

ESG – YEAR IN REVIEW



Revolution Asset Management recognises Environmental Social Governance (ESG) is an ever-evolving field and is committed to continuous development in this important area. Revolution continuously reviews and strives to strengthen its practices in line with UN Principles for Responsible Investment (PRI) and industry best practice. The following is a summary of developments in Revolution's ESG process which have been implemented over the past 12 months:

Introduction of ESG reporting in quarterly client reports

Revolution added ESG reporting as a standing section in its quarterly reports delivered to clients. In a similar manner to credit ratings, Revolution now shows its portfolio breakdown by ESG risk rating. This has been incorporated into regular client reporting with the aim to increase transparency, provide clients with regular updates and assist clients with their own assessment of ESG risks and opportunities.

Detailed review of the 2023 PRI assessment report to identify areas for improvement

A detailed review of the 2023 PRI assessment report was undertaken. The goal was to understand Revolution's strengths and weaknesses within the PRI framework and relative to the market. As an outcome of this review work, several recommendations were made to the Revolution Investment Committee for short-term, medium-term and long-term horizons. Short-term recommendations have been subsequently implemented and reflected in an update of Revolution's ESG Policy in May 2024, some of which are noted further in this review.

Strengthened guidelines on engagement and stewardship

Engagement is a key tool Revolution uses in its ESG due diligence and assessment of borrowers. Revolution has undertaken to strengthen its guidelines around its engagement, including guidance on prioritisation of specific ESG factors to be advanced by engagement activities, criteria used to prioritise engagement efforts as well as approach to collaboration with respect to stewardship activities.

Introduction of guidelines on industry associations and added transparency measures

Guidelines have been developed and the ESG Policy has been expanded to include management and governance process around industry associations, associated responsibilities, ongoing monitoring of activities and processes for instances where a misalignment may be found. Alignment between Revolution's own responsible investment priorities and objectives to the mission of each industry organisation is critical in the selection and continued support of such organisation.

Additionally, Revolution now also undertakes to publicly disclose its industry associations and memberships on its website as an added transparency measure.

Expanded systemic sustainability issues for predatory lending

Under its ESG Policy, Revolution recognises a set of systemic sustainability issues. In its due diligence stage, each prospective investment is reviewed, and risk assessment is made for each such area, alongside general ESG analysis. As an active investor in ABS, predatory lending is a key systemic issue considered in the due diligence process prior to each investment. Where predatory lending practices are identified, investment will be declined (in line with Revolution's Negative screening and exclusions).

Climate Change and Modern Slavery risk exposure assessment project

Revolution has commenced a portfolio-wide project to assess climate change and modern slavery exposure, with initial focus on corporate borrowers. Since 2022, climate change and modern slavery have been considered as part of the overall ESG assessment at the time of underwriting for every investment. This project aims to collect and analyse related information to understand all corporate borrowers, including legacy assets and developments in practices, to form a view on the Fund's exposure to these systemic risks. Revolution has sent out questionnaires and commenced its engagement efforts. This work is underway, and Revolution plans to report on its outcomes at the conclusion of the project. Revolution also aims to extend its work to asset backed securities (ABS) issuers as a second phase of the project.

Sustainability-linked loans (SLL)

Revolution continued to support sustainability-linked loans and ESG incentivised structures in its origination.

During the year, Revolution participated in a landmark SLL syndication of data centre operator AirTrunk. The A\$4.6bn SLL has set industry benchmarks in sustainable financing including as the largest SLL for a data centre operator globally and through a number of innovative and new key performance indicators (KPIs). AirTrunk's SLL links the company's financing to meaningful and ambitious environmental and social commitments. The KPIs established as part of this SLL include carbon usage effectiveness (CUE), operating power usage effectiveness (PUE), operating water usage effectiveness (WUE), gender diversity and gender pay equity. It is the first SLL to utilise a CUE metric, and therefore the first to combine CUE, WUE and PUE ensuring the highest level of environmental transparency and accountability for a data centre operator. The SLL also represents the first publicly known financing by a data centre company to incorporate a gender pay equity target, reflecting AirTrunk's commitment to diversity, equity and inclusion. AirTrunk plans to invest all margin incentives from the SLL into social impact initiatives aligned to its focus areas.

Additionally, Revolution has led and arranged financing structures with ESG-linked margin incentives across other transactions, including its most recent commitment to debt recovery specialist, Pioneer.

Industry involvement and contribution

Revolution continued its involvement in the ESG Working Group established by the Australian Securitisation Forum (ASF) specifically to improve the quality of data collection and disclosure in Australian ABS transactions. Additionally, Revolution has contributed to several industry committees, roundtables, conferences and peer-to-peer sharing across a wide range of ESG topics and issues.

More information

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Web: revolutionam.com.au

Important Information

Revolution continues to be a signatory of PRI and a signatory to ESG Statement in Credit Risk and Ratings. Revolution also conducts a review of its ESG Policy on an annual basis. The ESG Policy was last reviewed in May 2024.

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