

# Responsible Investment Policy

18 November 2021

## 1. Background and governance

Kiwi Wealth Investments Limited Partnership (KWILP) manages investments for financial products and services offered by itself and its subsidiaries (the Kiwi Wealth Group). KWILP is primarily an active investment manager of global investments.

The Investment Governance Committee (IGC) is a subcommittee of the Board of the General Partner of KWILP. Its role is to provide governance oversight in respect of KWILP's investment management activities and to bring material issues to the attention of the KWILP Board.

This policy will be reviewed at least annually by the IGC and approved by the Boards of the Kiwi Wealth Group.

## 2. Objective

This document sets out the Kiwi Wealth Group's policy for Responsible Investment (RI) by specifying how the group incorporates RI principles and practises into its product design, investment management and stewardship activities.

The RI Policy is provided to relevant staff who are responsible for managing, monitoring or implementing the investment processes of the Kiwi Wealth Group; such staff are responsible for implementing the policy under the guidance of the CIO. The policy is made readily accessible to all staff and clients.

## 3. Purpose

KWILP is committed to fulfilling its fiduciary duty to maximising the long-term interests of our various beneficiaries by creating portfolios that seek optimal returns subject to risk budgets and other agreed constraints. Where consistent with this fiduciary duty, we commit to investing responsibly by incorporating environmental, social and governance (ESG) factors into our investment analysis and decision-making processes.

At KWILP, we recognise that our role as an institutional investor creates a valuable opportunity to positively influence the behaviour of investee companies towards ESG issues through active ownership, particularly engagement and proxy voting activities. As an active investment manager, KWILP also has the discretion to actively select individual securities and investments and exclude companies who act significantly against its investment principles.

KWILP believes that RI principles can be used in the investment process to enhance performance in the long term, and that investment opportunities involving certain impacts (for example social or environmental impacts), products and services or corporate behaviour, where engagement and proxy voting activities do not offer a viable option, should be excluded from investment regardless of the strength of the investment case.

## 4. Integration of ESG factors

Kiwi Wealth Group takes into account ESG factors across the various aspects of its investment decisions, including the appointment of investment managers. We do this through considering ESG issues in investment selection, negative screening for certain activities and behaviours and ESG-related engagement and proxy voting activities with investee companies.

Kiwi Wealth Group considers ESG factors such as the following, but not limited to:

- **Environmental factors** – Climate change, resource depletion, waste, pollution and dumping of hazardous substances, deforestation, and destruction of sites with significant historical and/or social importance.
- **Social factors** – Human rights, working conditions and labour standards (including worker pay, modern slavery and child labour), health, safety and well-being, impact on communities, workforce and gender diversity, and animal welfare.
- **Governance factors** – Bribery and corruption, executive pay, board diversity and structure, political lobbying and donations, and tax strategy.

## 5. Active ownership

This section outlines KWILP's general approach to engagement and proxy voting. KWILP may also engage the services of external advisors as required when formulating and executing engagement and proxy voting strategies.

### a. Engagement

KWILP regularly assesses engagement opportunities, including collaborative efforts with other investors based on an annual plan based around our Engagement Framework (see Appendix I). The framework covers the prioritisation of engagement activities, the setting of objectives, the selection of engagement methods, tracking, monitoring and escalation.

We recognise that engaging in dialogue with investee companies on ESG topics through collaborative efforts can be more effective and bring substantial benefits. This may be particularly true when engaging on a highly complex issue or with a company that operates in a challenging environment.

### b. Proxy voting

KWILP exercises proxy votes for securities held in portfolios managed by it with the aim of enhancing shareholder value, supporting strong voting rights for shareholders and promoting responsible corporate behaviour.

In formulating voting strategies, deciding how to exercise specific voting rights and in the actual execution of such voting right, KWILP may apply any of these methods:

- Using its own research or voting team to make decisions.
- Engaging the services of proxy voting advisor(s) who make voting recommendations and/or provide research that it uses to guide its voting decisions.
- Engaging the services of proxy voting advisor(s) who make voting decisions on its behalf, except in pre-defined scenarios where it reviews and makes voting decisions.
- Permitting delegated investment managers to exercise proxy votes on securities they manage according to their own proxy voting policy.
- Deciding not to exercise voting rights at KWILP's discretion.

## 6. Investment exclusions

### a. Background

Companies who fall within the zero tolerance exclusions, or who are within our ESG exclusions or areas of sensitivity and where engagement and proxy voting do not offer the potential of a viable resolution, will be excluded from our investment portfolios.

KWILP will identify companies for exclusion on behalf of the Kiwi Wealth Group based on the impact those companies have (for example, social or environmental impact), products and/or services and/or corporate behaviour.

KWILP will attempt to identify industries and/or companies:

- To be excluded for both direct and indirect investment, deemed "zero tolerance".
- To be excluded from direct holdings on the basis of poor ESG behaviour, including under an investment management agreement (IMA).
- Industries and/or companies where enhanced sensitivity is appropriate in direct investment decisions are made by KWILP.

KWILP will ensure that, when it makes active investment management delegation through the use of collective fund vehicles or IMAs, the delegated manager uses this policy or has their own policy of similar standard in place. When KWILP makes passive delegations, only the zero tolerance exclusions need be observed.

This policy recognises that identifying product involvement and objectionable behaviour is an inexact science, requiring appropriate measures and thresholds to be defined and proper disclosure by companies or investigative reports. In addition, the magnitude of these issues may vary through time, and evidence may not be available until after the fact. The policy also recognises that limited exceptions may be made to certain areas of exclusion, for example relating to immateriality or significant mitigating circumstances, through referring to the underlying principles.

## **b. Exclusion criteria**

### **(i) Zero tolerance exclusions**

Companies which are involved in any of the following product areas will be excluded for both direct and indirect investment:

- Tobacco – We exclude any company involved with tobacco production or where tobacco is the primary industry.
- Controversial weapons – We exclude any company involved in the manufacture of controversial weapons such as cluster munitions, anti-personnel mines, nuclear explosive devices, depleted uranium weapons, chemical weapons and biological weapons.
- Fossil fuels – We exclude any company having either (i) fossil fuel reserves and revenue share from exploration and extraction of fossil fuels, excluding metallurgical coal, greater than 15%; or (ii) being in one of the following sub-industries: Oil & Gas Drilling, Oil & Gas Equipment & Services, Integrated Oil & Gas, Oil & Gas Exploration & Production, Coal & Consumable Fuels.
- Whaling and whale meat processing – We exclude any company involved in the hunting of whales and the processing of whale meat.

### **(ii) ESG exclusions**

KWILP will identify a list of companies, if any, exhibiting highly objectionable behaviour, particularly in the context of:

- Abuse of the environment;
- Human rights abuses;
- Endemic illegal activities, whether by New Zealand or local law.

These companies will be excluded from directly held investments only, including where such investments may be made by another investment manager under an IMA.

### **(iii) Areas of sensitivity**

The following industries will be treated as areas of sensitivity due to their greater propensity to victimise people and/or the environment. Companies in these areas that are identified as performing poorly in key areas most likely to cause such victimisation will be excluded for direct investment only:

- Defence equipment – Companies producing and supplying defence equipment should have sufficient control against bribery and corruption, including improperly supplying such equipment to sanctioned countries.
- Gambling services – Companies providing gambling services should mitigate the social impact of gambling addiction by implementing a suitable responsible gaming policy.
- Thermal coal – Companies using thermal coal to generate electricity should demonstrate sufficient commitment to transition to renewable generation.
- Nuclear power – Companies using nuclear reactors to generate electricity should demonstrate sufficient commitment to transition to renewable generation.

- Palm oil – Companies producing or distributing palm oil should demonstrate sufficient commitment to preventing deforestation through observing RSPO and source tracing standards.

### **c. Divestment**

If an entity in the Kiwi Wealth Group has chosen to invest in a security or collective investment vehicle that is subsequently deemed excluded under this policy, the holding will be divested from the relevant fund within six months of becoming an exclusion, or as soon as is practical and cost-effective to do so.

If an entity in the Kiwi Wealth Group has chosen to engage another manager under an IMA that is subsequently deemed unsuitable under this policy and no resolution is possible, the contract will be terminated within six months of becoming unsuitable, or as soon as is practical and cost-effective to do so.

### **d. Decisions, monitoring and reporting**

The CIO of KWILP is responsible for decisions, monitoring and updates related to the exclusion lists and related processes on the basis of this policy, and for demonstrating that such policy has been observed. KWILP portfolio managers under the guidance of the CIO are responsible for implementing the exclusion lists.

The exclusion list will be reviewed on a regular basis, being at least annually. Existing portfolios will be reviewed against exclusion lists whenever there is an update and on a regular basis, being at least annually. At each IGC, a report will be presented for the relevant reporting period summarising the composition of the exclusion list and changes that have occurred. Portfolio compliance with the exclusions list will be reported each IGC as part of the Investment Compliance Limits and Monitoring report (or any replacement report or other report agreed by the Chief Investment Officer). Additions or removals to or from the exclusions list which meet the no surprises threshold are to be communicated to the IGC by circular.

## **7. External managers**

Without limiting the obligation on KWILP in Section 7, in appointing an investment manager under an IMA or investing in a collective investment vehicle, the Kiwi Wealth Group will:

- For active managers, ensure such manager has an appropriate RI Policy in place of at least similar standard to this Policy; and
- Prefer to use managers who are committed to Responsible Investment evidenced by having an RI policy, being a PRI signatory or similar.

## 8. Asset class scope

The policy applies to the ownership of securities issued by or specific to excluded companies, including but not limited to equities, bonds, options, contracts for difference, total return swaps, convertible bonds.

The policy does not apply to client-directed trading, widely-traded index derivatives, short positions in excluded companies, or investments where hedging positions create an immaterial or negative net exposure to excluded companies.

## 9. Reporting and disclosure

At KWILP, we believe in being transparent to our stakeholders about how RI strategy is being implemented on their behalf, which companies their money is invested in, and how ESG criteria are being applied. We review and update the following information at least on an annual basis, and disclose them through Kiwi Wealth Group's corporate websites or fund reports:

- KWILP's Responsible Investment Policy;
- KWILP's Engagement Framework (Appendix I);
- List of portfolio holdings;
- List of investment exclusions;
- List of proxy voting records.
- RI activities and progress;
- Engagement progress and results;
- Information on ESG incidents, where applicable.

KWILP, as a Principles for Responsible Investment (PRI) signatory, also submits and discloses publicly, where applicable, its annual PRI reporting on [www.unpri.org](http://www.unpri.org).