

28 August 2023

## Introduction

This policy sets out Smartshares' approach to responsible investment and the extent to which we incorporate environmental, social and governance factors in our investment management processes and the investment options that we provide to our customers.

For details of the Responsible Investment Philosophy applicable to the Quaystreet Funds, please refer to [quaystreet.com/investment-philosophy](https://quaystreet.com/investment-philosophy).

We offer a comprehensive selection of funds to allow our customers to pick the investment approach that's right for them. We believe that companies with a sustainable focus may be in the best position to succeed in the face of challenges such as climate change. We also recognise that our customers are increasingly interested in responsible investment options.

References to responsible investing can be confusing as there are many different concepts to consider and different definitions of common terms. At Smartshares we deliver responsible investment options by considering the following:

- **Socially Responsible Investment (SRI) exclusions** – We do not invest in companies which fail to meet the ethical considerations of our SRI standards. We do not consider financial factors when making these exclusions.
- **Environmental, Social and Governance (ESG) screening** – We adjust our level of investment in companies based on ESG factors. We recognize that ESG factors and risks influence a company's long-term sustainability and their expected long-term performance.

Whether you seek to simply avoid companies that take part in controversial business activities such as tobacco and weapons, or prioritise investing in companies that are considered to have superior ESG factors, we have an investment option for you.

## What is SRI?

SRI stands for socially responsible investment. SRI involves the application of ethical and moral considerations to an investment approach. Our funds that incorporate SRI exclude a common set of companies. This includes tobacco companies

and companies involved in the manufacturing of certain weapons illegal under NZ law (including cluster munitions, anti-personnel mines and nuclear explosive devices).

## What is ESG?

ESG stands for environmental, social and governance. ESG factors are non-financial considerations that are used to assess the sustainability of an investment. Our responsible investment approach has a focus on environmental and social criteria, such as how well a company minimizes their impact on the environment with lower greenhouse gas emissions. We also use our voting rights to actively engage with companies to improve their governance structure. The ESG factors that we may incorporate in our responsible investment options include:



### Environmental

- Greenhouse gas emissions
- Water
- Waste and pollution
- Biodiversity



### Social

- Health and safety
- Labour standards
- Human rights
- Animal welfare
- Controversial weapons



### Governance

- Board structure, diversity and independence
- Remuneration
- Anti-bribery and corruption

## Our responsible investment framework

We incorporate responsible investment into our funds management process in the following ways:

- **SRI exclusions** – We exclude companies from a fund's portfolio that do not meet our socially responsible investment standards.
- **ESG screens** – We exclude, limit or increase exposure to certain companies from a fund's portfolio based on their activities. These are detailed in the fund descriptions below. A particular focus of our ESG screening is the reduction of a fund's greenhouse gas emissions (GHG) profile compared to market benchmarks.
- **External investment managers** – We assess an external investment manager's approach to responsible investment prior to their appointment and at least annually after that. We prefer to appoint external managers that are signatories to the United Nations Principles for Responsible Investment (UNPRI). The UNPRI's six principles ensure managers incorporate and promote ESG factors in their investment practice.

- **Voting** – We aim to support voting rights for shareholders and promote responsible corporate behaviour. We engage proxy research and voting advisers when formulating voting and engagement strategies, deciding how to exercise specific voting rights, and in the actual execution of such voting rights. When we engage an adviser, we subscribe to the ESG version of their voting policies. We assess an adviser's responsible investment arrangements prior to appointing them and at least annually after that.

This policy does not apply to the use of index derivatives, which may provide financial exposure to investments otherwise excluded under the policy.

The extent to which we incorporate these measures and actions into our investment management process depends on the particular investment option.

## Our investment options

We recognise our customers have diverse views around ESG, so we offer a range of investment options to allow them to choose the investment approach that's right for them. The funds we offer range from fully integrated responsible investment

options to non-ESG options that do not actively take ESG factors into account.

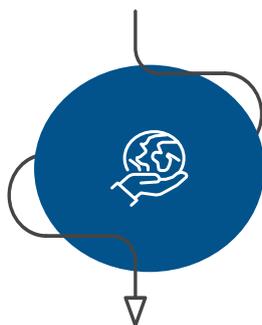
**We offer three primary types of investment approach.**



### Ethical

These funds integrate ESG as a core part of their approach by incorporating responsible investment in the following ways:

- SRI exclusions
- Systematic ESG screening
- Sustainable proxy voting policies



### Principle-based

These funds incorporate our common SRI exclusions.



### Non-ESG

These funds are not designed to apply our responsible investment approach and do not actively take ESG factors into account.

## Ethical funds

### Ethica Fund

The Ethica Fund integrates ESG as a core part of its investment approach. Over 60% of the fund's assets are invested with Dimensional Fund Advisors (DFA), a specialist responsible investment provider, for the following asset classes:

- International Equities - Dimensional Global Sustainability Trust
- Australian Equities - Dimensional Australian Sustainability Trust
- International Fixed Interest - Dimensional Global Bond Sustainability Trust

The Ethica Fund's Listed Property and New Zealand Equities asset classes are invested in Smartshares Exchange Traded Funds and NZ Core Equity Trust respectively, and apply ESG-integrated voting policies as described below. Our responsible investment tools do not apply to the New Zealand Fixed Interest and Cash & Cash Equivalents asset classes of the Ethica Fund.

For the International Equities, Australian Equities and International Fixed Interest asset classes, the following tools are used:

#### **Socially Responsible Investment (SRI) Exclusions**

Excludes companies where a material part of their revenue or activities are in the following areas:

- Gambling - companies with more than 10% of total revenue from the ownership or operation of gambling facilities, or from the support or services to the gambling industry.
- Tobacco - companies that produce tobacco products and companies with more than 10% total revenue related to tobacco products.
- Alcohol - companies with more than 10% of total revenue from the production, distribution, retailing, licensing or supply of alcoholic beverages, key products and services.
- Controversial weapons and personal firearms - companies involved in:
  - the manufacture of cluster munitions or anti-personnel mines or their key components, chemical and biological weapons, or depleted uranium ammunition and armour;
  - the manufacture of components of nuclear weapons or systems that are capable of the delivery of nuclear warheads, or provision of support services related to nuclear weapons (such as the repair and maintenance of nuclear weapons); or

- involvement in the manufacture of handguns, pistols, shotguns, rifles, revolvers, and ammunition for civilian (non-military) use, or more than 20% of total revenue is from distribution of personal firearms.
- Adult entertainment - companies with more than 10% of total revenue from the production, distribution or retailing of adult entertainment products.
- Factory farming - companies with more than 20% of total revenue from sectors related to factory farming.
- Palm oil - companies with more than 20% of total revenue from palm oil farming and/or palm oil processing.
- Coal mining - companies with evidence of owning any proven or probable thermal or metallurgical coal reserves, or any revenue from the mining of thermal coal and its sale to external parties.
- Child labour - companies involved in severe controversies related to child labour practices.

DFA generally (a) avoids purchase and (b) divests from companies which, in their opinion, are involved in the activities and controversies listed above. Indirect involvement, for example through ownership structures, may also lead to exclusion. Should existing holdings, compliant at the time of purchase, subsequently become ineligible, they will be divested within a reasonable period of time considering turnover, liquidity and associated trading costs.

#### **Systematic ESG Screening**

Screens are applied to potential investments based on ESG impact scores. The scores are based on various ESG factors collected through DFA company research and ratings information provided by third parties. The impact scores are compared to market benchmarks that do not consider ESG factors to determine whether a company should:

- be excluded or have its weighting reduced
- be held with no adjustment to its weight
- have its weight increased.

One of the primary ESG factors used for screening is an investment's GHG emission intensity which includes direct (scope 1) and indirect (scope 2) emissions. It is expected that ESG screens will result in at least a 50% reduction in the Ethica Fund's GHG emissions profile compared to market benchmarks that do not consider ESG factors.

We monitor the GHG emissions profile of the underlying funds managed by DFA on at least an annual basis. We believe ESG screening is beneficial for investors who wish to see their funds flow to companies that have better ESG characteristics.

## Voting

The governance aspect of ESG is incorporated into the Ethica Fund's investment approach through voting. We engage DFA and Glass Lewis as our specialist ESG proxy research and voting advisers. When exercising our voting rights in relation to companies within the Ethica Fund, a number of principles are considered including the diversity, competency and accountability of the board of directors. DFA has a key focus on voting for shareholder proposals that request greater transparency and information regarding board diversity, gender/racial pay gaps, human rights impact reporting and climate change.

The Ethica Fund's investments, including SRI exclusions and systematic ESG screening, are managed by a number of external fund managers

who are selected and monitored by Smartshares. Our selection approach starts with assessing the market for appropriate underlying funds that are closely aligned to our own investment approach of being well diversified, low cost, and systematic.

From this group, we select underlying funds that we believe show a superior commitment to ESG in their investment process. This includes evaluation and ongoing monitoring of the underlying fund and their manager's:

- responsible investment framework and investment beliefs around incorporation of ESG
- ESG research sources and processes, including how it is used to influence exclusions and score companies to determine which are down or up-weighted compared to market benchmarks
- ESG reporting, including proxy voting, engagement activities and how the underlying fund's ESG scores compare to market benchmarks that do not consider ESG factors.

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## Principle-based funds

### SuperLife Default Fund

The SuperLife Default Fund is a KiwiSaver default fund available in the SuperLife KiwiSaver Scheme. It is required to invest in the assets described in the KiwiSaver Default Provider (Smartshares) Notice 2021 (Notice). It currently invests in New Zealand equities included in the S&P/NZX 50 Index and international equities included in the MSCI World Ex Australia Custom ESG Leaders Index. This results in the exclusion of investments in tobacco, illegal weapons and fossil fuel production. Specifically, the SRI exclusions cover companies that:

- are involved in activities relating to cluster munitions, anti-personnel mines and nuclear explosive devices
- own proved or probable reserves in coal, oil, or gas, and derive at least 15% of their revenue from exploration and extraction of coal, oil or gas
- have their primary business activity in any of the excluded fossil fuel subsectors prescribed in table 1 or table 2 of Schedule 5 of the Notice.

These exclusions apply to all investments:

- held directly in companies that undertake the activities listed above
- in majority owners of excluded companies (for example, parent companies)

- in subsidiary companies of excluded companies where that subsidiary has any involvement in the prescribed activity
- in managed investment schemes that have any investments in the companies listed above.

For the purposes of the exclusions above, oil includes tar sands, gas includes shale (as a source of gas) and metallurgical coal is not included in the term coal.

### SuperLife Overseas Bonds Fund

The SuperLife Overseas Bonds Fund's investment objective is to outperform the Bloomberg Global Aggregate Bond Index by 1% per annum (before tax, fees and other expenses) over rolling three-year periods, hedged to the New Zealand dollar. The fund is managed by an external investment manager, PIMCO Australia Pty Ltd.

The fund's SRI exclusions include financial products issued by entities where a material part of their revenue (greater than 10%) and/or activities involve fossil fuel production. The fund also excludes financial products issued by entities where any part of their revenue and/or activities involves tobacco or illegal weapons (cluster munitions, anti-personnel mines and nuclear explosive devices).

## Exchange traded funds – ESG shares

The following exchange traded funds track ESG screened markets indexes and are available to investors in the Smartshares Exchange Traded Funds:

- Smartshares Global Equities ESG ETF – invests in international shares and is designed to track the return on the MSCI World Ex Australia Custom ESG Leaders Index.
- Smartshares Australian Equities ESG ETF – invests in Australian shares and is designed to track the return of the S&P/ASX 200 Fossil Fuel Screened (AUD) Index.
- Smartshares US Equities ESG ETF – invests in US shares and is designed to track the return on the MSCI USA ESG Screened Index.
- Smartshares Japan Equities ESG ETF – invests in Japanese shares and is designed to track the return on the MSCI Japan ESG Screened Index.
- Smartshares Emerging Markets Equities ESG ETF – invests in emerging markets shares and is designed to track the return on the MSCI EM IMI ESG Screened Index.
- Smartshares Europe Equities ESG ETF – invests in European shares and is designed to track the return on the MSCI Europe ESG Screened Index.

The ESG screened indexes tracked by these exchange traded funds apply SRI exclusions to companies, including those:

- associated with the production of controversial weapons (for example cluster munitions, landmines, nuclear and biological/chemical weapons)
- that derive 10% or more of their revenue from the production of conventional weapons, or 5% or more of their revenue from the sale and distribution of firearms or small weapons for civilian use
- that manufacture tobacco products, or generate 5% or more of their revenue from the distribution or retail sale of tobacco products

- that own proved or probable reserves and derive 5% or more of their revenue from thermal coal and oil sand extraction
- that are not in compliance with the United Nations Global Compact (UNGC) principles.

The indexes incorporate the exclusions set out above, while seeking to track standard market capitalisation indexes.

Along with exclusions, some of the indexes may invest more in investments that have positive ESG characteristics and invest less in investments that do not. This is similar to the investment approach of our Ethica Fund. Our expectation is these funds will provide a similar level of return to comparable funds that track broad market indexes, for a similar level of risk. This is reviewed on a quarterly basis by our internal Investment Oversight Committee.

## Smartshares Global Bond ETF

The Smartshares Global Bond ETF is available to investors in the Smartshares Exchange Traded Funds. The fund's investment objective is to outperform the Bloomberg Global Aggregate Bond Index by 1% per annum (before tax, fees and other expenses) over rolling three-year periods, hedged to the New Zealand dollar. The fund is managed by an external investment manager, PIMCO Australia Pty Ltd.

The fund's SRI exclusions include financial products issued by entities where a material part of their revenue (greater than 10%) and/or activities involve fossil fuel production. The fund also excludes financial products issued by entities where any part of their revenue and/or activities involves tobacco or illegal weapons (cluster munitions, anti-personnel mines and nuclear explosive devices).

## SuperLife Superannuation Master Trust (SuperLife SMT)

SuperLife SMT applies SRI exclusions in respect of specific asset classes across the nine funds offered. These asset classes are:

- International equities;
- Australian equities; and
- Emerging Market equities.

SuperLife SMT funds that invest in these asset classes will not hold investment in companies:

- associated with the production of controversial weapons (for example cluster munitions, landmines, nuclear and biological/chemical weapons)
- that derive 10% or more of their revenue from the production of conventional weapons, or 5% or more of their revenue from the sale and distribution of firearms or small weapons for civilian use
- that manufacture tobacco products, or generate 5% or more of their revenue from the distribution or retail sale of tobacco products

- that own proved or probable reserves and derive 5% or more of their revenue from thermal coal and oil sand extraction
- that are not in compliance with the United Nations Global Compact (UNGC) principles.

The extent to which the SRI exclusions apply for each fund within SuperLife SMT will depend on their target asset allocation. The SuperLife SMT World Shares Fund has a 100% allocation to international equities, therefore it is a principle-based fund and the SRI exclusions listed above will be applied to the entirety of the Fund's investments. The SuperLife SMT Moderate, Balanced, Growth, and Australasian Shares Funds each have varying degrees of exposure to the asset classes described above.

Each fund's target asset allocation, which shows the extent it incorporates the SRI exclusions, can be found in the SuperLife SMT Statement of Investment Policy and Objectives at [superlife.co.nz/resources/legal-documents](https://superlife.co.nz/resources/legal-documents).

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### Non-ESG funds

Smartshares' other managed funds that are not listed above do not actively consider ESG factors. They allow investors to select asset classes, regions,

sectors or industries in their investment portfolio without regard for SRI or ESG factors.

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### Governance

Smartshares' Board of Directors is responsible for approving Smartshares' responsible investment arrangements. Smartshares' Investment Oversight Committee (a Board committee) is responsible for monitoring compliance with these arrangements. If we become aware of a breach of this policy, the Chief Investment Officer will take action to resolve the matter, and report it to our Investment Oversight Committee.

Smartshares' Chief Investment Officer reports to the Investment Oversight Committee in respect of Smartshares' responsible investment arrangements. We confirm that we will act in accordance with our duties as manager of the schemes, including to act in the best interests of investors. We will follow all applicable laws in relation to the investment of our

funds. Any unforeseen circumstances that are not considered by this Responsible Investment Policy and require an investment decision to be made will be reviewed by the Investment Oversight Committee prior to any action being taken.

<b>Approver:</b>	Smartshares Board
<b>Document owner:</b>	Chief Investment Officer
<b>Review:</b>	Annual
<b>Last reviewed:</b>	28 August 2023

## Schedule of funds and their RI investment type

	Ethical	Principle-based	Non-ESG
SuperLife	<ul style="list-style-type: none"> <li>Ethica Fund</li> </ul>	<ul style="list-style-type: none"> <li>Default fund (KiwiSaver only)</li> <li>Overseas Bonds Fund</li> <li>World Shares Fund (SuperLife SMT only)</li> </ul>	<ul style="list-style-type: none"> <li>All other funds</li> </ul>
Smartshares		<ul style="list-style-type: none"> <li>EM Equities ESG ETF</li> <li>Global Equities ESG ETF</li> <li>US Equities ESG ETF</li> <li>Europe Equities ESG ETF</li> <li>Japan Equities ESG ETF</li> <li>Global Bond ETF</li> <li>Australian Equities ESG ETF</li> </ul>	<ul style="list-style-type: none"> <li>All other funds</li> </ul>

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