



CARESAVER KIWISAVER SCHEME ETHICAL INVESTMENT POLICY



CareSaver KiwiSaver Scheme Ethical Investment Policy

10 February 2020

Signatory of:



Version 2

The current Ethical Investment Policy is available on the schemes register
(**Disclose**) at www.business.govt.nz/disclose

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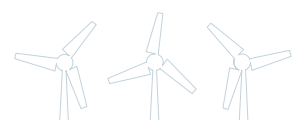


1. INTRODUCTION

The CareSaver KiwiSaver Scheme (**CareSaver** or **Scheme**) is an ethical and research based KiwiSaver Scheme managed by Pathfinder Asset Management Limited (**us, we, our** or **Pathfinder**). This means:

- our ethical beliefs are core to our investment process, and
- our investment process must be research based and robust (as well as ethical).

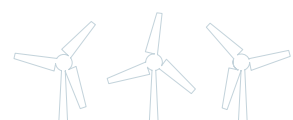
This Ethical Investment Policy describes how our ethical values are embedded in the way we invest. We seek out companies that have the best environmental, social and governance (**ESG**) practices (note the term **ESG** is used widely in this document). We believe, and evidence shows, that companies with the best ESG practices make better long-term investments. We also seek out companies that are engaged in activities that will help society move towards a more sustainable future. We actively avoid companies that, in our opinion, do harm to the environment and society.



2. ETHICAL INVESTMENT PHILOSOPHY

Our ethical investment philosophy is shaped by the following principles:

- a) *UN Sustainable Development Goals:*** We aspire for our investment decisions to contribute to the UN Sustainable Development Goals. As a signatory to the UN Principles of Responsible Investment we have committed to aligning our investment practices with the sustainability objectives of these Goals. See [section 3](#) below for more information.
- b) *Investing ethically:*** We expect companies with high ESG metrics to perform better than low scoring companies. We also believe high ESG companies are better for our planet and its people. For these reasons, we will actively seek out these companies to invest in. We will exclude companies engaged in industries or activities we believe to be harmful. This includes companies engaged in gambling, tobacco, cluster munitions, fossil fuels, animal testing and several other categories (please see www.caresaver.co.nz for a complete list of exclusions). See [sections 4 and 5](#) below for more information.
- c) *Climate change awareness:*** We believe the world is transitioning to a low carbon economy and companies with lower carbon intensity will make better long-term investments. With changes in consumer preferences and regulation, company behaviour around carbon intensity is significant for each company's long-term investment performance (as well as for the planet and its people in a warming world). See [section 6](#) below for more information.
- d) *Aware, Fair, Care:*** We avoid investing in companies whose business practices are inconsistent with the dignity of individuals (for example how they treat staff, customers and suppliers). We also avoid companies where their operations involve animal testing or very high levels of controversy. See [section 7](#) below for more information.
- e) *Engagement and shareholder voting:*** We believe we should vote as a shareholder to encourage positive change. This means we will vote on issues from our ESG perspective. With this approach we will at times vote against the recommendations of a company's management where their view conflicts with our ethical values. We will also actively promote ethical investment and encourage positive change by corporates. See [section 8](#) below for more information.



3. UN SUSTAINABLE DEVELOPMENT GOALS

The United Nations Sustainable Development Goals (***Sustainable Development Goals***) are a blueprint for achieving a better and more sustainable future for all. They address key global challenges, including those related to poverty, inequality, climate, environmental degradation, prosperity, and peace and justice. The full list of Sustainable Development Goals are set out in Schedule One.

As part of our commitment to ethical investment, Pathfinder is a signatory to the UN Principles of Responsible Investment (***UNPRI***), which relate to the Sustainable Development Goals. The UNPRI are a set of six investment principles for incorporating environmental, social and governance issues into investment practice. These principles are voluntary and aspirational (providing a direction for responsible investment efforts rather than a checklist with which to comply). They were developed in a process convened by the United Nations Secretary-General. The principles are intended to contribute towards creating more sustainable markets and a more prosperous world for all. The UNPRI encourages investors to use responsible investment to enhance returns and better manage risks. To become a signatory to the UNPRI, Pathfinder has submitted a declaration to the PRI Association which is set out in Schedule One.

4. INVESTING ETHICALLY – ESG RISK RATING

We expect all companies we invest in to have an ESG risk rating from either our research partner Sustainalytics or from Pathfinder. The ESG risk rating is designed to help identify and understand financially material ESG related risks and how they may affect long-term investment performance.

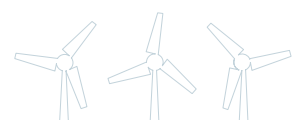
We believe companies with better ESG risk management will exhibit better returns and lower downside risks over long-term investment horizons than the wider market. We regard the ESG profile of a company as an indicator of broader risks a company faces, and this may convert into significant financial costs or reputational damage in the future.

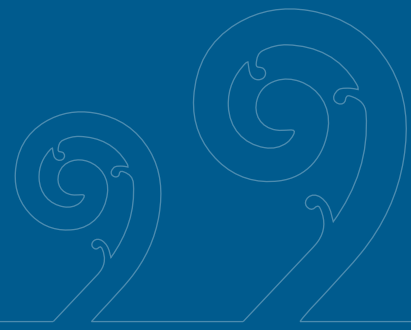
It is possible for a company to be in a high risk industry but have very strong measures in place to manage those risks, and therefore have a low ESG risk rating. It is also possible for a company to be in a low risk industry, but have high ESG risk rating if it is not managed well.

5. INVESTING ETHICALLY - EXCLUSIONS

We have two classes of exclusions for our share investments:

- a) Regulation based exclusions:** These are exclusions based on New Zealand's legal or regulatory settings, as well as international laws and conventions applicable to New Zealand. In practice, this means any company engaging in activities illegal under NZ law would be excluded. It also means that where NZ is party to an international convention restricting certain activities, companies that have revenues from that activity – even if legally operated – would be excluded.
- b) Social and environmental harm:** We exclude other industries that we believe do more social or environmental harm than good.

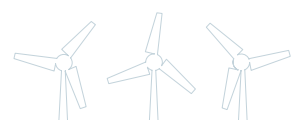




Below is how we apply exclusions to a range of industries and activities as at the date of this policy. We group these in relation to concerns for our communities, animals and our planet. This is not a complete list and Pathfinder can add or remove exclusions at any time, for example as a response to new research – please see www.caresaver.co.nz for an up to date list of our investment exclusions:

Promoting healthy communities

- **Tobacco:** We believe investing in tobacco companies is incompatible with ethical behaviour. While the sale of tobacco is legal in New Zealand, we believe tobacco conflicts strongly with good public policy (New Zealand is a signatory of the World Health Organisation Framework Convention on Tobacco Control). *We believe the tobacco industry is inconsistent with UN Sustainable Development Goal #3 Good Health and Wellbeing.*
- **Gambling:** Companies that rely on gambling as a source of revenue are not consistent with our ethical beliefs. We believe that gambling companies generally target the vulnerable sections of society and the money extracted from those communities causes harm. *We believe the gambling industry is inconsistent with UN Sustainable Development Goals #1 No Poverty and #3 Good Health and Wellbeing.*
- **Women on boards:** We will not invest in a listed New Zealand company that does not have at least one female board member. The only exception to this is if a company has expressed its commitment to the benefits of female board representation and demonstrates it is taking active steps to identify an appropriate candidate. *We believe publicly listed New Zealand companies without this board diversity are inconsistent with UN Sustainable Development Goal #5 Gender Equality.*
- **Civilian weapons:** We will not invest in companies involved in the manufacture of civilian automatic and semi-automatic firearms, handguns or their magazines or parts. *We believe manufacture of these weapons is inconsistent with UN Sustainable Development Goals #16 Peace and Justice Strong Institutions.*
- **Alcohol:** The production and sale of alcohol is legal in New Zealand, however alcohol can be harmful to individuals, families and communities. We had previously focused on excluding alcohol companies that target young people with cheap alcoholic drinks and inappropriately market or sell alcohol. We have widened the exclusion to all listed alcohol producers in recognition that they can be involved in lobbying to relax rules around the sale and availability of alcohol. *These are inconsistent with UN Sustainable Development Goal #3 Good Health and Well-being.*



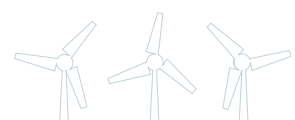
- **Cannabis:** The production or sale of cannabis for recreational purposes is currently banned under New Zealand law. For this reason, we will not invest in companies involved in the production of recreational cannabis even if they are operating legally in another jurisdiction (for example Canada).
- **Adult entertainment:** While not illegal in most jurisdictions the potential for the exploitation of adults and minors makes this a high-risk area for us to invest in. *We believe adult entertainment is inconsistent with UN Sustainable Development Goals #3 Good Health and Well-being.*

Respecting animals

- **Animal testing:** We do not believe it is ethical to test products on animals. Accordingly, we avoid investment in any company that engages in animal testing – see [section 7](#) below for more information. *We believe animal testing is inconsistent with UN Sustainable Development Goals #15 Life On Land and #12 Responsible Production.*
- **Factory farming:** Any agricultural practice that relies on keeping animals in conditions that do not allow them to express normal behaviour is inconsistent with our ethical beliefs. *We believe factory farming is inconsistent with UN Sustainable Development Goal #12 Responsible Production.* We currently go further and are not invested in any livestock or poultry farming companies and have no intention to do so.
- **Livestock export:** We will not invest in companies engaged in livestock export. *We believe this is inconsistent with UN Sustainable Development Goals #15 Life On Land and #12 Responsible Production.*
- **Whaling:** We exclude whaling and the processing of whale meat. *We believe whaling and whale meat processing is inconsistent with UN Sustainable Development Goal #14 Life Below Water.*
- **Animals for entertainment:** We will not invest in companies exploiting animals for entertainment (such as an ocean theme park). *We believe these are inconsistent with UN Sustainable Development Goals #15 Life on Land and #14 Life Below Water.*

Respecting our planet

- **Fossil fuel extraction:** We will not invest in companies involved in the extraction of fossil fuels or the conversion of that fuel into other forms of energy (also refer to [section 6](#) below on Climate Change). *We believe fossil fuel extraction is inconsistent with UN Sustainable Development Goals #7 Affordable and Clean Energy and #13 Climate Action.*
- **Palm oil and GMOs:** We will avoid companies whose operations or business model may risk harm to our planet or environment. This includes operations connected to palm oil production and use. We will also avoid genetically modified organisms (GMOs) which we acknowledge as a fast evolving and ethically complex area, with both potential for significant costs and significant benefits. We will continue to review GMOs but are not currently investing.
- **Controversial weapons:** This includes the manufacture of cluster munitions or anti-personnel mines as well as the manufacture or testing of nuclear explosive devices. *We believe the manufacture of certain weapons is inconsistent with UN Sustainable Development Goal #16 Peace, Justice and Strong Institutions.*



6. CLIMATE CHANGE

Pathfinder believes that climate change poses a clear danger to the health of our planet and our society. Companies that do not address the need to transition to a low carbon economy are exposed to clear risks, namely:

- **Consumer expectations:** Consumers are demanding a more sustainable approach to energy consumption and production. Companies that do not meet this changing demand may undermine their business value and future viability.
- **Regulatory demands:** Regulators and legislators are demanding change to limit the use of fossil fuels. Companies that do not respond to the changing regulatory framework face the risk of their assets becoming 'stranded', meaning that certain assets will no longer be able to earn an economic return as a result of changes in the market and regulatory environment (which would result in a severe reduction of value).

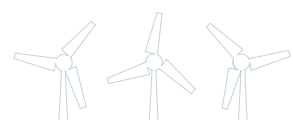
We address climate change risks in two ways:

- **Carbon intensity:** We believe carbon intensity is a good indicator of whether a company is taking climate change seriously or is exposed to future risks.
- **Carbon Risk Management:** We assess how well companies are preparing for a future low carbon economy. This requires reviewing how a company is addressing its future carbon risk and its preparations for managing the future transition risk.

7. AWARE, FAIR AND CARE

Consistent with Pathfinder's values as a business (*Aware, Fair, and Care*), our share investments will account for what we regard as key environmental and social issues:

- **Human rights awareness:** We may exclude investments in companies with poor human rights records. We define this broadly as a lack of respect for the dignity of the human individual. This may be evidenced by poor employment practices, child or slave labour in the supply chain or discrimination on the basis of race, gender or sexual orientation.
- **Animal rights awareness - animal testing:** We avoid companies that test drugs or consumer products (for example cosmetics) on animals - even when testing is required by law. Company transparency around animal testing is often lacking. We will strive for our research to be up-to-date and will remove companies that test on animals as we identify them. We believe it is possible to find alternative investments offering similar long-term sector exposures and similar long-term investment prospects.



- **Controversial companies:** We monitor company behaviour for involvement in controversial activities. This has a wide scope, including significant instances of lawsuits, regulatory action, predatory behaviour or tax avoidance. We believe companies involved in very high levels of controversial behaviour can be both higher risk investments and harmful to society.

8. ENGAGEMENT AND SHAREHOLDER VOTING

We believe ethical investors have a responsibility to use their ownership rights to influence corporate behaviour and promote change. For us, this starts with voting at company meetings in a manner consistent with our ethical beliefs.

Engagement is not just voting. It also means actively promoting ethical investment and encouraging positive change by corporates. This includes:

- communicating with companies for example meeting with company management, and
- being an active member of key organisations. We are currently members of the Responsible Investment Association Australasia and the Investor Group on Climate Change. We want to add our voice to lobbying efforts on key issues.

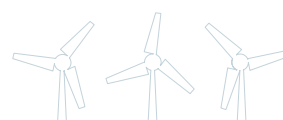
9. OTHER CONSIDERATIONS

Fixed income investments: Sections 4 to 8 above are focused on our investment in company shares. We will apply our ethical and ESG principles to our investment in listed fixed income securities. We may also hold unlisted fixed income investments and debt funding. We will prioritise ethical investments, for example debt funding of social housing or forestry.

Short positions: This policy does not apply to short positions (which may arise from derivative contracts, including forwards or options – although are expected to be infrequent if at all). A 'short' position in a company does not indicate support for its activities, social/environmental impact or corporate values.

Divesting: Where CareSaver invests in a company that is later found to be conflicting with this Ethical Investment Policy, it will be sold within a reasonable time horizon. This will require Pathfinder to be aware of factors such as transaction costs and liquidity when selling, which may allow for a relatively quick disposal or may result in a delay.

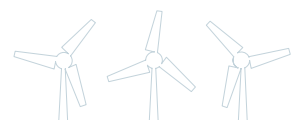
Review: This Ethical Investment Policy is to be reviewed and updated each calendar year by Pathfinder's Chief Executive. It may be referred to Pathfinder's Board, Investment Committee or ethics advisers for review (but this is not a requirement).



SCHEDULE 1

17 UN Sustainable Development Goals to transform our world:

GOAL 1:	No Poverty
GOAL 2:	Zero Hunger
GOAL 3:	Good Health and Well-being
GOAL 4:	Quality Education
GOAL 5:	Gender Equality
GOAL 6:	Clean Water and Sanitation
GOAL 7:	Affordable and Clean Energy
GOAL 8:	Decent Work and Economic Growth
GOAL 9:	Industry, Innovation and Infrastructure
GOAL 10:	Reduced Inequality
GOAL 11:	Sustainable Cities and Communities
GOAL 12:	Responsible Consumption and Production
GOAL 13:	Climate Action
GOAL 14:	Life Below Water
GOAL 15:	Life on Land
GOAL 16:	Peace, Justice and Strong Institutions
GOAL 17:	Partnerships to achieve the Goals

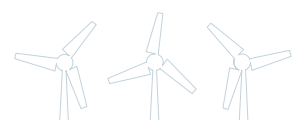


OUR PRI DECLARATION

To become a signatory to the UNPRI, Pathfinder has submitted a declaration to the PRI Association committing to the following:

- a)** To incorporate ESG issues into investment analysis and decision-making processes;
- b)** To be an active owner and to incorporate ESG issues into Pathfinder's ownership policies and practices;
- c)** To seek appropriate disclosure on ESG issues by the entities in which Pathfinder invests;
- d)** To promote acceptance and implementation of the principles within the investment industry;
- e)** To work with the PRI Secretariat and other signatories to enhance their effectiveness in implementing the Principles of Responsible Investment;
- f)** To report on Pathfinder's activities and progress towards implementing the Principles of Responsible Investment.

Signatory of:





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