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).

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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 production, manufacturing, distribution and supply (for example, cluster munitions)
- Nuclear weapons manufacturing, including components manufactured exclusively for use
- Nuclear weapons auxiliary services
- Military style semi-automatic weapons and assault rifles manufacturing, and companies materially involved in their supply
- Tobacco (apart from any incidental exposure, for example 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.

Actively seeding responsible investment funds

We are pleased to have committed over $500m since 2016 to new funds that help implement our approach, including being the key seed investor in creating the Vanguard Ethically Conscious Global Bond fund, the Vanguard Select Exclusions International Equity fund, and the VanEck MSCI International Sustainable Equity ETF (which has been certified by the Responsible Investment Association of Australasia).

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).

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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

Greenhouse gas emissions
Water use
Waste production
Renewable energy use

Social

Employee diversity
Human and labour rights
Significant product externalities
Employee health & safety

Governance

Board diversity, skill & experience
Management skill & track record
Alignment of interest
Relevant CSR disclosures

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.

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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, 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
- 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
- Adult entertainment content production
- Genetically modified organisms (GMO) intended for human consumption

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.