

MELIOR AUSTRALIAN IMPACT FUND

Quarterly report | September 2020

This information has been prepared for wholesale clients only

Impact News

Climate Action – A new report from IAG, and the US-based National Center for Atmospheric Research, has found that climate change will result in more frequent and intense extreme weather events across Australia, resulting in greater property, personal and economic damage, and hardship for Australian communities. According to the Insurance Council of Australia, since November 2019 insurers have already paid more than A\$3.85b in claims for four major weather events alone.

Decent Work – The ACCC will commence a new three month inquiry into bargaining power in supply chains for perishable agricultural products in Australia. The inquiry will take a broad look at trading practices throughout supply chains, including the relationships between farmers, processors and retailers.

Inclusive Finance – Nearly a third of Australians using buy now, pay later providers are finding themselves in financial trouble, according to new research released by comparison website RateCity. About 32% of Australians have used a buy now, pay later service to make a purchase, with about 28% of those ending up in financial trouble.

Renewable Energy – The Queensland government announced a A\$500m renewable energy fund to build publicly-owned wind and solar projects; a centrepiece of its post-pandemic economic recovery plan.

Water – The ACCC released its Interim Report into Murray-Darling Basin Water Markets. The Chief Executive Officer at NSW Irrigators' Council stated that the report makes a case for immediate and comprehensive reform. The interim report considers options to enhance markets for tradeable water rights, including to enhance their operations, transparency, regulation, competitiveness and efficiency.

Health – CSL (held) announced it has signed a Heads of Agreement (HoA) with the Australian Government for the supply of 51 million doses of the University of Queensland's COVID-19 vaccine candidate (V451), and a separate HoA with AstraZeneca to manufacture the Oxford University candidate (AZD1222), should clinical trials of both prove successful. Upon completion of successful clinical trials, CSL expects the first tranche of doses to be available by mid-2021.

Gender and Equality – The Chief Executive Women (CEW) ASX200 census found there were only 10 female CEOs of ASX 200 companies, the lowest since the census began four years ago. Over the last two years there have been 50 CEO appointments in the ASX 200, and of those only three were women and one of them was from New Zealand.

Waste & Recycling – The Commonwealth Government of Australia announced on 6 July that it will commit A\$190m to a new Recycling Modernisation Fund that will generate \$600 million of recycling investment and drive a billion-dollar transformation of Australia's waste and recycling capacity.

FUND IMPACT INVESTMENT THEME EXPOSURES*

- Sustainable Infrastructure (23%)
- Inclusive Finance (19%)
- Health (16%)
- Gender and Broader Equity (12%)
- Renewable Energy (10%)
- Nutrition (4%)
- Climate Action (3%)



- Green Buildings (3%)
- Waste and Recycling (3%)
- Education (2%)
- Water (2%)
- Affordable Housing (1%)
- Decent Work (1%)
- Sustainable Agriculture (1%)

*As at 30th September 2020 - portfolio weighted primary and secondary Sustainable Development Goals (SDG) investment themes.

MELIOR ON THE “VIRTUAL” ROAD

- **Met with 64 listed companies** during the June year end reporting season. Melior is encouraged by the progress made by the investment community to facilitate virtual meetings enabling both public safety and flexibility which we believe is fundamental for improving diversity in the investment industry.
- **Conducted internal Diversity and Inclusion focus group** sessions to reflect and improve on our own practices and goals for creating an inclusive working environment.
- **Virtually attended the ASX Small and Mid-Cap Conference** via online web meetings, engaging with emerging Australian listed companies in industries including regenerative food and farming and energy storage.
- **Virtually attended the Spark NZ Investor strategy update** where the company presented their 2023 strategy and how they plan to create a positive digital future for all.
- **Recognised by Responsible Investment Association Australasia (RIAA)** as a Responsible Investing Industry Leader in the Responsible Investing Benchmark Report 2020. A score of 75% was required to be identified as a leader by RIAA. Melior scored 85%.
- **Featured in the Australian Financial Review and Financial Standard** on various topics including the importance of a company’s social licence to operate, how investors can avoid greenwashing and positive ESG impact linking to performance.
- **Virtually attended Tesla’s Battery Day** in September which highlighted the work being invested in bringing down the cost of lithium-ion batteries, redefining and reducing the environmental impact of the battery supply chain and the prospect of a new, lower cost electric vehicle.



Investment Analyst Nina Wilkinson during a Bunnings store visit in Sydney.

Advocacy

- **Conducted 48 advocacy engagements** across all industries. Framed around our 3 key Strategic Advocacy Themes; Gender Equality (SDG5), Reduced Inequalities (SDG10) and Climate Action (SDG13), plus sector or company specific ESG issues. Major advocacy meeting discussion points for the quarter included:
 - Costa Group’s (held) ethical sourcing and supply chain, diversity, TCFD, waste, and water;
 - Integral Diagnostics’ (held) modern slavery risk, Reconciliation Action Plan, and renewable energy;
 - AGL’s (not held) emissions transition plan and emissions reduction target;
 - Oz Minerals’ (held) Toro Energy stake.
- **Released our inaugural Annual Impact Report** which highlights how the fund has delivered positive social and environmental impact, and superior financial returns over FY2020.
- **Released a thought piece on Reconciliation Action Plans** which highlights the importance of indigenous reconciliation and how corporates can play a role.
- **Initiated a Reconciliation Action Plan working group** to develop key pillars and activities which will shape our first ‘Reflect’ RAP, in conjunction with Adamantem Capital.
- **Committed to submitting a voluntary modern slavery statement** for financial year 1 July 2019 – 30 June 2020 to Modern Slavery Business Engagement Unit, Australian Border Force.
- **Conducted 1 proxy vote for the quarter.** Melior voted for the election and re-election of directors for Mercury NZ Ltd.

COMPANY SPOTLIGHT - MERCURY NZ

Mercury NZ (MCY) generates electricity from 100% renewable sources (hydro, geothermal and soon, wind) situated in the central North Island of New Zealand, along the Waikato River (hydro) and nearby steamfields of the Central Plateau (geothermal).

MCY has an approximate 20% ownership of Tilt Renewables (ASX:TLT) which has wind and solar generation developments in New Zealand and Australia. MCY's retail operations serve residential, commercial, industrial and spot market customers.

MCY's strategy is driven by its five pillars – customer, partnerships, people, commercial and kaitiakitanga – framework. MCY's commitment to the te ao Māori concept of “kaitiakitanga” (guardianship and protection) influences their long-term purpose as an organisation. Kaitiakitanga involves being aware of responsibilities to the environment and to others to secure the long-term sustainability and viability of assets.

Climate change is a focus area under the kaitiakitanga pillar. Uniquely, Mercury is carbon positive; its investment in forests absorbs more carbon than it contributes to the environment.

MCY has a key role to play in the electrification of New Zealand's economy. The Climate Change Response Act of 2019 sets a domestic greenhouse gas emissions reduction target for New Zealand to reduce net emissions of all greenhouse gases (except biogenic methane) to zero by 2050.



Mercury's Whakamaru Hydro Dam

KPIs

- Renewable electricity generated : 6327 GWh
- Net carbon position : 1 mt
- Customers : 348k
- Power Stations : 14
- Generation share of NZ market : 15%

MCY Sub-Goal Alignment:

SDG 7.1: Ensure universal access to affordable, reliable and modern energy services.



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 (%)	Six months (%)	1 Year (%)	Since Inception*
Melior Australian Impact Fund (Net of fees)	1.7%	17.2%	5.2%	3.6%
S&P/ASX 300 Total Return Index	-0.1%	16.7%	-10.0%	-7.6%
Outperformance/(Underperformance)	+1.8%	+0.5%	+15.2%	+11.2%

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

The Melior Australian Impact Fund finished the quarter up 1.7%, outperforming the S&P/ASX300 Total Return Index by 1.8%. The fund benefited from strong performance in the Water and Education themes. The main performance detractor was Nutrition. 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 ~63% below the ASX300. The fund outperformed on 11 of the 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 30th September, 2020. Green indicates outperformance and red underperformance versus benchmark.

Environmental KPIs**	Portfolio***	ASX 300
Carbon Intensity (t CO2/\$m Rev)	110.0	297.8
Net Zero Emissions Target	33%	9%
TCFD Supporter	36%	13%
Waste Reduction Policy	64%	42%
Water Reduction Policy	61%	33%
Social KPIs**		
Women in management	31%	25%
Female Leader (CEO and/or Chair)	35%	13%
Modern Slavery Policy/Statement	55%	30%
Reconciliation Action Plan	24%	12%
Governance KPIs**		
Females on Boards	34%	27%
Independent Directors	79%	73%
AGM Strike	3%	2%

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