Monday 16 December 2024

focus

ESG: Weathering the Storm

Forsyth Barr has completed its third annual assessment of Carbon, Environmental, Social, and Governance (C&ESG) ratings for New Zealand companies. The transition to a more sustainability-focussed economy is underway. But it has been a testing year for progress. Growing greenwashing concerns and scrutiny of companies' aspirations has challenged the authenticity of C&ESG efforts. Economic volatility and changing political agendas have been additional headwinds.

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Despite this, our assessment found that **the majority of the market is moving forward, albeit, at a slower pace than prior years**. As companies take action to safeguard trust and reputation, a gap has emerged between those leading the sustainability agenda and those in earlier stages of the journey.

Our C&ESG work forms part of our due diligence on New Zealand companies and supports our fundamental investment research. We have collected over 9,500 C&ESG data points and created individual scorecards for 61 NZX-listed companies. The companies assessed represent 97% of the NZX's market capitalisation and around 13% of New Zealand's total greenhouse gas emissions. We classify each company as a *Leader*, *Fast Follower*, *Explorer*, or *Beginner* in terms of where they sit in our assessment of how they are transitioning toward a more sustainability-focussed future. All the scorecards are publicly available, as is our Methodology. This enables our investment advisers and clients to consider how portfolio companies are performing on important C&ESG metrics, helping to build confidence in the potential for long-term success.

Our findings

While we observed slower progress compared to prior years, this is not unexpected. Companies have been focussed on this agenda for several years now, and many have addressed the more accessible and straightforward opportunities. Amid growing conservatism and heightened scrutiny of public aspirations, a sense of reality is emerging regarding the practical challenges of achieving long-term climate commitments and sustainability goals.

New Zealand companies are largely sticking to their climate commitments, despite mounting evidence that some well-known international companies have scaled back theirs in recent times. Examples include Diageo, Unilever, and Procter & Gamble. Challenges faced by companies include insufficient government support, technological delays, legal risks, and underestimating the complexity of achieving their goals. In New Zealand, the most notable example is Air New Zealand which has pulled back on its short-term emissions reduction target. For New Zealand more broadly, our data paints

9500+ C&ESG data points

68 assessable C&ESG metrics per company

C 16 | E 11
S 15 | G 26

61 individual company scorecards

Leaders (12)	AIA, CEN, CNU, GNE, KMD, MCY, MEL, OCA, PCT, SPK, SUM, THL
Fast Followers (31)	AFT, AIR, ARG, ATM, CHI, CVT, DGL, FBU, FPH, FSF, GMT, GTK, HGH, IFT, IPL, KPG, MFT, NMW, NPH, NZX, PFI, POT, RYM, SKO, SPG, STU, TWR, VCT, VGL, VHP, WHS
Explorers (17)	BGP, EBO, FRW, HLG, MFB, NZK, PEB, RBD, SAN, SCL, SKC, SKL, SKT, SML, TRA, VSL, WIN
Beginners (1)	APL

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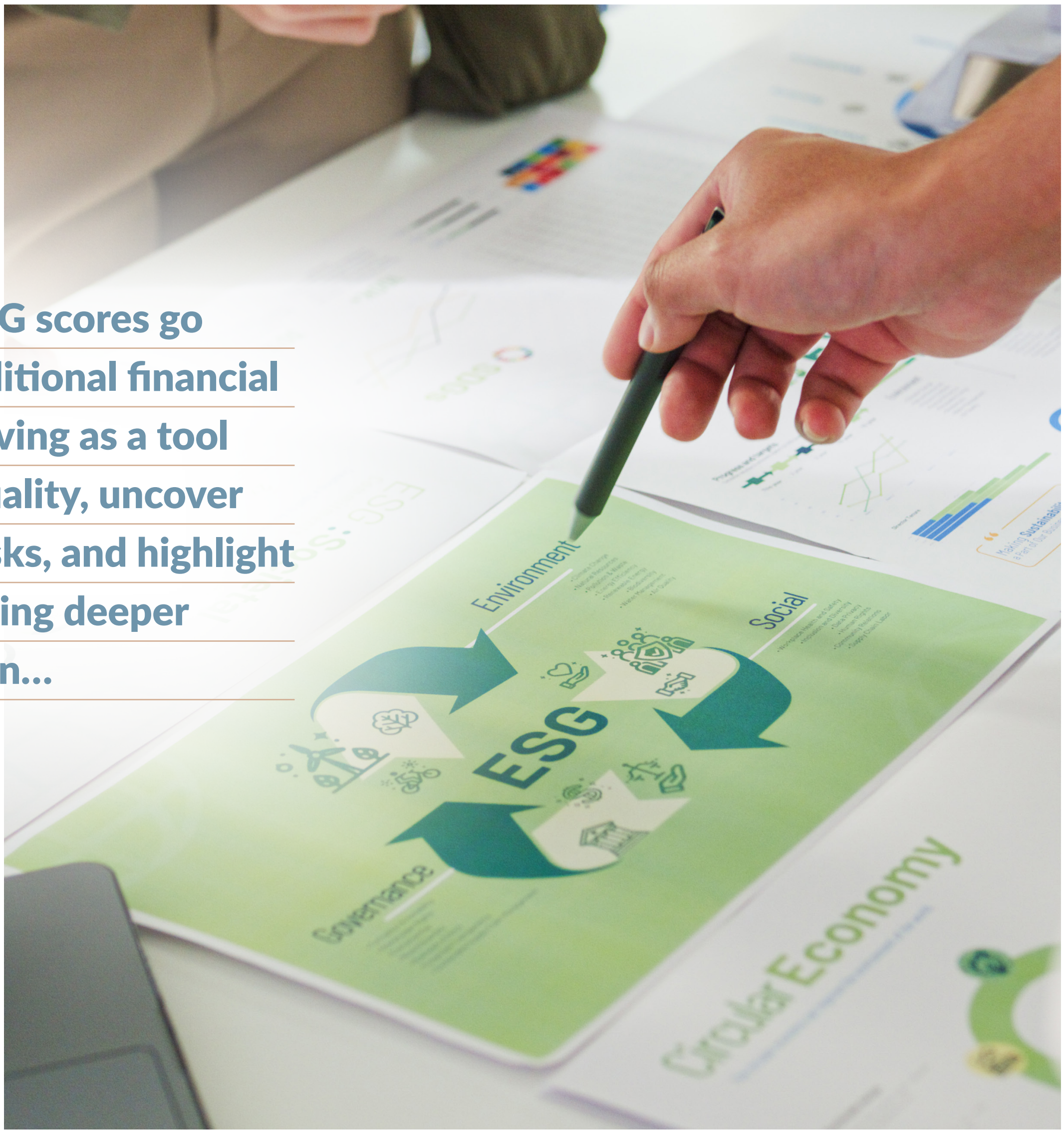
a different picture. Of the companies assessed, 82% have set net zero or emissions reduction targets, an increase from 76% last year and 69% the year prior – demonstrating sustained momentum. **There are early signs that emission reductions are starting to gain traction**, with 18 of 61 companies reporting downward trends in scope 1 and 2 emissions over the last five years.

Mandatory reporting has standardised climate disclosures, though quality disparities do exist. With mandatory climate disclosures coming into play for New Zealand companies this year, we have noticed a significant gap in quality between companies with a history of voluntary reporting and those disclosing this information for the first time. Meeting the climate disclosure standards has been an arduous and expensive process for many companies, especially those that did not already have the governance, resources, and data in place. We acknowledge that the financial penalties and director liability of the legislation are worrying for company directors, given the new and evolving state of data. We anticipate refinements to the climate disclosure standards.

We observed decent progress in core Social metrics, including a growing number of companies with safety management targets, human rights policies, and supplier code of conducts in place. However, we did not see any improvement in the number of companies measuring and reporting employee turnover, an important metric that gives key insights into workforce health. Also notable is that the number of companies which have female management proportionate to the number of female employees declined to the lowest levels since we began measuring this metric.

Over the year we saw several Governance issues come to the fore. With the challenges faced at Fletcher Building regarding its Board and management, accounting concerns at Ryman, and equity raises by Fletcher Building and Synlait Milk disadvantaging minority shareholders. These issues have prompted New Zealand shareholders to reflect on the connection between strong corporate governance and financial performance.



...Our C&ESG scores go beyond traditional financial metrics, serving as a tool to assess quality, uncover potential risks, and highlight areas requiring deeper investigation...

This C&ESG research has become increasingly important to Forsyth Barr, offering valuable insights into how New Zealand companies are transitioning toward a more sustainability-focussed future. Having a voice on this topic underscores the significance of sustainability to investors and encourages companies to prioritise it. Our C&ESG scores go beyond traditional financial metrics, serving as a tool to assess quality, uncover potential risks, and highlight areas requiring deeper investigation. Ultimately, our framework enhances our ability to evaluate companies holistically and build confidence in the potential for long-term success.

If at any time you want to discuss investment options and opportunities, your Forsyth Barr Investment Adviser is available to provide you advice and assistance.

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