# NZ Funds' approach to responsible investing

## Founded by Paul van Wetering

We aim to ensure our investment decisions are considered for the potential impact on society and the environment.

**Paul van Wetering**
**1959-2025**
Founder of NZ Funds'
Responsible Investing Approach

NZFunds

# NZ Funds' approach to responsible investing

## Why does NZ Funds aim to manage money responsibly?

NZ Funds wishes to build sustainable long-term relationships with our community. We believe that aiming to avoid investing in companies that do not meet our environmental, social and governance standards can help improve the duration and quality of our relationship with clients, advisers, employees, owners and the companies in which we invest. We apply negative screening to reduce exposure to businesses that may have a significant adverse impact on society or the environment.

We believe 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.

## Who does NZ Funds work with?

### ISS ESG

To support our aim 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 global provider of data and analytics that support investors in integrating environmental, social and governance factors into their decision-making processes.

### PRI

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). The Principles were launched in April 2006 at the New York Stock Exchange.

PRI maintains strong connections with the United Nations and has an international network of investment signatories. PRI has six voluntary and aspirational principles designed to guide signatories in integrating ESG factors into their investment practices. NZ Funds is a PRI signatory and reports to PRI on our activities.

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

The following examples highlight some of the environmental, social and governance (ESG) issues where we have engaged with companies or undertaken divestment or exemption processes 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 team.

| | |
|---|---|
| **SkyCity Entertainment** | A provider of gambling services. |
| **Z Energy** | Engaged in distributing fossil fuels. |
| **BHP Group and Vale** | Failure to remediate environmental damage following a dam collapse in May 2017. |
| **Sanford** | NZ Funds met with Sanford CEO in April 2017 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. |
| **Posco** | Unsustainable palm oil production and failure to prevent depletion of biodiversity and deforestation in May 2017. Failure to respect union rights in February 2023. |
| **Facebook, Twitter, Alphabet** | NZ Funds joined the New Zealand Super Fund and others in May 2019 to encourage social media companies to strengthen controls to prevent the live streaming and distribution of objectionable content. |
| **Amazon** | Anti-competitive behaviour in Italy, March 2022. Fisher Investments engaged with Amazon on NZ Funds' behalf. |
| **Contact Energy** | Power generation from fossil fuels. Contact Energy was granted an exemption from exclusion on 14 July 2020. NZ Funds engaged with Contact Energy in May 2021 and again in January 2024 to monitor progress on their strategy to decarbonise New Zealand's energy sector. |
| **PG&E Corporation** | Power generation from fossil fuels increased over the 10% threshold. PG&E Corporation shares held in NZ Funds' portfolios were sold in January 2025 following an update from ISS ESG. |

# Responsible Investment Policy

## Purpose

1. NZ Funds has adopted this policy as it aims to ensure it invests responsibly.
2. NZ Funds believes that environmental, social and governance (ESG) factors are important 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 team.
2. This policy applies to funds directly managed by NZ Funds.
3. This policy applies to products managed by NZ Funds and is not restricted to a smaller number of socially responsible products.

## Principles

1. NZ Funds' investment team will consider environmental, social and governance (ESG) matters.
2. NZ Funds' investment team have contracted with an independent third-party (ISS ESG) to provide ESG research.
3. NZ Funds' investment team may supplement independent third-party ESG research with its own internally-generated research.
4. NZ Funds' voting policy gives it the discretion to vote on securities directly managed by NZ Funds if it deems there is a compelling reason to do so. ESG issues are compelling reasons and NZ Funds may take these opportunities to support good ESG outcomes. The external managers that NZ Funds has appointed to manage discrete equity mandates are PRI signatories and may vote their securities in accordance with their ESG policy and in consultation with NZ Funds.
5. NZ Funds from time to time engages with companies to support good ESG outcomes and reports on engagement activities.
6. NZ Funds' investment team aims to ensure that no fund it manages owns securities issued by a company identified by its ESG research to be involved in excluded activities without approved exemptions. Our exclusion list is implemented with the assistance of an external provider, and we aim to focus on the activities of the companies in which we invest. In some cases, certain products or services used or provided by these companies may not be identified as being an excluded activity. Our screening is conducted at the issuer level, meaning standalone companies are assessed. A subsidiary is only included if it is individually listed. Excluded activities currently include:
    i. direct involvement in the manufacture or deployment of nuclear weapons;
    ii. direct involvement 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. production of civilian firearms;
v. production of tobacco-related products;
vi. production of pornography;
vii. engaging in unsustainable palm oil production;
viii. production of alcohol (10% or more of revenue);
ix. production of armaments (10% or more of revenue);
x. provision of gambling services (10% or more of revenue);
xi. engaging in exploration or production of fossil fuels (10% or more of revenue);
xii. engaging in power generation from fossil fuels (10% or more of revenue);
xiii. engaging in providing services to the fossil fuels industry (50% or more of revenue); or
xiv. engaging in distributing fossil fuels (50% or more of revenue).

7. NZ Funds' investment team communicates this policy to specialist investment managers.
   i. Where a specialist investment manager is appointed to manage a discrete mandate (where NZ Funds is the only investor), the manager will be instructed to follow clause 6.
   ii. Where an specialist 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 6.
   iii. Investors should be aware that NZ Funds cannot obligate the manager of a pooled mandate to follow this policy.
8. As part of its due diligence process when appointing a specialist investment manager, NZ Funds considers the manager's approach to responsible investing.
9. This policy specifically considers derivatives. Exclusions are not applied 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. However, NZ Funds acknowledges that there is an alternative view, derivatives can create demand for the excluded assets indirectly. NZ Funds has considered this alternative view as part of this policy.
10. Lawful exemptions to this policy may be granted at the discretion of the Board. When a holding is identified that does not comply with this policy the Investment team will commence the process to either divest of that holding or seek an exemption.
11. NZ Funds recognises that climate change may have an impact on market returns and risks. This is in line with its ESG approach to exclude companies that derive significant revenues from fossil fuels exploration, production and power generation, and from services and distribution for the fossil fuels industry. These steps reduce greenhouse gas (GHG) emissions compared to some companies held within market benchmarks.

# Overview of implementation

**At 31 October 2026**

| Investment Offering | Amount Invested | Responsible Investment Policy |
|---|---|---|
| KiwiSaver | $1,303,532,987.57 | ✓ |
| Superannuation | $ 193,338,311.09 | ✓ |
| Wealth Builder | $121,259,602.57 | ✓ |
| Income Generator | $13,059,322.30 | ✓ |
| Active Series | $1,297,084,293.68 | ✓ |

| Asset type | Status | % Exposure |
|---|---|---|
| Direct/Indirect Securities | Follows exclusions | 72.85% |
| Equity Index Futures | Derivatives; not an excluded activity | 19.40% |
| Commodity Derivatives | | 6.72% |
| **Subtotal** | | **98.97%** |
| Contact Energy | Exemption granted | 1.01% |
| External Investment Managers | Policy communicated | 0.02% |
| **Total Investments** | | **100.00%** |

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**Contact Energy** was granted an exemption from exclusion on 14 July 2020. The security would ordinarily be excluded under 6. xii of NZ Funds' Responsible Investment Policy; however, an exemption was granted because of Contact Energy's industry-leading commitment and strategy to decarbonise New Zealand's energy sector.

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