Approach to responsible investing

What is responsible investing?

Broadly, responsible investing (RI) is about how we look at the impact our investments have on society and the world around us, alongside other financial and business factors. It normally considers how seriously companies take their environmental, social and governance (ESG) responsibilities, rather than just looking at their financial outcomes. Apart from some highly controversial investments (e.g. cluster bomb manufacturers), it often does not automatically rule out investing in any sector or company - but it does mean including ESG information in decision making.

Today, more information about companies' potential ESG impacts is available than ever before, which provides a more rounded approach to investing, particularly in identifying key ESG related risks. More importantly, evidence continues to show that companies who take their ESG responsibilities seriously also compare favourably on other aspects of company performance.

Our approach to responsible investing

Our approach to responsible investing is based on:

- **Best practice** – Best practice has evolved from a world of simple exclusions to integrating ESG factors into decision making. Our approach is derived from the United Nations Principles for Responsible Investment and their 17 Sustainable Development Goals. We also take account of feedback from clients to help guide the development of our approach over time, and formally review this at least annually.
- **Being principles-based** – Above all we undertake our fiduciary duties in a manner which is ethical and conscientious, but which does not compromise the investment principles of good diversification and risk/return outcomes. This means that we integrate ESG factors into our analysis without 'crowding out' the financial analysis that underpins good investment decision making. While we need to use ESG information from third parties to cover as wide a ground as possible, we also aim to avoid over-reliance on overall third-party conclusions which could result in misleading outcomes.
- **Recognising consumer choice** – Within all of our core funds, Booster integrates ESG factors into to our overall investment process, as well as adopting a base-line level of exclusions for particularly objectionable investments. For those investors who wish to go further and also exclude certain sin sectors, we also offer our dedicated socially responsible investment (SRI) funds. At the other end of the spectrum, some funds that have been created specifically to access niche strategies offered by other managers limit our ability to apply our approach (such as the Asset Class funds which invest into strategies managed by Dimensional).

Approach to responsible investing

Putting this into practice

Controversial exclusions

Across all funds and before positively including ESG considerations, Booster excludes direct investments in any companies involved in the following controversial activities:

- Controversial weapons (cluster munitions, landmines, depleted uranium weapons, and biological/chemical weapons)
- Nuclear weapons manufacturing, including components, delivery platforms and auxiliary services for the exclusive use in nuclear weapons
- Military style semi-automatic weapons and assault rifles manufacturing, and companies materially involved in their supply
- Tobacco (apart from any incidental exposure, e.g. supermarkets)

Except for the Asset Class funds, it is also Booster's policy to exclude investments in unlisted managed funds and listed Exchange Traded Funds (ETFs) which may also have exposure to companies involved in the above activities. However, from time to time, in gaining desirable exposure to some broader global investment themes via either managed funds or ETFs, some incidental indirect exposure may be unavoidable without imposing unnecessary risk or unreasonable cost, given the complexities of customising external allocations to comply with Booster's approach.

We continue to work actively with external agencies to find practical and robust ways of identifying companies whose businesses may be involved in other controversial activities, such as animal cruelty and basic human rights abuses.

Positive engagement & membership

Booster strives to be an active owner. Where possible we engage with companies and exercise proxy votes as per our proxy voting policy.

We prioritise having a good relationship and regular interactions with our external managers and will influence outcomes when it is in our power to do so.

To promote Responsible Investing within the investment industry, we are members of the Responsible Investment Association of Australasia (RIAA) and the New Zealand Corporate Governance Forum (NZCGF).

Approach to responsible investing

Integrating ESG factors into our investment selection

We make the most of the in-depth analysis provided by several global ESG data providers to apply our approach as broadly as possible, while taking care in how we apply their conclusions.

Unfortunately, overall ESG scores can be inconsistent between providers and are often not transparent on a standalone basis. Because of this, we do not rely on the aggregate ESG scores which are often used by investment managers. Instead, we apply a shortlist of factors which are most applicable to clients' share investments and which fairly represent relevant ESG issues.

Here are examples of the specific ESG factors we currently assess companies on:

Environment

Climate change
Resource use
Products & packaging

Social

Product externalities
Employee wellbeing
Ethics

Governance

Board independence & skill
Diversity of employees
Alignment of interest

These ESG factors are integrated with financial and other business analysis to score all our directly managed share investments compared to relevant peer groups. A positive assessment of a company's ESG factors contributes to a higher overall score (and vice versa). We target a higher overall outcome for our investments by favouring those which compare well on this basis. Where a company does not contribute positively to this outcome, we review the implications of this with the expectation that the investment will generally be down-weighted or excluded as a result, in favour of better alternatives.

Importantly, to ensure our assessment is well-rounded, we will take into account the strength of a company's efforts to improve in any key areas of concern.

As part of this ESG integration approach, we monitor companies' involvement in controversial ESG related incidents, and we will consider excluding a company which builds a bad track record and is perceived as unwilling to reform.

Not all companies disclose ESG data in an exhaustive and consistent manner (or have the capacity to do so). If key data is not available for a company, where feasible we seek to find the equivalent or similar information ourselves to guide our assessment. A key benefit of active ownership is the ability to initiate positive change from the inside by engaging directly with companies. Via incorporating ESG and positive engagement we hope to help drive the demand for better ESG disclosure and corporate responsibility.

A key direction for Booster is expanding investments into unlisted New Zealand businesses. Although ESG comparisons are harder to make in this area, we apply the principles of our approach by being able to exercise greater control if necessary, to make a positive difference to any key areas of concern – at the same time as providing capital to grow successful New Zealand businesses.

Where we appoint external managers, we favour those who also include ESG considerations as part of their own active investment decision making.

Approach to responsible investing

Socially responsible investing

We recognise that some clients prefer more explicit, broad-ranging sector exclusions, and to support the personal values of this group of investors, we offer a range of dedicated socially responsible investment funds.

In addition to following our ESG integration process and applying the controversial exclusions as outlined above, these funds also exclude investments in directly held companies and managed fund investments that generate more than an incidental proportion of revenue from the following activities:

- Alcohol production, distribution, supply and retailing
- Gambling operations
- Tobacco production, distribution, supply and retailing
- Military weapons manufacturing
- Civilian firearms production, distribution, supply and retailing
- Nuclear power production
- Fossil fuels exploration, extraction, refinement, distribution, supply and retailing
- Pornographic material production, distribution and retailing

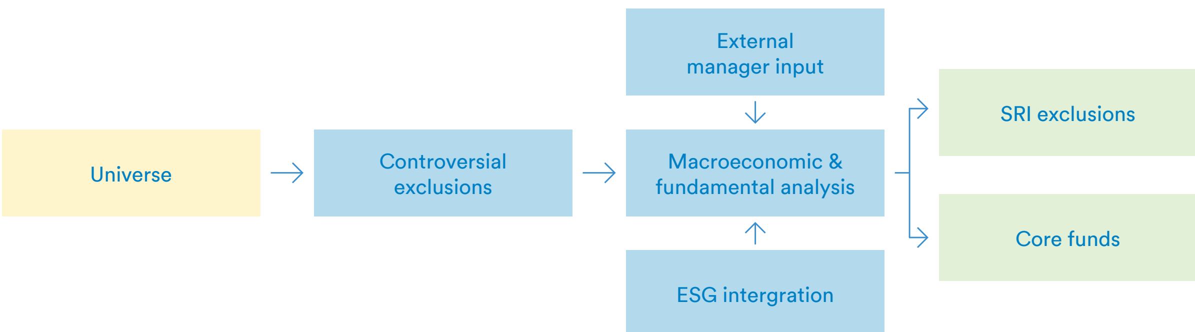
These funds also exclude directly held investments that generate more than an incidental proportion of revenue from the following activities:

- Animal testing on non-medical products
- Intensive animal farming (factory farming)
- Genetically modified organisms (GMO) intended for agricultural use
- Livestock exports
- Whaling
- Recreational cannabis production, distribution, supply and retailing
- Palm oil production and plantations

We will continue to consider other values-based exclusions where there is strong investor demand, and provided reliable information is available to readily identify companies involved in those activities.

SRI monitoring process

Booster's socially responsible investment portfolios follow a core-satellite approach. All direct holdings are subject to our ESG integration process followed by screening using defined thresholds.



Defined thresholds for SRI

Revenue thresholds - all investments

In addition to applying the controversial exclusions outlined above, our Socially Responsible funds also exclude the following:

Alcohol

- All companies deriving 15% or more aggregate revenue from the production, distribution, retail and supply of alcohol products.

Civilian firearms

- All companies classified as a producer of firearms and small arms ammunitions for civilian markets. It does not include companies that cater to the military, government, and law enforcement markets.
- All companies deriving 5% or more revenue from the distribution (wholesale or retail) of firearms or small arms ammunition intended for civilian use.

Fossil fuels

- All companies that earn 5% or more of revenues from the exploration, extraction, refinement, distribution, supply and retailing of fossil fuels.

Gambling

- All companies deriving 15% or more aggregate revenue from gambling-related business activities.

Military weapons

- All companies deriving 5% or more revenue from the production of conventional weapons.
- All companies deriving 15% or more aggregate revenue from weapons systems, components, and support systems and services.

Nuclear power

- All companies generating 5% or more of their total electricity from nuclear power.
- All companies that have 5% or more of installed capacity attributed to nuclear sources.
- All companies deriving 15% or more aggregate revenue from nuclear power activities.

Pornography

- All companies deriving 5% or more revenue from the production of pornographic materials.
- All companies deriving 15% or more aggregate revenue from the production, distribution and retail of pornographic materials.

Tobacco

- All companies classified as a producer.
- All companies deriving 5% or more aggregate revenue from the production, distribution, retail and supply of tobacco-related products.

Defined thresholds for SRI

Additional revenue thresholds – directly held investments

Animal testing

- Companies deriving 5% or more revenue from the manufacture of non-medical products that are tested on animals.

Fossil fuels

- Companies deriving 33% or more revenue from services to the fossil fuel sector.

Genetically modified organisms (GMO)

- Companies deriving 5% or more revenue from activities like genetically modifying plants, such as seeds and crops, intended for agricultural use.

Intensive animal farming (factory farming)

- Companies deriving 5% or more revenue from the operation of factory farms (those which operate with close confinement and/or intensive systems for livestock).

Livestock exports

- Companies deriving 10% or more revenue from the export of live animals for slaughter, husbandry and breeding systems, including specialised transportation services specifically designed to facilitate live exports.

Palm oil

- Companies deriving 5% or more revenue from the production of palm oil and/or ownership of plantations.
- Companies in the food/beverage and household/personal product industries that are users of palm oil in their supply chain and have less than 90% of their palm oil sourced certified by the Roundtable of Sustainable Palm Oil (RSPO). A known user of palm oil in the food/beverage and household/personal product industries that does not disclose as per RSPO Standard will also be excluded.

Recreational cannabis

- Companies deriving 5% or more revenue from the production of recreational cannabis.
- Companies deriving 15% or more aggregate revenue from the production, distribution, retail and supply of recreational cannabis.

Whaling

- Companies that are involved in the processing of whale meat.

Default Saver Fund

Our Default Saver Fund excludes investments in directly held share and managed fund investments in the following activities:

Tobacco

- All companies classified as a producer.
- All companies deriving 5% or more aggregate revenue from the production, distribution, retail and supply of tobacco-related products.

Fossil fuels

- All companies that earn 5% or more of revenues from the exploration, extraction, refinement, distribution, supply and retailing of fossil fuels.
- Directly held share investments deriving 33% or more revenue from services to the fossil fuel sector.

In addition to the above exclusions, our Default Saver Fund also considers ESG factors (as outlined on page 3) and excludes controversial weapons across directly held investments and share-based managed funds.

Compliance and portfolio monitoring

Compliance with the screens is tested at the time of adding in a new security. Ongoing developments in companies held are monitored as an integrated part of portfolio assessment.

Key risk factors for review include business acquisitions/mergers, and changes in business direction or strategy. We would expect to be notified by external product providers of any significant change in product characteristics.

Nevertheless, all investments are reassessed for suitability at least annually.

In case a security is deemed to be no longer compliant, then it is to be divested within a reasonable timeframe. This should be no later than one month after identification of non- compliance, subject to the absence of significant implementation issues.

Examples of significant implementation issues include material transaction costs which might have to be staggered over time, and a removal which causes a gap in the required portfolio exposure while the migration is in progress.

This is communicated to clients depending on materiality.

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