

A high standard of  
responsible investing

**NZFUNDS**

# A HIGH STANDARD OF RESPONSIBLE INVESTING

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## Why does NZ Funds manage money responsibly?

NZ Funds wishes to build sustainable long-term relationships with all parties in its community. We believe that supporting positive environmental, social and governance behavior will improve the duration and quality of our relationship with clients, advisers, employees, owners and the companies in which we invest.

There is also an increasing body of evidence that managing money responsibly improves, rather than detracts from, long-term investment returns. Finally, investing in some categories of securities (such as controversial weapons) is prohibited under New Zealand law, so having a responsible investment policy also helps us meet our legal obligations.

## How does NZ Funds' approach differ from other managers?

A number of investment managers in New Zealand choose not to adopt a widespread socially responsible investing approach and have instead opted to launch a small number of socially responsible investment products. We do not believe a manager should be able to promote themselves as being socially responsible when only a fraction of the funds they are responsible for are managed responsibly.

## Who does NZ Funds partner with to ensure it invests responsibly?

NZ Funds oversees globally diversified portfolios on behalf of its clients. To ensure clients are invested in a socially responsible way, NZ Funds has contracted with an independent third-party expert, ISS ESG.

ISS ESG is a globally recognised expert on a wide range of sustainability and responsible investing issues, including climate change, Sustainable Development Goals-linked impact, human rights, labour standards, corruption, controversial weapons, and many more.

## Who gives NZ Funds the “tick of approval”?

In 2005, the UN Secretary-General, Kofi Annan, invited a group of the world's largest institutional investors to develop the Principles for Responsible Investment (PRI). A 20-person group was drawn from institutions in 12 countries who were supported by 70 experts from the investment industry and intergovernmental organisations. The Principles were launched in April 2006 at the New York Stock Exchange.

Today, PRI is a United Nations supported international network of investment signatories who collectively oversee more than US\$70 trillion in funds. Its goal is to support and ensure six aspirational ESG principles are put into practice by those signatories. NZ Funds has been a PRI signatory since 2019 and is required to report to PRI annually for assessment.

## What are some of the actions NZ Funds has taken under this policy?

The following examples highlight a few of the ESG issues that have come to our attention since we first implemented a responsible investment approach in 2017. If you have an ESG concern, please do not hesitate to contact NZ Funds' investment research and management team.

<b>Samsung Electronics</b>	Failure to prevent bribery.
<b>Deutsche Telecom</b>	Failure to respect union rights.
<b>SkyCity Entertainment</b>	A provider of gambling services.
<b>Z Energy</b>	Engaged in distributing fossil fuels.
<b>BHP Group</b>	Failure to remediate environmental damage following a dam collapse.
<b>Vale</b>	Failure to remediate environmental damage following a dam collapse.
<b>Phillips 66</b>	Failure to respect indigenous rights at Dakota Access Pipeline Project.
<b>Posco</b>	Unsustainable Palm oil production and failure to prevent depletion of biodiversity and deforestation.
<b>Facebook, Twitter, Alphabet</b>	NZ Funds joined the New Zealand Super Fund and others to encourage social media companies to strengthen controls to prevent the live streaming and distribution of objectionable content.
<b>Climate Action 100+</b>	NZ Funds joined an investor initiative to engage with the world's largest corporate greenhouse gas emitters to curb emissions, strengthen climate related financial disclosures and improve governance on climate change.
<b>Sanford</b>	NZ Funds met with Sanford CEO to ask it to immediately stop set netting and trawling in the critically endangered Maui dolphin habitat. When management refused, NZ Funds co-ordinated an industry-wide discussion on the issue.
<b>Commonwealth Bank of Australia</b>	In August 2018, an ISS ESG update received by NZ Funds reported that CBA had received a penalty for having contravened certain provisions of the Anti-Money Laundering and Counter-Terrorism Financing Act 2006.

# RESPONSIBLE INVESTMENT POLICY

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AS AT 30 SEPTEMBER 2021

## Purpose

1. NZ Funds has adopted this policy to ensure it invests responsibly.
2. NZ Funds believes that environmental, social and governance (ESG) factors are material to long-term investment returns and global sustainability.
3. NZ Funds also wishes to ensure it does not invest in any category of securities (such as controversial weapons) which is prohibited under New Zealand law.

## Scope

1. This policy applies to NZ Funds' investment research and management team.
2. This policy applies to all funds directly managed by NZ Funds.
3. This policy applies to all products managed by NZ Funds and is not restricted to a smaller number of socially responsible products.






## Principles

1. NZ Funds' investment research and management team will consider environmental, social and governance (ESG) matters.
2. NZ Funds' investment research and management team have contracted with an independent third-party expert (ISS ESG) to provide ESG research.
3. NZ Funds' investment research and management team may supplement independent third-party ESG research with its own internally generated research.
4. NZ Funds' investment research and management team aims to ensure that no fund it manages owns securities issued by a company identified by its ESG research to be:
  - i. directly involved in the manufacture or deployment of nuclear weapons.
  - ii. directly involved in the manufacture or deployment of controversial weapons (cluster munitions, anti-personnel mines, chemical weapons).

- iii. materially contravening global norms (human rights abuses, labour rights violations, child labour, slavery, environmental destruction, corruption).
  - iv. a producer of civilian firearms.
  - v. a producer of tobacco-related products.
  - vi. a producer of pornography.
  - vii. engaged in unsustainable palm oil production.
  - viii. a producer of alcohol (10% or more of revenue).
  - ix. a producer of armaments (10% or more of revenue).
  - x. a provider of gambling services (10% or more of revenue).
  - xi. engaged in exploration or production of fossil fuels (10% or more of revenue).
  - xii. engaged in power generation from fossil fuels (10% or more of revenue).
  - xiii. engaged in providing services to the fossil fuels industry (50% or more of revenue).
  - xiv. engaged in distributing fossil fuels (50% or more of revenue).
5. NZ Funds' investment research and management team will ensure that this policy is communicated to external investment managers.
- i. Where an external investment manager is appointed to manage a discrete mandate, where NZ Funds is the only investor, the manager will be instructed to follow clause 4.
  - ii. Where an external investment manager is appointed to manage a pooled mandate, where NZ Funds is one of many investors, the manager will be requested to consider clause 4.
  - iii. Investors should be aware that NZ Funds cannot obligate the manager of a pooled mandate, where NZ Funds is one of many investors, to follow this policy.
6. This policy does not cover derivatives, including futures and options of any kind, as they do not fund companies in the same way as issued securities.
7. Lawful exemptions to this policy may be granted from time to time at the discretion of the Board.
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## OVERVIEW OF CURRENT IMPLEMENTATION

AS AT 30 SEPTEMBER 2021

Investment Offering	Amount Invested	Responsible Investment Policy
KiwiSaver	\$1,117,887,727	
Superannuation	\$209,419,369	
Wealth Builder	\$58,663,305	
Income Generator	\$44,433,156	
Advised Portfolio Services	\$1,911,173,790	

Asset type	Status	% Amount Invested
Direct/Indirect Securities	Follows all exemptions	61.47%
Equity Index Futures <sup>1</sup>	No direct funding	13.39%
Commodity Futures <sup>1</sup>	No direct funding	20.82%
<b>Subtotal</b>		<b>95.68%</b>
Contact Energy <sup>2</sup>	Exception granted	1.23%
LVMH Moët Hennessey Louis Vuitton <sup>2</sup>	Exception granted	0.09%
External Investment Managers	Policy communicated	3.00%
<b>Total Investments</b>		<b>100.00%</b>

### Policy Application Information

- Derivatives of all kinds, including futures and options, are specifically considered by NZ Funds' Responsible Investment Policy. The Responsible Investing Policy does not apply exclusions to derivatives as we believe they are not tied to any source or method of production, nor in our view do they provide funding to underlying excluded activities.
- Securities held where an exemption has been granted:

#### i. Contact Energy

Contact Energy was granted an exception from exclusion on the 14 July 2020. The security would ordinarily be excluded under 4. xii of NZ Funds' Responsible Investment Policy; however, an exception was granted because of Contact Energy's industry-leading commitment and strategy to decarbonise New Zealand's energy sector.

#### ii. LVMH Moët Hennessey Louis Vuitton

LVMH was granted an exception from exclusion on the 14 July 2020. The security would ordinarily be excluded under 4. viii of NZ Funds' Responsible Investment Policy; however, an exception was granted because, following the acquisition of Tiffany & Co, the forecast percentage of revenue from alcohol is now less than the 10% threshold.

## RESPONSIBLE INVESTMENT EXCLUSIONS

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Controversial weapons



Environmental destruction



Tobacco



Human rights abuses



Civilian weapons



Armaments



Gambling



Labour rights violations



Adult material



Corruption



Fossil fuels



Unsustainable palm oil production



Alcohol

NZ Funds' responsible investment policy does not apply exclusions to derivatives as we believe they are not tied to any source or method of production, nor in our view do they provide funding to underlying excluded activities.

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