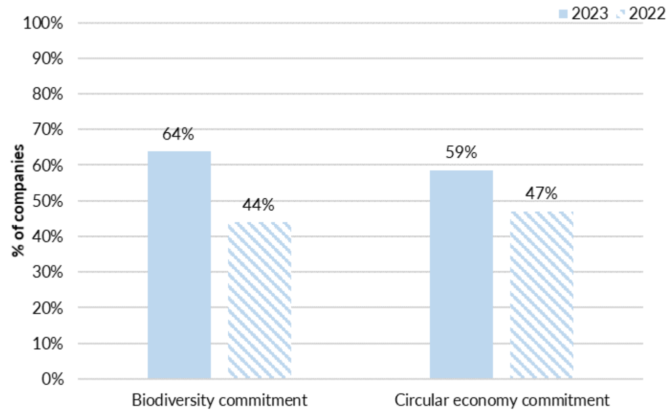
- Reporting on waste to landfill and water consumption significantly improved from 2022 to 2023. However, for those companies that have been reporting this data for over five years the majority show increasing statistics. We question why measurement is not driving a decline, and recognise that improvements in data collection will likely be contributing towards this increase.
- A commitment to implement circular economy principles into companies' business models is one of the bright lights in this section. We are pleasantly surprised that 34 companies have committed to this.
- Another bright spot is that 37 companies have made a commitment to preserve and protect biodiversity and/or natural ecosystems, significantly up from 25 last year. However, only three companies have committed to report against the Taskforce on Nature-related Financial Disclosures (TNFD).
- Slower burners include companies putting environmental management systems (EMS) in place, up from 24 companies to 29 this year, and six companies (up from three last year) have committed to new builds or retrofitting buildings to Green Star 6 standard.

Figure 14. While waste and water reporting is improving, outcomes are yet to follow suit



Source: Forsyth Barr analysis

Figure 15. Biodiversity and circular economy commitments are becoming increasingly commonplace



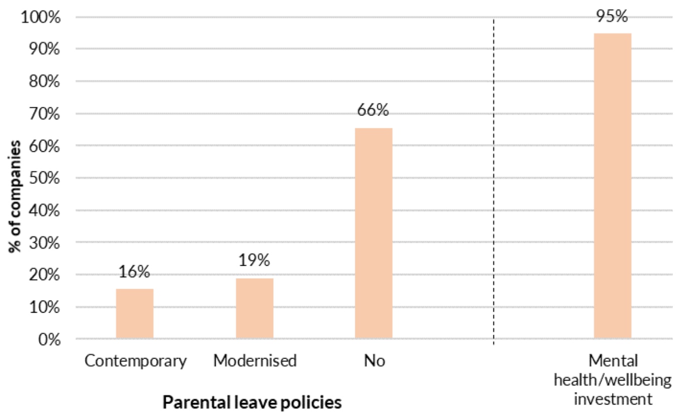
Source: Forsyth Barr analysis

Making strides in Social

This year companies scored best in the Social section. Last year it was in the Governance section. We view this as a result of a concerted focus by the market to attract and retain talent in a tight labour market over the last few years. Highlights include:

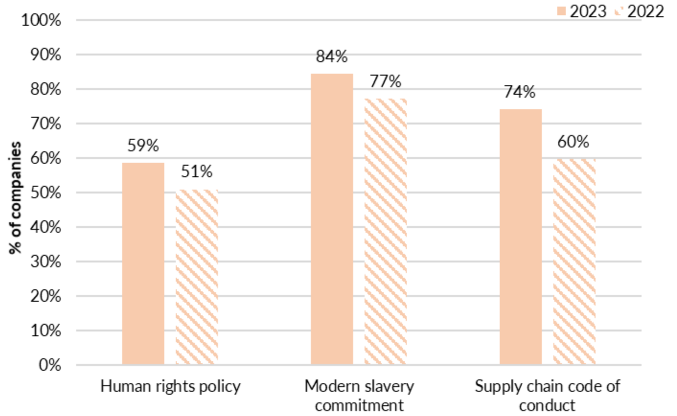
- We have brought in new questions on health and well-being while also evolving the questions on diversity, human rights, and supply chain management. Seeing high levels of commitment to the metrics across the market highlights the increased focus by companies on their employee value proposition. For example, this year we asked companies for the first time if they had a diversity and inclusion policy in place: 58 companies responded yes. We also asked, for the first time, if companies had made any investment in mental health or well-being initiatives in the last three years, with 55 responding affirmatively.
- We noticed an increase in companies focusing on their supply chain with 43 companies reporting they have a supply chain code of conduct, up from 34 in 2022. A key driver of this is the CDS which requires companies to assess climate risks and opportunities in value chains.

Figure 16. Companies are actively enhancing employee value propositions ...



Source: Forsyth Barr analysis

Figure 17. ... and making solid year-on-year gains in human rights and supply chain related policies



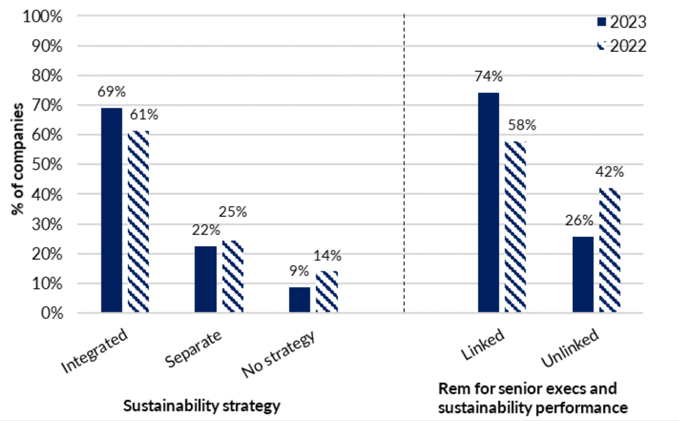
Source: Forsyth Barr analysis

Getting tough on Governance

Governance scores generally declined this year, predominantly due to our methodology changes. We are not concerned by this and have seen some genuine improvements in corporate governance standards. Highlights include:

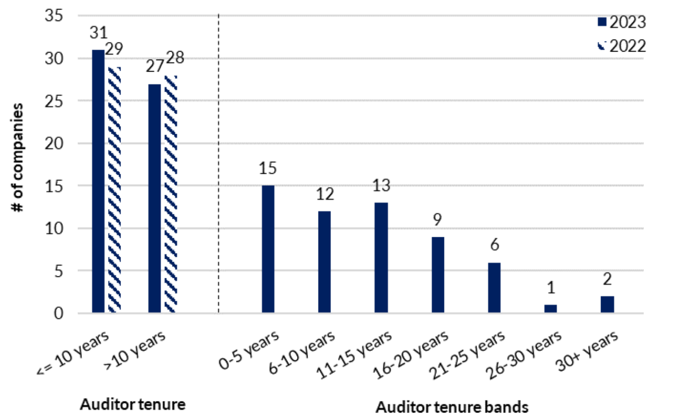
- This year 54 companies have a Board comprising a majority of members that are both non-executive and independent (2022: 53/57).
- The average tenure of current board members has improved year-on-year, from 41/57 companies in 2022 having average board member tenure between three and 10 years to 50/58 this year. The average of the average board tenure across all companies has remained flat at 5.9 years.
- A positive improvement from 2022, just two companies have audit committees that do not consist of all non-executive directors versus four in 2022.
- 38 companies have sufficient gender diversity on their boards (i.e. less than two-thirds either gender), up from 35 last year. However, only three companies have majority female boards (CEN, MEL, and NZX Limited [NZX]). It is interesting to note that MEL and CEN are ranked first and fourth overall in the C&ESG ratings.
- A new metric found that 41/58 boards undertake an annual self-review.
- A key improvement is that 40/58 companies have sustainability strategies integrated into their businesses, compared to 35/57 last year.
- A major step change is in companies linking senior executive remuneration to sustainability outcomes. This was up from 33 companies last year to 43 this year, highlighting a significant improvement in accountability.
- External assurance on GHG inventories is widespread, driven by the CDS. Interestingly, we found five companies reported a ‘reasonable’ level of assurance over scope 1, 2, and 3 emissions.
- On the negative side, with no change from last year, 27/58 companies have had the same auditor for over 10 years. We view this as a material risk of compromising the independence of the auditor.

Figure 18. Despite generally lower G scores, we saw incremental improvements in deeply fundamental aspects



Source: Forsyth Barr analysis

Figure 19. But the risk of elongated auditor tenure compromising independence remains



Source: Forsyth Barr analysis

Methodology changes

We are intentionally moving from a focus on inputs and policy to one on outcomes and action. Last year we were very clear with our communication that 2022 data would act as a baseline from which we can measure progress. We acknowledged that we expected data to improve and that the framework and methodology would evolve. Our expectation was, and continues to be, that we will raise the bar year-on-year, and as our insights get deeper we find new ways to better assess the quality of responses. We remain committed to being completely transparent with our methodology and the company scorecards, setting the benchmark for best practice C&ESG ratings in NZ.

We made a conscious effort to reduce the number of questions to keep the participation burden light for companies. The questions we have chosen seek to give us enough understanding of how a company is managing a particular issue rather than an extensive, exhaustive suite of C&ESG information. This year we removed any questions where companies all responded the same way. We have added some new questions that seek insights on the changing agenda in this quickly evolving space. We have also re-ordered, re-allocated and re-balanced the weights of some of the questions and categories, finessing the emphasis of the framework. The changes and reasons why we are asking companies for a particular piece of information are fully explained in the Methodology document and are also discussed in later sections. Overall, we reduced the number of C&ESG metrics we assessed from 80 to 69.

Figure 20. A concerted effort to reduce the amount of C&ESG data points we seek from companies, by C&ESG category

Category	2023	2022
C	15	18
E	10	13
S	18	21
G	26	28
Total	**69**	**80**

Source: Forsyth Barr analysis

This year the universe of companies we rated increased from 57 to 58. We have discontinued coverage of Pushpay Holdings (PPH) after its de-listing, and added coverage of Hallenstein Glasson (HLG) and Tower Insurance (TWR).

Figure 21. The companies we have rated, by sector

Aged Care	Agriculture	Consumer	Financials	Healthcare	Industrials	Infrastructure	Property	Technology	Utilities
ARV	ATM	HLG	HGH	AFT	AIR	AIA	APL	SKO	CEN
OCA	CVT	KMD	NZX	EBO	FBU	CHI	ARG		GNE
RYM	DGL	MFB	TWR	FPH	FRW	CNU	GMT		MCY
SUM	FSF	RBD		PEB	MFT	IFT	IPL		MEL
	NZK	SKC			SKL	NPH	KPG		MNW
	SAN	SKT			STU	POT	PCT		
	SCL	THL			VSL	SPK*	PFI		
	SML	WHS				VCT	SPG		
							VHP		
							WIN		
4	**8**	**8**	**3**	**4**	**7**	**8**	**10**	**1**	**5**

Source: Forsyth Barr analysis

* SPK has been changed from the Consumer to Infrastructure sector this year to better reflect its current operations

Our expectations

Our expectations of corporate activity regarding C&ESG practices remain the same as they did last year. However, on a number of occasions we have made the scoring less binary. This has worked to create further differentiation in responses, especially between the *Leaders* and *Fast Followers*. It also acknowledges that the management of some of these issues takes time and may be underway but not yet complete. The cumulative impact of the changes means it has been harder for companies to make it into the *Leader* category. In addition, we get more of a sense of the maturity of C&ESG practices. We believe this has resulted in a more robust framework.

Figure 22. Our C&ESG expectations of NZ corporates

Category	Example expectations of companies
Carbon	▪ Have a good understanding of and be proactively managing any physical and transition risks associated with climate change ▪ Clearly explain how the company plans to transition to a lower-carbon future over time ▪ Understand how its business model may be affected by changing consumer preferences ▪ Be well prepared to meet upcoming CDS ▪ Have a credible net zero commitment and emissions reduction plan ▪ Show evidence that absolute carbon emissions are stabilising or declining.
Environment	▪ Have minimal negative impact on the environment as a result of operations ▪ Be minimising the use of natural resources and work to reverse the degeneration of ecosystems ▪ Be measuring and monitoring its waste to landfill and consumption of water ▪ Have good policies in place to help measure and monitor resource use and protect biodiversity.
Social	▪ Have a positive impact on the communities surrounding company operations and support these communities to thrive ▪ Maintain and build on trusted relationships with clients, communities, and other stakeholders ▪ Ensure its employees are committed and proud ▪ Be measuring and monitoring health and safety incidents and risk of modern slavery ▪ Be aware of and managing potential ESG issues in supply chains ▪ Have good policies in place to help measure and monitor impact.
Governance	▪ Be adhering to best practice corporate governance standards and acting with integrity at all times ▪ Ensuring sustainability is linked into the heart of business models ▪ Proactively managing issues around data security, privacy, and responsible tax governance ▪ Ensuring the company is evolving as it needs to in terms of C&ESG practices.

Source: Forsyth Barr analysis

Figure 23. General characteristics of the *Leaders*, *Fast Followers*, *Explorers*, and *Beginners*

Maturity level	C&ESG score	Description
Leader	A	▪ Full sustainability strategy in operation for multiple years, often having been updated and refined over time ▪ Detailed and full set of C&ESG metrics collected ▪ Predominantly meeting best practice standards ▪ Recognises key C&ESG risks and opportunities and is managing them ▪ Well versed on stakeholder demands and how they are evolving ▪ Understands its potential positive and negative impacts on the environment, economy, and people, including human rights ▪ Transition to become a 'sustainable' company is well underway ▪ Well prepared for the upcoming CDS ▪ Actual GHG emissions are stabilising or trending down.
Fast Follower	B	▪ Earlier stage sustainability strategy ▪ Partial collection of C&ESG metrics, potentially with a heavier focus on one of the C, E, S, or G categories ▪ Sometimes meets best practice standards ▪ Has a handle on key C&ESG risks and opportunities and has started measuring C&ESG performance but is not yet seeing deep progress on sustainability results ▪ The transition to become a 'sustainable' company is more a vision than a reality.
Explorer	C	▪ Earlier stage of adopting or implementing a sustainability strategy ▪ Few C&ESG metrics collected with a short history ▪ On the journey towards meeting some best practice standards.
Beginner	D	▪ First sustainability strategy under discussion or not yet existent ▪ Reporting few C&ESG metrics ▪ Really only at the very beginning of the C&ESG journey.

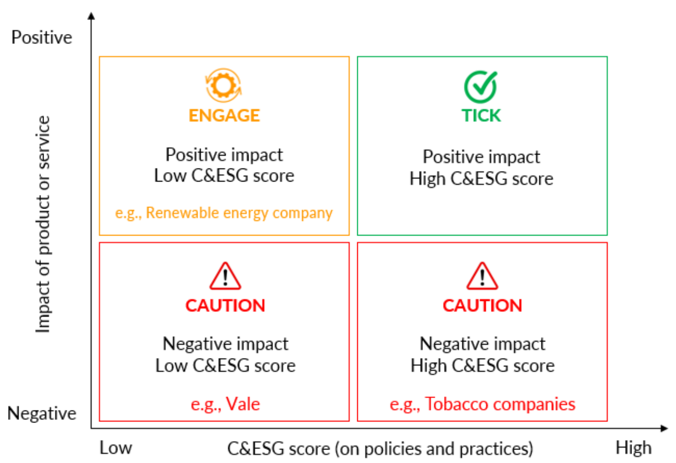
Source: Forsyth Barr analysis

A reminder of what these ratings are and are not

What they are: this is an assessment of companies' C&ESG commitments, policies, and practices which are driving corporate behaviour. The objective is to gain insights into how NZ companies are positioning themselves for a low-carbon, sustainability-oriented future and how they are adhering to best practice standards.

What they are not: it is not an assessment of a company's products and services. For investors who would like to bring these two concepts together, the figure below illustrates an overlay that may be useful.

Figure 24. Schematic of a 'Products and Services Overlay' that could accompany our C&ESG ratings



Source: Forsyth Barr analysis

- Products with a negative impact on society or the environment are unlikely to be suitable for sustainability related investment products despite a high C&ESG score.
- Assessing whether a company is transitioning a product or service towards one that contributes to or benefits from sustainability trends should be a core part of product assessment.

Using the C&ESG ratings and company scorecards

The C&ESG ratings can be used in the following ways:

- As a quantitative feed into financial screening tools in a form of **ESG integration**
- As an **engagement tool** to drive better discussions with company management on ESG issues.

The C&ESG scorecards can be used in the following ways:

- To aid investor C&ESG **due diligence** on NZ companies
- To help investors to **identify key C&ESG risks and opportunities** for companies
- To identify **which companies are managing C&ESG risks well and are positioning themselves well** for a low-carbon, more sustainability-oriented future.

For corporates, the C&ESG ratings and scorecards can:

- Provide insights on **what is really important to investors**
- Enable a company to see how it **compares to its peers and the NZ market**
- Allows a company to see its **strengths and weaknesses, and plan out a programme for improving** C&ESG performance.

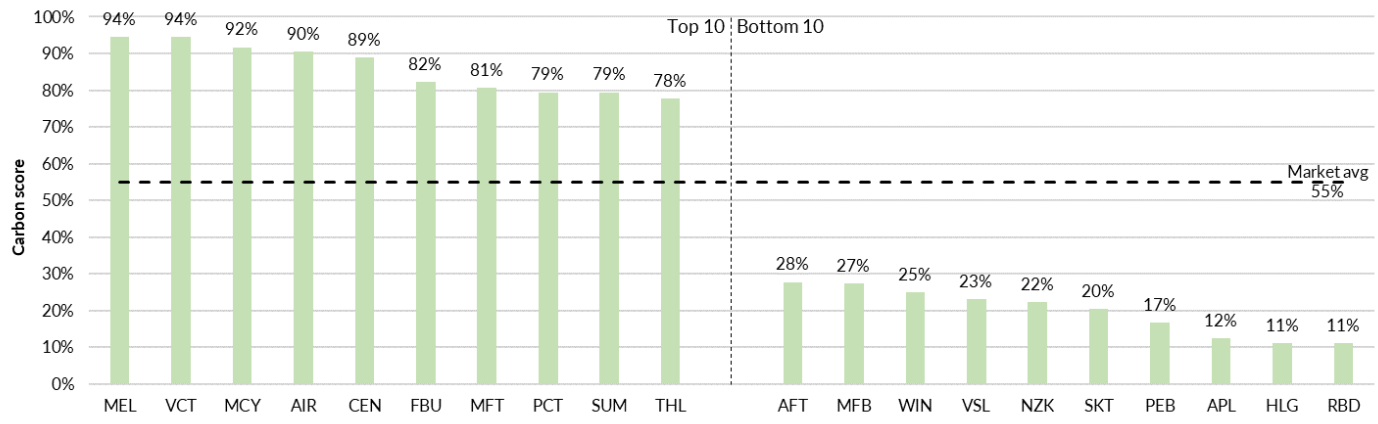
The NZ Equities Research team at Forsyth Barr are considering incorporating the C&ESG ratings by way of premium or discount into the cost of equity for the companies. In addition, all Forsyth Barr NZ company specific research reports include the overall C&ESG score along with the breakdown for each category, sector average, and NZ average C&ESG score.

Detailed insights on C, E, S and G trends

Climate disclosure is increasing but few companies are reducing actual carbon emissions

It was harder to score well in the C section this year, predominantly due to methodology changes (see below) but also due to an evolution of the questions we asked. This year MEL, Vector (VCT), Mercury (MCY), CEN, PCT and Summerset (SUM) retained their positions in the top 10 C performers and AIR, FBU, Mainfreight (MFT) and THL are new entrants.

Figure 25. Top 10 and bottom 10 Carbon performers



Source: Forsyth Barr analysis

What's changed?

This year we:

- Added questions on the disclosure of scope 3 emissions sources, offsetting, climate transition plans, and a 'just transition'
- Refined the questions relating to net zero and emissions reduction targets
- Aligned wording of relevant questions with the final wording used in the CDS
- Reordered and reallocated the questions from four categories into three.

Figure 26. Carbon insights

C metrics	2023	2022
Reported scope 1 and 2 emissions for five years or more	33/58	27/57
Reported scope 1 and 2 emissions for five years or more and seeing a downward trend in carbon emissions	13/58	15/57
Reported scope 1 and 2 emissions for five years or more and seeing a downward trend in carbon intensity	19/58	18/57
Reported scope 3 emissions	49/58	44/57
Reported scope 3 emissions for at least five years	29/58	22/57
SBTi validation of emissions reductions targets	18/58	23/57*
Operating at net zero emissions	9/58	7/57
Introduced the concept of a 'just transition' into climate ambitions	17/58	n/a

Source: Forsyth Barr analysis

* In 2022 we accepted companies with targets that were 'science-based', i.e. not requiring SBTi validation

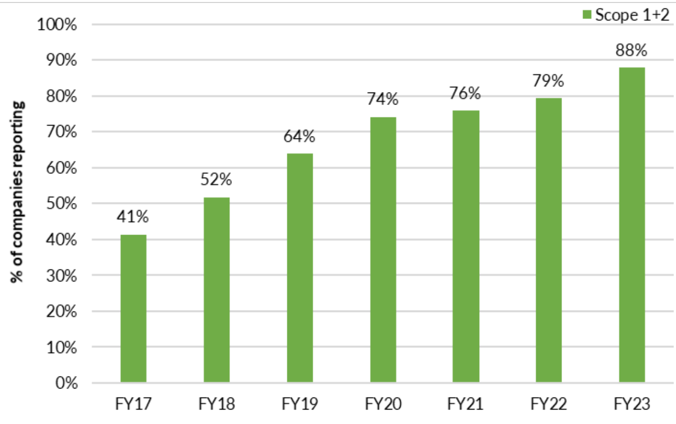
Outcomes and more developed climate-related disclosures separate the top Carbon scorers from the pack

The C section extrapolates companies that are turning commitments into tangible results from those yet to make significant progress towards targets, while rewarding those with well established climate reporting:

- Of the top 10 Carbon scorers, all have been reporting scope 1 and 2 emissions for at least five years and seven have decreasing emissions trends. Just six of the remaining 48 companies report reducing absolute emissions.
- While all the top Carbon performers have emissions reductions targets, seven have absolute emissions targets to drive real gross emissions reductions and the remaining three have emissions intensity targets only. Seven of 10 have their targets verified by the SBTi, one has submitted its target and is awaiting verification.
- Nine of the 10 best C scorers have outlined how their assessments of climate-related risks and opportunities that serve as an input to capital deployment and funding decisions; one has this in progress.

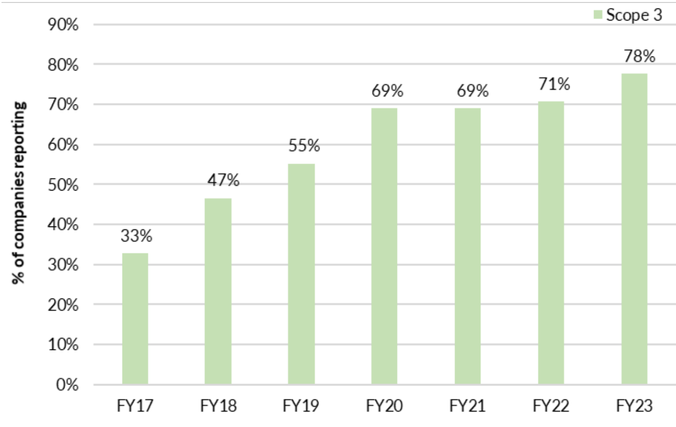
Carbon disclosure has improved significantly over the seven years we have been collecting emissions data on the NZX companies. In 2017 only 41% of companies under our coverage reported their scope 1 and 2 emissions, and 33% reported scope 3. Today it is 88% and 78%, respectively. Despite this, there are too few companies that have actually managed to reduce emissions. Of the 33 companies that have been reporting scope 1 and 2 emissions for five years or more, only 13 are reporting an actual decrease in absolute reductions. This has regressed from last year's report where we found that of the 27 companies with five years of emissions data, 15 reported a declining trend. The numbers are slightly better on an emissions intensity basis (emissions per NZ$m of revenue) with 19 companies reporting a downward trend.

Figure 27. Companies reporting scope 1 and 2 emissions over time



Source: Forsyth Barr analysis

Figure 28. Companies reporting scope 3 emissions over time

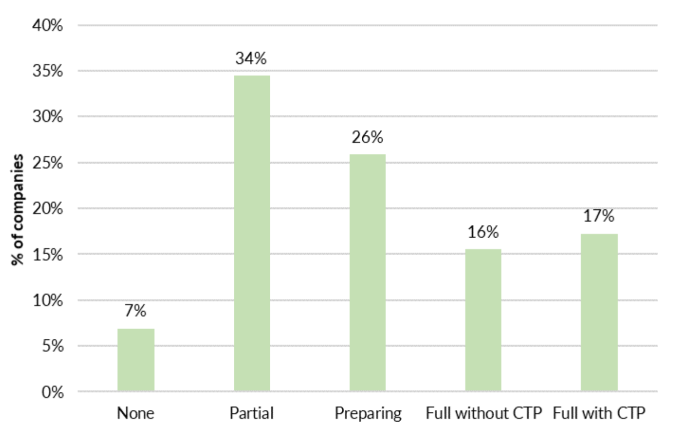


Source: Forsyth Barr analysis

Companies are well prepared to meet the CDS, with leadership from companies in the hard-to-abate or high emitting sectors. With climate reporting entities (CRE) due to release their first legislated climate disclosures in the first half of 2024, we are seeing a flurry of activity as companies prepare. Our analysis of the readiness of the market to meet these requirements found that 17% of the market is already reporting reasonably fully, including a CTP — which has an adoption provision for reporting in the first year. However, the CTPs are currently light in detail and generally do not meet the international standards that are emerging. Another 15% report reasonably fully but without a CTP, while 59% made some partial disclosure or said they were in the process of preparing their first disclosures. 7% did not mention the CDS. The companies most prepared to meet the standards are generally coming from hard to abate or high emissions sectors, including: **Auckland International Airport (AIA), AIR, Chorus (CNU), GNE, FSF, MCY, MEL, MFT, Napier Port (NPH), Stride Property Group (SPG), and VCT.**

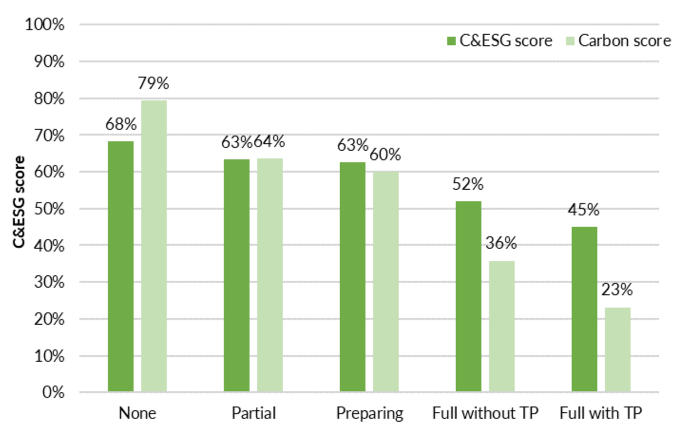
Interestingly, those with full reporting did not always stack up with our assessment of the best Carbon performers. With external ESG ratings it is often the case that those who report the best score the best. We were particularly pleased to see that our focus on outcomes and real action is coming through the framework.

Figure 29. Forsyth Barr assessment of which companies are most prepared to meet the CDS



Source: Forsyth Barr analysis

Figure 30. Average C&ESG score by preparedness to meet the CDS



Source: Forsyth Barr analysis

Figure 31. Key for Figures 29 & 30: CDS preparedness

Category	Description
Full with CTP	The disclosures are pretty well developed and aligned with the CDS requirements and include a CTP.
Full without CTP	The disclosures are pretty well developed and aligned with the CDS requirements but a CTP is lacking (we note the adoption provision for companies to only disclose progress towards developing a transition plan in an entity's first reporting period should they choose to apply the provision).
Preparing	Stated commitment that work is underway to meet the CDS and will be disclosed by the time required.
Partial	Released some of the information required by the CDS, but not all.
None	No mention of climate change or plans to meet the CDS.

Source: Forsyth Barr analysis

Net zero targets are becoming more robust. Net zero targets are increasingly common but can be inconsistent in terms of the range of emission sources and activities included, the timeline, and how companies are planning to achieve their target. The SBTi is a collaborative effort by leading environmental organisations, including the Climate Disclosure Project, the United Nations Global Compact, World Resources Institute, and the World Wide Fund for Nature. Launched in 2015, the initiative provides a framework and criteria for companies to develop science based targets that contribute to the goal of keeping global temperatures well below two degrees Celsius above pre-industrial levels. By aligning corporate goals with science, the SBTi aims to accelerate the transition to a low carbon economy. Participating companies commit to reducing their GHG emissions in line with what is required to meet the objectives of the Paris Agreement. This year 18 companies received validation of their emissions reduction targets by the SBTi, and three have submitted their targets and are awaiting approval. Last year 24 companies indicated they had science based targets but we didn't ask if they were formally verified by the SBTi. This is one example of where companies have been tidying up their disclosures and putting robust evidence behind their commitments.

Using offsets to help companies become net zero has come under criticism. When a business purchases offsets it contributes to the funding of initiatives elsewhere that reduce GHG emissions. When properly implemented, carbon offsets offer several advantages as businesses work with local communities to improve the environment by cleaning up rivers, planting trees, reducing reliance on oil, or fund clean energy. At the same time, the purchase of offsets has the potential to serve as a marketing strategy that ends up covering up climate-harming behaviours. As long as offset goals are reached, companies that buy carbon offsets are not necessarily compelled to change anything else about how they conduct business. This year we found nine companies (up by two from last year) are operating at net zero emissions: Argosy Property (ARG), Goodman Property Trust (GMT), MEL, NZX, PCT, PFI, SkyCity (SKC), SUM, and Warehouse Group (WHS). All nine of these companies publicly disclose the quantity and type of offsets used to reach net zero. Three of these companies are in the *Leader* category.

There is an emerging awareness of a 'just transition', and this year we asked whether companies are introducing the concept into their climate ambitions. The International Labour Organization defines a 'just transition' as 'greening the economy in a way that is as fair and inclusive as possible to everyone concerned, creating decent work opportunities and leaving no one behind'. In practice, the concept is driving management to think about environmental and social considerations as it makes significant decisions around decarbonisation. For example, abruptly shutting down a coal plant may be a great decision from an environmental standpoint, but the concept of a 'just transition' drives management to also consider the potential social impact for workers and local communities that may be economically dependent on this business. While it is early days, we were encouraged to see that 17 companies indicated they were already introducing the concept of a 'just transition' into their climate ambitions.

Figure 32. Examples of how companies are thinking about a 'just transition'

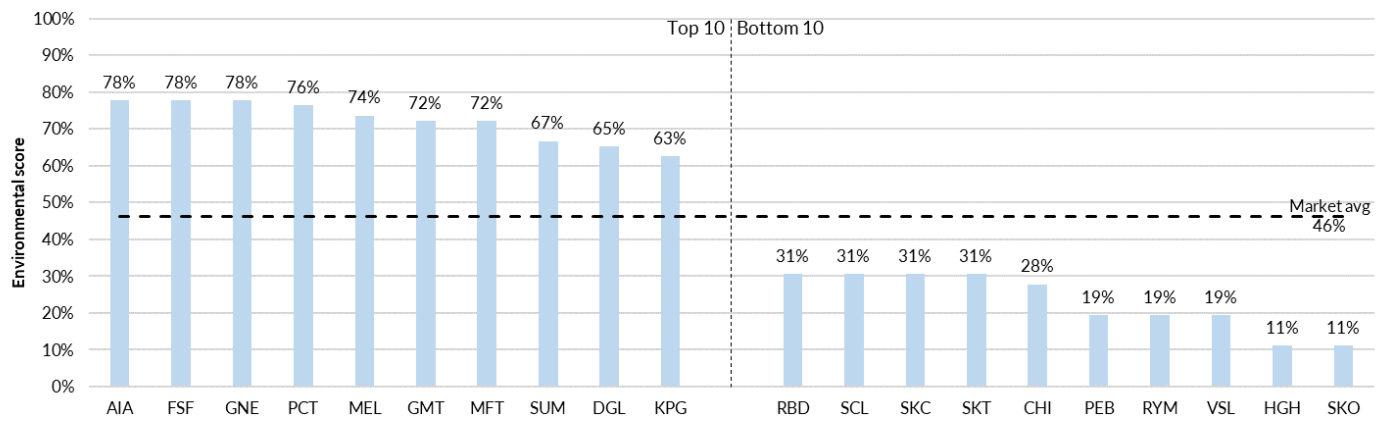
Company	Sector	Examples of 'just transition' considerations
AIR	Industrials	Maintaining connectivity for NZ (particularly regional connectivity) and considering how best to address the cost associated with sustainable aviation fuel.
CEN	Energy	Ensuring a secure, reliable, and affordable energy supply while also decarbonising, i.e. how to manage peak energy demand when intermittent renewables are unavailable.
CHI	Infrastructure	As Channel Infrastructure (CHI) transitioned from oil refining to import terminal operations, it commited to ensuring that >90% of the staff who exited the business through the transition would find new roles or be retraining within six months of exiting the business. In 2022 the company surpassed this target with 97% of its people in new roles or retraining.
FSF	Agriculture	Supporting farmers with tools, resources, and financial incentives as they work towards meeting FSF's and NZ's climate goals. This helps farmers to take practical steps to reduce emissions and empowers them with greater understanding, control, and clarity in order to meet expectations.
OCA	Aged care	Ensuring that upgrades and changes within villages improve the wellbeing of residents regardless of their background or ability. It considers how to minimise environmental impact while ensuring practices are cost effective and don't disproportionately burden residents financially. Another factor it is thinking about is equitable mobility solutions.
SPK	Infrastructure	Digital equity alongside work to support NZ's transformation to a high productivity, low carbon economy. Decarbonisation will have a significant impact on the future of work and other aspects of everyday life. Digital skills and access will become increasingly important for social equity.
VCT	Infrastructure	Balancing growing electrical infrastructure to meet electricity demand, with digital technologies driving a low-cost decarbonisation pathway for energy.

Source: Forsyth Barr analysis

The Environmental category remains the most difficult section to score well and the one which companies believe to be the least material to their business

For the second consecutive year the E section is the hardest section to score highly in. This year PCT, MEL, GMT, and Kiwi Property Group (KPG) retained their positions in the top 10 E performers and AIA, FSF, GNE, MFT, SUM, and DGL are new entrants.

Figure 33. Top 10 and bottom 10 Environmental performers



Source: Forsyth Barr analysis

What's changed?

This year we:

- Removed the question on green bonds and sustainability linked loans as they disproportionately favoured the Property and Utilities sectors, and those with debt on their balance sheets
- Merged the waste and water sections
- Strengthened the biodiversity and circular economy questions to require more robust evidence
- Added a question about reporting against the TNFD guidelines.

Figure 34. Environmental insights

E metrics	2023	2022
Implemented environmental management systems	29/58	24/57
Commitment to new build or retrofitting buildings to Green Star level 6	6/58	3/57
Waste to landfill decreasing	8/58	5/58
Water consumption decreasing	5/58	5/58
Commitment to voluntarily report against the TNFD	3/58	n/a
Commitment to implement circular economy principles	34/58	n/a

Source: Forsyth Barr analysis

The top 10 Environmental scorers have more mature policies and commitments

In the E section, where the leaderboard shows a comparatively even distribution, companies with well established policies and a history of robust reporting score more favourably:

- Nine of the top 10 Environmental performers have implemented environmental management systems on all applicable sites.
- Commitments to reducing waste (10/10) and water (8/10) are much more frequent from the top 10 E scorers than the rest of the market (39/48 and 11/48 respectively).
- Reporting history of waste and water is a key differentiator between the top 10 and the rest; 8/10 have at least five years of waste data (versus 17/48 rest of the market) and 7/10 have five years of water data (versus 15/48 rest of the market).

There is little focus yet on the TNFD framework. Following the model established by the Financial Stability Board's Task Force on Climate-related Financial Disclosures (TCFD), the TNFD voluntary disclosure framework is designed to help investors understand the nature-related risks they may be exposed to and channel capital flows into areas that drive positive action to protect biodiversity and prevent degradation of ecosystems. We have the TNFD firmly on our radar, expecting it will likely be one of the next cabs off the rank in terms of regulation on companies' ESG disclosures. The TNFD has been several years in the making, driving attention on the interlinked relationship between a healthy environment and a healthy economy. Therefore, we were somewhat surprised when only three companies (AIR, GNE, and MEL) indicated a commitment to voluntarily report against the TNFD framework. While a very complex framework to work through, its importance cannot be underestimated. We believe there is a level of fatigue across corporate reporting entities as they struggle with meeting the requirements of the CDS, and we are supportive of calls to integrate a biodiversity and nature focus into CTPs.

A commitment to implement circular economy principles into companies' business models is a bright spot in this section. We were pleasantly surprised to find that 34 companies are actively committed to this. In our current economy we take materials from the earth, make products from them, and eventually throw them away as waste — the process is linear. In a circular economy, by contrast, we stop waste being produced in the first place. Products and materials are kept in circulation through processes like maintenance, re-use, refurbishment, remanufacture, recycling, and composting. The circular economy helps tackle climate change and other global challenges like biodiversity loss, waste, and pollution by decoupling economic activity from the consumption of finite resources.

Figure 35. Interesting initiatives undertaken by companies to support a circular economy

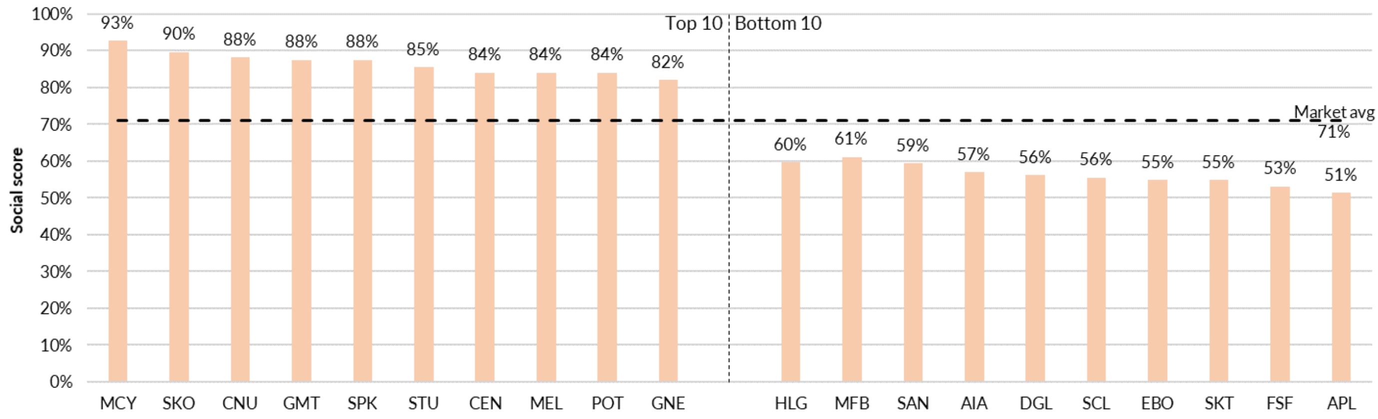
Company	Initiative
CVT	Comvita is currently measuring and improving the recyclability and reusability of its packaging. A bespoke Material Circularity Index (MCI) model has been developed in accordance with the Ellen MacArthur Foundation to enable it to further drive circularity improvements in packaging and other supplies.
THL	Global leaders and procurement teams have been trained in circular economy principles. Circular outcomes have been specified in its supplier code of conduct. Its Action Manufacturing business has 10 recycling and upcycling initiatives underway across Action Hamilton sites including the repurposing of canvas into vehicle waste hose bags. Circular materials are being researched, trialled, and prototyped for use in its vehicles.
GMT, PCT, PFI, SPG, VHP	Brownfield developments reuse existing structure, PCT's Bowen Campus and 1 Queen St are good examples. Recycling materials where possible — crushing concrete for hard fill, scrapping metal etc., GMT's Roma Rd and PFI's Bowden Rd are good examples.

Source: Forsyth Barr analysis

This year companies scored best in the Social section

The S category has taken over as the highest scoring category this year. We see this as a result of a concerted focus by the market to attract and retain talent in a tight labour market over the last few years. This year MCY, CNU, Spark (SPK), Steel & Tube (STU), CEN, MEL, Port of Tauranga (POT), and GNE retained their positions in the top 10 S performers, and Serko (SKO) and GMT are new entrants.

Figure 36. Top 10 and bottom 10 Social performers



Source: Forsyth Barr analysis

What's changed

This year we:

- Removed the health and safety policy question because all companies responded positively to this question last year
- Merged sections and some questions on human rights and supply chain to remove overlap and better distribute the weights on questions
- Included cyber incidents and data breaches into the question on unplanned product or service faults
- Evolved the section on employee value proposition by clarifying the criteria for contemporary and modernised parental leave policies
- Added a new question on mental health and wellbeing
- Evolved questions in the diversity section
- Merged the community and stakeholder relations questions to better weight the constituent questions.

Figure 37. Social insights

S metrics	2023	2022
Safety management targets	51/58	45/57
Tracking a measure of safety	51/58	44/57
Publishing human rights policies	34/58	29/57
Established a supply chain code of conduct	43/58	34/57
Measuring and reporting employee turnover	25/58	19/57
Investment in mental health and/or wellbeing initiatives in the last three years	55/58	n/a
Implemented a diversity and inclusion policy	58/58	n/a
Continues to pay KiwiSaver through both paid and unpaid parental leave	21/58	n/a

Source: Forsyth Barr analysis

The top 10 S scorers are reporting a fulsome suite of Social data relative to the rest

Social data points, including measures of safety, employee turnover, and gender diversity statistics, are more widely reported by the top 10 S scorers than the remainder of the market — this range of social data inventory is the key moat between the best and the rest.

- All of the top 10 S scorers report a measure of safety and nine have done so for at least five years — five of which report their measure decreasing.
- 8/10 publicly report employee turnover; this compares to 25/48 of the remainder of the market.

- While all 10 of the top 10 Social performers report the proportion of women in management roles in relation to the proportion of women employees, eight received full points for this proportion being between 80% and 120%. For the rest of the market, these figures are 48/58 and 19/48, respectively.

There is a growing focus on preventing modern slavery in NZ. Modern slavery prevention commitments are increasingly required with Australia's Modern Slavery Act capturing a number of NZX companies with operations across the ditch. 2023 saw the announcement of draft legislation in NZ that would require annual disclosure statements for entities with revenue in excess of $20m to detail their structure, operations, and supply chains to identify modern slavery risks internationally, and worker exploitation risks domestically. We observed a slight increase from 44 to 49 companies with commitments to prevent modern slavery, however, we did raise the bar year-on-year such that we require the commitment to cover both the company's workforce and workers in the supply chain. 33 of the 58 companies are dual-listed on the NZX and ASX, and all 33 are required to adhere to Australia's Modern Slavery regulation. Therefore, 16 of the companies in our coverage are reporting this voluntarily.

Competition for the best employee value proposition is heating up. As the labour market tightened over the COVID period, due to a withdrawal of labour supply during and following the pandemic, the focus on talent attraction and retention grew in importance. This trend persists as companies enhance their value propositions to compete in both attracting and retaining skilled workers.

This year we sought to differentiate between companies with modernised and contemporary parental leave policies. For a policy to be classified as modernised it needs to eclipse statutory requirements and include the following: (1) extended leave benefits for both primary and secondary carers; (2) a clear and supportive return to work process; (3) continued payment of KiwiSaver contributions during both paid and unpaid parental leave periods; and (4) a policy for flexibility in a phased approach for a return to work.

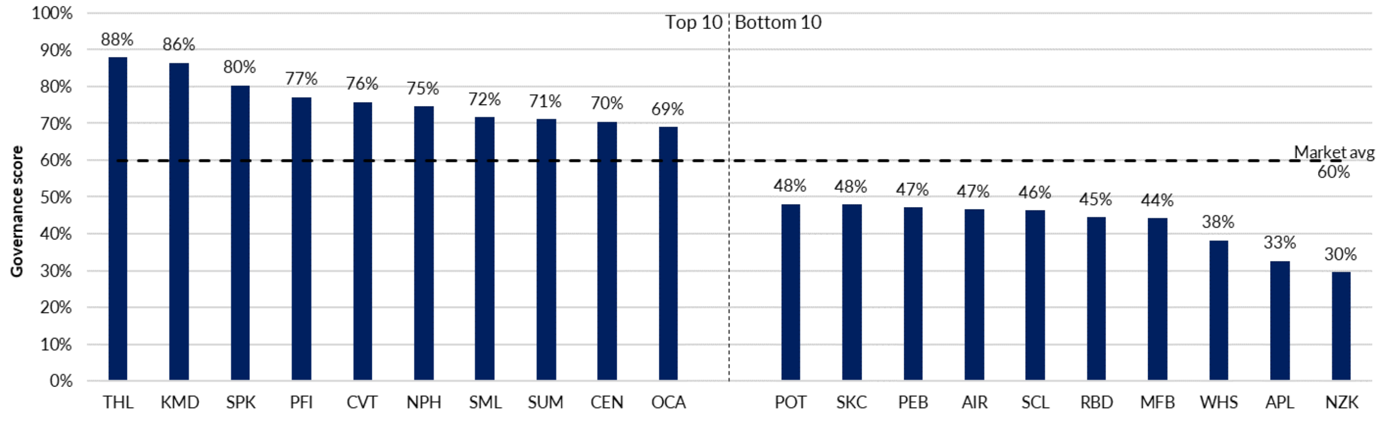
For contemporary policies we are trying to capture and reward outstanding policies that go well above statutory requirements, designed with talent attraction and retention in mind as well as employee loyalty. Contemporary policies must meet all aspects of a modernised policy while also including additional flexibility for things not included in statutory requirements. For example, fertility treatment and having a progressive approach to ensuring those on parental leave remain part of the salary and bonus review process.

Acknowledging we raised the bar considerably when evaluating parental leave policies — so not entirely comparing apples with apples — we found nine companies have a fully contemporary policy, with 11 having a modernised one. Last year, we reported 32/57 companies having contemporary parental leave policies, albeit at the lower bar. The least commonly reported of the four criteria for a modernised policy is the continued payment of KiwiSaver contributions during both paid and unpaid parental leave periods: just 21 companies do so. This is a critical step in order to bridge the parental leave gap and achieve KiwiSaver equality for women.

Governance scores generally declined this year predominantly due to our methodology changes

This year companies found it harder to score well in the Governance section. We made some considerable changes to the methodology which meant that scores moved around a bit from last year. THL, KMD Brands (KMD), SPK, SUM, and CEN retained their positions in the top 10 G performers, and PFI, Comvita (CVT), NPH, Synlait Milk (SML), and Oceania Healthcare (OCA) are new entrants.

Figure 38. Top 10 and bottom 10 Governance performers



Source: Forsyth Barr analysis

What's changed?

This year we:

- Removed the metrics sourced from Sustainalytics on media controversies and UN Global Compact compliance because (generally) all NZ companies are scored similarly.
- Negatively scored companies if they were involved in any controversies over the past three years. We felt the framework was missing a way of acknowledging when companies were involved in controversies such as regulatory action against them or greenwashing allegations.
- Created a new section titled 'Audit & External Relationship Management' which includes the auditor tenure and auditor fees questions (from last year) plus two new questions regarding Iwi engagement (not scored), and elected officials engagement (given it is an election year).
- Added a question on whether company boards undertake an annual self-review process as a measure of good practice.
- Merged the tax and data security sections and added in a check on whether cyber security and data privacy policies are tested during the year to help our focus on outcomes.
- Upweighted the question on whether a company has a B Corporation, Future-Fit, or equivalent certification. We are of the view that these frameworks in particular drive deep and structural cultural changes within companies to move meaningfully on the sustainability agenda.

Figure 39. Governance insights

G metrics	2023	2022
Implemented a sustainability strategy	53/58	49/57
Remuneration linked to sustainability efforts	43/58	33/57
B-Corp, Future-Fit, or equivalent certified	5/58	2/57
Auditor tenure >10 years	27/58	26/57
Audit committees that do not consist of all non-executive directors	2/58	4/57
Board composition of no more than two-thirds of members being one gender	38/58	35/57
Implemented and tested cybersecurity and data privacy policies	42/58	n/a
Tax governing framework in place	44/58	35/57

Source: Forsyth Barr analysis

Fundamental business strategy measures are driving the difference between the top 10 G scorers from the market

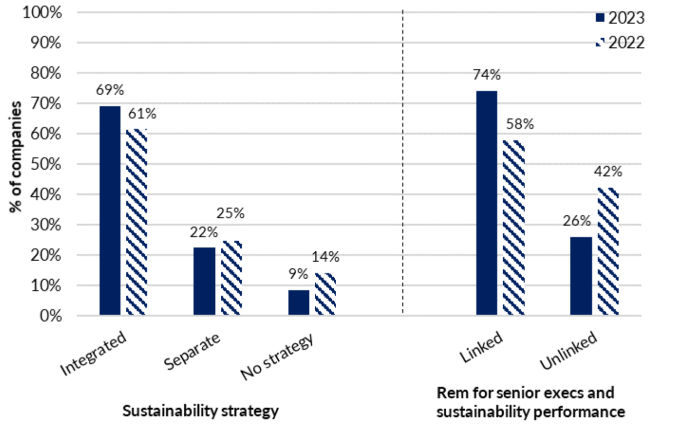
Metrics assessing the fundamental aspects of corporate governance are scored at a higher rate for the top 10 G scorers than the rest of the market, providing a robust framework to drive overall C&ESG performance.

- Affirming the importance of having strategy integration, all of the top 10 G scorers have their sustainability strategies fully integrated into their businesses.
- Each of the top 10 in G also have executive remuneration linked with the achievement of sustainability performance, compared to 33 of the remaining 48 companies.
- Businesses adopting transformational C&ESG frameworks, and having received credible certification, are rewarded by our methodology. Four of the top 10 G scorers are certified B-Corp or Future-Fit businesses — in the rest of the market there is just one B-Corp.

Remuneration is increasingly linked to improving ESG performance. This year 42 companies indicated that the remuneration for their senior executives is linked to sustainability efforts, up significantly from 33 last year. An area for further work is to assess if these mechanisms are driving the right performance.

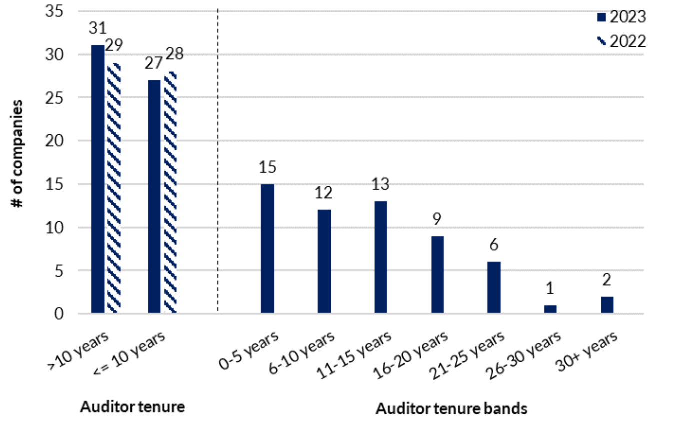
Assurance statements on GHG inventories are growing and deepening. This year we took a deeper look at the level of external assurance companies are seeking on sustainability disclosures. Only five companies received limited assurance over a range of sustainability disclosures (wider than GHG inventories). We also assessed how companies were progressing with preparing their GHG inventories and getting them assured, finding that 30 companies had gained some sort of assurance, whether it was verification only, assurance to a limited level, or assurance to a reasonable level. Five companies have had their GHG inventories assured to a reasonable standard across scope 1, 2, and 3 emissions (MEL, MFT, NPH, SUM, VCT), four of which are in the top 10 overall *Leader* category. In 2022 our analysis did not contain comparable granularity, however, 34/57 companies reported having external assurance on any sustainability disclosures.

Figure 40. Despite generally lower G scores, we saw incremental improvements in deeply fundamental aspects



Source: Forsyth Barr analysis

Figure 41. But the risk of elongated auditor tenure compromising independence remains



Source: Forsyth Barr analysis

31 companies have auditors where the tenure has been longer than 10 years. Too long a tenure can lead to strong social and economic bonds between auditor and company, thus potentially compromising the independence of the auditor. The NZ Corporate Governance Forum suggests there should be active consideration of audit firm rotation every 10 years. The 31 companies with an auditor whose tenure is greater than 10 years are: AIR, Asset Plus (APL), ARG, CNU, CVT, EBOS Group (EBO), Fisher & Paykel Healthcare (FPH), Freightways (FRW), GMT, GNE, HLG, IFT, MCY, MEL, MFT, NZ King Salmon (NZK), NZX, OCA, Pacific Edge (PEB), POT, Restaurant Brands (RBD), Ryman Healthcare (RYM), Sanford (SAN), Scales (SCL), SKC, SkyTV (SKT), SUM, TWR, VCT, VHP, Vulcan Steel (VSL), and WHS. We note that seven of the companies with auditor tenure over 10 years are defined as public entities and therefore are subject to the Public Audit Act 2001. This means that choosing an auditor is not something they can control. The point is taken but the risk remains. Of these seven companies, the longest auditor tenure is 23 years.

38 companies have sufficient gender diversity on their boards (i.e. less than two-thirds either gender), up from 35 last year. However, only three companies have majority female boards (CEN, MEL, NZX). MEL and CEN are ranked first and fourth overall in the ratings.

Over the past year we found no examples of companies exhibiting significant disparities in the treatment of minority shareholders during equity raisings. While only two companies (IFT and RYM) raised equity during this period, neither were negatively scored by our framework.

Controversies have contributed to G scores being lower this year. This year we widened our focus on acting with integrity and also looked at controversies in the market. This is a negative scoring metric. Unfortunately a number of issues in the market were observed. Companies scoring -1 here include SKC with its numerous regulatory issues both in South Australia (Austrac and the South Australian Government investigation) and NZ (DIA), FBU with its Iplex Pro-fit Pipes challenges, and a2 Milk (ATM) with its financial reporting integrity issue carrying over from 2022. This year companies with less material issues were also recognised by not being scored positively for this metric.

Figure 42. Controversies in the NZ market

Company	Controversy
SKC	SKC experienced a challenging year with the anti-money laundering investigations in South Australia continuing, and the proposal to suspend its gaming licence in NZ highlighting the company's failure to meet its duty of care to problem gamblers.
FBU	Iplex Pro-fit pipes issue in Western Australia.
ATM	Financial reporting integrity in 2021.
MFB	Material exit of cornerstone investors at MFB's initial public offering.
WHS	Privacy breach when a journalist was sent other customers' data.
AIR	Greenwashing allegations relating to compostable cups that need to be disposed of sustainably to meet their credentials.
FPH	Workplace bullying allegations.
FSF	Controversy around its change in capital structure over the past three years. This has resulted in more farmer control, less investor control, and share price weakness. The issue has further reinforced divided opinions about its capital structure and governance.
GNE	Warning by the Commerce Commission regarding billing errors.
KMD	Settlement of complaint to the Advertising Standards Authority over a Kathmandu biodegradable puffer jacket.
MCY	Commerce Commission fine over misleading approximately 2,000 customers that they were required to pay an early termination fee when they were not, breaching the Fair Trading Act.
NZK	Fish mortality issues due to warming seas in 2022.

Source: Forsyth Barr analysis

C&ESG scores versus ESG ratings providers

As we have tweaked our methodology and moved it away from a focus on inputs and policies, towards a focus on actions and outcomes, we have strayed further away from the ESG ratings providers we subscribe to. This is affirmative of our view that international external ratings providers do not provide adequate geographical nuance for our market.

As we have also begun to incorporate more NZ-specific metrics into our methodology, it was to be expected that the correlation of our C&ESG scores and ESG scores of other providers would weaken. Forsyth Barr's C&ESG score offers a way to measure progress in a consistent, comparable, robust, and informative way while acknowledging and taking into account the idiosyncrasies of our market.

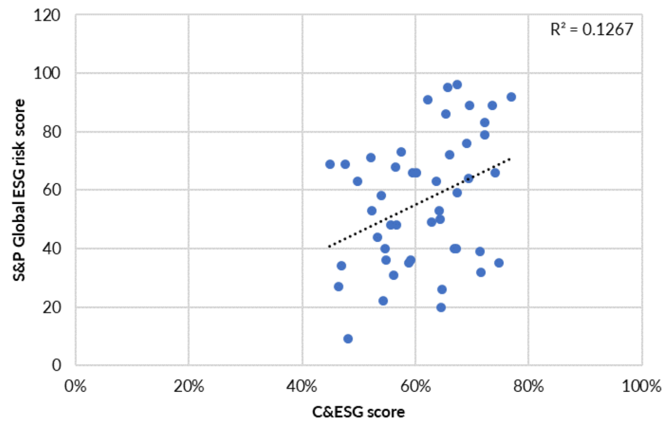
Figure 43. Forsyth Barr C&ESG score versus Refinitiv Eikon ESG score

Source: Forsyth Barr analysis, Refinitiv

Figure 44. Forsyth Barr C&ESG score versus Bloomberg ESG score

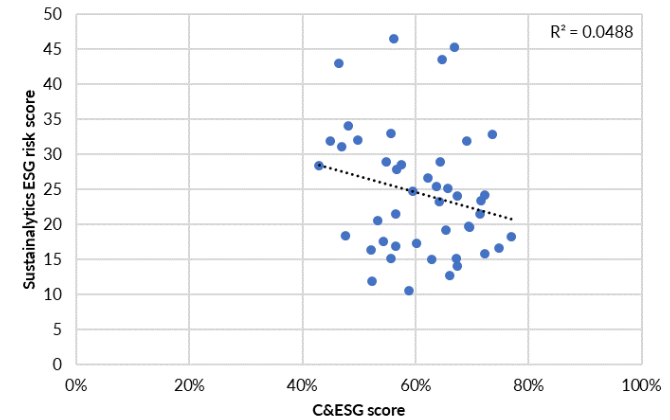
Source: Forsyth Barr analysis, Bloomberg

Figure 45. Forsyth Barr C&ESG score versus S&P Global ESG score



Source: Forsyth Barr analysis, S&P Global

Figure 46. Forsyth Barr C&ESG score versus Sustainalytics ESG risk score*



Source: Forsyth Barr analysis, Sustainalytics

* Sustainalytics risk score: lower is better

Appendix 1

Company scorecards

Please find all the company scorecards here.

Appendix 2

Omissions and anomalies

Figure 47. Omissions

Code	Company	Reason for declining to participate
SML	Synlait Milk	Not willing to participate.
FPH	Fisher & Paykel Healthcare	Not willing to fill out another survey and believes enough ESG information is already publicly available.

Source: Forsyth Barr analysis

Figure 48. Anomalies

Code	Company	Reason for anomaly	Forsyth Barr response
IFT	Infratil	IFT is an investment company that does not strictly have offices or employees. However, it does have a Board. Therefore, the Governance questions can be answered from the entity's perspective. In terms of the C, E, and S questions, IFT has answered sometimes from the perspective of a subset of its portfolio companies, and sometimes from the pespective of Morrison & Co, its investment manager.	Accept this anomaly. We found IFT to be consistent and transparent in which perspective it takes when responding to questions.

Source: Forsyth Barr analysis

Appendix 3

Conflicts disclosure

Figure 49. Companies that Forsyth Barr Investment Banking has had (public) engagement with over the last 12 months

Code	Company
CEN	Contact Energy
CHI	Channel Infrastructure
GNE	Genesis Energy
IFT	Infratil
KPG	Kiwi Property Group
MCY	Mercury
MEL	Meridian Energy
NZX	NZX
PCT	Precinct Properties
SUM	Summerset

Source: Forsyth Barr analysis

Figure 50. Forsyth Barr Investment Management equity holdings over 5%

Code	Company
ARV	Arvida Group
CHI	Channel Infrastructure
IPL	Investore Property
SKL	Skellerup Holdings
VHP	Vital Healthcare Property
VSL	Vulcan Steel Limited

Source: Forsyth Barr analysis

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