

Lonsec Sustainability Report and Sustainability Score

Why is Lonsec publishing a Sustainability Report?

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.

United Nations Sustainable Development Goals

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 are 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>

About Impact Cubed

Lonsec has partnered with UK based quantitative environmental, social and governance data provider, Impact Cubedⁱ, to obtain revenue, corporate and climate information on global listed companies.

Impact Cubed provides quantifiable environmental, social and governance data on listed companies and sovereignties. Impact Cubed gathers public company disclosures on financial and sustainable reporting, including basic information about a company's or sovereign's size, product/service mix, and the geographical exposure of its revenue and assets, to construct a 15-factor corporate data set and a 29-factor sovereign data set, mapped to United Nation Sustainable Development Goals. Impact Cubed then applies a quality assurance process to standardise the data and manage the potential for greenwashing or errors.

What is the 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 SDG Detraction, for each investment within a portfolio, to the 17 SDGs as measured by the Impact Cubed data. The individual scores are aggregated into a portfolio score.

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. While it is not an ESG negative screen, for further information, industry exclusions or restrictions are listed in this report.

Lonsec recognises there is no perfect measure of sustainability. 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.

How is the Sustainability Score determined?

Inputs

- 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
- Derivative instruments are excluded.

Process

- 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.

Outputs

- The Sustainability Value is calculated as the net weighted average sum of all the individual holdings scores for every fund in the universe.
- This Value is ranked, highest to lowest, and then distributed into 5 categories.
- A Sustainability Score is calculated, represented by a 'Bee score' as per the table below.

Sustainability Score	Rank in Peer Universe
5 Bees	Top 10%
4 Bees	Top 10% to 30%
3 Bees	Middle 40%
2 Bees	Bottom 10% to 30%
1 Bee	Bottom 10%

ⁱ <https://www.impactcubed.com/>