

**Pathfinder**

Invest Ethically

# Ethical Investment Policy

Pathfinder KiwiSaver and Managed Funds

January 2022



*Signatory of:*



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## **Version 3**

The current Ethical Investment Policy is available on the schemes register (*Disclose*) at [www.business.govt.nz/disclose](http://www.business.govt.nz/disclose)

# 1. Introduction

The Pathfinder KiwiSaver Scheme and the Pathfinder Managed Investment Scheme are each ethical and research-based investments managed by Pathfinder Asset Management Limited (*us, we, our or Pathfinder*).

This means:

- our ethical beliefs are core to our investment process, and
- our investment process must be research based and robust (as well as ethical)

Understanding terminology is important, and we use the term ‘ethical investing.’ Other terms widely used by investors include ‘responsible investing’ and ‘sustainable investing’ which have similar meanings.

This Ethical Investment Policy describes how our ethical values are embedded in the way we invest. We seek out companies that have the best environmental, social and governance (*ESG*) practices and incorporate ESG factors into every aspect of our investment decision-making.

We do this for two reasons – because we believe ethical (or responsible) investment will lead to:

- better investment outcomes for our investors, and
- better outcomes generally for our planet and people

This Ethical Investment Policy applies to the following Funds:

<b>Pathfinder KiwiSaver Plan</b>	Conservative
	Balanced
	Growth
<b>Pathfinder Investment Funds</b>	Global Water Fund
	Ethical Trans-Tasman Fund
	Global Responsibility Fund
	Responsible Investment Fund
	Ethical Growth Fund
	Global Property Fund

There are three ways we incorporate ESG into our investment process:

- Integration – including ESG factors in investment analysis and decisions (*see section 3 below*)
- Exclusions – filtering out potential investments based on regulatory settings and our values-based judgements (*see section 4 below*)
- Thematic – seeking to contribute to specific environmental or social outcomes (*see section 5 below*)

## 2. Ethical Investment Philosophy

Pathfinder’s vision is for our investing to fund a lasting transformation to a more ethical world. Our ‘high level’ principles for investing ethically are:

- firstly, avoid harm to our planet and people
- secondly, go further than just avoid harm, and strive to do the ‘right thing’

Our high-level principles are also shaped by the following:

- a) **UN Sustainable Development Goals:** We aspire for our investment decisions to contribute to the UN Sustainable Development Goals. As a signatory to the UN Principles of Responsible Investment we have

committed to aligning our investment practices with the sustainability objectives of these Goals. See *Schedule One for more information.*

- b) **ESG Incorporation and the UNPRI Framework:** We expect companies that address ESG issues to perform better and be more resilient than companies that don't. We also believe these companies are better for our planet and its people. For these reasons, ESG metrics are a key input into our investment process along with financial metrics and we will seek out high performing ESG companies relative to its industry. We exclude companies engaged in industries or activities we consider harmful including companies focused on gambling, tobacco, cluster munitions, fossil fuels and factory farming. See *sections 3 and 4 below for more information and Schedule One for our UNPRI declaration.*
- c) **Climate change awareness:** We believe the world is transitioning to a low carbon economy and companies with lower carbon intensity will make better long-term investments. With changes in consumer preferences and regulation, company behaviour around carbon intensity is significant for each company's long-term investment performance (as well as for the planet and its people in a warming world).
- d) **Aware, Fair, Care:** Aware, fair and care are our values as a business and a lens we apply to our share investments. We take respect for human rights into account (for example, how they treat staff, customers, and suppliers). We also care about the treatment of animals and seek to identify companies with very high levels of controversy in their operations. See *section 6 below for more information.*
- e) **Active ownership:** As UNPRI signatories we are committed to incorporating ESG issues into our active ownership policies and practises across all assets. This means we exercise our voting rights whenever possible, and to the extent practicable we engage with companies on ESG issues and participate in collaborative engagements. With this approach we will at times vote against the recommendations of a company's management where their view conflicts with our ethical values. We will also actively promote ethical investment and encourage positive change by corporates. See *section 7 below for more information.*

### 3. Investing Ethically – ESG integration

We believe ethical investment offers tools that can enhance returns. This is achieved by incorporating long-term ESG concerns into investment decision-making. This also helps us identify investment opportunities that provide environmental and/or social benefits with market rates of return (or better).

Our investment world is changing with greater recognition that environmental, social and governance factors have a connection to risk and return. We see growing demand for ESG integration from our stakeholders and increasing regulatory intervention around ESG issues. This reinforces our belief that ESG factors are an integral part of Pathfinder's investment strategy and decision making.

We determine an ESG rating for companies we invest in. This ESG rating is designed to help identify and understand financially material ESG related risks and how they may affect long-term investment performance.

Examples of ESG issues are:

Environmental	Social	Governance
<ul style="list-style-type: none"> <li>• Climate change</li> <li>• Waste</li> <li>• Pollution</li> <li>• Deforestation</li> </ul>	<ul style="list-style-type: none"> <li>• Human rights</li> <li>• Modern slavery</li> <li>• Child labour</li> <li>• Community relations</li> </ul>	<ul style="list-style-type: none"> <li>• Executive pay</li> <li>• Board diversity &amp; structure</li> <li>• Tax avoidance</li> <li>• Political lobbying</li> </ul>

We regard ESG integration as a critical step for acting in the best interests of our investors.

It is possible for a company to be in a high ESG-risk industry but have strong measures in place to manage those ESG risks, and therefore have a low ESG risk rating relative to its industry. It is also possible for a company to be in a low ESG-risk industry but have a high ESG risk rating if not managed well.

Also note that some companies that have been high ESG-risk in the past may now make attractive investments for us if, for example, they seek to better manage their ESG-risks. This may be through a change in leadership, new strategy, or adoption of new technologies.



Environment and  
social



Investment return  
focus



Donating to our  
Community

## 4. Investing Ethically – Exclusions

We have two classes of exclusions for our share investments:

1. **Regulation based exclusions:** These are exclusions based on New Zealand's legal or regulatory settings, as well as international laws and conventions applicable to New Zealand. In practice, this means any company engaging in activities illegal under NZ law would be excluded. It also means that where NZ is party to an international convention restricting certain activities, companies that have revenues from that activity – even if legally operated – would be excluded. We exclude companies with any identified involvement in a restricted activity.
2. **Social and environmental harm:** We exclude other industries that we believe do more social or environmental harm than good. These exclusions are reviewed by our Ethics Committee.

Below is how we apply our exclusion policies to a range of industries and activities as at the date of this policy. We group these in relation to concerns for our communities, animals and our planet. Also refer to Section 6 below (*Aware, Fair and Care*) for some additional reasons we may exclude companies such as on human rights grounds or high levels of controversy in their operations.

### *Promoting healthy communities*

- **Military weapons:** While we recognise the need for a country to be able to protect its people and communities, we cannot distinguish between military weapons manufactured purely as a deterrent from military weapons manufacture that is actively used in conflict. We will not invest in companies that derive 5% or more of their revenue from the manufacture of military weapons based on their published Annual Report. *We believe manufacture of these weapons can be inconsistent with UN Sustainable Development Goals #16 Peace, Justice & Strong Institutions.*
- **Civilian weapons:** We will not invest in companies involved in the manufacture and/or sale of civilian automatic and semi-automatic firearms, magazines or parts that are prohibited under NZ law. We do not believe that the availability of these weapons promotes a safe society. *We believe manufacture of these weapons is inconsistent with UN Sustainable Development Goals #16 Peace, Justice & Strong Institutions.*
- **Controversial weapons:** This includes the manufacture of cluster munitions or anti-personnel mines as well as the manufacture or testing of nuclear explosive devices. We will not invest in companies with any involvement in manufacture of controversial weapons. *We believe the manufacture of controversial weapons is inconsistent with UN Sustainable Development Goal #16 Peace, Justice & Strong Institutions.*
- **Alcohol:** The production and sale of alcohol is legal in New Zealand however alcohol can be harmful to individuals, families and communities. Our original approach was to exclude alcohol companies that target young people with cheap alcoholic drinks and inappropriately market or sell alcohol. We have since widened the exclusion to any company that derives 5% or more of their revenue from the sale and manufacture of alcohol in recognition that they can be involved in lobbying to relax rules around the sale and availability of alcohol. *We believe these are inconsistent with UN Sustainable Development Goal #3 Good Health and Well-being.*
- **Cannabis:** The production or sale of cannabis for recreational purposes is currently banned under New Zealand law. For this reason, we will not invest in companies involved that in the production of

recreational cannabis, even if they are operating legally in another jurisdiction (for example Canada). We are not excluded from investing in cannabis for medicinal purposes. *We believe that without careful regulation the recreational cannabis industry could conflict with UN Sustainable Development Goal #10 Reduced Inequalities.*

- **Adult entertainment:** While not illegal in most jurisdictions the potential for the exploitation of adults and minors makes this a high-risk area for us to invest in. We will not invest in any company that derives 5% or more of their revenue from the production and/or distribution of adult entertainment material. *We believe adult entertainment is inconsistent with UN Sustainable Development Goals #3 Good Health and Well-being.*
- **Tobacco:** We believe investing in tobacco companies is incompatible with ethical behaviour. While the sale of tobacco is legal in New Zealand, we believe tobacco conflicts strongly with good public policy (New Zealand is a signatory of the World Health Organisation Framework Convention on Tobacco Control). We will not invest in companies that derive 5% or more of their revenue from the sale and/or manufacture of tobacco. *We believe the tobacco industry is inconsistent with UN Sustainable Development Goal #3 Good Health and Wellbeing.*
- **Gambling:** Companies that rely on gambling as a source of revenue are not consistent with our ethical beliefs. We believe that gambling companies target vulnerable sections of society and the money extracted from those communities causes harm. We will not invest in companies that derive 5% or more of their revenue from owning and/or operating gambling establishments. *We believe the gambling industry is inconsistent with UN Sustainable Development Goals #1 No Poverty and #3 Good Health and Wellbeing.*

### **Respecting animals**

- **Animal testing:** We believe the world is moving away from accepting testing of products on animals. Companies must work to develop alternative forms of testing. Our KiwiSaver funds invest in no companies that engage in animal testing and we do not intend this to change. With our managed funds we will avoid companies that screen for animal testing on [www.mindfulmoney.nz](http://www.mindfulmoney.nz) – this means excluding companies that test on animals for the sale of consumer products and, where possible, we will also avoid companies that test for pharmaceutical purposes. Our intention is to move our managed funds over time to match our stricter KiwiSaver approach and will review progress towards this at the end of 2022. *We believe animal testing relates to both UN Sustainable Development Goals #15 Life on Land and #12 Responsible Production.*
- **Factory farming:** Any agricultural practice that relies on keeping animals in conditions that do not allow them to express normal behaviour is inconsistent with our ethical beliefs. We exclude livestock and poultry farming companies that use factory farming techniques. We are also not invested in any companies that farm fish. *We believe factory farming is inconsistent with UN Sustainable Development Goals #15 Life on Land, #12 Responsible Production and #14 Life Below Water.*
- **Livestock export:** We will not invest in companies engaged in livestock export. *We believe this is inconsistent with UN Sustainable Development Goals #15 Life on Land and #12 Responsible Production.*
- **Whaling:** We will not invest in companies involved in whaling and/or the processing of whale meat. *We believe whaling and whale meat processing is inconsistent with UN Sustainable Development Goal #14 Life Below Water.*
- **Animals for entertainment:** We will not invest in companies exploiting animals for entertainment (such as an ocean theme park). *We believe these are inconsistent with UN Sustainable Development Goals #15 Life on Land and #14 Life Below Water.*

### **Respecting our planet**

- **Fossil fuel extraction:** We will not invest in companies that derive 5% or more of their revenue from the exploration, extraction, conversion (with respect to thermal coal) or distribution of fossil fuels. *We believe fossil fuel extraction is inconsistent with UN Sustainable Development Goals #7 Affordable and Clean Energy and #13 Climate Action.*
- **Palm oil and GMOs:** We will avoid companies whose operations or business model may risk harm to our planet or environment. This includes operations connected to palm oil production and use. We will also avoid genetically modified organisms (GMOs) which we acknowledge as a fast evolving and ethically complex area, with both potential for significant costs and significant benefits. We will continue to review GMOs but are not currently investing. We will not invest in companies that derive 5% or more of their

revenue from the commercialised production and sale of GMOs, or 5% or more revenue from the sale of palm oil and palm oil products.

### *Register of exceptions*

Occasionally we may invest in a company that does not strictly meet our exclusions criteria, but only under the following conditions:

- **Business transition:** A company may be in the final stages of a transition out of an excluded activity with a clear path to that near term goal. Any company in this category will be individually assessed and agreed by our Ethics Committee. A register of such companies, and the rationale for investment in them, will be kept and made available to our investors.
- **Solving difficult challenges:** A company may be in the business of taking on other company's obligations that fail these criteria and solving them. One possible example is a company that buys coal fired energy plants, re-purposes them to a cleaner fuel and then sells the energy back to the client company. We believe this is a net positive for the environment and an example of positive change, and even though the company may breach our Thermal Coal policy, they are actively reducing the impact of GHG emissions. Any company in this category will be individually assessed and agreed by our Ethics Committee. A register of such companies, and the rationale for investment in them will be kept and made available to our investors.

If a company is engaged in a prescribed activity related to our fossil fuels exclusion and voluntarily offsets their emissions, that would not be sufficient cause for us to allow investment in that company. Offsetting, without addressing the problematic business involvement is (in our view) greenwashing.

## 5. Investing Ethically – Themes

We want to invest in companies that provide solutions to global challenges, rather than companies that cause harm. This means investing in companies whose business model and products/services positively contribute to sustainable development. This approach gives us the opportunity as investors to promote and support the implementation of the Sustainable Development Goals. Our four key themes are:

### RENEWABLE ENERGY

Energy used for electricity, heat, and transport makes up around three quarters of global emissions. This is therefore a key area where we can contribute, for example by supporting renewable energy and innovative technologies around energy transmission and storage.

*Investing in renewable energy supports Sustainable Development Goals 7: Clean & affordable energy, 9: Industry, Innovation & Infrastructure, and 13: Climate Action*



### ENERGY EFFICIENCY

Energy efficiency focuses on products/services, technologies, and infrastructure promoting lower energy consumption or greater efficiency. This includes investing in sustainable data centres and electric vehicle technologies and manufacturing.

*Investing in energy efficiency supports Sustainable Development Goals 7: Clean & affordable energy, 9: Industry, innovation & infrastructure, and 13: Climate action.*



## WATER

Humanity is facing a global water crisis – already 1 in 9 people lack access to safe drinking water. Access to safe water and sanitation is a basic human right, contributing to improved health and reduced spread of infectious diseases. Ways we can positively contribute to solving this worldwide crisis are through investment in water-related technologies – supporting water management, distribution, and conservation.

*Investing in water supports Sustainable Development Goals 1: No poverty, 3: Good health & well-being, and 6: Clean water & sanitation.*



## TECH

We want companies to develop technology not only as a source of financial returns, but also as a source of solutions for many of the problems our world faces. New technologies can, for example, help provide cleaner energy, reduce greenhouse gas emissions, redirect waste from landfill and help promote good health. We want to invest in technologies, related tech-based infrastructure and specific tech themes that will achieve these. One example is semiconductors. These are crucial pieces of technology – the ‘brains’ of modern electronics – enabling computers to search, process, and deliver information. We are increasingly reliant on semiconductors for ‘smart’ devices.

*Investing in specific tech themes supports Sustainable Development Goals 9: Industry & innovation, 11: Sustainable cities & communities, and 13: Climate Action.*



A high priority across our investment themes is our concern for climate action, we try to ensure our impact, as investors, is consistent with meeting aggressive climate action goals.

## 6. Aware, Fair and Care

*Aware, Fair and Care* are our values as a business and are a lens we apply to our share investments. This means we will account for what we regard as key environmental and social issues, for example:

- **Human rights awareness:** We want to avoid investing in companies whose business practices are inconsistent with the dignity of individuals. This means not investing in companies where our research shows a poor human rights record and/or a lack of alignment with the UN Global Compact Principles and the UN Guiding Principles on Business and Human Rights. This may be evidenced by poor employment practices, child or slave labour in the supply chain or discrimination on the basis of race, gender or sexual orientation.
- **Animal rights awareness and animal welfare:** We believe there will (and should) be an increasing global focus on the exploitation of animals and damage to ecosystems by companies. This should factor into investment decisions.
- **Women on boards:** We believe greater diversity improves decision making. As one aspect of our recognition of diversity, we will not invest in a listed New Zealand company that does not have at least one female board member. The only exception to this is if a company has expressed its commitment to the benefits of female board representation and demonstrates it is taking active steps to identify an appropriate candidate. We keep a register of any exceptions.
- **Controversial companies:** We monitor company behaviour for involvement in controversial activities. This has a wide scope, including significant instances of lawsuits, regulatory action, predatory behaviour, or tax avoidance. We believe companies involved in very high levels of controversial behaviour can be both higher risk investments and harmful to society.

## 7. Active Ownership

**Proxy Voting:** We believe ethical investors have a responsibility to influence corporate behaviour and promote change. We vote on resolutions at company meetings in line with our ethical beliefs and in a manner that we believe will enhance long-term value. We use a proxy voting service that provides research and guides our voting decisions. Key votes that we identify are also looked over by us to ensure alignment with our policies.

**Engagement** is not just voting. It also means actively promoting ethical investment and encouraging awareness and positive change by corporates. This includes:

- Communicating with companies – in particular with the management of New Zealand companies, and
- Being an active member of key organisations. We are currently members of the Responsible Investment Association Australasia and the Investor Group on Climate Change. We want to add our voice to lobbying efforts on key issues.
- Presentations to businesses and public groups along with media engagement around investing ethically.

**Prioritising engagement:** We identify and prioritise engagement based on internal and external ESG research. Our criteria include:

- Consideration of specific sectors that may be particularly exposed to ESG risks
- Companies in the lowest ranks of ESG benchmarks
- Exposure to controversies
- External trends, including global best practice
- Issues we see as a priority (such as climate change, human rights, animal exploitation and good governance)

**Escalation strategies** that we consider if engagement does not achieve desired outcomes:

- Divesting
- Collaboration with other investors
- Voting against the re-election of directors involved with the engagement topic

Engaging with policy makers around ESG and ethical investing complements our active management strategy. Public policy has a critical impact on the sustainability and stability of social, environmental, and economic systems.

## 8. Other Considerations

**Fixed income securities:** Sections 3 to 7 above are focused on our investment in company shares. We will also apply our ethical and ESG principles to our investment in listed fixed income securities. We may also hold unlisted fixed income securities and debt funding. To the extent possible we will prioritise ethical investments, for example debt funding of social or affordable housing, microfinance, or forestry.

**Short positions:** This policy does not apply to short positions (which may arise from derivative contracts, including forwards or options – although are expected to be infrequent if at all). A 'short' position in a company does not indicate support for its activities, social/environmental impact, or corporate values. The shorting of stocks or an index is permitted as a hedging strategy but is not a core investment strategy for us.

**Divesting:** Where we are invested in a company that is later found to be conflicting with this Ethical Investment Policy, it will be sold within a reasonable time horizon. This will require Pathfinder to be aware of factors such as transaction costs and liquidity when selling, which may allow for a relatively quick disposal or may result in a delay.

**Review:** This Ethical Investment Policy is to be reviewed and updated at least once each calendar year by Pathfinder's Chief Executive. It may be referred to Pathfinder's Board, Investment Committee, or ethics advisers for review (but this is not a requirement).

# Schedule One

## 17 UN Sustainable Development Goals to transform our world:

The United Nations Sustainable Development Goals (*Sustainable Development Goals*) are a blueprint for achieving a better and more sustainable future for all. They address key global challenges, including those related to poverty, inequality, climate, environmental degradation, prosperity, and peace and justice. The full list of Sustainable Development Goals is set out below.

GOAL 1: No Poverty

GOAL 2: Zero Hunger

GOAL 3: Good Health and Well-being

GOAL 4: Quality Education

GOAL 5: Gender Equality

GOAL 6: Clean Water and Sanitation

GOAL 7: Affordable and Clean Energy

GOAL 8: Decent Work and Economic Growth

GOAL 9: Industry,

GOAL 10: Reduced Inequality

GOAL 11: Sustainable Cities and Communities

GOAL 12: Responsible Consumption and Production

GOAL 13: Climate Action

GOAL 14: Life Below Water

GOAL 15: Life on Land

GOAL 16: Peace and Justice Strong Institutions

GOAL 17: Partnerships to achieve the Goal



## Our PRI declaration

As part of our commitment to ethical investment, Pathfinder is a signatory to the UN Principles of Responsible Investment (*UNPRI*), which relate to the Sustainable Development Goals. The UNPRI are a set of six investment principles for incorporating environmental, social and governance issues into investment practice.

These principles are voluntary and aspirational (providing a direction for responsible investment efforts rather than a checklist with which to comply). The principles are intended to contribute towards creating more sustainable markets and a more prosperous world for all. The UNPRI encourages investors to use these six principles to enhance returns and better manage risks:

1. To incorporate ESG issues into investment analysis and decision-making processes;
2. To be an active owner and to incorporate ESG issues into Pathfinder's ownership policies and practices;
3. To seek appropriate disclosure on ESG issues by the entities in which Pathfinder invests;
4. To promote acceptance and implementation of the principles within the investment industry;
5. To work with the PRI Secretariat and other signatories to enhance their effectiveness in implementing the Principles of Responsible Investment;
6. To report on Pathfinder's activities and progress towards implementing the Principles of Responsible Investment.