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# Insights Into Sustainability in Australian Securitisation

INSIGHTS

Gryphon's 2024 ESG Originator Assessment reflects our continued commitment to ESG integration and stewardship in structured finance.



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Gryphon Capital Investments is a specialist investor in public and private Australian RMBS and ABS, and has been investing in RMBS and ABS on behalf of clients since Gryphon's inception in 2014. Gryphon Capital Investments was acquired by Barings in 2023.

## Investment Approach & Context

At Gryphon, we undertake ESG (Environmental, Social, Governance) integration and stewardship as part of our investment process, in alignment with the Barings firm-wide Sustainability and ESG Framework. The integration of financially-material ESG factors into investment decisions and meaningful engagement with issuers is predicated on the availability of robust ESG data and information.

Our proprietary ESG originator assessment is central to our approach to ESG integration and stewardship. This assessment, which comprises a comprehensive questionnaire and quantitative scoring system, enables us to collect detailed information tailored to the Australian landscape and the specific risks and opportunities in structured finance. A proprietary approach is required given the ongoing limitations of third-party data providers in this asset class. Of the 60 Residential Mortgage-Backed Securities (RMBS) and Asset-Backed Securities (ABS) issuers who came to market in 2024<sup>1</sup>, only 15 are covered by major ESG rating and data providers.<sup>2</sup>

## Assessment Update & Process

### QUESTIONNAIRE UPDATE

To ensure the ESG originator assessment remains relevant and comprehensive, we undertook a thorough review and update of the questionnaire content. This process involved engaging with a specialist external Australian sustainability consultant who conducted a detailed gap analysis and provided expert recommendations for updates.

New sections were introduced to cover emerging areas such as nature and sustainability-related governance practices. Additionally, numerous questions were added or revised to address identified gaps and reflect changes in the ESG, industry, and regulatory landscapes over the past two years. The updated questionnaire includes over 80 questions, capturing up to 350 data points per issuer.

**Figure 1: Gryphon's 2024 Originator ESG Questionnaire Sections**

Environmental	Social	Governance	Sustainable Finance
<ul style="list-style-type: none"> <li>• Environmental Reporting</li> <li>• Decarbonisation</li> <li>• Nature</li> </ul>	<ul style="list-style-type: none"> <li>• Labour Practice Indicators</li> <li>• Human Rights and Modern Slavery</li> <li>• Talent Retention</li> <li>• Health and Well-being</li> <li>• Financial Inclusion and Resilience</li> <li>• Responsible Lending and Servicing</li> </ul>	<ul style="list-style-type: none"> <li>• Corporate Governance</li> <li>• Sustainability Governance</li> <li>• Sensitive Sectors</li> <li>• Risk Management</li> <li>• Codes of Conduct</li> <li>• Policy Influence</li> <li>• Tax Strategy</li> <li>• Information Security</li> <li>• Anti-Crime Policy</li> <li>• Privacy Protection</li> <li>• Sustainability Initiatives and Platforms</li> </ul>	<ul style="list-style-type: none"> <li>• Retail Products</li> <li>• Corporate and Business Banking</li> <li>• Project Finance</li> <li>• Asset Management</li> <li>• Funding Sources</li> </ul>

Source: Gryphon Capital Investments. As of 31 March, 2025.

1. Source: Bloomberg. As of March 31, 2025

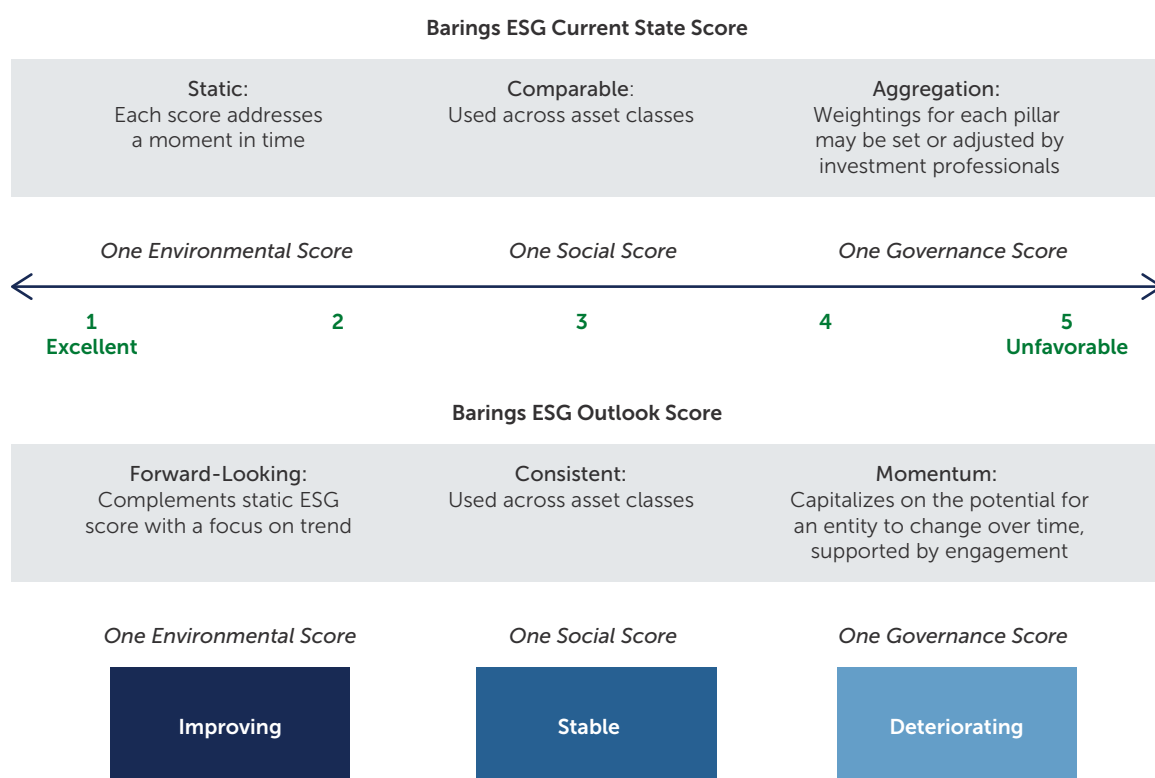
2. Source: Bloomberg, Morningstar Sustainalytics, MSCI, S&P Global. As of March 31, 2025

## SCORING UPDATE

The Barings ESG scoring framework includes two types of scores across the Environmental, Social and Governance dimensions: a Current State Score and an Outlook Score. The previous Gryphon originator assessment produced the equivalent of the Barings Current State Score. In this latest iteration, a new Outlook Score was developed in alignment with the Barings ESG framework. To facilitate meaningful Outlook Scores, the number of forward-looking questions in the questionnaire was significantly increased.

The overall Outlook Scores, like the existing Current State Scores, were derived through numerical scoring based on predefined rules at the question level, which were then weighted to produce dimension and overall scores. These scores were then categorised into “Improving”, “Stable” or “Deteriorating” based on set thresholds. Additionally, the quantitative scoring rules and weightings for the Current State scores were revised to reflect the updated questionnaire.

Figure 2: ESG Scoring Methodology



Source: Barings. As of March 31, 2025.

## QUESTIONNAIRE DISTRIBUTION

The updated questionnaire was distributed to 47 Australian RMBS and ABS issuers, including all originators that Gryphon currently has exposure to or anticipates future engagements with. We received 35 responses: 11 from Australian banks/Authorised Deposit-taking Institutions (ADIs) and 24 from non-bank lenders. This high response rate yielded valuable insights into the sustainability practices across the industry. Of the 29 issuers who completed the questionnaire in 2022, 21 participated again in 2024, enabling us to track progress and identify trends over time.

*“We anticipate further environmental progress as mandatory sustainability reporting is introduced. Notably, 35% of issuers not currently publicly reporting greenhouse gas emissions plan to begin doing so within the next 12 months.”*

## Results Overview

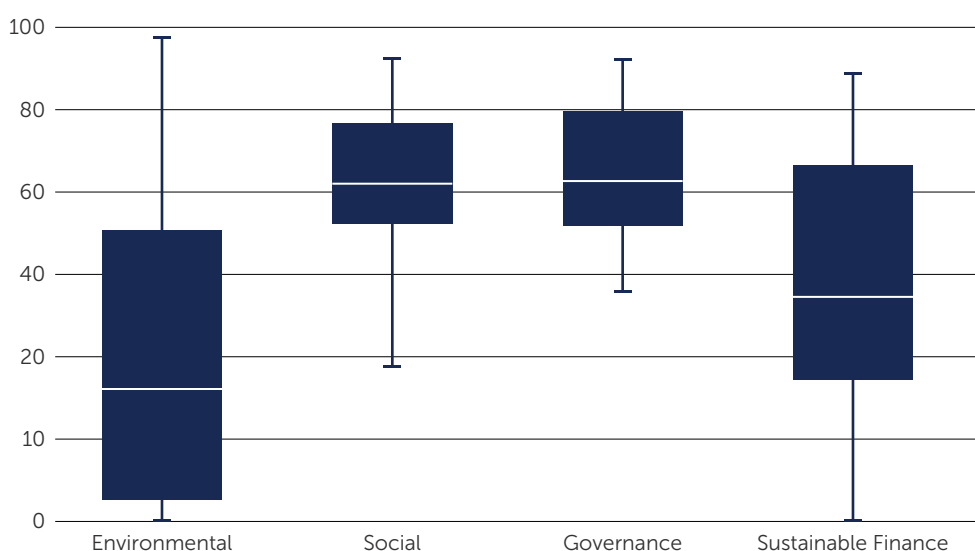
### DIMENSION DISTRIBUTIONS

Results across the dimensions were consistent with observations from the 2022 assessment. Governance and Social scores remained generally high and tightly distributed, reflecting the regulatory environment in Australia. Environmental and Sustainable Finance showed a wider distribution, indicating varying rates of progress in these evolving areas.

### ISSUER GROUP PERFORMANCE

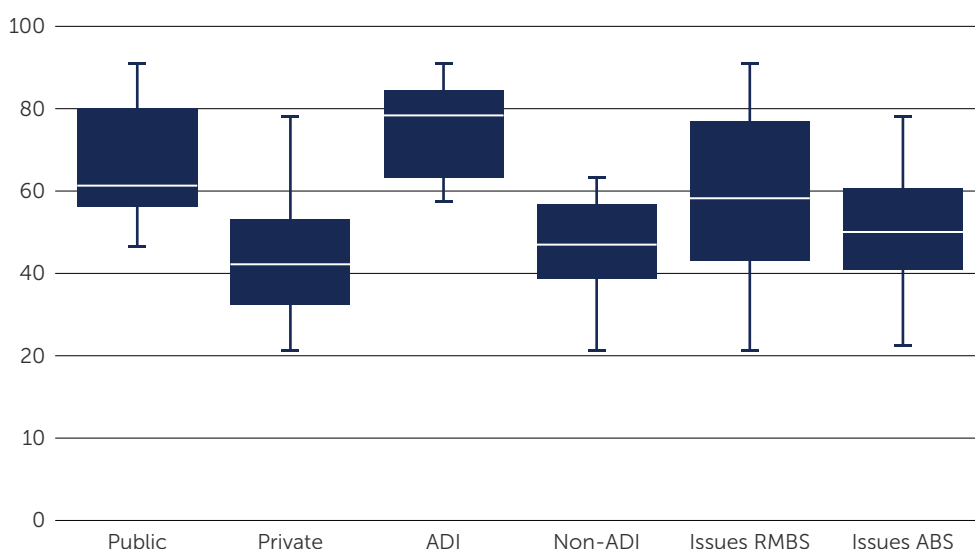
Based on the 35 responses, Authorised Deposit-taking Institutions (ADIs) consistently outperformed non-ADIs across all dimensions, reflecting the stringent regulatory requirements and heightened stakeholder expectations that ADIs face. Public companies also demonstrated superior ESG performance compared to their private counterparts, which can be attributed to the increased transparency and accountability demanded of publicly listed firms. When controlling for ADI status, no significant differences were observed between RMBS and other ABS issuers. These findings underscore the role of regulatory frameworks and market expectations in shaping ESG performance.

Figure 3: Dimension Current State Score Distributions



Source: Gryphon Capital Investments. As of March 31, 2025

Figure 4: Overall ESG Current State Score Distribution by Originator Type



Source: Gryphon Capital Investments. As of March 31, 2025.

## TRENDS & CHANGES

Among the 11 ADIs, the score distribution tightened compared to 2022, with lower-performing issuers improving across the Environmental, Social and Sustainable Finance dimensions. ADI Governance scores remained high and tightly distributed. Non-ADIs continued to exhibit a wider spread of scores, reflecting varying levels of ESG integration.

Environmental performance showed limited overall improvement, although specific issuers made significant progress. Overall progress was less than expected given the recent focus on environmental issues. However, we anticipate further progress as mandatory sustainability reporting is introduced. Notably, 35% of issuers not currently publicly reporting greenhouse gas emissions plan to begin doing so within the next 12 months.

In the Social dimension, there were modest improvements in specific areas, such as modern slavery assessment and management. Outside these areas, performance remained broadly consistent from 2022 to 2024. Governance performance remained stable, with high standards already established. The introduction of new questions and sections within Governance, including sustainability governance, was the main driver for changes in scores.

Sustainable Finance saw notable advancements, including increased offerings of green loans and enhanced collection of sustainability metrics on residential properties. Several issuers flagged planned adoption of the new CSIRO and CoreLogic RapidRate home energy efficiency assessment tool, which is expected to further increase data availability and coverage of residential property energy efficiency metrics. The increase in data capture and green loan offerings is a positive development in addressing the current ESG data and asset limitations in Australian structured finance.

## OUTLOOK INSIGHTS

The distribution of outlook scores was largest for Environmental and Sustainable Finance, reflecting the ongoing evolution of these areas. Several entities were awarded “Improving” flags based on their planned actions or new initiatives, while a few received “Deteriorating” flags due to insufficient efforts to meet rising expectations. The Governance and Social dimensions exhibited a smaller range of outlook scores, with fewer developments or changes in these areas, resulting in a limited number of “Improving” or “Deteriorating” flags.

## Engagement & Integration

### FEEDBACK REPORTS & MEETINGS

Each participant received an individualised 14-page feedback report, detailing their performance relative to peer group benchmarks and providing recommendations for improvement. For many smaller issuers, these reports represent their first benchmarking of ESG performance.

We also offered feedback meetings to each participant to discuss the process and results in detail. These meetings provided issuers with an opportunity to gain deeper insights into the assessment, understand our expectations, and engage in meaningful discussions about their sustainability practices and planned initiatives. For issuers where we flagged any ESG concerns, these meetings also allowed us to clarify questionnaire responses, gain a deeper understanding of their practices, and offer feedback.

### INTEGRATION OF RESULTS

The results of the updated assessment were presented to the Gryphon Investment Committee (IC), with a focus on the performance of originators Gryphon currently has exposure to. Clarifying questions on specific issuers' responses were raised, feeding into engagement meetings and further updates.

An ESG score interface is embedded into Gryphon's investment dashboard, allowing portfolio managers to view the Current State and Outlook scores of any issuer in relation to selected benchmark groups. This integration into key investment tools enables portfolio managers to easily access ESG information and incorporate ESG considerations into their investment decisions.

## Conclusion

Gryphon's 2024 ESG Originator Assessment reflects our continued commitment to ESG integration and stewardship in structured finance. The assessment provides a unique and meaningful view of the sustainability practices of Australian securitisation issuers —offering both a high-level overview of industry positioning and detailed insights into individual practices. Through expanded coverage, refined scoring methodologies, and ongoing issuer engagement, we remain well positioned to assess financially-material ESG risks and opportunities and support issuers to identify and implement enhanced disclosures and practices.

*“Feedback meetings provide issuers with an opportunity to gain deeper insights into the assessment, understand our expectations, and engage in meaningful discussions on sustainability practices.”*



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