



Lonsec Sustainability Report and Sustainability Score

Process Methodology

Sustainability Report and Score

Lonsec has identified an increased demand by clients and investors to understand the extent to which their portfolios are contributing to, or working to solve, the key environmental and social challenges facing society and the planet.

Traditional Environmental, Social and Governance (ESG) measures, scores and analysis focus on how these ESG risks might impact the economic value of a company or stock. While Lonsec believes that this type of ESG analysis is an important element in the overall investment process, it generally fails to capture the broader ramifications of portfolios and companies on addressing the ESG risks facing our society and the environment.

Utilising the UN's Sustainable Development Goal (SDG) framework, the Sustainability Report addresses the opportunities and risks not captured in traditional ESG assessments. The SDGs are 17 individual goals and represent a "universal call to action to end poverty, protect the planet and ensure that all people enjoy peace and prosperity" (UN, 2016) <https://sdgs.un.org/goals>.

The Sustainability Reports are available for those funds which have an investment rating from Lonsec Research. The Reports and Score, which were initially available only for funds in the Australian Equities asset class, are now available for both Australian and Global Equities. Lonsec has several pre-requisites for the research process to commence. These are detailed in our [Research Process Document](#).



The Lonsec Sustainability Score

The Sustainability Score (Score) is a quantitative estimate of the net 'goodness' in a portfolio. The Score nets the positive SDG Contribution against the negative SDG Detraction, for each investment within a fund, to the 17 SDGs directly from Impact Cubed data.

The Sustainability Report and Score, updated quarterly, is not an investment rating and it is recommended that readers use this report in conjunction with a Product Review Report. The Score is a peer relative assessment of a fund at a point in time. It is not an ESG negative screen, however, for comparison industry exclusions or restrictions are listed in this report.

Lonsec recognises there is no perfect measure of sustainability or controversy. Given the technologies today, and the structure of our current world, there is a reliance on certain industries, such as mining and fossil fuels, and it is expected that most portfolios would have some exposure to them.

Measuring contribution to SDGs and Controversial Industries

Lonsec has partnered with UK-based quantitative environmental, social, and governance (ESG) data provider Impact Cubed to obtain revenue, corporate, and climate information on 4,000 global listed companies (<https://www.impactcubed.com/>). Impact Cubed collects public company disclosures on financial and sustainability reporting, including basic information about company size, product/service mix, and the geographical exposure of its revenue and assets, to create an in-house 15-factor corporate dataset and 29-factor sovereign dataset mapped to the UN Sustainable Development Goals. A quality assurance process is applied to standardize the data and manage the potential for greenwashing or errors.

Impact Cubed maps company activities to the United Nations Sustainable Development Goals (SDGs), quantifying where products, services, or operations contribute positively or negatively to specific goals such as health, education, clean water, or climate action. Corporations are not direct actors in the SDG framework, which was designed primarily for government and intergovernmental action. However, they provide the goods and services necessary for progress, and it is through these economic activities that their contribution can be measured and compared.

Sustainability Score Process

01. Input

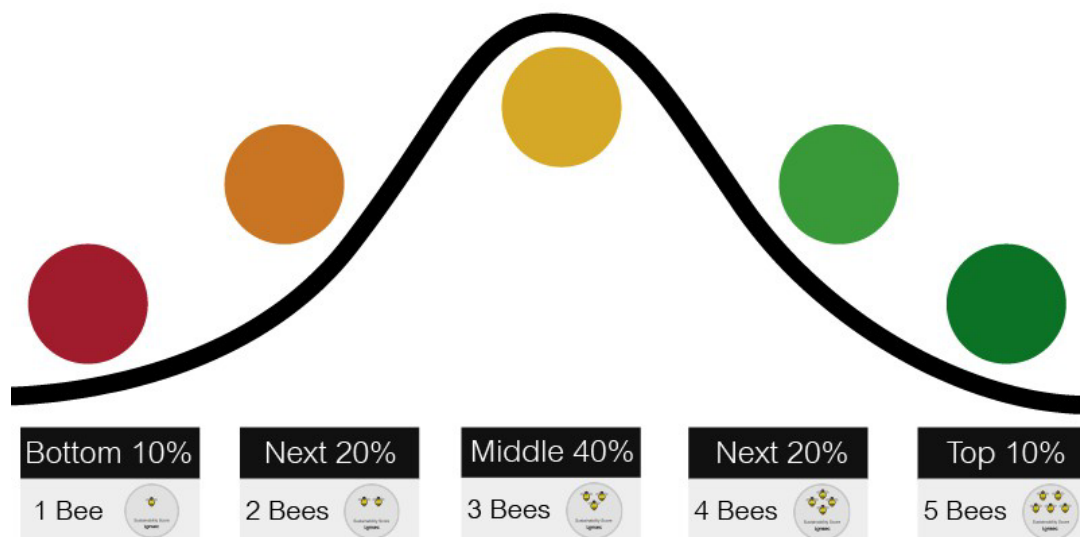
- Peer universe is selected, e.g. Australian equities, global equities or listed property and infrastructure
- Input data is collected – fund manager security holdings and Impact Cubed data (revenues data, corporate data and climate data)
- All cash is excluded
- Security types not covered by Impact Cubed are excluded unless they can be proxied. Options, swaps and corporate actions are excluded.

02. Process

- Proxies are used for infrastructure and property benchmarks.
- Security weights are normalised to account for exclusions and missing securities.
- SDG Detractors are scaled – Lonsec believes that the more a company contributes to the detriment of the environment or society, the more a company should be penalised, i.e., \$1 SDG contribution ('good') does not compensate for a \$1 exposure SDG Detractor ('bad') in a fund.

03. Output

- The Sustainability Value is calculated as the net weighted average sum of all the fund's security holdings contributors and detractors (%)
- This Value is ranked, highest to lowest, and then normally distributed into 5 categories.



- The Sustainability Score, represented by a number of bees, is then applied. The following graph breaks down the Sustainability Score and the position of the fund relative to all Lonsec-rated funds.
- Where a significant change occurs with the financial product which has a material impact on the assessment outcome, or where a product issuer decides to remove the product from the rating process, a report and score may be updated or removed, as detailed in the [Research Process Document](#).

Research Approach

Lonsec has extensive experience in assessing the implementation of ESG by investment managers. For over 10 years Lonsec has been reviewing managers with Ethical, ESG or Sustainable tilts to their portfolios.

A revised ESG assessment process was launched in early 2020 to reflect the changing ESG landscape and variety of approaches being used by managers.

With the mainstreaming of ESG and increased demand for sustainability reporting on portfolio's Lonsec has employed Tony Adams as head of Sustainable Investment Research. With over 30 years of hands-on investment experience in Australian fixed interest markets and over 10 years incorporating ESG assessment into portfolio's Tony brings a new focus for ESG within Lonsec. Having completed his Diploma in Sustainability to complement his BCom and MBA, Tony has refreshed Lonsec's overall ESG assessment framework with a focus on ensuring that investing clients are provided with clear useful reporting on their portfolios.

How does Lonsec Manage and Disclose Conflicts of Interest?

Lonsec is aware of the inherent potential conflicts of interest associated with the provision of ratings and how we are remunerated for our services. Lonsec has in place a comprehensive set of policies, procedures and information barriers (both permanent and temporary) consistent with our regulatory obligations under Regulatory Guide 79, to manage either perceived or actual conflicts of interest.

These policies and procedures are designed to manage and control our conflicts including commercial, contractual, and commissioning party relationships, fee structures, cross subsidisation and transparency in the ratings process. For more information on how Lonsec identifies, manages and discloses conflicts of interest see the [Research Process Document](#).

Want to find out more?

Get in touch today to find out more about the Lonsec Sustainability Report and Score. Call us on **1300 826 395** or email **info@lonsec.com.au**

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