

# Approach to responsible investing

## What is responsible investing?

Broadly, responsible investing is about how fund managers 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, 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

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 derived from the United Nations Principles for Responsible Investment and their 17 Sustainable Development Goals. 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 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 restrict investments in certain activities on values-based grounds, we offer a range of funds that apply a broader set of exclusion criteria. 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 Dimensional).

## Putting this into practice

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### Controversial exclusions

Before considering ESG factors, we exclude direct investments by the funds we manage in any 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 weapons and assault rifles 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 unlisted managed funds and listed Exchange Traded Funds (ETFs) which may also have exposure to companies involved in the above activities. However, 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.

### 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 make the most of the in-depth analysis provided by global ESG data providers to apply our approach as broadly as possible, 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 well-rounded assessment of companies.

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



### Environment

- Climate risk
- Resource use
- Product impacts



### Social

- Product externalities
- Employee wellbeing & inclusion
- Ethics



### Governance

- Board independence & skill
- Shareholder rights
- Alignment of interests

These ESG factors are combined to score 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 scores are integrated with financial, business, and portfolio considerations. We target a higher overall ESG outcome for our investments by favouring those which compare relatively better. 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. 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 and will encourage them to do so where appropriate.

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.

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](#).

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.

Many of the funds we manage have an allocation to direct investments or investments that are not listed on public exchanges. 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.

## Socially responsible investing – SRI 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 SRI Funds and Wealth Series Funds as defined 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
- Civilian firearms production, distribution, supply and retailing
- Nuclear power production
- Fossil fuels exploration, extraction, refinement, distribution, supply and retailing
- Pornographic material production, distribution and retailing

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

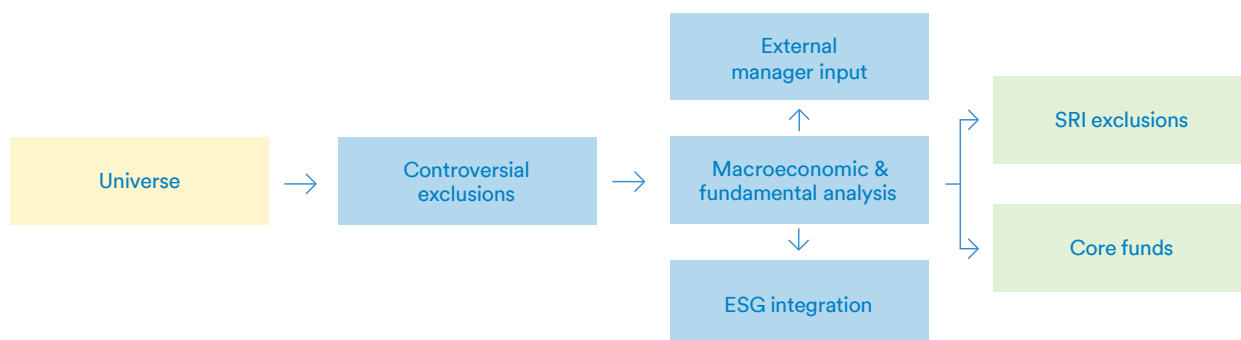
- Animal testing on non-medical products
- Intensive animal farming (factory farming)
- Genetically modifying organisms (GMO) intended for agricultural use
- Seaborne livestock exports
- Whaling
- Recreational cannabis production, distribution, supply and retailing
- Palm oil production and plantations

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

## SRI monitoring process

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



# Exclusion thresholds – SRI Funds and Wealth Series Funds

## Revenue thresholds - all investments

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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.

### 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.

### 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.

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.

## Additional revenue thresholds – directly held investments

### 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).
- For clarity, non-medical products that are tested on animals and are intended for animal consumption are permitted (e.g. pet food).

### Fossil fuels

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

### 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.
- Companies in the food/beverage and household/personal product industries and 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.

# Other Socially Responsible fund considerations

## Green, sustainability and social bonds

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Green, sustainability, and social bonds provide financial support for projects and activities that have a positive impact on the environment and/or society, and often require targeted use of proceeds for those activities. These bonds will be considered for the Socially Responsible funds based on the use of proceeds rather than the wider activities of the company or issuer.

## Investing in an innovative future

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A number of the funds we manage, including the SRI Funds and Wealth Series Funds include a small but important allocation to the Booster Innovation Fund. The Booster Innovation Fund invests in early-stage companies that are helping commercialise intellectual property originated in New Zealand. Investments within this fund aim to solve global problems and build great businesses which give 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 broad 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.

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## Derivatives

The funds we manage, including the SRI 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

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Our Default Saver Fund excludes investments in directly held 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 held share investments deriving 33% or more revenue from services to the fossil fuel sector.

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



## Compliance and portfolio monitoring

Compliance with the screens is tested at the time of adding in a new security. Our assessment of the compliance of an investment is based on public disclosures, analysis from external providers and direct company engagement. We monitor company developments for their ongoing compliance, including business acquisitions/ mergers, changes in business strategy and improved disclosure.

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

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

In case a security 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.

This is communicated to clients depending on materiality.

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 in this policy). The SRI Funds and Wealth Series Funds referred to throughout this policy are defined below.

<u>SRI Funds</u> The below funds are referred to as 'SRI Funds' in this document	<u>Wealth Series Funds</u> The below funds are referred to as 'Wealth Series Funds' in this document
Booster KiwiSaver Scheme Socially Responsible Moderate Fund Socially Responsible Balanced Fund Socially Responsible Growth Fund Socially Responsible High Growth Fund Socially Responsible Geared Growth Fund  Booster Investment Scheme Socially Responsible Moderate Fund Socially Responsible Balanced Fund Socially Responsible Growth Fund Socially Responsible High Growth Fund  Booster SuperScheme Sterling Socially Responsible Balanced Portfolio Socially Responsible Balanced Portfolio Socially Responsible High Growth Portfolio  Booster SuperScheme – Workplace Savings Section Socially Responsible Conservative Portfolio Socially Responsible Balanced Portfolio Socially Responsible Growth Portfolio Socially Responsible High Growth Portfolio	Booster Investment Scheme Wealth Moderate Fund Wealth Balanced Fund Wealth Growth Fund Wealth High Growth Fund Wealth Geared Growth Fund

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