SUSTAINABLE INVESTMENT

Full policy.

December 2021.

Contents

Our Sustainable Investment Policy in a nutshell

This is the Sustainable Investment (SI) Policy for BT Funds Management (NZ) Limited (BTNZ, we, us, our). We are the investment arm of Westpac in New Zealand. This policy can also be called a Responsible Investment Policy.

What is sustainable investing?

We think of sustainable investing as the way environmental, social and governance (ESG) factors are integrated into our investment analysis and decisions. For example, tracking how the companies we invest in are managing climate change, or whether they are breaching international laws on human rights.

Why does sustainable investing matter?

We believe we have a duty, and a responsibility to drive positive outcomes for our investments, our environment, our communities, and our customers. Not only that, investing sustainably matters because we believe that companies who do this will also perform well financially over the longer term.

What are we committed to?

BTNZ is a signatory to the United Nations Principles for Responsible Investment (UN PRI). This means we are publicly committed to integrating ESG factors into our investment decisions.

We are also members of the Responsible Investment Association Australasia (RIAA), the Investor Group on Climate Change and Climate Action 100+, we are committed to the Net Zero Asset Managers initiative, and we are a recognised public supporter of the Task Force on Climate-related Financial Disclosures (TCFD).

We support efforts to achieve net-zero greenhouse gas (GHG) emissions by 2050 or sooner, in line with global efforts to limit warming to 1.5°C above pre-industrial levels. We are committed to aligning our investments with a 1.5°C pathway.

How we invest sustainably.

Our approach to sustainable investment has four key pillars. We rely on these pillars to guide our investment decisions, either directly through our New Zealand fixed interest team or through our third-party underlying investment managers[1].
Each pillar aims to protect or enhance value. Value at BTNZ includes environmental, social and economic value.

POSITIVE OUTCOMES	INTEGRATION
STEWARDSHIP	EXCLUSIONS

Positive outcomes.

We believe climate change, ecosystem destruction and biodiversity loss are some of the most significant issues impacting our environment – and our economy. We know that actions taken in the short term are critical to the long-term success of the assets we are managing on behalf of our customers. Therefore, we are prioritising our actions in these areas.

We are working towards aligning our investments with the environmental objectives outlined in the European Union's (EU) Regulation on the establishment of a framework to facilitate sustainable investment (EU Sustainable Investment Regulation)[2]. This sets recognised criteria for six environmental objectives, including climate change mitigation and adaptation, water use, the circular economy, pollution prevention, and biodiversity protection. In the absence of a global sustainable investment standard, the EU Sustainable Investment Regulation is widely recognised as the most comprehensively defined and respected regulated approach.

Integration.

Consistent with our beliefs, we work to integrate ESG factors into our investment decisions and expect our underlying investment managers to do the same. We and our underlying investment managers are working to manage our portfolios in line with this Sustainable Investment Policy. We go through a rigorous process to execute this policy, which includes the selection and appointment of underlying investment managers, and the ongoing disclosure from, and monitoring of, the appointed investment managers.

Stewardship.

We recognise the importance of active stewardship. We implement stewardship through exercising voting rights and engaging with companies via our underlying investment managers or our New Zealand fixed interest team. We also collaborate with the industry on various leadership initiatives.

Exclusions.

Whilst value comes from directing investments to deliver positive outcomes and through active stewardship, we also know exclusions are important and support our investment objectives. Some exclusions are required by New Zealand law or international agreements to which New Zealand is a party. Full details (including thresholds and definitions) of our exclusions are set out in Section 9, but key exclusions include:

- Breach of the United Nations Global Compact principles (incl. human rights) as defined by our research provider
- Controversial and certain weapon manufacturers
- Tobacco production
- Oil and gas fossil fuel extraction and production
- Thermal coal production and extraction and some coal power generation
- Oil sands extraction and shale energy exploration and/or production
- Predatory lending
- Whale meat processing.

[1] Refers to investment firms investing on our behalf. Find more on the Wesptac KiwiSaver underlying investment managers **here** and the Active Series **here**.
[2] https://eur-lex.europa.eu/legal-content/EN/TXT/?uri=CELEX%3A32020R0852

1. Introduction.

This Sustainable Investment Policy (SI Policy) is applicable to BT Funds Management (NZ) Limited (BTNZ, we, us, our), the investment arm of Westpac in New Zealand.

BTNZ is a member of the Westpac Group of companies and a licensed managed investment scheme manager regulated by the Financial Markets Authority (FMA).

1.1 Purpose.

BTNZ's purpose is to help our people, our communities and our customers financially, to grow a better New Zealand. We embed this within our investment processes by investing sustainably and responsibly. This SI Policy articulates BTNZ's approach to integrating environmental (E), social (S) and corporate governance (G) factors into our investment policies and procedures.

1.2 Scope.

This SI Policy applies to the investment management services provided by BTNZ.

These include our management of the Westpac KiwiSaver Scheme, Westpac Active Series, Westpac Retirement Plan and Westpac Premium Investment Funds, and the Westpac Wholesale Trust investments utilised by third party institutions or schemes. This document sets out the general approach to incorporating SI into BTNZ's investment decision making; it does not provide in-depth details of the processes applied to implementation

1.3 Responsibility and accountability.

Ultimate oversight of our SI commitments rests with the BTNZ Board ("Board"), BTNZ Investment Committee ("BTIC") and the Chief Executive Officer for BTNZ.

The Board, BTIC and the Chief Executive Officer for BTNZ are responsible for approving BTNZ's Sustainable Investment Strategy, setting key performance indicators (KPI's) and monitoring of performance against the Policy. The BTNZ Head of Investment Solutions and the Investment Solutions team are responsible for developing and implementing this SI Policy and reporting progress on this policy and KPI's to the Board, BTIC and the Chief Executive Officer for BTNZ.

1.4 Policy statement review.

We believe that approaches to sustainable investment are constantly evolving and maturing. As such, our sustainable investment commitments and processes are not 'set and forget'. Rather, we strive to continually improve.

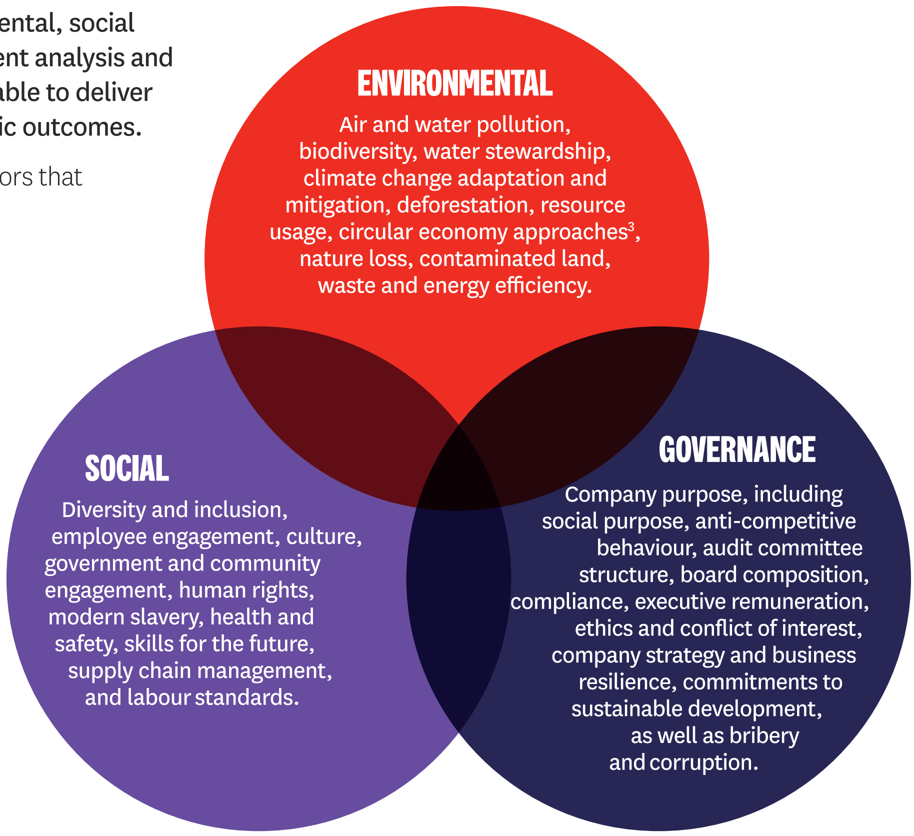
We will review this SI Policy annually, or more frequently as we may determine, to ensure it remains current and fit-for-purpose.

2. What is Sustainable Investing (SI)?

We define SI as the integration of environmental, social and governance (ESG) factors into investment analysis and decisions. We believe, by doing so, we are able to deliver positive environmental, social and economic outcomes.

This diagram shows some of the key ESG factors that can be considered:

We will assess different ESG factors in different contexts as appropriate – for example, some factors may be specific to a particular company or sector; others may impact a certain country or industry; and others will be globally relevant.



[3] A circular (as opposed to linear) economy is one in which resources are built to be returned into new products and by-products are used to generate other products.

3. Why is SI Important?

As one of NZ's largest fund managers, we recognise the immense capacity and responsibility we have to drive positive outcomes and prosperity for our people, customers, communities and environment. We believe that investing sustainably and responsibly helps us achieve this vision.

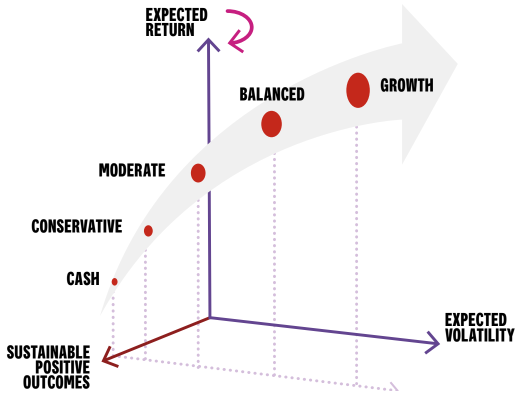
3.1 Our investment beliefs.

At BTNZ we have integrated sustainability into our investment beliefs. We believe:

- **Integration** - that successful investing integrates, and helps deliver, positive environmental, social, and economic outcomes.
- **Stewardship** - that stewardship (or active ownership) adds a positive dimension to expected returns and reduces risks by supporting the realisation of long-term shareholder value. We take a diversified approach to asset allocation, security selection and ownership.
- **Fiduciary duty** - that ESG integration is part of our fiduciary duty and adopting a sustainable investment approach is in the best interests of our customers. We take a long-term approach to investing, recognising the short-term is unpredictable.
- **Financial performance** - that a failure to integrate ESG factors, such as climate change, is likely to have a material financial impact on the long-term performance of any business.
- **Climate change** - that climate change presents materially significant systemic and financial risks and opportunities.
- **Ambition** - we set ambitious improvement targets and work collectively with our people, our underlying investment managers, and our industry to achieve them.
- **Continual improvement** - in setting ourselves ambitious targets and collectively collaborate with our people and underlying investment managers to achieve them.
- **Discipline and accountability** - that it is important to back our commitments with transparency and accountability and to expect the same from our underlying investment managers. We believe it is important to objectively measure and disclose the difference we are making to our society and our environment, and we are working with this goal in mind.

The diagram below shows BTNZ's view on how sustainability can be integrated into portfolio construction decisions. It is about introducing a third dimension (considering the ESG impact) in addition to the two existing return and risk dimensions already used in a classic strategic asset allocation and security selection framework to build investment portfolios.

Concept of diversified portfolio outcomes in three dimensions:



Source: BTNZ Strategic Asset Allocation dimensions

4. BTNZ's SI industry commitments and collaborations.

BTNZ takes its responsibilities for the integration of ESG factors seriously and actively supports a number of industry collaborations.

4.1 United Nations Principles for Responsible Investment (UN PRI).

BTNZ is a signatory to the UN PRI. This means we are publicly committed to integrating ESG factors into our investment decisions.

The UN PRI initiative comprises a global network of investors and financial industry participants who are committed to integrating ESG factors, including climate change, into their investment processes and ownership policies. The initiative also promotes transparency by signatories as to their engagement activities and the integration of ESG factors within the investment decision-making process.

The UN PRI is a set of six aspirational principles: ESG integration, stewardship, disclosure, promotion, collaboration, and communication. BTNZ believes the UN PRI provide an important universal framework for signatories to structure their approach to ESG integration.

4.2 Our other SI commitments and industry collaborations.

We recognise we have a responsibility to support the industry in its efforts to tackle global ESG factors, most notably climate change. We have a duty as investors to work towards delivering a fair and equitable low-emission climate-resilient future, and to support collaborative corporate, industry and government actions.

In addition to being a signatory to the UN PRI, BTNZ is an active member of the following:

- **Responsible Investment Association of Australasia** which champions responsible investing and a sustainable financial system in Australia and New Zealand and is dedicated to ensuring capital is aligned with achieving a healthy society, environment and economy.
- **Investor Group on Climate Change** which is a collaboration between Australian and New Zealand institutional investors focusing on the impact of climate change on investments and encouraging investment practices that address relevant risks and opportunities.
- **Net Zero Asset Manager initiative**, which includes a commitment to net-zero GHG emissions by 2050 or sooner and alignment of our assets under management to a pathway towards a 1.5°C temperature increase above pre-industrial levels. This means we are developing a climate change action plan in line with the Net Zero Asset Manager initiative.
- **Climate Action 100+** which is an investor-led initiative to ensure the world's largest corporate GHG emitters take necessary action on climate change.
- **Toitū Tahua Centre for Sustainable Finance** which means we are committed to supporting the implementation of the Sustainable Finance Forum's Roadmap for New Zealand.
- **Aotearoa New Zealand Investor Coalition for Net Zero** which is an initiative aiming to accelerate climate action through pledges by asset owners and asset managers.

In addition, BTNZ is a registered public supporter of the TCFD.

We prefer to work with underlying investment managers who are signatories to the UN PRI and have similar commitments to industry collaboration.

5. An overview of our approaches to SI.

Our approach to SI focuses on four key pillars. We rely on these pillars to guide our investment analysis and decisions, either directly or through our external underlying investment managers.

All these activities aim to protect or enhance value by managing key ESG factors.

This results in a broader, more comprehensive approach to investment analysis and decision-making which covers asset allocation, security selection, external underlying investment manager selection and stewardship.

6. Pillar I: Positive outcomes.

We believe climate change, ecosystem destruction and biodiversity loss are some of the most significant issues to impact our environment – and our economy. We know that actions taken in the short term are critical to the long-term success of the assets we are managing on behalf of our customers.

We recognise the need for everyone to make significant changes to limit global temperature rises. We believe we have a role to support a climate-resilient, low emission economy. We also believe climate change is not to be viewed in isolation, as it is having profound impacts on ecosystem and biodiversity outcomes.

We are committed to transitioning our assets under management to net-zero Greenhouse gas (GHG) emissions by 2050 or sooner and to aligning our portfolio to a 1.5°C temperature pathway.

We are working towards integrating climate change risk and opportunity into investment decisions and are committed to helping our customers do the same. We intend to develop a climate action plan and report on our actions annually.

We are working to align our investments with environmental objectives outlined in the European Union's Regulation on the establishment of a framework to facilitate sustainable investment (EU 2020/852)[4]. In the absence of a global sustainable standard the EU Regulation is widely recognised as the most comprehensively defined and respected regulated approach.

[4] https://eur-lex.europa.eu/legal-content/EN/TXT/?uri=CELEX%3A32020R0852

6.1 Achieving minimum social safeguards.

We believe that companies that perform well on fundamental issues like human rights, labour practices, safety, environmental performance and ethical practices (such as anti-corruption) also perform well financially in the long term.

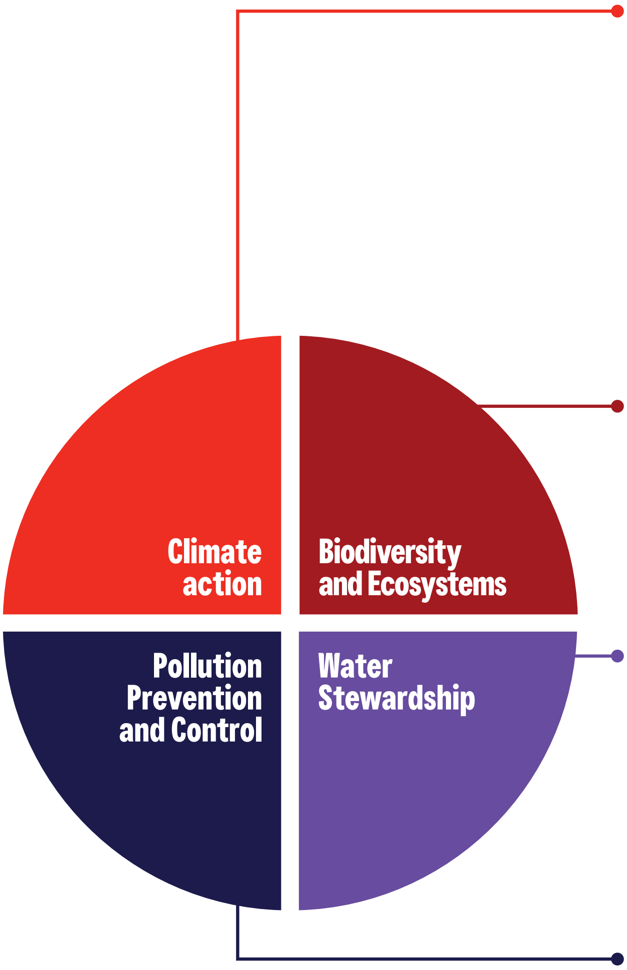
We are working to align our assets under management to the ten principles of the United Nations Global Compact, this includes the OECD Guidelines for Multinational Enterprises and the UN Guiding Principles on Business and Human Rights.

The UN Global Compact is a voluntary initiative aimed at implementing universal sustainability principles. It comprises ten principles that define the minimum fundamental responsibilities that companies are expected to meet in relation to human, labour, environmental and anti-corruption rights.

We do not invest in companies that have been determined by our third-party research provider to be in breach of these established norms. The specific categories of investments that we exclude are listed in Section 9.1 below.

6.2 The positive outcomes we are targeting.

In line with our goal of delivering targeted positive environmental outcomes by managing related risks and opportunities, we are working to align the key themes identified in Article 9 of the EU Sustainable Investment Regulation into our process.



Climate action.

The principles of sustainable contribution to climate change mitigation and adaptation are set out in Articles 10 and 11 of the EU Sustainable Investment Regulation. For us this means investing more in companies that provide or adopt renewable energy, energy efficiency, climate mitigation or adaptation solutions in order to substantially reduce the extent of climate impacts on the environment, people and assets.

At BTNZ this also means aligning our assets under management with the 1.5°C pathway and achieving net zero GHG emissions by 2050 or earlier.

We are committed to identifying, assessing, and managing our climate-related risks and opportunities in line with the recommendations of the TCFD.

Biodiversity and Ecosystems.

The principle of protecting and restoring biodiversity and ecosystems, as set out in Article 15 of the EU Sustainable Investment Regulation. For us this means investing more in companies that are contributing substantially to nature and biodiversity conservation, sustainable land use and management, sustainable agriculture practices or sustainable forest management practices.

Water Stewardship.

The principle of contributing to the sustainable use and protection of water and marine resources, as set out in Article 12 of the EU Sustainable Investment Regulation. For us this means investing more in companies that are contributing substantially to water stewardship (such as by taking action to protect human health from the adverse impact of water contamination, to improve water management, to reduce usage, or to increase efficiency and security of supply).

Pollution Prevention and Control.

The principle of contributing to pollution prevention and control, as defined in Article 14 of the EU Sustainable Investment Regulation. For us this means investing more more in companies whose activities are contributing substantially to pollution prevention and control (such as by improving air, water, and soil quality) or who are working to minimise the adverse impact on human health and the environment from the production, use or disposal of chemicals.

Circular economy frameworks.

We encourage the use of frameworks such as the Circular Economy framework (as defined in Article 13 of the EU Sustainable Investment Regulation) to achieve the outcomes referred to above.

7. Pillar II: Integration.

We endeavour to integrate ESG factors into our investment decisions and we expect our underlying investment managers to do the same.

External investment managers.

When considering ESG factors in the investment process, BTNZ is motivated by the objective of creating positive outcomes and/or avoiding undue risks.

Where investment mandates are delegated to external underlying investment managers, we integrate ESG factors through:

- **Investment manager selection:** Prior to appointment we undertake a formal assessment of each investment manager's approach to the integration of ESG factors. This includes an assessment of whether the investment manager is a leader in ESG and a signatory to the UN PRI, a review of third-party assessments, certification and ESG ratings, assessing evidence of their approach to ESG integration into investment decisions, their stewardship, and their alignment with our desired positive outcomes.
- **Investment manager appointment:** All investment managers are required to be aware of, and observe, our SI Policy. We communicate our SI requirements in advance and include SI-related clauses in investment management agreements.
- **Investment manager monitoring and review:** Through ongoing management, we keep our investment managers fully aware of our SI Policy and commitments. This includes regular internal performance reviews of our investment managers to assess their efforts to implement our SI Policy and other ESG commitments.
- **Investment manager disclosure:** We seek ongoing disclosure from our investment managers on stewardship (proxy voting and engagement), ESG and climate portfolio metrics, ESG research and ESG-related factors.

New Zealand fixed interest.

Our domestic fixed interest team integrates ESG factors throughout the investment lifecycle. This includes:

- **Research:** We undertake research for key ESG factors as part of our initial issuer analysis. At this stage, a broad-based ESG rating is applied. We also cross-check our investments against our negative screening requirements (exclusions).
- **Portfolio construction and security selection:** Our goal is to improve portfolio ESG performance and sustainability governance, including climate change and/or our other positive outcome themes, through security selection and engagement
- **Portfolio monitoring:** Once an investment has been made, we internally monitor the ESG performance of the issuer.

8. Pillar III: Stewardship.

Stewardship, in the context of BTNZ, is defined as the responsible management of our customers' long-term investments. BTNZ is an active owner.

8.1 What is stewardship?

We consider stewardship to be the responsible management of our customers' long-term investments.

Stewardship is about using our influence over current or potential investment managers, companies, issuers, policy makers, service providers and other stakeholders – often collaboratively – to maximise overall long-term value. Value at BTNZ includes environmental, social and economic value.

8.2 Why is stewardship important?

BTNZ recognises the importance of active stewardship. We implement this by exercise of voting rights, engagement with companies either directly or via our underlying investment managers, and collaboration with the industry. BTNZ engages in active stewardship to encourage sustainable business practices, address climate change, improve corporate governance and transparency.

We believe that stewardship helps promote higher standards of corporate governance, which contributes to sustainable value creation, thereby reducing risk and increasing the long-term return to our customers. For this reason, stewardship is considered a core component of how we integrate environmental, social and governance aspects into our investment decision-making processes.

8.3 How BTNZ is an active steward.

Either directly, or through our underlying investment managers, we undertake active stewardship as follows:

- **Voting:** As a shareholder we have the right to vote at shareholder meetings. Voting is mainly undertaken through our underlying investment managers with BTNZ providing voting principles (see Appendix 1 below) and monitoring results. We believe this can influence the sustainability and long-term prosperity of the companies we invest in.
- **Filing of shareholder resolutions/proposals:** Our underlying investment managers may, on our behalf, file a shareholder resolution or proposal. Their participation in the voting process helps to ensure we are working to protect our customers' interests.
- **Engagement:** We actively engage with our underlying investment managers to promote good practices, active ownership and ESG integration. Within our directly managed New Zealand fixed interest team, ESG factors are actively discussed with issuers during our ongoing engagement and monitoring of performance.
- **Collaboration:** We work with investment managers, policy makers and standard setters, and other key industry stakeholders, to help drive sustainable business practices, good governance and transparency, and address climate change.

8.4 Voting.

Voting is part of a suite of stewardship tools we use to bring a voice to a company on issues that matter. Our voting seeks to improve companies' financial, governance, social and environmental outcomes by addressing business risks and supporting our key positive outcome themes.

Votes are cast by our underlying investment managers, who vote on our behalf or use third-party proxy providers. We require our investment managers to abstain from voting where a conflict of interest exists.

We maintain a set of voting principles (as provided in Appendix 1) as guidance for our investment managers. Generally, although there may be exceptions, we aim to vote against management or directors who are not meeting these principles, or who are not aligned with our positive outcome themes.

Proposals not aligned with our voting principles or the International Corporate Governance Network (ICGN) Global Governance principles are assessed and voted on a case-by-case basis, with the aim of seeking full alignment with our voting principles where practicable.

8.5 Engagement.

For listed equities, our investment managers are required to conduct regular analysis, monitoring and discussions with companies. The objective of this engagement is to positively influence companies to improve their ESG-related performance, accountability, and disclosure.

We require our investment managers to take an active engagement approach, emphasising direct dialogue with companies on sustainability and governance issues that have a strong impact on long-term financial performance. The breadth, depth and frequency of engagement will vary significantly based on a variety of factors including the risks and opportunities faced by the company, the opportunity and willingness to engage by the company, and the size or nature of the investment.

Our engagement aims to focus on the following areas, and we encourage our investment managers to do the same.

- **Long-term business plan:** The company's business model, purpose (including social purpose), strategy, and ongoing performance, as well as developments within and external to the company that might affect its long-term value and the risks it faces.
- **Approach to key ESG factors:** The company's approach to identifying and managing the key environmental and social factors that may influence their sustainable long-term success. We assess how they are strengthening their ability to positively contribute to targeted positive outcomes.
- **Governance and Leadership:** The effectiveness of the company's governance and leadership. This includes developing an understanding of the quality of company reporting against relevant national or international governance codes, including the explanations given for any deviations from relevant corporate governance codes.
- **Governance and Leadership:** The effectiveness of the company's governance and leadership. This includes developing an understanding of the quality of company reporting against relevant national or international governance codes, including the explanations given for any deviations from relevant corporate governance codes.
- **Climate change mitigation:** We encourage companies to set science-based targets, aligned with a 1.5°C pathway, for Scope 1, 2 and 3 GHG emissions[5]. In addition, we seek to encourage companies to report against the recommendations of the TCFD.
- **Climate change adaptation:** We encourage companies to direct revenue to addressing climate change adaptation. This includes ensuring companies are increasing their revenue, capital expenditure (CAPEX) and operational expenditure (OPEX) towards green revenues, as contemplated by Article 8 of the EU Sustainable Investment Regulation.
- **Improve the environment:** We encourage companies to measure, report on, and reduce negative impacts on biodiversity, ecosystems and water quality. We encourage investment to address the objectives identified in Article 9 of the EU Sustainable Investment Regulation EU 2020/852.
- **Quality of disclosures:** The quality of the company's financial and non-financial disclosures. We encourage companies to use recognised frameworks and standards for integrated reporting. These may include, but are not limited to, the Global Reporting Initiative (GRI) Standards for sustainability reporting, the EU Sustainable Financing Regulation Disclosure Regulation, the SASB Accounting framework, and the TCFD recommendations.

8.6 Engagement Escalation.

We recognise that, in some circumstances, escalation through enhanced engagement may be necessary. Enhanced engagement means advising the company of the decision to put it on a watchlist and the preparation of a dedicated engagement strategy with defined SMART[6] performance improvement objectives and escalation points. These will be developed by our underlying investment managers. The company's performance against achieving these objectives will be regularly followed up by the underlying investment managers and reported to BTNZ until satisfactory performance against the SMART objectives has been achieved.

If enhanced engagement does not lead to the desired change, BTNZ, through its underlying investment managers, may decide to exclude a company from its investment portfolios. BTNZ considers this exclusionary approach to be an action of last resort, to be taken only if enhanced engagement does not succeed.

[5] Refers to different Greenhouse gas emissions from owned, controlled and indirect sources and value-chains.
[6] Refers to setting of objectives that are specific, measurable, attainable, relevant and time-bound.

8.7 Industry Collaboration.

We see stewardship through collaboration with other stakeholders as a positive, effective and efficient mechanism for enacting change. Our stakeholders include our underlying investment managers, advisers, investment consultants, auditors, third-party data providers, other asset managers and fund managers, governments, standard setters, and industry bodies.

We commit to working in partnership with other asset managers and key stakeholders to achieve our sustainable investment goals.

Whilst we do collaborate with others, we also respect that in some cases they may have differing views.

9. Pillar IV: Exclusions.

We do not invest in companies that operate outside of our sustainable investment criteria.

BTNZ's policy is to not invest in companies that we understand are:

- Domiciled in and not permitted under New Zealand law
- Operating in contravention of international conventions to which New Zealand is a party[7]
- Not performing on ESG factors and expected to negatively impact our investments
- Not responding positively to ESG active engagement.

When determining not to invest in a particular company and/or whether to engage with that company, we assess the above factors together with the likely long-term impact of exclusions on investment returns and overall portfolio risk.

9.1 What do we exclude?

Our current asset exclusions are outlined below. We rely on advice from our third-party ESG research provider(s) for screening criteria, standards and assessments. For more information on how we manage our exclusions, please see 9.2 below[8].

Minimum social safeguards.

- Companies in breach of international human rights, labour protection and/or environmental standards as enshrined in the Ten Principles of the UN Global Compact, the OECD Guidelines for Multinational Enterprises, and the UN Guiding Principles on Business and Human Rights as assessed by our third-party research provider.

Controversial and other weapons.

- Companies deriving any revenue from the manufacturing of controversial weapons or components or services of the core weapons systems
- Companies deriving any revenue from the manufacturing of nuclear, biological or chemical weapons
- Companies deriving any revenue from their involvement in depleted uranium
- Companies deriving any revenue from their involvement in white phosphorus mining
- Companies involved in the manufacture of cluster munitions or anti-personnel mines
- Companies deriving any revenue from both manufacturing and selling assault weapons to civilian customers.

Tobacco products.

- Companies deriving any revenue from the manufacture of tobacco products.

Oil and gas fossil fuels.

- Companies that have their primary business activity in the oil and gas drilling, oil and gas equipment and services, integrated oil and gas, oil and gas exploration and production defined by Global Industry Classification Standards
- Companies deriving more than 10% of their revenue from oil or gas exploration, production or refining
- Companies deriving more than 10% of their revenue from oil or gas exploration in Arctic regions
- Companies deriving more than 10% of their revenue from the extraction of oil sands
- Companies deriving more than 10% of their revenue from shale energy exploration and/or production.

Thermal coal extraction and substantial power generation from coal.

- Companies that have their primary business activity in the coal and consumable fuels subindustries as defined by Global Industry Classification Standards
- Companies deriving more than 10% of their revenue from the extraction of thermal coal
- Companies deriving more than 50% of their revenue from the generation of electricity from thermal coal.

Predatory lending.

- Companies deriving any revenue from "predatory lending" practices.

Whale meat processing.

- Companies deriving any revenue from the processing of whale meat.

Other.

- We may also from time to time exclude companies that do not align with our Sustainable Investment values, approaches or beliefs.

These criteria may change over time and any amendments will be reflected in updated versions of the Policy.

[7] As determined by our ESG research provider(s).
[8] Where we use derivative based instruments or (in the rare instance) third-party fund or exchange traded funds, we aim to align to our exclusions as closely as possible and for third-party or exchange traded funds at a minimum to our fossil fuel and weapons exclusions required by our default KiwiSaver status.

9.2 Managing our exclusions.

Where investments are delegated to external underlying investment managers our strong preference is to appoint the underlying investment managers under an investment management agreement where the underlying assets are held directly by the custodian(s). This enables us to have more control over the guidelines including exclusions and full transparency. We also aim to have as much transparency as possible.

We manage our exclusions through a series of controls. Pre-trade exclusion constraints are hard coded into compliance management systems, with the aim of preventing a trade – either by BTNZ or our investment managers. Post-trade monitoring is undertaken by our investment managers and our in-house team. In addition, our custodian undertakes compliance monitoring.

In partnership with our ESG research provider, we review excluded companies on a quarterly basis. This list is then provided to our in-house fixed interest team, compliance team, investment managers and custodian. Where an investment is inadvertently made into an excluded company, divestments are required by the investment manager normally within seven business days, and no later than ten business days. In the event of a breach of the exclusion requirements, the investment managers are required to notify us immediately.

In the rare instances where a third-party fund or exchange traded fund is held, we will aim to align the fund closely to our policy and at a minimum will incorporate fossil fuel and weapon exclusions required as a default KiwiSaver provider. Where derivative based investments are used (e.g. futures), we will seek to choose contracts which incorporate relevant exclusions where possible. Derivative based instruments make up a very small portion of our investments and are used for hedging or investment purposes.

Implementation of the exclusion criteria can be affected by the accessibility and accuracy of data, and depends on accurate information, interpretations or assessments from our external service providers. This may result in inadvertent holdings in investments we are seeking to exclude. In this event, as soon as this has been identified, the relevant underlying investment manager is required to divest within defined timeframes.

10. Conflicts of Interest.

BTNZ maintains an internal Conflicts Management Policy which (a) prescribes the mechanisms by which conflicts must be managed; and (b) describes the process for assessing conflicts and determining the approved conflicts management arrangements. BTNZ also requires each of its underlying investment managers to have a Conflicts Management Policy in place and to share with BTNZ (quarterly) any conflicts of interest that have occurred during the quarter, such as through stewardship activities.

11. Approved by

Karen Silk
CEO, BTNZ

October 2021

Appendix 1: BTNZ's Voting Principles

The key principles that guide our and our investment manager's voting decisions for listed companies are:

General.

- We expect the identification and integration of key ESG factors, including within business strategy, board responsibilities, and risk management.
- We expect a company to have a clearly defined social purpose.
- We expect a commitment to transparency and public disclosure of key ESG factors, including against our positive outcome objectives, through recognised frameworks and standards.

Alignment of company actions with our positive outcome objectives on climate change, biodiversity, pollution prevention and water stewardship.

- Vote in support of the adoption of a robust climate action plan with adequate budget and personnel.
- Vote in support of the adoption of science-based targets aligned with a 1.5°C pathway covering scope 1, 2 and 3 Greenhouse gas emissions.
- Vote in support of assessment and disclosure of climate-related risks and opportunities in line with TCFD.
- Vote in support of investments to reduce or adapt to physical and transitional climate risk.
- Vote in support of increases in budget for climate mitigation.
- Vote against deforestation, land or marine degradation, unsustainable agricultural or marine practices, harm to threatened species, or the use of non-certified sustainable palm oil.
- Vote in support of investments to improve sustainable land and marine use, supply chains and natural capital outcomes.
- Vote in support of actions to improve water stewardship, including water use, water quality, wastewater quality and quantity.
- Vote in support of actions to reduce, reuse and adopt circular economy approaches to product stewardship.

Social.

- We expect companies to actively embrace the UN Global Compact principles and discontinue actions that contravene these principles.
- We expect the promotion of a diverse and inclusive workforce including meaningful policies demonstrating tangible outcomes.
- We expect proactive human capital management, attention to cultural rights, a living wage and reducing pay gaps and encouragement of employee participation.
- We expect disclosures of modern slavery assessments and actions to minimise impacts.
- We expect companies to have an effective whistleblowing program and anti-corruption process.
- We will vote in support of actions positively and actively supporting local communities.

Governance.

- We expect well-structured governance including responsibility to manage social and environmental impacts.
- We expect boards and management with diverse skills, experiences, backgrounds, age, nationality, ethnicity, gender and sexuality.
- We expect at least one female on the board; in well-governed markets at least 30% of board members shall be female and/or identify as LGBTQIA+.
- We expect 30% of board directors to be independent (this means no working, material business, representative, family or other close ties).
- We expect the roles of Chairman and Chief Executive to be held separately.
- We expect and support the appointment of an independent external financial auditor.
- We expect membership of an audit committee to be non-executive. Members of both audit and remuneration committees should be listed in annual reports. It is preferred that only non-executive directors sit as members of remuneration committees.

Remuneration and Board tenure.

- We expect remuneration structures to be simple, long-term oriented and aligned with shareholder value, and to encourage responsible risk taking.
- We expect board tenure to be limited to 12 years with regular independent board effectiveness reviews.
- We expect board and executive compensation and incentive payments to be fully and transparently disclosed and linked to long-term value creation and long-term company performance, climate action, and social purpose.
- We expect termination payments should not be excessive and we expect disclosure of any contingent liabilities to be made.

Ownership and Shareholder Rights.

- We do not support actions that curtail or dilute the voting or economic rights of shareholders.
- We expect companies to seek mandates from shareholders before making political donations.
- We expect transparency of political lobbying activities (in AGMs or annual reports) and alignment of those with the company's social purpose.

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