Approach to responsible investing

booster

What is responsible investing?

Broadly, responsible investing is about how investors look at the impact the investments they make 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, whilst imperfect, more information about companies' potential ESG impacts is available than ever before, which when considered as part of investment decision making can help to provide a more rounded approach to investing, particularly in identifying key ESG related risks. More importantly, a number of historic studies have shown that companies who take their ESG responsibilities seriously also compare favourably on other aspects of company performance.[1]

Our approach to responsible investing

The Booster Investment Management Limited (Booster, our, we) 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 in part derived from the United Nations Principles for Responsible Investment. We also take account of feedback from clients and monitor responsible investing industry practices and trends to help guide the development of our approach over time.
- **Being principles-based** – Above all we seek to undertake our fiduciary duties in a manner which is responsible, 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 most of our multi-sector funds (see the last page of this document for information on how this policy applies to different funds), Booster integrates ESG factors into 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 restrict investments in certain activities on values-based grounds, we offer a range of funds that apply a broader set of exclusion criteria (outlined on pages 5 and 6). 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 the same approach (such as the Asset Class funds which invest into strategies managed by external manager, Dimensional).

1 Clark, Gordon L. and Feiner, Andreas and Viehs, Michael, From the Stockholder to the Stakeholder: How Sustainability Can Drive Financial Outperformance (March 5, 2015). Available at SSRN: https://ssrn.com/abstract=2508281

Putting this into practice

Controversial exclusions

Before considering ESG factors, we exclude direct investments by the funds we manage in companies that undertake any of the following controversial activities:

- The production, supply or stockpiling of Controversial Weapons (cluster munitions, anti-personnel mines, depleted uranium weapons, and biological/chemical weapons), including key components used in these weapons.
- The production, supply or stockpiling of Nuclear Weapons, including key components, delivery platforms and auxiliary services for the exclusive use in nuclear weapons.
- Military style semi-automatic weapon and assault rifle manufacturing, and companies materially involved in their supply.
- Tobacco production or manufacturing.

Except for the Asset Class funds, it is also Booster's policy to exclude investments in assets managed by an external manager (whether via an underlying fund/vehicle or investment management agreement) which have exposure to companies involved in the above activities. However, in gaining desirable exposure to some broader global investment themes via an external manager, 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.

Positive engagement & membership

Booster strives to be an active steward on behalf of the investors in our funds. We selectively engage with companies, and exercise proxy votes where possible. Please refer to our Approach to Stewardship for more information.

We partner with external managers to manage parts of Booster portfolios. These external managers may engage with companies and exercise proxy votes on our behalf. We prioritise having a good relationship and regular interactions with our external managers and will influence their engagement activities when appropriate and within 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 Investor Group for Climate Change and are signatories of the CDP (Carbon Disclosure Project) and Climate Action 100+ to support industry efforts to reduce global carbon emissions.

Integrating ESG factors into our investment selection

We utilise in-depth analysis provided by global ESG data providers to support the application of our approach, while taking care in how we apply their conclusions.

Overall ESG scores can be inconsistent between providers and are often not transparent on a standalone basis. Because of this, we prefer the data providers we partner with provide transparent and comprehensible insight into specific factors used in ESG assessments. Together with our own analysis, these factors are intended to provide a more well-rounded assessment of companies.

Here are examples of ESG factors we currently consider when assessing companies:

Environment

Climate change
Resource use
Products & packaging

Social

Product externalities
Employee wellbeing
Ethics

Governance

Board independence & skill
Diversity of employees
Alignment of interest

How we integrate ESG factors

ESG factors are combined to assess directly managed listed share investments relative to relevant peer groups. A positive assessment of a company's ESG factors contributes to a higher overall score (and vice versa). The ESG assessments are integrated with financial, business, and portfolio considerations. We target a better overall ESG position for our funds by favouring investments which compare relatively better. Where a company has a lower relative ESG assessment, we review the implications of this and the investment may be down-weighted or excluded as a result. To ensure our assessment is well-rounded, we take into account the strength of a company's efforts to improve in any key areas of concern and may encourage them to do so where appropriate.

As part of this ESG integration approach, we monitor for companies' involvement in controversial ESG related incidents, and we will consider excluding a company which we assess as having a bad track record and there is a perception that they are 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 benefit of active ownership is the ability to engage with companies and raise issues of concern or ask questions. Via incorporating ESG and positive engagement we hope to help drive the demand for better ESG disclosure and corporate responsibility.

Where we integrate ESG factors into investment selection

See the table on the last page of this document for details on which funds we integrate ESG factors into investment selection for their investments in listed shares / listed property that are directly managed by Booster.

Where we do not integrate ESG factors into investment selection:

All funds listed in the table on the last page of this document that we note we do not do ESG integration for.

Investments made by funds that we do undertake ESG integration for, that are:

- Managed by an external manager (whether via underlying fund/vehicle or investment management agreement); and/or
- Not listed shares (for example fixed interest, derivatives)

Approach to external managers

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

Direct investment funds

Many of the funds we manage have an allocation to direct investments or investments that are not listed on public exchanges. These may include allocations to the Booster Innovation Fund and/or Private Land and Property Fund, which are available to invest in directly. ESG comparisons are harder to make in this area, so whilst we do not apply our ESG integration approach to these assets, we may engage with the underlying companies on ESG-related matters if considered material relative to other risks and opportunities relevant to the asset. As ownership percentages are often higher than listed companies, we may be able to have a greater influence on some such companies.

Climate-related risks and opportunities

For information about how we consider climate-related risks and opportunities for the funds we manage, including any climate-related targets we apply to these funds, see the funds Climate Statements found by searching 'Booster' in the Climate Reporting Entity Register.

Socially responsible investing – additional value based exclusions (SR Funds and Wealth Series Funds)

We recognise that some clients prefer more explicit, broad-ranging values-based exclusions, and to support the personal values of this group of investors, we offer a range of funds that apply a broader set of socially responsible exclusion criteria. This applies to all the SR Funds and Wealth Series Funds as defined/listed on the last page of this document.

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 undertaking the following activities:

- The production, distribution, retail and supply of alcoholic beverages
- Gambling operations
- Tobacco production, distribution, supply and retailing
- Military weapons manufacturing
- Animal testing on non-medical products
- Intensive animal farming (factory farming)
- Genetically modifying organisms (GMO) intended for agricultural use
- Seaborne livestock exports
- 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
- Whaling
- Recreational cannabis production, distribution, supply and retailing
- Palm oil production and plantations

In addition, certain investments relating to certain sovereign states are excluded as outlined in the 'Approach to sovereign investments' section below.

For the purposes of determining what is a "more than incidental proportion of revenue", together with other specific criteria for each of the excluded activities, please refer to the next page. Please note that we may, but are not obliged to, exclude an investment even where those criteria are not strictly met where we consider doing so is consistent with the spirit of the exclusion.

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

Exclusion thresholds – SR Funds and Wealth Series Funds

In addition to applying the controversial exclusions outlined on page 2, our Socially Responsible funds and Wealth Series funds use the following criteria to assess their wider exclusions:

Alcoholic beverages

- Companies deriving 15% or more aggregate revenue from the production, distribution, retail and supply of alcoholic beverages.
- Under this exclusion, investment in property, or land or businesses that grow crops for the production of alcoholic beverages (but do not themselves produce alcoholic beverages) is permitted.

Animal testing

- Companies estimated to derive 5% or more revenue from the manufacture of non-medical products that they test on animals (this also applies to companies that outsource testing).
- Non-medical products that are tested on animals and are intended for animal consumption are permitted (e.g. pet food).

Civilian firearms

- 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.
- Companies deriving 5% or more revenue from the distribution (wholesale or retail) of firearms or small arms ammunition intended for civilian use.

Fossil fuels

- Companies that earn 5% or more of revenues from the exploration, extraction, refinement, distribution, supply and retailing of fossil fuels.
- Only applies to underlying investments directly managed by Booster: Companies that derive 33% or more revenue from services to the fossil fuel sector

Gambling

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

Military weapons

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

Nuclear power

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

Pornography

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

Tobacco and nicotine alternatives

- Companies deriving revenue from the production of tobacco, nicotine alternatives, and tobacco-based products. Nicotine alternatives and tobacco-based products comprise vaping devices, e-cigarettes, dissolvable and non-combustible tobacco products, shisha and water pipes.
- Companies deriving 5% or more aggregate revenue from the distribution, retail and supply of tobacco, nicotine alternatives and tobacco-based products.
- Nicotine alternatives that aim to break addiction are permitted.

Genetically modifying 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).

Seaborne livestock exports

- Companies deriving 10% or more revenue from the seaborne 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.
- Only applies to underlying investments directly managed by Booster: Companies in the food/beverage and household/personal product industries, 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 derive revenue from whale meat production.

Approach to sovereign investments

Broad and effective diversification is a key element of our investment philosophy at Booster. Broad diversification helps spread risk and ensure funds aren't over-exposed to any single event. It means Booster multisector funds invest in thousands of different investments across a range of security types, industries, and countries. Balancing this important principle, our Socially Responsible and Wealth Series funds exclude certain investments relating to sovereign states. Our decision on which sovereign states are excluded is informed by the following, while also taking into account portfolio considerations:

- Diplomatic, economic or military sanctions aimed at that sovereign state by the New Zealand Government;
- Widespread formal international condemnation of the Sovereign State by democratic sovereign states for matters relating to human rights, including breaches of international conventions on the conduct of war;
- The Cato Institute Human Freedom Index;

For the excluded sovereign states, we exclude fixed interest investments issued by the sovereign state. We may also (but are not required to) exclude certain corporate bond or share investments that Booster has assessed are significantly influenced by the sovereign state. Reach out to Booster here for a list of excluded sovereign states. If an excluded sovereign state demonstrates a material improvement in the circumstances that resulted in their exclusion, they may be reconsidered for inclusion.

Incidental exposure

In gaining desirable exposure to some global asset classes or investment themes via externally managed assets (whether via an underlying fund or other vehicle, or an investment management agreement), some incidental exposure to investments that exceed the thresholds noted above may be unavoidable without imposing unnecessary risk or unreasonable cost, given the complexities of customising external allocations to comply with Booster's approach.

Other considerations for the SR Funds and Wealth Series Funds

Green, sustainability and social bonds

Green, sustainability, and social bonds provide financing for projects, activities or assets that are detailed as having a positive impact on the environment and/or society, or as meeting certain environmental standards (e.g. certified green buildings), and often require targeted use of proceeds. These bonds will be considered for the SR Funds and Wealth Series Funds based on the use of proceeds rather than the wider activities of the company or issuer.

Investing in an innovative future

A number of the funds we manage, including the SR Funds and Wealth Series Funds include a small but important allocation to the Booster Innovation Fund (BIF). BIF invests in early-stage companies that are seeking to commercialise intellectual property originated in New Zealand. Companies BIF invests in are often aiming to solve global problems and build great businesses which gives the allocation the potential to positively impact the world we live in.

These investments are made in conjunction with partners that have expertise in developing and commercialising intellectual property. Because we are investing in partnership with others, and the companies cannot be readily sold, there could be instances where an individual company is not consistent with all our responsible investing criteria. Given the size of the overall allocation and the diversification we expect from it, any such instance would be small when considered as a part of the socially responsible funds. All the same, we expect these companies to be consistent with the allocation's overall objectives.

Derivatives

The funds we manage, including the SR Funds and Wealth Series Funds, may use derivatives over investment market indices to manage risk, and as part of the gearing approach adopted by the 'geared growth funds' we manage. Given that derivatives are not yet widely available over indices that reflect responsible investment strategies, where there are no suitable socially responsible derivatives available, we may use derivatives over broad market indices. Factors we consider for suitability include the derivative's underlying exposure, liquidity, and trading costs.

Default Saver Fund

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

Tobacco and nicotine alternatives

- Companies deriving revenue from the production of tobacco, nicotine alternatives, and tobacco-based products. Nicotine alternatives and tobacco-based products comprise vaping devices, e-cigarettes, dissolvable and non-combustible tobacco products, shisha and water pipes.
- Companies deriving 5% or more aggregate revenue from the distribution, retail and supply of tobacco, nicotine alternatives, and tobacco-based products.
- Nicotine alternatives that aim to break addiction are permitted.

Fossil fuels

- Companies that earn 5% or more of revenues from the exploration, extraction, refinement, distribution, supply and retailing of fossil fuels.
- Directly managed share investments only: companies that derive 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 exclusions is tested at the time of adding in a new security, and reassessed at least annually. We monitor for company developments such as business acquisitions/ mergers, changes in business strategy and improved disclosure which can trigger a further review.

Our assessment of the compliance of an investment is based on available information from public disclosures, external providers and any direct company engagement we may have undertaken. Should information about an investment become available after we have assessed it, or should our assessment be based on incomplete information (noting our assessments are reliant on open, transparent and comprehensive disclosure from issuers of securities), then there is a risk that our exclusions are not applied accurately and comprehensively.

Our assessments can also involve a level of judgement, can include some reliance on third parties including external fund managers and data providers, and may involve estimates where full information is not available, which can also increase the risk that our exclusions are not applied accurately and comprehensively. The application of the exclusion criteria is ultimately an assessment that we make.

We expect to be notified by external managers whenever they have changed the exclusion criteria of any underlying funds our funds invest in.

Divestment

In case a security or managed fund 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.

A summary of significant divestments will be published annually in our Approach to Stewardship document.

This policy is reviewed annually.

Application of the policy to the funds we manage

This is a Booster Investment Management Limited policy and applies to all retail funds that we manage (with aspects of the policy applying differently to different funds as outlined below). The funds referred to throughout this policy are defined below.

Booster KiwiSaver Scheme:

Fund name	Controversial exclusions	ESG integration Applies to listed share investments directly managed by us	Additional value-based exclusions (SR Funds and Wealth Series Funds)
Socially Responsible Moderate Fund	✓	✓	✓
Socially Responsible Balanced Fund	✓	✓	✓
Socially Responsible Growth Fund	✓	✓	✓
Socially Responsible High Growth Fund	✓	✓	✓
Socially Responsible Geared Growth Fund	✓	✓	✓
Default Saver Fund	✓	✓	**
Conservative Fund	✓	✕	✕
Moderate Fund	✓	✓	✕
Balanced Fund	✓	✓	✕
Growth Fund	✓	✓	✕
Shielded Growth Fund	✓	✓	✕
High Growth Fund	✓	✓	✕
Geared Growth Fund	✓	✓	✕
Capital Guaranteed Fund	✓	✕	✕
Enhanced Cash Fund	✓	✕	✕
Asset Class Conservative Fund	*	✕	✕
Asset Class Balanced Fund	*	✕	✕
Asset Class Growth Fund	*	✕	✕

* The Asset Class funds are specifically designed to access niche strategies offered by other managers, which limits our ability to apply the Controversial exclusions in full.

** The exclusions that apply to the Default Saver Fund are outlined on page 8.

Booster Investment Scheme, Direct Funds and Savvy:

Fund name	Controversial exclusions	ESG integration Applies to listed share investments directly managed by us	Additional value-based exclusions (SR Funds)
Socially Responsible Moderate Fund	✓	✓	✓
Socially Responsible Balanced Fund	✓	✓	✓
Socially Responsible Growth Fund	✓	✓	✓
Socially Responsible High Growth Fund	✓	✓	✓
Wealth Moderate Fund	✓	✓	✓
Wealth Balanced Fund	✓	✓	✓
Wealth Growth Fund	✓	✓	✓
Wealth High Growth Fund	✓	✓	✓
Wealth Geared Growth Fund	✓	✓	✓
Defensive Fund	✓	✓	✗
Moderate Fund	✓	✓	✗
Balanced Fund	✓	✓	✗
Growth Fund	✓	✓	✗
Shielded Growth Fund	✓	✓	✗
High Growth Fund	✓	✓	✗
Income 18 Fund	✓	✓	✗
Income 28 Fund	✓	✓	✗
Income 50 Fund	✓	✓	✗
Income 99 Fund	✓	✓	✗
Corporate Bond Fund	✓	✗	✗
Income Securities Portfolio	✓	✗	✗
Enhanced Cash Portfolio	✓	✗	✗
Focus Moderate Fund	✓	✗	✗
Focus Balanced Fund	✓	✗	✗
Focus Growth Fund	✓	✗	✗
Focus High Growth Fund	✓	✗	✗
Private Land and Property Fund (part of the Booster Investment Scheme 2)	✓	✗	✗
Booster Innovation Fund (part of the Booster Innovation Scheme)	✓	✗	✗
Booster Savvy Fund (part of the Booster Savvy Scheme)	✓	✗	✗

Booster SuperScheme:

Fund name	Controversial exclusions	ESG integration Applies to listed share investments directly managed by us	Additional value-based exclusions (SR Funds)
Socially Responsible Balanced Portfolio	✓	✓	✓
Socially Responsible High Growth Portfolio	✓	✓	✓
Sterling Socially Responsible Balanced Portfolio	✓	✓	✓
Conservative Portfolio	✓	✓	✗
Balanced Portfolio	✓	✓	✗
Growth Portfolio	✓	✓	✗
Shielded Growth Portfolio	✓	✓	✗
High Growth Portfolio	✓	✓	✗
Sterling International Share Portfolio	✓	✗	✗
Sterling Cash Portfolio	✓	✗	✗
Cash Portfolio	✓	✗	✗

Booster SuperScheme - Workplace Savings Funds:

Fund name	Controversial exclusions	ESG integration Applies to listed share investments directly managed by us	Additional value-based exclusions (SR Funds)
Socially Responsible Conservative Portfolio	✓	✓	✓
Socially Responsible Balanced Portfolio	✓	✓	✓
Socially Responsible Growth Portfolio	✓	✓	✓
Socially Responsible High Growth Portfolio	✓	✓	✓
Conservative Portfolio	✓	✓	✗
Balanced Portfolio	✓	✓	✗
Growth Portfolio	✓	✓	✗
High Growth Portfolio	✓	✓	✗

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