Devlin Mambo Research Report

Availability of ESG information within the breweries sector to satisfy SFDR requirements and SASB risks

Version 1

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Contents

1 Introduction

ESG is a key discussion point within the investment management industry. It affects the entirety of the investment process, which includes investment managers, their clients, service providers and investee firms. National targets, investor emphasis and regulatory requirements are all driving the focus on creating sustainable industries.

With increasing requirements to report on factors as wide-ranging as wastewater management and human rights, **investment managers need to know more about industries and firms they choose to invest their clients' money in**. However, the information available to satisfy their sustainability risk assessments is not readily available.

Purpose

The purpose of our research is to identify **the availability and accessibility of ESG information within the UK brewery industry** and ascertain if the information published is sufficient to satisfy the reporting requirements required for the **Sustainable Finance Disclosure Requirements (SFDR)** [1]. We also explore whether the published information readily addresses the common ESG risks inherent in the sector, with reference to the **Sustainable Accounting Standards Board (SASB) Materiality Map**[2]**.** This research complements the research we completed in 2021 which **explored data sources' limitations in integrating ESG into the investment process.**

2 Research summary

This report looks at the availability of information required to satisfy investment managers' information requirements in managing their portfolios in line with disclosure requirements under SFDR, specifically from brewers. It also examines whether sustainability risk management practices within the brewery sector cover the material/inherent risks identified within the SASB Materiality Map. The brewery sector was chosen for this research due in part to the large number of brewers in the UK, some of which attract significant investment from both retail and institutional clients.

Six breweries of varying sizes were researched, from craft breweries to £2bn brands. The sample size provided us with valuable insights on the nature of sustainability practices, the accessibility of information that support such practices, and areas which brewers focus on.

[1] SFDR Level 2 RTS, https://www.eba.europa.eu/sites/default/documents/files/document_library/Publications/Draft%20Technical%20Standards/2021/962778/JC%202021%2003%20-%20Joint%20ESAs%20Final%20Report%20on%20RTS%20under%20SFDR.pdf

[2] SASB Materiality Map, Exploring Materiality - SASB

The sustainability risk issues covered in the SASB Materiality Map are largely aligned with SFDR; however, SFDR does cover the following issues that are not included under SASB:

1. Biodiversity – This relates to activities negatively affecting biodiversity-sensitive areas;
2. Hazardous waste emissions; and
3. All social and employment matters under SFDR.

Conversely, there are also some issues covered in the SASB Materiality Map that are not included under SFDR. These are:

1. Selling practices and product labelling;
2. Product design and lifecycle management; and
3. Materials sourcing efficiency.

It is our expectation that, regardless of differences in sustainability risk focus between SASB and SFDR, analysis of all these risks is included by investment managers in their stock selection process and ongoing management.

Below is a summary of our findings based on information that we found independently, without input from the brewers we researched. Our findings are grouped into four main themes.

Theme 1 – Financial impact

Most of the sustainability risk areas focused on had a direct financial impact on the brewers. For example, efforts and innovation regarding the recapture carbon dioxide released during the production process could have been triggered by the need to cut on purchasing carbon dioxide elsewhere. This showed that brewers are likely to act on sustainability issues if they can identify a direct profit and loss impact to their businesses, although the extent cannot be quantified.

Theme 2 – Information standardisation

This was the most prevalent theme. We **did not identify a common standard** for most of the sustainability information required under SFDR. For example, some brewers state the volume of carbon emissions saved whereas other state the percentage of carbon emissions reduced (no common denominator).

We also identified **different interpretations of terminology** as used by brewers and SFDR. For instance, with reference to addressing biodiversity issues, some brewers address their impact through reforestation, whereas SFDR requires investment managers to capture their impact on biodiversity-sensitive areas. Standardisation of terminology through a coordinating global body would prove valuable here; however, in the absence of this, investors and investee firms will need to "talk" to ensure terminology is not misinterpreted.

Information reported is also disparate between firms. Our findings suggest that information is disclosed on areas where a brewer displays good practice or awareness. Our analysis of information required for environmental issues highlighted information gaps for each issue in scope.

Lastly, the focus on achieving carbon neutrality is resulting in some brewers purchasing large pieces of land to offset their carbon emissions. Whilst this approach can achieve desired effect by brewers, **offsets take away from focusing on the carbon emissions resulting from the production process** (Scope 1, 2 and 3 emissions).

Theme 3 – Accessibility

Limited information is publicly disclosed to satisfy SFDR or SASB risk issues. Where information is published it is often not done so in 'easy-to-find' sections or intuitive areas of the website. This meant a lot of time was spent going through the website to find the information. For an example, 33% of brewers published sustainability-related information on their blogs.

It should also be noted that when ratings agencies conduct stock assessments, unavailability of key ESG information will result in poor ESG scores being awarded to the investee firms. This will likely decrease the investor pool for such stock and perhaps impact the share price too.

Theme 4 -Transparency

Sustainability practices and their governance are not clearly outlined by brewers. For example, there are brewers pledging to be carbon neutral in 2022 without disclosing a transparent approach to achieving such ambitious targets. We expect brewers stating such intentions to publicly share information that adds credibility to their statements. This will also address market concerns associated with miscommunication and greenwashing.

Our observations have been used to inform a set of recommendations that will assist in sourcing credible ESG information and meeting information requirements of investors.

3 ESG risks in the brewery sector

To assess the ESG risks, we have used the 14 mandatory indicators in the SFDR framework, as well as the industry-specific risk areas outlined by the SASB Materiality Map, as a basis for our research. These are outlined in the table below, separated into the E, the S and the G.

	SFDR Mandatory Indicator	SASB Risk Area
Environmental (E)	**Greenhouse gas emissions**	Energy management
	Carbon emissions	
	Carbon footprint	
	Greenhouse gas intensity of investee companies	
	Solid fossil fuel sector exposure	
	Relevant energy performance	
	Share of non-renewable energy consumption and production	
	Energy consumption intensity per high impact climate sector	
	Biodiversity	N/A
	Activities negatively affecting biodiversity-sensitive areas	
	Water	Water and wastewater management
	Emissions to water	
	Waste	
	Hazardous waste ratio	
Social (S)	**Social and employee matters**	N/A
	Violations of UN Global Compact principles and Organisation for Economic Cooperation and Development (OECD) Guidelines for Multinational Enterprises	
	Lack of processes and compliance mechanisms to monitor compliance with UN Global Compact principles and OECD Guidelines for Multinational Enterprises	
	Unadjusted gender pay gap	
	Board gender diversity	
	Exposure to controversial weapons (anti-personnel mines, cluster munitions, chemical weapons and biological weapons)	
	N/A	Selling Practices & Product Labelling
Governance (G)	N/A	Product Design & Lifecycle Management
		Supply Chain Management
		Materials Sourcing & Efficiency

Table 1 – Outline of SFDR mandatory indicators and the SASB Materiality Map risk areas for brewers

As you can see in Table 1 above, SFDR covers the E and the S more rigorously than the SASB Materiality Map, and it covers a wider range of subjects in more granular detail. The G is not explicitly covered by SFDR; however, it is covered to some extent by the SASB Materiality Map. 50% of the SASB-related risk issues are governance related.

There are a few areas where focus on environmental issues overlaps between SFDR and the SASB Materiality Map. For the purposes of this study, we have determined that the rather broad title of "energy management" within the SASB Materiality Map covers the range of SFDR indicators under "greenhouse gas emissions" and "relevant energy management". Similarly, the SFDR's "water" indicators are aligned with SASB's "water and wastewater management" focus area.

With regards to the S and the G, the SASB Materiality Map highlights different focus areas to those mandated by the SFDR. As such, we have looked at those separately.

4 Our approach

The output from our research is based **solely on information that is available in the public domain**. Our efforts to contact brewers for further information were unsuccessful. For each brewer, we sought to find information on the mandatory SFDR indicators and SASB Materiality Map's risk areas (highlighted in Table 1).

Sources of information included but were not limited to:

- Information published on websites (or parent group websites), such as:
  - Policy documents;
  - Impact reports; and
  - Blog articles;
- Media and news articles; and
- Glassdoor figures.

We then evaluated the information to see if it was sufficient to address the sustainability risk areas per SFDR and the SASB Materiality Map. We also compared the information against the other brewers, drawing conclusions about the sector as well as the individual companies

5 The E - Environmental considerations

The E factors were the most frequently discussed amongst the brewers and the information published was broad.

Table 2 below shows the E factors analysed by SFDR and the SASB Materiality Map.

	SFDR Mandatory Indicator	SASB Risk Area
Environmental (E)	**Greenhouse gas emissions**	Energy management
	Carbon emissions	
	Carbon footprint	
	Greenhouse gas intensity of investee companies	
	Solid fossil fuel sector exposure	
	Relevant energy performance	
	Share of non-renewable energy consumption and production	
	Energy consumption intensity per high impact climate sector	
	Biodiversity	N/A
	Activities negatively affecting biodiversity-sensitive areas	
	Water	Water and wastewater management
	Emissions to water	
	Waste	
	Hazardous waste ratio	

Table 2 – Outline Environmental indicators under SFDR and SASB Materiality Map

Our primary sources of information on E factors were Impact Reports or Corporate Social Responsibility (CSR) Reports published on company websites. Information was also occasionally found embedded in blog articles.

Quantitative information is often available but difficult to use for direct comparisons. For example, some brewers state the volume of carbon emissions saved whereas other state the percentage of carbon emissions reduced. This makes any direct comparison impossible if there is no common denominator.

All firms described (**qualitatively**) initiatives they were taking to improve their business model and processes to become more sustainable. Examples include choosing certain types of packaging or sourcing produce from certain types of farms. Direct comparisons are difficult here too as firms have different business models and supply chains.

Figure 1 below summarises the makeup of our findings. It shows the percentage of firms in our sample that published information on greenhouse gas (GHG) emissions, energy performance, biodiversity, and water. The results are split between firms providing:

i. A combination of qualitative and quantitative information
ii. Purely qualitative information
iii. No information

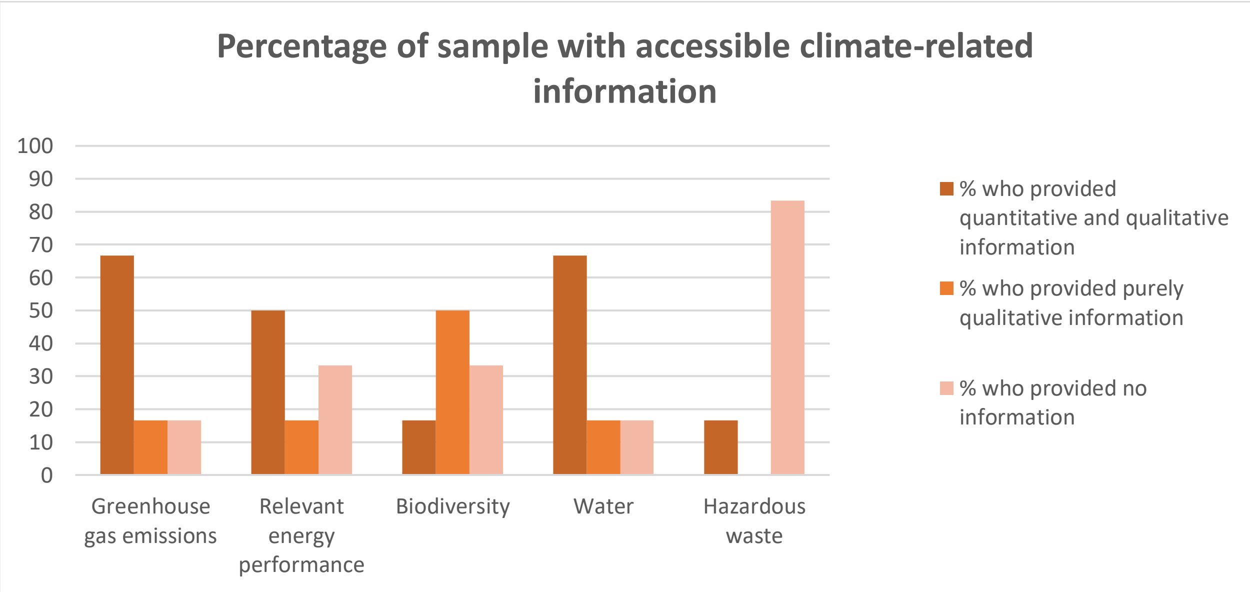

Fig. 1 – type of information available on environmental factors

Below we will outline more specific, granular findings for each topic.

5.1 Greenhouse gas emissions

SFDR requires firms to publish information on:

- Carbon emissions
- Carbon footprint
- Greenhouse gas intensity of investee companies
- Solid fossil fuel sector exposure.

We found that firms were publishing information on carbon emissions and their carbon footprint. The latter two areas focus on portfolios, rather than individual investee companies, and as such were not considered in this study.

5.1.1 Carbon emissions

For the purposes of this report, we are defining "carbon emissions" as the brewer's Scope 1 emissions (defined as those directly generated by company-owned and controlled resources.)

66% of firms published some metrics about greenhouse gas emissions.

83% of breweries within our sample provided information explaining how they have tried to reduce their carbon emissions. Examples include:

- One developed a fleet of electrically-powered vehicles, cutting emissions by 4 tonnes per truck and reducing fuel consumption by 5%.
- 33% have, or are developing, a carbon capture facility to ensure that the carbon dioxide produced in the brewing process is not released into the atmosphere. This can then be reused to carbonate beer, for example. One brewer stated that their facility saves the environment the equivalent of 100,000kms of road transport emissions annually.
- Two companies have set targets for becoming "carbon-neutral" – that is, a company that does not contribute any carbon emissions to the atmosphere – by 2022. One of these brewers has not published any information on the progress made so far.
- One company has set a target of reducing the greenhouse gas emissions by 25% per beverage across the supply chain by 2025.

The smallest, a craft brewery, did not have any information publicly available on their approach to addressing carbon emissions.

5.1.2 Carbon footprint

For the purposes of this report, we are defining the "carbon footprint" as the total of all emissions the brewer incurs, including Scopes 1 (as above), 2 (emissions from purchased or acquired steam, electricity, heat and cooling) and 3 (emissions incurred by the supply chain).

Of the 67% of firms who published metrics on greenhouse gas emissions, **each discussed the breakdown by Scope**, to varying degrees of granularity.

50% of the breweries were owned by parent companies who published sustainability information for the group of companies.

- One parent company published historical emissions data, split into Scopes 1 and 2 and including historical comparisons over four years.
- Another brewery's parent company had published emissions data split by Scope and region. They also state that 80% of emissions come from the supply chain.
- Another parent company broke down emissions by emission source (i.e. vehicles, natural gas) and Scopes 1 and 2.

One large, independent brewery had commissioned climate experts to help verify their findings and develop a comprehensive impact report. As such, the information was robust and included, for example, the segmentation of Scope 1, 2 and 3, as well as historic information.

5.2 Relevant energy performance

Energy management is covered by the SASB Materiality Map; however, the SFDR requires a more prescriptive breakdown of this information into:

- The share of non-renewable energy consumption and production; and
- Energy consumption intensity per high impact climate sector.

Given that the latter is focused on portfolios rather than individual investee companies, our research only focuses on the share of non-renewable energy consumption and production.

67% of brewers published some quantitative and/or qualitative information about their energy makeup, although none broke it down completely.

- One brewer noted that 2.4 megawatts of clean energy used in production came directly from local wind turbines. They also published information on their aggregate energy consumption from the previous year, but do not provide a breakdown of the energy source.
- Another brewer who provided specific quantitative information states that their brewery has been powered by 100% renewable energy since April 2021.
- The parent company of one brewery has set a target of 2025 for 100% renewable energy usage, although there is no mention of how much they currently use and how they will achieve their target.

Some brewers have commented on innovative technologies to increase energy efficiency, and examples are also given of how waste products are reused to create energy. This is covered in more granular detail in the "Governance" section of this report.

33% of brewers did not publish any information about their energy usage.

5.3 Biodiversity

SFDR requires firms to publish information on:

- Activities negatively affecting biodiversity-sensitive areas.

However, biodiversity issues are not covered by the SASB Materiality Map.

Biodiversity issues are concerned with preserving the world's natural ecosystem and all organisms that live on our planet. SFDR attempts to capture information on the share of investments in investee companies with sites or operations located in or near biodiversity-sensitive areas, where activities of those investee companies negatively affect those areas.

50% of brewers mentioned biodiversity directly. Of these, each provided qualitative information to support their statements.

- One brewer highlighted the importance of bees and pollinating insects in the orchards which supply their cider and have made a "commitment to protect the biodiversity of bees", working with third parties on protection and promotion of the issue.
- One had purchased its own forest for reforestation, carbon capture and biodiversity-related reasons.

50% of brewers make reference to deforestation. All list qualitative ways of negating its impact (by planting trees) but only one brewer provides quantitative information on the impact of these reforestation efforts.

- 33% of brewers pledged to plant one tree for each of a named beer sold. There are no figures readily published to show the number of trees planted, where they are planted or how their survival is ensured. These breweries **did not cite their reasoning for planting these trees**, whether it be for carbon dioxide capture, reforestation, or any other reasons.
- One brewer bought its own woodland and declared that it will have planted over 3 million trees by 2025; **it cites the need to "restore our natural carbon sinks" as a partial reason for this**.

5.4 Water

Water issues are covered by both the SASB Materiality Map and SFDR, the latter of which mandates disclosures on:

- Emissions to water.

Emissions to water are not specifically disclosed. Some brewers describe how they are managing their water usage, and by proxy the emissions they produce. There are however no figures disclosed on emissions to water.

Instead, we found that brewers focused on different water management practices. Areas published included water usage, water sourcing and wastewater management; these align more closely with the SASB Materiality Map.

Water usage was mentioned frequently. **66% of brewers state how they have been able to reduce their water usage.**

- One brewer states volume of water saved during production, as well as financial savings gained from efficient water usage.
- One brewer states that it managed to reduce total water usage by 9.39% since 2017.
- One brewer details water usage in m^3 over 2020 and 2021, as well citing a usage reduction of 11.2%.
- One brewer has published a chart demonstrating water usage reduction over five years, starting in 2016. They state that they have reduced water usage by 37.4% over these five years.

50% of brewers highlighted how wastewater and other pollutants were managed. Examples included:

- A brewer that stated 97% of its wastewater is treated by micro-organisms; the remaining 3% is treated "via municipal services with written agreements with authorities".
- Another brewer states that they have developed anaerobic digestion plants to treat wastewater organically themselves, and state that this has improved the quality of wastewater discharged by 90%.

- One states that they, too, have built a processing plant for dealing with wastewater, stating that they want to pump surplus gas produced in the water treatment process back into the UK grid. There are no numbers cited about the plant.

33% disclosed their water sources. This included withdrawals from "surface water, ground water and third-party sources", according to one brewer; another got the water for their beer from a local Scottish loch.

16% of brewers' charitable endeavours were centred on providing communities with access to clean water. Examples included the repairing of boreholes in Malawi; their Impact Report details the lives impacted through their projects. This brewer is a "Best for the World" B Corp, ranking in the top 5% of B Corps specifically due to their clean water efforts.

The smallest brewer did not discuss water.

5.5 Waste

The SASB Materiality Map highlights wastewater as an area of concern, and this has been discussed already within this report. The SFDR, however, mandates disclosures on:

- Hazardous waste ratio.

This metric is meant to define the tonnes of hazardous waste produced by investee companies. However, we found that, whilst firms did discuss waste, recycling was frequently discussed, as was wastewater treatment (see above) and the process of reusing waste materials (see the Governance section below). **None made mention of hazardous waste specifically**.

That said, there was one case study of note. One brewer in our sample accidentally released 8,000 tonnes of caustic waste into the local sewage treatment system due to a systems failure, resulting in the death of the bio-organisms used to treat sewage. This caused an overspill into the local bay and affected the local ecosystem. The brewery was fined £10,000 after an Environmental Pollution Incident (EPI) was announced, causing reputational damage. **This reputational damage, as well as damage to the environment, is practically impossible to quantify.**

6 The S - Social considerations

Social factors were the second most frequently discussed amongst the brewers.

Table 3 below shows the coverage of social factors under the SASB Materiality Map and SFDR. As can be seen, these do not overlap in the same way as the environmental factors.

	SFDR Mandatory Indicator	SASB Risk Area
Social (S)	**Social and employee matters**	N/A
Social (S)	Violations of UN Global Compact principles and Organisation for Economic Cooperation and Development (OECD) Guidelines for Multinational Enterprises	N/A
Social (S)	Lack of processes and compliance mechanisms to monitor compliance with UN Global Compact principles and OECD Guidelines for Multinational Enterprises	N/A
Social (S)	Unadjusted gender pay gap	N/A
Social (S)	Board gender diversity	N/A
Social (S)	Exposure to controversial weapons (anti-personnel mines, cluster munitions, chemical weapons and biological weapons)	N/A
Social (S)	N/A	Selling Practices & Product Labelling

Table 3 – Social indicators under SFDR and the SASB Materiality Map

Information on gender-related issues was more often quantitative; human rights and other social factors were more often qualitative.

Information was also occasionally found on blogs; in one instance a smaller brewer's impact and diversity reports were seen exclusively uploaded onto their blog. The smallest brewer did not upload reports at all, but did use its blog to discuss, for example, its charitable endeavours.

Our research does not look in depth into brewers' "exposure to controversial weapons" as we have made the assumption that it is of minimal impact within this specific sector; the brewers' core operations should not be affected by this to any great degree.

6.1 Social and employee matters

6.1.1 Violations of UN Global Compact principles

The UN Global Compact principles are focused around:

- Human rights
- Labour (and modern slavery)
- The environment (which we have discussed in the "environmental" section of this report) and
- Anti-corruption and bribery.

66% of brewers published Modern Slavery policies which covered these topics, and these could be found on their websites or the websites of their parent company. The brewers that did not publish policies on this were comprised of the smallest brewers in our sample.

6.1.2 Compliance mechanisms for UN Global Compact principles

Compliance mechanisms for UN Global Compact principles is required for Multinationals. 50% of our sample included firms that are multinationals. We could only infer that policies published by these firms were sufficient to address compliance requirements under the UN Global Compact principles.

6.1.3 Gender pay gap

This is a mandatory disclosure requirement under SFDR.

In the UK, gender pay gap disclosures are mandatory for companies with over 250 employees, and this information can be found on gender-pay-gap.service.gov.uk. Companies have the option to publish their own report alongside the mandatory requirements on the website.

Table 4 below demonstrates, on a side-by-side basis, the spread of information made publicly available by the brewers under study.

<table>
<tr><th>Brewer</th><th>Over 250 employees?</th><th>Brewer belonging to parent company?</th><th>Published on gov.uk?</th><th>Provided extra report on gov.uk?</th><th>Median pay gap?</th><th>Mean pay gap?</th><th>Median gender bonus gap?</th><th>Mean gender bonus gap?</th><th>Percentage of men and women receiving bonuses?</th></tr>
<tr><td>Brewer 1</td><td>Yes</td><td rowspan="3">Yes</td><td rowspan="4">Yes</td><td rowspan="3">Yes</td><td>Yes</td><td>Yes</td><td>Yes</td><td>Yes</td><td>Yes</td></tr>
<tr><td>Brewer 2</td><td>Yes</td><td>Yes</td><td>Yes</td><td>Yes</td><td>Yes</td><td>Yes</td></tr>
<tr><td>Brewer 3</td><td>Yes</td><td>Yes</td><td>Yes</td><td>Yes</td><td>Yes</td><td>Yes</td></tr>
<tr><td>Brewer 4</td><td>Yes</td><td rowspan="3">No</td><td>No</td><td>Yes</td><td>Yes</td><td>Yes</td><td>Yes</td><td>Yes</td></tr>
<tr><td>Brewer 5</td><td>No</td><td rowspan="2">No</td><td rowspan="2">N/A</td><td>No</td><td>No</td><td>No</td><td>No</td><td>No</td></tr>
<tr><td>Brewer 6</td><td>No</td><td>No</td><td>No</td><td>No</td><td>No</td><td>No</td></tr>
</table>

Table 4 - Gender pay gap disclosures

50% of brewers published optional comprehensive data pay gap reports online to support the basic mandatory disclosures. This accounts for 75% of the brewers who were required to report basic figures on gov.uk by law (those with over 250 employees); each of those who did so was a parent company.

Where the brewer is part of a parent group the reported information is not segmented by individual brewer, instead covering the parent company as a whole.

6.1.4 Board gender diversity

67% of brewers published information on female representation and board gender. 50% had their board members listed on their websites, making it relatively easy to access.

Table 5 below outlines the nature and location of disclosures made by those under study.

Brewer	Board gender representation information explicitly published?	Where, and what info?
Brewer 1	Yes	UK gender pay gap report; 36% in senior management board, 33% in next level down (up 9% from previous year)
Brewer 2	No	Board members listed on website – women make up 25%
Brewer 3	Yes	UK gender pay gap report; UK senior management roles occupied by 50% women. The makeup of the "board" is not disclosed. Global ESG report; 5 of 15 board members (33%) are women.
Brewer 4	No	No gender pay gap or diversity report (basic mandatory figures on the former on gov.uk).
Brewer 5	Yes	Diversity and inclusion report; targets listed for a number of areas, including female representation, with annual progress updates promised. 2 women added to board, but no board ratio disclosed.
Brewer 6	No	No gender pay gap or diversity report.

Table 5 - Board gender diversity disclosures

As highlighted in Table 5, direct comparisons on female board representation are difficult to make due to a number of factors, including:

- Discrepancies between domestic and global disclosures;
- Lack of a consistent definition of "senior management", which some companies discuss as opposed to the "board";
- Discrepancies in the type of disclosures (numbers or percentages, UK specific or global); and so on.

Notable case studies around board gender representation include:

- One of the parent companies is on the FTSE 100 Index. Due to poor female board representation, they were one of 69 companies the Investment Association wrote to in 2019 about the need to do better.
    - This has improved since, according to their 2020-2021 gender pay gap report.
- One parent company published a table in its 2020 ESG report breaking down gender and nationality demographics across their global workforce over the previous four years; two of the categories they discussed were female representation amongst the "top five" and "top three leadership levels".
    - These leadership levels and roles were not disclosed with any specificity.
    - Female representation was 24% for the top five levels and 14% for the top three in 2020.

There is recognition by brewers of the need to be more diverse and inclusive; several brewers have made commitments towards improving the composition of their leadership team. Some have also set specific targets on this.

6.2 Selling practices and product labelling

This is not an area for disclosure mandated by SFDR, but an area highlighted by the SASB Materiality Map. According to the map, this encompasses issues that may arise from a failure to manage the transparency, accuracy, and comprehensibility of marketing statements, advertising and labelling.

We found that brewers typically do not publish policies about their selling practices and the labelling of products. Each brand, however, had a strong sense of brand and visual identity.

A case study of one brewer revealed the following:

- A beer was mislabelled as a "health drink"; the Advertising Standards Agency (ASA) insisted that the brewer retract this statement.
- The same brewer falsely advertised rare cans as being made of "solid gold" and the ASA concluded that this case constituted misrepresentation.

According to the ASA, these are examples of "misleading" selling practices which led to "unnecessary disappointment". The events occurred in short succession and have **caused reputational damage to the brewer,** although we could not quantify the commercial impact that resulted.

6.3 Other social factors

Whilst not addressed within SFDR or the SASB Materiality Map, charitable endeavours and work culture were discussed by brewers.

6.3.1 Charitable endeavours

100% of brewers discussed charitable endeavours. The focus and size of charitable endeavours differed.

6.3.2 Work culture

Understanding work culture may be a good indicator on how stable a firm is. Culture has many impacts which include staff turnover and ultimately performance.

Assessing culture can be difficult but there are some indicators that are useful, such as hours staff work and employee feedback. However, such indicators are not available in the public domain and this makes sourcing such information a challenge without enhanced engagement with the investees.

In one notable case study, previous employees of one of the breweries had written an open letter about 'their toxic work culture and its impact on their mental health'. The accusation caused reputational damage to the firm.

Public information sources such as GlassDoor are popular but can be unreliable. These figures are provided by employees, who rate a company out of five; reasons to exercise caution regarding these figures include but are not limited to the fact that:

- There are no measures in place to verify whether an employee has actually worked at the company; and
- Overwhelmingly positive or negative experiences may bias the people who feel strong enough to comment.

The aforementioned brewer, whose former staff cited a “culture of fear”, only scored 0.2 less on GlassDoor than the brewer with the strongest wellbeing and mental health policies (3.2 to their 3.4, as of the date of publication).

7 The G - Governance considerations

Governance was, by quite some margin, the most infrequently discussed of the E, S and G amongst the brewers.

Table 6 below shows the governance factors as defined under SFDR and the SASB Materiality Map.

	SFDR Mandatory Indicator	SASB Risk Area
Governance (G)	N/A	Materials Sourcing & Efficiency
		Product Design & Lifecycle Management
		Supply Chain Management

Table 6 - Governance indicators under SFDR and the SASB Materiality Map

Under SFDR, there are no mandatory governance disclosure requirements; however, indicators for “social and employee matters”, which in this report are discussed within the “social” section, cover some of the governance matters too.

There is also a general expectation that investment managers offering financial products that promote environmental or social characteristics should have a policy to assess governance practices of the investee companies. The policy should cover sound management structures, employee relations, remuneration of staff and tax compliance.

However, half of the risks highlighted by the SASB Materiality Map as being applicable to the alcoholic beverages sector are governance related. These are examined in further detail below.

7.1 Materials sourcing and efficiency

Several brewers demonstrated strong governance practices in this area, alluding to ways in which they are maximising the returns they receive from their raw materials. **66% stated that they reused waste by-products generated during the beer-making process**. The process is outlined in the flow chart below (Fig. 2). By reusing these waste materials brewers have been able to minimise (or potentially mitigate) physical waste disposal; one brewer stated that they were able to reuse over 99% of waste.

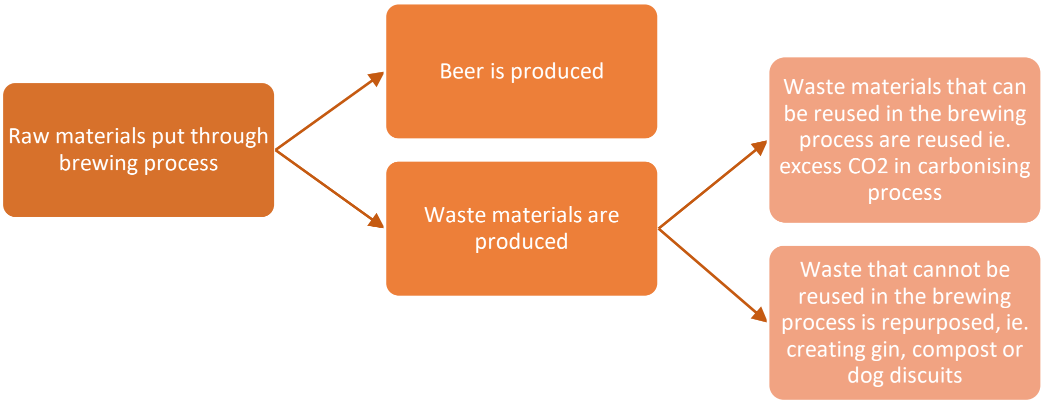

Fig. 2 – waste recycling and reusing process used by some brewers

Examples of the efficiency in resource usage include:

- Reusing 95% of waste carbon dioxide to carbonate beer;
- Turn excess or unusable beer into gins and vodkas; and
- Reuse waste biogas to provide 7.7% of heating requirements.

33% of brewers state that they have developed their own farms in order to limit the requirement to source materials externally. This is unlikely to be something smaller breweries can compete with.

7.2 Product design and lifecycle management

The focus of product design and lifecycle management, according to the SASB Materiality Map, is to capture the impact related to packaging, distribution and other environmental and social externalities that may occur during the product's use-phase or end of life.

Packaging was mentioned by 100% of the brewers we studied, and all considered recycling to be of importance to them.

- One brewer:
    - Stopped using plastic four-ring packaging in 2018 and estimates that they have saved 250,000 tonnes of plastic since.

    - Moved away from glass packaging to aluminium packaging in 2019, stating that it is more recyclable and that they have saved carbon emissions due to transportation. The emissions figures are not stated.
- One brewer has stated that they want 100% of packaging to be returnable or made from majority recycled content by 2025. They state that they achieved a 99.2% recycling rate globally in 2020.
- Two brewers have encouraged consumers to use “growlers”, reusable containers, to fill up their beer in their own venues, eliminating the need for single-use packaging.

Lifecycle management, as demonstrated in Fig. 2 above, is an area mentioned by many brewers. By exercising processes to maximise the efficiency of their resource usage, they are then able to focus on reusing waste to create by-products.

7.3 Supply chain management

Supply chain management, as defined by the SASB Materiality Map, seeks to address issues associated with environmental and social externalities created by suppliers. Issues covered include environmental responsibilities, human rights, labour practices and so on.

This area is more commonly discussed by brewers. Information was almost exclusively found in impact and ESG reports published on the brewers’ websites.

66% of brewers state the implications of their supply chain on their carbon footprint.

- One stated that they had taken Scope 3 carbon emissions into account when setting Sustainability Goals, although they did not consider suppliers when setting KPIs on water and energy usage.
- One pledged to reduce Scope 3 carbon emissions by 25% in 2030 but there was no information to support how this would be achieved.
- One brewer stated that its production is fully distributed amongst 154 breweries, and that this cuts its carbon footprint significantly.
- One brewer published a comprehensive report in which Scope 3 emissions were published.

50% of brewers mentioned governance practices they had in place to mitigate supply chain risks. Examples of practices followed included:

- Auditing suppliers at the beginning and throughout the course of their relationship.
- Outsourcing logistics to a global leader in the space, accompanied by a high-level environmental policy with which it expects suppliers to comply. It is unclear to what extent this has been seen and understood by suppliers, or to what extent it would mitigate risks in reality.
- One brewer listed “an empowered supply chain” as one of its sustainability goals. They hope that this supply chain can then have an environmental, economic and social impact, as well as becoming more resilient in the face of climate change. They provide training to their suppliers in order to achieve this.

The smallest brewer, however, did not mention its supply chain at all.

8 Observations

As part of our research, we identified the different areas of brewers' sustainability focus. We compared brewers' focus on sustainability to the information required by investment managers under SFDR and analysed whether information published by brewers readily addresses the common ESG risks inherent in the sector, with reference to the Sustainable Accounting Standards Board (SASB) Materiality Map. Our findings are grouped into four themes below.

Theme 1 - Financial Impact

- Sustainability risk focus within brewers is highly aligned with the risk areas covered by SASB. Most of the sustainability risk areas focused on had a direct financial impact on the brewers. For example, efforts and innovation regarding the recapture of carbon dioxide released during the production process could have been triggered by the need to cut on purchasing carbon dioxide elsewhere. In addition, it also could have been in the brewers' self-interest to focus on biodiversity, as a failure to do so would directly lead in a low yield of brewing inputs from their farms.

Theme 2 – Information standardisation

- Some brewers have Corporate Social Responsibility (CSR) reports published that contain relevant sustainability information; however, the information reported is not standardised, making it difficult to assess and compare. For example, some brewers state the volume of carbon emissions saved, whereas other state the percentage of carbon emissions reduced. This makes any direct comparison impossible if there is no denominator.
- Some brewers address their impact on biodiversity through offsets, including activities such as reforestation on land not used for their operations. In contrast, SFDR attempts to capture the biodiversity impact on the site where firms' operations are located, or on biodiversity-sensitive areas. This represents how terminology issues are impacting the interpretation of how to address biodiversity.
- Information disclosed by brewers is disparate. Our findings suggest that information is usually disclosed on areas where a brewer displays good practice or awareness. Our analysis of information required under the E highlighted information gaps for each issue in scope. For example, none of the brewers published information on hazardous waste management. This is an area of focus highlighted by both SFDR and SASB.
- Some brewers are focusing on carbon offsets that will be achieved through the acquisition and reforestation of land. Whilst this approach does offset carbon overtime, it may not lead better sustainability outcomes in the long-term; if many investee firms in other industries took this approach too, there may not be enough land, and it is impractical to expect this to be commonplace. This may lead to operational practices that are carbon intensive.

Theme 3 – Accessibility

- Whilst some brewers have sustainability reports published, they are often not readily accessible. Where information is published it is often not done so in 'easy-to-find' sections or intuitive areas of the website. This meant a lot of time was spent going through the website to find the information. For an example, 33% of brewers published sustainability-related information on their blogs. Typically, blogs have the potential to be seen as relatively informal and therefore can be overlooked.

- Neither SASB nor SFDR address specific cultural aspects of a business, which can have a massive impact. A good work culture can lead to staff being loyal to the firm, leading to a low staff attrition rate. On the contrary, a bad culture can lead to a high staff turnover and result in an unstable operation. Very often it is difficult for external parties to gain meaningful information relating to a firm's culture.

Theme 4 - Transparency

- The larger brewers provided significantly more information on the E, S and G than their smaller counterparts. This was expected as it also aligns with the regulatory reporting obligations for larger brewers to provide information on areas such as gender pay gap and diversity. Even though there is a requirement for larger firms to provide this information, some firms state in their diversity and inclusion report the number of women added to their board without making board composite information readily accessible.
- 33% of brewers publicly announced their intention to be carbon neutral in 2022; however, little information is provided regarding how this will be achieved. Whilst information accessibility is important, it is key that investee firms are transparent about how and when they will become carbon neutral. Given the widespread issue of greenwashing, an ability to outline your roadmap and momentum towards carbon neutrality will be positive and may also suggest how well and innovatively a business is run.

9 Recommendations

Following our observations, we provide our key recommendations below. These will assist in ensuring sustainability practices adopted by brewers also align with information requirements for investors. Developing a keen understanding of data availability and accessibility issues within different industries will be key for investment managers looking to avoid greenwashing and achieve portfolio mandate compliance. Our recommendations also assist brewers in reflecting on ways they can effectively communicate their approach to sustainability and access a wider capital base. These have been grouped into four themes.

Enhanced engagement

The below are areas where we believe enhanced engagement will benefit investment managers.

- Brewers' apparent sustainability focus areas seem to be issues that have a positive financial impact if attended to. It will be easier for investment managers to focus on such issues as a means of initial engagement as it appears that there will be immediate buy-in from brewers. What was not clear from our research was the short to mid-term profit and loss impact on initiatives undertaken, such as the carbon recapture process.
- With regards to the lack of standardisation of information, in the short-term (and to fulfil your information requirements as an investors) engagement will be necessary pending the roll out of national regulatory requirements that demand the disclosure of required information in a prescribed manner. This will impact corporates and listed companies in the short to mid-term to start with, so investors will need to engage more with firms in the interim.
- The sustainability information sought will differ between investment managers. Managers pursuing traditional investment strategies (characterised by managing products such as Article 6 funds under SFDR) will likely have less sustainability information requirements than a manager managing an Article 8 fund (a fund that promotes ESG characteristics in its investment objectives). This means managers of Article 8 products will need to engage more with investee firms to understand their sustainability standing, regardless of the size of the investee firm.
- To address terminology issues, investment managers will need to engage investee firms and clearly explain the biodiversity information being sought. It will also be useful for investment managers to understand where brewers are located and their biodiversity impact. Investment

managers may also have to consider if they have the appropriate knowledge to conduct a biodiversity impact assessment.

- The disparity of information published between brewers means that investment managers will need to enhance their engagement with firms in order to source the required information for fulfilling investment and regulatory information requirements. Investee firms can minimise client interaction by making such information available at the outset. Engagement with brewers will still be required as they may not necessarily be aware of the investment manager information requirements.

Improve accessibility of information

- Brewers are encouraged to ensure their information is accessible. Making sustainability information accessible, and even providing your stance on sustainability, will allow brewers to readily engage with customers and investors. In our opinion it is key for investee firms to communicate their approach to managing their sustainability risk exposure through policy publications or other means. It should also be noted that, when ratings agencies conduct stock assessments, unavailability of key ESG information will result in poor ESG scores being awarded to the investee firms. This will likely decrease the investor pool for such stock and perhaps impact the share price.

Increase transparency in reported information

- Just as in the case for publicly issued company accounts, it is key that investee firms are clear about their sustainability practices and that they are also transparent regarding how they realise them. Firms pledging to meet certain commitments such as carbon neutrality in 2022 should have a clear and auditable plan that can evidence their momentum towards carbon neutrality. This will also address market concerns associated with miscommunication and greenwashing.

Focus on the business model

- We believe carbon offsets through land acquisition and reforestation may be a viable short-term solution whilst firms earnestly look at innovative ways of creating business models that rapidly meet the global need to be carbon neutral. As evidenced by, for example, COP26, there is a global focus on achieving carbon neutrality by 2050. Some brewers are pledging that they will be carbon neutral in 2022 which suggests that business models are improving to meet the demands of a sustainable future.
- We encourage investors to understand the culture of firms they invest in. Whilst public information sources such as GlassDoor may be useful in providing information about a company's culture, care should be taken in making conclusions from such information. Investment managers can use indicators that provide insight into the stability of investee firms such as attrition figures and staff surveys to gauge cultural aspects of a firm.

We also urge investment managers to consider recommendations outlined in our earlier research titled '*Exploring data sources' limitations in integrating ESG into the investment process*'. Combining these two sets of recommendations will enhance outcomes and the robustness of your ESG framework.

10 ESG insights with Devlin Mambo

Devlin Mambo have a deep understanding of the challenges posed in integrating ESG into the investment process. Through interaction with firms providing ESG data services, we have appraised their approaches, capabilities and product development momentum.

Our interactions with investment managers in the UK, Europe and the US have provided us with insight on the challenges apparent when delivering a coordinated ESG strategy. Our research into sustainability focus areas by investee firms in multiple sectors has provided us with insight into information challenges within these sectors. Devlin Mambo has a deep understanding of the issues and a keen mind focused on forward-thinking, more robust solutions.

We see investee company engagement is the next key step required to reduce data gaps where the data vendors have gaps.

For further information on this research report, or how Devlin Mambo can help you, we would be delighted to arrange a discussion. Please do not hesitate to get in touch with any members of our team.

Our ESG services:

- Coordination and collation of your data requirements to achieve:
    - Your firm's strategy and ambition;
    - Regulatory requirements; and
    - Effective engagement with clients.
- Analysis and recommendation of data vendors with capabilities to support your investment approach and communication/reporting requirements.
- Market insight on practices adopted and vendor capabilities.
- Sustainability risk policy reviews.
- Assisting with investee firm ESG data gather.
- Support with the identification of MI that can feed into your governance framework.

Strategy → Policy Definition / Refinement → Risk Framework → Implementation

Our Team

Devlin Mambo is an investment management consultancy based in Edinburgh. Our client base represents over £1trn of assets under management globally and our role is to help our clients solve complex problems and deliver effective change.

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