BNZ Investment Services Limited

Responsible Investment Policy

Prepared: May 2024

1. Overview

1.1 Purpose and Scope

The BNZ Investment Services Limited Responsible Investment Policy (Policy) sets out our approach to Responsible Investing (RI). The Policy applies to BNZ Investment Services Limited (BNZISL) Registered Managed Investment Schemes (excluding BNZ Term PIE). In this document, references to 'we', 'our' , or 'us' refer to BNZISL.

The Policy's RI considerations fall into three distinct but complementary areas:

- Environmental, social and governance (ESG) integration;
- Stewardship; and
- Legal/social responsibility.

As a result of one or more of these RI considerations, the primary actions taken are: 1) selecting managers that have a clear approach to considering ESG factors in their investment process; 2) in certain cases, excluding certain securities or sectors from investment consideration; and 3) company engagement.

We review the Policy on an annual basis, or more often if required.

1.2 Our approach

The approach to responsible investment set out in the Policy reflects our current approach, ambitions and commitments. The Policy contains forward looking statements in relation to our climate ambition and targets. Our climate ambition and targets are based on information available at the time which may be impacted by various uncertainties including availability and reliability of data, changing climate related policy, changing regulation and changing market practices and consumer expectations. Due to these uncertainties, a number of which are outside of BNZISL's control, our climate ambition and targets may change and while we believe we have put appropriate resources in place to achieve our ambition we make no guarantees that we will achieve any of the ambitions, goals and/or targets as set out in the Policy.

We may amend this policy from time to time where we think it is appropriate, and without prior notice to you. This may mean that policy settings in place prior to an amendment may not be met.

1.3 Responsible Investment Philosophy

We believe that integrating ESG factors into our investment process is important and these factors can be drivers of sustainable long-term returns. In general, we expect our RI activities to support positive long-term outcomes for investors.

We will consider both financial and non-financial factors in constructing and implementing the Policy.

Our current approach to implementing the Policy is weighted more towards excluding securities and/or sectors from investment portfolios. Over time we intend to increase our focus on active engagement with investee companies. This means it is possible that company or sector exclusions will change over time, including that exclusions for some companies/sectors are removed at a future date (subject to applicable law).

We are a signatory to the Principles for Responsible Investment (PRI).

1.4 Context

For each asset class, we appoint one or more investment managers who are responsible for the selection of individual securities. This document provides direction in the selection of managers and in setting expectations, boundaries and reporting commitments for those managers. We expect our managers to work collaboratively with us in the implementation of the Policy. We will consider the RI capability, flexibility, and resources of managers in our appointment and ongoing review of these managers.

1.5 Portfolio greenhouse gas (GHG) emissions

We will begin publicly reporting the GHG emissions of our investment portfolios in 2024, as part of New Zealand's Climate Related Disclosures reporting regime.

It is expected that emissions in our investment portfolios might fluctuate over time. This could be due to manager choices, market movements, and regulatory action or other reasons. Our Climate Action Plan (section 1.7) describes our approach to reducing emissions in our investment portfolios.

1.6 Modern slavery

Modern slavery is the exploitation and serious violation of an individual's dignity and human rights for personal or commercial gain – i.e., forcing someone to do something against their will with the threat of punishment. Increasingly, due diligence and reporting requirements to manage human rights risks associated with modern slavery are being codified into international conventions, legislation, and best practice principles for businesses.

With this in mind, over time we aim to increase the level of engagement with our underlying investment managers on this issue.

1.7 Climate Action Plan

At BNZISL, we believe that reaching net zero across our investment portfolios will be in the best long-term financial interests of our investors. In forming this belief, we have considered the physical impacts and economic costs and opportunities from climate change, the evolving global regulatory landscape, and changing consumer demand.

Our ambition is to align our investment portfolio with net zero GHG emissions by 2050 at the latest (net zero ambition). We interpret 'net zero' as a state in which GHG emissions released into the atmosphere are balanced by removal of emissions from the atmosphere.

To achieve our net zero ambition, we have set four interim targets for 2030.

Our 2030 interim targets are designed to support a 50% reduction in GHG emissions intensity across our portfolios, aligning with 1.5-degree pathways, and are described below:

- **Net zero alignment:** At least 70% of our financed emissions in material sectors are either assessed as "net zero aligned" or "aligning with a net zero pathway" as assessed by Science Based Targets initiative (SBTi).
- **Stewardship:** At least 60% of our financed emissions in material sectors (Energy, Materials, Utilities and Transport[1]) are: (a) the subject of stewardship actions; and (b) invested with external investment managers that have credible net zero plans for their portfolios.
- **Climate solutions:** Identify and allocate capital to climate solutions (defined in our Climate Action Plan, below), targeting 10% of our actively managed funds under management.
- **Emissions reduction:** Meet or exceed a 50% reduction in our Weighted Average Carbon Intensity of financed emissions collectively across our portfolios from our 2019 baseline.

We will review our metrics and scope as GHG emissions data and disclosure improves and update as needed.

Progress towards the targets will be measured collectively for all in-scope asset classes across all BNZISL funds rather than for each fund separately. We will report our progress towards the targets at both an overall BNZISL level and at a scheme level. This means we may achieve our targets even if particular funds or schemes would not have achieved those targets. We will review our targets and the level at which they are set as part of our ongoing Climate Action Plan review.

Three out of our four targets (Net Zero Alignment, Stewardship and Emissions Reduction) apply to both our actively and passively managed investments, while our Climate Solutions target is focused only on our actively managed investments.

Climate impacts are broad and complex. To drive efficient and meaningful change, it's important to focus on the most material sectors first.

We have chosen our material sectors based on their Weighted Average Carbon Intensity (WACI), our portfolios' exposure to them, and their absolute GHG emissions. Our Climate Action Plan takes into consideration the assessment by the Institutional Investors Group on Climate Change (IIGCC) Paris Aligned Investment Initiative (PAII) of the sectors that contribute the most to the world's GHG emissions.

The Climate Action Plan is a roadmap of how we aim to achieve our net zero ambition. The changing nature of policy, regulation, disclosure, and investee company actions means our plan and targets may change over time. The extent to which we can meet our targets will also depend on the pace towards net zero of the global economy.

See Appendix 3 for more detail on our Climate Action Plan.

[1] Material sectors represent over 70% of the emissions across our investment portfolios as at 31 March 2023.

2. RI areas

2.1 ESG integration

We believe that as part of a robust investment framework, ESG factors should be considered by the active managers we appoint for the following reasons:

- Consideration of ESG factors should lead to a more complete fundamental analysis, including the early detection of risks that could otherwise be overlooked, thereby resulting in better investment decisions being made. Over the long term, this should contribute to higher returns and less risk.
- Good management of ESG factors is material to the long-term successful performance of any business. By not managing these factors effectively, there is a greater likelihood of lower returns.

Active managers may choose to hold a security despite the presence of certain risks, including ESG risks, if they deem the potential return adequately compensates for this risk. Active managers may avoid holding a security altogether, despite it not being excluded by us, due to ESG risks.

Note that where we use passive managers (managers that invest by closely tracking a benchmark index), we do not expect the manager to conduct fundamental analysis or make portfolio management decisions based on ESG factors.

We expect all our managers to have RI policies that are incorporated into their investment process.

We will assess the extent to which an investment manager incorporates ESG factors into its RI policy and investment process. The insights from this assessment are considered when a decision is made to appoint a new investment manager or retain an existing one.

2.2 Legal and social responsibility

We strive to be a responsible corporate citizen by taking into account New Zealand law, and the broader regulatory environment. These factors form an important part of our exclusions framework noted below.

3. Exclusions

3.1 Exclusions framework

Excluded sectors

Our exclusions framework details our considerations when deciding whether to exclude particular sectors. The current list of Excluded Sectors is outlined in Appendix 1. Our Excluded Sectors apply to both active managers and passive managers we appoint to run segregated mandates for us.

However, from time to time, our portfolios may hold investments indirectly through an index fund or other third-party managed fund, rather than via a segregated mandate. Where our portfolios invest in this way, we may be unable to apply our exclusions. Therefore our portfolios may invest in sectors or securities that would otherwise be excluded under the Policy. This is not applicable to the BNZ KiwiSaver Scheme. For the avoidance of doubt, no BNZ KiwiSaver Scheme Fund will invest, directly or indirectly (including through investment in index funds or other third-party managed funds), in any sectors or securities excluded by the Policy.

The exclusions framework does not apply to derivative-based investments held by our portfolios.

The decision to exclude sectors may take any of the following considerations into account, to the extent that they are applicable:

- The regulatory environment.
- The materiality of the issue.
- The impact on the risk and return of our investment products.
- The effectiveness of engagement.
- Alignment with Bank of New Zealand's (BNZ) brand, values and policies (as distributor of our schemes).
- Alignment with BNZ's various commitments on climate change and other RI factors (as distributor of our schemes).

The relative importance of these considerations is not prescribed. They can be different for different sectors and can change over time. The list of considerations may also change over time.

With respect to the Excluded Sectors, depending on the sector, a materiality threshold may apply.

Security exclusions

In addition to the current list of Excluded Sectors, we may exclude a security or securities which are not already part of an Excluded Sector.

These exclusions could be for exceptional reasons, including significant and/or repeated violations of international norms, or singular actions of an objectionable nature relating to RI considerations (including reasons relating to modern slavery, broader human rights, corruption, financial crime, and animal welfare), or because such removal or exclusion is otherwise considered necessary or desirable by us or BNZ in the context of our RI policy.

3.2 Limitations

We recognise that, like many areas of investing, measuring ESG risk and company behaviour remain an inherently inexact science.

From time to time, we may inadvertently hold a security which, according to the Policy, we should not hold. We acknowledge the possibility for error, and our expectation is that any error in the application of the Policy is corrected in a positive and timely manner, as and when identified.

However, where any non-compliance with the current list of Excluded Sectors is caused by or occurs because a portfolio's assets are transitioning between underlying investment managers (whether existing or replacement), such non-compliance shall not be considered a breach of the Policy provided that it is rectified as soon as reasonably possible once the transition is complete.

We also recognise that, for data availability or operational reasons, certain managers may not be able to precisely implement exclusions at the level of materiality we specify. In these cases, we will work with the manager to implement an acceptable compromise, taking into account the relevant costs and potential impacts on investor outcomes.

4. Stewardship and industry engagement

We are a founding signatory of the Aotearoa New Zealand Stewardship Code.

The focus of stewardship (which is also called active ownership) is to create and preserve long term value for our investors.

We engage regularly with each of our underlying managers on their stewardship practices and the underlying managers are required to provide regular reporting to us on their engagement activities with investee companies.

In general, we prefer engagement and proxy voting to be undertaken by our underlying investment managers.

Underlying investment managers are usually best placed to make a judgement on resolutions as they are closest to the companies in which they invest and the specific issues, including those related to ESG, on which engagement is necessary and appropriate.

Engaging with investee companies will have clear outcomes and progress will be monitored. If no progress is made, escalation such as using voting rights, escalating within the investee company, or divestment decisions may be taken.

5. Policy implementation

We will ensure our underlying investment managers are kept informed of any changes to the Policy in a timely manner. We will work proactively with them to implement any changes to the Policy, in a way that seeks to limit any potential adverse impact on investment returns.

Changes to the Policy will be implemented as soon as reasonably practical, and generally not later than 3 months after the effective date of such change (being the effective date of the updated Policy).

However, should there be a change to the Policy which results in affected investors being given prior notice of the change, implementation may take longer than 3 months and this will not constitute a breach.

Appendix 1 – Excluded Sectors

Product	Description of exclusion	Materiality threshold	Comments
Weapons and devices	Companies that are involved in activities relating to: a) Cluster munitions b) Anti-personnel mines c) Nuclear explosive devices	Any exposure	"Activities" means, in relation to: a) Cluster munitions, the things described in section 10 of the Cluster Munitions Prohibition Act 2009; b) Anti-personnel mines, the conduct described in section 7(1) of the Anti-Personnel Mines Prohibition Act 1998; and c) Nuclear explosive devices, the activities described in section 5, 6 and 7 of the New Zealand Nuclear Free Zone, Disarmament, and Arms Control Act 1987. For the avoidance of doubt, this exclusion applies to all investments: d) Where the shares are held directly in companies that undertake the activities listed above. e) In shares of majority owners of excluded companies (e.g. parent companies). f) In shares of subsidiary companies of excluded companies where the subsidiary has any involvement in the activities listed above. g) In managed investment schemes that have any investments listed in (d) to (f).
Tobacco	Companies that are involved in: a) The manufacture of tobacco or tobacco products and vaping products; b) Specialised tobacco or tobacco products wholesaling and retailing; c) Specialised vaping products wholesaling and retailing; d) Specialised packaging of tobacco and tobacco products.	a) Any exposure b) >10% Revenue c) >10% Revenue d) >10% Revenue	
Assault weapons	Companies that are involved in the manufacture of assault weapons for civilian use.	Any exposure	

Product	Description of exclusion	Materiality threshold	Comments
Whaling	Companies that are involved in hunting whales for commercial purposes, or the processing of whale meat.	Any exposure	
Gambling	Companies that are involved in: a) Owning and/or operating gambling establishments (including online gambling); b) Manufacturing or importing specialised equipment used exclusively for gambling; and/or supporting products and services supplied to gambling operations.	 a) >10% Revenue b) >10% Revenue	
Adult Entertainment	Companies that are involved in the production and/ or distribution of adult entertainment material, products and services.	>10% Revenue	For the purposes of this Appendix 1, “adult entertainment” includes pornography, X-rated films, sexually explicit video games, adults-only material on the internet, adults-only live entertainment, and books or magazines with adult content.
Fossil fuels	Companies that own proved or probable reserves in coal, oil, or gas and derive at least 15% of their revenue from exploration and extraction of coal, oil, or gas.	>15% Revenue	For the avoidance of doubt, this exclusion applies to: a) All investments where shares are held directly. b) Investment in managed investment schemes that have any investments in the companies caught by this exclusion.
	Companies that have their primary business activity in the following subsectors listed in Appendix 2.	Any exposure	For the purposes of this exclusion, “oil” includes tar sands, “gas” includes shale (as a source of gas), and metallurgical coal is not included in the term “coal”.

Appendix 2 – Fossil Fuel Subsectors

Industry Classification Benchmark

Subsector	Definition
Integrated Oil and Gas 60101000	Companies that engage in all three fields of petroleum production: Extraction (upstream), Transportation (midstream), and Refining and Marketing (downstream).
Oil: Crude Producers 60101010	Companies engaged in the exploration for and drilling, production and supply of crude oil on land.
Offshore Drilling and Other Services 60101015	Companies that primarily explore and drill for oil and gas in offshore areas.
Oil Equipment and Services 60101030	Suppliers of equipment and services to oil fields and offshore platforms, such as drilling, exploration, seismic -information services and platform construction.
Coal 60101040	Companies that mine, process and market coal.

Global Industry Classification Standard

Sub-industry	Definition
Oil and Gas Drilling 10101010	Drilling contractors or owners of drilling rigs that contract their services for drilling wells.
Oil and Gas Equipment and Services 10101020	Manufacturers of equipment, including drilling rigs and equipment, and providers of supplies and services to companies involved in the drilling, evaluation and completion of oil and gas wells.
Integrated Oil and Gas 10102010	Integrated oil companies engaged in the exploration and production of oil and gas, as well as at least one other significant activity in either refining, marketing and transportation, or chemicals.
Oil and Gas Exploration and Production 10102020	Companies engaged in the exploration and production of oil and gas not classified elsewhere.
Coal and Consumable Fuels 10102050	Companies primarily involved in the production and mining of coal, related products and other consumable fuels related to the generation of energy. Excludes companies primarily producing gases classified in the Industrial Gases sub-industry.

Appendix 3 – Our Climate Action Plan

The Climate Action Plan is a roadmap of how we aim to achieve our net zero ambition across our portfolios.

The changing nature of policy, pace and scale of regulation, disclosure requirements, and level of investee company actions are outside our control and mean that our plan and targets may need to change over time. The extent to which we can meet our targets also depends on how quickly the global economy transitions towards net zero.

Long term ambition: Align our investment portfolio to net zero GHG emissions by 2050 at the latest

Interim targets we aim to achieve by 2030	
1. Net zero alignment At least 70% of our financed emissions in material sectors are either assessed as net zero aligned or aligning[1] with a net zero pathway.	This target supports our ambition to decarbonise our portfolios and ensure progress in the global economy by focusing on investment in companies in our material sectors who are transitioning to a low emissions economy. This will be a key part of our engagement strategy and require all of our external investment managers to work with companies to make commitments and set targets.
2. Stewardship At least 60% of our financed emissions in material sectors are the subject of stewardship actions and are invested with external investment managers that have credible net zero plans.	Engagement is potentially the most important tool asset owners have to manage the transition to net zero within their portfolios. As signatories to the Aotearoa New Zealand Stewardship Code and the PRI we're committed to stewardship and strengthening our engagement with our investee companies. Stewardship actions refer to direct or collective actions including meetings, letters, individual and collective dialogue, media and communications, responding to consultations, as well as ensuring trade association advocacy is consistent with net zero goals.
3. Climate solutions Identify and allocate capital to climate solutions, targeting 10% of our actively managed funds under management.	This target supports the significant gap in investment needed globally for climate solutions. This includes companies or projects that support climate change mitigation and the energy transition (e.g., solar, wind, electrification of transport). Decarbonisation of our portfolios will be supported by increasing allocations to climate solution investments which may include: • explicit climate solutions allocation within the portfolios • climate solution fund or project • green bonds (net proceeds of the fixed income instrument will be applied toward green projects or activities that promote climate change mitigation or adaptation, or other environmental sustainability purposes).
4. Emissions reduction Meet or exceed a 50% reduction in BNZISL's Weighted Average Carbon Intensity of financed emissions collectively across our portfolios from our 2019 baseline.	This target has been set so that we play our part in helping to limit global temperature rise to 1.5 degrees. This target measures the success and effectiveness of Targets 1-3.

Our targets are measured across all in-scope assets within BNZISL's investment portfolios. Progress towards our targets will be measured collectively across all BNZISL funds rather than for each fund separately. This means we may achieve our targets even if particular funds or schemes would not have achieved those targets.

Our targets cover listed equities and listed corporate bonds only, reflecting data availability, applicability, and concentration of GHG emissions in the listed equities asset class. Government bonds, derivatives and cash are not currently included. Our emissions reduction target covers Scope 1 and Scope 2 GHG emissions of our investee companies, but not those companies' Scope 3 GHG emissions.

[1] SBTi net zero status as defined by Bloomberg where an investee company has submitted and/or had their targets approved/validated by the Science Based Targets initiative (SBTi).

Our targets are based on the IIGCC Net Zero Investment Framework (NZIF) Implementation guide with two variances:

1) Our emissions reduction target does not include specific sector pathways and reflects BNZISL's commitment to meet what it has estimated to be its fair share of global emissions reductions. Our net zero portfolio alignment and stewardship targets are focused on our material sectors which means that we engage with the sectors (or investee companies) that we have identified are most material to our emissions profile. We expect to integrate sectoral specific emissions pathways over time as interim targets are reviewed and data and disclosure improves.
2) Our stewardship target is currently set at 60% versus the 70% recommended in the IIGCC NZIF, reflecting our low baseline position of 34% (Stewardship) and 31% (Net Zero Plans). These targets will be included in the review process for this Policy, mentioned in section 1.1 and will be updated as required.

Our targets do not include the use of offsets or carbon credits to achieve emissions-reduction.

Appendix 4 – Glossary

Key terms	Meaning
1.5 degree pathway	A 1.5 degree Celsius (1.5°C) emissions pathway keeps cumulative CO2 emissions within a budget that if met would limit warming to 1.5°C or see warming return to 1.5°C by 2100. Limiting warming to 1.5°C implies reaching net zero CO2 emissions globally around 2050 and deep reductions in emissions of gases other than carbon dioxide particularly methane.
Financed emissions	Financed emissions (sometimes referred to as invested emissions) are indirect greenhouse gas emissions attributable to financial institutions due to their involvement in providing capital or financing to the original emitter. Financed emissions are included within Category 15 'Investments' of the Greenhouse Gas Protocol Standard. These are Scope 1 and 2 emissions (and Scope 3, where available and relevant) of the investee companies across BNZISL investment portfolios. (See below for more information on Scope 1, 2 and 3).
Greenhouse gas emissions: Scope 1, 2 and 3	Greenhouse gas emissions are divided into three different categories: • Scope 1 refers to emissions that are directly released into the environment by the business, for example from vehicles, or running boilers on the premises. • Scope 2 includes indirect emissions, for example emissions related to electricity that is purchased to run a company's premises. • Scope 3 comprises all emissions upstream and downstream from a company's value chain. This includes a wide range of emissions that are produced outside of the company, such as transportation, distribution, waste disposal, product usage, and employee commuting.
IIGCC	Institutional Investors Group on Climate Change IIGCC's Net Zero Investment Framework guidance on target setting. To set a portfolio coverage target that increases the % of AUM in material sectors that are i) achieving net zero, or, considered ii) 'aligned' to net zero, or iii) 'aligning' to net zero.
PAII	Paris Aligned Investment Initiative The Paris Aligned Investment Initiative was established in May 2019 by the Institutional Investors Group on Climate Change at the request of asset owner members.
Weighted Average Carbon Intensity (WACI)	WACI is a commonly used metric in the investor community to analyse portfolio exposure to carbon intensive companies and is expressed as tCO2e/$million company revenue. WACI is part of a suite of metrics to support investor action on climate change. WACI is well suited to supporting portfolio managers to manage carbon risk exposure, which is why we use this metric within our action plan and climate reporting. Measuring carbon intensity based on revenues is also a good measure of efficiency and is therefore useful for determining the portfolio baseline emissions, or "starting point", of a fund or portfolio compared to a benchmark. It provides insight into the pace at which owned emissions need to rise or fall to remain within a specified carbon budget. This metric is sensitive to outliers. Using revenue to normalise the data tends to favour companies with higher pricing levels relative to their peers.

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