

MELIOR AUSTRALIAN IMPACT FUND

Quarterly report | March 2021

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Impact News

Climate Action - The world's largest investor initiative on climate change released the first-ever benchmark evaluating the world's largest greenhouse gas (GHG) emitters. [The Climate Action 100+ Net-Zero Company Benchmark](#) offers the first detailed, comparative assessments of company performance against the initiative's three goals: (1) reducing GHG emissions; (2) improving governance; and (3) strengthening climate-related financial disclosures.

Decent Work - Hiring workers with digital skills has grown substantially in the last three years across the APEC region, according to a [recent report](#) by APEC Human Resources Development Working Group highlighting the gap between workforce supply and demand and emphasizing the urgent need for member economies to invest in digital upskilling and reskilling of their workforces. The report stresses the importance of reskilling workers in the wake of the COVID-19 pandemic.

Gender and Equality - The World Economic Forum's 2021 Global Gender Gap Index placed New Zealand at 4th (up 2 places) whereas Australia ranked at 50, 6 places lower than 2020 and down from 24 in 2014. Whilst Australia ranks first on educational attainment, it fell from 12th to 70th on economic participation.

Health - Phase 1B of the COVID-19 vaccine began on March 22 in Australia, where more than 6 million Australians will be eligible to receive the jab. Globally more than 500 million doses have been administered across 140 countries.

Renewable Energy - Australia could erase 80% of its GHG emissions - all of those from fossil fuel energy - in two decades by doubling the pace at which solar and wind power is being rolled out, academic analysis suggests. The paper by Australian National University engineering researchers found that at the current rate Australia would not reach net zero emissions until well after 2050, the date by which Scott Morrison says he would "preferably" like to achieve net zero.

Sustainable Infrastructure - Rio Tinto (not held) hosted an investor briefing on its Community & Social Performance: Culture Heritage to demonstrate accountability and reiterate that the destruction of the caves at Juukan Gorge "should never have happened." To repair its relationship with indigenous groups, a new Indigenous Advisory Group (IAG) has been formed, accompanying a new governance structure to oversee social performance.

Waste & Recycling - Australia is likely to miss all of its own targets to rid the environment of plastic unless there is a major overhaul of its management and enforcement, conservationists and waste industry representatives say. A government review found no state or territory had investigated or penalised a company over their performance on packaging waste in the past four years. The Australian Packaging Covenant Organisation (APCO) has more than 1,500 members, including major supermarkets and some of the world's biggest food and drinks brands.

FUND IMPACT INVESTMENT THEME EXPOSURES*



*As at 31st March 2021 - portfolio weighted primary and secondary Sustainable Development Goals (SDG) investment themes.

ADVOCACY

- **Conducted 29 advocacy engagements** framed around our 3 key Strategic Advocacy Themes; Gender Equality (SDG5), Reduced Inequalities (SDG10) and Climate Action (SDG13), plus sector and company specific ESG issues. Major advocacy meeting and discussion points for the quarter included:
 - BHP's (not held) climate action, indigenous engagement and diversity & inclusion,
 - Costa's (held) climate resilience in light of the NSW floods,
 - CSL's (held) diversity & inclusion, pay equality and indigenous engagement,
 - Fortescue's (held) emissions reduction, and indigenous engagement,
 - BWX's (not held) ethical supply chain, waste and circular economy.
- **Made a submission to Victoria's Embedded Networks Review** on how the Government can implement its election commitment to ban embedded networks in new residential apartment buildings, without compromising pathways for innovative new technologies including microgrids.
- **Featured in Money Management and Australian Institute of Company Directors Magazine** on the tenure of directors and the issue of "overboarding" in the ASX300.
- **Submitted a voluntary modern slavery statement** for financial year 1 July 2019 – 30 June 2020 to the Modern Slavery Business Engagement Unit, Australian Border Force, to play our part in helping to reduce risks to people, improve the integrity and quality of global supply chains and strengthen our approach to responsible investing.
- **Made a First Nations Voice to Parliament public submission** with the aim to enshrine a First Nations Voice in the Constitution in response to the Interim Voice Co-Design Report.
- **Conducted 5 proxy votes for the quarter.** Key principles which guided our proxy voting were; linkage of management remuneration to material ESG factors, and appropriate board composition.



Portfolio Manager, Nina Wilkinson on set with ABC News

Melior on the “virtual” road

- **Met with 63 companies and industry experts during the March quarter.**
- **Taught a module of “International Sustainable Finance” (LAWS90144)** at Melbourne Law School, University of Melbourne.
- **Attended a virtual site tour of Lendlease's Figtree Hill development site** to discuss environmental management and conservation efforts at the site including koala habitat conservation.
- **Featured in the Australian Financial Review (AFR)** on a variety of topics including climate change investing, clean energy and companies transitioning to low carbon. Also recognized in the AFR's Top Australian Fundies article as one of the top performing funds of 2020 source: Morningstar.
- **Presented on the ABC's “The Business” and “Close of Business Friday” programs** discussing the winners and losers of results season and key market week events.
- **Attended the CGI Glass Lewis and Guerdon Associates Remuneration and Governance Forum.**
- **Presented on a Gender Lens Investing (GLI) workshop hosted by Capital Human, Impact Angel Network and Startup Victoria** discussing how Melior applies its GLI strategy in listed equities.

COMPANY SPOTLIGHT - COSTA GROUP

Costa Group (CGC) is Australia's leading grower, packer and marketer of premium quality fresh fruit and vegetables and is therefore a major supplier of nutritious and healthy produce both Australia-wide and overseas.



The company is a major feature of the more than 30 rural and regional communities it operates in; employing the equivalent of over 11,000 full-time employees and offering university scholarships and a graduate development program aimed at regional students. Costa's 5,000+ planted hectares grow citrus, berry, avocado, and banana crops, in addition to 30 hectares of tomato glasshouses and three mushroom growing facilities. Costa also operates majority owned joint ventures covering six blueberry farms in Morocco and four berry farms in China.

Whilst the company is by its nature exposed to droughts and other weather challenges, this year the company's resilient business model helped ensure the continued supply of essential fresh produce to households throughout the COVID-19 pandemic.

Costa's Sustainable Commercial Farming strategy aims to achieve greater yield and quality outcomes for each hectare farmed using fewer inputs for production with a reduced environmental impact. Guided by its Horticultural Innovation and Technology Committee, the company invests in innovative technologies aimed at reducing waste and adapting to challenges presented by water security and climate change issues.

KPIs

- Planted area: 5,000 ha (CY20)
- Fruit & vegetable categories: 6 (CY20)

CGC Sub-Goal Alignment:

SDG 2.4 Ensure sustainable food production systems and implement resilient agricultural practices.

SDG 2.1 End hunger and ensure access by all people to safe, nutritious and sufficient food all year round.



TOP 5 HOLDINGS*

*In alphabetical order

Commonwealth Bank  Inclusive Finance	CSL  Health	Fortescue Metals  Sustainable Infrastructure	Wesfarmers  Gender and Broader Equity	Westpac Bank  Inclusive Finance
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PERFORMANCE SUMMARY

	Quarter (%)	6 months (%)	FYTD (%)	1 Year (%)	Since Inception* (% p.a)	Since Inception* (%)
Melior Australian Impact Fund (net of fees)	4.5%	19.9%	22.1%	40.5%	13.1%	24.2%
S&P/ASX 300 Total Return Index	4.1%	18.5%	18.5%	38.3%	5.3%	9.4%
Outperformance/(Underperformance)	+0.4%	+ 1.4%	+3.6%	+2.2%	+7.8%	+14.8%

*Inception 1st July 2019. Past performance is not a reliable indicator of future performance.

The Melior Australian Impact Fund finished the quarter up 4.5%, outperforming the S&P/ASX 300 Total Return Index by 0.4%. The fund benefitted from stock selection within the Nutrition theme, and an underweight position in the IT sector, which came under heavy selling pressure. Key detractors from performance included the fund's overweight to health care and utilities. The fund has a long-term outperformance horizon of 7 years and seeks to avoid a short-term focus on returns.

Based on latest emissions data available, our portfolio currently has a carbon intensity of ~ 58% below the ASX300. The fund outperformed on all 12 environmental, social and governance KPIs tracked.

** Sources: Estimates derived from 2018, 2019 & 2020 company reports, Carbon Disclosure Project data, Workplace Gender Equality Agency data, ASX Announcements, company websites and Melior estimates.

*** As at 31st March, 2021. Green indicates outperformance and red underperformance versus benchmark.

Environmental KPIs**	Portfolio***	ASX 300
Carbon Intensity (t CO2/\$m Rev)	129.2	309.2
Net Zero Emissions Target	43%	17%
TCFD Supporter	37%	15%
Waste Reduction Policy	73%	41%
Water Reduction Policy	63%	32%
Social KPIs**		
Women in management	30%	25%
Female Leader (CEO and/or Chair)	37%	13%
Modern Slavery Policy/Statement	77%	50%
Reconciliation Action Plan	27%	13%
Governance KPIs**		
Females on Boards	36%	27%
Independent Directors	84%	72%
AGM Strike	0%	6%

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W: www.meliorim.com.au

T: +61 2 9004 6071

E: info@meliorim.com.au

