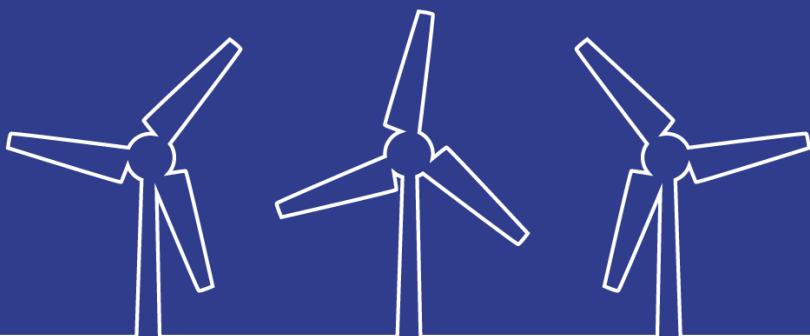


## **CareSaver KiwiSaver Scheme Ethical Investment Policy**

15 July 2019



*Signatory of:*



## 1.0 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. 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.

## 2.0 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 focused on gambling, tobacco, cluster munitions, fossil fuels, factory farming and several other categories (please see [www.caresaver.co.nz](http://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 the 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 respect Human Rights. This means 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 respect the welfare of animals. This means we avoid investing in companies with poor records of animal welfare and companies engaging in unnecessary or unethical product testing on animals. We also avoid companies where their operations involve 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.



### 3.0 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.

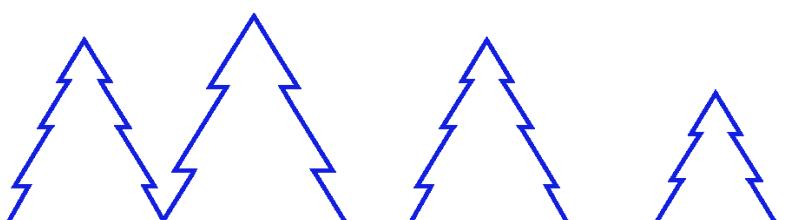
As part of our commitment to ethical investment, Pathfinder is a signatory to the UN Principles of Responsible Investment (**UNPRI**), which relate to the Sustainable Development Goals. The UNPRI are a set of six investment principles for incorporating environmental, social and governance issues into 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.

### 4.0 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.



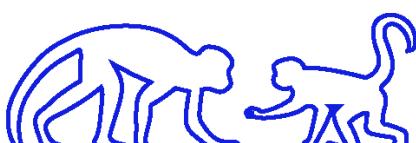
## 5.0 Investing Ethically - Exclusions

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. See also section 7 for exclusions based on our corporate values.

Below is how we apply exclusions to a range of industries and activities. This list may be amended from time to time:

- **Tobacco:** We believe investing in tobacco companies is incompatible with our ethical principles. 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.
- **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.
- **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 paragraph 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.
- **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.
- **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.
- **Board diversity:** 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 is taking active steps to identify an appropriate candidate. This is not tokenism. We believe that board members should be appointed on merit and we also believe that diversity is important for better decision-making. We believe publicly listed New Zealand companies without board diversity are inconsistent with UN Sustainable Development Goal #5 Gender Equality.
- **Whaling:** We exclude the processing of whale meat. We believe whale meat processing is inconsistent with UN Sustainable Development Goal #14 Life Below Water.
- **Civilian weapons:** We will not invest in companies involved in the manufacture of civilian automatic and semi-automatic firearms, magazines or parts. We believe manufacture of these weapons is inconsistent with UN Sustainable Development Goals #16 Peace and Justice Strong Institutions.



- **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).
- **Alcohol:** This is not a blanket exclusion – here we focus on excluding companies that target young people with cheap alcoholic drinks. We believe the inappropriate marketing and sale of alcohol is inconsistent with UN Sustainable Development Goal #3 Good Health and Well-being.
- **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.

## 6.0 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).

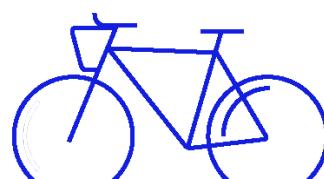
We address climate change risks in two ways:

- **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.

## 7.0 Aware. Fair. Care.

Consistent with our corporate values of Aware. Fair. Care. our investments in shares 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 welfare:** We do not believe it is ethical to test consumer products or non-therapeutic drug treatments on animals. Even if consumer products are required by law to be tested on animals (for example cosmetics sold in China) this is inconsistent with our ethical stance. Although we do not like the fact, we do acknowledge some animal testing may be required for testing therapeutic drugs to be used on humans. Where this occurs, we will only invest in companies involved in such practices if they are performed under a code of practice that acknowledges the ethical dilemma of testing on animals.
- **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.



## 8.0 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 means 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 being an active member of key organisations and in this regard 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.

## 9.0 Other Considerations

**Fixed income securities:** Paragraphs 4 to 8 above are focused on our investment in company shares. Consistent with our ethical investment philosophy, our focus for listed fixed income securities is to invest in Green Bonds (which are bonds whose proceeds are used to finance projects with positive environmental or climate benefit) or ESG bonds issued in New Zealand or globally. We can also invest in unlisted fixed income securities where the issuer or use of funds is consistent with our ethical values expressed in this Ethical Investment Policy. This could include, 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).

**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 One

### 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 Inequalities

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

### SUSTAINABLE DEVELOPMENT GOALS



## 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.

