Equity Trustees

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RIAA CONFERENCE 2024

Key Insights

Responsible Investment Association Australasia (RIAA) Conference 2024 – Key Insights

RIAA recently held their annual two-day responsible investment conference in Sydney. The focus of the conference was “Navigating the Race Through ESG Growth and Tightening Regulations”. We gained valuable insights from an impressive line-up of speakers and have highlighted some of the key takeaways below.

The Reality of Decarbonisation

- Emissions profiles are often used by investors to determine whether a company is delivering on their climate commitments, however they are often lumpy and usually lag investment in emission reduction.
- We heard from Fiona Wilde, Group Climate and Sustainability Officer at BHP who discussed the real-life challenges of decarbonisation.
- Fiona highlighted the balancing act involved with reducing emissions, while growing a business which produces some of the critical minerals required in the energy transition, at a time when the technology required is not always readily available.
- Technology was highlighted as a key constraint throughout the discussion. There is often a mismatch between the technology available today, and what is required to meet long-term decarbonisation goals. This means that planning, research and development, and partnerships become very important in reaching climate commitments.
- As an example, the use of diesel represents a large portion of BHP’s operational (scope 1) GHG emissions. BHP has committed to switching from diesel to electric trucks as a key lever in meeting their goal to reduce operational emissions by 30% by FY30 and achieving net zero by 2050. Electric trucks can’t currently be bought so BHP are partnering with equipment manufacturers like Caterpillar and Komatsu to develop zero-emissions electrified haul trucks.
- Overall, BHP are confident they will be able to meet their long-term climate goals, however it won’t be without challenges, and it will be lumpy along the way.

The Intersection of Artificial Intelligence (AI) and ESG

- We heard from Julie Inman Grant, eSafety Commissioner for the Australian Government about AI and the requirement for careful thought and design from the outset with appropriate guardrails to ensure it is applied safely and avoids misuse.
- Julie provided several alarming examples of how AI has the potential to be misused, through ‘deep fake’ images for example, and how poorly designed platforms and services coupled with a lack of regulation could result in possible risks to basic human rights.
- A panellist, Jessica Cairns, Head of Sustainability and ESG at Alphinity (an investment manager in the EQT Responsible Investment Global Share Fund) spoke about their 12-month research project with the CSIRO, aimed at unpacking the ESG risks and opportunities associated with the use of AI.
- Their research centred around a series of engagements with Australian and global companies across a range of (mostly non-technology) sectors.

- From these engagements, they found Australian companies are only beginning to consider opportunities for AI, and of those interviewed, the Australian banks are the most advanced.
- They also found that board directors with AI or technology related skills are currently lacking in Australian companies which is perhaps slowing down the adoption of AI.
- Alphinity and the CSIRO have used the insights from these engagements to develop a framework to help investors assess the ESG risks and opportunities associated with the use of AI.
- We think this is valuable tool to assess companies on their uptake of AI, their progress on developing responsible AI guidelines, and the possible ESG implications that could arise.

Workplace Culture

- We heard from Elizabeth Broderick AO, former Australian Sex Discrimination Commissioner on the importance of a healthy workplace culture as a proxy for organisational health and key to driving productivity, employee retention, innovation, and overall better company performance.
- Elizabeth referenced several research reports showing the link between a healthy workplace culture and high performing organisations:
  - A study by McKinsey states that companies with top quarter gender and ethnic diversity outperformed peers by 21% and 33% respectively.
  - A study by Boston Consulting Group highlighted that companies with above average diversity in management teams reported innovation revenue that was 19% higher than companies with below-average leadership diversity.
- The discussion and supporting research highlight that workplace culture is an important issue for responsible investors, with poor culture having the potential to lead to 'culture based financial risk'.
- We have seen this play out recently in the PwC scandal where poor cultural practices have impacted their social licence, affecting professional services firms more broadly with a downturn in business seen across the sector.
- However, it isn't easy for investors to get accurate insights on a company's culture from the outside. Elizabeth highlighted key data points that can provide meaningful insights into a company's culture and can also serve as a solid starting point for more effective engagement discussions with companies on this topic.

We covered a lot of ground over the two days with the focus of the conference skewed towards social issues, rather than environmental issues and climate change as we have seen in previous years. We gained interesting insights on how to consider these issues in the context of our portfolios which will drive more effective engagement conversations with the companies we're invested in.

Equity Trustees Asset Management are a proud member of RIAA. The EQT Responsible Investment Australian Share Fund and EQT Responsible Investment Global Share Fund are RIAA certified products, signalling that both Funds adhere to the strict operational and disclosure practices required under RIAA's Responsible Investment Certification Program.

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