

Pathfinder

Ethical Investment Policy

22 March 2021

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Version 1

Signatory of:



1. INTRODUCTION

The Pathfinder KiwiSaver Scheme and the Pathfinder Managed Investment Scheme are each ethical and research-based investments 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.

This Ethical Investment Policy applies to the following funds:

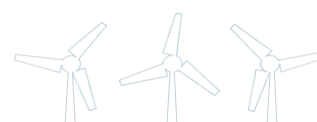
Pathfinder KiwiSaver Plan	Conservative
	Balanced
	Growth
Pathfinder Investment Funds	Global Water Fund
	Ethical Trans-Tasman Fund
	Global Responsibility Fund
	Ethical Growth Fund
	Global Property Fund

{Note that our World Equity Fund is closed to new investors and only paragraphs (c) and (d) under 'Ethical Investment Policy' below apply to that fund}

2. ETHICAL INVESTMENT PHILOSOPHY

Our ethical investment philosophy is shaped by the following principles:

- 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.
- 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 focused on gambling, tobacco, cluster munitions, fossil fuels, factory farming and several other categories (please see www.path.co.nz for a complete list of exclusions). See sections 4 and 5 below for more information.
- 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.
- 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, suppliers or the community that the company operates in). We also care about the exploitation of animals and companies with very high levels of controversy in their operations. 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

After our universe of potential investments has been screened for exclusions (see section 5 below) we evaluate an ESG risk rating for companies we may invest in. 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.

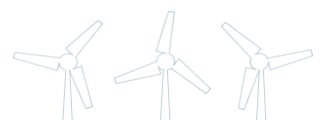
We believe companies with better ESG risk management will exhibit better returns and lower downside risks over long-term investment horizons than the wider market. We regard the ESG profile of a company as an indicator of broader risks a company faces, and this may convert into significant financial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

Note that Pathfinder considers industry risk as well as company specific measures. 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 lower ESG risk rating. It is also possible for a company to be in a low-risk industry but have higher ESG risk rating if it is not managed well. Pathfinder may invest in a company with a higher-than-average ESG risk rating if we believe the company has realistic plan to improve its ESG risk management, or it is necessary from the perspective of building a robust portfolio.

5. INVESTING ETHICALLY – EXCLUSIONS

We have two classes of exclusions for our share investments:

- 1) **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.



- 2) **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.path.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 extracting money from these communities causes harm. *We believe the gambling industry is inconsistent with UN Sustainable Development Goals #1 No Poverty and #3 Good Health and Wellbeing.*
- **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.*
- **Military weapons:** While we recognise the need for each country to be able to protect its people and communities, we cannot distinguish between military weapons manufacture purely as a deterrent from military weapons manufacture that is actively used in conflict. For this reason, we will not invest in listed military weapons manufacturers. *We believe manufacture of these weapons can be 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). We are not excluded from investing in cannabis for medicinal purposes.
- **Pornography:** While not illegal in most jurisdictions, this is a highly unregulated industry that is closely linked to sex trafficking and the exploitation of adults and children, making this a high-risk area for us to invest in. Any company deriving revenue from its production, distribution or retail is unlikely to meet our human rights standards and is likely to hinder the progress of the Sustainable Development Goals. This conflicts with Goal #3: Good Health and Well-being, #5 Gender Equality, and #8: Decent Work and Economic Growth.

RESPECTING ANIMALS

- **Animal testing:** We do not believe it is ethical for companies to test non-pharmaceutical consumer products on animals. Accordingly, we avoid those companies in all our funds. In our KiwiSaver Plan, the Ethical Growth Fund, and the Global Water Fund, we take this a step further and also avoid any company that uses animal testing for any purpose including pharmaceutical testing. *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 controversial weapons is inconsistent with UN Sustainable Development Goal #16 Peace, Justice and Strong Institutions.*

6. CLIMATE CHANGE

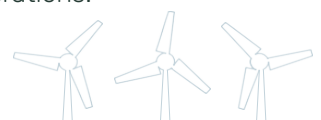
The UN Environment Programme notes that by the end of this century “we are on track for a temperature rise of over 3°C. This would bring mass extinctions and large parts of the world would be uninhabitable.” We believe that climate change poses a clear and very significant danger to the health of our planet, our society and to future generations.

From an investment perspective, 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).

Climate change risks can be considered as follows:

- **Carbon intensity:** We believe carbon intensity can be a good indicator of whether a company is taking climate change seriously or is exposed to future risks.
- **Carbon risk management:** We believe companies need to prepare for a future low carbon economy. This requires a company to review its future carbon risk and its preparations for managing the future transition risk. Some companies may face “stranded asset” risk where due to changes in demand or rises in input costs, infrastructure may become redundant.
- **Physical risk:** Changes in extreme weather events and sea level rises may damage assets. Higher temperatures may affect a company’s ability to continue their normal operations.



Insurance losses may rise and insurance cover may be harder to obtain.

7. AWARE, FAIR AND CARE

We apply a lens of Aware, Fair and Care to our share investments. This means we 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 and animal welfare:** We have exclusions in relation to animal testing, factory farming, livestock export, whaling and animals for entertainment (see section 5 above). In relation to animal testing, company transparency is often lacking. We will strive for our research to be up-to-date and will remove companies that breach our policy as we identify them.
- **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.
- **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 by meeting with company management of New Zealand listed companies.
- Taking an active stewardship role, where we can directly influence companies, markets and economies, enabling us to help improve outcomes for wider society and the environment.
- Advocating for more effective public policy around material ESG issues.
- Being an active member of key collaborative 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, including the NZ Super Fund's 'Christchurch Call' engagement with social media companies.

9. OTHER CONSIDERATIONS

Fixed income securities: 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 securities and debt funding. To the extent possible 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. The shorting of stocks or an index is permitted as a hedging strategy but is not a core

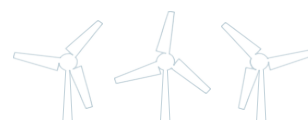


investment strategy for us.

Divesting: Where we are invested 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 and Justice Strong Institutions
GOAL 17:	Partnerships to achieve the Goal



SUSTAINABLE DEVELOPMENT GOALS
17 GOALS TO TRANSFORM OUR WORLD



OUR PRI DECLARATION

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

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

In addition to the 'Responsible Investment' framework of the UNPRI, we go further and overlay a values-based 'ethical investment' lens as described in this Ethical Investment Policy.

