FORSYTH BARR

NEW ZEALAND QUANTITATIVE RESEARCH
3 DECEMBER 2024

Carbon & ESG Ratings of NZ Companies
Weathering the Storm

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This year exposed the realities of navigating Carbon, Environmental, Social, and Governance (C&ESG) priorities amid economic volatility and changing political agendas. With growing greenwashing concerns, the focus has shifted to ensuring the authenticity of C&ESG efforts to safeguard trust, corporate reputation, and the credibility of the C&ESG agenda. This is our third annual assessment of how NZX listed companies are progressing towards a low-carbon, sustainability-focussed future. Our C&ESG work provides important due diligence that supports our fundamental investment research. Despite the heightened scrutiny, we see signs that the majority of the market is moving forward, albeit, at a slower pace than the prior year. Importantly, the *Leaders* are making tangible progress in reducing emissions.

We 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 market capitalisation and ~13% of New Zealand's total greenhouse gas emissions. We classify each company as a *Leader*, *Fast Follower*, *Explorer*, or *Beginner*. Each of the scorecards are publicly available, as is our Methodology. This transparency is essential to address the inherent complexities of ESG ratings. Key findings of the 2024 C&ESG report include:

- **Progress has slowed compared to prior years, with fewer significant advancements observed.** This is partly due to companies having now addressed the more accessible and straightforward opportunities. Another aspect is companies being conservative given the current scrutiny on public aspirations. A third element is that reality is setting in when it comes to managing short-term viability alongside long-term sustainability ambitions. We found the *Leaders* are extending their lead, with those later on the agenda getting left further behind.
- **Despite international evidence of companies retracting climate commitments, at this point, most New Zealand companies are sticking to their commitments.** Of the companies assessed, 82% have set net zero or emissions reduction targets, an increase from 76% last year and 69% the year prior. There are early signs that emission reductions are starting to gain traction, with 18/61 companies reporting absolute reductions in scope 1 and 2 emissions when measured by a five-year trend.
- **Mandatory reporting has standardised climate disclosures, though quality disparities do exist.** There is a significant gap in quality between companies with a history of voluntary reporting and those disclosing this information for the first time. Carbon reporting has diverted attention from advancing other aspects of the C&ESG agenda, particularly for those earlier in their journeys. We expect renewed focus on the broader scope once climate reporting becomes normalised.

Utilities companies lead the rankings, with Meridian Energy (MEL), Contact Energy (CEN), and Mercury (MCY) occupying the top three spots. MEL has remained at the top of the table for three years running. This is particularly impressive when you consider the changes to our methodology and how we have raised the bar on our expectations of companies. CEN has been a constant in our top five, shifting into second place this year. MCY has moved from tenth to third position this year. The biggest improvers were Manawa Energy (MNW), Heartland Group (HGH), and The Warehouse Group (WHS). This year saw three new entrants into the *Leader* category: Genesis Energy (GNE), Oceania Healthcare (OCA), and Chorus (CNU).

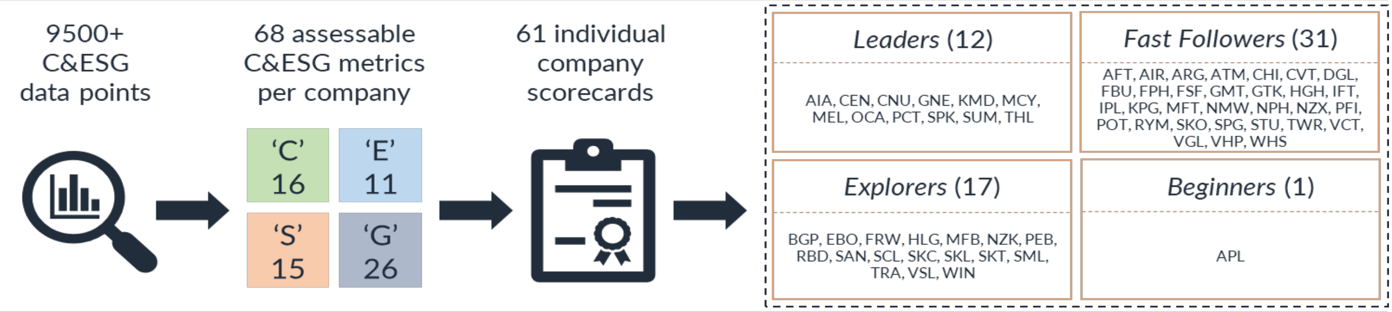
Executive summary

It is our third annual assessment of how New Zealand companies are progressing on the C&ESG agenda. This work acts as C&ESG due diligence on New Zealand companies and supports our fundamental investment research. The data we collect: (1) provides insight into how a company is preparing for a low-carbon, more sustainability-focussed future, (2) offers a measure of a company's competitive positioning on this agenda, (3) acts as a supplement for a screen of quality, and (4) helps to identify areas of risk beyond traditional financial analysis that may warrant further investigation.

Tailored for the New Zealand context, our C&ESG ratings take into account the nation's unique characteristics. We consider New Zealand's individual profile, including our geographical isolation and sparse population, that our economy consists predominantly of small and medium-sized companies, with many in the agricultural and horticultural export sectors, that our national grid is already mostly renewable, and that we are nuclear free — all considerations overlooked by the large external ESG ratings providers.

Tackling global best practice with full transparency and disaggregated C&ESG scores. Our full methodology is publicly available (refer to the separate Forsyth Barr 2024 C&ESG Rating Methodology), as are the individual scorecards for each of the companies we assessed. This transparency is crucial as we tackle the well-known challenges of ESG ratings. The scores are disaggregated so readers can see exactly what they consist of and how they are calculated. The information is sourced by us from publicly available sources and from the companies themselves. All companies were given the opportunity to review their scorecards in advance of publication.

Figure 1. Our 2024 C&ESG ratings

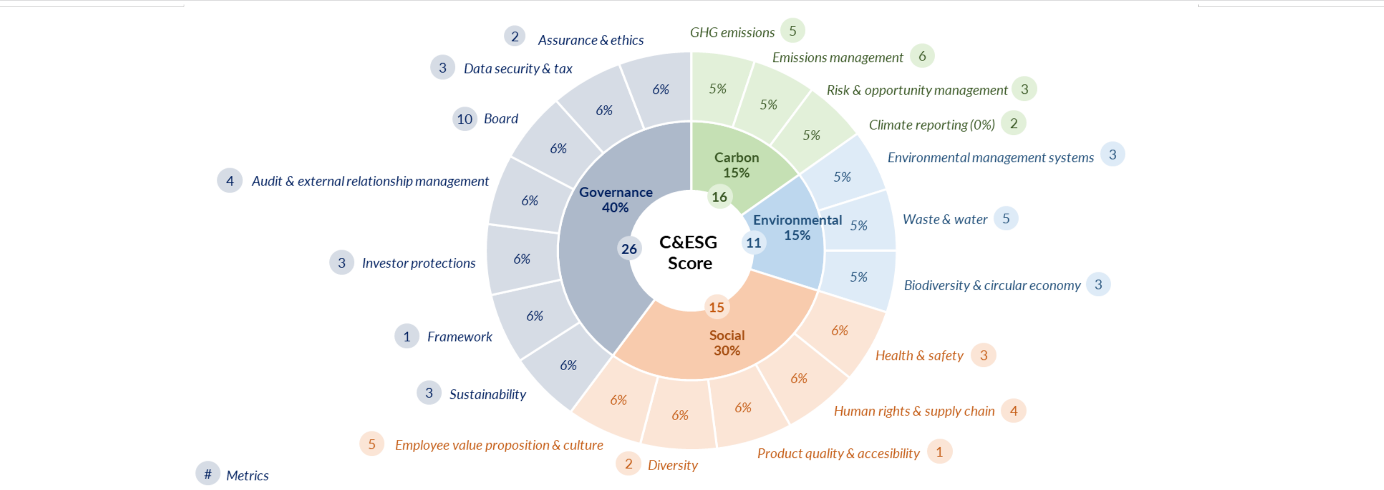


Source: Forsyth Barr analysis

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) section. 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.

The universe of companies we rated increased from 58 to 61. We have added coverage of Briscoes Group (BGP), Turners Automotive (TRA), Gentrack (GTK), and Vista Group (VGL). We ceased coverage of Arvida (ARV) following its delisting.

Figure 2. C&ESG data collected



Source: Forsyth Barr analysis

Figure 3. Forsyth Barr's C&ESG ratings of New Zealand companies 2024

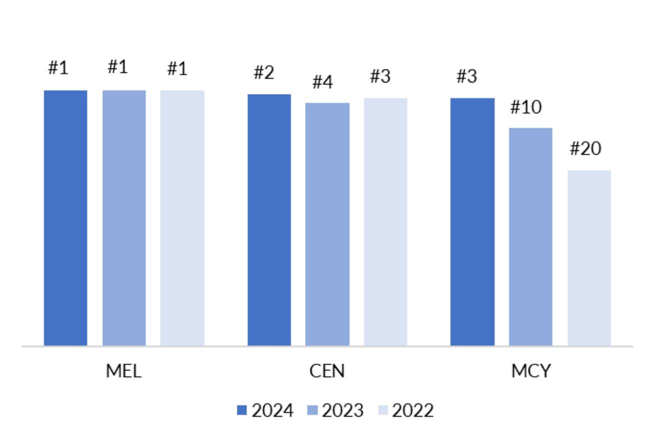
Source: Forsyth Barr analysis

Findings snapshot

MEL deserves special recognition for maintaining its lead position for three consecutive years — a notable achievement considering the enhancements to our methodology and elevated performance expectations. CEN has been a fixture in our top five and continues to make steady progress on the agenda, shifting into second place. MCY has moved from tenth position last year to third position this year.

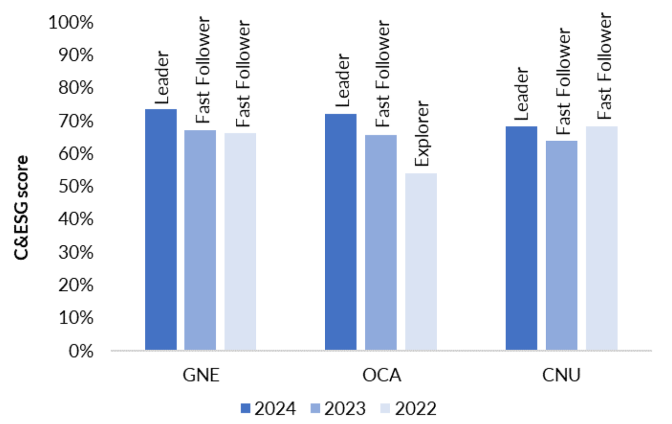
This year, GNE, OCA, and CNU moved into the *Leaders* category, each consistently accruing points over successive years. For GNE, previously it had been the Carbon (C) section holding it back, but improved reporting to meet the Climate Disclosure Standards (CDS), coupled with meaningful medium-term emissions reductions, saw it bang down the *Leaders'* door. OCA's journey to become a *Leader* began two years ago in the *Explorer* category — its progress is hallmarked by meaningful gains in both the Environmental (E) and the Governance (G) sections. Since last year, its increasingly robust reporting and targets in the C section moved the needle. In the case of CNU, it was a steadier rise from a higher base — it has consistently been in the top three for the Social (S) category, setting the platform to make impressive gains in the E category and join the *Leaders*.

Figure 4. 2024 top three C&ESG rankings over time



Source: Forsyth Barr analysis

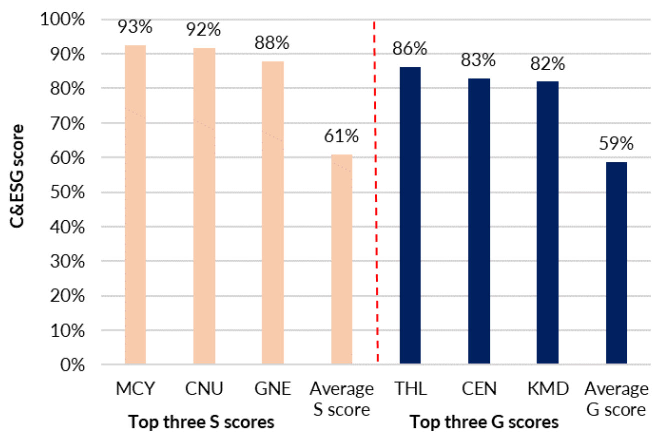
Figure 5. 2024 top three improvers' C&ESG ratings over time



Source: Forsyth Barr analysis

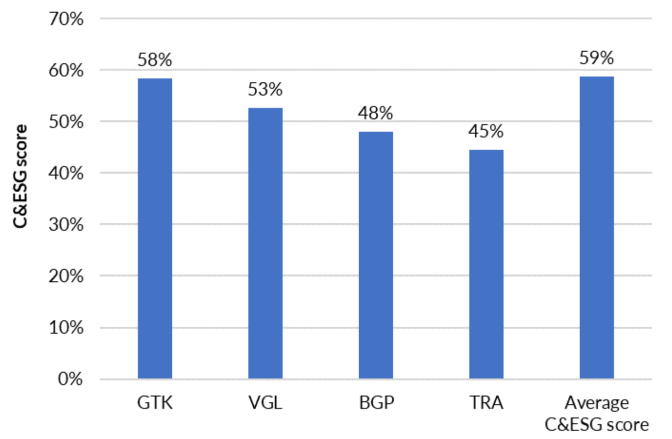
For the second year running MCY has finished atop the S section, while Tourism Holdings (THL) has come out on top of the G section. The relationship between good corporate governance and the general financial success of companies is well documented. Good corporate governance ensures that the board of directors meets regularly, holds management to account, and is clear in the division of its responsibilities, as well as maintaining a system of risk management. Robust corporate governance is equally important across all sectors. Reflecting this, we allocate a 40% weighting for the corporate governance metrics in our ratings methodology.

Figure 6. MCY and THL lead the market in S and G respectively



Source: Forsyth Barr analysis

Figure 7. C&ESG scores of companies rated for the first time



Source: Forsyth Barr analysis

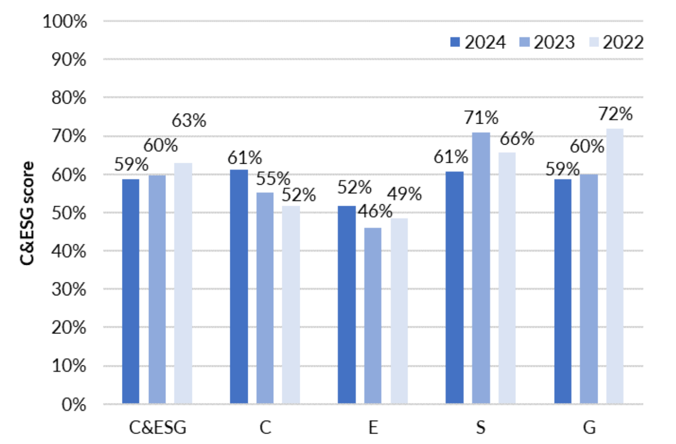
The gap is widening between the *Leaders* and the laggards, while the middle of the pack is moving at the speed of the market. Signalled by the number of *Leaders* increasing from 11 to 12 this year, those near the top of the pack have not rested on their laurels. Also notable is that while the median score increased from 60.9% to 61.0%, the mean score has decreased fairly significantly from 59.6% to 58.8%. This tells us that **the gap between the bottom of the table and the middle of the pack is widening**.

The new companies we cover held their own, with GTK and VGL coming in as *Fast Followers*, and BGP and TRA coming in as *Explorers*. This tells us that more New Zealand companies have also turned their attention to acting on the sustainability agenda — not just the large companies with significant resources dedicated to sustainability.

The Carbon section showed the greatest improvement. This was to be expected as companies focussed on meeting New Zealand's first mandatory climate reporting requirements. Resources needed to meet the disclosure requirements are significant. This may have come at the expense of the S section, which on average fell ~-10%. We hope this is a short-term hiatus and that companies soon switch focus back to broad action on sustainability, rather than climate disclosures.

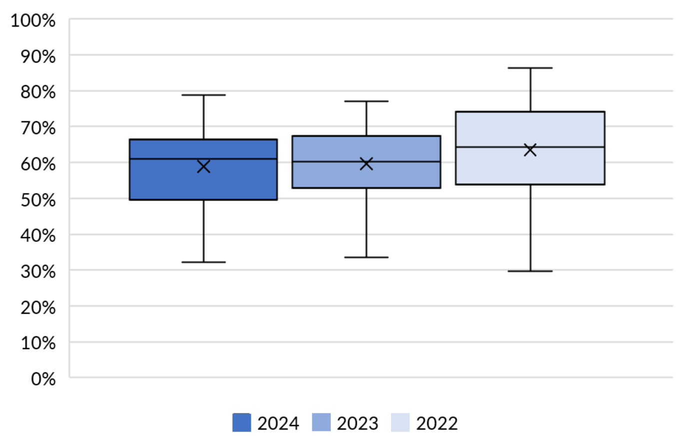
Companies reducing their emissions also tend to have a high C&ESG rating. This is particularly evidenced by the *Leaders*, of which 8/12 are reporting a five-year downward trend in absolute emissions and 11/12 are reporting a downward trend in carbon intensity.

Figure 8. Average C, E, S & G year-on-year changes



Source: Forsyth Barr analysis

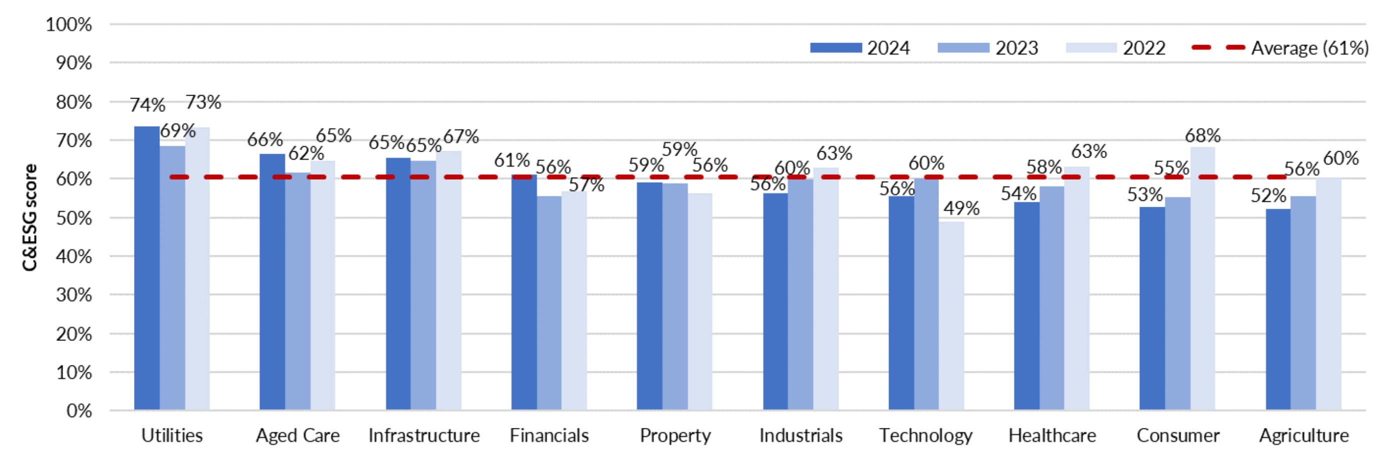
Figure 9. C&ESG score distribution



Source: Forsyth Barr analysis

The Utilities sector showed the biggest improvement. With MEL firmly situated at the top of the table, CEN retaining its position as a *Leader* for the third year running, MCY jumping from tenth to third, GNE making its way into the *Leader* category for the first time, and MNW as the greatest improver. It is the Utilities sector doubling down on this agenda.

Figure 10. C&ESG scores by sector

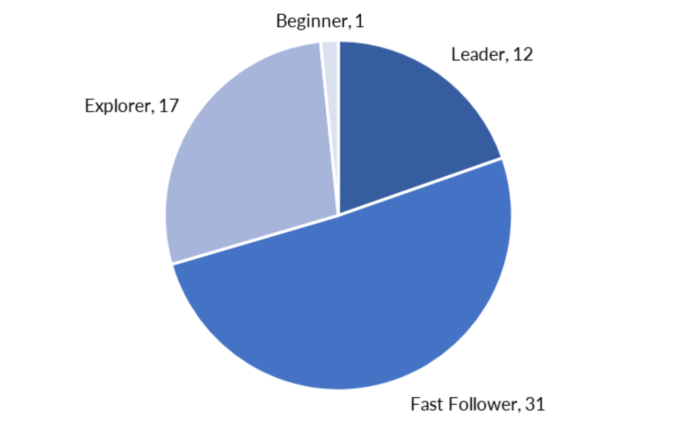


Source: Forsyth Barr analysis

For any company-specific information, please refer to the relevant scorecard.

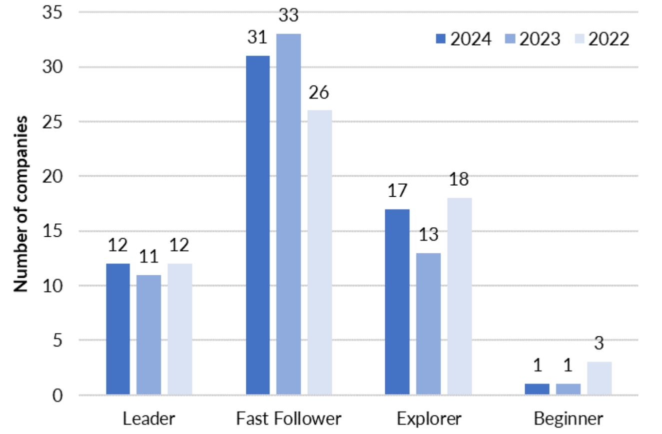
Findings snapshot continued ...

Figure 11. Leaders, Fast Followers, Explorers, Beginners ...



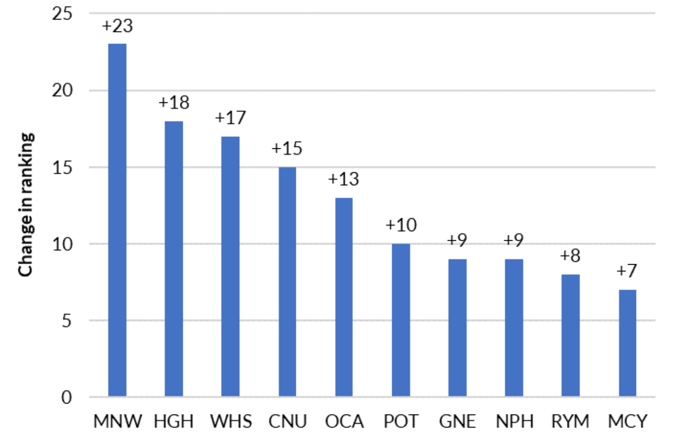
Source: Forsyth Barr analysis

Figure 12. ... Through time



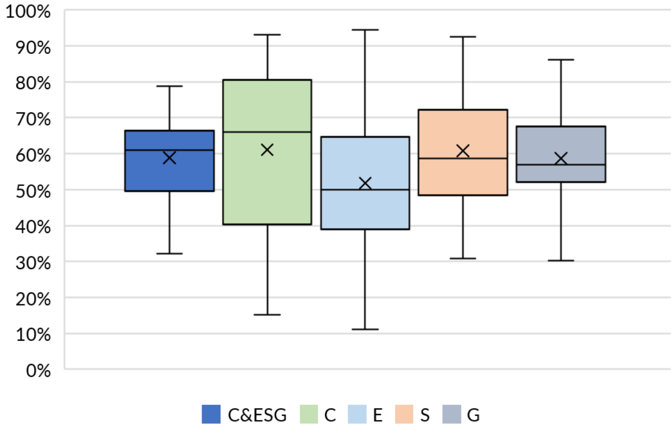
Source: Forsyth Barr analysis

Figure 13. Top year-on-year improvers by ranking



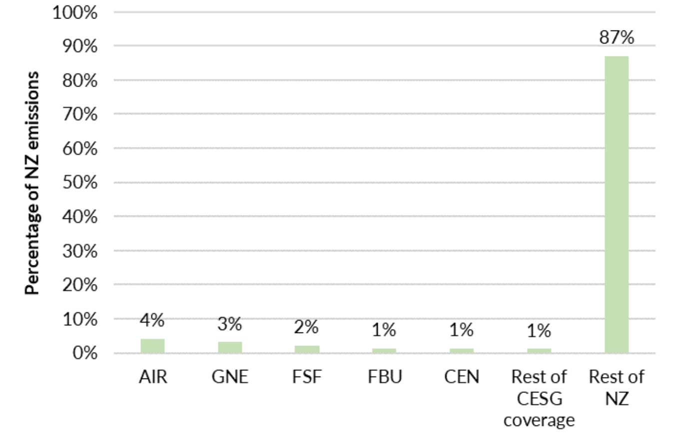
Source: Forsyth Barr analysis

Figure 14. Distribution of C&ESG scores



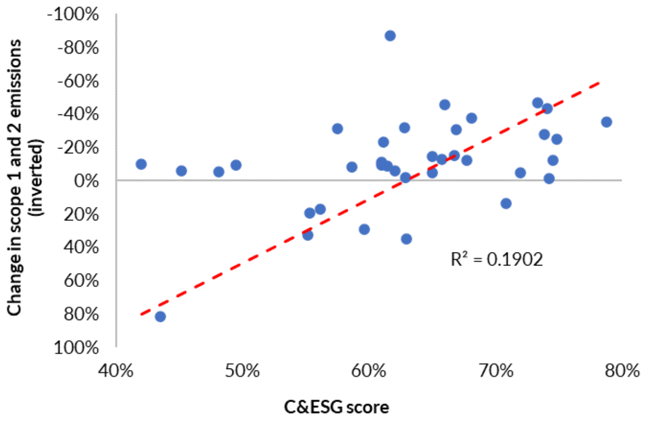
Source: Forsyth Barr analysis

Figure 15. Emissions as a percentage of New Zealand's total emissions, scope 1 and 2



Source: Forsyth Barr analysis, Ministry for the Environment

Figure 16. Change in scope 1 and 2 emissions (five-year trend) vs C&ESG score



Source: Forsyth Barr analysis

Specifically on ...

Carbon: Evidence suggests that efforts to reduce emissions are beginning to gain traction

This year we saw some encouraging signs that the companies which have been measuring emissions for over five years are starting to gain traction on emissions reductions. Of the 37 companies which have been reporting emissions for more than five years, 18 showed a decrease in scope 1 and 2 emissions (trend over five years), up from 13 last year. 50/61 companies we rate now have emissions reductions or net-zero targets in place, and 40/61 publicly announced new projects or partnerships that will amount in emissions reductions of greater than -10%.

The playing field on carbon reporting is now level. In 2017 when we first began collecting emissions data on NZ listed companies, only 41% of companies under our coverage reported scope 1 and 2 emissions, and 33% reported scope 3. **This year, 100% reported scope 1 and 2 emissions, and 85% reported scope 3.** This trend started well before mandatory disclosures were applied. The difference in the quality of reporting is highlighted by companies with more advanced emissions inventories typically having fewer restatements, thereby instilling greater confidence in the data among users.

But progress was not all one way. We found **three companies that had stepped back from part of their public emissions reduction commitments** (Air New Zealand [AIR], Sky TV [SKT], and WHS), and the number of **companies operating at net zero reduced** from nine to eight.

Figure 17. C highlights

Emissions reporting now business-as-usual
61 companies reported scope 1 and 2 emissions, 100% of our coverage

Emission targets being put in place
50 companies have emission reductions or net zero targets in place

Emission reductions beginning to set in
18 companies show a five-year declining trend in scope 1 and 2 emissions, with 12 SBTi verified targets

New projects and partnerships developing
40 companies announced new projects or partnerships to reduce emissions by more than 10%

Climate aspirations under review
3 companies stepped back from some of their climate commitments

Net zero operations reduced
8 companies are operating at net zero, down from nine last year

Source: Forsyth Barr analysis

Environmental: Commitments advancing but outcomes not yet apparent

We continued to see gradual improvement in the majority of E metrics. Most notably with companies putting environmental management systems in place, building or tenanting Greenstar Level 6 buildings, and declining figures for those reporting environmental fines or breaches over the last three years. Companies with a commitment to implement circular economy principles also showed a solid improvement from 27/57 companies in 2022, to 34/58 in 2023, and 38/61 this year. Further, companies committed to reporting against the Taskforce on Nature-related Financial Disclosures (TNFD) doubled from three to six.

On the downside, waste sent to landfill continued its upward trajectory for all but 11 of the 23 companies that have been reporting on waste to landfill for more than five years. In addition, **companies with a commitment to preserve and protect biodiversity and natural ecosystems stagnated** from 37/58 last year to 38/61 this year. This follows a solid increase from 25/57 in 2022.

Figure 18. E highlights

Circular economy principles gaining traction
38 companies with a commitment to implement circular economy principles

Waste to landfill on the rise
12 companies reported a rising trend in waste sent to landfill, of 23 with more than five years of data

Commitments to protect biodiversity stagnated
38 companies committed to protect biodiversity, compared to 37 last year

Source: Forsyth Barr analysis

Social: Solid year-on-year improvements in core S metrics despite toughening methodology

We observed solid progress in core S metrics, including growing numbers of companies with safety management targets, human rights policies, and supplier codes of conduct in place. We also saw declining safety incidents by those companies that have been reporting a measure of safety for more than five years and, crucially, declining numbers of workplace fatalities. Five companies are now accredited Living Wage Employers, up from four last year, and more than half the companies (33/61) are publicly reporting their gender pay gap. In addition, companies continue to strengthen employee value proposition offerings, with a significant jump in companies reporting that they continue payment of KiwiSaver contributions through paid parental leave: up from 20/58 last year, to 32/61 this year.

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. We also saw a **decline** in the number of companies where the amount of **women in management roles is proportionate to the number of female employees** — the lowest since we began measuring this metric.

Figure 19. S highlights

Source: Forsyth Barr analysis

Governance: Slight regression for a number of standard G metrics

For the majority of the market, sustainability strategies are now fully integrated into business strategies. Only a few years ago, ESG commitments were regarded as a peripheral accolade, not necessarily integrated into a company's strategy. Today, our findings show that ESG is business-as-usual for most of our coverage. **36 companies link remuneration to sustainability performance**. However, only six are linked as part of long-term incentive plans, which we view as a key driver of behavioural and cultural change. New Zealand has a worrying number of companies with long-term relationships with their auditor. This year we were encouraged to see that **three of those companies changed their auditor** (Ryman Healthcare [RYM], New Zealand King Salmon [NZK], Summerset [SUM]).

On the negative side, we noted a **slight regression in some core governance metrics,** including a decline in the proportion of companies where the average tenure of Board members fall within best practice range, those with a policy in place for maintaining a well-balanced board, and those with audit committees consisting all independent directors. Further, we saw a decline in the proportion of companies implementing and testing data privacy policies and explicitly considering Iwi-specific considerations in community interactions. Finally, **only one company, Fletcher Building (FBU), voluntarily put forward its executive remuneration report for shareholder vote** over the period under review.

Figure 20. G highlights

Source: Forsyth Barr analysis

Setting the context

This report opens with an overview of pivotal developments within the ESG and Responsible Investing arenas over the past year, setting the stage for a detailed examination of our findings. Following this, we summarise our expectations of companies on the C&ESG agenda and describe how investors and corporates are using the ratings and the company scorecards. The report then provides a deep dive on each C, E, S, and G section, where we outline what is improving and what needs further attention. This year we have added in examples of dial-shifting activities that companies are taking, termed 'game changers'. We finish the report with some interesting charts that illustrate the differentiation and value-added from our ratings, as opposed to traditional ESG ratings providers.

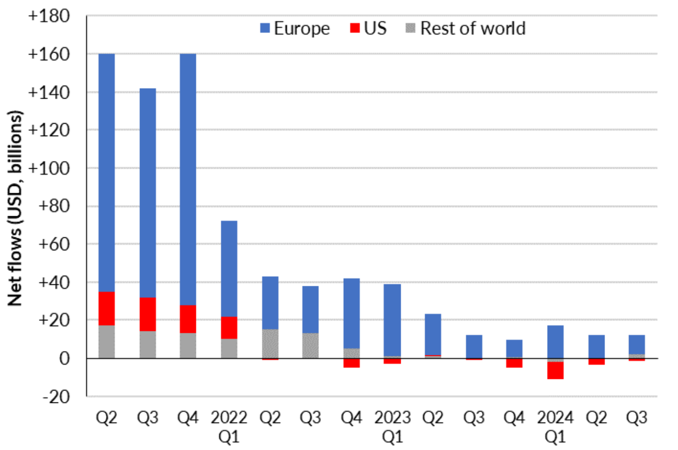
The year that was ...

Earlier this year, the Financial Times published a short film presenting the case that 'ESG is dead'. Undoubtedly, **it has been a tough year for corporates and investors involved with the ESG, climate, or sustainability agendas.** Against a difficult economic backdrop, companies globally are adjusting to new regulations, greenwashing fears, and growing awareness of just how difficult it will be to transition to a low-carbon economy. We don't believe ESG is dead. But we do welcome this challenge and view it as a necessary part of the industry maturing.

Globally, the examination of ESG practices has continued and we expect it will do so for some time. In the US, the term has become highly politicised. President-elect Donald Trump's ascendancy to the White House means the US is on track, once again, to withdraw from the Paris Agreement. Valid questions arise as to what this might mean, at least in the short term, for the ESG and sustainable finance agenda. In Europe there have been calls for simplification of regulation, with the ultimate goal of improving usability of the legislative framework. A movement we are tracking is the re-labelling of funds with 'ESG' or 'sustainable' in their titles, as various forms of certification requirements kick in. At the opposite end of the spectrum, Australia's Federal Government released a Sustainable Finance Roadmap, marking a decisive step towards positioning Australia as an international leader in sustainable finance, while the UK announced a new ambitious target of -81% emissions reductions below 1990 levels by 2035.

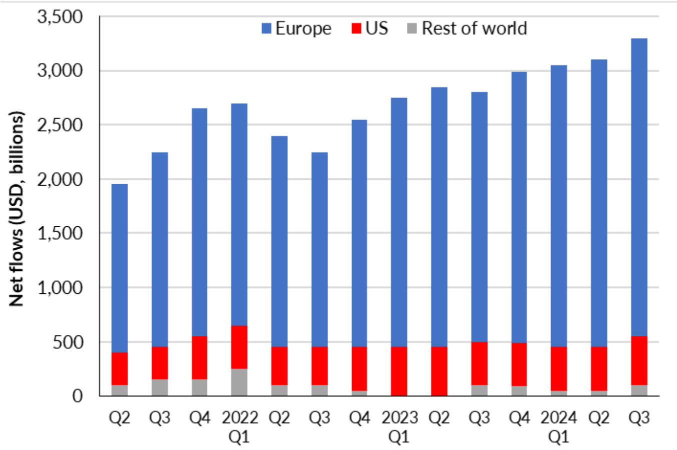
There has been **a pull back in climate aspirations by some large international corporates as awareness of the practical realities of meeting those aspirations set in.** More than 200 companies had their net zero commitments 'removed' by the Science-Based Targets initiative (SBTi) in February 2024, including some of the best-known names in corporate sustainability. Diageo, Vestas Wind Systems, Unilever, Proctor & Gamble, and innocent were among the firms that missed the deadline to set full net-zero targets, or have chosen not to use SBTi's standard. Reasons given included insufficient government support, delays in the roll-out of new technologies, and fears of legal threats by regulators or consumer groups. In some cases, companies were 'simply not ready' to meet the goals they set, having underestimated the scale and complexity of what it takes to make it happen. In New Zealand, there has been only one high profile pull back on emissions reduction targets (AIR) to date. However, we also observed SKT's withdrawal from Toit ū's carbonreduce programme, while WHS downgraded its commitment from Toitū carbonzero to Toitū carbonreduce.

Figure 21. Though fund flows are slowing from the highs, net outflows are isolated to the US ...



Source: Forsyth Barr analysis, Morningstar

Figure 22. ... But overall sustainable funds under management continue to grow



Source: Forsyth Barr analysis, Morningstar

Globally, at least 230 new climate legal cases were filed in 2023 (most recent data). Many of these are seeking to hold governments and companies accountable for climate action. However, the number of cases expanded less rapidly last year than previously. Nearly 50 of the cases filed in 2023 were not aligned with climate goals. Some of the cases challenged climate action; others do not challenge climate action per se, but are concerned with the way in which it is implemented. The number of cases concerning 'climate-washing' has grown in recent years. 47 such cases were filed in 2023, bringing the recorded total to more than 140 since 2015. These cases have met significant success, with more than 70% of completed cases decided in favour of the claimants. According to Chapman Tripp, climate litigation in New Zealand is tracking global trends. Analysis drawing from Columbia Law School's Sabin Center for Climate Change Law's Climate Change Litigation Database indicates that over 80% of the reported cases in New Zealand have involved claims challenging central or local government decisions, with just a handful of the 31 cases in the database involving corporate defendants.

In New Zealand, 2024 was dominated by companies publishing their first mandatory climate-related disclosures. Meeting the CDS 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 of the legislation are worrying for company directors, given the new and evolving state of data. Mandatory climate-related disclosure is standardising climate information provided to the market, but we expect refinements to the regime. New Zealand is ahead of much of the world in terms of mandatory requirements on climate disclosures, thus interoperability with emerging global standards will need to be tackled at some point in the near future.

While our new coalition government rolled back a number of initiatives that support the battle against climate change, it also set a new climate strategy with five pillars that ensure a focus on:

1. Infrastructure is resilient and communities are well prepared.
2. Credible markets support the climate transition.
3. Clean energy is abundant and affordable.
4. World-leading climate innovation boosts the economy.
5. Nature-based solutions address climate change.

The new strategy received criticism for the heavy reliance on the Emissions Trading Scheme (ETS) to drive emissions reductions. Despite this, in September 2024 the government also announced that together with the Centre for Sustainable Finance, it would develop a sustainable finance strategy to improve New Zealand's competitiveness and attract climate-focused investments. The creation of a green taxonomy is also underway.

Responsible Investment Association Australasia (RIAA) launched sustainability classifications for funds in Australasia. The initiative introduces three classifications: (1) Responsible, (2) Sustainable, and (3) Sustainable Plus. Of the 130 products in New Zealand with RIAA certification, 40 (31%) had opted into this new labelling regime at the time of writing. The classifications differentiate RIAA certified funds based on responsible investment approaches, claims, processes, stewardship programs, and disclosures. It focusses on the approach that funds take in considering ESG factors and the degree to which sustainability is addressed or targeted.

Figure 23. Breakdown of the 40 NZ RIAA certified products that have opted into new Sustainability Classification Labels

Classification	Description	# of products opted in	% of those opted in
Responsible	Meets all the requirements of the Responsible Investment Standard for RIAA Certification.	12	30%
Sustainable	Sustainability objectives (environmental and/or social) are clearly stated. Investment selection and ownership activities align with stated sustainability objectives. Alignment is evidenced by at least 80% portfolio coverage by stated sustainability objectives for single asset portfolios, and at least 50% portfolio coverage for multi-asset portfolios.	0	0%
Sustainable Plus	Sustainability objectives (environmental and/or social) are clearly stated as binding criteria in product disclosures and documentation. Investment selection and ownership activities align with stated sustainability objectives. Alignment is evidenced by at least 80% portfolio coverage by stated sustainability objectives for single asset portfolios, and at least 50% portfolio coverage for multi-asset portfolios. Performance against stated objectives and targets is tracked and reported.	28	70%

Source: Forsyth Barr analysis, RIAA

A reminder about our C&ESG ratings ...

This is our third annual assessment of how New Zealand companies are progressing on the C&ESG agenda. The work acts as C&ESG due diligence on New Zealand companies and supports our fundamental investment research. The data we collect: (1) provides insight into how a company is preparing for a low-carbon, more sustainability-focussed future, (2) offers a measure of a company's competitive positioning on this agenda, (3) acts as a supplement for a screen of quality, and (4) helps to identify areas of risk beyond traditional financial analysis that may warrant further investigation.

We have collected over 9,500 C&ESG-related data points and turned them into an overall C&ESG rating for companies, classifying them as a *Leader, Fast Follower, Explorer* or *Beginner*. Our full methodology is publicly available (refer to the separate Forsyth Barr 2024 C&ESG Rating Methodology) as are the individual scorecards for each of the 61 companies we assessed. This transparency is crucial as we tackle the well-known challenges of ESG ratings.

Figure 24. The companies we have rated, by sector

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

Source: Forsyth Barr analysis
* Newly rated this year
Company names and codes are provided in full in Appendix E

We acknowledge there will be minor amendments to the methodology each year. 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 New Zealand.

Figure 25. Continuing our efforts to reduce the number of data points we collect

Category	2022	2023	2024
C	18	15	16
E	13	10	11
S	21	18	15
G	28	26	26
Total	**80**	**69**	**68**

Source: Forsyth Barr analysis

Our expectations

Our expectations of corporate activity on C&ESG practices are evolving. On an annual basis we remove any questions where the market scores full points, as we consider the relevant practice to be standard and offering no distinguishing perspective on companies. However, this does makes it harder for companies to show continued improvement. This tension enables us to gain insights on those companies standing still and those trying to continually improve.

Figure 26. Our C&ESG expectations of NZ corporates

Category	Example expectations of companies
Carbon	▪ Have a good understanding and be proactively managing any physical and transition risks or opportunities associated with climate change. ▪ Clearly explain how the company plans to transition to a lower carbon future over time. ▪ Understand how their business model might be affected by changing consumer preferences. ▪ Meet the Aotearoa New Zealand Climate Disclosure Standards. ▪ Have a credible net zero commitment and emissions reduction plan. ▪ Evidence that absolute carbon emissions are stabilising or declining.
Environment	▪ Have minimal negative impact on the environment as a result of operations. ▪ Minimise the use of natural resources and also work to reverse the degeneration of ecosystems. ▪ Be measuring and monitoring their consumption of water (when material), waste that goes to landfill and recycling efforts. ▪ Have good policies in place to help drive a circular economy and protect biodiversity.
Social	▪ Have a positive impact on the communities connected with the organistion, supporting them to thrive. ▪ Maintain and build on trusted relationships with clients, communities and other stakeholders. ▪ Ensure committed and proud employees. ▪ Be measuring and monitoring health and safety incidents, risk of modern slavery. ▪ Be aware of and managing potential ESG issues in supply chains. ▪ Have good policies in place to measure and monitor impact.
Governance	▪ Adhere to best practice corporate governance standards and acting with integrity at all times. ▪ Ensure sustainability is integrated into the heart of business operations. ▪ Proactively manage issues around, for example, 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 27. General characteristics of the *Leaders*, *Fast Followers*, *Explorers*, and *Beginners*

C&ESG Score	Maturity level	Description
A	Leader	▪ 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. ▪ Actual greenhouse gas emissions are stabilising or trending down. ▪ Taking a leadership position in some of the less well understood elements of the sustainability agenda.
B	Fast Follower	▪ Earlier stage sustainability strategy but quickly catching the Leaders. ▪ Partial collection of C&ESG metrics, potentially with a 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 low hanging fruit or quick wins on the sustainability agenda have predominantly been met. The company may be working towards meeting some of the more challenging aspects of sustainability, for example evolving a culture. ▪ The transition to become a 'sustainable' company is more a vision than a reality.
C	Explorer	▪ 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.
D	Beginner	▪ 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

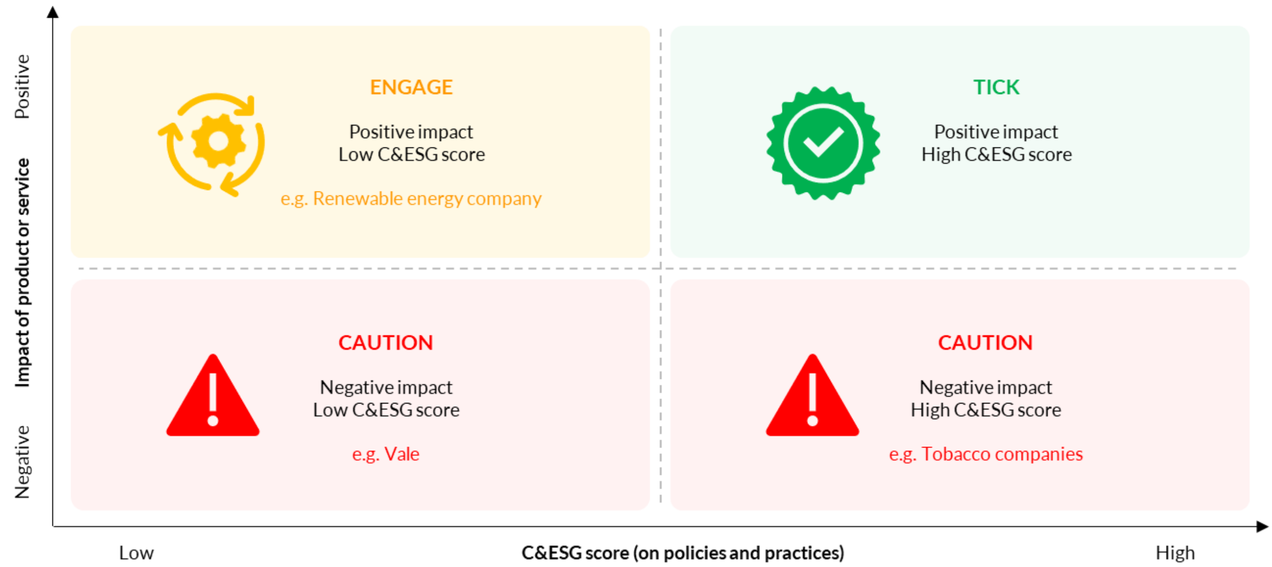
What these ratings are and are not

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

The ratings are 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. We note that:

- Products with a negative impact on society or the environment are unlikely to be suitable for investment products that are described as 'sustainable' even if they have 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.

Figure 28. Schematic of a 'Products and Services Overlay' that could accompany our C&ESG ratings



Source: Forsyth Barr analysis

Using the C&ESG ratings and company scorecards

For investors, the C&ESG ratings and scorecards can be used in the following ways:

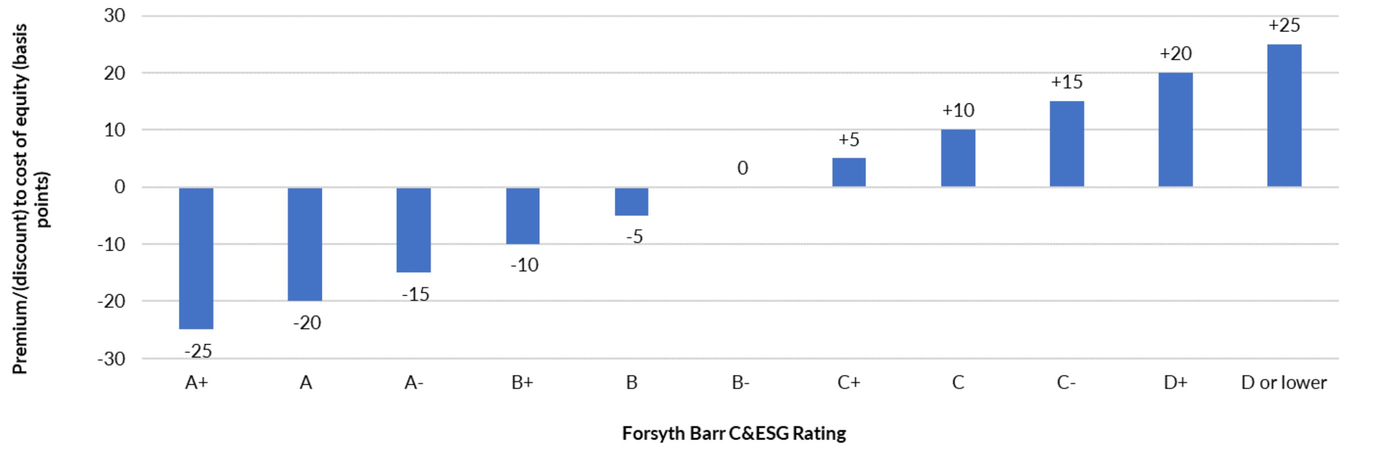
- As a quantitative feed into financial screening tools.
- As an engagement tool to drive better discussions with company management on C&ESG issues.
- As an aid to C&ESG due diligence on NZ companies.
- To help identify key C&ESG risks and opportunities for companies.
- To help identify which companies 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 be used in the following ways:

- To provide insights on what C&ESG metrics are important to investors.
- To enable a company to see how it compares on C&ESG 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.

At Forsyth Barr, all company specific research reports include the overall C&ESG score along with the breakdown for each category, sector average, and New Zealand average C&ESG score. In addition, the New Zealand Equities Research team applies the overall scores to a cost of equity adjustment based on +/-5 bps increments from a +25 bps premium for those companies that score 'D' and a -25 bps discount for those companies that score 'A+'. The average rating of 'B-' corresponds to no cost of equity adjustment.

Figure 29. The cost of equity adjustment to our WACCs by each respective C&ESG rating



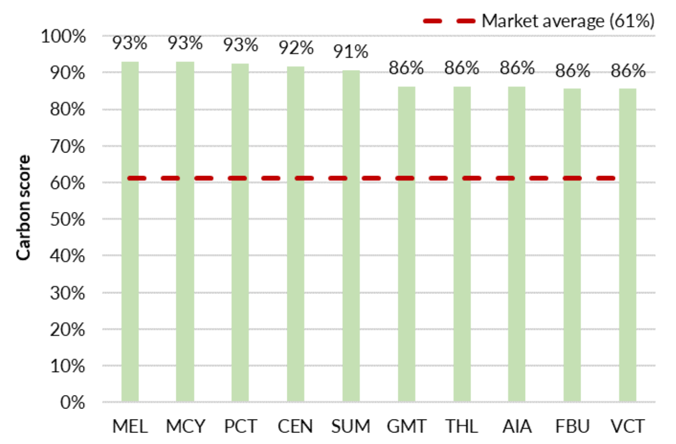
Source: Forsyth Barr analysis

Detailed insights

Carbon: Evidence suggests that efforts to reduce emissions are beginning to gain traction

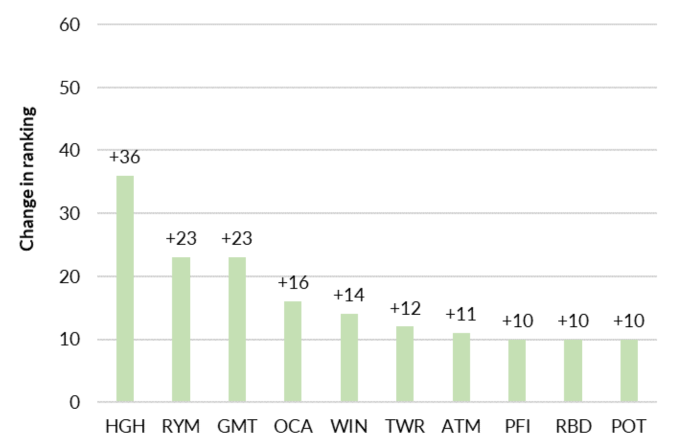
A notable increase in the average C score has been observed, primarily driven by the inaugural mandatory carbon disclosures from companies. All companies included in this project are Climate Reporting Entities (CRE), except My Food Bag (MFB). As at 31 October 2024, 54 out of the 61 companies had published their disclosures. This year MEL, MCY, Precinct Properties (PCT), CEN, SUM, THL, FBU, and Vector (VCT) retained their positions in the top 10 C performers. Goodman Property Trust (GMT) and Auckland Airport (AIA) are new entrants.

Figure 30. Top 10 Carbon performers



Source: Forsyth Barr analysis

Figure 31. Top 10 Carbon improvers



Source: Forsyth Barr analysis

Changes to our methodology

This year we:

- Asked each company if it is a CRE and if it had filed its first mandatory climate disclosures. These are framing questions and were not scored.
- Changed the sub-section of, refined the wording, and began scoring the question on new projects/partnerships that will amount in significant emissions reductions.
- Removed any questions where, if a company had filed its climate disclosures, it would automatically receive full marks.

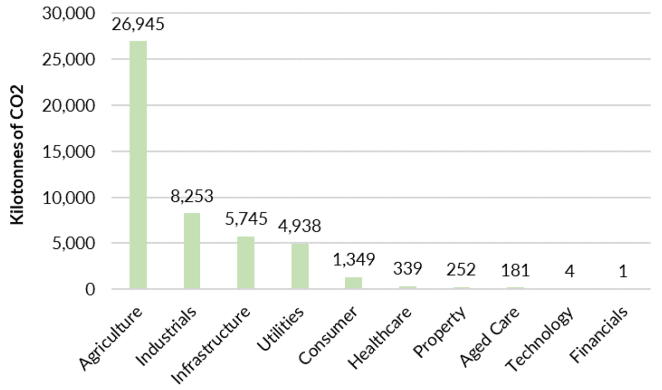
Key takeaways

Carbon scores improved across the board. With mandatory disclosures now in play, the playing field has been levelled. We have collected emissions data on New Zealand companies for eight years. In 2017 only 41% of companies under our coverage reported their scope 1 and 2 emissions, and 33% reported scope 3. Last year it was 88% and 78% respectively. This year, as mandatory reporting came into play, 100% of the companies in our coverage reported scope 1 and 2 emissions, while 85% reported scope 3.

The number of companies showing a reduction in both absolute and intensity based emissions increased significantly. Of the 37 companies that have been reporting emissions for more than five years, 18 show a decrease in scope 1 and 2 emissions when looked at over a five-year trend. Last year, only 13 companies were showing a decrease. Intensity scores look better, with 32 companies showing a decrease (five-year trend). However, intensity decreases do not necessarily solve the problem that, globally, we urgently need to turn the tide on emissions.

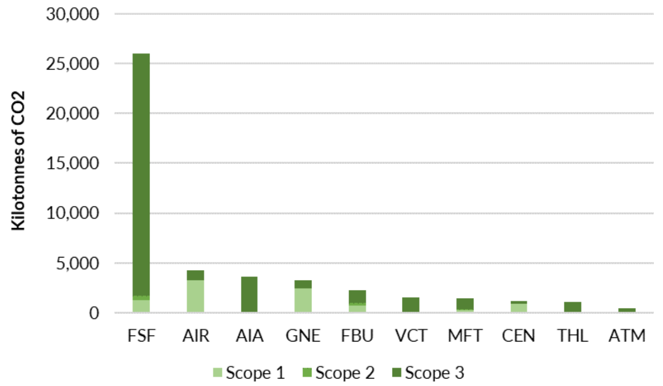
40 companies have publicly announced new projects or partnerships (over the last 12 months) that will amount in emissions reductions of greater than -10%. We think this is a particularly strong signal for proactive movement to reduce emissions by New Zealand businesses. A number of the projects announced are from companies that are further down our ratings leaderboard. We recognise the challenges in assessing companies of all sizes and across all sectors in the same way. We want to give credit where credit is due.

Figure 32. Emissions by sector, all scopes



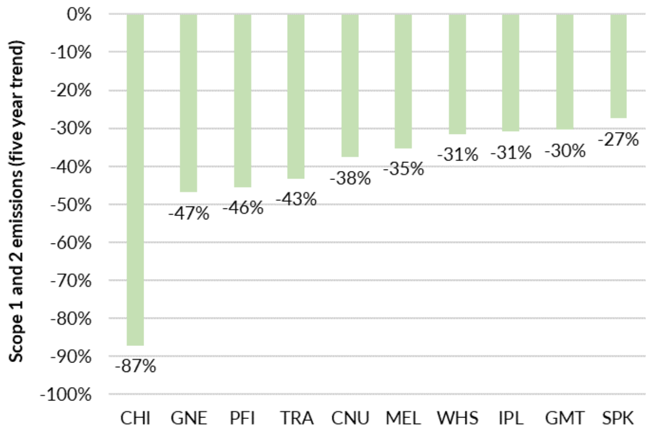
Source: Forsyth Barr analysis

Figure 33. Largest emitters



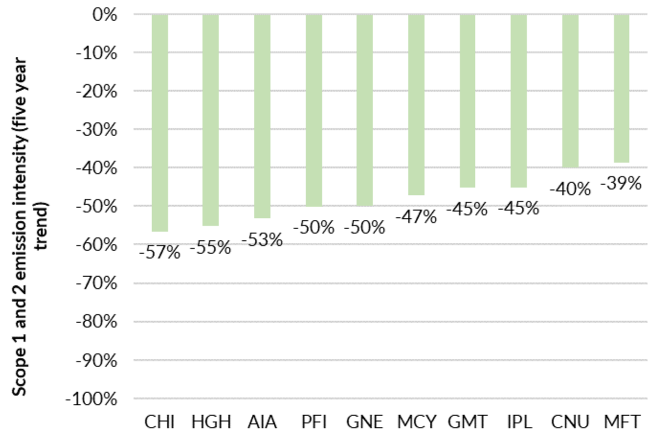
Source: Forsyth Barr analysis

Figure 34. Top 10 scope 1 and 2 emissions reduction trends



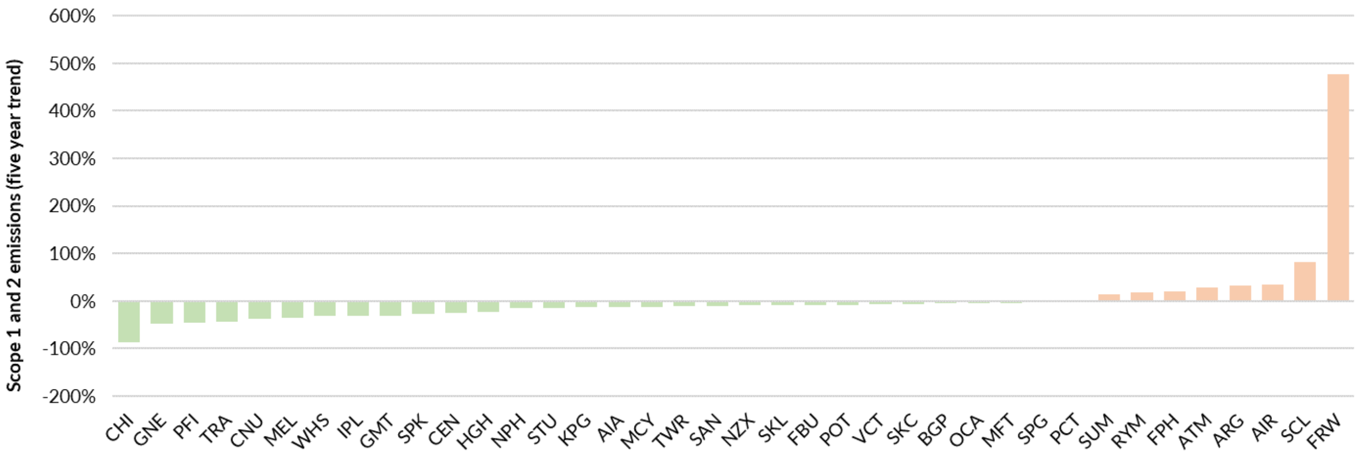
Source: Forsyth Barr analysis

Figure 35. Top 10 scope 1 and 2 emissions intensity reduction trends



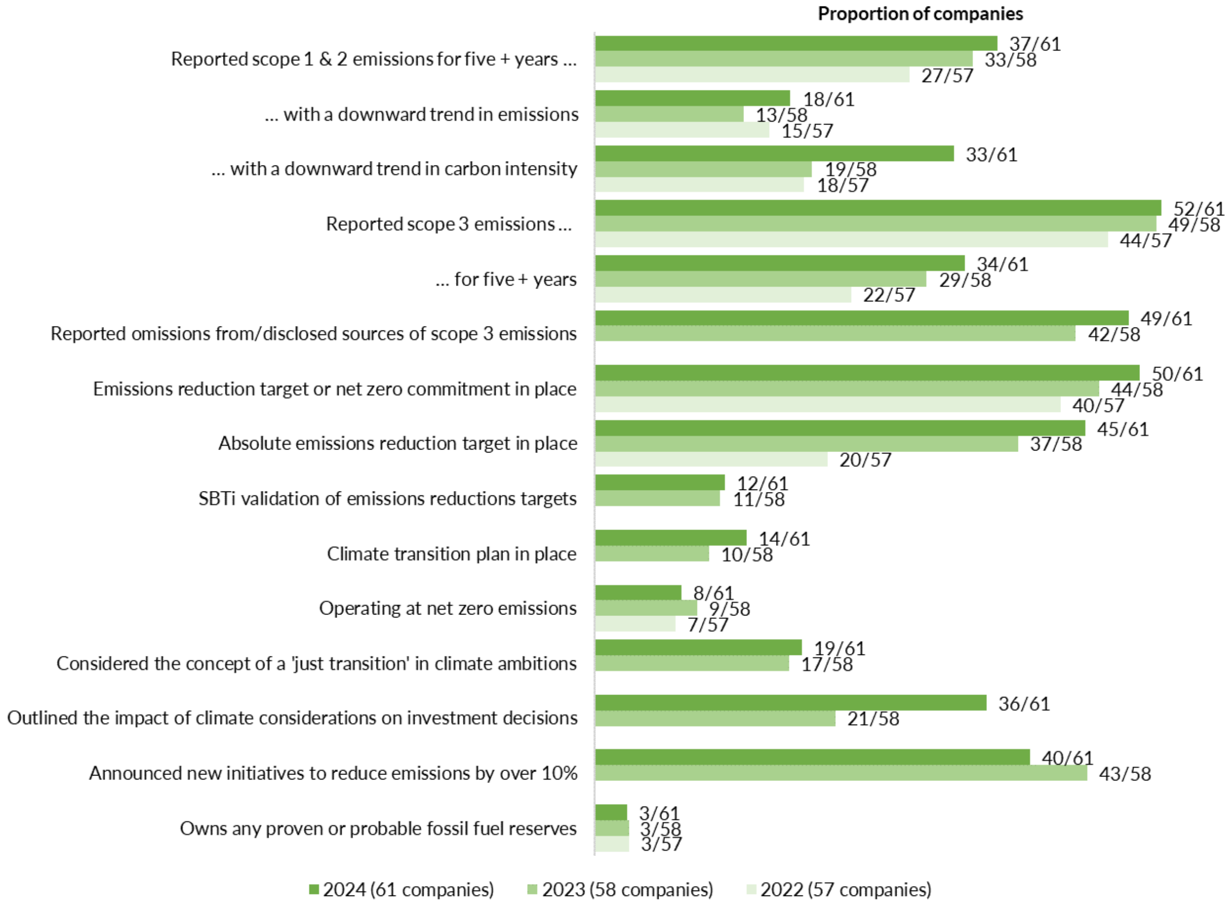
Source: Forsyth Barr analysis

Figure 36. Scope 1 and 2 emissions trend, all companies reporting emissions at least five years



Source: Forsyth Barr analysis

Figure 37. Carbon insights - change over time



Source: Forsyth Barr analysis

Key takeaways, continued

Climate Transition Plans (CTPs) remain a work in progress. Fourteen companies have already established a CTP with sufficient detail, many more have a CTP but, in our view, lack sufficient detail, particularly regarding the quantification of the impact of outlined initiatives. The mandatory CDS provides a first-year adoption provision for CTPs, so we expect to see significantly more developed CTPs next year after the adoption provision expires. By our count, 83% of companies thus far have applied the relevant provision. CTPs should form an essential part of a company's disclosure, showing credible ways to meet emissions reduction ambitions. CTPs still have some way to go until they meet best practice standards that are emerging globally. In particular, we would like to see more time bound, quantitative data designed to show how a company plans to deliver on its emissions reduction targets.

Companies stating they are already operating at net zero reduced from nine to eight over the reporting period. The eight companies remain the same year-on-year, with WHS no longer having Toitū carbonzero certification, instead opting for Toitū carbonreduce certification, committing to reducing its actual emissions.

There was an increase of only one additional company committing to a 'just transition', up from 17 to 19. 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 teams to think about environmental and social considerations as they make 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.

Figure 38. Game changing 'C' practices

Company	Action
ATM	Announced the commission of its electrode boiler at its Mataura Valley Milk (MVM) factory, completing the plant's conversion from a coal-fired manufacturing process. The conversion decreases emissions by -45% and makes MVM the first fully-electric dairy factory in New Zealand.
GMT	In our view: market leading scope 3 emissions reporting, including value chain and embodied carbon reporting.
GNE	Trialling using biomass as a renewable fuel source in its Huntly generation plant, displacing coal as a fuel.
NZK	Invested in an ensilage plant to remove waste from landfill and instead be used as a feedstock to create electricity.
SKT	Implemented a recycling program for older devices, which has recycled over 143,000 boxes to date, with 97% of materials repurposed into more energy efficient devices, diverting significant waste from landfills and reducing emissions.
SPK	Announced a new 10-year partnership with GNE, including a renewable PPA (power purchase agreement) linked to the new solar site at Lauriston. This will cover ~60% of current electricity consumption, with emissions reductions of ~-50% of scope 1 and 2 emissions.

Source: Forsyth Barr analysis

What's going on with the Science-Based Targets Initiative?

Corporate climate targets reached a peak during the pandemic and at the 2021 United Nations Climate Change Conference of the Parties (COP26) negotiations in Glasgow. We saw companies across the world signing up to the Science Based Targets Initiative (SBTi); a framework that provides criteria for companies to develop science based targets that contribute to keeping global temperatures well below 2°C above pre-industrial levels, in line with what is required to meet the objectives of the Paris Accord. It is currently the preeminent global standard for setting net-zero targets. The initiative came under scrutiny this year, facing controversy around a decision to allow companies to meet scope 3 targets with carbon credits. The decision has challenged the governance and credibility of the initiative.

In February 2024, **more than 200 companies had their net-zero commitments removed by the SBTi**, including some well-known names in corporate sustainability. Diageo, Vestas Wind Systems, Unilever, Proctor & Gamble, and innocent were among the firms that missed the deadline to set meaningful net-zero targets, or chose not to use SBTi's standard. Reasons given included insufficient government support, delays in the roll-out of new technologies, and fears of legal threats by regulators or consumer groups. In some cases, companies were 'simply not ready' to meet the goals they set, having underestimated the scale and complexity of what it takes to make it happen.

In New Zealand, **AIR made headlines when it announced it was withdrawing from the SBTi** and that its 2030 goals were unreachable. One could be critical of AIR, but, through a greenwashing lens, it was a brave move — to front up to reality and publicly state that decarbonising is much harder than realised. Forecasting out to 2030 (and beyond) is not an exact science; planned projects can be sidetracked, and there may be countless variables, particularly in the aviation sector. For hard-to-abate sectors, there are many things beyond a company's direct control. AIR's move was a clear example of reality and short-term practicality superseding ambition.

AIR is the only New Zealand company we are aware of that has pulled back from the SBTi. We note SKT withdrew from Toitū's carbonreduce programme and WHS downgraded its commitment from Toitū carbonzero to Toitū carbonreduce.

Despite the controversy, **we still think the SBTi is the most robust target setting tool available to the global market**. However, any new commitments must do thorough due diligence to ensure that the aspirations are realistic and achievable, with a sufficiently detailed transition plan in place. Last year, 11* companies had received validation of their emissions reduction targets by the SBTi, and three had submitted their targets and were awaiting approval. In 2024:

- Nine companies continue to have their targets verified by the SBTi: CEN, Fisher & Paykel Healthcare (FPH), GNE, Infratil (IFT), KMD Brands (KMD), SkyCity (SKC), Synlait Milk (SML), SPK, and SUM.
- Three companies are newly verified in 2024: Fonterra (FSF), OCA, and RYM.
- Two had submitted their targets and are awaiting approval: MEL (resubmitted) and MCY.
- One company is no longer SBTi verified: AIR.

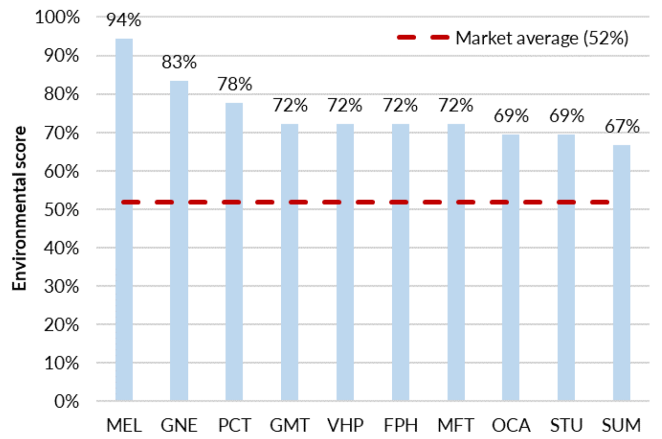
*Restated down from 18 reported in our 2023 report. This was due to some confusion from companies that a science aligned target was equivalent to a verified SBTi target.

Environment: Commitments advancing but outcomes not yet apparent

The health of the environment and the health of the economy are interconnected. Businesses use natural resources as their raw materials, so when ecosystems break down or when biodiversity diminishes there are implications for raw material costs, as well as disruptions to business operations and supply chains. Finding a state where our demands on nature do not exceed its supply is becoming exceedingly important. As awareness of the importance of nature to the economy grows, the expectations on businesses to operate more sustainably grows. There is now a wide-spread expectation that businesses should not only have minimal negative impact on the environment as a result of their operations, but also work to reverse the degeneration of ecosystems.

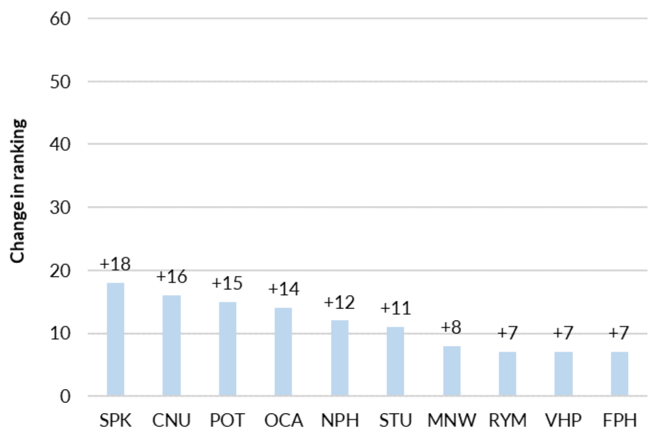
For the third year in succession, the E section is the hardest section to score highly. This year MEL, GNE, PCT, GMT, Mainfreight (MFT), and SUM retained their positions in the top 10 E performers. Vital Healthcare Property (VHP), FPH, OCA, and Steel & Tube (STU) are new entrants.

Figure 39. Top 10 Environmental performers



Source: Forsyth Barr analysis

Figure 40. Top 10 Environmental improvers



Source: Forsyth Barr analysis

Changes to our methodology

This year we:

- Made only minor clarifications. The methodology for this section largely remained the same.
- The most notable change was to the water metrics where we have applied a materiality lens.
- We raised the bar on whether companies voluntarily report against the TNFD. Last year, companies received full marks if they were committed to report against the TNFD. This year, they got 0.5 marks if committed and a full mark if they had reported.

Key takeaways

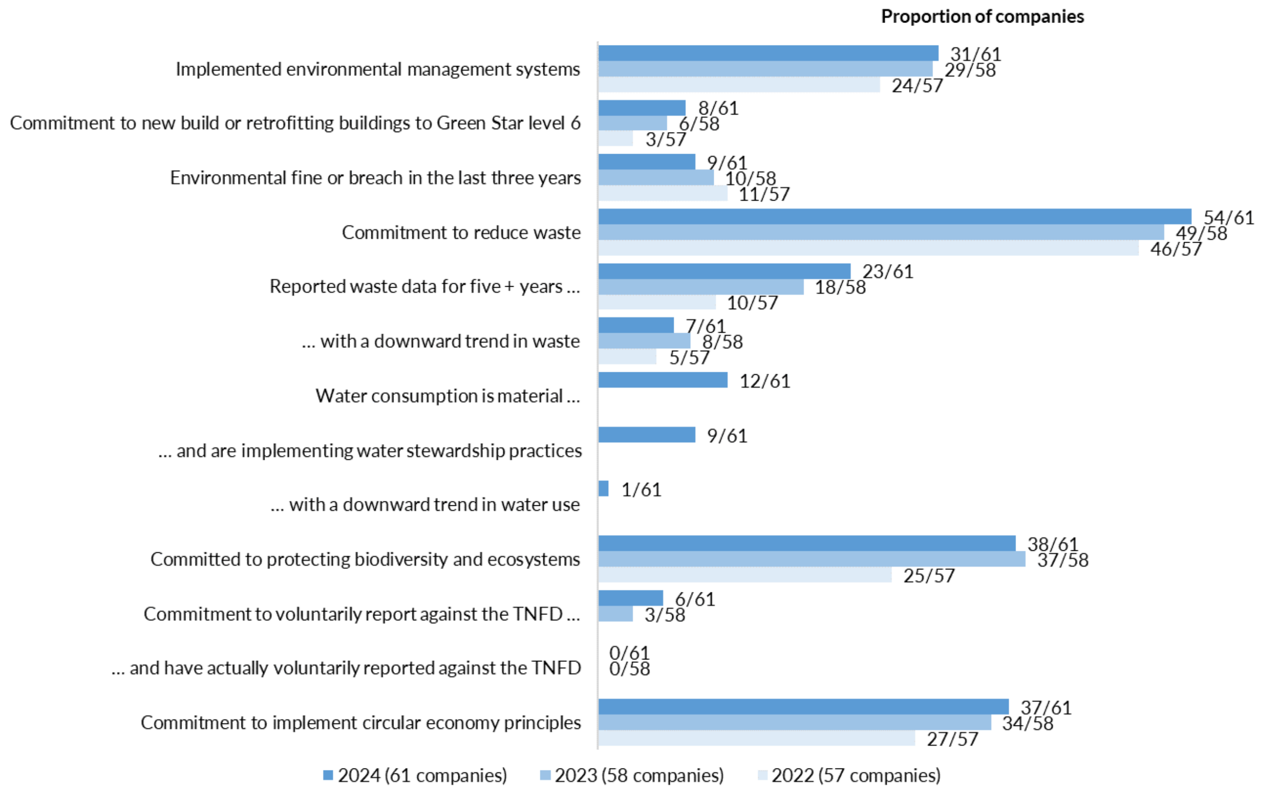
On the positive side, there is a gradual improvement in companies that are:

- Implementing environmental management systems such as ISO 14001.
- Building or retro-fitting to Greenstar level 6.
- Reporting environmental fines or breaches over the last three years.

Companies with a commitment to implement circular economy principles continued the momentum, showing a solid improvement from 27/57 companies in 2022, to 34/58 in 2023, and to 37/61 companies this year. 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, waste is stopped being produced in the first place. Products and materials are kept in circulation through processes like maintenance, re-use, refurbishment, re-manufacture, 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.

For companies where water consumption is considered material to operations, only one has decreased water consumption over the last five years. This year, we revised our approach to water consumption after feedback from office-based and technology-oriented companies that reducing water use is not material to their businesses. We now ask companies if water consumption is material to them and validate their responses. 12 companies have been deemed as having material water consumption. Of these, only one, Channel Infrastructure (CHI), said water consumption was decreasing and one, Delegat (DGL), said water consumption was stable. The remainder showed an increase.

Figure 41. Environmental insights — change over time



Source: Forsyth Barr analysis

Key takeaways, continued

Positive improvement in companies committed to reporting against the TNFD; though none have reported yet. 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. Last year, only three companies (AIR, GNE, and MEL) indicated a commitment to voluntarily report against the TNFD framework. This year, The a2 Milk Company (ATM), CEN, and PCT also indicated a commitment to report.

On the negative side:

- While it was good to see the number of companies reporting on waste sent to landfill for over five years increased from 10/57 in 2022, to 18/58 in 2023, and to 23/61 this year. Unfortunately, only seven of these report a decline in the amount of waste being sent to landfill.
- Companies with a commitment to preserve and protect biodiversity and/or natural ecosystems dropped slightly from 37/58 last year, to 38/61 this year. This was after a solid increase from 25/57 in 2022.

Figure 42. Game changing environmental practices

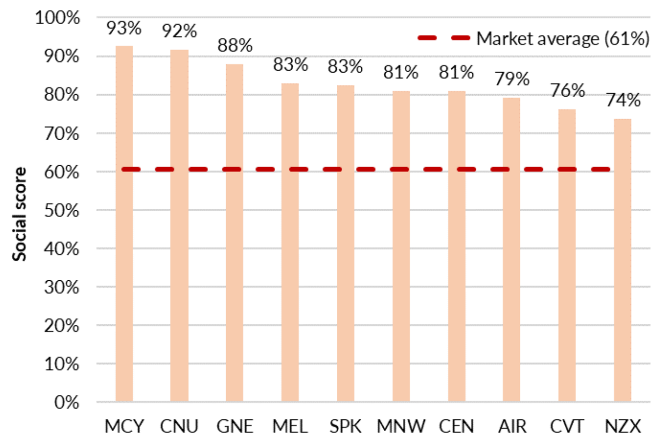
Company	Action
ARG	8 Willis Street building has been certified as Wellington's first Green Star 6 rated commercial building.
SKL	New initiative to have its milking liners recyclable in house.

Source: Forsyth Barr analysis

Social: Solid year-on-year improvements in core S metrics despite toughening methodology

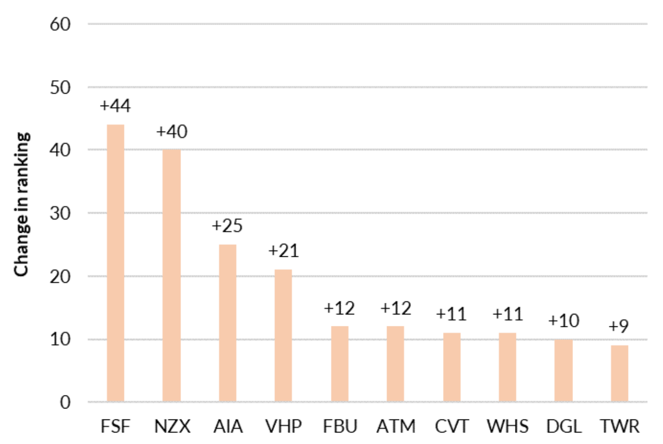
This year, we increased the difficulty of the S section by removing two questions where most companies previously scored full points. In addition, we raised the bar in a few areas to focus on the outcomes of policy implementation, as opposed to just rewarding the implementation. **These adjustments made it harder to maintain the S scores awarded last year.** This year MCY, CNU, GNE, MEL, SPK, and CEN retained their positions in the top 10 S performers, with Manawa Energy (MNW), AIR, CVT and NZX the new entrants, the last of which jumped an impressive +40 spots up the S leaderboard.

Figure 43. Top 10 Social performers



Source: Forsyth Barr analysis

Figure 44. Top 10 Social improvers



Source: Forsyth Barr analysis

Changes to our methodology

This year we:

- Raised the bar on the question regarding modern slavery commitments, moving the focus from policy to implementation and identification of material risks.
- Raised the bar on the question relating to mental health & wellbeing, from rewarding just implementation of initiatives to now requiring measurement of the impact of the initiatives.
- Added a new question on whether the company publicly reports its gender pay gap.
- Deleted questions on stakeholder relations (stakeholder-centric models and community involvement policies) and diversity and inclusion policies, as most companies answered 'yes,' providing no differentiating information.

Key takeaways

On the positive side, there was a solid year-on-year improvement in core S metrics, including the number of companies with:

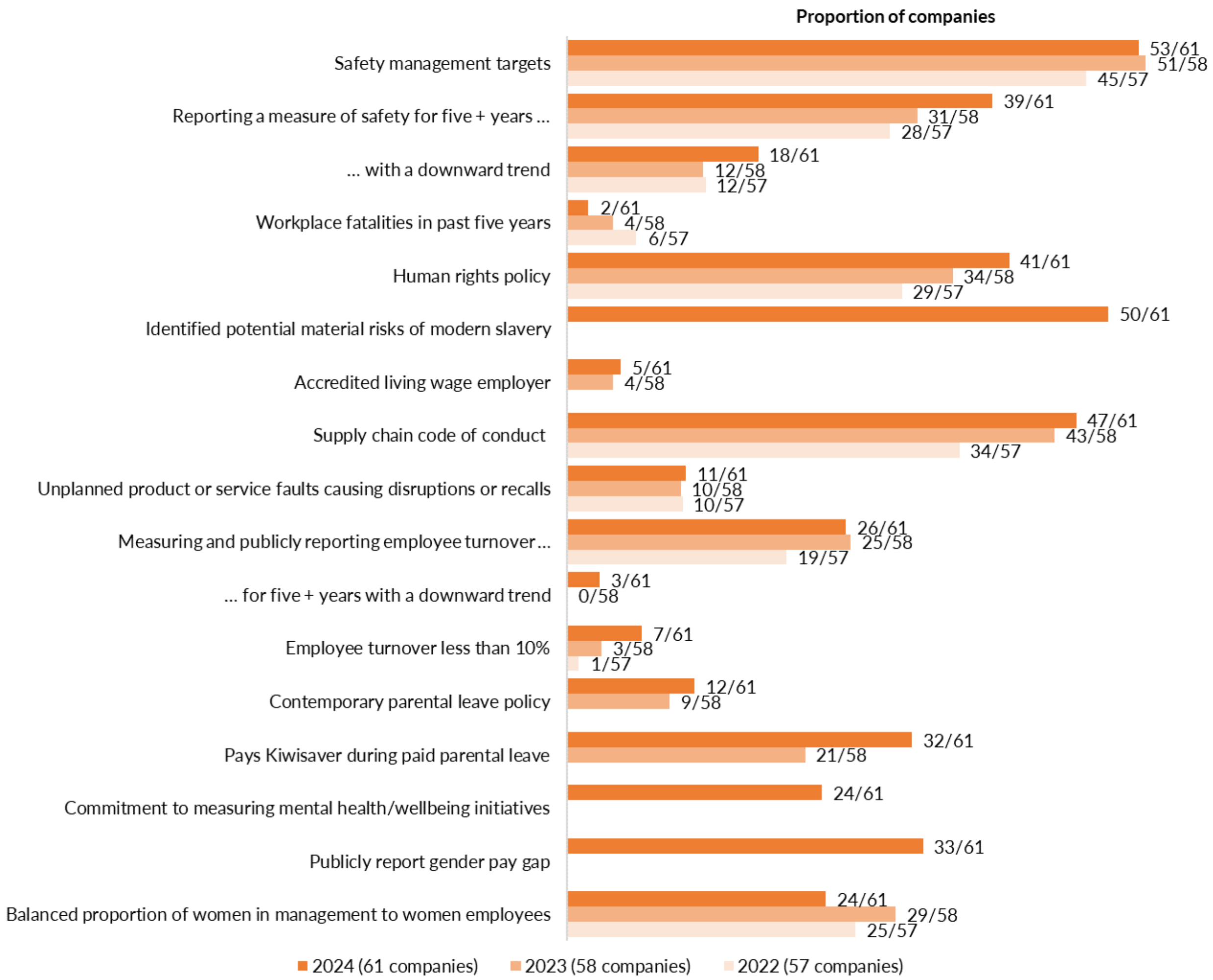
- Safety management targets in place.
- Declining safety incidents by those companies that have been reporting a measure of safety for more than five years.
- Human rights policies in place.
- A supply chain code of conduct.
- Workplace fatalities.
- Accredited Living Wage Employers, up from four last year to five. Argosy Property (ARG) joins GNE, HGH, Tower (TWR), and VCT as accredited employers.

Companies continue to strengthen employee value proposition offerings, measured through growth in the number of companies with contemporary parental policies in place: 9/58 companies last year and 12/61 this year. Since COVID, employees have had greater expectations for a more agile, flexible working environment and a better work-life balance. We think parental leave policies provide an interesting proxy measure. We look at a number of elements of policies to assess if we think a company's parental leave policy is contemporary (see the Methodology for detail), including whether employers make KiwiSaver employer contributions during paid parental leave. **There was a significant jump this year in companies reporting that they pay KiwiSaver during paid parental leave, from 20/58 last year to 32/61.**

Mental health and well-being initiatives offered by companies also have a role to play here. This year we raised the bar on the question relating to mental health and well-being, moving the focus from implementation of initiatives, to measuring of the impact of the initiatives. 24/61 companies are measuring the impact of their health and well-being policies.

More than half the companies (33/61) are publicly reporting their gender pay gap. Last year we measured if companies had a diversity and inclusion policy in place. The entire market responded yes to this. This year we replaced the question to measure which companies are publicly reporting their gender pay gap. New Zealand's gender pay gap sits at 8.6% and has remained persistent at ~9% since 2018. In future years, we will raise our expectations on this metric and start to reward companies that are working to addressing the pay gap.

Figure 45. Social insights — change over time



Source: Forsyth Barr analysis

* Question changed so year-on-year numbers no longer comparable

Key takeaways, continued

On the negative side, there has not been much of an improvement in companies measuring and reporting employee turnover. We ask for this data as measuring and tracking employee turnover statistics can provide insight into workforce health and culture. It can also help evaluate the effectiveness of recruitment and retention strategies, enabling companies to optimize talent management practices and mitigate costs associated with turnover. While the data shows that the number of companies with employee turnover below 10% is improving, we think this is more reflective of the state of the economy, with employees staying put while the job market is subdued. There are other factors to consider, including a lack of skilled workers in New Zealand for some sectors, our ageing population and growing retirees, alongside the post-COVID exodus to Australia and beyond — all of which highlights the need for strong employee value propositions. We encourage investors to talk to companies about their employee turnover statistics, and ask them about any plans they may have to safeguard access to future talent.

There was also a **decline in the number of companies where the amount of women in management roles was in proportion to the number of female employees** — the lowest since we began measuring this metric. Balanced gender diversity helps overcome gender biases and provides equal opportunities for career advancement, contributing to a fair and inclusive work culture. Additionally, gender-balanced representation in leadership positions serves as an inspiration for future generations, reinforcing the principles of equality and equity within the organization and society.

Figure 46. Game changing Social practices

Company	Action
KPG	Completion of Resido, its first build-to-rent (BTR) community. BTR schemes offer social benefits by providing stable, long-term rental options, fostering community development, and addressing housing affordability issues through professionally managed rental properties.
OCA	One of the key performance indicators in its sustainability-linked loan relates to the social and psychological well-being of its residents.
PCT	The first real estate organisation to achieve the WELL Equity Rating for its corporate office in Oceania. The rating gives organisations an actionable framework to improve access to health and well-being, celebrate diversity, prioritise inclusivity, and promote sensitivity, while addressing disparities in populations that have been traditionally marginalised and underrepresented.

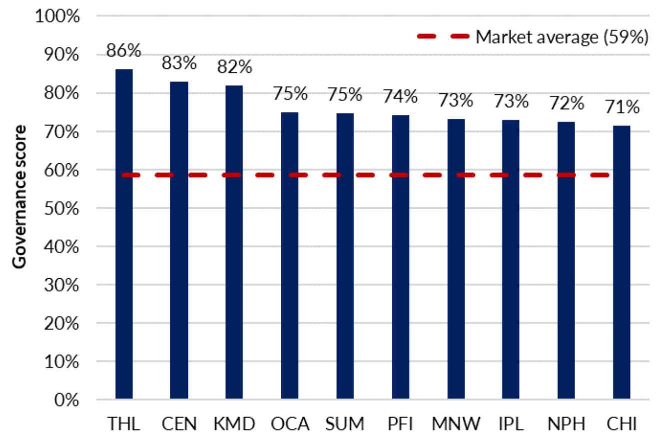
Source: Forsyth Barr analysis

Governance: Slight regression for a number of standard G metrics

The relationship between good corporate governance and the financial success of companies is well documented. Good corporate governance ensures that the board of directors meets regularly, approves strategy, holds management to account, and is clear in the division of its responsibilities, as well as maintaining a system of risk management. Robust corporate governance is equally important across all sectors. Reflecting this, we allocate a 40% weighting, across all sectors, for the corporate governance metrics in our rating methodology.

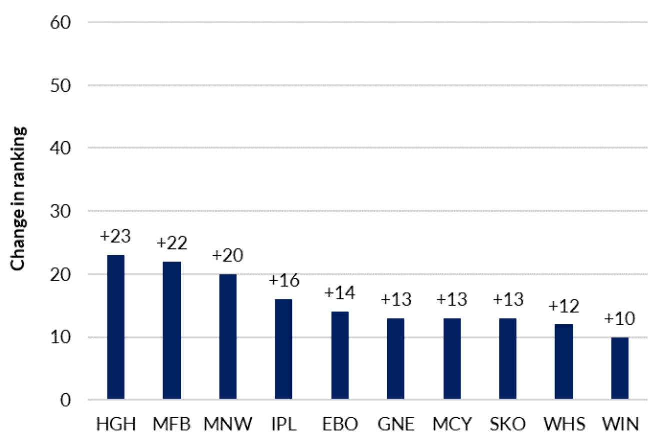
This year THL, CEN, KMD, OCA, SUM, Property for Industry (PFI), and Napier Port (NPH) retained their positions in the top 10 G performers and MNW, IPL, and CHI are new entrants.

Figure 47. Top 10 Governance performers



Source: Forsyth Barr analysis

Figure 48. Top 10 Governance improvers



Source: Forsyth Barr analysis

Changes to our methodology

This year we:

- Raised the bar on the question about whether a company integrates its sustainability strategy into its business-as-usual (BAU) operations. In 2023, half marks were awarded if a sustainable strategy was evident but not integrated into BAU. Partial marks have been removed this year.
- Raised the bar on the question asking whether remuneration for senior executives is linked to achieving sustainability performance by differentiating between whether it is included in long-term incentive plans (LTIPs) or annual performance appraisals only.
- Added a new question asking whether a company has committed to voluntarily putting its executive remuneration report forward for a shareholders vote, though we elected not to score this.
- Added a new question on whether a company publicly discloses its direct lobbying activities, though we elected not to score this.
- Refined the question on major controversies and acting with integrity to clarify it is in relation to both financial and non-financial reporting.
- Removed the question on anti-takeover devices, as other data we collect sufficiently covers this.

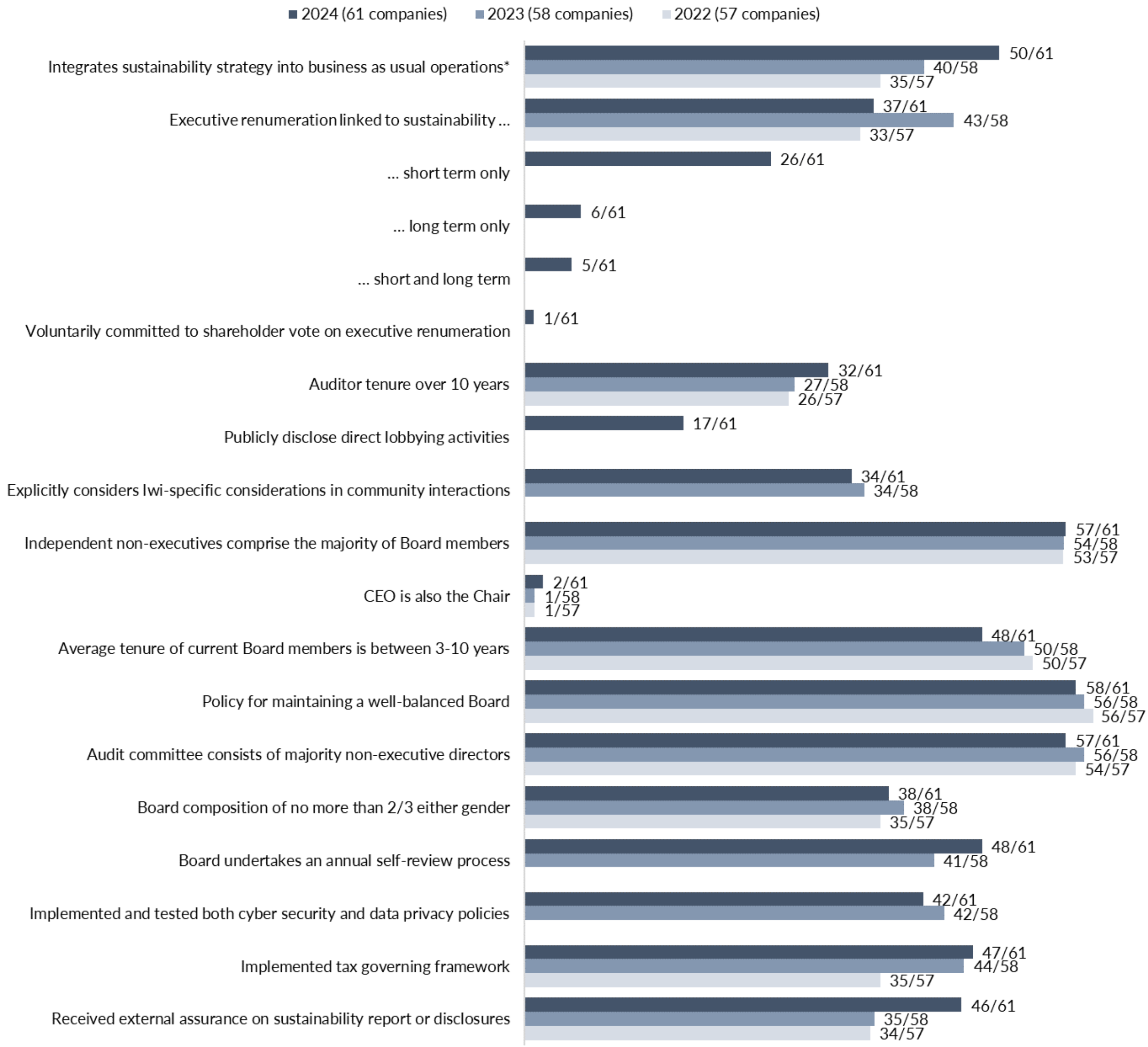
Key takeaways

THL finished atop the G section for the second year running. This deserves special mention, considering the evolution in our methodology over the year.

For the majority of the market, sustainability strategies are now fully integrated into business strategies. Only a few years ago, ESG commitments were regarded as a peripheral accolade, not necessarily integrated into company's strategy. Today, our findings show that ESG is business-as-usual for most of our coverage.

36 companies link remuneration to sustainability performance. However, only six are linked as part of LTIPs, which we view as a key driver of behavioural and cultural change. In 2022 and 2023 we asked if remuneration was linked to improving ESG performance; we noted a positive upward trend from 33 in 2022 to 42 last year. This year we wanted to understand if the mechanisms were driving long-term behavioural change, or if they were only incentivising shorter-term quick wins. With only six companies including sustainability metrics as part of LTIPs, we conclude that, currently, companies are more focused on quick wins rather than longer-term structural and behavioural change-related targets.

Figure 49. Governance insights — change over time



Source: Forsyth Barr analysis

Key takeaways, continued

Only FBU has put forward its executive remuneration report for shareholder vote. This year is the first time we asked this question. Voluntarily putting a remuneration report to a shareholder vote enhances transparency and accountability in a company. It allows shareholders to voice their opinions on executive compensation, fostering trust and aligning management's interests with those of the shareholders. This practice can improve corporate governance and strengthen investor relations by demonstrating a commitment to fair and responsible pay practices. This is common practice internationally, and is a regulatory requirement in Australia — but is not at all commonplace in New Zealand, even from those that are dual listed on the ASX. Interestingly, FBU was the only company to do this and, arguably, the company with the greatest need to do so. Only 11% of shareholders voted against adopting the company's remuneration report for FY24.

This year saw a relative resurgence of capital raises with HGH, IFT, SML, AIA, and FBU all raising equity during the year. **We scored both FBU and SML negatively on their capital raises given the dilution to minority shareholders.** In FBU's case, the decision was based on our view that the raise did not need to be accelerated and that the rights were non-renounceable. In SML's case, while the raise was necessary to prevent the company going into liquidation, it was heavily dilutive for minority shareholders, who were unable to participate.

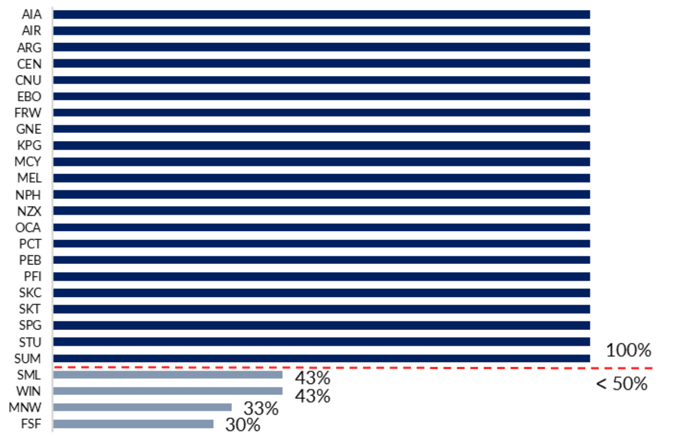
FORSYTH BARR

Improvements are plateauing or regressing for a number of G metrics this year. Last year, we saw solid improvements in the majority of the basic good practice governance measures. However, this year, some of the numbers have dropped back a little. For example, we saw a slight regression in the proportion for companies with:

- Explicit consideration of Iwi-specific considerations in community interactions.
- CEO as Chair — RYM joined Winton Land (WIN) this year, though we note for RYM this is a temporary measure.
- Average tenure of Board members falling out of the best practice range (3–10 years).
- Policy in place for maintaining a well-balanced Board.
- Audit committees consisting of a majority of independent directors.
- Implementing and testing data privacy policies.

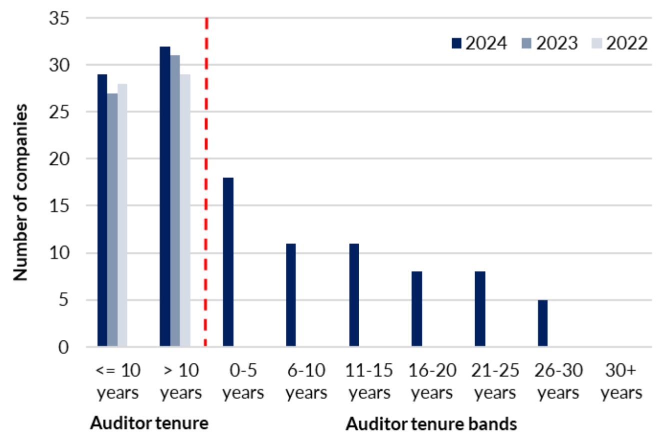
There was movement by three companies to change their auditors after relationships exceeded 10 years. Auditor tenure is something we have focussed on every year with this project. In 2022 we reported that 28/57 companies had auditors where the tenure had been longer than 10 years. In 2023, this had increased to 31/58, and this year the number was 32/61. 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. While the numbers have continued to increase in 2024, we were pleased to see movement on the issue. We congratulate NZK, RYM, and SUM for taking steps to change their auditors after such long stints. It is not easy to achieve, especially in New Zealand where the pool of auditors to draw from is small. Unfortunately for RYM, we think the change may have come too late after a decade of opaque accounting practices came to light during the year. We note that seven of the companies with auditor tenure over 10 years are defined as mixed ownership 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 26 years.

Figure 50. Proportion of independent directors



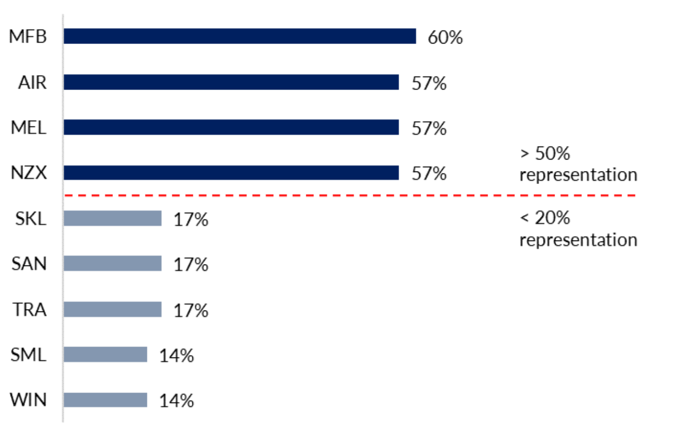
Source: Forsyth Barr analysis

Figure 51. Auditor tenure, versus history and bands



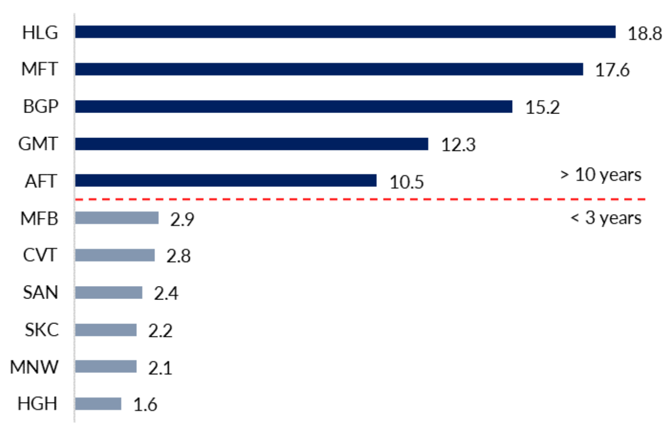
Source: Forsyth Barr analysis

Figure 52. Proportion of female Board members



Source: Forsyth Barr analysis

Figure 53. Average Board tenure (years)



Source: Forsyth Barr analysis

Figure 54. Game changing Governance practices

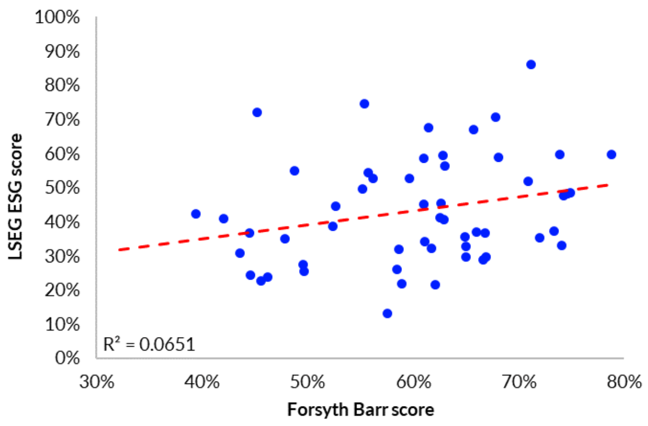
Company	Action
CEN & GNE	Have built sustainability key perfomance indicators into long-term incentive plans (LTIPs). 20% of LTIPs for GNE are based on achievement of GHG emission reduction goals in FY26. For CEN, 50% of the LTIPs are based on the achievement of strategic priorities, including decreases in scope 1 and 2 emissions, renewable energy generation, and stimulation of electricity demand flexibility.
CVT, KMD & SML	B Corporation certification, a global standard for businesses that meet high social and environmental performance, accountability, and transparency requirements.
FBU	Put its remuneration report for executives forward to shareholder vote.
RYM, NZK & SUM	Changed auditors after a prolonged period of having the same auditor.
THL	Future-Fit certification, a framework that helps companies align their operations with the urgent goals of climate action and social equity, enabling businesses to transition towards sustainable and responsible practices.

Source: Forsyth Barr analysis

C&ESG scores versus ESG ratings providers

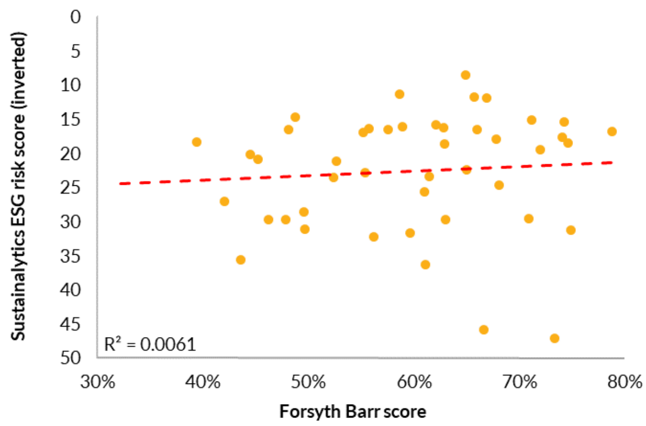
There is a weak relationship between our C&ESG scores and the ESG scores of external service providers. Our C&ESG score offers a way to measure progress in a consistent, comparable, robust, and informative way, while acknowledging and accounting for the idiosyncrasies of our market.

Figure 55. Forsyth Barr vs LSEG



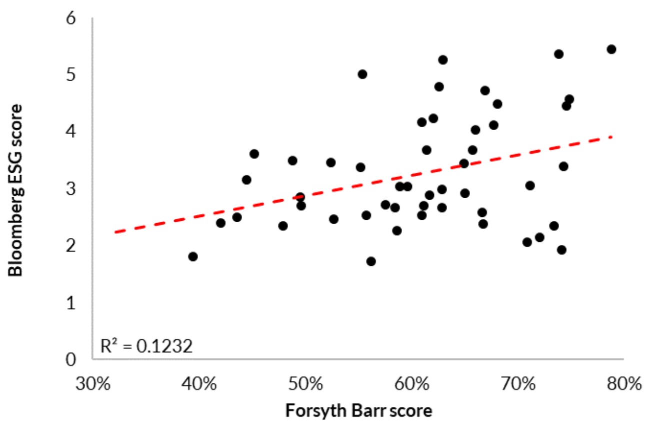
Source: Forsyth Barr analysis, LSEG

Figure 56. Forsyth Barr vs Sustainalytics



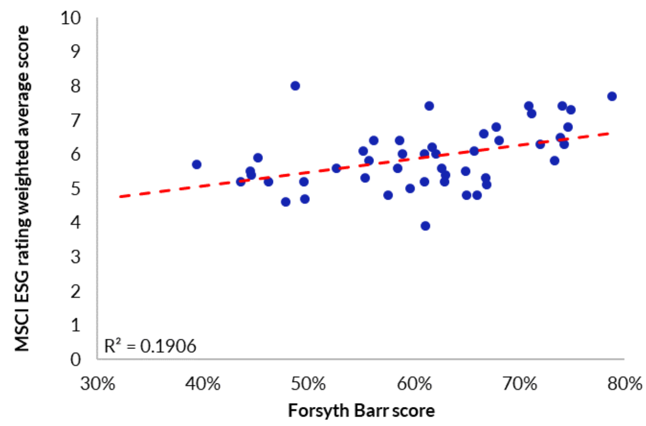
Source: Forsyth Barr analysis, Morningstar Sustainalytics

Figure 57. Forsyth Barr vs Bloomberg



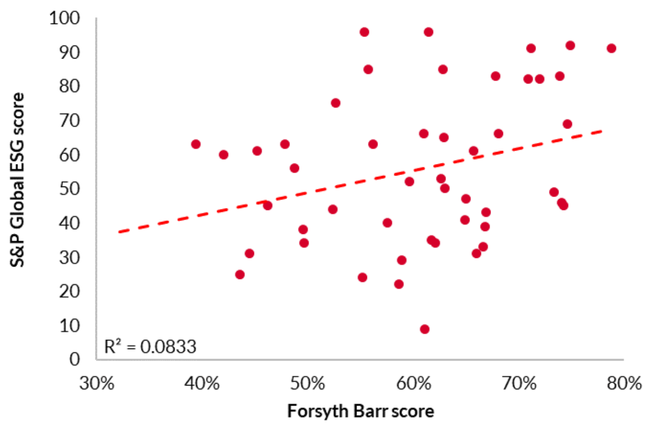
Source: Forsyth Barr analysis, Bloomberg

Figure 58. Forsyth Barr vs MSCI



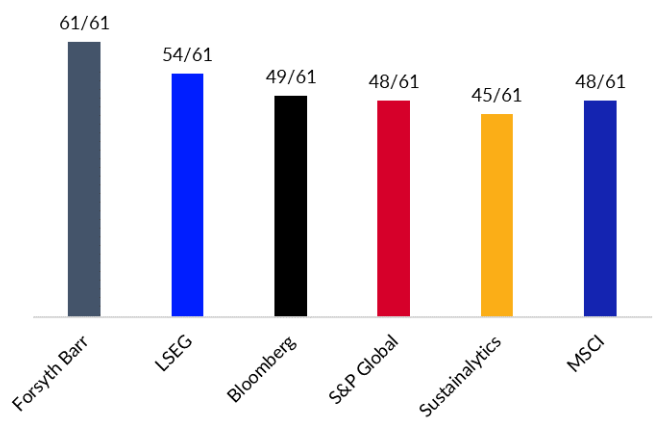
Source: Forsyth Barr analysis, MSCI

Figure 59. Forsyth Barr vs S&P Global



Source: Forsyth Barr analysis, S&P Global

Figure 60. Coverage



Source: Forsyth Barr analysis, LSEG, Morningstar Sustainalytics, Bloomberg, MSCI, S&P Global

Appendices

Appendix A: Company scorecards

Please find all the company scorecards here.

Appendix B: Omissions and anomalies

Figure 61. Omissions

Code	Company	Reason for non-participation
SAN	Sanford	Not able to review information this year due to resourcing constraints.
SML	Synlait Milk	Not willing to participate.

Source: Forsyth Barr analysis

Figure 62. 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, its investment manager.	Accept this anomaly. We found IFT to be consistent and transparent in which perspective it takes when responding to questions.
APL	Asset Plus	Given APL is externally managed by Centuria, it made some questions difficult for it to answer.	Accept this anomaly. We applied the external manager's policies where relevant.
IPL	Investore Property	Given IPL is externally managed by Stride Investment Management, it made some questions difficult for it to answer.	Accept this anomaly. We applied the external manager's policies where relevant.
VHP	Vital Healthcare Property	Given IPL is externally managed by NorthWest Healthcare Properties, it made some questions difficult for it answer.	Accept this anomaly. We applied the external manager's policies where relevant.

Source: Forsyth Barr analysis

Appendix C: Conflicts disclosure

Figure 63. Companies that Forsyth Barr Investment Banking has had (public) engagement with over the last 12 months

Code	Company
CEN	Contact Energy
CHI	Channel Infrastructure
IFT	Infratil
MCY	Mercury
MEL	Meridian Energy
SUM	Summerset Group
VHP	Vital Healthcare Property

Source: Forsyth Barr analysis

Figure 64. Forsyth Barr Investment Management equity holdings over 5%

Code	Company
CHI	Channel Infrastructure
IPL	Investore Property
OCA	Oceania Healthcare
PCT	Precinct Properties
RYM	Ryman Healthcare
SKL	Skellerup Holdings
VHP	Vital Healthcare Property
VSL	Vulcan Steel

Source: Forsyth Barr analysis

Appendix D: Summary of methodology changes

We anticipate incremental refinements to the methodology each year as we adapt to this quickly evolving agenda. **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 New Zealand.

It is year three of our ratings and the Methodology is now fairly settled (see the full Methodology for a complete description of these changes). In summary, we have:

- Added five new questions, only one of which is being scored as we give the market time to adapt.

- Removed any questions that don't differentiate the market, in other words, questions where all companies scored relatively well last year. This resulted in us removing six questions.
- Raised the bar on five questions to reflect our evolving expectations.
- Applied a materiality lens over the water consumption questions.

Summary of methodology changes

Figure 65. Carbon changes

Change	Question	Comments
New	Is the company a Climate Reporting Entity, required to prepare climate-related disclosures in accordance with the Aotearoa NZ Climate Disclosure Standards?	Not scored.
	Has the company filed its first mandatory climate-related disclosures and/or voluntarily reported in accordance with the Standards?	Not scored.
Removed	Has a physical risk and transition risk assessment been undertaken?	Regulation means all companies will answer this positively, receiving full points. Therefore, we see no further value in asking this question.
Raised the bar	Has the company publicly announced any new projects or partnerships (over the last 12 months) that will amount in significant (<-10%) emissions reductions?	Changed the sub-category. Added scoring.

Source: Forsyth Barr analysis

Figure 66. Environmental changes

Change	Question	Comments
Raised the bar	Does the company voluntarily report against the TNFD?	We raised the bar on whether companies voluntarily report against the TNFD. Last year, companies received full marks if they were committed to report against the TNFD. This year, they got 0.5 marks if committed and a full mark if they had reported.
Other amendments	Is water consumption material to the company's business operations and/or supply chain?	Water metrics now have a materiality lens applied. Only scored if a company deems water consumption to be material.

Source: Forsyth Barr analysis

Figure 67. Social changes

Change	Question	Comments
New	Does the company publicly report its gender pay gap?	Yes = 1 No = 0
Removed	Does the company have a diversity and inclusion policy?	Predominantly all companies responded positively.
	Is there a policy to manage community involvement?	Predominantly all companies responded positively.
	Is the business model stakeholder centric?	Predominantly all companies responded positively.
Raised the bar	Has the company identified where, across its business, there may be material risks of modern slavery?	Moved the focus from policy to implementation.

Source: Forsyth Barr analysis

Figure 68. Governance changes

Change	Question	Comments
New	Has the company committed to voluntarily putting its executive remuneration report forward for a shareholders vote?	Not scored.
	Does the company publicly disclose its direct lobbying activities?	Not scored. This replaced the question from 2023: Is there a code of conduct governing interactions with elected officials? We shifted focus with the election being over.
Removed	How many anti-takeover devices are there?	Covered sufficiently by other metrics.
	Is there a code of conduct governing interactions with elected officials?	Question replaced by: Does the company publicly disclose its direct lobbying activities?
Raised the bar	Does the company integrate its sustainability strategy into its business-as-usual operations?	In 2023 half marks were available if a sustainable strategy was evident but not integrated into BAU. This option has been removed this year.
	Is remuneration for senior executives linked to achieving sustainability performance?	Raised the bar on the question asking whether remuneration for senior executives is linked to achieving sustainability performance by differentiating between whether it is included in long-term incentive plans (LTIPs) or annual perfomance appraisals only. Last year the question was: Is remuneration for senior executives linked to achieving sustainability performance? And the scoring options were Yes = 1, No = 0.

Source: Forsyth Barr analysis

Figure 69. Continuing our efforts to reduce the number of data points we collect

Category	2022	2023	2024
C	18	15	16
E	13	10	11
S	21	18	15
G	28	26	26
Total	**80**	**69**	**68**

Source: Forsyth Barr analysis

Figure 70. Sector weightings remain unchanged since project inception

	C	E	S	G
Default weightings	**15**	**15**	**30**	**40**
Aged care	15	15	30	40
Agriculture	20	20	20	40
Consumer	15	15	30	40
Financials	15	15	30	40
Healthcare	10	10	40	40
Industrials	20	20	20	40
Infrastructure	20	20	20	40
Property	20	20	20	40
Technology	10	10	40	40
Utilities	20	20	20	40

Source: Forsyth Barr analysis

Appendix E: Forsyth Barr Sector Classifications for C&ESG

Figure 71. Stocks by sector

Industry	Company	Ticker
Aged Care	Oceania Healthcare	OCA
	Ryman Healthcare	RYM
	Summerset Group Limited	SUM
Agriculture	The a2 Milk Company	ATM
	Comvita	CVT
	Delegat Group	DGL
	Fonterra	FSF
	New Zealand King Salmon	NZK
	Sanford	SAN
	Scales	SCL
	Synlait Milk	SML
Consumer	Briscoe Group	BGP
	Hallenstein Glasson	HLG
	KMD Brands	KMD
	My Food Bag	MFB
	Restaurant Brands	RBD
	SkyCity	SKC
	Sky TV	SKT
	Tourism Holdings	THL
	Turners Automotive	TRA
	The Warehouse Group	WHS
Financials	Heartland Group Holdings	HGH
	NZX	NZX
	Tower Ltd	TWR
Healthcare	AFT Pharmaceuticals	AFT
	EBOS Group	EBO
	F&P Healthcare	FPH
	Pacific Edge	PEB

Source: Forsyth Barr analysis

Figure 72. Stocks by sector cont ...

Industry	Company	Ticker
Industrials	Air New Zealand	AIR
	Fletcher Building	FBU
	Freightways	FRW
	Mainfreight	MFT
	Skellerup Holdings	SKL
	Steel & Tube Holdings	STU
	Vulcan	VSL
Infrastructure	Auckland Airport	AIA
	Channel Infrastructure	CHI
	Chorus	CNU
	Infratil	IFT
	Napier Port	NPH
	Port of Tauranga	POT
	Spark NZ	SPK
	Vector	VCT
Property	Asset Plus	APL
	Argosy Property	ARG
	Goodman Property Trust	GMT
	Investore	IPL
	Kiwi Property Group	KPG
	Precinct Properties NZ	PCT
	Property For Industry	PFI
	Stride Property	SPG
	Vital Healthcare	VHP
	Winton	WIN
Technology	Gentrack	GTK
	Serko	SKO
	Vista Group	VGL
Utilities	Contact Energy	CEN
	Genesis Energy	GNE
	Mercury	MCY
	Meridian Energy	MEL
	Manawa Energy	MNW

Source: Forsyth Barr analysis

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