

Welcome to the Mountains

Greg Bunkall, Data Director, Morningstar

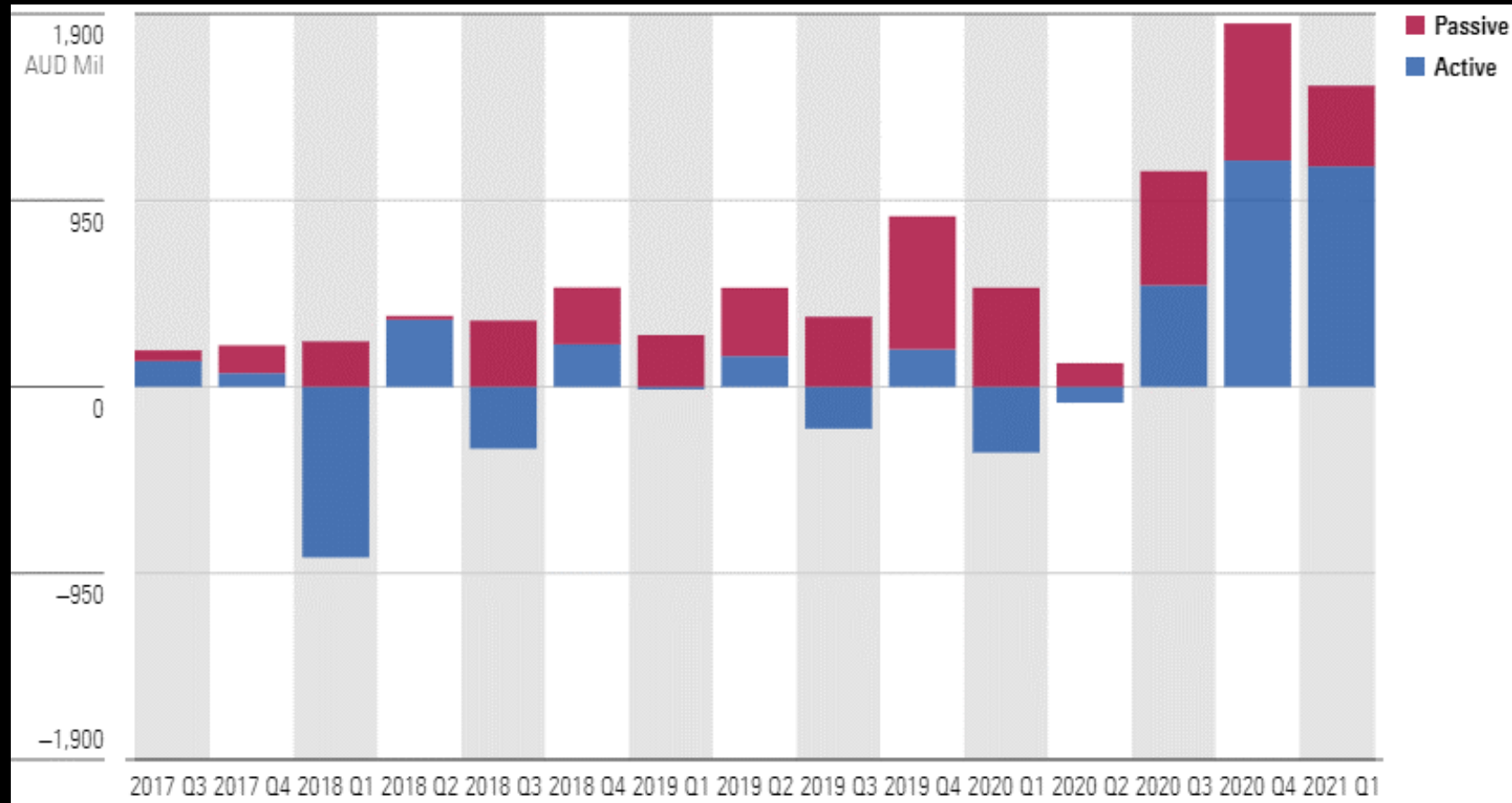
“It’s bloody global warming mate”

- quote, archetypal mid Canterbury
local

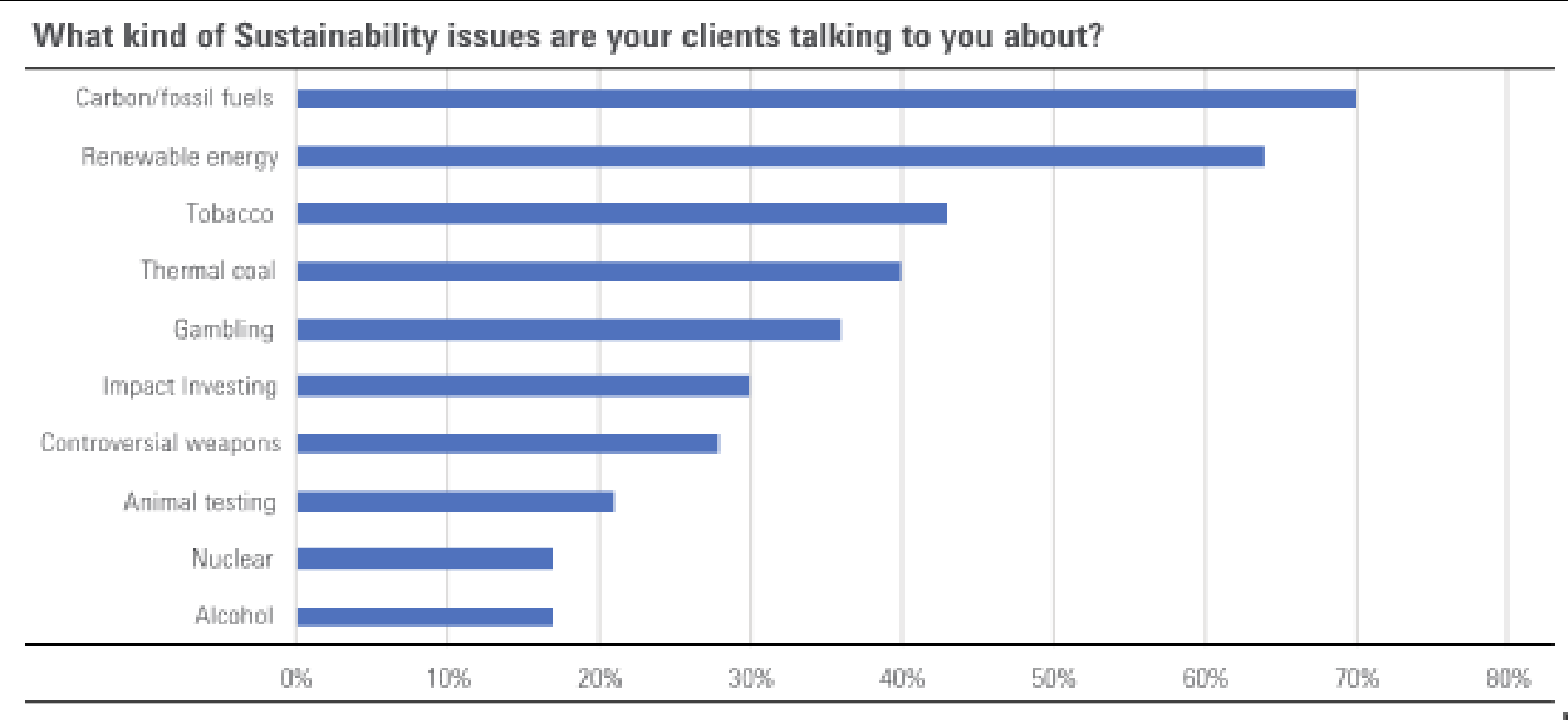
Sustainability



Sustainable Investing Flows, AU/NZ

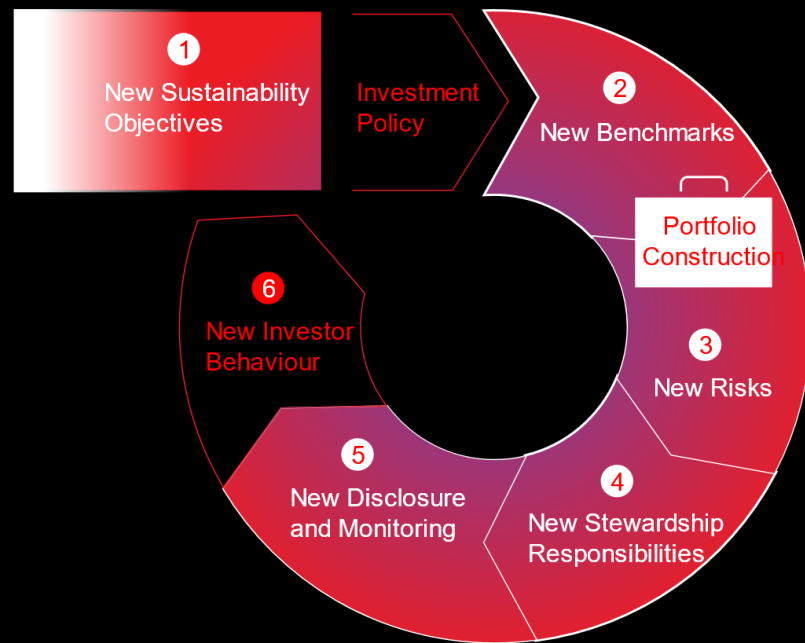


What are advisers telling us?



Source: Morningstar adviser webinar survey November 2020

Integration across the Investing Ecosystem



- Across the board, companies, asset owners, investors and consultants
- ESG risk placed alongside financial risk
- European ESG disclosures

Full Suite of Sustainability Data, Tools, Research and Insight

Funds / ESG Screener

Search or Filter Investments

Search by Name or ISIN or Ticker

Morningstar Analyst Rating™
 Gold Silver Bronze

Morningstar Sustainability Rating™
 5 Globes 4 Globes

Fossil Fuel Involvement-12 Month Avg
 All

Flagship Fund
 All

Low Carbon Designation
 Yes

Fund Provider
 All

Flagship Fund Analyst Rating™
 Select one or more items

Sustainable Investment (By Prospectus)
 Yes

Sustainability Percent Rank
 All

Morningstar Category
 Select one or more items

Carbon Risk Score- 12 Month Avg
 All

Domicile
 All

Filter By Product Involvement

Exclude Alcohol Exclude Controversial Weapons Exclude Small Arms Exclude Tobacco

Exclude Thermal Coal Include Renewable Energy

Reset Filters Show Style boxes

Review and Analyze Your Search Results

Overview Sustainability Short Term Performance Long Term Performance Fees Portfolio Risk

0/6

MORNINGSTAR

Evaluating Carbon Risk in Managed Funds An Australian Perspective

Morningstar Manager Research
4 May 2020

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Important Disclosure
The content of Morningstar's analysis is governed by State of Illinois Code of Conduct Policy, Personal Securities Trading Policy (or an equivalent one), and Investment Research Policy. For information regarding conflicts of interest, please visit: <https://www.morningstar.com>

Summary
The impacts of the coronavirus pandemic have reverberated aggressively across the globe. Immediate-term societal priorities are on protecting public health and stabilising financial and employment markets. This period also serves as a reminder of global interconnectedness, systemic risk, and the vulnerabilities and tensions between economic, social, environmental, and governance considerations.

The climate change resulting from anthropogenic emissions has already had a harmful effect on human and natural systems. Efforts to combat climate change by reducing greenhouse-gas, or GHG, emissions have taken on greater urgency. The 2015 International Paris Agreement to limit global warming to well below 2 degrees Celsius above pre-industrial levels recognized that any warming beyond that threshold would have devastating consequences. Many governments, particularly in Europe, have responded with policies to incentivize renewable energy and to tax carbon and greenhouse-gas emissions. Investors also are becoming increasingly aware of climate-change-related risks and the need to transition away from carbon-intensive activities. Pressure is mounting on asset managers, pension funds, and other asset owners, including in Australia, to more thoughtfully consider carbon risk.

In order to mitigate the impact of climate change as economies transition to low-carbon consumption, there will be opportunities for companies to innovate and adapt to a greener world. Conversely, companies that don't evolve will be threatened by stranded assets and outmoded business models. With this backdrop, Morningstar has developed a suite of carbon tools that empower investors in identifying carbon risks within investment portfolios.

In this report, we have utilized Morningstar's carbon tools to compare carbon risk in managed funds categorised within Morningstar's Australia-domiciled large world equity and large Australian equity-managed fund categories. We compare the characteristics of Morningstar® Low Carbon Designation™ funds in Australia with global findings, so that climate-aware Australian investors can benefit from those insights, given sustainable investing in our region is still somewhat in its infancy.

Key Takeaways

- Climate change poses both physical and transitional risk—Morningstar's carbon tools empower investors in identifying the risks and opportunities for companies and within portfolios.
- Carbon risk, as calculated by Morningstar partner Sustainalytics (currently 40% owned by Morningstar), is a forward-looking view of a company's management of its risks and opportunities in the transition to a low-carbon economy.
- Overall carbon emissions for the Morningstar Australia GR Index are 54% higher than the Morningstar Global Markets GR Index. This is driven by Australia's overweight in high-carbon-emission sectors such as energy and materials and the predominance of coal in electricity generation.

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Simplicity NZ Share 24262

Morningstar Rating¹



30 Funds in Category

Morningstar Analyst Rating²



Morningstar Category

NZ OE Equity Region NZ

Global Category

Australia & New Zealand Equity

Total Cost Ratio % (TCR)

0.1%

Sector

—

Total Assets

696 Mil NZD
27 Jul 2021, 05:00 UTC

Benchmark

S&P/NZX 50 TR NZD

Sustainability Rating³



Historical Sustainability Score Percent Rank

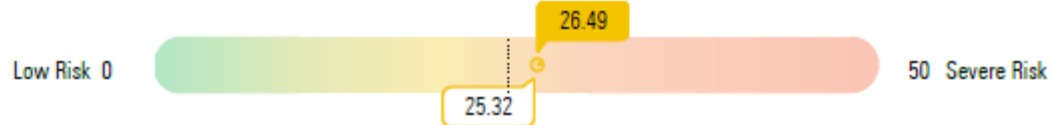
85

Number of Funds in
Global Category
429

Sustainable
Investment
Yes

*Based on 100% of AUM

Sustainability Score ● Historical ○ Current* | Global Category Average (Historical)



ESG Pillars (lower scores = lower risk)



5.00
Environmental



8.53
Social



5.61
Governance

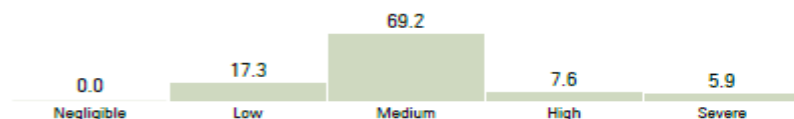


6.18
Unallocated

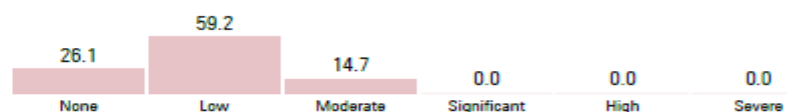
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Holdings Analysis

ESG Score Distribution (% Assets)



Controversy Level Distribution (% Assets)



Portfolio as of 31 May 2021	% Assets	ESG Risk Score	ESG Risk Classification	Controversies Level	Controversies Incidents
Largest Holdings					
Fisher & Paykel Healthcare Corp Ltd	14.75	27	Medium	Low	Business Ethics
Auckland International Airport Ltd	7.79	20	Medium	None	—
Spark New Zealand Ltd	6.87	22	Medium	Low	Customer
Meridian Energy Ltd	5.59	22	Medium	Low	Customer
Ryman Healthcare Ltd	5.23	29	Medium	Low	Customer, Society & Community
Lowest (Best) ESG Risk Scores					
Goodman Property Trust	1.93	13	Low	None	—
Kiwi Property Group Ltd	1.75	14	Low	None	—
Precinct Properties New Zealand Ltd	1.49	14	Low	None	—
Kathmandu Holdings Ltd	1.04	16	Low	Moderate	Business Ethics
Port of Tauranga Ltd	1.92	17	Low	Moderate	Operations
Highest (Worst) ESG Risk Scores					
Tilt Renewables Ltd	0.46	49	Severe	Low	Customer
Trustpower Ltd	0.60	46	Severe	Moderate	Customer
Infratil Ltd	4.27	41	Severe	Low	Customer
Scales Corp Ltd	0.46	40	Severe	None	—
Contact Energy Ltd	4.54	37	High	Low	Operations, Customer
Worst Controversy Levels					
Fletcher Building Ltd	4.84	24	Medium	Moderate	Customer
Ebos Group Ltd	3.06	18	Low	Moderate	Customer
Port of Tauranga Ltd	1.92	17	Low	Moderate	Operations
Kathmandu Holdings Ltd	1.04	16	Low	Moderate	Business Ethics
Air New Zealand Ltd	1.02	25	Medium	Moderate	Customer

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Low Carbon Designation



Morningstar carbon metrics are asset-weighted portfolio calculations based on Sustainalytics' company Carbon Risk Rating. To receive the Morningstar Low Carbon Designation™, a fund must have a 12-month average Portfolio Carbon Risk Score below 10 and a 12-month average Fossil Fuel Involvement of less than 7% of assets. This signal helps investors easily identify funds that are well positioned to transition to a low-carbon economy.

Morningstar® Carbon Risk Score™ (12 Month Average) as of 31 Mar 2021

↓ Benchmark | Category Average | Category Range



Fossil Fuel Involvement™ (12 Month Average) as of 31 Mar 2021

↓ Benchmark | Category Average | Category Range



Stranded Assets Risk

A portfolio's Stranded Assets Risk is the asset-weighted average of the stranded assets risk of holdings in the portfolio. Lower is better. A company's stranded assets risk is the risk that the oil and gas reserves it owns will not be used in a lower carbon economy.

Stranded Assets Risk as of 31 Mar 2021 | Category Average

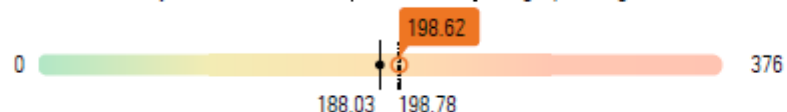


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Carbon Intensity

Carbon Intensity is the asset-weighted average carbon intensity of holdings in the portfolio. Lower is better. Carbon Intensity is computed for each holding as: Total Emissions (metric tons of CO₂) / Revenue (Mil USD).

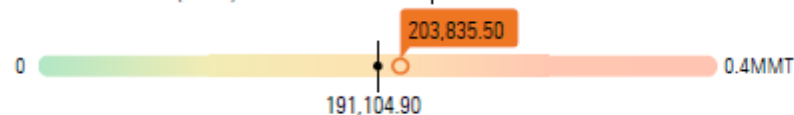
Carbon Intensity as of 31 Mar 2021 ↓ Benchmark | Category Average



6%
above benchmark

Carbon Emissions include **Scope 1 (Direct)** and **Scope 2 (Indirect)** greenhouse gas (GHG) emissions in millions of metric tons (MMT).

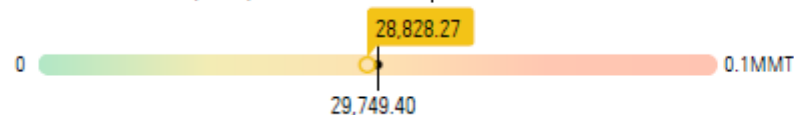
Direct Emissions (MMT) as of 31 Mar 2021 ↓ Benchmark



7%
above benchmark

Scope 1 emissions (MMT) are direct GHG emissions from sources owned or controlled by a company.

Indirect Emissions (MMT) as of 31 Mar 2021 ↓ Benchmark



3%
below benchmark

Scope 2 emissions (MMT) are indirect GHG emissions (millions of metric tons) generated by the production of energy used by the company.

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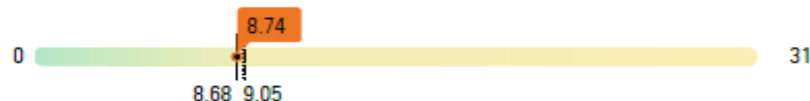
Current Portfolio Carbon Risk

The Portfolio Carbon Risk Score is the asset-weighted sum of the carbon risk scores of its current holdings. A portfolio with a lower Carbon Risk Score is positioned to fare better in the transition to a low-carbon economy than a portfolio with a higher score. Company carbon risk is Sustainalytics' evaluation of the degree to which a firm's activities and products are aligned with the transition to a low-carbon economy.

Current Carbon Risk Score (Current) as of 31 Mar 2021

⬇ Benchmark ⬆ Category Average | | Category Range

1%
above benchmark



Carbon Holdings Distribution

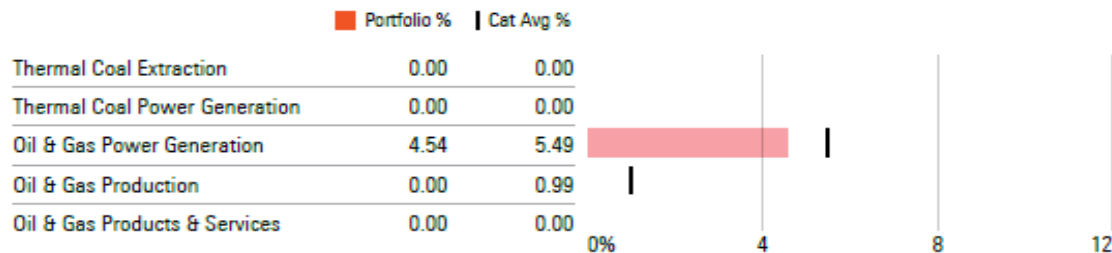
Sustainalytics assigns companies to five different carbon risk levels: Negligible, Low, Medium, High, Severe. For a fund portfolio, Morningstar calculates the percent of scored assets under management that fall into each of the five risk levels. It is preferable to have higher percentage of assets in the lower carbon risk levels. The carbon holdings distribution shows how much exposure a portfolio has to holdings with high levels of carbon risk.



Risk Level	Portfolio %
Severe	0.00
High	0.00
Medium	41.23
Low	47.59
Negligible	11.18

Fossil Fuel Involvement

Fossil Fuel Involvement is the percentage of the portfolio's assets that are involved in fossil fuels. Companies are considered involved in fossil-fuels if they derive at least an aggregate 5% share of total revenue from the following activities: thermal coal extraction, thermal coal power generation, oil and gas production, and oil and gas power generation. Companies deriving at least 50% of their revenue from oil and gas products & services are also included. Investors who want to divest from fossil fuels can target funds that have 0% exposure to fossil fuels.



Sustainability

