



Responsible Investment Policy

May 2019

1. Purpose

BT Funds Management (NZ) Limited (**BTNZ**) is the investment manager for a range of investment products including the Westpac KiwiSaver Scheme, Westpac Active Unit Trusts and Premium Investment Funds. BTNZ is the investment arm of Westpac in New Zealand and a member of the Westpac Group of companies.

Sitting within BTNZ, Investment Solutions provides investment selection advice for the Westpac Investment Review Committee (**IRC**), the investment decision making body responsible for the Westpac NZ Wrap Custodial Service (**Wrap**).

The purpose of this policy statement is to articulate BTNZ's approach to responsible investing (**RI**) and to provide a framework for understanding and managing environmental (**E**), social (**S**) and corporate governance (**G**) impacts, risks and opportunities across the investment management services provided by BTNZ.

This policy statement has been developed in conjunction with the BT Proxy Voting Policy.

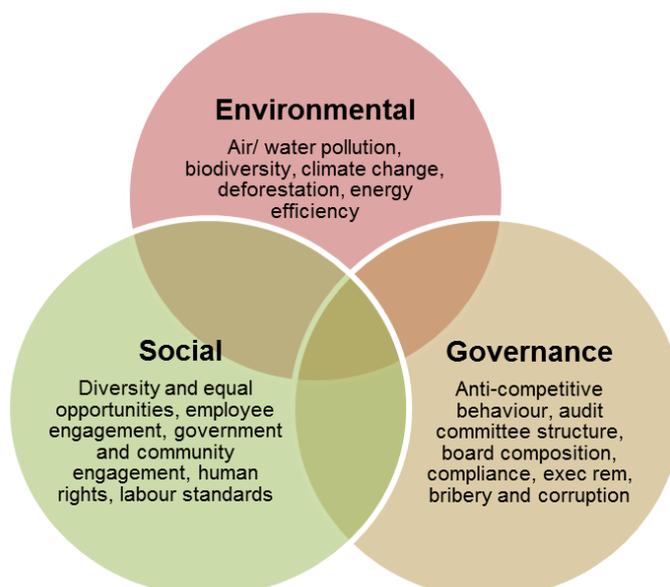
2. Scope

This policy statement applies to the investment management services provided by BTNZ.

3. Defining responsible investment

We define RI as the integration of ESG factors into the investment decision making process, enabling risks to be better managed and to meet our customers' long-term investment objectives, consistent with our fiduciary duty.

We believe ESG factors can have a material impact on the long-term successful performance of any business. Guidance as to the broad nature of some of these factors are as follows:

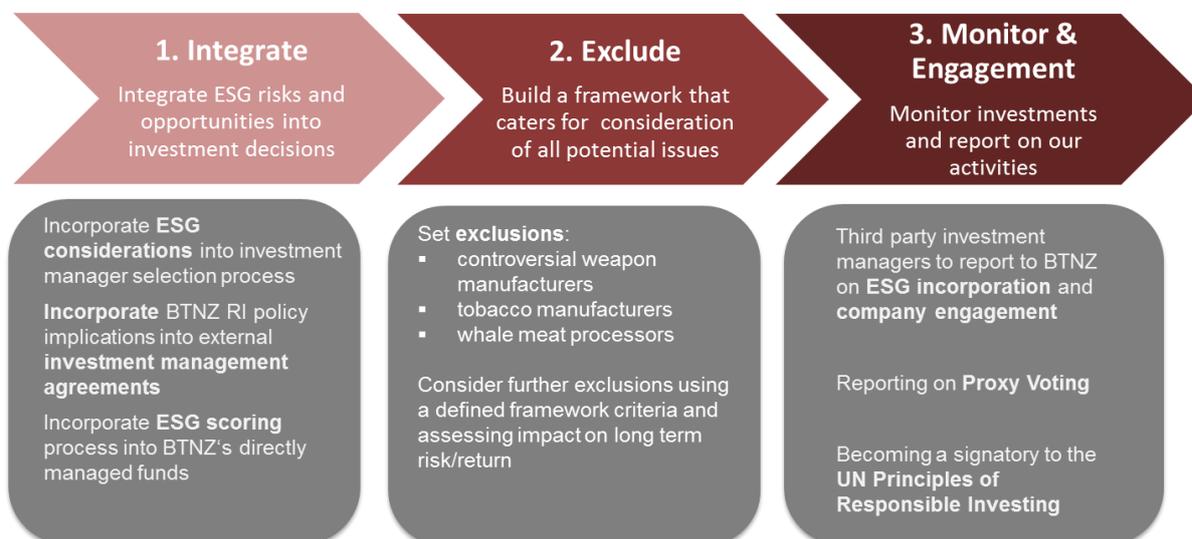


ESG risk is the risk to investment portfolios' performance due to failure to recognise or address material existing or emerging ESG factors. We believe such factors have the potential to impact the performance of investment portfolios over the long term, whether they are issues specific to companies, sectors, regions, or asset classes.

The term 'ESG integration' refers to the activities undertaken to protect or enhance value and/or manage risks through taking a broader, more comprehensive approach to investment analysis, decision-making, external manager selection, and engagement.

4. Our approach to responsible investment

Our approach to responsible investment incorporates the following three components; Integrate, Exclude, and Monitor and Engagement.



Consistent with our fiduciary responsibilities to our customers:

- We will incorporate ESG factors into investment analysis and decision-making processes (either directly or through third party investment managers (**IMs**)).
- We will be active owners, consistent with our proxy voting policy.
- Where activity is in breach of national laws and international treaties supported by NZ, or engagement cannot deliver the necessary change, we will implement asset restrictions, in line with our exclusion framework (see section 5).
- We will seek appropriate disclosure on ESG research and ESG-related issues by the IMs and/or entities in which we invest.
- We will promote acceptance and implementation of the ESG-related principles within the investment industry.

4.1 ESG integration into investment decision making

Our fiduciary duty prescribes that we act in the best interest of our customers. As an organisation, BTNZ is cognisant of the need to make investment decisions that have regard for the risk-weighted return over nominated time periods. BTNZ believes that long term investment outcomes can be enhanced if ESG considerations are factored in to the investment decision making process.

Our approach to ESG integration does not generally apply a specific screening process (apart from the exclusion framework as discussed in Section 5). At varying times ESG factors may be considered at a company, stock or sector level; may impact a country specifically; or be part of a global trend.

When considering ESG factors in the investment process, BTNZ is not seeking to take a moral or ethical stance. Instead, our approach is motivated by an objective of creating value and/or avoiding undue risks.

4.2 ESG integration in a multi-manager context

In the context of our multi-manager investment strategies (where security selection decisions are delegated to third party IM's), ESG incorporation and engagement occurs through the selection, appointment and ongoing monitoring process.

Prior to appointment we undertake a formal assessment of each IMs approach to the integration of ESG risk, in addition to ongoing dialogue around ESG issues. The ESG credentials of proposed and shortlisted managers are reviewed and considered in our manager selection and review process. All IMs are required to be aware of and observe our RI policy, and are required to provide regular updates to BTNZ outlining their ESG research process as well as their engagement with the companies they invest in.

4.3 ESG integration in a Westpac Wrap context

The Westpac Wrap service provides customers with access to a range of managed funds, listed securities, term deposits and other financial products.

In an open architecture environment, ESG integration is concentrated on the fund manager selection and monitoring process. To that end, we undertake an assessment of an IMs approach to ESG integration and will actively encourage IMs to monitor overall ESG risks within their portfolios.

4.4 Active ownership

We recognise that we have an opportunity to use shareholder voting rights to influence the companies in which we invest. Furthermore, we believe we have a responsibility to engage (either directly or through IMs) with companies to encourage good governance, transparency and sustainable business practices.

We undertake active ownership engagement at two levels;

- i. Where we exercise voting rights on securities on behalf of customers, through proxy voting. We believe this can influence board decision making and therefore investment returns and risk over time, and,
- ii. With IMs to promote good practices on active ownership and ESG considerations.

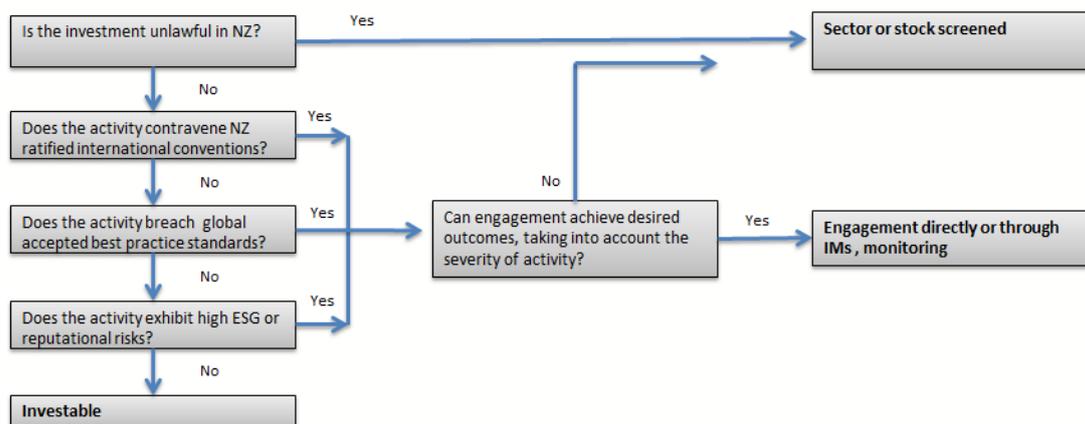
In regard to proxy voting on company resolutions, voting is undertaken by underlying IMs and, where applicable, BTNZ monitors this through a reporting process. Participation in the voting process ensures that we are working to protect our customers' interests. We reserve the right and may, on occasion, direct external managers on how they should vote.

The BTNZ Proxy Voting policy is published on the Westpac New Zealand public website. IM's are provided with a copy of the policy and are encouraged to act in a way which aligns with the policy.

5. Exclusion Decision Framework

As an institutional investor with a stake in the wider economy, we believe that positive outcomes are a function of ESG risk management and company engagement, rather than blanket screening of certain types of investments. We do, however, recognise the importance of taking into account New Zealand laws as well as international conventions to which New Zealand is a signatory. In addition, we will give special consideration to companies /industries involved in certain activities or breaches of accepted best practice standards where engagement with the company/ industry does not achieve desired outcomes. Consequently, in some limited cases we will exclude certain companies or sectors from the portfolios.

Our exclusion decision framework is outlined below.



The likely long-term impact of exclusions on investment returns and risk of a portfolio are carefully considered prior to the incorporation of any screening decisions. We also consider factors such as the potential reputational impact as well as action taken (if any) by our peers.

In applying a negative screen, we employ a third party ESG research service provider to deliver the list of companies in the screened sector. The exclusion list is updated periodically and provided to each IM to ensure their portfolios they manage remain compliant with the list.

The asset exclusions currently encompass the following;

- Companies involved in the manufacture of nuclear weapons, cluster munitions and anti-personnel mines (together, “controversial weapons”),
- Companies involved in the manufacture and sale of assault weapons to civilian customers,
- Companies involved in the manufacture of tobacco, and
- Companies involved in the processing of whale meat.

In certain situations, we invest in Collective Investment Vehicles (**CIVs**) where it may not be practical or cost effective to directly hold the underlying assets. The use of CIVs is evaluated on a case-by-case basis. When an investment is made in a CIV, we will use our best endeavours to utilise those where the managers of those CIVs can implement restrictions consistent with BTNZ’s policy. Asset restrictions do not apply to derivative-based investments (including short positions).

6. Responsibility and Accountability

Ultimate accountability for the RI policy rests with Investment Solutions. Investment Solutions has responsibility for the day-to-day integration and management of ESG impacts, risks and opportunities across the investment portfolios.

7. Policy statement review

This policy statement is reviewed annually or more frequently as required to ensure that it remains current.